Date: February 6, 2013

To: Government Performance & Finance Committee
Tim Burgess, Chair
Nick Licata, Vice Chair
Sally Clark, Member
Mike O'Brien, Alternate

From: John McCoy
Council Central Staff

Re: Independent Review of Appraisal and Sale Agreement for the Pacific Place Garage

Central Staff have begun preliminary review of the proposed ordinance and purchase and sale agreement (PSA) and may have comments, policy issues, or corrections at a future committee hearing.

At the request of the Committee Chair, the Legislative department commissioned an independent review of the proposed Pacific Place Garage sale terms. Colliers International, a major commercial real estate firm with offices in Bellevue, was selected, and the review was overseen by Managing Director Bret M. Jordan. It was completed in October 2012. (complete transmittal attached)

The Colliers review found that the appraisal commissioned by Finance & Administrative Services (FAS) and the terms of sale were, in general, reasonable and expected for an asset of this type: "Overall, the business terms of this transaction appear to be congruent with similar types of real property transfers found in the market."

The Colliers analysis also concluded that the proposed sale price is higher than Colliers would estimate for the property, and that, in particular, the City will realize more value by selling the garage to the owner of the adjacent shopping mall than by selling to an unrelated third party. The FAS appraisal used two different methods to arrive at a valuation for the garage of $50 million to $51 million, which is lower than the proposed sale price of $55 million. One of the methods was to project the value of future cash flows from operating the garage, and the FAS appraisal discounted those cash flows at a rate of 10%. Colliers found this method reasonable but, noting the significant restrictions on garage operations present in the umbrella agreements, said it would have applied a larger discount rate, which would lower the valuation:

> "Arguably, the 10% discount to value used by the appraiser is less conservative than a real estate investment sales specialist would expect from the investor community. In those cases, the expected discount to value for these restrictions would reach more in to the 20%-25% range, as the ownership of investment real estate is in itself entrepreneurial in nature . . .
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> In the consultant's opinion, these [operating] restrictions would dampen the perception of value for an unrelated third party investor. The contemplated purchaser [Pine Street] in this PSA stands out as the most logical candidate to recognize the most value in the asset as it can become an integrated feature of their business operation. In my opinion the contemplated price in this PSA is 10-15% more than would be expected for an unrelated third party investor to pay for the property in light of the conditions described previously in this report."