City Center Sub-Area Implementation Strategies

Prepared for *City of Lynnwood*

FINAL

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Table of Contents

Section One – Executive Summary

The City of Lynnwood is poised for growth with significant infrastructure projects in the pipeline, such as the Sound Transit Lynnwood Link Extension light rail station and reconstruction of 196th St SW, as well as private investment in multifamily and hotel projects. The City also remains a job center and major retail destination for the region. Moreover, Lynnwood is the sole Regional Growth Center designated by the Puget Sound Regional Council (PSRC) between Northgate and Everett on I-5. In 2005, Lynnwood adopted the City Center Sub-Area Plan to guide redevelopment from the existing low rise retail and office buildings to high density mixed-use buildings with a focus on residential and employment uses above the ground floor. The City Center is planned to accommodate significant growth from 3.3 million square feet to up to 9.1 million square feet. In 2005, the area was rezoned, the City Center Design Guidelines were adopted, and identified new grid streets.[1] The new zoning allowed increased density and included floor area ratio (FAR) bonuses for providing City Center elements and uses.

In 2012, the zoning (including FAR incentives), design guidelines, and grid street ordinance were amended following recommendations identified in the seed money plans carried out from 2006 through 2011[2]. Following these amendments, in 2014 the City adopted a prioritization of City Center infrastructure and partnership opportunities identified in the City Center plans. This prioritized list serves as the basis for the revitalization strategies framework.

The development and implementation of a marketing program for City Center is called for in both the City Center Sub-Area Plan and the Economic Development Action Plan[3]. Given that major investments in street improvements and private redevelopment are currently in progress or planned in the City Center, revitalization strategies, incentives, and marketing strategies are necessary to implement the City Center Plan.

As such, this report aims to provide the City of Lynnwood with an assessment of the possibilities and constraints in implementing the City Center Sub-Area Plan through new higher density mixed-use development and targeted public improvement projects. The assessment is followed by a series of explicit strategies and concepts for consideration to create new funding mechanisms for public investment in the City Center, potential catalytic projects, partnerships with public and private sector entities, and development and business attraction incentives.

Recommendations

1. The density bonus program should be suspended because under current market conditions, increased density delivers a negative value to developers and their projects. Until such time that

[1] City of Lynnwood Ordinance 2627 adopted July 14, 2006 http://www.ci.lynnwood.wa.us/Assets/Departments/Community+Development/City+Center/Ordinances+and+Resolutions/Ordinance+2627+-+Street+Grid+Protection.pdf
[2] City of Lynnwood Ordinance 2937 adopted February 27, 2012 http://www.ci.lynnwood.wa.us/Assets/Departments/Community+Development/City+Center/Ordinances+and+Resolutions/Ordinance+2937+-+Zoning+Amendments.pdf
[3] City of Lynnwood Economic Development Action Plan dated June 2015, http://www.ci.lynnwood.wa.us/AssetFactory.aspx?did=219

they provide value, the maximum base densities should be increased to match those allowed under the density bonus program to encourage developers to strive for the maximum density supportable by demand and the capital markets.

2. Consider further restricting the Multiple-Unit Housing Property Tax Exemption program to only those proposed projects that include above- or below-grade structured parking. Surface parking, even wrapped with occupied building areas or screening walls, will not achieve the design quality and urbanist character envisioned for the City Center.

3. Implement development regulation recommendations, which include:
   - Increase the minimum building height
   - Temporarily remove the density bonus requirement
   - Parking exemption for ground floor retail within a mixed-use project
   - Require that more nonconforming buildings be brought into conformity
   - Establish allowable building envelopes and shadow studies for sites along southern boundaries of public spaces
   - Require minimum distance between face-of-curb to exterior café line
   - Create discretionary minimum interior lot line setback
   - Establish a required building stepback in elevation from ground level for street walls
   - Establish a minimum ground-floor ceiling height for new development
   - Create a minimum level of quality of building base materials
   - Increase minimum ground level transparency
   - Add guidelines related to Oriel windows
   - Add guidelines related to Off-Street Loading
   - Add regulations that address live entertainment on premises

4. Focus development on the area bounded by 196th Street SW to the north, 40th Avenue W to the east, Alderwood Mall Boulevard to the south, and 48th Avenue W to the west with the new Civic Center Complex serving as a catalytic project to create a sense of place, while also linking the new transit center. Placemaking around community anchors is an important way to reinvigorate city centers and downtowns.

5. Create a lending program (transit-oriented investment fund) targeted to support City Center infill development that meets minimum established criteria in an effort to catalyze an urban center.

6. Consider creating a business improvement district or area to focus on marketing Lynnwood as an attractive place to live and work. Business improvement districts are also funding mechanisms for business district revitalization and management.

Section Two – Project Approach

Background

Lynnwood is located in south Snohomish County at the interchange of Interstate 5 (I-5) and Interstate 405 (I-405), 16 miles north of downtown Seattle. The community has a population of approximately 36,000 residents and a geographic size of approximately 7.7 square miles. Lynnwood is the sole Regional Growth Center designated by the Puget Sound Regional Council (PSRC) between Northgate and Everett on I-5. Regional Growth Centers are established for future employment, residential and economic concentrations within the Puget Sound Region. The Lynnwood City Center is a sub-area of the Regional Growth Center.

Objective

In 2005, Lynnwood adopted the City Center Sub-Area Plan to guide redevelopment from the existing low rise retail and office buildings to high density mixed-use buildings with a focus on residential and employment uses above the ground floor. The City Center is planned to accommodate significant growth from 3.3 million square feet to up to 9.1 million square feet. In 2006, the area was rezoned, the City Center Design Guidelines were adopted, and Ordinance 2627 identified new grid streets. The new zoning allowed increased density and included floor area ratio (FAR) bonuses for providing City Center elements and uses.

In 2012, the zoning (including FAR incentives), design guidelines, and grid street ordinance were amended by Ordinance 2937[4] following recommendations identified in the seed money plans carried out from 2006 through 2011. Following these amendments, in 2014 the City adopted a prioritization of City Center infrastructure and partnership opportunities identified from City Center plans. This prioritized list will be the basis for the revitalization strategies framework.

The development and implementation of a marketing program for City Center is called for in both the City Center Sub-Area Plan and the Economic Development Action Plan[5]. In 2007, the City completed the Market Analysis and Absorption Study which provide a resource for the Scope of Work provided herein.

Major investments in street improvements and private redevelopment are now in progress or planned in the City Center. Revitalization strategies, incentives analysis and marketing strategies are necessary to implement the City Center Plan.

As such, this report aims to provide the City of Lynnwood with an assessment of the possibilities and constraints in implementing the City Center Sub-Area Plan through new higher density mixed-use development and targeted public improvement projects. The assessment is followed by a series of

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explicit strategies and concepts for consideration to create new funding mechanisms for public investment in the City Center, potential catalytic projects, partnerships with public and private sector entities, and development and business attraction incentives.

Methodology and Approach

JLL's approach to this study began with interviews with key City and County staff, elected officials, City Center and Alderwood Mall property owners, staff and consultants of the Public Facilities District, and Sound Transit. JLL also toured the area and environs. The study was also significantly informed by background resource documents provided by the City including regulatory and planning codes, maps, plans, incentive programs, demographic and socioeconomic reports, economic trends, branding and visioning studies, and market data.

For the purposes of this report's analysis, data was retrieved from open source and proprietary databases. Professional advice was provided by JLL's Seattle-based capital markets experts specializing in multifamily residential, office, and retail land uses. Original research, interviews, and precedent experience gained from similar work conducted in comparable cities informed this report's proposed approaches to new funding mechanisms, catalytic projects, and development and business attraction.

Section Three – Development Strategies

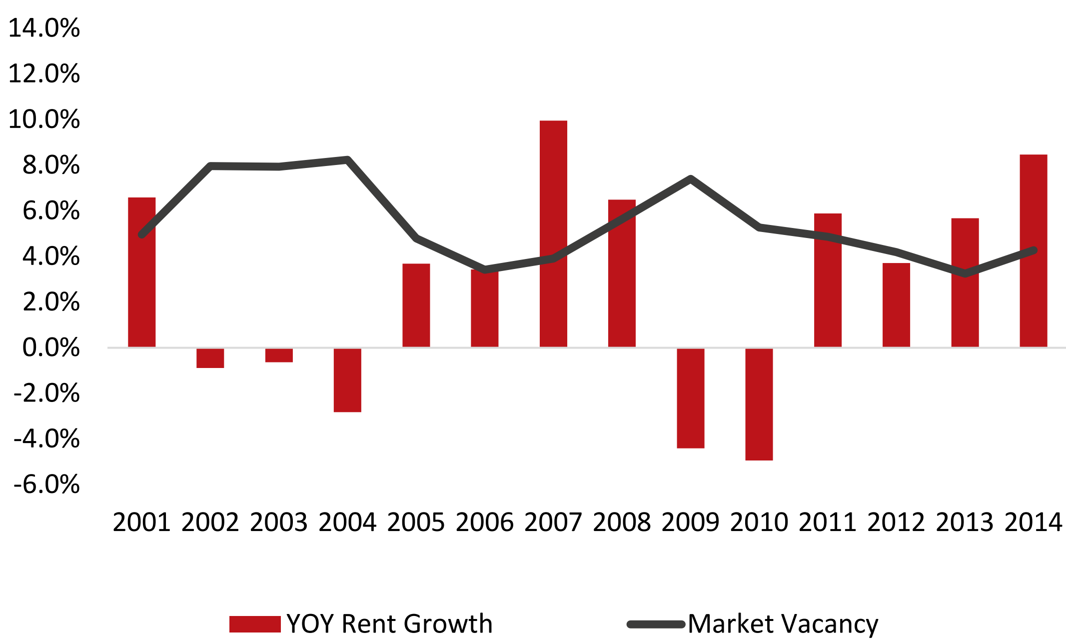
Market Summary

The following section briefly describes current market conditions for multifamily residential, retail, and office uses. See Appendix A for the full market assessments.

Multifamily Residential

The City of Lynnwood's housing inventory consists of more than 15,000 residential units, of which approximately 7,200 units are market-rate multifamily units provided within projects of 50 units or more. The existing multifamily product in Lynnwood is garden-style wood-frame construction with surface or tucked-under parking. As the national and local economies have recovered, so has the Lynnwood multifamily market with annual rental rate growth averaging 7 percent over the past two years and vacancy averaging 4 percent for all products (see Table 1 below).

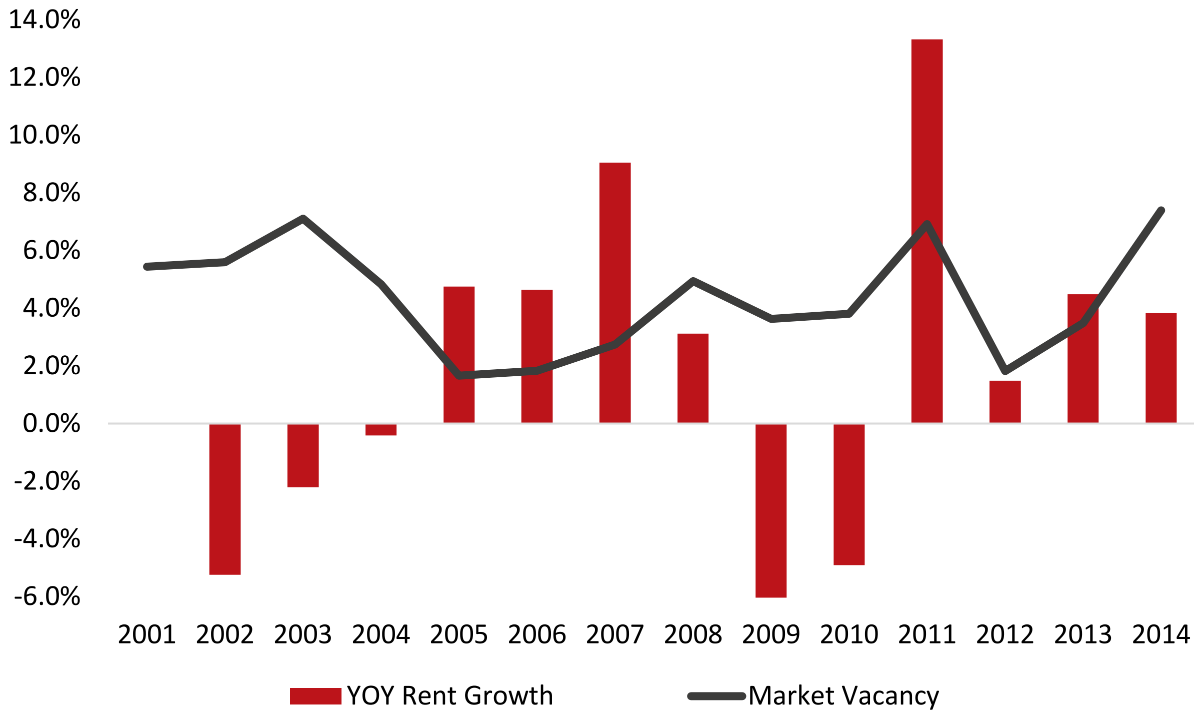
Table 1: Multi-family Key Performance Indicators- All Product Ages



Data as of March 2015

However, parsing the data by age and pricing of the multifamily inventory reveals weaker fundamentals. Newer product, built within the past 15 years and commanding higher than average rents, has achieved lower average annual growth rate of around 4 percent and vacancy that has increased above 7 percent during 2014 (see Table 2 below).

Table 2: Lynnwood Key Performance Indicators- 2000+



Data as of March 2015

This segmented data indicates that the Lynnwood housing market remains rather price sensitive, likely due to the prevalence of lower wage jobs and household incomes, and that new inventory introduced between 2013 and 2014 has relieved some of the housing pressure created during several years of no new multifamily development.

New multifamily development in Lynnwood has the opportunity to capture some of the housing sought by Millennials seeking an escape from the high-priced Seattle market. Millennials account for 32 percent of the U.S. housing market and are the largest demographic moving to the Seattle MSA. This group is less likely to be homeowners than young adults in previous generations for a variety of reasons including difficulties for recent college graduates to find jobs, more stringent mortgage underwriting criteria, heavy student loan debt burdens, delayed marriages and changing lifestyle preferences. With the median monthly rent in King County exceeding $1,750 per month and experiencing double-digit rate increases the past two years, segments of Millennials are seeking lower cost housing that is transit-accessible.

In order to capture some of this demand for lesser expensive housing, Lynnwood must invest in public amenities such as arts, culture, and pedestrian improvements while future multifamily developers must create a comprehensive onsite amenity set that appeals to young renters (fitness centers, rooftop BBQ areas, Wi-Fi-connected social areas, and great urban retail, dining, and entertainment options).

The challenge is for new multifamily projects to forego lesser expensive surface parking for above- or below-grade structured parking, in order to accomplish the goals of the City Center plan. JLL's analysis of a prototype Type III modified residential project over concrete podium and below-grade parking concludes an average lease rate of approximately $1.95 per square foot will be required. This rate compares to a current average rate of newer multifamily product in Lynnwood of $1.57 per square foot. The City will need to target residential developers known for their past experience in pioneering new markets that have relationships with equity and debt partners with vision and less stringent investment underwriting criteria.

Based on past performance, JLL estimates the Lynnwood multifamily market can absorb about 25 new units per month. If the City can seize upon some of the opportunities described in this report and begin to transform Lynnwood's physical environment to support an urban village, improve transit accessibility, and implement an events program that enlivens the city, it may be able to improve its market capture and absorption rates.

Office

Little of Lynnwood's existing office inventory is located within the City Center sub-area. Of the office product located in or near the City Center, nearly all is low-rise Class B or Class C quality. Higher quality Class A product is primarily located near the Alderwood Mall and northern portions of the City. With first quarter 2015 office vacancy rates around 25 percent, it will first be necessary for the market to absorb some of the existing vacant space before new office development can be justified and financed, absent a large single-user build-to-suit.

Many factors influence business location decisions for office users:

- *proximity to company leadership's residences;*
- *clustering with similar or complementary businesses;*
- *occupancy costs and parking availability and expense;*
- *access to higher education or research institutions;*
- *connections to freeways and public transit;*
- *housing affordability for workers;*
- *skillset and education of local workforce; and*
- *proximity to amenities such as shopping, dining, retail and cultural venues are just a few.*

Lynnwood's City Center area offers prospective businesses easy access to the I-5 freeway, Lynnwood Transit Center, and the future light rail station. Route 99 and the I-405 freeway are nearby. The City also offers workers significantly lower housing costs than higher priced metro areas but no new higher quality multi-family options that are attractive to millennials and young families. While the Alderwood Mall to the north of the City Center offers a high concentration of quality retail and dining amenities, the

City Center has not yet created an attractive urban environment. For these reasons, it is likely that a future Class A office development in Lynnwood will occur near the Alderwood Mall or on vacant land suitable for large floor plate singe-users until the City Center offers an amenity set of retail, dining, and cultural attractions within a few high quality multifamily residential projects.

Retail

The City of Lynnwood offers more than 8 million square feet of retail, a significant volume for a city of 36,000 residents. The City's retailers are successfully capturing a large share of the 5- and 8-mile trade areas. Current retail rents in the market range from \$17.50 to \$22.00 NNN on average with a premium for new construction ranging from the \$28.00 to \$35.00 NNN. Retail rents peaked in late 2007, just as the country entered a severe economic recession. Rents and occupancy rates, while improving, have not yet recovered to pre-recession levels.

Retail center sales values are averaging approximately \$250 per square foot in the Lynnwood market with new development approaching \$400 per square foot. The two retail comparable sales that are most applicable to this study are: Lake Serene Center (\$417 per square foot, built in 2009) and Shane Co Plaza (\$258 per square foot, built in 1980). Well-tenanted and managed retail in the Snohomish County submarket is currently yielding capitalization rates between 6.0 and 8.0 percent, with newer product achieving rates at the lower end of the range.

Retail Market Fundamentals	
Market Factor	**Value**
Lynnwood Retail Inventory	8,028,000 SF
Retail Rents (older product)	\$17.50 - \$22.00 / SF (NNN)
Retail Rents (new construction)	\$28.00 - \$35.00 / SF (NNN)
Overall Retail Vacancy Rate	4.1%

Data as of February 2015

Recent Lynnwood Retail Sales					
Property Location	**Sale Date**	**Total Size Year Built**	**Sales Price Price / SF**	**Buyer**	**Cap Rate % Leased**
Shane Co Plaza 18811 28th Ave W., Lynnwood	1/1/2014	53,289 1980	\$13,724,000 \$258	General Growth Properties	N/A 100% leased
Lake Serene Center 3625 148th Street SW, Lynnwood	5/1/2014	29,983 2009	\$12,500,000 \$417	Washington Investment LLC	8.0% 100% leased

Data as of February 2015

Feasibility Analysis

As part of its assessment of the effectiveness of the City's financial and non-financial development incentive programs, JLL prepared simplified development feasibility analyses for two primary product types: multifamily residential and commercial office. Considering the current market and existing conditions in the City of Lynnwood, multifamily and office, with ground floor retail, are the only likely development types. Higher density hotel development is likely to follow later when a more vibrant urban environment has been created. Future stand-alone retail centers should be discouraged in lieu of retail mixed with office or residential uses.

Since the City Center Sub-Area Plan envisions a transition from a predominance of surface parking to structured parking, JLL analyzed two development programs for each product type that includes onsite structured parking. For the full analysis and primary assumptions used for each prototype development see Appendix B.

Multifamily Residential

To assess the feasibility of a multifamily project in the City Center sub-area, JLL evaluated a low-rise project using Type III construction method above concrete podium and below grade parking and a Type I project above below grade parking. Each notional project assumes 5,000 square feet of ground floor retail, parking at 1.25 stalls per unit and a required annual return on developer costs of approximately 100 basis points above the projected cap rate. Based on recent land sales in the City, the analysis assumes site acquisition cost of $30 per square foot. A conservative efficiency factor[6] of 70 percent was used; developers may be able to achieve better. The two densities scenarios (using a 5.0 FAR and 7.0 FAR) test the effectiveness of the City's density and financial incentive programs as well as quantify the range of required subsidies, if any, to achieve financial viability for each type of project.

The medium-density prototype project (5.0 FAR) may be financially feasible without the need for significant public subsidies if an efficiently configured and sized site may be acquired for approximately $30 per square foot and an average residential lease rate of about $1.95 per square can be achieved and underwritten for financing purposes (see Table 3 below).

One of developers' largest challenges to deliver the desired types of projects in Lynnwood will be securing equity and debt based on underwriting rents that don't currently exist in the submarket. For this reason, the City's tax/fee exemption program will assist in lowering project costs and reducing investment risk.

The higher-density scenario (7.0 FAR), using more expensive steel and concrete building materials, will require significant subsidies to bridge the gap between development costs and achievable lease rates that cannot be reasonably funded by the public sector (see Table 3 below). The required subsidy amount well exceeds the cost of the project's below-grade parking, negating the potential for public investment in a shared parking structure to mitigate costs.

[6] A building's efficiency factor is the ratio of a building's net rentable area to its gross building area. Therefore the higher the efficiency factor, the larger the building's net rentable area.

Table 3: Multifamily Residential Prototype Development				
	Type III Over Podium - Below Grade Parking		Type I - Below Grade Parking	
	Value	Value/RSF	Value	Value/RSF
Land Acquisition	$1,960,000	$9	$1,960,000	$7
Development Cost (a)	$42,500,000	$201	$119,000,000	$403
Parking Cost	$11,719,000	$56	$16,406,000	$56
Total Project Cost	**$56,179,000**	**$266**	**$135,406,000**	**$458**
Annual Stabilized NOI	$3,570,000	$17	$5,312,000	$18
Estimated Total Value	$67,410,000	$319	$105,530,000	$357
Yield on Cost (b)	6.25%	6.25%	6.25%	6.25%
Subsidy Required	**$0**	**$0**	**$52,360,000**	**$177**

(a) Includes direct, indirect, amenity, and financing costs

(b) Subsidy required to achieve a minimum developer return on cost of 6.25% and a land acquisition cost of $30/ sq. ft.

Therefore, while the City's tax/fee exemption programs for multifamily residential are valuable and should continue or even be bolstered, the density bonus program is currently not useful as increased density delivers a negative value to developers and their projects.

Office

To further the vision of the City Center plan, JLL assumed new office development would be of Type I construction and Class A in quality. While the City Center Sub-Area Plan requires only two parking stalls per one thousand square feet of office building area in anticipation of the light rail extension, office users will require a greater parking ratio as Snohomish County will remain a primarily auto-dependent community for many decades. JLL has assumed a parking ratio of three stalls per thousand square feet in its development feasibility analysis but the market could demand even more.

Each prototype project is assumed to include 5,000 square feet of ground floor retail and a site acquisition cost of $30 per square foot. JLL evaluated two scenarios with above grade parking with densities of 2.0 and 4.0 on a 2.0-acre site for the purpose of testing the City's density bonus program. A third office scenario was analyzed with below grade parking on a smaller site of 1.0-acre with an FAR of 5.0. Any future office development in the City Center area will either be a build-to-suit for a single large user or a significantly pre-leased multi-tenant building.

As shown in Table 4 below, a subsidy is required to bridge the gap between development costs and achievable lease rates for an office project with above grade parking and a density of 2.0. The higher-density scenario with a FAR of 4.0, using more expensive steel and concrete building materials, will require even more significant subsidies. The below grade parking scenario also requires subsidies in order to be financially feasible. However, the subsidy is less than required for the office scenario with a density of 4.0 and above grade parking.

Table 4: Office Prototype Development						
	Type I (FAR 2.0) – Above Grade Parking		Type I (FAR 4.0) – Above Grade Parking		Type I – Below Grade Parking	
	Value	Value / RSF	Value	Value / RSF	Value	Value / RSF
Land Acquisition	$2,614,000	$16	$2,614,000	$8	$1,307,000	$6
Development Cost [(A)]	$65,340,000	$399	$130,680,000	$399	$81,675,000	$399
Parking Cost	$11,516,000	$70	$23,032,000	$70	$23,032,000	$113
Total Project Cost	**$76,856,000**	**$469**	**$153,712,000**	**$469**	**$104,707,000**	**$511**
Annual Stabilized NOI	$4,381,000	$27	$8,803,000	$27	$5,496,000	$27
Estimated Total Value	$62,580,000	$382	$125,754,000	$384	$78,511,000	$383
Yield on Cost	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Subsidy Required [(B)]	**$24,917,000**	**$152**	**$46,697,000**	**$143**	**$20,735,000**	**$101**

(A) Includes standard site improvements, direct, indirect, amenity, and financing costs

(B) Subsidy required to achieve minimum developer return on cost of 8.0% and a land acquisition cost of $30/ sq. ft.

As with the multifamily feasibility analysis, the density bonus program is currently not useful for office development as increased density delivers a negative value to developers and their projects.

Incentives

Many U.S. cities create financial and non-financial incentives to attract new private investment and development to underserved communities or areas lacking strong market fundamentals and infrastructure to support the quality urban infill and transit-oriented development in districts newly served by rail. Examples of incentives provided include a predictable and efficient entitlement process, a project area environmental impact study, abatement of development impact fees or taxes, significant public improvements including parks and streetscape and direct investments in private development through public-private partnerships or subordinated low-interest loans.

The City of Lynnwood has adopted several financial and non-financial incentives to accelerate and facilitate new higher density projects within the City Center sub-area. Providing financial incentives in Lynnwood is extremely challenging considering the State of Washington is one of the more restrictive in the nation in regard to how public funds may be utilized to attract private investment. Specifically, Article 8, Section 7 of the state constitution provides:

No county, city, town or other municipal corporation shall hereafter give any money, property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm.

These State-imposed constraints challenge the State's cities to conduct economic development and redevelopment efforts. Most other states allow for a variety of forms of tax increment, which can be used to fund an array of programs. These programs include site acquisition, low interest subordinated loans to developers, sale or lease of property at less than Fair Market Value, soils remediation, and design and installation of public infrastructure and parks.

Density Bonus Program

The City Center Sub-Area Plan provides developers with significant density bonuses for qualifying projects that deliver certain desired public benefits such as structured parking, environmental sustainability and public plazas. However, as discussed in the Feasibility and Development Regulations Recommendations sections of this report, such density bonuses have no value to developers in the current market. The costs of development, including above- or below-grade structured parking, exceed the value achieved from rents that can be commanded in new multifamily residential or office projects. Therefore, it is JLL's recommendation that such density bonuses be suspended until such time that they provide value. Until such occurrence, the maximum base densities should be increased to match those allowed under the density bonus program to encourage developers to strive for the maximum density supportable by demand and the capital markets.

Multiple-Unit Housing Property Tax Exemption Program

The multifamily property tax exemption is intended to stimulate the creation of new multifamily residential projects within the City Center sub-area. The program provides qualifying projects of 50 units or more with a property tax exemption for a period of 8 or 12 years following project completion and issuance of an exemption certificate by the City. The exemption is offered to projects that provide onsite surface or structured parking, meet or exceed LEED Silver sustainability standards and is completed within 3 years of the City's approval of the exemption application.

JLL finds the property tax exemption program to be an effective program that, when combined with other existing and potential new programs, can close the gap between development costs and achievable rents in the current market. In an effort to advance the objective of the sub-area plan to deter surface parking in new development, JLL suggests the City consider further restricting this incentive program to only those proposed projects that include above- or below-grade structured parking. Surface parking, even wrapped with occupied building areas or screening walls, will not achieve the design quality and urbanist character envisioned for the City Center.

Transportation Impact Fee Exemption Program

The City's Transportation Impact Fee Exemption Program provides proposed multifamily residential or commercial projects within the City Center subarea that are of at least four-stories in height and provide at least 60 percent of onsite parking in above- or below-grade structures an exemption from payment. The City has allocated a total of $1.8 million to the program, or up to $600,000 per project. Therefore the program is available to the first three qualifying projects that apply prior to payment of the fee and issuance of a building permit.

Exemptions from payment of Impact Fees are a common incentive used by cities located in the State of Washington to promote urban infill development. JLL finds this fee exemption program to be a vital incentive and cost-relief measure for new City Center projects until such time that market lease rates support the full cost of new development with structured parking. As this program is utilized, the City will likely need to re-appropriate funding to support additional projects.

JLL's development feasibility analysis concludes that, in today's market, most forms of desired types of development in the City Center require some type of financial incentive in the way of a subordinated subsidy. One exception appears to be multifamily residential projects constructed of wood frame over a concrete podium with below-grade parking. A developer savvy in pioneering new submarkets with equity investors and lenders willing to accept greater risk may be able to implement a new project without significant public subsidies.

The fee abatement programs presently offered by the City will assist in supporting new multifamily development. But the lack of State of Washington legislation providing cities with more tools for transit-oriented development and economic development creates significant challenges for the City of Lynnwood not experienced by cities in other states. JLL's analysis concludes that while the City's tax/fee exemption programs for multifamily residential are valuable and should continue or even be bolstered, that ***the density bonus program is currently not useful*** since increased density provides a negative value to developers and their projects rather than being a benefit. Because of the vast financial feasibility "gap" of Type I office and multifamily development, the City's tax/fee exemption programs are not sufficient to support those types of new development.

Regulatory

In 2005, the Lynnwood City Council adopted amendments to the City of Lynnwood Comprehensive Plan that effectively created an area, known as the City Center Sub-Area, located along the City's southern boundaries and adjacent to the proposed light rail station that allows for significantly greater density, land use flexibility and enhanced urban design guidelines. Through incentives, the City Center Sub-Area encourages the creation of urban parks and plazas and mixed-use development with structured parking with the goal of establishing a vibrant urban center for the City and Snohomish County.

The plan has since been amended to include the proposed installation of new streets to further refine the grid system to improve pedestrian, bicycle and vehicular mobility. In addition, there are incentives to encourage active street level retail, processes to create entitlement predictability, land use restrictions to discourage incompatible and nonconforming uses, reduced parking ratios that acknowledge the arrival of light rail, and density bonuses to encourage greater densities if certain project objectives are achieved, among other features that promote high quality urbanism and transit-oriented development.

The Lynnwood plan amendments incorporate many best practices recommended by urban planning professionals and provide a solid regulatory foundation for the City Center's success.

Following adoption of new urban regulatory plans and design guidelines, cities frequently find the need to further adjust and refine some aspects of the code to reflect realities in current or changing economic and market conditions; development costs; unique challenges in a given submarket; site conditions; effectiveness of incentive programs and availability of public financial resources to perform site assembly, subsidize development or implement needed public improvements.

JLL has reviewed the City's regulatory documents that are currently in effect and identified several sections of the code and design guidelines for consideration of amendment. Planning regulations that may be effectively implemented in areas with strong market fundamentals may not necessarily achieve results in areas similar to Lynnwood that are attempting to transition from a low-density suburban community to a more dense regional urban center. These recommendations have been informed by the findings from JLL's market assessment, development feasibility analysis, discussions with Seattle-based JLL real estate brokers and our experience in implementing new urban plans in cities with similar conditions. There are a total of fourteen recommendations that include:

- Increase the minimum building height
- Temporarily remove the density bonus requirement
- Parking exemption for ground floor retail within a mixed-use project
- Require that more nonconforming buildings be brought into conformity
- Establish allowable building envelopes and shadow studies for sites along southern boundaries of public spaces
- Require minimum distance between face-of-curb to exterior café line
- Create discretionary minimum interior lot line setback
- Establish a required building stepback in elevation from ground level for street walls
- Establish a minimum ground-floor ceiling height for new development
- Create a minimum level of quality of building base materials
- Increase minimum ground level transparency
- Add guidelines related to Oriel windows
- Add guidelines related to Off-Street Loading
- Add regulations to the City Center sub-are plan that address live entertainment on premises

See Appendix C for a full description and explanation of each recommendation.

Section Four – Catalytic Project Opportunities

On July 28, 2014 City Council approved Resolution 2014-15 prioritizing the projects for City Center implementation and to support future growth demands. There are a total of 18 projects grouped into the following categories: transportation, pedestrian, transit, and partnerships. Table 5, below, summarizes these priority projects.

Table 5: City Center Project Prioritization, July 2014	
Transportation	
Rank	Project
1	42nd Ave. W (New Grid Street)
2	196th St. SW Improvements
3	194th St. SW Improvements (New Grid Street)
4	Poplar Way Extension (New Bridge Over I-5)
6	200th St. SW Improvements (With Light Rail)
Pedestrian	
Rank	Project
1	Town Square Park
2	Promenade Street Improvements
3	I-5/ 44th Ave. W Underpass Improvements
4	Interurban Trail Enhancements
Transit	
Rank	Project
1	Lynnwood Link Light Rail Mitigations
2	City Center Light Rail Extension
3	Pedestrian Crossing 196th at Convention Center (with City Center Light Rail Extension)
5	City Center Transit Shelter Design
Partnerships	
Rank	Project
1	Phased Government Center, Sno-Isle Library and Other Core Redevelopment
2	Transit Oriented Development associated with Lynnwood Link light rail or 196th BRT
3	Village Green Park as Project component with site redevelopment
4	Convention Center Expansion and Excess LPFD Site Redevelopment
5	Edmonds School District & City Property at 196th

Many of these priority projects also align with the City of Lynnwood 2015 Strategic Plan. The projects in the plan have been strategically identified as the City of Lynnwood's focused priorities for the next 10 years to begin, move, and accomplish within the next five biennial budget cycles.

Given the set of priority projects from the City Center Project Prioritization and the 2015 Strategic Plan, the City should focus development on the area bounded by 196th Street SW to the North, 40th Avenue W to the East, Alderwood Mall Boulevard to the South, and 48th Avenue W to the West.

Within this development area, the City can focus on projects that help to create a sense of place. Placemaking around community anchors is an important way to reinvigorate city centers and downtowns. Civic institutions, government centers and public spaces can be vibrant destinations as well as catalysts for revitalizing the neighborhoods around them. The City of Lynnwood has an opportunity to leverage existing local government assets – the County library, City Hall, the State Dairy Council, and public spaces — to create a new destination that will help to revitalize the City Center. By collaborating with its local government partners, regional philanthropic and arts/cultural organizations, Edmonds Community College and the City's larger employers, the City could take the lead in developing a new government and cultural complex in the heart of the City Center area.

The City's existing City Hall complex and the County's local library are legacy low-density buildings located on sprawling acreage outside of the City Center boundaries. The County has expressed an interest in partnering with the City to develop a new branch library, possibly co-located with a new City Hall.

An ideal location for a new Civic Center Complex would be adjacent to, and integrated with, the proposed future Town Square Park, at the southwest corner of 198th Street SW and 42nd Avenue W. Many successful Civic Center Complexes are integrated with activated well-designed public gathering spaces that may become plazas for celebrations, special events, political speeches, passive recreation, festivals, performances or people-watching. The offices of the State Dairy Council are located within the boundaries of the 42nd Avenue W site, adjacent to the proposed Town Square Park site, and could become a partner with the City through land contribution and occupancy of a new government center.

Section Five – Funding Strategies

The State of Washington is one of the more restrictive in the nation in regard to how public funds may be utilized to attract private investment. Despite these constraints, cities have been widely utilizing a variety of sources, most tapping Real Estate Excise Taxes (57%) and some (27%) creating local improvement district that require a public vote. While no single funding mechanism will provide the City of Lynnwood with the full amount of funding it requires to accomplish its infrastructure, economic development, and private investment objectives, securing a combination of several sources can create a funding "toolkit" for the City to strategically apply to key projects that can stimulate additional private investment and economic growth. There are a few programs that the City of Lynnwood can utilize or leverage to assist in financing the implementation of the City Center plan. The options are categorized by State versus non-State programs.

State Programs

The State of Washington offers its cities limited programs that may use tax revenues to finance new infrastructure or create tools to incentivize private development in challenged market areas. However, for various reasons, only a few are currently available to the City of Lynnwood and are described below. For a summary and comparison of all tax-increment financing statutes see Appendix D.

Levy Lid Lift

Washington Initiative 747 was passed in 2001, which limited property tax increases to 1 percent per year; however, taxing jurisdictions may ask the voters to approve a "lift" of the levy lid. A Levy Lid Lift requires the current tax rate to be less than the statutory maximum rate, and to achieve a simple majority vote on a ballot. Snohomish County voters approved 26 of 32 (or 81 percent) monetary property tax measures on the ballot in 2014.

The maximum regular property tax levy for Lynnwood is $3.3569 (does not include library) per thousand and its current rate is $1.9847. With Lynnwood's 2015 assessed valuation at $4,771,220,851, the maximum amount of ***extra*** revenue the city could receive in its first year after approving a levy lid lift is $6,546,980.

There are two options for implementation: 1) Single-year lid lift, the methodology where the lift takes place in just one year, or 2) Multiple / Multi-year lid lift, the methodology where the lift takes place each year for up to six years. Both options can be implemented on a temporary or permanent basis.

As an example, in 2012 the City of Kirkland voters approved two ballot measures for permanent property tax levies to fund streets and parks. The streets measure was a permanent levy lid lift of $0.204 per $1,000 of assessed valuation and it is expected to generate about $3 million per year with 90 percent spent on street overlay, 5 percent spent on pedestrian safety, and 5 percent spent on safe routes to schools. The annual impact on a median household valued at $346,000 is $70.58.

The parks measure was a permanent levy lid lift of $0.16 per $1,000 of assessed valuation and is expected to generate about $2.4 million per year, with roughly half of the funds used for operations and maintenance and the remainder available for pay-as-you-go capital, initially invested in a specific list of projects. The annual impact on a median household is $55.36.

Business and Occupancy Tax

Washington does not have an income tax on individuals or businesses. However, the state has a Business & Occupation (B&O) tax that may be placed on businesses and is calculated based on the value of products, gross proceeds of sales or gross income of the business. Taxation rates vary by industry classification. Forty of the state's 281 cities currently impose a B&O tax, 3 of which are located in Snohomish County, including Everett (a tax rate of 0.1 percent). The average B&O tax rate is 0.16 percent across all industry sectors: manufacturing (0.15 percent), retail (0.16 percent), services (0.2 percent), and wholesale activities (0.15 percent). Lynnwood does not currently impose a local B&O tax.

Based on Census data, in 2012, the gross income across all industries in Lynnwood totaled roughly $3.9 billion. Assuming the share of taxable income is equivalent to that in the State of Washington, then roughly $3.1 billion would be subject to the B&O tax.[7] If Lynnwood were to propose a B&O tax rate equivalent to that of the City of Everett (0.1 percent), the estimated annual B&O tax revenue generated would be around $3.1 million.

Any new or increased municipal B&O tax requires voter approval and is subject to a referendum procedure.

Community Revitalization Financing

CRF entails the creation of a tax increment area where community revitalization projects and programs are financed by diverting a portion of the regular property taxes imposed by local governments within the tax increment area. *This program was created for development in geographic areas characterized by high levels of unemployment and stagnate employment and income growth*.

In most states, when property values rise in a tax increment area, the amount of property tax revenues increase correspondingly. However, in Washington State, the growth in total property tax revenues received by any taxing district is capped at 1% per year. There is an exception for the value of new construction. Therefore, as property values rise in a tax increment area by virtue of successful new activity occurring in the area, there is not a corresponding increase in property tax revenue. The increase in property tax revenue continues to be capped at 1% annually.

As such, potential revenue is difficult to estimate and general thoughts are that CRF doesn't create enough revenue to do anything significant. There is no state contribution. *No projects have utilized this program to date*.

Implementation requires the creation of an increment area (the geographic area from which taxes are to be appropriated) where proposed public improvements are expected to encourage private development and such private development is expected to be consistent with countywide planning policies, local comprehensive plans and development regulations. Taxing districts that, in the aggregate, levy at least

[7] In 2013 approximately 78% of gross sales in the State of Washington was subject to the B&O tax.

75 percent of the regular property tax within the increment area must approve, and where applicable, agree to participate in the CRF financing.

Transportation Improvement Districts

A county or a city may establish a transportation benefit district to fund transportation improvements that are consistent with any existing state, regional, and local transportation plan. Port and transit districts may participate in the establishment of a district, but may not initiate one.

New revenue options include a $20 license fee that may be approved by the legislative body; a 0.2 percent sales and use tax, vehicle fees of up to $100 annually, and tolls - subject to voter approval.

Transportation benefit districts are given authority to levy a one-year "O&M" property tax, issue general obligation bonds, establish LIDs and impose impact fees to fund transportation improvements.

Non-State Programs

Federal New Market Tax Credit Program

Established by Congress in 2000, the federal NMTC program has allocated more than $43.5 billion in tax credits to qualified Community Development Entities (CDEs) throughout the U.S. The CDEs receiving an allocation have sold their credits to investors who in turn provide equity or debt to for-profit or non-profit entities that are developing projects in low-income and/or high-unemployment neighborhoods. Such projects may include such uses as office, manufacturing, hotel, retail, restaurant, health care, education, entertainment or arts/cultural institutions. Residential may be a smaller ancillary component of the project. NMTC financing can often make the difference between a project's financial feasibility and it never leaving the drawing board. For example, Coastal Community Action Program, a non-profit social services agency based in Aberdeen, received $8 million in NMTC financing provided by Craft3, a CDE based in Astoria, Oregon, for the installation and operation of four wind turbines.[8] Additionally, the Clark County Family YMCA in Vancouver, Washington received $8 million in NMTC allocation from the National Community Investment Fund for the expansion of its facility.[9]

While cities are precluded from being a recipient of NMTC financing, the City of Lynnwood can play an active role in educating the City's potential developers about the program, connecting developers and potential users with expert advisers in NMTC financing.

The CDFI Fund of the U.S. Department of Treasury typically announces its award of NMTC to CDEs during the spring of each year. It is important for developers to pitch their proposed projects to several CDEs well in advance of the annual announcement of allocations. In fact, CDEs often identify proposed projects for investment one year or more in advance of announcement of allocations, during the annual NMTC application process.

[8] http://nmtccoalition.org/wp-content/uploads/Washington-CCAP.pdf
[9] http://ncif.org/invest/new-market-tax-credits/project-archive/clark-county-family-ymca-expansion#.WS8SAGjyu70

NMTC financing is a complex and often intimidating process for first-time participants in the programs. The City can help facilitate the process and potentially provide letters of support, expedite entitlement and construction permits or leverage with tax or fee abatements. Some cities have created their own public non-profit entity for the sole purpose of applying for and securing a NMTC allocation for investment in qualified neighborhoods. Cities in Washington State are permitted to create Public Corporations, or "PDAs" for the purpose of administering federal funding programs. A project's location can be verified using the following mapping tool: http://www.novoco.com/new_markets/resources/ct/ for eligibility in the program. Under certain conditions, projects not located in qualified census tracts may also be eligible based on the project's ownership, workers, and/or customer base. The City Center West Zone and the area south of 196th Street SW in the City Center Core Zone appear to be eligible.

Public/Private Transit-Oriented Investment Fund

During the past decade of public rail system expansion programs, several cities have successfully created and implemented public-private investment funds to support equitable high-quality transit-oriented development along transit corridors and within a ½-mile of rail stations. Each city's program differs by investor mix, fund structure, investment objectives and criteria as well as financing terms. However, a commonality among the programs is an investor mix of public agencies and private sector for-profit and non-profit entities.

Leigh Avenue Senior Apartments, San Jose, CA
Received $3 million four-year loan for site acquisition

The concept of TOD investment funds began with the creation of the Bay Area Transit-Oriented Affordable Housing (TOAH) Fund in 2011. The purpose of the fund was to promote affordable TOD across the nine-county Bay Area by catalyzing the development of affordable housing, community services, healthy food restaurants and markets, and other neighborhood assets. The Fund offers five loan products for terms up to seven years: acquisition loans, predevelopment loans, construction bridge loans, construction-to-mini permanent loans, and loans at favorable interest rates to help bridge New Markets Tax Credits (NMTC) investments.

Borrowers can access loans of up to $750,000 for predevelopment costs and up to $7.5 million for the other loan types. The TOAH Fund was made possible through $10 million in seed capital from the Metropolitan Transportation Commission (MTC). MTC is the regional transportation planning, coordinating and financing agency for the nine-county San Francisco Bay Area, and it functions as both the Bay Area's transportation planning agency and metropolitan planning organization (MPO). The Low Income Investment Fund (LIIF) is the Fund Manager and an originating lender, along with five other leading community development financial institutions (Corporation for Supportive Housing, Enterprise Community Loan Fund, LISC, Northern California Community Loan Fund and Opportunity Fund). Citi

Community Capital, Morgan Stanley, the Ford Foundation, Living Cities, and The San Francisco Foundation provided key private capital investments for the Fund.

Since the inception of TOAH, numerous public-private TOD investment funds of varying amounts and structures have been established in other cities. The following is a partial list of such programs:

- Denver Regional Transit-Oriented Development Fund
- Minneapolis Livable Communities Act Transit-Oriented Development Program

A commonality among the fund structures is that the public funds are typically at most risk – are first-in and last-out. Private sector capital is invested in trenches with varying interest rates, return on investment requirements, reinvestment horizons, and levels of subordination.

In July 2013, the Puget Sound Regional Council (PSRC) selected Enterprise Community Partners and Impact Capital to conduct a feasibility study for a Regional Equitable Development Initiative (REDI) Fund for King, Pierce, Snohomish and Kitsap counties. The transit-oriented development (TOD) fund's purpose would be to help developers secure sites near existing and future transit centers throughout the central Puget Sound region and invest capital into a variety of housing and community facilities. The findings for the study were published in the REDI Business Plan Framework report in June 2014.

The City of Lynnwood should closely coordinate with PSRC's efforts to establish a TOD Investment Fund or work independently to create its own Fund should PSRC decide not to proceed. Attempting to create a competing Fund may stretch potential funding partners' resources too thin.

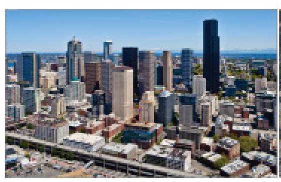
Section Six – Marketing and Public Outreach

Business Attraction Strategies

- Conduct targeted advertising to Seattle's largest businesses to build a business case for locating back-office operations in Lynnwood with lower employee costs, substantially lower lease rates and free parking. Moreover, demonstrate, through commute mapping graphics that many of their back-office employees already live closer to Lynnwood than they do to Seattle. Example tagline such as "Your employees are here, why aren't you?"

  The comparative office occupancy cost analysis below is an example of compelling data and collateral material the City of Lynnwood can provide to the tenant representation brokerage community to influence business occupancy decisions.

COST SAVINGS ANALYSIS

	SEATTLE/BELLEVUE CBD	EDMONDS/LYNNWOOD	FEDERAL WAY/AUBURN
Approximate leasing costs for a 40,000 rsf Class A tenant			
Base rent	$25.00/SF	$21.25/SF	$17.00/SF
Operating expenses	$11.00/SF	$7.75/SF	$6.00/SF
Annual full service rent	$36.00/SF	$28/SF	$23/SF
Annual parking costs	$5.40/SF	FREE	FREE
Total cost - year one	**$1,656,000**	**$1,120,000**	**$920,000**
Total costs over a 10-year period	**$18.36M**	**$13.00M**	**$11.00M**
Total cost savings - 10-year lease term	—	**$5.36M**	**$7.36M**

- Rather than targeting the relocation of headquarters, focus on call centers and back-office operations as a method to offset rents.

The table below represents examples of tenants currently in the leasing market that could be targeted by the City of Lynnwood to locate a portion or all of their future office space needs in the City.

Tenant	Space Required	Occupancy Date	Destination	Industry
Expedia	700,000 - 1,000,000	2016-2018	Seattle, Bellevue	Technology
Value	200,000	2016-2018	Bellevue	Technology
DocuSign	170,000	Q3 2016	Seattle, Bellevue	Technology

- Provide case studies and testimonies of existing companies that have a back-office presence in Lynnwood and are success stories. Additionally, HomeStreet Bank, as well as other mortgage companies, have a large presence in the area between the City and Mountlake Terrace. Creating talking and selling points around these companies may also be a useful marketing tool.
- Ensure Lynnwood's permitting department has more than enough bandwidth and an efficient and predictable process to approve building permits for TI work.

Parking and Business Improvement Area

A Parking and Business Improvement Area (PBIA) is designed to aid general economic development and to facilitate merchant and business cooperation. It is also a local funding mechanism that allows business owners within a defined area to establish a special assessment district. The special assessment is imposed on businesses, multifamily residential developments, and mixed-use developments located within the geographic boundaries of the district. The revenue generated can then be used to finance the following:

- Construction, acquisition, or maintenance of parking facilities in the area
- Decoration of public areas
- Promotion of public events in the area
- Furnishing of music in any public place in the area
- Provision of maintenance and security of common public areas
- Management, planning, and promotion of the area
- Promotion of retail trade activities in the area

The State of Washington authorizes the creation of a PBIA by statute. According to the Revised Code of Washington, Title 35, Chapter 35.87A, counties, cities, and towns can establish a PBIA after the business owners within the area submit an initiation petition to the local legislative authority having jurisdiction over the area or the local legislative authority adopts an initiation resolution.[10]

There are a number of active PBIAs in Washington State. For example, the City of Spokane has the Downtown Spokane Business Improvement District (BID) providing services and improvements that

[10] http://app.leg.wa.gov/rcw/default.aspx?cite=35.87A

enhance existing municipal services to the downtown area. The BID was created by the City Council and reauthorized in 2001 by the more than 850 business owners in the area. The City of Poulsbo also has a business improvement area called the Historic Downtown Poulsbo Association (HDPA), which was authorized in 1988. The fees assessed by the HDPA are used to support the beautification, preservation, and marketing of downtown Poulsbo. Lastly, the City of Tacoma has the Downtown Tacoma Business Improvement Area (BIA). Founded in 1988, the BIA provides maintenance, security, and streetscape improvements in an 84-block district of downtown Tacoma.

Section Seven – Recommendations

1. ***The density bonus program should be suspended***
    - Under current market conditions, increased density offers no positive incentive to developers and their projects.
    - Until such time that they provide value, the maximum base densities should be increased to match those allowed under the density bonus program to encourage developers to strive for the maximum density supportable by demand and the capital markets.
2. ***Consider further restricting the Multiple-Unit Housing Property Tax Exemption program to only those proposed projects that include above- or below-grade structured parking.***
    - Surface parking, even wrapped with occupied building areas or screening walls, will not achieve the design quality and urbanist character envisioned for the City Center.
3. ***Implement development regulation recommendations***
    - Will aid the City of Lynnwood as it transitions from a low-density suburban community to a denser regional urban center.
    - Following adoption of the new urban regulatory plans and design guidelines, the adjustments and refinements would reflect realities in current or changing economic and market conditions.
4. ***Focus development on the area bounded by 196th Street SW to the North, 40th Avenue W to the East, Alderwood Mall Boulevard to the South, and 48th Avenue W to the West.***
    - Many of the priority projects from the City Center Project Prioritization and the 2015 Strategic Plan are located in this area
    - Within this area the City can focus on projects that help to create a sense of place, starting with a new Civic Center Complex. The new complex would be adjacent to, and integrated with, the proposed future Town Square Park, at the southwest corner of 198th Street SW and 42nd Avenue W. Placemaking around community anchors is an important way to reinvigorate city centers and downtowns.
5. ***Create a lending program (transit-oriented investment fund) targeted to support City Center infill development that meets minimum established criteria in an effort to catalyze an urban center.***
    - Such lending would provide funding early in the site acquisition and development process.
    - The program would seek to fill the financing gaps and site-adjacent infrastructure improvements for projects that would otherwise not be implemented because commercial lenders or equity investors are unwilling to accept credit risks in underwriting a product type that does not exist in the Lynnwood market area.
    - Once it can be demonstrated to the capital markets that new development in the City Center can achieve rents and values required to support land and development costs, the lending program can be retired.
    - PSRC has made efforts to establish a TOD Investment Fund. The City of Lynnwood should closely coordinate with PSRC on these efforts or work independently to create its own Fund

should PSRC decide not to proceed. Attempting to create a competing Fund may stretch potential funding partners' resources.

6. **Consider creating a business improvement district or area (BID)**
    - The BID can focus on marketing Lynnwood as an attractive place to live and work. Marketing should include targeted advertising to build a business case for large businesses to locate back-office operations in Lynnwood, which can substantially lower occupancy costs.
    - Business improvement districts are also funding mechanisms for business district revitalization and management.

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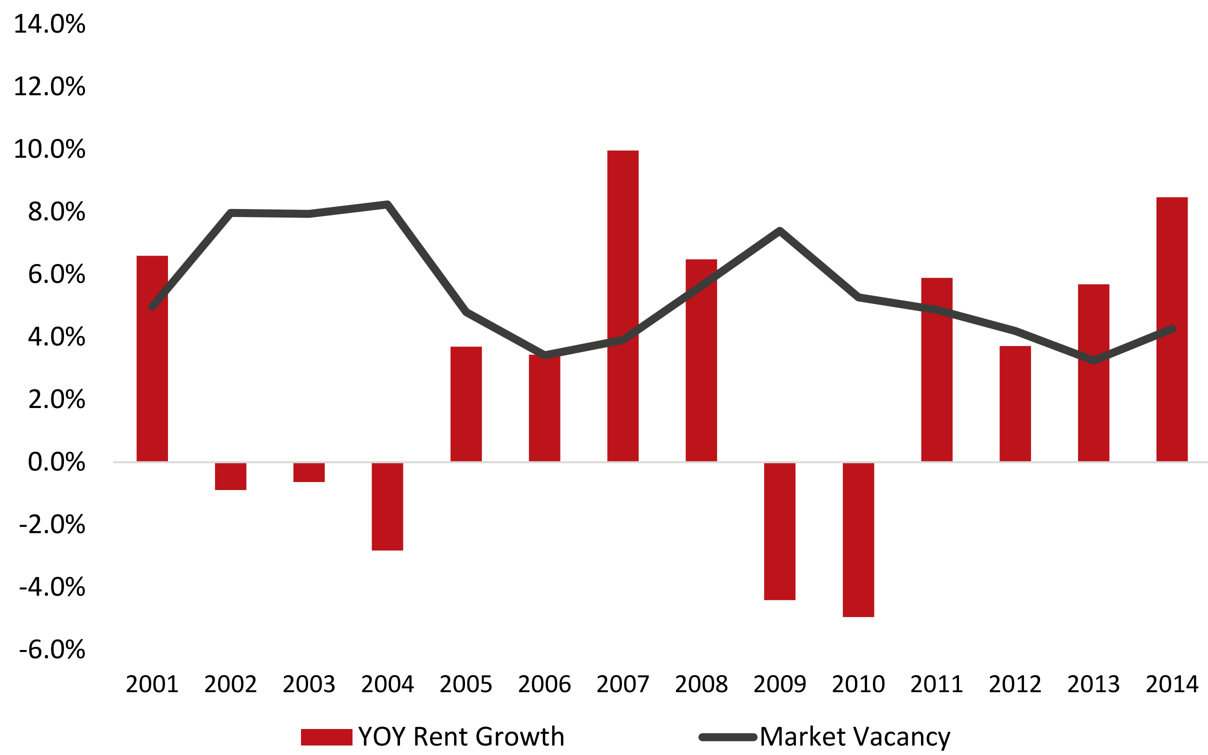
Appendix A: Market Summary

Multifamily Development

The City of Lynnwood's housing inventory consists of more than 15,000 residential units of which approximately 7,200 units are market-rate multifamily units provided within projects of 50 units or more. The existing multifamily product in Lynnwood is garden-style wood-frame construction with surface or tucked under parking. No Type III over podium product currently exists in the City.

As the national and local economies have recovered, so has the Lynnwood multifamily market with strong annual rental rate growth averaging 7 percent the past two years and vacancy averaging 4 percent for all product, representing a balanced market (see Table 1 below). The market indicates there is room for new supply.

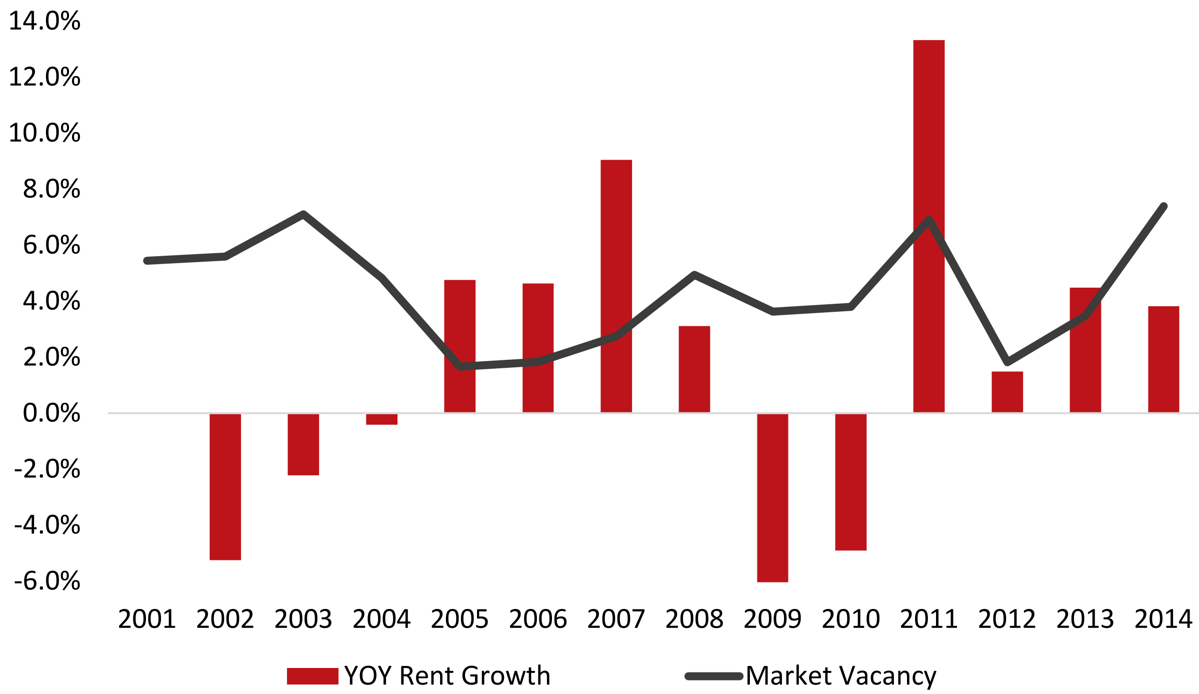
Table 1: Multifamily Key Performance Indicators- All Product Ages



Data as of March 2015

However, parsing the data by age and pricing of the multifamily inventory, reveals weaker fundamentals. Newer product, built within the past 15 years and commanding higher than average rents, has achieved lesser average annual growth rate of around 4 percent and vacancy that increased above 7 percent during 2014 (see Table 2 below).

Table 2: Lynnwood Key Performance Indicators- 2000+



Data as of March 2015

This segmented data indicates that the Lynnwood housing market remains rather price sensitive, likely due to the prevalence of lower wage jobs and household incomes, and that new inventory introduced between 2013 and 2014 has relieved some of the housing pressure created during several years of no new multifamily development.

New multifamily development in Lynnwood has the opportunity to capture some of the housing sought by Millennials seeking an escape from the high-priced Seattle market. Millennials account for 32 percent of the U.S. housing market and are the largest demographic moving to the Seattle MSA. This group is less likely to be homeowners than young adults in previous generations for a variety of reasons: difficulties for recent college graduates to find jobs, more stringent mortgage underwriting criteria, heavy student loan debt burdens, delayed marriages and changing lifestyle preferences. With the median monthly rent in King County exceeding $1,750 per month and experiencing double-digit rate increases the past two years, segments of Millennials are seeking lower cost housing that is transit-accessible.

In order to capture some of this demand for lesser expensive housing, Lynnwood must invest in public amenities such as arts, culture and pedestrian improvements while future multifamily developers must create a comprehensive onsite amenity set that appeals to the young rents (fitness centers, rooftop BBQ areas, wifi-connected social areas, and great urban retail, dining and entertainment options.

The challenge is for new multifamily projects to forego lesser expensive surface parking for above- or below-grade structured parking, in order to accomplish the goals of the City Center plan. JLL's analysis of a prototype Type III modified residential project over concrete podium and below-grade parking concludes an average lease rate of approximately $1.95 per square foot will be required. This rate compares to a current average rate of newer multifamily product in Lynnwood of $1.57 per square foot. The City will need to target residential developers known for their past experience in pioneering new markets that have relationships with equity and debt partners with vision and less stringent investment underwriting criteria.

JLL also reviewed performance indicators by unit type, as shown in Table 3 below.

Table 3: Lynnwood Key Performance Indicators- All Asset Ages					
	Market Vacancy	Gross Vacancy	Average Rent	YOY Rent Growth	Rent/Sq. Ft.
All Unit Types	4.27%	4.72%	$1,089	8.47%	$1.20
Studio	2.22%	2.20%	$777	3.60%	$1.46
One Bedroom	5.04%	5.60%	$935	8.72%	$1.32
Two Bedroom/ One Bath	2.79%	2.80%	$1,068	9.09%	$1.18
Two Bedroom/ Two Bath	4.63%	5.30%	$1,169	7.35%	$1.09
Three Bedroom/ Two Bath	4.60%	4.60%	$1,430	6.56%	$1.15

Data as of March 2015

The data shows very low vacancy rates and strong rent growth for Studios and Two Bedroom/One Bath units, demonstrating the need for new product. Additionally, data are parsed for newer product, as shown in Table 4 below.

Table 4: Lynnwood Key Performance Indicators- 2000+					
	Market Vacancy	Gross Vacancy	Average Rent	YOY Rent Growth	Rent/Sq. Ft.
All Unit Types	7.39%	7.39%	$1,330	3.83%	$1.23
[redacted]					
One Bedroom	6.71%	6.70%	$1,131	2.35%	$1.45
Two Bedroom/ One Bath	4.17%	4.20%	$1,242	5.43%	$1.37
Two Bedroom/ Two Bath	9.83%	9.80%	$1,331	2.78%	$1.23
Three Bedroom/ Two Bath	7.10%	7.10%	$1,555	3.25%	$1.12

Data as of March 2015

Surprisingly, newer product is achieving lower occupancy rates and only slightly greater rental rates than the overall market, indicating that current household incomes are sensitive to rental pricing. Moreover, no new studios have been developed in the past 15 years.

Table 5 below shows recent multifamily sales in Snohomish County. Newer multifamily product comprised of 200 or more units is selling at prices near $300 per square foot with very strong cap rates at or below 5.0 percent, further indicating demand for multifamily development in the market.

Table 5: Snohomish County Multifamily Sales

Property Name	Sales Date	Price	Units	Yr. Built	Price/Unit	Price/SF	Cap Rate	Address	City Zip
Altia Apartments	9/8/2014	$50,000,000	203	2014	$246,305	$298.55	5.00%	16520 Larch Way	Lynnwood 98087
Bailey Farm	3/21/2014	$91,500,000	372	2012	$245,968	$280.77	4.30%	1225 183rd Street SE	Bothell 98012
Compass	3/15/2013	$19,910,000	92	2012	$216,413	$293.12	4.90%	23110 Edmonds Way	Edmonds 98020
Courtney Court	5/20/2013	$2,815,000	15	2009	$187,667	$109.22	7.00%	7333 Rainier Drive	Everett 98203
Millington at Merrill Creek	6/13/2014	$63,500,000	344	2006	$184,593	$188.71	5.30%	1401 Merrill Creek Parkway	Everett 98203
Wetmore Townhomes	9/12/2013	$1,010,000	6	2007	$168,333	$166.72	6.10%	3429 Wetmore Avenue	Everett 98201
Newberry Square	8/28/2014	$20,000,000	123	2005	$162,602	$175.88	5.30%	16116 Ash Way	Lynnwood 98087
3505 175th Place NE	5/2/2014	$865,000	6	2006	$144,167	$111.15	4.80%	3505 175th Place NE	Arlington 98223
Dahlia	9/30/2013	$1,250,000	10	2011	$125,000	$94.78	6.10%	1002 122nd Street SW	Everett 98204
Greystone	3/7/2013	$730,000	6	2009	$121,667	$100.22	5.90%	3726 Wetmore Avenue	Everett 98201

Data as of March 2015

Project Pipeline

More than 920 new units are expected to be added to the Lynnwood inventory over the next 3 years, see Table 6 below.

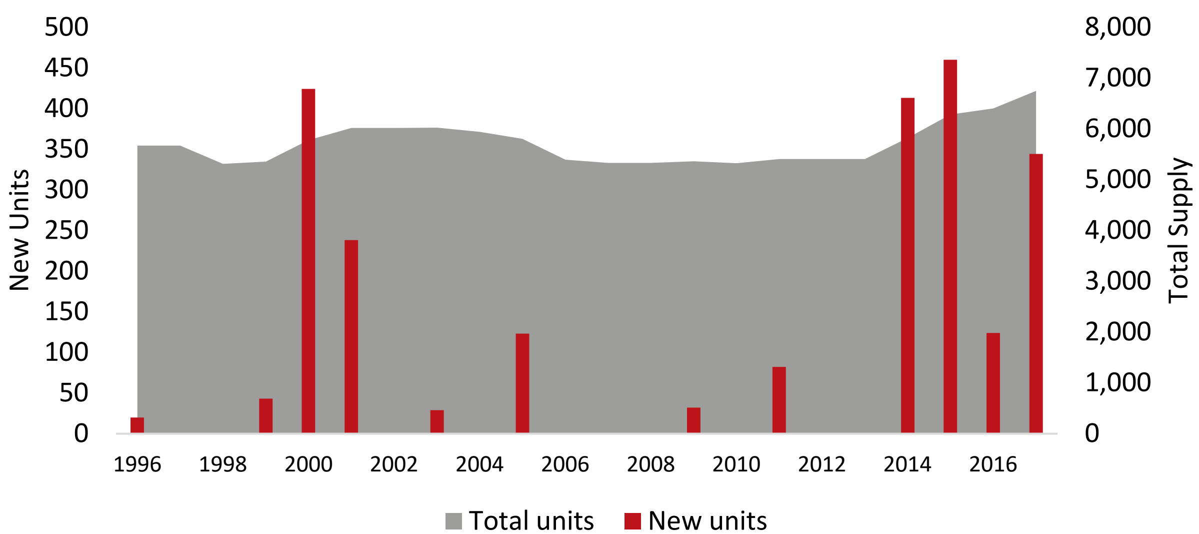
Table 6: Pipeline of New Multifamily Development

Status Description	Units	End construction	Property name	Address	Developer
Completed	30	11/1/2014	Lynnview II	5821 200th Street SW, Lynnwood 98036	Williams Investments
Completed	383	10/1/2014	Tivalli	15707 Ash Way, Lynnwood 98087	Goodman Real Estate
Under Construction	90	3/1/2015	Crossroads	14808 48th Avenue W, Edmonds 98026	Goodman Real Estate
Under Construction	367	3/1/2015	Avalon Alderwood I	2510 164th Street SW, Lynnwood 98087	Avalon Bay Communities
Planned	124	5/1/2016	Avalon Alderwood II	2514 164th Street SW, Lynnwood 98087	Avalon Bay Communities
Planned	344	4/1/2017	Lynnwood Place	3001 184th Street SW, Lynnwood 98037	Cypress Equities
Early Planning	114	TBD	Allegro at Ash Creek I	16617 Ash Way, Lynnwood 98037	Integral Northwest Corp.
Early Planning	120	TBD	Allegro at Ash Creek II	16525 Ash Way, Lynnwood 98037	Integral Northwest Corp.

Data as of March 2015

Approximately 400 units were delivered in 2014, as shown in Table 7 below.

Table 7: Lynnwood Past and Projected Unit Production



Data as of March 2015

Based on past performance, JLL estimates the Lynnwood multifamily market can absorb about 25 new units per month. If the City can seize upon some of the opportunities described in this report and begin to transform Lynnwood's physical environment to support an urban village, improve transit accessibility, and implement an events program that enlivens the city, it may be able to improve its market capture and absorption rates.

Office Development

As of December 2014, there were 1.4 million square feet of office space in the City of Lynnwood. The current average office lease rate for all asset classes is $27.91 per square foot, fully serviced. Average lease rate for new product are estimated at $30 per square foot fully serviced for Class A and $26 per square foot, fully serviced for Class B. Additionally, recent office building sales have ranged from $118 to $178 per square foot (Redstone Corporate Center II achieving the greatest value).

Little of Lynnwood's existing office inventory is located within the City Center subarea. Of the office product located in or near the City Center, nearly all is low-rise Class B or Class C quality. Higher quality Class A product is primarily located near the Alderwood Mall and northern portions of the City. With first quarter 2015 office vacancy rates around 25 percent, it will first be necessary for the market to absorb some of the existing vacant space before new office development can be justified and financed, absent a large single-user build-to-suit.

Many factors influence business location decisions for office users:

- *proximity to company's leadership residences;*
- *clustering with similar or complementary businesses;*
- *occupancy costs and parking availability and expense;*
- *access to higher education or research institutions;*
- *connections to freeways and public transit;*
- *housing affordability for workers;*
- *skillset and education of local workforce; and*
- *proximity to amenities such as shopping, dining, retail and cultural venues are just a few.*

Lynnwood's City Center area offers prospective businesses easy access to the I-5 freeway, Lynnwood Transit Center, and the future light rail station. Route 99 and the I-405 freeway are nearby. The City also offers workers significantly lower housing costs than higher priced metro areas but no new higher quality multi-family options that are attractive to millennials and young families. While the Alderwood Mall to the north of the City Center offers a high concentration of quality retail and dining amenities, the City Center has not yet created an attractive urban environment. For these reasons, it is likely that an future Class A office development in Lynnwood will occur near the Alderwood Mall or on vacant land suitable for large floor plate singe-users until the City Center offers an amenity set of retail, dining and cultural attractions within a few high quality multifamily residential projects.

While the City Center subarea plan requires only two parking stalls per one thousand square feet of office building area in anticipation of the light rail extension, office users will require a greater parking ratio as Snohomish County will remain a primarily auto-dependent community for many decades. JLL has assumed a parking ratio of three stalls per thousand square feet in its development feasibility analysis but the market could demand even more.

Retail Development

To achieve the vision of the City Center plan, development of new retail in the City Center area should be included on the ground floor of future residential and office developments with structured parking, not in the form of strip centers or malls with surface parking as is prevalent in Lynnwood today. The City Center sub-area plan promotes a dense urban environment through its design guidelines, and incentives for structured parking and mixed-use, and requirements in some areas for ground floor activation and transparency. These regulations form the framework for a vibrant and walkable urban center.

As future mixed-use projects are presented to the City for entitlement approval and design review, it will be important for the retail space to be well-designed and receive an architectural and design focus comparable to that given to the uses above. Often, design of ground floor retail is an after-thought and underwritten by the developer with little to no value. Ideally, the developer will have selected its retail tenants during design so that the spaces can consider special needs for restaurant venting and grease traps, loading zones and delivery entrances, trash receptacle enclosures, signage locations, among other criteria.

Retail developers that have been active in Lynnwood:

- *Velmeir Companies – (CVS Pharmacy)*
- *Sterling Realty Organization (Lynnwood Crossings)*
- *Cypress Equities (Lynnwood Place – Costco)*
- *Sunquist Homes*
- *Real Property Investors (Bartell Drugs)*

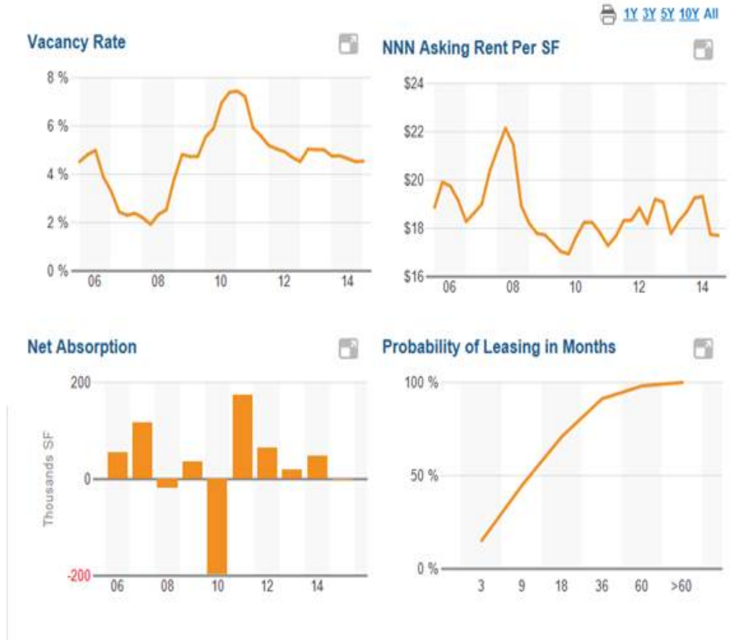
Retail developers that may be targeted for future mixed-use development opportunities:

- *DDR*
- *CenterCal Properties*
- *Weingarten Real Estate*
- *Donahue Schriber*
- *Powell Development*
- *Wallace Properties*
- *Wig Properties*
- *Vintage Capital*

Recognizing that preleasing of ground floor retail during the project design process is not always possible, developers should ensure the space is designed with user flexibility, visual transparency, and functionality in mind. Successful retail and restaurant space provides minimum ceiling heights of 20 feet; numerous openings that allow for subdivision of space; differentiation of store fronts using a variety of materials, colors, façade modulation, and signage; and a minimum depth of 25 feet, preferably 40 feet.

The thoughtful selection of tenants to occupy the ground floor retail space of future proposed projects in the City Center area will be a key factor in establishing the character of Lynnwood's new urban center. Like-minded retailers tend to cluster, enjoying the synergy of locating near similar quality establishments. Once a less than ideal set of retail tenants have established occupancy, it is very difficult to reverse and correct the trend. The quality of ground floor retail businesses also influences the value of the office or residential product located above. Some cities have retained retail attraction consultants that work closely with developers and building owners in selectively identifying and drawing national, regional and local retailers and restaurateurs.

Retail strategists can perform gap analysis identifying retail anchors whose customer profiles fit the regional socio-economic profile. Examples could include grocers such as PCC or Trader Joe and entertainment-oriented users like Dave and Busters, Boutique Theaters, or iPic. A quality anchor will be the catalyst for great smaller shop space. Successful retail districts include a healthy balance between national, regional and local businesses. An over-concentration of national retail and restaurant chains or bars/restaurants over local retailers often leads to an urban center lacking its own character and identity as well as local retailers be priced out of the market by the national chains or establishments serving alcohol.



Data as of February 2015

The City of Lynnwood offers more than 8 million square feet of retail today, a significant volume for a city of 36,000 residents. The City's retailers are successfully capturing a large share of the 5- and 8-mile trade areas. Current retail rents in the market range from $17.50 to $22.00 NNN on average with a premium for new construction ranging from the $28.00 to $35.00 NNN. Retail rents peaked in late 2007, just as the country entered a severe economic recession. Rents and occupancy rates, while improving, have not yet recovered to pre-recession levels.

The strength of a retail district lies largely in how well the collection of merchandise/stores reflects the demographics and retail preferences of all customer groups. This is common from suburban to urban and independent to national retail centers. As the City Center transforms, the City may consider commissioning a Merchandise Mix Plan that should cater to not only the existing customers, but also potential new markets. As the City Center grows, the merchandise mix will continue to shape the identity of urban center. Merchandise mix plans should outline what types of retail is under or over served and what type of retail is successful and should be expanded. If applicable, merchandise mix plans should also direct certain types of retailers or specific prospective tenants to key properties.

A Merchandise Mix Plan can be used as a tool by which to gauge the appropriateness of potential lease deals or incentive applicants. For this reason, it is important that all the relevant parties, including developers, are committed to the plan, which takes significant one-on-one time with individual stakeholders (i.e. property owners). The Merchandise Mix Plan can also be used a tool to guide retail recruitment efforts.

In order for downtown retail to attract enough customers to be successful, it must offer a merchandise mix of distinctive good stores not found elsewhere. The retail real estate community must dig deeper than existing contacts with national retailers and spend a significant amount of time combing local, regional, and ultimately national markets for one-of-a-kind retailers. Successful retail recruitment programs across the country, have committed to hire individuals (full or part time) to prospect for potential downtown tenants.

High performing urban retail districts ensure storefronts be at least 75 percent transparent, which means no window tinting or obstructed fenestration. Drugstores may attempt to obstruct street frontage with shelving or cash wraps. This is the reason why they, in particular, should have limited frontage along the street. Design guidelines should tactfully ensure that common elements of good retail design are followed, yet allow retailers an individual storefront identity. Very well defined design guidelines will help the developer achieve the desired overall appearance of retail.

Retail center sales values are averaging approximately $250 per square foot in the Lynnwood market with new development approaching $400 per square foot. The two retail comparable sales that are most applicable to this study are: Lake Serene Center ($417 per square foot, built in 2009) and Shane Co Plaza ($258 per square foot, built in 1980). Well-tenanted and managed retail in the Snohomish County submarket is currently yielding capitalization rates between 6.0 percent and 8.0 percent, with newer product achieving rates at the lower end of the range.

Retail Market Fundamentals

Market Factor	Value
Lynnwood Retail Inventory	8,028,000 SF
Retail Rents (older product)	$17.50 - $22.00 / SF (NNN)
Retail Rents (new construction)	$28.00 - $35.00 / SF (NNN)
Overall Retail Vacancy Rate	4.1%

Data as of February 2015

Recent Lynnwood Retail Sales

Property Location	Sale Date	Total Size Year Built	Sales Price Price / SF	Buyer	Cap Rate % Leased
Shane Co Plaza 18811 28th Ave W., Lynnwood	1/1/2014	53,289 1980	$13,724,000 $258	General Growth Properties	N/A 100% leased
Lake Serene Center 3625 148th Street SW, Lynnwood	5/1/2014	29,983 2009	$12,500,000 $417	Washington Investment LLC	8.0% 100% leased

Data as of February 2015

Appendix B – Development Feasibility

Financial Feasibility: Multifamily Type III Over Podium - Below Grade Parking			
	Lower Range	**Mid Range**	**Higher Range**
Residual Land Value	**$975,000**	**$1,975,000**	**$2,975,000**
Residual Land Value/ Unit	$3,900	$7,900	$11,900
Residual Land Value/ Site SF	$15	$30	$46

Total Project Cost	$55,193,750	$56,193,750	$57,193,750
Per Unit Project Cost	$220,775	$224,775	$228,775
Total Construction Cost	$42,500,000	$42,500,000	$42,500,000
Structured Parking Cost	$11,718,750	$11,718,750	$11,718,750
Residual Land Value	**$975,000**	**$1,975,000**	**$2,975,000**
Yield on Cost	6.47%	6.35%	6.24%

Estimated Value Range - Stabilized	$64,426,604	$67,409,503	$70,690,693
Estimated Apt Value Range	$62,640,890	$65,623,789	$68,904,978
Estimated Retail Value Range	$1,785,714	$1,785,714	$1,785,714
Apt Value/ Unit	$250,564	$262,495	$275,620
Apt Value/ SF	$297	$311	$326
Retail Value/ SF	$357	$357	$357
Blended Capitalization Rate	5.54%	5.30%	5.05%
Apt Cap Rate	5.50%	5.25%	5.00%
Retail Cap Rate	7.00%	7.00%	7.00%
Stabilized NOI	$3,570,249	$3,570,249	$3,570,249
Stabilized Apt NOI	$3,445,249	$3,445,249	$3,445,249
Stabilized Retail NOI	$125,000	$125,000	$125,000

Sensitivity Analysis: Multifamily Type III Over Podium - Below Grade Parking

Project Variables		Land Costs at $X per SF		Land Cost per Unit	Total Project Cost at $X per SF Land	
Units	250	$7	$475,000	$1,900	$7	$54,693,750
NRSF per Unit	844	**$15**	**$975,000**	**$3,900**	**$15**	**$55,193,750**
Site SF	65,340	**$23**	**$1,475,000**	**$5,900**	**$23**	**$55,693,750**
Site Acres	1.50	**$30**	**$1,975,000**	**$7,900**	**$30**	**$56,193,750**
Max Allowable Units Per Acre		**$38**	**$2,475,000**	**$9,900**	**$38**	**$56,693,750**
		$46	**$2,975,000**	**$11,900**	**$46**	**$57,193,750**
NRSF	**216,050**	$53	$3,475,000	$13,900	$53	$57,693,750
NRSF Residential	211,050	$61	$3,975,000	$15,900	$61	$58,193,750
NRSF Commercial	5,000					
		Construction Cost Estimates		**Per Unit**	**Total Project Cost**	**Per Unit**
Parking		Apartment Construction Cost	$42,500,000	$170,000	$55,193,750	$220,775
Parking Stalls	313	Structured Parking Cost	$11,718,750	$37,500	$55,693,750	$222,775
Parking Stalls per Unit	1.25				$56,193,750	$224,775
					$56,693,750	$226,775
Years to Develop	3				$57,193,750	$228,775
		Total Construction	$54,218,750	$207,500.00	$57,693,750	$230,775

Rental Rates	$1.90	$1.95	$2.00
Annual Income - Stabilized Yr. 1			
Apartments	4,811,940	4,938,570	5,065,200
Commercial	125,000	125,000	125,000
Potential Gross Rental Income	**$4,936,940**	**$5,063,570**	**$5,190,200**
Parking Income	70,313	70,313	70,313
Utility Reimbursement	242,250	242,250	242,250
Pet Rent	50,625	50,625	50,625
Miscellaneous Income	129,500	129,500	129,500
Total Income	**$5,429,628**	**$5,556,258**	**$5,682,888**
Economic Loss	(259,275)	(259,275)	(259,275)
Effective Gross Income	**$5,170,353**	**$5,296,983**	**$5,423,613**
Operating Expenses & Reserves	(1,726,734)	(1,726,734)	(1,726,734)
Net Operating Income	**$3,443,619**	**$3,570,249**	**$3,696,879**
Returns at -$13,000 per Unit			
Yield on Cost (%)	6.24%	6.47%	6.70%
Returns at -$9,000 per Unit			
Yield on Cost (%)	6.13%	6.35%	6.58%
Returns at -$5,000 per Unit			
Yield on Cost (%)	6.02%	6.24%	6.46%

Financial Feasibility: Multifamily Type I - Below Grade Parking			
	Lower Range	**Mid Range**	**Higher Range**
Residual Land Value	**($51,800,000)**	**($50,400,000)**	**($49,000,000)**
Residual Land Value/ Unit	($148,000)	($144,000)	($140,000)
Residual Land Value/ Site SF	($793)	($771)	($750)

Total Project Cost	$83,606,250	$85,006,250	$86,406,250
Per Unit Project Cost	$238,875	$242,875	$246,875
Total Construction Cost	$119,000,000	$119,000,000	$119,000,000
Structured Parking Cost	$16,406,250	$16,406,250	$16,406,250
Residual Land Value	**($51,800,000)**	**($50,400,000)**	**($49,000,000)**
Yield on Cost	6.35%	6.25%	6.15%

Estimated Value Range - Stabilized	$100,589,942	$105,530,153	$110,990,387
Estimated Apt Value Range	$98,804,227	$103,744,439	$109,204,672
Estimated Retail Value Range	$1,785,714	$1,785,714	$1,785,714
Apt Value/ Unit	$282,298	$296,413	$312,013
Apt Value/ SF	$334	$351	$370
Retail Value/ SF	$357	$357	$357
BlendedCapitalization Rate	5.28%	5.03%	4.79%
Apt Cap Rate	5.25%	5.00%	4.75%
Retail Cap Rate	7.00%	7.00%	7.00%
Stabilized NOI	$5,312,222	$5,312,222	$5,312,222
Stabilized Apt NOI	$5,187,222	$5,187,222	$5,187,222
Stabilized Retail NOI	$125,000	$125,000	$125,000

Sensitivity Analysis: Multifamily Type I - Below Grade Parking

Project Variables		**Land Costs at $X per SF**		**Land Cost per Unit**	**Total Project Cost at $X per SF Land**	
Units	350	($803)	($52,500,000)	($150,000)	($803)	$82,906,250
NRSF per Unit	844	**($793)**	**($51,800,000)**	**($148,000)**	**($793)**	**$83,606,250**
Site SF	65,340	**($782)**	**($51,100,000)**	**($146,000)**	**($782)**	**$84,306,250**
Site Acres	1.50	**($771)**	**($50,400,000)**	**($144,000)**	**($771)**	**$85,006,250**
Max Allowable Units Per Acre		**($761)**	**($49,700,000)**	**($142,000)**	**($761)**	**$85,706,250**
		($750)	**($49,000,000)**	**($140,000)**	**($750)**	**$86,406,250**
NRSF	**300,400**	($739)	($48,300,000)	($138,000)	($739)	$87,106,250
NRSF Residential	295,400	($728)	($47,600,000)	($136,000)	($728)	$87,806,250
NRSF Commercial	5,000					
		Construction Cost Estimates		**Per Unit**	**Total Project Cost**	**Per Unit**
Parking		Apartment Construction Cost	$119,000,000	$340,000	$83,606,250	$238,875
Parking Stalls	438	Structured Parking Cost	$16,406,250	$37,500	$84,306,250	$240,875
Parking Stalls per Unit	1.25				$85,006,250	$242,875
					$85,706,250	$244,875
Years to Develop	3				$86,406,250	$246,875
		Total Construction	$135,406,250	$377,500.00	$87,106,250	$248,875

Rental Rates	**$2.10**	**$2.15**	**$2.20**
Annual Income - Stabilized Yr. 1			
Apartments	7,444,080	7,621,320	7,798,560
Commercial	125,000	125,000	125,000
Potential Gross Rental Income	**$7,569,080**	**$7,746,320**	**$7,923,560**
Parking Income	98,438	98,438	98,438
Utility Reimbursement	299,250	299,250	299,250
Pet Rent	70,875	70,875	70,875
Miscellaneous Income	181,300	181,300	181,300
Total Income	**$8,218,943**	**$8,396,183**	**$8,573,423**
Economic Loss	(400,119)	(400,119)	(400,119)
Effective Gross Income	**$7,818,823**	**$7,996,063**	**$8,173,303**
Operating Expenses & Reserves	(2,683,841)	(2,683,841)	(2,683,841)
Net Operating Income	**$5,134,982**	**$5,312,222**	**$5,489,462**
Returns at -$13,000 per Unit			
Yield on Cost (%)	6.14%	6.35%	6.57%
Returns at -$9,000 per Unit			
Yield on Cost (%)	6.04%	6.25%	6.46%
Returns at -$5,000 per Unit			
Yield on Cost (%)	5.94%	6.15%	6.35%

Financial Feasibility: Office Type I (FAR 2.0) - Above Grade Parking			
	Lower Range	**Mid Range**	**Higher Range**
Residual Land Value	**($21,954,240)**	**($22,302,720)**	**($22,651,200)**
Residual Land Value/ Site SF	($252)	($256)	($260)

Total Project Cost	$54,550,373	$54,201,893	$53,853,413
Per Unit Project Cost	$344	$341	$339
Total Construction Cost	$65,340,000	$65,340,000	$65,340,000
Structured Parking Cost	$11,164,613	$11,164,613	$11,164,613
Residual Land Value	**($21,954,240)**	**($22,302,720)**	**($22,651,200)**
Yield on Cost	8.03%	8.08%	8.13%

Estimated Value Range - Stabilized	$64,831,174	$62,579,551	$60,483,212
Estimated Office Value Range	$63,045,460	$60,793,837	$58,697,497
Estimated Retail Value Range	$1,785,714	$1,785,714	$1,785,714
Office Value/ SF	$397	$383	$370
Retail Value/ SF	$357	$357	$357
BlendedCapitalization Rate	6.76%	7.00%	7.24%
Office Cap Rate	6.75%	7.00%	7.25%
Retail Cap Rate	7.00%	7.00%	7.00%
Stabilized NOI	$4,380,569	$4,380,569	$4,380,569
Stabilized Office NOI	$4,255,569	$4,255,569	$4,255,569
Stabilized Retail NOI	$125,000	$125,000	$125,000

Sensitivity Analysis: Office Type I (FAR 2.0) - Above Grade Parking

Project Variables			Land Cost - Aggregate	Land Cost per SF	Total Project Cost at $X per SF Land	
RSF	158,786		($21,780,000)	($250.00)	($250)	$54,724,613
			($21,954,240)	**($252.00)**	**($252)**	**$54,550,373**
Site SF	87,120		**($22,128,480)**	**($254.00)**	**($254)**	**$54,376,133**
Site Acres	2.00		**($22,302,720)**	**($256.00)**	**($256)**	**$54,201,893**
			($22,476,960)	**($258.00)**	**($258)**	**$54,027,653**
			($22,651,200)	**($260.00)**	**($260)**	**$53,853,413**
NRSF	**163,786**		($22,476,960)	($258.00)	($258)	$54,027,653
NRSF Office	158,786		($22,302,720)	($256.00)	($256)	$54,201,893
NRSF Retail	5,000					
		Construction Cost Estimates	**Aggregate**	**Per SF**	**Total Project Cost**	**Per SF**
Parking		Office Construction Cost	$52,272,000	$300	$54,550,373	$344
Parking Stalls	476	Office Construction Soft Coast	$13,068,000	$75	$54,376,133	$342
Parking Stalls per Unit	3.00	Structured Parking Cost	$11,164,613	$63	$54,201,893	$341
		Structured Parking Cost per Stall		$23,438	$54,027,653	$340
Years to Develop	3				$53,853,413	$339
		Total Construction	$76,504,613	$438	$54,027,653	$340

Rental Rates	**$29.75**	**$30.00**	**$30.25**
Annual Income - Stabilized Yr. 1			
Office	$4,723,872	$4,763,568	$4,803,264
Retail Income	$125,000	$125,000	$125,000
Potential Gross Rental Income	**$4,848,872**	**$4,888,568**	**$4,928,264**
Parking Income	$0	$0	$0
Utility Reimbursement	$0	$0	$0
Pet Rent	$0	$0	$0
Miscellaneous Income	$0	$0	$0
Total Income	**$4,848,872**	**$4,888,568**	**$4,928,264**
Economic Loss	-$476,357	-$476,357	-$476,357
Effective Gross Income	**$4,372,515**	**$4,412,211**	**$4,451,908**
Operating Expenses & Reserves	-$31,643	-$31,643	-$31,643
Net Operating Income	**$4,340,872**	**$4,380,569**	**$4,420,265**
Returns at -$40/SF of Land			
Yield on Cost (%)	7.96%	8.03%	8.10%
Returns at -$36/SF of Land			
Yield on Cost (%)	8.01%	8.08%	8.16%
Returns at -$32/SF of Land			
Yield on Cost (%)	8.06%	8.13%	8.21%

Financial Feasibility: Office Type I (FAR 4.0) - Above Grade Parking			
	Lower Range	**Mid Range**	**Higher Range**
Residual Land Value	**($43,734,240)**	**($44,082,720)**	**($44,431,200)**
Residual Land Value/ Site SF	($502)	($506)	($510)

Total Project Cost	$109,626,548	$109,278,068	$108,929,588
Per Unit Project Cost	$340	$339	$338
Total Construction Cost	$130,680,000	$130,680,000	$130,680,000
Structured Parking Cost	$22,680,788	$22,680,788	$22,680,788
Residual Land Value	**($43,734,240)**	**($44,082,720)**	**($44,431,200)**
Yield on Cost	8.03%	8.06%	8.08%

Estimated Value Range - Stabilized	$130,345,414	$125,753,997	$121,479,228
Estimated Office Value Range	$128,559,700	$123,968,282	$119,693,514
Estimated Retail Value Range	$1,785,714	$1,785,714	$1,785,714
Office Value/ SF	$399	$384	$371
Retail Value/ SF	$357	$357	$357
BlendedCapitalization Rate	6.75%	7.00%	7.25%
Office Cap Rate	6.75%	7.00%	7.25%
Retail Cap Rate	7.00%	7.00%	7.00%
Stabilized NOI	$8,802,780	$8,802,780	$8,802,780
Stabilized Office NOI	$8,677,780	$8,677,780	$8,677,780
Stabilized Retail NOI	$125,000	$125,000	$125,000

Sensitivity Analysis: Office Type I (FAR 4.0) - Above Grade Parking							
Project Variables			**Land Cost - Aggregate**	**Land Cost per SF**	**Total Project Cost at $X per SF Land**	
RSF	322,571		($43,560,000)	($500.00)	($500)	$109,800,788
			($43,734,240)	**($502.00)**	**($502)**	**$109,626,548**
Site SF	87,120		**($43,908,480)**	**($504.00)**	**($504)**	**$109,452,308**
Site Acres	2.00		**($44,082,720)**	**($506.00)**	**($506)**	**$109,278,068**
			($44,256,960)	**($508.00)**	**($508)**	**$109,103,828**
			($44,431,200)	**($510.00)**	**($510)**	**$108,929,588**
NRSF	**327,571**		($44,256,960)	($508.00)	($508)	$109,103,828
NRSF Office	322,571		($44,082,720)	($506.00)	($506)	$109,278,068
NRSF Retail	5,000					
		Construction Cost Estimates	**Aggregate**	**Per SF**	**Total Project Cost**	**Per SF**
Parking		Office Construction Cost	$104,544,000	$300	$109,626,548	$340
Parking Stalls	968	Office Construction Soft Coast	$26,136,000	$75	$109,452,308	$339
Parking Stalls per Unit	3.00	Structured Parking Cost	$22,680,788	$63	$109,278,068	$339
		Structured Parking Cost per Stall		$23,438	$109,103,828	$338
Years to Develop	3				$108,929,588	$338
		Total Construction	$153,360,788	$438	$109,103,828	$338

Rental Rates	$29.75	$30.00	$30.25
Annual Income - Stabilized Yr. 1			
Office	$9,596,493	$9,677,136	$9,757,779
Retail Income	$125,000	$125,000	$125,000
Potential Gross Rental Income	**$9,721,493**	**$9,802,136**	**$9,882,779**
Parking Income	$0	$0	$0
Utility Reimbursement	$0	$0	$0
Pet Rent	$0	$0	$0
Miscellaneous Income	$0	$0	$0
Total Income	**$9,721,493**	**$9,802,136**	**$9,882,779**
Economic Loss	-$967,714	-$967,714	-$967,714
Effective Gross Income	**$8,753,780**	**$8,834,422**	**$8,915,065**
Operating Expenses & Reserves	-$31,643	-$31,643	-$31,643
Net Operating Income	**$8,722,137**	**$8,802,780**	**$8,883,423**
Returns at -$40/SF of Land			
Yield on Cost (%)	7.96%	8.03%	8.10%
Returns at -$36/SF of Land			
Yield on Cost (%)	7.98%	8.06%	8.13%
Returns at -$32/SF of Land			
Yield on Cost (%)	8.01%	8.08%	8.16%

Financial Feasibility: Office Type I (FAR 5.0) - Below Grade Parking			
	Lower Range	**Mid Range**	**Higher Range**
Residual Land Value	**($19,253,520)**	**($19,427,760)**	**($19,602,000)**
Residual Land Value/ Site SF	($442)	($446)	($450)

Total Project Cost	$68,556,330	$68,382,090	$68,207,850
Per/SF Project Cost	$343	$342	$341
Total Construction Cost	$65,340,000	$65,340,000	$65,340,000
Structured Parking Cost	$22,469,850	$22,469,850	$22,469,850
Residual Land Value	**($19,253,520)**	**($19,427,760)**	**($19,602,000)**
Yield on Cost	8.02%	8.04%	8.06%

Estimated Value Range - Stabilized	$81,353,025	$78,511,335	$75,865,624
Estimated Office Value Range	$79,567,311	$76,725,621	$74,079,910
Estimated Retail Value Range	$1,785,714	$1,785,714	$1,785,714
Office Value/ SF	$398	$384	$371
Retail Value/ SF	$357	$357	$357
BlendedCapitalization Rate	6.76%	7.00%	7.24%
Office Cap Rate	6.75%	7.00%	7.25%
Retail Cap Rate	7.00%	7.00%	7.00%
Stabilized NOI	$5,495,793	$5,495,793	$5,495,793
Stabilized Office NOI	$5,370,793	$5,370,793	$5,370,793
Stabilized Retail NOI	$125,000	$125,000	$125,000

Sensitivity Analysis: Office Type I (FAR 5.0) - Below Grade Parking

Project Variables			Land Cost - Aggregate	Land Cost per SF	Total Project Cost at $X per SF Land	
RSF	199,732		($19,166,400)	($440.00)	($440)	$84,978,450
			($19,253,520)	**($442.00)**	**($442)**	**$84,891,330**
Site SF	43,560		**($19,340,640)**	**($444.00)**	**($444)**	**$84,804,210**
Site Acres	1.00		**($19,427,760)**	**($446.00)**	**($446)**	**$84,717,090**
			($19,514,880)	**($448.00)**	**($448)**	**$84,629,970**
			($19,602,000)	**($450.00)**	**($450)**	**$84,542,850**
NRSF	**204,732**		($19,514,880)	($448.00)	($448)	$84,629,970
NRSF Office	199,732		($19,427,760)	($446.00)	($446)	$84,717,090
NRSF Retail	5,000					
		Construction Cost Estimates	**Aggregate**	**Per SF**	**Total Project Cost**	**Per SF**
Parking		Office Construction Cost	$65,340,000	$300	$84,891,330	$425
Parking Stalls	599	Office Construction Soft Coast	$16,335,000	$75.00	$84,804,210	$425
Parking Stalls per Unit	3.00	Structured Parking Cost	$22,469,850	$100	$84,717,090	$424
Parking SF	224,699	Structured Parking Cost per Stall		$37,500	$84,629,970	$424
Years to Develop	3				$84,542,850	$423
		Total Construction	$104,144,850	$475	$84,629,970	$424

Rental Rates	$29.75	$30.00	$30.25
Annual Income - Stabilized Yr. 1			
Office	$5,942,027	$5,991,960	$6,041,893
Retail Income	$125,000	$125,000	$125,000
Potential Gross Rental Income	**$6,067,027**	**$6,116,960**	**$6,166,893**
Parking Income	$0	$0	$0
Utility Reimbursement	$0	$0	$0
Pet Rent	$0	$0	$0
Miscellaneous Income	$0	$0	$0
Total Income	**$6,067,027**	**$6,116,960**	**$6,166,893**
Economic Loss	-$599,196	-$599,196	-$599,196
Effective Gross Income	**$5,467,831**	**$5,517,764**	**$5,567,697**
Operating Expenses & Reserves	-$21,971	-$21,971	-$21,971
Net Operating Income	**$5,445,860**	**$5,495,793**	**$5,545,726**
Returns at -$40/SF of Land			
Yield on Cost (%)	6.42%	6.47%	6.53%
Returns at -$36/SF of Land			
Yield on Cost (%)	6.43%	6.49%	6.55%
Returns at -$32/SF of Land			
Yield on Cost (%)	6.44%	6.50%	6.56%

Appendix C: Development Regulation Recommendations

Regulatory Item	Recommended Change	Basis for Recommendation
1. Minimum Building Height – effective through February 2017, minimum building height is reduced to 30 feet.	Increase the minimum building height to 50 feet effective immediately.	Continuing to allow low-density suburban style development that will underutilize limited land within the City Center area perpetuates the character from which the City is desiring to depart. The economy and financial markets are improving and interest rates remain at historic lows creating a supportive environment for new development in Lynnwood. An effective incentive program combined with a comprehensive outreach campaign targeting developers and businesses, achieving Type III multifamily residential product over podium with above grade structured parking. Type III construction can achieve 60 feet in building height.
2. Maximum Allowable FAR “As of Right” for New Development	Temporarily remove the Bonus requirement and allow maximum “As of Right” density to equal that currently allowed with Bonuses	Density bonuses have been proven effective only in planning areas where market and development conditions yield an additional value to developers to construct addition density. The Lynnwood market represents suburban lease rates and values that do not command greater density and value as is found in urban centers or communities with relatively high household incomes or are business hubs. Currently, the Bonuses offer no value to developers as the cost to construct structured parking exceeds the cost of the value of the additional density. In addition, the incremental cost of transitioning from Type III construction to Type I far exceeds the value gained from greater height and density. Allow for a few projects to be successfully developed that comply with the City Center vision before reinstituting the density Bonus requirements.
3. Required Off-Street Parking for Retail Uses (3 stalls / 1,000 Gross Floor Area)	Eliminate parking requirement for the first 10,000-15,000 square feet of ground floor Retail and Restaurant within a mixed-use project.	To further encourage and economically support active ground floor retail uses, eliminating the additional off-street parking will improve project financial viability. In urban areas, customer parking for smaller ground floor retail uses is typically more functional on-street or in nearby public surface parking lots or structures. Employing this parking concept all increases pedestrian street activity and promotes the “park once, walk and shop” concept. By limiting the parking exception to no more than 15,000 square feet of Retail/Restaurant space, the City will ensure that larger retailers such as a destination grocer or household goods store will be adequately parked onsite.

Regulatory Item	Recommended Change	Basis for Recommendation
4. Phasing out of Nonconforming Buildings	Proposed improvements to an existing Nonconforming Building whose estimated costs exceed 25% of the building's current value shall be considered New Development and require the building to be brought into conformity with current building standards and guidelines.	Allowing existing Nonconforming uses to implement significant improvements to the building that may not necessarily expand the building's footprint, perpetuate the existence of Nonconforming uses that the City desired to phase out or relocate.
5. Design Guidelines – Sun Access on Public Spaces	Establish allowable building envelopes and shadow studies for sites located along the southern boundaries of existing or proposed public parks, plazas or open space.	Creating this regulation will ensure adequate sunlight to existing or future park sites by controlling the height of new development to the south and west. Shadow studies illustrating sun access at various times of day and year can form the basis for discretionary exemptions from the height limitations.
6. Sidewalk Cafes – encroachment into pedestrian mobility	Consider adding regulation that requires minimum of four feet between face-of-curb to exterior café line	Ensures adequate flow of pedestrian traffic on blocks containing sidewalk cafes.
7. Design Guidelines - Minimum Interior Lot Line Setbacks	Create a discretionary minimum interior lot line setback of 10 feet	Maintains minimum standard for air and light to penetrate between two or more mixed-use developments.
8. Design Guidelines - Limitations on Street Walls	Establish a required building stepback of at least 15 feet between 45 and 85 feet in elevation from ground level. The street wall façade should be architecturally modulated to create visual interest and diversity, and to reinforce the pedestrian scale and character of the street.	Creates a more visually stimulating and pedestrian-scale building massing that minimizes potential adverse impacts of wind acceleration onto public rights-of-way, urban open space areas and other public spaces.
9. Design Guidelines - Minimum ground-floor ceiling heights	Establish a minimum ground-floor ceiling height for new development as follows: • 12 feet for buildings containing residential ground-floor uses • 15 feet for buildings containing non-residential ground-floor uses • 20 feet for buildings containing active retail ground-floor uses	Ensures maximum transparency for pedestrian interest, a vital active street life and promotes successful retail.

Regulatory Item	Recommended Change	Basis for Recommendation
10. Design Guidelines - Building materials	The building base shall be clad in durable high-grade materials (stone, tile, metal, brick, glass or similar) from at least the floor slab of the second floor down to 1 inch of the finished sidewalk grade, and these materials shall wrap corners of exposed interior property line walls a minimum of 3 feet. Exit corridors, garage openings, and all recesses shall provide a finished appearance to the street with street level exterior finishes fully wrapping into the openings a minimum dimension of 10 feet.	Enforces a minimum level of quality of building base materials to ensure an aesthetically appealing ground floor experience.
11. Design Guidelines – Transparency	Increase minimum ground level transparency along Boulevards, Collector Arterials and the Grid Street to 60%.	Allowing up to 40% of street facing walls for mechanical equipment, weight-bearing structure, loading/trash areas and vehicle entries is usually sufficient to accommodate those core functions while maximizing pedestrian interest.
12. Design Guidelines – Oriel Windows	Add guidelines related to Oriel windows, which are common in current urban architectural design: a) Oriel windows must be at least 12 feet above the adjoining sidewalk grade. b) The maximum width of any Oriel window is 12 feet. Such windows must be horizontally separated by at least 6 feet. c) Oriel windows may constitute no more than 30 percent of the building facade surface area on which they are located. If two adjacent oriel windows are connected by a balcony (open or solid railing), the entire perimeter of oriels and balconies is treated as one projecting surface for purposes of this calculation. d) Oriel windows (measured to finished exterior dimension) shall not project more than 4 feet into a public right-of-way. e) Oriel windows shall contain glass on at least two of three projecting surfaces, and vision glass shall constitute at least 70 percent of each floor-to-floor area on these surfaces. f) Oriel windows may contain bench seating or floor area, but shall not contain floor area for bathrooms, kitchens, closets, or bedrooms (unless the floor area within the public right-of-way is in excess of a minimum bedroom dimension of 10 feet measured inside of the property line).	As the popularity of incorporating Oriel windows in urban project design has grown during the past decade, providing direction to developers through the Design Guidelines is prudent to avoid their overuse or misuse. Based on experience of design review performed in comparable urban centers, design guidelines regulating the use of Oriel windows will avoid future design issues with the windows' overuse within a project, projecting too far into the public right-of-way, not including sufficient transparency or being located too close of proximity to the ground plane.

Regulatory Item	Recommended Change	Basis for Recommendation
13. Design Guidelines – Off-Street Loading for Multifamily Residential Projects	Add guidelines related to Off-Street Loading. The following standards shall apply for multifamily residential development: a) Development containing 100 or more dwelling units shall provide at least one off-street loading bay that shall be at least 35 feet deep, 13 feet wide, and 13 feet tall (measured from the inside walls); b) Loading bays shall have direct access into the internal circulation system of the development and elevators; c) Loading bays shall share the parking access driveway, unless separate driveways better facilitate access to the loading bay and parking areas and decrease potential conflicts; and d) Loading bay location shall not create traffic conflicts.	Providing more descriptive guidelines related to the location and design of Off-Street Loading will avoid conflicts in the future that have been experienced in comparable urban centers.
14. Live Entertainment on Premises	Add regulations to the City Center sub-area plan that address live entertainment on premises: Acoustic live entertainment a) Bona-fide eating establishments may offer performances by live acoustic musicians, dancers, or similar performers as an accessory use up to 11:00 p.m., if the performance is not audible outside of the establishment. b) Any other establishment offering performances by live acoustic musicians, dancers or similar performers shall obtain a Neighborhood Use Permit. The performances shall not be audible outside the establishment. Non-acoustic live entertainment a) Any establishment offering performances within an enclosed building by live non-acoustic musicians, disc jockeys, or patron dancing, shall obtain a Conditional Use Permit. b) If located upon or adjacent to a premises containing residential land uses, the establishment shall provide a noise impact analysis to the decision maker for consideration before approval of the Conditional Use Permit. The noise impact analysis shall be prepared by a qualified acoustical engineer and shall evaluate potential noise and vibration impacts to the surrounding neighborhood.	Development in urban centers often encounters conflicts between uses located within mixed-use projects. In order to mitigate such conflicts with project residents in advance, JLL recommends adopting regulations that address live entertainment that may be provided within eating and drinking establishments of future projects.

Appendix D: Funding Strategies

There are a few programs that the City of Lynnwood can utilize or leverage to assist in financing the implementation of the City Center plan. The options are categorized by State versus non-State programs.

State Programs

Levy Lid Lift

Washington Initiative 747 was passed in 2001, which limited property tax increases to 1 percent per year; however, taxing jurisdictions may ask the voters to approve a "lift" of the levy lid. A Levy Lid Lift requires the current tax rate to be less than the statutory maximum rate, and to achieve a simple majority vote on a ballot. Snohomish County voters approved 26 of 32 (or 81 percent) monetary property tax measures on the ballot in 2014.

The maximum regular property tax levy for Lynnwood is $3.3569 (does not include library) per thousand and its current rate is $1.9847. With Lynnwood's 2015 assessed valuation at $4,771,220,851, the maximum amount of ***extra*** revenue the city could receive in its first year after approving a levy lid lift is $6,546,980.

There are two options for implementation: 1) Single-year lid lift, the methodology where the lift takes place in just one year, or 2) Multiple / Multi-year lid lift, the methodology where the lift takes place each year for up to six years. Both options can be implemented on a temporary or permanent basis.

As an example, in 2012 the City of Kirkland voters approved two ballot measures for permanent property tax levies to fund streets and parks. The streets measure was a permanent levy lid lift of $0.204 per $1,000 of assessed valuation and it is expected to generate about $3 million per year with 90 percent spent on street overlay, 5 percent spent on pedestrian safety, and 5 percent spent on safe routes to schools. The annual impact on a median household valued at $346,000 is $70.58.

The parks measure was a permanent levy lid lift of $0.16 per $1,000 of assessed valuation and is expected to generate about $2.4 million per year, with roughly half of the funds used for operations and maintenance and the remainder available for pay-as-you-go capital, initially invested in a specific list of projects. The annual impact on a median household is $55.36.

Business and Occupancy Tax

Washington does not have an income tax, but does have a Business & Occupation (B&O) tax that is calculated based on the value of products, gross proceeds of sales or gross income of the business. Taxation rates vary by industry classification. Forty of the state's 281 cities currently impose a B&O tax, 3 of which are located in Snohomish County, including Everett (a tax rate of 0.1 percent). The average B&O tax rate is 0.16 percent across all industry sectors: manufacturing (0.15 percent), retail (0.16 percent), services (0.2 percent), and wholesale activities (0.15 percent). Lynnwood does not currently impose a local B&O tax.

In 2013, the taxable income across all industries in Lynnwood totaled roughly $522 billion. If Lynnwood were to propose a B&O tax rate equivalent to that of the City of Everett (0.1 percent), the estimated annual B&O tax revenue generated would be around $522 million.

Any new or increased municipal B&O tax requires voter approval and is subject to a referendum procedure.

Community Revitalization Financing

CRF entails the creation of a tax increment area where community revitalization projects and programs are financed by diverting a portion of the regular property taxes imposed by local governments within the tax increment area. *This program was created for development in geographic areas characterized by high levels of unemployment and stagnate employment and income growth*.

Potential revenue is difficult to estimate and general thoughts are that CRF doesn't create enough revenue to do anything significant. There is no state contribution. *No projects have utilized this program to date*.

Implementation requires the creation of an increment area (the geographic area from which taxes are to be appropriated) where proposed public improvements are expected to encourage private development and such private development is expected to be consistent with countywide planning policies, local comprehensive plans and development regulations. Taxing districts that, in the aggregate, levy at least 75 percent of the regular property tax within the increment area must approve, and where applicable, agree to participate in the CRF financing.

Local Infrastructure Financing Tool

LIFT is a financing mechanism that provides funding for local infrastructure projects that upon completion, will promote economic development. Funds are raised by incremental increases in sales and property taxes, and selected other excise taxes. The local tax does not increase the rate of tax paid by consumers but instead diverts state sales and use tax revenue to the local government.

Nine jurisdictions currently participate in the LIFT Program, each eligible to receive a state contribution of up to $1 million per year for 25 years. Three LIFT projects were selected by the legislature, and the remaining six were competitively selected.

There is no further authority under LIFT for additional state contributions and *the program is currently closed to new designations* but should be monitored for possible re-appropriation.

Bothell Downtown Revitalization - Crossroads SR 522 Realignment

Bothell citizens, business and community leaders came together and developed a vision for Bothell's downtown and for Bothell's future as a whole. The Crossroads project is a key component of Bothell's downtown revitalization and is one of the roadway improvements on SR 522 that will support the effort of the downtown revitalization. The project is also one of the few to be funded by LIFT. Leading the largest municipal downtown project in the state, the City of Bothell has broken ground on $89 million in fully-funded projects as part of the total $150 million in planned infrastructure improvements.

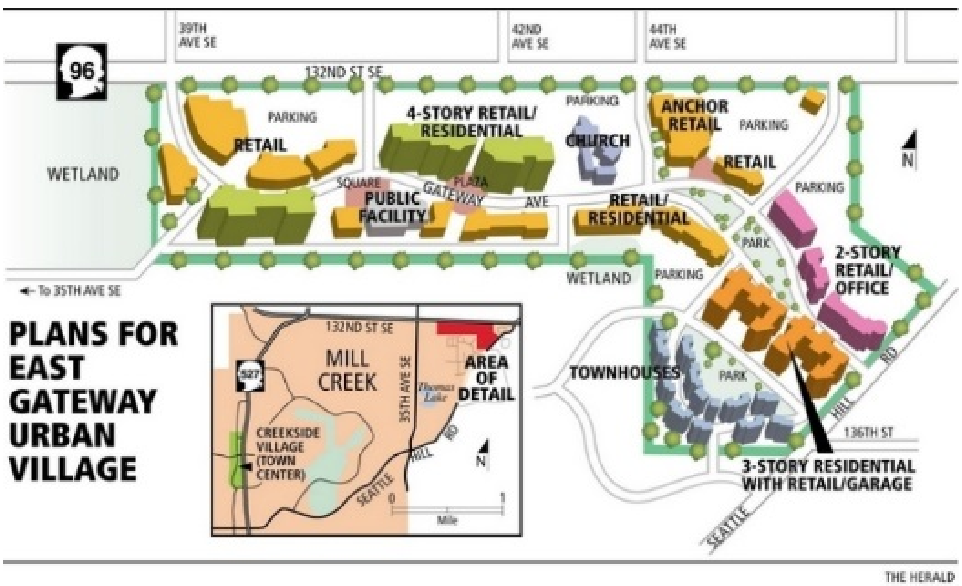
Local Revitalization Financing

Washington State Legislature passed LRF in 2009, authorizing the creation of “revitalization areas” which are in need of public improvement projects. Projects are financed through the issuance of bonds, and bond repayment is accomplished through increased local sales, use and property taxes, funds from other local public sources, and a state contribution. The state contribution is provided through a new local sales and use tax that is credited against the state sales and use tax (aka the “LRF tax”), which does not increase the combined sales and use tax rates paid by consumers.

The maximum allowable contribution by the state is $4.75 million fiscal year, statewide. The maximum amount of state contribution for each demonstration project is specified in the bill and ranges from $200,000 to $500,000 per project. The maximum state contribution for each project is approved on a first-come basis is $500,000.

The state is *no longer accepting applications* for the LRF program as the state contribution limit has been reached but should be monitored for possible re-appropriation.

The East Gateway Urban Village



The East Gateway Urban Village is a planned shopping and residential center in the northeast corner of Mill Creek and receives $330,000 each fiscal year for 25 years under the LRF program. The vision is to have a Town Center-like development with a mix of professional office, retail shopping, and residential units on land that is now essentially undeveloped. When fully built out, the East Gateway Urban Village could include up to 350,000 SF of retail space, 60,000 SF of office space, and a combination of 394 town homes and apartments.

Hospital Benefit Zone Financing

Adopted in 2006, this program is similar to the LIFT program but does not include incremental property tax revenues. Instead, only incremental sales and use taxes are calculated and used. The HBZ program is intended to provide support for local jurisdictions in conjunction with financing of public improvements in the vicinity of a hospital in order to encourage private business development within the hospital benefit zone. The program eligibility also required the development/expansion of a hospital.

The total amount that can received from the state in any fiscal year, for up to 30 years, is limited to the lesser of: 1) $2 million, 2) the amount of local matching funds provided by the local government, or 3) the amount of incremental state revenue received by the state in the previous year as a result of economic development within the zone.

The program is available only when a hospital has received a certificate of need from the Department of Health (DOH). The City of Gig Harbor and Pierce County are the sole participants. This project is associated with Franciscan Health System (FHS). The FHS acquired 38 acres to accommodate a 256,000-square-foot, full-service hospital with 80 beds (St. Anthony Hospital) to provide medical care to a population of 120,000.

Application round is currently closed and no further allocation of state contributions is available. This program should be monitored for possible re-appropriation.

Transportation Improvement Districts

A county or a city may establish a transportation benefit district to fund transportation improvements that are consistent with any existing state, regional, and local transportation plan. Port and transit districts may participate in the establishment of a district, but may not initiate one.

New revenue options include a $20 license fee that may be approved by the legislative body; a 0.2 percent sales and use tax, vehicle fees of up to $100 annually, and tolls - subject to voter approval.

Transportation benefit districts are given authority to levy a one-year "O&M" property tax, issue general obligation bonds, establish LIDs and impose impact fees to fund transportation improvements.

Non-State Programs

Federal New Market Tax Credit Program

Established by Congress in 2000, the federal NMTC program has allocated more than $43.5 billion in tax credits to qualified Community Development Entities (CDEs) throughout the U.S. The CDEs receiving an allocation have sold their credits to investors who in turn provide equity or debt to for-profit or non-profit entities that are developing projects in low-income and/or high-unemployment neighborhoods. Such projects may include such uses as office, manufacturing, hotel, retail, restaurant, health care, education, entertainment or arts/cultural institutions. Residential may be a smaller ancillary component of the project. NMTC financing can often make the difference between a project's financial feasibility and it never leaving the drawing board.

While cities are precluded from being a recipient of NMTC financing, the City of Lynnwood can play an active role in educating the City's potential developers about the program, connecting developers and potential users with expert advisers in NMTC financing.

The CDFI Fund of the U.S. Department of Treasury typically announced its award of NMTC to CDEs during the spring of each year. It is important for developers to pitch their proposed projects to several

CDEs well in advance of the annual announcement of allocations. In fact, CDEs often identify proposed projects for investment one year or more in advance of announcement of allocations, during the annual NMTC application process.

NMTC financing is a complex and often intimidating process for first-time participants in the programs. The City can help facilitate the process and potentially provide letters of support, expedite entitlement and construction permits or leverage with tax or fee abatements. Some cities have created their own public non-profit entity for the sole purpose of applying for and securing a NMTC allocation for investment in qualified neighborhoods. Cities in Washington State are permitted to create Public Corporations, or "PDAs" for the purpose of administering federal funding programs. A project's location can be verified using the following mapping tool: http://www.novoco.com/new_markets/resources/ct/ for eligibility in the program. Under certain conditions, projects not located in qualified census tracts may also be eligible based on the project's ownership, workers, and/or customer base.

Public/Private Transit-Oriented Investment Fund

During the past decade of public rail system expansion programs, several cities have successfully created and implemented public-private investment funds to support equitable high-quality transit-oriented development along transit corridors and within a ½-mile of rail stations. Each city's program differs by investor mix, fund structure, investment objectives and criteria as well as financing terms. However, a commonality among the programs is an investor mix of public agencies and private sector for-profit and non-profit entities.

The concept of TOD investment funds began with the creation of the Bay Area Transit-Oriented Affordable Housing (TOAH) Fund in 2011. The purpose of the fund was to promote affordable TOD across the nine-county Bay Area by catalyzing the development of affordable housing, community services, healthy food restaurants and markets, and other neighborhood assets. The Fund offers five loan products for terms up to seven years: acquisition loans, predevelopment loans, construction bridge loans, construction-to-mini permanent loans, and loans at favorable interest rates to help bridge New Markets Tax Credits (NMTC) investments.

Leigh Avenue Senior Apartments, San Jose, CA
Received $3 million four-year loan for site acquisition

Borrowers can access loans of up to $750,000 for predevelopment costs and up to $7.5 million for the other loan types. The TOAH Fund was made possible through $10 million in seed capital from the Metropolitan Transportation Commission (MTC). MTC is the regional transportation planning, coordinating and financing agency for the nine-county San Francisco Bay Area, and it functions as both the Bay Area's transportation planning agency and metropolitan planning organization (MPO). The Low Income Investment Fund (LIIF) is the Fund Manager and an originating lender, along with five other leading community development financial institutions (Corporation for Supportive Housing, Enterprise Community Loan Fund, LISC, Northern California Community Loan Fund and Opportunity Fund). Citi Community Capital, Morgan Stanley, the Ford Foundation, Living Cities, and The San Francisco Foundation provided key private capital investments for the Fund.

Since the inception of TOAH, numerous public-private TOD investment funds of varying amounts and structures have been established in other cities. The following is a partial list of such programs:

- Denver Regional Transit-Oriented Development Fund
- Minneapolis Livable Communities Act Transit-Oriented Development Program

A commonality among the fund structures is that the public funds are typically at most risk – are first-in and last-out. Private sector capital is invested in trenches with varying interest rates, return on investment requirements, reinvestment horizons, and levels of subordination.

In July 2013, the Puget Sound Regional Council selected Enterprise Community Partners and Impact Capital to conduct a feasibility study for a Regional Equitable Development Initiative (REDI) Fund for King, Pierce, Snohomish and Kitsap counties. The transit-oriented development (TOD) fund's purpose would be to help developers secure sites near existing and future transit centers throughout the central Puget Sound region and invest capital into a variety of housing and community facilities. The findings for the study were published in the REDI Business Plan Framework report in June 2014.

The City of Lynnwood should closely coordinate with the Regional Council's efforts to establish a TOD Investment Fund or work independently to create its own Fund should the Council decide not to proceed. Attempting to create a competing Fund may stretch potential funding partners' resources too thin.

