

Kinzer Real Estate Services | Seattle Children's Research Institute/Redevelopment Project A Case Study

Kinzer's creative strengths, industry relationships and vision for how real estate can advance a client's mission led to an unexpected and unconventional success story.

Consistently ranked as one of the best children's hospitals in the country, Seattle Children's Hospital formed in 2006 what is now Seattle Children's Research Institute (SCRI), one of the nation's top five pediatric research institutions. Early on, Kinzer helped SCRI secure laboratory and office space near the vibrant biomedical research cluster in Seattle's South Lake Union district. Kinzer accomplished this feat by assembling two adjacent city blocks, including a 236,000 square foot, state-of-the-art research facility vacated by big pharma, an older building left vacant by Qwest for years, and three land parcels that made up a one-acre city block now being used as a parking lot. All together, the site formed a future million-plus square foot research campus that would allow the institute to consolidate and expand its life-saving work.

Led by Dr. Jim Hendricks, the president of SCRI, the institute experienced phenomenal growth and quickly outgrew the acquired research facility (now the Jack R. McDonald Building). As a result, the institute needed more lab and office space, but not enough to start construction on the next building in the campus. In the meantime, it was looking for funding to rent much-needed expansion space.

Kinzer developed a creative solution that bridged SCRI's current space needs and its long-range campus plans. The idea centered on the 263,000 square foot, dilapidated former Qwest building, and the only two obvious options for space: Redevelop the building (which had previously been determined unfeasible) or tear it down and build new. Both options created too much space too soon—and were far too expensive. Meanwhile, SCRI continued to pay property taxes and insurance and was also prepared to demolish the building so the site could at a minimum be used for parking.

But Kinzer team member Shelley Gill came up with a better idea: Pursue a certain creditworthy and growing tenant in the area that would pay for much of the cost to redevelop the building in return for a 10-year lease with relatively quick occupancy. After 10 years, SCRI would be handed a Class A building ready for conversion as laboratory space or continued office use. Meanwhile, the prospective tenant's lease payments would pay for SCRI to rent the expansion space it so badly needed. Dr. Hendricks approved the plan, "This proposed redevelopment of 1915 Terry is critical to our future expansion, and demonstrates our commitment to a growth strategy that supports our mission to prevent, treat and eliminate pediatric disease."

This improbable and highly speculative deal depended on quickly preparing the building for occupancy and getting the tenant to agree to terms. But Kinzer first had to show that it was even feasible, and a quick analysis determined that it would cost over \$1M just to prove that the project was physically possible and financially viable. Securing the resources to test the idea was a hurdle in and of itself, since earlier studies had concluded that a redevelopment was not feasible. Given these uncertainties, and the initial low probability of success, Kinzer set out to make the deal without any cost or risk to SCRI.

Drawing on relationships with many best-in-class service providers in the industry, Kinzer persuaded them to contribute over \$1 million in resources and brain power. Essential partners including McKinstry, NBBJ and Lease Crutcher Lewis invested substantial time and money, *which enabled SCRI to pursue a high-risk, big-reward opportunity at no cost until the option was proven viable.* Understanding the project's immense value to SCRI that would be derived from these contributions, Doug Picha, President, Seattle Children's Hospital Foundation stated that "this is another example of our community supporting Children's; without these timely donations by the real estate industry, we would not be the recipients of all this value to support our research mission."

After overcoming numerous hurdles in the strategy development, research, preliminary design and early negotiations with the permitting agency and with the tenant, Kinzer and its team of industry partners succeeded in making a long-shot project a reality. Todd Johnson, who had prior development experience before joining Children's as VP of Facilities, said, "For over a year, the team overcame hurdle after hurdle. It is a testament to their expertise, experience, persistence, and connections in the development community."

Upon successfully proving out the feasibility of the project, Kinzer worked with the tenant to contribute significant capital to the building's redevelopment and to lease the entire building for 10 years, at which time SCRI has the option to continue leasing to the tenant or to have the building revert back to SCRI as a core component of its two-block research campus. Meanwhile, the rent will pay for SCRI's expansion space while it begins planning for a new research facility across the street on the assembled city block it owns. "We were really stuck between a rock and a hard place with our exceptional growth in research, coupled with lack of space and funding. Kinzer again pulled a "rabbit out of the hat" to solve our problem." -- Dr. Thomas Hansen, CEO, Seattle Children's

Outcomes like this one are a Kinzer hallmark: ***An innovative deal that solves a problem, seizes an opportunity, and creates a win-win for all the stakeholders.***