



**City of Seattle
Industrial Land Study
August 1, 2005**

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I. Study Purpose and Background on Industrial Land Use Policy

a. Study Purpose

This study provides an overview of the City's current industrial land zoning and usage, and examines at a high level how current zoning can accommodate future industrial growth and demand in Seattle. The City has been periodically asked to review its industrial land policy and the role of Seattle's remaining industrial land. These requests take various forms, including specific requests to amend the City's Comprehensive Plan, or to change the zoning on a particular parcel of industrial-zoned land. The City relies on its adopted Comprehensive Plan policy direction to make decisions in response to these requests. In recent years, however, there has been a need for a more detailed industrial land strategy to further inform and shape the answers to those questions.

This background report is the first phase in an effort to identify more specific City goals for industrial land and appropriate tools for achieving those goals.

b. Industrial Land Use Policy and Description of Industrial Centers

The State's Growth Management Act requires that development regulations be consistent with a hierarchy of policies. The King County Countywide Planning Policies (as approved by all jurisdictions in the county) and the City's Comprehensive Plan outline the City's direction about where and how it will encourage or discourage particular activities.

These policy documents describe the ways in which the County and the City plan to accommodate expected employment and housing growth. Both documents highlight the importance of creating and retaining manufacturing/industrial employment centers as key components of the economy. In 1995, King, Pierce and Snohomish counties identified eight manufacturing industrial centers. Within the geographic boundaries of these centers, the policies promote the preservation and aggregation of land parcels for manufacturing and industrial uses and also discourage other land uses which are not compatible with manufacturing and industrial activities.

These eight manufacturing industrial centers span 22,048 acres (34.5 square miles). Five of the eight centers are located in King County, including Seattle's two manufacturing industrial centers – the Ballard Interbay Northend Manufacturing/Industrial Center (BINMIC) and the Duwamish Manufacturing/Industrial Center (Duwamish). The map on page five depicts this zoning.

The Duwamish and BINMIC comprise more than 25 percent of the total acreage of the eight manufacturing industrial centers, and more than 10 percent of Seattle's land area. The BINMIC covers 866 acres and the Duwamish measures 3,981 acres. An additional 295 acres is zoned industrial in Seattle, outside of the two centers.

The City's Comprehensive Plan includes a broad category of Industrial Areas, which encompass the two Manufacturing Industrial Centers (MICs) and other industrial-zoned land in the city. Seattle's industrial land use policy and zoning occurred long before the 1995 adoption of Countywide Planning Policies' (CPP) goals and criteria for manufacturing/industrial centers. When Seattle used the CPP criteria to designate its two largest clusters of industrially zoned land as MICs (Duwamish and BINMIC), smaller areas of industrial zoning remained outside of the MICs.

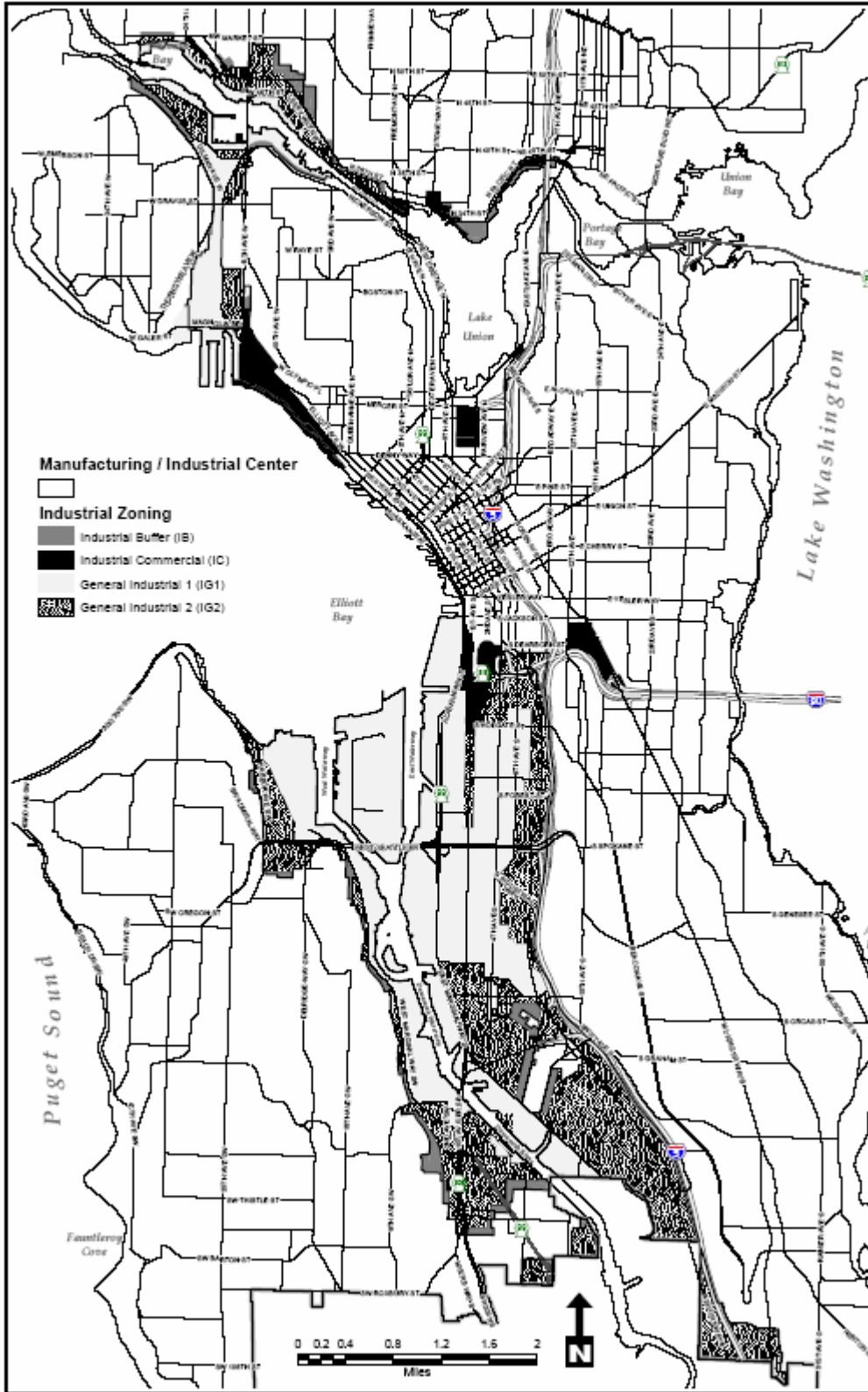
The Plan policies do not make significant distinctions between industrial zones inside and outside the MICs. For instance, residential uses are prohibited and certain commercial uses are limited in all industrial zones. One major difference is that the Comprehensive Plan establishes targets for employment growth in MICs, but not for the other industrial areas.

The two MICs are intended to:

- Ensure that adequate accessible industrial land remains available to promote diversified employment base and sustain Seattle's contribution to regional high-wage job growth
- Promote the use of industrial land for industrial purposes
- Encourage economic activity and development in Seattle's industrial areas by supporting the retention and expansion of existing industrial businesses and by providing opportunities for the creation of new businesses consistent with the character of industrial areas
- Promote manufacturing and industrial employment growth
- Strive to retain and expand existing manufacturing and industrial activity
- Maintain land that is uniquely accessible to water, rail, and regional highways for continued industrial use

The City's broader umbrella of Industrial Areas provides additional opportunities for industrial activity to thrive in Seattle. These Industrial Areas:

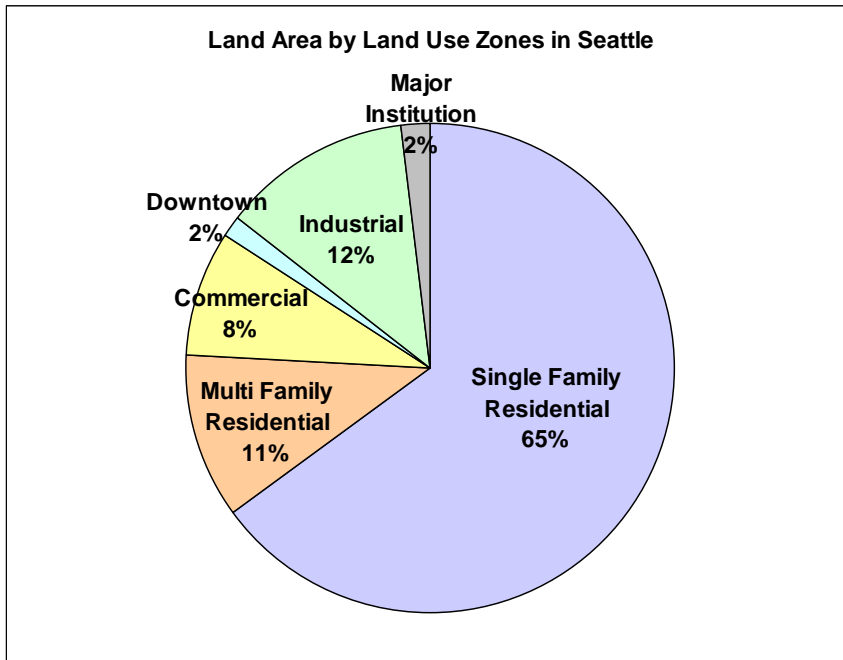
- Preserve industrial land for industrial uses and protect viable marine and rail-related industries from competing with non-industrial uses for scarce industrial land.
- Reduce major land use conflicts between industrial development and abutting residential or pedestrian-oriented commercial areas and prevent incompatible activities from locating in close proximity to each other
- Restrict or prohibit uses that may negatively affect the availability of land for industrial activity
- Consider high value-added, living wage industrial activities to be a high priority.
- Permit commercial uses in industrial areas to the extent that they reinforce the industrial character



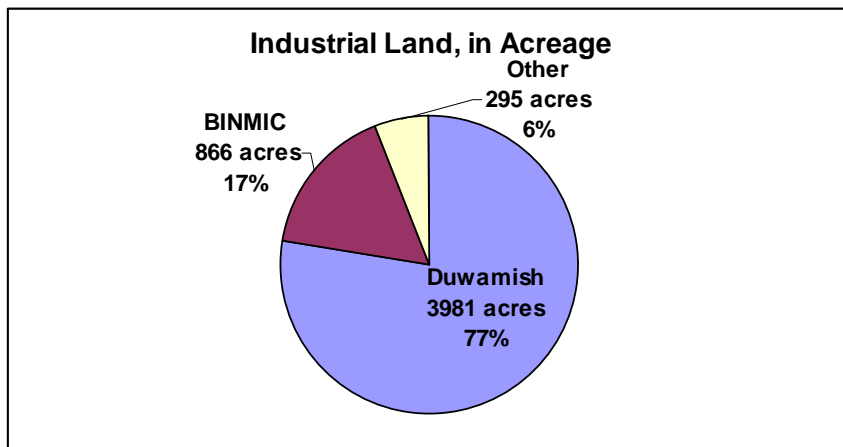
II. Current Zoning and Availability of Industrial Land In Seattle

a. Current Zoning and Usage

The City of Seattle provides various levels of zoning for different land uses across the city. Single family residential zones comprise the majority of that zoning, with 65% of the city's total area. Zoning for industrial lands (including both the manufacturing industrial centers, as well as the other industrial areas) comprises 12% of the land in Seattle.



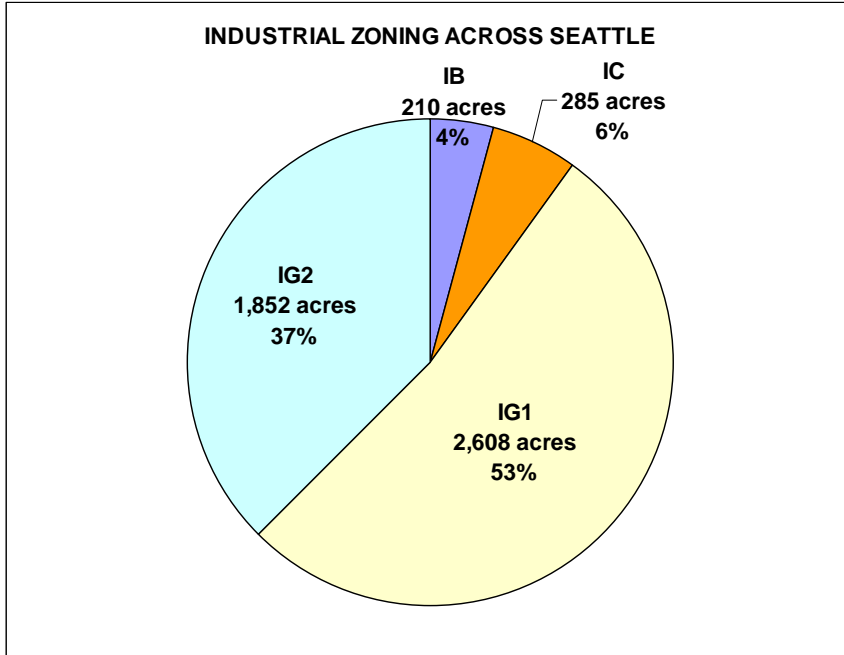
Of Seattle's industrially-zoned land, more than 90% is contained within the city's two manufacturing industrial centers: Ballard/Interbay (17%) and Duwamish (77%).



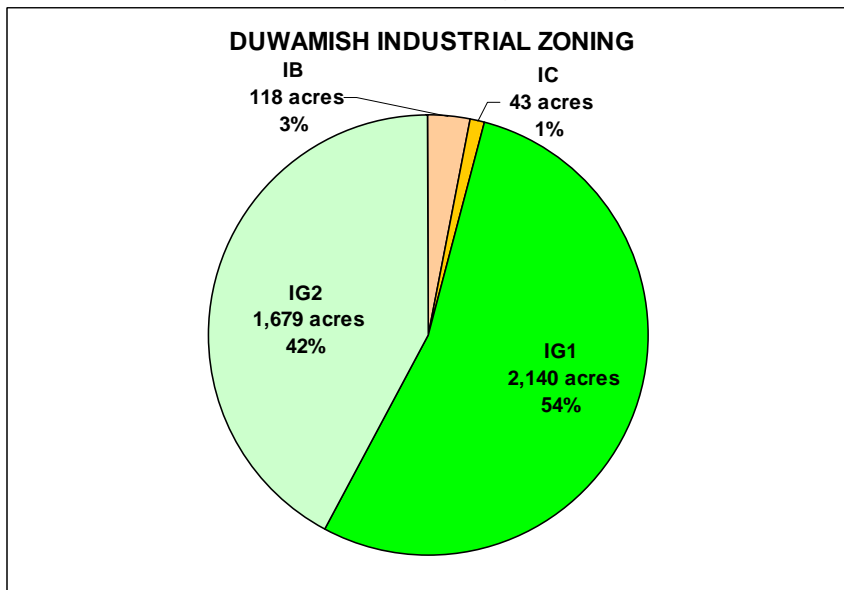
The City has four different levels of industrial zoning, ranging from Industrial General 1 (IG1), which allows for the most intense/heavy manufacturing, to Industrial Buffer Zone (IB) which allows for light and general manufacturing, and more office and

retail, in order to provide a buffer zone between industrial and other uses. Industrial General 2 (IG2) is similar to IG1, and allows for slightly more office and retail development. Industrial Commercial (IC) provides the greatest allowance for office development of the four industrial zoning designations. Residential use is prohibited in all industrial zones. (See appendix for more detailed outline of each of the types of industrial zoning).

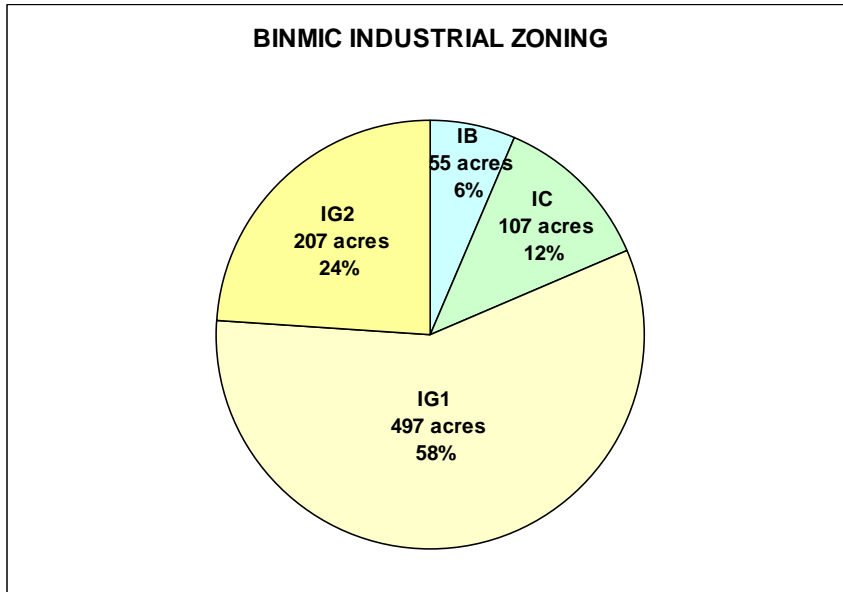
Ninety percent of the city's industrial land is zoned either IG1 or IG2, which allow for the broadest industrial uses and limited commercial activity.



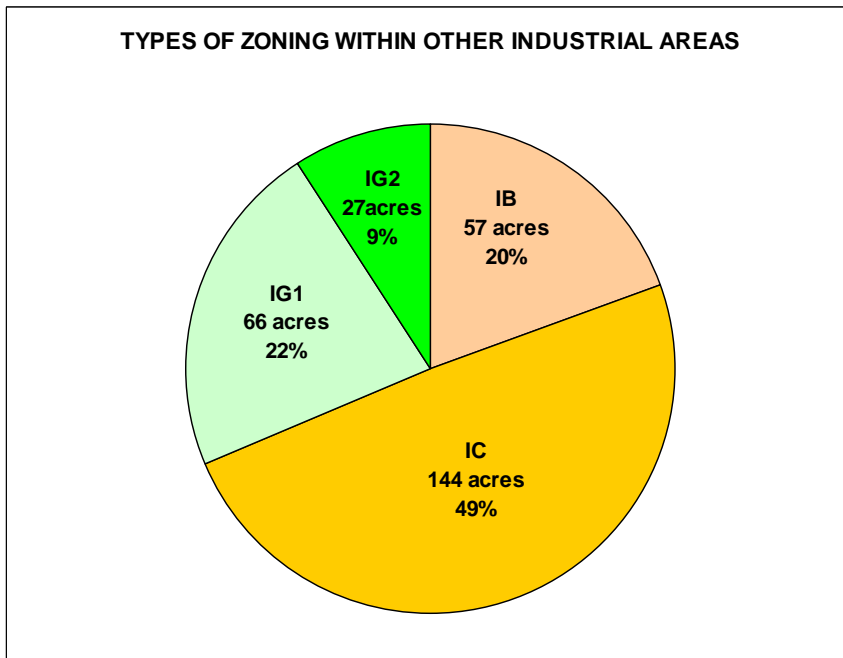
Ninety-six percent of the land in the Duwamish is zoned IG1 or IG2, allowing for heavier industrial and manufacturing activity.



The proportion of IG1 and IG2 in the BINMIC is also quite high, at 82%. BINMIC has a greater percentage of IC than does the Duwamish.

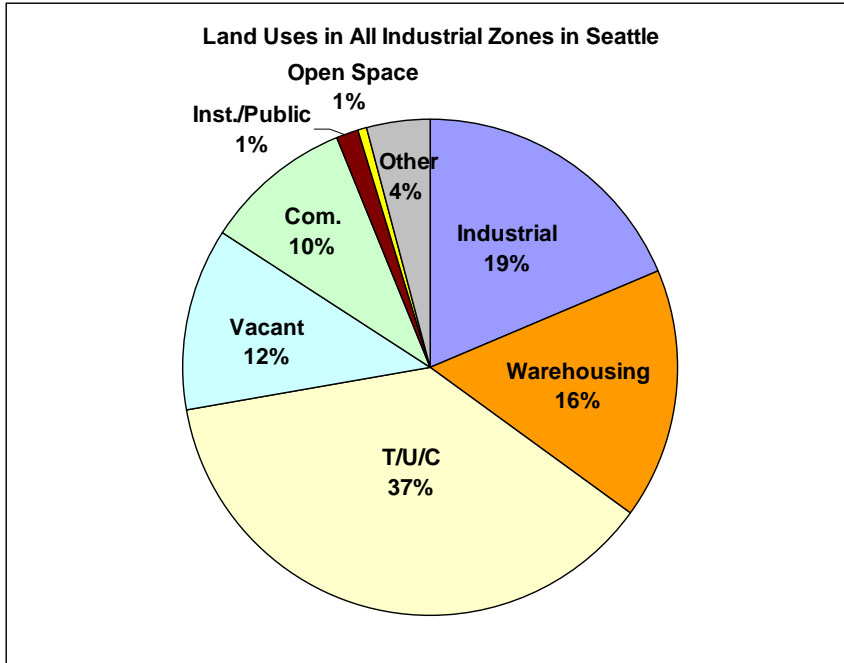


In the city's other Industrial Areas, nearly half of the land is zoned industrial commercial, and also includes a greater proportion of industrial buffer zoning than the MICs. These industrial areas are dispersed throughout the city, cover smaller amounts of land, and require more buffering since they are not a geographically isolated.

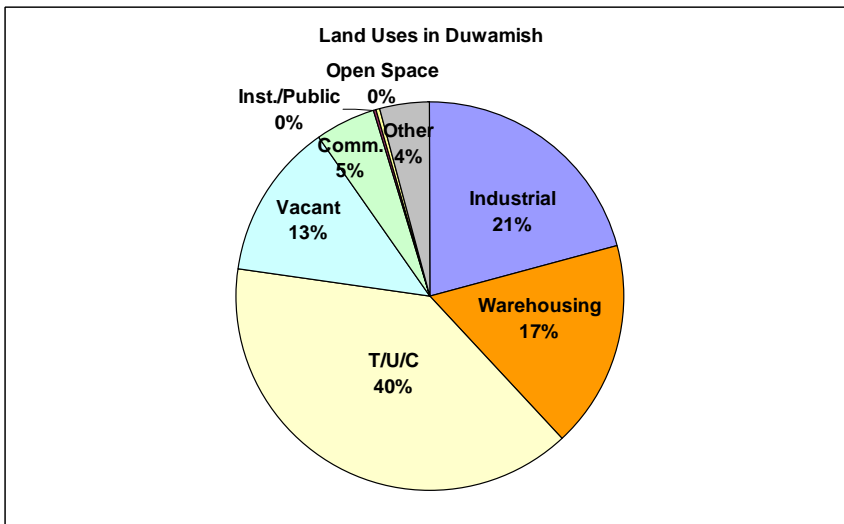


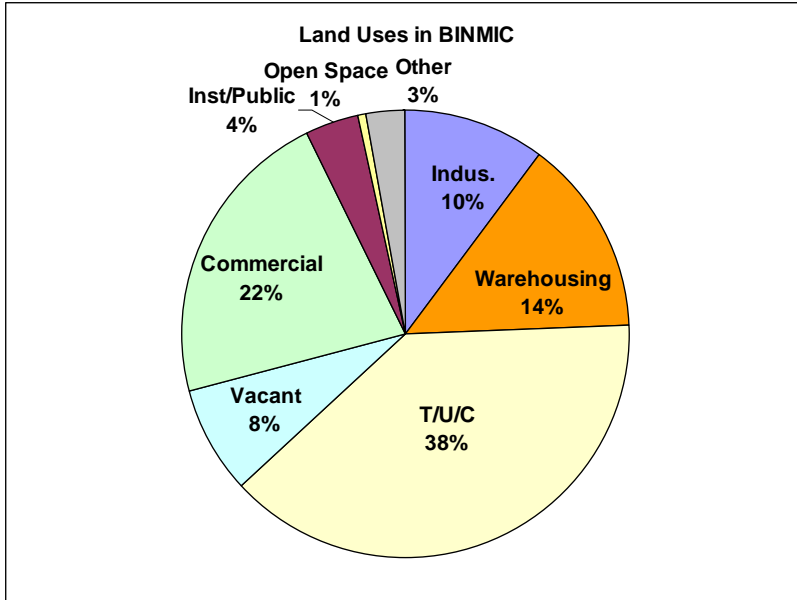
Nearly 75% of the city's industrially-zoned land is used for industrial purposes (as measured by the King County assessors office, including manufacturing uses, warehousing, and transportation/utilities/communications – T/U/C). More than 15% of the land is used for non-industrial purposes, including commercial, 'other' (such as

parking, etc), open space and institutional/public facilities. While 12% of the land is listed as 'vacant', this category can be misleading, as this figure also includes land that may not have buildings but is still used by industrial companies for industrial uses, including outdoor storage and other outdoor needs, such as maneuvering space for large trucks.

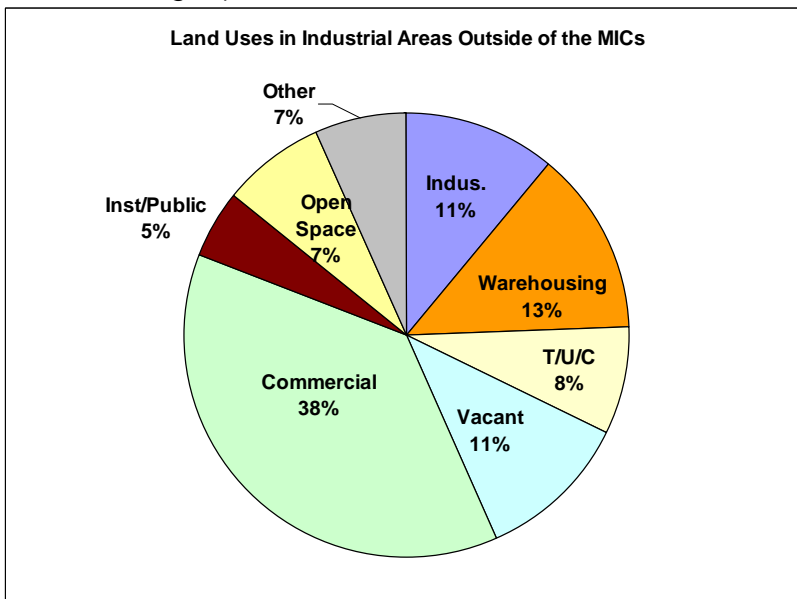


Both of the manufacturing industrial centers are predominantly engaged in industrial uses, with a majority of the land used for industrial, warehousing and transportation. The Duwamish is most heavily concentrated in industrial uses, with 78% of the land used for industrial purposes. Sixty-two percent of the BINMIC area is used for industrial purposes. One potential reason for this lower percentage of industrial use in BINMIC is that a greater proportion of the land is zoned IC, allowing for more commercial uses.





The industrial areas outside of the MICs are remnants of what previously were larger industrial areas. A smaller proportion of these areas are used for industrial purposes (32% focused on industrial uses). This may in part be due to the fact that, because these areas are not one large continuous piece of industrial land, they are surrounded by more commercial activity and face more conversion pressure and higher land values. These additional industrial areas are scattered across the city, and include industrial zones in South Lake Union and in the 12th Ave/Rainier corridor (which are separate from the two designated MICs and relatively small in size); the industrial strip along the northern shore of Lake Union (which is contiguous to BINMIC, but the physical connection is narrow and the zones extend away from the concentrated portion of the MIC); and Qwest Field (which sits on land zoned industrial, but is part of the Downtown Urban Center, where more dense mixed-uses are encouraged).



b. Conversion Pressure

Allowing non-industrial uses in industrial zones can create speculation in the real estate market. Some investors buy land anticipating that the zoning will change and a different use will be allowed. This speculation of a change in zoning increases demand for the land, and drives prices upward. This conversion pressure can create negative impacts for industrial businesses, including higher lease rates for industrial properties.

A number of conditions can make industrial land attractive for real estate speculation. These include:

- The relatively low land cost.
- The relatively low level of improvements on most industrial properties minimizes demolition costs.
- The large size of many industrial parcels provides an efficiency of scale in development that might not be available on the smaller lots typically found in commercial or downtown zones.
- The rent a building owner receives for non-industrial uses in Seattle is more than twice the rent for industrial uses, and non-industrial buildings typically have more building area to rent than do industrial buildings on the same land.

These factors can lead developers to purchase industrial land for the purpose of building office or retail uses on it under the limits currently in the Land Use Code, or to pursue zoning changes that will permit larger commercial structures. Changes in the use of industrial land may have ripple effects, as other property owners see the opportunity to increase the value of their property and either pursue development of non-industrial uses on their property, or raise rents on their industrial tenants. Rising rents can displace industrial tenants.

c. Vacancy and Lease Rates

The increase in global trade and the goods associated with that trade have increased the need for bulk warehouses and other industrial properties, particularly those properties located near ports. Large real-estate investors are buying up large tracts of industrial land across the country, with nearly \$11 billion in purchases through June 15, 2005 (up 45% from the same period last year). For investors, industrial lands provide a high rate of return of 7.9% (compared to 7.6% for office and 7.5% for retail).^{1,2}

The demand for industrial land is also increasing in the Puget Sound region. In the second quarter of 2005, more than 4.3 million square feet of positive absorption (when new or previously vacant space becomes occupied) was recorded in the region. The region has experienced a trend of positive absorption for the past eight months. In the last two quarters, each submarket in the Puget Sound region recorded positive absorption (CB Richard Ellis).

¹ Smith, Ray A. "Investors Buy Up Industrial Real Estate," *Wall Street Journal*, June 30, 2005

² Real Capital Analytics Inc.

Regional vacancy rates are similar to 1999 and 2000 levels, during the economic boom. Within the City of Seattle, industrial vacancy rates are quite low. The continued economic recovery will continue to increase demand for land. (It should be noted that these figures are based on building square footage, not land area).

REAL ESTATE VACANCY/LEASE RATES IN SEATTLE	Leasable Space (sq. ft.)	Average Lease Rate (sq. ft./year)	Vacancy Rate
Industrial Space	69,888,916	\$5.52	4.53%
Office Space	39,412,378	\$24.39	13.8%

Source: CB Richard Ellis, Second Quarter, 2005

Although many reports anecdotally highlight the high cost of industrial land/lease rates in Seattle as compared to the rest of the region, in fact, Seattle's lease rates are about average for the region. In addition, Seattle maintains one of the lowest industrial vacancy rates in the region.

INDUSTRIAL VACANCY/LEASE RATES IN PUGET SOUND	Rentable Industrial Space (sq. ft.)	Average Lease Rate (per sq. ft.)	Vacancy Rate
City of Seattle	69,888,916	\$0.46	4.53%
Kent Valley	99,420,563	\$0.33	4.79%
Tacoma/Fife	12,035,020	\$0.35	2.27%
East King County	21,175,406	\$0.58	14.53%
Snohomish County	8,826,746	\$0.55	19.78%

Source: CB Richard Ellis, Second Quarter, 2005

III. Employment - Current and Future

In order to understand current and future demand for industrial land, it is important to set it in the context of current employment figures and the City's projected growth in employment. This study examines current employment across sectors in Seattle as well as projected growth in industrial jobs over the next twenty years.

a. Snap Shot of Current Seattle Jobs

Seattle is home to many different industry sectors, with varying land needs. The Basic Industries sector (which includes maritime, manufacturing, transportation, distribution, warehousing, wholesaling, construction, and utilities) comprises more than 25% of Seattle's jobs. These industrial jobs pay well above the city's average wage and are accessible by a wide range of individuals.

The City's 22,000 maritime jobs are included in the Basic Industries figure. *Nearly 10,000 of those maritime jobs are located directly on the waterfront, and depend on waterfront access for various activities, including ship repair, fishing, tug boat operations, etc.*

Seattle's 2002 Employment by Sector

	<u>Jobs</u>	<u>Wages</u>
Basic Industries	121,700	\$50,900
Life Sciences (biotech and healthcare)	96,400	\$68,000
IT	18,250	\$69,864
Film	4,991	\$41,620
Music	8,700	\$22,770
Government	53,949	\$41,796
Education	33,389	\$41,796
Retail	70,121	\$25,253
Business Services/Other	71,740	\$54,879
Total:	479,240	

NOTE: These jobs figures are derived from Employment Security Department data, which measure 'covered employment.' (defined as those jobs covered by the unemployment compensation program). Approximately 10% of jobs are *not* reflected in covered employment. If those jobs were added, Seattle 2002 jobs would total more than 532,000.

Basic Industries span a wide array of sectors. In Seattle, there is a concentration of:

- Construction and Contracting
- Transportation and Freight Distribution
- Printing and Publishing
- Seafood Processing
- Food and Beverage
- Aerospace
- Industrial Furniture and Fabricated Metal
- Stone, Clay, Glass and Concrete
- Office and Home Furnishings

With such a diversity of sectors, it can be expected that the type of land needed, and the manner in which the land is used, will vary across each of these sectors. The locations of the city's current industrial zones reflect the historic need of industrial companies to have access to rail and water transportation. In addition, industrial companies desire land that provides an adequate buffer from residential areas, to avoid the potential incompatibility between businesses that run 24 hours a day and residents who value quiet neighborhoods.

b. Industrial Growth Projections for 2025

By Neighborhood

The City's Comprehensive Plan projects a gain of 84,000 jobs over the next 20 years. The figures are derived as part of the county-wide planning process, with input from economic forecasters. These figures break out as follows (across a sampling of neighborhoods):

South Lake Union:	16,000
Downtown:	29,000
Duwamish:	9,750
U-District:	6,000
BINMIC:	2,000 (assumes no investment in T90/91)
Rest of City:	22,250

By Industry

State economists are projecting that manufacturing is rebounding, with near-term annual growth rates expected to reach 2.7%, and long-term rates to match or exceed that of other sectors. Forecast data is not broken out at the city-level by industry. However, it is our assumption that in Seattle, Basic Industries will continue to comprise about 25% of the job base. (This is consistent with the forecast for the proportion of industrial jobs across the four-county region). That would mean that of the 84,000 new jobs expected over the next twenty year, 21,000 of them will be in Basic Industries.

IV. Impact of Job Growth on Industrial Land

a. Projected Land Demand

While it is difficult to provide completely accurate forecasts for 20 years, this study relies on a number of assumptions to approximate the amount of industrial land that may be needed to accommodate growth in basic industries in Seattle by 2025.

This study estimates that, over the next 20 years, growth in all industrial sectors could require approximately 260 to 360 additional acres of industrial land, for new and expanding industrial businesses. This need for land could potentially be met by industrial lands that are currently vacant or underutilized, provided the land is clean and usable.

Potential Job Growth	Increased Demand for Industrial Land (acres)
15,000	190 - 260
21,000	260 - 360
27,000	340 - 460

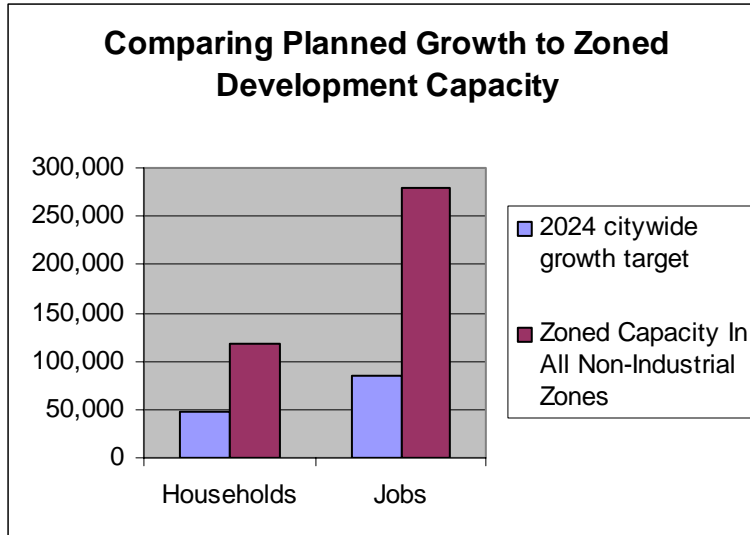
Assumptions:

- Growth in Basic Industries jobs will range from 15,000 – 21,000 new jobs over the next twenty years
- 30% of job growth would be in manufacturing businesses; 70% in other industrial businesses (based on current split of jobs)
- Each manufacturing job would require 400 to 600 square feet of building
- Each “other” job would require 600 to 800 square feet of building (warehousing, etc. uses more space per employee)
- 50% of the new jobs would require new buildings on vacant or additional industrial land; 50% of the new jobs will be housed in existing businesses’ buildings and land, through adding shifts, etc.
- Each new industrial building would cover about half of the land parcel on which it sits

While not reflected in the figures above, it is likely that an increase in industrial land will be accompanied by a commensurate increase in demand for commercial land. It can be assumed that as industrial businesses grow, the businesses that support them would also experience growth and need to expand.

b. Seattle's Development Capacity

Current zoning appears to accommodate the City's project household and employment growth. As the graph below demonstrates, the City is able to accommodate planned growth across the city in housing and non-industrial jobs for the next 20 years without converting industrial lands.



V. Areas for Consideration in the Creation of an Industrial Lands Strategy

This study serves as the starting point for the creation of an Industrial Lands Strategy. A number of other cities/regions have created this type of strategy, developing tools to assess their industrial lands and determine how well those lands are meeting the needs of industrial users.

From a policy perspective, this strategy might help the City identify how to prioritize existing industrial lands and further define the City's policy to protect industrial land for industrial uses. This would include exploring what the allowable uses in the MICs and Industrial Areas should be and identifying how to project water-dependent land use. In addition, the strategy might outline tools to attract new industrial businesses to Seattle, the role the City can play in that recruitment, and what external organizations the City can partner with in that effort, including the Manufacturing Industrial Council, Seattle First, enterpriseSeattle, ECOSS and other organizations. Also, this strategy may explore the freight mobility needs of the industrial sector, and how those needs impact the attractiveness of industrial land.

The strategy might also delve deeper into the facts and figures presented in this report, to explore, in more detail: long-term trends in uses of industrial lands; success of current zoning in protecting industrial uses; required/desired characteristics of land for industrial uses (site size, access to various transportation modes), especially emerging industrial uses; how current land is meeting those criteria; advantages of Seattle's industrial lands vs. other areas; and other tools the City can utilize to protect industrial lands.

Finally, this strategy might also delve deeper into land use issues, including the usability and attractiveness of existing industrial lands (e.g. environmental clean-up issues, soil contamination), conversion pressure, and compatibility with neighboring uses.

VI. Appendix

Summary Comparison of Zoning Regulations for Seattle's Industrial Zones

	IG1 (general industrial 1)	IG2 (general industrial 2)	IB (industrial buffer)	IC (industrial commercial)
Typical allowed uses <ul style="list-style-type: none"> ▪ Industrial ▪ Commercial ▪ Institutions ▪ Residential 	General and heavy manufacturing, transportation and utility services, salvage and recycling	General and heavy manufacturing, transportation and utility services, salvage and recycling	Light and general manufacturing, salvage, recycling and some transportation	Light and general manufacturing, salvage and recycling
Commercial development limits: <ul style="list-style-type: none"> ▪ Office ▪ Retail ▪ Research & Development 	50,000 sq.ft. 30,000 sq. ft. * 2.5 FAR	100,000 sq. ft. 75,000 sq. ft. * 2.5 FAR	100,000 sq. ft. 75,000 sq. ft. 2.5 FAR	No limit 75,000 sq. ft. 2.5 or 3.0, depending on location
Height Limit	Variable by location, but generally apply only to these uses: retail, office, entertainment (except spectator sports facilities), R & D labs, institutions	Variable by location, but generally apply only to these uses: retail, office, entertainment (except spectator sports facilities), R & D labs, institutions	Variable by location, but generally apply only to these uses: retail, office, entertainment (except spectator sports facilities), R & D labs, institutions. Height limits are lower when adjacent to single-family or low-rise multifamily zones.	Variable by location.

* Retail limits are lower in the Duwamish manufacturing/industrial center.