# HEARTLAND

**TO:** Justin Clary, *Director of Puget Sound Operations* | Maul Foster & Alongi

**FROM:** Matt Hoffman, *Senior Project Manager* | Heartland LLC
Matt Anderson, *Principal & Senior Project Director* | Heartland LLC

**DATE:** June 17, 2015

**RE:** Marysville Geddes Marina Redevelopment Project

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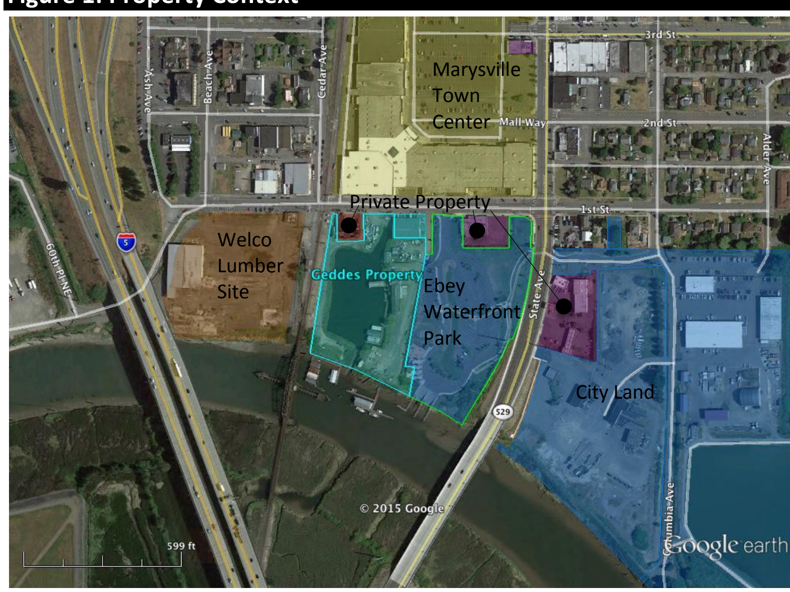
## ENGAGEMENT

Heartland has been engaged by Maul Foster & Alongi (“MFA”) in support of its contract with the City of Marysville (the “City”) on the former Geddes Marina property (“Property”). MFA’s contract is funded through a Department of Ecology Integrated Planning Grant that the City was awarded in July 2014 to study the extent of environmental contamination on and around the Property and to explore approaches for reusing the Property. The objective of Heartland’s scope of work is to evaluate the redevelopment potential of the Property and to recommended actionable next steps.

## PROPERTY OVERVIEW

The Property is comprised of two parcels situated along the Ebey Slough, with the northern portion of the Property fronting 1st Street in downtown Marysville. In its entirety, the site is approximately 4.6 acres. There is currently a man-made body of water in the center of the Property commonly referred to as the Geddes Marina that connects it to the slough. The upland portion of the Property is approximately 2.8 acres. There are two parcels that also front the south side of 1st Street and are adjacent to the Property. These two parcels are currently owned by the Cody family and total 9,584 square feet. The land north of the Property and 1st Street is the Marysville Town Center retail center. West of the Property beyond the railroad tracks is the 4.6 acre, former Welco Lumber site, and east of the Property is the City’s Ebey Waterfront Park that has 32 parking stalls and 46 car/trailer combo stalls to support the boat launch, picnic and public fishing area. The map in Figure 1 depicts the Property and surrounding area.

**Figure 1: Property Context**

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## Site Access

The Property is approximately one quarter of a mile from I-5 when exiting at SR 528. SR 529 is located to the east of the Property, and leads to northern Marysville and Arlington to the north, or Everett to the south. Access to the Property is from 1st Street, a two-way, two-lane street with angled on-street parking along the northern edge of the road. The Property is accessed via a curb cut at the center of the property, and from a public right of way located adjacent to the east side of the Property.

## Utilities

All utilities are extended to the Property. The following bullets summarize our understanding of the existing utility conditions if a developer were to redevelop the property in the near future:

- Electrical service is provided by Snohomish County PUD, which is generally less expensive than privately-owned service providers in the area, namely, Puget Sound Energy.
- Water and sanitary sewer is provided by the City.
- Puget Sound Energy provides natural gas service. Existing service capacity and infrastructure is currently being evaluated.
- If the redevelopment of the site comprises more than 5,000 square feet of impervious surface, then the new user will be required to comply with the minimum stormwater management requirements one through nine set forth in section 14.15.050 of the Marysville Municipal Code.
- Internet is provided to the site by either Comcast or Frontier.

**REGULATORY CONDITIONS**

The Property is zoned DC, Downtown Commercial, a designation permitting a wide variety of uses including retail, service and recreational uses as well as higher density residential uses. The zone is meant to encourage developments that serve the regional market area, is supportive of transit and pedestrian travel, and offer employment opportunities. The zone allows for higher density residential uses as well as higher non-residential building heights and floor area ratios than found in General Commercial zoned areas.

## Development Standards

- A base density of 12 units per acre with no maximum density limit;
- A maximum building height of 85 feet;
- A maximum lot coverage of 85%
- Minimum parking requirements for multifamily:
  - 1.5 stalls per one bedroom unit
  - 1.75 stalls per two or more bedroom units
- Minimum parking requirements for commercial:
  - Retail stores - If < 5,000 SF floor area, 1 per 600 SF gross floor area; if > 5,000 SF floor area, 8 plus 1 per each 300 SF gross floor area over 5,000 SF.
  - Restaurants and taverns - If < 4,000 SF, 1 per 200 SF gross floor area; if > 4,000 SF, 20 plus 1 per 100 SF gross floor area over 4,000 SF.

## Shoreline

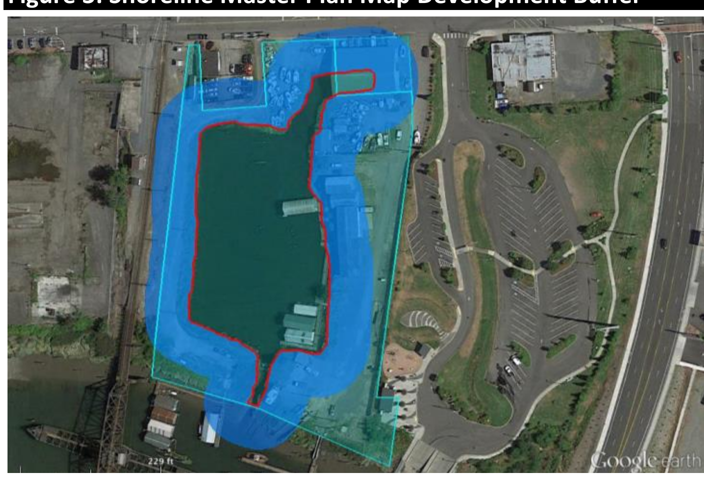
The other significant governmental control impacting the use of the Property is the Shoreline Management Master Program, which affects land within proximity to the ordinary high water mark on the north side of Ebey Slough. In the Marysville Shoreline Master Program ("SMP"), adopted in 2006, the Property is designated within the High Intensity Environment, a zone that is intended to provide high intensity, water-oriented commercial, industrial, and transportation uses while protecting existing ecological functions. As the land use code regulates development throughout the city, the SMP restrictions outweigh those of the land use code in the event that the two conflict. Under the SMP, new commercial, recreational, or industrial development on the Property can only be developed to a height of 65 feet as opposed to DC permitted maximum of 85 feet. Multifamily development may be built up to 85 feet in the High Intensity Environment as long as the other conditions of the SMP are met. The map in Figure 2 depicts the SMP High Intensity Environment.

**Figure 2: Shoreline Master Plan Map**


Source: City of Marysville

All uses within 200 feet of the shoreline must receive a Shoreline substantial development permit. Water-dependent uses are permitted outright and require less of a building setback than non-water dependent uses. Certain non-water dependent commercial, residential or industrial developments must be approved by the City and provide public access to the water. Developments that are non-water-oriented or simply water related must also be set back 70 feet from the ordinary high water mark. Based on information contained in a City-produced map, this pond is part of the Ebey Slough system and a buffer would be required. The map in Figure 3 illustrates the impact of a 70 foot buffer on the development potential of the Property.

**Figure 3: Shoreline Master Plan Map Development Buffer**




Source: Heartland, City of Marysville

In response to sediment contamination in the pond, MFA has identified two clean up alternatives. One is to cap the sediment with clean soil and place a restrictive covenant that prevents soil disruption. The other is to dredge the contaminated soil and remove it from the site. Some or all of the pond may also be filled, which would create more buildable land on the Property. In order to build on any newly created land, the jurisdictional map of the SMP is amended to reflect a modified ordinary highwater mark and associated buffer illustrated in Figure 3.

**MARKET ASSESSMENT**

The Property is well located to support multifamily or retail development due to its proximity to downtown Marysville, accessibility to I-5 and regional job centers, and its waterfront location. The land use code support residential and commercial developed; however, other conditions beyond market fundamentals may preclude new development. Two primary constraints for new development on the Property are: (1) the 70 foot setback buffer around the pond that significantly limits new development, and (2) the cost and associated regulatory risk with filling the pond and removing the buffer to accommodate new, more intense non-water dependent development. A third consideration that impacts the competitiveness of the Property is its adjacency to the BNSF mainline and proximity to I-5 which is both a visual and auditory detriment from the perspective a multifamily developer.

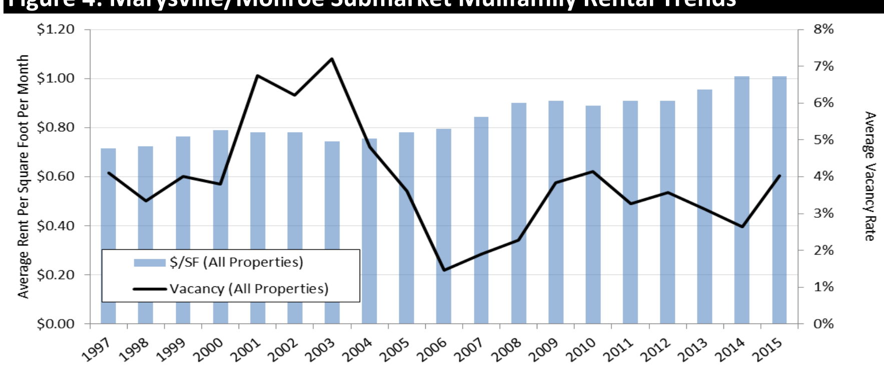
The following market assessment summarizes existing multifamily and retail conditions in the Marysville area. This analysis will inform the feasibility assessment in the following section of this memorandum. The identified constraints will be factored into the feasibility discussion.

## Multifamily

The Marysville multifamily rental market is comprised of low-rise and garden style apartment complexes with no projects more than three stories.[1] The existing inventory of properties in the survey range from 20 units to 222 units with an average unit size of 54 units. The year of construction ranges between 1968 and 2009 with an average year built of 1989. Finally, the average unit size is approximately 950 square feet with approximately 77% of the units comprising two-bedrooms, 10% one-bedroom, and 13% three-bedrooms. There is a 180-unit, three story multifamily project that is currently under construction in the Smokey Point area named The Lodge at Smokey Point. A second phase of this project could deliver an additional 160 units in the future.

Overall, the Marysville submarket has experienced steady growth of average rental rates over time while average vacancy rates have decreased in recent years. However, between 2014 and 2015 rental rates declined slightly and the vacancy rate increased to 4%. According to Dupree & Scott, the current average rent for an apartment in the Marysville/Monroe submarket is approximately $964 per month, or $1.01 per rentable square foot per month. The vacancy rate has remained under 5% since 2004. Figure 4 illustrates these trends.

**Figure 4: Marysville/Monroe Submarket Mulifamily Rental Trends**

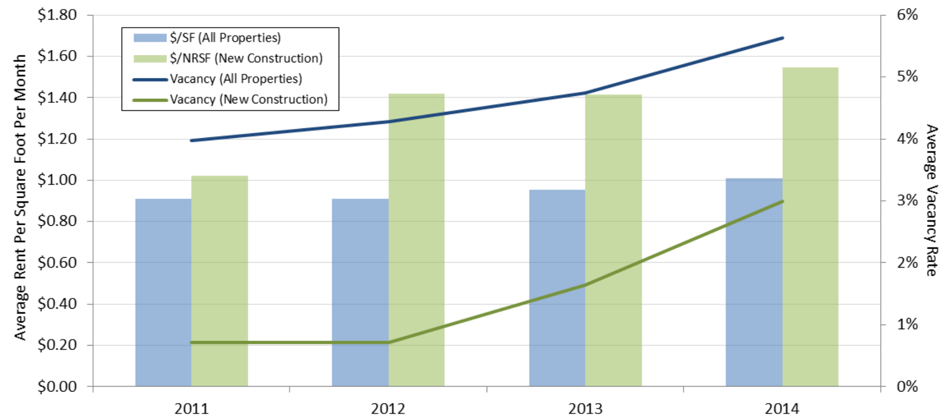



Source: Dupre & Scott

[1] The market area, as defined by Dupre & Scott comprises eastern and northern Snohomish County including the cities of Snohomish, Monroe, Lake Stevens, Marysville, and Arlington.

This submarket has introduced few new products over the past five years. In order to capture rents for new construction in Snohomish County, the study area was expanded to include Silverlake and Thrasher's Corner, two Dupre & Scott designated submarkets. The expanded areas captured newer projects in markets more favorable to Marysville such as parts of Bothell, eastern Lynnwood, and south Everett near Paine Field. The resulting survey or newly constructed projects included 4 buildings, encompassing 528 units. Buildings surveyed were constructed from 2007 to 2013, and ranged in size from 68 to 372 units. The average monthly rent for these projects is currently of $1,458 per month, or $1.58 per rentable square foot. The graphic in Figure 5 compares the trends between new projects in better locations with the overall Marysville/Monroe submarket.

**Figure 5: Marysville/Monroe Submarket Multifamily Rental Trends -- New Construction versus All Product**




Source: Dupre & Scott

Two projects of note are recently completed apartment buildings in Marysville; however, both of these projects have rent restricted units that do not fully reflect market rate rents. Quicelda Creek, constructed in 2013, is a garden style apartment complex with 204 units reporting average rents of $1,115 per month, or $1.22 per rentable square foot. The Villas at Lakewood apartment complex was built in mid-2014 with 240 units and average rents of $972 per month, which equates to $1.07 per square foot.

Overall, the multifamily rental market has been relatively stable in the Marysville market area with steady year over year rental rate growth since 2010 and low vacancy rates below 5%. There has been very limited new supply introduced over the past 5-years in the market area. This contrasts with King County and the portion of Snohomish County south of Everett along the I-5 corridor and west. In the rest of the region, developers have been very active with permitting projects and delivering new construction.

While the City itself has seen little new development, the Property has compelling characteristics that under certain conditions would make it attractive to developers. It is next to the retail conveniences provided by the Marysville Town Center, it is along the Ebey Slough waterfront and next to a City park, and is in close proximity to urban amenities and jobs in the Everett area. The challenges, as will be illustrated in the feasibility portion of this memorandum, have to do with the risk associated with achieving a rental rate that can support new construction in an area where the market's ability to support those needed rents has not been proven.

## Retail

Retail uses, either in support of new residential units or stand-alone retail is another potential market use for the Property. In assessing the health of the retail market in Marysville we viewed the data at a City-wide level as well as "Close-In" or, more specifically, south of 8th Street and east of I-5 near the waterfront. The Close-In area is anchored by Marysville Town Center, but there are a number of smaller retail centers and retail storefronts in this area there were constructed decades ago. The table in Figure 6 summarizes the retail building characteristics for these two areas.

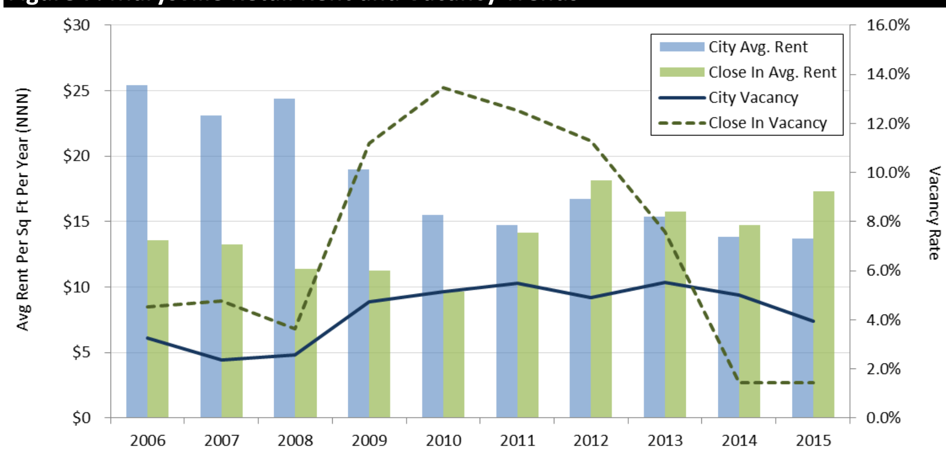
**Figure 6: Retail Stock Summary**

| | City | Close In |
|---|---|---|
| Buildings | 239 | 60 |
| Rentable Sq Ft | 3,965,959 | 801,926 |
| Avg Sq Ft | 16,594 | 13,365 |
| Median Sq Ft | 4,546 | 1,320 |
| Median Age | 1981 | 1913 |

Source: CoStar

Overall, the majority of the City's retail market lies east of I-5 and along State Avenue. A historical survey of these two areas illustrates the struggles the retail market in the City has been experiencing in terms of rental rates despite low vacancy rates. Conversely, the Close-In vacancy rate is very low at below 2%, and the rental rates are improving and near peak 2012 levels. Figure 7 illustrates these trends.

**Figure 7: Marysville Retail Rent and Vacancy Trends**




The likelihood of a mixed use project being developed on the property appears low as illustrated in the next section of this memorandum. However, there may be a compelling case for a destination waterfront restaurant on the eastern portion of the Property. A building up to roughly 6,000 square feet, similar in size to an Applebee's, can fit in this area with a row of angled parking stalls running north along the eastern property line up to a larger parking reservoir near 1st Street. While a 6,000 square foot building would represent the upper end of the range for a restaurant building, lower end could be similar to the Agua Verde Café and Paddle Club on Portage Bay in Seattle that may serve as both a place to dine and as a destination for paddlers. The July 2013 material presented by the consultant team – discussed further below – cite this mix of recreation and dining uses for the Property. The remainder of the site may be improved as a park and enhanced pond complimenting the adjoining Ebey Waterfront Park.

**FEASIBILITY**

In this section we will summarize past consultant work on the Property and present our findings of a pro forma analysis on the feasibility of multifamily development on the Property.

## Previous Studies: Property Development Concept

In January 2013 a consultant team comprised of Leland Consulting Group, BST Associates, Mayer/Reed, and Makers evaluated the Property and contemplated development scenarios on behalf of the City. BST Associates evaluated the feasibility of using the pond on the Property for a marina. Its conclusion was that there is limited demand for this use.

Leland and Makers assessed multifamily and retail uses on the Property. These firms concluded that housing was the most marketable land use due to its location along the waterfront and proximity to downtown. This was bolstered by a strong household growth rate, but balanced by the demographics which revealed there are fewer higher income households in the City relative to the rest of the county and the existing supply of housing supports the mid-range of affordability.

The 2013 consultant team also estimated that this area could support up to 300 units with a restaurant on the waterfront over a five period between 2012 and 2017. In effect this estimate is based on capture rates by area. The 2013 consultants projected the Property to capture 5% of the new households in the City, 2.5% within 5-miles of the Property, and 1% of the County's growth which would effectively support 307 new units. We find this estimate to be high due to double counting and represent an alternative estimate (using the same growth numbers) as shown in Figure 8. Our projection is that the Property can capture 5% of the City's growth, 2.5% of the growth within 5-miles of the site less the City's growth (to avoid double counting), and 0.5% of the County's growth less the growth in the 5-mile area (again to avoid double counting). This approach results in the Property supporting 171 units as seen below in Figure 8.

**Figure 8: Property Area Multifamily Capture (5-year period)**

| | Consultant Team (2013) | | | Heartland | | |
|---|---|---|---|---|---|---|
| | City | 5 Mile Area | County | City | 5 Mile Area x City | County x 5 Mile Area |
| Net new Population | 4,381 | 6,285 | 42,025 | 4,381 | 1,904 | 35,740 |
| Net new Households | 1,584 | 2,348 | 16,914 | 1,584 | 764 | 14,566 |
| Capture Rate* | 5.00% | 2.50% | 1.00% | 5.00% | 2.50% | 0.50% |
| Net New HHs on Site | 79 | 59 | 169 | 79 | 19 | 73 |
| **Total Housing Capture** | **307** | | | **171** | | |

* January 2013 Report Assumptions

Source: January 2013 report, ESRI (2012-17 estimates), Heartland

The concept for the Property developed by the 2013 consultant team is based on the following value proposition:

> *"To define, design, and implement a mixed-use residential lifestyle community that meets the financial expectations of the investor and developer and results in a high level of consumer satisfaction and emotional attachment."*

Figure 9 on the following page illustrates Makers & Leland's 2013 concept for the Property.

**Figure 9: 2013 Property Development Concept**


Source: Makers & Leland, 2013

Although this is a compelling development concept, the following summary of our feasibility analysis will show mixed use development on the Property is not likely. It is important to note that any new development is excluded from the Ebey Waterfront Park property due to existing covenants in place on the City owned property to maintain its use as a park. In the event of redevelopment on the Property, roughly 30% to 40% would be designated for a waterfront park with remainder as parking to support the multifamily development.

## Pro Forma Feasibility Assessment

Based on our understanding of the current zoning and regulatory conditions, market dynamics, and the existing constraints on the site, we have evaluated two multifamily concepts that would be visually similar to the concept in Figure 9. The following bullets list our key assumptions for a multifamily concept:

- The City cleans up the sediment contamination and any uplands contamination on the Property. The estimated cost to cap the pond contamination is $1 million.
- The City plans for a waterfront park on roughly 30% to 40% of the Property with the remainder used for multifamily development and supportive parking.
- The pond will need to be filled. This cost could either be incurred by the City or developer; however, given the mitigation cap in the pond it most likely would be a City cost.
- The City modifies the SMP after the pond is filled to reduce the area impacted by the buffer and to support development on the northern portion of the Property.
- The City would segregate the Property to create two parcels, one for the park and one for the project.
- We understand the soil conditions are poor in this area and additional costs (estimating $7/sf on the developable area) to stabilize these conditions would be an extraordinary development cost born by the developer.
- Two scenarios were tested: a 3-story all surface parked project with 124 units and a 4-story project with 183 units, 7,500 square feet of commercial, and a mix of surface stalls and tucked parking under a portion of the building.
- The 3-story scenario would be underwritten with rents at $1.25 per square foot per month and the 4-story scenario would be at $1.45 per square foot per month (smaller average unit size).
- The adjacent 9,584 square foot impound lot would need to be purchased. The developer would pay $15 square foot for the land at a cost of $143,760. There was no significant soil contamination found through the limited investigation effort conducted by MFA on the car impound lot. This property is needed to square off the Property.

Based on these assumptions, a developer of a 3-story project could pay approximately $1.5 million or $13.2 per square foot on the developable land while a developer of the 4-story concept could pay $2.1 million or $16.3 per square foot on the developable land. This includes the assumed cost of the soil stabilization work, the project cost to buy the adjacent property, but not the cost to fill the pond.

These outputs are positive; however, there is significant marketing risk associated with the projects. The first is the market may be skeptical of the market given the lack of development activity, the low rents in the area, and the adjacency to the BNSF main trunk rail line land and proximity to the noise generated by I-5. By reducing the pro forma rents by $0.05 the ability to pay for the land goes down to $485k and $903k for the 3-story and 4-story projects, respectively. The pro forma rents are aggressive in the current market and for a buyer to feel comfortable the park portion of the Property will need to be done and improvements to 1st Street will be needed. This requires more City investment on a speculative basis – meaning a street could be improved, a pond filled, a waterfront park developed, and a development site positioned (could be a grass field while marketing) with a risk of no project completed in the five to 10 years.

In conclusion, we are seeing land transactions ranging from $10 per square foot to $15 per square foot in this area. Based on conversations we have had with several local developers, there may be limited interest in this location but the City would need to be willing to potentially sell it at below market value – something in most circumstances it cannot do. If encouraging multifamily development along the Ebey Slough is a priority for the City, the land it owns east of SR 529/State Avenue has sufficient acreage and is not as impacted by the BNSF railroad or I-5.

**NEXT STEPS**

Based on our analysis, we feel there is limited potential for development to occur on the Property; however, if the City is willing to accept the risk that the Property may be a park for the foreseeable future it needs to be strategic in how it approaches the market. We recommend the following strategy should the City seek interest from the development community:

1. In order to support potential development the City will need to continue to invest time and funds in the following manner:
    a. Cap the contaminated sediment in the pond and clean up any upland contamination.
    b. Conceptualize two park concepts which may support future development.
        i. Fill the pond and activate the waterfront with a Park and Ebey's Slough Trail while preserving the northern portion with a passive park that may accommodate future multifamily development.
        ii. Do not fill the pond, but rather enhance it and activate the waterfront with the Ebey's Slough Trail. The eastern portion of the Property (east of the pond) should be designed to support a future restaurant and parking. Note that because a restaurant located within 200-feet of Ebey Slough is a non-water dependent use, the City would have to amend the SMP regulations to support this concept.
    c. Prepare to remove the shoreline designation once the pond is filled. In the event the pond is not filled understand how a restaurant and recreation outpost may be developed in the buffer area.
    d. Assess the adjacent property owner's motivation to sell. Do not purchase the adjacent property unless there is a compelling reason to do so, such as migrating contamination and/or to complete any park concepts. Ideally this property and the City Property are presented to the market jointly under a co-listing agreement.
    e. Improve 1st Street west of SR 529 in front of the Property.
2. Prepare for a request for proposals or interest (RFP or RFI) process that may be conducted by City or via a qualified broker to solicit interest for either concept.
3. Based on the responses either proceed with one or the other concept or proceed with a complete park development.