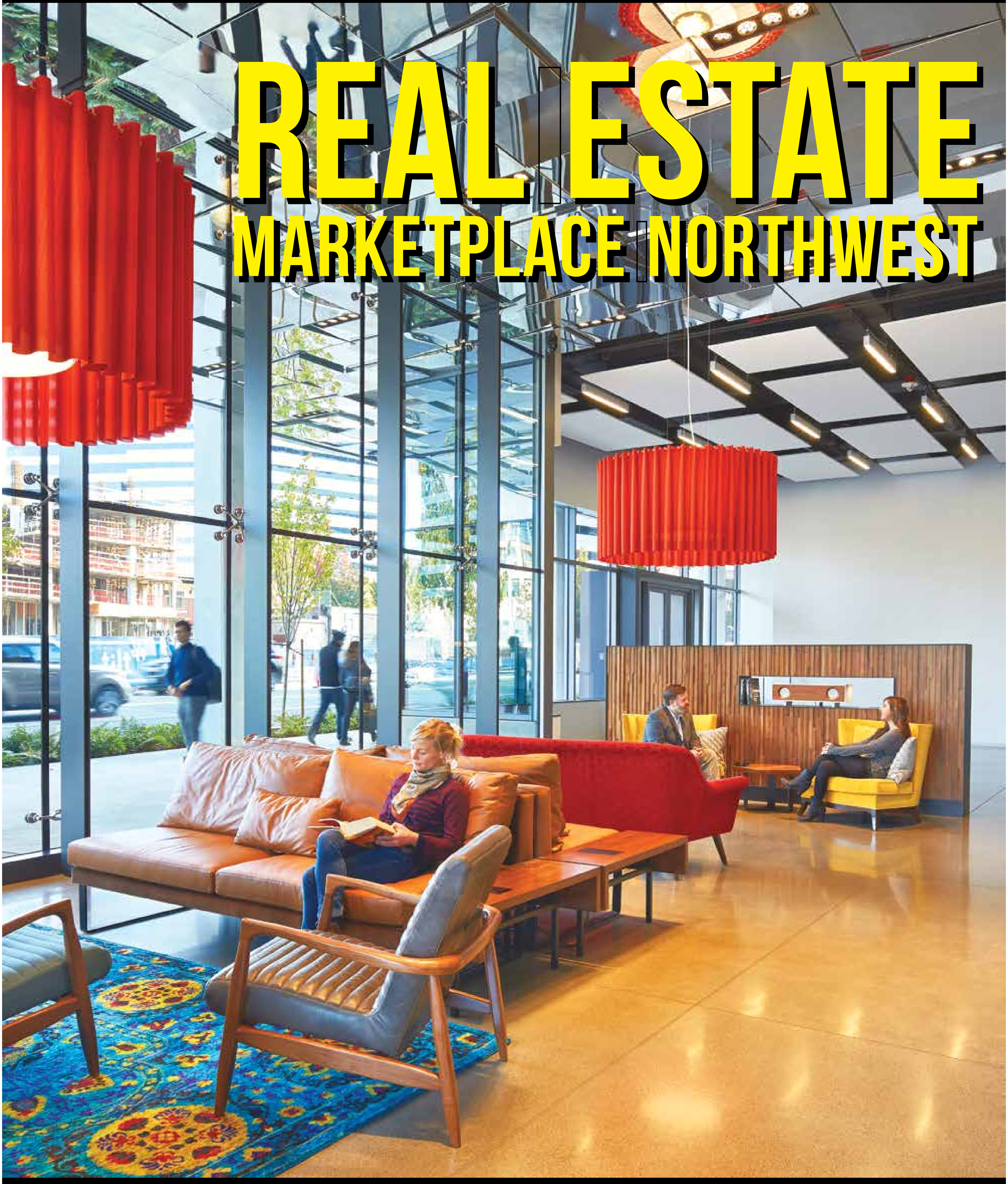
Seattle Daily Journal of Commerce

REAL ESTATE
MARKETPLACE NORTHWEST



February 25, 2016

INSTITUTIONAL OWNERS MOVE IN ON LOCAL MARKET

Ownership goals of industrial projects have changed from short-term to long-term, thanks to the institutions.

BY PATRICK GEMMA
DCT INDUSTRIAL

STATE OF THE MARKET
INDUSTRIAL

Of the 26 years I've been in commercial real estate, 15 have been focused solely on the Puget Sound industrial market. During this time I've seen Seattle mature into one of the most desired industrial markets in the United States. The result of our city's growth is a change in owner composition.

In the early 2000s, ownership was a mixture of private parties and institutional entities (real estate investment trusts like DCT Industrial, pension fund advisors and sovereign wealth funds). Fast forward to 2016, the overwhelming majority of industrial owners are institutional. Additionally, more than 90 percent of the purchasers and developers of industrial investment properties are either institutions or funded by institutional partners.

What does this ownership structure mean for the Seattle industrial market? It means industrial developers are making more disciplined new project decisions.

In past Puget Sound cycles, private developers completed most industrial developments. The motivation of these private developments was short-term profits: The goal was to lease and sell the projects as soon as possible after completion of construction. The thought was that more development would lead to more profit. The problem becomes evident at the end of cycles, when absorption slows to a crawl and large industrial buildings are left vacant, sometimes for long periods of time.

In contrast, the motivation behind institutional industrial development is a long-term benefit to the market. Institutional owners value long-term income streams that grow over time.

One of the best ways to ensure a continuous, growing income stream is to make sure supply and demand stay in check. Institutional owners are first and foremost concerned with supply matching demand. They constantly monitor the market to make sure there is enough demand to support the current development pipeline. These institutional owners are also in the market for the long-term; which makes deciding not to build a comfortable decision.

Institutional owners are also conservative because of their internal structure. Institutions answer to Wall Street (REITs), internal boards (sovereign wealth funds) and fiduciary relationships (pension fund advisors). These parties value steadily growing returns over time. These returns are accomplished by making smart decisions.

This institutional conservatism with a focus on long-term objectives is prevalent in the Seattle market. While demand fundamentals do play a role in the Seattle industrial market's current success, the growth of discipline in the market has led to the best landlord market I've seen in 15 years, and probably ever.

Since 2012, 24 buildings containing 6 million square feet have been completed in the Kent Valley, which is the largest industrial submarket in the Pacific Northwest. As of January, 5.35 million square feet of this space, or approximately 89 percent, has been leased and active negotiations continue. Remaining vacancy is primarily small portions of larger buildings, with the biggest vacancy being only 135,000 square feet.

These statistics are strong evidence of a market that is in balance.

During the first quarter of 2016, another eight buildings containing 2.4 million square feet will be delivered. As of January, approximately 1 million square feet, or 42 percent, of this space has been pre-leased. This level of pre-leasing is unprecedented in the Seattle industrial market and speaks to the lack of larger Class A options available.

In past cycles, this kind of success would kick off a flurry of speculative developments. When the market was at its peak, some new developments were built with disregard to competition in the pipeline. Today only seven additional buildings totaling 1.9 million square feet are slated to start construction in 2016.

In short, the new breed of decision makers is showing restraint. As a result, overall vacancies are at historically low levels and it's becoming common to see tenants competing for new Class A space. More importantly, we're witnessing the strongest rent growth the Puget Sound has ever seen.

Seattle's industrial market has matured into a shining star on the national stage. With recent strong demand continuing into the new year and supply being restrained by institutional decision makers, it looks as though the health of the market will stay strong through 2016 and beyond.

As senior vice president for DCT, Patrick Gemma oversees development and capital deployment in the Seattle market, Gemma has over 26 years of real estate experience.

GET READY FOR A SOFT LANDING IN LODGING

Hotels across the U.S. reached a milestone in 2015: annualized occupancies exceeded 65 percent and the average daily rate was $120.

Moody National REIT II earlier this month paid $74.1 million for Marriott SpringHill Suites-South Lake Union on Yale Avenue.

PHOTO BY MATTHEW BEHRENS

BY CHRIS BURDETT
CBRE HOTELS

STATE OF THE MARKET
HOTEL

It ceases to amaze me that just a few short years ago the hotel industry across the U.S. was, for the most part, on life support.

Perhaps most owners of commercial real estate felt this way. Consumers were all but nonexistent, group and corporate travel had been paired to nothing, resorts were virtually giving rooms away, loan delinquencies were at historic highs and owners of hundred-million-dollar hotels were mailing their keys back to their lenders.

Fast-forward a half-dozen years and our industry is on the verge of setting records in both national occupancy and average daily rate, consumer demand is at an all-time high, and we will go from a virtual standstill in new construction to a peak development phase unseen in recent history.

Hotel investors who bought into the euphoria between 2010 and 2015 reaped unheard of returns (think Hotel 1000).

To say things are strong in the hotel space is an understatement, but as with any segment of commercial real estate there are always storm clouds on the horizon.

Record setting pace

As 2015 came to an end, hotels across the U.S. reached a milestone never seen: annualized occupancies exceeded 65 percent and the average daily rate was $120, according to PKF Hospitality Research and Smith Travel. Here in the Northwest, both Seattle and Portland reached unseen levels of 76 percent at $150 and 74 percent at $128, respectively.

Our industry has experienced 72 straight months of RevPAR (revenue per available room) growth, something no one thought possible. Forecasts estimate 2016 will set another record in occupancy on a national basis and many markets, including the Northwest, are predicted to exceed 90 straight months of RevPAR growth through 2017.

With that said, for the first time since 2009, both PKF and Smith Travel expect a slowdown in year-over-year RevPAR growth both regionally and nationally.

It is difficult to continue to make such predictions and postulate over the enormous success of our industry without thinking about when it will end — especially given the current forecast that growth (albeit slower) will continue for the foreseeable future!

Recent sales transactions in Portland, Bellevue and Seattle that have set all-time highs on a price-per-room basis suggest investors don't believe it will end soon. How often can a hotelier buy and sell a hotel in the space of 18 months and return over $1 million a month to its investors?

Consumers willing to pay

LODGING — PAGE 5

INSIDE

ON THE COVER

Hill7, a 285,000-square-foot office building, is one of many developments changing the face of Seattle's Denny Triangle. Find out what's behind the transformation on page 14. PHOTO BY BENJAMIN BENSCHNEIDER

2016 REAL ESTATE MARKETPLACE NORTHWEST

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OFFICE MARKET SHOWS NO SIGNS OF SLOWING DOWN

Total sales volume should exceed $3 billion this year and the record for pricing per square foot will fall for the seventh consecutive year.


BY STUART WILLIAMS & ALEX MUIR
JLL

STATE OF THE MARKET OFFICE

Seattle's population growth is far outpacing the national average, and due to the strong job market and high quality of living, it continues to attract millennials at a faster rate than nearly every other major U.S. city.

In 2015 the economy continued to strengthen, with unemployment in the summer dropping to the lowest figure the region had seen since mid-2007. Local job growth looks to remain strong, with the most recent employment forecast from the Puget Sound Economic Forecaster calling for impressive growth of 2.3 percent in 2016.

The Milken Institute recently released its 2015 Best-Performing Cities report, which listed Seattle's greatest assets as its well-educated and highly skilled workforce, as well as the fact that high wages in tech industries support consumption-related jobs throughout the rest of the local economy.

Due to those and several other factors, Seattle was ranked as the seventh best-performing large city in the U.S., an improvement of four spots from last year's report.

Leasing trends

For the third consecutive year net absorption surpassed 2 million square feet, as nearly 2.5 million square feet were taken down in 2015. More than 7.1 million square feet have been absorbed since the beginning of 2013.

As in previous years, the robust demand we're seeing is driven primarily by the high-tech industry, which accounted for approximately 47 percent of all regional office leasing activity in 2015.

No longer are tech companies looking exclusively for space in stereotypical "creative" submarkets such as Lake Union and Fremont. We have seen numerous tech tenants move into traditional high-rise buildings, including Groupon at 1201 Third, Uber at Second and Seneca, and PitchBook at 901 Fifth.

With owners spending significant capital improving their buildings, it is no surprise that the trend of tech companies migrating to the CBD has intensified. These companies are finding not only the quality of space they desire, but also a level of amenities that only downtown can offer.

Total vacancy in the Seattle metro area declined for the sixth consecutive year, dropping 50 basis points year-over-year to 10.2 percent, which is as low as the market has seen in the last 10 years. At 4.5 percentage points below the national average, the Seattle market is the sixth tightest office market in the country; behind Salt Lake City, Nashville, San Francisco, Portland and New York. Subsequently, average asking rents are up 7.5 percent year-over-year, and have hit a 10-year peak.

Leasing market fundamentals will continue to improve with strong rent growth anticipated in the short and mid-term.

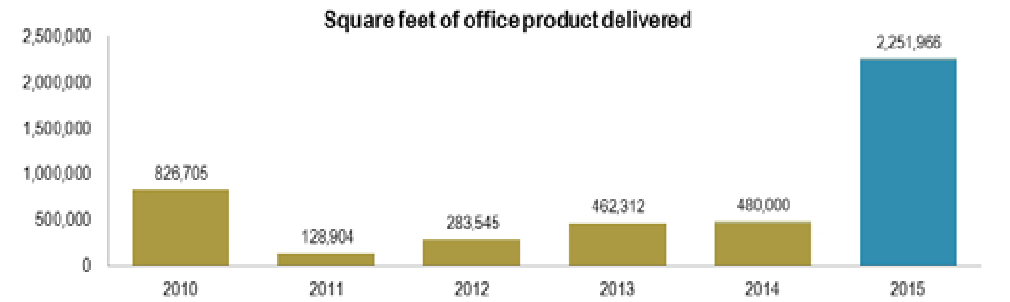
Too much development?

Seven major office projects were delivered last year totaling more than 2.2 million square feet. This makes 2015 the most active year for development since

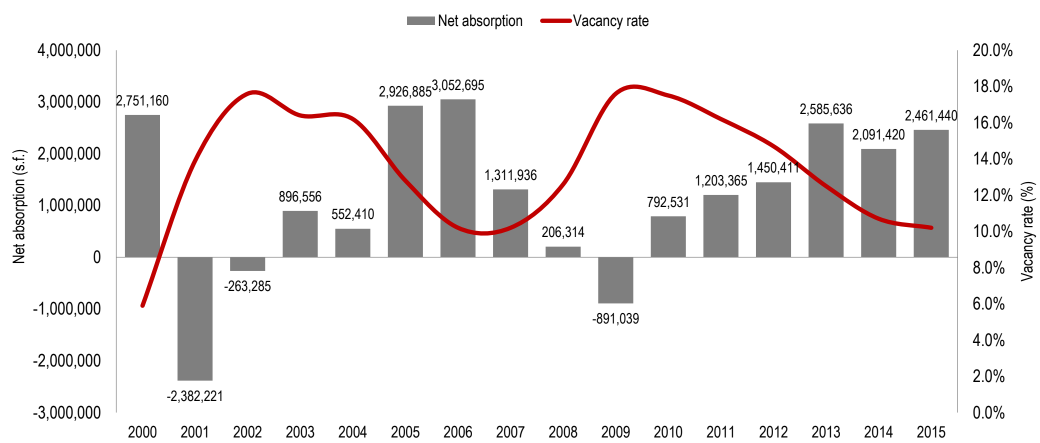
OFFICE MARKET — PAGE 5

Development activity hits pre-recession levels

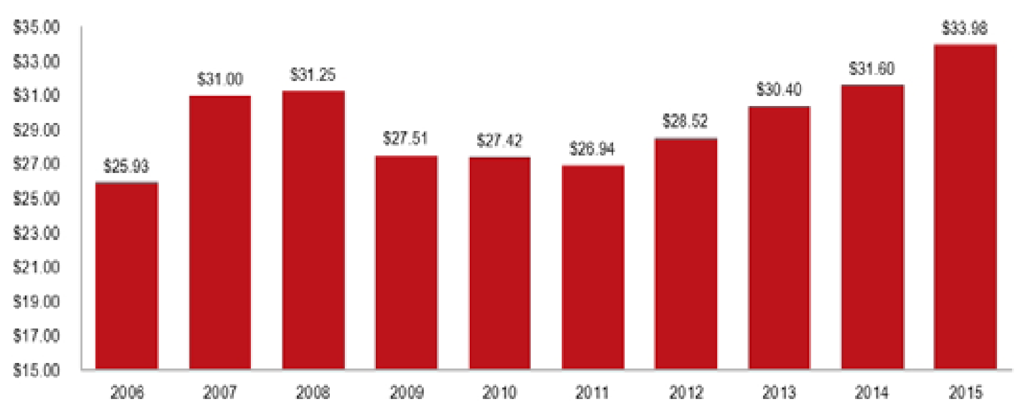
Rank	Market	Under construction / renovation	Percentage of inventory
1	New York	13,686,640 s.f.	3.1%
2	Dallas	7,605,715 s.f.	4.7%
3	Washington, DC	6,833,786 s.f.	2.1%
4	Houston	6,306,180 s.f.	3.6%
5	Seattle-Bellevue	5,912,171 s.f.	6.4%



For the third consecutive year net absorption surpassed 2.0 million square feet



Average asking rents are up 7.5 YoY, and have hit a 10-year peak



IMAGES FROM JLL

LODGING

CONTINUED FROM PAGE 3

upwards of $500 a night in the summer for a Seattle hotel also suggests the balance continues to tilt toward the hotelier.

Coupled with ongoing demand for hotel development sites and regular announcements of new hotels, perhaps there is no end to the greatest growth in the Northwest hotel space in recorded history. But that would be foolish as we all know.

Even the youngest consumer understands the simple economic theory of supply and demand, and we all have borne witness to the one truth that what goes up, must eventually come down. We tend to forget this euphemism in our hour of euphoria, but eventually someone will be left without a seat as the music stops.

All good things must come to an end but this time around I expect it will be different than those horrific crashes of the last few cycles.

Soft landing

Barring the unpredictable catastrophic event that models generally do not predict, this time around the hotel space should endure a correction relatively unscathed.

There are always those projects that regardless of time or place will fail. Many urban CBDs will undoubtedly have the quintessential "hole in the ground" that was once a budding project (think Potala Tower in Belltown). However, this time there are certain economic and development governors that will slow our descent to a controlled level.

Underwriting criteria and unprecedented lending regulations (Dodd-Frank Title XIV) have helped control the euphoria of new development. Interest rate risk is finally coming back into play, albeit slower than expected.

Competition with other commercial real estate for land continues to hedge new hotel development, but intelligent developers understand the economic conditions and ever-changing development environment. And yet the greatest risk — consumer confidence — seems to be the most difficult to predict given all the recent economic and cultural gyrations throughout the U.S. and the world.

With that said, the Northwest is in an unprecedented expansion of corporate growth and development. Global players such as Amazon, Intel, Costco and Nike continue to expand and push the boundaries of growth, creating extraordinary numbers of commercial real estate development. At last look, Seattle had over 30 construction cranes building over 10,000 apartments, Class A offices and hotels.

Both Seattle and Portland CBDs have an unparalleled number of hotel developments in the pipeline representing a 32 percent and 27 percent, respectively, increase in upper-upscale hotel supply.

The good news is most of this is occurring over a period of four to five years and most, if not all, is being developed by seasoned hotel developers.

Prep for a downturn

Resilient hotel developers understand the cyclical nature of our industry and can weather the impending downturn that generally comes about every five to seven years. Recognizing we are going into the seventh year of this current cycle, it is imperative for hoteliers to prepare for a downturn, as the long-range averages predict we are now overdue.

As of late, economic conditions nationally have had an impact on our industry with REITs and C-Corps feeling the brunt of the volatility of the capital markets. Continued declines in oil prices and the weakening Chinese investment juggernaut have created havoc among institutional investors, corporations and middle-America that can be used as control mechanisms on our sometimes over exuberant developers.

But these "adjustments" are good as hotel operating fundamentals continue to remain strong and the average consumer — not experiencing many of these negative corporate pressures and enjoying low fuel prices — continues to travel and spend discretionary dollars.

Competition and controlled chaos can be good for the average consumer and although short-term pain will occur for hotel investors, owners and operators, the long-term prospects for hotels and hotel development remain bullish.

Chris Burdett is senior vice president at CBRE Hotels and part of the company's broader global debt and equity finance division. He has been a hotel broker, owner and investor for more than 20 years in the Northwest.

OFFICE MARKET

CONTINUED FROM PAGE 4

prior to the recession.

With more than 5.9 million square feet under construction, Seattle is the second most active market in the U.S. for development as a percentage of existing inventory, behind only Nashville. While this is a substantial amount of construction, concern locally about overbuilding remains fairly low, since demand is as high as it's been in recent memory.

We're tracking more than 8.2 million square feet of tenant demand in the market. Fourteen companies are seeking space options of 100,000 square feet or larger, and there are just 10 existing blocks of space that can accommodate them. So, the supply coming to market in the next 24 months is needed.

Flocking foreign investors

In PWC and ULI's Emerging Trends in Real Estate 2016 report, Seattle was ranked as the strongest West Coast real estate market and fourth strongest overall in the U.S., up four spots from last year's eighth place ranking. Additionally, Seattle was named the third best market in terms of investment potential and has surpassed San Francisco for the first time since 2010 to top the West Coast region.

In total, the market saw 48 transactions over $10 million close, which makes 2015 the most active year for office investment sales since 2007. The $4.5 billion total volume represents a 157.8 percent increase over 2014. For the sixth consecutive year a new market-record for pricing was achieved, when 2201 Westlake traded for $792 per square foot.

Four sales closed in 2015 where pricing exceeded $700 per square foot, and with how pricing has grown in the last five years, it is not unrealistic to imagine a $900 per square foot office sale occurring in Seattle in the near future.

Perhaps the most notable sale of the year occurred in August, when Gaw Capital Partners acquired the 76-story Columbia Center for $711 million. This was the largest real estate transaction in the region since Amazon purchased its headquarters in 2012, and provided clear evidence of foreign investors' interest in Seattle.

The two largest office sales in the region this year — Columbia Center and Amazon Phase VI — were purchased by foreign investors, so it should come as no surprise that Seattle moved from eighth to fifth in terms of best U.S. cities for real estate investment in this year's Foreign Investment Survey by the Association of Foreign Investors in Real Estate.

Foreign investors had increasingly been on bid lists for major assets in recent years, so 2015 was the natural progression of that trend, as efforts to enter the market became increasingly successful.

As the market moves into 2016, strong landlord sentiment and expectations for robust demand will continue to fuel investor appetite for Seattle's office assets. While it may be hard to match 2015's volume, we anticipate total office sales volume will exceed $3 billion and the market record for pricing per square foot will fall for the seventh consecutive year.

What's next for Seattle?

Lake Union, Pioneer Square and the Seattle CBD are undeniably hot markets, but what's the next big thing in local real estate?

We believe the answer is CHUG — Capitol Hill, the University District and Georgetown. Like the acronym, these neighborhoods all have an association with beer, namely they brew it in Georgetown, they serve it at the countless bars in Capitol Hill, and they are major consumers in the University District.

The other reasons these areas should heat up is because they have the young talent that employers seek, and all either have or will soon have great mass transit.

Stuart Williams, a managing director at JLL with over 30 years of commercial real estate experience, specializes in investment sales and office leasing in Puget Sound. Alex Muir, a research manager at JLL, overseas office, industrial and retail research for Puget Sound.

FOR APARTMENTS: GO WEST YOUNG MAN, GO NORTHWEST!

In King County, there are 80,000 apartment units in the pipeline that would boost inventory by nearly 50 percent – if built.

BY DYLAN SIMON
COLLIERS INTERNATIONAL

STATE OF THE MARKET
MULTIFAMILY

The year was 1851 and John Babsone Lane Soule, quoting Horace Greeley, decried westward expansion the future of America. Seattle's then non-indigenous population: 12.

Growth was slow and it wasn't until 1870 that Seattle's population topped 1,100. Yet, Seattle's historic predilection towards boom eras soon emerged.

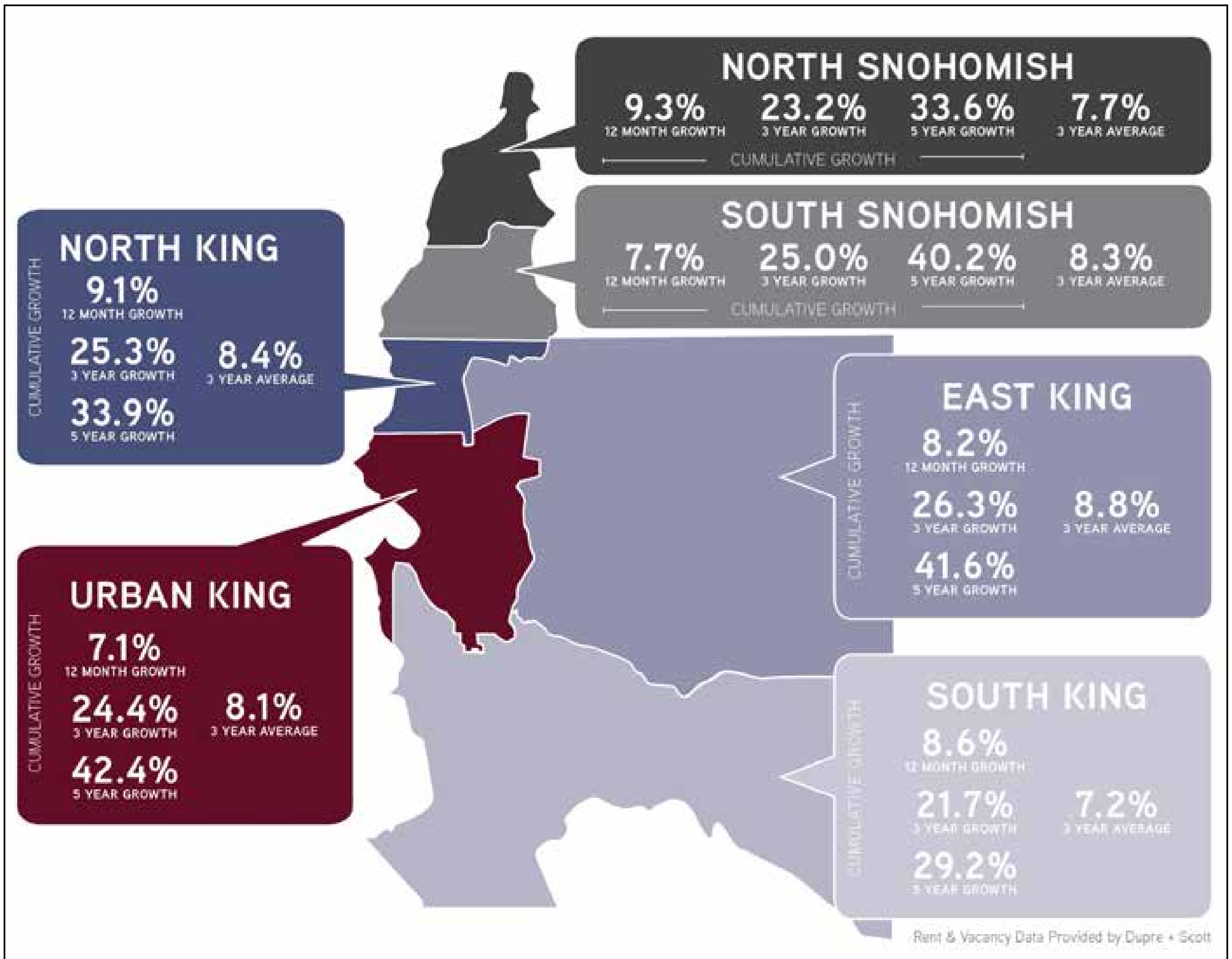
The region's first boom happened during the ensuing decade. From 1880 to 1890 Seattle's population increased 12-fold, from 3,500 to 42,000. As the century turned, the population of Seattle nearly doubled to 80,000 residents. Flipping the history books forward 115 years — to present day — we've seen the region add nearly 70,000 jobs in one year alone, with overall population growth nearly leading the nation in each of the last three years.

Picks and gold pans are now artfully substituted for laptops and virtual reality goggles. New claims of land, in the form of office leases, are staked by the likes of Amazon, Oculus, Tableau, Apple, Oracle, Facebook, Uber and Pitchbook. A modern Gold Rush era is in our midst and present day Horace could easily decry "Go Northwest!"

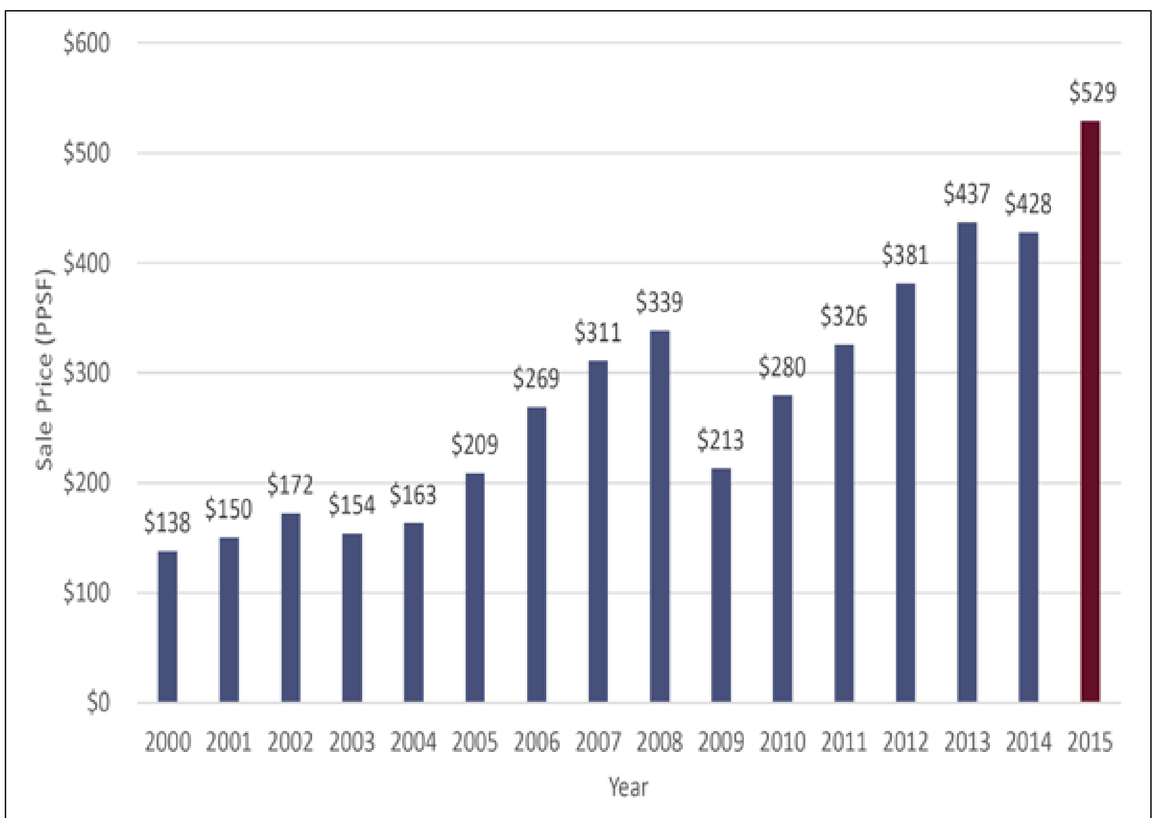
What's driving the boom?

Fundamentals of the current boom era span from the economic to the geographic and demographic. Seattle's West Coast location, proximity to

APARTMENTS — PAGE 10



Annual rental rate growth across King County has averaged about 8 percent over the past three years.



Average sales prices per square foot for apartments in urban King County hit a record last year.

SOURCE: DUPRE + SCOTT; REAL CAPITAL ANALYTICS; COLLIERS RESEARCH

10 QUESTIONS DEVELOPERS SHOULD ASK AN ARCHITECT

Choosing the right design team for a project can help ensure certainty and success — from pre-design through stabilization.

But how does an owner choose the best team? Here are 10 questions to ask your prospective architect in order to cull the field:

1 Longevity + Business Acumen. You want a firm that has demonstrated it can operate successfully over an extended period of time — in both good times and bad. How long has the firm been in business and how many business cycles has it weathered? How is the firm managed? What are the credentials of the managing partners? What is the secret to its longevity, and what measures have been taken to ensure succession and firm sustainability? Has the firm been recognized by the Circle of Excellence or some other measure of business acumen?

BY BLAINE WEBER
WEBER THOMPSON

2 Design Philosophy + Process. Find a firm that will work hard to understand your vision, keep egos in check, and respect you as a valued design team member. Architects have an obligation to their clients, the project's end users and the greater community — but they need to satisfy your goals first. Ask your prospective team to explain their mission, and the tenets that underpin their approach to design and the process that guides the many thousands of decisions that go into creating a great project. Collaboration is essential.

3 Design + Technical Expertise. Some firms are outstanding designers, but are weak in technical execution. Some are great in production and technical execution, but lack the ability to create inspired, innovative design that will connect with the market. The best firms excel at both, recognizing that even the best design can fall apart in execution for lack of proper attention to detail. Design is a problem-solving process, and your architect must be exceptionally good at asking and answering the right questions. Ask how the architect will ensure both excellent design and great technical execution from start to finish.

4 Track Record. It is vital that your design team possess the knowledge of a given project type and there is no better way to demonstrate expertise than that which comes from deep experience and success. Ask for at least three case studies that demonstrate knowledge of this project type, and how the design team helps its clients bring this type of project successfully to market.

5 References + Ability to Lead. Most developers will ask for references from other developers, but success depends on the ability to work well with a broad team that includes general contractors, consultants, city officials and many others. It is also important to ask for references from core project team members, not just for the firm. Ask for at least three references from clients and project collaborators for each core team member. Ask for several examples of repeat clients and repeat project collaborators — this speaks volumes to a firm's ability to lead, and your project depends on it.

6 Design Professional Liability. Design and development are risky businesses. Predicated on the Professional Standard of Care, you count on your design team to help navigate treacherous waters, and to help you minimize risks where possible. How many claims has your design firm had since opening its doors, or in the last decade? How much liability insurance does it carry, and what is the rating of its insurance company? Does the firm have current or pending claims that could erode policy limits?

7 Entitlement + Permitting Expertise. Time is money, and the time required to obtain permits can have a huge impact on project success. The reputation and relationships of a firm at a given planning or building department is of paramount importance relative to timely processing and approvals. Ask for a track record of experience in working with the planning and building departments in expediting approvals. Ask what the team will do to ensure that these approvals are issued quickly.

8 Community. Taking a project through the approvals process almost always involves some measure of engagement with the local community. The firm you are considering should have a good reputation for listening, should be an active contributor to the community, and must be able to work successfully with local citizens — through design review and community interaction. Document the firm's involvement in community organizations and design-review programs, and its ability to work with both community and planning agencies.

9 Project Certainty. One of the most important contributions your design team will make is to help ensure certainty with regard to schedule, budget and project delivery. As quarterback of an expanded design team of over 20 collaborators, your architect must be a great orchestrator, organizer and task master in order to stay on schedule. Ask for details — including the tools the firm uses — on how its delivery process will help ensure certainty in schedule, budget and project delivery.

10 WOW Factor. Your design team must have the capability to create extraordinary design that will differentiate your project in the marketplace. A great design team will help ensure both value creation and profitability. Your prospective design team must prove that it understands your vision and the wow factor that you are after — and that it has the passion, skill and capability to take you there.

These 10 questions are fundamental, but the answers will help you confidently select the firm that has the expertise and desire to help you realize your vision of a great project.

Blaine Weber, AIA, is a founding partner of Weber Thompson, a West Coast-based architectural, planning, interior design and landscape architectural firm that specializes in residential, hospitality, commercial office and mixed-use projects.

IMAGES FROM WEBER THOMPSON

REPEAT CLIENT

Weber Thompson designed this 40-story apartment tower at 970 Denny Way in Seattle for Holland/NASH.

Crews from Holland's construction arm are working on phase one, which includes demolition, excavation, shoring and the mat foundation.

When it opens in summer 2018, the building will have 468 units, 15,580 square feet of retail and 359 parking spaces.

Weber Thompson designed two other high-rises for Holland, as well as several mid-rise buildings.

Blaine Weber says his firm's relationship with Holland "speaks to all 10 of the items in my article."

10 QUESTIONS DEVELOPERS SHOULD ASK A CONTRACTOR

Choosing a contractor is one of the most important decisions a developer makes. Qualitative questions cut through the buzzwords and help find the right fit.

BY BILL DEJARLAIS
GLY CONSTRUCTION

Developers live in a crazy, competitive and often risky world of conceiving and delivering incredibly complex projects on fixed budgets and timelines. The process of navigating land purchases, financing, leasing, design, entitlements, permitting, construction, move-in and operations is not for the faint of heart, and unexpected setbacks lurk in every corner.

Despite these challenges, two things tend to remain static: the budget and the completion date. The task of hiring a team of specialists to help reach those goals can be daunting and uncomfortable. A construction partner is arguably the single greatest asset, or liability, if not chosen in a meaningful way.

The traditional request for proposal process focuses on quantitative criteria such as fees, team, business terms, and — depending on the information available — some form of cost estimate and schedule. Those are all good practices that fulfill basic internal controls for a selection process. But the quantitative data is no substitute for qualitative information that truly reveals whether or not the contractor is the right fit.

Developers need a construction partner that embraces project challenges as their own, a partner that proactively solves problems, and let's face it, has the intelligence, character and a sense of synergy that everyone wants to be around for what can be years on many projects.

Beyond the traditional approach, here are 10 qualitative questions developers should ask a contractor before hiring them to ensure a great fit:

1 What is your company culture? The answer to this question is reflective of the company's vision, values and purpose behind how its employees interact both internally and externally. It's important to assess both character and conduct to find a good fit.

2 What do you know about me? This is a reverse of question No. 1. A good contractor understands they are ambassadors of your culture — and invests time embracing your challenges and believing in your business goals. They should be able to tell you how they'll represent you appropriately and define their objectives to help make you successful.

3 How much prior experience does this team have together? There is no substitute for the synergy and track record of a team with a proven history of delivering great results. The introduction of different people invigorates a team and provides additional skills, but ideally the leadership has delivered several projects together.

4 Are you guaranteeing this team for the life of the project? Nobody wants to be a "bait-and-switch" victim. However, the number one staffing challenge a contractor faces is an uncertain project start. Open up an honest dialogue about what options exist in the event your project is delayed. In addition, have a candid conversation about how the contractor manages the transition from preconstruction to construction. A failed hand-off is one of the biggest (and most costly) disappointments for the entire project team.

5 Tell me about your safety program? In addition to learning industry-standard measures, such as an EMR or insurance rate, you want to know how much value a contractor places on maintaining a controlled and organized jobsite. If you can, tour a project under construction to see their safety philosophy up close. You should also ask for three subcontractor references. Approximately 80-90 percent of a project's scope is subcontracted; ask references to describe their experience working with that contractor. A clean and orderly site minimizes both time and material waste, promotes quality and respects human lives.

6 What is your estimating method and how will you control the budget? As the project design evolves, so should the budget. A good contractor helps you prioritize critical decisions, but also ensures you have ample time to consider choices. Ask what tools and technologies the contractor uses to see what isn't drawn yet. Early alignment of the design and budget is a foundation for project success, and avoids wasted time and expense backtracking on design.

7 How do you envision building this project? This question is for the superintendent, the single person with the most direct impact on the construction process. A superintendent manages project risk daily, and must have a crystal-clear plan for the schedule and the site logistics. Their ability to articulate the plan foreshadows how well they will communicate with their field personnel and subcontractors.

Ask to take a guided tour of a project under construction. A clean and orderly jobsite minimizes time and material waste, promotes quality and respects human lives.

IMAGE COPYRIGHT SOZINHO IMAGERY

8 How will you help me solve this challenge? Put a real issue on the table. It can instantly reveal how the contractor deals with adversity. If you direct this question to a team, watch for a project manager who probes with questions to understand, and provides options to develop the best solution.

9 What will you do for me in the next 60 days? In this busy market, preconstruction and construction phases are moving closer and closer together, many times overlapping. A contractor should feel the urgency of this phase of planning and decision making. Ask for specifics around activities that support you and the extended design team. How will they be attentive to the schedule, and appropriately engage early subcontractor support? Material procurement, for example, is especially critical to keeping the

10 QUESTIONS — PAGE 11

GREENBACKS AVAILABLE FOR LOCAL BROWNFIELDS

This year, the EPA anticipates awarding $54.5 million to over 200 communities across the U.S., and the state has additional funds for local projects.


BY CHRIS GDAK & ANDREA PEDERSEN
STANTEC CONSULTING SERVICES

Sports fans using Link light rail, Amtrak or Sounder commuter rail service to visit CenturyLink and Safeco fields are reminded of the Stadium District's legacy as a rail yard. Likewise, visitors to Seattle's one-of-a-kind Gas Works Park are reminded of its history, as the park retained features of the former coal gas plant.

Most, however, are unaware that without community vision and support many decades ago these iconic Seattle landmarks may have become brownfields.

What are brownfields?

Brownfields are vacant or underutilized properties for which reuse or redevelopment is hindered by actual or suspected contamination. While their characteristics vary, brownfields share many common redevelopment challenges. Left ignored and abandoned, sometimes for decades, brownfields put the health, safety and economic vitality of our communities at risk.

According to the Environmental Protection Agency, there are as many as 500,000 brownfield sites throughout the U.S., including dozens lurking in nearly every community in Washington.

Brownfields vary greatly in size and character, ranging from ¼-acre vacant lots once occupied by gas stations and dry cleaners to multi-acre former industrial facilities, such as mills and manufacturing plants. Many are along waterfront areas and historic railroad corridors. Others are found in suburban settings, such as aging strip malls.

Why reinvest in brownfields?

Many brownfields have potential for reuse that could spur the revitalization of struggling areas but remain idle due to fear of hidden environmental liabilities. Historic industrial and commercial operations, as well as dated buildings that may contain asbestos or lead-based paint, present valid concerns regarding the potential presence of contamination.

If concerns are great enough, property owners may favor leaving their property as-is or abandoning it altogether out of fear that


EPA funding is helping provide a road map for future uses of the old Kent Highlands Landfill area.

RENDERING COURTESY OF STANTEC

the financial gain from selling or redeveloping may be less than the cleanup costs. Furthermore, although many brownfields occupy prime real estate (e.g. city centers, waterfront and corner lots along major transportation corridors), the stigma attached to them causes private investors to look for seemingly less

APARTMENTS

CONTINUED FROM PAGE 6

San Francisco/Silicon Valley and hyper-desirability to the millennial cohort conspire in creating a near perfect storm of demand fostered by capital eager for deployment.

Accordingly, over the course of the last five years the combination of these factors created and buoyed the strongest apartment market experienced in over two decades, principally fueled by:

- Pent-up demand from lack of development during the Great Recession
- Emergence of a millennial generation as the largest renter cohort in decades
- Expansion of tech-sector employment and drafting off Silicon Valley fundamentals
- Capital flooding investment markets with a focus on investment in the Seattle region

The reality of these drivers is no more manifest than in the region's apartment development pipeline.

A pipeline to envy

Eighty thousand units! Yes, 80,000 apartment units are in some form of development or proposal in King County. If completed, this figure represents a near 50 percent increase in the current apartment stock in King County.

During the current expansion cycle, spanning 2011 to 2015, apartment developers delivered approximately 32,500 apartment units — roughly 6,500 units each year. Apartment developments underway and slated for delivery between 2015 and 2019 total another 48,000 units — equating to nearly 10,000 units each year for five continuous years. More are planned, yet without defined delivery dates.

Although the lion's share of apartments thus far delivered are concentrated in the region's urban centers and core neighborhoods, apartment developers continue to seek developments in emerging hubs outside Seattle and Bellevue. Namely Lynnwood, Bothell, Redmond, Issaquah and Burien.

One may marvel at the amount of development occurring in the region, yet there is more to this story. The economic soundness of the current expansion or "boom" cycle beget further investment on behalf of market participants, contributing to an apartment development pipeline yet to slow. However, despite record number of new apartment deliveries, rental rates continue to rise while vacancy rates remain stable and in many cases well below 5 percent — a historic measure of a balanced market.

Apartment developers built them and the residents came!

Rental rates match demand

Early in the current economic cycle apartment rental rates grew spectacularly in core, urban markets — exceeding most other markets in the nation and landing Seattle in Top 10 rankings on list after list. As the cycle matured in 2013 and 2014, and new deliveries met demand, continually rising rental rates spurred developers and investors into action.

Over the last 12 months rental rate growth expanded markedly in secondary and tertiary markets, while growth in core markets stabilized with more modest growth.

2015 rental rate growth

Looking back at three- and five-year trends, across the region rental rate growth continuously averages between 6 percent and 8 percent — an extremely strong cumulative trend. Rental rate appreciation during a time of expansive inventory growth speaks volumes to the region's economic fundamentals. Overlay sub-4 percent vacancy rates and one can easily understand investors' desire to put investment dollars to work in Puget Sound.

Apartment building sales

Apartment sales volume is a great bellwether of investor confidence in the region. In 2015 new sales volume records were set. Serving as the most prominent example of investor demand, regionally investors spent over $4.7 billion on apartments in 2015 — surging 42 percent over sales volume in 2014, which itself stood as a near 10-year record for the region.

The measure in the market truly punctuating investors' thirst to own apartment assets in Seattle is the meteoric rise in the price-point of apartment buildings. Using price-per-square-foot as a measure, average sales price in urban markets grew to $529 per square foot in 2015, 23.6 percent higher than 2014 and 2.5 times the average sale price during the market bottom in 2009.

Continuously escalating price-points is truly a measure of both investor demand and quality of assets trading hands. It is inescapable that new-vintage, well-appointed apartments will sell for high prices. However, what has come as a surprise to many investors is pricing for buildings 60-plus years old trading at small discounts to new buildings.

For years I have called Seattle a dollar-cost-average market and I see few signs that high pricing will abate. Although most pundits agree that the market peak is nigh, don't expect any period of market softening to reflect appreciable discounts.

A look ahead

Looking ahead, the same fundamentals paving the way to current robustness in the apartment market remain. Job growth remains pacesetting for the nation. Young, talented workers continue to relocate to the Seattle region and well-capitalized companies snatch them up to the point of a labor shortage (a quick search reveals Amazon has over 6,400 job openings in Seattle alone).

Rest assured, a threat of headwinds exists. The supply pipeline is mounting. Capital markets are showing signs of caution. And we all know that trees don't grow to the sky. With the looming reality of the cyclical nature of commercial real estate, professionals in the apartment investment space remain cautious, yet optimistic for clear seas despite predictions of mild choppiness ahead.

Dylan Simon is vice president of investment sales with Colliers International in Seattle. He focuses on the sale of apartment buildings and development land in Seattle and the Puget Sound region.

risky opportunities — which all too often are "greenfield" sites on undeveloped lands.

Reinvesting in brownfields provide many community benefits, including attracting new business opportunities that create jobs and generate increased taxes that can fund infrastructure improvements, as well as neighborhood programs or park developments.

Other benefits of brownfield or "urban infill" development include reducing blight and crime in neighborhoods and protecting sensitive environments, such as farmland and natural areas, by reducing threats to the environment and urban sprawl.

Years of systemic disinvestment in brownfield-impacted areas, however, leave many communities without the necessary resources to address these issues. As a result, valuable brownfield properties that could serve as catalysts for revitalization often remain vacant until funding is available to complete assessment and cleanup activities.

EPA and state programs

The devastating long-term effects of brownfields prompted the EPA to establish its national Brownfields Program in 1995 that provides funding and other forms of assistance to communities that are overburdened with brownfields.

Since the program's inception, the EPA has leveraged more than $24 billion in public-private partnerships to empower communities in their efforts to restore environmental and economic vitality through brownfield revitalization.

Each fall, the EPA hosts a grant competition encouraging eligible entities (typically state, local and tribal governments) to apply for brownfield assessment, cleanup and/or revolving loan fund (RLF) grants ranging from $100,000 to $1 million.

The assessment grants establish an inventory of brownfield sites throughout the community. With an inventory in hand, communities work with property owners, developers and consultants to assess environmental conditions and plan for cleanup and redevelopment of publicly and privately owned priority sites. These grants also allow a portion of the funds to be used for "area-wide" or site-specific cleanup and redevelopment planning activities.

The cleanup grants (also accessible to non-profits) and RLFs (also accessible to private developers) provide funding to implement cleanup and redevelopment activities. This year, the EPA anticipates awarding $54.5 million to over 200 communities across the U.S.

In addition, Washington has its own state funding and assistance programs, including remedial action grants and loans administered by the Department of Ecology, and the Brownfields Revolving Loan Fund program administered by the Department of Commerce (also accessible to non-profits and private developers).

Turning brownfields into assets

When faced with brownfield issues, the city of Kent knew exactly where to begin the revitalization process. In 2012, the city secured $400,000 of EPA assessment grants. A city-wide brownfield inventory identified hundreds of potential sites, so the city established criteria to rank sites based on factors that included reuse potential, stakeholder interest, and protection of human health and the environment.

The 12-acre former aluminum smelter site (in the "red hot" Kent Valley industrial market) was prioritized due to its desirable location (including railroad access) and redevelopment interest. The site has been idle for nearly 30 years due to debris piles left following the smelter's closure in 1986. Cleanup costs are estimated to be in the millions of dollars, and over $1 million in back taxes are owed.

The city is using grants for a public-private partnership approach to redevelopment. Restoring the site for industrial use will provide shovel-ready space that will attract new employers to the area and create jobs for local residents.

The Kent Highlands Focus Area was prioritized due to its prominent location along the city's highly visible western gateway (adjacent to an I-5 interchange) and the significant opportunities associated with over 170 acres of underutilized land. Centered on the former 114-acre Kent Highlands Landfill (which received municipal waste from Seattle until its closure in 1986), the area remains largely undeveloped due to regulatory, environmental and engineering constraints.

EPA funded a community visioning exercise led by Kent and Stantec to engage local stakeholders in creating a compelling yet practical vision for future use of the landfill, as well as a detailed strategy and "road map" to transform the vision into reality. With additional community support and public-private partnerships, the landfill area is poised to become a regional destination.

Many other communities throughout Washington are taking advantage of state and federal funding to support revitalization of publicly and privately owned brownfields, such as King County (http://your.kingcounty.gov/solidwaste/brownfields) and the city of Everett (https://everettwa.gov/675/Brownfields-Assessment-Grant).

If you own or are interested in redeveloping a brownfield property in Washington, there may be local, state or federal funding available to support your project.

Chris Gdak and Andrea Pedersen are leaders of Stantec's Bellevue-based Brownfield Grants Team, which has assisted over 20 western U.S. communities secure and implement EPA brownfield grants.

10 QUESTIONS

CONTINUED FROM PAGE 9

project on track and on budget.

10 How will you help manage my specialty contractors? You have a business right to directly hire specialty contractors. A proactive contractor will embrace this, and will be able to tell you how they plan to integrate those companies from a risk management, coordination and scheduling standpoint.

Cost, schedule and quality — the old adage is that you can only pick two. These questions should help differentiate your options so you can determine which contractor lets you pick all three.

Bill DeJarlais is a principal and senior project manager at Bellevue-based GLY Construction, one of the region's largest locally owned contractors, and leads the firm's technology oversight committee.

FIGHTING BLIGHT? CONDEMNATION MAY BE THE WAY TO GO

Neglected commercial properties generally pay less property tax, but demand more costly attention from government.

BY KINNON W. WILLIAMS
INSLEE, BEST, DOEZIE & RYDER

Former U.S. Supreme Court Justice Oliver Wendell Holmes Jr. once famously said, "The right to swing my fist ends where the other man's nose begins." Likewise, a property owner's right to manage their real estate as they see fit ends when it adversely affects neighboring businesses and community.

The 2016 presidential campaign has brought renewed attention to eminent domain, most of it focused on alleged abuses of condemnation power to further private interests. Regardless of political rhetoric, government's right to take "blighted" commercial property is a last resort and strictly limited in most states, Washington included. Still eminent domain is, and will almost certainly remain, an important and legitimate method of controlling real estate blight.

The city of Bellingham condemned the Aloha Hotel, where several rooms had been closed by health officials after hazardous levels of meth were found.

POSTCARD IMAGE

Neglected, vacant and abandoned commercial properties are more than an eyesore. Rat infestations, illegal drug trade, prostitution, arson, assault and even murder come with blighted properties. This kind of real estate generally pays less property tax but demands more costly attention from local government.

In my law practice I've witnessed the ill effects of blight. It can spread like a toxic plume, contaminating everything around it.

Typically, property owners rely on government to make sure their neighbors do not damage local property values, public safety or general quality of life. Covenants, zoning, inspections and building code enforcement are common tools used by government. But what if those are not enough?

Condemnation is not a cure-all for the highly complex and politically charged problems of urban blight. However, eminent domain can and does play an important role in protecting our communities.

Goodbye Aloha

Take for example the Aloha Motel, recently condemned by the city of Bellingham. Despite the city's best efforts, the Aloha — a deteriorating 28-room, mom-and-pop style motel in the Samish neighborhood — was a chaotic, revolving crime scene. According to court documents and media reports, between Jan. 1, 2013, and Oct. 1, 2014, police responded to 301 calls to the Aloha.

Along with relatively run-of-the-mill drunken fights and sex traffic, one motel guest reportedly tried to plow people down in the parking lot with his minivan and

BLIGHT — PAGE 15

3 PROJECTS ARE PUTTING A NEW FACE ON THE DENNY TRIANGLE

Once synonymous for surface parking lots and low-rise buildings, the area is booming thanks to the tech industry.


BY PHIL GREANY & JESSE CANZLER
MORTENSON CONSTRUCTION

By way of dynamite, hydraulic cannons and steam-powered excavators, the leveling of Seattle's Denny Hill was among the city's most transformative undertakings. A 1910 photograph familiar to many offers an enduring image: its remaining structures perched atop so-called "spite mounds."

Backers of the Denny Regrade saw the hill as an impediment to growth north of downtown. With the excavation of 65 blocks and millions of cubic yards of soil came the flat Belltown street grid we see today, improving access to nearby neighborhoods.

Yet any hope for a flourishing downtown extension in the Denny Triangle would have to wait. The economic woes of the 1930s derailed the momentum, and the threading of Interstate 5 through Seattle in the 1960s severed it from Capitol Hill.

Today, the Denny Triangle of old — once defined by its surface parking lots and low-rise buildings — is undergoing a dramatic revitalization, with the city's tech sector setting the pace.

Redefining a neighborhood

On the seventh floor of one of Denny Triangle's newest developments, the 11-story Hill7, office workers sit at the same elevation as Denny Hill's former summit, 240 feet above sea level. The name Hill7 is a nod to that since-departed seventh hill of Seattle, as well as the visionaries who actually managed to move a mountain.

Developed by Touchstone and built by Mortenson Construction, Hill7 is among the bevy of high-profile office, residential, retail and hotel projects driving the neighborhood's revival.

Throughout the day, Hill7's lobby doubles as a lively collaboration area and "third place" featuring homegrown favorites Freshy's (soups and sandwiches) and Jars Juice bar. Expansive floor plates cover 285,000 square feet of office space on the floors above. The project includes the adjoining 222-room Hilton Garden Inn.

Rising opposite Hill7 on Boren Avenue is AMLI Residential and Mortenson Development's 41-story apartment tower, AMLI Arc, and the 11-story Tilt49 office project developed by Touchstone and Principal Real Estate Investors. AMLI Residential is a multifamily real estate firm headquartered in Chicago and focuses on the development, construction and management of luxury apartment communities throughout the country. Mortenson Construction is building both projects on the same half-block where a tire shop once stood.

All three projects are redefining Denny Triangle's streetscape, and distinguishing it from those of downtown and South Lake Union.

To that end, Hill7, Tilt49 and AMLI Arc have matching colonnades that line either side of Boren Avenue. Expanded sidewalks and transparent ground-floor facades activate the neighborhood at the pedestrian level. Another distinguishing feature at Tilt49 is the integration of pop-up spaces, intended to bring a rotating selection of local and seasonal programming to the area (e.g., hosting a flower shop in the lead up to Valentine's Day).

Touchstone's relationship with Cornish College of the Arts may also bring student artwork to the neighborhood.

Growing pains

Denny Triangle's building boom poses unique coordination challenges for builders. With so much activity and so few staging areas, Mortenson leaned heavily on prefabricated elements for Hill7's building envelope, and will do so again for Tilt49 and AMLI Arc.

Operating in close proximity can also be challenging.

During last year's excavation work for Tilt49 and AMLI Arc, a mere 16 feet separated our 65-foot-deep excavation from that of a neighboring contractor's site, out of which another apartment tower is rising. With only a narrow band standing between the two sites, close collaboration with the same shoring-system designer was needed.

Another consideration is the city's developing street-use policy, dictating how and when streets, sidewalks and bike lanes can be closed for construction. Adding to the complexity for Tilt49 and AMLI Arc is that they border three main arterial streets, with Stewart and Howell serving as key corridors in and out of the city during peak commutes. Proactive communication with the city and neighboring businesses has never been more vital.

Mortenson Construction is anticipating another hurdle later this year: running out of access to temporary power due to the area's overtaxed electric grid. The current supply of temporary power, used to run the tower crane and personnel hoists, can only support building half of AMLI Arc. By the time the 20th floor is complete, Mortenson will have installed transformers to tap into a permanent power source from Seattle City Light, enabling construction of the remaining 21 floors.

The Denny Substation is expected to come online in 2017 to add capacity to the neighborhood. In the interim, Seattle City Light is relocating utilities in the area.

A new take on urban living

Since 2010, Seattle has seen a population surge unlike any in the city's history, with newcomers concentrating in South Lake Union and the Denny Triangle.

For these young, highly sought-after workers, deciding where to live boils down to public spaces, building amenities, and proximity to work, public transit, recreation, cultural events, dining and nightlife. AMLI Arc's location, between the South Lake Union office hub and the nightlife of Capitol Hill, and adjacent to the central business district, will provide residents just what they are looking for.

When completed in 2017, AMLI Arc will have studio, one-, two- and three-bedroom apartments and penthouses with a range of finishes and amenities. The apartment tower will have a private party room with an outdoor dining area, chef's kitchen for hosting larger parties, fitness center and yoga studio, media room, conference rooms, and a large rooftop deck with grilling areas and views of the Seattle skyline and Puget Sound. For residents who work remotely, co-working space is planned for the 41st floor. Even Fido has plenty to look forward to: self-cleaning turf, a pet salon and a pet play area.

AMLI Arc is targeting LEED gold

Hill7's lobby doubles as a collaboration area.

PHOTO BY BEN BENSCHNEIDER

Tilt49 was designed with pop-up spaces that could host temporary stores, such as a flower shop for Valentine's Day.

IMAGE FROM ZGF ARCHITECTS

certification, a level rarely found in high-rise apartment projects in Seattle.

One feature that Hill7 office workers and Hilton Garden Inn hotel guests are less likely to recognize is unique to the commercial building market in Seattle: a blue-roof system. During heavy downpours, rainwater will be temporarily stored in a rooftop retention vault; thereby helping to prevent the city's combined sewers from being overwhelmed. The blue roof's 1.5-inch-diameter openings — smaller than the standard 4-inch variety — slow the water's release. In addition to its potential ecological benefits, the blue-roof system eliminates the need for water pumps and heavy equipment, cutting costs, long-term maintenance challenges and energy use.

The system also boosts the building's architectural appeal, improving the view for an ever-growing number of high-rise neighbors claiming Denny Triangle as their home.

Phil Greany, construction executive, and Jesse Canzler, senior project manager, are with Mortenson Construction, the general contractor for Denny Triangle's Hill7, Tilt49 and AMLI Arc projects.

DAILY JOURNAL OF COMMERCE

Hill7 was named after the seventh hill of Seattle that was removed during the Denny Regrade.

PHOTO BY BEN BENSCHNEIDER

At AMLI Arc, Mortenson expects to run out of temporary power when construction reaches the 20th floor. It will tap into permanent power to build the remaining 21 floors.

IMAGE FROM ZGF ARCHITECTS

BLIGHT

CONTINUED FROM PAGE 13

another held a Yellow Cab driver at knife point while demanding money. Others at the Aloha sold heroin, crack and methamphetamine, even providing walk-up service at their motel room windows.

At least 10 of the Aloha's rooms were closed by county health officials after hazardous levels of meth were found; property owners refused to allow the remainder of the rooms to be tested. Drug overdose, armed robbery and assault calls were not unusual. A man found beaten unconscious at the motel later died in hospital. In yet another instance, police found a "rotting body" left in a room for six days — with management's knowledge.

Surrounding businesses complained of used needles, condoms and other garbage being dumped on their property. Worse, business owners said, Aloha guests repeatedly harassed and threatened customers, scaring off even long-time clientele. Said the owner of a nearby auto mechanic shop, "Without customers, I can't operate a successful business … all of the businesses on Samish Way are adversely impacted."

Criminal activity at the Aloha Motel spilled onto the public sidewalks, threatening the safety of school children and their parents as they waited for the bus. After consulting with police, the Bellingham School District moved the bus stop.

The city of Bellingham, with support from Whatcom County, repeatedly sought the cooperation of the Aloha's managers and property owners but got nowhere, according to court documents. Finally, in October 2014, the city council officially declared the Aloha a blight on the community and directed staff to begin condemnation proceedings.

3 tests for blight

The Fifth Amendment of the U.S. Constitution grants individual states the right to take private property for public use, with compensation. Common examples are road widening projects or utility corridors. Less common and more controversial is the use of eminent domain to combat blight.

Under Washington state law, before any property can be condemned for creating blight it must meet certain tests. Specifically, Chapter 35.80A of the Revised Code of Washington requires government prove at least two of three conditions exist:

1. The property has not been lawfully occupied for a year or more.

2. The property constitutes a threat to public health, safety or welfare.

3. There has been illegal drug activity associated with the property in the 12 months prior to proposed condemnation.

It is not enough for the property to be an eyesore, as shown by the case of the Aloha Motel.

In February 2015, a Whatcom County Superior Court judge approved condemnation of the Aloha, giving the city of Bellingham the legal right to take the property under the public use and necessity requirements in state law. In July 2015, the city agreed to pay $1.58 million for the right to raze the motel.

Eminent domain law requires property owners be compensated at fair market value, even blighted property. This is done with taxpayer dollars. Government can then keep or sell the property. If the property is sold, Washington law allows counties, cities and towns to restrict in perpetuity how the property is used to protect the community's interest and prevent reoccurring blight.

Just this month, the Bellingham City Council approved a plan by the Bellingham Housing Authority to build approximately 154 mixed-income apartments, offices and commercial spaces on the site of the former Aloha Motel. Phase one of the project calls for residential units to be built for homeless people with disabilities.

Right to fight blight

Ask any business owner whether they would prefer to operate in a safe and secure area or next to rundown buildings used for drug dealing and other illegal activities and the answer will be obvious. Businesses know the better managed the surrounding properties, the higher the property values are likely to be, which generally translates to better rents, better sales and a greater return on investment.

The National Vacant Properties Campaign reports the cost of blight to local governments and taxpayers across the country to be in the hundreds of millions of dollars. Washington lawmakers who wrote, and later amended, this state's eminent domain statute recognized that blighted properties strain the business community, destroy commercial centers and place economic and social costs on everyone.

We should not be afraid of our government exercising eminent domain, but rather demand it use that power judiciously and responsibly for the good of our communities.

Kinnon W. Williams is a partner in the Bellevue-based law firm Inslee, Best, Doezie & Ryder. His practice focuses on eminent domain.

SURVEYS

LAKE UNION PARTNERS

Specialty: Developing neighborhood mixed-use multifamily, office and hotel projects in core areas of Seattle and Portland
Management: Patrick Foley, Joe Ferguson, Scott Roberts, Tyson Feaster
Founded: 2009
Headquarters: Seattle
Projects: The Central, a 92-unit mixed-use building in Seattle's Central District; Rooster, a 197-unit mixed-use building in Seattle's Roosevelt neighborhood; The Standard, a 33,000-square-foot office and retail renovation in downtown Seattle

Principal Patrick Foley responded to questions about his firm's activities in Seattle and Portland.

Q: As the economy cools, are there enough newcomers to keep the multifamily market at a boil here?

A: Yes, the evidence of positive in-migration is still pretty strong. It won't continue at the current pace forever but that's OK. We are experiencing stronger than we expected leasing velocity at our Rooster project at 65th and Roosevelt, where approximately 40 percent of our tenants recently migrated to Seattle.

Q: Whose design-review and permitting process do you prefer, Portland's or Seattle's?

A: I'm not sure we have a preference. I think Portland and Seattle are equally rigorous and challenging but they have their differences.

In both cities, design review is very subjective, and we've noticed that city planners have been taking more of an active role in wanting to influence or shape the design of projects. Some developers and their design teams are OK with that, and others don't really appreciate it.

Q: You're working on several big projects near 23rd and Union. What's your role in the evolution of this long-troubled corner?

A: We see it as a huge responsibility to play a role in improving the perception of that intersection. It's really important to not be arrogant, listen to the neighborhood's concerns, and do your best to build quality projects that are timeless and authentic in design (whether contemporary or traditional), with good local, eclectic retail.

Most of the concerns voiced are centered around providing local retail services in the buildings that the neighborhood wants and needs, offering affordable housing, along with a unit mix that includes some larger units to accommodate more families. It's difficult to capture everything but we do our best.

Q: You have office and hotel projects underway. Is this an effort to diversify from residential?

A: Yes, we are diversifying for numerous reasons. We will always have mixed-use, urban multifamily projects as our core business because people always need a place to live, and the urban cores of our cities will continue to grow given the diverse economy and overall desirability of Seattle and Portland.

We like office and hotel as an asset class, but outside of our creative office project The Standard at First and Spring, and (820) Roy Street, a large mid-rise office project where we are partnering with Talon Private Capital, we don't have any other office projects in the works.

We are really excited about preserving the Eitel building at Second and Pike Street as an independent hotel. We are competent at preservation/reuse development but hotel operations and marketing are not our strength, so fortunately we have an excellent partner in Columbia Hospitality. We want to grow the hotel development side of our business and will continue to look for other opportunities in Seattle, Portland and other cities.

The Central, a 92-unit mixed-use building, is one of several projects Lake Union Partners is developing in Seattle's Central District.

IMAGE BY STUDIO 216

Q: Do any up-and-coming neighborhoods remain in Seattle?

A: Sure, there are other neighborhoods we like and are looking at with a contrarian perspective, but I won't say where we are focusing.

We were early in the Central District and a lot of people doubted the wisdom of taking risk there, but now it seems obvious given the growth of commercial retail businesses along East Union Street, such as Chuck's Hop Shop, The Neighbor Lady and Uncle Ike's.

Our Addy project in Northwest Portland was less risky given the location between the Pearl District and Northwest 23rd Street, but our Cook Street project in North Williams (east Portland) on the bakery block was once viewed as a neighborhood with many challenges to overcome, but today it is a thriving destination neighborhood with good independent local restaurants, bars, grocery markets and clothing boutiques.

URBAN VISIONS

Specialty: Developing unique and transformational real estate in the greater Seattle area
Management: Greg Smith, president and CEO; Broderick Smith, vice president; Luis Adan, senior development manager; Salone Habibuddin, senior project manager; Michael Aguero, controller; Kara Kesler, property manager
Founded: 2003
Headquarters: Seattle
Projects: 200 Occidental, Weyerhaeuser's new Seattle headquarters; S, a 7-acre urban green campus containing seven buildings with retail and office space totaling about 1.2 million square feet, Seattle

Greg Smith, president and CEO of Urban Visions, answered questions from the DJC about his firm and the industry.

Q: What are your plans for the Aaron Brothers building?

A: The building at 1513 Third Ave. in Seattle was constructed in 1920 as the Winter Garden Theatre, and we intend to bring back its grandeur after the Aaron Brothers Art & Framing business leaves there in May.

Our plans are to renovate the exterior facade and hopefully replicate the marquee that was once there. The interior is 35 feet tall, and we will demolish the drop ceiling to expose the amazing volume and character of the building.

We want to create a bar/performance venue that reflects and supports Seattle's creativity and talent. This is a work in progress, but the bones are there. We think we can make this a destination for urban residents and tourists alike.

Stay tuned as this historic icon is brought back to life.

Q: Any ideas of how to make Third Avenue more appealing?

A: It's happening now! Historically the area between Pike and Virginia and Second and Third avenues has been an underdeveloped zone containing parking lots and run-down or vacant buildings. Today, four city blocks starting from Second/Third and Pike and running north up to Second/Third and Virginia are experiencing major redevelopment.

These new developments will have 1,300 housing units in six towers, five hotels containing 500-plus rooms and meeting spaces, and three new office projects. All the projects will have exciting street level retail opportunities. This equates to 4,000-plus new residents, office workers and tourists living, visiting and shopping in the neighborhood.

The developments, along with efforts by the Downtown Seattle Association, the city of Seattle and King County, are changing this once-dilapidated area to a successful link of the Pike Pine Corridor and a new, vibrant and exciting bridge between the Pike Place Market and the retail core. Those efforts include reprogramming Westlake Park, the Third Avenue streetscape, new bus stops and increased police patrols.

Q: What are the biggest trends in your industry locally?

A: Developers, brokers and tenants have historically thought about buildings on a rent per square foot basis, but many businesses today use a more sophisticated approach.

In today's competitive market for employee talent, it's about understanding employee cost per square foot, which for the technology industry is around $200,000 all-in. That's around $1,350 per square foot, given that the average tech employee uses 130 to 150 square feet of space (compared to 200 to 250 square feet 10 years ago).

Businesses which locate in progressive, iconic and space-efficient buildings, can quickly attract better employees, who will be healthier, happier, more creative and collaborative — and stay longer.

That lowers their employee cost per square foot. We believe they can save at least 1 percent or $13.50 per square foot per employee a year — and likely much more — by picking the right building.

Rent is a small fraction of total employee cost, maybe 4 percent. So while the rent per square foot may be higher to get the right building, doing so can mean overall savings.

Q: What do tenants want now versus 5 or 10 years ago?

A: The workplace culture has dramatically changed over the last 10 years. Before the Cloud, traditional high-rises with large artificially illuminated floor plates that housed expansive back-of-house functions, such as storage, files and libraries, were most in demand. Large offices for people in suits and ties lined the perimeter, walling off natural light to most of the workforce.

The Cloud now stores most back-of-house functions. Gone are perimeter offices and drop ceilings. Natural light is a must, suits and ties are passe and open collaborative work environments are the norm.

Tenants want healthy buildings that have a coolness factor so they can do creative, collaborative, productive work.

Q: Where will real estate growth come from locally in the next few years?

A: Seattle never ceases to amaze me. It generates disruptive thinkers in music, science, healthcare, sports, businesses, tech, manufacturing — in everything. Perhaps it's something in our water. No wonder young and old want to move here.

Some 67 percent of the city is zoned for single-family neighborhoods. So I expect major real estate development to continue to be focused where it belongs: in the urban core, from Safeco Field to the University District/Fremont, the Waterfront to Capitol Hill.

Those employers and employees want nearby housing, and easy access to public transit and highways — and will so even more as congestion grows.

In recent years, most of the city's growth has been focused on the amazingly successful South Lake Union neighborhood. But businesses are now considering other submarkets that were once overlooked as traffic becomes more of an issue.

SURVEYS

SCHNITZER WEST

Specialty: Development and redevelopment of innovative environments that fuel tenant success
Management: Pam Hirsch, managing partner, investment and development
Founded: 1997
Headquarters: Bellevue
Projects: Centre 425, Bellevue; Madison Centre, downtown Seattle; Urban Union, South Lake Union

Pam Hirsch, managing partner at Schnitzer West, answered questions about Schnitzer West's projects and if the firm has any expansion plans.

Q: Are you still fairly bullish on the near future?

A: Schnitzer West has three significant projects under development in the Puget Sound region and remains confident in the Puget Sound economy over 2016 and 2017. The regional economy continues to outpace the rest of the U.S. due to its strong mix of world class, innovative companies, exceptional workforce and desirable quality of life. These factors will continue to drive strong employment and the need for office space. Schnitzer West is well positioned to provide best-in-class workspace for these types of companies.

Q: What is innovative about your projects?

A: Schnitzer West has always used in-depth research and market feedback to advance its mission to create innovative environments that inspire tenants and support their success. This investment in research enables our team to understand the changing needs of the modern workforce and address those needs by providing solutions which in turn provide benefit to the tenant through recruiting and retaining employees, increased brand awareness and occupancy efficiencies.

Q: Are you looking to expand geographically?

A: Schnitzer West continuously looks for opportunities to enter markets with strong economic fundamentals and growth drivers. This has resulted in our entrance into the Denver market where we have recently begun a new office development. We will continue to look for similar opportunities throughout the western region of the U.S.

Schnitzer West's Centre 425 office building in Bellevue will have a rooftop deck and conference center.

IMAGE COURTESY OF SCHNITZER WEST

Q: Which recent project best symbolizes Schnitzer West?

A: Our research indicated that today's workforce wants to take advantage of all outdoor space — and in an urban environment, that leaves really only the rooftop. Therefore we have designed all three of our current office developments to include a rooftop feature. Madison Centre (Seattle CBD) will have a rooftop deck, and Centre 425 (Bellevue) and Urban Union (Lake Union) each have a rooftop deck and conference center. This amenity is available for all of the office tenants in the building to use in common — a one-of-a-kind amongst the competitive set.

Q: What new systems or materials are you planning to use?

A: Schnitzer West has consistently incorporated innovative new systems into its building design to provide efficient and sustainable value to tenants. As building systems and technology advance we have and will continue to incorporate items into our design that improve the tenant experience and also provide sustainable benefits.

SURVEYS

TOUCHSTONE

Specialty: Development of office, hotel, retail and residential projects
Management: Pat Callahan, CEO; A-P Hurd, president
Founded: 1982, acquired by Urban Renaissance Group in 2014
Headquarters: Seattle
Projects: Troy Block, Seattle; Tilt 49, Seattle; NorthEdge, Seattle; Everett Marriott Courtyard; Issaquah Springhill Suites

Touchstone had a good year in 2015. Shortly after being acquired by Urban Renaissance Group, it landed leases with Amazon.com and Tableau Software, two of the most sought-after tenants in the region.

Touchstone President A-P Hurd, who wrote "The Carbon Efficient City" and is also a faculty member and Runstad Fellow in the College of Built Environments at the University of Washington, discussed her firm's projects and development trends.

Q: Which sustainable trends do you appreciate and which do you disagree with?

A: Putting housing and workplaces near transit is the number one thing we can do in Seattle, from an economic and environmental perspective. Our roads are pretty much maxed out at peak demand times, so it's critical to make sure that people have transit as a mobility alternative. That means putting new buildings in areas well-served by transit.

In addition, more than 60 percent of carbon pollution in the Puget Sound area comes from vehicular trips. While it's good to have energy efficient buildings, the opportunity for greatest impact is matching up our land use plans and our transit system.

Lastly, having more of our built environment within range of fast and reliable transit makes the region more affordable for everyone. Since car ownership is estimated to cost north of $6,000 per year (factoring in gas, parking and insurance), having a great mobility system is a huge, though often overlooked, part of keeping our region affordable.

Obviously, our transit system needs to provide a time-competitive commute, which is why I'm so excited about our Bus Rapid Transit investments with dedicated lanes and the light rail expansions taking place this spring and over the coming years.

Q: Which real estate sectors are you most excited about?

A: Right now, I'm pretty bullish on all real estate "food groups" across Seattle. I realize there are market cycles, so I'm not totally Pollyannaish about it, but I do think that even if we see some national economic contraction in the coming years, Seattle will remain a relatively better place to be. This should lead to continuing in-migration and demand for housing.

On the business side, many of our companies are growing not primarily due to national GDP growth, but rather by gaining significant market share or creating disruptions within their markets. Again, that should make our employment growth relatively resilient, even if the national economy as a whole takes a stumble.

Q: What are the biggest challenges facing Seattle real estate?

A: Probably the biggest challenge we face right now is that growth in recent years has led to a lot of change, and that's hard to digest. In addition, a lot of the solutions to that change are not obvious.

For instance, many of my neighbors in Ballard are convinced that new development is causing housing prices to go up, because they see cranes at the same time as rents are rising. The two are correlated, but the cause is backwards — people are developing more units in Ballard because rents are rising, not the other way around.

Also, many of my neighbors feel like if newcomers would just move to another part of the region (and not to Seattle), it would improve the traffic situation for them. But for anyone using arterials, turning people away from urban development actually makes the traffic worse: if someone moves to Ballard, they have a 50-50 chance of needing a car, but if they move to Auburn and work in the city then they have a 100 percent chance of driving a car and clogging up our roads.

Again, it's not intuitive; a lot of people are tired of growth and want it to go "away," only problem is that putting it out of sight could make our infrastructure problems even worse.

Q: How does Fremont reconcile its status as the quirky "Center of the Universe" with its rapid job growth?

A: To put it in context, that micro-market has about 1.5 million square feet of office, and recent projects are adding about another 500,000 square of office. So, it's a big jump over a five-year period, but it shouldn't be overstated.

I think it's really good for the neighborhood's small businesses, as one of the challenges in residential communities is keeping small businesses thriving and having lots of people walking around and shopping at different times of day. Increasing employment — and daytime population — in Fremont helps with that. It also seems like many of the companies that locate in Fremont self-select for that environment. Their employees value those neighborhood amenities and patronize them.

While it's hard to build new office markets without some critical mass, I actually think it would be good to see more of this in some of our other urban villages, provided that the urban villages can be accessible enough that not everyone has to get there by car. We have a long way to go on inter-neighborhood transit.

Q: What kinds of opportunities and challenges do projects with a hotel and offices, or with offices and residential units, create?

A: The things that made us look hard at mixed-use projects are the opportunities for shared parking for uses that have complementary demand profiles (e.g. hotels need parking evenings and weekends, while offices need parking weekdays daytime), and the way the Seattle zoning works — commercial uses consume FAR (floor area ratio) and residential uses don't. These kinds of things are pretty powerful economic levers.

What's funny is that even though many architects love the story about "mixing uses," it can be pretty complicated in practice. For one thing, institutional capital is often only available for single uses, so when we've created mixed-use projects, we have to tee up all the capital at the same time, and create risk management structures that make all the parties feel OK about inhabiting the same space or structure.

Also, there are a lot of traditions in real estate about how different uses don't share space. Some of these may get easier to manage with time, but for now breaking the rules creates a lot of risk. For example, office and residential, or office and hotel uses, historically don't share lobbies or elevator banks.

When you get right down to it, there's not a real reason that this can't happen, but no one wants to be the first one to break the rules on a big project. It's like wearing a tie that's six inches shorter than standard; since ties don't really serve a function any more, it probably wouldn't make a difference, but would you want to bet $100 million on it? Probably not.

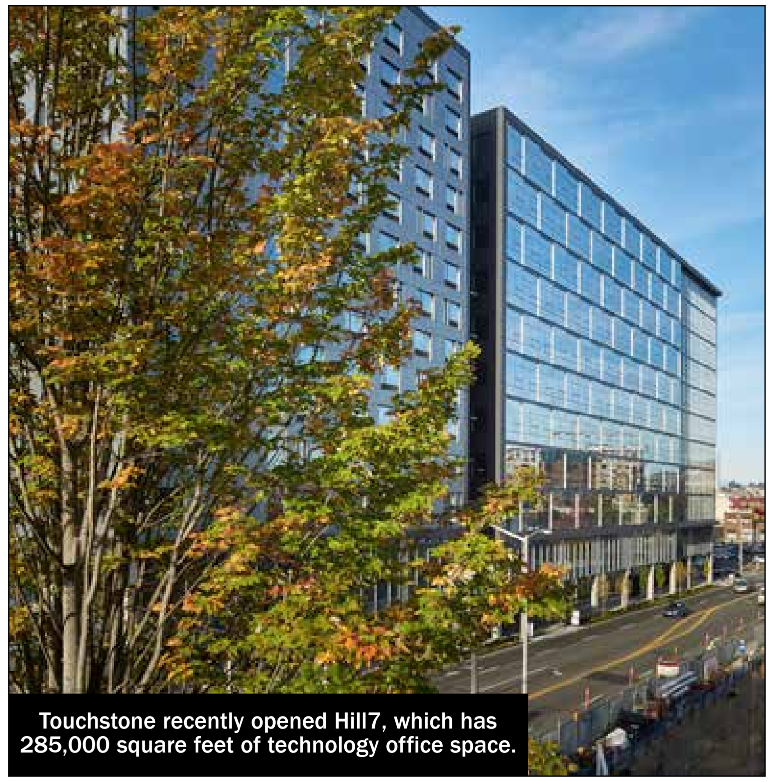

Touchstone recently opened Hill7, which has 285,000 square feet of technology office space.

PHOTO BY BEN BENSCHNEIDER

DANIELS REAL ESTATE

Specialty: Commercial real estate
Management: Kevin Daniels, president
Headquarters: Seattle
Founded: 2007
Projects: Stadium Place Phase III, Seattle; Gridiron, Seattle; 800 Columbia, downtown Seattle; The Mirador, downtown Bellevue; The Mark, downtown Seattle

Kevin Daniels is one of the busiest developers in Seattle. He has played an important role in the resurgence of Pioneer Square, and he is working on projects in Bellevue and on First Hill. He sat down with the DJC to discuss his views on development in Seattle, trends in sustainability and other topics.

Q: What trends in sustainable design do you like and dislike?

A: I see a lot of focus on technology and energy code tightening, but not a lot of creative thinking at the moment. The movement needs more visionaries who push creativity and ingenuity. I think it is important that the finished product is some place that people want to live or work in, and I have concerns about the impact on quality of life with recent energy code changes. I would like to see a broader, more creative and less prescriptive approach to allow the market to meet goals rather than continuing to tighten various energy codes without thinking through all of its impacts.

Q: What in the Seattle market worries you, or is there no end in sight to the boom?

A: It has been the best cycle in my career, but everything must end. Without a stronger job market in Seattle, many of the apartments being built in downtown may struggle to meet their lofty financial projections.

Q: What are the challenges of preserving historic structures in new projects?

A: Even those in sustainability have trouble understanding that sustainability needs to include preserving select buildings for a variety of reasons. The greenest building will always be the one that exists today. Can't and shouldn't save all buildings, but city officials must recognize that their most vital neighborhoods are those with historic assets and revise building codes to incentivize reusing those buildings.

Q: What is your take on all the office development in south downtown?

A: The midtown office market is far and away the largest office submarket in the region. As such it will remain the choice of most office tenants for years to come because of that supply alone. Like in past cycles if everything that is proposed is built, then it will be a tenant's market and those who are late to the market will suffer when the cycle ends.

Q: What does Pioneer Square need to keep the positive momentum rolling?

A: No question its biggest need is for-sale housing, and the city needs to recognize that fact and help modify laws in Olympia to make it happen. A neighborhood that only has transitory housing will not be healthy in the long-term.

SURVEYS

LOW INCOME HOUSING INSTITUTE

LIHI wants to develop apartments on this site near Othello Station in south Seattle. The building has space for the Rainier Valley Food Bank on the bottom floor.

IMAGE COURTESY OF RUNBERG ARCHITECTURE GROUP

Specialty: Nonprofit developer and manager of affordable housing; provides services to increase people's self sufficiency
Management: Sharon Lee, executive director; Lynne Behar, CFO; Robin Amadon, housing development director; John Syverson, facilities director
Founded: 1991
Headquarters: Seattle
Projects: Cheryl Chow Court, 50 affordable apartments for seniors near Ballard Library; August Wilson Place, 57 low-income apartments in downtown Bellevue; Gossett Place, 63 apartments for the homeless in Seattle's University District

Sharon Lee, LIHI's executive director, answered questions from the DJC about her organization and trends and issues in the industry.

Q: How can we get more low-income/affordable housing in Seattle and Bellevue?

A: On any given night there are 500 homeless families with children sleeping on the streets or in their cars. A few nights ago we moved a veteran family of six who had been living in their van into one of our three-bedroom apartments. They were lucky, but what about the rest?

We need more apartments that rent from $200 to $600 per month to get homeless people off the streets. Even with a minimum-wage job you can't stop being homeless if there's only apartments renting for $1,800 per month.

LIHI owns 1,800 low-income apartments, but we have to wait for someone to leave before we can move in a new family.

It is outrageous for wealthy cities such as Seattle and Bellevue to have so many people who are homeless or at-risk of becoming so. Rents are out of control — and as they go up homelessness increases. The January 2016 One Night Count showed 4,505 people sleeping unsheltered on the streets of King County — a 19 percent increase from 2015.

Mayor Murray proposed a larger Seattle Housing Levy for the ballot this fall. If it passes, it will help tremendously. We should also do what Portland did: tax Airbnb units and put the funds towards low-income housing. Also, Seattle and Bellevue should dedicate a portion of their general fund or issue bonds for affordable housing. We have 1 percent for the arts, but we don't even have 1 percent for housing.

Q: Why aren't more low-income housing developers building on the light rail line locally?

A: LIHI plans to start construction in summer 2018 on two projects on land it recently bought near Othello Light Rail Station.

One project called Othello Court will be at 7544 Martin Luther King Jr. Way S. It will have about 150 apartments and retail. The other project will be at 7357 43rd Ave. S., across from Othello Park. It will have about 100 apartments. LIHI hopes to put a preschool on the first floor of that project, and include some apartments for immigrant families served by Refugee Women's Alliance. Runberg Architecture Group is designing the projects.

We are purchasing a parcel at 8620 Nesbit Ave. N.E. on the Rapid Ride bus line in north Seattle near Greenwood. This is an up-and-coming area with new market-rate projects happening all around. When you build up, there are some great views of the downtown skyline.

We acquired a terrific site at 1253 S. Jackson St. in Little Saigon, with the new First Hill Streetcar stop right in front. We like walkable neighborhoods with lots of amenities. We try to be near transit, parks, shopping and schools.

Q: Is LIHI considering micro-unit projects?

A: We are about to open a building in the University District near 50th and Roosevelt Way Northeast. We have 49 studios that average 350 square feet. We figure it is better to include a bathroom and kitchen in each unit. We also have lots of shared common space, including a community kitchen. One floor is for homeless young adults and two floors are for low-wage workers. The new home of the University District Food Bank is on the first floor, and we will have a wonderful green roof with vegetables and herbs.

Q: Does LIHI have projects for suburban King County?

A: We are proposing to construct an attractive new apartment building in downtown Renton for low-income households. We will set aside some apartments for homeless families with children and also for veterans. South King County is showing a significant increase in the numbers of homeless people.

We would love to bring more affordable housing online in Bellevue and the Eastside. It is difficult to develop housing in King County outside of Seattle. In Seattle, we have the voter-approved Housing Levy. We also have Mayor Murray and the Seattle City Council jumping up and down on various housing solutions.

But outside Seattle, King County and the suburban cities provide little money for low-income housing. Unfortunately even the wealthy cities, such as Bellevue, Redmond, Issaquah and Kirkland, have not prioritized investments in affordable housing.

This is sad as the people cleaning office buildings, serving food, working in child care and staffing hotels cannot afford the ever-rising market rents and must move or commute long distances. What would it take to get elected officials in the suburbs to give a damn about affordable housing?

Q: Will we see high-rise low-income projects, given the increasing cost of land?

A: Of course high-rise concrete and steel construction will cost more than the wood-frame buildings we typically develop. Yes it is time to build high-rises that serve low-income people.

I just toured a low-income tax credit financed tower in Honolulu, where land costs are at a premium. This high-rise was made possible because public land was conveyed at nominal cost. I think it was $1. And it is right next door to transit.

Portland has some nice examples of mid-rise buildings that are affordable. I hope we can get access to low-cost city, county or state land, especially around transit stations. The expensive per unit cost of mid- and high-rise construction can be partially offset by having public land which is donated.

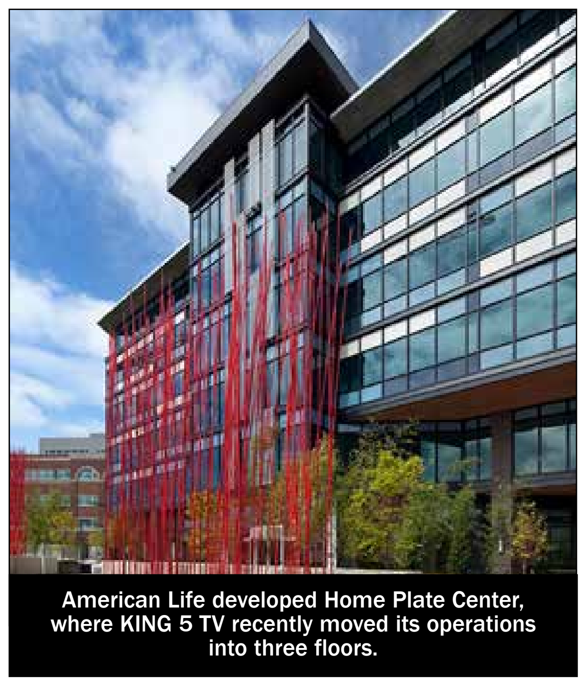
Q: What are the biggest issues in your industry?

A: Nonprofit housing organizations serve people the market does not serve. Nobody else is going to deliver apartments that rent for hundreds of dollars below market.

Sometimes we get a bad rap because we have to follow strict government wage rate requirements, green building practices, and our cost per unit is typically higher than the private sector. But if a city wants a healthy mix of incomes and we want vulnerable people cared for (and not on the streets), it is important to invest resources so that nonprofits can double or triple their production of affordable housing.

At the state level, we have over 35,000 homeless school-age children. What kind of future do they have? We need our state legislators to increase the Washington Housing Trust Fund to $300 million per biennium.

AMERICAN LIFE



American Life developed Home Plate Center, where KING 5 TV recently moved its operations into three floors.

PHOTO COURTESY OF FREIHEIT & HO ARCHITECTS

Specialty: Finances, develops and manages properties across key markets in the United States
Management: Henry Liebman, CEO
Founded: 1996
Headquarters: Seattle
Projects: Homeplate Center, Seattle; Courtyard Marriott, Seattle

Henry Liebman, American Life CEO, answered questions about his company and where the economy is headed.

Q: Do you see signs of an American recession in 2016 or 2017?

A: The recession already started. It won't be reported until there's pain on the streets. We will wait for a compelling deal, otherwise we sit on the sidelines.

Q: What project types does American Life like to manage?

A: You could say our hotels, but going forward that might not work. Close-in industrial may work.

Q: Any slowdowns in your EB-5 business? Which country does most of that?

A: There's a slow down. China was the biggest, but not now.

Q: What are the benefits of remodeling older buildings versus building new?

A: In most cases, no benefit. It's a labor of love.

Q: Any new regions that look attractive for development?

A: We're still focused on Sodo. Not much to buy now, but that could change.

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PHOTOS: WEBER THOMPSON/ERIN HATCH

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