Chophouse Row

**QUICK FACTS**

**Location**
Seattle, Washington

**Project type**
Mixed use

**Site size**
0.23 acres

**Location**
Other Central City

**Land uses**
Office, Retail, Restaurants, Multifamily Rental Housing, Parking, Courtyard

**Keywords and special features**
Redevelopment, Infill development, Pedestrian-friendly development, Small-scale development, Adaptive use, Preservation, Mews, ULI Global Awards for Excellence 2016 Finalist

**Websites**
www.chophouserow.com
www.dunnandhobbes.com/prj_chop.php

**Project address**
1424 11th Avenue
Seattle, WA 98122

**Developer**
Dunn + Hobbes LLC
Seattle, Washington
www.dunnandhobbes.com

**Real estate adviser and capital partner**
Heartland LLC
Seattle, Washington
heartlandllc.com

**Architect of record**
SKL Architects
sklarchitects.com

**Contributing design architect**
Graham Baba Architects
grahambabaaarchitects.com

**Urban designers**
Weinstein A+U
Framework

**Landscape designer**
Michelle Arab Studio

**Structural engineer**
MA Wright LLC

**Civil engineer**
KPFF Consulting Engineers

**Construction project management**
FIX

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**PROJECT SUMMARY**

Chophouse Row is the last phase of a multiyear redevelopment of a cluster of properties in the Pike-Pine neighborhood of Seattle. Completed in spring 2015, Chophouse Row is a small-scale, mixed-use project that includes 25,317 square feet of office space, 6,379 square feet of retail space, and three penthouse apartments totaling 4,795 square feet; total gross building area is 43,543 square feet. The development includes a mix of vintage and modern structures, a pedestrian alley/mews that provides a walk-through connection from 12th to 11th Avenue, and a courtyard and pedestrian plaza at the center of the block that ties together Chophouse Row and the other properties on the block.
Introduction

Granular and incremental are words not often used when discussing urban redevelopment—but they are both key concepts in Liz Dunn’s approach to development and redevelopment. Chophouse Row is a carefully crafted infill development project in the heart of the Pike-Pine neighborhood of Capitol Hill. The project is part of a larger block-sized redevelopment effort—the 12th Avenue Marketplace—that consists of six separate parcels that have been acquired, redeveloped, and knit together over a 15-year period by the firm Dunn + Hobbes LLC.

The Chophouse Row portion includes a mix of loft office space, a retail marketplace, public space, and residential penthouses. The project combines a two-story former auto parts store building, built in 1924, with a new seven-story steel-and-concrete tower that features five levels of open-plan office workspaces along with floor-to-ceiling windows and exposed steel framing. Three residential penthouses are located on the top floor of the tower. A pedestrian alley and midblock plaza provide frontage for retailers and for pedestrian strolling and gathering areas; they also connect Chophouse Row to other 12th Avenue Marketplace properties.

The Site and the Idea

The block where Chophouse Row is located consists of about 12 separate parcels occupied primarily by low-rise commercial buildings. Starting in 1999, Dunn, principal of Dunn + Hobbes, acquired six of those parcels, including the Piston & Ring Building, the Pacific Supply Building, the Manhattan Building, the Agnes Lofts site, an auto parts building, and a surface parking lot. The first three properties were individually renovated between 2000 and 2006, a surface parking lot was developed into loft apartments over a restaurant in 2007 as Agnes Lofts, and the last two properties—the auto parts building and an adjacent surface parking lot—were combined to implement the Chophouse Row project, which was completed in 2015.

The first four of these properties face onto 12th Avenue, and the latter two—now Chophouse Row—face onto 11th Avenue. In addition, a seventh parcel, an adjacent vintage 1916-era office building—known as the Baker Linen Building and facing onto 11th Avenue—was acquired in 2014 (and recapitalized in 2015 through a separate investor capitalization). The overall project spans almost 500 feet of frontage that wraps around three streets—11th Avenue, East Pike Street, and 12th Avenue. The entire property is collectively known as the 12th Avenue Marketplace. Several parcels on the southern portion of the block are not part of the project, including a Ferrari and Maserati auto dealer showroom and an associated parking lot.

The site for the Chophouse Row parcel is about 10,000 square feet (0.23 acres), while the overall 12th Avenue Marketplace site is about 38,000 square feet. A large portion of the Chophouse Row site was occupied by a two-story, heavy-timber building that was constructed in 1924 as an auto parts store. From the mid-1980s until 2013, the building was divided into band practice rooms supporting Capitol Hill’s robust alternative music scene. The other half of the site was a surface parking lot, where a Victorian-era rooming house had been demolished in the 1960s.

The project is located in the Capitol Hill neighborhood of Seattle, less than one mile from downtown Seattle. The location is transit- and pedestrian-friendly and is two blocks from the new Broadway streetcar and four blocks from the new Capitol Hill light-rail station.

The Pike-Pine corridor is one of Seattle’s most vibrant pedestrian areas, with a combination of historic building stock and new developments full of local restaurants, bookstores, live music venues, galleries, cafés, apartments, and innovative office tenants. The area offers an abundant housing supply, with more than 1,500 new residential units under construction or in permitting.

Development Finance

Dunn + Hobbes LLC is a small Seattle-based developer focused on small-scale infill projects in urban village neighborhoods. The company was founded by Dunn in 1997, and it specializes in the adaptive use of existing buildings, as well as new construction, including multifamily, office, and retail uses.

Investors. Dunn assembled the 12th Avenue Marketplace site using a combination of her own capital along with capital from friends and family investors. She used this capital and additional
The project presented an interesting assemblage for investors, including existing assets—with current cash flow and relatively low risk—and a new construction component, with no current cash flow and with higher risks. The project also offered a blend of several uses. Dunn believed that the more people investing, the more advocates there would be for the project. Democratizing the financing was part of the investment strategy, and investors actually visit and patronize the project.

**Recapitalization plan.** Dunn’s objective in seeking financing was not only to finance the Chophouse Row project, but also to restructure the financing of the entire 12th Avenue Marketplace assemblage, to provide capital to help monetize her position in the existing assets, and to provide the equity needed for the new component. In the recapitalization, some existing investors in the original 12th Avenue Marketplace deal made new investments because many had a close relationship with Dunn. A number of investors are real estate professionals in their own careers.

The total cost of the Chophouse Row project, excluding land, was just over $14 million. The land was purchased by the original ownership entity in 1999 for about $900,000 ($90 per square foot). The land is valued today at about $4 million ($400 per square foot), but at the time of capitalization in late 2013 and early 2014, the land was contributed to the project at a value of about $2.4 million ($240 per square foot).

The financing combined the recapitalization of about 70,000 square feet of existing retail, office, and residential space with the new Chophouse Row office space, ground-floor retail space, and penthouse residential units. Heartland raised about $5.6 million in equity from accredited investors to fund the recapitalization and expansion of the 12th Avenue Marketplace as a whole. As such, most of the existing investors in the other buildings were brought into this recapitalization. Heartland is also a co-investor together with the equity investors that it brings to the project.

**The Prospectus.** The investor prospectus offered the following investment opportunity:

Heartland LLC is currently raising approximately $5.6 million in equity from accredited investors to recapitalize and develop 12th Avenue Marketplace, a combination of existing operating assets and new construction. Funds will be invested in HIO 12th Avenue Investors, which acts as the investor entity within a multitier ownership structure, and will be used to replace a portion of the capital that has been previously invested by the developer of the existing portfolio of operating assets (Piston & Ring Building, Pacific Supply Building, Manhattan Building, and Agnes Lofts) and the owner of the development site. With such equity infusion, the joint venture between the investor entity and the sponsor will be situated to construct the new mixed-use building, 11th & Pike, including carrying the project through construction, lease-up, and stabilization with a market-appropriate level of debt financing. HIO 12th Avenue Investors will contribute all or virtually all of the capital raised (net of formation costs and reserves) to the Platform Entity, as described below. The target investment period is nine years or longer.

This investment is designed to:
- Provide an annual 10% preferred return on a priority basis to HIO 12th Avenue Investors LLC,
- Provide priority return of invested and unreturned capital to HIO 12th Avenue Investors LLC,
- Provide alignment with the sponsor by providing the sponsor an annual 10% preferred return on a nonpriority basis and a promote structure earned after HIO 12th Avenue Investors LLC receives a full return of its capital and its priority preferred return, and
- Encourage a long-term hold approach through the combination of strong cash flowing assets with long-term capital appreciation potential.
Financing and ownership structure.

Broadly, the financing structure has involved a managing member, the sponsor; a nonmanaging member, the investor entity; a platform entity; and project entities.

Two single-purpose project entities, each wholly owned by the platform entity, have been formed to own the properties as follows: Agnes Piston LLC owns Agnes Lofts and the Piston & Ring Building, and Pacific Chop LLC owns the Pacific Supply Building, the Manhattan Building, and 11th & Pike (Chophouse Row). Those assets were financed separately because of the legal lot configuration and because financing costs were different for each asset type.

Agnes Lofts and the Piston & Ring Building are on a single legal lot, and the Pacific Supply and Manhattan buildings and the 11th & Pike site are on another single legal lot. The financing was structured such that if the platform entity should encounter a need for additional cash, whether for construction cost overruns or startup costs associated with 11th & Pike or other reasons, the sponsor would be obligated to contribute up to $500,000 of additional capital.

The development costs (including land) for Chophouse Row upon completion came to $16.4 million, higher than the original estimate of $14.4 million. Construction cost overruns were around 15 percent, plus there was a five-month delay in opening (from Thanksgiving to April). However, higher-than-anticipated rents allowed the developer to offset the costs, and in anticipation of a larger permanent loan, the construction loan was increased during construction from $10.7 million to $12.4 million as rent deals consistently exceeded the pro forma.

Equity and debt. Capitalization for the development of Chophouse Row involved about $4 million of equity and $12.4 million of debt (see data table for details), plus $750,000 for closing costs and working capital. Urban Shelter LLC (Liz Dunn) provided 51 percent of the equity and HIO 12th Avenue investors provided 49 percent.

Construction financing was provided by HomeStreet, a patient, locally based national lender. The partnership with this type of lender was key to working through all the complexities of the project. The construction loan was around 75 percent loan to cost on the new construction, and the loan-to-value ratio was 70 percent across the whole project. There was no mezzanine debt in the capital stack. HomeStreet also provided permanent financing upon project stabilization.

Returns. The leveraged ten-year internal rate of return (IRR) for the investors was originally projected to be 13 percent; as of early 2017, it is 11 to 12 percent. The stabilized cash flow after debt and expenses is around $940,000 per year. The priority return to investors is slightly below the 10 percent target because of the construction delays and overruns.

Planning and Design

Dunn’s approach to planning and development has been heavily influenced by her experiences while living in Toronto, Paris, and London, each of which, she observes, “are very granular, at least in their center cities, and small-scale development defines much of those cities. On any given urban block in those cities you will find five to ten older buildings, and those urban blocks thrive . . . . I have always been a fan of what I call “skinny infill” development—filling in the missing teeth on a block rather than demolishing it. My entire business is defined by rehab paired up with skinny infill, and Chophouse Row is an example of both.”

The plan. A master plan for the 12th Avenue Marketplace site was developed in the early 2000s by Lesley Bain, now principal of Seattle design firm Framework, when she was with Weinstein A+U. The plan governed the initial phases of development, including the mews and courtyard concepts, but it also provided for the removal of the auto parts building and the construction of a new apartment building in its place.

Because of the 2008–2010 recession, there was a hiatus between the planning and development of the 12th Avenue properties and the 11th Avenue properties. During this hiatus, the market changed, and a zoning change was implemented for the area. Such changes led the developer to shift the plan to an office-oriented concept. The new overlay zoning, with incentives to keep facades and structures that have character, led the developer to integrate the auto parts building into the plan; the zoning change also gave the developer an additional floor of development rights.

The plan that resulted integrates the two-story 1924 auto parts building with a new seven-story steel-and-concrete structure, and the new building is set back from the older building. The plan incorporates a public pedestrian alleyway, which runs through one of the three bays of the original auto parts building, and a midblock courtyard. These pedestrian areas are lined with retail and restaurant uses that connect Chophouse Row to several adjacent commercial buildings and to 12th Avenue.

Design team. The design for Chophouse Row involved a collaboration between two Seattle architecture firms—Graham Baba Architects and Sundberg Kennedy Ly-Au Young Architects (SKL). Both have previous experience working together and a shared philosophy about urban design and adaptive use. Both firms are small—each has fewer than 25 employees—and both were located in the 12th Avenue Marketplace as tenants. Dunn + Hobbes was also located in this space, so they all worked closely and collaboratively on a project located right outside their door. Jim Graham, principal with Graham Baba
Architects, first got involved with the project when Dunn acquired the parcels in 1999 and hired him to conduct a survey and inventory of the parcels that had been acquired.

The project team comprises architects who are from both offices and who work on a common database. Graham Baba focused on the ground-level marketplace and retail and restaurant aspects of the project while SKL, as executive architect for the building’s shell and core, focused on the office and new construction aspects.

Old and new structures. Principal objectives of the plan were to preserve and adapt the two-story building on the site and to provide attractive pedestrian spaces within the project. To accomplish these objectives, one bay portion of the existing structure—which includes a facade of three bay portions—was reconfigured to become the open-air pedestrian alley. The north bay of the building, on the left when facing the building, has been opened up to both the street and the sky to create the pedestrian alley/mews that provides access to the courtyard at the interior of the block.

The project design integrates construction of a new steel-and-concrete loft office structure over the preservation of the smaller 1924 heavy-timber-and-masonry auto parts building. The original structure now includes an opened-up two-story interior and a partial mezzanine level. The new structure above is roughly L-shaped and includes a five-story section in the front that is adjacent to the existing building along the street. A seven-story section weaves through, over, and behind the rear portions of the existing building. The complex includes retail space and restaurants on the first two levels of the existing building.
office space on levels two through six of the new structure, and three penthouse residential units on the seventh floor of the new structure.

The intent was to juxtapose a modern design against the old structure and to keep many structural elements—wood beams, steel brace frames, metal decks—exposed.

Seismic elements include a concrete shear core in the new building and a brace frame structure that comes down through the old building. The architects had to clip the old building to the new one, but they use the new building to help support the old structure.

To gain an extra story of height, the developer needed to set the new building back from the original building. As a result, the various setbacks allowed for a deck off the third floor and another from the sixth floor, both of which serve as amenities for the office tenants on those floors.

Mews and courtyard. The development provides for dedication of a large portion of the site—about 3,500 square feet—to a unique public “mews” (pedestrian alley) and midblock retail courtyard, which, in turn, enhanced the opportunity for new entrances, new retail space, or both, in five existing adjacent buildings in the 12th Avenue Marketplace. The midblock courtyard was expanded by carving away the back portion of the auto parts building.

What the alley and courtyard allowed the developer to do was create 160 linear feet of additional retail and restaurant frontage. Because the courtyard has become a vibrant place, Dunn has begun converting the backs of the 12th Avenue buildings into front-of-house retail space. The original courtyard increased threefold in size, and eight different buildings have frontage and fire exits onto the courtyard.

The scale and height of the mews, together with the exposed structural elements, invite visitors to enter. The northernmost column bay width of the original 1924 Chophouse building was about 12 feet, which was perfect for the alleyway. The architectural framing, the texturing, the lighting, and the numerous small tenant spaces along the mews help draw the pedestrian in. The mews and courtyard have emerged on social media as a favorite photo backdrop.

Wood decking taken from parts of the demolished old building was placed on the outer wall of the mews, which further adds to the texture of the space. When entering the mews, visitors can also see the second level of the restaurant that faces 11th Avenue, which makes it more interesting at night.

Office space. The project includes 21,080 square feet of net rentable office space on five floors—three full floors and two half-floor mezzanines. The building features floor-to-ceiling windows, open floor plans, and high ceilings. The fourth floor is occupied by the Cloud Room, a member-based shared workspace and social club. The office space is reached through an entry off the courtyard that leads to an internal corridor through the building; additional access is provided through the bake shop at the front of the building. That shop also leads to the same corridor.

Retail space. About 5,328 square feet of net leasable retail space in the Chophouse Row building is in an open market configuration, with two tenants facing the street, four on the alleyway, one on the courtyard, and one on the internal corridor. Also, completion of the courtyard allowed construction of a courtyard-level mezzanine above the basement of one adjacent building; that mezzanine is now used as a 900-square-foot doggie daycare and retail shop. It also allowed the conversion of office space in another adjacent building to a 700-square-foot barbershop, and the conversion of the “back of house” of a former restaurant space on 12th Avenue to a skin care salon.

Penthouse apartments. Three residential penthouses of about 1,300 square feet each, with large walk-out terraces, are located on the top level of the office building. Development of the penthouses involved a different structural approach: light-gauge metal framing sits on a concrete deck located on the roof of the office building. The three apartments total 3,901 square feet of rentable area; the gross building area for the apartment space is 4,795 square feet.

Parking and storage. The project has about 7,000 square feet of space for storage and parking on one underground level. The city did not
require that parking be provided on the site. The buildings on the site already had basements, which the developer connected underground so that all the parking for 12th Avenue Marketplace is integrated and the entire complex needs only two parking entrances, one of which is at the center of the Chophouse Row building facade on 11th Avenue.

Only 12 parking spaces are provided for the office and apartment tenants of the Chophouse Row portion of the complex. Visitors to the retail and restaurants must use street parking or other garages if they arrive by car. Storage space is provided for 16 bikes; lockers and shower facilities are also available for bike commuters and runners.

**Sustainability.** Sustainability features include radiant heat, natural cooling (office windows that open), high-efficiency ventilation, a high-performance building envelope using a continuous exterior wrap of rock-wool insulation combined with state-of-the-art glazing, adaptive use at the building and materials level, a green roof/water management system, and a highly walkable location with a high density of transit options and on-site bike facilities.

**Approvals.** The approval process generally went smoothly, although the developer did face a few building permit issues related to firewalls and the separation of uses; the developer did not want to separate building elements with firewalls. In addition, the energy codes for office and residential buildings are different, so once those uses were combined, the developer had to address code issues. The developer also had to deal with the fact that the building department was flooded with permits from an ongoing building boom.

**Tenants, Marketing, and Management**

All of the commercial spaces were leased before construction was completed. The office portion of the building achieved a new benchmark for market rents in the Capitol Hill neighborhood, with rents in the range of $24 to $28 per square foot. The retail portion, which attracted a mix of restaurateurs and several innovative retail entrepreneurs, has achieved rents in the range of $34 to $37 per square foot. The residential penthouses were rented within three months of the project opening, with typical rents of around $4,800 per month for a 1,300-square-foot unit, or $3.69 per square foot.

**Office tenants.** Office tenants include Anvil Studios, a product design firm; Cloud Room, a shared workspace provider, including the offices of Dunn + Hobbes; Glympse, a technology firm focused on mobile tracking apps; Mazlo, the developer of a suite of mobile apps for personal development in areas such as parenting, stress management, relationships, and sleep; and Tectonic, an experience design/software development firm.

The Cloud Room has become more of a hub than expected. It includes a lounge, a bar, and an outdoor terrace. Both members and the developer program events in the space, including guest speakers, and some of the traditional office tenants have chosen to become paying social members of the Cloud Room community.

**Retail tenants.** Chophouse Row involves a carefully recruited retail mix built on the principle of supporting small, local, unique businesses. They include Amandine, a bakery; Empire Espresso, a coffee shop; Marmite and
Upper Bar Ferdinand, a pair of restaurants; NICHEoutside, a garden and housewares shop; Kurt Farm Shop, an ice cream and cheese business; Honed, a jewelry boutique; and Sundry, a juice bar and bodega.

Several other restaurant and retail tenants also face onto the courtyard from surrounding buildings, including the Scotch Pine barbershop, the Cake skin care salon, and Play on the Hill, the doggie daycare and retail shop in the Manhattan Building that was built and opened in conjunction with the completion of Chophouse Row.

One setback for the development was that the anchor restaurant at the front facing the street—Chop Shop—failed after a year of operation. The space has been leased to Marmite, a French café that focuses on casual dining and carryout and features soups and broths.

Leasing and marketing. Dunn + Hobbes relies largely on its own leasing efforts and found many of the office and retail tenants through Dunn’s connections and network of technology and broker contacts and friends. Notes Dunn, “I spend a lot of my time on leasing . . . searching for the tenants I want or choosing between tenants, determining which is going to be the best fit. I like to get a feel for who the tenant is.”

Small tenants are a big part of the plan. “What tenants starting a small business probably care most about is their total monthly rent bill, not what rate they are paying on a per-square-foot basis,” Dunn notes. Creating and leasing smaller spaces has allowed the development to attract small retailers that generate sufficient rental income per square foot to provide the shared spaces and amenities that are needed to make the project work, such as the mews, events, and restrooms, as well as heating, ventilation, and air conditioning.

As part of the marketing approach, the project was positioned as something unusual and different from the typical downtown Seattle office building. Even before the project was built, there was an expectation that the space would be “cool.” It took time to attract the first tenants, but the office and retail space was 100 percent leased before construction was completed, and the residential units were leased within three months of opening.

Property management and events. Dunn + Hobbes manages the property from its on-site office. The mews/courtyard is a privately managed space that is open to the public from 7 a.m. to 11 p.m. Notes Dunn, “We can program all kinds of crazy events without needing a permit. This is a way to help people discover the project if they haven’t been here, and it creates foot traffic.” Events include monthly art walk happenings and a weekly Wednesday night farmers market from 4 p.m. to 8 p.m.
and we had to deal with that during construction. It would have been better to deal with that earlier in the design phase.” This unexpected building issue affected the placement of the steel framing for the new building.

Heartland believes that many small investors are looking for investment opportunities like Chophouse Row, but it takes more work and time to arrange this financing than it does to arrange financing with one large institutional investor. There are benefits, however, in that the developer can exercise more control when using small investors rather than large institutional investors, who may have their own vision for the project that they want to enforce.

Also, from a capitalization structuring perspective, notes Deva Hasson, principal and investment director at Heartland, “The priority return structure was helpful; it provided investors with a healthy return [and reduced their risk].” Also, she notes, it is important to “communicate and align investors with goals [for the project].”

Overall, despite the complexity of a mixed-use project, having a mix of residential, retail, and office uses has been beneficial. For example, the residential portion of the project, though small, has greatly contributed to the overall profitability of the project and has helped offset other high-cost aspects of the project that required more complex structural engineering and design features. “The capitalized income value of those three units is approaching $3 million, and it probably added only about $1 million to the budget to add that floor to the project,” notes Dunn.

Whereas some developers might have tried to remove the old buildings on the site and build new ones in one big phase, notes Kennedy, the 12th Avenue Marketplace “is much more granular and the interplay [between old and new] is really wonderful.” There are easier and perhaps more profitable ways to go about developing a site like this, but those approaches likely would not have resulted in the richness of the environment that has been created.

### PROJECT INFORMATION

#### Development timeline

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<td>Site purchased</td>
<td>1999</td>
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<tr>
<td>Design planning started</td>
<td>March 2012</td>
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<tr>
<td>Entitlements received</td>
<td>September 2013</td>
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<td>Construction financing arranged</td>
<td>October 2013</td>
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<td>Construction started</td>
<td>October 2013</td>
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<td>January 2014</td>
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<td>Project opened/completed</td>
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#### Building area

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<th>Gross building area (sq ft)</th>
<th>Net building area (sq ft)</th>
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<td>Retail/restaurant</td>
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<td>Residential</td>
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<td>Adjacent courtyard retail addition</td>
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<td>Parking spaces</td>
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#### Land use plan

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<td>Open space/landscaping</td>
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#### Residential information

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<td>Typical rent per sq ft</td>
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### PROJECT INFORMATION

**Office information**

- Office gross area: 25,317 sq ft
- Office net rentable area: 21,080 sq ft
- Typical floor size: 6,375 sq ft
- Percentage of net rentable area leased: 100%
- Number of tenants: 7
- Annual rent per sq ft per year: $24–$28
- Average length of lease: 5 years

**Major office tenants**

- Tectonic: Design firm
- Mazlo: Mobile technology
- Glympse: Mobile technology
- Cloud Room: Coworking space/social club

**Retail/restaurant information**

- Retail space (gross): 6,379 sq ft
- Retail space (net): 5,328 sq ft
- Retail tenants: 8
- Percentage of retail gross leasable area leased: 100%
- Annual rent range: $34–$37 per sq ft

**Key retail/restaurant tenants**

- Amandine: Bakery
- Empire Espresso: Coffee shop
- Marmite: Restaurant
- NICHEoutside: Garden and housewares shop
- Kurt Farm Shop: Ice cream and cheese
- Upper Bar Ferdinand: Restaurant
- Play on the Hill*: Doggie daycare and retail shop
- Honed: Jewelry boutique
- Sundry: Juice bar and bodega

*This tenant is in the Manhattan Building and not part of the square footage total for Chophouse Row. However, the construction cost for this space is included in the construction budget.

**Chophouse Row development cost information**

- Site value (2016): $2,367,500
- Site acquisition cost (1999)*: $900,000

**Hard costs**

- Core and shell (main building): $8,811,184
- Core and shell (adjacent doggie daycare): $310,129
- Office tenant improvements: $752,000
- Retail tenant improvements: $294,000
- Residential upgrades: $145,000
- Sales tax: $947,000

**Total**: $11,259,313

**Soft costs**

- Architecture and engineering: $986,383
- Finance and legal: $219,995
- Insurance: $41,521
- Permits: $89,000
- Leasing and marketing: $103,000
- Developer's fee: $550,000
- Interest reserve: $397,892
- Signage, utilities, landscaping, other: $389,691

**Total**: $2,777,482

**Total development cost without land**: $14,036,795

**Total development costs with land value**: $16,404,295

**Hard costs per sq ft**: $259

**Total development costs per sq ft**: $322

*Site was part of a larger acquisition, so figure is approximate.

**12th Avenue Marketplace Project Capitalization**

**Existing operating assets**

- Agnes/Piston & Ring
  - Value: $16,903,235
  - Less debt: $10,950,000
  - Net equity required: $5,953,235
- Pacific Supply/Manhattan (PacMan)
  - Value: $4,023,857
  - Less debt: $2,800,000
  - Net equity required: $1,223,857

**Total operating equity**: $7,177,092
### PROJECT INFORMATION

#### 12th Avenue Marketplace Project Capitalization

<table>
<thead>
<tr>
<th></th>
<th>Pro forma</th>
<th>Actual</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>New development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$14,366,914</td>
<td>Revised (postconstruction)</td>
<td></td>
</tr>
<tr>
<td>Total new development costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$14,366,914</td>
<td>$11,962,213</td>
<td>Costs increased during construction due to delays and unprecedented inflation in construction market.</td>
</tr>
<tr>
<td>Less construction loan</td>
<td>$14,366,914</td>
<td>$11,962,213</td>
<td>Loan increased during construction as rent deals consistently exceeded pro forma.</td>
</tr>
<tr>
<td>Net equity required</td>
<td>$3,666,914</td>
<td>$4,032,293</td>
<td></td>
</tr>
<tr>
<td>Closing expenses/working capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal and organizational costs</td>
<td>$215,000</td>
<td>$215,000</td>
<td></td>
</tr>
<tr>
<td>Loan closing fees</td>
<td>$230,927</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Platform working capital</td>
<td>$200,000</td>
<td>$200,000</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$645,927</td>
<td>$752,830</td>
<td>Per 2014 deal closing (higher than projected in prospectus)</td>
</tr>
<tr>
<td>Total development equity</td>
<td>$4,312,841</td>
<td>$4,785,123</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sources of Capital for 12th Avenue Marketplace Recapitalization</th>
<th>Pro forma</th>
<th>Actual</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sources of equity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban Shelter LLC (sponsor)</td>
<td>51%</td>
<td>52.5%</td>
<td>$6,278,880</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Sponsor put in extra equity to cover construction cost overruns not covered by increased debt.</td>
</tr>
<tr>
<td>HIO 12th Avenue Investors LLC</td>
<td>49%</td>
<td>47.5%</td>
<td>$5,683,333</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Per 2014 deal closing (slightly higher than projected in prospectus)</td>
</tr>
<tr>
<td>Total equity</td>
<td>$11,489,932</td>
<td>$11,962,213</td>
<td></td>
</tr>
</tbody>
</table>

| Sources of debt                                               |           |        |                                                                       |
| Agnes Piston loan                                             |           |        |                                                                       |
| Cashmere Valley Bank (10-year permanent, 3.5%)                | $10,950,000 | $10,950,000 |                                                                       |
| Pacific Chophouse construction loan                           |           |        |                                                                       |
| HomeStreet Bank (construction loan, Libor + 3%)              | $13,500,000 | $15,170,000 | Including $2.8 million of debt for Pacific Supply Building           |
| Total debt                                                    | $24,450,000 | $26,120,000 |                                                                       |
| Total equity and debt capital                                 | $35,939,932 | $38,082,213 |                                                                       |

#### 12th Avenue Marketplace Project Performance

| Project level                                                   | Projected | Actual       | Notes                                                       |
|                                                              |           |              |                                                             |
| Leveraged 10-year IRR                                         | 15%       | 13.25%–14%   |                                                             |
| Cash flow year 1 (under construction)                          | $470,504  | $624,570     | 2014; permanent financing payments delayed                   |
| Cash flow year 2 (lease-up)                                    | $1,232,670 | $447,902     | 2015; permanent financing payments kicked in                |
| Cash flow years 3–7 (stabilized)                               | $1,062,391 | $900,000–$950,000 | 2016–2020 average expected                                 |
| Cash flow years 8–12 (stabilized)                              | $1,456,584 | $1,350,000–$1,400,000 | 2021–2025 average expected                                 |

| Investor equity                                               |           |              |                                                             |
|                                                              |           |              |                                                             |
| Leveraged 10-year IRR                                         | 13%       | 11%–12%      |                                                             |
| Priority preferred return                                     | 10%       |              |                                                             |
| (per annum, compounded at the end of each calendar year)       |           |              |                                                             |

| Sponsor equity                                                |           |              |                                                             |
|                                                              |           |              |                                                             |
| Leveraged 10-year IRR                                         | 16.5%     | 13.5%–15%    |                                                             |
| Promote                                                       | 60%       | 60%          |                                                             |
About the Urban Land Institute

The Urban Land Institute is a global, member-driven organization comprising more than 40,000 real estate and urban development professionals dedicated to advancing the Institute’s mission of providing leadership in the responsible use of land and creating and sustaining thriving communities worldwide.

ULI’s interdisciplinary membership represents all aspects of the industry, including developers, property owners, investors, architects, urban planners, public officials, real estate brokers, appraisers, attorneys, engineers, financiers, and academics. Established in 1936, the Institute has a presence in the Americas, Europe, and Asia Pacific regions, with members in 80 countries.

The extraordinary impact that ULI makes on land use decision making is based on its members sharing expertise on a variety of factors affecting the built environment, including urbanization, demographic and population changes, new economic drivers, technology advancements, and environmental concerns.

Peer-to-peer learning is achieved through the knowledge shared by members at thousands of convenings each year that reinforce ULI’s position as a global authority on land use and real estate. In 2016 alone, more than 3,200 events were held in 340 cities around the world.

Drawing on the work of its members, the Institute recognizes and shares best practices in urban design and development for the benefit of communities around the globe.

More information is available at uli.org. Follow ULI on Twitter, Facebook, LinkedIn, and Instagram.

Patrick L. Phillips, Global Chief Executive Officer