AN ASSESSMENT OF REAL ESTATE AND ECONOMIC CONDITIONS IN SOUTH DOWNTOWN NEIGHBORHOODS

BHC CONSULTANTS

PROPERTY COUNSELORS
REAL ESTATE RESEARCH & APPRAISAL

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Livable South Downtown

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INTRODUCTION

This report describes two areas of consultation with which BHC Consultants and Property Counselors were charged in support of the Department of Planning and Design's (DPD) *Livable South Downtown* planning initiative.

- A selected group of stakeholders with interests in the Pioneer Square, Chinatown/International District, and Little Saigon neighborhoods and the Stadium Transition Zone were interviewed using a structured questionnaire to assess the directions and alternatives under consideration in the planning process.

- Land use, housing, and economic analyses of current conditions and future trends within the South Downtown planning area were prepared and compared with related conditions and trends of the Center City.

The consultants met with the DPD's stakeholder group, with other city departments, and with other experts involved in real estate, development, and planning in the area.

Summary

The South Downtown neighborhoods are expected to change significantly over the next 20 years as part of the overall Center City growth in households and jobs. The Downtown Urban Center population is expected to double and employment is expected to increase by 50%. This will require development of more than 18,000 new housing units and 17.5 million square feet of office space. While most of the office development is expected to occur in the Commercial Core, residential development is expected to be concentrated in the Belltown, Pioneer Square and Chinatown/International District neighborhoods.

Current City adopted growth targets anticipate that Pioneer Square and Chinatown/International District will produce a total of 2,000 new housing units and 5,500 new jobs by 2024 under current zoning. However, if the zoning provisions for allowed uses and building heights are changed, the development capacity of South Downtown will change. In comparison to the other Downtown neighborhoods, the South Downtown neighborhoods currently feature lower housing prices and rental rates and lower land values, although the pace of development is much slower and there are not many truly comparable projects. Demand for condominiums and apartments is increasing in South Downtown. Several major projects are in the design or permitting stages.

Demand for retail space is strong throughout the Urban Center. This is also true for South Downtown, but the nature of current spaces and infrastructure inhibits redevelopment and infill. In particular, the cultural integrity of retail and restaurant business in

Chinatown/International District and Little Saigon is perceived as fragile although the character of the area is a regional attraction and an anchor for the surrounding communities.

The strong Downtown office market is driving considerable interest in development throughout the South Downtown. A number of major projects are on the drawing board. Land availability and cost as well as development costs in the context of the existing zoning constraints have negative affects on office development feasibility.

A wide range of opinions have been expressed about increasing the development capacity and opportunities for residential, office, and retail growth in the South Downtown. While most of the stakeholders support increased housing, there are mixed views about substantial increases in office space. In order to maintain a balanced and sustainable community, the stakeholders believe that existing neighborhood character should be preserved. This includes the historic, cultural, and urban design legacy offered by Pioneer Square, Chinatown/International District, and Little Saigon. It also means that public infrastructure and services need to be enhanced to meet the increased demand that will come with more residents, office workers, and visitors. So, in addition to the final zoning outcome of the *Livable South Downtown Plan*, many other areas of city policy and capital investment need to be addressed.

The analysis of residential and office development feasibility in South Downtown indicates that rental housing in new mid-rise projects is feasible, but is not in taller buildings although residential condominiums are feasible in taller buildings. Office projects are not feasible at today's rents, but should be by the time new taller buildings can be completed.

SECTION 1
ECONOMIC CONDITIONS AND OUTLOOK

National, state, and local economic conditions all influence the real estate marketplace. The type, amount, and timing of development in the South Downtown are a function of these influences. Many factors combine to determine project feasibility. These include short-term demand, land and construction costs, interest rates, zoning and building regulations, and competition between and among the neighborhoods as well as the overall Center City area. The City studies and monitors these activities and has developed data and analyses of current and future trends. This provides a realistic assessment of the market potential for South Downtown and a basis for identifying proposed land use actions and policies in the area.

State, Regional and City Forecasts

The state of Washington and the Prosperity Partnership and Puget Sound Regional Council (PSRC) employ models that estimate and forecast economic trends for population, employment and related land demands at the regional and county level. These models are based on a complex set of variables including census data, jurisdictional land use and development permit activity, the status of the national economy, and other factors. In addition, the Prosperity Partnership has engaged in an aggressive economic development program to maintain and sustain the economic health of the Central Puget Sound Region. The PSRC is currently updating the Regional Plan (Vision 2020+20). It anticipates that the four-county population will increase by another 1.5 million persons within the current adopted urban growth boundary. While the preferred regional growth strategy has not been adopted, the current “centers strategy” will continue to be a key shaper of growth. Consequently, metropolitan centers like downtown Seattle will be expected to accommodate sizable amounts of both residential and job growth. This context provides a lens through which the South Downtown neighborhoods can be viewed. The following information on the downtown commercial and residential market context is summarized from the environmental impact statement prepared for the “downtown height and density changes”.

Employment Growth

According to data from the Washington State Employment Security Department (ESD), total covered employment in Downtown in 2000 was approximately 174,528 jobs, of which two-thirds is located in the Commercial Core. As a dense office center, Downtown is a center of financial, insurance, real estate and services (FIRES) employment. These employment categories employ more workers than all other Downtown employment categories taken together. Downtown accommodates considerable government employment, the second most common employment category, in federal, regional, county and city offices, primarily in the south end of the Commercial Core. Retail employment is the third most common employment category, particularly in the Chinatown/International District. Employment in the Manufacturing/Industrial Centers (Duwamish and Ballard/Interbay) and Hub Urban Villages represented 16% and 9% of the city’s employment, respectively.

Employment growth information from the PSRC for 1980-2000 provides a longer-term perspective. Between 1980 and 2000, the city's net job growth was approximately 242,700 jobs (63% growth), including 71,000 additional jobs in Downtown (63% growth). Net job growth in Downtown during the 1980s was over twice as much as during the 1990s (49,600 versus 21,400 jobs). Downtown gained a greater portion of the city's total employment during the 1980s. Through the 1990s, Downtown maintained its share of approximately one-third of the jobs in Seattle. The financial/insurance/real estate/services sector was the leading employment category in terms of job growth in both Downtown Seattle and the city as a whole between 1980 and 2000, followed by the government/education and wholesale/trade/communications/utilities (WTCU) sectors.

Population and Employment Projections

Four different sources indicate the amount of residential and employment growth that may occur in Downtown Seattle over the next twenty years:

- Projections from the Puget Sound Regional Council (PSRC);
- Market studies by Economics Research Associates (ERA);
- Targets from the City of Seattle's Comprehensive Plan; and
- Recent growth trends

All four of these sources predict the Downtown residential population will more than double over the next twenty years. Downtown employment, already strong, will continue to grow by as much as 50% over the next twenty years. The ERA projection of residential and employment growth in the Downtown Urban Center over the ten years between 2000 and 2010 was used as a basis for the twenty-year growth projection. Between 2000 and 2020, growth in Downtown Seattle is projected to equal 17,500 new households and 70,000 new jobs. In order to accommodate that amount of growth, an additional 18,375 new housing units, and 17.5 million square feet of office space would need to be added to the Downtown Urban Center. It was assumed that 90% of the growth in commercial space would occur within the Commercial Core consistent with the amount of capacity available and recent development trends. On the other hand, 60% of Downtown's residential growth was expected to take place in the Belltown, Pioneer Square and Chinatown/International District neighborhoods.

Comprehensive Plan Growth Targets

Seattle's Comprehensive Plan and the King County Countywide Planning Policies included twenty year "growth targets" or projections for residential and employment growth in the Downtown Urban Center. In addition, "planning estimates" identified how growth might be divided within the Urban Center. These targets and estimates present levels of growth that balance growth in Downtown with growth in the rest of King County in pursuit of City and County growth management goals. The "Urban Center" is a County designation indicating an area expected to accommodate a large share of employment.

Clearly, Seattle is currently experiencing a strong growth cycle of office and residential activity. The growth rate projection suggests that new office development in South Downtown might increase the competition for projected overall office growth in the entire Downtown. Similarly, Downtown residential projects in several neighborhoods/districts will compete to absorb the available demand. The total projected demand probably will not increase as a result of possible upzones in South Downtown, but the Center City's projected growth could be distributed differently depending on what properties are available, zoned and otherwise attractive for future development.

City Staff Growth Trends Analysis

The city staff continues to evaluate and calibrate these forecasts based on other information such as trends in historical growth rates, their relationship to current targets and how they may relate to potential future development of dwelling units and employment in the Downtown Urban Center. In addition, assessment of the "pipeline" of planned and proposed projects moving through the permitting process provides on-going updates to the supply and demand picture. The City's analysis helps to identify what may be a "reasonable high-end" of the potential growth that could occur, to be assessed in subsequent environmental reviews.

Residential Growth

The dwelling unit analysis is summarized below.

Table 1 - Analysis of Past and Future Downtown Household Growth Trends

	Growth 1990 – 2005		**Current target 2004 – 2024**		**Potential "High-End" Growth Estimate 2005 – 2030***
	Households	**% of total**	**Households**	**% of total**	**Households**
Belltown	5,057	58.0	4,700	47.0%	
Pioneer Square	337	4.0	1,000	10.0	2,500
Chinatown/ID	939	11.0	1,000	10.0	3,000
Denny Triangle	773	9.0	3,000	30.0	
Commercial Core	1,639	18.0	300	3.0	
Downtown Urban Center	8,745	100.0	10,000	100.0	

* High-end growth estimate studied in EIS is 6,000 *dwelling units*, which is comparable to this estimate considering typical dwelling unit vacancy rates.

Source: City of Seattle, Department of Planning and Development, September 2006

The Downtown Urban Center current target of 10,000 dwelling units is approximately one-half that for the Center City, which includes other neighborhoods surrounding Downtown. The current targets reflect 10% capture of total dwelling units each by both Pioneer Square and Chinatown/International District. These rates are equivalent to a growth of approximately 0.3 units per acre per year. The Downtown Urban Center as a whole grew at a rate of approximately 0.6 to 0.7 units per acre per year over the period 1990 to 2005. The 0.7 units per acre figure is interpreted by DPD staff as a reasonable maximum long-term rate that could be achieved in neighborhoods such as Pioneer Square and Chinatown/ID. Such a rate would result in 2,500 and 3,000 units over a twenty four year period to 2030 in those neighborhoods.

Employment
The historical employment analysis is summarized below.

Table 2 - Historic Employment Growth Trends in Downtown Seattle

	Net Growth in Jobs 1995 – 2004	
	Jobs	**% of Total**
Belltown	2,309	32.2
Pioneer Square	(1,039)	(14.5)
Chinatown/ID	2,489	34.8
Commercial Core	(871)	(12.2)
Denny Triangle	4,272	60.0
TOTAL: Downtown Urban Center	7,160	100.0

Source: City of Seattle, Department of Planning and Development, February 2006

The employment target for the entire City of Seattle for the period 2004 to 2024 is 93,000 additional jobs of which 50,000 are projected to be captured in the Center City. The current commercial target for the period 2004 to 2024 is 3,500 jobs for Pioneer Square and 2,000 jobs for Chinatown/ID.

Preliminary DPD staff analysis suggests that more job growth than represented by the targets could occur if Livable South Downtown rezones occur, particularly in properties currently lying outside or partially outside these neighborhoods. These properties include the WOSCA property on 1st Avenue S., the "over-tracks" property west of 4th Avenue S., and the "Frye properties" located south of S. Dearborn Street. Future development on other properties in this vicinity along 1st and 4th Avenues S. and Airport Way S. could also contribute to future job growth. Considering their size, the largest of these properties have ample potential to accommodate more job growth, and if zoning is amended they could attract new development by the year 2030.

By extrapolating the current job targets for another 6 years until 2030 and adding in the growth that might occur on these properties, DPD staff indicates a reasonable projection of the "high-end" employment growth for the South Downtown study area could be as high as approximately 15,000-16,000 new jobs through the year 2030. To put this growth in context:

- It is similar to the 20-year job growth estimate for South Lake Union through 2024.
- It would require a pace of employment growth that is roughly twice as fast as represented by the current growth targets for the Pioneer Square and Chinatown/I.D. neighborhoods.
- The 16,000 additional jobs are comparable to 11% of Downtown's 2004 employment levels.

Observations on the Forecasts and Trends

The residential and commercial "high-end" growth estimates appear to represent an aggressive but plausible level of projected growth. They have been calculated in relation to Downtown Urban Center growth trends, with comparative analysis of growth rates for these neighborhoods and other neighborhoods within Downtown. The overall validity of these projections will be determined by actual investment decisions by property owners, developers, and employers. Additional analysis to further refine the projections is beyond the scope of this study.

Competitive Position of South Downtown Neighborhoods vs. Other Downtown Neighborhoods

Pioneer Square and Chinatown/International District have experienced much lower levels of residential and commercial development than the Commercial Core, Belltown and Denny Triangle areas. This is may be attributable to investor/property owner hesitance, perceptions about regulatory land use controls, or concerns about the nature of the physical and public safety environment. Consequently, these areas currently offer a somewhat lower cost alternative to development in the other areas due to land costs.

With continued pressure for development throughout Downtown and some eventual limitations on the supply of available properties in other parts of Downtown, areas such as Pioneer Square and Chinatown/International District are likely to capture a larger share of total development from other Center City neighborhoods such as Denny Triangle, South Lake Union, Capitol Hill, Uptown, First Hill, and Pike/Pine. The ability of the South Downtown neighborhoods to increase their capture rates and become more than a lower cost alternative will depend upon whether their competitive attributes can be improved over time. These attributes are described in more detail later in this section under "Market Characteristics and Outlook for the South Downtown Neighborhoods."

The following table summarizes several demographic and market indicators for Downtown Urban Center neighborhoods.

Table 3 - Economic Conditions in Downtown Seattle Neighborhoods

	Pioneer Square	Intl. Dist. Chinatown	Belltown	Denny Triangle	Commercial Core	Downtown Urban Center
Dwelling Units 2005	902	1,910	8,756	1,340	3,069	15,977
Increased DU 2000-2005	147	396	2,885	496	692	4,616
Employment-2004	9,848	6,588	19,691	19,679	89,504	145,310
Condominium Prices (/unit) Typical One Bedroom Unit	$300,000 to $500,000	$300,000 to $400,000	$400,000 to $600,000	$325,000 to $400,000	$450,000 to $600,000	
Condominium Prices (/sq. ft.)	$325 to $400	$350 to $450	$550 to $650	$500 to $650	$700 and up	
Office Rent-Avg. (/SF/yr fully serviced)	$19.15		$23.69		$26.48	
Land Value	$125 to $250	$100 to $150	$200 to $300	$200 to $300	$300 to $450	

Residential

The dwelling unit numbers demonstrate the prominence of Belltown as the major residential concentration in Downtown. Belltown accommodates 53% of all units and has captured 63% of new units in Downtown during the period between 2000 and 2005. In comparison, Pioneer Square has the lowest number of dwelling units in Downtown and the lowest amount of increase. The Chinatown/International District neighborhood has the next lowest amount of increase over that five-year period.

Condominium prices are one measure of the strength of the market for residential uses. There is a range of prices in each area, just as there is in a given building. The figures shown reflect the range on a per square foot basis as derived from New Home Trends data for individual projects. The highest prices are in the Downtown Core reflecting a small number of very high-priced units. Belltown has the next highest prices, followed closely by Denny Triangle. Pioneer Square and the Chinatown/International District neighborhoods have similar average prices, but in each case the figures are based on a small number of condominium projects and units. Apartment rents probably reflect a similar comparative profile, but available rent surveys aren't broken out for the same areas.

Employment

The Commercial Core has the largest employment concentration. Pioneer Square and International District/Chinatown are the smallest of the areas in terms of employment.

Office rent is a measure of the strength of the commercial real estate market. The average figures are derived from CB Richard Ellis quarterly market reports. The figures for Belltown are for the "Denny Regrade" area in the survey. The Commercial Core has the highest office rents followed by Belltown (Denny Regrade) and Pioneer Square. The survey doesn't break out data for International District and Denny Triangle, so no data are available on average rents. However, based on rent data for selected buildings, it's possible to infer that Denny Triangle commands rents that are similar to those in the Denny Regrade. Rents in the Chinatown/International District neighborhood are below those in Pioneer Square.

Land value depends upon underlying zoning and development potential as well as locational and attractiveness factors. With recent changes to the Downtown zoning code to allow additional heights, land prices should rise in the Commercial Core and Denny Triangle. Belltown (except a small portion), Pioneer Square and the Chinatown/International District neighborhoods were not included in the recent Downtown zoning changes, meaning there is no direct effect on land values in these neighborhoods. Belltown land values will continue to reflect that neighborhood's attractiveness for additional residential/mixed-use growth. This leaves the South Downtown neighborhoods with land values that are comparatively lower than most other portions of Downtown. There are a limited number of actual transactions to indicate current land values, and even year-old data may be significantly out of date. Given current zoning, estimated land values in Pioneer Square are approximately $150 to 250 per square feet; and values in Chinatown/I.D. are approximately $100 to $150 per square feet. These are roughly 25% lower than land values in Belltown and the Denny Triangle.

Market Outlook for the South Downtown Neighborhoods

Additional analysis of the South Downtown neighborhoods (Pioneer Square, Chinatown/International District, Little Saigon, and the Stadium Area) provides insights into their market characteristics and potential growth outlook. Conditions of each of these areas are described below in more detail followed by a description of the factors that will affect future levels of development.

Market characteristics of residential retail, office and industrial uses are summarized in the following table.

Table 4 - Economic Conditions in South Downtown Neighborhoods

	Pioneer Square	**Intl. Dist. Chinatown**	**Intl. Dist. Little Saigon**	**Stadium So. Dearborn**
Residential				
Type	Renovation Market & Subsidy	Renov./New Market & Subsidy	New Market	N/A
Price Range-Apt. (mkt.)	$1.50-2.00/sf/mo.	$1.40-1.75/sf/mo.	$1.50/sf/mo.	
Price Range-Condo	$325-400/sf	$300-450/sf	$300-350/sf	
Retail				
Type	Restaurant/Entrtmt Lifestyle/Misc.	Restaurant Markets/Misc.	Restaurant Markets/Misc.	Lifestyle/Misc.
Price Range	$9-25/sf/yr NNN	$6-18/sf/yr NNN	$6-18/sf/yr NNN	
Office				
Type	Major Tenants Misc. Services	Major Tenants Misc. Services	Misc. Services	Misc. Services
Price Range	$15-25/sf /yr gross	$7-20/sf/yr gross	$12-18/sf/yr NNN	
Industrial				
Type	Warehousing	N/A	N/A	Warehousing
Price Range				$.45 -.60/sf/mo NNN

Note: NNN means "triple net" in which tenants pay all operation and maintenance costs for their space separately from rent.

Residential
Residential development is occurring in Pioneer Square, Chinatown and Little Saigon.

Pioneer Square – much of the recent development has been renovations of existing buildings including:

- Lowman Building: Income restrictions
- Terry Denny Building: Rental lofts
- Corona: Rental lofts
- Fortson Place (2nd/Yesler): mixed-income apartments, under construction

New development is proposed for the Trolley Barn site on Occidental, the Johnson Building (at Occidental Avenue/Railroad Way), and 950+ residential units on the Kingdome North Parking Lot.

Chinatown/I.D. - renovation of the existing historic buildings for market–rate housing continues to be a challenge. Newer development includes

- 705 South Weller Street, (under construction)
- Empress on Fifth: (undergoing condo conversion)
- Washington Terrace: senior apartments
- Nihonmachi Terrace: family and senior apartments, income restricted

The rent leader for the area is Uwajimaya Village with monthly rents of $845 to $895 for studios, $1,025 to $1,375 for a typical one bedroom unit, and $1,325 to $1,895 for a two-bedroom unit. To date, the only project built as a condominium was the Fujisada on 5th Avenue. Units in the buildings are available for resale at $450,000 for a 1,000 square foot home. The Mosaic Apartments were recently converted to the Asia Condominiums, and units sold for prices ranging from $335 to $435 per square foot. The Empress is being converted to condominiums, but no price information is available.

Little Saigon - There has been only a limited amount of residential development in Little Saigon in the last decade. The Pacific Rim Center (completed in 2000/2001) has condominiums available for purchase prices of $300,000 or more. Approximately 10 of the 40 units have sold with the remainder becoming available for sale as leases expire.

Stadium Transition Area - Zoning prohibits residential development, and no residential development has occurred.

Residential Market Outlook:
Current residential development activity and a significant housing proposal in South Downtown (portion of Qwest Field's north lot) demonstrate that there is demand for this use. Much of the supply has been rental housing rather than condominiums. With the conversion of the Mosaic Apartments to the Asia Condominiums and further conversions underway, the supply of condominium units will increase. At the same

time rental rates are increasing. Rental rates in the newer apartments in the area are approximately $1.65 per square foot per month, well below the rental rates in Belltown of $2.00 per square foot or more, but high enough to support new construction with five floors of wood framing over a concrete base. Interested parties in the area indicate that the major constraint on housing development is the limited availability of sites.

Retail

There is a range in the types of retail space available in South Downtown, with a variety of businesses serving a broad regional market.

Pioneer Square features a strong concentration of restaurant and entertainment businesses as well as lifestyle tenants such as galleries, apparel, and furniture/furnishings. Rents in renovated buildings range from $1.40 per square foot per month in the Interurban Building at Occidental and Washington to $2.10 per square foot per month in the Grand Central Building.

Chinatown has a diverse mix of businesses ranging from the Uwajimaya upscale market to small markets and a variety of restaurants. Rents range from below $1 per square foot per month in ground floor space in non-profit operated residential buildings to $1.50 in renovated buildings such as 507 Maynard.

Little Saigon features a retail district that has emerged and grown over the past 20 years. There are several markets and restaurants as well as jewelers and miscellaneous small retailers. Several buildings have been built since 1990, including Jackson Square, 1207 Jackson, Rainier Center, and Pacific Rim Center. Rents in these buildings average $1.50 per square foot or more. These rents approach the levels found in new mixed use buildings within the City center. These levels suggest that additional retail is supportable in new mixed use buildings in South Downtown.

The Stadium Transition Area offers some retail development, including a few restaurants on First Avenue north and west of Safeco Field and several building supply and material showrooms along that avenue north and south of Safeco Field.

Retail Market Outlook:

The overall outlook for retail development in the region is strong. Population is growing and income levels continue to increase in real terms (net of inflation). Vacancy rates are low and there is upward pressure on rents. The average retail vacancy rate downtown is reported by CB Richard Ellis in their First Half 2006 Market View to be 3.23%, slightly higher than the rate in the region, but low in absolute terms. South Downtown will experience additional demand in three broad categories:

- Additional demand for convenience retail goods as population and employment in the area grow.
- Additional demand for comparison shopping goods for the southend market area because of easy access.

- Specialty retail demand associated with the unique shops and entertainment venues in the International District and Pioneer Square.

The latter category may provide a challenge. The cultural integrity of retail and restaurant business in Chinatown/International District and Little Saigon is perceived by stakeholders as fragile, although it also provides a collective "anchor" for the neighborhoods. Impacts of stadium events, rising rents, languishing building infrastructure, parking limitations, and lack of marketing are challenges to these businesses. Ownership transitions to younger generations may help to re-invigorate some, but the specter of competition from national retailers and more up-scale establishments is a concern. In spite of these general trends, Little Saigon has emerged as a distinct retail neighborhood over the past two decades, offering a mix of markets, restaurants, jewelers, and miscellaneous small businesses.

Interesting ideas voiced by community members include strategies to encourage new small businesses such as "Asian malls", markets and/or street vending. A night-time market such as the ones in Richmond, British Columbia and several other cities with Asian immigrant populations has been discussed for this area.

Office

South Downtown is an attractive location for office development because of the strong transportation connections for both highway and transit; the concentration of entertainment venues; and the mix of cultural and historic themes. In addition, sites may be available for office development outside the central historic neighborhoods, specifically around the stadiums and south of Dearborn.

Pioneer Square offers several renovated historic structures as well as the newer King Street Center occupied largely by the King County Department of Transportation. While NBBJ recently moved from the District, the space has been re-leased, and Starbucks has announced that it will lease the 83 King Street Building. Several prominent high tech firms are located in this area. Professional service firms are also concentrated in the area. Rent in the renovated buildings average $20 per square foot per year.

International District/Chinatown includes both the newer office buildings along 4th Avenue S. and older historical buildings. The newer office buildings house several major tenants such as Amazon.com and Vulcan. The older buildings accommodate smaller service businesses and a variety of non-profit agencies.

Little Saigon provides office space for many service firms. Most of these tenants are in upper floors of the newer retail/office buildings (such as the Pacific Rim Center). Rents are comparable to the retail space in those buildings at $1.50 per square foot ($18 per square foot per year).

The Stadium Transition area South of Downtown does not have any significant office buildings. However, an office complex with 320,000 square feet on a full block is proposed on the Home Plate Parking site southwest of Safeco Field at 1st Avenue S./S. Atlantic Street.

Office Market Outlook:

The Seattle office market has strengthened considerably during 2006. According to year-end survey figures from Grubb and Ellis, the Central Business District (CBD) vacancy dropped from 13.4% at the end of 2005 to 9.8% in 2006. Class A building asking rents in the CBD increased from $26.39 to $29.46 on a fully serviced basis. Sales prices per square foot for existing buildings have set new highs, reflecting an expectation of further increases in rents. Dozens of new projects are under construction or pending. According to Colliers International, the amount of new space coming on line is expected to be:

2007: 830,000 square feet
2008: 1,723,000
2009: 4,323,000
2010: 1,150,000

These figures include projects in south downtown such as Stadium West and Stadium East (1.3 million square feet), but don't include the potential development over the railroad tracks east of Qwest Field. With continued growth in employment, the additional demand for office space should match this increase in supply.

In addition to the transportation access and cultural benefits of South Downtown, it also is home to large and growing employers such as Amazon.com and Starbucks. As these employers expand, South Downtown is a logical location.

Current office rents in South Downtown are not high enough to support the cost of new construction, but with the improving market conditions throughout Downtown, new development should be feasible within the next two years. The issue of feasibility of development of any of the uses is addressed in a Section 3 of this report.

Industrial

There are scattered industrial tenants in the Pioneer Square area (specifically Nordic Cold Storage on Occidental) and several industrial buildings in the Transition Area and South of Dearborn vicinity. Identified uses are primarily warehouses uses. Rents vary from $0.45 - $0.60 per square foot per month.

Industrial Market Outlook:

The regional industrial market has been very strong for several years. While the 3rd quarter vacancy rate for industrial space in the region has increased from 5.8% to 6.8% since the end of 2005 (CB Richard Ellis 3rd Quarter Market View), absorption has remained very strong. The Seattle Close-in market has the lowest vacancy rate at 3.4%. The Close-in Market benefits from proximity to the Port of Seattle container terminals, and the rail and highway networks. The major constraint is shortage of suitable sites. Within the immediate South Downtown area, the proximity of the transportation facilities is a strong benefit, but there are frequent conflicts between industrial traffic and stadium event traffic.

Factors Influencing South Downtown Development

During the course of the stakeholder interviews, a number of other non-quantified factors related to future development in the South Downtown were discussed. These include better linkages to the rest of the Center City by public transportation, including the waterfront street car; more area-specific promotion to tourists, including cruise ship passengers; and more emphasis on the design of public streets and areas. Beyond the quantitative aspects of market conditions in these areas (described above), there are numerous qualitative factors that negatively and positively influence the marketability of these neighborhoods. The following tables provide a qualitative summary of existing and potential future factors.

Table 5 - Pioneer Square Development Influencing Factors

	Current		**Likely Future**
Uses	**Negative**	**Positive**	**Positive**
Residential	• Public safety and perceptions thereof • Neighborhood vs. tourism "feel" • Limited housing choices • Concentration of social services • Noise • Lack of residential services and amenities	• Lively pedestrian atmosphere • Entertainment venues • Specialized retail • Offices • Proximity to Downtown core • Views • Special character of buildings	• Increase in choices • Increase in volume • Increase in community-related retail • New low-income housing funds
Commercial (Office, Retail, Entertainment & Hospitality)	• Access & circulation • Limited sites and difficulty in redeveloping them in historic district • Stadium event traffic • Code limitations on hotels	• Public transportation • Pending projects (North Lot, Trolley Barn, & historic redevelopments) • Increased jobs • Proximity to Downtown core • Cheaper rents, unique spaces	• Enhanced waterfront access • Large mixed use projects • Increased concentration of residents
Industrial	• Limited potential • Increasing land prices • Concentration of public facilities • Congestion	• Possible uses in office configurations	

Table 6 - Chinatown/International District Development Influencing Factors

	Current		Likely Future
Uses	**Negative**	**Positive**	**Positive**
Residential	• Public safety and perception thereof • Limited housing choices • Lack of community-serving professional services • Infrastructure condition • Vacant upper floors in buildings	• Cultural character • Mix of residents (ages, households, etc.) • Presence of arts • Public transportation	• Extension of Streetcar • New low-income housing funds
Commercial (Office, Retail, Entertainment & Hospitality	• Public safety and perception thereof • Access & circulation • Limited sites and difficulty in redeveloping historic district • Stadium event traffic • Code limitations on hotels	• Public transportation	• Market-rate housing • Increased residential concentrations • Resources for increasing BIA role
Industrial	• Limited potential	• Possible uses in office configurations	

Table 7 - Little Saigon Development Influencing Factors

	Current		Likely Future
Uses	**Negative**	**Positive**	**Positive**
Residential	• Public safety and perception thereof • Limited housing choices • Lack of community-serving professional services • Infrastructure condition • Fragmented ownerships • Some uses (such as chicken processing plant) discourage new residential uses nearby	• Cultural character • Broader housing, retail & services pending in Goodwill Project	• Extension of streetcar • New low-income housing funds
Commercial (Office, Retail, Entertainment & Hospitality	• Public Safety • Access & circulation • Limited sites • Stadium event traffic • Infrastructure conditions	• Public transportation	• Linkage with Rainier Corridor redevelopment • Yesler Terrace redevelopment • Market-rate housing • Increased residential concentrations • Resources for increasing BIA

Table 7 - Little Saigon Development Influencing Factors

	Current		Likely Future
Uses	**Negative**	**Positive**	**Positive** role
Industrial	• Limited potential	• Possible uses in office configurations	

Table 8 - Stadium Area/South of Dearborn Development Influencing Factors

	Current		Future
Uses	**Negative**	**Positive**	**Positive**
Residential	• Zoning restricts housing development • Access & circulation • Lack of community services and amenities	• Entertainment venues	
Commercial (Office, Retail, Entertainment & Hospitality	• Access & circulation (1st Ave. S. corridor)	• Available sites • Access & circulation (south of Dearborn)	
Industrial	• Stadium event traffic		

SECTION 2
INTERVIEWS WITH SELECTED STAKEHOLDERS

(The interviews were conducted in March and April of 2006)

Methodology and Overview

Key South Downtown stakeholders were asked to provide insights and suggestions for the South Downtown Plan that will ensure its applicability to the current economic, social, and cultural conditions in the area. The method involved interviews with stakeholders to elicit their individual opinions about the state of the area, the issues under consideration, and the manner in which the Staff Report either does or does not address the issues, as well as how the Plan should be further refined.

This is not a true representative (or statistically valid) sample of <u>all</u> of the stakeholder interests within the South Downtown. The list of participants was provided by DPD and was selected to cover the broad range of property and business owners, developers, social service providers, and investors that are active in the area. Some are members of the DPD Advisory Group that participated in the formulation of the draft. A list of the participants is included in the appendix.

We are very grateful for their revealing insights and strong interests in making South Downtown <u>livable</u>. While the participants all have strong opinions about South Downtown overall, most offered perceptions and opinions about specific neighborhoods or subareas (Pioneer Square, Chinatown/International District, Little Saigon, and the stadium area).

Process

The DPD staff and consultants generated a list of questions to be used in the interviews. The questions covered project plans "in the pipeline", land uses or activities, the economic investment climate, zoning and permitting, and other city services. The questions were sent to the participants prior to the interviews. The interviews were informal and the participants were encouraged to use the questions as a basis for discussing their personal knowledge and perspectives. Some interviews were of individuals and some were of small groups of stakeholders with similar interests such as large scale developers, service providers, and community organizations. Draft notes from the interviews were circulated to the participants for their review to ensure accuracy. Since some of the information discussed is confidential, the results of the interviews have been compiled into this report without attribution to specific individuals' comments.

General Observations of Interviewees

Nearly all of the participants were optimistic about the future of South Downtown's development potential, particularly if zoning and land use permit procedures are simplified and height restrictions are lifted in some areas - although significant reservations occur as described below. The potential for much more residential, office, retail, and service uses is felt to be very strong. Social, cultural, and community livability is dependent upon a much more complex context of policies and strategies than simple land use regulations offer. A wide range of city infrastructure and service commitments needs to be part of the holistic Plan to support the major increases in resident population and private investment anticipated.

Observations about development in the "pipeline"

The participants of the interviews were asked to provide information describing South Downtown development project in which they were involved. The following summarizes that information by neighborhood. **This is not a complete list of all known projects in the development pipeline.**

***Pioneer Square* –** Several large projects are in planning, permitting, or occupancy that are expected to result in a net increase of several million square feet of office space; up to 1,000 dwelling units (mostly market rate); and several hundred thousand square feet of retail/restaurant/entertainment space. Most of this is, or will be, new construction, and therefore does not reflect the redevelopment of historic buildings.

***Chinatown/International District* –** A fairly intensive amount of new infill development in the "core" around Uwajimaya Village is expected to occur in the near future. This may include one or two hotels as well as market rate housing and retail. Several residential projects have been recently occupied, including both market rate and subsidized units. Other development and redevelopment has been inhibited by a number of factors described below.

***Little Saigon* –** Other than the Goodwill site redevelopment with 600,000 square feet of retail (including a new Goodwill outlet) and 500+ dwelling units, no major projects are known to be pending. Developers and investors are looking for potential sites.

***South of Dearborn & Stadium Area* –** Immediately south of Dearborn and along Sixth Avenue South, a 6.5 acre site is being planned for a large office complex with open space features. Another 3-story office addition to an existing building is in design. Development in the Stadium Transition Area has lagged apparently due to uncertainty about city policy and the need for major infrastructure improvements. A 300,000 square foot office project near Safeco Field is in permitting.

The appendix includes more details regarding specific projects described in the interviews.

Interview Themes

Within the context of overall Downtown Seattle growth forecasts, and South Downtown's position, the interviews revealed stakeholders' opinions framed below in four themes:

- What uses should be encouraged in South Downtown neighborhoods that would support an increase in community livability?

- Is there, and will there continue to be a positive environment for real estate development?
- What kind of changes to current zoning and permitting procedures are needed to stimulate new activity? and,
- What other policies or actions should the city be considering to produce results?

What Land Uses Should be Encouraged?

"Housing, Housing, Housing"

There is almost unanimous consensus that additional housing will generate a critical mass of resident population which will stimulate the neighborhoods' economic viability, create safer streets, and help to protect community integrity. Several participants suggested raising the comprehensive plan aggregate neighborhood housing target to 10,000 units. There are concerns that South Downtown has more than its fair share of low income housing. Most participants believe that emphasis should be placed on market-rate housing, while there should always be opportunities for a range of incomes and housing types.

"Work force housing" is a popular concept, although there does not seem to be a clear understanding of what income range this product caters to, nor whether it can be developed without some financial assistance. Tax credit program limitations on incomes may be a problem. A mix of income levels of 1/3 market rate, 1/3 workforce, and 1/3 subsidized would create a general balance, if not an ideal allocation. Partnerships of for-profit and non-profit developers could be a way to combine mixed income housing at the project level.

While it is generally expected that most new housing will be in the form of multifamily apartments or condominiums and lofts, there may also be demand for ground-related attached units in some parts of the neighborhoods.

Retail

According to interviewees, retail uses are expected to continue to be a strong development type. In order to support a larger and more affluent resident population, the types of retail uses attracted to the area will likely be those that provide pharmacies, groceries, apparel, personal services, day care, and home furnishings that are more neighborhood-serving than tourist-oriented. These uses are likely to require larger floor plates than can be accommodated in many of the existing buildings. Entertainment uses such as theaters, and hospitality uses like hotels are virtually non-existent and are necessary to sustain both tourism and visitor activity. Restaurants are also valuable contributors to the attractiveness of South Downtown. However, many are struggling for a variety of reasons, and many of them may not be able to survive relocation and higher rents resulting from redevelopment, particularly if available off-street parking is lost.

Office
According to interviewees, office development in South Downtown appears to be a very strong use, particularly for projects that can produce substantial amounts of space and large floor plates for anchor tenants. The area does or will offer proximity to a variety of transportation facilities including highways, the ferry system, light rail, and commuter rail. The recent activity by Starbucks and Amazon.com are indicative of these advantages. As the resident population increases, demand for office space for personal services, professionals, and smaller businesses should increase.

Other uses mentioned included technology research and development, college/vocational education, and specialized manufacturing supporting the growing Seattle biotechnology industry.

Industrial
Generally, the feeling was that the City should be working to protect current businesses that are located south of the stadiums. There is a good diversity of uses, but land price escalation, traffic congestion, and speculation is impacting the businesses' cost of operations and their abilities to sustain property improvements.

Other Uses
Finally, there is a prevailing notion that much more open space is needed to serve the area, particularly safe recreation area for residents. While some of the larger projects will provide some of this to serve their own users, the city should be working to create community spaces that have broad appeal to everyone, including seniors and children.

What is the Investment Environment in South Downtown?
Presently, the strength of the economy is driving substantial interest for development in South Downtown. Apart from some concerns about interest rates and competing development in other parts of the region, the private market is active in site acquisition and project planning. Since the area is different geographically, culturally, and demographically than the rest of downtown, the components of projects require a sophisticated approach. One of the most important features is the attractive transportation nexus created by the light rail, commuter rail, Amtrak, freeway access, and excellent bus transit service. The relatively large land areas on the edges of Pioneer Square and south of Dearborn are attractive for large projects that can attract significant retail and office tenants.

For community-based organizations, non-profits, and existing businesses, these factors have a down side. Land values and development costs are increasing, while the smaller scale of projects and use of existing historic buildings further exacerbate the complexity of financing and delivering projects that meet the demands for more modest residential and commercial developments.

Competition for low interest loans and other forms of financing for low-income development is tough, requiring considerable sophistication. The income limits (rent caps) for family housing have not been increased in four years, yet operating costs of housing have inflated. Recent state legislation is providing some new financing sources, but the decline in the Section 8 Program is threatening. Continuation of city “bridge” loans and broadening of the housing levy fund for market rate work force housing would be positive steps.

Long-time property owners are reluctant to invest in their buildings and/or partner with developers when the risks of losing revenue during development and displacing long-time tenants are considered serious inhibitions. Existing small businesses are typically “self-financed” and have limited access to capital for improvements and operations.

Little Saigon’s role as a gathering place and shopping center for the regional Vietnamese community is evolving as competing businesses emerge in the suburbs and along Rainier Avenue South towards Columbia City. The Yesler Terrace residents are drawn to Little Saigon to shop, perhaps enlarging the market potential when it is redeveloped. The transit free-ride zone does not include Little Saigon – a further negative.

There are many opinions about the impacts of the stadiums on South Downtown. It is true that sporting and exhibition events attract large crowds that could generate retail and entertainment business. The ability of businesses to capture the benefits of this activity varies according to the type and time of the event, the type of business, and the efforts of the business owners to market to these potential customers. At the same time, these events also saturate area parking that inhibits “normal” business, and the sports fans tend not to patronize local businesses – at least in Chinatown/ID and Little Saigon. In the stadium transition zone, the investment climate is clouded by speculation, concerns about continued declining freight mobility, and the City’s inattention to needed infrastructure improvements.

Opinions about Zoning and Land Use Planning:
Comments Related to Livable South Downtown Draft Recommendations

The interviewees generally had positive viewpoints on the current status of the South Downtown Plan (as drafted in March, 2006). As essentially a “zoning scheme”, it offers the potential of producing some basic incentives for new development. However, there are some major concerns. The proposed 120 foot height limit is difficult from a construction economics standpoint. There should be further analysis of heights that would support “high rise” concrete or steel construction. Bigger buildings require larger sites, which are difficult to assemble in some parts of the area. Beyond the question of the zoning envelopes, the location of proposed land use designations and height increases and the regulation of uses also generated considerable comment.

Some wonder why the Charles Street Yards are not included in the proposal. This is a major development or open space opportunity. The old “Commercial” and “Industrial Commercial” zoning on the periphery should be considered for possible changes to designations that would support mixed use development. And, the portion of Little

Saigon north of Jackson between Main and Boren should be considered for changes to increase density given its proximity, view potentials, and redevelopment potential. In all cases, the potential capacity of the land use proposals needs to be carefully analyzed with respect to traffic generation, design quality, utility capacity, and parking. The city should consider development of public short term parking facility(s) that would support local businesses.

Beyond the physical characteristics of the proposal, the Plan must give careful consideration to streamlining the code and the permitting procedures. Overlapping development standards, public works standards, special review standards, and other city processes have inhibited development and redevelopment planning for smaller projects in particular, although this is true for the large ones too. Standards should be used to guide development based on design, not uses. Hotels are treated the same as office buildings in the current FAR provisions, which affects project planning. Perhaps the TDR program should be extended to South Downtown.

The Plan should also have a strong public realm urban design component including location and design of open spaces, streetscape improvements, and pedestrian linkages. Planning should seek to provide north-south pedestrian connections within the long east-west blocks in Little Saigon, and better connections should be made between Chinatown/ID and Pioneer Square. This component is needed to coordinate improvements and connections throughout South Downtown. While each neighborhood should maintain its own identity, way-finding systems and area-wide infrastructure improvements need to be coordinated. This includes coordination with other plans and programs addressing surrounding areas and projects such as the Viaduct, Rainier Avenue, and SODO. Existing design guidelines should be re-examined and where they do not apply to some areas, be extended.

The Plan should also have a sustainability component that outlines energy strategies that could balance "first-costs" of conservation measures with long-term savings in energy costs. This could include an area-wide approach using an organization like a PDA to finance and operate facilities.

Opinions About Other City Policies And Actions

This portion of the interviews generated a much broader, diverse set of comments, many of which are specific to the individual neighborhoods. The most prevalent comments pertained to the need for increased public safety. There is a strong opinion throughout the area that the streets, parks, and other public spaces are inadequately policed, maintained and lit, resulting in drug dealing, gang activity, and concentrations of homeless persons. While there is some community attention to this issue (Chinatown/I.D. BIA), funding is not adequate to provide other than incidental policing. Further, many residents, particularly the elderly, are reluctant to report crimes, either because of difficulties with language or unfamiliarity with the system or process. A police substation in a prominent location like Hing Hay Park should be considered. In addition, the <u>quality</u> of the public realm is considered to be a road block to creating a livable community. This ranges from the condition of the streets and sidewalks, crosswalks, storm water management, litter control, traffic control, and urban design treatments that are perceived as outdated.

Beyond public safety, overall code enforcement is inadequate. This includes inspection and identification of buildings and areas where structural, fire prevention, or public health violations threaten the surroundings. In the stadium area, parking enforcement is a particular problem where business driveways and "no parking" loading zones are often blocked.

In the area of transportation, there is consensus that the streetcar should be extended east on Jackson to 23rd, and possibly further north along Broadway and down to Safeco Field so that it would become more integrated with both local circulation needs and the intermodal terminal. The entire South Downtown should be included in the free-ride zone. Freeway access could possibly be improved by reconfiguring and signalizing the Dearborn off-ramp intersection to allow traffic to continue north across Dearborn to Weller. Arterial speed limits should be evaluated and enforced. A non-motorized transportation plan is needed to integrate the planning and design of walks, trails, bikeways, and transit facilities and service with the infrastructure "grid". This should consider neighborhood-level pedestrian linkages as well as inter-neighborhood linkages.

Beyond the suggested code amendments outlined above, the city's permitting system should be streamlined to minimize the complexities involving overlapping reviews that occur in much of South Downtown. Requirements coming from special reviews and city departments frequently complicate the design of smaller projects involving rehabilitation of old buildings. Ideally, the city would manage the permitting process with project leaders who could provide more hands-on assistance and communication with applicants, providing answers to policy questions and code interpretations and coordinating reviews by all departments. Deferral of permit fees, utility connection charges and sales tax on construction would all be valuable incentives, particularly for redevelopment projects where revenues from current uses are terminated during construction.

Programs and policies oriented towards public support of affordable housing and business need attention. Non-profit housing developers/operators are challenged by diminishing financing in the face of escalating land and development costs. While some of these challenges could be resolved by related permitting and community parking strategies mentioned above, there still remains a perception that projects will be harder and harder to implement, and that leasing and management of commercial portions of properties will be difficult as rents and business operations costs increase.

Some housing-related strategies suggested for consideration include:

- Incorporate inclusionary zoning and/or increased methods for for-profit and non-profit developers to partner in mixed-income projects;
- Pursue land banking to "freeze" land costs for projects;

- Prepare an analysis of income qualification criteria for households that are spending more than 30% of their incomes on housing;
- Engage the Office of Housing in a proactive role of education, facilitation, and financial support of projects.

Some business-related strategies suggested for consideration include:
- South Downtown marketing program to encourage visitors such as cruise ship passengers and regional shoppers emphasizing the cultures, dining, and unique retail opportunities;
- Performing arts center that leverages the vitality of local theater, dance, and other artists;
- Small business assistance in cash flow management, financing, accounting, marketing, and dealing with relocation when existing spaces are being redeveloped;
- Organizational and funding assistance in forming or expanding BIAs to provide localized services such as street cleaning, public safety, and advertising;
- Facilities or methods for small business “incubators”.
- Parking strategy to meet ongoing business needs as well as demands for special events and regional facilities.

Finally, implementation of the South Downtown Plan through public investment should be carefully coordinated with the adopted goals, policies, regulations and strategies of the Greater Duwamish Manufacturing and Industrial Center Plan to ensure that conflicts of land use, land speculation, freight mobility, and stadium events have no further impacts on the sustainability of the industrial area’s vitality and its businesses.

SECTION 3
DEVELOPMENT FEASIBILITY UNDER CURRENT AND POSSIBLE FUTURE ZONING

Purpose and Method

The Livable South Downtown project is intended to identify and implement land use actions that will encourage people to live, work, and play in South Downtown Seattle. Potential plan elements are being evaluated to determine their economic impact in general, and the extent to which the plan will provide incentives for private development. To this end, a series of proforma analyses was prepared to compare the feasibility of development under current zoning with the feasibility under alternative future zoning.

Land availability and cost, market demand, development cost, financing, and permitting are the factors that influence development feasibility now and in the future. The following table summarizes how these factors appear to be working in the South Downtown:

Table 9 – Financial Feasibility Factors

	Pioneer Square	Chinatown/ID	Little Saigon	Stadium Area
Land Availability	Limited sites other than WOSCA, North Lot, Trolley Site, & “Over Tracks”	Limited sites, many constrained by ownerships	Limited sites, many constrained by ownerships	--
Land Cost	--	--	--	--
Market Demand	Appears strong for office and retail;	Possibly strong, but affected by land availability, cost, and condition of the area	Depends on outside influences such as Goodwill, and surrounding area development;	--
Development Cost	Constraints offered by soils conditions, water table, height limits	Affected by potential project limitations of parcel sizes and costs, and special reviews;	--	--
Financing	--	--	--	--
Permitting	Overlapping design review requirements; current code provisions are complex	Overlapping design review requirements; current code provisions are complex	--	--

These factors can be reflected in a series of assumptions in the proforma analysis of various land use alternatives. The proforma analysis compares the cost of development to completed value to determine the developer profit. The developer profit for any development plan is compared to a target rate of 15% of development costs to identify whether that option is feasible. The 15% rate is considered a typical rate falling within a range of 10% to 20%. Such a rate provides adequate incentive for a developer to assume the risk associated with development. Developer profit levels can also be compared among alternative development or zoning scenarios to determine the increase (or decrease) in value associated with the assumed change in development parameters. The level of increased profit is adjusted to reflect a fair return on the increased cost of development under more dense development alternatives. In this analysis, the increased profit is adjusted for a 20% return on additional development cost, reflecting a stronger incentive for denser development. The value of the completed development is estimated as the net sales proceeds in the case of a residential condominium project, or the capitalized value of the operating income in a stabilized year for a rental project.

The following presents a description of alternatives, a summary of assumptions, and a discussion of results.

Description of Alternatives

Department of Planning and Development (DPD) staff identified nine cases for existing zoning and several alternative zoning designations for each. Staff identified the physical parameters for each case. An apartment case and a condominium case are described for each residential alternative, because the economics of the two product types can differ. The analysis indicates the conditions for feasibility for each type for each zoning alternative. Results are compared separately across apartment alternatives and condominium alternatives. Based on evidence from recent projects, condominiums are assumed to be larger at 950 square feet on average compared to apartments at 800 square feet, and parking for condominiums is assumed at 1.0 space per units on average, compared to .75 spaces per unit for apartments.

#1. Base Case NC3 65 and NC 3 85 Alternatives

	NC3 65 Case	NC3 85 Case	NC3 65 Case	NC3 85 Case
Site Area (Square Feet)	22,800	22,800	22,800	22,800
Gross Building Area	97,400	114,100	97,400	114,100
Net Building Area	83,930	98,125	81,350	95,044
Principal Use	Apartments	Apartments	Condominium	Condominium
Dwelling Units	91	109	78	94
Commercial Net building Area	10,830	10,830	10,830	10,830
Parking (Stalls)	68	82	78	94

#2. Base Case NC3 65 and DMR 125 Alternative

	NC3 65 Case	DMR 125 Case	NC3 65 Case	DMR 125 Case
Site Area (Square Feet)	22,800	22,800	22,800	22,800
Gross Building Area	97,400	184,500	97,400	184,500
Net Building Area	83,930	157,965	81,350	152,772
Principal Use	Apartments	Apartments	Condominiums	Condominiums
Dwelling Units	91	184	78	158
Commercial Net building Area	10,830	10,830	10,830	10,830
Parking (Stalls)	68	138	78	158

#3. Base Case IDM 75/85 and IDM 125 Alternatives

	IDM 75/85	IDM 125 Case	IDM 75/85	IDM 125 Case
Site Area (Square Feet)	28,800	28,800	28,800	28,800
Gross Building Area	158,700	236,200	158,700	236,200
Net Building Area	136,335	202,210	132,006	195,556
Principal Use	Apartments	Apartments	Condominiums	Condominiums
Dwelling Units	153	236	131	202
Commercial Net building Area	13,680	13,680	13,680	13,680
Parking (Stalls)	115	177	131	202

#4. Base Case IG2 U 85 and Alternatives

	IG2 U 85	IC 125 Case	DMC 150	SDM 125/150	SDM 125/150
Site Area (Square Feet)	61,440	61,440	61,440	61,440	61,440
Gross Building Area	150,000	234,320	440,000	428,500	428,500
Net Building Area	137,500	213,388	396,000	373,725	366,270
Principal Use	Office	Office	Office	Office/Apt.	Office/Condo
Dwelling Units	-	-	-	249	240
Commercial Net building Area	137,500	213,388	396,000	162,500	162,500
Parking (Stalls)	243	295	430	429	429

#5. Base Case C2 85 and DMC 150 and SDM 125/150 Mixed Alternatives

	C2 85	DMC 150	SDM125/150 Mixed	SDM 125/150 Residential	SDM125/150 Mixed	SDM 125/150 Residential
Site Area (Square Feet)	27,360	27,360	27,360	23,360	27,360	23,360
Gross Building Area	123,000	200,000	181,520	127,100	181,520	127,100
Net Building Area	111,530	180,475	159,916	109,535	159,916	106,172
Principal Use	Office	Office	Office/Apt.	Apartments	Office/Condo	Condominiums
Dwelling Units	-	-	82	112	82	102
Commercial Net building Area	111,530	180,475	90,148	14,250	90,148	14,250
Parking (Stalls)	154	200	177	112	177	102

#6. Base Case IDM 100/120 and IDR150, IDM 180 Alternatives

	IDM 100/120	IDR 150	IDM 180	IDM 100/120	IDR 150	IDM 180
Site Area (Square Feet)	21,600	21,600	21,600	21,600	21,600	21,600
Gross Building Area	182,250	182,310	276,800	182,250	182,310	276,800
Net Building Area	154,913	156,044	223,690	149,445	150,898	223,690
Principal Use	Apartments	Apartments	Apartments	Condominiums	Condominiums	Condominiums
Dwelling Units	194	182	233	166	156	220
Commercial Net building Area	-	10,260	14,250	-	10,260	14,250
Parking (Stalls)	146	137	175	166	156	220

#7. Base Case IDM 100/120 and IDR 150 and IDM 240 Alternatives

	IDM 100/120	IDR 150	IDM 240	IDM 100/120	IDR 150	IDM 240
Site Area (Square Feet)	21,600	21,600	21,600	21,600	21,600	21,600
Gross Building Area	182,250	182,310	237,900	182,250	182,310	237,900
Net Building Area	154,913	156,044	192,570	149,445	150,890	192,570
Principal Use	Apartments	Apartments	Apartments	Condominiums	Condominiums	Condominiums
Dwelling Units	194	182	210	166	156	188
Commercial Net building Area	-	10,260	14,250	-	10,260	14,250
Parking (Stalls)	146	137	158	166	156	188

#8. Base Case PSM 100 and PSM 130 Alternatives

	PSM 100	PSM 130	PSM 100	PSM 130
Site Area (Square Feet)	12,960	12,960	12,960	12,960
Gross Building Area	59,405	112,330	59,405	59,405
Net Building Area	51,142	96,129	49,555	92,953
Principal Use	Apartments	Apartments	Condominiums	Condominiums
Dwelling Units	56	112	48	96
Commercial Net building Area	6,156	6,156	6,156	6,156
Parking (Stalls)	42	84	48	96

#9. Base Case C2 85 and IDM 125 Alternatives

	C2 85	IDM 125	C2 85	IDM 125
Site Area (Square Feet)	27,360	27,360	27,360	27,360
Gross Building Area	136,800	255,240	136,800	255,240
Net Building Area	117,648	218,322	113,954	211,075
Principal Use	Apartments	Apartments	Condominiums	Condominiums
Dwelling Units	131	257	112	220
Commercial Net building Area	12,996	12,996	12,996	12,996
Parking (Stalls)	98	193	112	220

Assumptions

The key assumptions in the analysis are related to revenues and costs. Generally rents and sales process increase with height, and the costs of construction increase as well. The key assumptions are summarized in the following table:

Table 10 – Cost Estimating Assumptions

			Height			
	65'	85'	125'	150'	180'	240'
Apartment Rent (/sq. ft./yr.)	26.00	26.50	28.00	28.50	29.00	30.00
Apartment Exp. (/sq. ft./yr.)	7.65	7.65	7.65	7.65	7.65	7.65
Condo Sales Price (/sq. ft.)	475.00	525.00	625.00	675.00	700.00	750.00
Condo Sales Costs (% of Price)	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Office Rent (/sq. ft./yr)	38.00	38.00	38.00	38.00		
Office Expense (/sq.ft./yr.)	10.00	10.00	10.00	10.00		
Retail Rent (/sq. ft./yr)	20.00	20.00	20.00	20.00	20.00	20.00
Capitalization Rate						
Apartments	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Office	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Retail	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Parking Rent						
Apartments (/sp./mo.)	95.00	95.00	95.00	95.00	95.00	95.00
Office (/sp./mo.)	150.00	150.00	150.00	150.00	150.00	150.00
Construction Cost						
Apartments (/sq. ft.)	115.00	120.00	191.00	210.00	212.00	216.00
Condominiums (/sq. ft.)	140.00	150.00	224.00	235.00	237.00	241.00
Office (/sq. ft.)	200.00	200.00	200.00	200.00		
Retail (/sq. ft.)	170.00	170.00	170.00	170.00		
Underground Parking (/sp.)	22,500	24,000	29,000	31,000	31,500	32,000
Aboveground Parking (/sp)	15,000	15,000	15,000	15,000	15,000	15,000
Soft Costs						
Apartments (% of constr.)	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Condominiums (% of constr.)	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%
Office (% of constr.)	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Retail (% of constr.)	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%

Construction costs reflect today's prices. Rents and sales prices reflect estimated market conditions at the completion of the projects. The rents and prices are well above current rates in the south Downtown area, but are considered to be realistic for two years from now assuming that the area experiences development pressures similar to other areas of the center city.

Land prices are identified for the base cases and assumed at the same level for each alternative. The implicit assumption is that any increased value resulting from the higher density accrues to the project and not the land. Assumed prices vary from $60 per square foot for the industrial zones to $150 per square foot for the Pioneer Square zones.

Results

The results of the analysis can be expressed in terms of absolute feasibility – meeting the target rate or not – or in terms of the increased performance of alternatives in comparison with the base cases. A particular case is considered feasible if the developer profit exceeds 15%. The alternatives are compared in terms of the increased profit after adjusting for a suitable return on the extra cost of development (assumed 20% of cost reflecting a higher incentive).

#1. Base Case NC3 65 and NC 3 85 Alternatives

	NC3 65 Case Apartments	NC3 85 Case Apartments	NC3 65 Case Condominium	NC3 85 Case Condominium
Capitalized Value of Income Stream	22,692,148	27,299,069	2,324,840	2,324,840
Sale Proceeds from Condominiums	-	-	30,817,240	38,738,440
Development Cost	19,693,214	23,414,798	23,974,764	28,299,246
Developer Profit	2,998,934	3,884,271	9,167,316	12,764,034
Developer Profit as % of Cost	15.2%	16.6%	38.2%	45.1%
Increased Profit		885,337		3,596,718
Increased Profit after 20% Return		141,020		2,731,822

#2. Base Case NC3 65 and DMR 125 Alternative

	NC3 65 Case Apartments	DMR 125 Case Apartments	NC3 65 Case Condominiums	DMR 125 Case Condominiums
Capitalized Value of Income Stream	22,692,148	47,640,659	2,324,840	2,324,840
Sale Proceeds from Condominiums	-	-	30,817,240	81,616,650
Development Cost	19,693,214	52,842,894	23,974,764	64,819,024
Developer Profit	2,998,934	(5,202,235)	9,167,316	19,122,466
Developer Profit as % of Cost	15.2%	-9.8%	38.2%	29.5%
Increased Profit		(8,201,168)		9,955,150
Increased Profit after 20% Return		(14,831,104)		1,786,298

#3. Base Case IDM 75/85 and IDM 125 Alternatives

	IDM 75/85 Apartments	IDM 125 Case Apartments	IDM 75/85 Condominiums	IDM 125 Case Condominiums
Capitalized Value of Income Stream	38,023,238	61,004,694	2,936,640	2,591,153
Sale Proceeds from Condominiums	-	-	57,151,458	104,578,700
Development Cost	32,855,200	68,204,304	41,134,985	83,524,934
Developer Profit	5,168,038	(7,199,610)	18,953,113	23,644,919
Developer Profit as % of Cost	15.7%	-10.6%	46.1%	28.3%
Increased Profit		(12,367,648)		4,691,806
Increased Profit after 20% Return		(19,437,469)		(3,786,184)

#4. Base Case IG2 U 85 and Alternatives

	IG2 U 85 Office	IC 125 Case Office	DMC 150 Office	SDM 125/150 Office/Apt.	SDM 125/150 Office/Condo
Capitalized Value of Income Stream	51,205,714	80,838,240	158,708,571	125,272,301	63,955,714
Sale Proceeds from Condominiums	-	-	-	-	112,481,040
Development Cost	46,750,510	73,081,739	136,538,550	128,075,420	144,220,505
Developer Profit	4,455,204	7,756,501	22,170,021	(2,803,119)	32,216,249
Developer Profit as % of Cost	9.5%	10.6%	16.2%	-2.2%	22.3%
Increased Profit		3,301,296	17,714,817	(7,258,323)	27,761,045
Increased Profit after 20% Return		(1,964,950)	(242,791)	(23,523,305)	8,267,046

#5. Base Case C2 85 and DMC 150 and SDM 125/150 Mixed Alternatives

	C2 85 Office	DMC 150 Office	SDM125/150 Mixed Office/Apt.	SDM 125/150 Residential Apartments	SDM125/150 Mixed Office/Condo	SDM 125/150 Residential Condominiums
Capitalized Value of Income Stream	43,449,600	71,235,214	54,658,029	31,074,610	34,409,349	3,420,000
Sale Proceeds from Condominiums	-	-	-	-	38,511,936	57,083,562
Development Cost	35,016,654	62,662,130	54,630,637	36,930,090	59,940,619	45,525,787
Developer Profit	8,432,946	8,573,084	27,391	(5,855,480)	12,980,665	14,977,775
Developer Profit as % of Cost	24.1%	13.7%	0.1%	-15.9%	21.7%	32.9%
Increased Profit		140,138	(8,405,555)	(14,288,426)	4,547,719	6,544,829
Increased Profit after 20% Return		(5,388,957)	(12,328,352)	(14,671,114)	(437,074)	4,443,002

#6. Base Case IDM 100/120 and IDR150, IDM 180 Alternatives

	IDM 100/120 Apartments	IDR 150 Apartments	IDM 180 Apartments	IDM 100/120 Condominiums	IDR 150 Condominiums	IDM 180 Condominiums
Capitalized Value of Income Stream	47,723,567	48,432,008	70,610,092	-	2,462,400	3,420,000
Sale Proceeds from Condominiums	-	-	-	85,930,875	87,336,322	134,879,360
Development Cost	53,437,480	57,023,423	85,444,794	66,066,620	67,328,340	102,076,888
Developer Profit	(5,713,913)	(8,591,416)	(14,834,702)	19,864,255	22,470,383	36,222,472
Developer Profit as % of Cost	-10.7%	-15.1%	-17.4%	30.1%	33.4%	35.5%
Increased Profit		(2,877,503)	(9,120,789)		2,606,127	16,358,217
Increased Profit after 20% Return		(3,594,692)	(15,522,252)		2,353,784	9,156,163

#7. Base Case IDM 100/120 and IDR 150 and IDM 240 Alternatives

	IDM 100/120 Apartments	IDR 150 Apartments	IDM 240 Apartments	IDM 100/120 Condominiums	IDR 150 Condominiums	IDM 240 Condominiums
Capitalized Value of Income Stream	47,723,567	44,170,644	58,178,215	-	2,462,400	3,420,000
Sale Proceeds from Condominiums	-	-	-	85,930,875	87,331,230	123,040,800
Development Cost	53,437,480	56,935,743	74,668,010	66,066,620	67,218,233	88,405,751
Developer Profit	(5,713,913)	(12,765,100)	(16,489,795)	19,864,255	22,575,397	38,055,049
Developer Profit as % of Cost	-10.7%	-22.4%	-22.1%	30.1%	33.6%	43.0%
Increased Profit		(7,051,187)	(10,775,882)	-	2,711,142	18,190,794
Increased Profit after 20% Return		(7,750,839)	(15,021,988)	-	2,480,819	13,722,968

#8. Base Case PSM 100 and PSM 130 Alternatives

	PSM 100 Apartments	PSM 130 Apartments	PSM 100 Condominiums	PSM 130 Condominiums
Capitalized Value of Income Stream	14,671,786	29,181,115	1,477,440	1,477,440
Sale Proceeds from Condominiums	-	-	21,959,641	49,908,275
Development Cost	14,969,037	31,516,321	17,778,206	38,644,816
Developer Profit	(297,251)	(2,335,206)	5,658,875	12,740,899
Developer Profit as % of Cost	-2.0%	-7.4%	31.8%	33.0%
Increased Profit		(2,037,955)	-	7,082,024
Increased Profit after 20% Return		(5,347,412)	-	2,908,702

#9. Base Case C2 85 and IDM 125 Alternatives

	C2 85 Apartments	IDM 125 Apartments	C2 85 Condominiums	IDM 125 Condominiums
Capitalized Value of Income Stream	33,053,598	66,364,389	3,119,040	3,119,040
Sale Proceeds from Condominiums	-	-	48,762,907	113,895,540
Development Cost	28,478,359	72,564,305	34,668,319	89,186,909
Developer Profit	4,575,239	(6,199,916)	17,213,628	27,827,671
Developer Profit as % of Cost	16.1%	-8.5%	49.7%	31.2%
Increased Profit		(10,775,155)		10,614,043
Increased Profit after 20% Return		(19,592,344)		(289,675)

Conclusions

The results of the analysis suggest the following conclusions.

1. Apartment cases in the 65’ and 85’ zones are feasible. The relatively inexpensive wood frame construction allows for feasible development. The apartment scenarios in the taller buildings generally aren’t feasible given the rent and cost assumptions. Market rents aren’t high enough to support the higher cost of concrete and steel construction.

2. Condominium cases are feasible. Market prices are high enough to support the higher construction costs in the taller building cases.

3. Office uses are feasible at the stated rents for the larger cases. These rents are not achievable today, but are likely to be achievable in two years when a new project is completed. The larger buildings are more feasible because the unit construction costs are similar, but the cost of land is spread over more rentable square feet.

4. The taller height residential cases generally provide greater developer profit after adjusting for return on additional cost, except for the 125’ cases as alternatives to 65’ or 85’ cases. While the 125’ condominiums are feasible in absolute terms, the incremental returns beyond those of the lower height cases don’t justify the additional investment.

APPENDIX

Participants in the Interviews

Bert Gregory, Mithun
David Huchthausen, Somerset Properties
Tom Im, Inter-Im
Ken Katahira, Inter-Im
Jim Koh, Coho Real Estate
Chris Koh, Coho Real Estate
Alan Kurimura, Uwajimaya
Paul Lambros, Plymouth Housing Group
Joel Lavin, Sacotte Construction
Paul Liao, Pacific Rim Center, LLC.
Quang Nguyen, Vietnamese American Economic Development Association
Tam Nguyen, Saigon Bistro
Jim Potter, Kauri Investments, Ltd.
Greg Smith, Urban Visions
Frank Stagen, Nitze-Stagen
Sue Taoka, Chinatown/International District PDA
Daryl Vange, Ravenhurst Development, Inc.
Bill Vivian, Gull Industries
Tim Wang, Chinatown/International District PDA

Pipeline Projects

(Projects described by the participants, not including other projects pending in South Downtown)

Pioneer Square

- Qwest North Lot development proposals 900+ residential units and complementary ground-floor retail uses proposed in buildings ranging up to 150 feet in height..
- BNSF air rights development along Fourth Avenue - 10 acre site with 1.3-1.5 million square feet of office/residential and expansion of the intermodal terminal and exhibition hall with parking and a promenade at the Fourth Avenue level, between King Street Station and Royal Brougham.
- Johnson Building rehabilitation at Railroad Way and Occidental – joint project with Historic Seattle, features 68 medium priced condominiums.
- Merrill Place block - potential 200,000 square feet addition along the western side of the property.
- Reedo Building rehabilitation at 542 First Avenue S. - retail and office uses.

- Starbucks - recently acquired 83 King Street and an adjoining development site: The 83 King Building is 200,000 sq. ft. and the development site has a Master Use Permit for another 200,000 sq. ft. of offices.

- Trolley Tower on Occidental - including a new maintenance facility for the Waterfront Streetcar with residential above. A height increase to 130 feet is being sought.

- Stadium West (WOSCA) - between King Street and Royal Brougham. A 10 building complex is envisioned, north four buildings residential including 600 DU; six office buildings with a million square feet; and about 200,000 square feet of retail and entertainment space

- Lowman Building - redevelopment with 98 loft apartments

- 13-story building at Second & Yesler (Campbell Fuller property) - with 109 DU.

Chinatown/International District

- Sites in and around Uwajimaya Village - Planning for uses including underground parking, ground floor retail and hotel/condominium uses. Current Village apartments have been sold.
- The Alps renovation - 117 unit low-income SRO building being improved
- Pang Warehouse property redevelopment – retail and warehouse with a conditional use permit for housing – status unknown.
- Bush Hotel and the Central Building renovations - to repair damage from the last earthquake and to improve the quality of the retail spaces.
- Nihonmachi Terrace mixed use project on Maynard Street - 49 units ranging from studios to four-bedroom apartments, office space and underground parking (43 spaces). 20 of the units are Section 8.

Little Saigon

- Goodwill/Herzog Glass property redevelopment between Weller and Dearborn and 13th and Rainier - “mixed-use power center” featuring new 120,000 s.f. Goodwill store; 600,000 of retail including neighborhood-serving and regional businesses; 2,300 parking spaces; and approximately 500 dwelling units (½ condo, ½ apartments - 20% affordable and 80% workforce housing); including a contract rezone from the current industrial/commercial zoning to neighborhood commercial (NC3-85).

South of Dearborn

- Stadium East 6.5 acre site south of Airport Way South divided by Sixth Avenue South - four office building complex up to 150 feet in height with over 2 acres of open space, a cultural facility, a created wetland, and winter garden. Sixth would remain open.

Stadium Area (& South)

- Redevelopment of the "Home Plate" parking lot at First and Atlantic - 320,000 square foot office building.

Vicinities Addressed by Pro-Forma Analysis Scenarios