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DRAFT
October 20, 2008

Mr. Victor L. Salemann, PE
Transportation Group Manager
David Evans and Associates
415 118th Avenue SE
Bellevue, WA 98005

Re: Proposed city center local improvement district, Lynnwood, Washington – memorandum of oral presentation on project feasibility and estimated range in special benefit.

Dear Mr. Salemann:

As requested, this letter is a brief summary of my oral presentation to the City of Lynnwood regarding the estimated range in special benefit accruing to properties within the boundaries of the proposed city center local improvement district (LID).

The oral report was intended to comply with the Uniform Standards of Professional Appraisal Practice (USPAP) and the Code of Professional Ethics of the Appraisal Institute. This letter briefly summarizes the findings of the study; supporting documentation is retained in the appraiser's files.

The proposed project involves the completion of significant road infrastructure work in the Lynnwood central business district (CBD), with the goal of creating a street grid system which will accommodate recent zoning changes allowing significantly more intensive high-rise commercial, retail and residential condominium (mixed-use) development. Our scope of services was to estimate the probable increase in market value (special benefit) of affected properties as a result of this proposed LID project.

Special benefit is the increase in market value without as opposed to with the LID in place. To estimate a probable total range in special benefit and, in turn, the project's economic feasibility from a market value perspective, property within the LID boundary was segregated into different types or classifications. These classifications typically conformed to the new zoning districts and consisted of west end, north end and core areas.

The west end area extended roughly from 48th Ave W to 44th Ave W, south of 194th Street SW and north of Interstate Highway 5 (I-5). The core vicinity encompassed the area between 44th Ave W and 37th Ave W, south of 192nd Place SW and north of I-5. The north end area was north of 196th Street SW and I-5, and east of 33rd Ave W.

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The first phase of our study involved data gathering and analysis of the 154± parcels within the study area; factors considered included but were not limited to land area, building size and type, age/condition, zoning classification and potential development density. Market sale transactions involving vacant land and improved properties, as well as rental information, were researched. Individual properties with similar highest and best uses were grouped together and analyzed, both without as opposed to with the proposed LID in place. The resulting market value differences for each classification were then totaled; when expressed as a range, this figure reflected the probable magnitude in special benefit resulting from the proposed project. Market value increases due to a project such as that which is proposed are typically reflected in the value of the underlying land. In general, the analysis reflected an increase in land value from \$4.25±/SF to \$5.50±/SF, which indicates an overall special benefit ranging from \$35,000,000 to \$45,000,000.

In the current real estate market environment, it is not economically viable to undertake large mixed-use high rise developments in the city's downtown core. This is due to financing constraints, high construction costs and lack of adequate market demand/ absorption. The proposed project would have a positive impact on market value of affected properties by resolving significant mitigation issues as well as enhancing the relative location of individual parcels and improving neighborhood reputation. However, due to these economic factors and considering the extent of the analysis to date, the overall estimated special benefit range is well below the project construction cost estimates provided.

To summarize, the total estimated range in special benefit due to the proposed project is concluded to be as follows:

Estimated Special Benefit Range:
\$35,000,000 to \$45,000,000

If you have any questions, please feel free to call.

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Respectfully submitted,
MACAULAY & ASSOCIATES, LTD.

Robert J. Macaulay, MAI
WA State Certified - General Appraiser No. 1100517