Seattle Daily Journal of Commerce

REAL ESTATE MARKETPLACE NORTHWEST

December 11, 2014


Kimpton is converting the Palladian Apartments in Belltown into 97 hotel rooms and suites. The building at 2000 Second Ave. is expected to reopen early next year.

PHOTO BY BENJAMIN MINNICK

RELAX; THE LODGING MARKET LOOKS STRONG

In downtown Seattle there are 20 hotel projects announced or rumored that could add as many as 5,000 rooms.

BY SCOTT F. BIETHAN
CBRE

STATE OF THE MARKET HOTEL

Across the U.S., the hotel market is good and getting better. More rooms are being sold, and the average rates continue to increase in most areas. The national lodging market continues to recover from the last downturn, and most drivers for the hotel market look good.

The one caution, just as in all previous cycles, is whether new room supply will create problems for the future. Maybe it will, but maybe not! This article will explore the national market, and then our local market in light of these factors.

National overview

Two key trends for the lodging industry are gross private domestic investment and personal consumption expenditures. This is not a surprise, as these two indicators measure businesses' and consumers' appetite for spending. This has a large impact on their ability and willingness to purchase hotel room nights.

In 2014, these two key national trends have been on the increase, and are projected to continue for at least the short term.

According to PKF Hospitality Research, a CBRE company, by 2015 the national hotel industry will have achieved a fourth year of average nightly accommodated demand that is in excess of the pre-recession peak of 2.8 million room nights. Additionally, it will have six consecutive years of increasing occupancy (the longest streak since 1988), and an occupancy level of 65 percent (the highest level ever recorded by STR, an industry source for historical room demand).

When room demand grows and average rates increase, developers and owners become excited about building. This is a fairly positive indicator for future growth, but it then brings the risk of overbuilding, which could spoil the market.

Financing for new hotels still is challenging, however; there continues to be elevated uncertainty around the hotel market because the past cycle is not yet forgotten, construction costs in many markets are quickly rising, and there is a scarcity of brands that lenders are willing to finance.

All said, these factors have been a restraining force on new development.

In spite of this restraining force, STR reports that between August 2013 and August 2014, there was over a 38 percent increase in hotels under construction, and an additional 12 percent increase in planned projects. While this sounds like a large increase, the number of rooms under construction is still only about half of what was under construction in the first quarter

See LODGING — *page 20*

INSIDE

ON THE COVER

The Bullitt Center in Seattle is billed as the world's greenest commercial building. The Bullitt Foundation, one of the tenants, had to follow that up with some really green office space that also was attractive. Learn how the group did that on page 10. PHOTO BY BRENT SMITH

2014 REAL ESTATE MARKETPLACE NORTHWEST TEAM

SECTION EDITOR: BENJAMIN MINNICK • SECTION DESIGN: JEFFREY MILLER
WEB DESIGN: LISA LANNIGAN • ADVERTISING: MATT BROWN
SURVEYS: LYNN PORTER, JON SILVER, NAT LEVY, SAM BENNETT

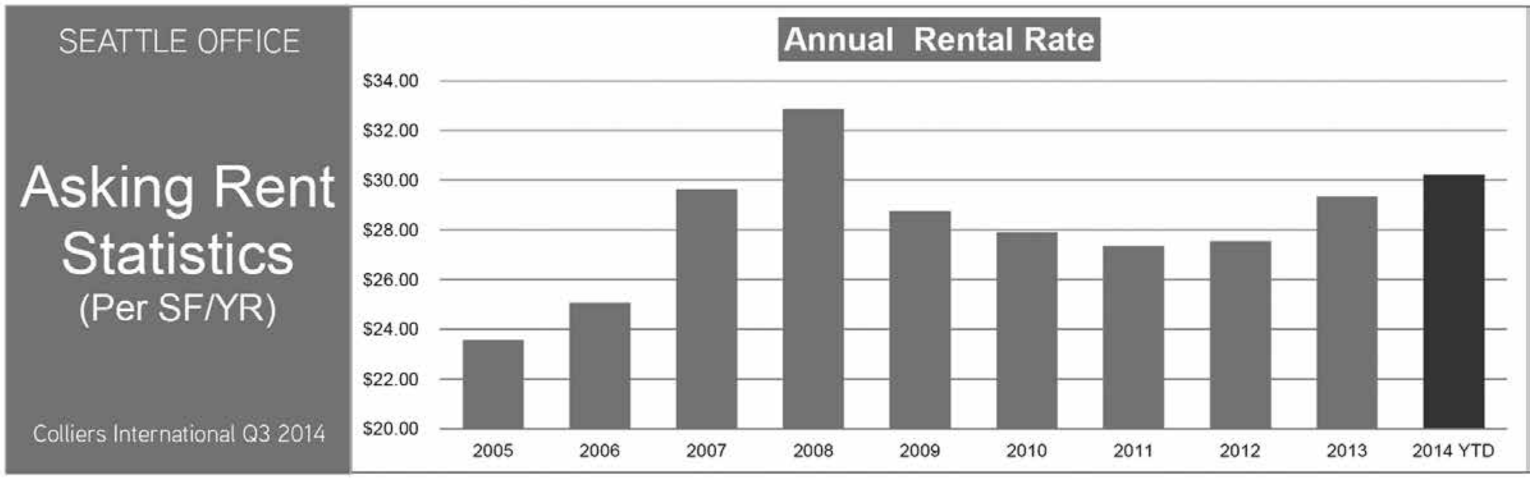
OFFICE MARKET TIGHTENS AS TECH COMPANIES EXPAND

More than half of new leases in the Seattle area go to technology tenants.

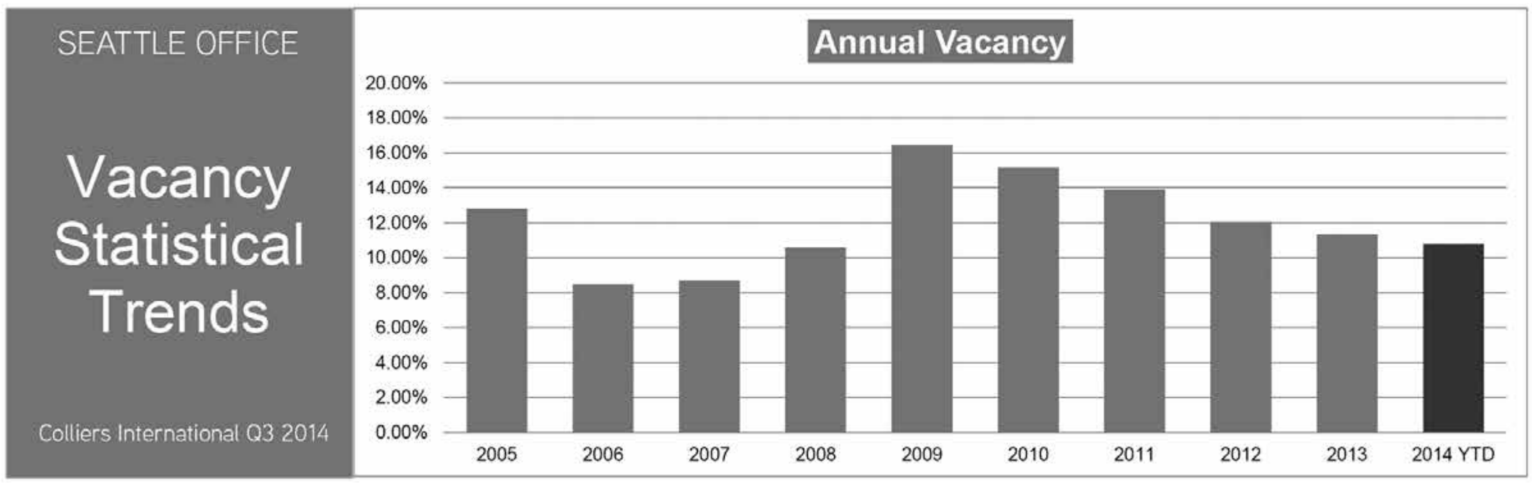
Seattle office rental rates are rising as tenant demand grows and vacancy continues to drop. Concessions such as free rent and options are shrinking, low-rise space is starting to lease at rates normally reserved for high-rise space, and tenant improvement allowances are holding steady even as the cost of construction is going up.

BY LAURA FORD
COLLIERS INTERNATIONAL

Several key drivers, in addition to an improving national economy, have contributed to Seattle's tightening market that is beginning to rival the boom markets of 1999-2000 and 2006-2007.



Rents have been on the rise since 2011 and are expected to continue.



Vacancy rates have been dropping since the recession.

Amazon

One word, one company. Amazon. The tech titan has grown in Seattle from 900,000 square feet in 2009 to over 5 million square feet today, not including an additional 2.2 million square feet it has under construction. It has leased most of the new office buildings that have been built in Seattle over the past five years and continues to take new space at an incredible pace.

Tech talent

Seattle, New York City and the Bay Area are widely considered to have the best available pool of technology talent in the U.S. All have colleges within close proximity that have world-renowned computer science programs and all offer fabulous amenities that attract young, talented tech people to their cities.

Seattle, however, offers a lifestyle that is more affordable for the younger technology demographic so we are seeing Bay Area tenants, in particular, open and grow offices in Seattle.

Although housing costs have continued to climb in the Seattle area, we are still far cheaper than the Bay Area or New York City. In New York City, a staggering 70 percent of one's income goes to housing; in San Francisco, 60 percent. In Seattle it's only 33 percent.

A young techie in Seattle can actually afford to move into an apartment or condo on a floor other than the basement and larger than 300 square feet that happens to be within walking (or biking) distance of where they work. Then, after work, they can walk their dog to one of the many parks on the water, go for a kayak ride on Lake Union or a bike ride on the Burke-Gilman Trail before they meet friends at a hip bar or restaurant, all within walking distance. On the weekend, they are within a one-hour drive to skiing, hiking, island hopping and boating.

Technology tenants

Less than 10 years ago, the only major tech companies with a substantial presence in the Seattle area were Microsoft and Amazon. Now more than half of new leases in the Seattle area go to technology tenants.

Google currently leases 500,000 square feet combined between the Eastside and Seattle. In Seattle, Zulily leases over 300,000 square feet, Zillow has 245,000 square feet, Disney has over 130,000 square feet for its tech division, Facebook leases 80,000 square feet and Twitter leases 40,000 square feet.

Even Nordstrom, which would not normally be thought of as a technology tenant, has seen tremendous growth in its technology division and occupies over 500,000 square feet in Seattle.

We have to assume that all these tenants are going to expand at least a little bit over the next 12 to 18 months, and there very well may be several companies that currently don't have a presence in Seattle that will soon follow.

Professional service firms

Many professional service firms are earning more work as tech companies, both local and out of state, continue to grow in the Pacific Northwest. Companies are seeing the phenomenon of "2,000 additional square feet here, 10,000 additional square feet there" in their existing building due to the need to hire full-time employees as a means to handle the new workload, which is helping to drive vacancy down under 10 percent in many buildings.

When vacancy is driven down, what is driven up? Rental rates!

Tenant improvement allowances given for expansion spaces are generally much less than what would be given for new deals or renewals, and free rent on expansion spaces is becoming a thing of the past.

Migration to downtown

Technology tenants, in particular, are moving from suburban campuses to downtown Seattle and downtown Bellevue. Amazon moved from the outskirts of downtown with no amenities at Pacific Medical Center to South Lake Union. Microsoft is another great example. In addition to its Redmond campus, Microsoft has a significant amount of space in downtown Bellevue, where it has grown its presence over the last 10 years.

Weyerhaeuser just signed a lease for 165,000 square feet to move its corporate headquarters from Federal Way to Pioneer Square, with occupancy in the middle of 2016.

All tenants are competing for the best talent and it is easier to attract that talent in amenity-rich areas.

What tenants want

Tenants want new or updated buildings with great amenities: conference rooms, secure bike storage, decks, free on-site athletic facilities with showers and lockers. In addition they want light, bright and "cool" build-outs with open ceilings and on-site places to eat. They also want to be near parks, bike and running trails, good public transportation, lots of amenities and cool places to eat, like restaurants with some soul and food trucks on every corner.

Finally, let's not forget they need room for growth, which is easier to find downtown. If the growth isn't available in their existing building, then it's usually available within a couple of blocks.

What do technology tenants want? Everything Seattle has to offer: colleges that generate excellent technology talent, great downtown amenities, sea-to-ski opportunities and a lower cost urban lifestyle. These elements are driving companies to open offices here and expand new divisions.

The explosive growth is quickly eating up our supply of office space, currently just over 10 percent vacancy, and driving up rental rates for quality downtown spaces that are at the highest rates since 2008 and are only expected to increase.

Laura Ford, a senior vice president at Colliers International with over 20 years of experience, specializes in office leasing in downtown Seattle.

HERE COMES MORE APARTMENTS; NOW WHAT?

Unless we see significant income growth in our region, the frenetic pace of rental rate growth is likely to slow as new apartments are built.

Highlight stories of 2014 must include the continued resurgence of apartment development and talk of the possibility that we are entering "bubble" territory.

Interestingly, and not too surprisingly, this is a subject that places people firmly on one side of the fence or the other. On one hand, there are those out there who steadfastly believe that the market has an almost infinite capacity to accept as many units as can be built and that the millennial generation will happily occupy as many units as we can create.

BY MATTHEW GARDNER

GARDNER ECONOMICS

STATE OF THE MARKET

MULTIFAMILY

On the other side of the argument are the naysayers who are adamant that the astounding number of new units that are both planned as well as under construction — in concert with the seemingly endless run up of rents — simply must come to an ugly conclusion at some point down the road.

So who is right? Are we on the cusp of another real estate meltdown or are happy days here to stay?

First, we need to ask: "How many units have actually been built?"

To get to the bottom of this question, it is worthwhile to look back into history.

Development of new apartment units since the end of World War II has followed fairly predictable cycles, with booms followed by periods of slower activity. What is very clear, however, is that the current development cycle is at historic levels and that we will be bringing online an unprecedented number of new units over the next two years when compared to historic norms.

Score one for the bubble believers!

A second point that the naysayers make is that all of the development is occurring downtown and that this is untenable. Now, it is true that our downtown market has seen resurgence, but this is not a recent event. If we dig a little deeper into the data we can actually see what is really happening.

When we look back on the development history of apartments over the past 10 years we can see that the central Seattle market area has brought online almost 40 percent of total new supply. This is not surprising as lack of infrastructure development (think long commutes), together with demographic shifts, created demand for downtown dwellings.

Now, when we look at the new deliveries over the next two years, although we are likely to see close to 8,000 new units in the central Seattle area, it is actually a smaller percentage (about 36 percent) of total units than historic averages.

We would also note that, in percentage terms, production is scheduled to increase over the next two years on the Eastside and in North King County, whereas percentages drop in central Seattle and in South King County.

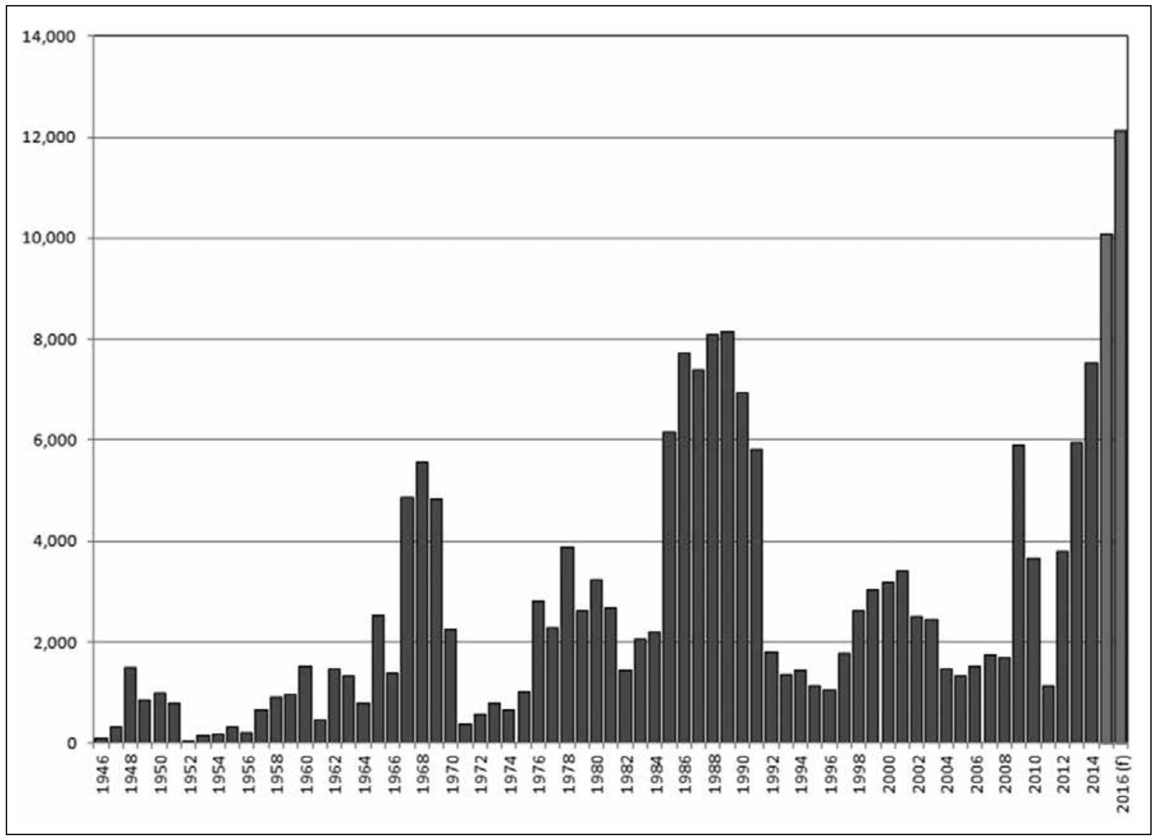
So what does this all mean? In as much as new supply is certainly at historic levels it's clear that, so far, demand has pretty much kept up. But will that continue to be the case?

As a good friend of mine once opined, "I can guarantee that every apartment unit that is built will be rented. What I can't guarantee is what the rent will be!"

When it comes to our downtown market it is clear that many developers are banking on continued growth at Amazon. After all, with the possibility of the company occupying over 10 million square feet of space in Seattle by 2019, the reported 71,500 employees will have to live somewhere!

However, supply is certainly scheduled to burgeon over the next few years and this will make the market more competitive and likely lead to some compression in rental rate growth as developers charge to get their projects to market and occupied.

Reliance on the 475,000 members of the apartment-consuming millennial generation that live in King County is a positive; however, rents in some sub-markets are getting into rarified air.



Development of new apartment units in King County has been cyclical. The next two years will see an unprecedented number of units come online. SOURCE: GARDNER ECONOMICS; DUPRE & SCOTT

Market Area	2005-2014	% of Total
North Seattle/North King	7,218	21.1%
Central Seattle	13,661	39.9%
Eastside	8,611	25.1%
South Seattle/South King	4,779	13.9%

Nearly 40 percent of new apartments in King County were built in central Seattle over the past decade.

Market Area	2015	2016	2015-2016	% of Total
North Seattle/North King	1,715	1,821	3,536	16.0%
Central Seattle	3,752	4,201	7,953	35.9%
Eastside	2,518	3,750	6,268	28.3%
South Seattle/South King	1,968	2,412	4,380	19.8%

Central Seattle's share of new apartments in the next two years is expected to drop 4 percentage points.

Is this a bad thing? Not necessarily, as I believe that there will likely be a ripple effect that will drive some to live farther from downtown where rents are at least somewhat cheaper which will, in turn, assist in lease up of those ex-urban projects.

Unless we see significant income growth in our region, the frenetic pace of rental rate growth is likely to slow, but not stop, as we deliver this next round of new product. Happy days may not be here to stay but, for now, there is still reason to smile.

Matthew Gardner is a Seattle-based land-use economist and principal at Gardner Economics.

GOOD NEWS FLOODS THE SOUTH SOUND MARKET

Brokers expect nearly 2.7 million square feet of new Class A warehouse space will hit the market next year. More than half is committed to.

BY LESLIE R. BOUDWIN
JONES LANG LASALLE

STATE OF THE MARKET
INDUSTRIAL

I'm a fisherman. My favorite fish is salmon, which you can catch either in salt or fresh water rivers.

Two years ago I was on the Cowlitz River in southern Washington in the spring, fishing off of my buddy's river sled for Springers, the spring run of Chinook salmon.

It was a beautiful sunny, crisp day and we didn't catch one fish. The guides working their own boats kept telling us, "You should have been here yesterday; fish were in."

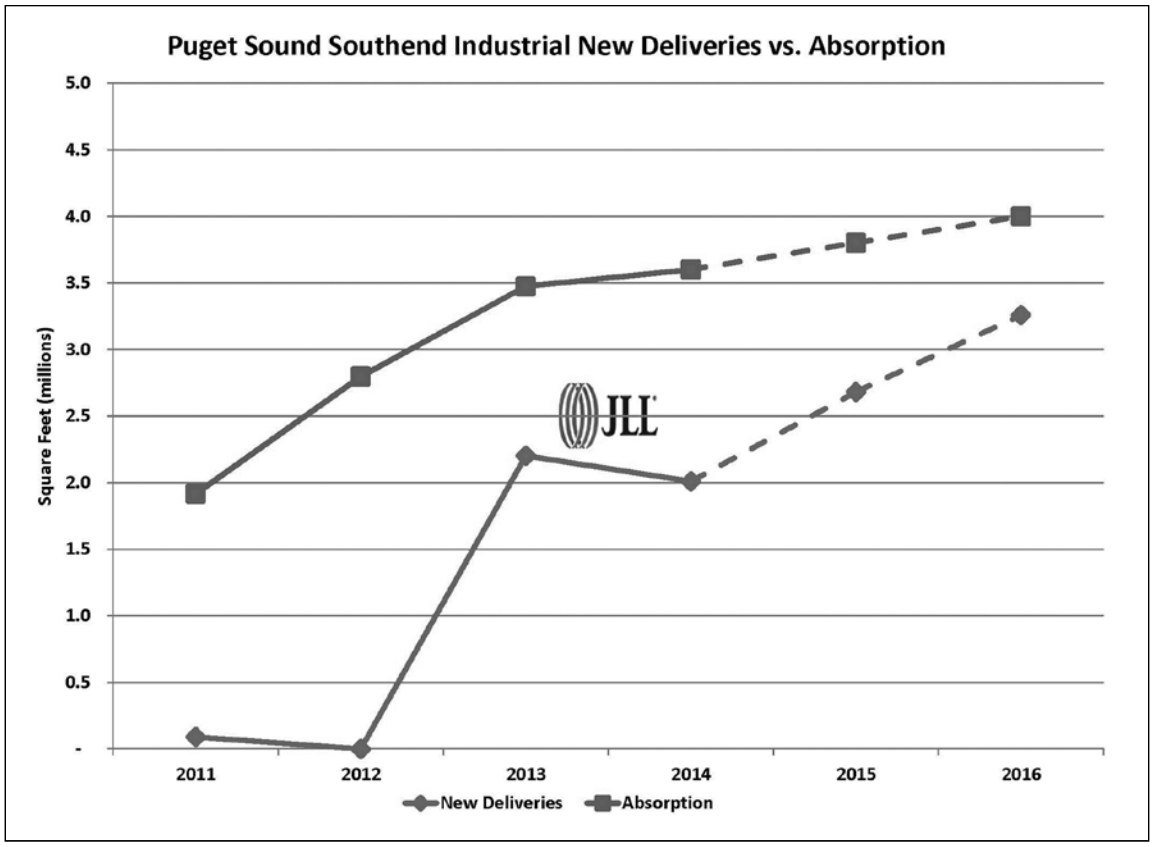
Gauging the ebb and flow of the South Puget Sound industrial market sometimes feels the same way. Some days, tenants and investors are all over the market looking for space. Six months later they are either gone or the activity has changed locations — just like the salmon swimming down the river to a different fishing hole.

Demand ebbs and flows

In the first half of 2012, there was a surge of tenants looking for large spaces in our market. They all wanted modern Class A distribution space over 200,000 square feet, also known as big-box buildings. The challenge for all practitioners in the market was that, because of the Great Recession, no new construction had taken place in the preceding four years that wasn't pre-leased or sold to a user.

The historical average for industrial new construction is between 2 million and 3 million square feet per year. Between 2009 and 2012, in the entire 213 million-square-foot South Puget Sound industrial market, there was only 1.6 million square feet

GOOD NEWS — PAGE 19



New industrial space is expected to increase faster than absorption over the next two years.
CHART FROM JONES LANG LASALLE

THE '100 PERCENT CORNER' MOVES DOWNTOWN

To keep attracting people to the city, Seattle must maintain its economic, ethnic and cultural diversity.

Drivers behind real estate demand change over time, but one enduring trend reshaping Seattle and other cities is the magnet of urban life.

More and more people of all ages are seeking the vibrance and excitement of the city. The Brookings Institute estimates that 80 percent of U.S. growth in the major metropolitan regions will occur on 5 percent of the land — and we see it every day as different neighborhoods grow and densify.

BY BERT GREGORY
MITHUN

Our ancestors may have lived off the land and our parents may have seen the suburban single-family home as a castle, but today's preferred neighborhood has multi-story shops and cafes, pedestrian- and bike-friendly public spaces and good access to transit.

A classic phrase for ideal real estate development — the 100 percent corner — used to be at two freeway intersections in the suburbs, but now it is in the urban center linked to a transit stop. Investors, too, have recognized the trend and are sending more of their dollars into what they perceive as a more durable and safe investment: urban, next to a rail line.

New forces are driving the next iteration of Seattle's urban fabric, from the well-established areas such as downtown and Pioneer Square to the close-knit, walkable neighborhoods of Capitol Hill/First Hill and the University District, the entirely new mixed-use enclave of South Lake Union and emerging areas such as Columbia City and Yesler Terrace

One key is our region's foresight in the 1980s to preserve our local farms, working forests, and beautiful ecologically significant landscapes through the Growth Management Act, along with current nonprofit/public/private strategies from innovative groups such as Forterra.

What are some of the other trends attracting people back to the city, after decades of preference for suburbs? What types of urban housing and neighborhoods are attractive to renters and homebuyers? Why are companies pursuing the relatively costlier mid- and high-rise buildings of the urban core?

The drive for downtown living is often credited to the young, but people of all ages find it suits them, even as demographic trends have changed our society and economy.

As the 2015 Urban Land Institute's "Emerging Trends" observed: "The millennial generation is driving the move back to the city." ULI's report also showed Seattle as the number four U.S. metro in attracting urban population growth and a parallel in real estate investment interest — behind only Austin, Texas; Denver; and Charlotte, North Carolina.

Seattle's urban attraction is drawing a range of ages across the post-college adult workforce. In Brookings' "State of the Metro" report, Seattle ranks as the nation's fifth highest metro in the overall likelihood of college-educated adults to live in the urban core. The report also shows more tint of gray downtown, with Seattle's urban metro having experienced a 45 percent increase in the 55-to-64 year-old population in 2000-2010.

A studied, sustainable city

But how does a city grow, and grow well? Sustainability is a constant in the Pacific Northwest, a part of our DNA, and creates an ongoing case study for other cities seeking to accommodate growth while maintaining a livable, environmentally healthy community. We also face plenty of challenges, such as maintaining the economic, ethnic and cultural diversity that gives vibrancy to cities. A city without an ecosystem of diversity cannot be a great city.

Many of Seattle's urban neighborhoods and product types are responding to these megatrends. Here are several of the more interesting, transformational and transitional examples:

• **Mixed, diverse and transit-based housing.** In transformation of housing, few neighborhoods are undergoing as rapid a change within a planned diversity of product type, affordability and accessibility as Yesler Terrace and First Hill.

First, there's the city's public housing in Yesler Terrace that is being transformed from the outdated, low-rise, low-quality buildings that were endemic of the nation's public housing of the past few decades.

Whereas the 30-acre Yesler Terrace today is home to 1,200 people living in 560 apartments, the Seattle Housing Authority is embarking on an unusual public-private approach to rebuilding the aging community with more density that enables creation of replacement affordable housing while integrating new for-profit housing.

Spectrum Development Solutions' Decibel housing project on 12th Avenue between Yesler Terrace and Seattle University will share amenities such as a public bike station with two nearby buildings.

IMAGE BY STUDIO 216

The University of Washington's Lander Hall connects West Campus to the city with a major ground-floor dining hall that serves both students and the public.

PHOTO BY BENJAMIN BENSCHNEIDER

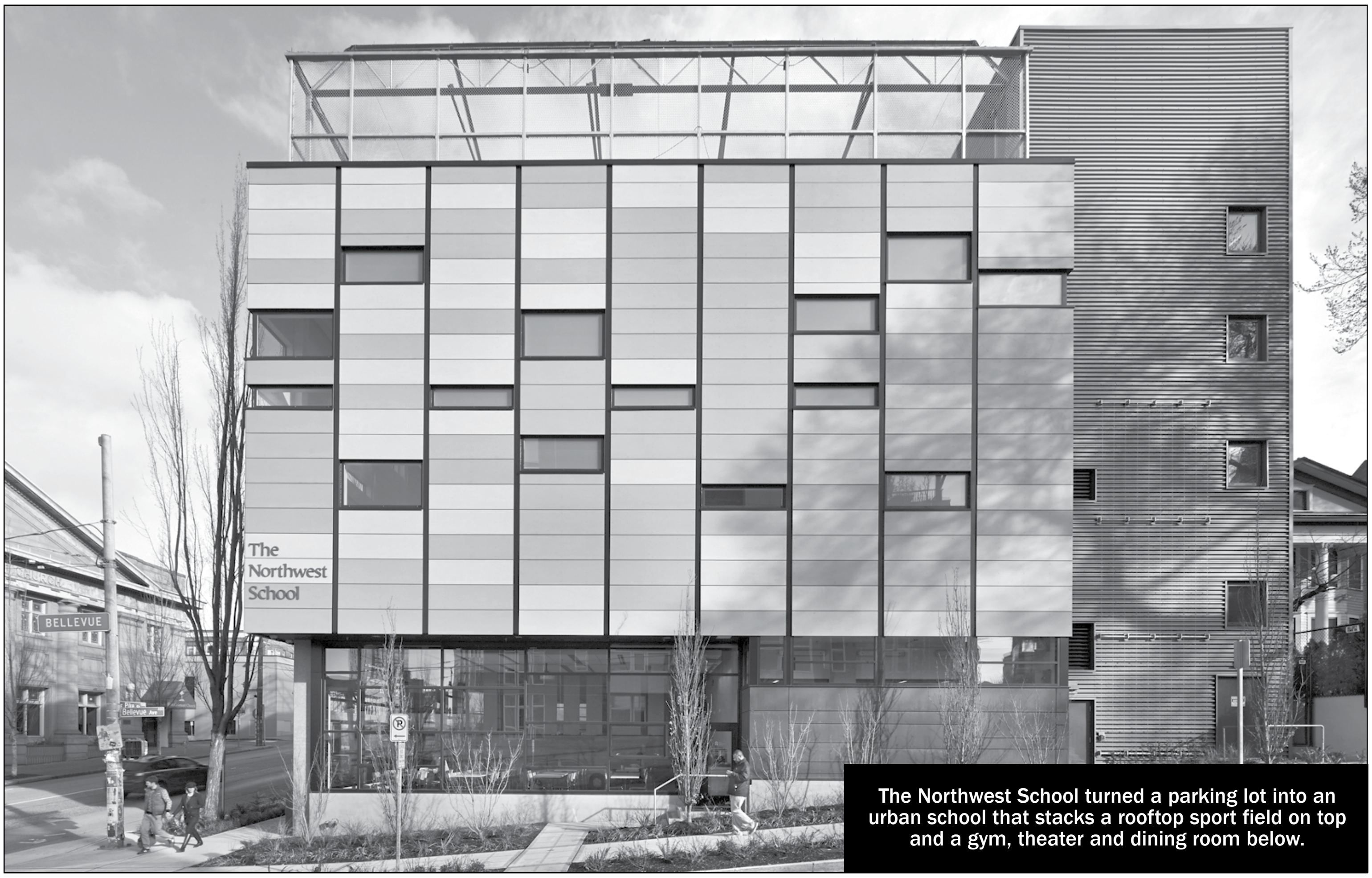
This second life for the Yesler area envisions a mixed-income approach creating a more diverse, vibrant community of up to 5,000 residents. And the opening of the First Hill Streetcar line in early 2015 makes Yesler easily accessible to downtown and other job centers.

Spectrum Development Solutions is pioneering Yesler's initial public-private effort, having broken ground this year on Anthem on 12th, whose 120 apartments-over-retail features workforce housing aimed at mid-level incomes.

Spectrum is also developing two nearby properties: Decibel and Reverb. The three are in close proximity and will share amenity spaces such as a community "living room" and a bike share station that the neighborhood can also use.

Seattle Housing Authority, using funding from the site sale for Spectrum's Anthem project in addition to other resources, is developing 103 low-income apartments on an adjacent parcel.

"What we are doing is unconventional for private development," said Spectrum principal Jake McKinstry in announcing Anthem on 12th. "I am excited at the prototype we are bringing to Seattle both in workforce housing and untraditional shared spaces. By creating shared amenity spaces and programming between the three dispersed buildings we hope to foster community and resident connections that go beyond the walls of a single residence."



The Northwest School turned a parking lot into an urban school that stacks a rooftop sport field on top and a gym, theater and dining room below.

PHOTO BY BENJAMIN BENSCHNEIDER

• **Offices designed for today's urban workforce.** Significant office innovation is underway in Seattle as well, exemplified in the "instant neighborhood" of South Lake Union largely created by Vulcan Real Estate and other developers, and the slowly evolving transformation of Pioneer Square, once one of Seattle's bustling business areas.

Among many signs of resurgence in Pioneer Square is the five-story historic 619 Western Building that was rehabbed and is fully leased to two tech firms, and Urban Visions recently started work on its 200 Occidental mid-rise structure where Weyerhaeuser will move its headquarters.

Why are developers and corporations revitalizing Pioneer Square and rapidly leasing South Lake Union? It's because employers know that today's well-educated and mobile employee wants to be in active urban neighborhoods.

In announcing the planned relocation of 800 employees to the 165,000-square-foot 200 Occidental building, Weyerhaeuser CEO Doyle Simons said moving there will help the company compete for talent now and in the future.

• **Educating the urbanists.** As more people move to and stay in urban Seattle, it also puts demands on educational facilities, whether K-12 schools serving young families or higher-ed students at the University of Washington.

With the 401 East Pike Building on Capitol Hill, The Northwest School took a former parking lot to create a 38,000-square-foot building with dynamic space for gathering, learning and playing that has a league-size gym, 175-seat black box theater, two-tiered dining room, and a 6,000 square-foot rooftop sports field.

"Urban schools are a cornerstone of the future of livable cities," said Rich Franko, Mithun's principal-in-charge of the design. "The Northwest School facility presents an ideal opportunity to further develop the educational environment in the urban fabric, reinforcing the school's culture as the campus evolves."

In addition, the soon-to-be-realized downtown public school in Seattle is also representative of the emerging demand, driven by new families in the urban core.

Meanwhile, the University of Washington is accommodating significant enrollment growth with its $200 million West Campus residence hall expansion designed to attract students who seek exciting urban environments, while also creating a complementary neighborhood that worked with existing commercial and residential uses nearby.

Among the latest of several student life facilities to open is Lander Hall, with Terry and Maple halls on the way. These buildings and integrated outdoor spaces create a heart for West Campus — fostering connections between students that enhance the vibrant nature of the campus experience.

Lander, Terry and Maple halls reconnect the street grid and improve the pedestrian experience in the West of 15th neighborhood, making local businesses more accessible. A major ground-floor dining hall serves students and the public alike — contributing to a vibrant street life and encouraging connection between campus and city.

Across these and many other examples of urban design and development, Seattle continues to evolve as one of the most desirable cities in which to live, learn, work, shop and play. Through innovative planning and development — steeped in sustainable concepts and the experience of "what works" — it will continue to be one of the world's great cities for generations to come.

Bert Gregory, FAIA, LEED Fellow, is chairman and CEO of Mithun, an integrated design firm with offices in Seattle and San Francisco. He is incoming board chair of Forterra, a nonprofit that preserves landscapes, while building prosperous, equitable and vibrant communities in Washington.

Fundrise's second project in Seattle is this 32-unit multifamily building being developed by Revolve at 1315 E. Jefferson St. Construction is starting this month.

IMAGE BY STUDIO 216

BECOME A BIG-SHOT DEVELOPER WITH CROWDFUNDING

Crowdfunding allows participants to invest in their own neighborhood or around the country, often in small amounts.

Seattle is a city known for new technology and innovation, a thriving urban landscape, and its savvy investors. Mix those factors with the region's top quality real estate developers and it's only a matter of time before we see a disruption of traditional real estate investment markets right here in the Northwest.

Introducing real estate crowdfunding.

What is crowdfunding?

Crowdfunding is a method for financing projects by raising money from a large group of individuals, i.e. "the crowd." Typically this is done via the Internet since the web provides the most efficient and effective way to connect with and raise money from a large group of people.

BY KATLIN JACKSON
FUNDRISE

Crowdfunding exists today in a variety of forms. Kickstarter and Indiego are popular examples of donation-based crowdfunding platforms, where participants give money to further a project, with very few strings attached. Though donors don't receive financial benefits directly from the success of a project, there are often rewards or perks given out. Actor Zach Braff famously offered a filmmaking symposium to anyone who donated $2,500 to his campaign to raise funds for the production of an independent film.

Rewards-based crowdfunding has become so popular that companies have emerged dedicated entirely to the fulfillment of rewards that have been promised.

There is also credit- or equity-based crowdfunding, which allows a large number of individuals to invest in a project and receive compensation, often in the form of equity or debt. Made popular by groups like Lending Club, Prosper and SoFi, these efforts tend to be highly regulated by the Securities and Exchange Commission as they involve the selling of securities.

Lending Club, the leader in the space, has funded more than $6 billion of personal loans and investors have earned nearly $6 million in interest.

Real estate crowdfunding

The advent of real estate crowdfunding has the potential to disrupt one of the largest sectors of the country's economy — one that has traditionally been stagnant, slow moving and opaque. By connecting real estate companies to investors via an online platform, real estate crowdfunding allows sponsors to quickly raise flexible, affordable capital for projects, and gives investors the chance to make asset-based investments online with low minimums and low fees.

Direct investment

Syndicating investment from many individuals is not new to the real estate industry. Before the savings and loan crisis in the late 1980s, investment syndication is how most projects were funded. Policy changes following the S&L crisis made room for the rise of institutional investment vehicles like real estate investment trusts. As the industry grew, institutional investments became large pooled funds, such that individual investors invested into a portfolio of assets, not knowing which particular assets they invested in.

Real estate crowdfunding platforms like Fundrise allow investors to make direct investments in real estate assets. There are several advantages:

1 Directly investing in real estate cuts out many of the middlemen that exist in traditional real estate investment, which can dramatically lower costs for both the investor and the real estate company.

2 Investors are empowered to know the assets they are investing in and can choose to invest in their own neighborhood or around the country. Investors can make smarter choices about when and how they invest, and have full transparency into the project their money is funding.

3 Allowing individuals to directly invest in commercial real estate democratizes the industry. Traditionally, a handful of large institutional investors fund the majority of the development in our cities. With crowdfunding, individuals can fund projects they deem worthy of investment in places they want to see flourish.

How does it work?

Every crowdfunding platform offers a different product: some offer equity and others offer debt; and some sell pooled funds while others focus on single assets. This is how Fundrise does it:

For the real estate company

A real estate company submits a project in need of funding to Fundrise.

Fundrise will review and underwrite a deal and then fund its position in full within 15 days. Once the deal is funded, individual investors on the platform are given the opportunity to invest in offerings tied to that deal.

By using its own balance sheet, Fundrise can increase the speed of funding and, most importantly, create certainty of execution.

For the investor

Once a user joins Fundrise (at no cost), they'll have access to high-quality real estate investment opportunities around the country. Investors can browse available offerings, request additional documentation, view feedback from other investors, and ask questions about the project. Once invested, investors will receive regular updates, distributions, and tax documents electronically through a custom portfolio.

The flaws of corporate real estate investment have opened the door to real estate crowdfunding.

For the investor, it combines the financial benefits of real estate investment with the ease and access of the Internet. And, it allows real estate companies to raise capital at scale directly from individuals.

Crowdfunding creates a new capital source to fund real estate projects that may not fit in the institutional box, allowing developers to focus on the long-term success of the project and build a new kind of real estate product focused on the real end user — you.

Katlin Jackson is vice president of real estate for Fundrise's Pacific Northwest operations. Fundrise is a leading national real estate crowdfunding platform.

DON'T GET RATTLED BY EARTHQUAKE INSURANCE CHANGES

In some cases, the 2011 Christchurch earthquake caused U.S. insurance companies to reduce the upper limit of coverage by 75 percent. Property managers of large portfolios have needlessly bought extra insurance to compensate.

The well-worn phrase "knowledge is power" certainly applies to commercial property managers and owners when analyzing earthquake insurance for large properties like high-rise office buildings, warehouses and server farms.

BY ERIK KUHN
HUB NORTHWEST

To put it another way, they should "know what they don't know" before succumbing to the temptation to purchase additional earthquake insurance for their portfolios that perhaps they don't need. That lack of knowledge could cost at least $75,000 annually for owners of large commercial property portfolios (worth $100 million or more) who mistakenly decide — without careful analysis — that they should have that coverage.

What's going on?

An event that occurred nearly four years ago and almost 7,500 miles from the Puget Sound area has had a considerable impact on the market for earthquake insurance in Seattle and elsewhere in the U.S. The Feb. 22, 2011, quake in Christchurch, New Zealand — which claimed 185 lives and caused more than $30 billion (U.S.) in damage — got the attention of the U.S. insurance industry.

Before the Christchurch earthquake, a commercial property portfolio in the Puget Sound area worth $100 million or more could be insured against earthquakes for a total up to $100 million per occurrence. But, following Christchurch, the upper limit (or "cap") for that same $100 million portfolio has been reduced on average to $25 million, while the annual premium has remained unchanged. (Portfolios valued at less than $100 million may have smaller caps.)

The reaction

The initial reaction by many portfolio managers who saw their earthquake insurance coverage drop by 75 percent — but their premiums remain unchanged — was to seriously consider making up that shortfall by purchasing additional earthquake insurance (from an offshore market or a large reinsurer, for example). Many commercial property owners and managers have paid an additional $75,000 or more to bring them back to the $100 million level.

But, before they renew their earthquake policies in 2015, it's in a property manager's best interest to "know what they don't know." In technical insurance terms: they should consider what's known as the probable maximum loss (PML) of a catastrophe during a 450-year period for their portfolio. Wikipedia defines PML as "the value of the largest loss that could result from a disaster."

Understandably, most commercial property owners and managers have never heard of PML and how it can affect their insurance rates. They have enough to worry about, without schooling themselves in the minutiae of the insurance industry.

Indeed, the question "What's the probable maximum loss for your $100 million building?" posed to a property manager elicits this typical answer: "I don't know. But it must be $100 million, because that's what I insured it for."

How can a commercial property manager or owner be certain that they have the right amount of earthquake coverage and avoid spending money on extra coverage that perhaps they don't need?

The solution

Insurance brokers that specialize in commercial real estate have access to risk-management computer systems that can help answer that question. For no charge, they can analyze a portfolio and give the owner or manager a benchmark for their probable maximum loss for an event occurring at any one location during a 450-year period. An algorithm in the system will consider the type of soil at the building's location, its foundation and height, ground acceleration rates and countless other variables to come up with that number.

The odds are excellent that the PML for a $100 million building is dramatically less than $100 million — "news you can use" for the manager of a portfolio who was considering bumping earthquake coverage back up to its previous level.

To put it another way, the 75 percent reduction of the earthquake-coverage cap for a $100 million portfolio is a non-issue to the vast majority of commercial property owners and managers. They can still sleep soundly at night with a $25 million policy, while knowing that they didn't spend an extra $75,000 for coverage they probably didn't need.

Additional safeguard

In addition to the free PML analysis, property owners and managers have another safeguard to consider. For a fee of approximately $3,500 to $5,000 per building, an engineering firm will perform a seismic risk evaluation and suggest measures that can be taken to mitigate losses on the structure. For example, the evaluation might determine that HVAC ducts lack lateral bracing or boiler piping doesn't have a flexible connection.

That analysis can be pricey, but it might make sense for owners of large portfolios who are seriously considering purchasing additional earthquake insurance beyond the $25 million cap.

Crystal ball

Of course no one can predict the future and that's why portfolio managers embrace the responsibility to provide the proper amount of earthquake insurance for their properties. The "proper amount" varies by individual property (such as its location and the soil it's built on), a person's risk tolerance and other factors — but it shouldn't be determined solely by a change in the insurance industry resulting from a major earthquake that occurred almost four years ago on the other side of the world.

In short: "learn what you don't know" — with the help of a knowledgeable insurance broker — and act accordingly.

Erik Kuhn is vice president and commercial practice leader at Bothell-based HUB Northwest, a provider of general commercial insurance, group benefits insurance, surety bonds and risk management products to owners and managers of commercial real estate.

SUSTAINABLE WORKPLACE? YES, BUT WHAT ABOUT DESIGN?

Businesses can tell their stories through office design thanks to a bevy of modern eco-friendly products and finishes.


BY ROBIN CHELL & SCOTT SURDYKE
ROBIN CHELL DESIGN

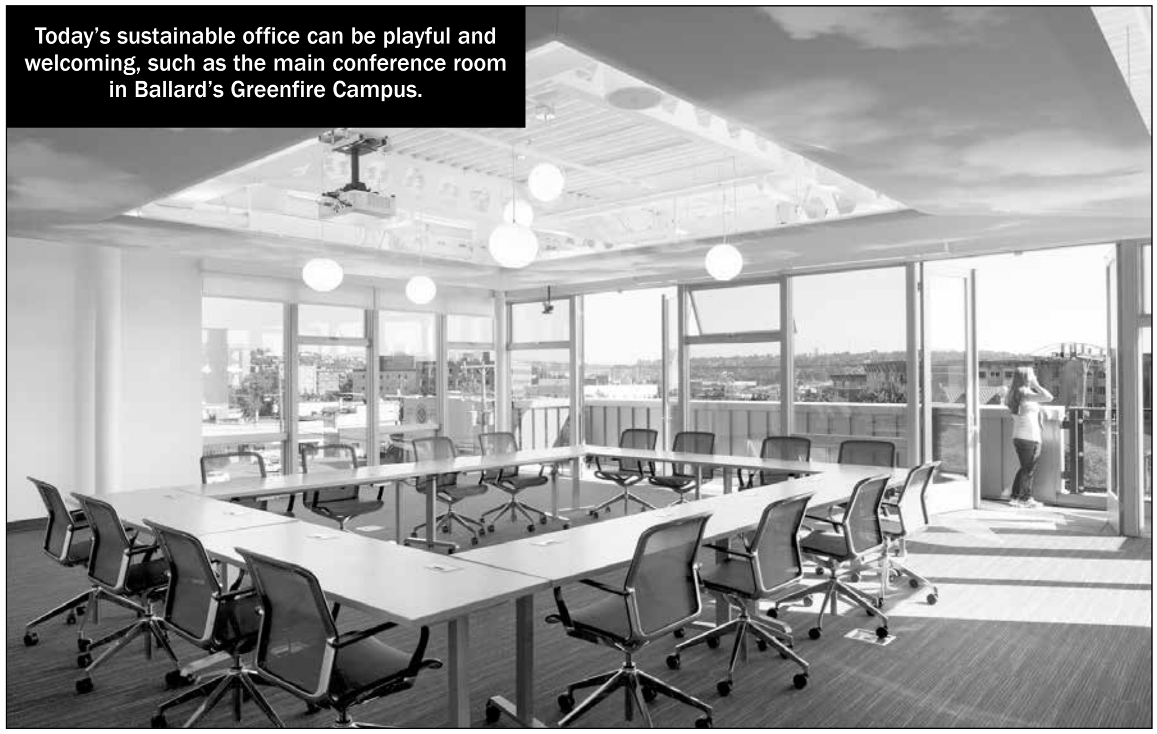
Seattle's building boom is also proving to be a boom for sustainable design. If there's one thing that we've all learned from the recession, it's the need to conserve resources, spend wisely and minimize waste. In this respect, the fundamentals of creating a more sustainable workplace are already ingrained within the minds of many business owners and developers.

From office remodels and historic renovations to major new commercial projects, Seattle is becoming a hub for the new sustainable workplace. Business and building owners have learned that it has become much easier to meet basic green-built standards, and as a result we are seeing more projects that are LEED certified or similar.

Beyond the base green-built standards, however, are buildings and interiors that are raising the bar for sustainability. Projects reaching for this upper echelon include Gerding Edlen's Pine + Minor Apartments, Skanska's Stone34 (Brooks headquarters) in Fremont, Ballard's Greenfire Campus, and the Bullitt Center on Capitol Hill.

Why go green in the workplace?

There are multiple reasons for businesses to go green. Not only is green design good for the environment, it can also boost the bottom line as customers, vendors and employees seek businesses that offer sustainable workplaces. A poll by MonsterTRAK.com found that 80 percent of young professionals were interested in working for firms that are committed to the environment.



Today's sustainable office can be playful and welcoming, such as the main conference room in Ballard's Greenfire Campus.

Our firm has found that more commercial clients are interested in incorporating sustainable design elements into their new or remodeled offices. People spend most of their time indoors, so quality of the office environment is important for workers. Interior design plays a significant role in creating workplaces that are both attractive and functional, which helps to engage us and elevate our experience.

Benefits of a sustainable office

Elements such as air quality and natural light contribute to a healthier workplace. In addi-

Colorful acoustic felt and carpet tiles are some of the eco-friendly finishes found at the Bullitt Foundation offices.

PHOTOS BY BRENT SMITH

tion, the use of eco-friendly furniture and finishes that don't contain gas-emitting toxins provides another important benefit. Specifying energy-efficient appliances, lighting and plumbing fixtures can substantially reduce utility costs.

Even simple changes can make a big difference in creating a more healthy, sustainable and stylish workplace. These include:

- Replacing artificial plants with real plants or green walls
- Low or no VOC paints
- Formaldehyde-free furniture and finishes
- Energy-efficient light fixtures
- Open workstations that allow for more natural light

In the Northwest, maximizing daylight in the workplace is important, especially during the gray winter days when most of us wake up in the dark and get home in the dark. Since daylight is not always adequate here, energy-efficient LEDs are quickly replacing incandescent lighting for better lighting levels and energy savings.

The benefits of a sustainable workplace are many:

- **Healthier environment.** Fresh air, low toxins and plentiful light can contribute to a healthier and happier workforce.
- **Increased productivity.** Healthier employees and a more attractive and functional workplace all contribute to higher productivity.
- **Competitive edge.** Companies that emphasize their commitment to providing an environmentally friendly workplace can distinguish themselves from competitors.
- **Attracting the best employees.** Sustainability has become a common expectation for younger workers. A sustainable workplace can attract more dedicated and productive workers.
- **Updated, attractive space.** Today's green design includes finishes and furnishings that range from vibrant and modern to sleek and industrial. Traditional businesses, creative companies and tech-related business alike will benefit from a more personalized and updated interior that is at the same time fresh, welcoming and sustainable.
- **Enhanced public image.** Companies that emphasize their commitment to sustainability tend to gain favor among the general public.
- **Reducing sick days.** According to the Green Business Bureau, companies providing a healthier workplace report a 20 percent decrease in the number of employee sick days.
- **Cost savings.** Companies that use energy-efficient appliances, lighting and plumbing systems not only help the environment, but also reduce their energy bills.

A memorable workplace

The good news is that sustainable interiors have come a long way in the past decade. The choice of high-quality, stylish and low-impact products is greater than ever. In particular, local vendors and craftspeople have created exciting new products that are sustainably designed and manufactured. From recycled glass tiles to furniture made from locally reclaimed wood and metal, there are abundant options.

The diversity of modern eco-friendly finishes can also help personalize and customize a space, giving businesses an opportunity to tell a story through design. This can reinforce a sense of business or building history, or it can reflect a company's core values or products.

For example, our firm is

WHAT ABOUT DESIGN? — PAGE 19

SURVEYS

SECO DEVELOPMENT

Specialty: Infill and high-end mixed-use projects with an emphasis on residential, hotel, office and retail
Management: Michael P. Christ, Greg Krape, Derek Janke, Doug Wolf
Founded: 1989
Headquarters: Renton
Project: Hotel at Southport

Seco Development is building this 12-story hotel, part of a 17.5-acre development called Southport.

IMAGE COURTESY OF MULVANNYG2 ARCHITECTURE

Seco Development in October broke ground on a 12-story, 350-room hotel in Renton. The $180 million hotel is part of the larger Southport complex, a 17.5-acre site on Lake Washington that used to be home to a steam plant. The hotel is set to open in 2017.

Seco has already finished 383 apartments at Southport and plans call for future office space as well.

Seco's Michael Christ sat down with the DJC to discuss the Seaport projects and his view of the Seattle market.

The market is right for construction and development. This is evident with all the new construction of commercial and retail spaces all over Seattle, and Bellevue, and the region in general. In June 2014, downtown Seattle saw a hundred active construction projects (those under construction, permitted or recently completed), with total construction costs for those under construction at $2.8 billion, a level not seen since 2008. This rise of construction and development activity is a clear indicator of a thriving industry.

Q: What kinds of sustainable practices are you using in your projects?

A: Some of the sustainable practices we are focused on include: energy-efficient VRF system for HVAC systems; room automation systems that allow for unoccupied set backs and master on-off switches for power; low-flow plumbing fixtures; green cleaning plans; LED lighting systems; and green roof installations.

Q: What is important to keep in mind when putting together a master-planned community?

A: Identify opportunities and formulate a vision that is consistent with municipalities, local neighborhoods, and financial institutions. Ensure the enhancement of our cities while protecting our beautiful and sensitive rural environment.

Q: What is the future in Renton with your Southport project?

A: Southport Hotel is unique to the region and will be the first four-star hotel near Seattle-Tacoma International Airport, which serves 34.7 million visitors per year, a number Sea-Tac expects to double within the next 25 years.

Southport is also ideally located minutes from downtown Seattle, Bellevue, the Interstate 90 corridor and Interstate 405. Its idyllic setting by the shores of Lake Washington makes it one of the most beautiful and accessible locations in Puget Sound. The property has stunning panoramic views of Lake Washington, the Seattle Skyline, the Olympic Mountains, and Mount Rainier. This makes Southport not only a premier location for business travelers, but also a destination location for visitors.

Southport is also the setting of more than 500,000 square feet of office space within two office towers, and more than 2,000 structured parking stalls in the next phase of construction. The vision is to make Southport the first technology hub in Renton.

Due to its close proximity to Puget Sound Energy, Southport has the fastest Internet in the world and redundant power of 100 gigs-per-second fiber. We hope to attract technology incubators in the area. This will boost the economy of the region through job creation, retail, and commercial activity.

People from across the area will want to be a part of Southport with its luxury apartments, commercial space, waterfront hotel and convention center, retail shops and restaurants.

Q: How has your company changed over the last five years?

A: We are growing, adding staff to take on new development projects and looking for sites again. We are adding staff with fluency in Mandarin to add to our focus on the Chinese marketplace, and we are adding staff with office background to push this element within the Seco focus. And we have added construction folks to do value-added repositioning — buying existing apartments or projects.

SURVEYS

CAPITOL HILL HOUSING

12th Ave Arts on Capitol Hill will have 88 low-income apartments and space for offices, retail and the arts.

PHOTO FROM CAPITOL HILL HOUSING

Specialty: Developers, owners and managers of affordable rental housing in Seattle, often mixed use
Management: Christopher Persons, CEO; Jill Fleming, CFO; Cynthia Chirot, COO; David Dologite, director of real estate and sustainable communities; Michael Seiwerath, executive director Capitol Hill Housing Foundation
Founded: 1976
Headquarters: Seattle
Projects: 12th Avenue Arts on Capitol Hill, with 88 low-income apartments, 26,000 feet of office, retail and arts; The Haines, a 30-unit preservation project at 1415 E. Olive St. with very-low-income housing for the elderly and people with disabilities

Christopher Persons is CEO of Capitol Hill Housing. He answered questions from the DJC about his organization.

He said CHH was founded in 1976 as the Stevens Neighborhood Improvement Program when areas of Capitol Hill were redlined by banks and real estate companies and people could not get home improvement loans. The improvement program provided the loans.

CHH operates 49 buildings in Seattle with a concentration on Capitol Hill, the Central District and downtown. The properties have 1,398 apartment units and 67,000 square feet of commercial and office space.

The buildings are new and preserved, and are primarily financed using Low Income Housing Tax Credits and public and private debt.

Here is what else Persons said:

Q: CHH responded to an RFP for developing land around the future Capitol Hill light-rail station. What's the potential? What are the challenges?

A: The potential is in shaping the heart of a great neighborhood, maximizing housing, providing affordability in a community no longer affordable and building a vibrant transit-connected community.

The challenges? I think anytime the process for selecting a developer for a project is overly prescribed, it diminishes the creativity of the design and development team to solve problems.

There's also little rationality in land costs on Capitol Hill right now, which makes every project complicated when there is a significant goal for affordability.

Q: How do you define affordable housing? Should the government foster more of it?

A: There are lots of ways to define affordability: Paying no more than a third of your gross income on housing costs is the main one. We typically build housing for people who make 60 percent of the area median income or below because we're mission based and that's what our public funders require.

There is a need for housing affordable for people who make between 60 percent and 120 percent of the area median income as well, and that's an area that neither public or market development targets very well especially in core, transit-rich neighborhoods. (For a family of four, 60 percent of the AMI is $52,920 and 120 percent of the AMI is $105,840.)

What more can government do? I have been saying it takes all available resources. The Seattle Housing Levy, tax credits, State Trust Fund, U.S. Department of Housing and Urban Development funds, and the Multifamily Tax Exemption Program are the predominant existing tools.

Public lands need to be made more readily available for affordable housing. Mission-oriented investment funds that require lower returns can be used by nonprofits as well as for-profits for development of the housing. And Seattle has to catch up with the rest of the country on linkage fees. The city should also stick to their guns on housing types that create affordable options and density, like small-unit housing and row houses, and they should slim down design review.

Q: Should low-income housing developers work together to achieve efficiencies?

A: Low-income housing developers do work together and CHH works with for-profit guys too. We are proposing to co-master develop the Capitol Hill TOD with the for-profit Jonathon Rose Companies and are buying with JRCos. Squire Park Plaza, a development with 59 apartments and 11,000 square feet of retail and office space in Seattle's Central District. The seller is the Central Area Development Association.

We currently manage all CADA properties and are looking to support their work in the Central District. We also partnered with Bridge Housing on our response to Building Nine at Sand Point.

Q: In 2011 the Bullitt Foundation awarded CHH a grant to head the creation of an EcoDistrict on Capitol Hill. How is that going?

A: The EcoDistrict is taking off. Bullitt has provided follow-up funding to that original grant and we've received funding from other foundations and public sources, including the city. We've formed a steering committee, hired a director for the program, Joel Sisolak, and expect the city to pass a resolution establishing the EcoDistrict in a formal way in early 2015.

We have set metrics and sustainability goals for the district and have kicked off several projects including a community solar project with City Light and a shared-parking study funded by King County.

Q: Has CHH considered the aPodment model for future developments?

A: This is not our area of expertise, but we continue to explore models that require lower public support and would consider partnering with the right developer on many types of developments including small-unit buildings.

Q: What are trends in affordable housing locally?

A: I've been in this market for seven-plus years and ever since then I've heard that we would see contraction in the segment through mergers, acquisitions and formal partnerships. We have been seeing this recently and I suspect we'll see more. For example, Bellwether acquired Common Ground, Compass merged with Latch in 2009, and we have begun managing CADA properties.

Everyone is seeking different financing sources for affordable development but there's no secret sauce. Development costs are fixed. We, like everyone else, work to squeeze every efficiency out of a project, but the hard cost per foot is going to be what it is.

To keep rents down then requires low-cost or no-cost equity. The total rent potential at 12th Avenue Arts is about $1.1 million less per year than what a market-rate developer is getting on Capitol Hill. We'll keep it affordable for 50 years, so we're talking a huge amount of revenue left on the table with limited recap opportunities because we can't sell to anyone unless they maintain affordability.

We'll need more public investment if we're going to come close to addressing the affordability crisis in Seattle.

SURVEYS

Vulcan's Allen Institute for Brain Science at 601 Westlake Ave. N. is scheduled to finish construction in the fall of 2015.

IMAGE COURTESY OF PERKINS + WILL

VULCAN REAL ESTATE

Specialty: Urban infill development including office, biotech, residential and mixed-use projects
Management: Ada Healey, vice president of real estate; Sharon Coleman, senior director of commercial development; Scott Mathews, senior director of acquisitions and residential development; Robert S. Arron, senior director of marketing and leasing
Founded: 1986
Headquarters: Seattle
Projects: Amazon's South Lake Union headquarters expansion; new headquarters for the Allen Institute for Brain Science

Ada Healey, Vulcan's vice president of real estate, responded to questions about her company's activities, affordable housing, and best- and worst-case scenarios for development here.

Q: How many parcels does Vulcan have left to redevelop in South Lake Union?

A: We still have development capacity for another 5 million square feet on about 20 acres. Our team is actively planning about a dozen parcels now with a combination of commercial office and multifamily residential. We're excited to be planning some high-rise office and residential towers along Denny Way, and we're also looking closely at our Lakefront blocks and how to connect them to Lake Union Park across Valley Street.

Q: When does Vulcan expect to be "done" there?

A: Hopefully before I retire! Timing really will depend on the market. We completed our first 5 million square feet in 10 years, so that would be a pretty good guess in the absence of any unanticipated crisis like a debilitating earthquake or losing a major sports team to another metro area. For now, we are making hay while the sun shines.

Q: Does Yesler Terrace have similar potential?

A: The development plan for Yesler Terrace is ambitious and will attract both residents and businesses, and will create tremendous social and economic benefits for the city. The combination of residential and commercial sites on 30 acres close to downtown, with incredible views of Mount Rainier, Elliott Bay and the city skyline, is unique.

There are other interesting neighborhoods too, like the Spring District and the area just east of Interstate 405 and south of Northeast Eighth Street in Bellevue. For successful implementation, there needs to be a vision and an anchor in the neighborhood.

South Lake Union has a concentration of creative class workers in technology and biotech and some interesting historic buildings and the lake. Yesler Terrace has proximity to the medical institutions, Seattle University and the International District. Other close-in neighborhoods have similar potential, but every neighborhood has different characteristics, so the path to realizing its full potential will differ.

Q: Where will Vulcan's focus be five to 10 years from now?

A: (Vulcan founder and Chairman) Paul Allen is a Seattle native and he has charged us with making a positive impact here at home. We still have a lot of work to do in South Lake Union and about 650 units of housing to build at Yesler Terrace — I've told my team to eat their Wheaties because I think that will keep us very busy for the next five to 10 years.

Q: How is the real estate industry different now from before the Great Recession?

A: Here in Seattle we have fully recovered from the Great Recession, which can be seen simply by counting all the cranes — it is really remarkable — and only four of them are ours!

The real difference though is in the capital markets. Before the Great Recession the 10-year treasury was in the mid-to-high 4 percent range. Today we are hovering around 2.2 percent. With the cost of capital so cheap we are seeing record pricing for many assets, so that has been good for Vulcan because we've been sellers.

On the flip side, eventually rates should go up (although we've been saying this for years now). Normally that would also mean an increase in cap rates and a decrease in property values. However, continued strong investor demand for real assets and rising rents across most product types should mitigate downward pressure on asset values from rising interest rates.

Q: Seattle's proposed "linkage fee" has been unpopular with developers. What is a better way to create affordable housing?

A: Just like you can't build a house with a hammer alone, we won't solve the affordable housing issue with a single tool. I worry that the "linkage fee" will be counterproductive by slowing the production of housing, which naturally will make rents increase.

We already have some effective funding mechanisms that have created thousands of units of affordable housing (like the housing levy and the Multifamily Property Tax Exemption Program). Why not expand the programs that are working rather than adding more fees that will make housing more expensive for everyone across all income levels?

Q: How much longer can Seattle maintain its pace of development? What are the best- and worse-case scenarios?

A: Seattle has been on fire post-recession, with lots of construction and it has made all kinds of lists — the (Census Bureau) identified Seattle as the fastest growing big city in the U.S. and Seattle made Forbes' top-10 list for "Best Places for Business and Careers" — so there is a lot of demand for office space and housing right now. Eventually that momentum will taper off, which is normal in real estate.

Best-case scenario? The biotechs find a cure for cancer, creating unprecedented demand for more office and research facilities and housing for all those new scientists.

Worst-case scenario? Amazon decides it likes sunny California better and they pick up and move south.

SURVEYS

HARSCH INVESTMENT PROPERTIES

Specialty: Regional, family-owned company that manages more than 21 million square feet of industrial, office, retail and multifamily properties
Management: Rob Aigner, senior vice president and regional manager
Founded: 1951
Headquarters: Portland
Projects: Redevelopment of Celebration Center in Federal Way; redevelopment of Plaza 520 in Bellevue

Rob Aigner, senior vice president at Harsch, answered questions about the commercial real estate industry and what is affecting his firm.

Q: Harsch has a wide-ranging portfolio in the West. Are there any regions that are performing exceptionally well?

A: All of our regions are performing better than the same period last year. Depending on the geographical region, anywhere from a 4 percent to 10 percent overall occupancy gain would be indicative of the improvement. Our gains have been reflective of the overall increase and strength of the economy in conjunction with the gains made within the home building industry.

The regions that have made the largest improvement are the East Bay and Las Vegas markets due to renewed confidence in the economy.

Q: What are some larger trends that are influencing your choices about where and in which sectors to invest?

A: Our strength lies in the ownership and management of multi-tenant industrial facilities that tend to house numerous tenants oriented around small business. As credit facilities have eased for the small business owner, we have seen a renewed optimism for the future and a corresponding increase in traffic and leases at all of our industrial and incubator parks. We see this trend continuing.

Additionally, we have branched out into geographic areas where we have previously not been located. An example of this is our recent acquisitions in the Salt Lake City market.

Harsch is redeveloping the Plaza 520 Business Park in Bellevue.

PHOTO BY MIKE JENSON

Q: In Seattle, which sectors have been particularly attractive?

A: Our interest in Seattle is driven by the industrial multi-tenant opportunities that on the surface look like a management headache due to the sheer number of tenants within any particular project. Therefore, we look actively within the south end, Kent Valley market, as well as the close-in market where we already have a dedicated presence.

Q: What trends in Seattle are benefiting your business?

A: With Seattle's natural beauty and global reputation for growing and maintaining quality companies and an educated work force, we believe that Seattle's rising tide raises all ships. All of our tenants are concerned about time to market, commute times, and infrastructure issues, which drive their basic location decisions. Seattle's desire to continue to focus on family wage jobs as a primary force in the economy benefits us, as many of these jobs are housed within our facilities.

Q: What do you plan to do in the near future to capitalize on such trends?

A: We will continue to invest in the region because we are optimistic about Seattle's future and the positioning of the Port of Seattle within the global economy.

Fifth + Columbia will have offices above a restaurant and hotel.

IMAGE COURTESY ZGF ARCHITECTS

DANIELS REAL ESTATE

Specialty: Advancing sustainable practices while developing complex urban projects that include transit-oriented development, historic preservation and adaptive reuse; commercial projects that make positive impacts on their communities
Management: Kevin Daniels, president; Alan Cornell, senior vice president; Carl Shumaker, vice president
Founded: Daniels Real Estate LLC was formed in 2007 to carry forward the long development history of its sister company, Nitze-Stagen & Co.
Headquarters: Starbucks Center, Seattle
Projects: Stadium Place; Fifth + Columbia; St. Edwards Seminary; Grid Iron

Daniels Real Estate is behind some of the biggest projects in Seattle, including Stadium Place on the north lot of CenturyLink Field. Kevin Daniels, president of Daniels Development, talked about the company's projects and what is happening in the Seattle real estate market.

Q: What trends and issues face the industry right now?

A: I think the amount of international capital looking to invest in Seattle is a great sign about how the world looks at our city and our future growth. This will have a significant and positive impact on our community for many years to come.

Q: What sustainable practices are you using in your projects?

A: We have been advancing sustainable practices well before it became fashionable. Currently we have a lot of practices in place from macro to micro — from minimizing the carbon footprint on each project, to exploring new technologies that save energy in our managed properties, to researching and incorporating new, leading green design ideas in our new development projects.

Q: How has your company changed over the past five or so years?

A: Not much. We have been stable in terms of employment and projects, but obviously enjoying a much stronger economic cycle than five years ago.

Q: What are the best ways to make sure housing in Seattle is affordable?

A: Every citizen needs to play a part and not just a few. This also means that we need to look at new models for creating affordable housing, outside of the norm, including incentivizing private developers to participate.

Q: You are doing utility work at Fifth + Columbia. How is Seattle's office market as you prepare to start the building?

A: Yes, we are now shoring the site and will be breaking ground in the spring of 2015. The company's mission is to develop complex and challenging dense, urban real estate projects that make significant impacts on the communities in which they are located. We take a very long-term approach to investment so we were able to pause. We now see the Seattle market place moving in the right direction with the job growth to justify the demand behind new office use. Fifth + Columbia will open in 2017.

Q: What are your thoughts on the resurgence of Pioneer Square. What else is needed there?

A: The neighborhood has only laid the foundation for success and we still need more market rate housing. Without a large increase of housing units in Pioneer Square, the neighborhood will be doomed to repeat its past challenges as an 8 a.m.-to-5 p.m. district rather than a true community where you can work, live and play. Stadium Place helped seed the resurgence, but more housing is needed to sustain it.


The best second home value around!
Canyon River Ranch offers:
• 58 acres of river frontage and uplands
• Syrah vineyard with owners sharing the bottling
• Half mile of river frontage
• Elegantly furnished 2 bedroom lodge suites
• Full kitchens
• Patio or deck
• Enormous lodge common area for owners' private use
• Swimming pool and hot tub
• On site management with special activities for owners
• 56 days of ownership use per year
• Unlimited day use
• Red's Fly Shop and guide services on-site
• Upland bird hunting and sporting clays
• 2 hours from Seattle
• Full service restaurant Canyon River Grill NOW OPEN
Model suite now open – plan your summer visit soon!
Visit our expanded web site for model open dates:
www.canyonriverranch.net
Canyon
RIVER RANCH
(509) 933-2100
Lodge@canyonriver.net
riverside lodge • restaurant • fishing • rafting • hiking and more!

SURVEYS

MACK URBAN

Specialty: Long-term holdings, with investments in diverse asset classes including transit-orientated development, high-rise residential, mixed-use multifamily and adaptive reuse
Management: Paul Keller, founding principal and CEO
Founded: Los Angeles-based Urban Partners opened the Seattle office in 2005, acquired Harbor Properties in 2011 and merged as Mack Urban in 2013
Headquarters: Los Angeles, with an office in Seattle
Projects: 171-unit Velo apartments in Fremont; 137-unit Ray apartments on Stone Way North; 169-unit apartment building across Western Avenue from Harbor Steps

Paul Keller, founding principal and CEO of Mack Urban, discussed what his company invests in and how they are capitalizing on real estate trends in Seattle.

Q: What is your firm's niche in real estate?

A: We have been focused on multifamily, mixed-use residential development. Moving forward, our focus will continue to include transit-orientated development, high-rise residential, mixed-use multifamily, adaptive reuse and possibly student and senior housing.

Q: Which regions have shown strong growth and why?

A: Our business model has two fundamental business types: development and value-add. We currently have 1.4 million gross square feet under construction, 2,500 residential units in development, over 475 units in lease-up and 12 stabilized assets in the portfolio.

All of these assets are located in the following West Coast gateway cities: Seattle, Portland and the greater Los Angeles/Orange County area. All share common attributes such as mass transit options, a vision for walkable neighborhoods, civic stakeholders who value the arts, recreation and culture, and municipalities that adopt smart growth policies in order to preserve open space.

Q: What trends are guiding your investment decisions?

A: We are pleased to see that employers are returning to city central business districts — and we believe that their capital investments are much more than a trend. When you have employers such as Amazon, Google and many others investing in urban campuses, it's a net benefit for us all.

Q: How are you capitalizing on real estate trends in Seattle?

A: During the expansion of suburban sprawl, many of Seattle's neighborhoods remained sleepy and underdeveloped with very little change. Today, we see urban in-fill in every neighborhood. Some of the new development is designed as an extension of the community, offering a sense of place, while other projects have an insular and more institutional design.

At Mack Urban, we believe that urban in-fill needs to do more than in-fill, it needs to "cultivate the in-between" — in other words, maintain and expand the connections between buildings, public spaces, local services, infrastructure and the community. We see the current multifamily trend as an opportunity to model projects designed to preserve neighborhood character and strengthen communities.

Q: What do you plan to do in the near future to capitalize on such trends?

A: We will let you know in 2015.

Mack Urban recently opened the 171-unit Velo apartments in Fremont. It caters to an active crowd and is a few blocks from the Burke-Gilman Trail.

PHOTO COURTESY OF MACK URBAN

SKANSKA USA COMMERCIAL DEVELOPMENT

Specialty: Sustainable office and multifamily projects in urban markets
Management: Lisa Picard, executive vice president and regional manager; Murphy McCullough, vice president of development
Founded: 2011 (commercial development operations in Seattle); 1946 (construction operations in Seattle)
Headquarters: New York City (Skanska USA); Seattle office houses Commercial Development, Building and Civil business units
Projects: 400 Fairview, a 13-story, 337,000-square-foot office building in South Lake Union; Alley 111, a 12-story, 260-unit apartment building in downtown Bellevue; 2&U, a 725,000-square-foot office building in Seattle

Executive Vice President Lisa Picard answered questions about Skanska's local Commercial Development unit.

Q: How smooth was the development process for your first project, Stone34?

A: Not sure anyone would say the development process for Stone34 was smooth. It was hard work for the seasoned developers and the bright, new professionals we brought in. But the hard work is where you have the greatest potential to lead, to create a market, make an impact and foster change. We partnered with a team that had the passion and energy to pursue our vision for Stone34 — and today it's a reality.

Q: Where are you looking for development opportunities? Does Skanska have a niche?

A: We always put community and our customer first, which really boils down to people. Currently, people want to be in cities that have the greatest potential for connection — to other people, to business, to dynamic experiences.

We understand that development isn't the panacea to creating good urban life, but it certainly doesn't need to be an obstruction to it, either. So we focus on core urban markets, where we can build greater than 100,000 square feet and create an asset for a thriving community.

Q: Who at Skanska approves funding for new projects?

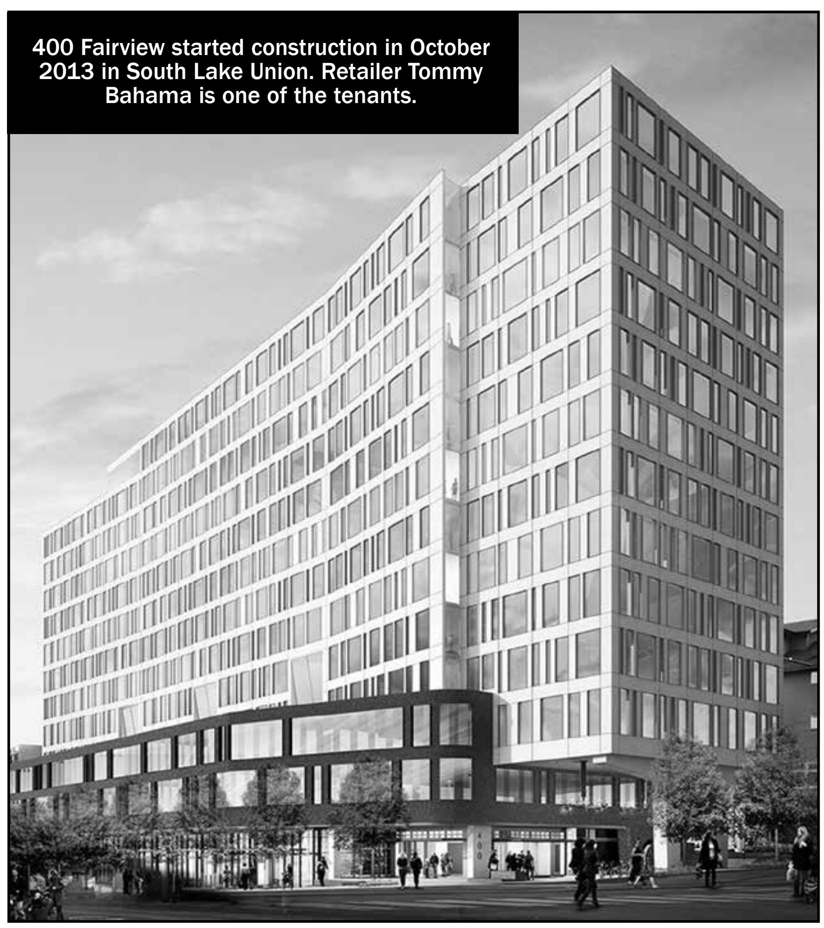
A: Skanska's Seattle office is one of four development markets in the U.S. (Boston, Houston and D.C. are the others.) Generally, all investments are locally initiated, then approved by an internal U.S. team comprised of local and U.S. executives before final funding approval by Sweden.

Q: What concerns you about the local real estate market's future?

A: My greatest concern is balancing population growth with public investments to maintain the high quality of life in our region. Without investments in public transportation, community costs, traffic impacts and the lack of mobility will choke the quality of life. Seattle will become less attractive.

Q: How active does Skanska commercial development hope to be here?

A: We will continue to serve the market as long as we continue to build products and places it desires.



400 Fairview started construction in October 2013 in South Lake Union. Retailer Tommy Bahama is one of the tenants.

IMAGE BY STUDIO 216

WHAT ABOUT DESIGN?

CONTINUED FROM PAGE 11

designing several projects for a developer with strong ties to Capitol Hill's historic Auto Row. Like many new projects in the Pike-Pine corridor, the original facades of low-rise commercial buildings are being incorporated into larger mixed-use structures. We are working with the client to recycle and incorporate as many original interior elements as possible.

The results of these efforts are projects that preserve a strong sense of place, and truly tell a story about the developer's commitment to sustainability.

Bullitt Foundation offices

Robin Chell Design was the interior designer chosen to complete the Bullitt Foundation offices inside the new Bullitt Center.

Our firm, having designed office interiors for Ballard's Greenfire Campus (LEED platinum), was very familiar with eco-friendly design. However, the Bullitt Foundation offices took sustainability to a new level.

The Bullitt Center is striving for the first Living Building Challenge (LBC) certification for an office building in the U.S., so we knew that the interior finishes would be subject to rigorous environmental standards. This included a "red list" of environmental requirements for all materials.

Since many familiar products and finishes were not acceptable for this project, we looked forward to the challenge and knew the result would be something special.

One of our major goals as a design firm was to provide an office interior that was not only sustainable, but also visually exciting, comfortable and welcoming. In this respect, we developed a unique solution that represented the intentions and values of the client, and that also captured the natural elements that define the Pacific Northwest.

The job was a small but complex tenant improvement for the entrance lobby and the client's office space. Existing spaces were beautiful and modern, but given the rigid requirements of the LBC, they lacked softness and color and did not address the acoustical needs of the client. In addition, the Bullitt Foundation wanted to create a more welcoming and memorable environment for tenants and guests.

Key elements of the design were a new green wall and furniture using textiles made from recycled plastic bottles. Customized floor and wall treatments addressed the acoustic concerns in functional and playful ways. Felt acoustic panels were incorporated throughout the spaces and conference rooms, and in some instances also served as art pieces. Custom carpet tiles were made by Interface and Mohawk.

The centerpiece of the main conference room is a large reclaimed wood slab table made by NK Build, a Seattle firm specializing in sustainable custom furniture. The 14-foot table weighs 1,800 pounds, can seat 18 people, and was designed to be assembled on site. Its unique trapezoidal design was inspired by the shape of the room.

The table also uses metal sourced in Portland and made in Seattle. In order to adhere to the LBC requirements, NK Build used biodegradable, non-toxic, plant-based waxes and oils.

The client's goal is for the table to last as long as the building — at least 250 years.

Lessons learned

The success of the Bullitt Foundation project came from a passionate client and design team working together to create "something visually striking, stimulating, that captures the ethos of this building." The result is a stylish, eco-friendly workplace that showcases the values of the foundation and reflects an urban aesthetic that is uniquely Seattle.

Sustainability has come a long way, and it's great to see the growing number of companies that recognize the multiple benefits of green design. Seattle offers great examples of eco-friendly commercial interiors, as companies are becoming more committed to providing healthy and sustainable workplaces.

For us, the learning curve for the LBC was steep, however the entire team was left with a much better sense of why sustainability is so important in the workplace. We also were able to greatly expand our understanding and knowledge of local, low-impact and eco-friendly products.

Robin Chell Design is a Seattle-based interior design firm specializing in commercial, hospitality and multifamily projects. RCD is working on several commercial buildings that are striving for LEED gold or platinum.

GOOD NEWS

CONTINUED FROM PAGE 5

of industrial space constructed and delivered, of which most was build-to-suit.

There was very little new Class A supply to meet this increased demand. Investors and developers were caught with no lines in the water as the fish came in the river.

But that changed quickly.

Construction of new Class A big-box buildings began in earnest in 2012, with resulting deliveries of 2.2 million square feet in 2013. Because the fish were in the river at just this moment in time, these projects are 89 percent occupied today.

Developers charge in

Developers and their capital partners saw the strength of the Puget Sound economy in 2013, which had significantly better employment growth of 2.8 percent versus 1.7 percent for the U.S. as a whole, according to Blue Chip Economic Indicators. Positive changes continued in 2014 with year-to-date annual changes at 2.7 percent versus 1.8 percent.

Developers and their partners responded to the positive news by pouring investment capital into local industrial markets. The result is another 2 million square feet of new Class A product delivered in 2014. This slate of buildings is 30 percent leased; an impressive number, as the projects were just recently completed.

One thing a fisherman can always count on is the enthusiasm of others when they see you are catching fish.

And so it goes in the industrial market into 2015 and 2016.

We expect an additional 2.68 million square feet of new Class A product to be delivered in 2015 with an estimated 51 percent of the space committed. That's what one would call "fish in the boat."

Because of this robust tenant activity, the surge of new product to be delivered in 2016 is estimated at over 3.25 million square feet.

Net absorption

With all this discussion of 2 million to 3 million square feet of new product, one might ask what the demand looks like.

Well, the fish are in the river right now.

In 2011, net absorption, the amount of vacant space absorbed by tenants in the market — or the amount of fish being caught in the river — was reported at 1.6 million square feet. The next year, net absorption grew 75 percent to 2.8 million square feet.

Last year, net absorption grew another 21 percent to 3.4 million square feet, and projections for 2014 are up again to 3.6 million square feet.

If you stand back and look at this South Puget Sound industrial market of 213 million square feet, you will see a 2011-14 total of 4.3 million square feet of new product deliveries overwhelmed by a four-year net absorption of 11.2 million square feet.

No wonder the vacancy rate in this market has dropped from 7.4 percent at the beginning of 2011 to 4.2 percent today.

No wonder investors and developers are planning to build an additional 5.9 million square feet in 2015 and 2016, with an additional 12.9 million square feet proposed.

Investment sales

For the fisherman, a series of rainy days following a dry spell can mean the fish come roaring up stream.

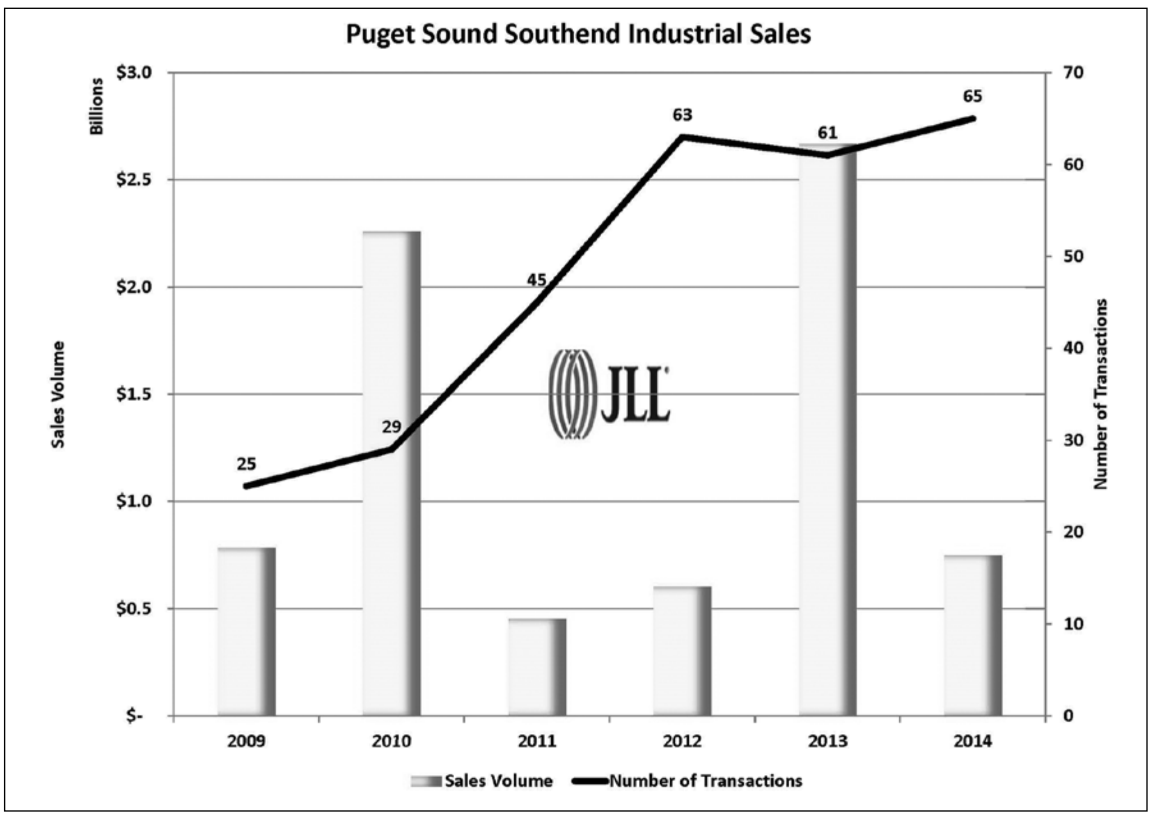
The dry spell for the world economy began in late 2008. But just like the positive changes in water flow in a river after a big rain, the economy healed and investors came roaring back.

The number of industrial sales transactions in the South Puget Sound market increased from 25 in 2009 to 45 in 2011 to 65 this year as of November. Dollar volume jumped in two of those six years: $2.2 billion in 2010 and $2.6 billion in 2013, while remaining below $800 million the rest of the time.

The industrial real estate report for 2014 is excellent. Coincidently, the salmon season report for Washington coastal and Puget Sound waterways this year was also excellent.

A good day of fishing feels just like this busy market does right now. Fish on!

Leslie R. Boudwin, SIOR, is managing director at Jones Lang LaSalle in Bellevue.



The number of industrial sales has picked up dramatically since the recession. CHART FROM JONES LANG LASALLE

LODGING

CONTINUED FROM PAGE 2

of 2008, near the peak of the last market cycle.

When all of these factors are taken together, PKF-HR projects that occupancy will continue to grow into 2015, to 65 percent, and that the average daily room rate will also increase at above inflationary rates through 2016.

While new supply represents some uncertainty, the economic drivers of hotel demand look good, and the anticipated growth looks sustainable into the near term.

Seattle overview

According to STR and PKF-HR, occupancy in the Seattle area increased from 61.2 percent in 2009 to 75.5 percent in 2014. Similarly, the average daily room rate (ADR) increased by a compound average annual rate of 4.1 percent per year, indicating very strong trends.

To put this into perspective, these results are just a little bit less than the results from Portland in the same period, but well above the national averages. If we further factor in PKF-HR projections through 2017, there will be an annual increase in the amount of revenue generated per available room at a compound rate of 7.9 percent, or an increase of 85 percent between 2009 and 2017.

ADR, as reported by STR, shows that the Seattle area increased by 14 percent for the month of September 2014 over the same month of 2013. This is a very large increase, and highlights just how hot this market has become. Very strong numbers!

The increase in demand is the result of several really good things happening in our area.

One driver of demand is the inflow and/or expansion of business. There is approximately 5.5 million square feet of new office construction in the area, and an additional 8 million square feet is planned.

When we also look at the employers who have entered or expanded in our region, it is an exciting story. The downtown explosion of Amazon and the high-tech hubs around Lake Union as well as the east King County area, are just a few examples of why our region has strong hotel performance results.

In addition, in 2014, the Washington State Convention Center is expected to create a good increase in room nights over 2013, with positive indications for growth into 2015.

With all of the increase in demand, we next turn to supply to see what is planned and under construction. It is not difficult to see that the number of construction cranes is increasing across the region. Many of these cranes are building new hotel rooms. In just downtown Seattle, there are 20 hotel projects announced or rumored that could create as many as 5,000 new rooms. This is a lot, but we also recognize that not all of these projects will be built.

According to PKF-HR, occupancy levels for the city of Seattle will be at 82 percent in 2014 and 2015, with very strong average daily room rate gains. This is in spite of the new supply, and also shows the strength of our market.

In summary, it is clear that things are pretty good and expected to get better. There are no foreseeable threats from the factors that have historically brought an end to the strong market. The economic fundamentals, both nationally and locally, are good; high occupancy levels will provide leverage to push average room rates higher; and record occupancy and strong ADR growth will translate into generous bottom line cash flow results.

One factor we are mindful of is the minimum wage initiatives that are gaining momentum locally and nationally. Changes in the base pay for some of the hotel workforce may impact hotel cash flow. Lastly, while we are cautious about new supply, we also recognize there are restraints on what can actually be built. In short, the market continues to look good, and should continue into at least the near-term.

Scott F. Biethan a senior managing director in CBRE Hotels, and is based the Pacific Northwest region. He is the industry leader for the CBRE Hospitality and Gaming Group for Valuation and Advisory Services.