

**FINAL REPORT OF ST. NICHOLAS EXPLORATORY COMMITTEE**  
**February 9, 2022**

**Background and Summary of Committee's Recommendations**

Thanks to the generosity of long-time parishioners Laura Ellen and Robert Muglia, Saint Mark's owns the St. Nicholas building and property that is north of the main Cathedral building. While the property has been subleased to two schools since its acquisition in 2003, the ultimate goal in acquiring the site was "to promote the vision, mission, strategic plan and charitable purposes" of Saint Mark's. And, it was anticipated that, once it was financially feasible, the St. Nicholas building would become a Parish Life and Ministry Center. St. Nicholas offers both extraordinary opportunities and extraordinary challenges. The building is old, requires extensive maintenance, and is in need of a new roof and seismic and mechanical upgrades at a cost probably in excess of \$5M, plus substantial additional costs to remodel and modernize the building, including assuring accessibility and energy efficiency.

This funding challenge led the Vestry in 2020 to question whether it might be better to develop the St. Nicholas site in a way that would avoid the expense to update the building and provide capital to fund (a) a Parish Life and Ministry Center in a different location on the Saint Mark's campus and (b) mission-related outreach to the broader community. To help answer this question, Saint Mark's engaged Meriwether Advisors to provide a strategic site assessment of St. Nicholas. Meriwether concluded that the "highest and best" economic value of the St. Nicholas site would be to redevelop the property as high end condominiums and townhouses and that it was reasonable to expect that the return from such a development would be sufficient to fund a new Parish Life and Ministry Center and support Cathedral ministries. More specifically, Meriwether's assessment, subject to testing in the market place, was that a developer would place a value of \$10.7M to \$15.1M on the property in its current condition if used for condominiums and townhouses or \$8.3M if used for market rate apartments, and that retaining the building and using it for a school or commercial office space would not be economically viable.

In August 2020 the Vestry engaged Meriwether to serve as agent/advisor in assessing interest from the real estate development community; and the Vestry established an Exploratory Committee to assess future use of the St. Nicholas property, including guiding the process of market-testing Meriwether's strategic site assessment and engaging with the parish about these explorations.

Eighteen months later, the Exploratory Committee is issuing its final report. Consistent with the Committee's recommendation and the Vestry's unanimous decision in June 2021, the Committee recommends against further consideration of market rate housing on the St. Nicholas site, and instead proposes to continue leasing to the current or successor tenants between now and 2031. It is very important to recognize, however, that the extraordinary financial challenges discussed above may not be solved during the next ten years. The same basic challenges may still be present, complicated by the St. Nicholas building being ten years older, in which event it will be necessary to take another hard look at what to do with the St. Nicholas building and

property. And, it is also possible that circumstances may change in such a way that such decisions will need to be made even sooner.

### **Members of St. Nicholas Exploratory Committee**

The past and present members of the St. Nicholas Exploratory Committee are Clara Berg, Lynne Cobb, Maria Coldwell, John Hoerster (Chair), Julia Logan, Peter McClung, Roberta Nestaas, Jim Pannell, Rebecca Ralston, Nikisha Reyes-Grange, Walter Stuteville, and Dean Steve Thomason. Gerry Johnson, Phil Lloyd, and Re Knack have served as advisors.

### **Activities of Exploratory Committee Between September 2020 and February 2022**

In September 2020, the Exploratory Committee and Meriwether Advisors developed a detailed Request for Interest, which identified the following objectives and goals of Saint Mark's:

- **Further the Cathedral's Missional Purposes:** A primary motivation for considering redevelopment of the St. Nicholas site is to provide capital to support Saint Mark's mission and ministry, including a new Parish Life Center. Saint Mark's will also view positively incorporation of a mission-driven purpose, either within the St. Nicholas site or elsewhere on the campus of Saint Mark's.
- **Campus Integration of Buildings to include a new Parish Life Center:** The overall development of the Saint Mark's campus will eventually include a Parish Life Center, integrated with the main cathedral building, that includes new office space, meeting and gathering rooms for ministry groups, and a parish hall with multipurpose seating and meeting space for several hundred persons. It is not anticipated that the developer would build this new facility, but the developer would need to demonstrate that there is a viable and economically feasible location for the Parish Life Center, whether that be within the St. Nicholas site, the south upper parking lot, or elsewhere on campus.
- **Endow Ministries:** With any redevelopment scenario, Saint Mark's will look to reserve funds to endow ministries and the cathedral buildings and grounds.
- **Avoid Cost of Upgrades to St. Nicholas Building:** Use of the St. Nicholas building as a Parish Life Center would require incurring significant costs for new roofing, mechanical upgrades, and seismic retrofits and for reconfiguring the space for parish use. Saint Mark's wishes to avoid these costs.
- **Creative Possibilities:** While the Request for Interest focuses on the St. Nicholas site, Saint Mark's is open to considering development possibilities elsewhere on its campus, especially on the parking lot to the south and southwest of the cathedral building, but probably not including high-end housing. And, despite Meriwether's assessment that the highest and best economic value of St. Nicholas is multi-family

residential, the RFI invites developers to express interest in other uses of the site, including schools, offices, and apartments.

- **Cultural Fit:** Establish a partnership with a developer that shares similar values and culture with Saint Mark's, including a demonstrated commitment to environmental stewardship and a long-term commitment to the community.

Meriwether then solicited interest from over 7,000 potential development partners in the Fall of 2020. After evaluating responses, the Committee decided to interview three developers interested in multi-family, market rate residential development of St. Nicholas for condominiums and townhomes, while continuing to explore other potential development partners and other uses of the St. Nicholas site. Following the three interviews, the Committee was especially positive about the culture fit with one of the developers and decided to offer them an exclusive opportunity to conduct due diligence on the site for a 120-day period, with the due diligence being focused on the costs that would be necessary to address the condition of the St. Nicholas Building because these costs were recognized to be a significant driver of the economic valuation of the site for development purposes. This arrangement was negotiated with the developer, memorialized in a Memorandum of Understanding, approved by the Vestry, and commenced on February 6, 2021. The MOU did not obligate Saint Mark's to either pursue residential use of the St. Nicholas site or proceed with this developer after the 120-day due diligence; and, in any event the due diligence results would be available for use by Saint Mark's. The MOU provided for two phases: Phase I focused on the extent and cost of seismic upgrades, roof replacement, and removal of hazardous materials; and, Phase II focused on determining a price/valuation of the property and related work including a site design for condominiums and townhomes and financial projections based on various potential arrangements with the developer. In early June 2021 the developer provided the Deliverables called for in the MOU.

While there was a possibility of a greater return to Saint Mark's under certain assumptions, scenarios, and risk allocations, the developer essentially placed a value on the St. Nicholas building and site of \$8M if used for market-rate multi-family housing. This valuation was \$2.7M-\$7.1M lower than the value range stated in Meriwether's 2020 feasibility study that we were testing in the marketplace. And, it should be noted that the Exploratory Committee and the Vestry had always recognized that market-rate housing would not directly advance the Cathedral's mission. The rationale for even considering market rate housing was that the profit generated from developing the property would provide funding for a Parish Life and Ministry Center and for an endowment or other use of the profit to directly support our mission. With a valuation of only \$8M, the return to Saint Mark's might not provide sufficient funding for a Parish Life and Ministry Center, much less to pursue other mission-related efforts.

The Exploratory Committee met with the developer to review the Deliverables in detail and then decided to recommend to the Vestry that, without closing the door on the developer's proposal, consideration of their proposal should be put on hold while the Committee explored other alternatives, including affordable housing and retaining St. Nicholas for mission-related uses long-term. At its June 2021 meeting, the Vestry agreed with and approved the Committee's recommendation.

Since then, the Exploratory Committee has been considering the alternatives of retaining St. Nicholas long-term and/or developing affordable housing. We have reached a point in our explorations where we believe it is time to issue a final report to the Vestry and, following review by the Vestry, to share our report with the parish.

### **St. Nicholas Exploratory Committee's Conclusions and Recommendations**

1. Market rate housing. A core role of the Committee was to guide the process of market-testing Meriwether Advisor's assessment that the "highest and best" economic value of the St. Nicholas site was market rate multi-family condominiums and townhouses. In June 2021 the Committee recommended and the Vestry approved putting market rate housing on hold while we considered other alternatives. Now, instead of continuing to hold open this possibility, **the Committee recommends against market rate multi-family housing** because (a) the best proposal received placed a value on St. Nicholas that was significantly lower than Meriwether's assessment, (b) a development based on that valuation would not meet the Committee's stated goal to generate sufficient capital to support Saint Mark's mission and ministry, including adding a Parish Life Center and endowing ministries, and (c) most importantly, high end market rate housing is incongruent with the Cathedral's mission. If this recommendation is approved by the Vestry, we will end our contractual relationship with Meriwether Advisors, as our contract allows us to do without any further financial obligation.

2. Direct mission-related use of St. Nicholas long term. The Committee recommends that every effort be made to directly use the St. Nicholas property for mission-related purposes. **The best way to position the Cathedral for this result is to continue the leases to the Amistad School and Gage Academy of Art (or a successor) through July, 2031.**

a. There are mission-positive aspects to the Cathedral's relationships with Amistad and Gage. The Amistad School provides bilingual (Spanish and English), bicultural education pre-K through eighth grade. Gage Academy of Art is a fine art school specializing in drawing, painting, and sculpting. Both Amistad and Gage are nonprofit, tax exempt organizations.

b. Amistad lease. The Amistad School lease is approximately 21,330 rentable square feet in the original part of St. Nicholas plus the outdoor play area. The lease commenced August 1, 2021 and terminates on July 31, 2031. There is an option to terminate on June 30, 2024 or any June 30<sup>th</sup> thereafter upon a minimum of 18 months advance notice. Barring an extraordinary change of circumstances, however, Saint Mark's should continue to lease space to Amistad School through the year 2031.

c. Gage lease. The Gage lease expires in 2023. Saint Mark's should continue to lease to Gage (or to a successor tenant) on economic terms comparable to the Amistad lease, and we have been advised that there is a solid market for a school tenant. If it turns out that the Cathedral is unable to lease the space on reasonable terms after 2023, this would free up the Gage area as a possible location for the Parish Life and Ministry Center discussed in Section 3 below; this should not, however, be the determinative factor for where to locate the Center. Gage also could potentially be the site for an affordable housing project, but for the

reasons discussed in section 4 below, the Gage space could not be a site for affordable housing during the term of the Amistad lease.

d. Expenses for maintaining St. Nicholas. The Vestry recently decided to replace the roof of the historic part of St. Nicholas for a cost of about \$1.1M. The Vestry has also approved \$160,000-\$200,000 for repairs required due to settlement in the west stair tower of St. Nicholas. It also is anticipated that seismic retrofitting will eventually be required at a cost likely to exceed \$4M. The latest information regarding URM (Unreinforced Masonry) permitting by the City suggests, however, that this work would not be required during the term of the Amistad lease. Amistad is aware that St. Nicholas has unreinforced masonry and their lease includes a right for Saint Mark's to terminate if seismic retrofitting is required. Saint Mark's has previously undertaken work on St. Nicholas to address URM issues. By waiting until the City of Seattle requires additional seismic work, it becomes much more likely that government or other funding will be available to help Saint Mark's cover the cost of such work.

### 3. Parish Life and Ministry Center

a. The Exploratory Committee is positive about having a new Parish Life and Ministry Center (PLMC) on the campus. This is an important, mission-positive use of space on the Cathedral campus.

b. A PLMC is not, however, an urgent immediate need and it makes sense to wait perhaps five years before undertaking planning for a PLMC. Most importantly, we first need to experience life at the Cathedral post-Covid.

c. We anticipate that the PLMC would offer (i) a larger and more modern meeting space than Bloedel, (ii) expanded classroom and ministry resource space, (iii) music program space, and (iv) office and meeting room spaces. The PLMC should be physically connected to the main Cathedral building and it should be accessible, carbon neutral, have flexible spaces, take maximum advantage of current and anticipated technology, and be designed to accommodate distanced learning and communication.

d. Either directly within the PLMC or by freeing up rentable space in Bloedel and Cathedral House, Saint Mark's could become a hub for nonprofit organizations that share a common mission with the Cathedral. Becoming such a hub would be a highly mission-positive way for the Cathedral to engage with the broader community.

e. When it is time to move forward in planning the PLMC, the three most likely locations, in order of likelihood, are (a) in place of the Gage wing of St. Nicholas, (b) on the easterly part of the parking lot south of the main Cathedral building, or (c) within the historic part of St. Nicholas. A key design element is how to physically connect the PLMC with the main Cathedral building at reasonable expense while maintaining effective traffic flow on campus.

#### 4. Affordable Housing

a. Affordable housing would be a valuable, mission-positive Cathedral program. The Exploratory Committee devoted considerable time and attention to this prospective development on the St. Nicholas property or elsewhere on the Cathedral campus. In doing so, we benefitted greatly from the expertise of Committee member Rebecca Ralston.

b. Committee members for the most part preferred the St. Nicholas site over the south parking lot as the site for an affordable housing project. This is not feasible, however, while the Amistad lease continues because that lease includes not only the historic St. Nicholas building, but also the outside play yard area; an affordable housing project would not be feasible without, at a minimum, using all of the St. Nicholas property with the possible exception of the historic building. It also would not be feasible to terminate the Amistad lease early in order to pursue an affordable housing project; to do so would require 18 months' prior notice to Amistad and we could not be assured when giving that notice that the affordable housing project would be viable. Thus, we could end up with neither an affordable housing project nor a lease to Amistad.

c. It is possible that an affordable housing project could be developed on the parking lot south of the main Cathedral building, and the Committee engaged in preliminary discussions about this possibility. Several Committee members doubt the feasibility of such a project, question the aesthetics of adding building(s) on the parking lot, and are concerned about the loss of parking, the time and cost of pursuing the opportunity, and the administrative challenges that would be involved in having an affordable housing project on campus. On the other hand, some Committee members feel that affordable housing on the south parking lot should be seriously explored and that it could be both mission-positive and financially positive.

d. The Exploratory Committee believes that consideration of an affordable housing project on the south parking lot is beyond the scope of the Committee's charter. If the Vestry determines that affordable housing on the south parking lot should be further explored, this should be undertaken by the Vestry and/or a new committee appointed by the Vestry. We have gathered information that would be helpful in such an exploration. Affordable housing could be a very positive addition to the campus, but whether it is viable is a challenging question that will take very substantial time and potentially financial resources to answer. Costs pre-approval of an affordable housing project will be in the range of \$500,000 and there is no certainty that a project will end up being approved for funding; a key challenge is to manage these costs so that most of them are underwritten by other participants than Saint Mark's. In addition to these costs, consideration of an affordable housing project is very time-consuming over multiple years. Saint Mark's should not start down the affordable housing path unless there is strong support for locating affordable housing on campus if it proves to be viable.

e. A key question if the Cathedral wishes to undertake an affordable housing project is what type of affordable housing would be best-suited for the cathedral campus. There are several possibilities: the income requirement could range anywhere between 40% and 110% of Area Median Income, or there could be a mix of income levels; and, the focus could be on senior housing, family housing with 2 or 3 bedroom units, supportive housing for residents who require wraparound services, or a mix of these uses. Each option would have different financial

modeling, although one simple rule of thumb is that as rents drop, the return drops and/or the need increases to obtain “gap” financing from public entities or companies supporting expanded affordable housing entities. It is likely that there is a high need for whatever type of housing the Cathedral would choose to provide, but this would need to be confirmed by a market study; it also is the case that some types of projects might be viewed as being a better mission fit for Saint Mark’s. We suggest that Saint Mark’s not attempt to answer the “type of affordable housing” question until after the project has been discussed with key external stakeholders, especially so Saint Mark’s has a good sense of where the greatest needs are that could be met by a Cathedral project.

f. The Committee recommends that consideration also be given to partnering on an affordable housing project elsewhere in the Seattle area. The challenge with this, however, is availability of funding if Saint Mark’s were going to provide financial support.

## 5. Other Observations and Recommendations

a. The 2030 Plan adopted by the Vestry in June 2017 remains viable and articulates useful principles. The Cathedral campus currently is underutilized as an urban center for ministry and we should maximize use of the campus to further the Cathedral’s mission. Mission aspects include serving as the Cathedral for the Diocese, gathering space for the broader community, social and environmental justice, and becoming a Green Cathedral. Criteria for making campus-related decisions include: decisions should advance the Cathedral’s mission and ministry priorities; projects should integrate rather than further fragment the campus; stewardship of current buildings should take priority over acquiring or constructing new buildings; and, we should try to retain all current property rather than sell some of it. The 2030 Plan also said that developing a Ministry Center/Parish Life Center was a high priority, but with recognition that this was not feasible for 7-10 years and would probably require another major capital campaign.

b. Committee deliberations have made clear the strong interest in mission-related community engagement as being just as important as the more parish-focused benefits of a Parish Life and Ministry Center. This, for example, helps explain the Committee’s interest in possibly partnering on an affordable housing project elsewhere in Seattle and serving as a hub for nonprofit organizations.

c. When it is time to move forward with planning the Parish Life and Mission Center, we recommend engaging an architect (or other design professional) to help answer the threshold question of where the Center should be located. We anticipate this could be done at a conceptual rather than detailed level at relatively low cost and result in a visual rendering of a campus vision that could be used with the various internal and external audiences that would be interested. If the original St. Nicholas building is under serious consideration as the PLMC site, it also would be good for the architect to assess its suitability for likely uses and the remodeling challenges and opportunities it would present. And, if the Vestry is interested in exploring affordable housing on the south parking lot, the architect should be engaged sooner because location of the PLMC will affect where affordable housing might be located.

d. Ideally, planning for what to do next with the St. Nicholas building and site should begin in earnest 3-4 years prior to the expiration of lease(s) in 2031. This planning will be challenging for the reasons discussed at page 1 and our Committee does not purport to have the answers for what that plan should be. Two observations, though. The timing will work well to consider how to develop the St. Nicholas site in a way that furthers the Cathedral's goal of net-zero carbon by 2030. And, Saint Mark's has the legal right to disregard the historical landmark status of St. Nicholas. As a result, Saint Mark's has the flexibility to retain the building and its landmark status, retain aesthetic values of the original St. Nicholas building without preserving all aspects of the building, or remove the building entirely.

### **Final Steps and Conclusion**

This report is being presented by the St. Nicholas Exploratory Committee to the Vestry at its February 12, 2022 retreat. If the Vestry accepts the recommendations in this report, we will then (1) advise Meriwether Advisors and the developer with whom we worked most closely of our decisions, while also thanking them for their efforts on behalf of Saint Mark's, (2) present the report at a parish meeting on Sunday evening, March 27, and (3) archive all relevant documents so they are available for future use.

While the St. Nicholas building presents extraordinary challenges that will continue to require attention long term, we close this report by stressing the site's extraordinary potential. We have every confidence that in the years to come the St. Nicholas property will be used in highly effective ways to advance the Cathedral's mission and ministries.