

Real Estate Strategic Plan Briefing

Item No.
Date of Meeting

11a_supp
March 23, 2021



Overview

- Real Estate Principles
- Port Property Profiles and Recommendations
- Acquisitions and Partnership Opportunities
- Legal Parameters Surrounding RE Development/Acquisitions
- Financing Options

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

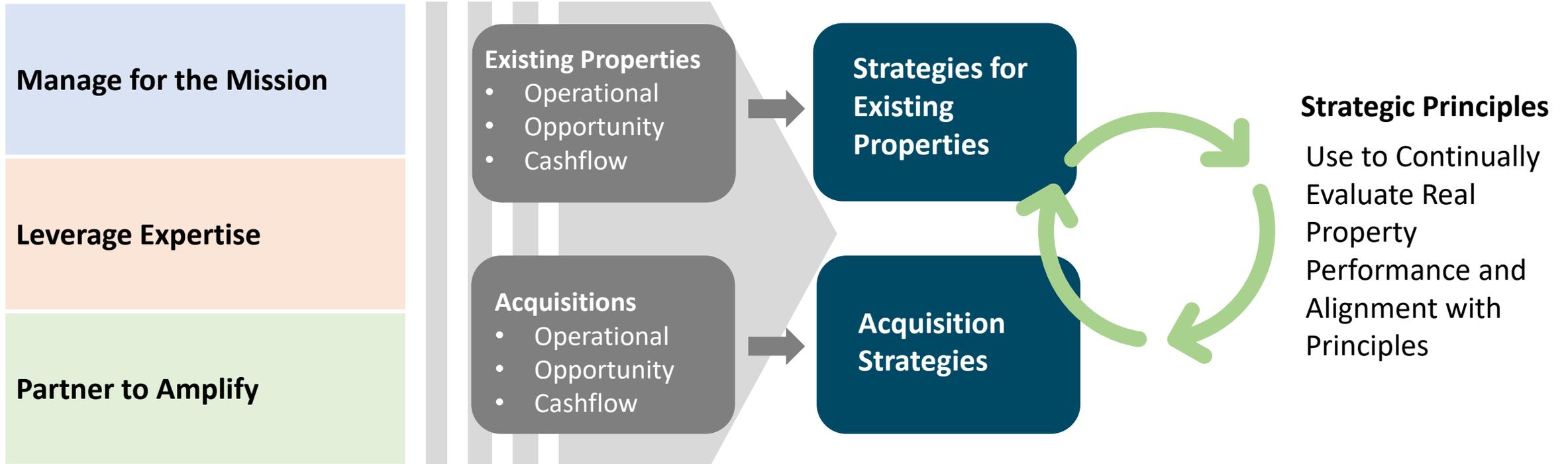


Port Real Estate Principles

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 Property Development Recommendations



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:

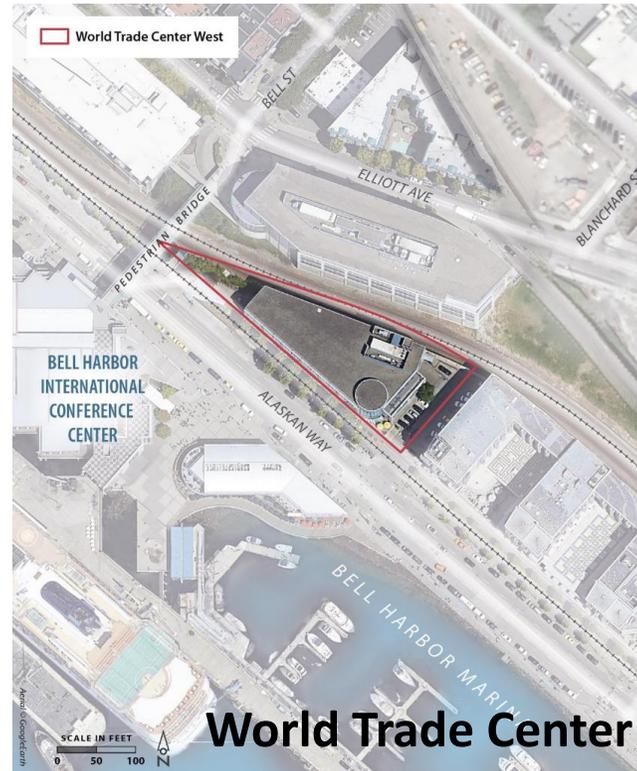
The 2016 Real Estate Strategic Plan evaluated these properties. These properties are not the focus of the 2020 Strategic Plan Update.

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

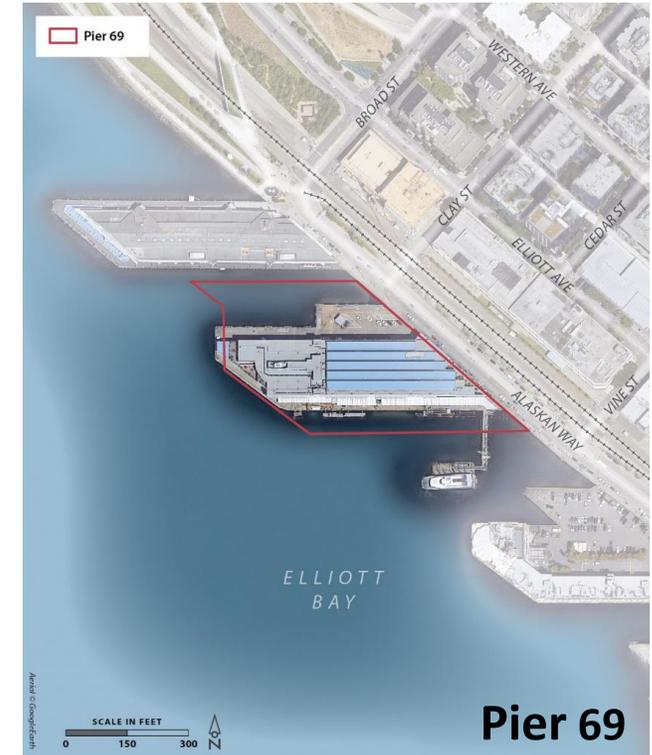
Development Recommendations – Port Properties



- 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



- 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



- 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

Evaluate Acquisition and Partnership Opportunities

Manage for the Mission

- What types of properties are being considered?
- What is the business and performance purpose?
- 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?

“We’re considering this property because it may....”

Support the Port’s Mission

- The property can support maritime or air cargo industries (advance NWSA competitiveness)
- Property advances SEA competitiveness and/or efficiency
- Property advances maritime industries and protects industrial lands
- The property enhances or protects Port properties/operations
- The property could advance Port energy and sustainability goals
- The property’s development could impact equitable economic development regionally

Leverage Staff Expertise

- The Port has experience and *capacity* to address the opportunities and challenges associated with the Property

Partner to Amplify Impact

- Potential to partner with other governmental agencies/entities to amplify impacts
- The property and associated development can attract alternative sources of funding through partnerships or financing mechanisms available to the Port

Some Caveats with the Evaluative Matrix

The matrix we are about to review is intended to help staff evaluate and rank property acquisition/partnership options



- Preliminary rankings **based on incomplete information** about properties.
- **Matrix 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, **we can use this matrix to** further refine scores and better **determine how these properties fit our mission/priorities**

Criteria Derived From the 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

Evaluative Matrix Continued

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 enhances/protects 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

4 = Could be developed or rezoned to protect or enhance industrial lands

1 = Not clear on how property supports Port properties or industrial lands

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 [Equity Index](#)
- 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 mgmt. 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
- 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 and 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.

Port Real Estate Development - Legal Parameters

RCW 53.08.20

Acquisition and operation of facilities

RCW 53.08.255

Tourism-related facilities authorized

RCW 53.25.190

Eminent Domain

RCW 53.08.260

Park and recreation facilities.

A port district may construct, condemn, purchase, acquire, add to, maintain, conduct, and operate sea walls, jetties, piers, wharves, docks, boat landings, and other harbor improvements, warehouses, storehouses, elevators, grain-bins, cold storage plants....

Port Development Execution Options

Port self finances/performs

PRO 100% control; owning all opportunities and liabilities

CON CIP limitations, time to completion, audit risk

Port Ground Lease to Developer

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 “p” partnership to reduce risk and achieve multiple objectives

CON decision making and execution complexity



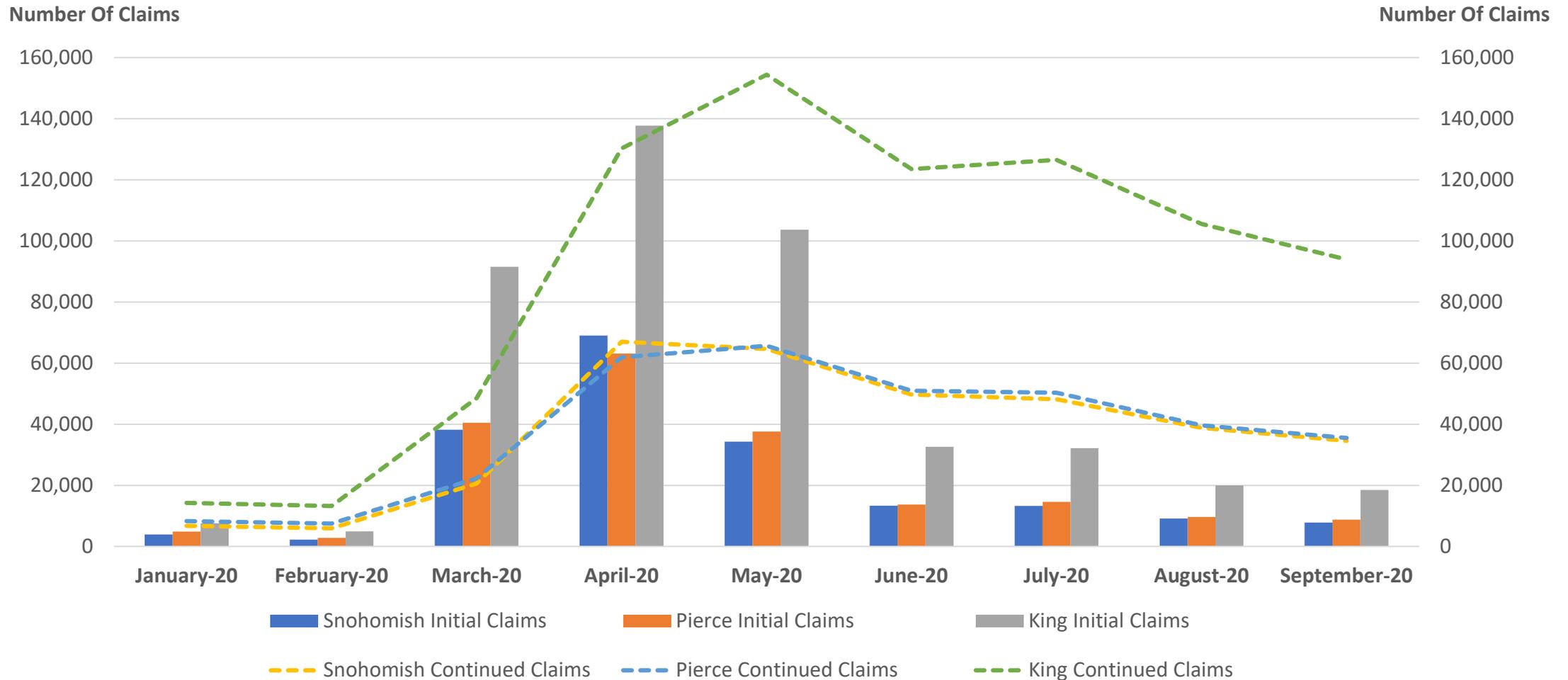
Next Steps

- Implement key recommendations surrounding development or disposition of Port properties
- Complete due diligence on two to three top acquisition or partnership opportunities
 - Determine costs/benefits for each potential development
 - Determine possible financing and development options
 - Provide routine updates and reports on objectives
- Complete analysis of Port financing options for real estate development project

Appendix: Market Snapshots

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?

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

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

Market Context



RETAIL

Rent Collections:	
<i>Free standing:</i>	90.5%
<i>Shopping Center:</i>	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:	
<i>Jul:</i>	47.0%
<i>Aug:</i>	50.2%

Recovery to 20-year historical average expected in 2023.

BIG QUESTIONS

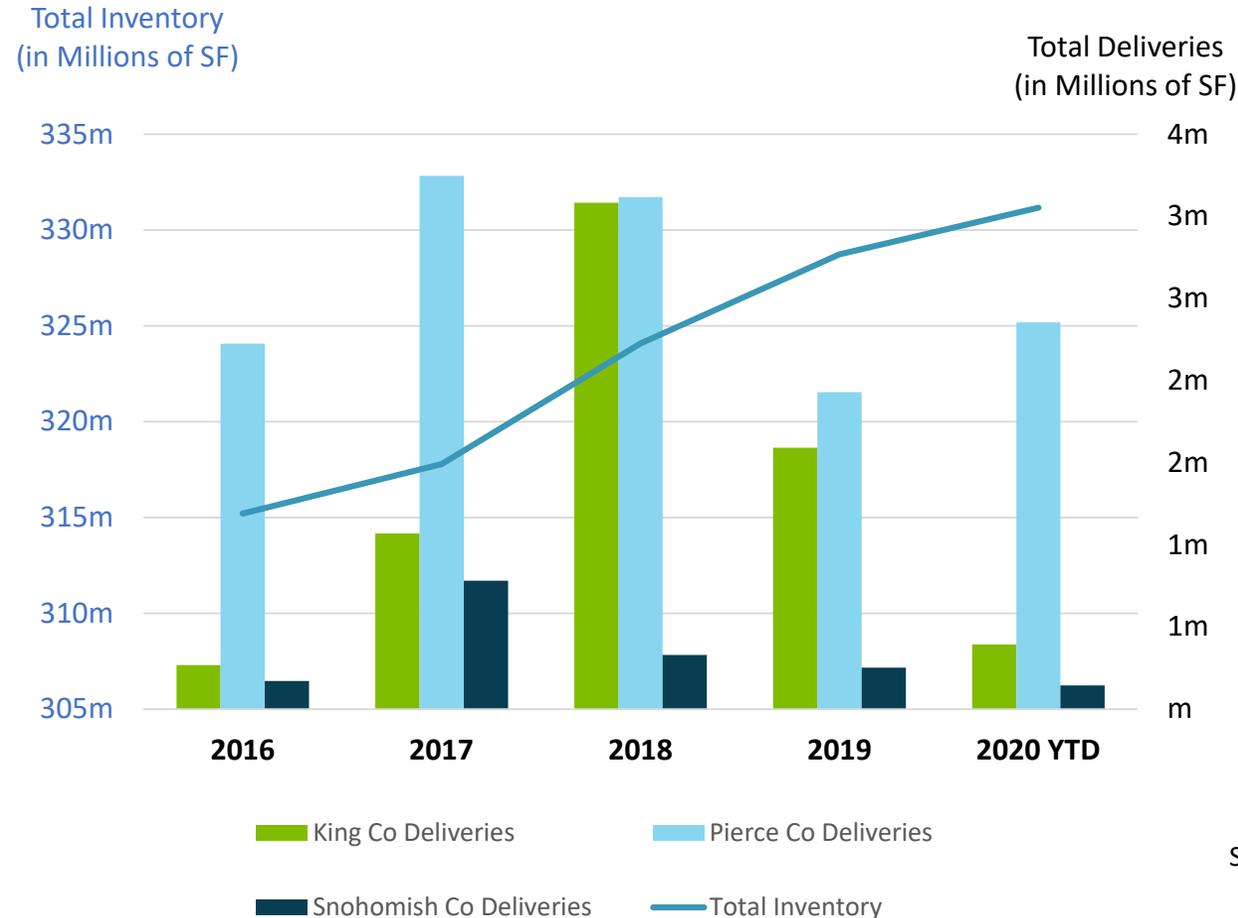
- Will \$50 billion in delinquent CMBS debt trigger a broader financial crises? ?
- How many independent hotels will not make it through the downturn?

Sources: NAREIT, Trepp, Costar, STR, Zillow, US Census Bureau, Moody's Analytics

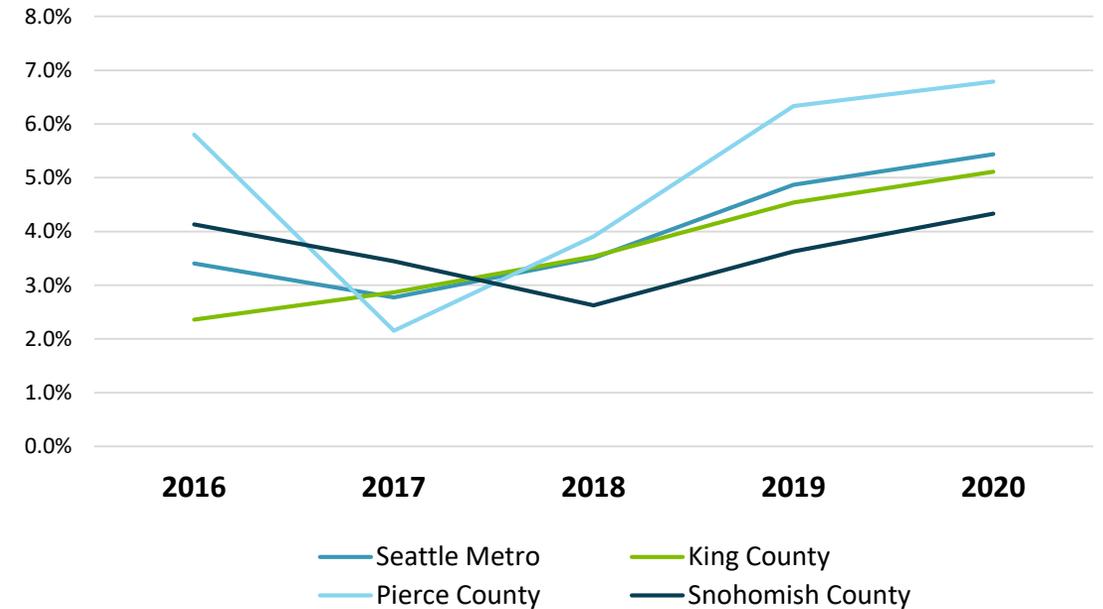
Note: Mortgage delinquencies represent CMBS delinquencies. Data as of May 2020 where not specified.

Market Context – Regional Industrial

Total Inventory and Deliveries, 2016-2020 YTD



Puget Sound Industrial Vacancy, 2016-2020 YTD

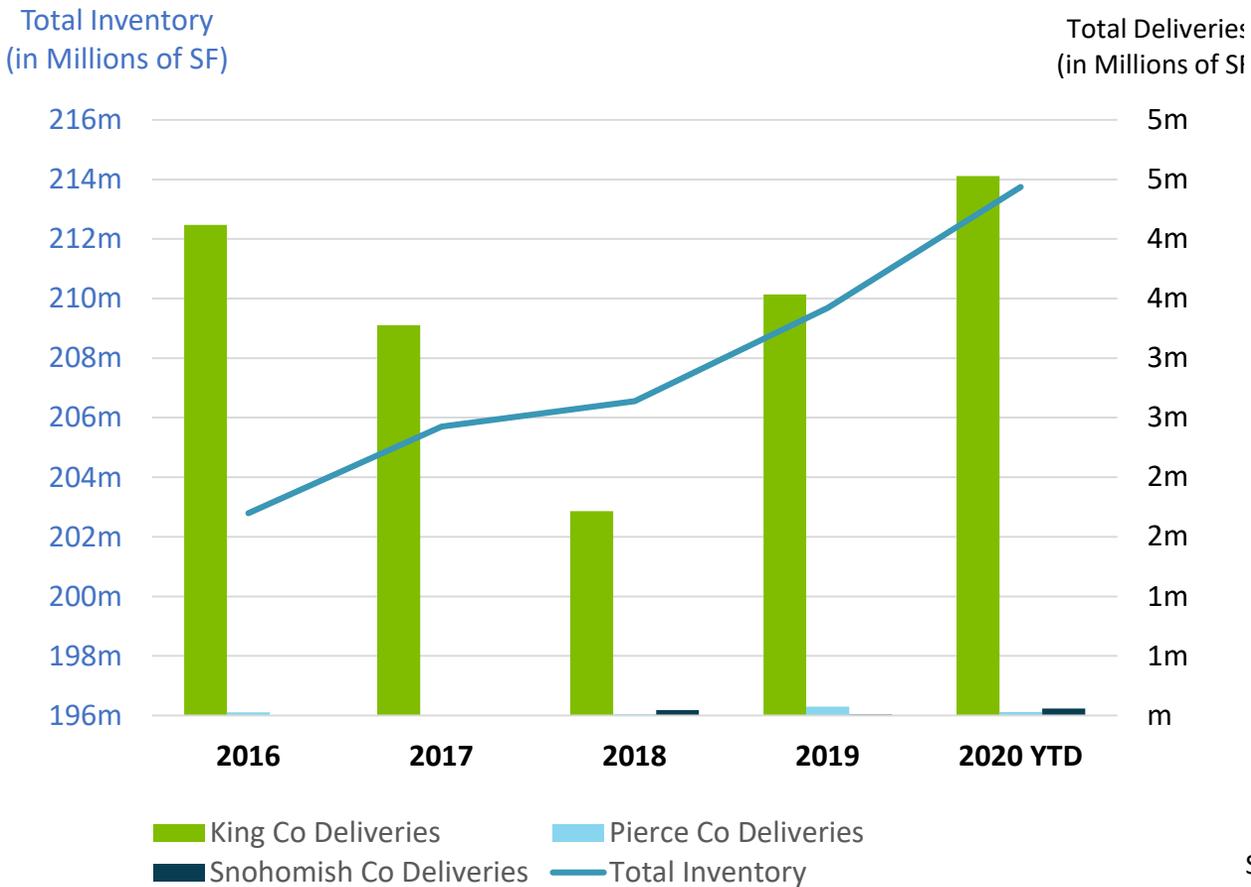


	Avg. Rent*	Vacancy		Avg. Rent*	Vacancy
Metro	\$11.69	5.4%	Magnolia	\$13.83	2.6%
King County	\$13.06	4.9%	Ballard	\$16.89	5.5%
Pierce County	\$8.20	7.8%	Duwamish N	\$13.16	6.1%
Snohomish County	\$10.14	3.4%	Duwamish S	\$12.75	1.3%

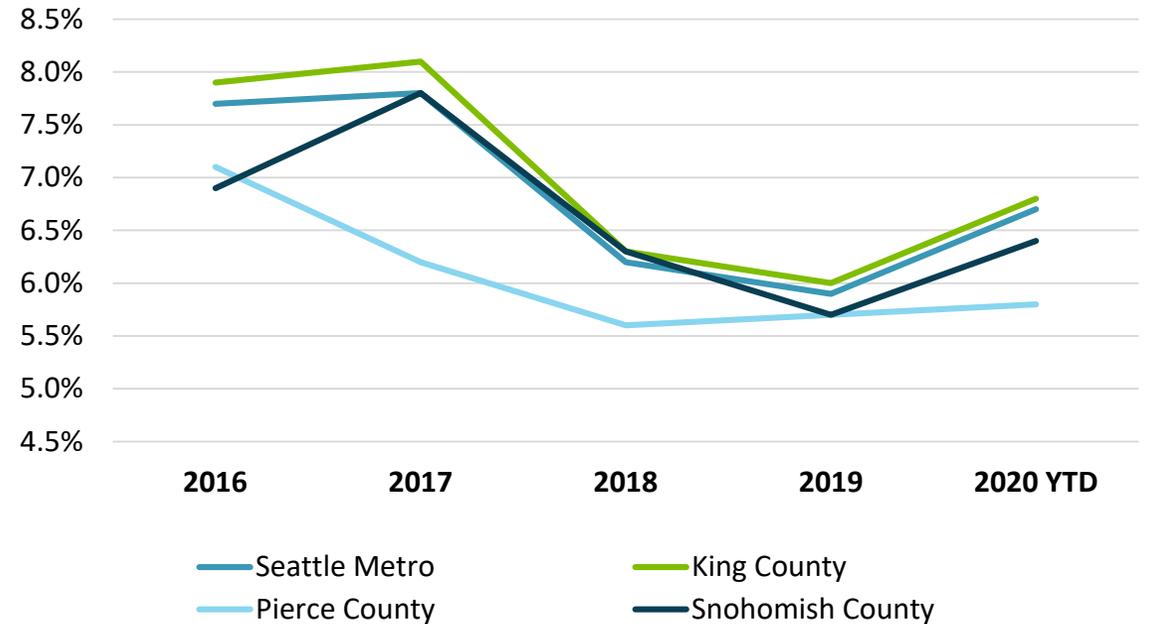
*Avg. Annual NNN rate per square foot

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