Pac Hwy Redevelopment
June 18, 2010

City of Lakewood
Lakewood Welcomes Development

Andrew Neiditz, City Manager
City Initiatives ~ Pac Hwy

David Bugher
Assistant City Manager

Ellie Chambers-Grady
Economic Development Manager
Pac Hwy – A Diamond in the Making

Step 1: Proactive Code Enforcement

- Demolition of Blighted Buildings
  - 3 motels
  - 1 mobile home park
  - 1 apartment complex

- Pending Action
  - 1 motel closed & City encouraging demolition
  - 3 motels being monitored with pending action
Pac Hwy – A Diamond in the Making

Step 1: Positive Code Enforcement cont.

- Closed illegal chop shops & wrecking yards
- Closed one of region’s most notorious strip clubs
- Closed 6 businesses engaged in illegal activities
- Criminal investigation of fraudulent real estate investment schemes and revocation of business licenses
- Public nuisance abatement process underway to demolish an existing commercial business
Pac Hwy – A Diamond in the Making

Step 2: Funded/Rebuilt Major Infrastructure:
  Road realignment, paving, curb, gutter storm water, sidewalks, landscaping & lighting

Phase I  108th Street to RR Overpass   $1.6  2006
Phase II RR Overpass-47th -Bridgeport    $2.4  2008
Phase III SR512 to 108th                $2.4  2008
Phase IV Bridgeport to Gravelly Lake    $4.3  2010
                                          $10.7 million
Before & After

Pac Hwy Improvements

City of Lakewood
Pac Hwy – A Diamond in the Making

- Step 3: Addressing Additional Issues
  - Amending sign code for freeway advertising
  - OEA Planning Assistance Grant
  - Point Defiance Rail Bypass
Pac Hwy – A Diamond in the Making

Sound Transit Lakewood Station on Pac Hwy

• $32.9 million
• Sound Transit, City of Lakewood, Federal Transit Administration, & WSDOT
• Parking Garage – 627 stalls
• Bus service began Sept. 21, 2008
• Sound Transit coordinated station project with City of Lakewood’s Phase I Pac Hwy street improvements
• $135 million estimated to rebuild tracks between Tacoma & Lakewood
Assessing Pac Hwy Redevelopment

J.J. McCament & Raelene Rogers
McCament & Rogers LLC

- Belay Architecture
- HVS, San Francisco
Pac Hwy
Neighborhood Planning

Lyn Messenger, AIA
Belay Architecture
Pac Hwy
Neighborhood Planning Exercise

- Infrastructure & Zoning Code ‘Reality Check’

- Creative look at Compatible Neighborhood Uses
  - Office
  - Hotel
  - Mixed use: office, retail, specialty grocery, housing, day care, etc.

- Selected For-Sale Properties on Pac Hwy for Analysis (October 2009)
Pac Hwy
Neighborhood Planning Exercise
Site A - Merit Construction - 10520 Pac Hwy
Site B – Candlewood Suites – 10620 Pac Hwy
Site C  11435 Pac Hwy
Contact: Keith Swartz, Better Properties

Zoned TOC

Primary Permitted Uses:
Food Stores (Levels 1/2 - up to 80,000 gal) and
Multifamily Dwelling (Levels 2/3 - 7 or more attached units)
Site F  12507 Pac Hwy
Contact:  Mike Hickey

Zoned C-1
Primary Permitted Use:
Professional Offices (Level 1 - 10,000 gsf max.)

Administrative Use:
Professional Offices (Level 3 - over 30,000 gsf)
Site E     123rd Street SW
Contact: Lyn Messenger, Belay
Bottom Line – Site Planning Analysis

- City’s Zoning Code accommodates mid- & high-density commercial/office/retail/hospitality/mixed use redevelopment on Pac Hwy

- There are sufficiently large sites available to accommodate desired redevelopment; however, assemblage may be required.

- City incentives include TOC zoning and EB5 designation for Pac Hwy

- Public dollars have been invested in meaningful infrastructure improvements that can be expected to attract private dollars
Pac Hwy
Hotel Feasibility Analysis

HVS Consulting & Valuation Services
San Francisco
Pac Hwy. Hotel Feasibility Analysis

- HVS, San Francisco
  - Fieldwork – October 1 & 2, 2009

- Phased Analysis
  - Phase I  Market Research
  - Phase II  Ten-Year Forecast of Income / Expense & Feasibility Analysis

- Final Report dated December 2009
**HVS Study Objectives**

- **Phase I**
  - Determine market feasibility for a new hotel property on Pac Hwy between SR512 and Gravelly Lake Drive. If feasible ...

- **Phase II**
  - Identify regional competitors
  - Recommend hotel product
  - Calculate proforma for recommended product
HVS Recommendation

- Mid-rate extended-stay or limited service hotel on Pac Hwy between SR512 and Bridgeport Way is financially feasible
  - strong national affiliation
  - professionally managed
  - sufficiently capitalized
Market Area Analysis

- Population
- Per Capita Personal Income
- W&P Wealth Index
- Total Retail Sales
- Pierce County Major Employers
- Office Space Stats
- Greater Tacoma Convention & Trade Center, Tacoma Dome, Museums
- Airport Stats & Traffic Counts
Demand Generators

- Military Demand (primary source)
  - Military Personnel on orders
  - Government subcontractors

- I-5 Demand
  - Tourists
  - Business Travel
Defining the Competitive Market

Competitive Property Criteria ...

1. Within 5-mile driving distance of Pac Hwy
2. Quality accommodations due to recent construction or renovation
3. Affiliated with strong national brand
4. Located adjacent to Interstate 5
Lakewood Competitors

Within 5-miles, affiliated with strong national brands, I-5 visibility

- **Lakewood**
  - La Quinta Inn & Suites – Pac Hwy/Bridgeport

- **Hosmer & I-5**
  - Hampton Inn Suites
  - Holiday Inn Express
  - Red Lion Hotel

- **Extended Stay**
  - Extended Stay America – Tacoma Mall
  - Crossland Suites – Hosmer
  - Candlewood Suites - Lacey
## Proposed New Supply in Market
### Announcements as of December 2009

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<thead>
<tr>
<th>Property</th>
<th>Rooms</th>
<th>Opening</th>
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<tbody>
<tr>
<td>Candlewood Suites, Pac Hwy</td>
<td>80</td>
<td>Smr 2010</td>
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<tr>
<td>Holiday Inn Express, UWT</td>
<td>160</td>
<td>Smr 2011</td>
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<tr>
<td>Residence Inn, Foss Waterway</td>
<td>96</td>
<td>Wtr 2012</td>
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<tr>
<td>Fairfield Inn &amp; Suites, Puyallup</td>
<td>110</td>
<td>Fall 2011</td>
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<td>Proposed Hotel, Pac Hwy</td>
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HVS Site Criteria for Proposed Hotel

✓ Critical mass of retail support in proximity to site other quality lodging, restaurants, convenience stores, gas stations, etc.

✓ Sufficient size for hotel, surface parking, etc. 120 room suburban hotel = 1.5 – 2 acres

✓ Ease of access & proximity to I-5

✓ High degree of visibility from I-5
HVS Assessment of Neighborhood

Pac Hwy – Southern Portion
Gravelly Lake Dr. to Bridgeport

- Older structures nearing end of economic life
- Primarily military surplus retail, gun shops, adult bookstores, payday advance/consignment stores, self-storage rentals
- Premature for hotel development
- City of Lakewood infrastructure, selected private investment, & continued military growth will lead redevelopment for this stretch of Pac Hwy
HVS Assessment of Neighborhood

Pac Hwy Northern Section
Bridgeport to SR-512 Interchange Area

- Sizzlers, Subway, Wendy’s, Ivar’s Seafood, Denny’s, 7-Eleven, 76 Service Station
- Strip centers with ethnic restaurants
- Additional visitor services can reasonably be expected to be developed in near future
  - Candlewood Suites construction underway!
HVS Recommendation

- Mid-rate extended-stay or limited service hotel on Pac Hwy between SR512 and Bridgeport Way is financially feasible
  - strong national affiliation
  - professionally managed
  - sufficiently capitalized
Recommended Hotel Profile

- Wood frame with stucco or brick exterior
- 120 Rooms
  - 300 sq. ft. studios up to 700+ sq. ft. 2-bedroom ADA compliant suites
  - Kitchenette or full kitchen
  - Pullout sofa bed
  - Separate sleeping area
  - Spacious work area
Hotel Profile, cont.

- Small meeting room
- Complimentary Breakfast Area
- Exercise amenities: indoor pool, whirlpool, exercise room
- Guest laundry room
# Development Budget

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<tr>
<th>Component</th>
<th>Total/Mil</th>
<th>Per Room</th>
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<tr>
<td>Soft Costs</td>
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<td>Pre-Opening/Wkg Cap</td>
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<td>Land Acquisition*</td>
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<td>$12.30</td>
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*2 acres @13.50/sq. ft.
Operational Assumptions

- Subject property ...
  - Professionally managed by hotel management company
  - Management fees of 3% of total revenues
  - Franchise agreement with a major brand and typical fee of 6.5% of rooms revenue including royalty, marketing assessment fee, & reservation fee
  - Stabilized Occupancy Rate: 76% in year 3 vs. Estimated Market-Wide Occupancy of 68%
In a Nutshell . . .

- 120-room extended stay or ltd svc hotel
- Affiliated with national hotel brand
- Professionally managed

- $12.3 million development budget
- Mortgage: 25 yrs, 7.3%-9.3% interest rate
- LTV Ratio: 50%
- 22.5% IRR over 10-year operation
HVS Feasibility Analysis
Take it to the Bank …

- Lakewood Competitors - Operating Performance
  Detailed Forecast of Income & Expense
- Ten-Year Forecast of Income and Expense
- Cash Flows
- Net Present Value
  Equity Contribution & Internal Rate of Return
  - 50% equity ($6.1 million) = 22.5 IRR over 10-years
In Closing ...
Join us again~
Lakewood – A Good Place to Do Business!

- **July 13, 2010** “Generating Demand”
  - Joint Base Lewis McChord Impacts
  - I-5 Traffic Analysis

- **August 13, 2010** “Lakewood’s Advantage”
  - EB5 Designation and Financing
Open Forum~

What are your perceptions, expectations and suggestions for Pac Hwy?

Ellie Chambers-Grady, Manager
Economic Development Department