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REGIONAL REPORT

By Jeff Bond



Residents soak up the summer sun at Bellevue's Downtown Park. Bellevue has often been called a city within a park for the many green spaces located around the city.

All Grown Up

In just 50 years, Bellevue has grown from its agrarian beginnings to become the economic center for the Eastside and a technology sector leader.

FROM his vantage point at the north end of Bellevue Square, Kemper Freeman has a unique view of the city he and his father helped put on the map.

"Bellevue is a couple of different things," Freeman says. "It's a great environment for business and a great marketplace. It is the center of the Eastside region."

He should know. During the past 50 years, it would be hard to find a family that has had more impact on what Bellevue is and what it will be than the Freemans.

It was 1946, seven years before Bellevue would incorporate into a city, when his father, Kemper Freeman Sr., took part of his fortune earned building ships during World War II and sunk it into creating

Bellevue Square.

The shopping center was comprised of 18 stores and covered less than 100,000 square feet. But it was still pretty impressive for a town of less than 6,000 residents that was most famous for its berry patches and wide open spaces.

Freeman Sr., a longtime political and civic force, was a key player in building the Evergreen Point Floating Bridge, establishing Bellevue's Overlake Hospital, and was the first chairman of the city's school district.

Freeman, the CEO of Kemper Developments, has continued the family tradition, both as a developer and a civic leader. He spent tens of millions renovating Bellevue Square and built the \$260 million Bellevue Place development, with a Hyatt Regency Hotel tower and office and retail space.

And perhaps his most ambitious and risky project will be launched in 2004 when he begins construction on Lincoln Square, a massive mixed-use development across the street from Bellevue Square that will include retail space, a four-star hotel and luxury condominiums in a 42-story tower, and eventually an

REGIONAL REPORT

office building.

Today Bellevue Square continues to be one of the great anchors for the downtown area. It is one of the nation's most successful malls, covering some 1.3 million square feet, boasting 200 stores, 6,000 parking spaces, and more than 16 million shoppers a year.

The mall's prominence mirrors that of the city that has grown up around it. Bellevue itself is now one of the region's major economic powers, with a population of 117,000 people and home to about 125,000 jobs.

Five of the state's 25 largest public companies are based in Bellevue, including truck-maker Paccar, manufacturing giant Esterline Technologies, and utility Puget Sound Energy. Many of the state's largest and fastest-growing private companies call Bellevue home, as well.

But the city is probably best known in business circles as the hub of the Eastside technology corridor. Thanks in part to Microsoft settling in nearby Redmond, Bellevue has long been seen as a key location for technology companies and was a major site for the dot-com explosion of



Downtown Bellevue's Lincoln Square project, pictured above in an artist's rendering, is among the city's most ambitious new development projects and a sign that local developers are growing more optimistic about the city's economic future.

JAMES F. HOUSEL



Bellevue Square is considered one of the nation's top malls and is visited by an estimated 16 million people a year.

the late 1990s. With only about 7 percent of King county's population, Bellevue is home to about 20 percent of the county's high-tech firms.

Bellevue's downtown core is a prime example of how the city has evolved in its short 50-year existence.

Marked by the boundaries of 12th Street to the north, Main Street to the south, 100th Avenue to the West, and Interstate 405 to the East, downtown Bellevue remains a baby when compared to its older neighbors such as Seattle and Tacoma. But it is mature beyond its years in economic clout.

Today it ranks as the second largest city



A Kenworth T600 is only one of the truck lines made by Paccar, which has its corporate headquarters in downtown Bellevue.

center in the Puget Sound region and is evolving into a true urban destination, with 33,000 employees and almost 3,500 residents. The steel and glass skyscrapers that form Bellevue's cityscape are testaments to the city's immense economic

power and it's growing position as a major regional player.

It is hard to believe a few decades before, the region was little more than a sleepy berg surrounded by fields and open range.

HOMESTEAD HAVEN

It was in 1882 that the early settlers in the rural east banks of Lake Washington named the area Bellevue, a French word meaning "beautiful view."

Nineteen years earlier, Aaron Mercer is believed to have been the first settler to register a land claim when he homesteaded on about 81 acres of land on the west bank of what is known today as the Mercer Slough in South Bellevue. More settlers followed, carving out farms in the rugged but fertile area, including William Meydenbauer, who homesteaded the first

claim on what is now Meydenbauer Bay.

By 1900, an estimated 100 people lived near Meydenbauer Bay and another 200 lived in the Medina Point and Clyde Hill area, with other settlements and towns springing up. Fruit gardens were being planted and logging operations were going strong. Ten years later, the greater Bellevue area was estimated to have a population of about 1,500.

After decades of steady but slow growth, Bellevue's fortunes took a major turn with the beginning in 1938 of the first Lake Washington floating bridge.

Two years later, the bridge was completed, and by 1949 the tolls were lifted, ushering in the post-war suburban boom for the so-called "Eastside."

The 1950s were a golden time for Bellevue, especially for developers. The post-war prosperity brought a population and commerce explosion. Boeing's expansion forced massive new housing developments to be built. And downtown Bellevue was also taking shape.

Facing a growing population and unsure about King County's ability to manage the growth, city leaders incorporated Bellevue in 1953. The open land allowed for the early city planners to lay out their plan for a modern, organized city that separated the neighborhoods from the commercial and industrial zones.

BUILDING A CULTURE

Recent decades have seen an amazing economic evolution in the Bellevue area. While Bellevue and its neighbors have always been seen as well-to-do, the technology explosion of the last two decades has brought unprecedented affluence to the area.

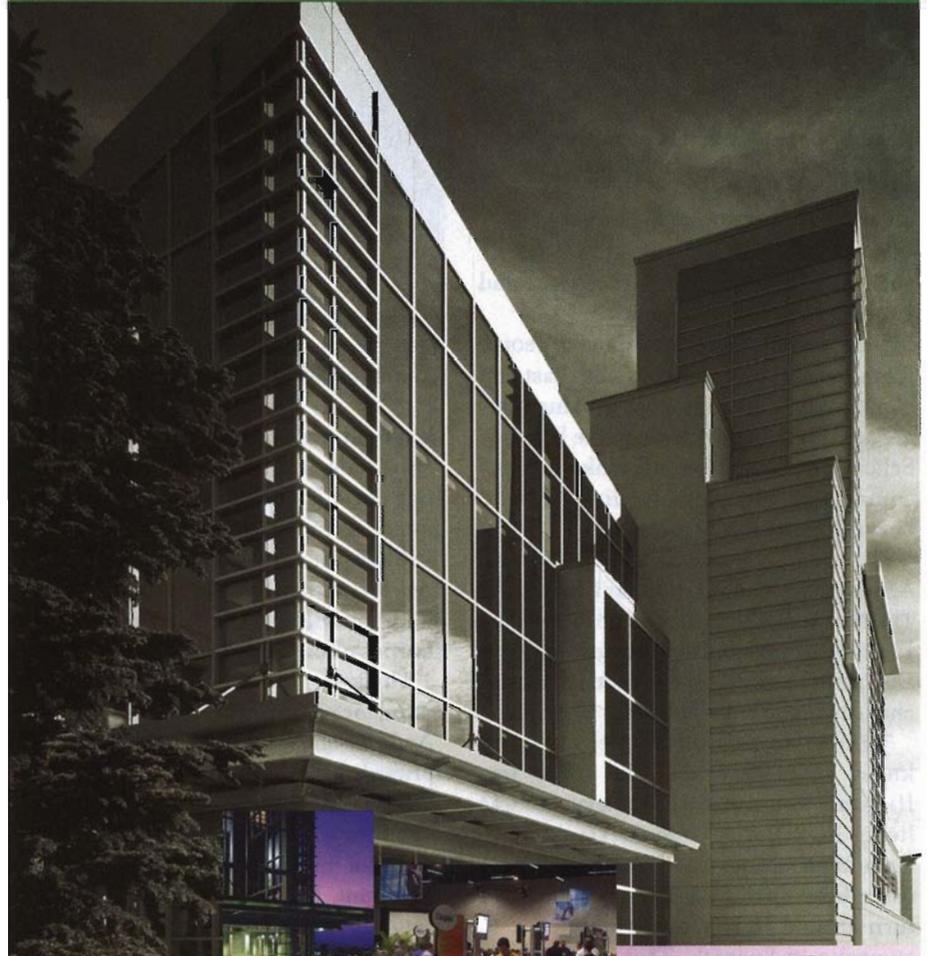
Just to give an example of the wealth generation, the City of Bellevue has an assessed valuation of about \$20 billion, the second highest valuation in the state behind only Seattle. And that figure has tripled since 1986.

Through the 1980s and 1990s, Bellevue was one of the epicenters for the technology revolution reshaping the nation's future. The city was home to dot-com companies



Puget Sound Energy CEO Steve Reynolds is one of the many top executives that have their corporate headquarters in Bellevue.

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SLATER PARTNERS ARCHITECTS

Kemper Development is proposing building a new wing onto downtown Bellevue's Hyatt Regency Hotel. Above is an artist's rendering of the project.

such as Drugstore.com, Infospace, and Expedia.com, to name a few.

Such wealth has also attracted people from across the globe to the Eastside community. Today, at least 60 languages are spoken by the students in the Bellevue School District. The ethnic makeup of the community continues to diversify and become increasingly complex.

That is the perspective of Carmen Aguiar, founder of The Aguiar Group LTD. The New York City native came to Bellevue 13 years ago to start her accounting firm. During that time, she's seen immense changes in the city's culture.

"When we arrived in Bellevue, we knew absolutely no one that was Hispanic who grew up in Bellevue, or was living in Bellevue," Aguiar says. "Well, since then, things have changed. Now, I often hear Spanish being spoken. I can turn around in line and often speak to someone in Spanish. That adds a great



SRG PARTNERSHIP INC

This is a rendering of how Bellevue's new City Hall will look when construction is completed in 2006. The location is the former Qwest Communications building at 450 110th Avenue Northeast. It will also house the Police Department, the Eastside 911 Communications Center and the city's Emergency Operations Center.

deal of diversity."

She adds that there are now a number of high-level Hispanic executives and professionals living in the community.

Shiv Batra, president of Inca Engineers Inc., was attracted to Bellevue's quality of life, in addition to the educational opportunities offered by the region.

"I looked at where I can get the best education for me and my children," Batra says. "And also about being in a society which is forward thinking, and not just doing the same things they have done in the past."

For most business communities, the quality of the education system is certainly important, but not usually a determining factor as to where a company will locate. But that may not be the case for Bellevue, which has found that recent national attention surrounding the city's school district has been a great recruiting tool.

Five of Bellevue's high schools were ranked among the nation's finest by *Newsweek* magazine this year. Many national education experts consider the school district an exemplary environment and Superintendent Mike Riley finds himself a much sought-after speaker in education circles.

While Bellevue's secret may be hard to quantify, part of the answer is the

strong support from the business community, which has helped raise millions of dollars to support the district's programs. It is also a system that expects students to excel.

For the city to flourish, it has to be a place where residents want to walk, stay, and linger. City officials are working on plans to at least create a more pedestrian-friendly walking experience in the downtown core. The city also has worked hard to streamline permitting and land use issues in an attempt to strengthen the business climate.

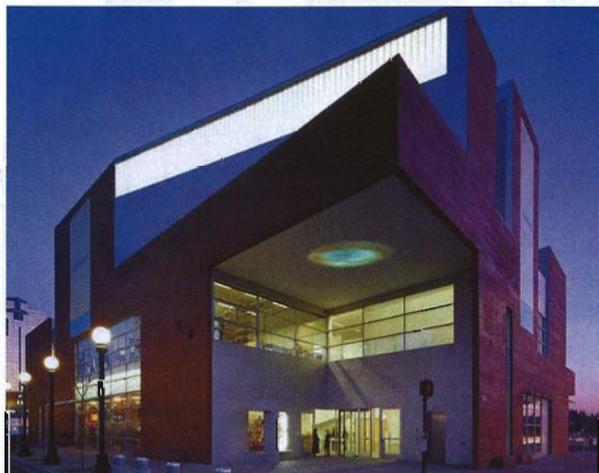
In recent years, the city fulfilled a dream by planning to shift the City Hall to the downtown core. The facility will move into the former Qwest Building on 112th in hopes to create a more cohesive city center.

"We have the opportunity to fulfill a 20-year dream of putting city hall and a public safety center in downtown Bellevue," says Bellevue Mayor Connie Marshall. "It's really an exciting opportunity. We are a business center. We have wonderful parks and recreation facilities and quality schools. We have a fabulous hospital in Overlake that helps define us as a community. And we have the emerging beginnings of culture."

CULTURAL AWAKENINGS

Developing a thriving and diverse community has been the aim of various professional and civic groups in recent years. Part of that development is incorporating the arts into the city, as well.

Leslie Lloyd, president of the Bellevue



LARA SWIMMER PHOTOGRAPHY

The Bellevue Art Museum, which opened its doors in 2001 to much fanfare, was forced to close last fall due to financial problems. The museum is being reorganized and is scheduled to open again in 2004.

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Downtown Association, says Bellevue is in the process of evolving into a center for culture and entertainment. It already has the economic base, the population, and the infrastructure. So the next progression for any city is developing into a more livable and memorable community.

"That was what Seattle did by inviting the World's Fair in the 1960s," Lloyd says. "Not all of these things are happening today, but there are positive signals that things are changing."

There have been problems, however. Key among them is the troubled Bellevue Art Museum. Championed by the business community, the museum was roundly praised as a cultural breakthrough for the Eastside when it opened its \$23-million facility across from Bellevue Square in January of 2001.

A little more than two years later, the museum has closed its doors and is in the process of a reorganization amid reports of mismanagement and accounting problems. Critics say the museum was in part crippled by the lack of a clear vision and purpose. BAM board president Richard Collette says the museum



Meydenbauer Center, the city's convention space, is scheduled to expand to accommodate larger meetings and conventions. Developer Schnitzer Northwest is planning a 1.2 million square-foot mixed-use development adjacent to the center that will be partially completed by 2006.

will reopen in July of 2004.

But such setbacks haven't stopped other cultural projects from moving forward, including the development of the Performing Arts Center Eastside, or PACE. The \$84-million project is still in the fund-raising stage, but is scheduled

to include a 90,000-square-foot facility that will seat up to 1,800 people. It is envisioned as a world-class performance theater for dance, drama, and music concerts and will share the block with the Hyatt Regency Hotel and Bellevue Place.



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DENSITY AND CONGESTION

Another key aspect of increasing the life of any downtown is increasing the number of residents. Currently, there are about 3,500 people living in Bellevue's downtown core, making it difficult to sustain top-flight restaurants, nightclubs, and even movie theaters.

Nevertheless, city officials are implementing plans to help boost the city's population and increase the density in the city. Condominiums and apartments are springing up, seemingly by the day. By 2020, city officials estimate there will be housing for 14,000 people in Bellevue's downtown core.

City officials also estimate that the number of jobs in the downtown area will more than double over the next three decades, jumping from the current figures of about 33,000 to about 79,000.

If such growth does materialize, that means even more traffic congestion. The transportation issue was identified as the number one problem facing the community by a majority of Bellevue's business community in recent city surveys.

"If there is a key challenge for the Eastside, and frankly all of King, Pierce, and Snohomish counties, it is the need to adopt transportation systems that will reduce congestion," says Freeman, an outspoken proponent for more road construction. "If I see one thing that's risky about this marketplace, it is the congestion issue."

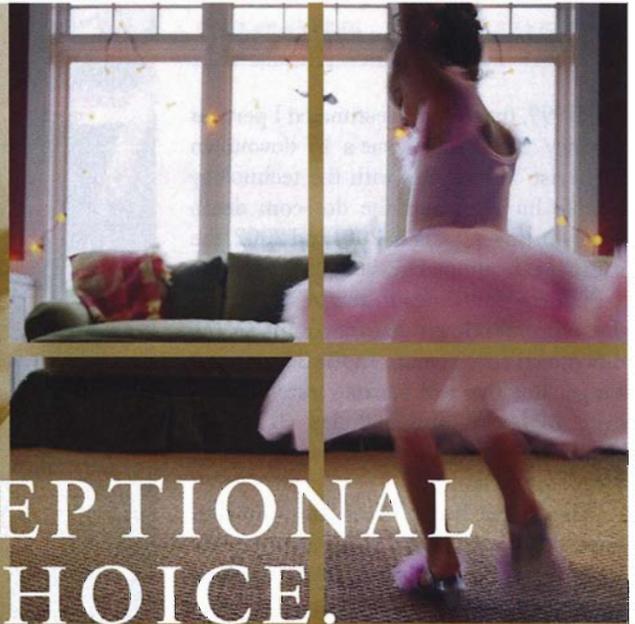
TECHNOLOGY'S BUST AND BOOM

Of course it's virtually impossible to estimate with any accuracy future growth 30 years from now. Just ask the developers who bet big on the dot-com revolution. Bellevue found out at the turn of the century that the information economy can be hit by a recession.



The Bellevue Galleria is an outdoor mall in the downtown core that is helping to make Bellevue more pedestrian-friendly.

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In 1999, there was an estimated 1 percent vacancy rate in Bellevue's 16 downtown high-rise towers. But with the technology bubble bursting and the dot-com death watch hitting its peak in 2001 and 2002, the vacancy rate jumped to about 25 percent.

Bellevue continues to recover from the dot-com meltdown. Vacancy rates in the downtown core remain in the 23-percent range. But the real vacancy rate may be even higher if one includes all vacant space, including those covered by long-term contracts.

"The silver lining from the dot-com bust, if you will, is that there is now quality space available," says Lloyd. "Instead of having to set up your business in some office park in the middle of nowhere, you now have choices right in downtown Bellevue. And the quality you get for that dollar is very, very high."

While there is some evidence that the recent pick-up in the economy is translating to increasing business activity in Bellevue, Lloyd expects a slow improvement in the city's vacancy rate for the foreseeable future.

"The key to the recovery comes from



The Lodge at Bellevue Square hosts a party outside of the pan-Asian restaurant, P.F. Chang's Bistro.

job creation. Until we see significant job growth, I don't think we'll see much improvement," Lloyd says.

But developer Freeman, for one, is already planning on capitalizing on the

turnaround.

"I don't know if we're going into a boom-boom time, but the recession is past and we're beginning a growth phase," he says. "There is a need for businesses to expand and there is a demand for more hotel rooms. Bellevue is a market that treats you well when you hit it just right," admits Freeman, who has often shown good timing.

For example, in 1989, just before another round in the technology boom, Freeman completed the 1 million square-foot Bellevue Place Development, kitty corner from the northeastern edge of Bellevue Square. The development included office and retail space and a 300-room Hyatt Regency Hotel.

Now he is planning to expand Bellevue Place during the next year or two by adding another tower to the Hyatt Regency and doubling the size of the hotel.

A TOWERING FUTURE

The sign that Freeman is truly bullish on downtown Bellevue is his decision to buy and develop the \$500-million Lincoln Tower project.

The mixed-use development will be anchored by Bellevue's tallest building, measuring 42 stories. The structure will have retail space, a movie theater, 20 restaurants, a four-star hotel up to the 19th floor, and will be topped with 148 luxury condominiums. A later phase includes construction of an office tower.

The irony is that Freeman lost a bidding contest for the site in the late 1990s when it originally went on the market. It was probably the best deal he didn't make. Soon after the project was announced, the technology bubble burst and vacancy rates began to rise. Lend Lease, the Australian developer, ended

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Armed with tins full of chalk, local artists try their hand at creating sidewalk masterpieces. Bellevue's arts and culture scene continues to expand.

up pouring as much as \$200 million into acquiring permits and initial construction before selling the project for much less than its original bid.

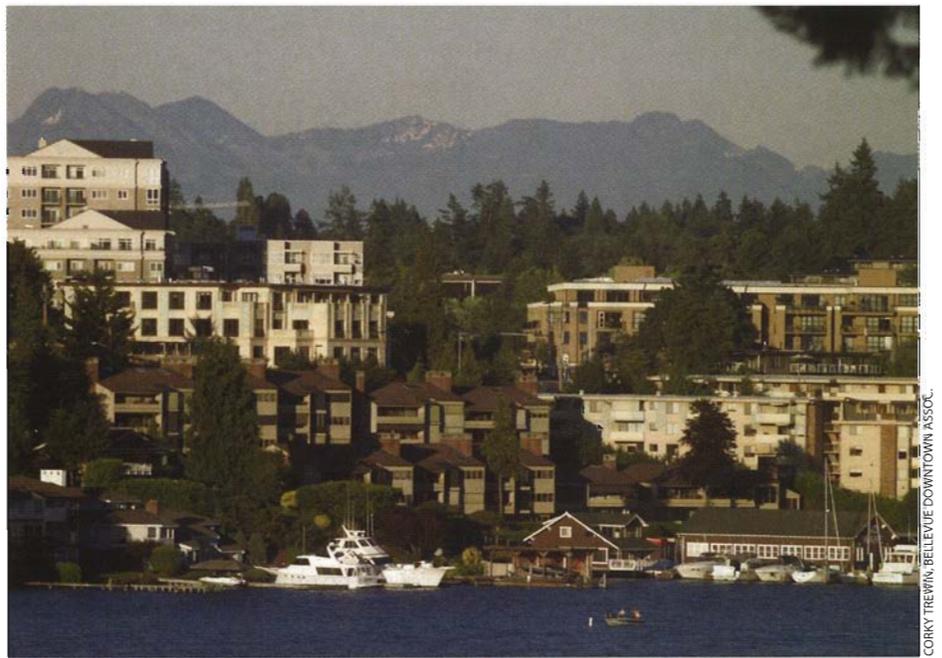
Trying to make financial sense of the project remains difficult, but Freeman is confident that the new retail space will be a perfect compliment to the venerable Bellevue Square across the street.

He isn't the only developer bullish on Bellevue's immediate future, though.

Schnitzer Northwest has unveiled plans for a 1.2-million square-foot mixed-use development to be built directly north of the Meydenbauer Convention Center. The ambitious development is expected to include no less than five towers that will house two hotels, office towers, and 200,000 square feet of retail.

Dan Ivanoff, founder and managing partner of Schnitzer, says the first phase of the development will be the completion of the two hotels, adding about 625 and 650 rooms to the city. They are projected to be completed by 2006. The first office tower is expected to be completed later in 2006 and the rest of the development should be built by 2008.

But key to the development is the expansion of the Meydenbauer Center, allowing it to attract larger conventions



CORKY TREWIN, BELLEVUE DOWNTOWN ASSOC.

With the Cascades as a backdrop, condos and apartments line the waterfront southwest of the downtown core. Bellevue officials expect to have more than 10,000 housing units in the downtown area by 2020.

and meetings. While expansion is expected, Ivanoff says he has planned another version of the development if the expansion doesn't materialize.

Ivanoff is one of the newer members among Bellevue's major developers. He compares Bellevue to Southern California's Newport Beach 20 years ago and says the community has "tons of potential."

"The more we get entertainment, retail, and residential, the more you are going to see people really make this a place they want to be," Ivanoff says. "And it's going to be incredible."

Jeff Bond is managing editor of Washington CEO magazine. He can be reached at jbond@washingtonceo.com

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REGIONAL REPORT

By Jeff Bond

Downtown Bellevue: A Suburban City On The Rise

Community leaders talk of the pleasures and pains of a growing economic power.

BELLEVUE is a growing cultural and economic center that still offers businesses and employees a rich environment in which to live and work.

That was the message from a group of Bellevue business and government leaders who gathered at the Seastar Restaurant last fall. The distinguished group discussed the continuing evolution of Bellevue into a regional leader as well as a burgeoning cultural center for the Eastside community.

The following is an edited excerpt from the far-reaching discussion.

What are the major benefits and challenges you find working in Bellevue?

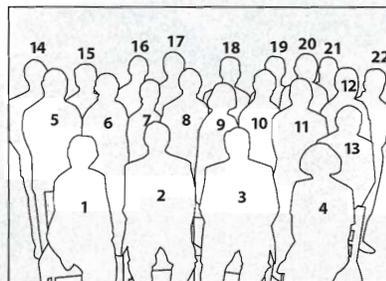
Bob Wallace Wallace Properties: There are many benefits to being here, the least of which is it's reasonably close to where I live. In terms of challenges, I am not sure there are any I can discuss with both the mayor and city management [sitting with us]. Traffic would obviously be the biggest impediment.

John Hepler Tiffany & Co.: We've been in Bellevue for just over a year. I think one of the strongest advantages is the community itself is very accessible. We've been very fortunate to be part of it with the civic organizations. And as the director, I found it very easy to meet, to network, and to become involved in the community.

Jim Sweeney Corporate Strategies & Development LLC: About eight years ago we moved our business here because this is really the heartbeat of where things are happening. The challenge also is it's kind of hard to get around to our clients. But the good thing about that is you see things happening. The other challenges include the difficulty of working through some

red tape in terms of permitting. I do a lot of construction, and I hear from my clients that it's a pain in the rear end [getting permits in Bellevue]. They also say we are being inspected to death, those kinds of complaints.

Jerry Lee Mulvanny G2 Architecture: We actually originated in Seattle. But the traffic started building up and we found that all of our clients were on the east side, so it made sense for us to move here. So we've done that, and it's been explosive for us in our growth. There's just a lot of nice things going on in Bellevue, so we are glad to be a part of it.

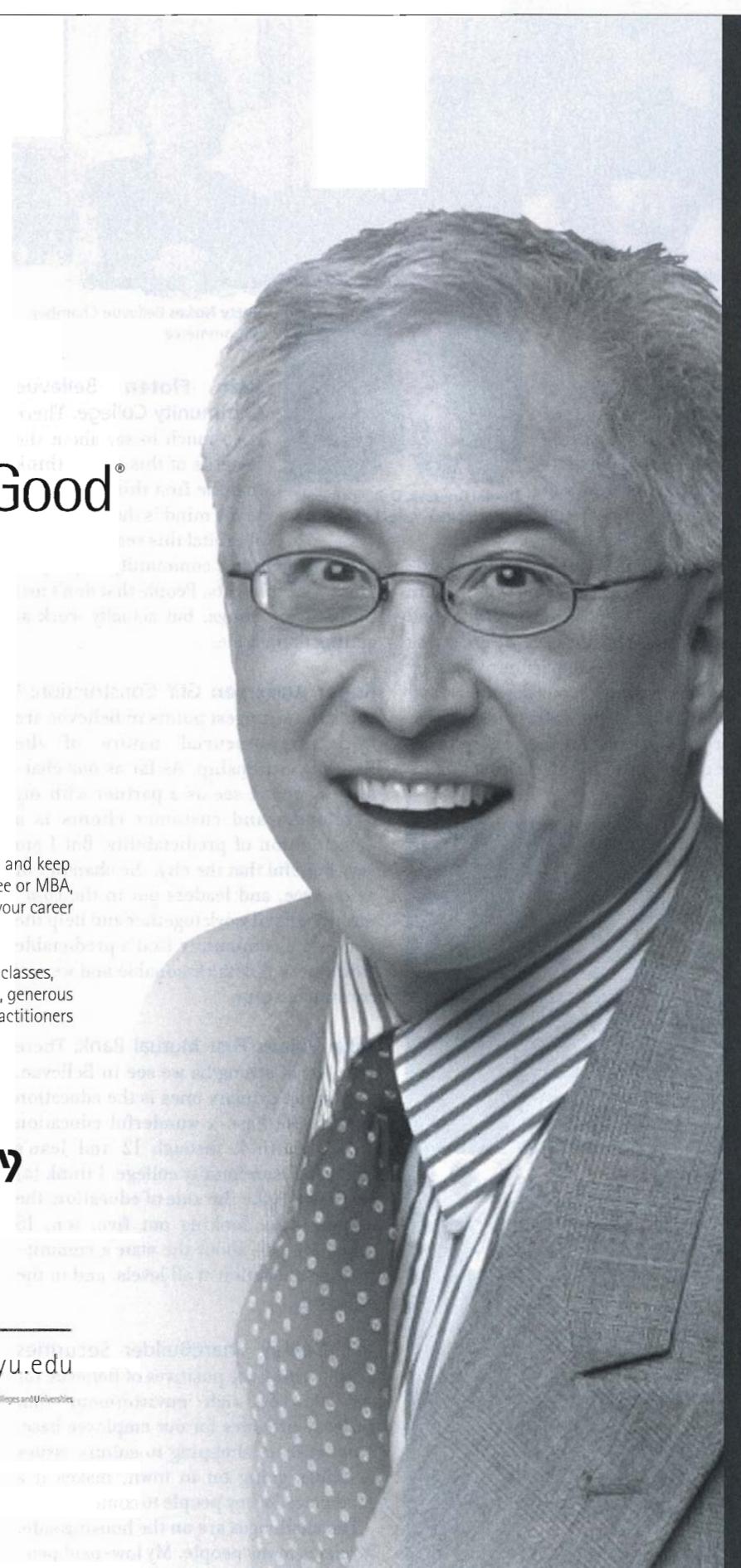


First Row: 1. **Betty Nokes**, President & CEO; Bellevue Chamber of Commerce 2. **Jeff Bond**, Managing Editor; Washington CEO 3. **Scott Fivash**, Editor in Chief; Washington CEO 4. **Connie Marshall**, Mayor; City of Bellevue

Second Row: 5. **Gary Owensby**, CEO; Puget Sound Security Group 6. **Roger Anderson**, Chairman & CEO; GLY Construction 7. **Carmen Aguiar**, President & CEO; The Aguiar Group Ltd 8. **Jerry Moon**, President & COO; John L. Scott 9. **Jean Floten**, President; Bellevue Community College 10. **John Hepler**, Store Director; Tiffany & Co. 11. **Shiv Batra**, President; INCA Engineers, Inc. 12. **Bruce Nurse**, Vice President; Kemper Development

13. **Tomio Moriguchi**, Chairman & CEO; Uwajimaya Inc.

Third Row: 14. **Bob Wallace**, CEO; Wallace Properties 15. **Jerry Quinn Lee**, CEO; MulvannyG2 Architecture 16. **John Valaas**, President & CEO; First Mutual Bank 17. **Steve Sarkozy**, City Manager; City of Bellevue 18. **Jim Sweeney**, Managing Partner & CEO; Corporate Strategies & Development, LLC 19. **Jeff Seely**, Chairman & CEO; ShareBuilder Securities Corporation 20. **Daniel Brzusek, D.O.**, Director; Physical Medicine & Rehabilitation; Northwest Rehabilitation Associates Inc. 21. **John Howie**, Owner, Executive Chef; Seastar Restaurant 22. **Dan Ivanoff**, Managing Investment Partner; Schnitzer Northwest.



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From left: **Shiv Batra** INCA Engineers, Inc., **Jerry Moon** John L. Scott



Betty Nokes Bellevue Chamber of Commerce



Daniel Brzusek, D.O. Northwest Rehabilitation Associates Inc.

Steve Sarkozy City of Bellevue: During the downturn, we're using this time as an opportunity to sharpen our saw and to improve some of the services that we offer, both internally and those [that] are provided externally. At the same time, we are looking at how to position Bellevue, and how to assist our businesses. We are trying to anticipate the next opportunity, looking at how we can position our downtown and how we can build the infrastructure that will provide interest for the next recovery in our community. It's an exciting time.

an amazingly vibrant community of people, ideas, and thoughts. People that don't just think about things, but actually work at getting them done.

Roger Anderson GLY Construction: I think the strongest points in Bellevue are the entrepreneurial nature of the Bellevue citizenship. As far as our challenges, what I see as a partner with my developers and customer clients is a deterioration of predictability. But I am very hopeful that the city, the chamber of commerce, and leaders out in the community will all work together and help the real estate community find a predictable path where risk is reasonable and we can continue to grow.

John Valaas First Mutual Bank: There are a lot of strengths we see in Bellevue. One of the primary ones is the education system. We have a wonderful education system, both K through 12 and Jean's [Bellevue] community college. I think [a] challenge is the flip side of education, the longer term, looking out five, ten, 15 years. I worry about the state's commitment to education at all levels, and in the economy.

Jeff Seeley ShareBuilder Securities Corp.: I think the positives of Bellevue for me are the rich environment that Bellevue provides for our employee base, ranging from shopping to culture issues to things going on in town, makes it a good place for my people to come to work.

The challenges are on the housing side. It relates to my people. My low-paid people can't afford to live in Bellevue.

John Howie Seastar Restaurant: The biggest challenges we look at are probably the fact that operating and building a business of this stature on the east side is very expensive. One of the other challenges is just the work force that's available to us. Being in the restaurant industry, we have a lower-end work force that we need to be able to tap into. And obviously, those people are not living in downtown Bellevue, so transportation becomes an issue. Just this morning we had somebody who couldn't make it here because of transportation.

Betty Nokes Bellevue Chamber Of Commerce: From my end, I think the neatest thing about Bellevue is location, location, location. And I think if you put a dot in the middle of downtown and do your 25-mile ring, you have over 80 percent of the jobs in the state. What we see is that if people grow up here, start here, they come back here. And I think that's the neat thing about Bellevue, the people tied to that.

Carmen Aguiar The Aguiar Group LTD: Where Bellevue stands out is that, I think of it as a business. It's very balanced. It connects what the community and it works like a business. And it's fiscally responsible. You can see during the downturn how it's really moved forward.

Jerry Moon John L. Scott: Bellevue and the east side in general are extremely good to us. About three years ago, the real estate industry died and went to heaven as the interest rates starting going down and we haven't looked back. Since then, residential sales continue to grow and grow and grow. The last month has been about the best we've had in our 72-year history.

Shiv Batra INCA Engineers Inc.: Our observation is that in the Northwest, transportation is really a regional issue. When you look at the city of Bellevue, in my opinion, traffic moves pretty good when you look at the city streets. With some small-scale improvements, we can enhance further and make it a more beautiful transit system and/or traffic operation system including the pedestrians in the city of Bellevue within downtown as well as other parts of city of Bellevue. That's what I am looking forward to.

Dan Ivanoff Schnitzer Northwest: I would say, on the positive side, there are great neighborhoods in the city of

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Bellevue, a really substantial economic base, a very diversified business base including private and public companies. [But] I'd like to see some employment growth.

Tomio Moriguchi Uwajimaya Inc.: I think the future challenge will be, as I started, when my father started in Tacoma, is primarily to serve the Japanese community. I think the Japanese-Americans are the slowest growing Asian population and I notice in here you have about 25 percent Asian and Pacific Islander. And our challenge would be to change our business design and to expand to our customer needs.

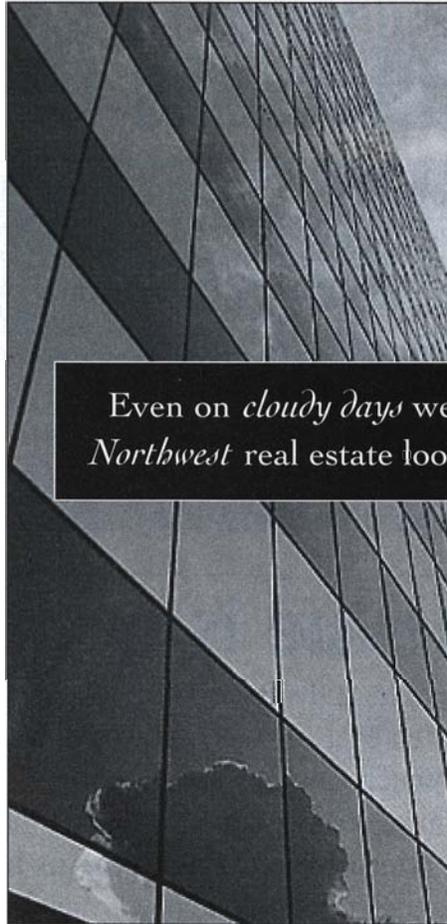
Gary Owensby Puget Sound Security Group: Bellevue really excels with the excellent health care we have here and our educational system. The issues that I see are on a more macro level of how to unite the regions, as opposed to the parochial issues that have a tendency to go on.

Bruce Nurse Kemper Development: Bellevue, over the decades, has made tremendous commitments to infrastructure which have enabled us to achieve what we have to date, along with many other programs.

Daniel Brzusek Northwest Rehabilitation Associates Inc.: Bellevue has been a great place to practice medicine for the last 28 years. And it's because of you that Overlake Hospital has grown from a rod and gun club to a major medical center.

I have a couple of concerns. For an OB/GYN to open his or her doors tomorrow, it will cost them \$150,000 apiece. Our reimbursements are going down rather than up. As CEOs, your health insurance is going up. I don't know how to solve those problems, but I hope with the individuals in this room and perhaps with some people in Olympia, we may be able to help.

Connie Marshall Mayor of Bellevue: Speaking of something we all need to work on, maybe in our chamber legislative session, is condo reform and liability. It's all about lawyers and how expensive they make our business. And so if we don't fix condos, we are not going to keep growing downtown. And if [Bellevue] wants to be a 24-hour city, you have to have people downtown.



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This is the day we discovered the ocean.
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This is the day we all got to forget I was sick.

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