

RESOLUTION 2023-0079

A RESOLUTION AUTHORIZING A TRANSFER OF REAL PROPERTY TO THE NORTHEAST PUBLIC DEVELOPMENT AUTHORITY.

WHEREAS, the City is authorized by RCW 35.21.730 to create public development authorities to improve governmental efficiency and services or to improve the general living conditions in the City, and is further authorized to transfer real property to such public development authorities, with or without consideration; and

WHEREAS, pursuant to the foregoing authority, the City Council adopted Resolution 2016-0037 establishing a policy regarding the transfer of assets to the public development authorities created by the City; and

WHEREAS, the City of Spokane is the owner of certain properties located in the City of Spokane, County of Spokane, State of Washington, and more particularly described in Exhibit A ("Property") and the Purchase and Sale Agreement attached hereto as Exhibit B; and

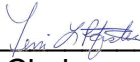
WHEREAS, the City of Spokane finds that the Property is not needed for a public use of the City of Spokane and is hereby declared to be surplus; and

WHEREAS, the City desires to transfer the Property to the Northeast Public Development Authority (NEPDA); and

WHEREAS, on or about September 5, 2023, the City caused notice of the proposed transfer of the Property to the NEPDA to be published in the Spokesman Review and disseminated a news release pertaining to the hearing among printed and electronic media in the City of Spokane;

NOW, THEREFORE it is hereby resolved by the Spokane City Council that the Property is hereby declared to be surplus City property no longer needed for the present and foreseeable public uses of the City and the Mayor or her designee is authorized to execute the attached Purchase and Sale Agreement providing for the sale of the Property to the NEPDA.

ADOPTED by the Spokane City Council this 25 day of September, 2023.



City Clerk

Approved as to form:

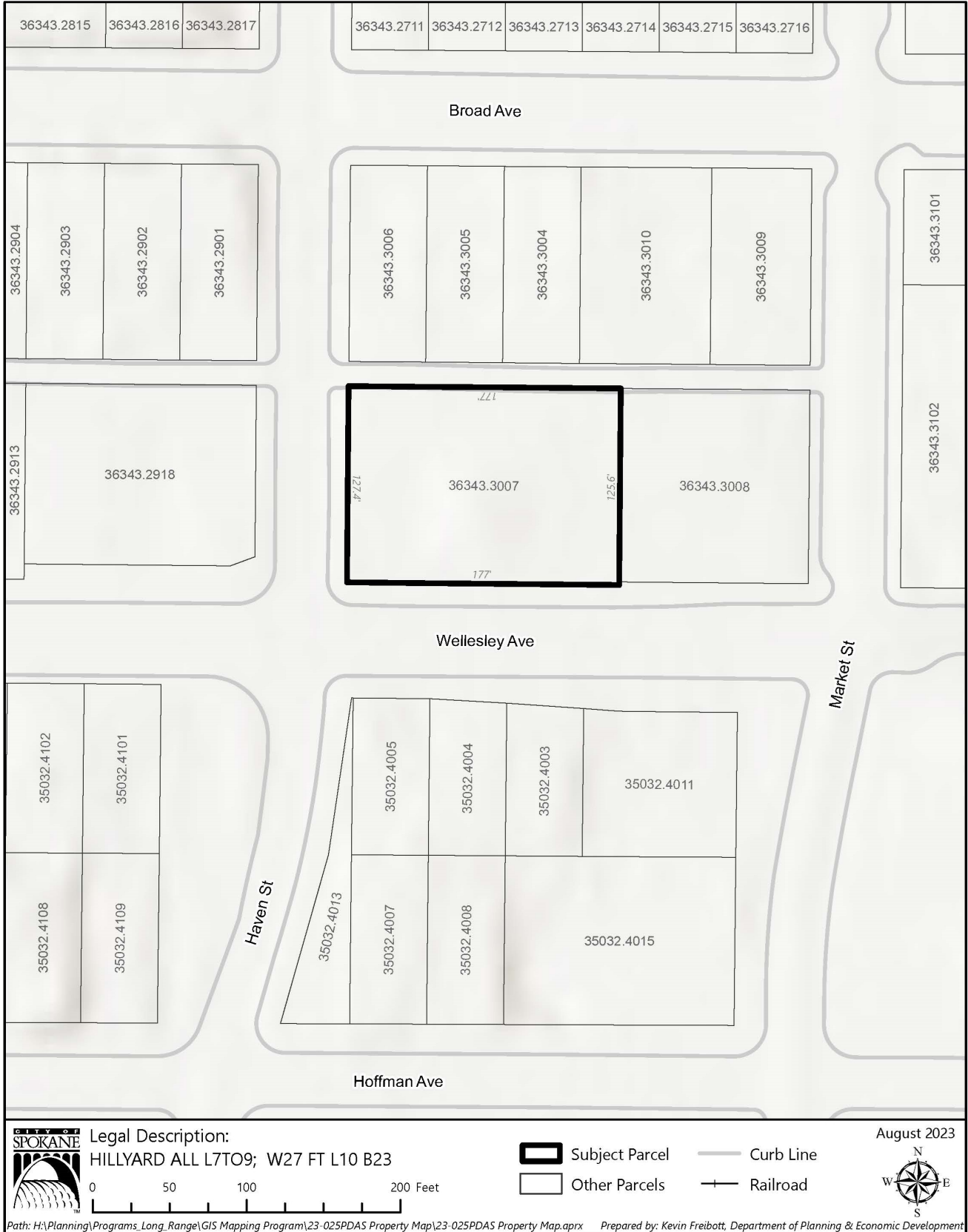


Assistant City Attorney



Exhibit A - Property Map

Parcel 36343.3007 3011 E Wellesley Ave SW Sec 34, T26N, R43E



Committee Agenda Sheet

Urban Experience Committee

Submitting Department	Planning Services, Community and Economic Development
Contact Name	Steven MacDonald
Contact Email & Phone	smacdonald@spokanecity.org , 625-6835
Council Sponsor(s)	Council Members Cathcart and Bingle
Select Agenda Item Type	<input type="checkbox"/> Consent <input checked="" type="checkbox"/> Discussion Time Requested: 10 minutes
Agenda Item Name	NEPDA Request for Property Transfer of 3011 E Wellesley Ave
Summary (Background)	<p>To encourage cooperative partnerships that address the economic expansion of the city and region, the City Council passed Resolution 2016-0037, Public Development Authority Asset Transfer Policy, establishing administrative policy and evaluation of requests from the public development authorities for asset transfers that further their organizational goals and economic development missions.</p> <p>The Northeast Public Development Authority (PDA) has submitted a request for the city to transfer the property located at 3011 E Wellesley Avenue to the NEPDA in furtherance of the organization's mission to revitalize the portion of Hillyard that overlaps with their geographic boundaries.</p> <p>Located at the intersection of Market Street and Wellesley Avenue, 3011 E Wellesley Ave is an approximately 22,570 square foot site that formerly had the Alhambra Courts apartment building. In November 2017, the 12,300 square foot building suffered extensive fire damage and was subsequently condemned as uninhabitable. To ensure public safety, the Code Enforcement department erected a fence around the site and then eventually had the building demolished, incurring \$418,232 in fees which were placed as a lien on the property.</p> <p>Spokane County attempted twice to auction the property but were unsuccessful. In 2022, the County foreclosed on the property and the City took possession of the site. The assessed value (2022) by the Spokane County Assessor is \$157,350. The site has been vacant and blighted for several years, nor is the current site the highest and best use of the property, which is zoned Centers and Corridors, District Corridor (CC2-DC).</p> <p>Transferring the 3011 E Wellesley Ave site to the NEPDA for \$1, through a development agreement, the City would receive a distribution of property sale proceeds covering the original \$418,232 lien amount once the property had been redeveloped and the NEPDA had recovered costs of redeveloping the site.</p> <p>This asset transfer request follows the practices and policies outlined in Res. 2016-0037 and Admin Policy 2016-0024 In the attached letter of request, the Executive Director Jesse Bank has provided a pro forma that outlines a mixed-use redevelopment with 30 affordable</p>

	<p>housing units (80-115% AMI), and the ground floor of the building reserved for commercial uses, a business incubator, and future office space for the PDA. An appraisal and return on investment analysis completed by independent firm CBRE estimates the site and improvements would be appraised at \$6.5 million when the project is complete.</p> <p>The transfer accomplishes several strategic goals: support of economic development organizations; incentivizing the revitalization and utilization of historic and older commercial districts; supporting mixed-use development that brings employment, commercial, and residential activities together; removing blight and increasing tax revenues; and building more affordable housing.</p>
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Proposed Council Action	Approve Resolution transferring property from City to NEPDA
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Fiscal Impact

Total Cost: [Click or tap here to enter text.](#)

Approved in current year budget? Yes No N/A

Funding Source One-time Recurring N/A

Specify funding source: [Click or tap here to enter text.](#)

Expense Occurrence One-time Recurring N/A

Other budget impacts:
 Due to code violations and blight mitigation completed by Code Enforcement, the City has accrued \$418,232.18 in fencing and demolition costs for this property. By transferring the property to the Northeast PDA, the City will be foregoing the current lien amount for a period of time. Transferring the property is a likely route for the city to both recoup the lien amount, but also increase the tax revenue generated from a currently vacant property. The NEPDA has proposed that a development agreement would ensure the City would receive the full lien amount when the property is sold.

Operations Impacts

What impacts would the proposal have on historically excluded communities?

All of the existing Northeast PDA is within the New Market Tax Credit area, which overlaps with the City's Spokane Targeted Investment Area, directing the City's economic development efforts in the most economically distressed Census tracts within Spokane. Census tracts are qualified if they have: high poverty (20% or more), and/or low Median Family Income (<80% AMI), and/or high unemployment (> 1.5X National rate). The proposal is for a mixed-use building that would include 30 affordable housing units, and commercial space for businesses, which would also bring jobs to this area.

How will data be collected, analyzed, and reported concerning the effect of the program/policy by racial, ethnic, gender identity, national origin, income level, disability, sexual orientation, or other existing disparities?

It would be difficult to directly link redevelopment of the site to specific demographics, but successful redevelopment of the property would remove blight and undesirable activities in this area of Hillyard,

making the block safer with more eyes on the street. Additionally, increased tax revenue and property values could be beneficial for surrounding property owners.

A positive outcome of redevelopment spurred by the NEPDA would show a decrease in poverty rates and unemployment rates, and an increase in median income and census tract populations as redevelopment had an overall positive impact on the area. Success would ultimately have the census tracts overlapping with the NEPDA being taken out of the federal NMTC program.

How will data be collected regarding the effectiveness of this program, policy or product to ensure it is the right solution?

Data will be collected through periodic demographics collections for the NMTC census tracts, submittals for building permits, and business licenses registered within the NEPDA's boundary. Similarly, as the NEPDA was created to oversee redevelopment within the Hillyard area effectiveness of the PDA's mission will be the revitalization of the area- increased property values, increasing quality of existing housing stock, construction of new affordable housing, and new businesses opening. Redevelopment of a currently vacant site will be the first and easiest metric of effectiveness of the property transfer.

Describe how this proposal aligns with current City Policies, including the Comprehensive Plan, Sustainability Action Plan, Capital Improvement Program, Neighborhood Master Plans, Council Resolutions, and others?

- ED 1.2 Support of Economic Development Organizations;
- ED 2.1 Land Supply;
- ED 2.2 Revitalization Opportunities;
- ED 2.4 Mixed Use;
- The following strategies from the Bemiss, Hillyard and Whitman Neighborhood Plan
 - Objective 2.1: Improve Maintenance, Upkeep, New Improvements and Values of Residences;
 - Objective 2.2: To improve maintenance, upkeep, new improvements and to increase Values of commercial structures in the GHNEPA area
 - Objective 5.1: To promote, develop, and recruit retail businesses in the GHNEPA area;
 - Objective 5.2: To promote, develop, and recruit Commercial/Services businesses in the GHNEPA area (Professional, Residential, Business to Business, etc.); and
 - Action 6.4.1.1. To encourage innovative, Transit-Oriented Development.

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NORTHEAST PUBLIC DEVELOPMENT AUTHORITY

Steven MacDonald
Director, Community and Economic Development
City of Spokane
808 W Spokane Falls Blvd., Third Floor
Spokane, WA 99201

June 28, 2023

Dear Director MacDonald,

The Northeast Public Development Authority (NEPDA) is pleased to present this request for the transfer of fee-simple ownership of the parcel at 3011 East Wellesley Ave. (subject site) from the City of Spokane (City) to the NEPDA, pursuant to Council Resolution 2016-0037 – PDA Asset Transfer Policy.

The NEPDA's core strategy for this asset transfer request revolves around value creation. In 2017, the City spent a large sum of money demolishing damaged structures and remediating asbestos-containing materials following a fire that rendered the property unsafe to occupy. It has no clear path to recover those funds. Following tax foreclosure, Spokane County attempted to sell the property via two separate open-market auctions in December 2022, and were unable to do so. The asking price for those auctions was over four times the property's assessed value, so the no-sales were unsurprising. While significant tax penalties contributed to that valuation, the City's existing lien of \$418,232 still represents over two and a half times assessed value, which makes it highly unlikely that the City could be made whole by simply selling the asset.

The only way for the City to recover their incurred costs is through value creation.

The NEPDA proposes to achieve this by pursuing redevelopment of the subject site. This will create a revenue stream that will bolster the PDA's operating revenue in the short term, and at sale the City will receive a preferred distribution of their lien amount, thereby making them whole in the long term. The project will provide sorely-needed affordable housing units as well as significant additional benefits to the surrounding community – in line with the NEPDA's mission and the City's Comprehensive Plan – which are described in more detail on the following pages.

This solution is a win for the City, a win for the NEPDA, and a win for the Hillyard community. The NEPDA looks forward to a robust and productive discussion on this approach.

Respectfully,

A handwritten signature in black ink, appearing to read 'J. Bank', is written over a horizontal line.

Jesse Bank
Executive Director
Northeast Public Development Authority

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Project Plan

Upon successful completion of this asset transfer request, the NEPDA will begin negotiations with the City on a Development Agreement stipulating the City's preferred return of the lien amount at sale, among other terms. The NEPDA will also perform an in-depth analysis of development scenarios to determine whether it is most advantageous to self-develop or to seek a JV partnership. This will depend on a variety of factors, but regardless the scenario chosen, the NEPDA expects to begin design work on this project as soon as is practicable.

The project, as currently envisioned, will consist of an approximately 25,000 square foot, mixed-use building, containing 30 affordable residential units – per the City's affordability criteria for those making between 80-115% AMI – and a limited amount of ground-level commercial area to be used as a neighborhood business incubator and NEPDA office space. Site improvements will consist of alley-accessed parking at the rear of the building – making use of permitted parking reductions in the CC2-DC zone – as well as landscaping, lighting, and public art befitting of an urban building at a key intersection. Commercial space will be oriented along E. Wellesley Ave., making use of the high-frequency transit stop immediately adjacent.

The building is expected to cost approximately \$5.1m and take 12-14 months to construct. The NEPDA intends to explore alternative construction techniques in an effort to keep costs down, thereby lowering the rental rates required to achieve feasibility. The asset can be expected to generate approximately \$400,000 in net operating income, resulting in a valuation of \$6.5m at stabilization. During the operating period, the property will be managed by a third party. Any distributable proceeds during this period will flow to the NEPDA and its partners, if any.

When market conditions warrant and at the sole discretion of the NEPDA and its partners, if any, the asset will be listed for sale. At sale, per the Development Agreement, the City will receive a preferred position in the equity distribution waterfall, pari-passu with the NEPDA's development partners and in front of the NEPDA, until the City is made whole on their original lien amount. Any remaining distributable proceeds beyond that threshold will flow to the NEPDA and any partners to fund ongoing operations.

The NEPDA has retained the Spokane office of global commercial real estate experts CBRE to provide third-party verification of the viability and financial performance of this project. A summary of their report is included as an appendix to this request.

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Project Benefits:

In addition to the direct financial benefits of this proposal, there are a broad set of larger impacts completing this project could bring about.

For the City:

- Additions to Affordable Housing Supply in District Center:** Spokane's housing shortfall needs no introduction as significant policy work is underway in an effort to bolster supply. The subject site lies within a District Center and on a high-frequency transit line, making it an ideal target site for multifamily development per Comprehensive Plan elements LU 1.4 and LU 4.6, among others. In addition, the subject site is in a location where ample services exist, so accommodating population and business growth in this location should be prioritized per Comprehensive Plan elements ED 2.2 and H 1.4. As currently modeled, this project meets City affordability targets for residents earning between 80-115% of AMI and does so without the use of the Multifamily Tax Exemption.
- Increased Tax Revenues:** Successful completion of this project will increase the value of the subject site enormously, which will result in increased tax revenues – both a one-time construction sales tax, and ongoing property, utility, and leasehold taxes. New development also has the effect of increasing property values in the project's immediate vicinity, further fueling incremental revenue growth. This effect is especially marked when the adjacent sites are vacant or underutilized, as is the case with the subject site. Despite the Special Revenue District that funds the NEPDA retaining 75% of that incremental increase, the City still collects 25% of that revenue into the general fund – only a small portion of which is used to fund PDA administrative functions. Following the sunset of the Special Revenue District in 2040, the entirety of the incremental revenues will flow to the City.
- Removal of Blight:** The City has made it a priority to revitalize the greater Hillyard area, as evidenced by the creation of the NEPDA and the inclusion of Hillyard into the City's Targeted Investment Area. One of the City's stated goals for the NEPDA is for it to eliminate blight by facilitating the redevelopment of vacant and underutilized sites. This project directly addresses that goal.

For the NEPDA:

- Increased Operating Revenue:** The NEPDA has struggled with inadequate funding for many years and has been stuck in a self-reinforcing loop whereby there hasn't been enough growth to fund the PDA's investments, and without the PDA's investments growth remains slow. While this situation has meaningfully improved in the last year, and won't be solved with a single investment, the proceeds from the various revenue streams the project creates have the potential to significantly "bend the curve" of the PDA's finances. These cash flows into the PDA will markedly accelerate its ability to make more significant investments elsewhere in the district, further fueling economic growth and tax revenue.
- Catalytic Impact:** The subject site lies at a critical juncture within the NEPDA district – the intersection between the Market St. corridor to the north and a future Wellesley Ave. corridor to the east. It will also be highly visible from the North Spokane Corridor and its Wellesley Ave. interchange. Given that level of visibility, a targeted investment in one location can have outsized

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impact across the district. It can act as a billboard for Hillyard, showing people that investments are being made here, people are moving here, businesses are growing here, and that the area has a bright future.

- **Leverage Department of Ecology Funding:** In 2019, the NEPDA was the recipient of a \$200,000 Integrated Planning Grant (IPG) centered around the subject site. The purpose of this grant was twofold – to perform site assessments that characterize and plan for mitigation of any legacy contamination present, and to conduct area-wide planning around the impacts a catalytic project on this site could have on the district more broadly. The NEPDA has been successful in executing on the second half of that purpose by combining IPG planning dollars with several other funding sources into a large-scale sub-area planning effort – the first in the area for nearly 15 years. Completion of the project as contemplated here will allow the NEPDA to benefit from the environmental investigations already performed, thereby executing on the first.

For the Hillyard Community:

- **New Housing Options:** Displacement and housing instability due to the enormous increase in housing values are rampant throughout the city, but there are few places where they are more pronounced than in Hillyard. At the same time housing supply in the district has remained stagnant, forcing those displaced to look to other areas in the city – or to leave the area entirely. Hillyard is a proud, tight-knit community and those who want to remain but are unable to find stable housing should be able to do so. This project will not only add new supply at an affordable price point, but it will add smaller, more efficient units that increase the variety of unit types in the district, offering residents a broader range of housing types to choose from.
- **Business Incubation Opportunity:** Building in a small amount of commercial space into the project, as contemplated in the project plan, allows for local businesses to test their concepts in a bricks-and-mortar setting. Having the NEPDA as part of the property ownership team ensures local businesses get priority access to the space and favorable lease terms. They can also be connected with resources and support that wouldn't ordinarily be available in a traditional commercial setting. Every entrepreneur has strengths and weaknesses and having the NEPDA as a partner – and landlord – can ensure businesses get connected with the resources they need to amplify their strengths and shore up their weaknesses.
- **Realize Neighborhood Planning Goals:** Various Planning efforts in the area over the years have identified the importance of the area surrounding the Wellesley/Market/NSC interchange and have highlighted the neighborhood's desire to see improvements directed there. Successful redevelopment of this site – and others in the immediate vicinity – will not only have the catalytic impact described above but will go a long way to demonstrating realized outcomes of planning processes. This builds trust and buy-in from neighborhood residents that their desires can be achieved through participation and that through that participation they can meaningfully shape the world around them.

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Appendix A: CBRE Appraisal Report Summary

CBRE VALUATION & ADVISORY SERVICES

APPRAISAL REPORT

PROPOSED MIXED-USE DEVELOPMENT
3011 E WELLESLEY AVE
SPOKANE, WASHINGTON 99217
CBRE FILE NO. CB23US042413-1

CLIENT: NORTHEAST PUBLIC DEVELOPMENT
AUTHORITY

CBRE

VALUATION & ADVISORY SERVICES



Valuation & Advisory Services
157 S Howard St, Suite 604
Spokane, WA 99201

T 509-998-9997
www.cbre.com

Date of Report: June 6, 2023

Mr. Jesse Bank
Executive Director
NORTHEAST PUBLIC DEVELOPMENT AUTHORITY
4001 N Cook St
Spokane, Washington 99207

RE: Appraisal of: Proposed Mixed-Use Development
3011 E Wellesley Ave
Spokane, Spokane County, Washington 99217
CBRE, Inc. File No. CB23US042413-1

Dear Mr. Bank:

At your request and authorization, CBRE, Inc. has prepared an appraisal of the market value of the referenced property. Our analysis is presented in the following Appraisal Report.

The subject is a proposed 30-unit walk-up style, mixed-use apartment building located at 3011 East Wellesley Avenue in Northeast Spokane. The improvements will consist of one, three-story building that will be situated on a 0.52-acre site that is currently raw land. The unit mix will include 1bd/1ba and 2bd/1ba units and will have an average unit size of 706 square feet. Additionally, the building will include 4,080 SF of street-level retail space. Construction is scheduled to commence in March 2024 and is scheduled to be completed by June 1, 2025.

Based on the analysis contained in the following report, the market value of the subject is concluded as follows:

MARKET VALUE CONCLUSION			
Appraisal Premise	Interest Appraised	Date of Value	Value Conclusion
As Complete	Fee Simple Estate	June 1, 2025	\$6,250,000
As Stabilized	Leased Fee Interest	September 1, 2025	\$6,500,000
As Is - Land	Fee Simple Estate	May 31, 2023	\$240,000

Compiled by CBRE

The client has requested values as if the subject is hypothetically complete and stabilized as of the inspection day. Based on market conditions expected over timespan between the inspection date



June 6, 2023

Page 2

and the stabilized date, we have not trended any of the value conclusions. As such, the hypothetical as if stabilized and prospective as stabilized values are the same.

The report, in its entirety, including all assumptions and limiting conditions, is an integral part of, and inseparable from, this letter.

The following appraisal sets forth the most pertinent data gathered, the techniques employed, and the reasoning leading to the opinion of value. The analyses, opinions and conclusions were developed based on, and this report has been prepared in conformance with, the guidelines and recommendations set forth in the Uniform Standards of Professional Appraisal Practice (USPAP), and the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute. It also conforms to Title XI Regulations and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) updated in 1994 and further updated by the Interagency Appraisal and Evaluation Guidelines promulgated in 2010.

The intended use and user of our report are specifically identified in our report as agreed upon in our contract for services and/or reliance language found in the report. As a condition to being granted the status of an intended user, any intended user who has not entered into a written agreement with CBRE in connection with its use of our report agrees to be bound by the terms and conditions of the agreement between CBRE and the client who ordered the report. No other use or user of the report is permitted by any other party for any other purpose. Dissemination of this report by any party to any non-intended users does not extend reliance to any such party, and CBRE will not be responsible for any unauthorized use of or reliance upon the report, its conclusions or contents (or any portion thereof).

It has been a pleasure to assist you in this assignment. If you have any questions concerning the analysis, or if CBRE can be of further service, please contact us.

Respectfully submitted,

CBRE - VALUATION & ADVISORY SERVICES



Cole Taylor
Senior Appraiser
State Certified General Real Estate Appraiser
Washington Certification No. 1102544
Expiration Date: 03/27/2024
Phone: 509-998-5300
Email: cole.taylor@cbre.com



David Adamson, MAI
Director
State Certified General Real Estate Appraiser
Washington Certification No. 1101731
Expiration Date: 05/24/2025
Phone: 509-998-9997
Email: david.adamson@cbre.com

Subject Photographs



Aerial View

Subject Photographs



View of the Subject Site



View of the Subject Site



View of the Subject Site



View of North Haven Street Facing South



View of North Haven Street Facing North



View of Wellesley Avenue Facing West

Executive Summary

Property Name	Proposed Mixed Use Development	
Location	3011 E Wellesley Ave Spokane, Spokane County, WA 99217	
Parcel Number(s)	36343.3007	
Client	Northeast Public Development Authority	
Highest and Best Use		
As If Vacant	Multifamily	
As Improved	Multifamily	
Property Rights Appraised	Leased Fee Interest	
Date of Inspection	May 31, 2023	
Estimated Exposure Time	6 Months or Less	
Estimated Marketing Time	6 Months or Less	
Primary Land Area	0.52 AC	22,479 SF
Zoning	Center and Corridor Type 2, CC2-DC	
Improvements		Comments
Property Type	Multifamily	(Multi-Family Walk-Up)
Number of Buildings	1	
Number of Stories	3	
Gross Building Area	25,245 SF	
Net Rentable Area (Apartments)	21,165 SF	
Number of Units	30	
Average Unit Size	706 SF	
Year Built	2025	
Effective Age	0 Years	
Remaining Economic Life	55 Years	
Condition	New	
Buyer Profile	Investor-Regional	
Financial Indicators		
Stabilized Occupancy	95.0%	
Stabilized Credit Loss	0.5%	
Estimated Lease-up Period	3 Months	
Overall Capitalization Rate	6.25%	

Pro Forma, As Stabilized	Total	Per Unit
Effective Gross Income	\$582,834	\$19,428
Operating Expenses	\$168,858	\$5,629
Expense Ratio	28.97%	
Net Operating Income	\$413,976	\$13,799
VALUATION	Total	Per Unit
As Is (Land Value)	\$240,000	\$8,000
Market Value As Complete On June 1, 2025		
Cost Approach	\$5,800,000	\$193,333
Sales Comparison Approach	\$5,900,000	\$196,667
Income Approach	\$6,370,000	\$212,333
Market Value As Stabilized On September 1, 2025		
Cost Approach	\$6,050,000	\$201,667
Sales Comparison Approach	\$6,150,000	\$205,000
Income Approach	\$6,620,000	\$220,667

CONCLUDED MARKET VALUE			
Appraisal Premise	Interest Appraised	Date of Value	Value
As Complete	Fee Simple Estate	June 1, 2025	\$6,250,000
As Stabilized	Leased Fee Interest	September 1, 2025	\$6,500,000
As Is - Land	Fee Simple Estate	May 31, 2023	\$240,000

Compiled by CBRE

STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT)

Strengths/ Opportunities

- Each unit will include a washer/dryer.
- The subject will feature new construction and will be in superior condition compared to most competing one- and two-bedroom units in Northeast Spokane.
- The subject is located in close proximity to the future Wellesley Avenue/North-South Freeway interchange, which will be completed prior to the subject's scheduled completion date. Upon completion of the North-South Freeway, access to the subject to the greater metro area will significantly improve.

Weaknesses/ Threats

- The subject's neighborhood has a below average income demographic profile relative to the greater metro area.
- The subject has a substandard off-street parking ratio of 1 space per unit. Additionally, the subject will share its off-street parking spaces with the commercial building located immediately to the south. This is somewhat mitigated by the subject's below-average unit size of 706 square-feet, and therefore the subject will require a fewer number of spaces when compared to a typical garden property with larger unit sizes. We have accounted for the below-average parking ratio, and the shared parking with the street level commercial space, in our capitalization rate conclusion.
- Commercial real estate market conditions have deteriorated at the macro level. The significant recent increase in the cost of capital and reduced volume of transaction activity is

impacting price discovery and creating an increase in uncertainty. Increasing interest rates and subdued economic growth will continue to weigh on commercial real estate fundamentals and investment transaction volumes. This creates a higher degree of uncertainty in general, though the impacts may vary by market and asset class/type.

MARKET VOLATILITY

We draw your attention to a combination of global inflationary pressures (leading to higher interest rates) and recent failures/stress in banking systems which have significantly increased the potential for constrained credit markets, negative capital value movements and enhanced volatility in property markets over the short-to-medium term.

Experience has shown that consumer and investor behavior can quickly change during periods of such heightened volatility. Lending or investment decisions should reflect this heightened level of volatility and the potential for deteriorating market conditions.

It is important to note that the conclusions set out in this report are valid as at the valuation date only. Where appropriate, we recommend that the valuation is closely monitored, as we continue to track how markets respond to evolving events.

CURRENT ECONOMIC CONDITIONS

At its May 2023 meeting, the Federal Reserve raised the federal funds rate by 25 basis points (bps) to a range of 5.00% to 5.25%, a 16-year high. In determining whether additional tightening is necessary, the Fed will consider the lagged impacts of previous rate hikes, as well as economic and financial market conditions, including banking sector stress. Hiking rates just days after the second largest bank failure in U.S. history shows that the Fed remains focused on reducing inflation even if it inflicts additional economic pain.

Although the economy has cooled, the strong labor market is complicating the Fed's inflation fight. Therefore, CBRE expects that the Fed will remain determined to see inflation fall to a more acceptable level. While financial markets are expecting a rate cut this summer, CBRE anticipates that the Fed will hold rates steady for several months before beginning to reduce them in Q4. Core inflation should ease as the economy and particularly the housing market cool, ending the year at around 4.00%. CBRE expects that the Fed will continue to cut interest rates throughout 2024. CBRE expects that capital markets will lead the commercial real estate recovery, with increased investment volume later this year and a rebound in leasing activity thereafter.

The table below summarizes the CBRE "House View" for the Federal Funds Rate, 10-Year Treasury, and GDP over the next several years. This view is reflective of what market participants are anticipating.

	2023	2024	2025 - 2028
Fed Funds Rate (Q4)	4.5% to 4.75%	2.25% to 2.5%	2.0% to 2.25%
10-Year Treasury (Q4)	3.3%	2.8%	3.0%
GDP (Q4/Q4)	-0.6%	2.1%	2.5%

The CBRE “House View” is for the yield on the 10-year Treasury to approximate 3.3% by Q4 2023, which should aid in the recovery of real estate investment volume. This is consistent with many market participants who anticipate the cost of capital in the future to be lower than current levels.

While opinions vary on future economic issues, the general market consensus at the time of this appraisal is the anticipation of moderating inflation as higher interest rates cool demand. Tighter financial and weaker macroeconomic conditions will weigh on real estate fundamentals, leading to lower real estate investment volume through the balance of 2023. Amid this uncertain and dynamic environment, investment market performance will be uneven across property types.

EXTRAORDINARY ASSUMPTIONS

An extraordinary assumption is defined as “an assignment-specific assumption as of the effective date regarding uncertain information used in an analysis which, if found to be false, could alter the appraiser’s opinions or conclusions.”¹

- The subject’s net rentable area is provided by the developer, and the gross building area is based on information provided by the Spokane County Assessor. We are making the extraordinary assumption that the net rentable area (21,165 square feet) and gross building area (25,245 SF square feet) derived from this source is accurate and reliable.
- The subject is proposed. As such, our estimate of market value as stabilized and as complete is subject to the indicated completion date, as well as the completion of the improvements per plans and specifications.
- The client has indicated that the proposed development is still in the early planning stages, and therefore building plans have not yet been completed. The client went on to say the subject will have average construction quality compared to other recently built apartment buildings and mixed-use buildings in the region. We assume the general information pertaining to the subject’s construction quality, interior finishes, etc. that are presented in the improvements analysis section, are accurate.
- Based on our understanding of the City of Spokane code, the proposed improvements will represent a non-conforming use. As the subject has not been built, its plans will go through an exhaustive review with city planners, and we are making the extraordinary assumption that any variances needed from current zoning regulations or building code will be granted and that when complete, the subject will be a legally conforming use.

¹ The Appraisal Foundation, *USPAP, 2020-2021 (Effective January 1, 2020, through December 31, 2023)*

- The prospective market value is 27 months from the as is date of value. We are making the extraordinary assumption that there will be no unforeseeable events that will alter market conditions prior to the prospective date of value and that market conditions will continue to exist as market participants currently expect the market to perform over the next 27 months.

The use of the above extraordinary assumptions may have affected the assignment results.

HYPOTHETICAL CONDITIONS

A hypothetical condition is defined as “a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results but is used for the purposes of analysis.”²

- While not included in our value conclusions, we are valuing the subject under the hypothetical condition that the subject is completed and that it is stabilized as of the date of our inspection, or May 31, 2023. This is not a value conclusion, but rather a mathematical step to estimate prospective stabilized values. The as is and prospective values are not subject to any hypothetical conditions.

The use of these hypothetical conditions may have affected the assignment results.

OWNERSHIP AND PROPERTY HISTORY

OWNERSHIP SUMMARY		
Item	Current	Previous
Current Ownership		
Owner:	City of Spokane	Spokane County
Seller:	Spokane County	Spokane County Treasurer's Office
Purchase Price:	\$6,702	\$0
Transaction Date:	May 5, 2023	December 14, 2022
Sale in Last 3 Years?:	Yes	Yes
Legal Reference:	Excise No. 202304514	Excise No. 202217147
County/Locality Name:	Spokane	Spokane
Compiled by CBRE		

CBRE is unaware of any arm’s length ownership transfers of the property within three years of the date of appraisal.

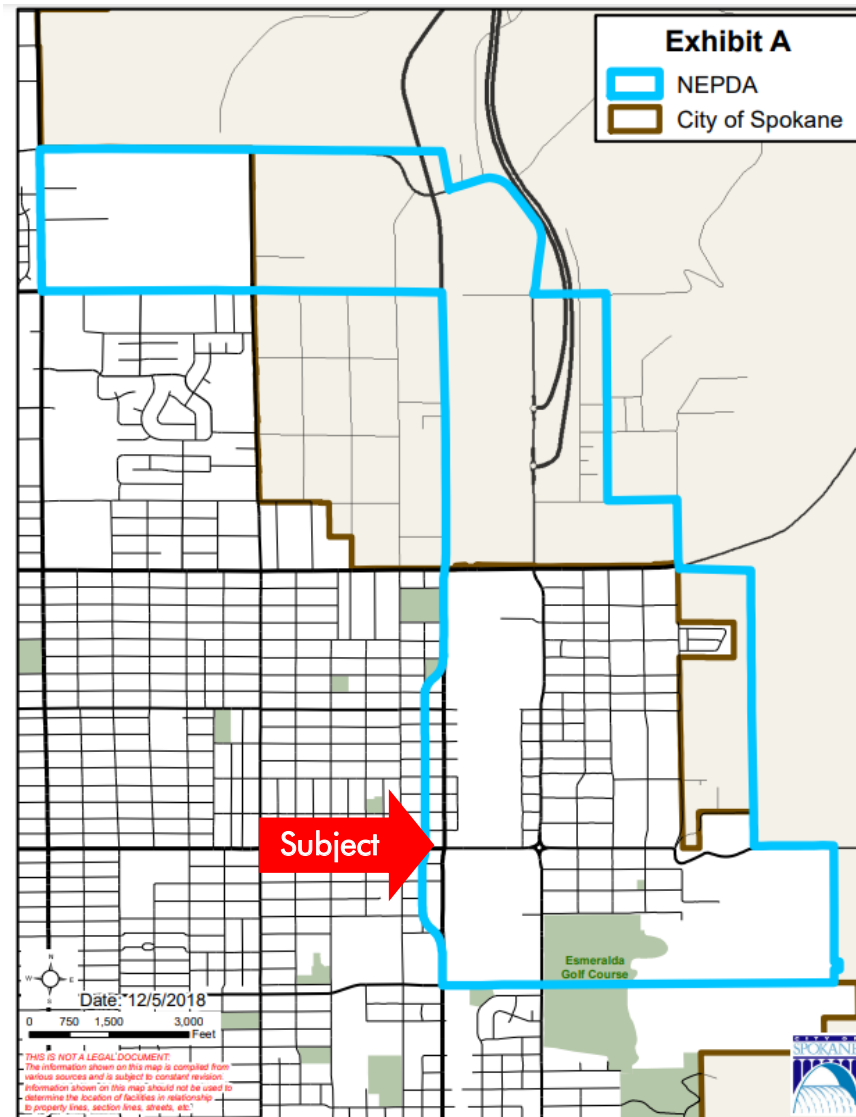
It is our understanding Spokane County foreclosed on the property several years ago, after a building had burned down on the property and the owner did not completion with a demolition order. In May 2023, the City of Spokane acquired the property from Spokane County for an amount that equaled outstanding property taxes due, plus fees. The city is currently using the property as a construction staging area for the reconstruction of the intersection on which the subject is situated. Construction is scheduled to be completed in the near future.

² The Appraisal Foundation, *USPAP, 2020-2021 (Effective January 1, 2020, through December 31, 2022)*

The client, Northeast Public Development Authority, is in discussions with the city to acquire the site to build the previously described mixed-use apartment building. The Northeast Public Development Authority (NEPDA aka Make it Spokane) has a stated mission, "To facilitate the redevelopment, development, and construction of public benefit projects, resulting in increased economic activity and job growth within the PDA boundary." A map of the PDA boundary is presented below.

According to Jesse Bank, the Executive Director of NEPDA, the goal is to provide additional quality rental housing to the neighborhood. Additionally, NEPDA intends to occupy 37% of the street-level commercial space, with the remaining space to be leased by start-up businesses at below-market rates, to encourage local businesses to start up in the neighborhood.

Per the scope of this assignment, we have analyzed the subject as if the apartments and retail space are operated as a market-rate, mixed-use property.



EXPOSURE/MARKETING TIME

Current appraisal guidelines require an estimate of a reasonable time period in which the subject could be brought to market and sold. This reasonable time frame can either be examined historically or prospectively. In a historical analysis, this is referred to as exposure time. Exposure time always precedes the date of value, with the underlying premise being the time a property would have been on the market prior to the date of value, such that it would sell at its appraised value as of the date of value. On a prospective basis, the term marketing time is most often used. The exposure/marketing time is a function of price, time, and use. It is not an isolated estimate of time alone. In consideration of these factors, we have analyzed the following:

- exposure periods for comparable sales used in this appraisal;
- exposure/marketing time information from the PwC Real Estate Investor Survey; and
- the opinions of market participants.

The following table presents the information derived from these sources.

EXPOSURE/MARKETING TIME DATA			
Investment Type	Exposure/Mktg. (Months)		
	Range		Average
Comparable Sales Data	1.0	- 6.0	3.5
<i>PwC Apartment</i>			
National Data	1.0	- 12.0	4.6
Local Market Professionals	2.0	- 6.0	n/a
CBRE Exposure Time Estimate	6 Months or Less		
CBRE Marketing Period Estimate	6 Months or Less		
Various Sources Compiled by CBRE			

July 21, 2023

REAL ESTATE REVIEW COMMITTEE
Recommendation of Property Dispositions:
3011 East Wellesley

Mayor Woodward:

Pursuant to Chapter 12.10 of the Spokane Municipal Code, this report represents the Real Estate Review Committee ("RERC") recommendation to surplus city owned property for the purposes of future disposition. The following RERC members convened on June 20th, 2023:

- Council Member, Michael Cathcart
- Integrated Capital Director, Marcia Davis
- Integrated Capital, Kevin Picanco
- Community & Economic Development Division Director, Steve MacDonald
- Planning & Development Director, Spencer Gardner
- Planning & Economic Development, Teri Stripes
- Parks & Recreation, Nick Hamad
- Real Estate Manager, Dave Steele

The committee recommended these actions and requests your concurrence:

- 3011 East Wellesley:
 - This is commercial lot located in the Hillyard District, the City of Spokane acquired it from Spokane County through a tax sale after the City completed a fire cleanup on the property and placed a lien for the costs against the property.
 - Declare this property surplus, complete the transfer to the NEPDA, with no restrictions or holdbacks
 - Use any future or negotiated proceeds to recover any liens, abatement, or cleanup costs

Mayor's Concurrence: _____



Date: _____

7/24/23

STANDING COMMITTEE - MINUTES

City of Spokane

Real Estate Review Committee
July 21, 2023

Attendance

CM Michael Cathcart, Shae Blackwell, Steve MacDonald, Marcia Davis, Nick Hamad, Kevin Picanco, Teri Stripes, and Dave Steele

Meeting started at 3:30 p.m. This meeting was conducted through Microsoft Teams.

Agenda Item

3011 East Wellesley

Dave Steele introduced the purpose of the RERC, the typical process that follows the discussion, and a quick introduction of the property.

Teri Stripes / Steve MacDonald discussed the history of the property and the steps that led to the City acquiring the property.

1. Privately owned.
2. The previous use suffered a fire resulting in the need to be demolished.
3. Previous property owner did not complete the demolition and clean up.
4. The City of Spokane completed the clean up at an approximate \$600,000 expense to the City.
5. A lien for the cost of demolition was placed against the property.
6. The previous owner forfeited the property to the County as a tax foreclosure.
7. The City acquired the property from Spokane County.

The City Staff began discussions with the NEPDA about a property transfer on 2018 with support from City Council and from the previous Administration.

Feedback from the Real Estate Program, Parks Department, and from Integrated Capital Management was that there are no foreseeable needs in any of these areas that would justify retaining the property.

General consensus and recommendation of the committee was to declare the property surplus to the City's needs with the recommended disposition of the property being completed through a transfer of the property to the NEPDA with terms and conditions of the transfer to be finalized in the future.

Adjournment

The meeting was adjourned at 4:05 p.m.

Prepared by:

Dave Steele

Approved by:

Concensus

Real Estate Review Committee Meeting

July 21, 2023

3011 East Wellesley

Property Description

The subject property consists of an approximately 22,650 s.f. parcel of CC2-DC commercial property on the northeast corner of the intersection of North Haven and Wellesley

Acquisition History

This property was acquired through a Spokane County Tax sale with the intent of recouping various City liens.

Department Linked to the Property

General Fund dollars were used to acquire this property through the County tax foreclosure process

Land Use and Zoning

This property is designated as CC2 as part of the District Center

Estimated Fair Market Value

The size, location, zoning, and current market for residentially developable, multiunit properties makes this a highly valuable property in Spokane at this date and time. While the assessed value of the vacant property is currently in the \$157,000 range, a likely sale value could be significantly higher due to being vacant and location / size.

Potential Limitations

In the current development market there are very few limitations to development of this property.

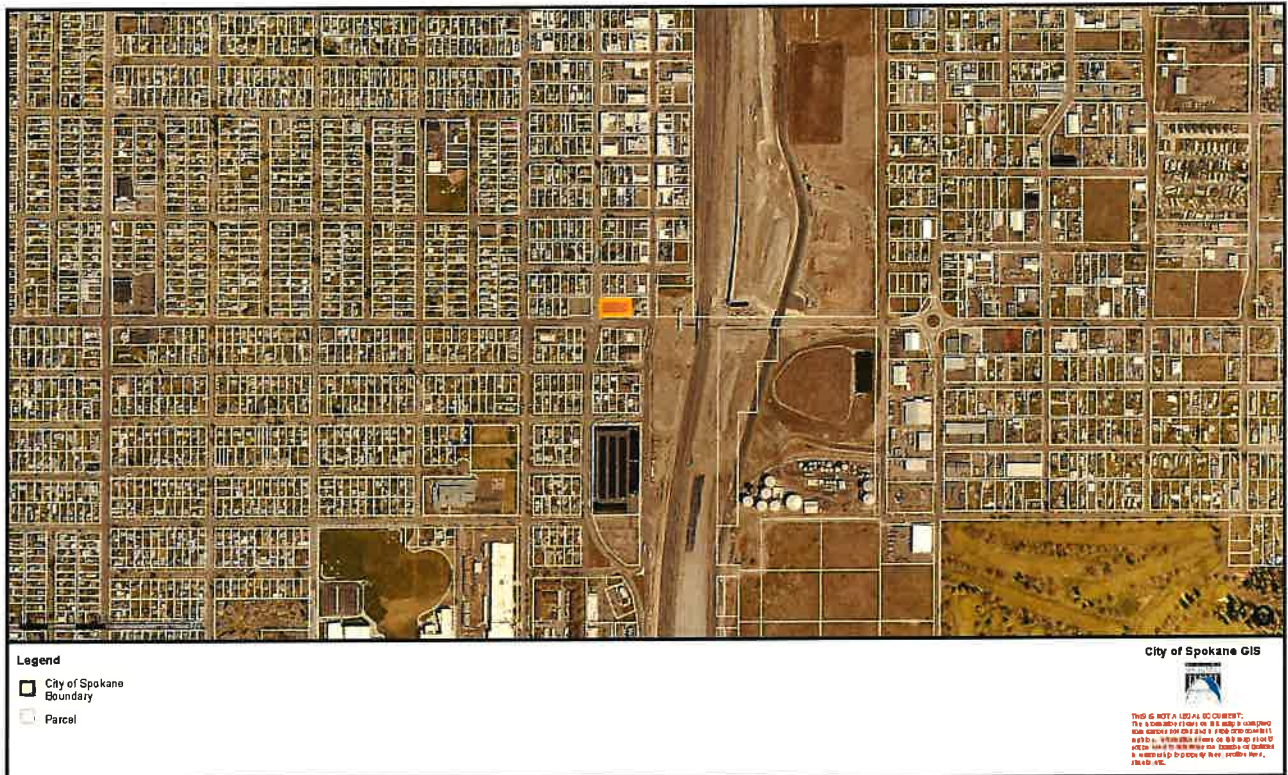
Recommended covenants, conditions, or restrictions as part of sale

None proposed at this time.

Recommended disposition method

Transfer to the NEPDA as supported

City of Spokane Map 2



Clerk No. _____

PURCHASE AND SALE AGREEMENT

This Agreement is entered into as of _____ (the “Effective Date”), by and between the CITY OF SPOKANE, a Washington municipal corporation (“City”), and NORTHEAST PUBLIC DEVELOPMENT AUTHORITY (“NEPDA”), collectively (“the Parties”).

Whereas, the NEPDA was originally established by City of Spokane Ordinance No. C-34813 on December 12, 2011 and reformed by the Interlocal Agreement between the City of Spokane and Spokane County through City of Spokane OPR #2019-0928 and Spokane County Resolution #19-1390 to assist the City of Spokane and Spokane County to facilitate economic development of the Northeast area of the City and County; and

Whereas, pursuant to RCW 35.21.730(1), City is authorized to transfer to the NEPDA, with or without consideration, any funds, real or personal property, property interests, or services; and

Whereas, pursuant to RCW 35.21.747, in transferring real property to the NEPDA, City is required to impose appropriate deed restrictions necessary to ensure the continued use of such property for the public purpose or purposes for which such property has been transferred to the NEPDA, and further requires City to impose certain procedural requirements which must be satisfied prior to any sale or encumbrance of such property; and

Whereas, the Parties wish to enter into an agreement under which the NEPDA will purchase from City and City will sell to the NEPDA certain real property located at 3011 E Wellesley Avenue, in the City of Spokane, WA (the “Property”) for purposes consistent with the Interlocal Agreement, the NEPDA Charter, and Washington laws governing the formation and operation of public development authorities, including but not limited to, affordable housing; and

Whereas, the City acquired the Property from Spokane County via a Treasurer’s Deed; and

Whereas, prior to the City’s ownership of the Property, a fire caused extensive damage to an apartment building located on the property and the building was subsequently condemned as uninhabitable; and

Whereas, to ensure public safety, the City’s Code Enforcement Department erected a fence around the Property and eventually had the apartment building demolished, incurring \$418,323.28 in fees which were placed as a lien on the Property (“City Lien”); and

NOW, THEREFORE, in consideration of the respective agreements set forth below and for good and valuable consideration, the receipt and sufficiency of which is acknowledged, City and NEPDA agree as follows:

1. Sale of Property. City agrees to sell and convey to the NEPDA and the NEPDA agrees to purchase from City, subject to the terms and conditions set forth in this Agreement, and further subject to any rights of redemption under Chapter 84.64. RCW, the real property commonly located at 3011 E Wellesley Avenue, in the City and County of Spokane, State of Washington, and legally described in Exhibit "A" hereto, Spokane County Parcel No. 36343.3007 (the "Property").

2. Earnest Money. [intentionally omitted]

3. Purchase Price. The purchase price for the Property (the "Purchase Price") will be One Dollar (\$1.00), paid to City in cash through escrow at closing. As additional consideration for the purchase and sale of the Property to the NEPDA, upon any future sale of the Property, the City Lien shall be repaid. For such repayment of the City Lien, and the City shall receive a preferred position sale proceeds, pari-passu with the NEPDA's development partners for the Property (if any) and before the NEPDA, until the City is made whole on its lien amount of \$418,323.28.

4. Title to the Property.

4.1 Conveyance. At closing, City shall convey to NEPDA fee simple title to the Property by a duly executed and acknowledged Quitclaim Deed (the "Deed"), subject to those exceptions that the NEPDA approves pursuant to Section 4.2 below, and further subject to such appropriate deed restrictions as the City deems necessary to satisfy the requirements of RCW 35.21.747 (collectively the "Permitted Exceptions"). The Deed shall provide that the Property will be used by the NEPDA for any lawful purpose consistent with the NEPDA's Charter and Bylaws, including affordable housing, and will provide that any sale or encumbrance of the Property by the NEPDA must comply with the provisions contained in RCW 35.21.747, as now existing or hereafter amended. The Deed shall further provide that, upon a sale of the Property, the City shall receive a preferred position on sale proceeds, as set forth in Paragraph 3.

4.2 Preliminary Commitment. City shall order a preliminary commitment for an owner's standard coverage policy of title insurance in the amount of the Purchase Price to be issued by a title company of the City's choosing (the "Title Company") and accompanied by copies of all documents referred to in the commitment (the "Preliminary Commitment"). Within fifteen (15) business days of City's delivery of a copy of the Preliminary Comment to the NEPDA, the NEPDA shall advise City by written notice of the exceptions to title, if any, that are disapproved by the NEPDA ("Disapproved Exceptions"). City will then have ten (10) business days after receipt of the NEPDA's notice to give the NEPDA notice that (i) City will remove Disapproved Exceptions or (ii) City elects not to remove Disapproved Exceptions. If City fails to give the NEPDA notice before the expiration of the ten (10) day period, City will be deemed to have elected not to remove Disapproved Exceptions. In no event shall City have any obligation to spend any money to have Disapproved Exceptions removed.

If City elects not to remove any Disapproved Exemptions, the NEPDA will have until the expiration of the Feasibility Study Period, as set forth in Section 5, to notify City of the NEPDA's election either to proceed with the purchase and acquire the Property subject to the Disapproved Exceptions, or to terminate this Agreement. If City gives notice that it will cause one or more Disapproved Exception(s) to be removed, but fails to remove any of them from title on or before the Closing Date, the NEPDA will have the right to either (i) elect to terminate this Agreement by written notice to City or (ii) proceed with the purchase and acquire the Property subject to any remaining Disapproved Exception(s). If the NEPDA elects to terminate this Agreement, the escrow will be terminated, all documents and other funds will be returned to the party who deposited them, and neither party will have any further rights or obligations under this Agreement except as otherwise provided in this Agreement. If this Agreement is terminated through no fault of either party, then City and the NEPDA shall share equally any costs of terminating the escrow and any cancellation fee for the Preliminary Commitment.

- 4.3 Title Policy. City shall cause Title Company to issue to the NEPDA at closing a standard coverage owner's policy of title insurance insuring the NEPDA's title to the Property in the full amount of the Purchase Price subject only to the Permitted Exceptions (the "Title Policy"). The Title Policy must be dated as of the Closing Date. PROVIDED, notwithstanding the foregoing, the City and NEPDA acknowledge and understand that the Title Company may be unwilling to issue a title commitment immediately due to the fact that certain individuals may have three (3) years to redeem (RCW 84.64.070).

5. Conditions to Closing.

5.1 Feasibility Study.

- 5.1.1 Feasibility Study Period. During the period ending on the date which is one hundred eighty (180) days following the Effective Date (the "Feasibility Study Period"), the NEPDA may conduct a review with respect to the Property and satisfy itself with respect to the condition of and other matters related to the Property and its suitability for the NEPDA's intended use (the "Feasibility Study").

The Feasibility Study may include all inspections and studies the NEPDA deems necessary or desirable, in its sole discretion. The NEPDA and its agents, representatives, consultants, architects, and engineers will have the right, from time to time, during the Feasibility Study Period to enter onto the Property and make borings, drive test piles and conduct any other test and studies that may be necessary or desirable to ascertain the condition and suitability of the Property for the NEPDA's intended use. NEPDA shall protect and indemnify City from and against any construction or other liens or encumbrances arising out of or in connection with its exercise of this right of entry and shall cause any such liens or encumbrances to be promptly released.

5.1.2 Termination. The NEPDA will have the right to terminate this Agreement if, in the NEPDA's good faith judgment, the Property is not suitable for the NEPDA's intended use or does not meet the NEPDA's intended investment objectives. The NEPDA's right to terminate must be exercised by delivering written notice of its election to City on or before the expiration of the Feasibility Study Period, or any reasonable extension as agreed to by the Parties in writing. In the event the NEPDA does not complete the purchase, the NEPDA shall return the Property as near as is practicable to its condition at the time the Feasibility Study began. If the NEPDA terminates this Agreement under this Section, this Agreement will terminate, and City and the NEPDA will be released from all further obligation or liability hereunder, except for the NEPDA's obligations under Sections 5.1.1 and 5.1.4 herein.

5.1.3 Confidentiality. Prior to the Closing Date, the NEPDA will not distribute or divulge the information or materials it and its agents and consultants may generate in connection with the Feasibility Study to other persons except as may be required by law or as may be necessary or desirable in connection with the NEPDA's evaluation of the Property and its suitability; provided, that during this time period no information or materials concerning environmental matters will be divulged to any governmental entity without City's written consent, unless required by law. If the NEPDA elects not to purchase the Property, the NEPDA agrees that, except as may be required by law, it will not further divulge or further distribute the information and materials except with City's consent.

Notwithstanding the foregoing, if the NEPDA elects not to purchase the Property, and if City requests copies of the written reports and studies prepared for the NEPDA in connection with its Feasibility Study, then the NEPDA will deliver to City copies of the final reports and studies. The NEPDA will, in that event, cooperate reasonably with City to coordinate City's communications with the consultants, provided the NEPDA will not be obligated to bear any costs or expend more than a reasonable period of time in doing so.

5.1.4 Indemnification. The NEPDA agrees to assume all liability for and to indemnify and save City harmless from all liability and expense (including reasonable attorneys' fees) in connection with all claims, suits and actions of every name, kind and description brought against City or its agents or employees by any person or entity as a result of or on account of injuries or damages to person, entities and/or property received or sustained, arising out of, in connection with or as a result of the acts or omissions of NEPDA or its agents or employees in exercising its rights under the right of entry granted in this Section 5, except for claims caused by City's negligence.

5.2 Contingencies. The NEPDA's obligation to purchase the Property is expressly contingent upon the following (collectively referred to in this Agreement as the "NEPDA's Contingencies"):

- 5.2.1 Feasibility Study. The NEPDA's approval, prior to expiration of the Feasibility Study Period or any extension thereof, of the suitability of the Property as a result of the Feasibility Study;
- 5.2.2 Environmental condition. The NEPDA's approval, prior to expiration of the Feasibility Study Period, of the environmental condition of the Property pursuant to Section 11 below;
- 5.2.3 Title Policy. The NEPDA's receipt of Title Company's firm commitment to issue, upon closing, the Title Policy as described in Section 4.3;
- 5.2.4 City's compliance. City's timely performance of all of its obligations under this Agreement; provided, City will be given reasonable notice of any failure on its part to perform any such obligations and will have a period of time that is reasonable under the circumstance to cure its nonperformance; and

The Parties shall diligently attempt to timely satisfy all of the NEPDA's Contingencies.

5.3 Satisfaction/Waiver of the NEPDA's Contingencies. The NEPDA's Contingencies are solely for the benefit of NEPDA. The Parties shall diligently attempt to timely satisfy all of the NEPDA's Contingencies. If any of the NEPDA's Contingencies are not timely satisfied, the NEPDA will have the right at its sole discretion to either waive any of them in writing and proceed with the purchase, or to terminate this Agreement. If the NEPDA elects to terminate this Agreement, the escrow will be terminated, all documents and other funds will be returned to the party who deposited them, and neither party will have any further rights or obligations under this Agreement, except as otherwise provided in this Agreement. If this Agreement is terminated under this Section, then City and the NEPDA shall share equally any costs of terminating the escrow.

6. Closing Date. This transaction will be closed in escrow by the Title Company acting as escrow agent ("Escrow Agent"). The closing will be held at the offices of the Title Company on or before that date which is sixty (60) days after the end of the Feasibility Study Period or satisfaction/waiver of the NEPDA's Contingencies, but in any event no later than 5:00 p.m. Pacific Time, on _____ (the "Closing Date"). If closing does not occur on or before _____, or any later date mutually agreed to in writing by City and the NEPDA, Escrow Agent will immediately terminate the escrow and return all documents to the party that deposited them.

7. Closing.

7.1 City's Escrow Deposits. On or before the Closing Date, City shall deposit into escrow the following:

7.1.1 the duly executed and acknowledged Quitclaim Deed; and

- 7.1.2 a duly executed and acknowledged Real Estate Tax Affidavit;
- 7.2 NEPDA's Escrow Deposits. On or before the Closing Date, the NEPDA shall deposit into escrow the following:
- 7.2.1 cash in an amount sufficient to pay the Purchase Price and the NEPDA's share of closing costs;
- 7.2.2 a duly executed and completed Real Estate Excise Tax Affidavit; and
- 7.2.3 any other documents or instruments the NEPDA is obligated to provide pursuant to this Agreement in order to close this transaction.
- 7.3 Additional Instruments and Documentation. City and the NEPDA shall each deposit any other instruments and documents that are reasonably required by Escrow Agent or otherwise required to close the escrow and consummate the purchase and sale of the Property in accordance with this Agreement.
- 7.4 Closing Costs.
- 7.4.1 City's Costs. City shall pay the premium for a standard coverage owner's policy of title insurance in the full amount of the Purchase Price, the Title Company's escrow fee, and the cost of recording the Deed. It is understood between the parties that pursuant to WAC 458-61A-205 this sale will be exempt from the Washington State real estate excise tax, and the NEPDA agrees to cooperate with City in executing such documents as are required to qualify City for such exemption.
- 7.4.2 NEPDA's Costs. NEPDA shall pay the additional premium, if any, attributable to the extended coverage owner's policy of title insurance (if elected by the NEPDA) and any endorsements required by the NEPDA.
- 7.5 Foreign Investment in Real Property Tax Act. The parties agree to comply in all respects with Section 1445 of the Internal Revenue Code and the regulations issued thereunder.
8. Adjustments and Prorations. The following adjustments and prorations will be made as of the Closing Date (with NEPDA either responsible for or entitled to a credit for, as the case may be, the actual Closing Date).
- 8.1 Property Taxes. All property taxes payable in the year of closing and assessments approved by NEPDA, if any, will be prorated as of the Closing Date.
- 8.2 Utilities. All gas, electric and other utility charges will be prorated as of the Closing Date.
9. Covenants. [intentionally omitted]

10. Representations and Warranties.

10.1 City's Representations and Warranties. Except as specifically provided in this Agreement, City makes no warranty or representation, express or implied, with respect to the condition of the Property or its suitability for any particular purpose.

10.1.1 City has not received notice of any special assessment or condemnation proceedings affecting the Property.

10.1.2 To the best of City's knowledge, there is no litigation pending or threatened against City (or any basis for any claim) that arises out of the ownership of the Property and that might materially and detrimentally affect (i) the use or operation of the Property for the NEPDA's intended use, or (ii) the ability of City to perform its obligations under this Agreement.

10.1.3 City represents and warrants to the NEPDA that this Agreement and all documents executed by City that are to be delivered to NEPDA at closing are, or at the time of closing will be (i) duly authorized, executed and delivered by City, (ii) legal, valid and binding obligations of City, and (iii) in compliance with all provisions of all agreements and judicial orders to which City is a party or to which City is subject.

10.2 Waiver of City Disclosure Statement. The NEPDA expressly waives the NEPDA's right to receive from City a signed and dated Real Property Transfer Disclosure Statement as contemplated by Chapter 64.06 RCW.

10.3 NEPDA's Representations and Warranties. The NEPDA represents and warrants to City that this Agreement and all documents executed by NEPDA that are to be delivered to City at closing are, or at the time of closing will be (i) duly authorized, executed and delivered by NEPDA, (ii) legal, valid and binding obligations of NEPDA, and (iii) in compliance with all provisions of all agreements and judicial orders to which NEPDA is a party or to which NEPDA is subject.

11. Hazardous Materials. Notwithstanding the representations set forth above, the City makes no representation regarding any Hazardous Materials Condition, as defined below, affecting the Property. The NEPDA takes the Property "AS IS" with all physical defects, including those that cannot be observed by casual inspection. City will have no obligation to repair or remedy any physical defects of the Property. The NEPDA may, at its sole cost, expense, and liability, conduct an environmental site assessment of the Property during the Feasibility Study Period. For the purposes of this paragraph, "Hazardous Materials" shall include, but not be limited to, substances defined as "Hazardous Substances," "Hazardous Materials," "Hazardous Waste," "Toxic Substances", in the Comprehensive Environmental Response, Compensation and Liability Act of 1980 as amended, 42 U.S.C. Section 9601 et seq., the Model Toxic Control Act of the State of Washington and all regulations adopted and publications promulgated pursuant to such laws, collectively "Environmental Laws". A "Hazardous Materials Condition" for purposes of this Agreement is defined as the existence on, under or relevantly adjacent to the Property of

Hazardous Materials that would require remediation and/or removal under applicable Federal, State or local law. In the event the NEPDA notifies City prior to the Closing Date that the Property is affected by a Hazardous Materials Condition and such notice is accompanied by a report from an engineering company with experience in evaluating such matters, the NEPDA may either (a) terminate this Agreement, or (b) proceed to Closing notwithstanding such contamination. To the extent allowed by law, the environmental due diligence investigation provided for herein and any information or documents produced or collected by the environmental consultant in connection with this investigation shall be considered to be confidential information by the NEPDA and City until Closing. Prior to Closing, or in the event Closing does not occur, the NEPDA shall not disclose such information to any third party or initiate or have any direct contact with any governmental agencies in connection with the environmental investigation without the prior written consent of the City's Director of Asset Management, unless otherwise required by law. The NEPDA may disclose said information to its employees, attorneys, consultants, lenders, or others who have a need to know and use the information in connection with this Agreement, and may disclose said information if required to do so by law, or by court order. If the environmental investigation reveals any conditions that applicable laws require to be reported to any governmental agency, the City shall have the responsibility to make such reports or disclosures.

12. Eminent Domain. If all or any part of the Property is taken by condemnation or eminent domain and the value of the portion of the Property so taken exceeds Fifty Thousand and 00/100 Dollars (\$50,000.00), the NEPDA may, upon written notice to City, elect to terminate this Agreement, and in such event all monies theretofore paid on account must be returned to the NEPDA, and neither party will have any further liability or obligation under this Agreement. If all or any portion of the Property has been or is hereafter condemned or taken by eminent domain and this Agreement is not canceled, City's right, title and interest in and to any awards in condemnation or eminent domain, or damages of any kind, to which City may have become entitled or may thereafter be entitled by reason of any exercise of the power of condemnation or eminent domain with respect to the Property or any portion thereof shall accrue to and are expressly transferred to the NEPDA.

13. Possession. City shall deliver possession of the Property to the NEPDA on the Closing Date.

14. Default. If there is an event of default under this Agreement by City (including a breach of any representation, warranty or covenant), the NEPDA may terminate this Agreement by written notice to City and Escrow Agent. If the NEPDA terminates this Agreement, the escrow will be terminated, the NEPDA's entire deposit, if any, must immediately be returned to the NEPDA, all documents will be immediately returned to the party who deposited them, and neither party will have any further rights or obligations under this Agreement, except as otherwise provided in this Agreement except that City shall pay any costs of terminating the escrow and any cancellation fee for the Preliminary Commitment.

15. Notices. Any notice under this Agreement must be in writing and be either (1) personally delivered, (2) delivered by U.S. mail, or (3) e-mailed to the designated representative for the party. Any notice given by U.S. mail must be sent, postage prepaid, by certified or registered mail, return receipt requested. All notices must be addressed to the parties at the following addresses or at such other addresses as the parties may from time to time direct in writing:

City: City of Spokane
Attn: _____
808 W Spokane Falls Blvd
Spokane, WA 99201

With a copy to: Office of the City Attorney
808 W Spokane Falls Blvd
Spokane, WA 99201

NEPDA: Northeast Public Development Authority
Attn: Jesse Bank

Spokane, WA 992__

Any notice will be deemed to have been given, if personally delivered, when delivered, and if delivered by courier service, one business day after deposit with the courier service, and if mailed, two business days after deposit at any post office in the United States of America, and if delivered via e-mail, the same day as verified, provided that any verification that occurs after 5 p.m. on a business day, or at any time on a Saturday, Sunday or holiday, will be deemed to have occurred as of 9 a.m. on the following business day.

16. Brokers and Finders. Neither party has had any contact or dealings regarding the Property, or any communication in connection with the subject matter of this transaction, through any licensed real estate broker or other person who can claim a right to a commission or a finder's fee as procuring cause of the purchase and sale contemplated by this Agreement. If any broker or finder perfects a claim for a commission or finder's fee based upon any other contract, dealings or communication, the party through whom the broker or finder makes his or her claim will be responsible for that commission or fee and shall indemnify and hold harmless the other party from and against any liability, cost or damages (including attorneys' fees and costs) arising out of that claim.

17. Amendments. This Agreement may be amended or modified only by a written instrument executed by City and the NEPDA.

18. Continuation and Survival of Representations and Warranties. All representations and warranties by the respective parties contained in this Agreement or made in writing pursuant to this Agreement are intended to and will remain true and correct as of the Closing Date, will be deemed to be material and will survive the execution and delivery of this Agreement and the delivery of the Deed and transfer of title. Such representations and warranties, however, are not assignable and do not run with the land, except as may be expressly provided herein or contained in a written instrument signed by the party to be charged.

19. Governing Law. This Agreement will be governed by and construed in accordance with the laws of the state of Washington.

20. Entire Agreement. This Agreement and its exhibits constitute the entire agreement between the Parties with respect to the purchase and sale of the Property, and supersede all prior agreements and understandings between the Parties relating to the subject matter of this Agreement. It is expressly agreed that there are no verbal understandings or agreements which in any way change the terms, covenants, and conditions set forth herein.

21. Attorney Fees. Each party shall pay its own legal fees relating to negotiation and drafting of this Agreement and the documents to be executed at closing. If either party fails to perform any of its obligations under this Agreement or if a dispute arises concerning the meaning or interpretation of any provision of this Agreement, the defaulting party or the party not substantially prevailing in the dispute, as the case may be, shall pay any and all costs and expenses incurred by the other party in enforcing or establishing its rights under this Agreement, including, without limitation, court costs and reasonable attorney fees incurred in connection with any federal, state, or bankruptcy court proceeding.

22. Waiver. Neither City's nor NEPDA's waiver of the breach of any covenant under this Agreement will be construed as a waiver of a subsequent breach of the same covenant.

23. Nonmerger. The terms and provisions of this Agreement, including, without limitation, all indemnification obligations will not merge in, but will survive, the closing of the transaction contemplated under this Agreement.

24. Negotiation and Construction. This Agreement and each of its terms and provisions are deemed to have been explicitly negotiated between the parties, and the language in all parts of this Agreement will, in all cases, be construed according to its fair meaning and not strictly for or against either party.

25. Assignment. NEPDA may not assign its rights under this Agreement.

26. Governmental Approval. NEPDA acknowledges and agrees that this Agreement does not bind the City of Spokane until it is signed by the Mayor following approval by the Spokane City Council in open public meeting. The City similarly acknowledges that this Agreement does not bind the NEPDA until it has been signed by the NEPDA following approval of its governing body in an open public meeting.

27. Exhibits. The following exhibits are attached to and made a part of this Agreement by this reference.

EXHIBIT A – Legal Description of the Property

STATE OF WASHINGTON :
:ss.
County of Spokane :

On this ____ day of _____, 20__, before me personally appeared _____, to me known to be the _____ of NORTHEAST PUBLIC DEVELOPMENT AUTHORITY, the entity that executed the within and foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of the corporation, for the uses and purposes therein mentioned, and on oath stated that he/she was authorized to execute said instrument and that the seal affixed is the corporate seal of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year first above written.

Notary Public in and for the State
of Washington, residing at Spokane
My Appointment expires _____

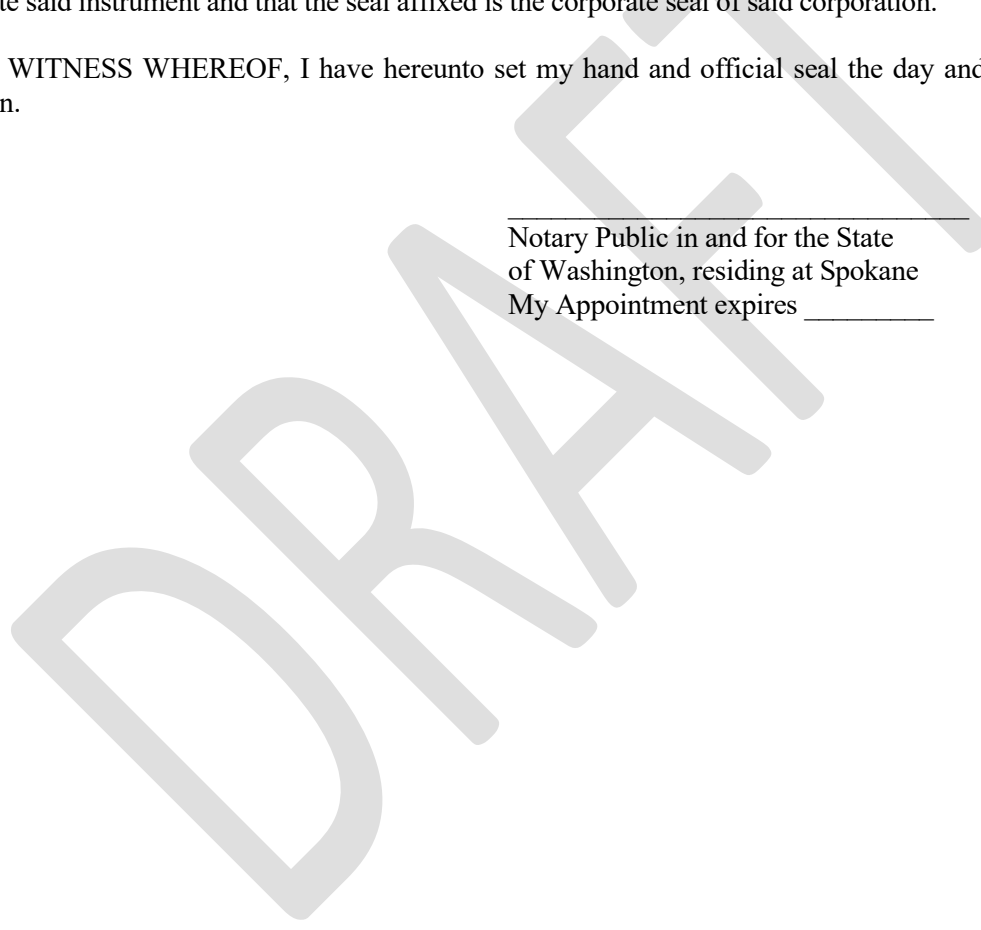


EXHIBIT "A"

LEGAL DESCRIPTION OF THE PROPERTY

Lots 7, 8, 9 and the west 27 feet of Lot 10, Block 23, of Hillyard as per plat thereof recorded in Volume "D" of Plats, page 17 in the office of the Spokane County Auditor. All located with the SW Quarter of Section 34, T26N, R43 E.W.M.

DRAFT