

Real Estate Strategic Plan Briefing

Item No: - supp-----

Meeting Date: October 27, 2020



Overview

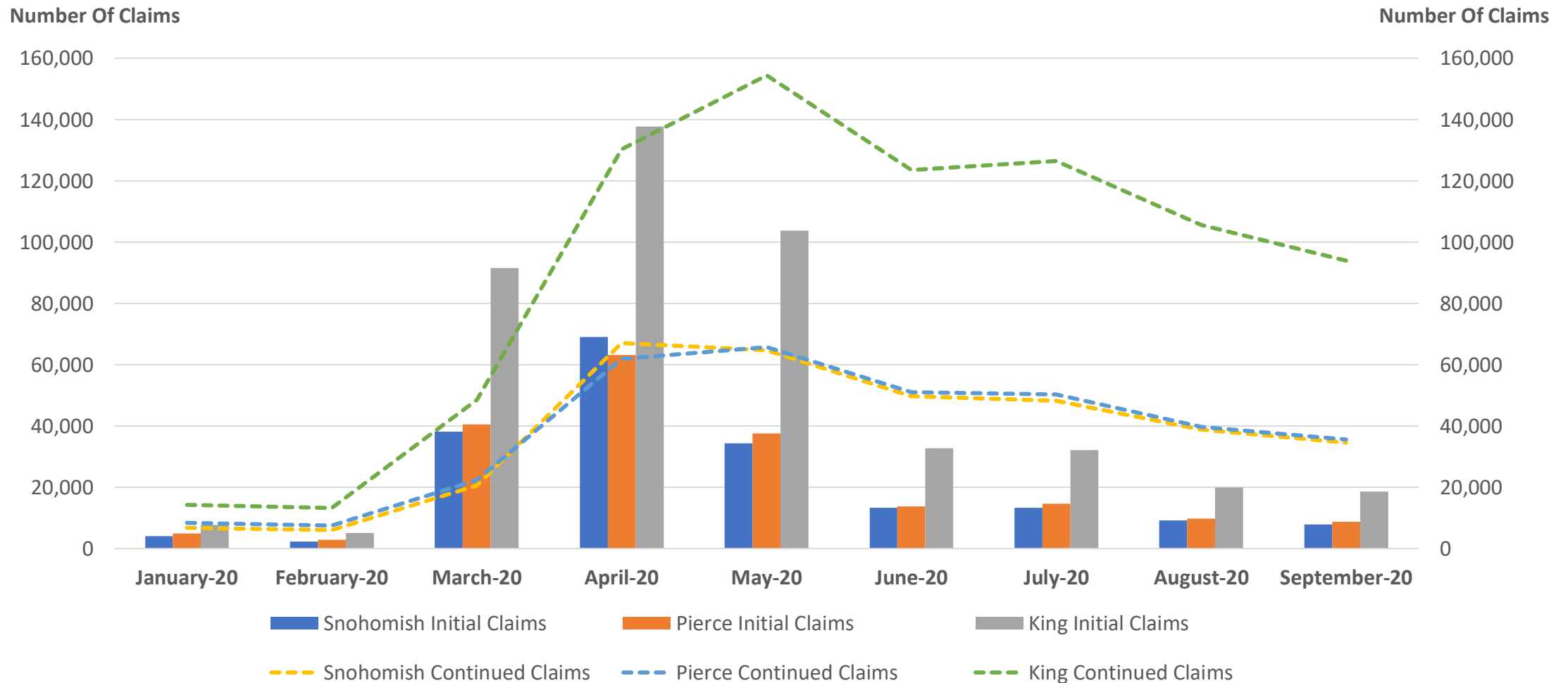
- Market Update
- Real Estate Principles
- Port Property Profiles and Recommendations
- Acquisitions and Partnership Opportunities

	Mar	April	May	June	July	August	September	October	November	December	January
Port Commission	X										
Port RE Team		X			X		X				
External Advisory Committee			X			X				X	



Market Context

Region Unemployment: Initial Claims with Continued Claims, Jan - Sep 2020




Market Context



OFFICE

Rent Collections:	96.4%
CMBS Mortgage Delinquencies:	2.3%
US VACANCY Current:	10.7%
Forecasted Peak:	12.7% in 2023

BIG QUESTIONS


- WFH impact on vacancies?
- Rise or fall of coworking? 
- Will telemedicine reduce demand for medical office?



INDUSTRIAL

Rent Collections:	99.4%
CMBS Mortgage Delinquencies:	1.2%
US VACANCY Current:	5.7%
Forecasted Peak:	6.9% in 2021

BIG QUESTIONS

- Who are the winners in the supply chain disruption? 
- Will manufacturing meaningfully increase space demand?

Market Context



RETAIL

Rent Collections:

Free standing:

90.5%

Shopping Center:

80.1%

CMBS Mortgage

Delinquencies:

14.8%

US VACANCY

Current:

10.2%

Forecasted Peak:

14.6%
in 2021

BIG QUESTIONS

- Which retail categories will survive?
- Which retail typologies will be successfully redeveloped in the near term?



HOSPITALITY/LODGING

CMBS Mortgage

Delinquencies:

23.0%

Hotel Occupancy:

Jul:

47.0%

Aug:

50.2%

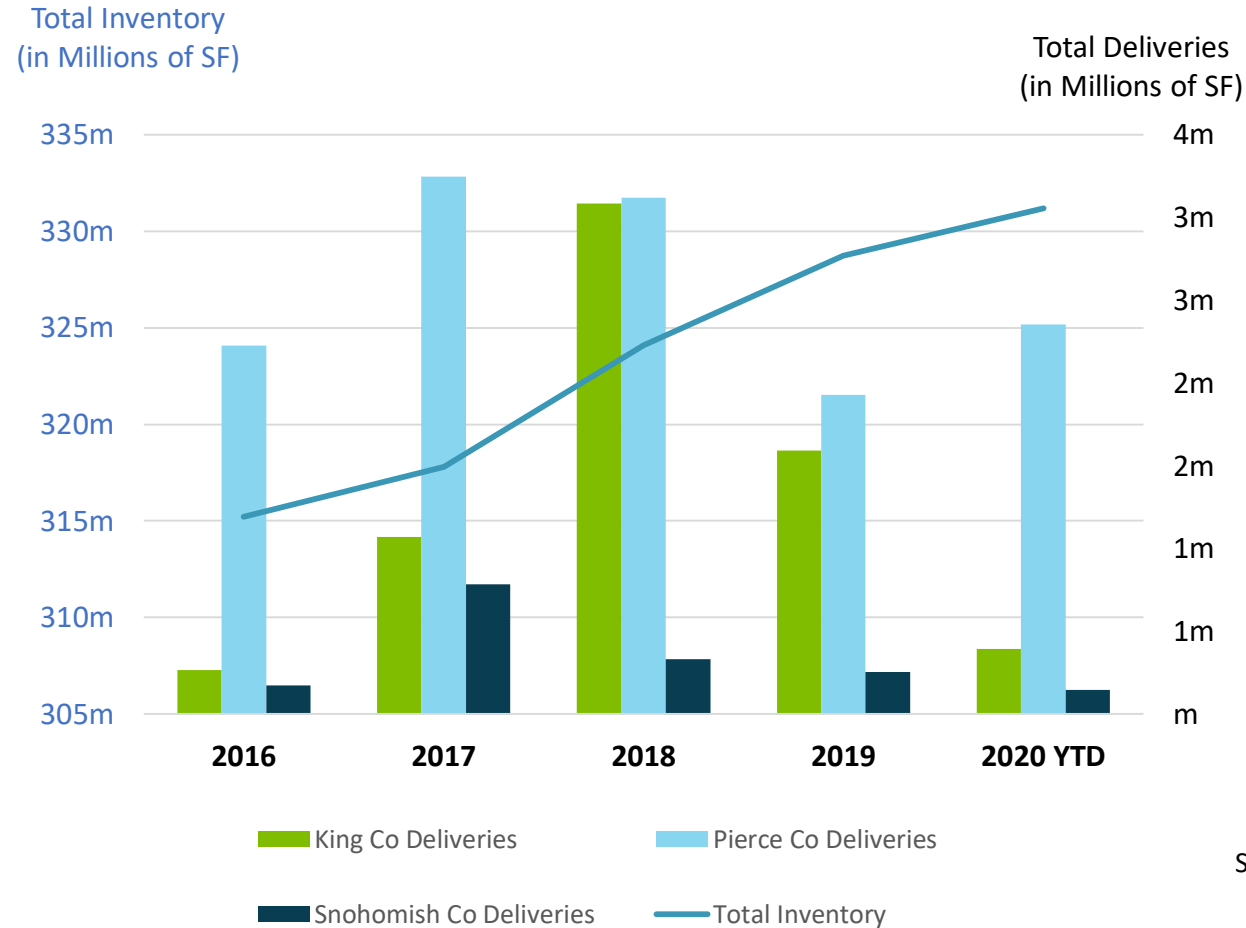
Recovery to 20-year historical average expected in 2023.

BIG QUESTIONS

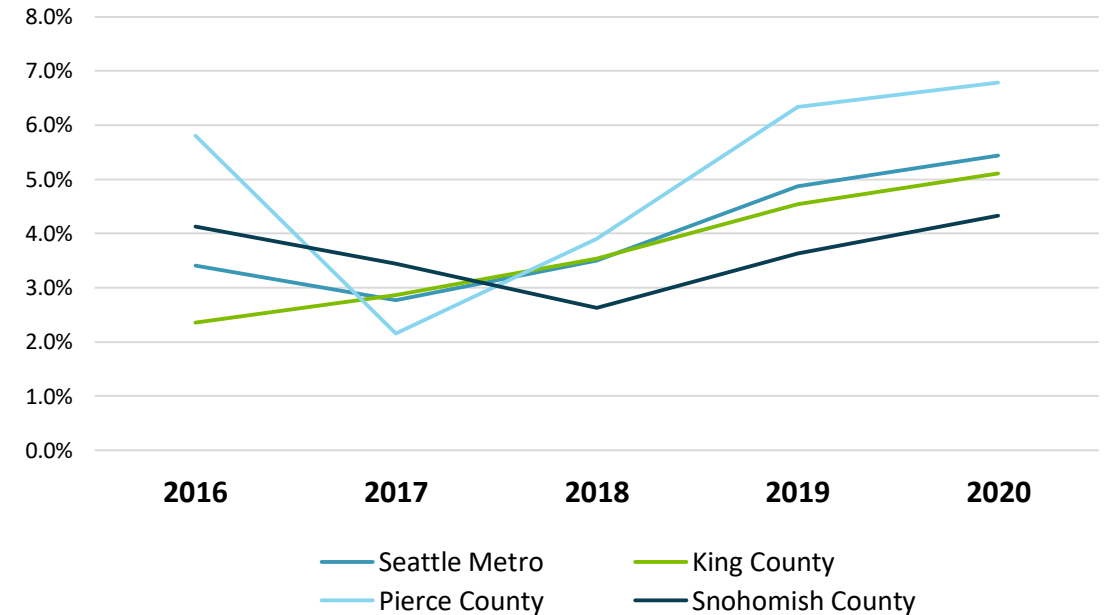
- Will \$50 billion in delinquent CMBS debt trigger a broader financial crises?
- How many independent hotels will not make it through the downturn?

Market Context – Regional Industrial

Total Inventory and Deliveries, 2016-2020 YTD



Puget Sound Industrial Vacancy, 2016-2020 YTD

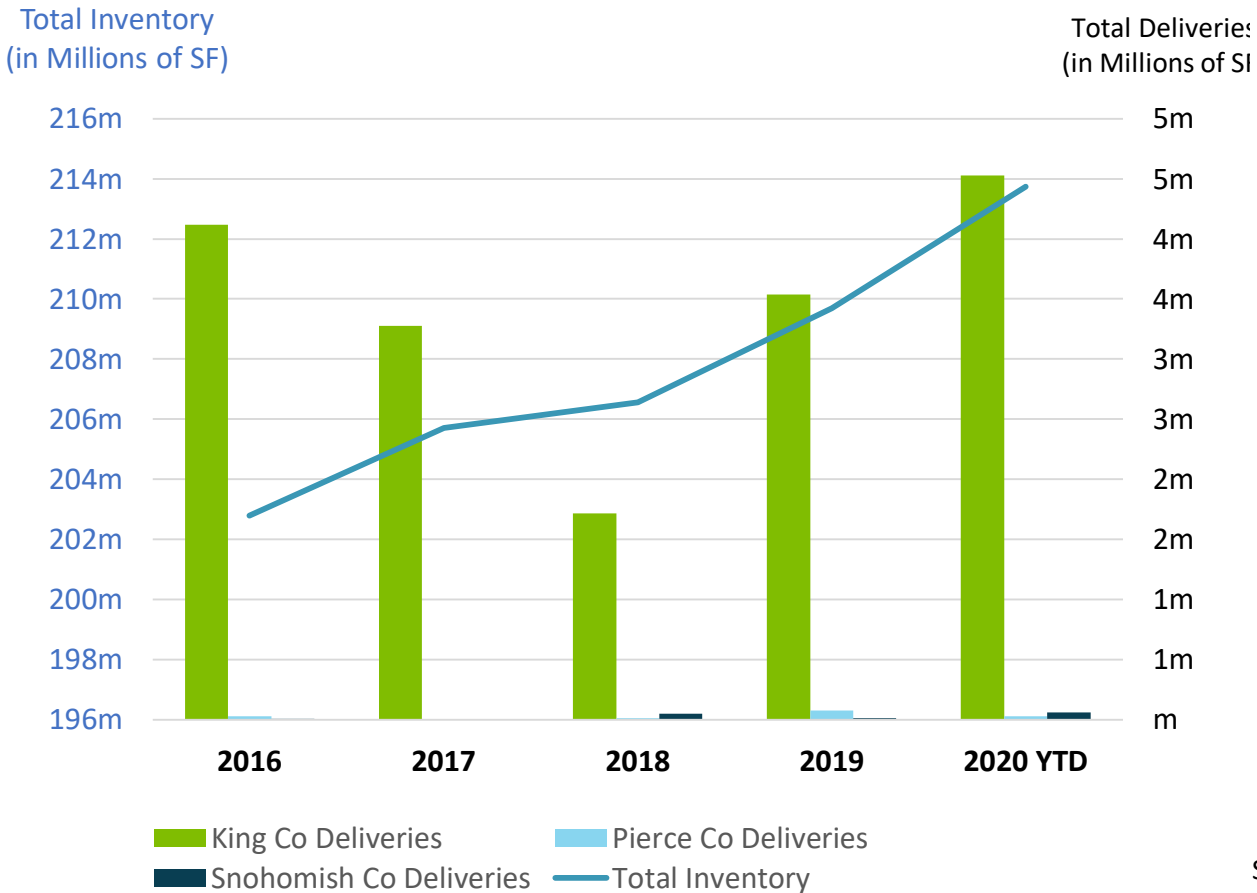


	Avg. Rent*	Vacancy		Avg. Rent*	Vacancy
Metro	\$11.69	5.4%	Magnolia	\$13.83	2.6%
King County	\$13.06	4.9%	Ballard	\$16.89	5.5%
Pierce County	\$8.20	7.8%	Duwamish N	\$13.16	6.1%
Snohomish County	\$10.14	3.4%	Duwamish S	\$12.75	1.3%

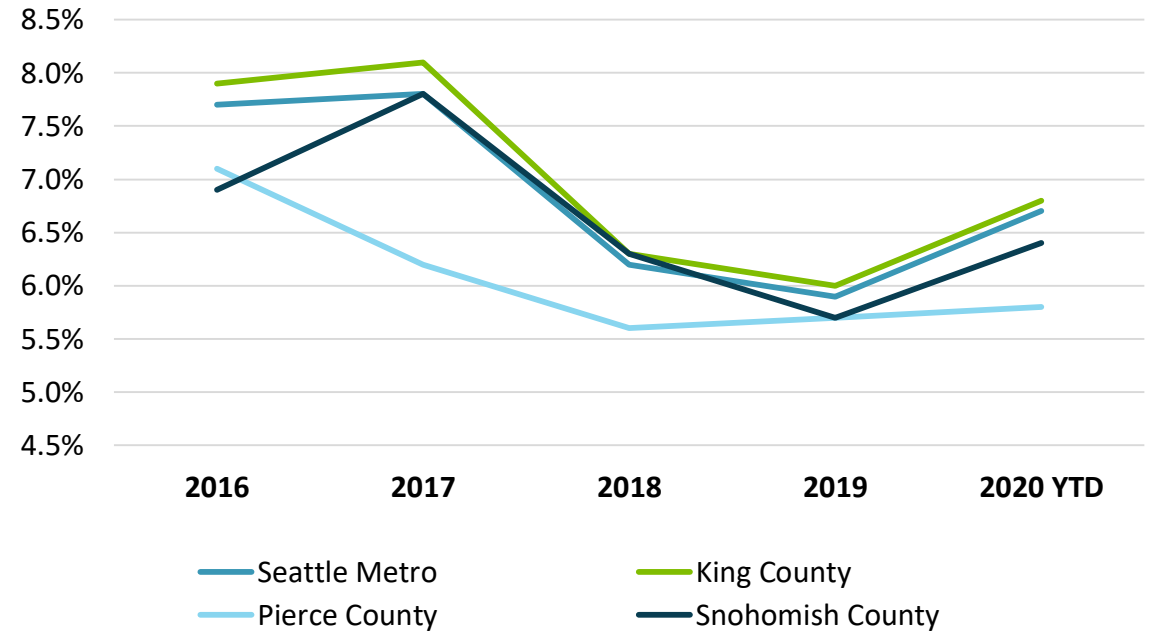
*Avg. Annual NNN rate per square foot

Market Context – Regional Office

Total Inventory and Deliveries, 2016-2020 YTD



Puget Sound Office Vacancy, 2016-2020 YTD



Market	Avg. Rent*	Vacancy	Submarket	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

Real Estate Principles

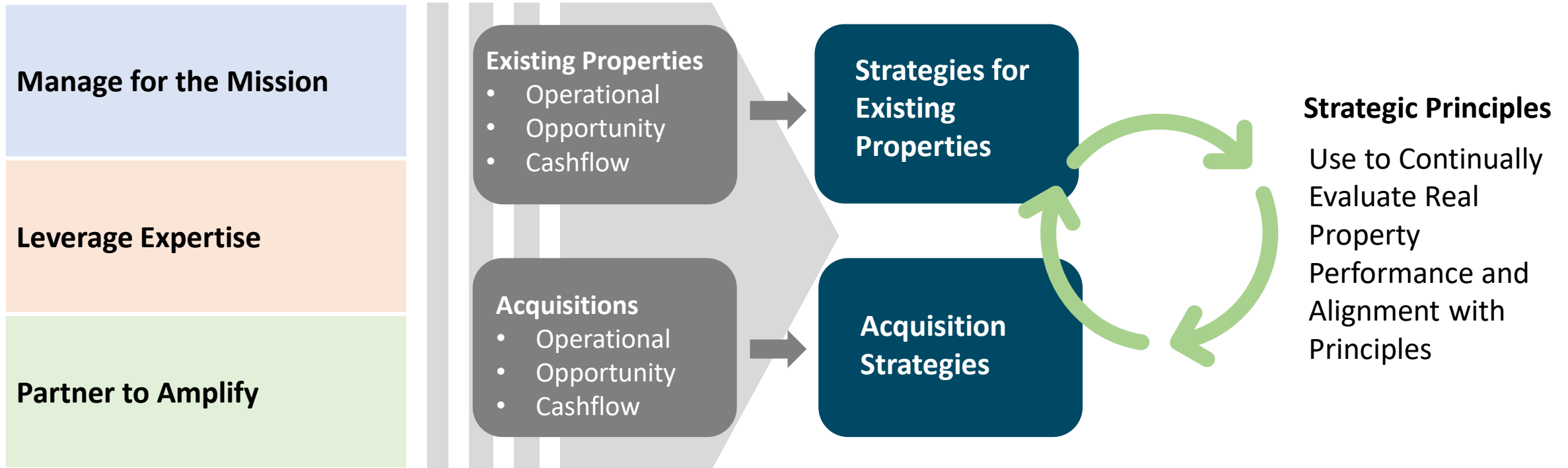


Port Real Estate Principle Framework

Framework

“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



Port Real Estate 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



Port Real Estate Principles

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 (EDA)

- 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



Port Real Estate Principles

Property Classifications:

- Formalize property classifications and apply to each property within the portfolio.
- Property classifications can change over time.
- More than one classification can apply to hybrid properties.
- Apply appropriate evaluative metrics to each property classification.

OPERATIONAL PROPERTIES

Primary purpose of the property is to support Port operations.
Capital investments are made to optimize functions by the Port and industry partners/tenants.

CASHFLOW PROPERTIES

Primary purpose of the property is to generate **net** cash flow.
Manage to market based metrics.
Reinvest to enhance net cash flow.

OPPORTUNITIES

Property is primarily an unrealized opportunity.



Contents – Properties Being Evaluated



FOCUS PROPERTIES

PROPERTY	GEOGRAPHY	RESP YEAR
Fishermen's Terminal	North Bay	2020
Salmon Bay Marina	North Bay	2020
T91 Uplands	North Bay	2016/2020
Harbor Marina Corporate Center	South Bay	2020
Pier 69	Downtown	2020
World Trade Center West	Downtown	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.

2016 PROPERTIES – REVIEW

PROPERTY	GEOGRAPHY	RESP YEAR
Pier 2	South Bay	2016
CEM	South Bay	2016
Terminal 106	South Bay	2016
Tsubota	North Bay	2016
L Shaped Site*	SeaTac	2016
13 Acre Site*	SeaTac	2016
55-Acre Site*	SeaTac	2016
S 200th St*	SeaTac	2016

Review Properties:

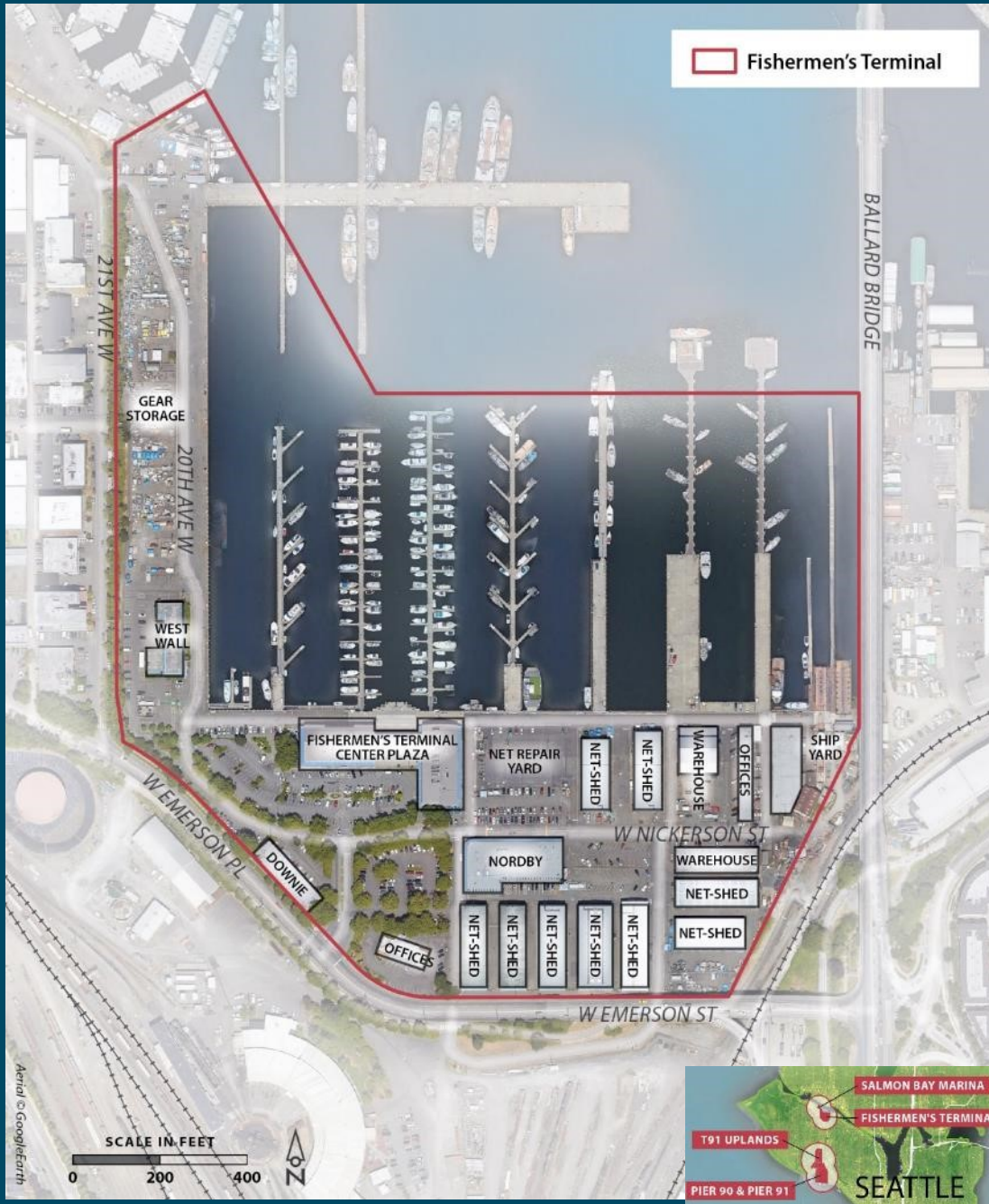
The 2016 Real Estate Strategic Plan evaluated these properties. These properties are not the focus of the 2020 Strategic Plan Update.

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

Property Profiles



Fishermen's Terminal



Property Type: ● *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

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

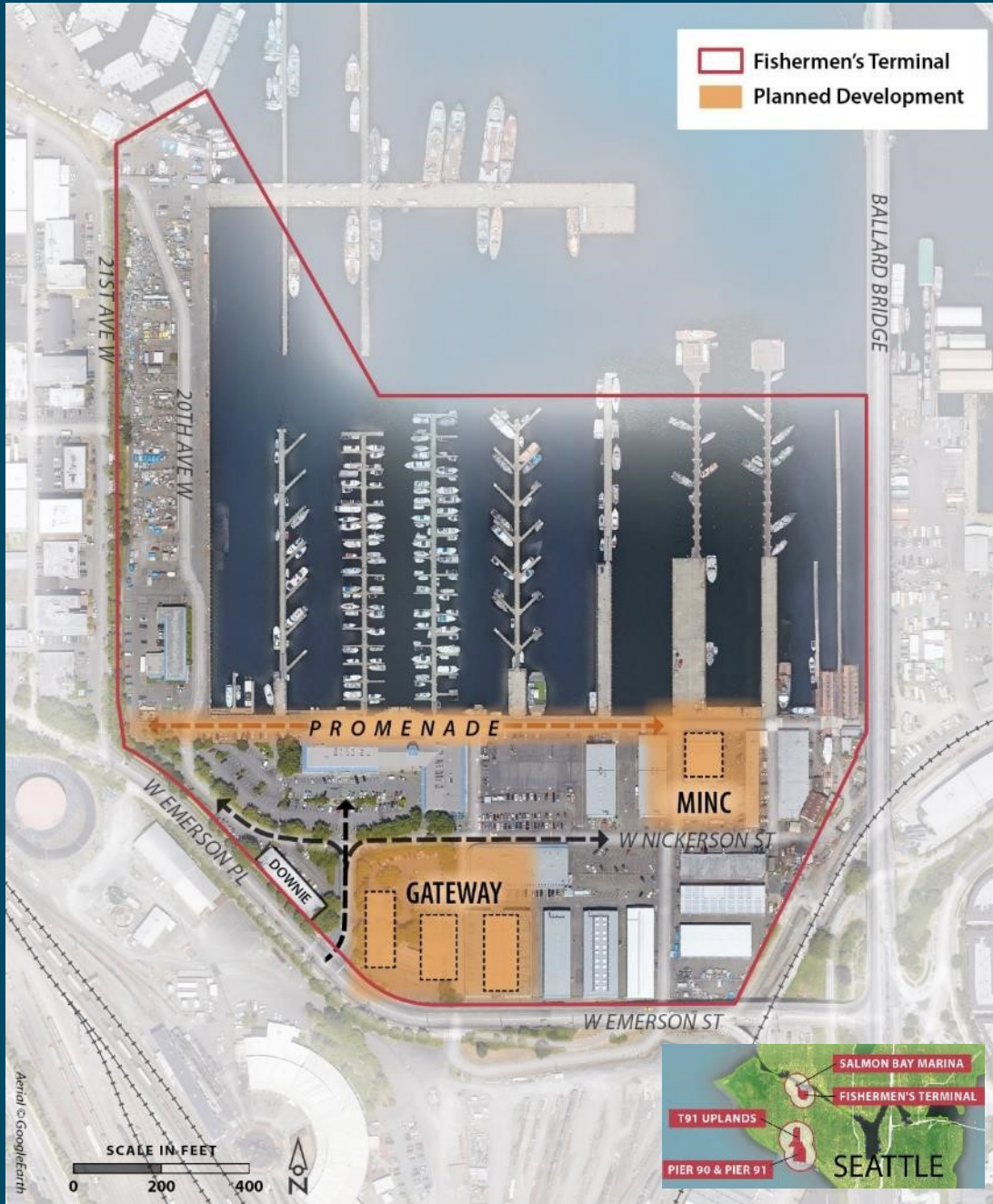
Largest Occupants

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

Use Summary

Office, Retail, Restaurant,
Warehouse, Dock, Yard

Fishermen's Terminal



Property Type: ● *Operational* ◐ *Cashflow* ◐ *Opportunity*

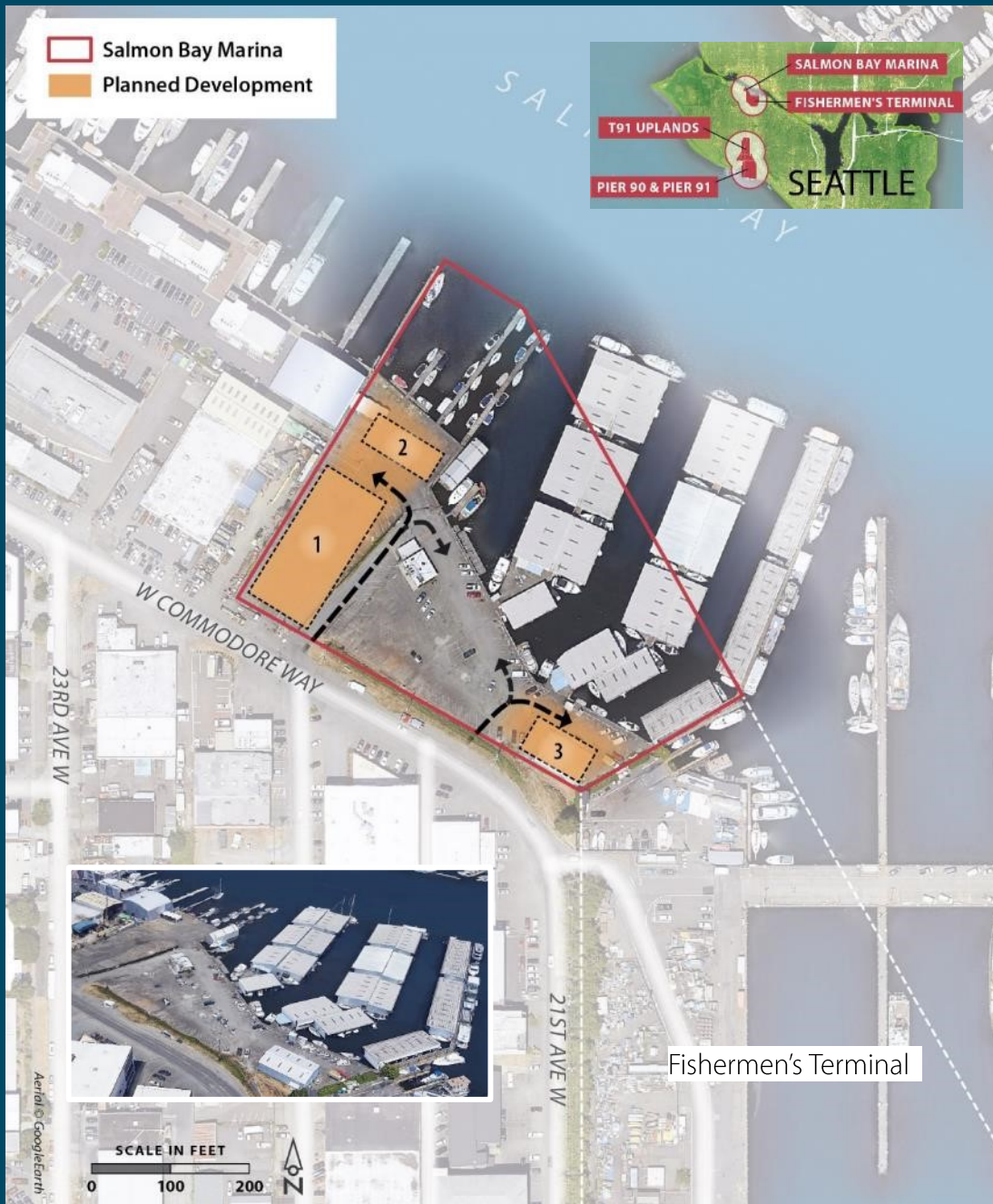
Staff/Stakeholder Input

- Large CIP outlay required to attend to deferred 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 the quality and nature of the site fill
- Could provide an opportunity to explore EDA funds

Strategies

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 thru wayfinding signage and interpretive displays (1% for art project)

Salmon Bay Marina



Property Type: 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)

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

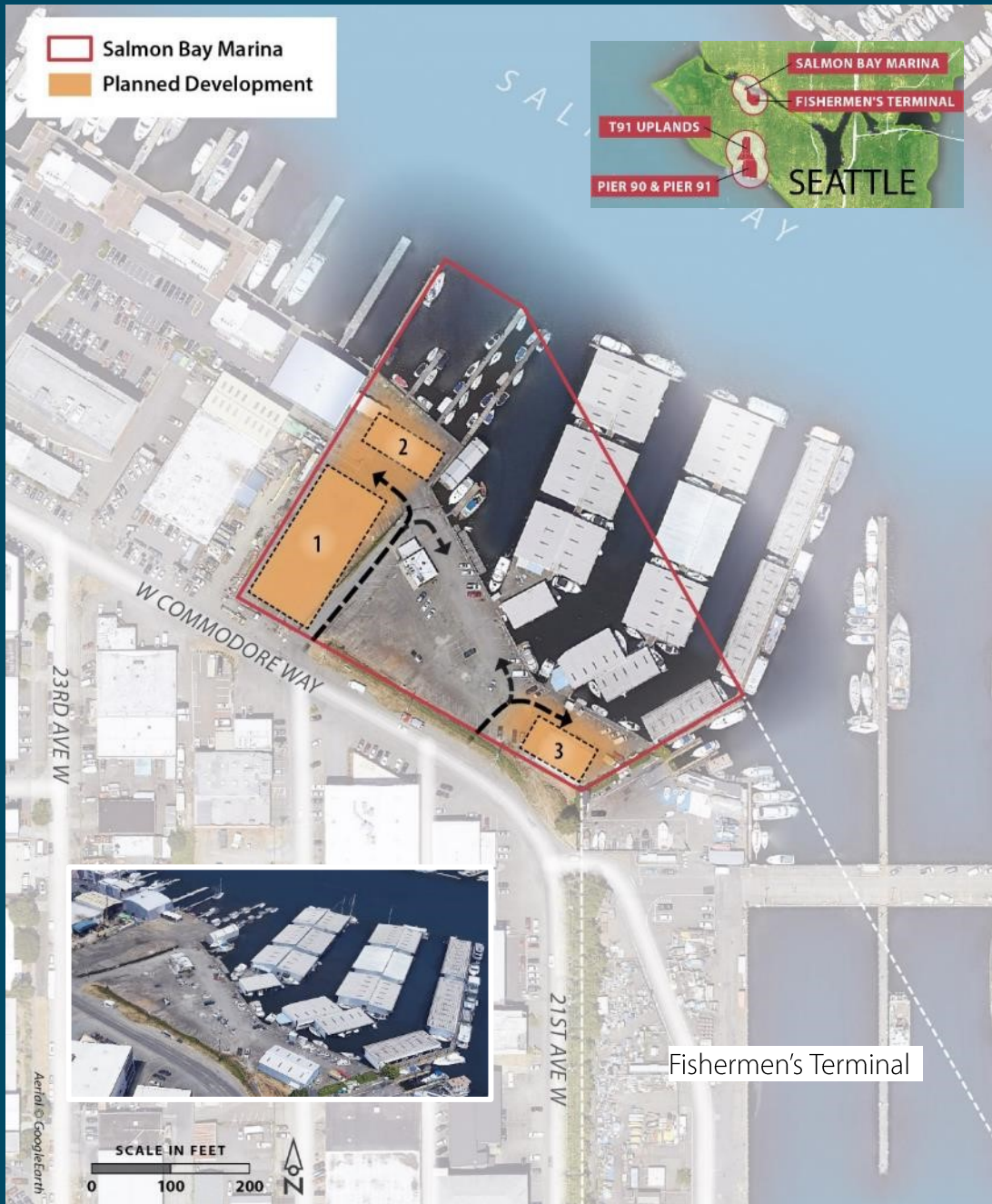
Largest Occupants

Special Needs Group INC, 62%
Cascade Adventure Vans

Use Summary

Office, Retail
Storage Warehouse

Salmon Bay Marina



Property Type: Operational Cashflow Opportunity

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

Strategies

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 – Uplands



Property Type: ● *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

Occupancy*

100%

Annual Rental Income*

\$3,212,034

WALT (Months)

108

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

**Note: Inclusive of land/yard leases*

Terminal 91 – Uplands



Property Type: ● *Operational* ◐ *Cashflow* ◐ *Opportunity*

Staff/Stakeholder Input

- Issues around Magnolia Bridge replacement
- Maritime and Cruise both highly seasonal; the conflict of how to support both industries slows development progress
- 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

Strategies

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 II 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)

Harbor Marina Corporate Center



Property Type: 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

Occupancy

72.0% | 38k SF Available

Annual Rental Income

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

WALT (Months)

19

Leases Expiring In 2020/2021

26% of RSF | 36k SF

Largest Occupants

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

Use Summary

Office

Harbor Marina Corporate Center



Property Type: Operational Cashflow Opportunity

Staff/Stakeholder Input

- The West Seattle Bridge closure is affecting this site in multiple ways including location withing 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.

Strategies

Pursue partnership opportunities with potential partners (KC, SDOT, ST) to support required infrastructure improvements associated with planned bridge repairs and light rail alignment

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

World Trade Center West



Property Type: 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

Occupancy

75.2% occupied | 17k available

Annual Gross Income

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

WALT (Months)

31

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)

World Trade Center West



Property Type: Operational Cashflow Opportunity

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

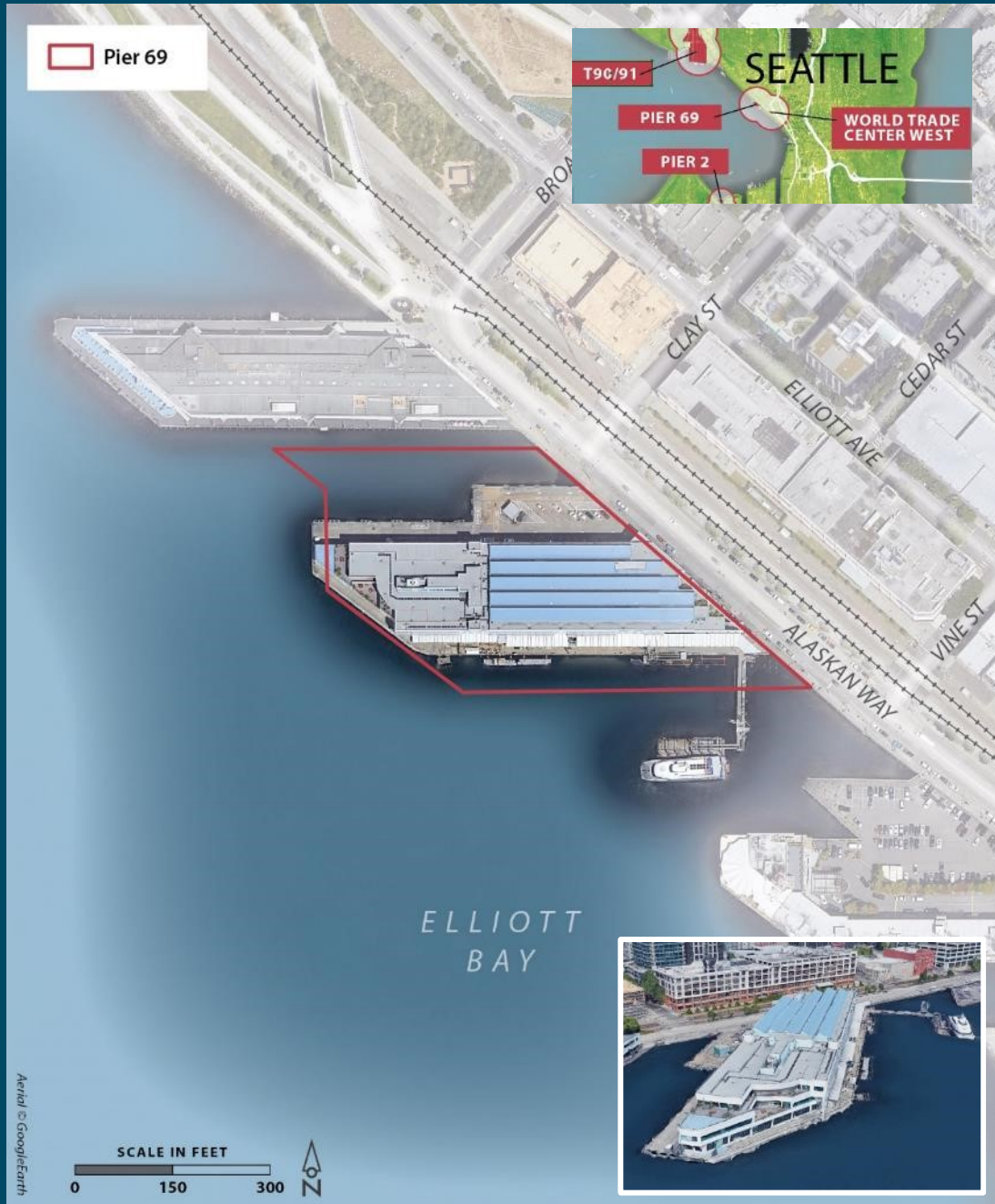
Strategies

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

Maintain 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

Pier 69



Property Type: ● **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%)

Occupancy

100%

Annual Gross Income

\$658,904

WALT (Months)

53

Leases Expiring In 2020/2021

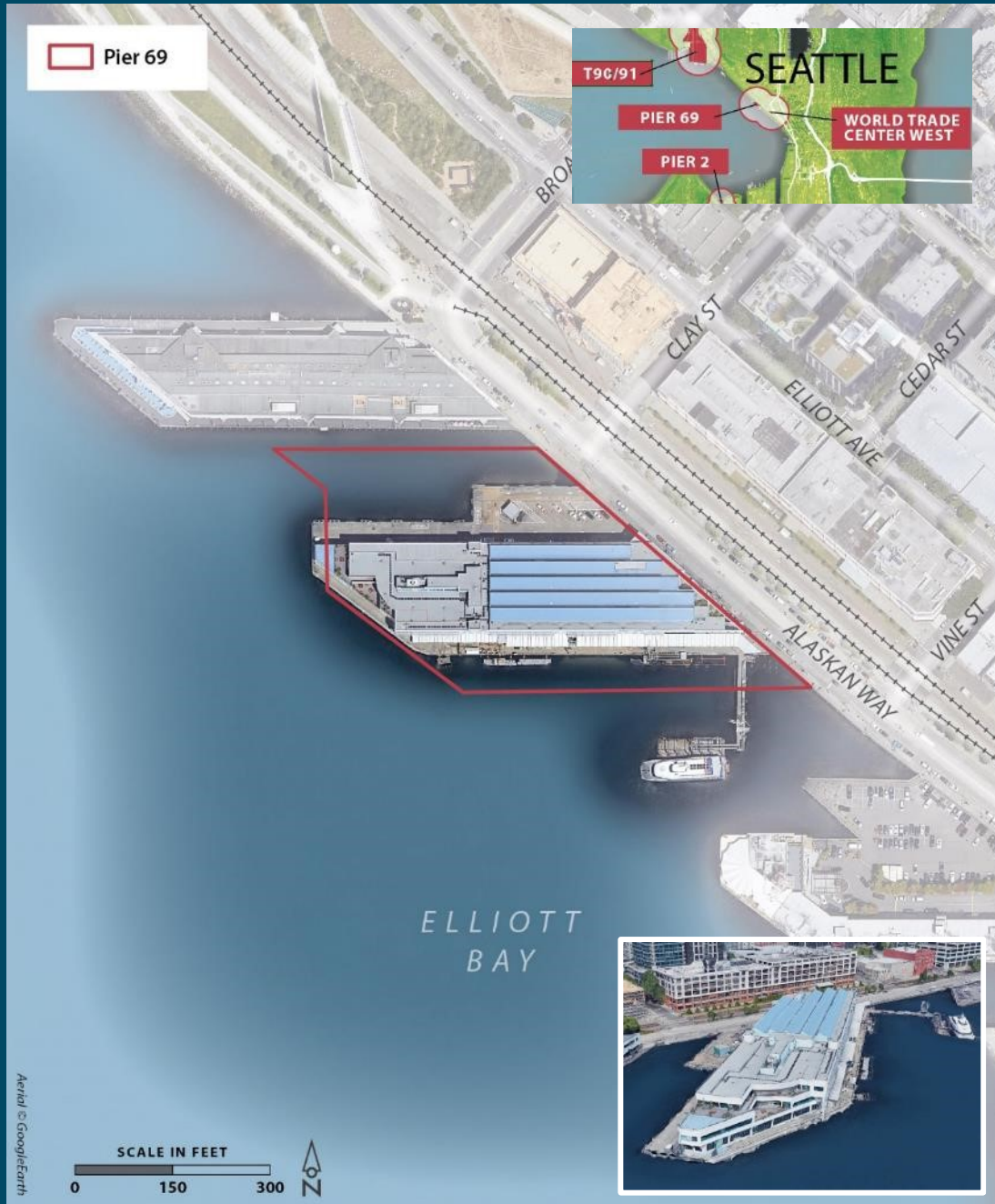
0%

Largest Occupants

Port of Seattle (77% of building)
Clipper Navigation

Use Summary

Office, Dock, Storage/warehouse
Retail



Property Type: ● *Operational* ◐ *Cashflow* ○ *Opportunity*

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

Strategies

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

Portfolio Management

- Capital (equity) within a real estate portfolio is a resource.
- Market fluctuations, policy priorities and property level opportunities/ challenges impact the quantity, performance and risk profile of invested capital.
- Active portfolio management requires a constant review and balancing of policy performance (mission), cash flow and equity growth.

New Capital

- Competes with other investment opportunities.

Recycled Capital

- Harvested from existing properties and redeployed to better achieve portfolio goals.

ILLUSTRATIVE EXAMPLE

1. Sell WTCW (lease back or relocate WTC)
2. Fund
 - Pre-Con for Phase 1 @ T91
 - Design and permitting @ FT
 - Acquire DMCW WSDOT Prop & RFP for development

Evaluate Acquisition and Partnership Opportunities

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 secondary policy objectives can be achieved within the scope of the primary business plan?
- 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?



Next Steps

- Evaluate acquisition and partnership opportunities
- Evaluate funding options and strategies
- Develop methodology to rank/prioritize acquisitions/partnerships
- Incorporate key findings/recommendation into Maritime/EDD CIP
- Implement key real estate development recommendations within strategic plan