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MEMORANDUM

To: Geoffrey Wentlandt, City of Seattle, Office of Planning and Community Development
From: Chris Mefford, Madalina Calen and Michaela Jellicoe, Community Attributes Inc.
Date: March 20, 2020
Re: Industrial and Maritime Strategy Stakeholder Outreach Memo DRAFT

This memorandum details the findings from the outreach and secondary research CAI conducted to inform some of the inputs for the economic impact analysis. CAI conducted interviews with the following stakeholders:

- Bryan Hester, Vice President CBRE, building broker for West Woodland Business Center
- Jeff Thompson, Developer at Freehold
- Noah T., Space Manager at ALTSpace
- Samuel Farrazaino, Equinox Studios
- Richard Kolpa, Senior Vice President, Market Officer at Prologis in Seattle

KEY INTERVIEW FINDINGS

- **Technology is changing** the way we work, the type of skills required as well as **the environment in which we work**.
- More of the newer built industrial facilities employ a **human-centric design** with extensive amenities. This trend also extends to innovations in workers safety, as well as sustainability and energy efficiency initiatives.
- **Office and industrial use** are no longer mutually exclusive and can work together in the same space.
- Favorable criteria for the development of **multistory warehouses** include a large, densely packed population with a significant penetration of e-commerce use, high land values and high rents.
- Demand for **urban fulfillment facilities** might be insufficient to offset high land costs, zoning restrictions such as height limits, strong competition for the space from other users, high entitlement costs, high construction costs and operational challenges. The return on industrial space in densely populated areas is less profitable than that of residential and office space.
- **Makerspaces** are currently prone to being **fragile in their organizational and business models**. There is a need to look beyond people who are hobbyist makers that specialize in one-off fabrication and reach wider audiences, including startups and entrepreneurs.
- There may be a role for **makerspaces in local production** as potential scalable forms of **redistributed manufacturing**.

CASE STUDIES

Hybrid Industrial Buildings

Prologis Georgetown Crossroads

As more people are moving to Seattle and roads are increasingly congested, last-mile distribution is becoming more reliant on urban warehousing. Amazon started a revolution in online retailing with same-day deliveries, putting pressure on everyone else to deliver faster. The Prologis Georgetown industrial warehouse is a "last-touch" facility located in the historic Georgetown district that can reach large dense, affluent populations within hours and can accommodate automation and other advanced technologies.

Built in 2018, the warehouse is the first of its kind in the US and is currently fully occupied. Amazon leased roughly 80% of the space and Home Depot occupies the rest. The building is designed as a multistory fulfilment center with 590,000 square feet over three floors. Prologis Georgetown also has a 3-story 500 stall parking garage.

- Level one (239,029 sq. ft.) is for fulfilment and is divisible to 75,000 sq. ft. or more in various configurations. It includes built-to-suit office in several potential nodes and is double-loaded with truck access from multiple arterials.
- Level two (170,331 sq. ft.) is also divisible (to 45,000 sq. ft. or more) with build-to-suit offices. The building features truck ramps leading to loading docks on this level.
- Level three (180,255 sq. ft.) has built-to-suit offices and workspaces designed for light manufacturing, creative offices, laboratory and production. The third floor is serviced only via forklift accessible freight and passenger elevators, for lighter-scale warehouse operations.

Designed to accommodate office space, the third floor was aimed at designers, engineers, architects and innovators from the technology or aerospace industry that would not have a need to locate in downtown Seattle. Prologis was planning to provide additional amenities such as a gym, coffee shop and restaurant and was aiming for about a dozen tenants to occupy the space. The original vision was superseded by practical considerations of Amazon leasing most of the space.

The site had been selected by King County's Department of Natural Resources for a wet weather treatment station. Through negotiations between the City of Seattle, King County and Prologis, an MOU was signed that allowed Prologis to complete the purchase of the site. Several things added to the success of this project: low cost of land at the time of purchase ($42 per square foot), first mover advantage, not a lot of prior built space that required demolition.

The developer was unable to share the cost of construction or rent due to confidentiality agreements with tenants. However, as a comparison, the rent is roughly twice that of a single-story warehouse facility in Kent Valley. According to ballpark estimates from

CBRE, the rent for the space is probably around $1.35-$1.40 per square foot per month. A 2018 CBRE report finds that current achievable prime rent warehouse annual NNN per square foot for Seattle is $7.56[1] or $0.63 per square foot per month.

The cost of construction is also much higher than the traditional single-level facility. One reason are higher material and construction costs that come with double-decking and a design suitable for features that can compete with today's demand for fast shipping. These heavy construction costs may only be easy for some larger users such as Amazon to be able to absorb and lead to returns on investment for the developer in the long run.

West Woodland Business Center

West Woodland Business Center is a new "light industrial" building located in Ballard's industrial area at 1125 NW 53rd St. The building caters to a specific type of tenant, particularly companies looking for a blend of retail, assembly, and office space. West Woodland Business Center has the following features:

- 71,460 sq. ft. over 4 floors
- 17,865 sq. ft. per floor
- 20' ceiling height – 1st floor
- 15' ceiling height – Floors 2-3
- 12' ceiling height – 4th floor
- Grade level loading
- Freight passenger elevator servicing upper floors
- Divisible down to 5,000 sq. ft.

The parcel is zoned as IG2/U 65 and has a maximum size of use for office space of 25,000 sq. ft. and retail space needs to be ancillary to the industrial use. Current tenants include Rad Power Bikes and Stoup Brewing. Stoup Brewing occupies a small part of the first floor, while Rad Power Bikes occupies most of the first and the second floor of the building. The first floor hosts their showroom and ebike servicing area on 26,000 sq. ft. The company's office headquarters are located on the second floor.

Maximum use limits seem arbitrary and are challenging for this type of space with no physical separation between office and industrial. Rad Power Bikes is the ideal tenant because they have a good mix of light industrial and office needs.

Currently the 3rd and 4th floor of West Woodland Business Center are vacant. CBRE has been promoting the space to businesses in research and development, that develop prototypes or are looking for a space suitable for a small lab. The rent is around $25 per sq. ft. for the first three floors and between $28 and $30 for the 4th floor. According to

[1] https://www.cbre.us/research-and-reports/US-MarketFlash-Going-Up-Vertical-Solutions-in-Industrial-Logistics?utm_source=media&utm_medium=newsrelease

the CBRE broker, the rents are considered more affordable compared to regular office space but are not within the budget of maker space type occupants.

Avenue 55, the West Woodland building developer, is in the planning stages for another project. Track 6 Business Park will be located in the SODO neighborhood and is designed for tenants needing space to develop, manufacture and distribute their products under one roof. This could include businesses in tech, assembly, engineering, makerspace or light distribution.

The interviewee suggested that buildings with a mix of office and industrial components are better suited for Ballard than for Georgetown or SODO area. Ballard is an amenity rich neighborhood, with residential available close by and many people live and work in the area.

R&D Interbay

The R&D Interbay building is a 2 story 30,000 square feet building located in Seattle's industrial Interbay neighborhood, close to Expedia's new headquarters and Fremont's tech center. There are over 27,000 square feet available for rent, with capacity for another 3,000 square feet of full height mezzanine. According to Freehold Group, the construction costs were around $205 per square foot.

The R&D Interbay was prefabricated in Spokane and the shell construction was completed in 6 months. It expands on the adjacent Bow Building and was constructed on an under-utilized, industrial, contaminated site. The metal structure can be customized and split into working spaces of different sizes, from 1,500 square feet to 30,000 square feet. R&D Interbay incorporates height for production needs and volume to allow for flexibility of use. The building has the following characteristics:

- 18.5 foot clear height on the first floor and opportunity for mezzanines to share a high-bay environment
- Roughly 70 feet of clear space on the second floor
- 5,000 lb capacity heavy-duty diamond plate elevator
- Served by 1,200 amps of 480 volt/3 phase and symmetric gigabit speed fiber optic data
- Solar electricity capacity

The building is currently fully occupied. One of the tenants is a startup working on an automated pizza machine. Picnic, formerly known as Vivid Robotics, raised roughly $8.7 million in venture capital to create technology that can produce 300 12-inch pizzas in an hour. The company moved into the building with nothing but an idea and over time the space was occupied with computers and an automated pizza production line, designed and fabricated on the premises. The machine is being tested at T-Mobile Park.

Makerspace

A makerspace usually incorporates some element of education, community and tools. In general, a makerspace can be classified in four main types or a combination of these:

- Collaborative – provide a rentable and collaborative workspace. One example is Artisans Asylum in Massachusetts – a non-profit community workshop that supports and promotes the teaching, learning and practice of fabrication.
- Education – provide education and access to new technologies. Fab Lab in Boston provides free or low-cost access and training in most aspects of computer related technology.
- Innovation – foster the creation of innovative, new ideas. Autodesk BUILD in Boston is a private space owned by Autodesk, a software company, aimed at conducting research on existing and prototypical technology and machinery. Autodesk fully funds the space for its employees as well as for startups and other researchers who submit formal proposals to use the space
- For profit – provide access to tools for a profit. Idea Foundry in Columbus offers artisans an affordable place to work, as well as shared office space for up-and-coming entrepreneurs.

ALTSpace

Air Light Time & Space (ALTSpace) functions as a community art workshop and occupies the base level of an apartment building located in the Central District. The space includes 4 garages with a woodshop, a metal shop, a storage area and a space that is currently being developed into a glass blowing studio. In addition to the garages, there are two rooms used as a workspace by creative people of all kinds and offer a variety of tools and equipment (sewing area, electronics bench, laser cutter). The company pays $400 per month in rent for each of the four garages and $5,600 per month for the other two spaces.

ALTSpace offers several membership options to people that want to use their space. Membership ranges from $30/month to $300/month, with some scholarship options available for those with financial need. In exchange for volunteering up to 8 hours of their time, a member can pay as low as $15/month. The tools available for use are owned by members and ALTSpace employs a label system to denote which tools are private and which can be shared and used by everyone.

ALTSpace started in 2011 as a co-op and expanded over time, with over 30 members currently. The organization experiences a lot of member turnover and requires constant marketing and promotion. In 2018, ALTSpace considered closing due as the organization was struggling to make rent payments. Ignition NW, a non-profit arts organization in Seattle, took over the lease and are using the space for all their meetings and events.

Equinox Studios

Equinox Studios is located in four adjacent warehouse buildings in Georgetown. The company was founded in 2006 and started out in a World War II era factory building with over 50 tenants in 40 studios. The founder of the Studios leased the building until 2011 when the organization had made enough revenue to purchase it. Expansion happened gradually as revenues were reinvested in refurbishing and setting up more studios. Several years later (2014-2015), Equinox had grown into three other nearby buildings covering 100,000 square feet of workspace, one leased and the other two purchased through a loan.

Equinox Studios currently has over 125 tenants and a 1% vacancy rate, with a waiting list of approximately 60 to 70 businesses and very low turnover. The organization offers a diversity of space with studios ranging from 160 square feet to 3,000 square feet, responding to different tenant needs. Tenants perform a variety of work from blacksmithing and metal sculpture, to woodwork and painting, printmaking, dancing and performances and much more.

The company is 100% tenant owned and the rent that tenants pay goes towards shares in the company. The company pays annual dividends and over time tenants gain equity. The artist community is vulnerable to market instabilities and pressures and this business model ensures that tenants have access to affordable space and can carry out their operations successfully. Equinox Studio rents vary between $1 and $2 per square foot (not including utilities), depending on the size and type of space. If the company makes a profit, some of that is used to cover the increases in rent, which are mainly in line with inflation.

Others

Examples of other makerspaces include the following:

- FabLab - Located in Tacoma and covering 4,000 square feet, FabLab functions as a business incubator for early-stage companies pursuing design, technology or maker-oriented businesses (access to onsite fabrication workshop and professional counsel from a core group of designers). It also offers design & fabrication services as well as classes and workshops focusing on design and developing skills on machines and software that drives them.
- Pratt Fine Arts Center - Art-making space in the Central District, Pratt provides access to equipped studios and education for all ages, skill levels and abilities. The Center is currently located in a Government Community Service Building in Seattle's Historic Central Area Arts & Cultural District.
- Coyote Central – Youth Arts organization in the Central District that offers pay-what-you-can studio courses for ages 10 to 15.
- IsGood WoodWorks – 3,000 square feet of DIY woodworking shop space in the Industrial District, equipped with professional woodworking tools and machinery.

- Hackerbot Labs - Private hackerspace located in the same building as IsGood WoodWorks.
- Gasworks Gallery – 60 art studios in 12,000 square feet building space in Wallingford.
- Olymega – Makerspace for technical-creative projects located in downtown Olympia.
- Puget Sound Woodworking - Located in Snohomish, provides classes in woodworking as well as custom woodworking services.
- SnoCo Makers - 3,100 sq. ft of makerspace in Everett.
- Bellingham Makerspace – Volunteer run non-profit providing access to creative tools, trades and education for makers.

Even as interest in the industry grows, many makerspaces have ceased operations. There are a variety of business models that a makerspace can adopt, but some of the most common challenges across all models include:

- Rising rents, building redevelopments and not enough cash flow to cover costs
- The need to expand audiences to include not just artists, but also entrepreneurs and startups
- Venture-capital backed and pressured to expand quickly at the expense of sustainable growth
- Relying on government subsidies, sponsorships or grants to be profitable.

Some of the makerspaces that have recently closed in Seattle include:

- Metrix Create in Capitol Hill
- SODO Makerspace
- Jigsaw Renaissance
- UW CoMotion MakerSpace
- Makerhaus