

PORT OF SEATTLE NORTH BAY PROJECT

REAL ESTATE DEVELOPER AND BROKER INTERVIEW SUMMARY

Overview of Interview Approach

The North Bay Development Team conducted interviews with twenty-two developers and brokers, representing sixteen real estate development and brokerage firms recognized as regional and national leaders in the field. The interviews were designed to solicit the developers' and brokers' perspectives on redevelopment opportunities at North Bay. Interviews were conducted during September and October 2004.

For the developer interviews, members of the North Bay Development Team met with one or two leaders of each company. Collectively, the developers interviewed had experience in all the uses/product types the Port is considering for North Bay including industrial, R & D, office, retail, and residential. The brokers met with the Development Team in groups, grouped by specific areas of expertise: biotech, office, retail and residential. The interviews focused on their respective areas of expertise, though the brokers were encouraged to speak broadly about all land uses. Several industrial brokers were also interviewed by phone as part of the *North Bay Traditional and Emerging Industrial Land Market Study* (Berk & Associates, February 2005), a separate, but related, market research effort. The industrial brokers' comments support the key findings presented in the industrial study.

This summary highlights key themes from the real estate developer and broker interviews, identifying areas of congruence and dissonance among interviewees. Attachment A contains a complete listing of the interview participants. Findings from these interviews provide key inputs to the market assessment of potential uses at North Bay. **However the views expressed by the participating developers and brokers do not represent those of the Port.**

Both developers and brokers were asked to address the following topics (unless otherwise noted):

- Vision for the site;
- Potential density and scale of uses for the site, as well as marketability and viability;
- Advantages and disadvantages of the site in comparison to areas of the City and region;
- Key decision factors for attracting users to the site (developers only);
- Potential land values and absorption rates;
- Specifics with regard to the viability of a central utility plant (developers only); and
- The role of sustainability in attracting potential tenants to the site.

Key Themes

This summary highlights key themes from the developer and broker interviews. Where noted, the frequency of response represents a portion of the perspectives provided by the sixteen participating firms.

Opportunities for North Bay

All interview participants suggested mixed-use development for the site as opposed to a development focused exclusively on industrial use. Both developers and brokers experienced difficulty evaluating the market potential for the site because the land basis (value per square foot of land) would be a policy-based decision, rather than market-based, for the Port of Seattle.

From the real estate developers' perspective. All of the real estate developers interviewed suggested mixed-use development for the site – however, the mix of uses offered or the phasing order in which they were suggested varied. The majority of developers interviewed urged a long-term view of demand and development of the property. One-third of the developers suggested that flexibility should be built into the site plan to allow for changes in use over time. All developers assumed some degree of phasing either explicitly or as demonstrated in the language chosen to describe uses for the site. Some suggested developing retail first, then housing followed by office, and others suggested the opposite order of development.

All of the developers interviewed suggested that development would be absorbed on the site within 10 to 20 years. One developer suggested that 10 years would be an aggressive development timeline requiring strong political leadership. Several suggested that a single lead developer would be appropriate to coordinate development of the mix of uses, as opposed to the Port engaging several development firms.

From the brokers' perspective. All of the brokers interviewed suggested mixed-use development for the site as a method for reducing potential challenges associated with a single purpose use development on the site. Challenges with a single use stem from the need for density to cover infrastructure development costs, the large size of the site, and associated absorption requirements and risk. The mix of uses is expected to connect the site well to the surrounding area and create the potential for a “great urban center” of a similar scope, though not necessarily in design or tenant mix, to University Village. Under mixed-use scenarios, a residential component would have a mix of multifamily products, including some high-rise development to take advantage of stacking and potential views.

Brokers recognized that residential densities and building heights desired for mixed-use development could require an extensive entitlement process that could add cost and time to the development process. When asked about the role of sustainability on the site, most brokers felt that tenants would be interested in the concept, but would not be willing to pay a premium for it.

Vision for North Bay

In each interview, the vision for North Bay was a mixed use development with amenities – “a place to work and live” with an appropriate balance of R&D, industrial, residential, office and retail uses. Mixed-use was also viewed as a potential benefit for the site because it would spread risk, accelerate absorption, and allow for shared parking.

Developers were specific in describing their vision for the site. However, there was less agreement regarding the density and scale of development, as reflected in the development examples suggested:

- A low-rise waterfront community, urban village or lifestyle center that would combine housing, transit, restaurants, health clubs, day care, parks, trails and greenbelts to separate residential from other uses on the site.
- A tower of housing wrapped by retail (referred to as a Texas or Vancouver Donut) or eight to ten stories of tall and slender towers of residential development.

Improved access to the site was included in both the developers’ and brokers’ visions for the site, such as intermodal transit connections and connecting the blocks around the site to provide gateways and access to the site from 15th Avenue West.

Developers cited several examples of built projects the Port should consider in preparing a development plan for North Bay:

- University Village (Seattle)
- Pearl District (Portland)
- Country Club Plaza (Kansas City)
- Carillon Point (Kirkland)
- Coal Creek Harbor and False Creek (Vancouver, B.C.)
- Granville Island (Vancouver)
- Santana Row (San Jose)
- Lodo or Cherry Creek (Denver)
- Mission Bay (San Francisco)– this example was heralded in one instance and viewed as unsuccessful in another.

Potential Uses for North Bay

Potential uses for the North Bay property, listed in the order of the frequency in which they were suggested as viable uses in the developer interviews included: residential, retail, campus (research or office), technology/biotechnology, industrial, office and hotel uses. Potential uses – biotech, office, retail, and residential – for the North Bay property were discussed by brokers in terms of the advantages or challenges of one use in comparison to another. All of those interviewed suggested mixed-use development for the site as a way to avoid the potential challenges of each individual use and take advantage of the benefits each use could bring to the site. A diversity of product types within each land use was seen as a key determinant to a successful development, because this approach maximizes absorption and spreads the market and financial risk associated with any single land use or product type.

- **Residential.** In each interview, housing was referenced as an appropriate use for the site. Proximity to Downtown, adjacency to the Magnolia and Queen Anne neighborhoods, and access to public transportation were viewed as key advantages for residential development on the site.

From the real estate developers' perspective. Several developers suggested that while housing would be viable, its location on the site could be constrained due to proximity to BNSF's Balmer Yard. A broad range of residential products was suggested in the developer interviews, with the potential to serve many market segments. Suggestions included single-family residential, or a mix of owner-occupied condos and rental units for singles to seniors. One developer envisioned "mid-rise buildings that reflect an edgy, urban environment without having high-rise." Another suggested that North Bay could absorb a perceived demand for affordable housing. There was disagreement regarding the effect of the Port's intent to ground lease on potential condominium development. However, most agreed that ground leasing would make financing more difficult.

From the brokers' perspective. Brokers had different visions for the site's residential development and suggested a broad range of residential products, including:

- "Mix of small-lot, townhouses, tree-lined streets, smaller grocery stores, mixed use...the bigger the mix, the more successful."
- Towers, buildings with very high density.
- "Mix of housing types – master planned communities like Issaquah Highlands, Talis and Redmond Ridge."
- Artist-type live-work space to work with the industrial connection.
- Detached neo-traditional housing.

Potential amenities that would add to the draw of the site for residential uses include: parks and landscaping, linking development activity to the waterfront and potential moorage use, circulation and pedestrian orientation or walking paths, a fitness center and restaurants.

One broker viewed the North Bay site as having a competitive disadvantage to the South Lake Union area, which has the advantage of being "sandwiched between the two hottest housing markets in the City (Queen Anne and Capitol Hill), with quick access to Interstate 5." Others felt that North Bay's housing would have the advantage of access to the water and a focus on residential as the predominant use for North Bay, compared to South Lake Union where "they're focused on biotech with housing as infill."

- **Retail.** Almost all those interviewed referenced the demographics of the area as a key advantage for retail on the site. Roughly half of the interviewees felt the site would be attractive for national retailers that would not compete with Magnolia and Queen Anne neighborhood business districts. Whole Foods, Costco and Crate & Barrel were noted as examples.

From the real estate developers' perspective. In addition, others interviewed suggested small scale retail to serve existing residents and neighbors would be more appropriate given concerns about access to the site. Most agreed that big box retail would work well, though some were opposed to it.

From the brokers' perspective. All brokers interviewed referenced the demographics of the area as a key advantage for retail on the site. Retail was a critical component of each broker's mixed use vision for North Bay, referencing examples to consider, including:

- University Village (Seattle)
- Redmond Town Center (Redmond)
- Juanita Village (Kirkland)
- Pearl District in Portland
- Mission Bay in San Francisco
- Concorde Pacific in Vancouver, B.C.

As a point of contrast, some expressed caution in claiming the potential of another University Village in this vicinity. They referenced the location of North Bay within the broader North Seattle trade area, pointing out that North Bay is "west of center" within that trade area. The key point is that retail at North Bay could not compete with University Village shopping for anchor tenants.

The greater demand for space at North Bay from retailers, they went on to point out, would be from "big-box" retailers. They referenced great demand from most big-box retailers for sites in Seattle and close to Downtown.

- **Office.** Almost all of the interview participants mentioned an office component to the development of the site. One developer envisioned a suburban office park development in the four to six story range. Other developers compared North Bay to South Lake Union and were unclear about the tenant profile that would be attracted to the site for office use.

Several brokers noted that a pure office development would not work, because the site is not considered "a big corporate user spot – if they want really high prices, they'll be Downtown." Brokers viewed Downtown, the Denny Regrade and lower Queen Anne as potential competitive markets for office, but felt North Bay is well suited to appeal to office use in comparison, given its proximity to populations seeking "live-work-play" sites. One broker felt that the presence of rail on the site would be a concern for some office tenants.

Amenities desired by office users would include day care, conference facilities, health clubs, concierge program, shuttles to downtown, technology platforms, and pads for back up generators. One broker felt that the site could create a "place where there's a buzz at night" as "a sales point for office." These amenities may also serve as a draw for biotech, office and retail uses.

- **Technology or Biotechnology Use.** Both brokers and developers referenced potential competition from South Lake Union development as a key detractor to the attractiveness of biotech facilities at the North Bay site.

Real estate brokers with expertise in the biotech industry noted similar advantages and challenges for North Bay as those described with other uses. These brokers also reported that South Lake Union and Pioneer Square are currently highly desirable locations for biotech companies, in comparison to the North Bay site. However, compared to the incremental nature of biotech development at South Lake Union, North Bay's size and contiguous acreage were viewed as a comparative advantage, with the potential for a master planned type of development. Amenities, such as those described above, were identified as critical to increasing the North Bay site's attractiveness to biotech companies.

The site's amenities – views, in-town location, waterfront access, potential for moorage or park facilities – were highlighted as desirable features for biotech companies. Biotech brokers eyed the area west of the West Yard as the most appropriate location within the North Bay site for biotech. Another broker described the site's redevelopment potential for biotech manufacturing, if the price of land was low enough, because the site meets biotech manufacturers' criteria.

Some brokers considered the distance from Fred Hutchinson and the University of Washington to be a disadvantage to biotech development at the site. Proximity to these two facilities was felt to increase the site's attractiveness for biotech companies due to potential collaborative research opportunities and product development. Another "big user," in addition to Amgen, was discussed as a way for North Bay to compete with other locations and establish the site's desirability for biotech uses. Biotech brokers questioned whether this strategy would be viable in the short-term, given the market cycle and current conditions, including the following comments:

- "If you can afford to be patient and warehouse portions of this property to wait for it, you can do that."
- "Biotech comes in waves and troughs and right now we're in a trough. There are a couple of 20,000 s.f. tenants kicking around, but no big users."

Experience with a nearby site led one broker to express concern about the North Bay site's distance from Interstate 5 and "tough access" when compared to currently preferred sites for biotech companies. The perception of existing industrial uses on the site was also viewed as a potential impediment to biotech uses. Brokers interviewed did not feel that the availability of housing had been a key driver in biotech companies' location decisions.

Competition from Vulcan Northwest was another challenge mentioned by the brokers. Their point was that Vulcan could compete on price or other financially related factors for any tenant they wanted to have locate within their properties.

- **Industrial Uses.** Both warehousing and manufacturing were discounted as potential uses for the site due to traffic congestion, limited site access and lack of freeway access. Several developers stated that industrial would not be a good use of the land, based on access, congestion, availability of other locations in the region, and the value of the land achievable through other uses. One-third of interviewees suggested that industrial use could work on the site if done on a smaller scale (from 15,000 to 20,000 s.f.), for light assembly use or as an incubator in a lower cost building. All agreed that industrial users could not pay prices reflecting the land's market value.

Other suggested uses included:

- **Campus Setting.** Given the size and contiguous acreage available at North Bay, several developers interviewed suggested use of the site for an educational campus or company campus. One suggested that this use could be “a big block of development that you can plan and build around.”
- **Hotels.** One third of the developers interviewed suggested hotel development on the site, due to its proximity to Downtown and transit connections, or as a potential in-fill strategy and the notion that site would be a commercial hub.
- **Other Uses.** Manufacturing, a marina, cruise ship facility, a community health center or hospital, an auto mall, or quasi-retail uses including medical and consumer services were also suggested.

Comparing North Bay to Other Seattle and Regional Sites

From the developers’ perspective. North Bay’s key comparative advantages, listed in order of frequency, were identified as: parcel size/contiguous acreage; potential multimodal transportation access; waterfront; views and other site assets. South Lake Union is viewed as the primary competitor to North Bay and most of those interviewed felt that North Bay’s competitive advantage to South Lake Union is the size and contiguous character of the property. Potential multimodal transportation options, waterfront access and views are also key advantages of the site. Potential challenges to development include access to the transportation network, existing conditions (Balmer Yard and current tenants) and uncertainty regarding area transportation improvement projects (e.g. Magnolia Bridge, Alaskan Way Viaduct). Some felt that the site would attract interest from national and international firms. One developer felt that the most attractive areas in Seattle are South Lake Union and the Denny Triangle – “these areas will be more attractive than North Bay for five or ten years.”

From the brokers’ perspective. North Bay’s key comparative advantages, listed in order of mentioned frequency by real estate brokers interviewed, included: waterfront access; views; potential multimodal transportation access and other site amenities. The majority of brokers interviewed cited waterfront access and views as critical advantages to North Bay over other potentially competitive areas in Seattle. One noted that North Bay’s competitive advantage is that it is both “in town and on the water.”

Positive Site Characteristics and Amenities. Advantages and challenges associated with the North Bay property are listed in the order of the frequency in which they were suggested.

- **Waterfront.** Waterfront access was viewed as an advantage or an amenity to enhance by a third of the developers interviewed and as a key advantage by brokers interviewed. One developer stated “the Lake does not compare with oceanfront at North Bay.” One broker suggested that “water sells the site.”
- **Parcel Size/Contiguous Acreage.** Developers determined North Bay’s primary advantage to be parcel size and the potential future expansion opportunities the size allows. The property is viewed as a unique opportunity and as having a distinct advantage over South Lake Union with respect to its contiguous acreage. The large parcel size was viewed by brokers as both a potential for campus type development and an opportunity to build in flexibility for future site development.

- **Views.** The property's views and potential to enhance views for residential and supporting commercial uses was mentioned by more than one-third of the brokers and developers interviewed. One broker added "office users will pay more for views."
- **Multimodal Transportation Access.** Most of the developers and brokers interviewed viewed the site's potential transit access and pedestrian connections as key assets, including the potential development of a transit hub that could include the Monorail, bus, waterfront street car, water taxi, and commuter rail. One broker suggested that access to 15th Avenue West and the transit hub would be key to the site's success.
- **Other Site Assets:**
 - Flat, clean site with potential for open space that "gets lots of sunshine."
 - Potential for parking could be considered an amenity.
 - The property's location between the northern area of Seattle and Downtown was mentioned by developers as an advantage for tenants who serve both areas. The site's proximity to Downtown was also viewed as an advantage – although one developer felt the site's distance from Downtown would be a challenge.
 - Amgen's Helix campus could be a magnet for other development.
 - Potential new, attractive and compatible retail development nearby was viewed as a potential magnet for development on the site. The Whole Foods development was referenced most frequently as an example of nearby retail development that would attract more interest in North Bay.

Challenges and Potential Disadvantages

- **Ingress and Egress.** Better access to the site was viewed as critical to future development, including better access to 15th Avenue West. Most developers and brokers agreed that existing site access works better for residential use or a mix of residential and commercial uses than it does for industrial. The access issue was referenced in the broker interviews often as a competitive disadvantage for the site particularly when compared to South Lake Union and Pioneer Square for office use.
- **Existing Rail Yard.** The existing rail yard was of primary concern to some developers who viewed the rail yard adjacent to the site as a potential constraint to residential development. Other developers suggested that the rail yard could be screened from residential or pedestrian use or designed around, potentially using commercial or industrial development as a buffer. Examples of initial reactions to the existing rail yard ranged from "a rail yard is a permanent, unsightly, noisy inhibitor" to the "site would be a better draw if the BNSF tracks were gone."

All developers distinguished the impacts of the Balmer Yard switching tracks from the mainline. The switching tracks were considered a much greater nuisance than the mainline. All felt that the mainline impacts were more manageable; one thought the mainline could even be an asset. The switching tracks, however, were seen primarily as a nuisance.

- **Access to Transportation Network.** Relatively inconvenient freeway access to the site and the distance to transportation corridors was viewed by developers and brokers alike as the principal challenge for additional industrial uses on the site. Some suggested that this could be considered a constraint for other uses as well, because potential tenants want easy access to the region's major transportation corridors.
- **Existing Tenants, Industrial Use and Feel.** In both groups of interviews, some felt that existing uplands tenants could be viewed as a barrier to waterfront access and attracting new tenants. Developers also suggested that the truck traffic associated with existing industrial uses on the site could conflict with other potential uses on the site. Both developers and brokers felt that the issue of combining traditional industry with non-traditional industry and other uses could be worked around through site design and planning. A landscape buffer, for example, was suggested by brokers as a method for allowing continued industrial use on the site in conjunction with other uses. Other comments included:
 - "Nice setting, but in an industrial zone" – compared to South Lake Union, which has more amenities.
 - "For North Bay, if you go with other uses, you have to change potential tenants' perception of the site."
 - "If the Armory and 15th Avenue West want to stay industrial, that would be a barrier to residential development and other uses."
- **Uncertainty Regarding Transportation Improvement Projects.** Uncertainty regarding the future of the Magnolia Bridge and the Alaskan Way Viaduct was viewed as a potential impediment to development by a third of the developers interviewed. This subject was discussed to a lesser degree in the broker interviews.

Other Potential Challenges (*cited in broker interviews*):

- **Parking challenges.** One broker expressed concern that current market rents "are not going to support the structured parking required for higher densities."
- **Financial considerations.** One broker suggested "rentals (housing) will make it tough to pencil out" development. Interview participants were also concerned with the financing for the infrastructure investments (potentially pilings and other supports) required to prepare the site for development.

Central Power Plant/Sustainability (*responses from developer interviews*)

- Sustainability could be a marketing opportunity for North Bay, particularly for condominiums, as seen in Portland's Pearl District. Developers urged against stipulating sustainability standards for site development. Sustainability features for condominiums were viewed as increasing the price but also helping to attract residential tenants. For office use, however, it was suggested that sustainability features might help attract certain tenants, but most would not be willing to pay more for that feature.
- There was disagreement about whether a central power plant would be a good consideration for alternative energy sources, potentially adding value and reducing impacts, or something to let the developer figure out in the future.

Conclusion

The developers interviewed during this phase of the study present many common perspectives on North Bay and surrounding area. The following elements would likely represent major components of a composite profile developed from the interviews:

- Retail concentrated on Armory site with access and visibility out to 15th Avenue West.
- A mix of residential units with strong connections to the waterfront, to retail and to Magnolia. Most suggested a mix of units to include:
 - High-rise condominium development on waterfront, at or adjacent to the West Yard;
 - Residential units reflecting a mix of housing prices supporting a mixed-use neighborhood and providing housing more affordable than currently found easily in surrounding areas; and
 - Higher density housing to the north end with connections into Magnolia.
- Little to no industrial uses would be planned for the site. At most, the site would include a small amount of light industrial that could add character and work within a mixed-use plan.
- Depending on market forces, a mix of commercial development surrounding but clearly separated from the existing industrial tenants.
 - The composition of the commercial development varied among the developers. Some envisioned biotech, others envisioned more generic flex-tech uses, still others envisioned more retail.
- All developers recommended strongly that the Port acquire property fronting 15th Ave West to provide a gateway into North Bay, regardless of what happens with the Armory and planned retail along 15th Ave West. Ideally, most said that North Bay would integrate into the Armory and retail on 15th Ave West via streets and pedestrian facilities, including overpasses for crossing the railroad tracks.

Attachment A: Interview Participants

The following twenty-two developers and brokers, representing sixteen real estate development and brokerage firms, participated in a series of interviews in September and October 2004. During the interviews, participants were asked to address their vision for the site; potential density and scale of uses for the site, marketability and viability; strengths and disadvantages of the site in comparison to areas of the City; as well as specifics with regard to viability of a central utility plant and the role for sustainability on the site.

Developers Interviewed

- Bart Brynstad, Panattoni Development Company
- Patrick Gemma, Panattoni Development Company
- Dan Ivanoff, Schnitzer Northwest LLC
- Greg Johnson, Wright Runstad & Company
- Jim Mueller, Vulcan
- Denny Onslow, Harbor Properties
- Tom Parsons, Opus Northwest
- Jon Runstad, Wright Runstad & Company
- John Solberg, Opus Northwest
- Frank Stagen, Nitze-Stagen & Company
- Chuck Wathen, Wathen and Associates, Ltd.

Brokers Interviewed

- David Alexander, Alexander Commercial Real Estate
- Ken Barnes, Cushman & Wakefield
- John Cox, GVA Kidder Matthews
- Ken Dudunakis, Hendricks & Partners
- Robert Hunt, Staubach
- Jon Hallgrimson, CB Richard Ellis
- Greg Laycock, Cushman & Wakefield
- Bob Mooney, Staubach
- Maria Royer, Blatteis Realty Co.
- Stuart Williams, Pacific Real Estate
- Susan Zimmerman, GVA Kidder Matthews