The project’s feasibility will lever on the support of public agencies, local government and state support. These contributions have been worked into our analysis, bringing down the cost of debt and tampering risk a developer might face on their own. The inclusion of public funding was used in order to make each density scenario financially feasible, causing the master developer to be indifferent to the scenarios when only considering financial returns. The following is a review of possible contribution sources that could be fit to match the finalized development scenario.

It should be noted, that for the low density scenario a considerably larger amount of public funding is required. This is a result of the increased open space and public benefits associated with a lower commercial density and a majority of the area dedicated to public uses. Conversely, the high density model requires much less public or governmental contribution as the project’s feasibility would be founded on support from private sources. With this, leverage for public dedication would decrease due to an increased reliability on self generated revenues however the project will remain a public private partnership with public opinion and needs a priority.
PARTNERSHIPS | Potential Funding Sources

FEDERAL

*T.I.F.I.A* - The Transportation Infrastructure Finance Innovation Act is a federal program aimed to provide low rate financing for transportation and infrastructure projects. This is a valuable opportunity to reduce the cost of capital for the project. TIFIA assistance is usually granted to transportation intensive projects like Seattle’s new light rail extension to Northgate or the 520 bridge however it is stated that TIFIA is also available for pedestrian and bicycle paths. Given the prominence of the bike lane and pedestrian path through the project there is an opportunity to provide low cost financing for that portion of the project. This is not insignificant considering the costs associated with the following are eligible to be covered with TIFIA financing: acquisition, feasibility analysis, preconstruction, design, construction, environmental mitigation, reserve funds and carrying costs.

STATE

*WSDOT & SDOT* - It is recognized that the structure of the current cross street connections above I-5 are deteriorating and are in need of repair. This is presumed to be a cost Washington State Department of Transportation (WSDOT) and Seattle Department of Transportation (SDOT) would remain responsible to bear. Given this, it is modeled that WSDOT and SDOT would have a series of capital contributions totaling an estimated replacement cost of $201M. These contributions would be expected in conjunction with the progress of lid reconstruction.
PARTNERSHIPS | Potential Funding Sources

CITY/LOCAL

**SEATTLE PUBLIC UTILITY** - The City of Seattle is facing increasing pressure to address and mitigate issues with the City’s stormwater systems. This project has the unique opportunity to provide constructable real estate that can address this issue with stormwater retention, and onsite treatment that would otherwise fall on I-5. This includes not only the water accumulated on-site but also runoff from Capitol Hill. With this opportunity in mind, the project would hope to engage Seattle Public Utilities (SPU) in order to address this issue. The extent of SPU’s capital contribution is largely dependent on the extent they seek to leverage this project to address stormwater challenges. They are currently contributing $3.29M annually to the Waterfront Reconstruction project. We have assumed the Seattle Public Utility contribution to the Lid I-5 project to be closer to $5M per year with a total contribution of $25M. This is due to the complex nature of water retention on a lid structure and also the increased opportunity in leveraging the sites geographical positioning for stormwater management.

**SEATTLE GENERAL FUND** - The Seattle general fund may be a significant contributor by providing funds to support administration of permitting, design, contractual negotiation, project oversight and project marketing on behalf of the public agencies involved with the project.

**SEATTLE PARKS AND RECREATION** - The lidding of I-5 was conceptualized to provide a green belt for the two halves of the city to come together. This will be an emphasis to gain public support for the project and will likewise necessitate the Seattle Parks and Recreation Department’s full involvement and contribution. A capital contribution from the parks department could be realized through the creation of a dedicated levy or by utilizing one or more more general open space levy’s. Based on contributions to the waterfront project we determined $7M to be reasonable projection for the departments possible future commitment.
TAX REVENUE

SEATTLE OPEN SPACE BONDS - In order for this project to be feasible, public support is critical. To simplify the analysis it was assumed the project will take place in the future with the support of the public. Given this assumption, a municipal bond such as an open space bond would be key in providing a majority share of the publicly sourced equity. These funds would go toward building the new public open space, as well as the lid and utilities necessary to support new open space.

Public support for such a program would be possible to achieve for multiple reasons. First, the project fulfills the massive lack of downtown open space that was referred to previously. Second, increased tax revenue from the new private land being created will lower the effective tax rate across the city. If the repayment of this bond is properly aligned with the delivery of the lidded space, the city could allow an increase in the levy rate without increasing the effective tax paid across sites. Without defining this exact structure, we recognize that there are possibilities to capture new tax revenue for the purpose of funding the lid construction. Lastly, creating park space on the lid will be the least expensive way for the city to address the shortage of open space in the downtown core which is sure to bring public support.

RECAPTURE TAX REVENUE - Our team is suggesting that the City of Seattle creates a mechanism by which they can recapture the additional tax revenue being created by the project. This new tax revenue comes in two different forms. The previous section about municipal bonds elaborates on the first point, which is to capture the new tax revenue being created when adding new private land that previously did not exist. The second form is to account for the increase in value that surrounding properties will receive. The Downtown Seattle Waterfront project has suggested a large-scale Local Improvement District (LID) to pay for their improvements to the pedestrian open spaces being created. However, given the contentious political nature of this negotiation it has been decided to leave this suggestion open ended so that it can remain flexible to adapt to a future political environment. However, we did identify three hierarchical zones of benefits that could be used as a framework for capturing even minimal increases in percentages. As seen in Graphic 5.6, Zone A covers the area immediately surrounding I-5. Zone B surrounds Zone A, and Zone C is the farthest reaching extents of the I-5 improvements. The 2018 assessed value of land and improvements for each zone is listed on page 31 (see Table 5.5).
## Partnerships Funding

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<th>Improvements</th>
<th>Totals</th>
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<td>$24,267,360,592</td>
<td>$32,875,235,772</td>
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</tbody>
</table>

Figure 5.5

Figure 5.6
PARTNERSHIPS | WSDOT

WSDOT will be a key partner in the lid development. As the owner of the air rights, and adjacent land. Their full support and coordination is vital to the execution of the project.

There are other cases in the state where a highway intersecting a municipal center has been required to be lidded. Therefore, we would expect WSDOT to be responsible to provide a lid at some future date given this appears to be the ‘new norm’. The current value of such a lid, in its most basic form, was estimated in today’s dollars to be $662M.

From our analysis it has been determined that the Master Developer will assume construction of the entire lid to expedite schedule and help alleviate cost burdens of a project of this scale. For this report the assumption has been made that the Master Developer can pay a one time lease payment of $100M for the air rights and ground lease of the necessary area.

This figure is the highest burden allowable in our models and was determined through a square footage calculation based on WSDOT’s cost to replace right of way’s and overpasses. Another fundamental assumption accompanying this price is that at some point if WSDOT were to make any modifications to the lid they would be responsible for mitigating the externalities associated with the highway.

Our proposal would allow WSDOT to forgo the significant cost and risk associated with the construction of the lid. With this, the intrinsic value of the deal with the developer would represent $762M from our analysis.
The city would have to bring a high level of clarity to the public benefits expected in the RFP, as it significantly affects the amount of public funding necessary to meet the returns developers would be looking for to take on the inherent risks of tackling such a large site. The density scenarios and relative public and private equity requirements are summarized in the financial analysis section, Figure 6.10, and will help in relating the appropriate amenity level. Throughout the process, the master developer will need to constantly interact with the City in order to keep their goals aligned so that they can succeed while providing the maximum value to the public given their level of funding in the project.
As seen in Figure 4.2, our assumptions predict that the Hyper Low scenario results in the greatest amount of open space with greater than 23 acres and the lowest floor area ratio (FAR) of 0 due to the absence of development. The chart then shows how that compares with the Hyper High scenario, which retains some amount of open space to meet general code requirements and arrives at an FAR over 10.

The three scenarios in the middle - Low, Medium, and High - are all designed logically to maximize value while retaining open space. Next, we will go into more detail about the specifics of these three scenarios to better understand what makes them similar and different.

While there are many numbers in our analysis and assumptions we have chosen to highlight Public Investment in each scenario to create a shared language and understanding of what level of investment is required from the public for the public.

The relationship between the two is dependent.
Our low density scenario was explored as an option to the City of Seattle if they view the lid as a public investment project with limited private development. The main driver of the low density option would be the production of a Central Park-like scheme, giving wide open spaces back to the city to fill the current considerable deficiency. In this scenario, 81% of the lid would become park space, and only in areas where solid ground could be built upon does development occur in the form of high-rise structures in order to capitalize on the developable space. Public investment for this scheme would need to be $1.4B based on our assumptions if the master developer partnership agreement were to remain in place to manage and carry out the project.
The medium density option takes a balanced approach to the site that gives equal weight to the different drivers discussed previously. This scenario was intended to provide a significant amount of much needed housing while still creating an incredible new urban amenity for residents. If the goals of the city are to create a balanced solution that works for all players involved, this scenario is most apt to handle that challenge. Public funding for this scenario would need to be $1B based on our assumptions in order to make the project financially feasible in line with the other scenarios.

Figure 4.4

<table>
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<th>3,689 UNITS</th>
<th>49% OPEN</th>
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<tr>
<td>2,693 MARKET</td>
<td>14 ACRES</td>
</tr>
<tr>
<td>996 AFFORDABLE</td>
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</table>
The high density scenario was explored as an option to the City of Seattle if they sought to limit public funds necessary to make the lid a reality. The driver in this scheme would be not to relinquish, but to streamline urban planning aspirations by capping open space requirements, increasing density and likely allowable building heights as well. In this scenario urban planning criteria would need to be more carefully laid out to meet the goals with the increased private development. In this scenario, public funding needed would be $900M based on our assumptions to make it financially feasible for a master developer to manage.
When comparing the five different scenarios by use, some obvious differences arise. First, open space does not decrease proportionally with housing due to the vertical nature of building housing. We found this tradeoff interesting because it seems natural to find a balance between built and open space throughout the lid. Next, the greater the development, the wider the diversity of uses on the site. Expanding the amount of development on the site allows the master developer to include more diverse uses making it a more attractive project for financing and partnerships.
In order to conduct a thorough financial analysis, the team produced a detailed financial model that used assumptions on costs, timing, and income to arrive at untrended and trended cash flows. Figure 6.1 is a flowchart that outlines the process the model takes to arrive at each of these metrics.

Despite the detailed nature of the model, it still has limitations. First, our team does not include engineers or contractors, so our knowledge of structural systems and construction costs is limited to the research that we were able to gather. Next, the model is not as granular as a master developer would truly go. The model is broken down by block rather than by building, floor, or unit. Finally, we simplified the financing structure of the model to finance entire blocks at a time with a single construction loan. The lack of efficiency in this process drives up financing costs, which could be eliminated in the future.
Financial assumptions were gathered from a variety of sources. Where possible, local professionals were utilized to provide primary source information for construction costs or to confirm market information gathered online. Online resources were gathered and cross-referenced as a secondary source of cost information when primary sources were unavailable. Some assumptions, especially hard infrastructure costs, proved difficult to confirm with reliable data. The team used our best judgement to reconcile these values. A summary table of all rent and cost assumptions are provided in Appendix A.1 at the end of this report. The assumptions with asterisks have special source information or require further explanation of rolled up costs, noted in italics below the table, that are important to note in the context of the larger financial analysis.

**High-Medium-Low Cost & Rent Structure** - High, medium, and low cost options were established for each major construction cost. Certain costs, such as utilities, are expected to require a higher investment in the first phase of the project to establish lines, which will be utilized across the entire lid. Subsequently, the utility costs fall for the second and third phases. Similarly, the lid cost varies as some blocks deal with tougher grade changes and site conditions than others. Landscaping and hardscaping costs will also vary according to the quality and intended use of those areas. Large park spaces intended for recreation, such as those in Blocks A and B, will require more soil than smaller, contained green areas. Figure 6.2 uses brackets to show the high, medium, and low cost options for each type of hard cost along with a bar and value to show the aggregated final value.

Rent assumptions follow a similar high-medium-low structure according to geographic location. The central blocks are expected to demand the highest rents for all product types due to their proximity to major amenities such as the Convention Center and the Pike-Pine corridor. The south blocks are expected to demand the lowest rents, with the north blocks falling somewhere in the middle.
**Hard Costs** - Hard costs per square foot are illustrated in Figure 6.2.

**Soft Costs** - Soft costs were calculated as a percentage of hard costs, including the cost of the lid, which has increased the total amount of soft costs above a typical project build on land. This is reasonable given the additional engineering and planning around the construction of the lid and the materials required for the lid. Soft costs include Washington State Sales Tax (10.10%), Architecture & Engineering (6.5%), FF&E (0.5%), legal (0.25%), permits (1.00%), insurance (1.00%), marketing (1.00%), utility charges (1.50%), inspections (1.00%), developer fee (4.00%), leasing commissions (4.50% of lease value), and a contingency (5.00%). In total soft costs are approximately 24.2% of total costs before financing.

![Figure 6.2](Image)
**Growth Factors** - A summary table of annual growth factors is shown in Appendix A.2. Market rental rates, condominium values, and office rental rates are assumed to grow at 3% annually. All other rental rates, including affordable unit rates, are assumed to grow at 2% annually.

**Air Rights/Ground Lease Value Assumption** - A sensitivity analysis was performed to understand a reasonable price a master developer would pay for the air and ground lease rights as a function of the amount of public funding provided for the project, and the resulting returns achieved. It is understood that WSDOT will begin the process of planning for the reconstruction of I-5 through downtown Seattle and it is an assumption of this report that WSDOT will be required to build a freeway lid over I-5 as part of the reconstruction, as other transportation authorities across the country have been increasingly required to do so. Additionally, there have been several lids built in the Seattle area in recent years over sections of freeways as well further supporting the assumption that a lid over I-5 in downtown Seattle with be absolute.

The inevitability of reconstructing sections of I-5 by WSDOT puts a potential master developer in a position to negotiate the price of the air rights, if the developer subsequently takes on the cost and risk of construction of the lid. Even when assuming a completely simplified, basic lid, the construction of the I-5 lid would be approximately $662 million in today’s dollars, with no growth assumption in cost. Therefore, by transferring development rights, WSDOT would be saving at a minimum $662 million in future costs. Based on the untrended yield analysis and sensitivity model, the air rights/ground lease have been set at $100 million, or $80 PSF. This is a starting point in the negotiation between WSDOT and the master developer and that number can change. However, increasing the cost of the air rights/ground lease means the development requires more public funding to be financially feasible. The analysis represents one of the give-and-take negotiations that will need to be worked out in the public-private partnership agreement to make sure public entities involved, developer, and citizens are all benefitting from the deal. Additionally, the untrended cost of the lid for the developer is $925 PSF, so combined with the cost of the lid and the cost of the air rights/ground lease the developer is paying approximately $1,005 PSF for the land, which is at the high end of the range of downtown land sale comparables and above land sale comparables in Capitol Hill and First Hill.
Untrended Model - The untrended model was used to balance the various density approaches from a return perspective. With the same untrended yield on cost an investor would be relatively indifferent to the various densities. The untrended yield on cost is the key output of the untrended model and Figure 6.3 illustrates the yield on cost with and without public funding for all five density dials. The amount of public funding was adjusted for the low, medium, and high scenarios until the yield on cost was relatively similar. The hyper low scenario has a zero yield on cost because it contains 100% public open space, while the hyper high scenario has the lowest untrended yield on cost because there is no public funding. Without the public funding included, the yield on cost for the low, medium, and high scenario drops below 6%. For a project with this amount of risk to be financially feasible, the untrended yield on cost should be above 7%. Therefore, without public funding the project is not currently financially feasible.

The untrended models are located in Appendix A.3, A.6, A.9, A.12, and A.15.
**Trended Model** - The trended model was built by block and the cash flow of each block was then pulled back into a combined cash flow page for summary. It was assumed that entitlement of the the first phase would take three years, while construction of the lid would occur within 12 months and the construction of the buildings would occur in the subsequent 24 months. In total, the project would be completed in seven years with overlapping phases. The lid would be constructed in segments over a three year period, beginning with the middle section as the first phase, than the north section as the second phase and finally the southern section as the third phase. Income and construction costs were grown annually within the model based on our assumptions. After eight years, a bulk sale of the project was assumed to occur in order to calculate the return statistics. Figure 6.4 illustrates the graph of the trended model cash flow for the medium scenario. Total costs peak in year 6 and the project does not begin to have positive cash flow until year 7.

Trended costs for each scenario are located in Appendix A.4, A.7, A.10, A.13, and A.16. The trended models for each scenario are located in Appendix A.5, A.8, A.11, A.14, and A.17.

**Capitalization Rates** - Based on recent sales in the market area, capitalization rates were determined and a 3% cost of sale was applied within the model to determine the net proceeds for each use. Note, the condominium sales were assumed to occur in the six months following completion of the building. Apartment capitalization rates are set at 4.25%, office capitalization rates are 4.50%, hotel capitalization rates are 7.50%, and retail capitalization rates are 5.25%.
FINANCIAL ANALYSIS | Combined Cash Flow

Figure 6.4
**Residual Land Value** - Figure 6.5 is a diagram of the calculation for residual land value, using the medium scenario results. Public funding was added to the value of all of the improvements in year eight. Next, the profit required for the developer was calculated, which was assumed to be a 2x equity multiple. The net development costs excluded the cost of the air rights/ground lease and the cost of the lid construction, including soft costs associated with the cost of the lid. Both profit and net development costs were subtracted from the total value of the project, which resulted in a residual land value. To be financially feasible, the residual value has to be greater than the cost of the lid.

**Land Value** - The untrended cost of the lid is $925 PSF for the medium scenario. Recent comparable land sales in Capitol Hill area are approaching $600 PSF, while Central Business District (CBD) comparable land sales are approximately $1,000 PSF. There are complications with building on the lid and land sale comparable should be adjusted downward as a result. The untrended cost of the lid is slightly below the CBD land sales, but above the Capitol Hill area land sale.
Residual Value Comparison - Figure 6.6 compares the cost of the lid, including the air rights/ground lease payment of $100m, to the residual value of all five scenarios. When including public funding, the medium and high density scenario are the only two scenarios with a residual value above the total cost of the lid, which is the substitute for land value. The medium scenario has the highest residual land value. Of note, the cost of the lid in the hyper low scenario decreases slightly due to a lower intensity of use, while the cost of the lid increases in the hyper high scenario due to a higher intensity of use.
**Low-Density Financial Analysis** - The trended model for the low-density lid project is projected to generate a leveraged IRR value of 24.1% and an unleveraged IRR of 19.5%. Untrended, the yield on cost is 7.64% with public funding and 3.60% without public funding. Untrended, the project would require $2.7B in total costs to create $2.1B in total value, driven in large part by office and multifamily housing development across the lid. In the low-density development scenario, private equity can expect to contribute $740m with public funding contributing $1.4B throughout the project in order to preserve open space and create new connections for car, bike, and pedestrian traffic across the lid. As with any analysis these numbers are subject to shift with any shift in assumptions.

The low-density scenario results in inferior returns relative to the medium and high scenario. Additionally, the low density scenario requires only $50m less in public funding than a 100% public hyper low scenario with 100% percent open space. Figure 6.7, illustrates the sensitivity analysis for the untrended yield on cost. A sensitivity analysis is not available for the leveraged IRR due to the significant amount of public funding and the project financing in the model.
Medium-Density Financial Analysis - The trended model for the medium-density lid project is projected to generate a leveraged IRR value of 31.4% and an unleveraged IRR of 22.3%. Untrended, the yield on cost is 7.35% with public funding and 5.32% without public funding. Untrended, the project would require $3.9B in total costs to create $4.4B in total value, driven in large part by office and multifamily housing development across the lid. In the medium-density development scenario, private equity can expect to contribute $1.1B with public funding contributing $1B throughout the project in order to preserve open space and create new connections for car, bike, and pedestrian traffic. The medium scenario has the best balance between open space and building form of all of the scenarios. Approximately 50% of the area will be open space, which will have significant benefits for the surrounding communities. As with any analysis these numbers are subject to change with any shift in assumptions.

The medium scenario has a lower untrended yield on cost compared to the low and high scenarios, which means that the scenario is less leveraged with public money. Despite this, the leveraged IRR and residual value are the highest of any of the scenarios. Figure 6.8, illustrates the sensitivity analysis for the leveraged IRR for the trended model.

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<td>4.2%</td>
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Figure 6.8
**High-Density Financial Analysis** - The trended model for the high-density lid project is projected to generate a leveraged IRR value of 30.9% and an unleveraged IRR of 22.2%, with public funding. Untrended, the yield on cost is 7.62% with public funding and 5.78% without public funding. Untrended, the project would require $4.4B in total costs to create $5.3B in total value, driven in large part by office and multifamily housing development across the lid. In the high-density development scenario, private equity can expect to contribute $1.5B with public funding contributing $0.9B throughout the project in order to preserve open space and create new connections for car, bike, and pedestrian traffic across the lid. As with any analysis these numbers are subject to change with any shift in assumptions.

The hyper-high density scenario provides lower returns than the high-density scenario. The hyper-high yield on cost is 6.65%, while leveraged IRR is 19.6%, which is not considered feasible. Additionally, the hyper-high density scenario has limited open space, which also limits the benefits to the surrounding communities. Figure 6.9 illustrates the sensitivity analysis for the leveraged IRR for the high-density scenario.

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## Trended Summary

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### TRENDED UNLEVERAGED IRR
- Low: 30%
- Medium: 20%
- High: 10%
- Hyper High: 0%

### TRENDED LEVERAGED IRR
- Low: 30%
- Medium: 20%
- High: 10%
- Hyper High: 0%

### TRENDED EQUITY MULTIPLE
- Low: 3.0
- Medium: 2.0
- High: 1.0
- Hyper High: 0
Financial Analysis Conclusion - The project is financially feasible with public support. There are several public benefits and reasons for the public sector to support the project, such as pollution, stormwater and noise mitigation, affordable housing, future tax revenue, and public open space in an increasingly dense urban environment. On the previous page, figure 6.10 compares the total private and public equity for each density level and the residual land value. Figure 6.11 illustrates the unleveraged IRR and leveraged IRR with and without public funding and the equity multiple. The financial model is based on a master developer P3 project approach. The team analyzed five density scenarios with the intent of understanding the benefits and costs of each scenario. The untrended yield on cost model was step one in our analysis of the financial feasibility of the lid. It allowed for an adjustment of the public funding so that any investor would be indifferent to the returns for either the low, medium, or high scenarios as the yield on cost would be the same. The trended model allowed a deeper analysis of the time-weighted returns of the project over the eight year period that was chosen. Unleveraged IRR, leveraged IRR, and equity multiples were the key metrics of comparison between the different densities. Additionally, the residual value was calculated, which indicated that only the medium and high density approaches had a residual land value greater than the cost of the lid and the estimated cost of the air rights/ground lease. With public support, the medium and high density scenarios would be financially feasible for a private developer to undertake. Based on the trended model, the medium scenario has the highest residual land value, the highest leveraged IRR, and the highest equity multiple. There is a balance of open space, which will benefit not only the proposed development, but the surrounding neighborhoods. The new construction will add apartment units, including affordable housing, and office space to a growing market. Overall, the medium scenario is our preferred approach for the project in the future and we have analyzed the medium-density scenario in greater detail in the following section of this report.
PREFERED APPROACH | MEDIUM DENSITY

Rendering of the medium density scenario

Figure 7.1
As seen in Figure 7.2, open space makes up approximately half of the total project area, while the other half is developed. We believe this provides good balance and plenty of open space for the community. There is a split into publicly and privately owned open space which we have delineated through the dark and light shading.
The uses of the project have been strategically placed based on the different real estate markets as well as to match and complement the existing surrounding uses. Figure 7.3 shows office space concentrated in the Pike/Pine neighborhood of downtown near other similar developments. The civic space is located at the south end of the site in the form of a new elementary school. Retail is located on streets with high pedestrian volume, specifically in the Pike/Pine area. Finally, housing is sprinkled throughout the project to help enforce the concept of an 18 hour neighborhood while increasing the lacking supply of housing in Seattle.
**Phase I** - Phase I will develop the central site area from Olive Way to Pike Street, which includes Blocks C, D, and E. This area was identified as the first to be developed due to both its geographic location and high return values early on in the project. Located on sites adjacent to Freeway Park, the Convention Center, Convention Center expansion, and the Pike-Pine corridor, it is geographically positioned to become a natural expansion to the Freeway Park lid and provide immediate benefits to the neighborhood, already undergoing economic and cultural transition. Phase I becomes the significant driver of the overall value of the lid project. This is driven by a higher density per block as compared to subsequent phases, as well as a higher proportion of office space, which produces a higher value per square foot than other uses. The office space value is supplemented by multifamily residential. Retail makes up a relatively small proportion of value, as is evident across all phases, but it’s presence is expected to drive and retain office and multifamily residential values for both the lid project and surrounding neighborhoods. Buildings produced in Phase I are anticipated to be sold by the developer upon stabilization, creating a spike in cash flow in year eight of the project. In addition to private equity and a construction loan of 60% loan-to-cost, $250M, or 25% of the public financing is allocated to Phase I in order to compel a master developer to get involved in the project.

*Figure 7.4*
**Phase II** – Phase II moves north to blocks A and B, which spans from Thomas Street to Olive Way. This area of the lid was identified as a space to capitalize on housing and continue the urban character and density of Capitol Hill as it meets the bustling South Lake Union (SLU) neighborhood. Resultantly, buildings are lower in height than in Phase I, there is a higher total square footage of open space, and the proportion of office space is much lower. Further, the grade change across the site is much more dramatic and the cost of building the lid on this site is expected to be higher than Phases I and III. There are two sites in Phase II that will host high-rise developments. One will be a mixed-use hotel/condominium and the other will be an office tower.

These two sites were chosen due to the fact that solid ground could be reached to support the increased height of the buildings. Of the $1B in public funding, $450M, or 45%, will be released to assist in financing this phase, without which the development would produce only a marginal return. Large, programmable open spaces and small retail will activate the public realm in this housing-driven portion of the lid.

The open spaces in this neighborhood will not only benefit its new residents but also its adjacent workforce. The ever-densifying SLU will benefit from having more pedestrian focused infrastructure and increasing options for shopping, leisure and living.
**Phase III** – The final phase of the project wraps up south of Freeway Park from Seneca Street to Marion Street and is driven by community and cultural uses. Located on Blocks G, H, and I, this section of the lid will contain a mixed-use development including an elementary school with housing above, a new transit station with mixed retail, and a programmable amphitheater and open space which expands Freeway Park. The final $300M, or 30%, of the public equity will be released to help finance this phase as there are limited uses to drive private return values across this section of the lid. Centered around transit, community, and culture, this portion of the lid will address accessibility issues with Freeway Park. By expanding this landmark and providing an opening to the programmed amphitheater and transit station it creates locations for local businesses to attract the surrounding population to the area and provide a much needed elementary school for downtown Seattle’s family residents.

*Figure 7.6*
The projected timeline for the medium-density financial analysis is shown in Figure 7.7. The pre-construction timeline of Phase I is expected to take longer to establish the process of gaining the necessary entitlements, which would replicate across subsequent phases in a shorter timeframe. Phase I would also likely see higher utility costs which would be reduced in subsequent phases, as major lines are laid out to service the length of the lid. The longer timeframe and heavy utility costs are significantly offset by expected returns in Phase I, which will see the construction of Blocks C, D, and E. This section of the lid creates the greatest value in the project, establishing positive cash flows early in the project for the developer.
There are immense benefits to the master developer taking part in this project, as well as to Seattle’s commercial real estate industry in general:

- The diverse array of uses throughout the entire lid allow for an entire portfolio to be built made up of office, rental housing, for sale housing, hotel, and retail. A master developer will be able to partner with other developers to build out the entire project.
- The financial returns are reasonable for this deal given the significant level of construction risk. Although they are specifically structured to match the master developer’s risk in the project. Seattle’s growth over the past decade has far exceeded the conservative growth assumptions in this report which could make the returns even better than outlined; it would be ideal to take advantage of this opportunity sooner rather than later as growth may plateau and cap rates may climb from their historic lows.
- It is extremely rare for over 20 acres of incredibly well-located downtown land to become available overnight. Based on the current scarcity of downtown land, there is no other opportunity in Seattle like this.
- The cost to build the lid is comparable to the cost per square foot to purchase land in downtown Seattle. As land prices have increased dramatically over the past decade it has become more difficult to find projects that make financial sense. This project creates land that would immediately have an incredible amount of value.
- There is a opportunity to create real change in an intersection of neighborhoods that has been plagued by the scar of I-5 for the past half century. By reconnecting the city, a developer can create positive change while still serving the financial needs of investors.
CONCLUSION | Benefits - Public

- Provide additional market rate and affordable housing to an area with significant demand for new units.
- The city greatly benefits from development contributions. The land is now directly revenue generating for the city through sales tax and property taxes
- Improved economic opportunity for the city and state.
- New public school that the school district desperately needs.
- Provide access to mass transportation such as light rail and rapid ride bus lines.
- Allocation of local retail space.
- Incentivization for local retailers.
- Create inviting open space, including recreation space and a dog park.
- Create and connect pedestrian and bike routes across the city.
- Help to reach the City’s goal of 1 acre of open space for every 1,000 residents.
- Incorporate and maintain the character of Freeway Park while increasing accessibility and safety.
- Connect Capitol Hill, First Hill, Downtown Seattle, and South Lake Union. Carefully blend the two sides of I-5.
- Connect East/West grade changes for greater accessibility.
- Opportunity to rebuild failing infrastructure, such as I-5.
- Improve traffic and bus flow with upgraded infrastructure
- Onsite water treatment through use of swales and other mitigation techniques.
- Mitigate sound and pollution from I-5.
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