Seattle Daily Journal of Commerce

REAL ESTATE MARKETPLACE NORTHWEST

February 23, 2017

RETAILERS, SHIPPERS PUSH DEMAND FOR INDUSTRIAL SPACE

Vacancy rates continue to fall and rent growth is heading to new heights in the Puget Sound region.


BY MATT MCGREGOR & BILL CONDON
COLLIERS INTERNATIONAL

STATE OF THE MARKET
INDUSTRIAL

We have been in industrial commercial real estate for over 13 years, focusing solely on the Puget Sound region with an emphasis on capital markets and institutional leasing. During this time, we have seen Seattle evolve and become one of the top markets in the country to own industrial buildings.

Over the past 13 years, we have seen our market weave through three distinctly different cycles: first a construction boom, then a downturn, and now a period of growth and acceleration.

From 2005 to early 2008, the Puget Sound market experienced its most significant construction activity in the industrial sector. This was followed by a downturn that started to recover in 2011, being one of the quickest markets in the country to recover.

Our current cycle has been extremely robust. The market was recovering nicely from 2011 through 2014, with gradual rent growth and activity, and then in the summer of 2015 activity increased to a level we have never seen. Tenant demand was at an all-time high, creating com-

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DCT Industrial recently bought 53 acres at the Port of Tacoma to build about 1 million square feet of industrial space.

IMAGE FROM DCT

SEATTLE AREA OFFICE MARKET RIDING A STRONG TAILWIND

High-tech firms continue to migrate to the Puget Sound region from the Bay Area, a trend that is fueling the local office market.

BY KIP SPENCER
SECO DEVELOPMENT

Over the past 25 years, I have seen several strong growth cycles for the Seattle area's commercial real estate market. The endurance and diversified nature of our current office construction boom rivals those in recent history.

Since climbing out of the Great Recession, the Puget Sound region has been humming on all cylinders for the past several years. According to JLL's most recent market overview, nearly 50,000 jobs were added over the past 12 months. Employment in the Puget Sound region grew by 3.7 percent last year and is expected to grow by another 2.1 percent in 2017. Meanwhile, the unemployment rate in the Puget Sound region sits at 3.7 percent — a full percentage point below the national average.

In looking at the state of the commercial real estate market, JLL reports that a dozen new office buildings were delivered across the region in 2016, adding more than 4 million square feet of Class A inventory. Almost all of that space was leased at the time of completion.

In addition, JLL reports that another 5.9 million square feet of office is under construction across the Puget Sound region.

2016: Many giants

In many respects, Amazon is, of course, the 800-pound gorilla. Amazon now employs more than 25,000 workers in Seattle, and it is the largest private employer in the city. The online retailer occupied more than 1.75 million square feet of new space in two high-rise towers alone in 2016. Construction of the third tower — bringing the company's total footprint across the three buildings to an incredible 2.7 million square feet — is expected to be completed this year.

However, Amazon was far from alone in driving the market last year. It was two other high-tech firms — Google and Facebook — that signed leases for approximately 1 million square feet of office space between the two companies, and that's not including the 180,000 square feet of space that Google occupied in phase two of its Kirkland campus last year.

When all was said and done, Seattle alone added more than 3.5 million square feet of new office space in 2016. On the Eastside, another 534,000 square feet of new office product was delivered last year — all of it leased by year end.

To summarize, 2016 started out with a number of significant leasing deals and project groundbreakings — including Seco Development's Southport office campus on Lake Washington in Renton — and the market easily maintained its momentum throughout the year.

Many are left wondering if the office market can continue this pace in 2017.

2017: Strong tailwinds

Looking ahead to the rest of this year, all signs appear to be pointing to a continuation of the performance we saw last year.

It's been discussed at great length locally in recent years but the fact remains that high-tech firms continue to migrate to the Puget Sound region from the Bay Area. There is little reason to believe this trend will not continue in 2017, helping fuel the office market again this year.

In Seattle, more than a dozen office projects are under construction and expected to deliver this year, with five of those projects already 100 percent pre-leased. Four of those projects have not yet announced any tenants, and two more are less than 50 percent pre-leased. All told, with nearly 4 million square feet of office space under construction in Seattle, just less than half of that space has been pre-leased — leaving a little more than 2 million square feet of unleased office space coming on line this year.

On the Eastside, however, very little new office product is expected to deliver in 2017 — and much of that space is already pre-leased. This paints a very interesting picture for 2017, but much as was the case last year, I anticipate we'll start to see lease announcements on several of these projects as they approach completion.

Of course, the most difficult aspect to predict in looking ahead is the role that national and global influences could play locally. At this time, however, these concerns are largely hypothetical in nature:

- What ripple effects could we see from the U.S. walking away from the Trans-Pacific Partnership or renegotiation of the North American Free-Trade Agreement, particularly for a state and region like ours where two out of every five jobs are tied to trade?
- Will foreign investors begin to shy away from the Seattle area and other leading markets in our country?
- How will the steady increase in interest rates impact the start of new projects in the pipeline or existing property sales?
- And what is the future of H-1B visa program that helps many local tech companies fill critical roles for software engineers?

While I maintain an optimistic outlook overall in spite of these causes for concern, I will be monitoring these trends and policy issues closely to better understand how they could impact the office market in our region.

2018: hard to predict

While 2017 looks to be another banner year for the Puget Sound region's office market, 2018 and

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In the evolving Lower Queen Anne neighborhood, Astro Apartments draws inspiration from the 1962 World's Fair that ushered in the Space Age. Learn how architects are designing buildings to fit into Seattle's rich and diverse neighborhoods on page 6. PHOTO BY MICHAEL WALMSLEY

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SLEEPLESS NIGHTS FOR HOTEL INVESTING?

Room occupancies are high, but operators face a strong dollar, political turmoil and a faltering world view of the U.S.

I am not an economist so my predictions and prognostications are established purely by my 25 years of experience within the hotel real estate industry. Unfortunately, I've never been through a market quite like what we are facing this year and beyond.

BY CHRIS BURDETT
CBRE HOTELS

Last year was a milestone in our country's history and the world in-kind. I doubt anyone truly knows how this story unfolds, or where we end up four years from now. There are too many uncertainties, suspicions and doubts for what lies ahead. But one thing is certain: there will be significant changes not only here in the United States, but around the world and most definitely in the world of hospitality.

A soft landing?

As my focus has always been in the hotel space, I find myself looking at real estate as well as the entities involved with hotels: management companies, owners, unions, brands, and both domestic and international travelers. One item of certainty is that the international traveler is growing more skeptical of coming to the U.S., whether for business or leisure.

We are already experiencing a backlash from inbound guests due to a stronger dollar, coupled with some of the recent political turmoil, and there is a making of serious headwinds for international inbound travelers. Add to this mix, a reactionary and restrictive Chinese government, continued terrorist incidents and a faltering world view of the U.S., and a soft landing in the Seattle hotel space could be compromised.

I would not want to predict that the sky is falling, as we have seen quite the opposite around the world. The U.K. economy has surged since the vote for Brexit despite a higher level of uncertainty. U.S. financial markets have continued to reach new highs and the European Union continues its fiscal easing and highly expansionary monetary programs.

Real wage growth continues to take place in the U.S., as does a strong housing market and low unemployment.

Spreads in treasuries and the interest rate bumps have all been baked into the current economic outlook with mostly positive results. For now, money continues to flow.

Mainland Chinese are still the fastest growing segment of international travelers regardless of government restrictions.

These are all very positive data points. There are risks to be certain, but we are moving forward from a position of strength regardless of growing headwinds.

Seattle CBD Airbnb and Hotel Performance (October 2015 – September 2016)

	Airbnb	Hotels	Premium (Discount)
OCC	63.0%	82.1%	-23.2%
ADR	$145.93	$200.37	-27.2%
RevPAR	$91.98	$164.45	-44.1%

Seattle CBD Airbnb and Hotel Performance (October 2015 – September 2016)

	Airbnb	Hotels	Airbnb/Hotels
Available Supply	552,769	4,985,711	11.1%
Units Sold	348,624	4,092,059	8.5%
Total Revenue	$50,900,581	$819,908,491	6.2%

GRAPHIC FROM CBRE HOTELS

Risk versus reward

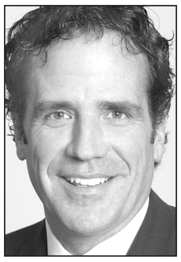
Today, Seattle has over 60 cranes working to transform our skyline to rival those of San Francisco, Boston, Chicago and New York. We are becoming a world-class economic powerhouse supported by renowned businesses such as Alphabet, Lyft, Fred Hutch, Red-Fin, Expedia, the Gates Foundation and many more.

Each of these entities and related real estate demand create far-reaching opportunities. This growth spans more than 50,000 multifamily units built or in development, thousands of high-paying computer engineering jobs, and millions of square feet of office space under construction in the central business district — not to mention our tendency to announce a new hotel project on a weekly basis.

HOTEL INVESTING — PAGE 7

ENDLESS JOB GROWTH FUELS ROBUST MULTIFAMILY MARKET

Seattle's fundamentals are strong, with vacancy rates hovering around 3.5 percent and rents climbing at 7.4 percent.



BY DAVID YOUNG
JLL

STATE OF THE MARKET
MULTIFAMILY

Nonstop job creation and unprecedented single-family home prices are key factors driving Seattle's thriving multifamily market.

In September 2016, Seattle topped the nation in home price growth with an 11 percent increase over the year prior. Meanwhile, leading tech companies such as Amazon and Google have contributed to the creation of jobs at a rate of roughly 61,000 per year since 2010. This means an increase in the number of renters in Seattle, many of whom are tech employees who can afford higher rental rates in new construction apartment buildings.

Seattle's evolution from a secondary market to a top tech destination has created remarkably high demand and ensures a bright future for the city, with multifamily development expected to continue.

Here are some highlights for Seattle:

- Investor interest in core locations remains strong
- Alaska Way Viaduct tunneling 85 percent complete, projected opening 2019
- Seattle tops the nation in single-family home price growth for the first time in nine years with 11 percent year over year growth
- Home values have increased nearly 60 percent since early 2012
- $54 billion ST3 plan adds 62 new miles of light rail by 2036
- Seattle condominium development starting; 1,012 units under construction with 75 percent in downtown core
- International investment increasing; $752 million in Seattle/Bellevue since 2011
- Fourth fastest growing city in the nation
- Multifamily experiences record-breaking sales in 2016, with volume exceeding $5 billion for the first time
- Interest in suburban locations has picked up dramatically as investors look for affordable rental assets

Demand

The rate of job creation is projected to continue as Seattle establishes itself as a primary market for out-of-state companies seeking lower office rents and proximity to Seattle's growing pool of tech talent. Washington was recently voted the third most innovative economy in the country and leads the nation for technology/STEM growth.

NerdWallet ranked Seattle as the second-best place for STEM graduates, and it has the highest salaries for software engineers of any city in the nation.

The flight to affordability is also leading to increased interest in Seattle's suburban markets while higher incomes, especially in the specialized fields of high-tech and bio-tech, allow landlords to raise rental rates when leases renew. However, even as rents in new construction buildings reach record highs in Seattle, they are still perceived as relatively inexpensive compared to other cities such as San Francisco.

In San Francisco, the median tech salary is only slightly higher than Seattle's: $110,554 versus $108,240. But figure in California's income tax and the yearly cost of a one-bedroom high-rise apartment — $50,400 in San Francisco versus $33,600 in Seattle — and Seattle workers have nearly double the disposable income as Bay Area workers.

Home values in Seattle increased by nearly 60 percent between early 2012 and 2016, and in 2016 a record-low 1,600 homes went on the market in King County (7,400 homes were listed for sale in 2015), so there's no sign of relief for Seattle's single-family housing market in the near future.

Supply

To answer the demand for rentals, 13,496 units under construction will hit the market this year. And, 10,387 new units hit the market in 2016, which is an impressive increase compared to the average 8,308 units delivered per year between 2012 and 2015 and 3,436 delivered per year between 2007 and 2011.

Rent growth continues to surge with a 7.5 percent increase in 2016. In the north end, the 2016 increase was an even higher 9.3 percent, and the south end saw a 10.7 percent increase. In 2016, Seattle was the only city to be both one of the top 10 cities for rent growth and one of the top 10 cities for rental price.

Market fundamentals

Seattle's multifamily fundamentals are strong with vacancy rates hovering around 3.5 percent — 0.8 percent lower than the national average — and rents climbing higher than the city has ever seen, at 7.4 percent compared to the national average of 3.8 percent.

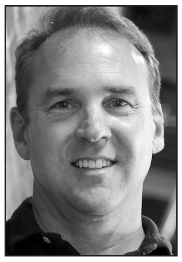
In 2016, Seattle experienced

JOB GROWTH — PAGE 8

PRESERVING A NEIGHBORHOOD'S ROOTS WITH THOUGHTFUL DESIGN

Designers must find ways to keep the heritage of Seattle's neighborhoods while also embracing a wave of newcomers.

Seattle is often referred to as a city of neighborhoods. Our city boasts incredibly rich and diverse neighborhoods, often with deep cultural roots. While roots run deep across multiple generations for lifelong Seattleites, for many more newcomers these roots are just being established.



BY BRIAN RUNBERG
RUNBERG ARCHITECTURE GROUP

For the past three consecutive years, Seattle has ranked among the top five fastest growing cities in the country. To put our city's transformation in perspective, U.S. Census Bureau data shows that approximately 42 new people are arriving in Seattle each day. For several years now developers have been trying to keep up with the rising demand for housing from this wave of new residents.

According to research by Dupre + Scott, Seattle is set to see almost 10,000 new apartment units open in 2017, nearly twice as many as in any other year in the city's history. That number will be even greater next year, with more than 12,500 apartment units projected to open in 2018.

As stewards for the built environment in a city experiencing an incredible amount of population growth, development and change, it is incumbent on us to find ways to preserve the rich heritage of our city's unique neighborhoods while also embracing this change. Moreover, this change also requires that we remain sensitive to preserving pertinent neighborhood characteristics and identity.

What steps can we as design professionals take to ensure this happens?

First and foremost, we must become engaged and part of the community. The buildings we design today will live on long after we are gone. We have a responsibility to collectively push the boundaries, foster a stronger sense of community, and aim to have a broader positive impact on our city's many distinct neighborhoods.

The only way we can achieve these goals is by doing our homework, becoming intimately familiar with the history of each neighborhood, speaking directly with residents, and holding workshops with community members to incorporate their feedback into a project's design.

Above all, proper acknowledgment that our city's neighborhoods have distinct characteristics that are to be embraced and honored — not eroded — represents a fundamental step toward appropriate and thoughtful development.

Thoughtful design necessitates balancing the social, economic and environmental interests of each project. This requires listening to the community, building consensus, and recognizing each neighborhood's heritage and cultural identity, and weaving these elements into the new built environment.

A few examples

The examples that follow illustrate three distinct mixed-use projects designed for three completely different neighborhoods, each with its own unique history and facing evolving changes.

Take, for example, Ernestine Anderson Place and the recently opened Abbey Lincoln Court apartments, located in Seattle's Central Area.

From the 1920s through the 1950s, the South Jackson Street corridor was the epicenter for Seattle's jazz scene primarily because of its proximity to the local African American community.

Named after the vocalist, songwriter, actress and civil rights activist, Abbey Lincoln Court offers 68 units of workforce housing and two live-work units. The neighboring Ernestine Anderson Place, which provides 60 units of affordable housing for low-income and homeless seniors, is named in honor of the internationally renowned and much-loved Seattle jazz singer.

The community's jazz roots and the legacy left behind by these two exemplary women is apparent throughout the two properties. Abbey Lincoln Court and Ernestine Anderson Place serve to not only recognize their efforts to address significant societal issues through their work but also offer an opportunity to remind future generations of their civic contributions.

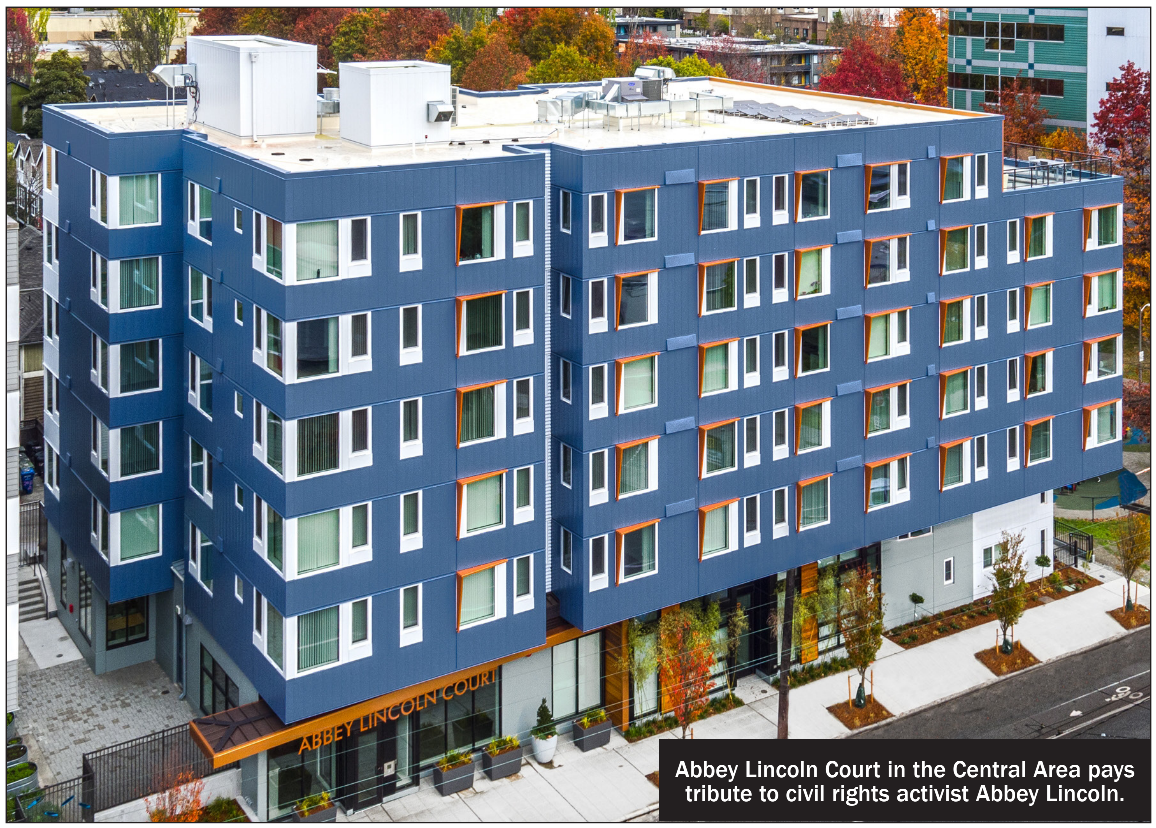
Their relevance is demonstrably more important now than ever.

Across town, in the rapidly evolving Lower Queen Anne neighborhood, Astro Apartments draws inspiration from the 1962 World's Fair that put Seattle on the map and ushered in the Space Age.

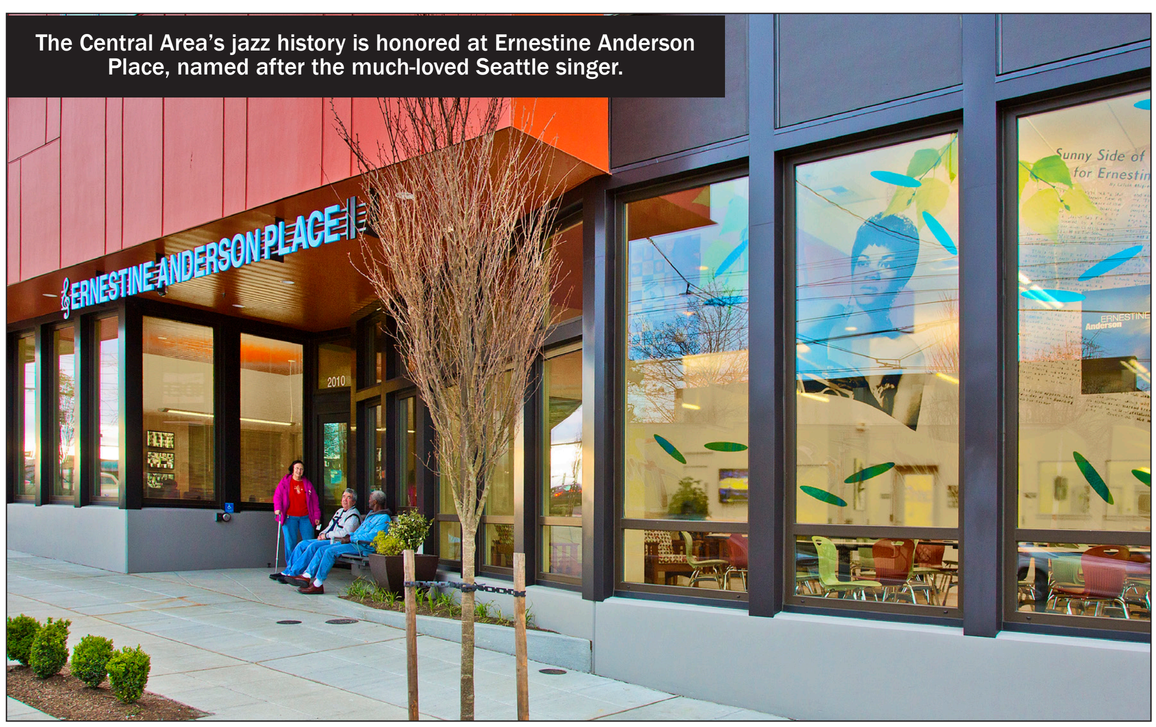
The 211-unit Astro Apartments, adjacent to Seattle Center, presented an opportunity to embrace the history of the Century 21 Exposition. The distinctive design of Astro Apartments recognizes the goals and objectives of Seattle Center's Century 21 Master Plan while also contributing to this unique neighborhood identity through strong mid-century modern architectural expression.

Inspired by Googie architecture, Astro Apartments' design reflects the space-age futurism aesthetic of Seattle Center. Mid-century concepts guided design decisions at every scale, including the overall building form, cantilevering cornices, butterfly roof at the penthouse, facade modulation, signage and furnishings.

The resulting design of Astro Apartments is extremely complementary to both the surrounding neighborhood and the historical significance of the Seattle

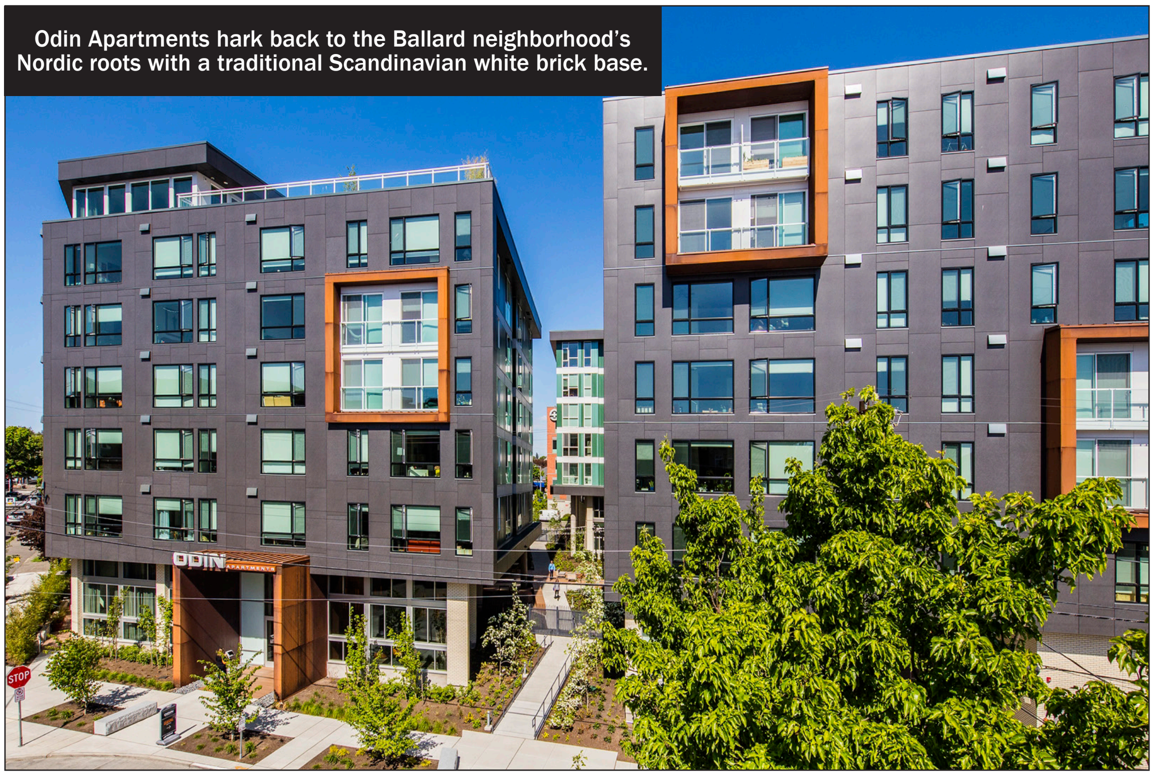


Abbey Lincoln Court in the Central Area pays tribute to civil rights activist Abbey Lincoln.



The Central Area's jazz history is honored at Ernestine Anderson Place, named after the much-loved Seattle singer.

PHOTOS BY MICHAEL WALMSLEY



Odin Apartments hark back to the Ballard neighborhood's Nordic roots with a traditional Scandinavian white brick base.

In the evolving Lower Queen Anne neighborhood, Astro Apartments draws inspiration from the 1962 World's Fair that ushered in the Space Age.

World's Fair.

Lastly, the 303-unit Odin Apartments is in Seattle's resurgent Ballard neighborhood, a waterside working community heavily influenced by Nordic settlers and the timber and maritime industries. It is one of the most culturally intact and distinctive neighborhoods in all of Seattle, with Ballard's residents taking tremendous pride in keeping this history alive.

To respond to this historic and cultural context, Odin appears to float on a traditional Scandinavian white brick base in contrast with the courtyard's translucent emerald hues. Nordic sensibility is translated through birch trees and expansive windows that allow natural light to saturate the interiors. The material palate interweaves timber and maritime influences, from the exterior cladding down to the interior finishes. Other dynamic expressions include an etched Viking ship, communal fire pits and lobby lighting emulating the aurora borealis.

By proactively reaching out to neighborhood stakeholders and hosting community presentations throughout the entitlement process, the resulting design was able to weave the strong identity of the Ballard community.

It takes a unique approach to gathering neighborhood input during the design process to preserve the existing culture and identity. This collaborative methodology is a significant time investment, but it adds substantial authenticity and credibility, builds community trust, and ensures the final project design respects the heritage and character of a neighborhood.

Runberg Architecture Group is a leading designer of sustainable urban mixed-use, housing and adaptive reuse projects. Since founding the firm in 1998, Brian Runberg has led the design of more than 12,000 housing units and over $3 billion in construction.

HOTEL INVESTING

CONTINUED FROM PAGE 4

Simply keeping track of all the new hotels and mixed-use projects is a full-time job. On the books, Seattle shows nine hotels under construction or 2,789 rooms representing just over 20 percent growth from the current supply of 13,684 rooms. The more ominous issue is the additional 24 hotel projects CBRE is tracking that are in various stages of planning, with the potential of 3,900 additional rooms to the CBD.

Compared to multifamily development, these numbers seem irrelevant, but in total, we could experience an unprecedented growth in hotel projects of over 40 percent through 2020. Not all of these projects will come to fruition, but regardless there will be a significant increase of new hotel supply in Seattle over the next few years.

The primary economic theory of supply versus demand can create substantial risk, but those first to market will enjoy the citywide 2016 occupancy approaching 80 percent and rate growth continuing its upward momentum like our Seattle skyline.

However, risks and headwinds beyond supply issues do remain broad and ever changing. Technology, such as Airbnb, has been both a source of growth as well as a disruptor in the hotel business.

Airbnb today has over 2.5 million listings in 34,000 cities and 91 countries. In the greater Seattle area, Airbnb accounts for 11.1 percent of overall CBD hotel stock.

Authenticity in travel and delivery of services remains highly desirable by guests, creating greater competition for traditional brands while growing fresh, boutique and independent led concepts in the hotel space. These disruptors will become more mainstream as we have seen recently with the co-branding of Delta and Airbnb, and with Marriott/Starwood looking closely at co-habitation initiatives.

As Airbnb stabilizes, expands and becomes more competitive, there will be other innovators behind it creating more disruption in our industry.

More concerns

Seattle is also fast becoming a flash point for far-reaching and potentially damaging union and legislative activity unprecedented in recent times. Ownership in hotel real estate in Seattle faces continued pressure from activists cloaking multiple initiatives under the guise of employee safety and security without serious thought as to the real impact on the economics, implementation and viability.

Hotel real estate owners understand the need and desire for living wages, safety and security along with insurance, family leave and all the critical issues facing their team members and families. Many tend to forget that the hospitality and tourism industry is the economic, cultural and job vehicle that much of the city and state have relied on for years.

Forcing owners to adhere to arbitrary, inefficient and economically unviable legislation will only move our industry away from the growth vehicle it has been and make investment into this space more difficult, unpredictable and less viable by institutional investors going forward.

Hotel investing by no means is a stable process, but many institutional investors, especially those off-shore, remain underweight in hotel real estate by most standards. This has been recently illustrated by the massive hotel merger-and-acquisition deals by mainland Chinese conglomerates and European pension funds, and continued investment abroad from EMEA and UAE countries.

Bold economic proposals by the current administration should help continue institutional investments from both domestic and international sources. Although the picture is by no means clear, hotel real estate, especially in the U.S., tends to remain a safe-harbor for many looking for diversification and stability.

We see issues such as security and travel bans impacting world travel both at home and abroad, as well as the perception of how the U.S. will treat international travelers. For the greater Seattle hotel investment community, we expect stable growth going forward with a wary eye on those ever increasing headwinds.

Chris Burdett is senior vice president of investment properties at CBRE Hotels in Seattle.

INDUSTRIAL SPACE

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petition for vacant spaces and the level of tenant demand has continued at a very strong pace.

The recent growth cycle has been responsible for approximately 16 percent rent increases year over year, along with the Puget Sound region boasting one of lowest vacancy rates in the country. This significant rent growth and record setting compressed vacancy rate of 2.6 percent is a result of two related facts: delays in developments and historical demand.

Challenges to build

Due to the complexities involved in bringing the development sites through the construction process, projects are taking longer to complete. Today's Class A sites were yesterday's Class B opportunities.

Yesterday's sites were well located and typically raw industrial zoned land that had far less complications. Today, sites are often highly complex redevelopment opportunities that have much longer lead times, environmental conditions to work through, significant off-site improvements, access challenges and political hurdles.

A couple recent examples of this are the former Weyerhaeuser campus in Federal Way and Sumner Meadows golf course, slated to be two of the region's key industrial development sites in the future. Both have undergone significant legal and political hurdles, delaying the construction process.

Secondly, absorption over the past two years has far outpaced supply due to the combination of massive new demand and delayed construction as outlined above. Companies in our region have been expanding their space needs, resulting in nearly 6 million square feet of positive absorption in 2016, which is nearly double the historic average. Growth seems to be hitting all sectors, however online retailing and shipping are the leaders pushing demand.

The impact that retail has on the industrial market has never been more relevant. Fulfillment centers, warehouses and distribution hubs are taking more and more space across the region. Over the last six weeks, we have seen UPS commit to over 1.2 million square feet of new space. Amazon has expanded into another 600,000 square feet and others are battling for the remaining vacancies.

The South Seattle market continues perform at an incredible level with a record low 1.4 percent vacancy rate, which has resulted in the greater Sodo area seeing the largest rent growth at nearly 30 percent year over year.

Because of its geographical constraints, the next wave of developments in the Seattle/Sodo area are making headlines across the country. Prologis' announcement to construct a 580,000-square-foot multistory warehouse in the market is the first project of its kind in the country. Multistory warehouses are common in Asia and Europe, where large land sites are hard to come by and now Seattle is following suit. The building type is a flagship for the U.S. and the Seattle area is uniquely positioned for it due to the lack of land in the area.

Pre-leasing at 44%

Multistory warehouses are one sign of a booming industrial sector; another is pre-leasing. In the past, the Puget Sound rarely would see buildings get preleased (leased prior to the building being finished), yet today 44 percent of the 4.7 million square feet of projects under construction are pre-leased.

Historically, supply has led demand, resulting in newly constructed speculative buildings sitting vacant for long periods before leasing up. Today, it is not uncommon for landlords and developers to secure tenants during the construction process. For example, Prologis just secured UPS in its Port of Tacoma project, pre-leasing a 770,000-square-foot building that will be the largest speculative building constructed in the area since 2006.

DCT Industrial Trust also recently pre-leased a 240,000-square-foot project in Fife to Milgard Windows. In addition, DCT is rumored to be close to securing a tenant for its DCT Blair Logistics Center that was slated as a 1.2 million-square-foot facility.

This pre-leasing trend will likely stick around for a while. However, this cycle has already reached historic lengths and some developers are beginning to get nervous about how long economic expansion is possible or predictable. During the 2005-08 industrial expansion, some developers that built during 2008 were left with large buildings that sat vacant throughout that downturn. Developers will look to the future with caution as they remember the trials of the past and worry when the current prosperous cycle might end.

There is little evidence of any kind of a slowdown threatening the Puget Sound economy. Over the course of 2016, 12,800 construction jobs were added as construction spending hit a 10-year high. Growth remains robust with Amazon's expansion adding 100,000 new jobs by 2018, with 60 percent of those jobs at the company's fulfillment centers.

The industrial market has been enhanced with the 2015 Northwest Seaport Alliance, which merges the ports of Tacoma and Seattle. This will make up the fourth most active port system in the U.S. In anticipation for this developing alliance between ports, the Port of Tacoma has 4 million square feet under construction.

With such great news coming out of both job and industry growth, record low vacancies, and limited new supply and historic rent growth, where do we go from here? The Puget Sound Industrial market will continue to tighten as demand continues to challenge land restraints and slow the development process.

We expect that vacancy rates will continue to fall and rent growth will reach new heights. As we look to the future, landlords and developers are positioned well to capitalize on owning property in one of the most active markets in the country that shows no signs of slowing down.

Matt McGregor and Bill Condon are executive vice presidents with Colliers International. They specialize in the Puget Sound industrial real estate market representing institutional owners and large tenants.

TAILWIND

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beyond become a bit more difficult to forecast. However, aside from perhaps the causes for concern previously mentioned, our region's office market appears to have a robust future ahead of it.

For instance, while Seattle has about a dozen proposed office projects in the pipeline, there is only one office tower project slated for completion in 2018 — the 208,840-square-foot Hawk Tower, of which approximately two-thirds of the space has been pre-leased to Avalara. Although construction has not yet started on Facebook's space at the Arbor Blocks, the project could be completed by late 2018. It appears we should expect to see 2+U deliver in 2019, and I predict we'll see one or two more proposed projects start in downtown Seattle that would come on line around the same time.

On the Eastside, the future supply of new construction office space appears to be even more constrained. As it stands, there are but a handful of proposed projects in the pipeline with Southport in Renton as one of the notable Eastside projects slated for completion in 2018.

The fundamentals — the continuation of strong tenant demand and constrained supply of new office product, particularly on the Eastside — all point to a repeat performance for our market in 2017. Moreover, the impact of any policymaking or larger market forces would likely take some time to hit the Seattle market. For those reasons, I remain bullish overall on the outlook for 2017.

Kip Spencer, a 25-year veteran of the commercial real estate industry, is the director of leasing and marketing at Seco Development. Seco has been recognized as one of most successful mixed-use development companies in the Puget Sound region with over 35 years as a landowner in Seattle, Bellevue, Kirkland and Renton.

JOB GROWTH

CONTINUED FROM PAGE 5

record-breaking apartment sales, with volume exceeding $5 billion for the first time. Also, there has been much more activity in the suburban markets with almost 40 percent of deals selling in Pierce and Snohomish counties.

The strength of the Seattle market has extended beyond the downtown core, and now there is high demand for living in the suburban markets, as well as a significant increase in value for the properties trading in these submarkets.

What's to come?

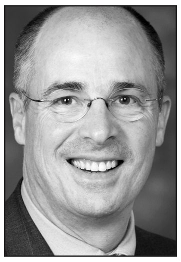
With core properties in the gateway markets such as Seattle so richly priced, investors are looking for the next neighborhood or suburb in the path of growth as a key to getting ahead of the market. The expansion of Sound Transit light rail will drive opportunities for development in these suburban markets.

Aside from increasing the connectivity of the Puget Sound region, ST3 will drive new development and increase the price of real estate near the new stations. Not only will this add opportunity for suburban development for market-rate apartments, but it will act as a catalyst for further employment growth, office development and suburban migration.

David Young is a managing director for the Capital Markets Group with JLL. Based in Seattle, he oversees a range of multifamily investment sales in the Pacific Northwest, and has over 28 years of experience.

RUNSTAD CENTER MOLDS TOMORROW'S REAL ESTATE LEADERS

The next generation of leaders will engage our values and develop solutions that we cannot conceive of today.



BY PETER ORSER
RUNSTAD CENTER FOR REAL ESTATE STUDIES

I recently had the honor to serve as director at the Runstad Center for Real Estate Studies at the University of Washington. Having graduated in 1982 from UW with a master's degree in urban planning, I came back, full circle, to the very building I left years ago after a fulfilling career in real estate.

With the passing of 35 years, perspectives can definitely change. Certainly the view as director is through a different lens than the aspiring student.

The UW has a deep and rich history in this market. More than 150 years ago, the university was the literal center of the city, located on land we now refer to as the Metropolitan Tract: a rectangle formed by the intersections of Seneca Street, Third Avenue, Union Street and Sixth Avenue. Today, while it occupies an entirely new location just north of downtown, the UW in some respects is still at the center of the city's pulse, with its leaders taking an active role in issues affecting all types of local stakeholders.

For instance, there are more than 140 talented UW professors whose research touches the urban fabric in some meaningful way. These academicians are from the College of Built Environments, as well as schools of Law, Public Policy, Social Work, Medicine and every other area of learning on the internationally renowned campus. They've recently created a group called Urban at UW, working on a host of issues, including one of great importance to many of us: homelessness.

It's a messy and sometimes controversial topic, to be sure, and there are no easy answers. At UW, the homeless issue brings together a host of higher-education leadership to help generate meaningful solutions through collaboration and research.

Any time an institution of this size can assemble this many professionals from different academic disciplines, and cultural and political backgrounds, it should be considered an example of significant achievement.

Runstad Center

The Runstad Center resides within the College of Built Environments, and benefits daily from the aura of learning and innovation that the university creates. It's a relationship that helps the center play an important role in the growth and prosperity of the Seattle community.

The industry benefits from the

RUNSTAD — PAGE 16

Gould Hall is home to the UW's College of Built Environments and the Runstad Center for Real Estate Studies.

Weyerhaeuser's former headquarters and surrounding 430 acres have been rebranded The Greenline.

PHOTOS FROM INDUSTRIAL REALTY GROUP

IRG KEEPS THE POLISH ON FORMER WEYERHAEUSER GEM

The developer isn't changing the look of the building, but instead is upgrading the infrastructure, amenities and systems to attract multiple Class A tenants.

BY TOM MESSMER
INDUSTRIAL REALTY GROUP

Over the past several years, the Puget Sound region has become one of the most competitive real estate markets in the country. Prices for land continue to rise, and seemingly not a week goes by without an announcement of a new office tower or mixed-use community being built for fast-growing companies.

Major employers like Amazon, REI, Twitter and Expedia, to name just a few, are expanding rapidly in today's economic boom. In the process, they're taking huge chunks of space in Class A buildings rising out of the ground in our downtown cores and burgeoning submarkets.

And while it's these ground-up projects that generate much of the excitement among economists, government leaders and industry stakeholders, many developers are pursuing other, creative ways to meet demand for corporate expansions.

They're executing an age-old practice of reusing a site or building that no longer meets its original purpose. Adaptive reuse, in all its forms, is the most sustainable kind of real estate development, simply because it negates the need for new land and prevents urban sprawl. In addition, adaptive reuse allows the existing building, while obsolete, to be effectively reborn without the need for the massive recycling — or, even worse, disposal — of thousands of tons of old building material.

In Seattle, there are many examples of downtown buildings being altered for new and exciting uses: the Federal Reserve and Maritime buildings just north of Pioneer Square; Macy's store in the shopping district; and several former industrial sites in the South Lake Union neighborhood. They're all undergoing extensive rehabilitations with the goal of attracting commercial tenants who want centrally located space with some Old World character and charm.

The Weyerhaeuser plan

But adaptive reuse doesn't always have to entail a holistic change of uses — from office to retail, or industrial to office, for example. Sometimes, in the case of the former Weyerhaeuser headquarters in Federal Way, it's more of an adaptive repositioning of an attractive asset.

When Industrial Realty Group purchased the building, along with the rest of the Weyerhaeuser campus, we recognized immediately that the five-story, 358,000-square-foot headquarters was not only an architectural work of art, but it also served as a centerpiece to something even harder to find — a 430-acre campus with manicured walking trails, trout-bearing lakes, untouched forestland, and the famous Pacific Bonsai Museum and Rhododendron Species Botanical Garden.

From the beginning, it was obvious to everyone at IRG that we would preserve this architectural icon.

The building had always been home to a single tenant, yet it was designed in such a way by internationally renowned Skidmore Owings & Merrill that we knew we would have the flexibility to reposition it to meet market demands.

Indeed, the architects never intended for the site to serve anyone but Weyerhaeuser. But The Greenline, the building's new name and brand, is an architectural marvel attracting both national and international interest from companies considering a move to the Pacific Northwest.

Often referred to as a "skyscraper on its side," it features large rectangular floor plates, 14-foot floor-to-floor heights with 10-foot ceilings, a continuous non-sash window-wall system, and diagonal column placement — all designed to promote natural daylighting and maximize internal visibility.

The Greenline also includes a large cafeteria, assembly areas with capacity to accommodate 600 people, executive space, lush gardens and several water features. Its ivy-covered terraces link, at both ends, to the natural landscape surrounding the structure to create a wholly organic transition between the built and natural environment.

The Greenline is an adaptive reuse project that immediately connected us with another award-winning architect, Seattle's CollinsWoerman, which specializes in sustainable architecture, planning and design for commercial, residential, health-

The Greenline building has large rectangular floor plates and a continuous non-sash window-wall system.

care and other clients.

The firm's practice leader for design, James Walker, is leading our collaborative efforts to help move The Greenline into the next chapter of its 46-year life. The objective, he says, is to leverage all the building's existing attributes while creating a new interior environment that's suitable for a wide range of Class A users.

"From a fundamental standpoint, the building is so intelligently put together, with no notable design flaws, that we're taking a 'less is more' approach to this project," says Walker, who, along with his company has gained an international reputation for adapting out-of-date buildings for numerous commercial and residential uses.

"Today's Class A tenants want best-in-market infrastructure, amenities and systems so they, too, can stay competitive," continued Walker. "So we're working with IRG to upgrade the entire building to meet these modern-day corporate needs. This building is a masterpiece, however, and it's always important to recognize these rare architectural assets in any adaptive reuse environment."

The Greenline name acknowledges the architectural elements that can be seen throughout the exterior of the building, along with the foliage that covers each of its long, horizontal levels. It's the latest in a long history of investments IRG has made in obsolete commercial and industrial buildings around the country, transforming them from single-use assets into thriving multi-tenant corporate campuses.

At the crux of IRG's business model is the belief that green development begins with reuse, not recycling, and we've expressed this ethos through projects that other owners deemed too complex and challenging. As an owner and operator, we find adaptive reuse to be the most economically and environmentally viable approach to development as cities struggle with densification, traffic congestion and resource conservation.

Pfizer, Goodyear reuses

One of those projects is the former Pfizer corporate facility, just north of Manhattan, where IRG purchased approximately 2 million square feet of buildings on a 200-acre campus. We're currently placing tenants into the existing, high-quality facilities and pursuing redevelopment opportunities for retail, office, industrial and other commercial users.

Pfizer still has a presence on the campus, including an approximate 1.2 million-square-foot initial lease back from IRG. But, like The Greenline, we're retaining the historical value of the property and creating a new economic life in a highly sustainable way.

Another notable adaptive reuse project of an obsolete industrial property is Goodyear Tire and Rubber Co.'s approximately 400-acre, award-winning campus. After developing a new 642,000-square-foot world headquarters for the Akron, Ohio-based manufacturer, IRG has begun renovating several out-of-date nearby buildings to attract large-scale users seeking modern office space, housing, a theater and a full-service hotel.

The Goodyear project has not only been an economic boon to the surrounding community, but it has enabled Goodyear — and the extended Akron community — to retain jobs and gain international attention for its environmentally friendly, community-oriented approach to urban redevelopment.

As cities continue to balance the increasing needs of corporate users with sound and sustainable urban-growth strategies, they're looking to real estate companies with deep experience in adaptive reuse development. But not all projects are created the same. Sometimes, as in the case of The Greenline in Federal Way, it's best to leave most elements of the building alone, especially when the original exterior architecture, and much of its interior, is fully functional.

By implementing thoughtful and environmentally sensitive programming, while updating amenities, systems and other infrastructure, owners and their architects can achieve their multi-use goals while preserving what's best about the outdated buildings.

Tom Messmer is vice president of special projects at Industrial Realty Group, a privately held real estate development and investment firm. Messmer oversees renovation, preservation and leasing activities at The Greenline.

In Ohio, IRG developed a new headquarters for Goodyear Tire & Rubber Co. from an obsolete industrial property. IRG is now renovating several adjacent out-of-date buildings.

MID-RISE APARTMENTS GO UPSCALE TO TAKE ON HIGH-RISES

Close-in neighborhoods such as Capitol Hill, South Lake Union and Ballard are a desirable alternative to living downtown in a high-rise.


BY ROBIN CHELL & SCOTT SURDYKE
ROBIN CHELL DESIGN

The downtown apartment building boom is moving full steam ahead, and Seattle is about to get its next wave of new 40-story luxury towers.

There are more high-rise apartments under construction in downtown Seattle than the last 10 years combined. As these towers are reaching ever higher, the rents are also continuing to rise. Renters can anticipate that many of these new units, especially urban one-bedroom units and studios, will be topping $4 per square foot monthly. With floor-to-ceiling glass, staggering views, premium amenities and top-of-the-line finishes, Seattle's new high-rise are redefining the market's expectations for luxury rental product.

At the same time, the increased competition for the highly sought after "luxury renter" is also helping reshape the approach to mid-rise apartments. A growing number of developers are realizing that, with strategic unit upgrades, dynamic amenities and high-quality finishes, new wood-frame mid-rise apartments can achieve rents that are very close to comparable concrete high-rise product.

Close-in neighborhoods such as Capitol Hill, South Lake Union and Ballard are proving a highly desirable alternative to downtown high-rises, and it seems that tenants are willing to pay a premium for some of these newest mid-rises.

Stepping up to compete

Just a few years ago, the benchmark for luxury multifamily rentals was $3 a square foot, which was established by several high-rises built after the recession. The Martin, which opened in 2013, was one of the first new towers to push past the $3 mark. With gas appliances, custom closets and glass-tiled backsplashes, the Martin helped raise the bar for finishes and usher in the new era for luxury high-rise living.

As the number of new high-rises multiplies, we are seeing a growing trend of mid-rise apartments that are stepping up in terms of design and amenities in order to maintain their appeal to the coveted luxury renter.

A recent survey of downtown high-rises from Indigo Real Estate shows average rents coming in at $3.39 a square foot (without concessions), and an overall occupancy rate at a healthy 94 percent. At the same time, a survey of mid-rises within the SLU submarket also shows an overall occupancy at 94 percent, with average rents coming in at $3.23 a square foot, which is just 5 percent lower than nearby high-rises.

So, what's going on here? How can 65-foot-tall, wood-frame product compete so closely with concrete construction, floor-to-ceiling glass and unobstructed views of Puget Sound?

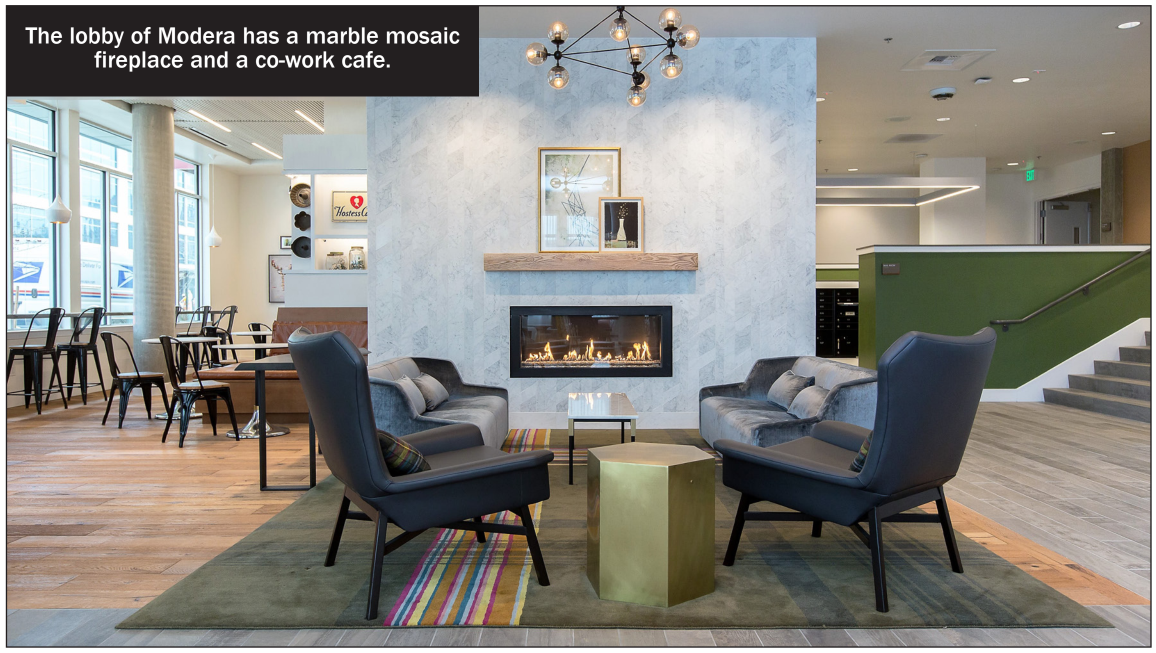
One answer may be that developers are really stepping up the level of luxury in mid-rises to appeal to higher end renters. While there has been an influx over the past few years of apartments that have had a more raw or industrial vibe, we are now seeing a new generation of mid-rises that boldly incorporate the luxurious finishes, appliances and amenities traditionally found in high-rises.

In addition, as downtown continues to densify with 40-story towers as the new standard, there seems to be a growing interest in the more "human-scaled" low- and mid-rise neighborhoods that include Capitol Hill, Ballard and West Seattle. These neighborhoods, which are typically centered on eclectic commercial districts, retain a special character, an "approachable" scale, and an easily identifiable sense of place. These factors make new apartments in these neighborhoods attractive to all segments of the rental market.

Sustainable luxury in Ballard

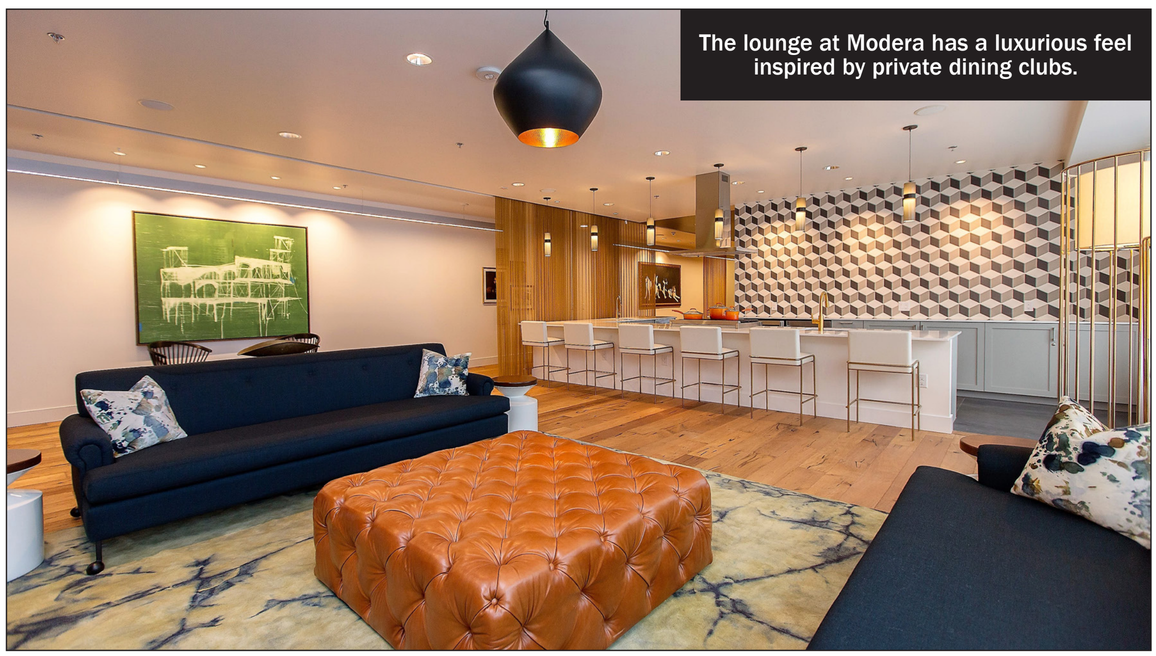
Six miles north of downtown Seattle, a new mixed-use project is currently achieving some of the highest rents in the city. The Commons at Ballard is an 85-unit luxury mid-rise apartment in the heart of Ballard. The boutique-scaled project is already 70 percent leased, and it is achieving overall asking rents in mid $3 range. Rents vary from $3.30 a square foot for two-bedroom units to over $4.50 a square foot for studios and urban one-bedroom units.

What is the secret of The Commons at Ballard? It may be its simultaneous focus on luxury and sustainability. Developed by Henbart LLC and designed by Studio Meng Strazzara architects, the project is slated to



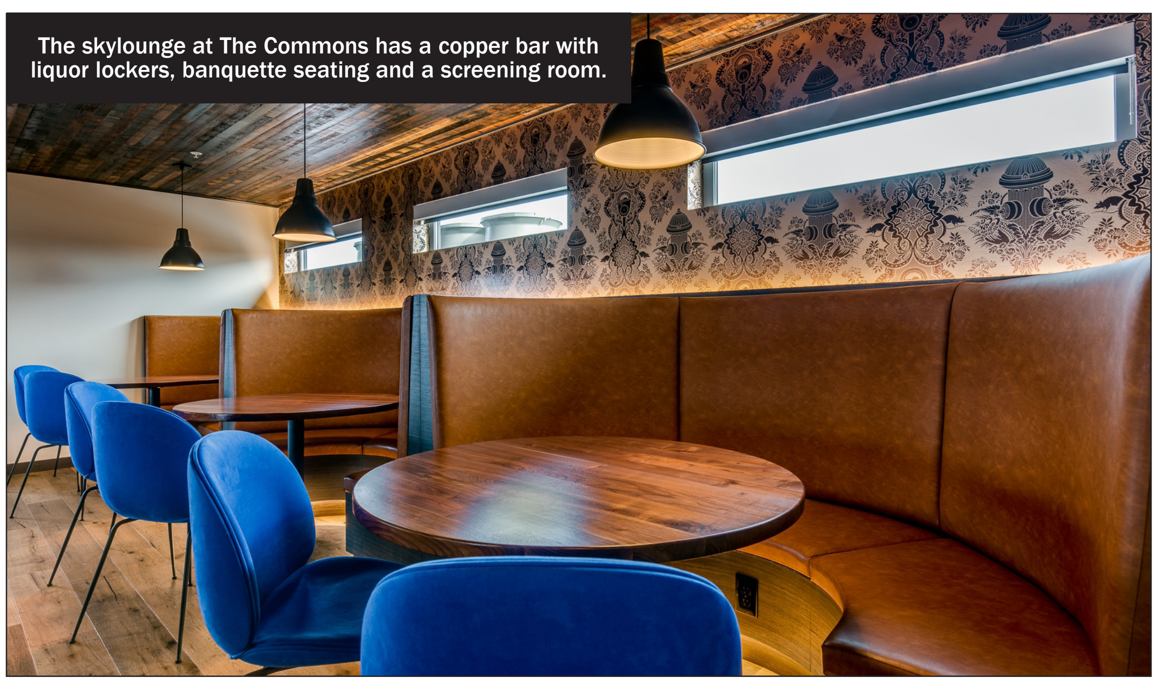
The lobby of Modera has a marble mosaic fireplace and a co-work cafe.

PHOTO BY DANIEL SHEEHAN



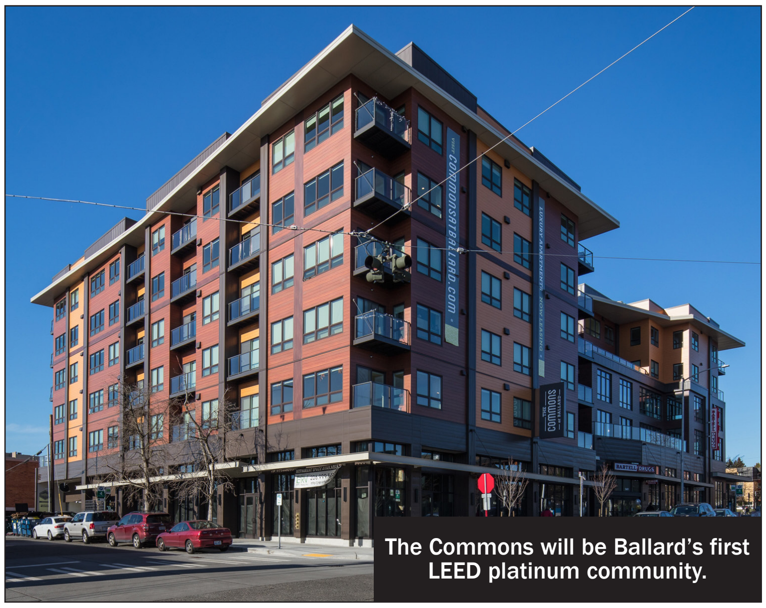
The lounge at Modera has a luxurious feel inspired by private dining clubs.

PHOTO BY DANIEL SHEEHAN



The skylounge at The Commons has a copper bar with liquor lockers, banquette seating and a screening room.

PHOTO BY BRENT SMITH



The Commons will be Ballard's first LEED platinum community.

PHOTO BY BRENT SMITH

become Ballard's first LEED platinum community. Sustainable elements include green roofs, electric charging stations and the incorporation of recycled materials.

"This was our first mixed-use community so we wanted to do something special," Henbart President Mark Craig says. "The Commons at Ballard is a catalyst for us in programming sustainability and connectivity in commercial development. We knew we were competing with much larger projects in both Ballard and downtown, so we focused on developing a unique property in terms of uses, quality and amenities."

The interiors, designed by Robin Chell Design, reflect a luxurious step up from typical mid-rise product. Kitchens have Bosch appliances, including gas ranges. The units are designed with ample storage, including custom closets, pantries and built-in wall systems from California Closets. Two-bedroom units have gas fireplaces, and most units have balconies. Bathrooms have tiled shower surrounds and illuminated mirrors. Additionally, all units have air conditioning — a rarity in the mid-rise market.

The Commons at Ballard also features a large multipurpose skylounge, two rooftop decks and a pet area. The skylounge has a large kitchen and bar with liquor storage lockers for residents, as well as banquette style seating and an indoor/outdoor fireplace. Velvet drapes frame the entrance to the separate media room, where gamers and movie lovers can host private events. The building also has secured, illuminated bike storage rooms on each residential level.

The Commons at Ballard is reportedly attracting tenants from several relatively new downtown high-rises. The tenants are drawn to the high-quality finishes, boutique scale and on-site amenities, as well as to the building's location. A Bartell Drugs store anchors the ground floor retail, and will soon be joined by a full-service, farm-to-table restaurant.

Modern luxury in SLU

Modera South Lake Union is a new 294-unit mid-rise on Dexter Avenue North. Developed by Mill Creek Residential and designed by Fish Mackay Architects, the project is a great example of how developers are incorporating higher-end finishes and abundant amenities to compete with other mid-rises and the growing high-rise market.

With over 7,000 square feet of amenities, Modera has multiple lounge and co-work areas, including a cafe-style work space fronting Dexter. The building also has a dining lounge, sports-themed rec-room and a luxuriously appointed screening room. In addition, there is a large fitness center with a separate multipurpose yoga and TRX studio.

When Robin Chell Design was brought on board to design the interiors for Modera, we knew the building was intended to be luxurious, yet approachable. Playful ceramic tiles, marble and stone mosaics, unique wall coverings and modern lighting fixtures were used to define the common areas and the overall project brand. Throughout the building, there are design details that are distinctly Northwest, including custom plaid area rugs and pillows, locally inspired art and the extensive use of rustic wood flooring.

The amenities were designed and programmed to be multipurpose, flexible spaces that optimize social opportunities like gaming and cooking, while at the same time providing more intimate spaces for small gathering or working. The resident dining lounge, inspired by private dining clubs, has a rich combination of custom fabrics and textiles, with a demonstration kitchen and fireplace.

Modera South Lake Union also has an expansive rooftop deck and pet park.

The residential units have gas appliances, quartz countertops and tile tub surrounds. Modera is also one of the few mid-rises in the SLU market that has air conditioning, a preferred option for the luxury market. The overall result is a unique, welcoming and luxurious mid-rise community that competes with nearby high-rises in terms design quality, finishes and amenities.

Apartments at The Commons have gas ranges, Bosch appliances and air conditioning.

PHOTO BY BRENT SMITH

Rents at Modera South Lake Union range from the low $3's a square foot for two-bedroom units to over $4 a square foot for studios and urban one-bedrooms, with many of the units being offered at $3.40-$3.60 a square foot.

It's an exciting time in the Seattle market with regard to the design and programming of new multifamily product. Though new high-rise apartments are raising the bar in terms of finishes, amenities and achievable rents, mid-rises are stepping up their game and are not too far behind. The result is greater distribution of luxury apartments citywide, where top-of–the–line rents can be found from high-rises in Belltown to mid-rises in Ballard.

Robin Chell Design is a Seattle-based interior design firm specializing in multifamily, commercial and hospitality projects.

SEATTLE REAL ESTATE MARKET FACES 3 BIG RISKS

A recent report says the skilled labor shortage may be the largest risk factor this year.

The end of January marked the start of the Chinese New Year, which proclaimed 2017 as the Year of the Rooster. For those who may not know, the rooster's personality is known to be confident, resourceful, talented — and even a bit boastful.

BY PAT CALLAHAN
URBAN RENAISSANCE GROUP

Given the way our economy has roared the last few years, sounds to me like Seattle's office market might mirror the rooster persona.

While I imagine most reading this article would agree with that assessment, let's remind ourselves why:

- According to Colliers, the Seattle/Puget Sound office market ended 2016 with a regional vacancy rate of 8.6 percent, following 4.4 million square feet of deliveries since the beginning of the year. Net absorption for the fourth quarter alone surpassed 1.4 million square feet and our region enjoyed its 27th straight quarter of positive absorption.

- The Urban Land Institute ranked Seattle its No. 4 overall market to watch in 2017 and the Washington State Employment Security Department recorded 53,500 new jobs in the Seattle-Bellevue-Everett metro area from November 2015-2016 alone. Rumors continue to fly that Cisco, Alibaba, eBay and Apple are all looking for space in the market. This is of course in addition to 2016 expansions by Facebook, Google, Amazon, Tableau, Salesforce, WeWork and more.

- Jones Lang LaSalle reports projects totaling 5.2 million square feet of new space are scheduled to open in the next 18 months, with just over half of this space pre-leased. That said, there are multiple prospects in the market — as mentioned above — that could fill the space not currently pre-leased.

Hot like a rooster, right?

Well, if I were to read the tea leaves, I would speculate our real estate market is in uncharted — even risky — territory.

Here's why.

The first risk factor is the word every real estate deal hates to hear: Uncertainty.

With a new president at the helm in Washington, D.C., and globalization on the back burner, it's unclear what this means for our nation's GDP, interest rates and inflation. According to a recent Wall Street Journal article, speculation persists that the Federal Reserve could "move faster to raise interest rates in order to prevent the economy from overheating if growth began to accelerate and stirred inflation."

Short-term rates rose twice since 2015 and additional increases are forecast in the months ahead.

The White House has repeatedly pointed to a forthcoming jobs plan, regulatory roll-back and tax cuts to grow the national economy and stave off "reflation" and rising interest rates. Some would caution, however, that the likely core of this jobs plan centers on increased military spending, infrastructure expansion and tax cuts that could add jobs — but will also significantly increase the federal deficit.

Perhaps the most concerning uncertainty is the White House's move toward nationalism, which would put global trade at risk and create new imbalances in the import-export market.

Most of these moves could lead to sharp cost increases for U.S. goods and services — and a lot of uncertainty.

The second risk factor: Rising costs.

In addition to potential rising interest rates and inflation, a shortage of skilled labor across the country combined with rising construction costs and other soft cost increases continue to slowly drive up overall project budgets. For example, Turner Construction's fourth quarter 2016 Building Cost Index for non-residential U.S. construction showed a 1.11 percent increase from the third quarter 2016 and a 4.9 percent yearly increase from the fourth quarter 2015.

According to the Urban Land Institute's recent Emerging Trends report, the skilled labor shortage may be the largest 2017 risk factor for real estate. They site several complex factors, including tighter immigration, a massive wave of retiring skilled-labor baby boomers, multiple sectors siphoning off key talent and an overall dearth of project managers.

Locally, the labor shortage is tighter and the impacts on real estate projects and costs are more significant.

The final risk factor: Our overabundance of "rooster" optimism.

While former President Franklin D. Roosevelt would caution that "the only thing we have to fear is fear itself," a healthy amount of fear in the face of unbridled good news is, in my opinion, a good thing.

Perhaps the Seattle commercial real estate slogan for 2017 should be: Proceed quickly, with eyes wide open.

The truth is, our city is not just experiencing sustained growth — it's fundamentally changing.

Take the changes to our downtown street grid happening from 2018–2023 alone. In five years, the following will transpire: closure of the downtown bus tunnel and subsequent addition of 500 buses back to our CBD surface streets; $1.6 billion convention center expansion; First Avenue streetcar construction/opening; Alaskan Way Viaduct demolition and construction of the new Alaskan Way surface street; construction of the 26-block central waterfront park; construction and opening of Madison Street bus rapid transit; and construction of new protected bike lanes in the CBD.

Whoa.

Dramatic growth has dramatic impacts. This is evident in Seattle's collective focus on finding tools to create greater housing affordability amidst rapid change in a land-locked region, as well as acknowledging our shortcomings and ongoing needs to address Seattle's growing homeless population. Both issues will persist and continue to need attention, resources and partnership between the business community and our local governments.

But more change is coming.

And if we're not diligent and steadfast — with eyes wide open — as the year unfolds, perhaps our largest risk factor is our own success.

Pat Callahan is founder and CEO of Seattle-based commercial real estate company Urban Renaissance Group, which has an operating platform of more than 10 million square feet across Seattle, Bellevue, Portland and Denver.

TRANSFERABLE DEVELOPMENT RIGHTS: WHERE'S THE INCENTIVE?

Restrictions on incentives make transferable development rights from the city of Seattle and King County under used.


BY JOE STOCKTON & LARRY COSTICH
SCHWABE, WILLIAMSON & WYATT

Transferable development rights (TDR) programs in the city of Seattle and King County are great in theory but poor in practice.

These programs are intended to incentivize property owners and developers to increase project density while achieving these aspirational goals of local governments:

- protecting agricultural and forest lands
- promoting affordable housing
- preserving landmark structures
- limiting urban sprawl

In practice, however, restrictions on their use and transferability, as well as the cost to purchase TDR, render this worthy tool nearly worthless to developers. In 2017 and beyond, the city of Seattle and King County have the ability to invigorate the TDR market by lifting a few restrictions on use and lowering the price at which they sell these rights.

Such reforms could provide the proper incentives for developers to purchase regional development rights, thereby fulfilling the city's and county's aspirational goals.

How does TDR work?

As the name suggests, TDR programs are market-based tools that allow development rights to be transferred between parcels of land. Those development rights sold from one property — the "sending" site — can be purchased to achieve greater density on another property — the "receiving" site.

Restrictive covenants or conservation easements are then recorded against the property title of the sending site to reflect the development rights sold. Washington's Growth Management Act authorizes the use of TDR programs as a tool to achieve the act's goals of preserving natural resource areas and concentrating urban growth.

The city of Seattle and King County have each established TDR programs and marketplaces to allow developers to increase project density.

Under the city's program, development rights can be transferred from landmarked structures, affordable housing units and open space areas to receiving sites within the same zoning classification. Developers may also exceed the applicable base floor area ratio (FAR) limits for a project by purchasing the unused FAR from other properties within the same block.

In 2013, King County and the city of Seattle entered into an interlocal agreement, requiring developers to purchase development credits from agricultural and forest lands in rural King County in exchange for obtaining greater density in South Lake Union and Denny Triangle development projects. As part of this agreement, developers for projects in these receiving sites must purchase regional development credits from the county to achieve 40 percent of their extra residential floor area and 25 percent of extra commercial floor area above the base FAR.

So much TDR, so little use

Although these TDR programs appear to offer significant public and private benefits, there are surprisingly few TDR transactions each year. City of Seattle data showed only two private intra-city transactions in 2015, while in 2016 there seems to have been only one noteworthy transaction. Similarly, King County sold TDR in five transactions in 2016 to increase density, primarily in South Lake Union and Denny Triangle.

Two projects exemplify these transactions:

- Solterra acquired 3,851 square feet of density from the Melrose Market at a cost of $134,785, or $35 per square foot, as part of the development of the Cove apartments at 601 E. Pike, scheduled to open this spring.
- An office development at Ninth Avenue and Thomas Street purchased development rights to add 12,776 square feet of bonus commercial floor area and 1,029 square feet of bonus residential floor area at a total cost of $317,240, or a blended rate of $23 per square foot.

In most TDR transactions, developers acquire the development rights through the TDR "banks" managed by the city and county. Yet, county and city purchases of TDR have far exceeded their sales, causing an oversupply of TDR maintained in their banks at artificially high prices. This stagnant TDR market is all the more surprising in light of the unparalleled level of development within the Puget Sound region and record high land costs.

A few simple fixes

In order to truly incentivize TDR transactions and achieve the desired goals, the city and county should remove unnecessary obstacles restricting participation in the TDR marketplace.

- **First, the interlocal agreement between the county and the city should not limit the receiving sites to just South Lake Union or Denny Triangle.**

The incentives to purchase regional TDR should apply equally to all areas where the city desires increased density, such as those areas identified in Seattle's Housing Affordability and Livability Agenda (HALA). Developers throughout all of Seattle could then become prospective purchasers of regional development credits, which would serve to promote the hoped-for goals of affordable housing and natural resource preservation.

- **Second, the price for TDR credits sold through King County's bank should be significantly reduced.**

King County currently prices TDR between $22,000 and $24,000 a credit, corresponding to approximately $22 per square foot of additional density. Considering increased land and construction costs, coupled with the opportunity to achieve bonus density at cheaper rates through other city incentive programs, developers are not properly incentivized to maximize their purchase of regional development rights.

Profiting from selling TDR should not be the goal of the county's program. Rather, the county should sell those development rights at an affordable rate to achieve its goals of preserving designated natural resource lands within its unincorporated areas.

- **Third, the city should liberalize the restrictions for TDR transactions within the city.**

Owners of landmarked and open space areas should be permitted to sell their TDR outside of their immediate zoning district to receiving sites in areas throughout the city, such as those identified through HALA. Thus, owners of sending sites could realize a potential revenue

DEVELOPMENT RIGHTS — PAGE 16

DEVELOPMENT RIGHTS

CONTINUED FROM PAGE 15

stream and therefore incentivize the acquisition and maintenance of such properties.

Further, commercial or multifamily property owners should be able to sell their unused FAR to receiving sites anywhere within the same zoning district — not just the same block. By expanding the marketplace, the city will increase the demand for TDR transactions, thereby promoting infill development and greater density.

- **Finally, the city should limit the use of loopholes in its land use code that allow developers to maximize density on a project site through the use of combined lot agreements or FAR restrictive covenants, the result of which circumvents the TDR program.**

It has become commonplace for projects to enter into unregulated agreements with adjacent parcel owners to increase the amount of square footage applicable to the project, which in turn increases the project's density but compromises the redevelopment potential of the adjacent site.

Such combined lot agreements allow a project's base and maximum FAR to be calculated using the square footage of two or more lots even though the actual project will be developed on a single lot. This practice is short-sighted in that it impedes future redevelopment on the other part of the site and may actually encourage sprawl in the long-term by eliminating urban infill sites.

TDR programs in the city of Seattle and King County fall short of their lofty, but worthwhile, goals. Until the city and county properly incentivize participation, these programs will remain an underused tool to achieve their aspirational goals of preserving farmland, forest land, and historical buildings while promoting more affordable housing and open space.

Larry Costich is a real estate development and transactions attorney who helps get industrial, residential and mixed-use projects built. Joe Stockton is a development attorney practicing in all areas of real estate and construction.

RUNSTAD

CONTINUED FROM PAGE 9

center's development of tomorrow's real estate leaders by offering students an interdisciplinary and comprehensive real estate education that values sustainability. The cultivation of new talent will become even more important to local companies as Seattle's market continues to expand.

Seattle is the ideal location for a school like Runstad. Currently, the city ranks near the top of several national lists for the number of cranes in operation, demand for new-construction permits, appreciation of home prices, overall job growth, and wage increases, to name just a few.

These are positive economic benchmarks, but rapid change also creates stress in our community at large. Seattle is also home to ever-increasing traffic congestion, lack of affordable housing, economic disparity, displacement, and other ill effects of urban growth.

These are challenges current and future leaders must address.

As our industry ages, new leaders are always emerging to help take us places unforeseen. But we will need more leaders that appreciate our area's history, our community values, and the aspirations of established and new businesses that will need office space. Their employees will seek affordable, centrally located housing and access to goods and services and public transit.

It's community succession planning, in a way. That's where the UW and the Runstad Center play active roles — we are teaching, coaching and molding the next generation of leaders that can engage our values and develop solutions that we simply cannot conceive of today.

Two forms of education

In my time as director, I've discovered that a real estate education comes in two forms: academic and applied. There's no better place to learn real estate fundamentals than in an interdisciplinary environment, at the College of Built Environments, simply because it includes all the critical disciplines of a real estate career: construction, design and planning. Relative to other national, and even international, programs, the Runstad education is unique in this specific way.

The most critical element of a real estate education, however, is the applied side of the curriculum. Indeed, it offers the highest potential to generate leaders who will make an impact in the marketplace. Internships, mentorships, practicing professionals teaching as adjunct professors, and our fellows program are just some of the ways Runstad executes on that promise. Our students meet frequently with seasoned local real estate executives to discuss market dynamics — invaluable access that helps to ready them for the working world.

Demand for Runstad Center leaders is well beyond the supply, but we have taken extraordinary steps to build on our successes.

Simon Stevenson, our new director, is a finance academician from the University of Reading in England. He brings deep experience in finance, as well as an international perspective from the world's leading financial hub.

James Young, our new associate director for research, began his tenure in February. Young comes to us from the University of Auckland, and has 20 years of industry experience in both the U.S. and Europe, with a focus on housing markets.

With the recent extraordinary gift from the Jacobi family and Windermere Real Estate, we will soon hire three new professors and begin a minor in real estate. And, within a year, the Runstad Center will have one of the largest dedicated real estate faculties in the country.

Tackling diversity

Despite all these accomplishments, our local real estate industry, as well as the Runstad Center, can do much better in one important area: diversity.

We're making progress, as half this year's class is comprised of women and 40 percent of students are from outside the U.S. However, our Latino and African-American populations should have a bigger role in the next generation of Seattle's development, and it's something we're all targeting for improvement.

We are developing programs to reach Seattle-area students of color, in hopes of introducing them to the tools of the trade well before they begin to dream of how they can have an impact. They should have an appreciation of the built environment, how it can shape their own community and which of the many disciplines at the College of Built Environments can give them the best tools.

While I didn't get a degree from the Runstad Center, my time in this inspirational place has taught me a few important lessons.

First, despite its size and considerable local profile, we often take the UW for granted. It's not just an economic engine; the UW is also a solutions engine. It is a place to learn, lead and transform in ways that go well beyond our current understanding.

Second, I have come to more fully appreciate that education is only partly provided through the academic curriculum — a true education is informed by the practical realities of a marketplace. That principle works the other way as well; innovation is actually enabled by a mastery of the academic fundamentals.

Lastly, I was not wrong when I chided my own children, as my father chided me, that "your homework is never done," learning is a lifelong endeavor, and it doesn't end on graduation day.

What I see in the next generation of leaders is a full appreciation of the potential their time as a student at the Runstad Center has bestowed upon them and the responsibility to change the world that comes with it. I am thankful we have such opportunities at the University of Washington and hopeful about our collective future.

Peter Orser is outgoing director at the Runstad Center for Real Estate Studies at the University of Washington. He is the former president and CEO at Weyerhaeuser Real Estate Co., and led Quadrant Homes for more than 25 years.

SURVEYS

BOSA DEVELOPMENT

Bosa is developing One88, a 21-story luxury residential tower in downtown Bellevue.

IMAGE FROM BOSA DEVELOPMENT

Specialty: Building residential and commercial properties
Management: Nat Bosa, founder
Founded: 1986
Headquarters: Vancouver, B.C.
Projects: Insignia in downtown Seattle; One88 in downtown Bellevue

Company founder Nat Bosa responded to questions about his firm's activities in the Seattle market.

Q: You've had success up and down the West Coast, what makes the Seattle area unique?

A: Greater Seattle is a livable city that has really matured, and there is strong demand for new, luxury urban living. We had great success with Insignia, which featured a level of quality and amenities that really pushed price points — out of the 698 residences we only have two left and don't expect them to last long. Our newest venture is One88, a 21-story luxury residential tower in downtown Bellevue.

Q: Insignia is in a transitional neighborhood, on the edge of Belltown and South Lake Union, why did you select that area?

A: A large part of our success is having the vision. That is what we do, and do well. When my son and Bosa President Ryan Bosa purchased the site for Insignia, he had the foresight to know that this would be an area of growth. We also knew the opportunity to purchase an entire city block — a super block — for residential was limited. Shortly after we launched sales at Insignia, Amazon proposed its three-tower office campus just a block away, which validated the vision.

Q: Assuming you want to continue your expansion here, what challenges do you foresee?

A: My philosophy is this — plan to buy your summer hat in the winter, then sell it in the summer. We have an uncommon vision, which has made us successful over the last 40-plus years. The movement towards vibrant city centers and the number of people seeking an alternative to suburban living is exciting. Downtown Bellevue and One88 is a great example of this, it is booming. From new corporate offices and headquarters opening to an expanding landscape of dining and shopping, demand to live in the Bellevue downtown core continues to grow. We believe Bellevue is ready.

Q: Seattle and Vancouver have seen an unprecedented building boom. Will the market continue to grow in the next five years?

A: Seattle has really grown over the last several years, and I think it will only continue to grow. There is a lot of buzz, interest and demand in the area and I'm confident it will continue. It will also see a lot more interest from Chinese buyers. The Vancouver residential market is still strong with residential values that compare to other world-class cities like New York, London and Sydney. I believe we will continue to see this for the next five years.

Q: Are you more bullish on the U.S. West Coast market, or on the Canadian market?

A: We are bullish on the entire West Coast; otherwise we wouldn't be building like we are today.

Q: You've accomplished a great deal since your family came to Canada in 1956. What project have you dreamed of accomplishing before you retire?

A: No plans of retiring. Each project has been its own gem. Right now, we are focused on bringing high quality and unique design to One88 as well as our other projects in San Diego and North Vancouver. I am extremely proud of the sites we own and look forward to all of our future projects.

VULCAN INC.

Specialty: Vulcan Real Estate, a division of Vulcan Inc., specializes in development and portfolio management services from site selection and urban planning to build-to-suit construction, leasing, financing and asset repositioning
Management: Paul G. Allen, founder and chairman; Bill Hilf, CEO; Barb Bennett, president and COO; Ada M. Healey, vice president, real estate
Founded: 1986
Headquarters: Seattle
Projects: 111 Westlake, an 18-story, 400,000-square-foot office tower planned in South Lake Union; Arbor Blocks, two six-story office buildings under construction in South lake Union; Sitka Apartments, 384 units under construction in South Lake Union

Ada M. Healey, vice president of Vulcan Real Estate, answered questions from the DJC about Vulcan's plans, and trends and issues in the industry.

Q: Where do you expect to see the most growth in real estate development, geographically or in a particular sector, in the Puget Sound region?

A: Job growth continues to surprise to the upside in Seattle and positive net immigration is not showing signs of slowing down. This will continue to drive development in close-in urban areas in downtown Seattle and Bellevue. But as the realities of expanded light rail become more tangible I expect we will see increased development along transit lines — areas like the U District, Northgate and parts of the Eastside outside of the Bellevue CBD.

Q: Is it difficult for new high-rise office projects to be successful in Seattle, given the penchant for low- and mid-rise office campuses (with the exception of Amazon)?

A: In recent years much of the office demand has come from tech firms that have been drawn to mid-rise buildings due to their larger floorplates, which are thought to be more conducive to sparking collaboration and creativity.

Amazon has shown that they can make the high-rise model work (in Denny Triangle) so I don't think high-rises are off limits to the tech sector. However tech firms tend to prefer single tenant occupancy and high-rises are generally too large for most single users. High-rises can be successful but spec high-rise office buildings are most likely to attract more traditional tenants — law firms, financial institutions and the like.

Q: Will Vulcan invest more in the Central District and Yesler Terrace, and why is it not investing in Seattle's downtown core/financial district?

A: Vulcan is actively seeking new investment opportunities throughout the Puget Sound region. We typically focus on ground-up development and/or value-add opportunities, which are more likely to be found in areas outside the downtown core/financial district. In addition to our plans for 23rd & Jackson in the Central Area, we have three residential projects at Yesler — the Batik Apartments are under construction and we will break ground on the second project this summer. At completion, our three projects at Yesler will include more than 650 units of market rate and affordable housing.

Q: What is Seattle doing right — and wrong — in creating more affordable housing, and will that approach provide enough housing affordable for workers who are not low-income, but who are not making Amazon-level wages?

A: Along with our partners at the Coalition for Housing Solutions and Seattle for Everyone, we supported the mayor's landmark "Grand Bargain" on affordable housing. It is important that there is a balanced approach that meets the objectives of many stakeholders — labor and business, for-profit developers and low-income housing providers, urbanists and social justice advocates, as well as community members and people who require more affordable housing options.

For many years the only tool that has been available for private developers like Vulcan is the Multifamily Tax Exemption program. We have used that program widely and Vulcan has developed more affordable housing in South Lake Union than any other private developer. Sixteen percent of our rental portfolio (299 units) is affordable to households earning 65 percent to 85 percent of area median income — that includes teachers, police officers, firefighters and dual wage earners with jobs like hotel housekeeper, golf course groundskeeper, restaurant worker, hairdresser and other minimum wage jobs.

I think expanding the number of tools available for developers will be the most effective at producing more affordable housing.

Q: Is the market deep enough to sustain the number of high-rise apartment projects planned or being built in Seattle?

A: Seattle has become increasingly urban and with that comes high-rise residential development. Tech workers enjoy living close to work and with a concentration of tech jobs in the urban core, it is no surprise to see so much new residential development, particularly high-rises.

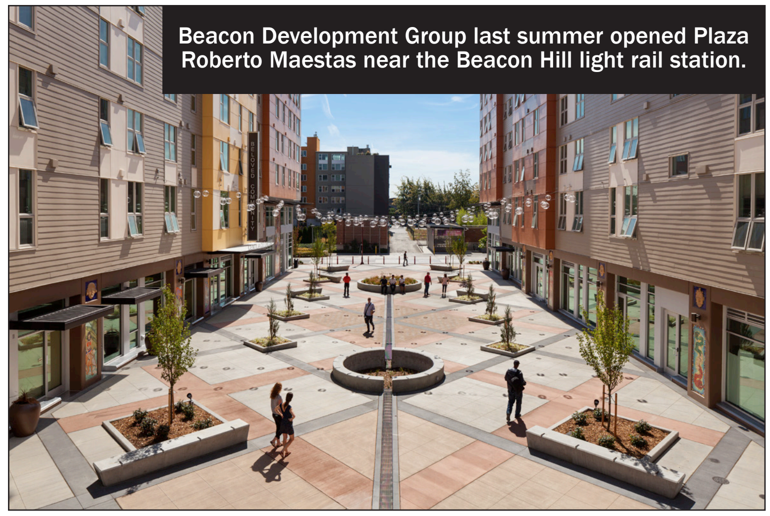
A lot of tech workers are millennials who place high value on access to restaurants, retail and public transit and they are creating what appears to be insatiable demand. But the oldest millennials are in their mid-30s and may start looking at the advantages of suburbs (like larger homes) for raising families. I think the millennial suburban flight may be balanced by increased demand from empty nesters (boomers) moving back to in-city apartments.

Q: What are the biggest challenges facing real estate in the region?

A: Lagging transit and transportation infrastructure — we have grown very fast as a region and our infrastructure hasn't kept up. But with the passing of ST3 our region has committed to expanding transit and improving major transportation corridors and this will be essential for Seattle to remain competitive with other gateway cities.

SURVEYS

BEACON DEVELOPMENT GROUP



Beacon Development Group last summer opened Plaza Roberto Maestas near the Beacon Hill light rail station.

PHOTO BY WILLIAM WRIGHT PHOTOGRAPHY

Specialty: Affordable housing for nonprofits and housing authorities
Management: Paul Purcell, president; Brian Lloyd, vice president; Cindy Proctor, vice president
Founded: 1999
Headquarters: Seattle
Projects: Plaza Roberto Maestas, Beacon Hill; MarketFront senior housing, Pike Place Market

Paul Purcell, outgoing president of Beacon Development Group, discussed the challenges facing affordable housing developers and shared some of his post-retirement plans.

Q: Congratulations on your upcoming retirement. What's next for you and for the company?

A: After I retire on March 31, I will remain as a part-time strategic advisor for the balance of 2017. After that, I am excited to join my wife, Barbara, in the ranks of the retired and spend more time with my grandchildren and do a lot more traveling. I have been asked to be on a couple of boards and committees, and I will evaluate those in the near future.

For the company, I am most excited that Cindy Proctor and Brian Lloyd have stepped into the positions of vice presidents, and together they will lead Beacon into the future. As we are now a subsidiary of Beacon Communities out of California, their work will grow to include developing new or existing communities in both Washington and California and continuing our consulting activities here in Washington. They will report to Ancel Romero, president of Beacon Communities.

Q: What are a few of the biggest challenges facing affordable housing developers?

A: The largest immediate threat is to the Low Income Housing Tax Credit program. That program currently is involved in funding over 90 percent of the affordable housing developed in the country today, and it is facing great uncertainty. Since the election, billions of dollars of LIHTC equity has disappeared from the market as users of the credit have no confidence as to what the future holds.

In spite of the healthy economy here in the state of Washington, we face the tremendous challenge of funding education and mental health as well as housing, so the dollars available for housing development face tremendous competition.

While in Seattle and a few other cities local resources have been helpful, the state has been a major component of funding for many projects. In most rural communities, the state is the only source of gap funding to allow a project, even with tax credits, to proceed.

A third challenge is the continuing rise in the cost of construction. With the private market as hot as it has been with large commercial and market residential, it is hard to get interest in smaller affordable projects, and the costs continue to rise.

Fourth, the cost of land anywhere near transit or services has skyrocketed and greatly increases the per-unit cost of affordable housing.

Finally, we are anticipating rising interest rates, which will add further to the total costs of these projects.

Q: What do you make of the city of Seattle's proposals to encourage more affordable housing?

A: Seattle is doing a great job of trying to address housing affordability, but it is a very complex job which requires the multiple fronts that the city is attempting to attack the problem.

We need to get more affordability out of the assets and resources that the city has, such as zoning, infrastructure and transit, and not rely just on funding. Every decision of the city needs to be viewed from the lens of affordability. It cannot be isolated from all of these other decisions.

Q: Do you see any trends in the types of projects you're developing?

A: We are striving to drive affordable development more to the transit hubs and communities of opportunity to ensure the long-term success of the residents in those communities. Unfortunately, this means more expensive land and competing with the market to acquire that land.

Mixed-use and mixed-income housing needs to be developed more as the market adjusts to these types of developments.

We need to look at modular construction and any other means we can pursue to drive down the cost of affordable housing and therefore increase the number of units we can get out of the limited resources available.

Q: Do you foresee any shift in your geographical focus? Where are needs the greatest?

A: There are great needs everywhere. We are working in counties up and down the I-5 corridor and in Eastern Washington. While the gross numbers are greater in the cities, the very real needs in our smaller communities are desperate and need attention.

With the growth of homelessness across the state and the demand that it is placing on our resources, it is clearly a problem that is greater than just housing availability. We need mental health support and wage support to allow more working people to afford reasonable housing.

WRIGHT RUNSTAD AND CO.

Specialty: Developing, acquiring, managing and leasing commercial office buildings, primarily in the Northwest
Management: H. Jon Runstad, chairman and CEO; Gregory Johnson, president; Walter Ingram, executive vice president and CFO; Cindy Edens, senior vice president/director of development; Mary Richards, vice president/controller; Lisa Bergeron, vice president/controller; Jeff Myrter, vice president/property management and general manager
Founded: 1972
Headquarters: Seattle
Projects: 36-acre Spring District mixed-use development, Bellevue; Rainier Square mixed-use development, Seattle

The tech industry may cast a long shadow in Seattle these days, but it's not the only industry leasing space around here.

Wright Runstad & Co, whose managed property portfolio includes downtown office towers such as 1201 Third Ave. and Rainier Tower, still leases to plenty of old-school firms in fields like finance, insurance and real estate.

"Traditional businesses are not going away," said Wright Runstad President Greg Johnson. "They're a significant part of the CBD's economy, and they're chugging along and in many cases expanding, renewing leases and moving, and doing all the things they do."

Downtown Seattle's attractive combination of transit and amenities will continue drawing people and companies of all types, he said.

High-rise tech

What's new is that tech companies are adding more diversity to the tenant mix. Though concentrated on the periphery of the CBD, they're also leasing space in traditional high-rises like the 42-story Russell Investments Center, where Zillow has its offices. Groupon has offices in the 55-story 1201 Third Ave. tower.

Johnson estimates tech firms lease as much as 50 percent of the company's available space in downtown Seattle. Wright Runstad's portfolio also includes commercial properties on the Eastside, South Sound and Boise, Idaho.

Two big projects

Much of the action at the company is happening on the development side, where work on the 36-acre Spring District in Bellevue is well underway, and groundbreaking on the 1.1 million-square-foot Rainier Square complex in downtown Seattle is slated for late summer.

"We have our hands full right now," Johnson confirmed.

Rainier Square will include a 58-story mixed-use tower and a 12-story hotel. The city granted a master use permit in August, and the first occupants should be moving in sometime during the third quarter of 2019.

"We're finalizing all the things we need to do to start construction," Johnson said.

In Bellevue's Spring District, Security Properties is opening Sparc, a 309-unit apartment complex with ground-floor retail. And Global Innovation Exchange, an 86,000-square-foot technology institute, is set to open in September. Work on REI's new headquarters is also underway.

"It's starting to get exciting," Johnson said of all the progress.

With its mix of industrial, office, retail, education and residential space, the Spring District will be a sort of mixed-use transition zone that Bellevue doesn't have now, like Pioneer Square or South Lake Union.

The neighborhood is "going to complement different parts of Bellevue," Johnson said. It will be walkable, well served by transit and local retailers, but "retain some of its gritty character."

Given all the development activity, Johnson doesn't count out taking on a bit more.

"We always keep our eyes on unique opportunities," he said, "but we're focused on executing what we have."

How long will it last?

In a region with a history of booms and busts, the current hot streak is starting to feel a little long in the tooth.

"You start to wonder how long is this going to last," Johnson said.

For now, positivity reigns.

"As we talk to businesses that occupy (our) buildings, they're still very optimistic for their business prospects," he said. "We're maybe a little more wary, but still firmly in the optimistic camp."

Wright Runstad has navigated its economic ups and downs by being careful not to get too overextended.

"We work very hard on our bigger projects to get them preleased before we build," Johnson said. "We avoid situations where we grow too much or borrow too much."

SURVEYS

SEATTLE HOUSING AUTHORITY

Specialty: Providing housing and supportive services for people with low incomes
Management: Andrew J. Lofton, executive director; Anne Fiske Zuniga, deputy executive director; Stephanie Van Dyke, director of development
Founded: 1939
Headquarters: Seattle
Projects: Hoa Mai Gardens, a 111-unit low-income apartment building opening this summer at Yesler Terrace; Red Cedar, in final design, will have over 100 low-income apartments in the Yesler Terrace redevelopment

Stephanie Van Dyke, SHA's director of development, answered questions from the DJC about the Yesler Terrace redevelopment, the housing authority's projects, and issues in the industry.

Q: Why isn't Yesler Terrace getting high-rise or office development?

A: Yesler has an extraordinary location and is in the early phases of transformation so it makes sense that the initial private sector investments are in the types of development that are the bread and butter of the current cycle — mid-rise apartment buildings.

We expect high-rise and office development will follow the establishment of the mid-rise market, although that may come sooner if an office user particularly values the location and wants to secure it.

Q: What development sites does SHA have on the market at Yesler Terrace?

A: SHA has had three offerings for residential property and all are either sold, under contract or in due diligence. Interest has been very high, with competition from quality developers.

SHA has high-rise commercial office development sites available in the northwest area of Yesler Terrace near Harborview Medical Center and overlooking downtown and Elliott Bay.

Q: How much has it cost to create the infrastructure and lobby for an upzone for redevelopment of Yesler Terrace?

A: SHA does not lobby. We do use a process of widespread early engagement. From the outset, SHA undertook a comprehensive approach to master planning the site in preparation for redevelopment so that the table would be set for all partners to participate in an efficient and timely way.

Our master planned community approach incorporated a rezone, planned action environmental impact statement and mitigations. This allowed SHA and our partners to plan ahead for required mitigations. SHA took on responsibility for infrastructure improvements for the entire site, eliminating the need for development partners to go through that process. The cost for the master plan community entitlements process and the new streets, sidewalks, pocket parks, pedestrian paths and utilities totals about $48 million.

Q: What real estate is SHA buying, developing or improving besides Yesler Terrace, and how much of it is low-income housing?

A: SHA only improves and develops low-income housing. However, it sells some parcels in its communities to private developers to pay for SHA's new low-income housing.

SHA is currently evaluating development opportunities on sites in Seattle that it already owns. We are not actively seeking to buy additional property but remain open to opportunity. SHA is continually making necessary improvements to our portfolio of more than 8,000 units in 361 locations in Seattle.

Q: What are the biggest real estate-related issues facing SHA?

A: The real estate boom has driven the cost of construction to a point that makes it difficult to build new low-income housing. On the other hand, the boom is driving the value of land sales at Yesler, which are needed to fund our low-income housing construction there.

Q: What big trends or changes in rules are affecting housing authorities?

A: The most important source of funding for low-income housing construction is the Low-Income Housing Tax Credit program. If that program is reduced or eliminated in the current effort at the federal level to make changes in tax policy, it would impact the availability of that valuable source of funding and be devastating to the ability of housing authorities and others to produce low-income housing.

SKANSKA USA COMMERCIAL DEVELOPMENT

Specialty: Development and construction in commercial real estate, transportation, infrastructure, healthcare, education, data centers and aviation
Management: Rich Cavallaro, USA CEO; Shawn Hurley, USA commercial development CEO (oversees U.S. real estate operations)
Founded: 1887, Malmo, Sweden; 1946, Seattle; started commercial development in Seattle in 2011
Headquarters: Global headquarters, Stockholm, Sweden; U.S. headquarters, New York City
Projects: 2+U, a 38-story office tower in downtown Seattle; 400 Fairview, a 14-story, Class A office building in South Lake Union with open style retail market hall

Murphy McCullough, executive vice president, answered some questions about his firm and the local real estate market.

Q: What has been Skanska USA Commercial Development's focus in the Seattle market?

A: In the last year, we were focused on leasing the office and retail space at our 400 Fairview project in South Lake Union, and getting through the entitlement process to begin construction on our new downtown office tower project, 2+U. 400 Fairview is now 100 percent leased and we broke ground on 2+U just this month. Overall, our team is always keenly focused on two things: what our clients need to succeed at what they do and what our communities need to thrive.

Q: Are there any particular areas in Seattle that Skanska likes?

A: Most of our business is focused on Seattle's urban core, but we will always listen to what our clients need and what the market needs, and will adapt to that. Two great examples of that are our Stone34 project we developed as Brooks Sports' headquarters in Fremont, and our Alley 111 multifamily development in Bellevue.

Q: What is one of the main challenges Skanska has faced in the last year?

A: Seattle is one of the hottest markets in the country right now. One of the biggest challenges we face is the availability and cost of land.

Q: On a macro level, what economic factors are driving the Seattle commercial market?

A: The success of Seattle's commercial market is driven in part by above average job growth, a well-educated workforce and, of course, growth in the technology sector.

Q: How aggressive or conservative in the Seattle market will Skanska be in the coming year?

A: Skanska is committed to the Seattle community. We are always on the lookout for the best opportunities to meet our customers' needs, and this year will be no different in that regard.

2+U, a 38-story tower in downtown Seattle, has 665,000 square feet of office space above retail and restaurant space.

IMAGE BY STUDIO 216

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