**Lease Termination Property Summary**

**Photo of Property:**

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**Address** 58-acres located east of 228th Avenue SE between SE Kent-Kangley Road

(SE 272nd Street)and SE 280th Street, unincorporated King County (adjacent

to Maple Valley)

**Price**  $2,854,000

**Area** 58-acres

**Assessor's Parcel** 342206-9006

**Zoning** City of Maple Valley - Master Planned Community (subject to annexation)

**Council District** 9 (Reagan Dunn)

**Funding Source** County Road Fund

**Property Information**

The subject leasehold is part of King County’s Summit Pit property which totals approximately 157 acres of unincorporated land surrounded by the City of Maple Valley. Summit Pit includes: 81 acres of gravel pit; 14 acres used as the southeast regional maintenance facility for Road Services Division (Roads); and 62 acres leased to the Elk Run Golf Course.

The subject lease was executed in 1993 between King County and Covington Golf Course, Inc. The lease provides a 35 year term expiring in 2029 and includes approximately 62 acres utilized as the front nine holes of the Elk Run Golf Course. The golf course includes an additional 75 acres owned in fee. The leased portion of the golf course consists of a 300 foot wide ring surrounding the Summit Pit property (see attached parcel map) providing a buffer zone separating the gravel pit from the surrounding City of Maple Valley residential property.

**Proposed Lease Termination Required for Sale**

Subject to approval by the King County Council, the County is considering selling approximately 35 acres of the Summit Pit property to the Tahoma School District (TSD) No. 409. An important prerequisite for the sale is the County’s termination of the Elk Run Golf Course Lease as a portion of the leasehold property is part of the property to be sold to TSD. King County and Elk Run have previously negotiated several lease termination options related to the potential sale of Summit Pit. However, neither the proposed sale nor the related lease termination agreements have been finalized. As termination of the golf course lease will be a prerequisite to any sale involving Summit Pit, the proposed termination agreement is recommended as an essential investment in the marketability of the property whether sale is contemplated now or in the future. The alternative to executing the proposed termination agreement is condemnation and taking of the property; however, this course of action potentially involves additional transaction costs and financial risks.

**Context**

*Rationale for transaction:* The County’s termination of the Elk Run Golf Course Lease is a prerequisite for the proposed sale of 35 acres of the Summit Pit property to Tahoma School District No. 409.

*Policy considerations*: The subject lease termination proposal follows the Executive’s decision to negotiate the proposed Summit Pit sale with the School District and is consistent with State legislative policy direction.

*Political considerations:* Demonstrates cooperation between government entities regarding optimizing the use of the subject property. In negotiations, Elk Run has at times been represented by lobbyist Lynn Claudon.

*Community considerations:* The future proposed use by the School District will benefit the community by providing local education service.

*Other considerations*: As a condition of the proposed sale, the School District shall be responsible for relocating the access road to Roads’ maintenance facility and funding a security plan and program to safeguard School District students and staff regarding operation of the Roads facility.

*Budget considerations:* $2,854,000.

*CIP/operational impacts:* No significant impacts.

*Change in property use:* Future proposed use as part of School District property.

*SEPA Required yes/no:* No

*KC Strategic Plan impact:* Buy-out of this lease forwards the King County Strategic Plan goals of Economic Growth and Built Environment, Financial Stewardship, and Building Regional Partnerships.

*Equity/Social Justice impact:* N/A.

**Appraisal Process**

*Date of Valuation:* January 1, 2013

*Appraised By:* Michael E. Murray, MAI, CCIM

*Leasehold Fair Market Value:* $2,854,000

*Summary:*

Valuation of the subject leasehold interest involves a three-phase appraisal: (1) first, the market value of the entire golf course property is valued in fee simple including both the front nine holes leased from King County and the remaining 9 holes owned outright by the ownership group; (2) second, the fee simple value of the leased portion of the golf course is discounted to reflect the lesser value of the leasehold interest due to the lack of reversionary value at lease expiration; and (3) lastly, the value of the fee-owned remainder held by the ownership group is estimated when the lease is terminated and the leasehold portion of the golf course reverts to King County. The appraisal steps are summarized below:

1. The fee simple market value of entire Elk Run Golf Course is estimated at $3,900,000 based on the following comparable property sales:

**Golf Course Sale Date Price Acres Price ($/ft2)**

Taylor Creek Golf Course 12/10 $1,616,000 45.29 $0.82

TPC @ Snoqualmie Ridge 03/08 $7,590,000 264.00 $0.66

Redmond Ridge 12/08 $5,300,000 135.49 $0.90

Canterwood Golf & Country Club 08/11 $4,016,000 170.00 $0.54

Mill Creek Country Club 06/07 $3,700,000 125.00 $0.68

Elk Run Golf Course 01/13 $3,900,000 133.34 $0.67

1. An adjustment of $456,000 is made to the aggregate fee simple value to reflect the leasehold encumbrance, leaving an “as is” value of $3,444,000.
2. If the King County leasehold for the front nine holes is terminated, Elk Run Golf Course will be left with the fee-owned land and golf course buildings associated with the back nine holes (approximately 75 acres). The appraisal concludes that a nine-hole golf course is not economically viable. Future use of the existing specialized improvements is limited and renovation cost for alternative use of the buildings (such as a daycare or school) is not financially feasible. For this analysis, the highest and best use of the remainder is assumed to be redevelopment as a single-family residential subdivision with large lots similar to R-1 zoning. The appraisal assumes that five 1-acre lots could be developed, with the balance of the fee-owned land creating a large estate feeling and providing recreational opportunities. Comparable R-1 land sales are summarized below.

**Description Sales Price Land Size (ft2) Adj. Price Adj. Price($/ft2)**

Comp 1 $110,000 64,904 $122,000 $1.88

Comp 2 $315,000 213,879 $420,000 $1.96

Comp 3 $225,000 43,560 $100,000 $2.30

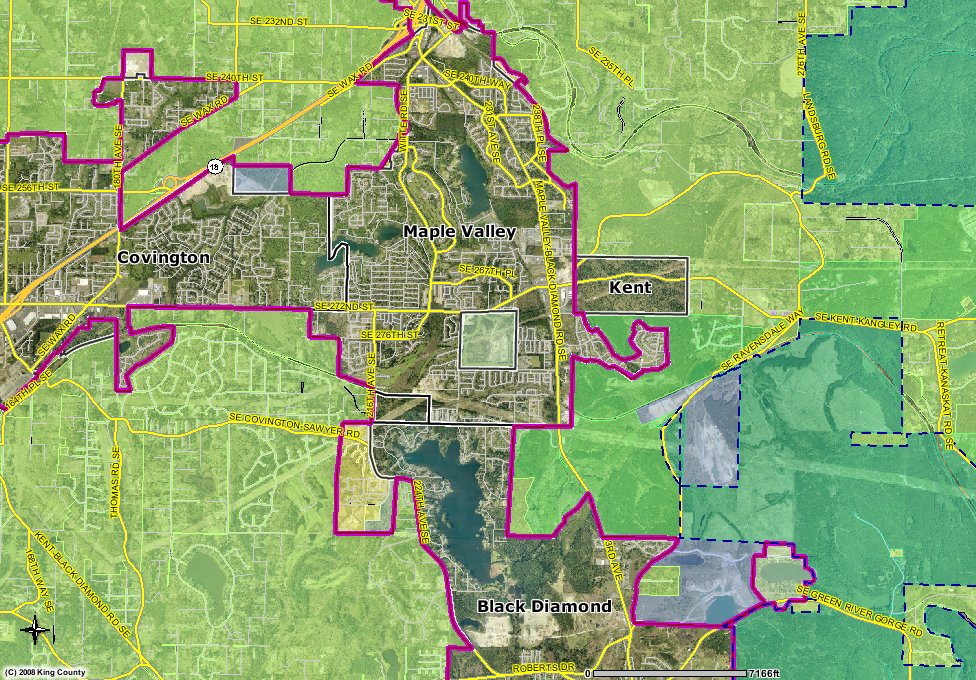
Comp 4 $225,000 43,560 $100,000 $2.30

The data indicates a value for the subject usable property of $2.00 per square foot. Generally, surplus residential land is valued as a percentage of the upland or usable area per square foot, reflective of the presence of critical areas or encumbrances, such as wetlands, slopes, and power line easements. In total, the appraisal estimated the developable and surplus land market value at $590,000.

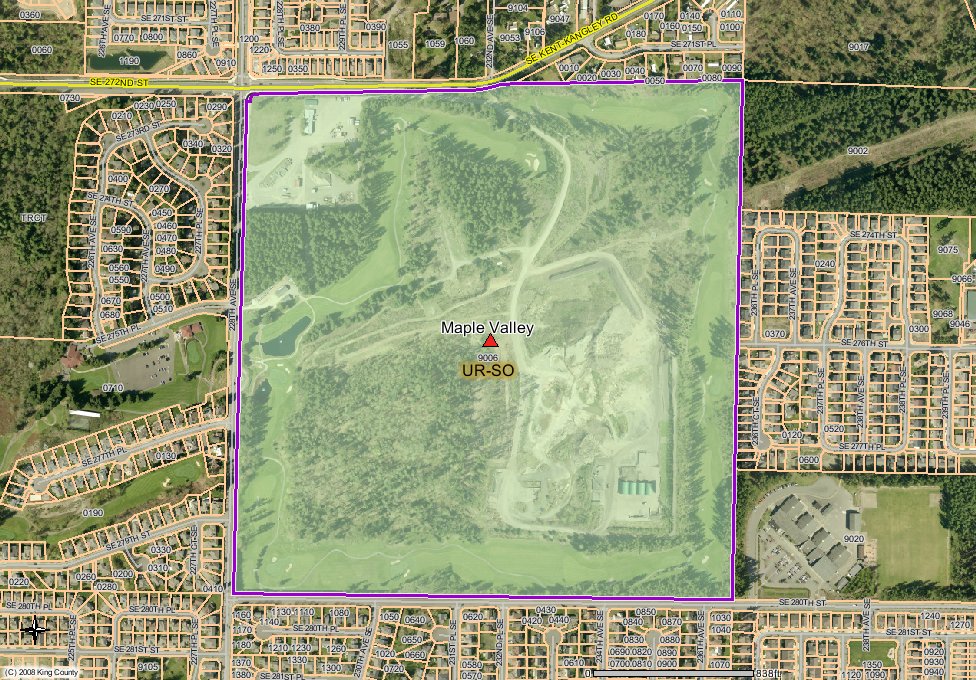
Therefore, if the underlying leasehold for the front nine holes is terminated, the Elk Run Golf Course will be left with the fee-owned land and golf course buildings totaling a value of $590,000. The impact of the loss of the lease can be calculated as the difference between the value of the golf course “as is” ($3,444,000) and the value assuming the lease is terminated ($590,000), for a diminution in value of $2,854,000 ($3,444,000 - $590,000 = $2,854,000).

Real Estate Services has reviewed the appraisal and concurs with the appropriateness of the appraisal methodology and also concurs that the resulting leasehold valuation amount is acceptable. During review of the appraisal, an arithmetic error was identified, but this error does not materially impact the leasehold valuation and does not change the recommendation to pursue the negotiated settlement.

**Vicinity View Map**

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**Parcel Map**

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