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The 3Cs of Value  
and  
Applied Real Estate Market Analysis

Commercial Real Estate Certificate Program

by

James R. DeLisle, Ph.D.

October 13, 2011

# Lecture Overview

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- The 3Cs: Creating, Controlling and Capturing Value
- Critical Thinking
- Applied Market Analysis

# Toward Value: A Life Cycle Perspective

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Creating Value

Controlling Value

Capturing Value

Planning/  
Analysis

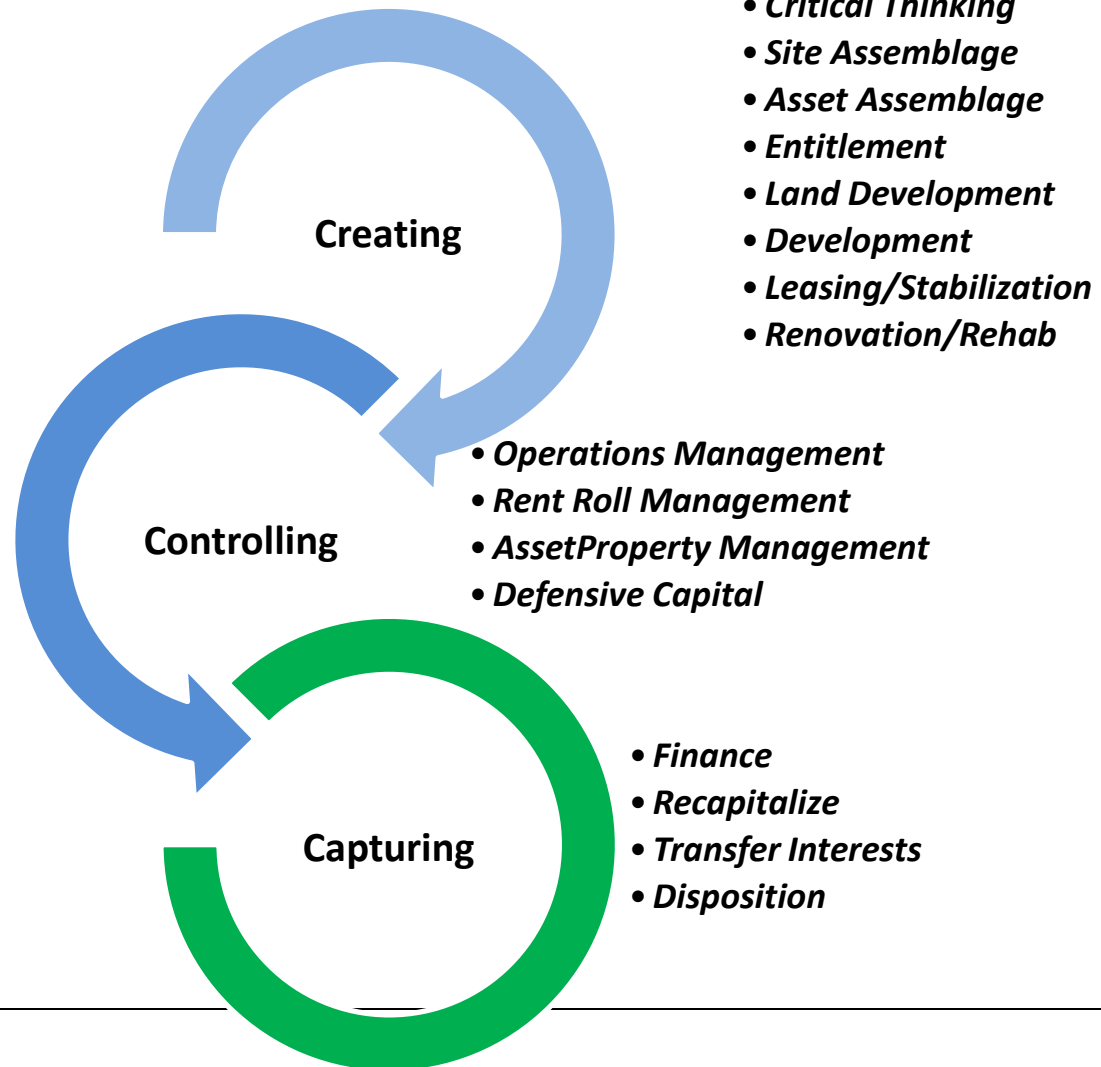
Acquisition  
/Development

Operation

Disposition

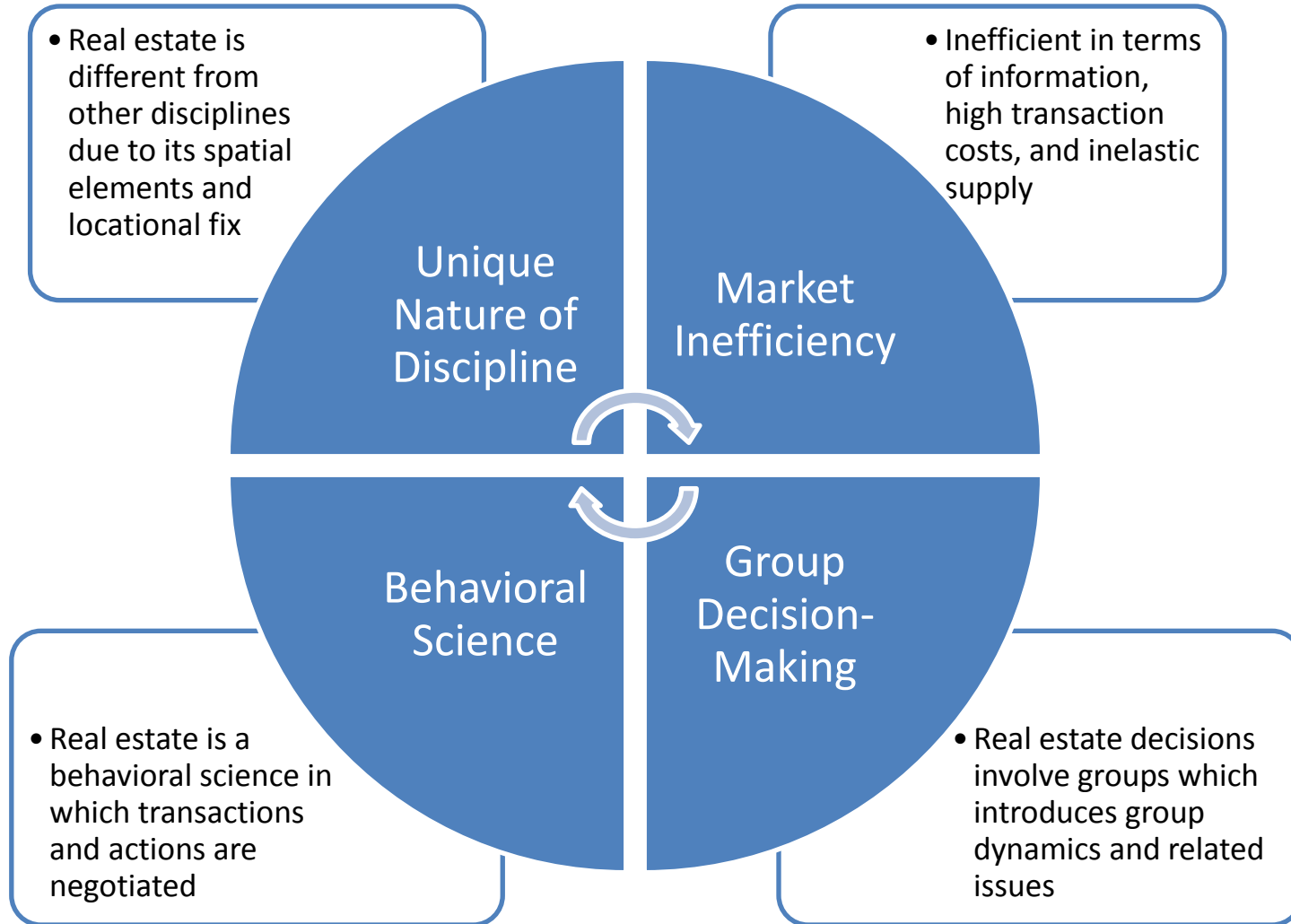
# 3-Cs of Real Estate Value: Create, Control and Capture

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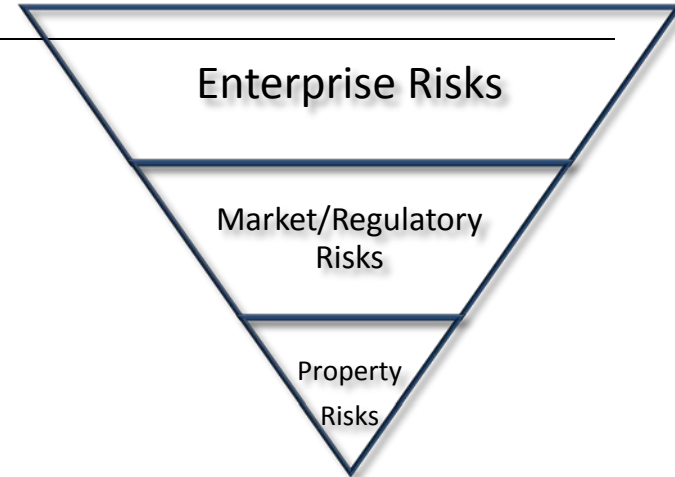
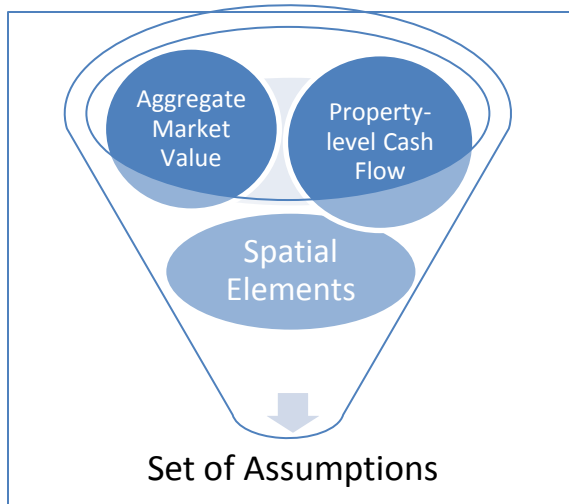


# Challenges: Critical Thinking in Real Estate

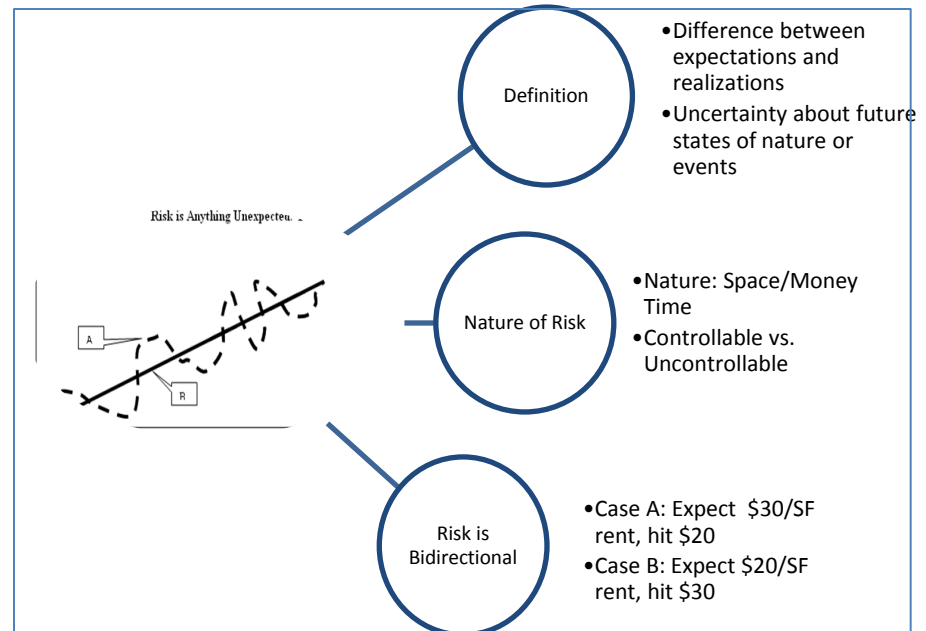
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# Buying a Set of Assumptions: Risk



***Since real estate investments are forward looking, decision-makers must depend on an understanding of market dynamics as well as a crystal ball that can help predict future market conditions over an appropriate planning horizon.***



# Applied Real Estate Market Analysis Process

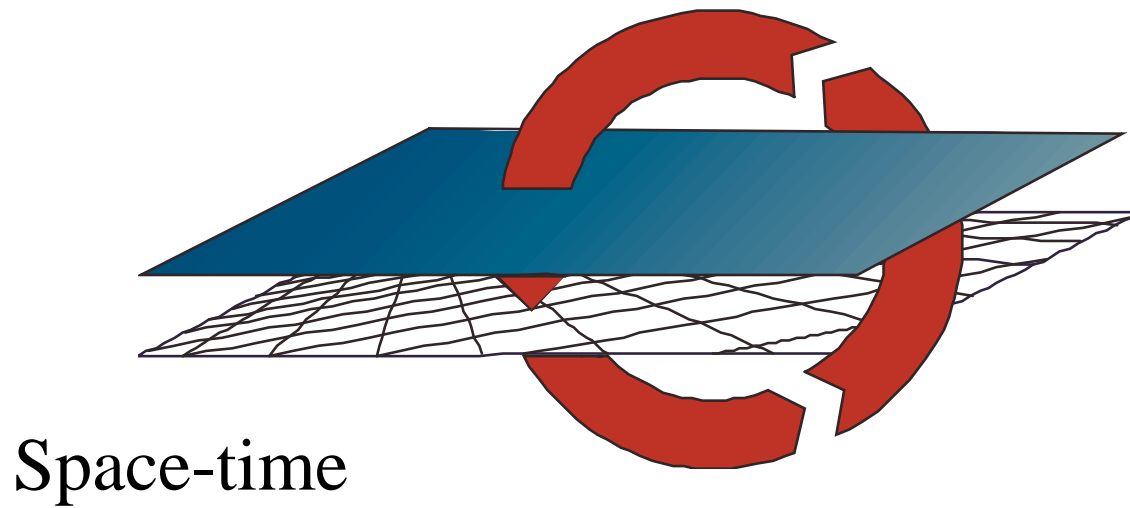
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- Problem Definition
  - General Problem Statement
  - Client Perspective
- Strategic Evaluation
  - Positional Analysis
  - Selection and modification of Feasibility Model
- Data Selection and Collection
  - Capital Market Profile
  - Spatial Market Analysis: Macro and Micro
- Preliminary Analysis and Identification of Alternatives
  - Spatial Considerations
  - Financial Considerations
- Use Filtering and Selection of Most Likely Candidate
  - Goodness-of-fit criterion
  - Satisfaction of Client Goals
- Refinement of Alternative and Verification of Use
  - Product Specification
  - Risk Management and Due Diligence
- Implementation, Monitoring and Feedback

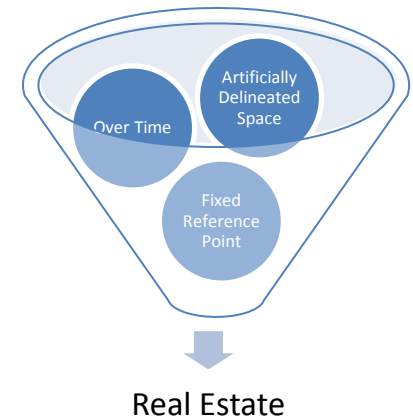
# The Definition of Real Estate

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Artificially delineated space over time  
with a fixed reference point to the earth...



Money-time



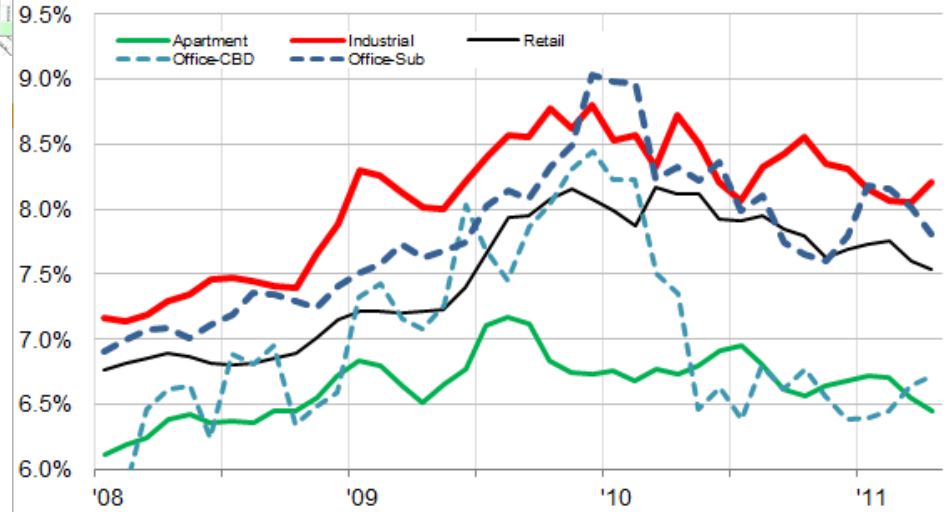
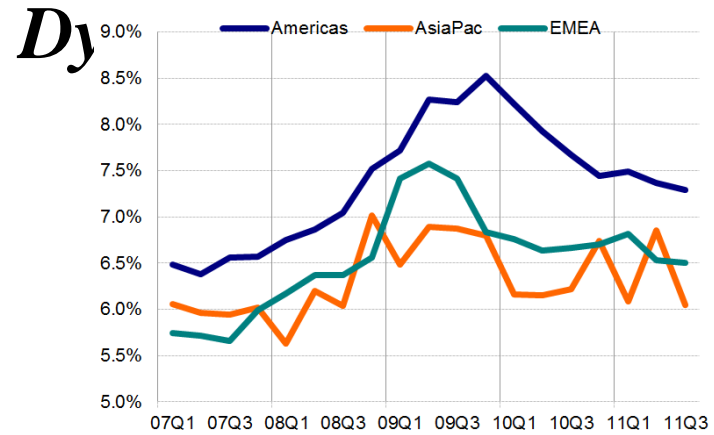
# Spatial and Capital Market Dynamics

## Spatial Market Dynamics



## Capital Market

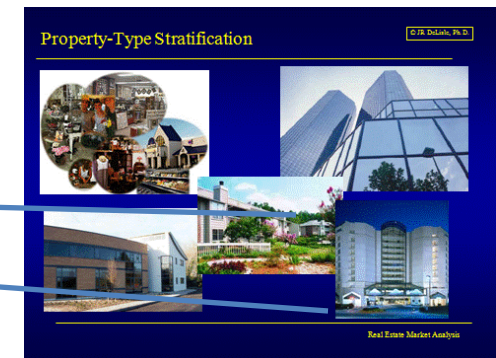
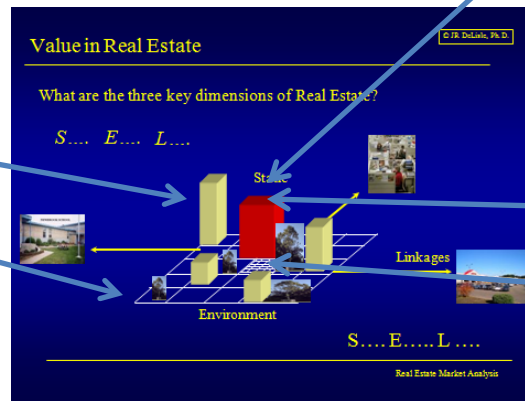
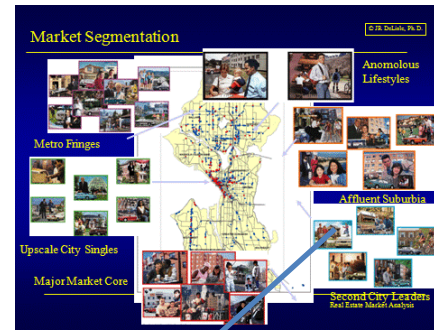
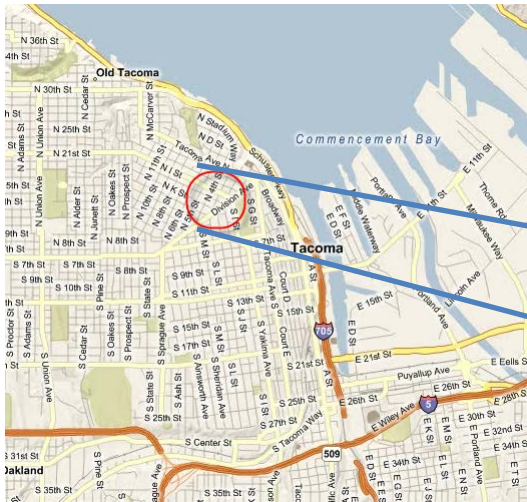
Qrtly Caps by Region



# Site in Search of Use: Frontdoor Market Analysis

## Site in search of a use

- Profile site
- Identify alternative uses and users
- Match most probable user to site



# Applied Market Analysis & Site in Search of Use

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1. Problem Statement
2. Situational Analysis
3. Legal-Political-Ethical
4. Trade Area Delineation
5. Competitive Market Analysis
6. Alternative Uses/Users Analysis
7. Identify Alternative Uses
8. Select Optimal Use
9. Profile Use to Create Value
10. Specify Strategy to Control and Capture Value

# A Definition of Feasibility

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A real estate project is “feasible” when the real estate analyst determines that there is a reasonable likelihood of satisfying explicit objectives when a selected course of action is tested for fit to a context of specific constraints and limited resources.

James A. Graaskamp

# Step 1: Problem Statement

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- Strategic Overview
- Nature of Decision
- Goals and Objectives
- Business Considerations
- Constraints
- Scope of Analysis
  - Inclusive vs. exclusive approach
  - Dynamic vs. static approach
  - Stochastic vs. deterministic

# Investor Profiles: Problem Statement

## Investor Profile: *The Client*



- Name:** JJ Urban Group
- Business Philosophy**  
 Use Criterion: Most Fitting Use  
 Green Cost Premium: 5%
- Equity Requirements**  
 Risk Tolerance: Low-Moderate  
 Time Frame: Long-Term Hold  
 Cash on Cash: 8%  
 IRR: 10%
- Capital Sources**  
 Max Equity Available: \$6,000,000  
 Max LV Ratio: 70%  
 Interest Rate: Market Rate

**J.L.M.T.**

## Investor Profile

**JJ Urban Group, Inc.**

**OBJECTIVES**



Fact	Attitude
Use Criterion	Most Fitting Use
Green Cost Premium	Up to 5%
Risk Tolerance	Low-moderate
Time Frame	Long-term Hold
Cash-on-Cash	8%
IRR	10%
Max Equity Available	\$5 million
Max LV Ratio	60%
Interest Rate	Market Rate

*Founded in 2005*  
*Business Domicile: Seattle*

3

# Step 2: Situational Analysis

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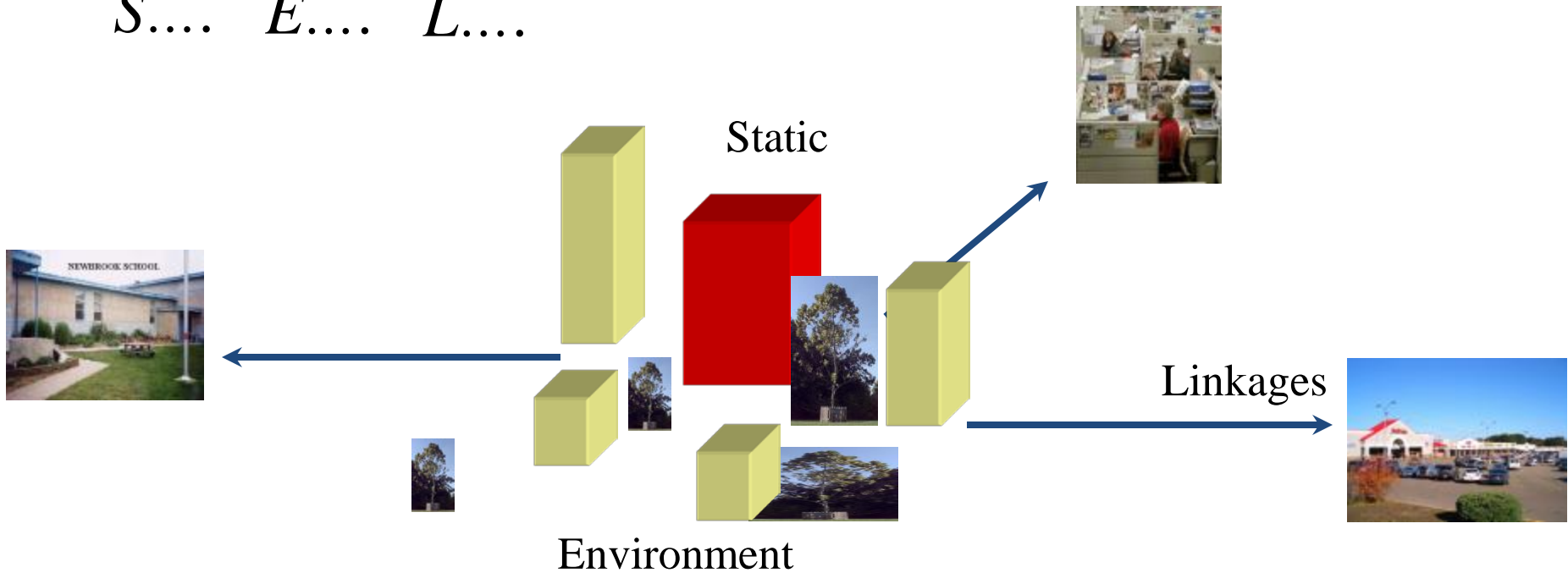
- Strategic Overview
  - Macro-economic Environment
  - Capital Market Environment
  - Spatial Environment
  - Space User Environment
  
- Preliminary Site Assessment
  - Situational Analysis: Static, Environmental and Linkages
  - Positional Analysis
    - Context in which it fits/operates
    - Draws on Structure, Succession and Situs Theory
  - Opportunity Analysis: What it could be?

# The Full Dimensionality of Real Estate

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What are the three key dimensions of Real Estate?

*S.... E.... L....*



# Static Attributes



# Environmental Attributes

## Environs: Neighborhood Overview – Amenities and Attributes

**PUBLIC/ACCESS**  
Metro Bus Line  
UW Medical Center  
Narey Schools

**SHOPPING/RESTAURANTS**  
Wallingford Boutique Community

**TOURISM/RECREATION**  
Gas Works Park  
Lake Union

**ENTERTAINMENT**  
Remont  
Woodland Park Zoo

**LINKAGES/RECREATION**  
Burke-Gimman Trail  
University of WA

**GWP** Solutions Associates

## Land Use—Present & Future

Future Land Use



Present Land Use



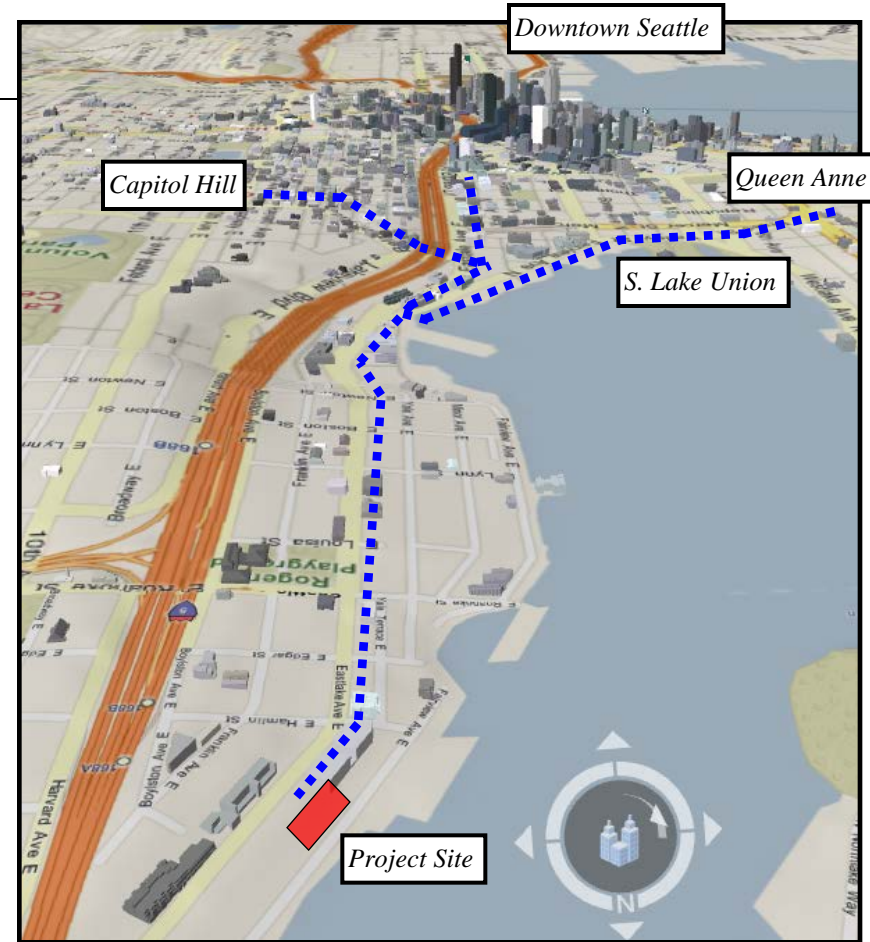
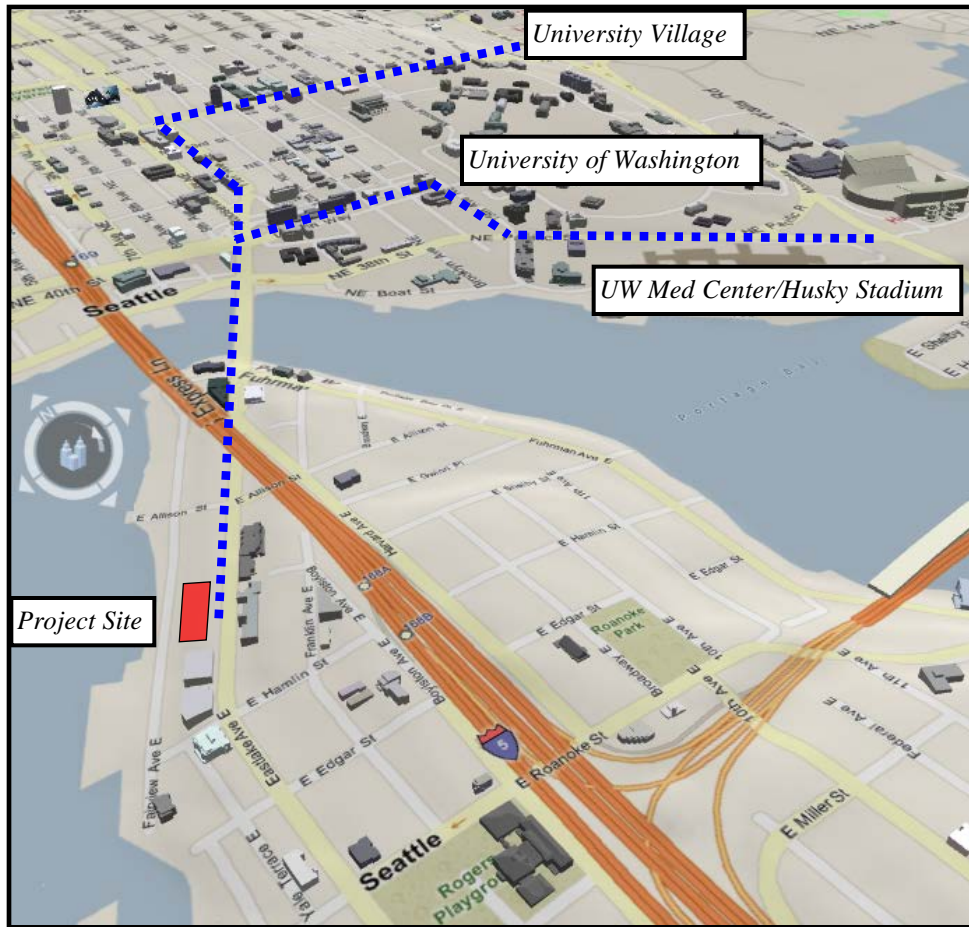
Commercial Use  
Multi-Family  
Industrial  
Single Family

Ballard Landmarks

- 1) Hiram M. Crittenden Locks
- 2) Ballard Bridge
- 3) Fremont Bridge
- 4) Aurora Bridge
- 5) Commercial "Hub"
- 6) Ballard/Interbay Industrial District

NE  
MA

# Linkage Attributes



- Easy vehicle, bus, bicycle access to University District via Eastlake Ave E.
- Easy vehicle, bus, bicycle access to Downtown, Capitol Hill, S. Lake Union, Queen Anne.
- Eastlake Ave: heavy traffic commuting between Downtown and U. District. 30,000 vehicle trips/day.

# Step 3: Legal-Political-Ethical Constraints

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- Legal-Political-Ethical Tie
  - Constraints by law: Legal
    - Site constraints
    - Enterprise constraints (users)
  - Constraints by Market
    - Capital Market & Investor Constraints
    - Community constraints
  - Ethical/Political Constraints
    - Sustainability and the irretrievable resource commitment
    - Goodness of Fit
- Dynamic Nature
  - Many constraints are subject to change/negotiation
  - Final binding constraints involve trade-offs of legal/political/ethical

# Seattle Planning Process: Overview

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## The General Permitting Process

The permitting process is different for each type of permit, but the following steps usually apply.

1. **Research.** Investigate your property and/or building's permit history using DPD's online tools. Check out a step-by-step breakdown of the [Research process](#).
2. **Pre-Application Process.** [Fill out forms](#) and [read about the process](#) for your specific permit type. Next, draft [code-compliant plans](#) (or hire a professional to do it) that clearly show what you want to build. The plans must meet [DPD's requirements](#).  
Make sure you bring all of your drafted plans to DPD for coaching or intake, so DPD staff have a full understanding of your project and can answer your questions accurately. Complete and well drafted plans result in a quicker plan review. Small projects can typically go through a shortened permitting process, but longer, complex projects must go through a thorough, [plan review process](#).
3. **Screening.** Come in to the [Applicant Services Center](#) and meet with a DPD staff member to make sure you have everything you need for a successful application.
4. **Submittal.** [Call DPD's Applicant Services Center](#) to schedule an appointment to submit your application. (Some smaller projects may be submitted [over-the-counter](#), through our [drop-off process](#), or through our [subject-to-field inspection process](#).)
5. **Plan Review.** DPD reviewers examine your plans and application. See more details about [plan reviews and corrections](#).
6. **Corrections.** DPD reviewers ask for corrections to any errors they find. Note: keep corrections to a minimum by completing the research and pre-application processes thoroughly. Most "corrections" required are actually requests for additional information.
7. **Permit Issuance.** Applicant picks up final, approved plans and permit. [DPD notifies the applicant](#) when the permit is ready. Begin construction.
8. **Inspections.** Applicant schedules mandatory [inspections](#).

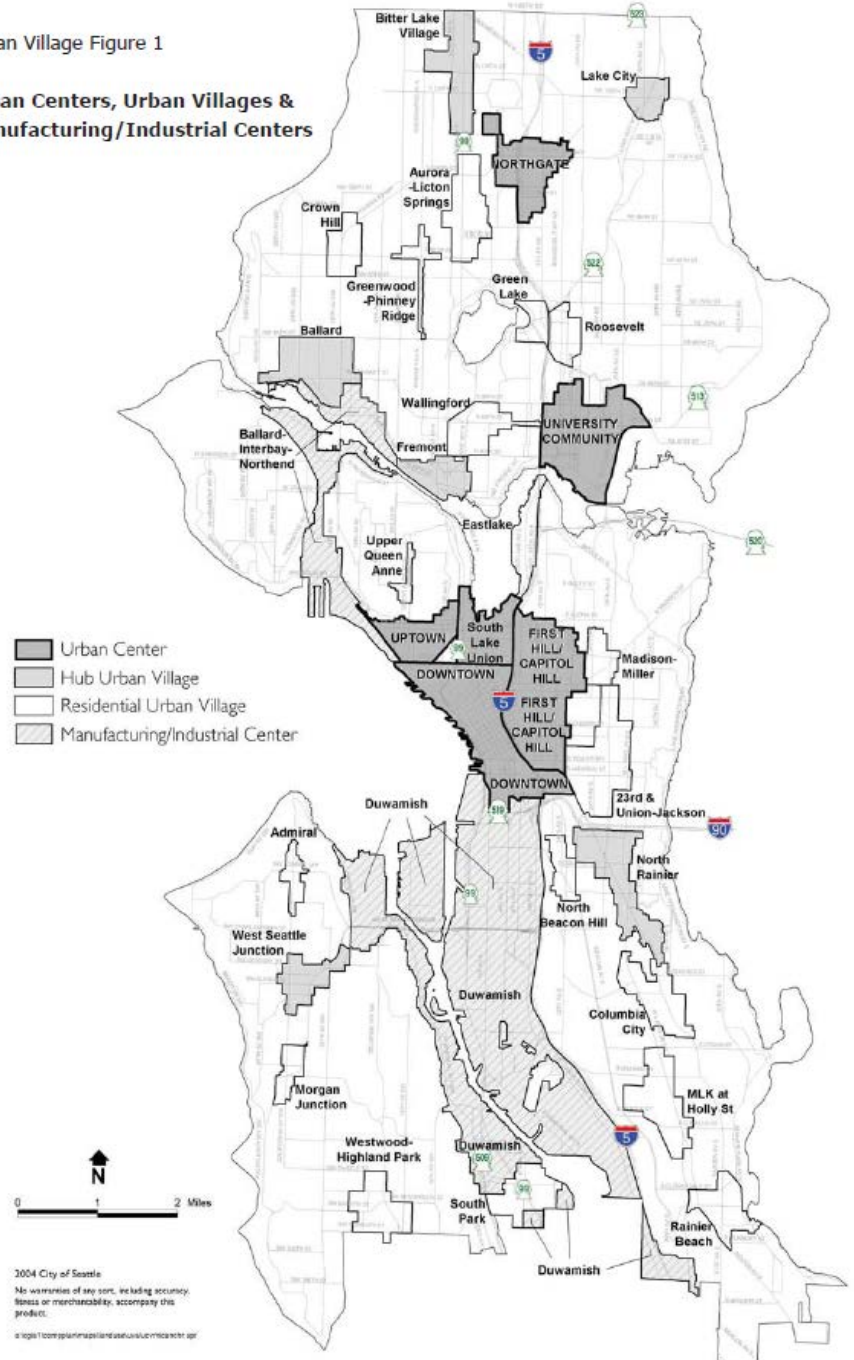
# Seattle's Urban Villages

Functional Designation	Urban Center Village
1. Primarily residential.	Belltown Capitol Hill
2. Mixed, with a residential emphasis.	Pike/Pine
3. Mixed residential and employment.	Denny Triangle Pioneer Square Chinatown/International District First Hill 12 <sup>th</sup> Avenue University District Northwest Ravenna Northgate* Uptown Queen Anne* South Lake Union*
4. Mixed, with an employment emphasis.	Downtown Commercial Core

Urban Center	2024 Jobs/ Household Ratio
Center City (First Hill/Capitol Hill, Downtown, South Lake Union, and Uptown Urban Centers)	4.2
University Community Urban Center (University District Northwest, Ravenna, and University of Washington Campus*)	4.1
Northgate Urban Center	2.5

Urban Village Figure 1

Urban Centers, Urban Villages & Manufacturing/Industrial Centers



# To obtain Parcel Characteristics and Zoning

## *Step 1.*

*Go to City of Seattle's website, [www.seattle.gov](http://www.seattle.gov)*

## *Step 2.*

*Select Planning & Development from Departments drop down menu*

The screenshot shows the City of Seattle website interface. At the top, there are navigation tabs: SEATTLE.GOV, City Services, Departments, and Staff Directory. Below these is a large 'SEATTLE' logo. A dropdown menu is open under 'Departments', listing various city departments. The 'Planning & Development' option is highlighted in blue. A yellow arrow points from the text 'Select Planning & Development from Departments drop down menu' to this highlighted option. Other visible options in the menu include: Film and Music, Senior Citizens, Municipal Court, Neighborhoods, Parks and Recreation, Personnel, Planning Commission, Police Department, Public Safety CSC, and Public Utilities. Below the menu, there are sections for 'Welcome to the office', 'CITY SERVICES', 'Find a City Service' (with a search box), 'Most Requested Services' (with links for Find a Job, View Live 911 Dispatch, Find Community Resources, and Pay a Parking Ticket), and 'Questions and/or Complaints?' (with phone number 684-CITY and TTY (206) 615-0476). The footer contains 'MY NEIGHBORHOOD' and 'NEWS ROOM' links. A photo of a Japanese Garden is visible on the right side.

SEATTLE.GOV | City Services | Departments | Staff Directory



**Department of Planning and Development**  
Shaping and protecting Seattle's built and natural environment

Permits | Planning | **Research** | Enforcement | Public

*Step 3.*

*Select Research*

**DPD Services**

- Code of
- Design
- Coordi
- Emerg
- Manag
- Events
- Inspec
- Land Use Review
- Permits
- Planning
- **Site Development**
- Sustainable Developm

**What's Hot?**


Adult Cabarets

**Top of the News**

**Department of Planning and Development**  
Shaping and protecting Seattle's built and natural environment

Permits | Planning | **Research** | Enforce

**DPD RESEARCH**  
- Helpful links to Seattle permit and inspection data, GIS maps and spe



DPD / Research

**Maps**  
Centralized access to Seattle maps, including zoning and parcel city landmarks, environmental designations, special overlay dis

- [DPD GIS](#) - Build, view, and print map displays using online integrated property research tool.
- [Parcel Data](#) - View parcel information in Seattle
- **NEW!** [DPD Activity Locator](#) (Beta) - View permit to present using Google's mapping technology. us your [feedback](#).
- [SPU GIS Map Counter Services](#) - Link to website

*Step 4.*

*Select Parcel Data*

*Step 5.*

*Enter address and Search*

DPD / Research

**Seattle Parcel Data**

Use this search tool to find parcel information, including simple parcel maps, for a selected parcel w  
Note: If searching by address, only the street name and number are required. (e.g., "600" and "Pine  
"600 E Pine St")

**Search by Address**

Number	Mod	Prefix	Street Name	Type	Suffix
4345		All	UNIVERSITY	WAY	NE

Search

## Seattle Parcel Data

All users are subject to the [Terms of Use](#). No warranties of any sort, including accuracy, fitness, or merchantability accompany this product. Copyright 2005-06, All Rights Reserved, City of Seattle.

### Parcel# 1142000125

This report was generated: Thursday, October 19, 2006

#### Addresses Located on this Parcel

Address	Status	Permit/Complaint Status
4345 UNIVERSITY WAY NE	ACTIVE	<a href="#">View Permit &amp; Complaint Status</a>

#### Zoning Info

Base Zone	Shoreline Zone	Overlay	Historic
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NC3-65			
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Urban Village Overlay	Historic Landmark Number	Cont
-----------------------	--------------------------	------

University District Northwest(Urban Center Village)		
-----------------------------------------------------	--	--

#### ECA

40% Steep Slope	Potential Slide Area	Riparian Corridor	Wetlands	Liqu
-----------------	----------------------	-------------------	----------	------

No	No	No	No	No
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Floodprone	Abandoned Landfill	Known Slide Area	Wildlife Pres. Area	Shor
------------	--------------------	------------------	---------------------	------

No	No	No	No	No
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#### Overlays

Archaeological Buffer	Heritage Tree	Heron Habitat	Peat Deposit	Salmo
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No	No	No	No	No
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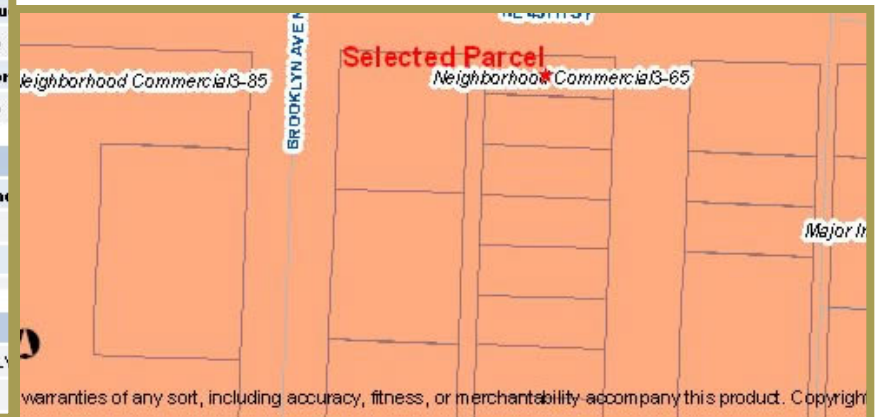
#### Airport Height Overlay

#### King County Assessor Data

<b>Property Name</b>	retail store building	<b>Plat Name</b>	BROOKLYN
<b>Present Use</b>	Retail Store	<b>Lot Sq Ft</b>	3,356

• Parcel summary (same information as Property Report and eReal Report)

• Zoning maps



## Legend

### Detailed Zoning Color Key

	SF 5000		Seattle Mixed	
	SF 7200		Neighborhood Commercial 1	
	SF 9600		Neighborhood Commercial 2	
	RSL/TC		Neighborhood Commercial 3	
	LBT		Commercial 4	

# Step 4: Trade Area Delineation

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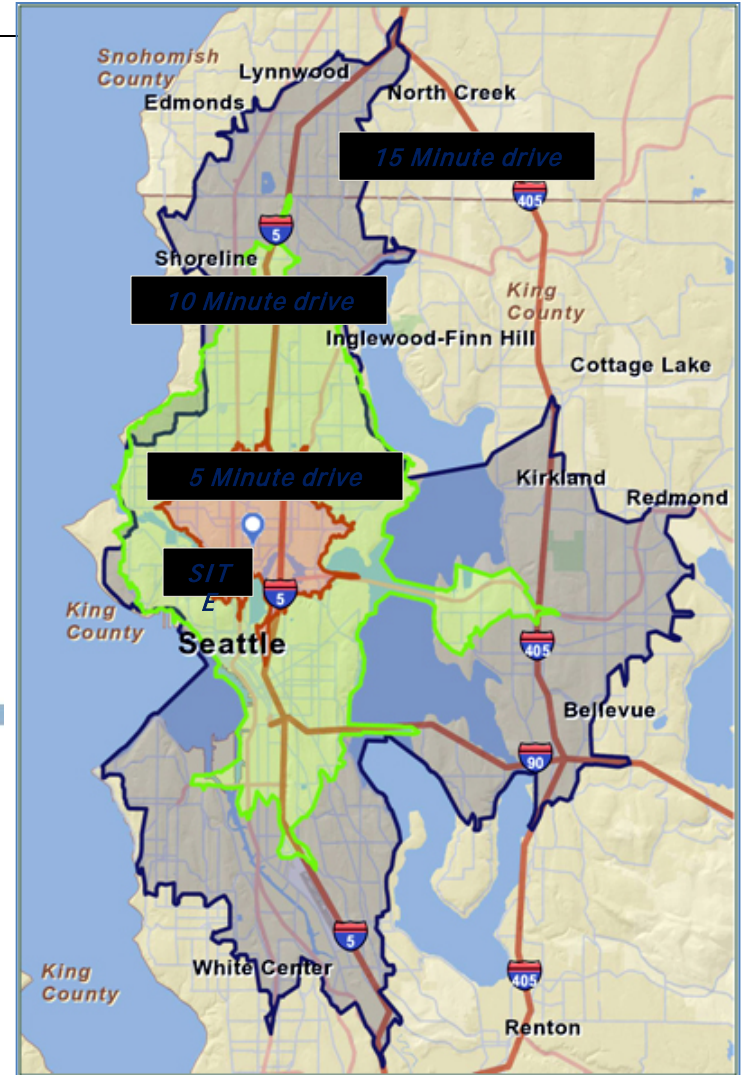
- **Micro: Region/City/Sub-market**
  - Spatial trends
    - Community or regional growth, spatial skewing, scale and timing
    - Structure: Sub-market relationship to broader economic base
  - Economic Base
    - Employment: composition, drivers, growth
    - Elasticity: sensitivity of growth to economic conditions
- **Market Segments**
  - Current Market Segments
  - Projected Growth by Market Segment

# Trade Area Delineation



DAYLIGHT TOWERS of RAVENNA  
Market Overview

Walking distance (residential)



# Step 5: Competitive Market Analysis

- Competitive Analysis

- Supply: Number
- Value proposition
- Price points
- Competitive advantages

## A Thriving Neighborhood

### Business District



- Market trends and opportunity areas

- Aggregate data on local population, employment, income, etc.
- Industry trends relevant to the project (e.g., office, retail, apt, ind, hotel)
- Significant popular attitudes and trends in location market

# Commercial Brokers Association

www.commercialmls.com

**CBA COMMERCIAL BROKERS ASSOCIATION**

- Home
- CBA Services
- Contact CBA
- Search Properties
- Member Directory
- Affiliates
- Account Management
- Legal Library
- Support
- Calendar
- Join CBA

Search for Office, Industrial, or Retail Space for Lease

**CBA Quick Stats**

- 4500 Member Agents
- 1000 Member Offices
- 13,500 Researched Properties in King, Pierce, and Snohomish
- 11,352 active Sale, Lease, and Business Opportunity Listings

**Account Management**

Announcing the new CBA Account Management Portal.

Login to your account to manage your Personal, Account, Payments, Education and Event Information.

enter

**FEATURED PROPERTIES** previous | next

**RiverPoint Corporate Center**  
Rent Rate: 15.35 - 15.35

Street Address:  
18200 Cascade Ave S - Tukwila

Total Available SqFt:  
54,000

Brokerage:  
GVA Kidder Mathews

**SEARCH ALL PROPERTIES** search all

CBA's online multiple listing service provides commercial real estate searches for Sales, Leases, and Business Opportunities in the Pacific NW. Members also have access to our Legal Library, Comparable Market Analyses, and Broadcast Emails.

The Commercial Brokers Association (CBA) is a member owned cooperative committed to its mission of helping members increase their productivity with up-to-date commercial real estate listing information.

learn more

**What's New** view all

- Are You in Need of Continuing Education Credits?
- LET'S WORK TOGETHER!

**Event Calendar** view all

- 10/25/07 - 1031 Exchanges: The Power of Strategy - Bellingham
- 10/31/07 - Buying and Selling Business Opportunities - Tacoma
- 11/05/07 - Using Investit Software
- 11/06/07 - CBA North Marketing Meeting
- 11/07/07 - Commercial Real Estate Leases - Tacoma

Search all

# CBA: Properties for Sale

## Search Properties for Sale

- Home
- CBA Services
- Contact CBA
- Search Properties
  - Properties for Sale
  - Properties for Lease
  - Businesses for Sale

### Choose Property Type:

- Office
- Retail
- Industrial
- Land
- Multi-Family
- Hotel/Motel
- Farms/Ranches
- Mobile Home Park

CBA ID #

[Click Here to Search](#)

### Choose Area:

#### Area:

### All Seattle

- Belltown/Denny Regrade
- Capitol Hill/First Hill
- Commercial Core
- Fremont/Ballard
- Greenlake
- Lake Union
- N. Seattle

- Pioneer Square
- Queen Anne/Magnolia
- S. Seattle
- West Seattle

### All Eastside

- 520 Corridor
- Bellevue CBD
- I-90 Corridor
- Issaquah
- Kirkland
- Redmond
- Snoqualmie/N.Bend
- Suburban Bellevue

### Search Criteria:

	Min	-	Max
Price Range:	<input type="text"/>	-	<input type="text"/>
Building SqFt:	<input type="text"/>	-	<input type="text"/>
Land SqFt:	<input type="text"/>	-	<input type="text"/>
Acres:	<input type="text"/>	-	<input type="text"/>
Land Price/Sqft:	<input type="text"/>	-	<input type="text"/>
TB Map Page:	<input type="text"/>		
Street Name:	<input type="text"/>		

[Click Here to Search](#)



# CBA for Sale: Cap Rates

**Search Properties**

Results: 60 [ Previous 1 2 3 4 5 6 Next 10 ] New Search

	<b>Wilsonian</b> <b>Street Address:</b> 4710 University Way NE - Seattle <b>Total Building SqFt:</b> 89,942 <b>Brokerage:</b> GVA Kidder Mathews	<b>Price:</b> \$18,000,000 <b>Cap Rate:</b> 5.44
	<b>Campus View</b> <b>Street Address:</b> 4322 7th Ave NE - Seattle <b>Total Building SqFt:</b> 42,189 <b>Brokerage:</b> WPI Real Estate Services, Inc.	<b>Price:</b> \$8,500,000 <b>Cap Rate:</b> 5.72
	<b>Rivendell</b> <b>Street Address:</b> 4719 15th Ave NE - Seattle <b>Total Building SqFt:</b> 34,962 <b>Brokerage:</b> GVA Kidder Mathews	<b>Price:</b> \$6,500,000 <b>Cap Rate:</b> 5.28
	<b>Gold's Gym of Seattle</b> <b>Street Address:</b> 9701 Aurora Ave N - Seattle <b>Total Building SqFt:</b> 19,110 <b>Brokerage:</b> Northern Coast Real Estate Inc	<b>Price:</b> \$5,250,000 <b>Cap Rate:</b> 6.50
	<b>Street Address:</b> 14415 Greenwood Avenue N - Seattle <b>Total Building SqFt:</b> 17,640 <b>Brokerage:</b> CB Richard Ellis, Inc.	<b>Price:</b> \$5,250,000 <b>Cap Rate:</b> 6.04

CBA ID# 365142



**Wilsonian**

4710 University Way NE  
 Seattle WA, 98105  
 King County  
 Property ID 365142

[Email](#) [Map](#) [Photos](#)

**\$18,000,000**

**For More Information Contact**

**Marty Leith - GVA Kidder Mathews**  
 Phone: (425) 450-1114 Email: mleith@gvakm.com

**Property Summary - Wilsonian**

<b>Property Type:</b>	Multi-Family	<b>Year Built:</b>	1923
<b>Total Building SqFt:</b>	89,942	<b>Total SqFt of Lot:</b>	14,834
<b>Total Rent Area:</b>	66004	<b>Total Acres of Lot:</b>	0.34
<b>Total Units:</b>	104	<b>Cap Rate:</b>	5.44
<b>Status:</b>	Pending	<b>Number of Floors:</b>	
<b>NOI:</b>	979,980	<b>Construction Type:</b>	
<b>General Zoning:</b>	NC3-85		

# CBA: Commercial on Roosevelt with Flyer

CBA ID# 363858



5048 Roosevelt Way NE  
Seattle, WA, 98105  
King County  
Property ID 363858

[Email](#)
[Map](#)
[Photos](#)
  
[VIEW FLYER](#)

\$969,500

For More Information Contact:

**Michael Morrell - Westlake Associates, Inc.**  
 Phone: (206) 505-9409 Email: [mikemorrell@westlakeassociates.com](mailto:mikemorrell@westlakeassociates.com)

### Property Summary - University Associates

Property Type:	Office	Year Built:	1937
Total Building SqFt:	4,231	Total SqFt of Lot:	6,450
Total Rent Area:	4231	Total Acres of Lot:	0.15
Total Units:	3	Cap. Rate:	
Status:		Number of Floors:	1
NOI:		Construction Type:	
General Zoning:	NC2 40		

## WESTLAKE ASSOCIATES, INC.

COMMERCIAL REAL ESTATE SOLUTIONS

# FOR SALE

University District  
Retail/Office

5048 Roosevelt Way NE  
Seattle, WA

\$965,000

Three Buildings:  
CPA Office  
Bindery  
Wing Zone Restaurant

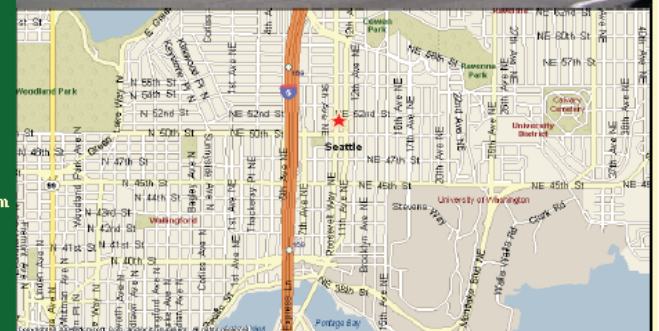
6,540 Square Feet Land

NC2-40 Zone

Eight Onsite Parking

Richard Agee, CCIM  
Westlake Associates, Inc.  
206-505-9411  
[ragee@westlakeassociates.com](mailto:ragee@westlakeassociates.com)

Mike Morrell  
Westlake Associates, Inc.  
206-505-9409  
[mikemorrell@westlakeassociates.com](mailto:mikemorrell@westlakeassociates.com)



Westlake Associates, Inc. - 2810 Eastlake Ave E, Seattle, WA 98102 - 206-505-9400 - [www.westlakeassociates.com](http://www.westlakeassociates.com)

# CBA: Search for Lease

Home  
CBA Services

**Search Properties**

For Lease

**Search Properties for Lease**

Choose Property Type or Enter CBA ID #:

Office  Retail  Industrial  Land

CBA ID #

[Click Here to Search](#)

Choose Area:

Area:

**All Seattle**

- Belltown/Denny Regrade
- Capitol Hill/First Hill
- Commercial Core
- Fremont/Ballard
- Greenlake
- Lake Union
- N. Seattle
- Pioneer Square
- Queen Anne/Magnolia
- S. Seattle
- West Seattle

**All Eastside**

- 520 Corridor
- Bellevue CBD
- I-90 Corridor
- Issaquah
- Kirkland
- Redmond
- Snoqualmie/N.Bend
- Suburban Bellevue




















Search Criteria:

	Min	-	Max
Price Range:	<input type="text"/>	-	<input type="text"/>
Building SqFt:	<input type="text"/>	-	<input type="text"/>
Land SqFt:	<input type="text"/>	-	<input type="text"/>
Acres:	<input type="text"/>	-	<input type="text"/>
Land Price/Sqft:	<input type="text"/>	-	<input type="text"/>
TB Map Page:	<input type="text"/>		
Street Name:	<input type="text"/>		

[Click Here to Search](#)

# CBA: Properties for Lease

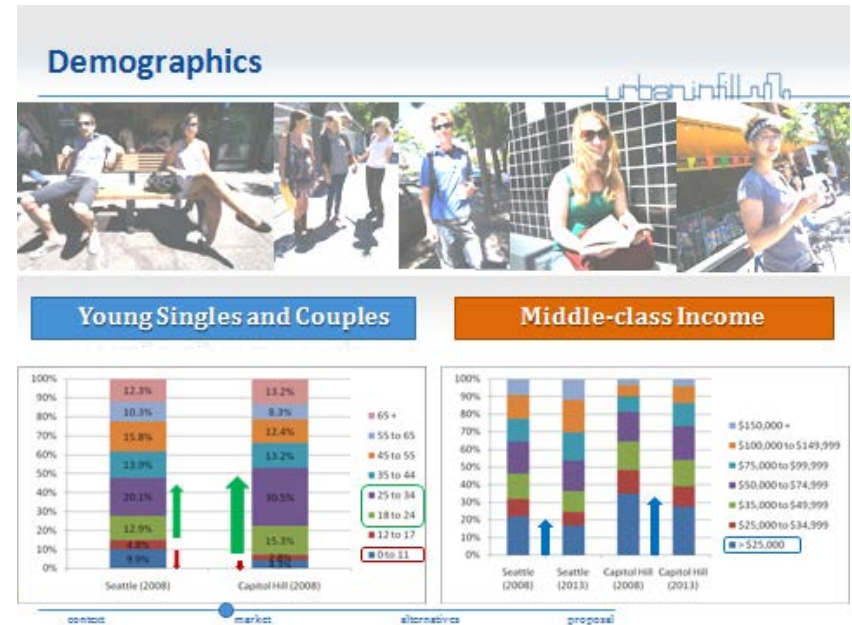
Results: 131 | Previous 1 2 3 4 5 6 7 8 9 Next 15 | New Search

	<b>1115 N 140th Street</b> Street Address: 1115 N 140th St - Seattle Suite Broker SQFT Rent -NA- RE/MAX Metro Realty, Inc. 4,866 \$1.00		<b>4141 University Way NE</b> Street Address: 4141 University Way NE - Seattle Suite Broker SQFT Rent 3 Yates, Wood & MacDonald 3,433 \$21.00
	<b>1115 N 140th Street 1E</b> Street Address: 1115 N 140th Street - Seattle Suite Broker SQFT Rent -NA- RE/MAX Metro Realty, Inc. 4,866 \$1.00		
	<b>12500 Block Stone Way N</b> Street Address: 12500 Block of Stone Way N - Seattle Suite Broker SQFT Rent -NA- GVA Kidder Matheson 68,389 \$0.15		
	<b>12742 Lake City Way</b> Street Address: 12742 Lake City Way NE - Seattle Suite Broker SQFT Rent 2 Real Property Associates 4,988 \$11.00		<b>4321 University Way NE</b> Street Address: 4321 University Way NE - Seattle Suite Broker SQFT Rent 4321 Commercial Property Advisors 8,000 \$18.00
	<b>1311 Republican Street</b> Street Address: 1311 Republican Street - Seattle Suite Broker SQFT Rent -NA- GVA Kidder Matheson 1,200 \$13.50		
	<b>4141 University Way NE</b> Street Address: 4141 University Way NE - Seattle Suite Broker SQFT Rent Yates, Wood & MacDonald 3,433 \$21.00		<b>4512 University Way NE</b> Street Address: 4512 University Way NE - Seattle Suite Broker SQFT Rent Floor-2 Yates, Wood & MacDonald 2,434 \$12.00
	<b>425 Eastlake Avenue</b> Street Address: 425 Eastlake Ave E - Seattle Suite Broker SQFT Rent -NA- Windermere Property Mgmt-Sea 1,050 \$10.50		
	<b>4321 University Way NE</b> Street Address: 4321 University Way NE - Seattle Suite Broker SQFT Rent 4321 Commercial Property Advisors 8,000 \$18.00		<b>4554 9th Ave</b> Street Address: 4554 9th Avenue NE - Seattle Suite Broker SQFT Rent 100 Yates, Wood & MacDonald 3,200 \$24.00
	<b>4512 University Way NE</b> Street Address: 4512 University Way NE - Seattle Suite Broker SQFT Rent Floor-2 Yates, Wood & MacDonald 2,434 \$12.00		
	<b>4554 9th Ave</b> Street Address: 4554 9th Avenue NE - Seattle Suite Broker SQFT Rent 100 Yates, Wood & MacDonald 3,200 \$24.00		<b>5505 University Way</b> Street Address: 5505 University Way NE - Seattle Suite Broker SQFT Rent Floor-1 John L. Scott - Bellevue 1,270 \$18.00
	<b>4909 Building</b> Street Address: 4909 25th Ave NE - Seattle Suite Broker SQFT Rent -NA- GVA Kidder Matheson 18,921 \$0.00		
	<b>507 Northgate</b> Street Address: 507 Northgate - Seattle Suite Broker SQFT Rent -NA- Wallace Properties, Inc. 8,410 \$42.00		
	<b>5505 University Way</b> Street Address: 5505 University Way NE - Seattle Suite Broker SQFT Rent Floor-1 John L. Scott - Bellevue 1,270 \$18.00		
	<b>777 Thomas Street</b> Street Address: 777 Thomas St - Seattle Suite Broker SQFT Rent -NA- Pacific Real Estate Partners 7,200 \$1.00		

Results: 131 | Previous 1 2 3 4 5 6 7 8 9 Next 15 | New Search

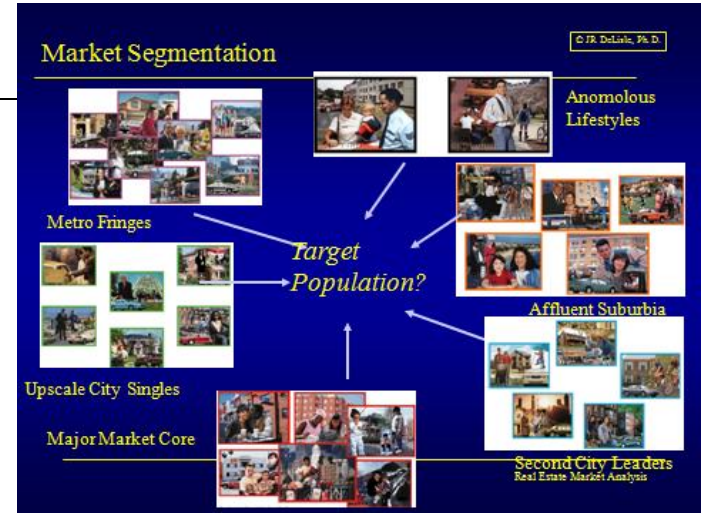
# Step 5: Alternative Uses/Users Analysis

- Identify Preliminary Uses
  - Major property types: retail, office, warehouse
  - Secondary Property sub-types
  - Single-use, mixed-use
- Profile preliminary users
  - Internal Analysis
    - Entities & packets of functions
    - Drivers of Value
    - Trends & Life cycle stage
  - Real Estate Elements
    - Spatial needs & internal vs. external orientation
    - Approach to real estate solutions



# Market Segmentation

- Definition: Homogeneous Groups
  - Similar within clusters
  - Different among clusters
- The Five-W's
  - Who: classes of consumers (markets)
  - What: homogeneous subsets
  - Where: spatially or across markets
  - When: it is feasible and economically viable
  - Why: can be targeted

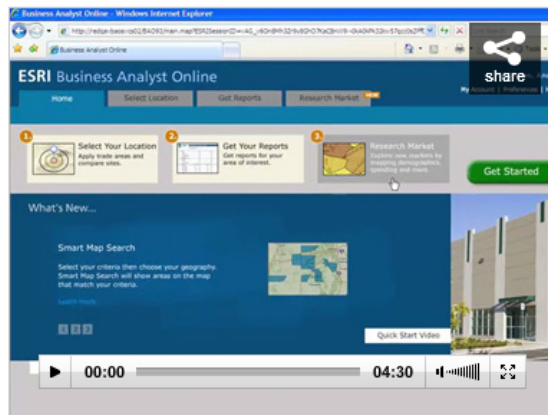


# Business Analyst On-Line



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Organization

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Phone Number

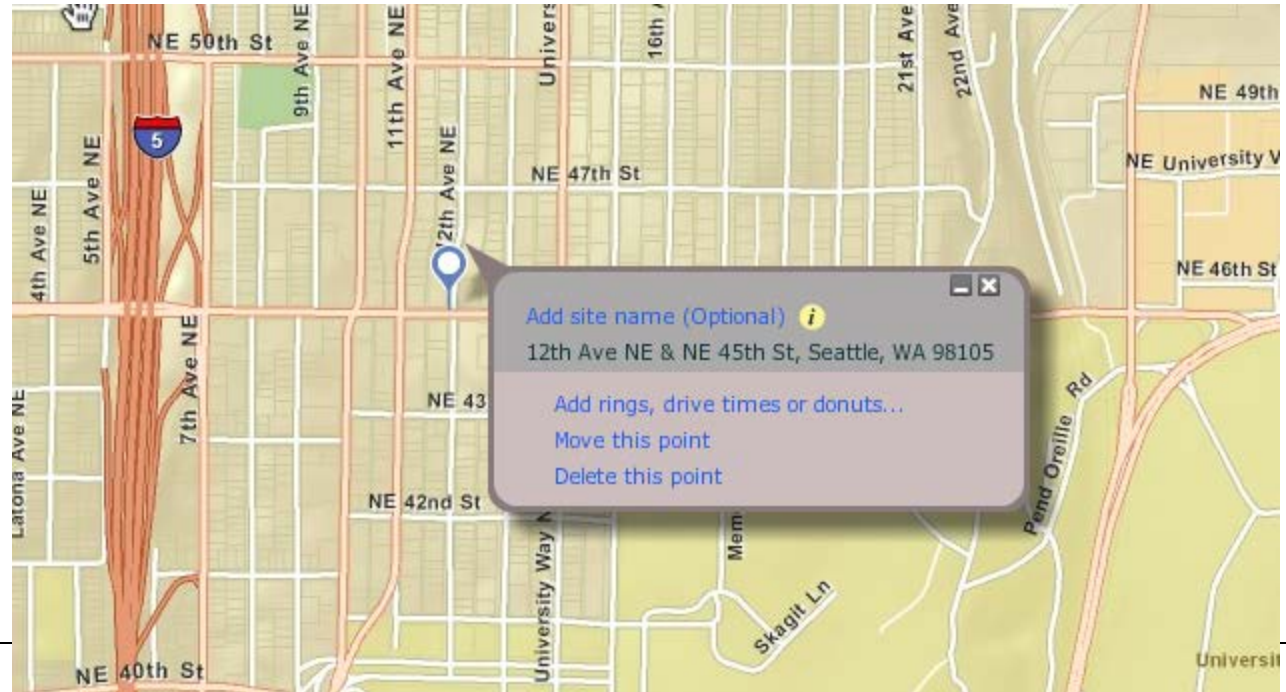
Username

Password

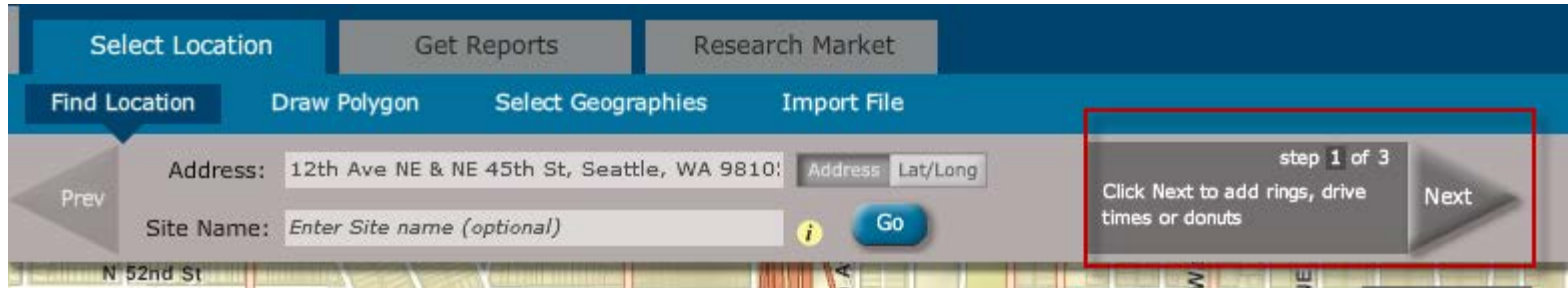
Confirm Password

# Select Site

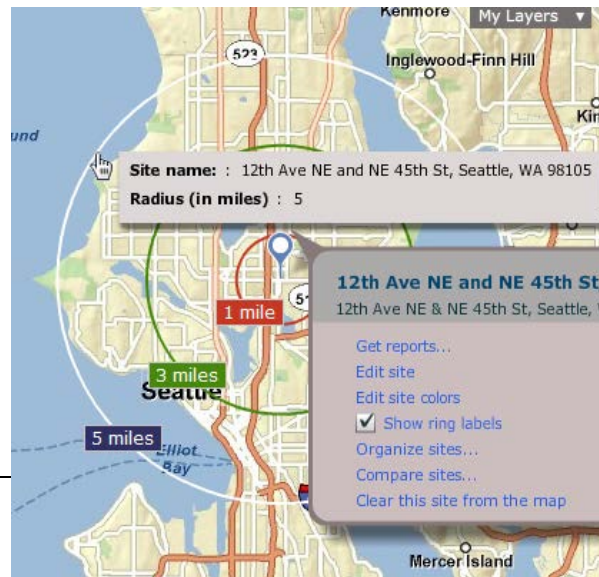
The screenshot shows the 'Select Location' tab in the Esri Business Analyst Online interface. The navigation bar includes 'Home', 'Select Location', 'Get Reports', and 'Research Market'. Below this, a secondary bar has 'Choose One >>', 'Find Location', 'Draw Polygon', 'Select Geographies', and 'Import File'. The 'Find Location' sub-tab is active, showing a map on the left and a form on the right. The form contains an 'Address' field with the text '12th Ave and 45th Street Seattle WA', a 'Site Name' field with the placeholder 'Enter Site name (optional)', and a 'Go' button. There are also 'Prev' and 'Next' navigation arrows and an information icon.



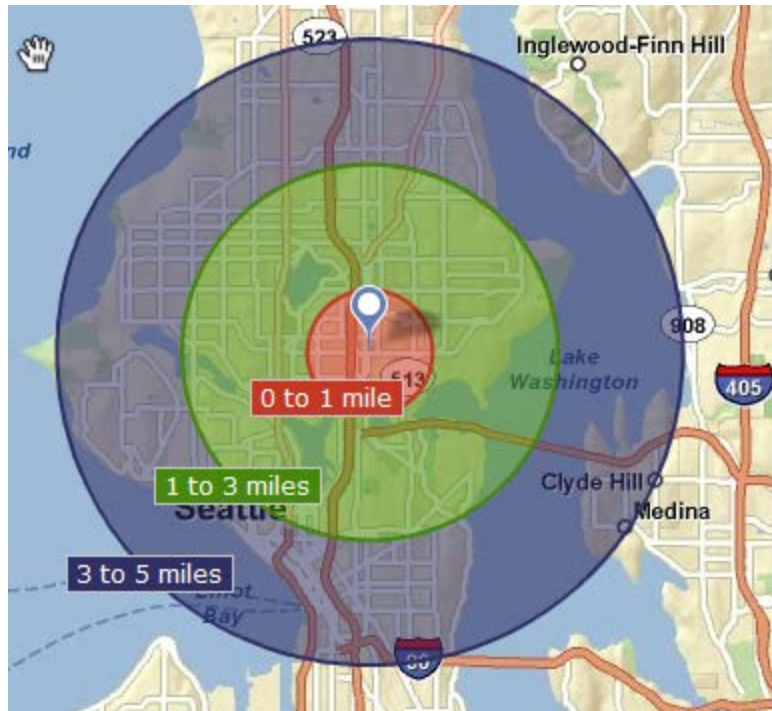
# Rings and Drive Times



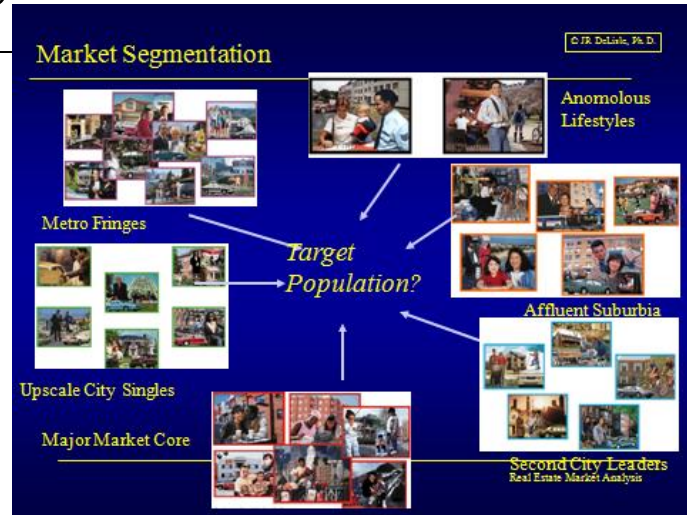
*Rings*



# Donuts and Drive Times



# Target Market



## Market Analysis: Potential Commercial Tenants

- ▶ Larger Spaces:
  - Neighborhood Bistro or Coffee Shop
  - Doctor's Office
  - Beauty Salon
  - Natural Dry Cleaner

Average rent: \$22/sf/yr

- ▶ Smaller Spaces:
  - Massage Therapist
  - Flower Shop
  - Art Gallery
  - Artist Studio

Average rent: \$18/sf/yr

Ballard Average Office Rent: \$24.85/sf/yr

Ballard Office Vacancy Rate: 4.8%  
Seattle Office Vacancy Rate: 8.1%

# Target Market

SEATTLE: HOUSEHOLDS BY AGE AND INCOME

	-25	25-34	35-44	45-54	55-64	65 +
Income Less Than \$15K	5,727	6,672	5,372	5,012	4,155	10,169
Income \$15K-25K	3,633	6,760	4,477	3,983	2,162	7,615
Income \$25K-35K	3,159	9,070	5,852	4,678	2,501	6,322
Income \$35K-50K	2,797	11,658	9,315	7,077	3,426	6,814
Income \$50K-75K	2,151	14,212	11,750	10,387	4,835	6,213
Income \$75K-100K	749	7,721	7,511	6,743	3,359	3,414
Income \$100K-125K	395	3,641	3,907	4,469	1,932	1,690
Income \$125K-150K	213	1,618	2,184	2,341	1,284	725
Income \$150K-200K	90	1,227	2,139	2,125	1,136	870
Income \$200K+	67	1,293	2,231	2,742	1,549	1,190
						0
Total	18,981	63,872	54,738	49,557	26,339	45,022

Source: Easidemographics



Market Analysis

## Market Analysis: Potential Residential Tenants

- ▶ Residential Studio
  - Low to moderate income with little need for extra space. Single Tenant.
  - \$750/Month – Required Annual Income of \$36,000
- ▶ 2 Bedroom Apt
  - Versatile. Couples, family, roommates, single with additional space, home office.
  - \$1,470/Month – Required Annual Income of \$70,000 combined

### Median Income

Regional  
\$72,250

Seattle  
\$45,736

Ballard Area  
\$47,146



# Step 7: Identify Alternative Uses

## Alternative Use Analysis

	Mixed Use - Community Retail	Mixed Use - Lifestyle Center	Mixed Use - Residential/Retail	Mixed Use - Retail/Commercial Office	Single Use - Mixed Commercial
TRCj	\$27,623,125	\$29,757,096	\$29,400,940	\$15,247,330	\$8,590,000
TRCm	\$39,288,887	\$39,200,900	\$40,418,543	\$20,501,389	\$12,974,000
Gap: TRCj vs. TRCm	-\$11,665,763	-\$9,443,803	-\$11,017,603	-\$5,254,059	-\$3,783,900



# Step 8: Select Optimal Use

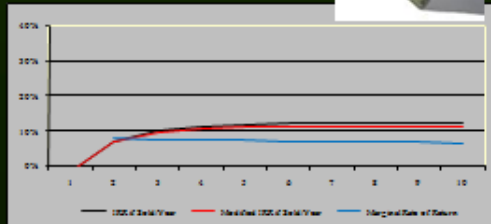
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- Specify Alternative Use Process/Level of Analysis
  - Determine goals and objectives
  - Select criteria for evaluation
  - Assign weight to each criterion (e.g. 1 to 10)
  - Rate strength of each alternative (1 to 10 scale)
  - Weight (multiply) strength score by importance score
- Compare
  - Relative rank order of alternatives based on total scores
  - Total score vs. cost/return to make economic trade-off
- Understand
  - Attribution Analysis
  - Sensitivity Analysis

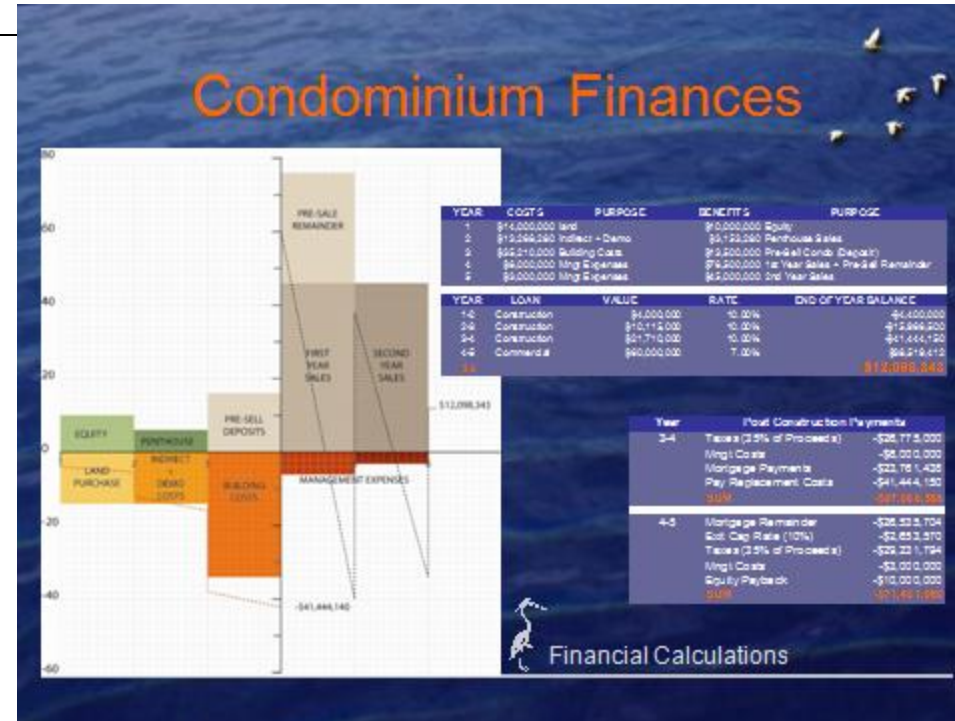
# In the End, It's All About the Numbers

## Financial Returns

- ▲ Key Ratios
  - 1.3 Debt Coverage Ratio
- ▲ Financial Returns
  - 7.7% cash-on-cash return
  - 10% IRR achieved in year 4



GWP Solutions Associates



2006 Team E2

# Most Fitting Use: Standardizing Scores

Unweighted Most Fitting Use							
Criteria		Office	Retail	Industrial	Apartment	Hotel	AVG
Most Suitable Use		8.4	6.8	5.8	9.8	8.4	7.9
Politically Palatable		6.1	8.2	2.6	6.8	6.3	6.0
Highest & Best Use		5.9	4.0	3.7	7.5	6.3	5.5
Unweighted Ratings		6.8	6.3	4.0	8.0	7.0	6.4

Weighted Most Fitting Use							
Criteria	Wgts	Office	Retail	Industrial	Apartment	Hotel	AVG
Most Suitable Use	40%	3.4	2.7	2.3	3.9	3.4	3.1
Politically Palatable	30%	1.8	2.5	0.8	2.0	1.9	1.8
Highest & Best Use	30%	1.8	1.2	1.1	2.3	1.9	1.6
Weighted Ratings	100%	7.0	6.4	4.2	8.2	7.2	6.6

Attribution of MFU/Weighted							
Criteria		Office	Retail	Industrial	Apartment	Hotel	AVG
Most Suitable Use		48%	43%	55%	48%	47%	48%
Politically Palatable		26%	38%	18%	25%	26%	27%
Highest & Best Use		25%	19%	26%	27%	26%	25%
Weighted Ratings		100%	100%	100%	100%	100%	100%

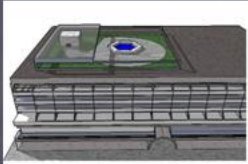
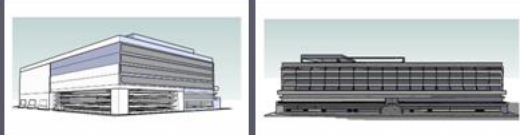
Deviation from Average							
Criteria		Office	Retail	Industrial	Apartment	Hotel	AVG
Most Suitable Use		7%	-13%	-26%	25%	7%	0%
Politically Palatable		2%	37%	-57%	13%	5%	0%
Highest & Best Use		8%	-27%	-32%	37%	15%	0%
Weighted Ratings		6%	-3%	-36%	25%	9%	0%

# Step 9: Profile Use to Create Value



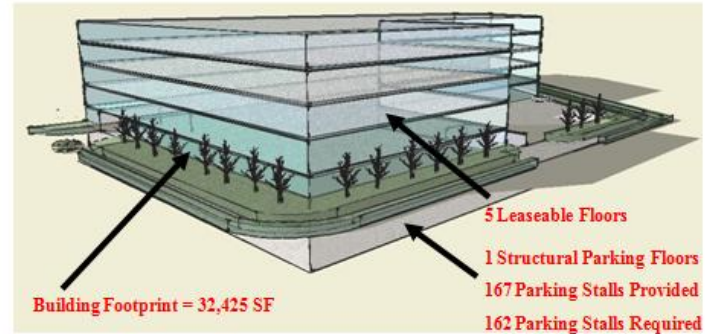
2006 Team C1

## Recommendation Visualized

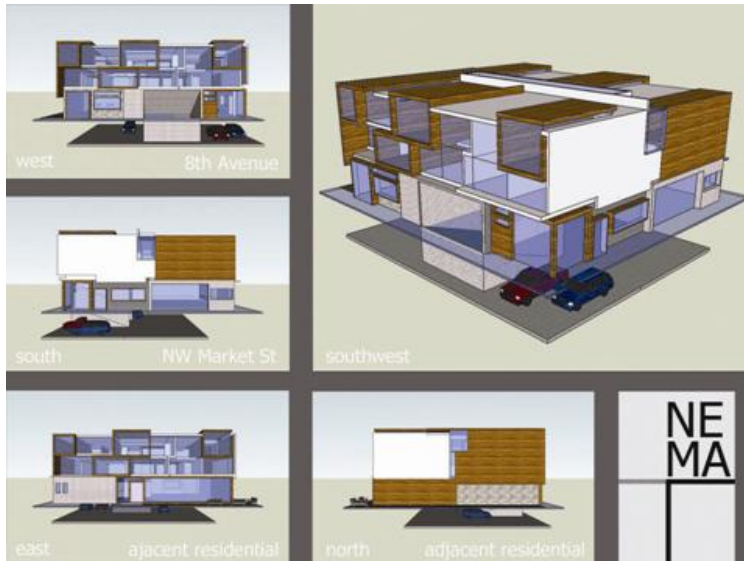


- Mixed Use Building Features:
- 184,432 SF building
  - 6 Stories, first floor upscale grocery store and 250 affordable condos above
  - Rooftop garden
  - Stacked parking
  - Off-street delivery

## Montlake



2006 Team A2



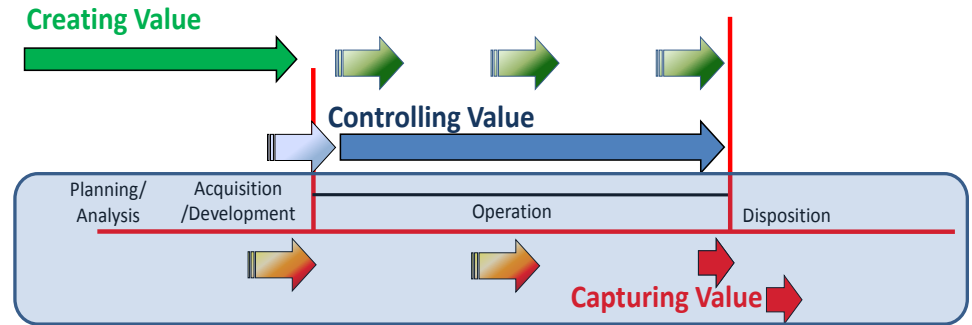
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2006 Team B1

# Step 10: Specify Strategy to Control & Capture Value

## Solution-Investment Attributes

- Arbitrage through strategic up-zone
- Early-to-market opportunity
- Superior risk-return profile
- Enviably community appeal
- Excellent marketability
- Flexible exit strategy



## Exit Strategy: 5-8 Year Hold

- **OPTION 1: Institutional buyer or REIT**
  - Bundle with other properties for mass
  - “We’re seeing exit cap rates being adjusted upward maybe 50 basis points”
    - Mike Makar (Senior Managing Director, CBRE Melody), NAIOP Breakfast, November 28, 2007
- **OPTION 2: Condo-convert**
  - Sell off office and retail space to smaller investor or to business owners



# Summary

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- The 3Cs: Creating, Controlling and Capturing Value
- Critical Thinking
- Applied Market Analysis