



**COMMISSION
AGENDA MEMORANDUM**

Item No. 11a

BRIEFING ITEM

Date of Meeting March 23, 2021

DATE: March 23, 2021

TO: Stephen P. Metruck, Executive Director

FROM: Dave McFadden, Managing Director, Economic Development Division
Kyra Lise, Director, Real Estate & Economic Development

SUBJECT: Real Estate Strategic Plan Update

EXECUTIVE SUMMARY

Staff has worked with Heartland LLC (HTLand) to provide the final update the Port of Seattle's 2020 Real Estate Strategic Plan. The plan delivers a comprehensive roadmap to advance Port Real Estate development efforts over the next five years and provides a framework for contemplating new property acquisitions and partnerships on property development.

Heartland and Port staff will brief the Commission on the work to-date: reviewing the highlights of an analysis of Port-owned property development opportunities. Heartland's report will go over their approach to and focus on how we use the principles of the Century Agenda to contemplate potential future land acquisition strategies, as well as the financing tools to help the Port support real estate development projects.

PROPERTY PLANNING EFFORT

The final recommendations presented at Commission will address certain key questions and issues related to the Port's real estate portfolio:

1. Identify the key properties in the Port's development portfolio and evaluate them against current market trends for industrial property within the Puget Sound region and key Seattle submarkets (Ballard/Interbay and SODO).
2. Provide recommendations to the Commission on principles and strategies that make the best use of Port real estate under a "highest and best use" standard for key Port properties.
 - Identify development objectives and outcomes for each property based on observation and analysis supported by market data and discussion with internal and external stakeholders associated with the planning effort.
 - Update plans, strategies and timelines for each property.
 - Provide specific implementation recommendations that support the Port's ongoing Real Estate acquisition goals in-line with the Century Agenda and portwide initiatives that reflect the new realities for the real estate market due to COVID19.

Meeting Date: March 23, 2021

Properties Being Evaluated

The Economic Development Division has taken a comprehensive look at the Port’s real estate portfolio to determine which sites merit investment. For the RESP report, staff is focusing the real estate strategic plan on every Port property that can support industrial or commercial development. This excludes Seaport Alliance terminals, sites impacted by the SAMP, sites nearing development like T106 and Des Moines Creek West, and several sites which are part of separate processes already underway to support other projects (Pier 2, CEM).

The following properties were evaluated during the strategic planning process:

- Salmon Bay Marina
- Fishermen’s Terminal
- Terminal 91 Uplands
- Pier 69
- Harbor Marina Corporate Center
- World Trade Center West

For a variety of reasons, the following properties will not be evaluated:

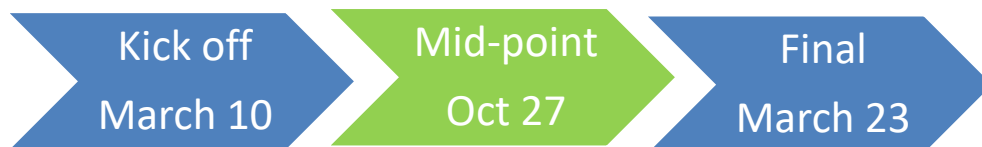
SAMP impacted: 55 acre, L-Shape, 13 acre and SASA

NWSA properties: Terminals 5, 10, 18, 25, 30, 46, 103, 104, 105, 107, 108, 115 and 117

Current/pending RFPs: Des Moines Creek West, CEM, Pier 2 and Terminal 106

Process/Timelines/Milestones

The 2020 strategic planning process included input from an internal advisory committee made up of range of staff from various departments around the Port of Seattle whose work involves working with operating properties at the Port, and detailed conversations with individual staff members where pertinent. In addition, a panel of external advisors including Commissioners Cho and Calkins; Jennifer Maietta, NWSA; Bobby Lee, City of Seattle, OED; Anthony Wright, King County; Thatcher Imboden, Sound Transit; Wilma Warshak and Erwin Park, both private brokers and portfolio managers in the Puget Sound region; Mike Stanley, Expedia’s development manager and Chuck Depew, National Development Council. The external advisors met 3 times, the internal advisors met 3 times as a group and in several independent sessions on specific topics.



Meeting Date: March 23, 2021

This is the third and final of the three Commission briefings that have been scheduled during the planning effort.

The strategic planning effort also included:

- Weekly consultant check-in meetings
- 3 Internal advisory committee meetings
- Individual 1:1 interviews and 100% participation of Internal Advisory Committee members
- 3 External Advisory Committee Meetings
- Data requests and follow up interviews with asset management and other Port staff
- Compilation and analysis of asset specific data
 - o Portfolio level Lease expiration Analysis from rent roll data
 - o Asset Specific and Portfolio Financial analysis and Modeling
- Initial existing conditions assessment, market analysis and site mapping update for 2020 assets, and any new additions to the RESP
- Development of property evaluation principles in line with the Century Agenda
- Development of an evaluation matrix using these principles to allow staff and stakeholders to quickly evaluate prospective properties for potential acquisition and development by the Port of Seattle
- A framework for discussions about financing real estate development at the Port of Seattle

BACKGROUND

Successful real estate development initiatives can help support the Century Agenda and top Port goals:

- Grow as an international logistics hub.
- Sustain fishing, cruise and other maritime industries.
- Advance equitable economic development.
- Enhance and protect industrial lands.
- Advance sustainability and energy efficiency.

Heartland has proposed a set of guiding principles to direct the Port staff's effort to realize the benefits of proactive real estate investment decisions on existing Port properties. These principles are derived both from existing strategic documents and frameworks, as well as foundational Port practices when it comes to the use and development of real estate. These principles are:

Manage for the Mission: Setting clear objectives and goals for each property and development project established in close connection to the Century Agenda and the Port's operational

Meeting Date: March 23, 2021

missions, as well as larger strategic frameworks more recently established such as sustainability and equity principles.

Leverage Expertise: Whenever possible, identify opportunities to realize multiple Port policy objectives within our real estate development and investment efforts to enhance the impact of our leadership in areas where we have the greatest expertise.

Partner to Amplify Impact: In this time of declining revenues and economic adjustment look outside the Port to find financial and policy partners to support our real estate objectives so we can maintain the positive momentum we've gained delivering on Real estate development projects in recent years.

Part of our mission criteria is the growth of the Port of Seattle Real Estate portfolio. With a refined Century Agenda, the following objectives will enable the critical analysis of prospective properties to take place.

1. Advance NWSA competitiveness
2. Advance SEA competitiveness and/or efficiency
3. Advance maritime industries and/or protect industrial lands
4. Enhance and/or protects Port properties/operations
5. Advance Port energy and sustainability goals
6. Advance equitable economic development
7. Meet Port's financial objectives

In addition to these guiding principles, Heartland has developed a simple classification framework that allows us to consider properties according to the strategic role that may play towards realizing Port goals and support a method of priority setting for real estate projects. Those categories are:

Operational properties: Properties whose primary role is to support Port operations or to optimize operational capacity for the Port and its industry partners and tenants.

Cashflow properties: Properties whose purpose is to generate **net** cash flow in order to reinvest in other key priorities of the Port.

Opportunity properties: Properties with underrealized market or mission value generally on underdeveloped Port land.

This classification framework recognizes that properties usually represent a hybrid of two or more of the types and that property classifications can and do change over time. Having a

Meeting Date: March 23, 2021

classification framework will allow us to develop appropriate evaluation metrics to determine if we've met our objectives.

Using this succinct framework, Heartland provides profiles for each of the seven properties analyzed for this plan along with a set of strategic recommendations for each based on the principles noted earlier for each of the properties.

Fishermen's Terminal: Following on the Commission's 2016 Strategic Plan for Fishermen's Terminal (FT), Heartland notes the important operational role the property has played historically and continues to play as the homeport of the North Pacific Fishing fleet and those enterprises that support the fleet. The profile is based on a thorough review of FT's existing building's overall operational and financial performance, while looking at the real estate development opportunities considering current market conditions, including the COVID19 crisis which has disrupted the conventional wisdom about real estate generally and industrial development.

Salmon Bay Marina: Adjacent to FT and the Port's most recent acquisition (2017), the profile considers the opportunities to connect uplands development to in-water uses and expanding the footprint of operations at FT.

T91 Uplands: Development of light industrial buildings is underway, and the property can support more development to support maritime industries with additional infrastructure investments. These facility investments recognize the key role the T91 Uplands has played for maritime operations and points to strategic opportunities the property plays for the future of maritime industrial development.

Harbor Marine Corporate Center (HMCC): While a successful Marina operation continues on the waterside, HMCC's value with its location directly under the West Seattle Bridge has been greatly impacted by the bridge's recent structural failure, as well as a high level of vacancy. The building's operational and financial future is intimately tied to the health of the bridge. Recommendations are made to consider selling or repositioning this property to serve public users working on the bridge itself.

World Trade Center West (WTCW): WTCW was a significant property for the Port's vision for establishing an international business hub along the Seattle waterfront and symbolic of the significant role the Port has played in international trade. Today the office building has been impacted by both slow growth during a period of heavy construction at the central waterfront and the COVID economy. Recommendations include reviewing the continued relevance to current Port missions and operations and consideration of whether the property should be marketed.

Pier 69: The much beloved Pier 69 has served as the Port headquarters since 1993 and represents a major investment by the Port in the City's waterfront revitalization, as well as serving as an important depot for the West Coast Clipper fleet on the waterside. Recommendations are to

Meeting Date: March 23, 2021

consider how continued teleworking post-COVID may impact the need for Port-used office real estate and open the conversation about adding additional tenants, along with the reconsideration of the now vacant Clipper Café space.

ATTACHMENTS TO THIS BRIEFING

- (1) Presentation slides (Real Estate Strategic Plan - Deliverable)

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

March 10, 2020 – The Commission was briefed on the Real Estate Strategic Plan.

October 27, 2020 – AM Study Session – Real Estate Strategic Plan Update Mid-Year.