

WSDOT Narrative Appraisal Report

Washington State
Department of Transportation

Parcel No.:	A-2 -Mercer Island
Owner:	Washington State Department of Transportation
Federal Aid No.:	N/A
Project:	I-90 ROW Surplus Land in Mercer Island
R/W Plan Title:	Topographical and Boundary Survey- Job # 181671
Plan Sheet	2 of 2 sheets
Plan Approval Date:	11/2/2018
Date of Last Map Revision:	12/18/2018

CERTIFICATE OF APPRAISER

I certify that, to the best of my knowledge and belief:

- ◆ The statements of fact contained in this appraisal are true and correct;
- ◆ The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conclusions, and are my personal, unbiased professional analyses, opinions, and conclusions;
- ◆ Mr. Barnes has performed services, as an appraiser, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- ◆ I have no present or prospective interest in the property that is the subject of this appraisal, and I have no personal interest or bias with respect to the parties involved;
- ◆ My compensation is not contingent upon the reporting of a predetermined value or direction that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event;
- ◆ My analyses, opinions, and conclusions were developed, and this appraisal has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice and consistent with the Uniform Appraisal Standards for Federal Land Acquisitions as appropriate;
- ◆ I have made a personal inspection of the property that is the subject of this report. I have made a personal inspection of the comparable sales contained in the report addenda;
- ◆ I have afforded the owner or a designated representative of the property that is the subject of this appraisal the opportunity to accompany me on the inspection of the property.
- ◆ No one provided significant professional assistance to the person(s) signing this report.
- ◆ I have disregarded any increase in Fair Market Value caused by the proposed public improvement or its likelihood prior to the date of valuation. I have disregarded any decrease in Fair Market Value caused by the proposed public improvement or its likelihood prior to the date of valuation, except physical deterioration within the reasonable control of the owner;
- ◆ This appraisal has been made in conformity with the appropriate State and Federal laws and requirements, and complies with the contract between the agency and the appraiser;

The property has been appraised for its fair market value as though owned in fee simple, or as encumbered only by typical easements. I have not been provided with a title report.

The opinion of value expressed below is the result of, and is subject to the data and conditions described in detail in this report of 48 pages.

I made a personal inspection of the property that is the subject of this report on December 22, 2020.

The **Date of Value** for the property that is the subject of this appraisal is December 23, 2020.


Per the FAIR MARKET VALUE definition herein, the value conclusions for the property that is the subject of this appraisal are on a cash basis and are:

Across the Fence Value (without consideration of shape/size) **\$800,000**

Standalone Value (with consideration of shape/size/access) **\$660,000**

Date of Assignment or Contract: November 1, 2020

Date Signed: January 29, 2021

Signature: 
Name: Ken Barnes, MAI, CRE
Certified General Real Estate Appraiser (1100578)

Date Signed: January 29, 2021

Signature: 
Name: Julian Rondello, MAI
Certified General Real Estate Appraiser (1102535)

DO NOT WRITE BELOW THIS LINE

Headquarters Service Center Date Stamp

Region Date Stamp

Assignment Scope of Work

The client and intended user of this report is the City of Mercer Island. Additionally, WSDOT is identified as an additional intended user. WSDOT requires that, in addition to compliance with USPAP this report must also meet the WSDOT Standards as set forth in the WSDOT R/W Manual Chapter 4, the WSDOT Appraisal Report Guide, and Federal Regulations as defined in 49 CFR part 24.

In the event of conflict or dispute in determining correct appraisal procedures that are not addressed in the standards noted above the Uniform Appraisal Standards for Federal Land Acquisitions (Yellow Book) will be the determining authority.

Under 49 CFR, WSDOT is required to take an active role in developing the scope of work. However, it is the ultimate responsibility of the appraiser to develop a complete Scope of Work and produce a credible appraisal report. The appraiser's SCOPE of WORK is included in Section 5 of the report. The report must adhere to the WSDOT and Federal Standards as described above and the specific task assignment for this parcel. The task assignment for this report is included in the Addenda.

Eminent Domain Appraisal Information and Definitions

The intended use of this appraisal is to provide information to the client, The City of Mercer Island, as a basis for acquiring the portion of the subject property from the Washington State Department of Transportation. Unless stated otherwise in the report, the property rights appraised constitute the fee simple interest.

"Fair Market Value" is defined as; the amount in cash which a well-informed buyer, willing but not obliged to buy the property, would pay, and which a well-informed seller, willing but not obligated to sell it would accept, taking into consideration all uses to which the property is adapted and might in reason be applied (Washington Pattern Instruction 150.08).

The intended user of this report includes WSDOT. Additionally, its funding partners may review the appraisal as part of their oversight activities.

Public Law 91-646 (Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970) and Washington State RCW 8.26.180 both require that the owner or owner's representative be given an opportunity to accompany the appraiser during the inspection of the property. "If the appraiser is advised that the property owner is represented by legal counsel, all owner contact and property inspections must be arranged through the owner's attorney, unless the attorney specifically authorizes the appraiser to make direct contact with the owner".

In condemnation, the larger parcel is the portion of a property that has unity of ownership, contiguity, and unity of use, the three conditions that establish the larger parcel for consideration of severance damages. This is also known as the "parent parcel."

Unavailability of Information

We have not necessarily been provided with or discovered all of the information that may be relevant to the appraisal of the subject property. We specifically assume that there are no unapparent conditions that affect the value or utility of the property, and our conclusions could be impacted by consideration of other information. We have not been provided with an environmental report, a geologic (soils) or hydrologic report, or a structural

inspection report. We have not reviewed any report relating to other legal or compliance issues. We are not expert in any of these areas, and rely on the technical reports of qualified personnel when available. Please refer to the following extraordinary assumption relating to these issues.

Extraordinary Assumptions, Hypothetical Conditions and Jurisdictional Exceptions

This appraisal is subject to the Appraisal Assumptions and Limiting Conditions found on the next page, as well as the extraordinary assumptions, hypothetical conditions, and jurisdictional exceptions noted in the following paragraphs. The use of extraordinary assumptions, hypothetical conditions and jurisdictional exceptions might have affected the appraiser's opinions or conclusions.

Subject to the unavailability of information (including those items discussed above), and considering that our inspection was of selected portions of the subject property's larger parcel only and not of all portions, we assume as an extraordinary assumption that there are no unapparent conditions which affect the value or utility of the property.

As an extraordinary assumption or hypothetical condition, consistent with State law for eminent domain, we are appraising the subject property as if fee simple and subject only to easements and title encumbrances as noted herein, but without regard to any leases, mortgages, or financial encumbrances that may further divide the property interests. This is known as the Unit Rule. As summarized by Nichols, *"Pursuant to the unit rule, the proper course is to determine the entire compensation to be awarded as though the property belonged to one person and then apportion this sum among the different parties according to their respective rights."* Thus, we have ignored any non-title restrictions and any lease, mortgages or financial encumbrances that may be present, and have treated the subject property as a single interest.

Unless explicitly noted herein, as an extraordinary assumption or hypothetical condition, we have appraised the subject property as if cleaned of any detrimental environmental conditions. To the extent that the property is not in fact clean or cleaned, this is a hypothetical condition at the instruction of the client. Please note that further investigation or instruction regarding this assumption may be appropriate and forthcoming, and could change the results of this appraisal.

We have used the extraordinary assumption that the property is a separable legal lot that can be sold.

As a jurisdictional exception to USPAP, consistent with State law for eminent domain, we have disregarded any decrease or increase in the fair market value of the real property caused by the project for which the property is to be acquired, or by the likelihood that the property would be acquired for the project, other than that due to physical deterioration within the reasonable control of the owner.

As a jurisdictional exception to USPAP, consistent with the client instructions, we have not linked the fair market value conclusion to a specific exposure time.

Appraisal Assumptions and Limiting Conditions

The attached report may only be used or reviewed in its entirety. No individual pages, portions, analyses or conclusions may be separated from the complete report or verbally disseminated without transmittal of the entire report. This appraisal is intended for use only by the client and intended users specifically identified in the report, and may not be transferred to any other party without the specific written permission of McKee Appraisal, Inc. Certain aspects of the report (including analysis methodology, spreadsheets, textual formatting and content) are considered the exclusive intellectual property of McKee Appraisal, Inc. All rights are reserved.

It is assumed that there have been no substantial changes to the property between the date of our inspection or most recent investigation and the date of the report.

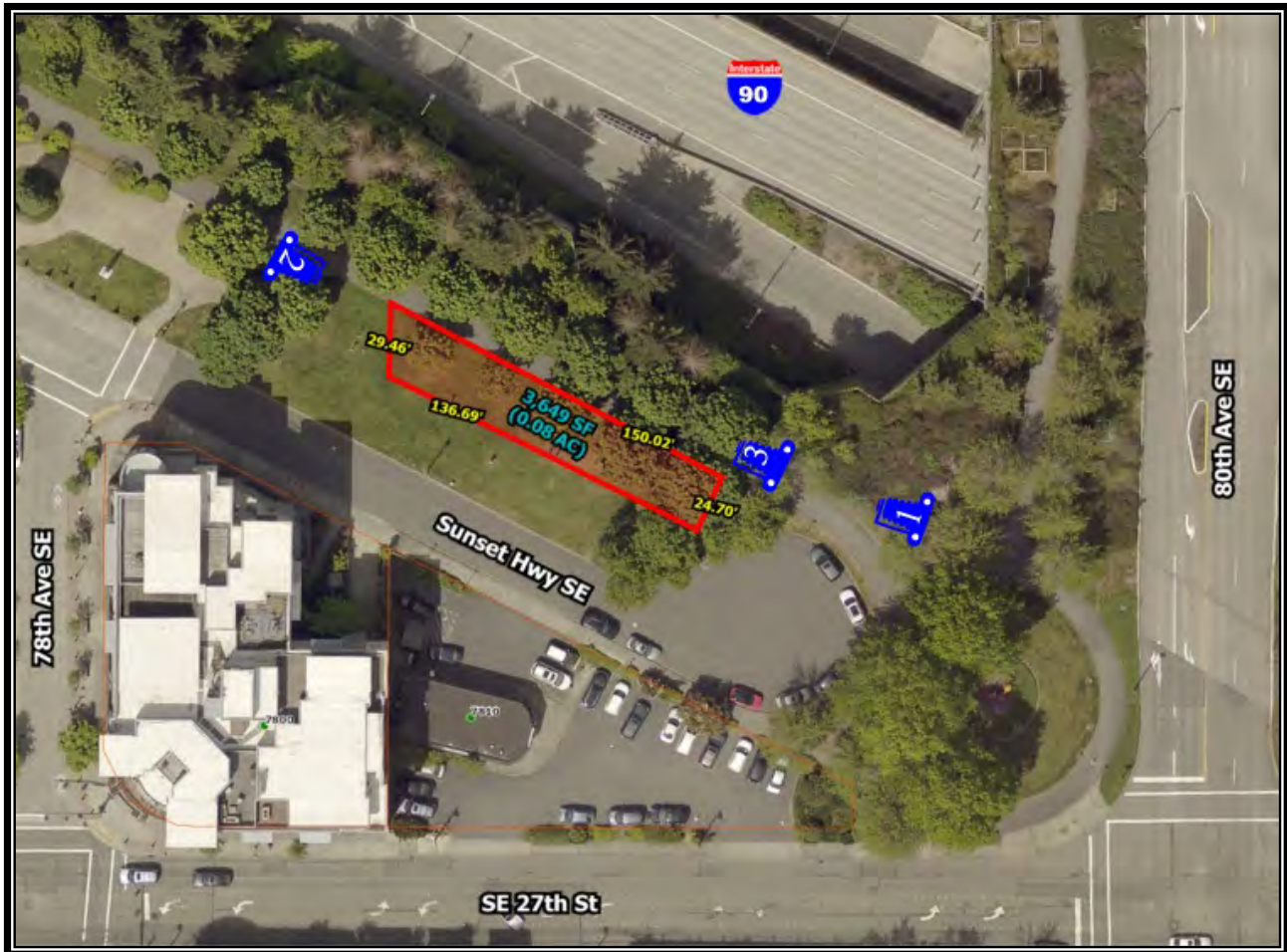
The value conclusions are the result of integration of the entire appraisal process, including multiple methodologies, approaches and analyses. Any specific errors or omissions may or may not change the value conclusions.

The following General Assumptions and Limiting Conditions are supplemented by additional assumptions identified in the report.

1. The property description supplied to the appraiser is assumed to be correct;
2. No survey of the property has been made or reviewed by the appraiser, and no responsibility is assumed in connection with such matters. Illustrative material, including maps and plot plans, utilized in this report are included only to assist the reader in visualizing the property. Property dimensions and sizes are considered to be approximate;
3. No responsibility is assumed for matters of a legal nature affecting title to the property, nor is any opinion of title rendered. Property titles are assumed to be good and merchantable unless otherwise stated;
4. Information furnished by others is believed to be true, correct, and reliable. However, no responsibility for its accuracy is assumed by the appraiser;
5. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless so specified within the report. The property is assumed to be under responsible, financially sound ownership and competent management;
6. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures which would render the property more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies which may be required to discover them;
7. Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraiser. However, the appraiser is not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. The value conclusions in this report are predicated on the assumption that there are no such materials on or in the property that would cause a loss of value. No responsibility is assumed for any such conditions, or for the expertise required to discover them. The client is urged to retain an expert in this field if desired. The analysis and value conclusions in this report are null and void should any hazardous material be discovered;
8. Unless otherwise stated in this report, no environmental impact studies were either requested or made in conjunction with this report. The appraiser reserves the right to alter, amend, revise, or rescind any opinions of value based upon any subsequent environmental impact studies, research, or investigation;
9. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless noncompliance is specified, defined, and considered in this report;
10. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless non-conformity has been specified, defined and considered in this report;
11. It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or federal governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimate is based;
12. The appraiser will not be required to give testimony or appear in court because of having made this report, unless arrangements have previously been made;
13. Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the client without the written consent of the appraiser, and in any event, only with properly written qualification and only in its entirety;
14. Neither all nor any part of the contents of this report, or copy thereof, shall be conveyed to the public through advertising, public relations, news, sales, or any other media without written consent and approval of the appraiser. Nor shall the appraiser, client, firm, or professional organization of which the appraiser is a member be identified without the written consent of the appraiser;
15. The liability of the appraiser, employees, and subcontractors is limited to the client only. There is no accountability, obligation, or liability to any third party. If this report is placed in the hands of anyone other than the client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussions. The appraiser is in no way responsible for any costs incurred to discover or correct any deficiencies of the property;
16. It is assumed that the public project which is the object of this report will be constructed in the manner proposed on the most recent right of way plan prior to the appraisal date and in the foreseeable future;
17. Acceptance and/or use of this report constitutes acceptance of the foregoing assumptions and limiting conditions.

Subject Plot Plan

Before Area: 3,649sf	After Area: 0 sf	Fee Acquisition: 3,649sf
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Subject Photographs

Date of Photos: December 22, 2020

Photographer: Julian Rondello



1. View looking west along the I-90 trail.



2. View looking east along the I-90 trail.



3. View looking west along the I-90 trail.

[illegible]TOPOGRAPHIC & BOUNDARY SURVEY

Terrane
10801 Main Street, Suite 102, Bellevue, WA 98004
phone 425.458.4488 support@terrane.net

JOB NUMBER:	18167
DATE:	12/18/1
DRAFTED BY:	LC
CHECKED BY:	EJG/TM
SCALE:	1"=2'

SCALE: 1"=2'	
REVISION HISTORY	
SHEET NUMBER	

SHEET NUMBER

2 OF 2



Narrative Appraisal Report

1. Owner

Washington State Department of Transportation (WSDOT)

2. Location of Subject

The subject property is located north of City-owned parcel A-1, which is itself north of 7810 SE 27th St, Mercer Island, WA.

3. Subject Legal Description

Please refer to the above Site Map exhibit for the visualization of the subject area. This exhibit also contains a legal description of the subject, referred to as A-2.

This is an appraisal of the fee simple (absolute) interest in the property, subject only to the existing easements, deed or title restrictions of record, and to the four powers of government in the United States (taxation, eminent domain, police power and escheat). To the extent that the property rights may be further divided into different interests by lease, financial encumbrance or otherwise, these separate interests are not appraised herein.

4. Delineation of Title

We have not been provided with a title report for the subject property and assume that there are no easements or other unapparent restrictions that would affect the property to a degree that value conclusions would be impacted.

We are not aware of any other current offers, listings, or any other direct indications of value for the subject property.

5. The Appraisal Problem and Appraisers' Scope of Work

The purpose of this appraisal is to estimate the fair market value of the subject property as a standalone property and using across the fence methodology.

In the course of this appraisal, we have inspected the subject property as detailed herein. We also researched and developed an understanding of the subject property by reviewing a variety of sources. These sources included public records available from the county assessor and the City of Mercer Island, as well as a physical inspection of the property.

The property is appropriately valued using the Sale Comparison Approach and we researched sales in the local market and in other similar locations. The Income Approach and the Cost Approach are not used since the highest and best use of the subject property is for redevelopment, rendering these approaches less relevant. In the Sale Comparison Approach, we researched sales of similar properties in Mercer Island with similar locational, physical and economic characteristics as the subject. We analyzed the most relevant sales, and each value indication was adjusted relative to the subject, providing a basis for fair market value estimation.

In addition to a Standalone Value, we have also reported an Across the Fence Value. Standalone means the value as a standalone parcel and would take into account any size or shape deficiencies the subject parcel has. Across the Fence means the value that the surrounding parcels have so we would be ignoring size or shape deficiencies.

First, we value the subject property under these two valuation scenarios. Then we documented the findings and prepared this appraisal report to communicate the results. The scope of research and analysis in this report is adequate to support the value conclusion of this appraisal.

6. Property Rights to Be Acquired and Effects of Acquisition/Project

The proposed acquisition of the subject property is needed for constructing a City-owned commuter parking facility.

7. Description of Subject Property

Neighborhood Description

Regional Overview

The subject property is in Mercer Island, Washington, which is part of the greater Seattle Metropolitan area. The Seattle Metropolitan area is in the middle of a five-county area often referred to as the Central Puget Sound Region. Seattle is the central focus of economic activity for the entire Western Washington region, and has a reputation as a desirable place to live and work. It is in King County and is the largest city and metropolitan area in the state. The boundaries of this area are the City of Everett in the north, the Cascade Mountains in the east, the City of Tacoma in the south, and Puget Sound in the west. For a more detailed discussion and description of the area, please refer to the Seattle Metropolitan Area Description found in the Addenda of this report.

Mercer Island

Mercer Island is an incorporated city, which consists of an entire island in Lake Washington. The island is located between Seattle and Bellevue and is accessed via bridges on Interstate-90, which bisects the northern edge of the island. As an island with exceptional proximity and connectedness to both the Seattle CBD and the Eastside, Mercer Island is a highly demanded residential situation, with valuable houses and commercial real estate in high demand with limited supply. Most of the area of Mercer Island is improved with single-family homes, many of which are either waterfront or have attractive views of Lake Washington. The central business district portion of Mercer Island, known as the Town Center District, is located on the north central part of the island adjacent to and south of Interstate-90. The subject is located there and most of the established commercial development in Mercer Island is located there, as well. The commercial district is fairly limited in size and includes several office buildings located outside of and east of the central business district.

Mercer Island is 6.3 square miles in size with the majority assigned to residential development. Commercial/Business uses consume 180 acres, public institutions another 180 acres and residential development 3,675 acres. Mercer Island has 23 parks for 475 acres; the remaining 368 acres are assigned

to undeveloped residential. The population of Mercer Island has demographics characterized by a high median household income and a high median home value. According to the 2010 Census, the population of Mercer Island was estimated at 22,699. Because of the geographic limits of the island, growth over the previous decade was a total of only 3.0%, with most of this growth centered around the Town Center. The April 2019 population forecast issued by the Washington State Office of Financial Management is 24,470, a substantial but relatively modest change over the past seven years of about 7.3% for Mercer Island relative to the change over the same period of 11.5% for King County, 17.3% for Seattle, and 15.0% for Bellevue.

Long-term historical growth is relatively low with only a 9.0% increase in population since 1990 compared to King County's 28.1% growth over the same period. Future growth is also expected to be limited due to the lack of available land. The remaining supply of vacant developable land in Mercer Island has diminished over the past 10 years. Therefore, future development will likely take the form of redevelopment of existing properties.

According to a 2015 estimate, the median income for a household in the city was \$137,182 which is exceptionally high by regional standards, with the average median income in King County at \$80,998.

Neighborhood Development

The East Link Light Rail is a \$2.8 billion project that will connect the Eastside's largest population and employment centers to downtown Seattle, SeaTac Airport, and the University of Washington. Ten stations will be constructed along the 14-mile stretch, including in Mercer Island, Bellevue, Bel-Red, and Overlake. Sound Transit projects that about 50,000 riders will use East Link every day by 2030. The targeted start of service is 2023. Please refer to the map of the proposed East



Link Route as of the final design phase. The route will run from the International District/Chinatown Station in Seattle to Redmond. The Mercer Island station will be by the Park and Ride, just across I-5 from the subject. This will improve regional access for all of Mercer Island.

As with most markets in the Seattle Metropolitan Area, the most recent development in Mercer Island has been in the form of multifamily residential. The Hadley was recently completed in 2016 and is located at 2601 76th Avenue SE in the Town Center. The mixed-use apartment contains 209 luxury units over ground floor retail space. In 2014, Dollar Development Co. opened Mercer West, a five story 91-unit apartment building at 77th Ave SE and SE 27th St in the downtown area of Mercer Island. This is a later phase of an existing project and is connected by a skybridge in order to share amenities. The building includes two ground floor retail spaces totaling 2,000 sf.

The City has put in place two separate development moratoriums on all projects over 2 stories in downtown Mercer Island while the zoning code was being reevaluated. The most recent moratorium was extended in December while the zoning code is re-examined.

Single family construction, primarily infill density development on smaller lots is continuously occurring in Mercer Island as demand for single family homes remains high and home values continue to increase. Outside of the Town Center, the Island is essentially fully developed. An analysis conducted in 2011 by the City concluded that there were only 8 undeveloped buildable lots along the waterfront.

Neighborhood Access and Surrounding Uses

The subject is in the Mercer Island central business district. Access to Mercer Island and the CBD is primarily via the 77th Ave SE exit (from eastbound lanes) and Island Crest Way exit (from westbound lanes) off Interstate-90. These exits provide access to the Mercer Island CBD at the east and west ends of the CBD respectively. The 77th Street exit provides access to Island Crest Way, which provides access to the immediate subject neighborhood. SE 27th Street is the main street that travels east/west through the Town Center. This road turns into 76th Ave SE, which provides access to Interstate-90 west bound. I-90 provides excellent regional access to Seattle and I-5 to the west and Bellevue and I-405 to the east.

It has been announced that I-90 will be tolled in the future (SR-520, the alternative bridge connecting Seattle to the eastside of Lake Washington, recently began tolling). However, WSDOT currently does not have a plan for implementation or fees at this time.

There is currently a development moratorium in place for the Town Center (TC Zone) subarea, including the subject property and all of the comparable sales. The Moratorium was implemented in late 2019 and was most recently renewed for an additional 6-months in December 2020.

Conclusions

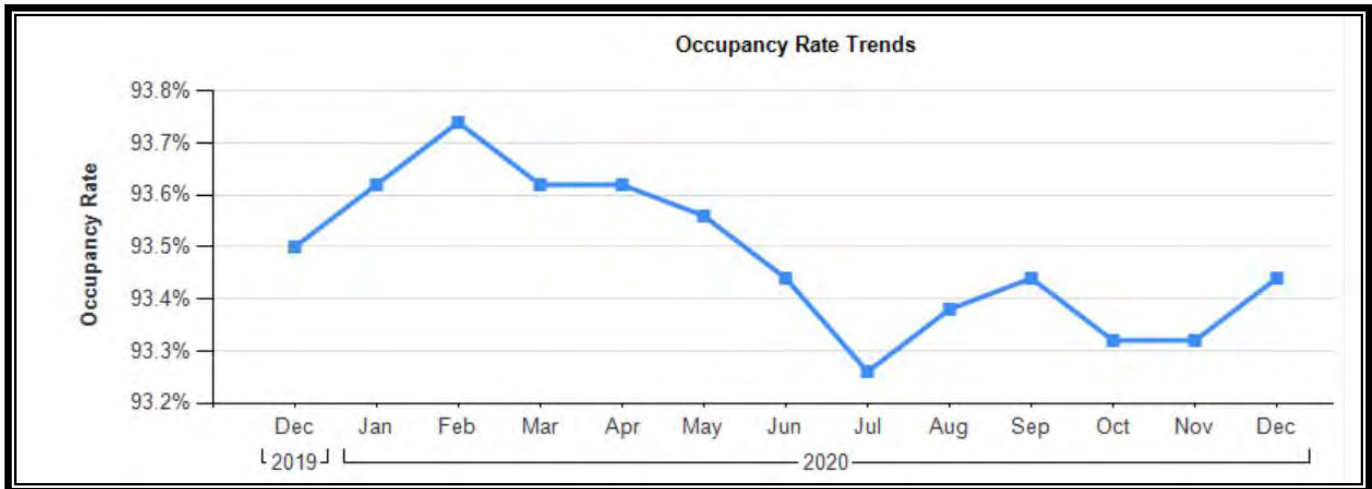
Mercer Island is uniquely situated between the Seattle CBD and Bellevue CBD providing reasonable commutes to both destinations, while providing an affluent and attractive suburban neighborhood. The downtown area has seen recent development dominated by mixed use apartment/retail construction in recent years. Overall, we consider the neighborhood situation of the subject to be excellent and highly desirable for both residential and retail uses.

Market Analysis

Apartment Market Analysis

Data analyzed from the Yardi Matrix apartment information service, which tracks individual properties within the Puget Sound region monthly (projects 50 units and larger) is summarized below. But these reports run about 30 to 45 days behind, and doesn't include the full window from mid-December through now.

The Mercer Island submarket had a 6.5% vacancy rate as of the end of Q4 2020. Vacancy has remained generally stable the past three years, with the exception of a 2.5% increase at the end of 2019. The average asking rental rate in the Mercer Island market (Class A/B+) properties was \$2,119/mo, down 8.7% year over year. According to Yardi Matrix, this data is sourced from 8 different properties in Mercer Island and includes 1,875 units. These properties would likely be the main competitors to any multi-family project that was constructed on the subject site.



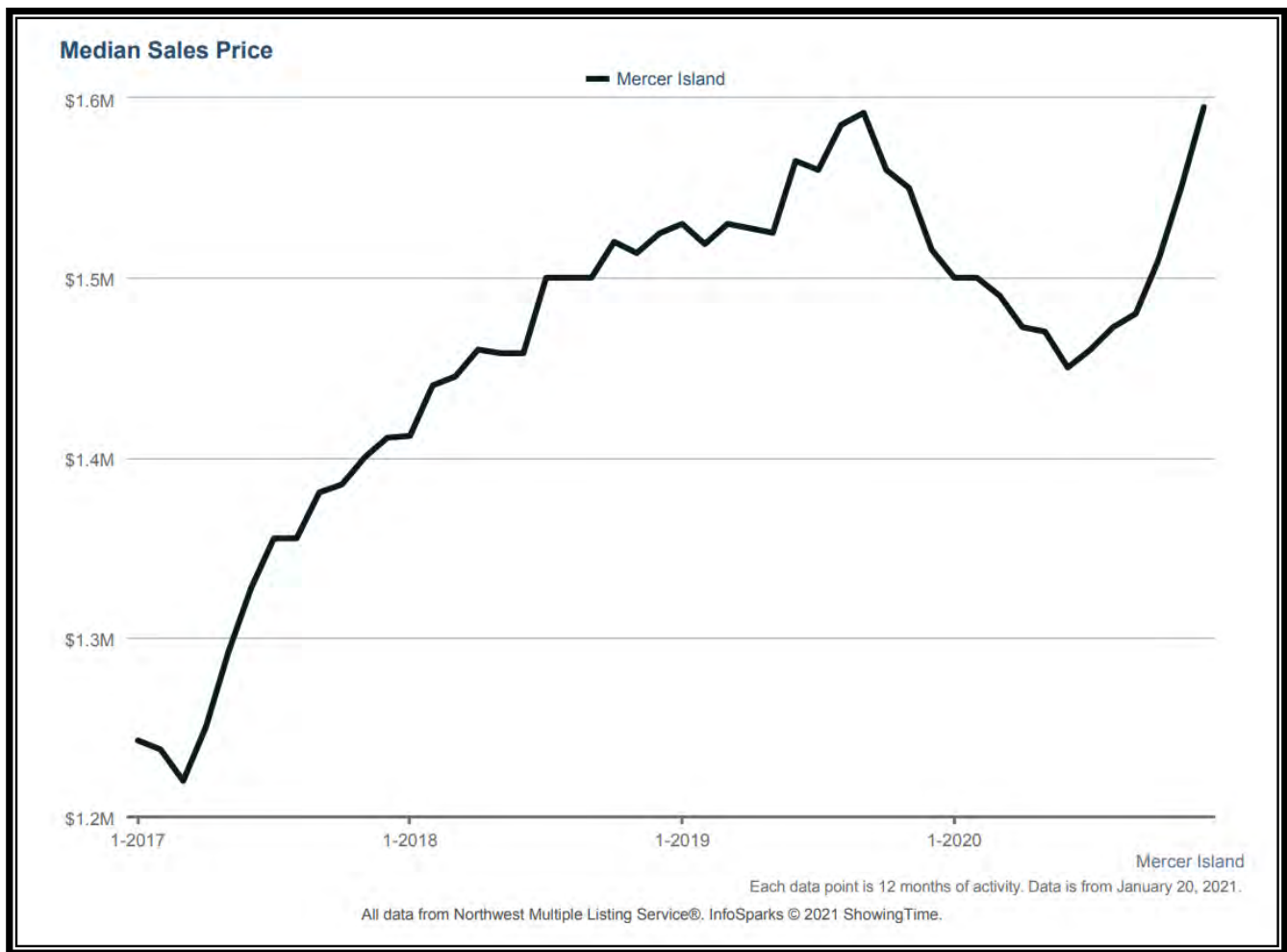
Based on an estimate of 2.037 million jobs in the region and 265,000 occupied market rate apartments, there is about 7.7 jobs for every occupied apartment. The Puget Sound Economic Forecaster by Conway Pedersen predicted that the region would add 130,300 jobs between 2017 and the end of 2020. According to the Department of Licensing, over 190,000 drivers moved to Washington State (and over 10,000/mo in the Puget Sound region) last year. While this figure doesn't count the number of people that have moved out of the region, the numbers are still significant.

Under Construction & Proposed

There are currently no apartment projects under construction in Mercer Island. There is one proposed project, which is discussed in more detail in our Sale Comparison Approach section of this report. The project is located south of the subject site in the Mercer Island Town Center. In early 2020 the owner submitted plans for construction of a mixed-use building with a through block pedestrian connection, three public plazas, 10,742 sf of retail, 35 retail parking stalls, and 164 residential units.

Residential Market Analysis

Like most of the Greater Seattle Area, the City of Mercer Island experienced a strong recovery from the economic decline of 2008-2011, with rapidly increasing property values since about 2012. According to NWMLS, the median home price in Mercer Island is \$1,595,500 in January 2021, higher than the King County median price of \$650,000. The average Mercer Island home is on the market for 47 days prior to receiving an offer and going under contract. Homes in Mercer Island sell for about listing price, on average. Overall, the Mercer Island residential market is considered competitive in the context of King County, and the Greater Seattle Area. The chart below shows median sales price in the City of Mercer Island over the past three years.



Notably, the residential market in Mercer Island, like the Greater Seattle Area, saw some cooling and flattening of the market through 2019. In March 2020, Governor Inslee issued a stay at home order in response to the Coronavirus Pandemic. There was a dip in the market as sales slowed; however, once the stay at home order was lifted, sale volume jumped as did prices. The increase in demand could be attributed to pent-up demand, lower interest rates, and a shift in housing preferences. Since March 2020, median residential prices in Mercer Island have increased by 7.05%.

A. Present Use

The subject is currently an undeveloped part of the Interstate 90 right of way and is used as part of a larger public greenspace and walkway.

B. Accessibility and Road Frontages

The subject has no direct access to any existing roadways. However, the site has 150 linear feet of I-90 highway frontage. Access to the subject site is best provided by Sunset Hwy SE.

C. Land Contour and Elevations

The subject site is essentially level.

D. Land Area

According to a Topographical & Boundary Survey of the subject area dated 12/18/18, the subject is said to contain about 3,649 sf.

E. Land Shape

The site is an irregular rectangular in shape. Site dimensions are approximately 150' x 25' x 137' x 29'.

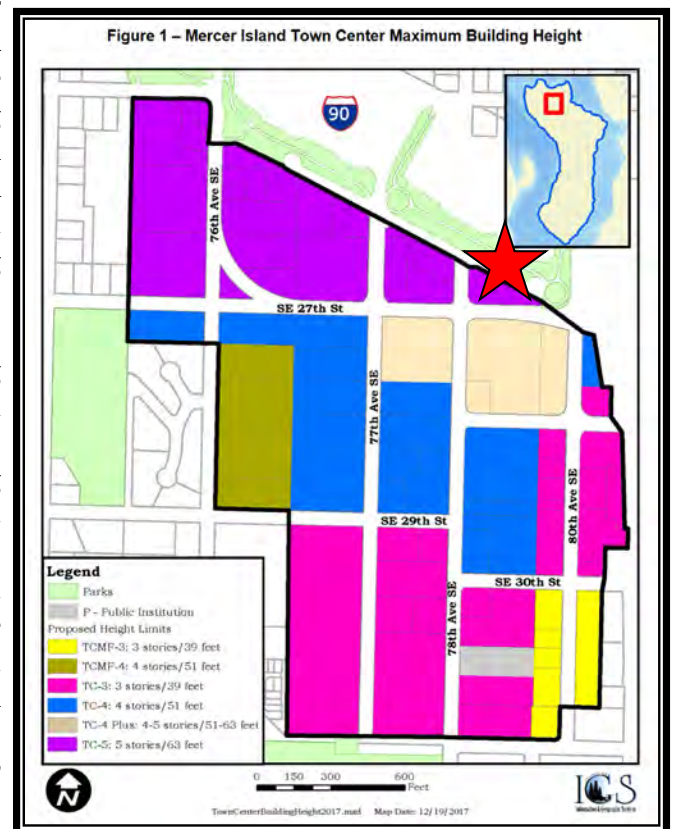
F. Utilities

All typical utilities are in the street to the south of the subject property, though do not extend to the subject property.

G. Present Zoning

The subject area does not possess a designated zoning code as it has historically been recognized as a part of the I-90 right-of-way. The zoning of the block immediately south and in closest proximity to the subject is zoned TC-5. Use of the subject area for development is likely to include an assemblage with the former Tully's site immediately to the south of the property and would likely take on the same zoning restrictions. Therefore, this report utilizes an *extraordinary assumption* that the subject has been zoned TC-5 and use and development in this area will be in substantial conformance with the neighboring TC-5 zoned former Tully's site.

As indicated by the exhibit to the right, this zoning allows for the tallest buildings and largest potential envelope for any Mercer Island zoning designation. The broadest mix of land uses is allowed, including retail, office, residential, service, restaurant, entertainment, lodging and community facilities. Buildings are to be oriented toward the street and public spaces. Industrial uses are not allowed. The maximum building height is 5 stories not to exceed 63'. Parking requirements are dependent on use with 1 to 1.4 stalls per unit required for residential use. Additional daylight plane standards and ground floor retail use requirements apply.



H. Highest and Best Use of Land as if Vacant

The concept of Highest and Best Use is based on the most profitable and valuable use. The Highest and Best Use must meet four criteria: it must be physically possible, legally permissible, financially feasible, and maximally productive.

The subject site is assumed to be zoned TC-5 with a maximum height limit of 5-stories and 63'. The zoning allows for a wide range of residential, retail, lodging and office uses. Industrial uses are not

allowed. The subject's size and shape would be a significant limiting factor to full and efficient use of the property. As a stand-alone parcel, the subject property is unlikely to support a development which takes full advantage of the underlying zoning unless it is assembled with a neighboring property. Without assemblage, it is possible that the subject could support a townhome development site with access from Sunset Hwy SE. We estimate that it would cost about \$140,000 to improve the City-owned A1 parcel for access to and around the subject. Based on these limiting physical factors, a multi-unit townhome construction is concluded as the highest and best use if the property without assemblage.

However, it is concluded that the maximally productive use of the subject is for assemblage with the neighboring parcels for development to the maximum extent allowed by the zoning. If assembled with the surrounding properties, the subject site could allow for a five-story construction, suggesting that office, hotel, or residential uses above ground floor retail use is the maximally productive use of the site. Significant new multifamily construction is ongoing throughout the Puget Sound region. This construction is being fueled by strong job and population growth. One large apartment project (the Hadley) was completed in 2016. This project added 209 units and has been mostly leased.

Apartment vacancy is reportedly about 5% for the Mercer Island market, indicating that significant demand exists from apartment renters in this market. No new projects are currently under construction and little is in the pipeline, aside from the Mud Bay/King Enterprise site which will be discussed in the following section. There have been no significant new office projects in Mercer Island for an extended period. In part this is due to the desire by larger tenants to locate in the CBD Seattle and Bellevue markets. This focus on downtown markets has reduced suburban office construction to very low levels over the last 15 years. There has been significant new hotel construction in the Seattle and Bellevue CBDs over this last cycle. There is not a business hotel on Mercer Island but there is also less business activity and most guests stay in Seattle or Bellevue. Based on these market trends, multifamily construction is concluded as the highest and best use. Apartment unit pricing is high enough that few developers have been interested in building condominium units.

Office development is a potential secondary highest and best use. However, since most new office construction in recent history has occurred near the Seattle and Bellevue CBDs, this secondary use is somewhat speculative as multifamily developers have mostly outcompeted office developers for sites with neighborhood locations such as the subject.

I. Improvements

None

J. Specialty Items

This appraisal is of the real property only (land and improvements). No personal property (or any other improvements such as art installation) are being acquired.

K. Real Estate Taxes

The subject is currently owned by Washington State Department of Transportation and is not currently subject to tax assessments or tax obligations.

L. Assessments Current and Pending

We are not aware of any additional assessments at the subject property.

M. Existing Lease or Rental Data

We are not aware of any additional lease or rental indications at the subject property.

8. Approaches to Value

As the basis for estimating the land value for the subject, the Sale Comparison Approach has been used.

This report includes two value conclusions: Across-the-Fence (ATF) value and Standalone value. This report first addresses the Across-The-Fence (ATF) value, where the subject is valued without consideration of physical characteristics such as size or shape. Following development of an ATF value, we develop a Standalone value, which considers the subject's physical features and adjusts the value for the subject's physical deficiencies.

9. Valuation

A. Site Valuation

This valuation methodology is based upon transactions of comparable properties to derive units of comparison that are then used to indicate value for the subject. Please refer to the *Land Sale Comparison Summary* which outlines the details of the sale comparisons. Photographs and a map of each of these comparisons are also located in this section. This approach provides a fee simple value for redevelopment of the subject site without any lease encumbrances.

We have evaluated the sale comparisons in terms of the price/sf of land area, which is a common method of comparison for similar properties. Factors including property rights, market conditions, location, zoning, site size/shape and interim income have been considered for adjustments of the comparisons relative to the subject. Specific adjustments are discussed further in this section. Please see the *Land Sale Comparison Adjustment Grid* exhibit in this section detailing these adjustments.

Sale Comparison No. 1 is the December 2019 sale of a 12,230 sf, triangle shaped parcel which was formerly used as a Tully's. The site went under contract about 18 months before closing and site contamination issues delayed the closing. The buyer believes that they received a discount due to the contamination issues and market movement during the extended closing period. The buyer negotiated a settlement with BP/ARCO for contamination cleanup on the site, including 100% reimbursement of investigation, legal, and soil cleanup costs, but only about 85% of the groundwater and vapor cleanup. The site sold for \$2,000,000, or about \$164/sf of land.

Sale Comparison No. 2 is the January 2021 sale of 22,769sf site improved with a single-story former Qwest building which measures 8,340sf and contains office and a drive-thru warehouse area. The buyer plans to lease the existing building in the short-term with redevelopment of the site with a multi-family project being the long-term goal. The buyer reported that another developer had the site under contract at \$4,600,000-\$4,800,000 but the deal failed after the buyer asked for an extended close. The actual buyer was willing to close immediately and won the deal at \$4,200,000, or about \$184/sf of land.

Lot A-2 Mercer Island
Land Sale Comparison Summary

#	Name & Address	Zoning	Land Area (sf)	Sale Date	Sale Price	\$/sf Land	Comments
1	Former Tully's 7810 SE 27th St Mercer Island, WA	TC-5 (Mercer Island)	12,230	Dec-19	\$2,000,000	\$164	The site went under contract about 18 months before closing and site contamination issues delayed the closing. The buyer believes that they received a discount due to the contamination issues and market escalation during the extended closing period. The buyer negotiated a settlement with BP/ARCO for contamination cleanup on the site, including 100% reimbursement of investigation, legal, and soil cleanup costs, but only about 85% of the groundwater and vapor cleanup. Estimated remediation costs are \$10,000,000 for the larger contaminated site. The buyer owns the adjacent right of way and has been considering a plan to have a private developer construct 100 underground parking stalls for the City's use as commuter parking on this lot plus part of the right of way in exchange for a discount on a land purchase.
2	MI 29 Development Site 7707 29th St Mercer Island, WA	TC-3 (Mercer Island)	22,769	Jan-21	\$4,200,000	\$184	Property with a vacated Qwest facility. Buyer is not sure what he will do with it. He is seeking proposals from tenants to occupy the building for an interim period but thinks he'll probably do multifamily of some sort.
3	King Enterprises LLC 2885 78th Ave SE Mercer Island, WA	TC-4 (Mercer Island)	43,705	Jun-18	\$8,520,000	\$195	The buyer was Xing Hua Group Ltd., which already owns the Mud Bay building on west side of the same block. Xing Hua plans to redevelop the combined 1.5-acre site with a mixed-use apartment project. The seller was King Enterprises of WA LLC, which had owned the property for decades. Developed in 1962 on one acre, the two-story building has about 12,000 square feet. Tenants include Tiger Garden restaurant, a nail salon, pizzeria and various small offices. The corner property is south of McDonald's and west across the street from QFC, in Mercer Island Town Center.
4	Mud Bay Retail 2750 77th Ave SE Mercer Island, WA	TC-4 (Mercer Island)	20,075	Apr-17	\$4,950,000	\$247	7,036 sf or retail, sold for \$704/sf of bldg. area. Slightly irregular shape site. CoStar indicates 3.5% cap rate and long term plans for buyer to assemble with rest of the block for redevelopment. Site has agreement with neighboring property to the east for parking for 17 stalls. In early 2020 the buyer submitted plans for construction of a mixed-use building with a through block pedestrian connection, three public plazas, 10,742 sf of retail, 35 retail parking stalls, and 164 residential units. Reportedly, the buyer also wanted the church site to the southwest (Sale 5), but the church wasn't interested in selling.
5	Church Property 2728 77th Ave SE Mercer Island, WA	TC-4	12,775	Aug-16	\$2,400,000	\$188	Asking price of \$2.1m with 6 offers received. 2,955 sf converted SFR to church use. Sold for \$812/sf of bldg. area. 2014 application for "mixed use" building by Hines.
<u>Subject Site</u>							
	A2 Parcel Mercer Island, WA	TC-5	3,649	December 22, 2020 Date of Appraisal			

McKee Appraisal
January 2021

Sale Comparison No. 3 is the June 2018 sale of the 43,705 sf King Enterprises site in downtown Mercer Island. The buyer was Xing Hua Group Ltd., which already owns the Mud Bay building on west side of the same block. Xing Hua plans to redevelop the combined 1.5-acre site with a mixed-use apartment project. The seller was King Enterprises of WA LLC, which had owned the property for decades. Developed in 1962, the existing two-story building has about 12,000 square feet. Tenants include Tiger Garden restaurant, a nail salon, pizzeria and various small offices. The corner property is south of McDonald's and west across the street from QFC, in Mercer Island Town Center. It is zoned TC-4 and sold for \$8,520,000, or \$195/sf.

Sale Comparison No. 4 is the April 2017 sale of the Mud Bay Retail property for \$4,950,000, or \$247/sf of land area. The property was openly marketed and was purchased as an investment with consideration of the long-term redevelopment potential by the same buyer as Sale 3. The property contains TC-4 zoning which allows for 4 story buildings. The property reportedly transacted at a roughly 3.5% capitalization rate based on existing income, with long term plans to acquire additional land for redevelopment. The property contains a beneficial parking agreement with the neighboring property to the east, requiring 17 parking stalls to be provided on that property. More recently, plans were submitted to the city in early 2020 to construct a mixed-use building with through block pedestrian connections, three public plazas, 10,742 sf of retail, 35 retail parking stalls, and 164 residential units. We were also informed that the buyer was interested in acquiring the church site at the southwest corner of the block (Sale 5) to assemble with Sale 3 and this sale, however the owner of the church site wasn't interested in selling.

Sale Comparison No. 5 is the August 2016 sale of a church property in downtown Mercer Island. The 12,755-sf corner site is located just to the southwest of Sales 3 and 4. The property was openly listed with an asking price of \$2,100,000. It received six offers and was ultimately purchased by a church. The SFR on site was converted into a church related use by the buyer. Despite this sale to an owner occupant, the value of this site is in the land. It sold for \$2,400,000, or about \$188/sf of land area, or \$812/sf of the building area. In 2014, the previous owner had submitted plans to redevelop the site with a mixed-use project, but the redevelopment never fully materialized before the old owner decided to sell the site.

B. Comparable Adjustments

Conditions of Sale

Sale 4 transacted with additional rights for use of 17 parking stalls on the adjacent property. Based on an estimated value of \$30,000/stall, a moderate downward adjustment is necessary.

Market Conditions

The market has been escalating in value during the timeframe covered by these sales. However, in the months since the onset of coronavirus the market has moved in the downward direction. We adjusted sales up for market conditions using the CPPI index (Commercial Property Price Index, a national price index) with a -5% adjustment since February 2020.

Location

The subject has a strong location at the center of Mercer Island. All sales have comparable locations.

Lot A-2 Mercer Island
Land Value Adjustment Grid

		<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
	<i>Subject</i>	<i>Former Tully's</i>	<i>MI 29 Development Site</i>	<i>King Enterprises LLC</i>	<i>Mud Bay Retail</i>	<i>Church Property</i>
<i>Sale Price</i>		\$2,000,000	\$4,200,000	\$8,520,000	\$4,950,000	\$2,400,000
<i>Costs After Sale</i>		\$0	\$0	\$0	\$0	\$0
<i>Conditions of Sale</i>		\$0	\$0	\$0	\$0	\$0
<i>Financing Terms</i>		\$0	\$0	\$0	\$0	\$0
<i>Property Rights</i>		<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>(10%)</u>	<u>\$0</u>
<i>Analysis Price</i>		\$2,000,000	\$4,200,000	\$8,520,000	\$4,455,000	\$2,400,000
<i>Land Area</i>	3,649	12,230	22,769	43,705	20,075	12,775
<i>\$/sf</i>		\$164	\$184	\$195	\$222	\$188
<i>Sale Date</i>	December 22, 2020 (Date of Appraisal)	Dec-19	Jan-21	Jun-18	Apr-17	Aug-16
<i>Market Conditions Adj.</i>		2%	0%	13%	25%	30%
<i>Adjusted Unit Price</i>		\$167	\$184	\$220	\$277	\$244
<i>Location</i>		0%	0%	0%	0%	0%
<i>Zoning</i>		0%	20%	15%	15%	15%
<i>Size/Shape</i>		0%	0%	0%	0%	0%
<i>Contamination</i>		35%	0%	0%	0%	0%
<i>Net Additional Adjustments</i>		35%	20%	15%	15%	15%
<i>Adjusted Unit Price</i>		\$226	\$221	\$253	\$319	\$280

McKee Appraisal
January 2021

Zoning

The subject is assumed to contain TC-5 zoning which allows buildings up to 5 stories. Sale 2 contains TC-3 zoning which restricts building to a maximum height of 3 stories. Sales 3, 4 and 5 contain TC-4 zoning which restricts building to a maximum height of 4 stories. The magnitude of the upward adjustment for the subject's superior zoning is partially mitigated by the requirement to provide additional underground parking for each additional unit allowed by the subject's zoning. This factor is magnified since the marginal cost increases for each level of underground parking. After consideration, moderate upward adjustments are necessary for Sales 2, 3, 4 and 5.

Site Size/Shape/Access

Because we are considering the ATF value, we have not considered adjustments for size or shape. We will discuss these adjustments in the following Standalone Value discussion.

Contamination

This adjustment considers the expectation that the buyer of Sale 1 will bear some costs for groundwater and vapor remediation, as well as an administrative burden to oversee any cleanup. We have adjusted Sale 1 upwards significantly, since it was the source site, and we estimate that it did sell at a discount due to this factor.

'Across-the-Fence' Value Conclusion

For the Across-the-Fence (ATF) value, the subject is valued without consideration of physical characteristics such as size or shape. Before adjustments the sale comparisons indicated a range from \$164/sf to \$247/sf. The sale comparisons analyzed bracket most of the subject's characteristics and provide recent indications of fair market value. Every sale required some adjustment; however, the net magnitude of adjustment is relatively small. The range after adjustments shifted to between \$221/sf and \$319/sf. Sale 1 is located directly adjacent to the subject and provides a reliable indication of value. Sale 2 is a very recent indication but has an inferior zoning. For these reasons, we have placed more weight these two indications. After consideration, the concluded Across-the-Fence value for the subject is **\$225/sf, or \$800,000, rounded.**

'Standalone' Value Conclusion

For the Standalone value, the subject is valued with consideration of physical characteristics such as size, shape and access. The subject is of a much smaller size than all of the comparisons presented. This is largely due to the absences of any comparably sized parcels within Mercer Island's Town Center subarea. The shape of the subject could roughly be described as a 25' X 150' rectangle. As a result of the subject's small site size and limited footprint area, we conclude that the maximally productive highest and best use would be for assemblage with a surrounding property for development of a five-story multi-family building. However, we also recognize that the underlying zoning would allow the site to be developed with a townhome structure, if it were to be developed as a stand-alone parcel.

As part of this analysis, we have conducted a regional search for sales comparably sized multifamily sites in an attempt to evaluate the pricing characteristics and evidence of highest and best use for smaller sites. For example, we researched:

- A 3,485sf site located in the Ballard neighborhood of Seattle that sold for townhome redevelopment. The site dimensions were about 50' by 65' and the developer was able to construct 4 live work units and one single family residence.
- A 5,000sf site located in the Central District of Seattle that sold as a fully planned and permitted townhome development site. The site dimensions were 50' by 100' and the developer is building five townhomes, each with garage parking and a shared driveway.
- A 2,850sf midblock development site located in the University District of Seattle that sold for land value. The dimensions were roughly 30' X 95', but a 6' alley dedication is required. The site was developed with a four-unit townhome.
- A 3,500sf located in the Queen Anne neighborhood of Seattle that sold to a developer who plans on renovating an existing structure and building two townhomes on the surplus site area. The site dimensions were about 30' by 120' and backup offers were received from developers who wanted to clear the property and build four townhome units.

Based on our review of site with similar size and shape constraints, we conclude that the subject site is capable of supporting a multi-unit townhome development.

The subject site does not have established access at this point. The site located immediately south of Parcel A1 that is owned by the City and contains a public road. In order to provide property access, we conclude that a developer of the subject would need to improve the City-owned area to include an access road to and from the site. As part of our Standalone value analysis, we have considered the costs to improve access to and from the site across the City owned land. We considered cost for grading, road and curb construction and additional costs for utility laterals. Accounting for both hard and soft costs a developer would need to account for between \$140,000 and \$150,000 in additional project cost to provide access.

Considering the additional costs of providing access to the subject site, we conclude that the site has deficient access characteristics and that its Standalone value should be less than the Across-the-Fence value. Considering the additional costs and risks of developing access, we conclude to a Standalone value for the subject of **\$180/sf**, or **\$660,000**, rounded.

C. Correlation and Final Value Conclusion from All Approaches – Before Acquisition

Reconciliation is the process of assigning different weight or emphasis to each of the approaches to valuation used in the report to arrive at a final value estimate. The primary considerations are the reliability of the data and the applicability of each method for valuing the particular property. In the subject's case, only the Sale Comparison Approach was used as we have placed on all of emphasis on the indications of this approach.

Final Conclusion	December 22, 2020
Across-the-Fence Value	\$800,000
Standalone Value	\$660,000

10. Remainder Evaluation

Because this report considered a full acquisition, the After value is \$0.

F. Recapitulation

a. Across the Fence Value	\$800,000
b. Standalone Value	<u>\$660,000</u>

11. Explanation, Measurement, Supporting Data, and Allocation of Damages, Costs to Cure, and Special Benefits

Not Applicable

12. Personalty Realty Report

Not applicable – No improvements are acquired.

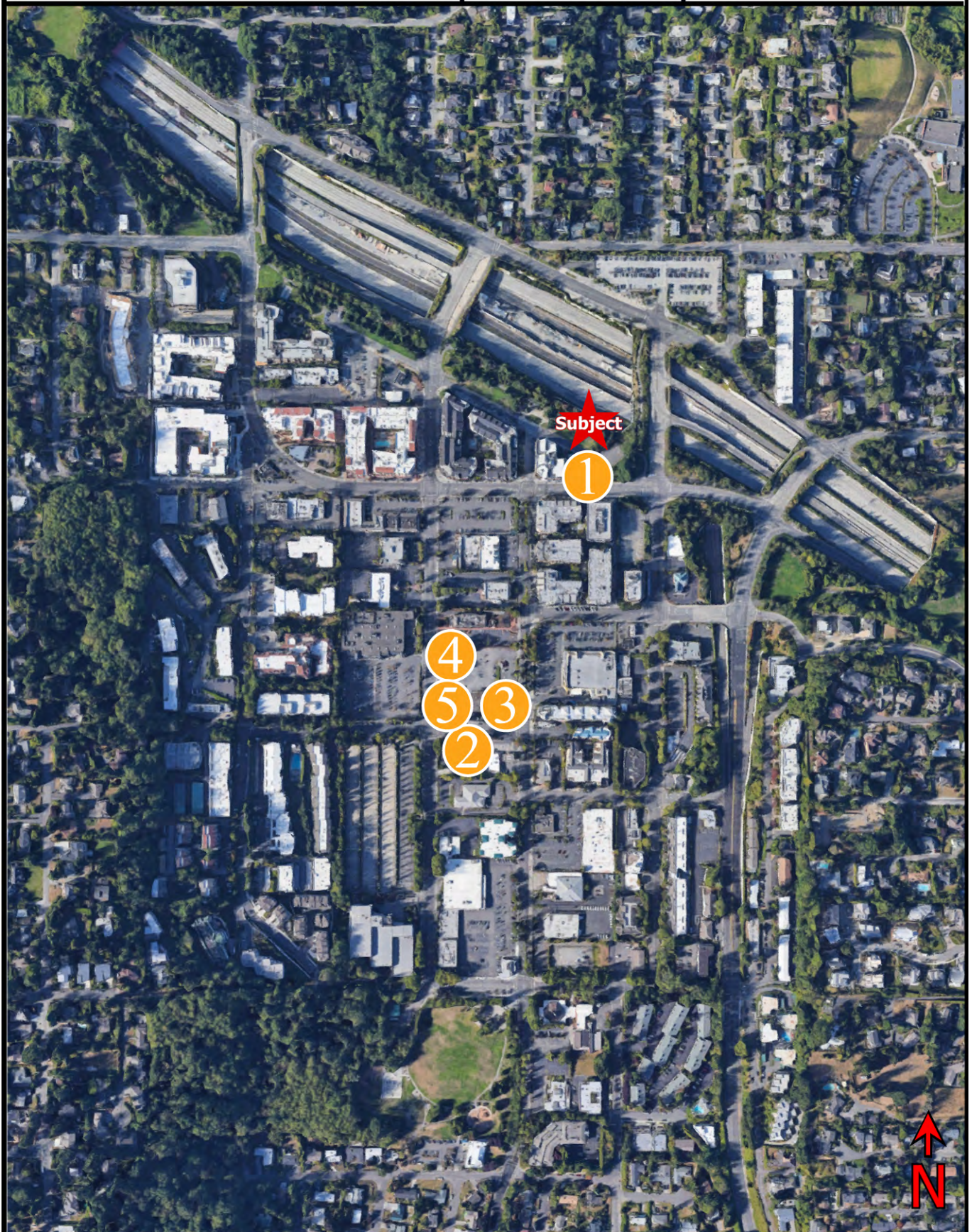
13. Addenda

Sale Comparison Data Map
Sale Comparison Data Sheets
Task Order
Additional Certification, Disclosure and Use Restriction
Appraisers' Experience and Qualifications

--- SEE FOLLOWING PAGES ---

SALE COMPARISON DATA MAP

Sale Comparison Map



SALE COMPARISON DATA SHEETS

Market Data (Sale Comparison Details)

Sale ID: 1

(1) *Address or Location:*

Property Name: Former Tully's
Street Address: 7810 SE 27th St
City: Mercer Island, WA

(2) *Sale sketch and photo are on the following page*

(3) **a. Access:** SE 27th St and Sunset Hwy SE
b. Use at Sale: Vacant former Tully's.
c. H & B Use: Multifamily redevelopment
d. Zoning: TC-5
e. Dimensions: Triangular. B-178', H-113', Hy-205'
f. Area: 12,230
g. Sale Date: 12/27/19
h. Price: \$ \$2,000,000
i. Instrument Type: Bargain and Sales Deed
j. Terms: Cash
k. Ex.Tax# or AF #: 3027694
l. Seller: BUTY LIMITED PARTNERSHIP+BURTON SHELLEY L (TTEE'S) ET AL
m. Buyer: MERCER ISLAND CITY OF
n. Confirmed with: City of Mercer Island
o. Confirmed by: Ken Barnes
p. Date Inspected: 01/25/2021

(4) *Legal Description or Tax Parcel Number:*

5315101235

(5) *Physical Characteristics (description at sale, confirmation information, changes since sale, etc.):*

A.) Property Description:

Triangular shaped parcel

B.) Confirmation Data and Comments:

The site went under contract about 18 months before closing and site contamination issues delayed the closing. The buyer believes that they received a discount due to the contamination issues and market escalation during the extended closing period. The buyer negotiated a settlement with BP/ARCO for contamination cleanup on the site, including 100% reimbursement of investigation, legal, and soil cleanup costs, but only about 85% of the groundwater and vapor cleanup. Estimated remediation costs are \$10,000,000 for the larger contaminated site. The buyer owns the adjacent right of way and has been considering a plan to have a private developer construct 100 underground parking stalls for the City's use as commuter parking on this lot plus part of the right of way in exchange for a discount on a land purchase.

(6) *ANALYSIS:*

<i>Item</i>	<i>Contribution Value</i>	<i>Market Unit</i>
Land:		
12,230 sf	\$2,000,000	\$164 /sf Land
<i>Comments:</i> Land Sale		
Buildings:		
#REF! sf		#REF! #REF!
<i>Comments:</i>		
Other (Site, etc.):		
#REF! #REF!		#REF! #REF!
<i>Comments:</i>		
Total Price	\$2,000,000	\$164 /sf Land
<i>Comments:</i>		

Prepared by: McKee Appraisal, Inc.

Market Data (Sale Comparison Details)

Sale ID: 2

(1) *Address or Location:*

Property Name: MI 29 Development Site
Street Address: 7707 29th St
City: Mercer Island, WA

(2) *Sale sketch and photo are on the following page*

(3) **a. Access:** Direct from 77th Ave SE & SE 29th St
b. Use at Sale: Office/Warehouse
c. H & B Use: Multifamily redevelopment
d. Zoning: TC-3
e. Dimensions: Rectanuglar. 166' X 137'
f. Area: 22,769
g. Sale Date: 01/04/21
h. Price: \$ \$4,200,000
i. Instrument Type: Quit Claim Deed
j. Terms: Cash
k. Ex.Tax# or AF #: 202101051089
l. Seller: QWEST CORP
m. Buyer: 770729 LLC
n. Confirmed with: Buyer
o. Confirmed by: Ken Barnes
p. Date Inspected: 01/25/21

(4) *Legal Description or Tax Parcel Number:*

5315101076

(5) *Physical Characteristics (description at sale, confirmation information, changes since sale, etc.):*

A.) Property Description:

rectangular shaped corner parcel improved with an office/warehouse building and surface parking.

B.) Confirmation Data and Comments:

Property with a vacated Qwest facility. Buyer is not sure what he will do with it. He is seeking proposals from tenants to occupy the building for an interim period but thinks he'll probably do multifamily of some sort.

(6) *ANALYSIS:*

<i>Item</i>	<i>Contribution Value</i>	<i>Market Unit</i>
Land:		
22,769 sf	\$4,200,000	\$184 /sf Land
<i>Comments:</i> Land Sale		
Buildings:		
#REF! sf		#REF! #REF!
<i>Comments:</i>		
Other (Site, etc.):		
#REF! #REF!		#REF! #REF!
<i>Comments:</i>		
Total Price	\$4,200,000	\$184 /sf Land
<i>Comments:</i>		

Prepared by: McKee Appraisal, Inc.

Sale Comparison Details

Sale Sketch and Photo

2



Taken By Julian Rondello on Jan. 25, 2021

Prepared by: McKee Appraisal, Inc.

Market Data (Sale Comparison Details)

Sale ID: 3

(1) Address or Location:

Property Name: King Enterprises LLC
Street Address: 2885 78th Ave SE
City: Mercer Island, WA

(2) Sale sketch and photo are on the following page

(3) a. Access: Direct from 78th Ave SE & SE 29th St
b. Use at Sale: Commercial building and surface parking
c. H & B Use: Multifamily redevelopment
d. Zoning: TC-4
e. Dimensions: Irregular
f. Area: 43,705
g. Sale Date: 06/26/18
h. Price: \$ \$8,520,000
i. Instrument Type: Statutory Warranty Deed
j. Terms: Cash
k. Ex.Tax# or AF #: 2938991
l. Seller: KING ENTERPRISES OF WASHINGTON LLC
m. Buyer: XING HUA GROUP LTD
n. Confirmed with: Public Records
o. Confirmed by: Julian Rondello
p. Date Inspected: 01/25/2021

(4) Legal Description or Tax Parcel Number:

5315101326

(5) Physical Characteristics (description at sale, confirmation information, changes since sale, etc.):

A.) Property Description:

Irregular shaped parcel improved with a two story commercial building

B.) Confirmation Data and Comments:

The buyer was Xing Hua Group Ltd., which already owns the Mud Bay building on west side of the same block. Xing Hua plans to redevelop the combined 1.5-acre site with a mixed-use apartment project. The seller was King Enterprises of WA LLC, which had owned the property for decades. Developed in 1962 on one acre, the two-story building has about 12,000 square feet. Tenants include Tiger Garden restaurant, a nail salon, pizzeria and various small offices. The corner property is south of McDonald's and west across the street from QFC, in Mercer Island Town Center.

(6) ANALYSIS:

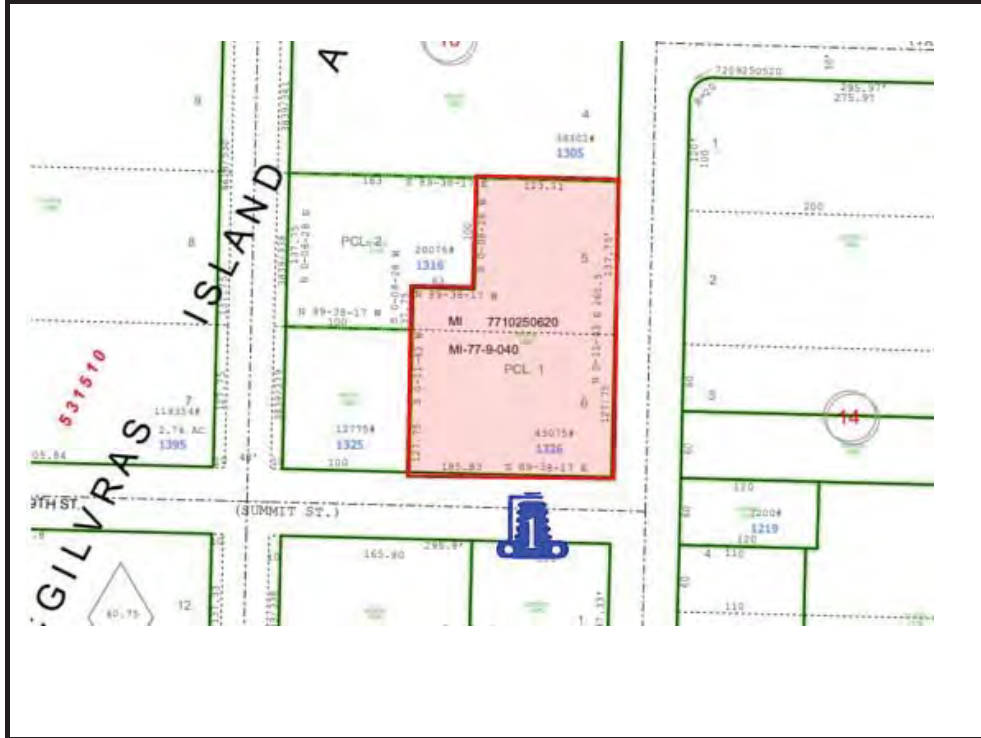
Item	Contribution Value	Market Unit
Land:		
43,705 sf	\$8,520,000	\$195 /sf Land
Comments: Land Sale		
Buildings:		
#REF! sf		#REF! #REF!
Comments:		
Other (Site, etc.):		
#REF! #REF!		#REF! #REF!
Comments:		
Total Price	\$8,520,000	\$195 /sf Land
Comments:		

Prepared by: McKee Appraisal, Inc.

Sale Comparison Details

Sale Sketch and Photo

3



Taken By Julian Rondello on Jan. 25, 2021

Prepared by: McKee Appraisal, Inc.

Market Data (Sale Comparison Details)

Sale ID: 4

(1) *Address or Location:*

Property Name: Mud Bay Retail
Street Address: 2750 77th Ave SE
City: Mercer Island

(2) *Sale sketch and photo are on the following page*

(3) **a. Access:** Direct from 77th Ave SE
b. Use at Sale: Retail building
c. H & B Use: Apartment/Office
d. Zoning: TC-4
e. Dimensions: Irregular (see map)
f. Area: Land Area: 20,075; Building Area: 7,036
g. Sale Date: 04/14/17
h. Price: \$ \$4,950,000
i. Instrument Type: Statutory Warranty Deed
j. Terms: Cash to seller
k. Ex.Tax# or AF #: E2858886
l. Seller: 2800 Associates LLC

m. Buyer: Xing Hua Group LTD
n. Confirmed with: Patrick Mutzel
o. Confirmed by: Eric McKee
p. Date Inspected: 01/25/21

(4) *Legal Description or Tax Parcel Number:*

531510-1316

(5) *Physical Characteristics (description at sale, confirmation information, changes since sale, etc.):*

A.) Unit Description:

Mid-block, level, and slightly irregularly shaped site. Site has 137.75' of frontage along 77th Ave SW. At the time of sale, the property was improved with a small retail building.

B.) Confirmation Data and Comments:

Two tenant, fully occupied retail building sold at a 3.5% cap rate. The buyer has long term plans to assemble the property with the rest of the block for redevelopment. There were no recorded permits after the sale. The site has an agreement with the neighboring property to the east for parking for 17 stalls.

(6) **ANALYSIS:**

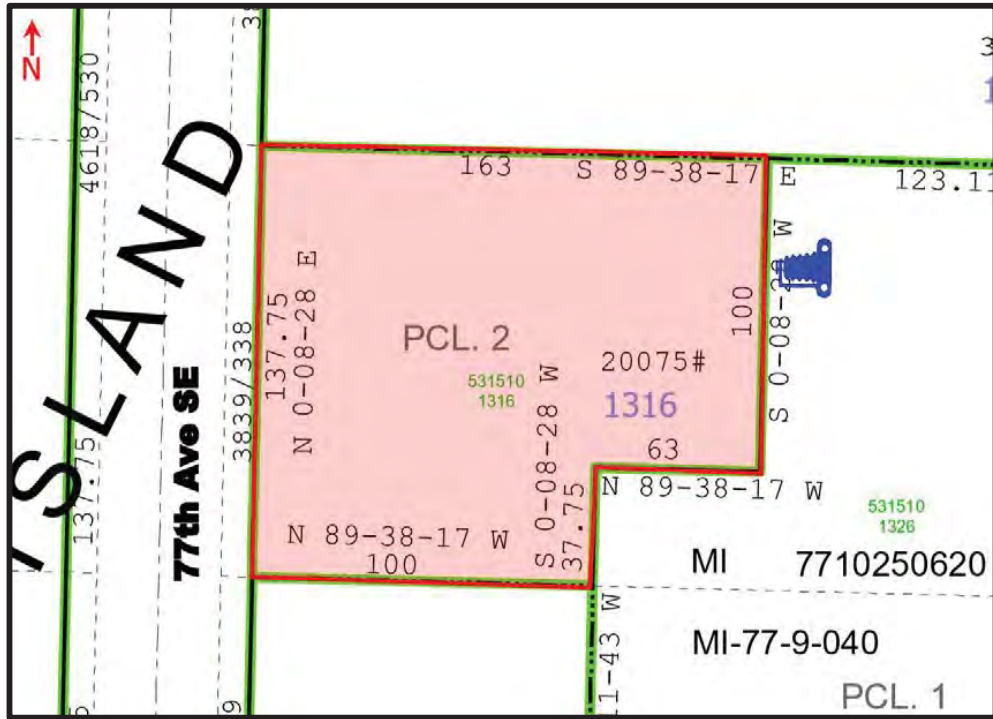
<i>Item</i>	<i>Contribution Value</i>	<i>Market Unit</i>
Land:		
20,075 sf	\$4,950,000	\$247 /sf Land
<i>Comments:</i>		
Unit:		
7,036 sf	\$0	\$0 /sf Bldg.
<i>Comments:</i>		
Other (Site, etc.):		
sf		/sf
<i>Comments:</i>		
Total Price	\$4,950,000	\$704 /sf Bldg.
<i>Comments:</i>		\$247 /sf Land

Prepared by: McKee Appraisal, Inc.

Sale Comparison Details

Sale Sketch and Photo

4



Taken by Ken Barnes on Apr. 03, 2018

Prepared by: McKee Appraisal, Inc.

Market Data (Sale Comparison Details)

Sale ID: 5

(1) *Address or Location:*

Property Name: Church Property
Street Address: 2728 77th Ave SE
City: Mercer Island

(2) *Sale sketch and photo are on the following page*

(3) **a. Access:** Direct from 77th Ave SE & SE 29th St
b. Use at Sale: Church
c. H & B Use: Apartment/Office
d. Zoning: TC-4
e. Dimensions: 100' by 127'
f. Area: Land Area: 12,775; Building Area: 2,955
g. Sale Date: 08/23/16
h. Price: \$ \$2,400,000
i. Instrument Type: Statutory Warranty Deed
j. Terms: Cash to seller
k. Ex.Tax# or AF #: E2817530
l. Seller: Bitney Walsh LLC

m. Buyer: First Church of Christ Scientist Mercer Island
n. Confirmed with: Public records and an unnamed member of the church's office
o. Confirmed by: Robert Foxcurran
p. Date Inspected: 01/25/21

(4) *Legal Description or Tax Parcel Number:*

531510-1325

(5) *Physical Characteristics (description at sale, confirmation information, changes since sale, etc.):*

A.) Unit Description:

A rectangular, level, corner site. Property has 100' of frontage along SE 29th St and 127.75' of frontage along 77th Ave SW. At the time of sale, the property was improved with a converted SFR that was being used as an office building.

B.) Confirmation Data and Comments:

Asking price of \$2.1m with 6 offers received. Sold for \$812/sf of bldg area. 2014 application for "mixed use" building by Hines. An unnamed source in the church's office confirmed that the property would initially be used as a "reading room" retail store for the church, but that the site was also purchased with its long term investment value/redevelopment potential in mind.

(6) **ANALYSIS:**

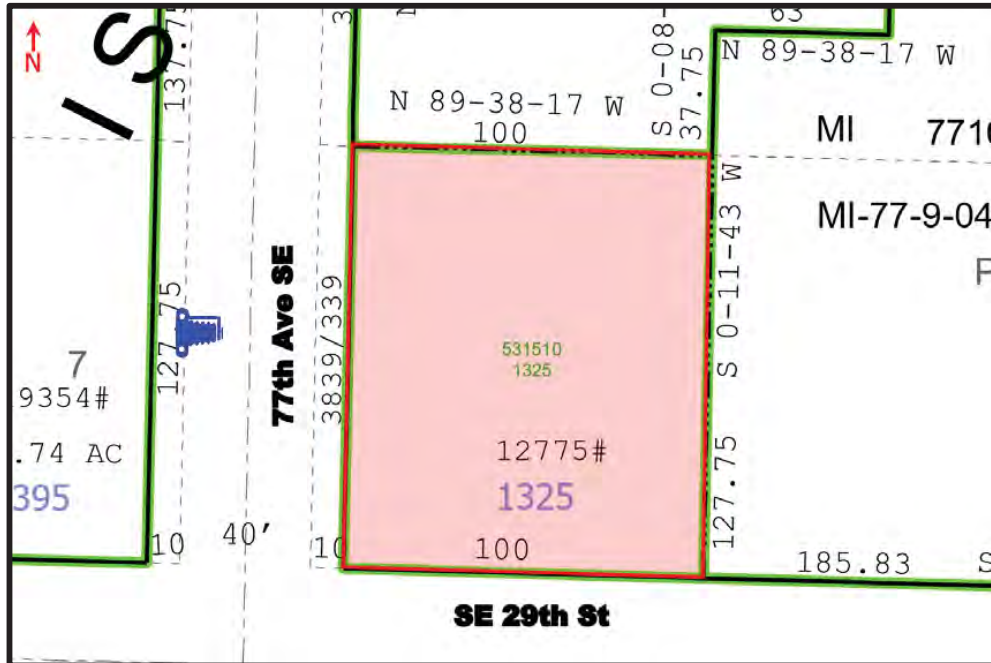
<i>Item</i>	<i>Contribution Value</i>	<i>Market Unit</i>
Land:		
12,775 sf	\$2,400,000	\$188 /sf Land
<i>Comments:</i>		
Unit:		
2,955 sf	\$0	\$0 /sf Bldg.
<i>Comments:</i>		
Other (Site, etc.):		
sf		/sf
<i>Comments:</i>		
Total Price	\$2,400,000	\$812 /sf Bldg.
<i>Comments:</i>		\$188 /sf Land

Prepared by: McKee Appraisal, Inc.

Sale Comparison Details

Sale Sketch and Photo

5



Taken by Ken Barnes on Apr. 03, 2018

Prepared by: McKee Appraisal, Inc.

TASK ORDER



AGREEMENT FOR PROFESSIONAL SERVICES

CITY OF MERCER ISLAND, WASHINGTON
9611 SE 36th Street, Mercer Island, WA 98040

Title: Appraisal of Property or Property Segments Located at 7810 SE 27th Street, Mercer Island, Washington, Also Known as Parcel A2

THIS AGREEMENT FOR PROFESSIONAL SERVICES ("Agreement") dated November 1, 2020 is effective on the date the Agreement is fully executed by the Parties. The Parties to this Agreement are the CITY OF MERCER ISLAND, a Washington municipal corporation ("City") and McKee Appraisal, a Washington Corporation ("Consultant").

I. SERVICES BY CONSULTANT

Consultant shall perform the services described in the scope of work attached hereto as Exhibit "A", ("Services"), in a manner consistent with the accepted practices for other similar services, performed to the City's satisfaction, within the time period prescribed by the City and pursuant to the direction of the City Manager or his/her designee.

II. PAYMENT

- A. City shall pay Consultant for the Services: (check one)
- ☐ **Hourly:** \$ per hour, plus actual expenses, but not more than a total of \$
- ☒ **Fixed Sum:** not to exceed \$5,700
- ☐ **Other:** .
- B. Consultant shall maintain time and expense records and provide them to the City monthly, along with monthly invoices in a format acceptable to the City for work performed to the date of the invoice.
- C. All invoices shall be paid by mailing a City warrant within 45 days of receipt of a proper invoice.
- D. Consultant shall keep cost records and accounts pertaining to this Agreement available for inspection by City representative for three (3) years after final payment. Copies shall be made available on request.
- E. If the Services do not meet the requirements of the Agreement, Consultant will correct or modify the work to comply with the Agreement. City may withhold payment for such Services until the work meets the requirements of the Agreement.

III. NON-DISCRIMINATION AND COMPLIANCE WITH LAWS

- A. Consultant agrees not to discriminate against any employee or applicant for employment or any other person in the performance of this Agreement because of race, creed, color, national origin, marital status, sex, sexual orientation, age, disability, or other circumstance prohibited by federal, state or local law or ordinance, except for a bona fide occupational qualification.
- B. Consultant shall comply with and perform the Services in compliance with all federal, state and local laws and ordinances, as now existing or hereafter adopted or amended.
- C. Violation of this Paragraph III shall be a material breach of this Agreement and may result in ineligibility for further work for the City.

IV. TERM AND TERMINATION OF AGREEMENT

- A. This Agreement shall commence on the effective date of this Agreement and shall remain in effect until completion of the Services and final payment, but in any event, no later than June 1, 2021 ("Term").
- B. This Agreement may be terminated immediately by the City with or without cause. The Consultant may terminate this Agreement upon thirty days written notice, in which event all finished or unfinished documents, reports, or other material or work of Consultant pursuant to this Agreement shall be submitted to City, and Consultant shall be entitled to just and equitable compensation at the rate set forth in Paragraph II for any satisfactory work completed prior to the date of termination.

V. OWNERSHIP OF WORK PRODUCT

All data, materials, reports, memoranda and other documents developed under this Agreement whether finished or not shall become the property of City, shall be forwarded to City at its request and may be used by City as it sees fit. Consultant shall not be held liable for reuse of documents or modifications thereof by City or its representatives for any purpose other than the intent of this Agreement.

VI. GENERAL ADMINISTRATION AND MANAGEMENT

The Sr. Project Manager of the City of Mercer Island, or his/her designee, shall be City's representative and shall oversee and approve all Services to be performed, coordinate all communications, and review and approve all invoices, under this Agreement.

VII. HOLD HARMLESS

- A. Consultant shall protect, indemnify and save harmless the City, its officers, elected officials, agents, volunteers and employees from any and all costs, claims, judgments or awards of damages (including costs and all attorney fees), arising out of or in any way resulting from

the negligent acts, errors or omissions of Consultant, its officers, employees and agents in performing this Agreement. Consultant waives any immunity that may be granted to it under the Washington State Industrial Insurance Act, Title 51 RCW. Consultant's indemnification shall not be limited in any way by any limitation on the amount of damages, compensation or benefits payable to or by any third party under workers' compensation acts, disability benefit acts or any other benefits acts or programs.

- B. City shall protect, defend, indemnify and save harmless Consultant, its officers, employees and agents from any and all costs, claims, judgments or awards of damages, arising out of or in any way resulting from the sole negligent acts or omissions of City, its officers, employees or agents in performing this Agreement. City waives any immunity that may be granted to it under the Washington State Industrial Insurance Act, Title 51 RCW. City's indemnification shall not be limited in any way by any limitation on the amount of damages, compensation or benefits payable to or by any third party under workers' compensation acts, disability benefit acts or any other benefits acts or programs.

The provisions of this Section shall survive the expiration or termination of this Agreement.

VIII. INSURANCE

- A. Consultant agrees to carry as a minimum, the following insurance, in such form and with such carriers who have a current A.M. Best rating of not less than A:VII or other industry rating which is satisfactory to the City:
- (1) Workers' compensation and employer's liability insurance in amounts sufficient pursuant to the laws of the State of Washington;
 - (2) Commercial general liability insurance shall be written on Insurance Services Office (ISO) occurrence form CG 00 01 and shall cover liability arising from premises, operations, independent contractors and personal injury and advertising injury. The City shall be named as an additional insured under the Consultant's Commercial General Liability insurance policy with respect to the work performed for the City. Commercial General Liability insurance shall be written with limits no less than \$1,000,000 each occurrence, \$2,000,000 general aggregate.
 - (3) Automobile liability insurance covering all owned, non-owned, hired and leased vehicles. Coverage shall be written on Insurance Services Office (ISO) form CA 00 01 or a substitute form providing equivalent liability coverage. If necessary, the policy shall be endorsed to provide contractual liability coverage, with a minimum combined single limit for bodily injury and property damage of \$1,000,000 per accident.
 - (4) Professional liability insurance appropriate to the Consultant's profession with limits of no less than \$1,000,000 per claim and \$1,000,000 policy aggregate limit.
- B. The insurance policies for Commercial General Liability and Automobile Liability shall contain the following endorsements or provisions:

- (1) The Consultant's insurance coverage shall be primary insurance as respect the City. Any insurance, self-insurance, or insurance pool coverage maintained by the City shall be excess of the Consultant's insurance and shall not contribute with it.
- (2) The Consultant shall provide the City with written notice of any policy cancellation within two business days of the Consultant's receipt of such notice. Consultant shall furnish the City with original certificates and a copy of the amendatory endorsements, including without limitation the additional insured endorsement evidencing the insurance requirement of the Consultant before commencement of the Services. Consultant's failure to maintain such insurance policies as required shall constitute a material breach of this Agreement, upon which the City may, after giving five business days' notice to the Consultant to correct the breach, immediately terminate the Agreement or, at its discretion, procure or renew such insurance and pay any and all premiums in connection therewith, with any sums so expended to be repaid to the City on demand, or at the sole discretion of the City, offset against funds due the Consultant from the City.

IX. SUBLETTING OR ASSIGNING CONTRACT

Neither City nor Consultant shall assign, transfer, or encumber any rights, duties or interests accruing from this Agreement without the express prior written consent of the other party.

X. FUTURE SUPPORT

City makes no commitment and assumes no obligations for the support of Consultant's activities except as set forth in this Agreement.

XI. INDEPENDENT CONTRACTOR

Consultant is and shall be at all times during the term of this Agreement an Independent Contractor and the City shall be neither liable nor obligated to pay Consultant sick leave, vacation pay, or any other benefit of employment nor to pay any social security or other tax which may arise as an incident of employment. The Consultant shall pay all income and other taxes as due.

XII. NON-APPLICATION OF FUNDS

If sufficient funds are not appropriated or allocated for payment under this Agreement for any future fiscal period, the City will not be obligated to make payments for Services or amounts after the end of the current fiscal periods, and this Agreement will terminate upon the completion of all remaining Services for which funds are allocated. No penalty or expense shall accrue to the City in the event this provision applies.

XIII. GENERAL PROVISIONS

This Agreement contains all of the agreements of the Parties with respect to any matter covered or mentioned in this Agreement. No provision of the Agreement may be amended or modified except by written agreement signed by the Parties. This Agreement shall be binding upon and inure to the benefit of the Parties' successors in interest, heirs and assigns. Any provision of this Agreement which is declared invalid or illegal shall in no way affect or invalidate any other provision. In the event either of the Parties defaults on the performance of any terms of this Agreement or either Party places the enforcement of this Agreement in the hands of an attorney, or files a lawsuit, each Party shall pay all its own attorney fees, costs and expenses. The venue for any dispute related to this Agreement shall be King County, Washington. Failure of the City to declare any breach or default immediately upon the occurrence thereof, or delay in taking any action in connection with, shall not waive such breach or default. In the event of a conflict between Exhibit A, Scope of Services, and this Agreement, this Agreement shall be controlling. Time is of the essence of this Agreement and each and all of its provisions in which performance is a factor.

IN WITNESS WHEREOF, the parties have executed this Agreement on the 1st day of November , 2020.

CONSULTANT:

MCKEE APPRAISAL

By: _____

Name: Ken Barnes

Title: Principal

Tax ID No. 91-1505224

Address:

1200 Sixth Avenue, Suite 1805

Seattle, WA 98101

Phone: 206-343-8909

CITY:

CITY OF MERCER ISLAND

By: _____

Jessi Bon, City Manager

9611 SE 36th Street

Mercer Island, WA 98040

Staff name Gareth Reece

Staff phone # 206-275-7710

Approved as to form:

By: _____

Bio Park, City Attorney

ATTACHMENT A

Consultant will appraise the value of the property called A-2, which is to the north of City-owned parcel A-1, which is itself north of 7810 SE 27th St, Mercer Island, WA. This parcel is approximately 3,649sf of land owned by WSDOT.

The scope will include inspection of the subject and neighborhood and sale comparisons, comprehensive value analysis, and preparation and delivery of a narrative appraisal report. Consultant's work will conform to the Uniform Standards of Professional Appraisal Practice (USPAP). We will provide two different values: Standalone value and Across the Fence Value.

We can be available for support at our public hourly rates.

Intended Users/Use

The intended use of this appraisal is to set the value for a transfer from WSDOT to the City of Mercer Island. The intended users of the appraisal report are official representatives of the City of Mercer Island and their legal counsel. WSDOT will be an additional intended user.

Cost

\$5,700, including all costs

ADDITIONAL CERTIFICATION, DISCLOSURE AND USE RESTRICTION

Additional Certification, Disclosure and Use Restriction

I certify that, to the best of my knowledge and belief:

- The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, Ken Barnes, MAI and Julian Rondello, MAI have completed the continuing education program for Designated members of the Appraisal Institute.

RESTRICTION UPON DISCLOSURE & USE:

Disclosure of the contents of this appraisal report is governed by the By-Laws & Regulations of the Appraisal Institute.

Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser or the firm with which (s)he is connected, or any reference to the Appraisal Institute or to the MAI designation) shall be disseminated to the public through advertising media, public relations media, news media, sales media or any other public means of communication without the prior written consent and approval of the undersigned. No part of this report or any of the conclusions may be included in any offering statement, memorandum, prospectus or registration without the prior written consent of the appraiser. This appraisal is intended for use only by the client identified in the Transmittal Letter, and may not be transmitted or communicated to any other party without the specific written permission of McKee Appraisal, Inc.



Ken Barnes, MAI, CRE

WA State-Certified General Real Estate Appraiser (1100578)



Julian Rondello, MAI

WA State-Certified General Real Estate Appraiser (1102535)

APPRAISERS' EXPERIENCE AND QUALIFICATIONS

McKEE APPRAISAL
REAL ESTATE APPRAISAL SERVICES & CONSULTANTS, INC.

1200 Sixth Avenue, Suite 1805, Seattle, Washington 98101

Telephone (206) 343-8909 Fax (206) 386-5777

EXPERIENCE & QUALIFICATIONS

KENNETH A. BARNES, MAI, CRE

Mr. Barnes graduated from the University of Missouri – Columbia with a BS in Biochemistry in 1982. In 1988 Mr. Barnes received an MBA with a Finance concentration from the University of Chicago.

Mr. Barnes received the MAI (Member Appraisal Institute) designation in 1989. He also holds the CRE designation awarded by the Counselors of Real Estate. Mr. Barnes entered the real estate business in 1981, first as a principal acquiring and renovating small rental properties, and then as an appraiser in 1983 with Moore & Shryock in Columbia, Missouri. In 1984 Mr. Barnes moved to Chicago to join Real Estate Research Corporation. He joined Cushman & Wakefield in 1989 as a Senior Appraiser in Seattle. In 1990, Mr. Barnes was elected an officer of the company as a Director and Manager of the Seattle practice. In 1998 he left the company to travel and returned to CB Richard Ellis. After 18 months of corporate advisory work he joined first one, and then a second, startup in executive roles. Mr. Barnes returned to Cushman & Wakefield in 2001 as Director. Mr. Barnes joined McKee Appraisal as Principal in 2006.

Mr. Barnes has authored a number of articles in the Appraisal Journal and other real estate publications, and has been a guest speaker or panelist for real estate organizations including NAIOP, IREM and the Appraisal Institute.

Mr. Barnes is a Certified General Real Estate Appraiser (Washington State Certificate No. 1100578), and has completed the requirements of the continuing education program of the Appraisal Institute. In his appraisal experience, Mr. Barnes has appraised and analyzed a wide variety of commercial property types, and provided critical appraisal, consultation and litigation services to a diversified range of clients.

McKEE APPRAISAL
REAL ESTATE SERVICES & CONSULTING, INC.
1200 Sixth Avenue, Suite 1805, Seattle, Washington 98101
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EXPERIENCE & QUALIFICATIONS

JULIAN P. RONDELLO, MAI

Julian Rondello graduated from Western Washington University with a Bachelor of the Arts Degree in Economics and a minor in Business Administration. Prior to joining McKee Appraisal, he worked in both the non-profit and government sectors, including a position within the City of Portland Mayors Office. As lifelong Puget Sound resident, Mr. Rondello has lived in various municipalities throughout region.

Mr. Rondello joined McKee Appraisal in 2013 and received the MAI designation from the Appraisal Institute in 2020. He has significant experience appraising office, retail, industrial, medical, mixed-use, and special purpose properties throughout the Puget Sound Region. Situations analyzed included new and proposed construction, partially completed renovations, high-rise office towers, market rent arbitration and eminent domain appraisal involving partial acquisitions and valuation of both temporary and permanent easement rights. As part of his practice, he also has extensive experience in the valuation of complex income producing properties owned by institutional investors, providing analysis that is internally consistent over several years.

Mr. Rondello is a Certified General Real Estate Appraiser in Washington (License No. 1102535) and has satisfied the requirements of the continuing education program of the Appraisal Institute. Coursework includes Advanced Income Approach, Real Estate Finance Statistics and Valuation Modeling and Advanced Concepts & Case Studies. Mr. Rondello volunteers for the Seattle Chapter of the Appraisal Institute as a planning committee member and participant for the annual Fall Conference Chapter Meeting.