

KAURI'S PROJECTS

Urbane—Redmond

Kauri will complete Urbane in downtown Redmond in mid-March and begin selling the 22 residential and two commercial units. Located in downtown Redmond, Urbane is within walking distance of a major transit center and amenities including the library, grocery stores, a variety of restaurants and a major regional shopping center.

These urban townhomes feature ground-floor office areas, making working from a home office convenient and comfortable. They are a modern twist on the brownstones of the past featuring brick facades accenting a contemporary urban exterior design.

Urbane is built to meet the 3-Star Built Green Program, the highest Built Green Multifamily standards including: use of natural and sustainable materials such as bamboo floors as well as improved insulation methods for more efficient heating and cooling. The architect of record is Driscoll Architects.

For more information go to www.urbane-redmond.com.

6th & Denny

Kauri broke ground in February 2008 on the 6th & Denny site, which will be the home of the first West Coast location for Hyatt Place hotel and luxury apartments, Hyatt Hotel's new innovative and

stylish brand. Situated within easy walking distance of Seattle Center and downtown, the upper floors enjoy expansive views of Lake Union and Elliott Bay.

Designed by Johnson Braund Design Group of Seattle, the project includes two buildings with separate entries and shared, secured parking. The eight-story hotel consists of 160 suites and the neighboring six-story building will house 56 apartments.

The general contractor is Graham Construction.

Alaska Building

Kauri Investments sold the 140,000-square-foot Alaska Building. The project will be developed by KADC LLC of which Kauri is a managing member and will have an 18% interest in the finished hotel.

Plans and permits are in place to build a 236-room Marriott Courtyard Hotel and 26 apartments in the building designed by Clarke Design Group of Seattle. Demolition and remediation began in January 2008 and construction will begin in March.

Located in the center of the financial and historic districts, the building sits within walking distance of the two major sports stadiums, the Washington State Ferries and Pioneer Square and is ideally suited for a hotel that will accommodate both business and leisure travelers.

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Urbane Redmond Townhomes



Alaska Building



6th & Denny



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Interbay Properties

After extensive renovation and re-tenanting, Kauri sold the Port 106 warehouse for \$20 million and used the proceeds in 1031 exchanges for two major properties in Interbay—the GM Nameplate building and the eight acre former NW Center property at 1600 West Armory Way. GM Nameplate will remain a tenant for at least two years. In addition, Kauri is negotiating with a tenant for a build-to-suit project on the NW Center site. The Port 106 LLC has also acquired two additional adjacent properties that total 14,000 square feet of surface parking lots.

Interbay Properties



Letter from the Chairman

BY JIM POTTER

HOUSING SET ASIDES WON'T SOLVE AFFORDABILITY CRISIS

As local jurisdictions juggle how to meet the need to provide affordable housing while still attempting to placate their voting constituents, “inclusionary zoning,” or “incentive zoning” policies have become increasingly popular. Washington cities and counties have tried different variations, but, in essence, the policies require homebuilders to set aside a percentage of their homes for households typically earning 80 percent of the median income or lower. Although an incentive-based approach gives the illusion of being more acceptable than mandating below-market rate housing, the underlying policy sidesteps the core problem: There is an inadequate supply of housing units to meet the current demand.

The city of Redmond, for example, requires homebuilders to provide affordable housing in all new market rate projects of ten or more units. Other jurisdictions, including King County and the cities of SeaTac, Shoreline and Woodinville, offer incentives (e.g., the approval of additional housing units) in exchange for the inclusion of affordable housing.

Though well intended, the “inclusive or incentive zoning” approach adds yet another layer of regulation that is likely to drive up housing costs for those not lucky enough to get one of the new affordable units.

In Redmond recently, it cost Kauri Investments \$300,000 to provide two affordable-

housing units in a 22-unit project. In order to pay for the set-aside units, the developer had to increase the price of the other housing units by \$15,000. The inclusionary housing requirement ended up penalizing regular homebuyers by making the remaining housing less affordable. This increase in the cost of the market-rate units ultimately drives up the cost of surrounding homes in the community as well.

Inclusionary zoning allows community leaders to say they’re safeguarding affordable housing, when, in truth, these policies are counterproductive. Rather than increasing housing options, incentive zoning can actually cause a housing decline as new developments choose to be built elsewhere. In cities and counties like Boulder, CO and Montgomery County, Maryland, these policies have furthered urban sprawl as new home construction has been pushed into communities without inclusionary zoning mandates.

Local communities need to do a better job of planning for and facilitating the addition of more housing, in a variety of forms, so they don’t have to resort to this “price control” approach.

There are a variety of measures that can be taken to address our region’s shortage of affordable housing. We need to:

- Take a hard look at how we can encourage cities to meet the Growth Management Act goal of creating new housing

near employment centers. Growth management means controlling sprawl through regulations and encouraging growth within our urban boundaries.

- Revise zoning codes and land use regulations that are outdated and confusing with the goal of facilitating appropriately located developments.
- Hold cities and counties more accountable to state laws governing permit timelines and demand consequences for not reaching new-housing-units goals set under the GMA.
- Resist efforts to increase minimum lot sizes and institute unnecessary building moratoriums.
- Eliminate traffic concurrency requirements that create leapfrog development, moving congestion from one community to the next.
- Institute a no-net loss of buildable lands policy, requiring any change that reduces our buildable land supply, and in turn our housing capacity, would have to include measures to increase density in the urban growth area or shift the Urban Growth Boundary.

Let us not delude ourselves into believing that inclusionary zoning will solve our housing crisis. While such policies may appear to promote positive growth, they’re like eating junk food: it tastes great in the moment, but we will all pay for it in the long run.

Carbon 56



Carbon 56

Kauri acquired Carbon 56, formerly Aristo apartments, at 2015 Terry Avenue in January 2007. After upgrading units with new appliances, plumbing fixtures, carpet and door wraps, Kauri has sold 36 of the 56 units.

LOOKING AHEAD

Kauri has recently closed on two properties slated for future development.

Lake City

The Bill Pierre Chevrolet site in Lake City consists of a 32,000 square-foot building and a 39,300 square-foot car lot. Although the current tenant is remaining on the property temporarily, Kauri is in the process of leasing the space.

40th & Aurora

Kauri has made application with the city of Seattle for a 100-unit, mixed-use project designed by Clark Design Group. Construction is slated to begin in 2009. We expect to get MUP approval by the end of March and a building permit 60 to 90 days after that.

Bellevue Office Building

Kauri recently closed on a 60,500-square-foot building in Bellevue at 3190 160th Ave. SE near Verizon and RIM (whose products include BlackBerry) offices and 620,000 square feet of office currently under construction that Microsoft has pre-leased. Prior to closing the \$15.3 million sale, the seller is installing new HVAC and a new roof. The building has been occupied by the Washington Department of Ecology (DOE) since 1991.

RECENT SALES

Kauri and a group of investors purchased the Denny Center and the Denny Center parking in 1997 for \$2.85 million. It recently sold the properties to two different buyers who will develop them as separate properties for a combined value of \$12.05 million. The investor group averaged a return of approximately 34% per annum over the ten year holding period.

In September 2003, Kauri purchased a parking lot at 1221 Denny (just east of Denny Center) for \$1.375M with \$250,000 down and the owner carrying a note and deed of trust at 4% interest. The property sold in 2007 for \$6 million.

Letter from the President

BY KENT ANGIER

MORE CHANGE AHEAD

Predicting changes in the local real estate market over the next six to 12 months is much like predicting that it will rain in Seattle. Change is a given but with that change comes opportunity.

Despite what has occurred in the national housing market Seattle continues to outshine most cities in the U.S. Our economy has cooled and the warning signs indicate that it will continue to cool. Most experts forecast continued job growth over the next 12 months but the rate at which jobs grow will be significantly below what it has been for the past few years. The local housing market has been impacted by the slowing of housing nationally and our commercial market will in all likelihood change as a result of what is happening nationally as well. Credit has also tightened nationally and is beginning to affect the commercial markets.

Recent opportunities were driven by strong demand and a shortage of supply which resulted in high rates of appreciation—a seller's market. Kauri took advantage of these opportunities and sold a number of properties over the past 24 months.

As a result Kauri is now better positioned both from an equity and debt perspective to take advantage of other opportunities that will likely present themselves over the next period of our economic cycle. Kauri is in the very enviable position of having plenty to do in 2008 with the sell out of Urbane and Carbon 56 condominium projects and the construction of the 6th & Denny Hyatt and Alaska Building Marriott hotels. With the deterioration in the local housing market there has been a substantial pressure on the rental market which has resulted in a significant increase in rents in the apartment market. The Aurora, Lake City and Fremont projects are all queued up to take advantage of this change in the market and none of the aforementioned projects has any debt. This affords Kauri, without the burden or pressure of a loan, the luxury of exploring different opportunities including either developing any one of the properties and or selling one or more of said properties and using the proceeds to purchase a much larger property.

Kauri is also in discussion with two possible anchor tenant possibilities for a new light industrial on its Interbay property. All of this will make for an interesting year with decisions driven by what is good for the company on a long-term basis as opposed to a need to develop a specific property or properties due to debt or other considerations.

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You can also reach us at **www.kauri.com**

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Space Available For Lease:

North 45th Street: 2400 North 45th Street 3,800 sf office; contact Sally Patterson 206-292-6142

Main Street: 3,200 sf office/retail; contact Sally Patterson 206-292-6142

Lake City: Former Bill Pierre auto dealership site includes 32,000 sf building; contact listed with Bob Bencze 206-295-4460 and Barry Kelly 425-444-9357