

The Newsletter

NOTES &

COMMENTS ON REAL ESTATE INVESTING



Kauri's Projects

Urbane Redmond Townhomes

Urbane Redmond continues Kauri's commitment to building infill projects in developed regional centers while showcasing the company's product diversity. Located in downtown Redmond within walking distance of a major transit center and many amenities such as a library, grocery stores, dining and a major regional shopping center this 24-unit (22 residential and two retail) project features ground floor offices designed to give the option of working and living in the same location.

These new town homes will be a modern twist on the brownstones of the past with brick facades and more contemporary urban exteriors. They are being 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, and linoleum on the interiors plus improved insulation methods for more efficient heating and cooling. The architect of record is Driscoll Architects.

Construction will begin in April 2006 with some units ready for sale by December 2006. The Web site at: www.urbane-redmond.com will be online in late April.



*Urbane Redmond Townhomes
Downtown Redmond*

Port 106

Since acquiring the Port 106 Building last March, we have removed asbestos flooring and the useless, dilapidated structures that were on-site. The building was re-sided, new roll up and man doors were installed, the lighting is being replaced with more energy efficient lights, that also provide more light, the building is being insulated and gas heat is being installed, the power is being upgraded and individual meters are being installed for each new bay. Much of the property was also repaved. We are currently demising the original bays into smaller bays ranging from 4,000 square feet to 43,200 square feet.

Kauri has leased nearly half of the 282,000-square-foot space. New tenants include Henrybuilt Furniture, Bamboo Hardwoods, Pacific Shipping, American Gaming Ltd and Pacific Terminals. Other leases are being negotiated and we plan to have the building fully leased by the middle of next year.

Alaska Building

Kauri is currently working with the city to convert ten floors of the Alaska Building to a limited service hotel. The four upper floors will be converted to residential and the ground floor will house retail space.

Located on the southeast corner of Second Avenue and Cherry Street, the Alaska Building is in the heart of Seattle's financial and historic districts and is within walking distance of the two major sports stadiums, the Washington State Ferries and Pioneer Square. In addition to its central location, it has sweeping views of the Olympic Mountains and Elliott Bay from its upper floors making it an ideal candidate for conversion to urban mixed use housing, hotel and retail. Architect for the project is Scott Clark of Clark Design Group. Renovations are scheduled for completion in 2008.

Continued from Page 1

Sixth and Denny

We have submitted plans to the city for a project that will include a 158-room, limited-service hotel and 57 condominium units. Ideally suited for these two uses, the building will have nice views of Lake Union, downtown Seattle or Seattle Center and is located within easy walking distance of those destinations as well as on major transportation routes. The building is slated to be eight stories tall with three levels of underground parking. Our early design guidance meeting is set for April 19th. The architect for the project is Johnson Brand Design Group.

First and John

Continuing the company's commitment to product diversification, we currently have a 65,000-square-foot office building with an adjacent 14,400 square foot building site on lower Queen Ann Hill under contract. The office features abundant parking and easy access and is currently 67% occupied. We are now working on new leases that will elevate the occupancy level to market levels by the end of this year. Closing is scheduled for late May.

Urban Centers

Kauri has been chosen by three regional cities, Olympia, Puyallup and Renton, to develop housing in their urban centers. These, along with the Redmond project, are a continuation of the company's dedication to developing urban environments so people can live where they work and play. They are also the beginning of Kauri's work outside of Seattle. In each case, Kauri was chosen based on experience and creativity.

"Staff recommended Kauri to City Council because of their qualifications—experience building similar sorts of projects, creativity in design, and commitment to environmental design and stewardship. We feel strongly that the type of success and creativity they have shown in the past is necessary to make this project work in Olympia," said Steve Friddle, Community Services Manager for the city. Alex Pietsch, Renton's Administrator for Department of Economic Development, Neighborhoods and Strategic Planning, said that Renton chose Kauri for "their proven track record of developing high quality housing in urban environments. Urban scale development is exactly what the City of Renton is looking for to further the renaissance in downtown."

All three projects above are in the planning and negotiation phase. A major hurdle in Olympia is the over more than \$700,000 in mitigation, connection and permit fees that if not at least partially waived could make the project economically unfeasible. The city and Kauri are working toward a resolution as both parties recognize that housing is necessary to develop a vital urban environment.

Continued on Page 4

Letter from the President

By Kent Angier

Kauri has built a strong reputation for building, rehabbing and upgrading moderately priced rental and for sale housing in urban infill areas. Kauri both develops and acquires projects with some included as long-time assets and others sold as the market indicates. We have recently been chosen for and are in the planning stages with three urban centers in Renton, Olympia and Puyallup. This is Kauri's first foray outside of the greater Seattle area and is part of the company's plan to enhance urban centers in growing areas around Western Washington.

In April we will begin construction of the Urbane Redmond, an upscale project located in the center of Redmond. It is designed to meet the wants and desires of buyers that want an urban environment in a suburban area. Job growth on the Eastside is slated to reach new heights in the coming two years and we are confident that this project will come online in time to meet the attendant need for housing.

We are also taking significant steps to diversify our investment portfolio. Last year we completed the purchase and started the rehab of a major warehouse facility in Seattle's SODO area and now have an office building on Queen Anne Hill under contract for purchase later this year. In addition, we are in the planning stages for two hotel/condominium projects in Seattle—both with limited service hotels that will fill an underserved market niche in the city.

These projects succeed in our diversification without being out of the realm of our collective experience. In a cyclical economy, the product diversity will help Kauri to continue to grow and prosper.

With these and other diversified real estate investments and developments Kauri is better positioned to take advantage of the "opportunity of the day" whether that is in residential, office, industrial or hotel properties. As we continue, I am certain that more opportunities will be presented to us as the brokerage community learns more about the company, its many areas of expertise and desire to continue growing.

FOR MORE INFORMATION CALL KAURI L.L.C. AT 206-447-0303

SPRING 2006

Letter from the Chairman

By Jim Potter



Downtown Olympia is at a pivotal time in its history. Both the city government and housing developers have recognized that Olympia is prime for new investment and development within the downtown core. Why? City revitalization, steady job growth, shortages of other investment opportunities and available land, local amenities and the directive of the Growth Management Act. But as with any new venture, there are obstacles that have to be overcome. Before we address the obstacles, let's look in more detail why Olympia is ready and what has been done.

Although there has been almost no new housing in downtown Olympia since the 1920s, the city decided that its highest priority was to help create a market for housing to complement the other activities of its downtown. Housing in downtowns revitalizes cities by cutting down on crime and helping businesses prosper.

The early part of this millennium, when other areas in Puget Sound were losing jobs, Olympia had slow, but steady job growth. In the year 2000, the central Puget Sound region began to experience a large decrease in jobs. By 2002, it had lost approximately 90,000 jobs from its peak in late 1999. Savvy real estate and development firms investigate local situations where job growth occurred during that period as indicators of housing needs.

In recent years, with a shortage of investment opportunities and available land within the Seattle area, Kauri chose to look at real estate in other parts of the Puget Sound region. Of particular interest are the urban centers designated by the Growth Management Act, which was created by the Legislature in 1990. As part of GMA, counties have designated urban centers where future density and growth should be concentrated.

Upon further investigation, Olympia's other desirable attributes became apparent for downtown housing development. Olympia has a compact downtown that abuts Puget Sound and is within a one-hour drive from Seattle. It is the county seat for Thurston County, as well as the state's Capitol.

Olympia is also the southernmost urban center in the Puget Sound region, with a population just over 42,500 people. Olympia is the entertainment center for most of southwest Washington (north of Vancouver and south of Tacoma), as well as Grays Harbor and the Olympic Peninsula. There is an established arts

community, along with several regional theaters. It has a plethora of small retail shops, restaurants and nightclubs. Olympia's downtown has an obvious charm that is inviting to those looking for a sense of community, something that many suburban-sprawl cities sorely lack. The downtown boasts beautiful views of the Olympic Mountains and has easy access boat moorages on Puget Sound.

In early 2004, the city issued a request for qualification for a developer to build downtown housing on several city-owned properties. Kauri submitted a proposal to build a mixed-use project with about 100 housing units, a parking garage and retail on a half-block owned by the city.

In July 2004, Kauri was selected to be the developer for the half-block. After much negotiation, a purchase-and-sale agreement was signed in the summer of 2005. There is a contingency period for Kauri to do its due diligence that should be completed about the time this article is published.

There are still many obstacles to overcome. The property sits on tidelands that were filled just after the turn of the last century, requiring the building to be placed on pilings at an additional cost. There are utilities running through the site that will need to be relocated. There also is some environmental contamination that will need to be removed.

The city has impact fees that, at current calculations, will add over \$7,000 per unit to a project that will not easily pencil out. Since this would be downtown's first for-sale product with parking in a structure under the building, there will need to be a leap of faith involved in making the decision to move forward. It is vitally important that we solve issues, including impact fees, prior to or as a part of the decision.

We hope to start construction in 2006 with a five-story building over parking that will be successful for Olympia and Kauri. If this project is a success, then others will follow. We believe that downtown Olympia's time has come.

JAMES B. POTTER

Chairman, Kauri Investments Ltd.

President, Master Builders of King and Snohomish Counties

FOR MORE INFORMATION CALL KAURI L.L.C. AT 206-447-0303

SPRING 2006



Continued from Page 2

Denny and Yale

Kauri has an early design guidance meeting scheduled on March 28th for a 12-floor, 121-unit residential project at 12th Avenue and Denny Street. Clark Design Group is the architect for the proposed project.

Luminaire

Only two units remain in this 50-unit condominium, which sold well ahead of schedule reinforcing the strength of the market in the Lake City area. The two live/work units are available for rent or purchase. Contact Samantha Patterson with Laurel Partners at 206-731-1100 for more information.

Alfaretta

The former Park Seneca Apartments (renamed to Alfaretta) along with the adjacent parking lot, were sold last year to another developer who plans to demolish the existing building and build a new high-rise building on the combination of these two sites, along with one other adjacent site. The sale of the Alfaretta closed late last year and the parking lot is scheduled to close in September of this year.

Space Available:

Contact Kent Angier
at 206-447-0303
extension 290

Port 106 Warehouse: Space is available in bays ranging from 4,000 square feet to 43,200 square feet. For specific leasing information contact: Dave Baumer with The Andover Company, Inc. at 206-336-5327 or email: dbaumer@andoverco.com.

First West Building: 500 square feet to 7,600 contiguous square feet. For leasing information contact: Sally Patterson with CB Richard Ellis at 206-292-6142.

Luminaire: Two live/work units are available for rent or purchase. Contact Samantha Patterson with Laurel Partners at 206-731-1100 for more information.

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