

Objective

The common goal for both the City of Kenmore (“City”) and Kenmore Partners (“Developer”) is for redevelopment of the 9.6-acre site (“Site”) consistent with the community generated 2001 Comprehensive Plan, 2003 Downtown Plan and site specific priorities identified in the 2005 Request for Qualification (RFQ) document, while improving the City's economic vitality through the generation of additional tax revenues, creation of jobs and housing opportunities, and attraction of future private investment in downtown.

In essence, redevelopment of the Site is intended to be a catalyst project (“Project”) for the revitalization of all four downtown quadrants. This Disposition and Development Agreement (DDA) outlines the components and milestones for sale and redevelopment of the Site.

Background

- The City issued the RFQ for redevelopment of the Site in November 2005
- In April 2006, following an intensive interview and selection process including a public design competition, the City Council selected Developer
- In June 2006 the City and Developer executed an Exclusive Negotiating Agreement (ENA) which provided Developer an exclusive right to work with the City to prepare a conceptual plan and to negotiate an agreement for purchase and development of the Site through a DDA
- Between September 2006 and January 2007, Developer conducted extensive public outreach to obtain comment and input into development and refinement of a conceptual plan design, culminating in 3 proposed alternatives for the Site
- In April 2007 the City completed the SEPA environmental review process of the 3 proposed alternatives

Development Description

- DDA allows for a mixed-use development consistent in all material respects with one of the proposed alternatives:
 - Alternative A: 400 residential units, 25 percent of which are affordable, 77,000 SF of retail with a 24,000 SF anchor tenant, a 23,000 SF event and gathering space, and 691 parking stalls
 - Alternative B: 500 residential units, 25 percent of which are affordable, 77,000 SF of retail with a 24,000 SF anchor tenant, a 23,000 SF event and gathering space, and 776 parking stalls

- Alternative C: 400 residential units, 25 percent of which are affordable, 101,250 SF of retail with a 46,000 SF anchor tenant, a 23,000 SF event and gathering space, and 805 parking stalls
- Phasing: The Project is to be developed in up to 3 phases, with the following minimums:
 - Phase I: All of the retail, save for a 6,000 SF component in the DR zone, 100 market rate residential units, all the affordable units, the 23,000 SF event and gathering space, and 472 parking stalls
 - Phase II: 100 market rate residential units, 6,000 SF of retail in the DR zone, and 121 parking spaces
 - Phase III: 100 market rate residential units and 121 parking spaces

Developer Commitments

- To fund and construct all normal half-street and other offsite improvements associated with the Project, as required by Kenmore Municipal Code (KMC)
- To dedicate ROW to City as needed for planned SR-522 Improvements
- To pay all applicable impact fees associated with Project
- To deposit Earnest Money in the amount of \$250,000 upon approval of DDA
- At time of Phase I Closing, to allow City to lease-back the current City Hall building at fair market value for up to 9 months
- To construct Project in accordance with Key Dates as outlined below

City Commitments & Considerations

- To process all permit and regulatory approvals in a timely fashion
- To pursue construction all SR-522 street improvements
- To consider code amendment to allow bifurcation of payment of impact fees as follows: 25% at building permit issuance, 75% at C/O
- To consider adoption of ordinance for multifamily housing property tax abatement, in accordance with 2007 enabling legislation

- To sell property for a base price of \$10,717,737, as supported by appraisal, and escalated by 2.75% for each 6 month period, to reflect historic average appreciation, until Developer has purchased all of the property.
- To terminate existing leases and vacate existing tenants

Developer Conditions Precedent to Closing

- City issuance of CSDP for entire Project.
- City delivery of Property clear of existing tenancies

City Conditions Precedent to Closing

- Developer submission of complete building permit application for applicable Phase
- Evidence from Developer of debt and equity financing necessary for Project construction
- Completed legal agreement between Developer and HRG for affordable housing component
- Evidence from Developer and/or HRG of debt and equity financing necessary for construction of affordable housing
- Secured pre-leasing commitment by Developer equal to 40% of the total gross lease-able space
- For Phases II and III, evidence from Developer of reasonable construction progress on previous Phase

Key Dates

- | | |
|------------------------------------|------------|
| • DDA Adoption | 6/25/2007 |
| • Due Diligence concludes | 10/22/2007 |
| • Extended Due Diligence concludes | 12/31/2007 |
| • CSDP Submission | 3/31/2008 |
| • CSDP Final Approval | 10/31/2008 |

- Tenant Vacation Complete 6/30/2009
- Phase I Building Permit Submission 3/31/2009
- Phase II Building Permit Submission 30 days prior to Closing of Phase II
- Phase III Building Permit Submission 30 days prior to Closing of Phase III
- Phase I Closing 7/1/2009
- Phase II Closing 7/1/2010
- Phase III Closing 7/1/2011
- Construction Start for Each Phase 30 days after Building Permit Approval
- Substantial Completion of Each Phase 2 years after Construction Start
- Final Completion of Each Phase 3 years after Construction Start

Default & Remedies

- There are key dates, as outlined above, with respect to CSDP submission, building permit submission, construction start, and construction completion for which the Developer is in default if it fails to meet
- For Developer default, City has the option to terminate the DDA if default occurs before Closing, and regain control of the property if after closing.
- For City default, Developer can demand specific performance, terminate the DDA and receive refund of Earnest Money and up to \$250,000 in reimbursable expenses.