

# PORT OF SEATTLE

## 2020 Real Estate Strategic Plan

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## ACKNOWLEDGMENTS

- Port Commissioners
- Port Leadership
- Port Real Estate Team
- Advisory Committee Members

# Introduction

## PROJECT BACKGROUND & PURPOSE

Heartland has been tasked with developing a Real Estate Strategic Plan (RESP) for the Port of Seattle (POS) with a focus on select properties from the Port’s portfolio of industrial and office assets. The analysis and strategy serve an update to the 2016 POS Real Estate Strategic Plan, which resulted in a series of property specific recommendations that the Port has been leveraging since that time. The updated RESP is designed to provide the POS with a strategy to effectively evaluate and manage its existing portfolio of real estate assets while also providing a framework for evaluating future real estate investments and acquisitions.

## APPROACH & METHODOLOGY

### *Underwriting of and Evaluation of Assets*

Heartland initiated the effort with a thorough review of Port selected assets within the portfolio. This included development of comprehensive tenant and occupancy profiles and development of a portfolio level model to evaluate future lease turnover and overall performance. Key steps included:

- Assembly of relevant property information
- Review of financials - Analysis and underwriting of property performance indicators including detailed review of rent rolls, occupancy outlook and income
- Interviews with Asset Management staff
- Underwriting of planned projects

## COLLABORATIVE PROCESS

To better inform the strategy, Heartland conducted workshops and interviews with key Port staff as well as external stakeholders. This was in addition to regular engagement with the Port’s project team as well as two presentations to the Port Commission.

### *External Advisory Committee Meetings*

- Facilitated three meetings with the committee of external advisors
- Included facilitation of proposed real estate principles framework, broader market economics and asset specific strategies

### *Internal Advisory Committee - Engagement with internal POS stakeholders*

- Individual interviews with key departmental managers
- Workshop sessions to discuss properties

## EXTERNAL ADVISORY COMMITTEE

<i>Committee Member</i>	<i>Title, Organization</i>
Erwin Park	Partner, Madison Bay Commercial
Wilma Warshak	Managing Partner, WA RE Partners
Sam Cho	Commissioner, Port of Seattle
Ryan Calkins	Commissioner, Port of Seattle
Tony Wright	Director, Facilities Management, King County
Bobby Lee	Executive Director EDD, City of Seattle
Chuck Depew	West Team Leader, NDC
Thatcher Imboden	Deputy Director, TOD, Sound Transit
Mike Stanley	Civic Sector Leader, Seneca Group
Brian Surratt	Executive Director RE Dev, Alexandria RE

# Market Context

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## MARKET OVERVIEW

The following provides market context as it relates to the Port's complex portfolio of real estate. The following pages provide details on key indicators related to the regional economy and real estate market.

### *Pandemic Impact*

- Covid-19 has accelerated trends already in place prior to the pandemic. The growth in adoption of ecommerce that was projected for the coming three years is estimated to have been realized this year.
- The industries most hard hit include the travel, hospitality, and leisure industries which have driven the majority of unemployment claims both nationally and locally. This industry is poised to make a slow recovery, with domestic travel set to recover more quickly than national or international travel.

### *West Seattle Bridge*

- The West Seattle Bridge closure and ensuing reconstruction/repairs has significant impact on both the accessibility and the near- and long-term performance for many Seattle submarkets. Including direct impacts on Port Properties, including some evaluated in this RESP update.

### *Regional Unemployment*

- Regional unemployment has generally followed the national trends.
- Unemployment has a disproportionate impact on lower income and non-salary positions at both a national and local level. This has the potential to have substantial impact on the long-term recovery and highlights social inequities as people are also struggling with a high-cost of living in the regional market.

### *Transaction Activity*

- Although leasing activity has fallen across the metro, in office more than industrial, deals are still being done. There is a noticeable shift in demand to the Eastside office market. In addition to the East Link light rail extension, three of the large tech firms in Seattle including Amazon, Facebook and Google are all doubling down on Eastside expansion efforts bringing over 30,000 new jobs to the Eastside over the coming five years.
- Ecommerce drives the demand for strategic distribution locations, close-in locations will continue to be likely targets for large ecommerce companies including Amazon.

### *Supply Chain*

- The pandemic highlighted how weakness in the global supply chain created the potential to cut companies off from domestic markets. In response, there is a continued push for companies to near-shore or on-shore a portion of production for domestic markets.
- Impacts to the global supply chains have direct impacts to activity at domestic Ports.

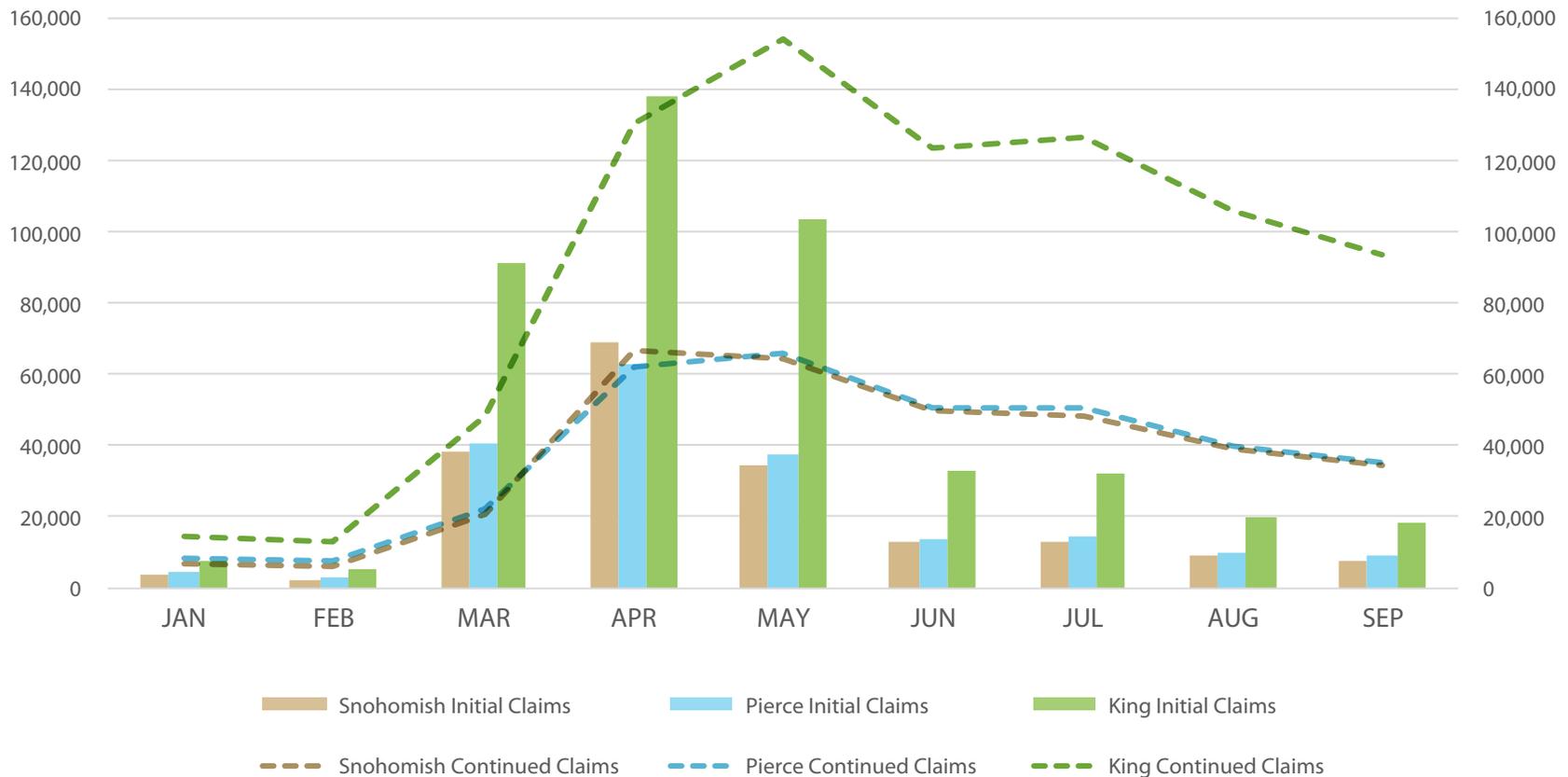
**MARKET CONTEXT**

**REGIONAL EMPLOYMENT TRENDS**

The hospitality industry comprising of food/beverage, lodging and travel has lost nearly three times as many jobs as the next industry with the second most job losses according to the WA State Employment Security Department (ESD).

Additional concerns over employment in the manufacturing sector as the pandemic adds to Boeing’s growing list of woes. The announcement that the fortune 500 company will be relocating production of the 787 Dreamliner from Everett to South Carolina put a substantial number of jobs at risk. Additionally, the company has made the decision to surplus its excess real estate on the West Coast, potentially including their Longacres campus. This could potentially lead to a disposition of over 1M square feet of office and industrial space in the Puget sound.

**REGION UNEMPLOYMENT: INITIAL CLAIMS WITH CONTINUED CLAIMS, JAN - SEP 2020**





## US OFFICE

Rent Collections:	96.4%
CMBS Mortgage Delinquencies:	2.3%
<b>US VACANCY Current:</b>	<b>10.7%</b>
<b>Forecasted Peak:</b>	<b>12.7% IN 2023</b>

### LOCAL OBSERVATIONS:

- Notable shift in office demand from Seattle to the Eastside, largely big tech, but also a number of smaller companies relocating as well.
- Leasing activity down by up to 80% in office submarkets across the metro.
- Sublease activity is notably up across the metro, as tenants reduce their footprints.

Sources: NAREIT, Trepp, Costar, STR, Zillow, US Census Bureau



## US INDUSTRIAL

Rent Collections:	99.4%
CMBS Mortgage Delinquencies:	1.2%
<b>US VACANCY Current:</b>	<b>5.7%</b>
<b>Forecasted Peak:</b>	<b>6.9% IN 2021</b>

### LOCAL OBSERVATIONS:

- E-commerce is the beneficiary of the pandemic fall-out as this year 50% of industrial leasing activity has involved E-commerce. This is up from former estimates of 35% in years preceding the pandemic.
- Boeing's impact on the manufacturing sector will be felt as it moved to dispose of surplus real estate and relocate production of the 787 Dreamliner to South Carolina.

Note: Mortgage delinquencies represent CMBS delinquencies. Data as of Aug 2020 where not specified.

## SEATTLE METRO OFFICE OVERVIEW

- Leasing activity in Seattle proper has fallen by 50%-80% in some submarkets.
- Rent Growth has slowed in 2020, dropping below the historical average. Effective rents are being pushed lower as many landlords increase concessions and TI packages to try and attract new tenants.
- Additional new supply will continue to put pressure on rents and vacancy as 7.9M square feet of space is under construction, mostly located in the Eastside, and the Urban core.

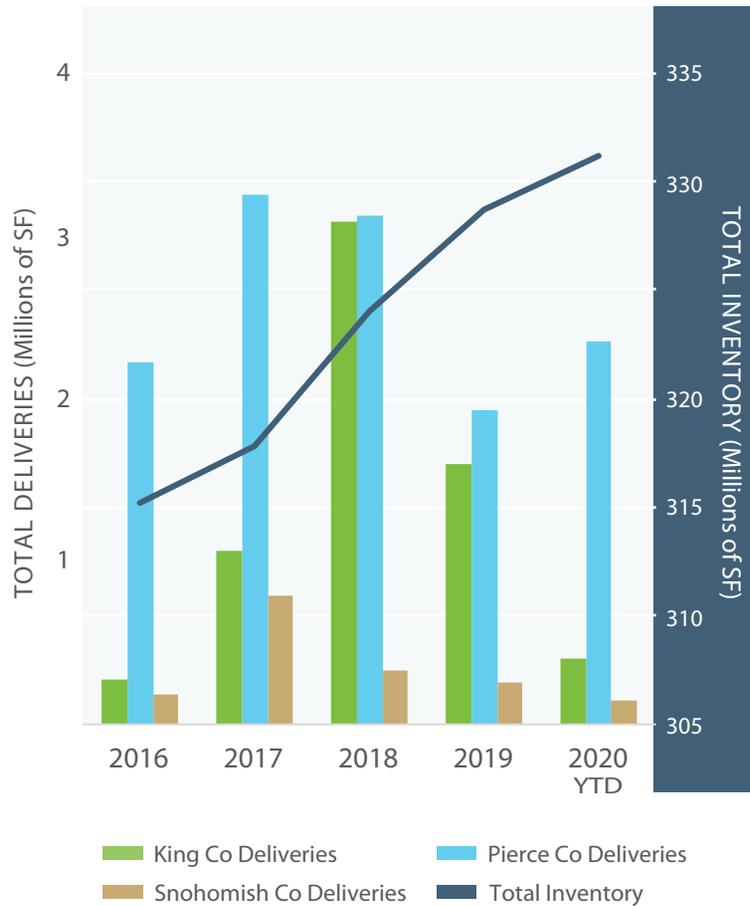
## SEATTLE METRO INDUSTRIAL OVERVIEW

- Over 2020 the Seattle metro absorbed 62M sf of industrial space which was predominantly comprised of distribution and logistic space.
- Seattle Metro industrial vacancy rates remained low in 2020 at 5.3% and experienced 2% year over year rent growth.
- Pierce County far outpaced both King and Snohomish County in terms of industrial deliveries in 2020.
- King County's rents remain the highest in the region on average but average deliveries dropped significantly from 2016 to 2020.



INDUSTRIAL MARKET INDICATORS

TOTAL INVENTORY & DELIVERIES, 2016-2020 YTD



PUGET SOUND INDUSTRIAL VACANCY, 2016-2020 YTD



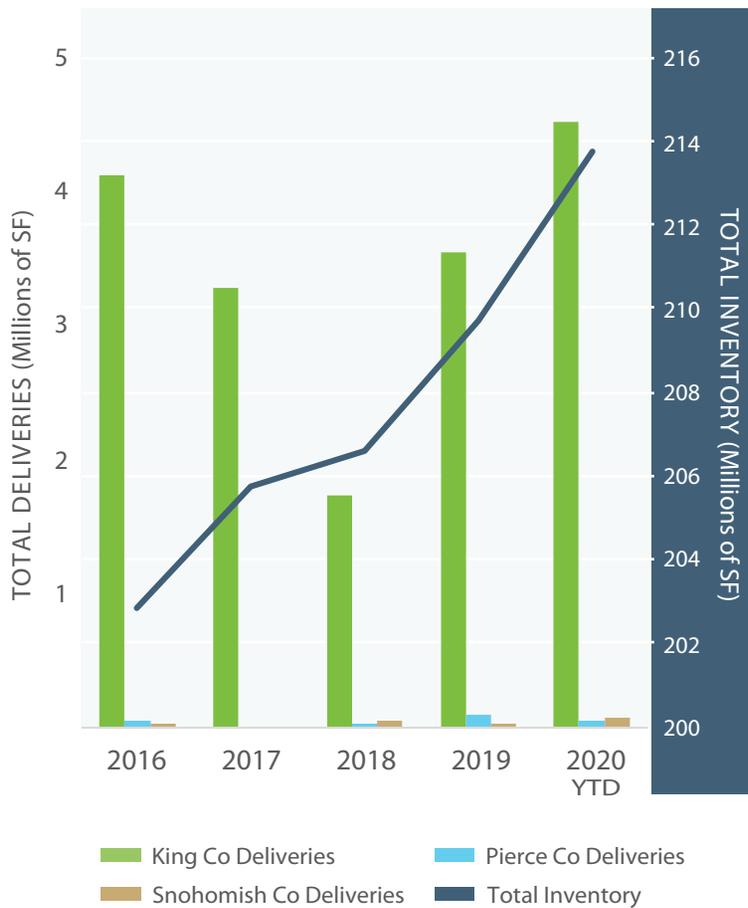
	AVG. RENT*	VACANCY		AVG. RENT*	VACANCY
Metro	\$11.69	5.4%	Magnolia	\$13.83	2.6%
King County	\$13.06	4.9%	Ballard	\$16.89	5.5%
Pierce County	\$8.20	7.8%	Duwamish N	\$13.16	6.1%
Snohomish County	\$10.14	3.4%	Duwamish S	\$12.75	1.3%

\*Avg. Annual NNN rate per square foot



OFFICE MARKET INDICATORS

TOTAL INVENTORY & DELIVERIES, 2016-2020 YTD



PUGET SOUND OFFICE VACANCY, 2016-2020 YTD



	AVG. RENT*	VACANCY		AVG. RENT*	VACANCY
King County	\$36.57	6.8%	Belltown/ Denny Regrade	\$41.76	4.7%
Pierce County	\$26.23	5.8%	Pioneer Sq/ Waterfront	\$40.60	8.7%
Snohomish County	\$25.42	6.4%	Queen Anne/ Magnolia	\$37.47	12.2%

\*Avg. Annual Full Service rate per square foot

An aerial, monochromatic photograph of the Seattle waterfront. The foreground shows a large port area with several gantry cranes and stacks of shipping containers. In the middle ground, the city skyline is visible across the water, featuring numerous skyscrapers. To the right, a large stadium with a distinctive roof structure is visible. The overall scene is a mix of industrial and urban development.

# Real Estate Principles

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# Port Real Estate Principle Framework

## FRAMEWORK

From shipping terminals to office buildings and recreational marinas, the Port of Seattle has one of the most diverse and complex real estate portfolios of any public agency in the region. Just as the Century Agenda provides a structural framework to help operating divisions set tactical objectives, the RESP includes Strategic Principles to help manage the assets that are critical to the Port's mission.

The Strategic Principles are based on the concept that the capital (equity) within the real estate portfolio is a resource to be managed. Market fluctuations, policy priorities and property level opportunities/challenges impact the quantity, performance and risk profile of that capital. Active portfolio management requires a constant review and balancing of policy performance (mission), cash flow and equity growth. As outlined in this RESP, incorporating the Strategic Principles into the process for evaluating new investments will, over time, ensure that the Port's real estate portfolio evolves along with the ever-changing demands placed on the operating divisions.

**"The Port of Seattle will use its real estate, capital assets and financial capabilities to accomplish the Century Agenda. These are tools to thoughtfully steward, rather than areas well-suited for specific 25-year goals."**

## Strategic Principles

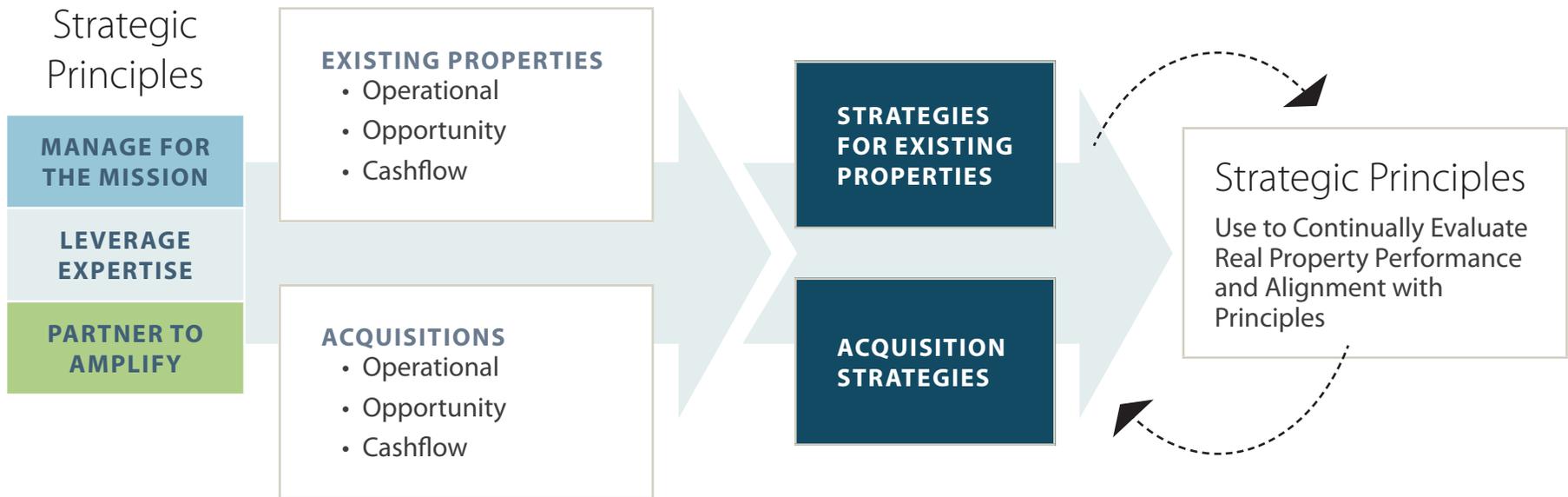
**MANAGE FOR THE MISSION**

**LEVERAGE EXPERTISE**

**PARTNER TO AMPLIFY**



## Applying the Strategic Principles



## MANAGE FOR THE MISSION

- Set clear objectives for each property and the portfolio
- Frequently evaluate each property's contribution to the mission
- Consider selling underperforming properties to redeploy capital and amplify impact

### ILLUSTRATIVE EXAMPLES:

#### FISHERMEN'S TERMINAL

- Opportunity to significantly advance the Port's agenda related to maritime industries
- High cost of development
- Unlikely to produce market returns (low ROI per traditional financial measures)



#### HARBOR MARINA CORPORATE CENTER

- A challenged property that doesn't make a strong contribution to the Port's mission
- Value can be re-allocated to amplify the Port's mission and agenda



### LEVERAGE EXPERTISE

- Identify opportunities to advance multiple Port policy objectives with each investment
- Adopt processes that allow for efficient value-add input from multiple departments

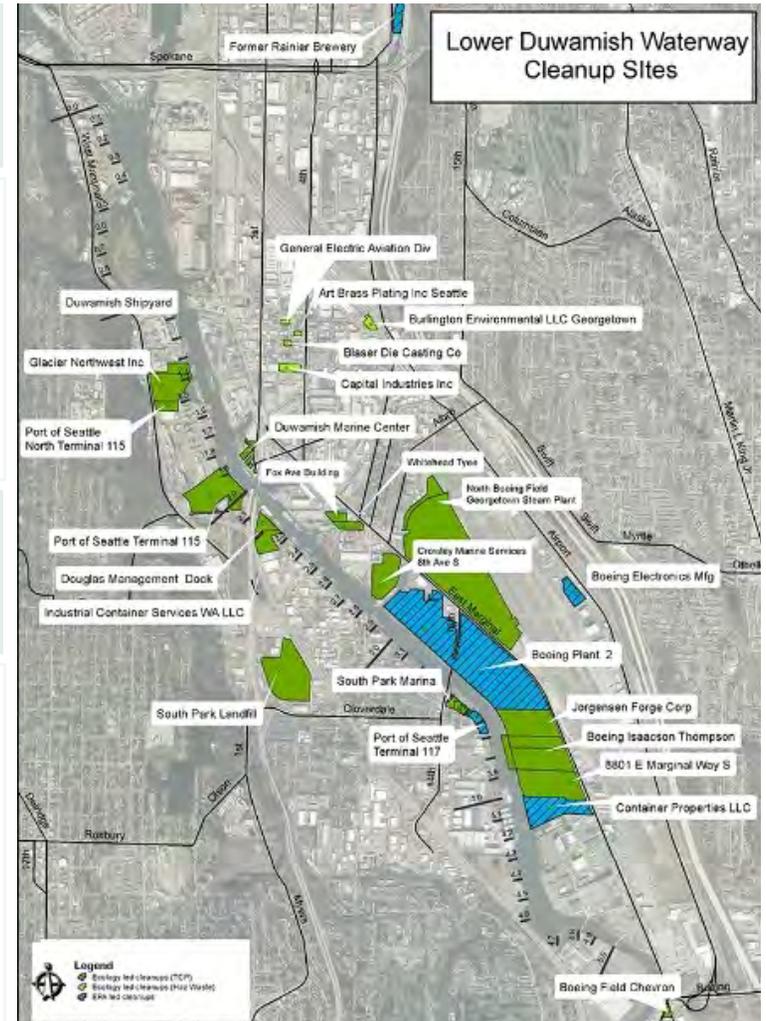
### ILLUSTRATIVE EXAMPLES:

#### ACHIEVING MULTIPLE MISSIONS (Lower Duwamish Industrial Area)

- Engage in development that works towards multiple Port mission objectives: environmental policy advancement, social justice, supporting neighboring industrial lands, job creation

#### INTERNAL COORDINATION (RFP Pre-Launch review to Streamline)

- Establish an internal RFP pre-launch process to streamline review, evaluation and implementation
- Increase effectiveness in execution and decrease risk and uncertainty



### PARTNER TO AMPLIFY IMPACT

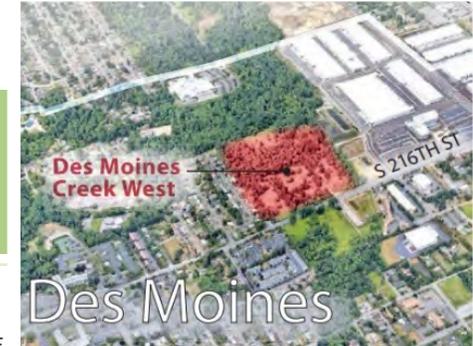
- **PUBLIC AGENCIES**  
Where real properties and shared policy objectives align
- **INDUSTRY STAKEHOLDERS**  
Where joint investments can improve sector performance
- **PRIVATE INVESTOR/DEVELOPERS**  
Where private capital can more efficiently redevelop Port properties consistent with Port objectives

### ILLUSTRATIVE EXAMPLES:

#### GROUND LEASING AND PRIVATE PARTNERSHIPS

(Des Moines Creek West)

- Partnering or leasing to private entities to maximize the efficient use and development of the Port's lands



#### OPERATIONAL PARTNERS

(Harbor Marina Corporate Center)

- Initiate a working group with other public agencies to identify opportunities where publicly owned properties can be optimized



#### FINANCIAL PARTNERS

(Economic Development Agency)

- Partnering with other public agencies, such as the Economic Development Agency (EDA), could provide access to funds that the port could leverage to meet larger goals





## Properties Being Evaluated



### FOCUS PROPERTIES

PROPERTY	GEOGRAPHY	RESP YEAR
Fishermen's Terminal	NORTH BAY	2020
Salmon Bay Marina	NORTH BAY	2020
Pier 90 & Pier 91	NORTH BAY	2016/2020
T91 Uplands	NORTH BAY	2016/2020
Harbor Marina Corporate Center	SOUTH BAY	2020
Pier 69	DOWNTOWN	2020
World Trade Center West	DOWNTOWN	2020

### 2020 FOCUS PROPERTIES:

The 2020 Real Estate Strategic Plan will focus on this group of eight properties in the Port of Seattle's real estate portfolio. A profile and series of strategies are provided for each property.

### 2016 PROPERTIES – UNDERWAY

PROPERTY	GEOGRAPHY	RESP YEAR
Pier 2	SOUTH BAY	2016
CEM Property	SOUTH BAY	2016
Terminal 106	SOUTH BAY	2016/2020
SeaTac Site*	SEATAC	2016
13-Acre Site*	SEATAC	2016
55-Acre Site*	SEATAC	2016
S 200th St*	SEATAC	2016

### PROPERTIES UNDERWAY:

The 2016 Real Estate Strategic Plan evaluated these properties. These properties are not the focus of the 2020 Strategic Plan Update. Updates on these properties are provided on the following pages.

\*Properties now under the purview of the Sustainable Airport Master Plan (SAMP).

# Properties Underway - Sustainable Airport Master Plan (SAMP)

## Accommodating SAMP and Supporting New Developments and Jobs



**2016 RECOMMENDATION**

Ground lease for 340,000 SF of aviation supportive use

Consider development of new Food Innovation Center



**2016 RECOMMENDATION**

Relocation site for employee parking

Ground lease for 150,000 SF aviation supportive use



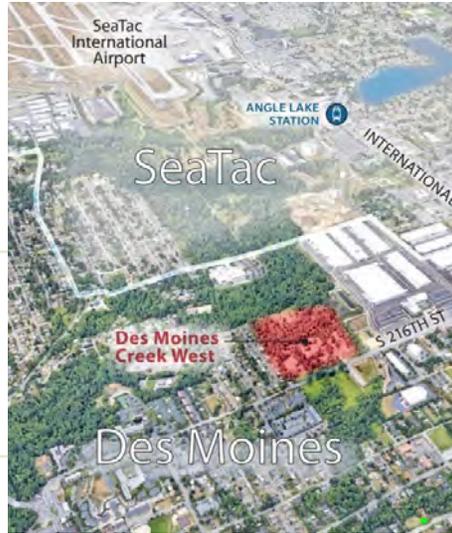
**2016 RECOMMENDATION**

Develop 289,200 SF class-A air cargo facility

Create opportunity to expand by additional 100,000 SF

# Properties Underway

**PROPERTY: DMCW**  
**CLASSIFICATION:** Opportunity  
**PROGRESS:** Port to issue RFP.



**PROPERTY: T 106**  
**CLASSIFICATION:** Opportunity  
**PROGRESS:** Ground lease pending.

**PROPERTY: CEM**  
**CLASSIFICATION:** Opportunity  
**PROGRESS:** Port evaluating potential to connect CEM with Terminal 5 and using property to support modernized terminal.



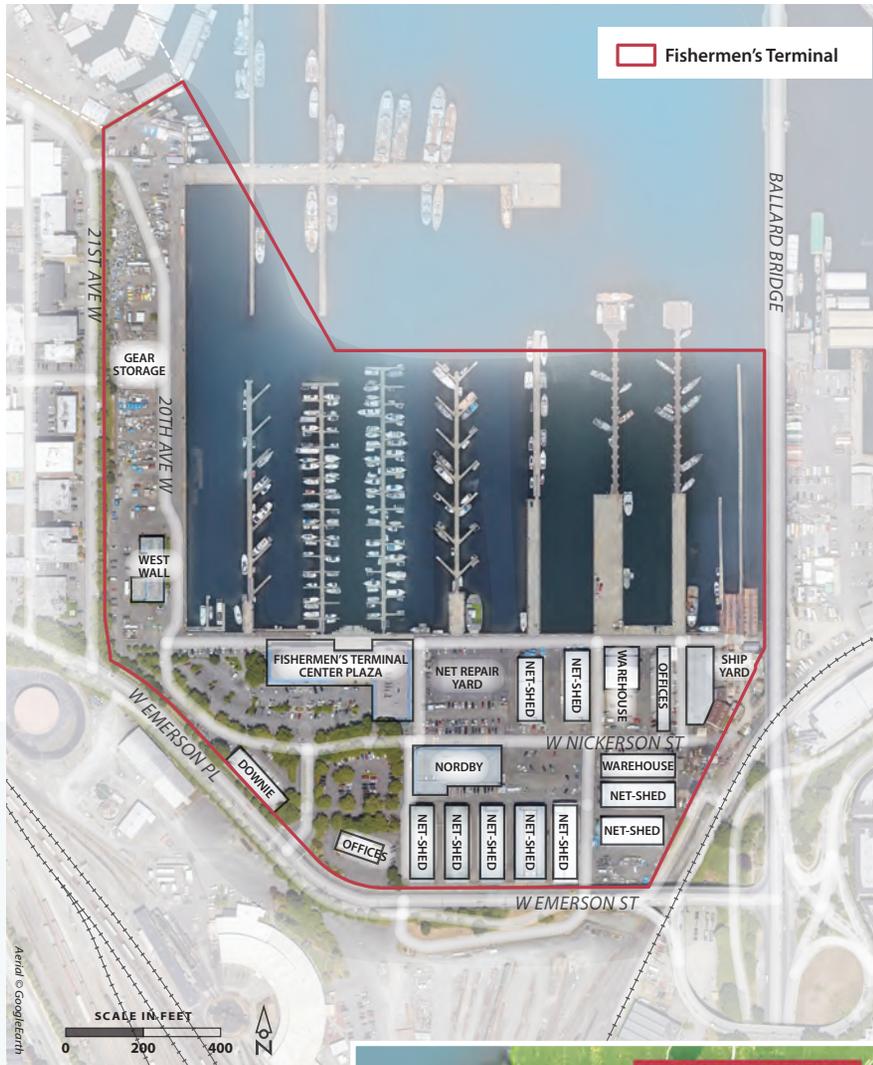
**PROPERTY: PIER 2**  
**CLASSIFICATION:** Opportunity +Operational  
**PROGRESS:** Considering impacts from West Seattle Bridge closure and expanded water taxi operations - in negotiations with King County.



# Property Profiles

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# Fishermen's Terminal



PROPERTY CLASSIFICATION: ● **Operational** ● **Cashflow** ● **Opportunity**

## ABOUT

- Home to North Pacific fishing fleet and a mix of industrial and commercial uses
- 26 acres of water adjacent dry land
- 21,000 ft of lineal dock
- A Seattle landmark and public attraction

## LAND

Total SF	2,335,491
Total Acreage	53.62
Zoning	IG1 U/45

## BUILDING

# Buildings	20
Total BSF	284,076
Total RSF	356,403
# Tenants	61

## OCCUPANCY

94.2% | 21k SF Available

## ANNUAL RENTAL INCOME

\$2,355,251

## WEIGHTED AVG. LEASE TERM

33 months

## LEASES EXPIRING IN 2020/2021

29% of RSF | 104k SF

## LARGEST OCCUPANTS

Fishing Vessel Owners Marine Ways (51% RSF) Chinooks (3% of RSF, Largest Gross Income)

## USE SUMMARY

Office, Retail, Restaurant, Warehouse, Dock, Yard

PROPERTY CLASSIFICATION: ● **Operational** ● **Cashflow** ● **Opportunity**

**KEY OBSERVATIONS**

- HQ of Seattle's commercial fishing fleet
- Strong occupancy (94% occupied)
- Retail square footage is a key driver of overall revenue for the uplands portion of the property
- Deferred maintenance (Downie and Nordby for example) is a key issue for the uplands facilities
- Near term need for capital improvements and/or redevelopment

**STAFF/STAKEHOLDER INPUT**

- Large CIP outlay required to attend to differed maintenance, necessary but will not generate a positive NPV
- Capital investment in existing facilities needs to be invested strategically
- FT is expensive to develop due to substandard soil conditions pervasive on the site
- Could provide an opportunity to explore EDA funds

Strategic Principles

**I. MANAGE FOR THE MISSION**

**II. LEVERAGE EXPERTISE**

**III. PARTNER TO AMPLIFY**

**STRATEGIES**

	I	II	III
Keep operationally critical organizations in place to support maritime industry	●	●	●
Identify and implement new developments to support both the existing maritime industries and incubate new maritime industries to sustain the industry over the long term	●		●
Reevaluate needed capital investments at existing facilities as part of broader site improvements and investments		●	
Improve visitor experience through wayfinding signage and interpretive displays (1% for art project)	●		

## FISHERMEN'S TERMINAL



## Mission and Other Financial Considerations

### MINC:

- But for the Port of Seattle, a project directly supporting the fishing industry would not likely be developed.
- Capitalizes on proximity to suppliers and customers.
- Aligns with the principle of Partner to Amplify Impact through partnering with the Washington State Department of Commerce to help fund development.
- Directly aligns with the Port's mission and objective outlined in the recently updated Century Agenda.

### GATEWAY:

- Offers additional space for tenants that may have outgrown the MInC's incubator space.
- Provides additional industrial space adjacent to a critical hub of the maritime industry in the region.
- But for the Port of Seattle, a project directly supporting the fishing industry would not likely be developed.
- Provides an opportunity for additional branding for the entire site. Potential for house amenities for the terminal.

## Development Proforma

### MInC – Moving forward, 60% Design



#### RETURNS

Stable NOI*	\$193,000
NOI/sf/yr	\$17.27
Year 2 COC	1.70%

#### MISSION

#### CONSTRUCTION

MInC	\$19,500,000
Duration (years)	2
Start Year	2022
Completion Year	2024
Building SF	15,400
Cost per foot	\$1,266

- ROI is to support emerging and established maritime companies grow operations via innovation.
- Over half the space can be used to help incubate innovative maritime startups

### Gateway Building – On hold



#### RETURNS

Stable NOI*	\$1,006,000
NOI/sf	\$18.51
Year 2 COC	1.80%

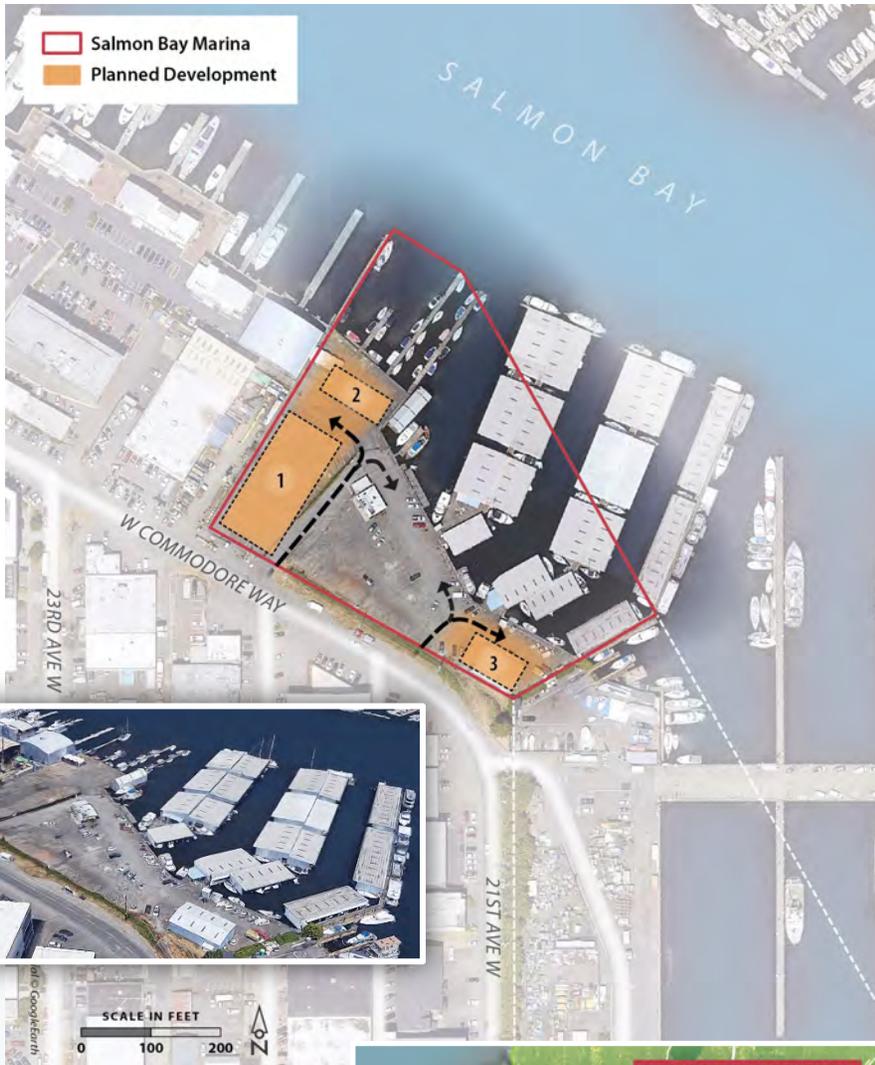
#### MISSION

#### CONSTRUCTION

Gateway	\$53,000,000
Duration (years)	2
Start Year	2026
Completion Year	2028
Building SF	46,642
Cost per foot	\$1,136

- Anchors tenants at risk of displacement
- Enhances branding at FT
- Supports growth of emerging and established maritime companies drawn to FT due to the MInC

# Salmon Bay Marina



PROPERTY CLASSIFICATION:  Operational  Cashflow  Opportunity

## ABOUT

- Recreational Marina to the Northeast of Fishermen's Terminal
- 5 docks supporting 166 slips
- Purchased by Port in 2018
- Currently has an active MUP for a mini storage and a marine sales and service building

## LAND

Total SF	220,192
Total Acreage	5.05
Zoning	IG1 U/45

## BUILDING

# Buildings	2
Total BSF	3,660
Total RSF	4,040
# Tenants	2

## OCCUPANCY

100%

## ANNUAL RENTAL INCOME

\$49,715 | \$12.31/OSF

## WEIGHTED AVG. LEASE TERM

17 months

## LEASES EXPIRING IN 2020/2021

62% | 2.5k SF

## LARGEST OCCUPANTS

Special Needs Group INC,  
62% Cascade Adventure Vans

## USE SUMMARY

Office, Retail, Storage  
Warehouse, Recreational Boat  
Moorage

PROPERTY CLASSIFICATION:

Operational

Cashflow

Opportunity

**KEY OBSERVATIONS**

- Originally purchased based on adjacency to FT, protection of industrial land, and uplands development potential
- Currently serves as a recreational marina adjacent to FT
- Underutilized areas permitted for development under seller’s MUP
- Seller’s MUP at uplands still active from acquisition (mini-storage and commercial)

**STAFF/STAKEHOLDER INPUT**

- Focus on the development of the uplands at Salmon Bay
- Permits for in water and uplands are separate
- Interest in defining how this property can potentially serve/benefit FT and fulfill its economic potential
- Need to address in water uses and relationship to uplands

Strategic Principles

**I. MANAGE FOR THE MISSION**

**II. LEVERAGE EXPERTISE**

**III. PARTNER TO AMPLIFY**

**STRATEGIES**

	I	II	III
Evaluate the opportunity to utilize/ modify the MUP at the uplands prior to its expiration		●	
Explore the opportunity to develop uplands to support uses at Fishermen’s Terminal	●	●	
Use uplands development to support reinvestment in docks and waterside facilities	●		●

# Terminal 91, Pier 90 & Pier 91



PROPERTY CLASSIFICATION: ● **Operational** ● **Cashflow** ● **Opportunity**

## ABOUT

- Critical industrial complex located in central Seattle
- Home to a mix of maritime related uses and industrial activities
- Home to one of two cruise ship terminals owned and operated by the Port

## LAND/PARCEL \*

Total SF	3,649,040
Total Acreage	83.8
Zoning	IG1 U/45

## BUILDING

# Buildings	16
Total BSF	284,593
Total RSF**	1,281,516
# Tenants	19

## OCCUPANCY

100%

## ANNUAL GI

\$5,239,093

## WALT (MONTHS)

117 months

## LEASES EXPIRING IN 2020/2021

9% | 115k of RSF

## LARGEST OCCUPANTS

City Ice (31% of RSF)  
Lineage (26% of RSF)

## USE SUMMARY

Warehouse, Yard, Dock,  
Storage, Vessel Moorage

\*Values represent entire Terminal 91 Uplands and Pier 90/91 complex

\*\*Inclusive of land/yard leases

# Terminal 91 – Uplands

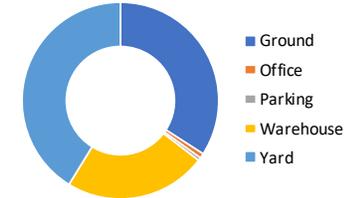


PROPERTY CLASSIFICATION: ● **Operational** ● **Cashflow** ● **Opportunity**

## ABOUT

- Uplands related to Piers 90 and 91 located in the Ballard Interbay Northend Manufacturing Industrial Center (BINMIC)
- Adjacent to terminal rail access (BNSF)

## CURRENT USES



USE	RSF
Ground	337,090
Office	7,812
Parking	5,000
Warehouse	231,170
Yard	407,648
<b>TOTAL</b>	<b>988,720</b>

## OCCUPANCY\*

100%

## ANNUAL RENTAL INCOME\*

\$3,212,034

## WALT (MONTHS)

108 Months

## LEASES EXPIRING IN 2020/2021\*

9.8% | 97k of RSF\*

## LARGEST OCCUPANTS

City Ice (26% of RSF)  
Lineage (34% of RSF)

## USE SUMMARY

Warehouse, Yard, Storage

\*Inclusive of land/yard leases

PROPERTY CLASSIFICATION:

- Operational**
- Cashflow**
- Opportunity**

**KEY OBSERVATIONS**

- Facilities largely occupied
- Critical cruise ship and maritime facilities on P90 & 91
- Industrial land capacity on Uplands
- Expensive for the Port to self-develop but will provide benefits to the Port’s core mission over the long-term

**STAFF/STAKEHOLDER INPUT**

- Issues around Magnolia Bridge replacement
- Maritime and Cruise are both highly seasonal uses, need to support both impacts development potential
- Need to relocate Maritime Ops facilities
- Opportunity to locate maritime industry tenants from other locations in City (Lower Duwamish for example)
- Magnolia and Queen Anne communities sensitive to Port operations and development

Strategic Principles

**I. MANAGE FOR THE MISSION**

**II. LEVERAGE EXPERTISE**

**III. PARTNER TO AMPLIFY**

**STRATEGIES**

	I	II	III
Keep planned growth in motion. Continue to move Phase 1 development of light industrial buildings through design and permitting	●	●	
Make utility and infrastructure investments needed to support Phase I development of Uplands	●		●
Target maritime industries for occupancy in Phase 1 and Phase II; Provides an alternative space option to maritime industry suppliers to locate next to their key customers	●		
Explore how to improve freight mobility and access for employees (especially as new development unfolds)			●

## TERMINAL 91 – UPLANDS



## Development Strategy

### SCENARIO 1: *Do nothing*

In this scenario, the Port takes no action and continues to collect in-place income.

- Phase 1 Site, in-place NOI\*: \$360,000/year
- Phase 2 Site, in place NOI\*: \$530,000/ Year

**Supporting:** FISC, NAFS, Ocean Peace, Jansen Inc., and Seattle Site Seeing

*Note: NOI estimated from 2020 rent roll data*

### SCENARIO 2: *Ground Lease for Development*

This scenario assumes the Port ground leases the site, in which another party takes on the vertical development risk. This assumes the port still invests in the infrastructure need to develop the site. This also assumes a conservative land value at \$75/sf for illustrative purposes. This reflects discounts the Port would likely concede to retain control over certain elements of the development.

### SCENARIO 3: *Self Develop*

This scenario gives the port the most control over the development, and the greatest control over the impact to the Port's Mission. This produces the highest level of NOI for the port, but also is the costliest option. NPV calculated with a 7% discount rate to the Port.

### PROPOSED DEVELOPMENT

PHASE 1	
Number of Buildings	2
Total Developed (sf)	100,000
Estimated rents (2021)	\$18/SF OFFICE \$12/SF WAREHOUSE

PHASE 2	
Number of Buildings	4
Total Developed (sf)	315,000
Estimated rents (2021)	\$18/SF OFFICE \$12/SF WAREHOUSE

### GROUND LEASE

PHASE 1	
NOI @ 6%	\$1.1M
Land (sf)	249,599
Infrastructure Costs to Port	\$500,000

PHASE 2	
NOI @ 6%	\$2.3M
Land (sf)	503,118
Infrastructure Costs to Port	\$1,000,000

### PHASE I POS RETURNS

Unlevered IRR	-13.84%
Stabilized Yield on Cost (Y2 Operation)	3.00%
Year 2 Stabilized NOI	\$1.4M
NPV	(\$17,712,306)

### CAPITALIZED VALUE

Year10 NOI	\$1,763,991
Capitalization Rate	5.50%
Terminal Value Year 10	\$33,034,735

### PHASE II POS RETURNS

Unlevered IRR	-13.08%
Stabilized Yield on Cost (Y2 Operation)	3.30%
Year 2 Stabilized NOI	\$4.5M
NPV	(\$15,981,765)

### CAPITALIZED VALUE

Year10 NOI	\$5,854,937
Capitalization Rate	5.50%
Terminal Value Year 10	\$109,647,004

# Pier 90 & Pier 91

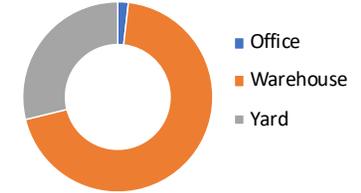


PROPERTY CLASSIFICATION: ● **Operational** ● **Cashflow** ○ **Opportunity**

## ABOUT

- The piers provide 8,000 linear feet of moorage
- Supports operations for fishing and cruise, including one of two cruise ship terminals operated by the Port

## CURRENT USES



USE	RSF
Office	5,254
Warehouse	203,153
Yard	84,389
<b>TOTAL</b>	<b>292,796</b>

## OCCUPANCY\*

100%

## ANNUAL RENTAL INCOME\*

\$2,027,064

## WALT (MONTHS)

133 months

## LEASES EXPIRING IN 2020/2021\*

6.1% | 17,813k of RSF\*

## LARGEST OCCUPANTS

American Seafoods (22% of RSF)  
 City Ice (47% of RSF)

## USE SUMMARY

Yard, Dock, Storage, Cruise Ship Terminal

PROPERTY CLASSIFICATION:

- Operational**
- Cashflow**
- Opportunity**

**KEY OBSERVATIONS**

- Facilities well occupied
- Critical cruise ship and maritime facilities both being served on P90 & 91
- Pier 90 & P91 not able to support growth of cruise industry on former growth trajectory; COVID-19 has slowed the trajectory, but industry stakeholders are bullish on the industry in Seattle
- Planned redevelopment to support maritime and fishing on the Northeast sides of both Piers

**STAFF/STAKEHOLDER INPUT**

- Pier 90 & 91 will need expanded space at the terminal due to COVID-19
- The nature of space use will change due to evolving space needs related to COVID (testing areas, contained environment, social distancing, etc.)
- Currently provides access for most cruise vessels to dock, however newer generations of large-format vessels will exceed the berthing capacity at this pier
- Cold storage space required for fishing highly dependent on seasonality and catch volume, plagued by seasonal swing
- Access is a growing issue for Cruise at this location
- Expanding cruise to Pier 46 has been put on hold for now, this development would have allowed the Port to meet demand from the Cruise industry's continued growth trajectory

Strategic Principles

- I. MANAGE FOR THE MISSION**
- II. LEVERAGE EXPERTISE**
- III. PARTNER TO AMPLIFY**

**STRATEGIES**

	I	II	III
Continue to support cruise ship operations at P91 in immediate term to accommodate industry rebound/ growth post Covid-19.	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
Proceed with waterside redevelopments and improvements to support maritime on NE Corner of Pier 90 (and possibly Pier 91)	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>
Redevelop the vessel pier moorings and adjoining apron areas of Berths 6 and 8 along the northeast side of Pier 90 at Terminal 91 to help meet fishing fleet and commercial vessel demand.	<input checked="" type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>

# Harbor Marina Corporate Center



PROPERTY CLASSIFICATION:  Operational  Cashflow  Opportunity

## ABOUT

- Multi-tenant office building located adjacent to the Jim Clark Marina on the Duwamish Waterway
- Sited adjacent/under the West Seattle Bridge
- 4 Buildings built in 1989 and 1990
- Purchased by the port in 1996

## LAND

Total SF	806,105
Total Acreage	18.51
Zoning	IG1 U/85

## BUILDING

# Buildings	4
Total BSF	207,606
Total RSF	135,467
# Tenants	30

## OCCUPANCY

72.0% | 38k SF Available

## ANNUAL RENTAL INCOME

\$1,253,000 | \$12.85  
Avg Lease Rate

## WALT (MONTHS)

19 months

## LEASES EXPIRING IN 2020/2021

26% of RSF | 36k SF

## LARGEST OCCUPANTS

The Mountaineers INC (12.5%)  
Tideworks (8.5%)

## USE SUMMARY

Office

PROPERTY CLASSIFICATION:  Operational  Cashflow  Opportunity

**KEY OBSERVATIONS**

- West Seattle Bridge Fall zone creates uncertainty
- Future light rail alignment needs will likely impact site
- Low occupancy – lost two large tenants in 2019 (72% currently occupied)
- Relatively short lease terms and significant expirations in 2020/21
- Difficult leasing environment overall

**STAFF/STAKEHOLDER INPUT**

- The West Seattle Bridge closure is affecting this site in multiple ways including location within the fall zone, and site access limitations
- Tenants have been made fully aware of fall zone dangers by SDOT
- In addition to the issues with the West Seattle Bridge, ST3 will also likely impact HMCC

Strategic Principles

**I. MANAGE FOR THE MISSION**

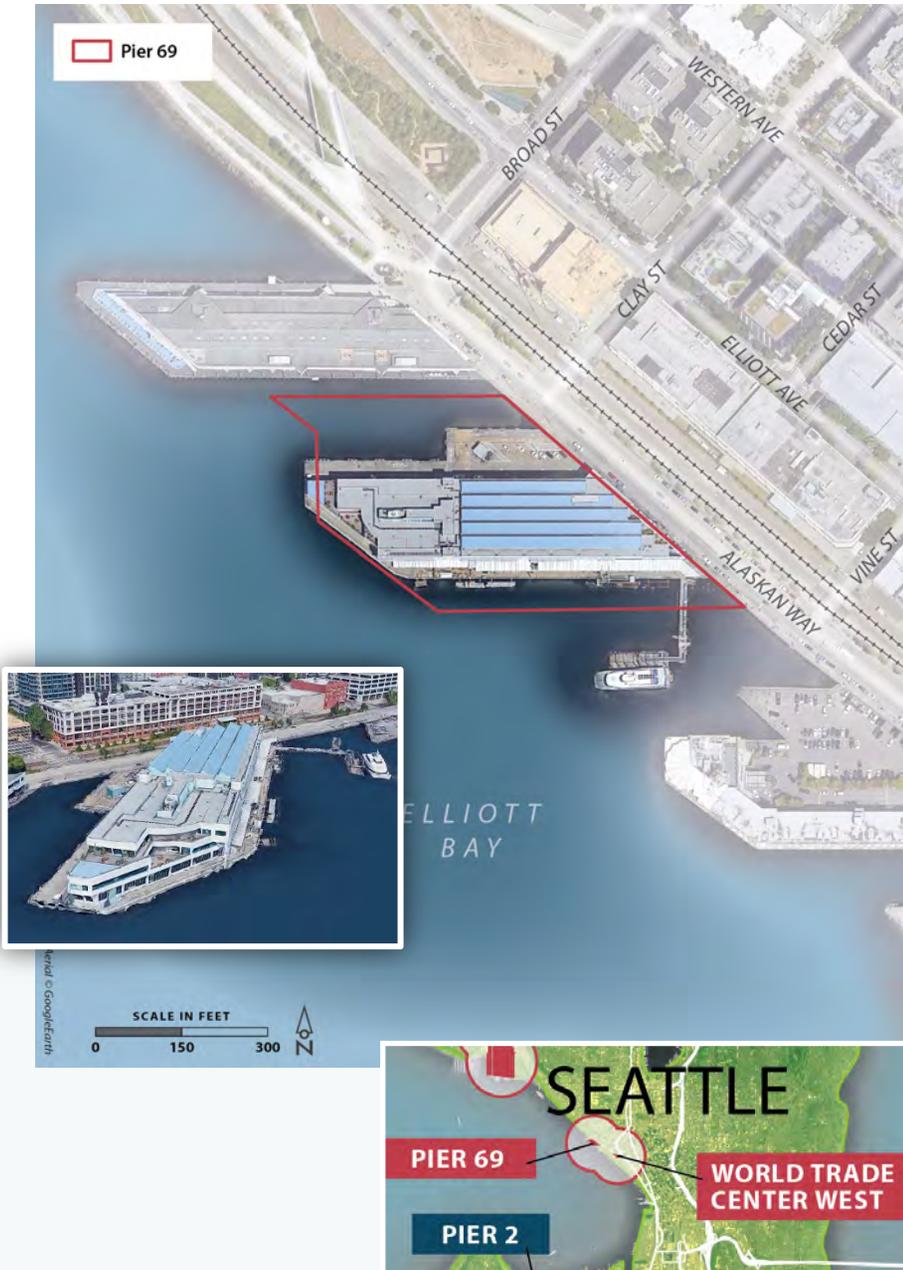
**II. LEVERAGE EXPERTISE**

**III. PARTNER TO AMPLIFY**

**STRATEGIES**

	I	II	III
Pursue partnership opportunities with (KC, SDOT, ST) to support required infrastructure improvements associated with planned bridge repairs and light rail alignment			●
<b>West Seattle Bridge Impact</b> Closely monitor and engage in this Bridge process and ST route planning and select applicable strategies below			
Consider putting property on market for sale	●	●	
Complete a feasibility study to determine highest and best use for property (including marina)		●	
Evaluate relocation of commercial in water uses to other Port properties	●		
Explore a strategy to allow leases to expire and/or only extend on the short term to allow for maximum flexibility in the near term			●

# Pier 69



PROPERTY CLASSIFICATION: ● **Operational** ● **Cashflow** ○ **Opportunity**

## ABOUT

- Located on Alaskan Way on the Downtown Seattle waterfront
- Serves as the headquarters of the Port of Seattle
- Home to the Victoria Clipper terminal

## LAND/PARCEL

Total SF	251,480
Total Acreage	5.77
Zoning	DH1/45

## BUILDING

# Buildings	1
Total BSF	187,130
Total RSF	249,243
# Tenants	5

## OCCUPANCY

100%

## ANNUAL GROSS INCOME

\$658,904

## WALT (MONTHS)

53 months

## LEASES EXPIRING IN 2020/2021

0%

## LARGEST OCCUPANTS

Port of Seattle  
(77% of building)  
Clipper Navigation

## USE SUMMARY

Office, Dock, Storage/  
Warehouse, Retail

PROPERTY CLASSIFICATION: ● **Operational** ● **Cashflow** ○ **Opportunity**

**KEY OBSERVATIONS**

- Has served as the Port headquarters (145,420 SF) since 1993
- Represents a major investment by the Port in the City's waterfront revitalization
- Includes a mix of water dependent tenants
- Water dependent uses required on site (approximately 25%)

**STAFF/STAKEHOLDER INPUT**

- Pier 69 is a Port legacy project and important property for the long term
- Focus should be on leasing strategies in the near and long term
- Consider leasing strategies that reflect changes in the Port's office space needs

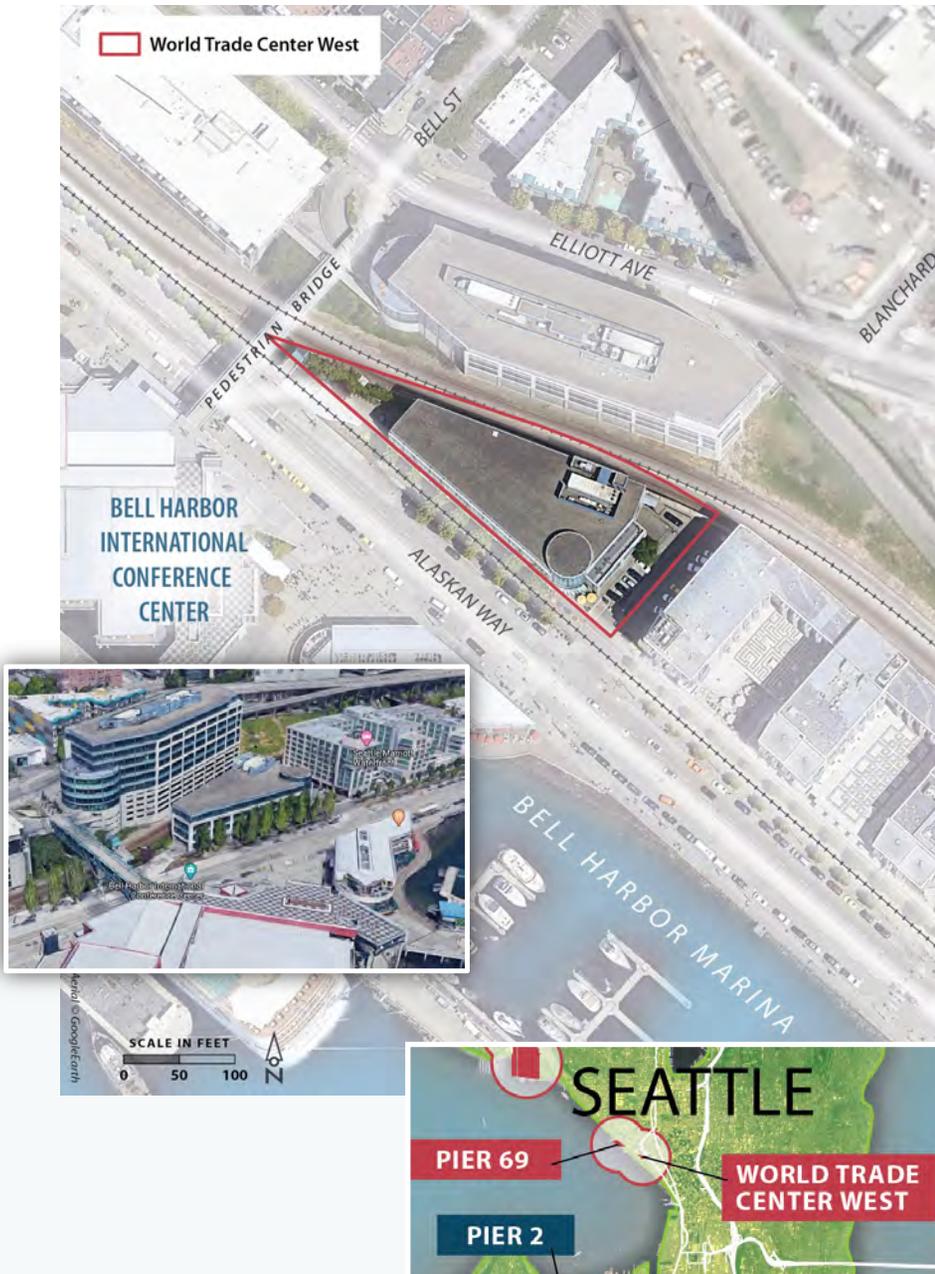
Strategic Principles

- I. MANAGE FOR THE MISSION**
- II. LEVERAGE EXPERTISE**
- III. PARTNER TO AMPLIFY**

**STRATEGIES**

	I	II	III
Consider future leasing efforts tied to the in-water dependent uses and releasing (key lease expiration in 2022)	●		
Re-evaluate Port's office needs post COVID to determine space requirements at P69		●	
Evaluate how to reuse Clipper Café space	●		
Evaluate P69 leasing options based on forecast of Port office space needs		●	

# World Trade Center West



## PROPERTY CLASSIFICATION:

**Operational**
 **Cashflow**
 **Opportunity**

### ABOUT

- 4-story office building built in 1999
- Home to the World Trade Center Seattle (WTCSE)
- Across the street from the Bell Harbor Conference Center and Pier 66 Cruise Ship Terminal

### LAND

Total SF	26,580
Total Acreage	0.61
Zoning	DH2/85

### BUILDING

# Buildings	1
Total BSF	-
Total RSF	69,336
# Tenants	10

### OCCUPANCY

75.2% occupied | 17k available

### ANNUAL GROSS INCOME

\$797,000 | \$17.94 Avg NNN Lease Rate

### WALT (MONTHS)

31 months

### LEASES EXPIRING IN 2020/2021

15% of RSF | 10,293 SF

### LARGEST OCCUPANTS

Opus Solutions (27%)  
Columbia Hospitality (18%)

### USE SUMMARY

Office, Retail, Event Center (WTC)

PROPERTY CLASSIFICATION:  **Operational**  **Cashflow**  **Opportunity**

**KEY OBSERVATIONS**

- Achieving below market rents
- Significant vacancy (75% currently occupied)
- WTC Club a Port Operation (7,000 sf) and revenue producer for Port
- Home to Port’s event operator, Columbia Hospitality
- Mix of office tenants

**STAFF/STAKEHOLDER INPUT**

- WTCW was a significant property for the Port’s vision in establishing an international business hub along the Seattle waterfront at the turn of the century
- Original focus was on building non-profits focused around trade and international development
- Waterfront revitalization disruptions have impacted office markets prior to COVID
- Port processes posed challenges to securing new leases at the property



**STRATEGIES**

	I	II	III
Evaluate the Property in terms of its fit and alignment with Port’s mission and objectives	●	●	
Evaluate the implications of a sale of the WTCW property	●	●	
As part of the sale evaluation, identify specific projects that capital may be deployed and have a greater impact on the Port’s mission	●		
Evaluate P69 leasing options based on maintaining mission supportive uses in the building, such as the World Trade Center Club, through a long-term lease of the space or consider relocation of such uses	●	●	●

An aerial, high-angle photograph of Seattle, Washington, showing the city skyline across the water, the port area with numerous cranes and shipping containers, and the stadium area. The image is in a light, semi-transparent grey tone.

# Portfolio Growth - Implementation

## **PURPOSE OF THIS DOCUMENT/SECTION:**

As part of the 2020 Real Estate Strategic Plan (RESP), the Port of Seattle endeavored to create a process to serve as a guiding framework for tactically implementing the principles set forth in the RESP. A large part of this endeavor involved gathering input from the Port's internal departmental stakeholders. Their valuable input helped the real estate team develop the process framework and evaluative criteria through which to review and pursue development and acquisition opportunities.

# Portfolio Growth - Implementation

## HOW TO USE THIS DOCUMENT

The following is intended to provide a framework for the Port to leverage when evaluating new and existing real estate investment opportunities. The framework is broken into four phases, outlining the overall process envisioned for the Port.

### MANAGE FOR THE MISSION

- What types of properties are being considered?
- What is the business and performance plan?
- What is the Port's mission objective?
- How will success be measured in the near, mid and long term?

### LEVERAGE EXPERTISE

- What additional policy objectives can be achieved within the scope of the primary business purpose?
- Are there alternative structures/approaches that would produce outsized benefits compared to other initiatives?

### PARTNER TO AMPLIFY IMPACT

- What other organizations have an interest in the success of this investment?
- How can others be brought into an investment to amplify impact?
- When should the Port partner?

Evaluation criteria to be leveraged for Phase II are provided on the following pages of this strategic plan, with details on criteria scoring also provided. The criteria are organized by the Principles detailed earlier in this strategic plan.

### PHASE I: IDENTIFICATION

---

- Identify opportunities and strategic purpose of property
- Defined hypothesis for the property/acquisition (likely implementation scenario)

### PHASE II: EVALUATION

---

- Initial underwriting and evaluation scoring (see rubric and evaluation criteria on pages 38-41)
- Yes or no to further investigation

### PHASE III: AUTHORIZATION

---

- Approval process for pursuit of opportunity
- Authorization to conduct full underwriting/feasibility analysis

### PHASE IV: SECURE/INITIATE

---

- Secure the opportunity; negotiation of terms and deal structure

## INITIAL INTAKE

The Port evaluates properties on an ongoing basis. Some of these properties are based on Port-based real estate requirements needed to support maritime or aviation lines of business. In other cases, the Port is approached by owners or brokers of properties that may fit the Port's short- or long-term needs. Staff also routinely scans the market for properties that may be strategic to Port of Seattle operations.

### PROPERTY EXAMPLES

Over the past five years the Port has evaluated 20+ properties for acquisition or partnership. Here is a partial list of properties the Port has considered:

- Yardarm Knot
- Yankee Diner
- National Guard Armory
- Salmon Bay Marina (acquired in 2018)
- GSA Federal Facility South
- Time Oil Sites
- WOSCA
- Pier 1 Site
- Berg Scaffolding Site
- Pendleton Mills Site
- Ajax Parking Site
- Pet Resort Site
- SPU Reserve Site
- L-shaped Cap
- S 176th St Assemblage
- WSDOT Assemblages
- 200th St East
- Rivers Edge
- Former Maralco Site
- Pacific Raceway Property
- Maple Valley Regional Learning @ Tech center
- Auburn Municipal Airport Properties
- Auburn Manufacturing sites

## REVIEWING INVESTMENT OPPORTUNITIES

During this strategic planning initiative, staff screened eleven (11) properties that could potentially support Port operations using the rubric introduced on the following pages.

## PARTNERSHIP OPPORTUNITIES

As the primary properties of interest are publicly owned, the Port will meet on an ongoing basis with our public agency counterparts and consult on development opportunities as plans evolve. In addition to partnering with other public agencies where mutual alignment exists, Federal funding has the potential to provide an alternative source of financing.

# Evaluation Guidance

## RUBRIC

- Initial property evaluation** based on incomplete information
- Preliminary rankings **based on incomplete information** about properties.
- Rubric will help staff focus on** property acquisitions and partnerships that are **most strategic to the Port.**
- More due diligence** and research **will be done on promising properties** that show up during initial evaluation.
- The fact that **a property is being evaluated does not mean** that the **Port wants to acquire** the property.
- As more research on priority properties is completed, the Port can **use this rubric** to further refine scores and **better determine** how these **properties fit** the Port **mission/priorities.**

## EVALUATION CRITERIA

Manage for the Mission: Criteria Derived from Century Agenda

- The Property Advances NWSA Competitiveness**
- The Property Advances SEA Competitiveness**
- Property Advances Maritime Economic Development**
- Property Protects Port Operations and Industrial Lands**

Manage for the Mission: Equity and Sustainability

- Property Supports the Port's Equity Goals**
- Property Advances Port of Seattle Sustainability Objectives**

Leveraging Expertise and Partnerships

- The Port has experience and capacity to address the opportunities & challenges associated with the Property**
- Potential to partner with other public and private agencies/entities to amplify impacts**

Funding Options and Opportunities

- The property and associated development can attract alternative sources of funding through partnerships or financing mechanisms available to the Port**

## Manage for the Mission: Criteria Derived from Century Agenda

### The Property Advances NWSA Competitiveness

- |   |  |
|---|--|
| 5 | Immediately adjacent to key NWSA/Cargo site  |
| 4 | Within 3 miles of NWSA terminal and can support logistics efficiency and/or capacity                   |
| 3 | Could support key suppliers, transload facilities, and other support facilities to logistics terminals |
| 2 | Industrially zoned with adequate access for heavy trucks/logistics vehicles related to NWSA operations |
| 1 | Not clear how property drives/support NWSA existing or future operations                               |

### The Property Advances SEA Competitiveness

- |   |  |
|---|--|
| 5 | Within 0.5 miles of other SEA properties and can be developed to enhance SEA competitiveness |
| 4 | Within 4 miles of SEA and can be developed to enhance SEA competitiveness                    |
| 3 | Can tangibly support current or future operational need at SEA                               |
| 2 | May be able to support some future operational need of SEA                                   |
| 1 | Does not support SEA's existing or future operations   |

### Property Advances Maritime Economic Development

- |   |   |
|---|---|
| 5 | Can be developed (or utilized) to support existing Port maritime line of business (cruise, fishing, etc.) |
| 4 | Can be developed or utilized to support maritime industries   |
| 3 | Can accommodate industrial maritime uses  |
| 2 | Could potentially support maritime uses   |
| 1 | Cannot easily enhance/protect maritime uses   |

### Property Protects Port Operations and Industrial Lands

- |   |   |
|---|---|
| 5 | Immediately adjacent to Port operating facility                                     |
| 4 | Within 0.5 mile of Port operations and its development could impact Port operations |
| 3 | Within a MIC and zoned industrial   |
| 2 | Could be developed or rezoned to protect or enhance industrial lands                |
| 1 | Not clear on how property supports Port properties or industrial lands              |

## Manage for the Mission: Equity and Sustainability

### Property Supports the Port's Equity Goals

5	In an Opportunity Zone (high poverty census tract)
4	Location scores 8 or higher on the Port's <i>Equity Index</i>
3	Development affords Diversity in contracting and workforce development opportunities
2	May afford equity opportunities (DC and workforce)
1	Property not likely to advance equity

### Property Advances Port of Seattle Sustainability Objectives

5	Has the potential to support at least three Port sustainability goals (stormwater management, air and GH gas reduction, renewable energy generation, habitat restoration)
4	Could potentially support more than one sustainability objective at a significant level
3	May be able to improve Port outcomes for sustainability objectives development opportunities
2	Unclear how this property could support sustainability goals
1	Would detract from meeting sustainability goals

## Leveraging Expertise and Partnerships

### The Port has experience and capacity to address the opportunities & challenges associated with the Property

5	Full internal capacity and/or expertise to directly address 100% of the complexities and scale of property/project
4	Has capacity and/or expertise to deal with the over 50% of the site complexities and project scale
3	Team has some capacity/expertise, but limited experience to address scale
2	Some relative capacity/expertise but would need additional support for most of the project
1	Limited capacity/expertise and would likely need to rely exclusively on external parties

### Potential to partner with other public and private agencies/entities to amplify impacts

5	Property would serve the mission/objectives of two or more public or private organizations in addition to the Port
4	Property would serve the mission/objectives of 1 or more public or private organizations in addition to the Port
3	Property has the potential to serve mission/objectives of 1 or more public or private organizations in addition to the Port
2	Limited opportunity for partnership
1	No potential for partnership

## Funding Options and Opportunities

### The property and associated development can attract alternative sources of funding through partnerships or financing mechanisms available to the Port

5	An alternative financing/funding resource has been identified and will benefit the project
4	An alternative financing/funding resource has been identified and has the potential to benefit the project
3	Project is eligible for alternative financing/funding, but no specific opportunity has been identified
2	Unclear if the project is eligible for or can attract alternative sources of funding
1	No alternative sources of funding or financing are envisioned for the project

## Implementation Process

### PHASE I: IDENTIFICATION

---

- Identify opportunities and strategic purpose of property
- Defined hypothesis for the property/acquisition (likely implementation scenario)

### PHASE II: EVALUATION

---

- Initial underwriting and evaluation scoring (see Criteria Rubric)
- Yes or no to further investigation

### PHASE III: AUTHORIZATION

---

- Approval process for pursuit of opportunity
- Authorization to conduct full underwriting/feasibility analysis

### PHASE IV: SECURE/INITIATE

---

- Secure the opportunity; negotiation of terms and deal structure

### Implementation Recommendations:

- Use evaluation rubric to identify sites that most clearly support the Port's priorities in Phase I and advance accordingly.
- Identify agency or funding partnerships for these priority sites and engage.
- Prioritize spending on the due diligence\* needed to advance these priority sites through Phase II & III
- The evaluation rubric should be updated through each phase as more information is gathered. Keep focus on properties which rank as the top priority.

### Other Recommendations:

- Consider using the evaluation rubric to evaluate and rank Port development priorities.
- Apply of system of organization to easily catalog and archive properties that have gone or are going through the evaluation process to help inform future decision making.

*\*Due diligence includes all pre-development costs that enable the Port to fully assess the feasibility of proceeding with implementation. The required predevelopment costs and tasks may vary depending on the nature of the site.*

## Port Real Estate Development - Execution Options

With priority opportunities secured, the Port can execute its development vision through the following three channels: self-finance/performance, ground lease for development, or joint development.

The property and associated development potentially can attract alternative sources of funding through partnerships or financing mechanisms accessible to the Port. In addition to partnering with other public agencies where mutual alignment presents alternative funding mechanisms, Federal funding has the potential to provide an alternative source of financing for development projects and acquisitions.

### PORT SELF FINANCES/PERFORMS

#### PRO

100% control; owning all opportunities and liabilities

#### CON

CIP limitations, time to completion, audit risk

### PORT GROUND LEASE TO DEVELOPERS

#### PRO

Requires little/no Port \$, influence development through RFP, no financial risk to Port

#### CON

Some market limits on what a developer can do, loss of property control

### JOINT DEVELOPMENT

#### PRO

Partnership to reduce risk and achieve multiple objectives

#### CON

Decision making and execution complexity





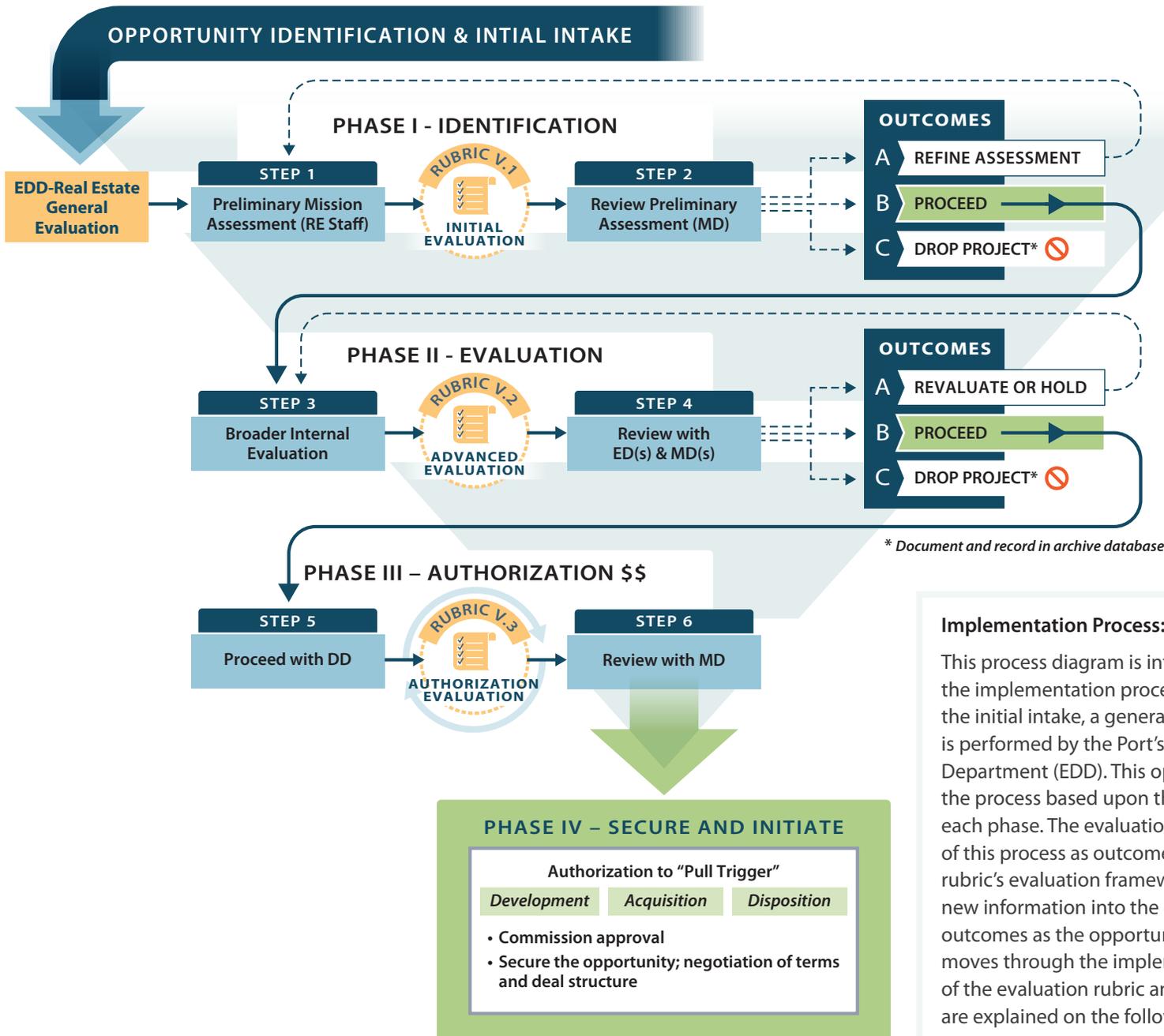
2020 REAL ESTATE STRATEGIC PLAN

August 2021



# APPENDIX

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**Implementation Process:**

This process diagram is intended to aid in visualizing the implementation process at the Port. Starting with the initial intake, a general evaluation of an opportunity is performed by the Port’s Economic Development Department (EDD). This opportunity then flows through the process based upon the evaluation and outcomes at each phase. The evaluation rubric is the central component of this process as outcomes are determined through the rubric’s evaluation framework. Each phase incorporates new information into the evaluation to better inform the outcomes as the opportunity is reviewed by Port staff and moves through the implementation process. The overview of the evaluation rubric and its underlying scoring criteria are explained on the following pages.