



**COMMISSION
AGENDA MEMORANDUM**

Item No. 8c

ACTION ITEM

Date of Meeting January 22, 2019

DATE: January 15, 2019

TO: Stephen P. Metruck, Executive Director

FROM: Jeffrey Utterback, Director Real Estate and Economic Development
Tim Leonard, Capital Project Manager

SUBJECT: Fishermen’s Terminal (FT) Redevelopment Phase I (CIP #C800525)

Amount of this request: \$1,800,000

Total estimated project cost: \$23,000,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to (1) authorize an additional \$1,800,000 in design funding for Fishermen’s Terminal (FT) Gateway Building improvements, and (2) execute an amendment to the existing Architectural/Engineering Services contract for Fishermen’s Terminal Redevelopment for \$1,000,000 to complete the final planning, design and permitting of the Gateway Building and associated FT facility improvements. This brings the total authorization to date to \$6,250,000, out of an estimated project cost of \$23,000,000.

EXECUTIVE SUMMARY

The FT Long-Term Strategic Plan was developed by the Port in 2016 in order to leverage maritime/fishing/boating activities and related maritime industries located at the facility. The additional design funds requested will enable the completion of 100% design for the following FT Redevelopment Phase I elements:

- New “Gateway” Building (in the area of the existing vacant bank building and Net Sheds 7 & 8) providing a minimum of 60k SF of new light industrial space for complementary maritime businesses. We are targeting a LEED Certification for the proposed building.
- General associated FT facility improvements including parking restriping, lighting upgrades, wayfinding signage, and new public interpretive displays.
- Improvements to public streets contiguous to FT as required by the City of Seattle.

The “Gateway” building and associated improvements are funded in the 2019-2023 Capital Improvement Plan.

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JUSTIFICATION

The FT Long-Term Strategic Plan, and the associated proposed FT Gateway Building, support the following Economic Development Division and Maritime Division goals developed in conjunction with a Port conducted stakeholder outreach program:

1. Improve overall financial returns that fulfill Port of Seattle commitments to the industry and taxpayers.
2. Continue to grow the economic value of the fishing and maritime cluster including the number of local jobs and business revenue.
3. Prioritize uses that support the commercial fishing industry, with a focus on anchoring the North Pacific fishing fleet.
4. Prioritize development that maximizes utilization of facility assets.
5. Recognize and enhance FT as a living community landmark.

Additionally, the homeporting of the fishing fleets at FT relies on an extensive network of suppliers and trades in the area that are having an increasingly difficult time finding and retaining acceptable light industrial space near their customers at FT. The FT Long-Term Strategic Plan, and its associated Gateway Building project, will support the following five planning concepts developed from FT stakeholders' input and an associated economic cluster study performed by the Port:

1. Develop new light industrial space
2. Draw more public to the terminal and enhance the public's experience while maintaining the overall industrial character of the terminal
3. Expand on FT's role in workforce development
4. Protect precious ground plane for industrial uses
5. Develop new parking management tools

More specifically, the study that was done as part of the FT Long-Term Strategic Plan concluded that there is a limited supply of industrial property in Seattle in general, and Ballard Interbay in particular, resulting in rising rents and building sale prices. The Port is in a position to relieve some of this pressure while supporting the fleet and the maritime industrial sector by developing additional industrial space at and around Fishermen's Terminal.

The Ballard Interbay industrial submarket, which includes Fishermen's Terminal, has an extraordinarily low vacancy rate of 0.6% at the end of 3Q2015, below the Puget Sound industrial real estate market vacancy rate of 4.9%, and far below the national average of 6.7%. As late as 3Q2018, the Ballard Interbay industrial submarket vacancy rate is 1.9% and the Puget Sound vacancy rate now at 3.5%.

The report also noted that the tenant profile for this space is made up of suppliers and vendors that prefer light industrial facilities with a warehouse/shop area, office space, and either grade-level or dock-high loading capabilities. Of the suppliers polled, the median facility requirement

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was 5,000 square feet, and the largest was over 110,000 square feet. On a very regular basis, Port staff are contacted by similar type companies inquiring about space at both FT and T91.

Unlike other asset classes, industrial development does not lend itself to pre-leasing, except in very specific situations that usually result in a Build-to-Suit arrangement. The types of tenants that will occupy the Gateway Building will be smaller, locally based, single-locations businesses that are looking to upgrade or enlarge from their current locations. Nearly all light industrial developments initiate construction on a spec basis with no tenant agreements in place. This is for a few reasons and relevant to this development –

- Smaller tenants can't/don't want to commit to a lease with a long lead schedule
- The buildings are simple and without tenants the design and construction is quicker
- Pre-leasing results in lower rents overall and greater tenant concessions

We would estimate that we have contact with potential tenants with space needs that would fill the Gateway Building several times over. Within the Seattle industrial areas, particularly in the Ballard Interbay sub-market, there has been almost no new development since the early 1970's. Due to this fact, as well as incremental gentrification, vacancy for industrial properties is continues to drop and rents are at an all-time high.

Seattle manufacturing and light industries want to grow, but low vacancy and even higher rents limit opportunities. Small businesses that focus on the fishing and maritime opportunities have struggled to find or keep acceptable space in order to operate and serve this vital industry. In order to meet this demand, our strategy is to take advantage of our own existing property and develop new light industrial facilities on the working waterfront at Fishermen's Terminal.

The project manager will work with the Director of Diversity in Contracting to determine potential women and minority business participation opportunities, in accordance with the terms of Resolution No. 3737. The requirement of a project labor agreement will be determined as well in coordination with Labor Relations.

DETAILS

The proposed FT Gateway Building replaces the existing on-site former bank building and Net Sheds 7 & 8 with a new light industrial building and associated site improvements. This project is in accordance with the Port's FT Long-Term Strategic Plan objectives to add maritime related businesses to FT, better enable the facility to serve the maritime industry, and improve its economic viability.

Total project cost for the proposed Gateway Building is currently estimated to be \$23,000,000 and funding for its budget has been included in the Port's 2019 Plan of Finance.

Since the initial design effort at FT began in 2016, the vacancy rates within the industrial sector in the Interbay have remained less than 2% and show no signs of relief. The lack of acceptable

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space for businesses operating in this sub-market (Ballard-Interbay) is under constant threat of gentrification. By taking advantage of our existing FT asset and developing new light industrial space, the Gateway Building will be able to provide modern, well-designed and constructed spaces to many of the small companies currently doing business in this area, much of it at FT already.

Since the initial start of the redevelopment process, approximately \$1,450,000 has been spent to date for planning, permitting and design in conjunction with the FT Redevelopment program and the following has been completed:

- State Environmental Policy Act (SEPA) review completed for the Fishermen’s Terminal Redevelopment program encompassing the anticipated site preparation work, construction, and operational impacts from the originally proposed Gateway Building, West Wall Building I, West Wall Gear Storage Improvements, and Seattle Ship Supply Building projects (100%)
- Facility master planning: relevant as the initial design fee request was not based on specific building but an overall concept. The master planning process needed to occur in order to understand the site opportunity (90%)
- In-water permit for West Wall Stormwater Outfall Improvements issued by tribes and multiple regulatory agencies (100%)
- Demolition permit for bank building and Net Sheds 7 & 8 issued by City of Seattle
- Relocation of Net Sheds 7 & 8 tenants (100%)
- Bid documents for demolition of existing bank building and Net Sheds 7 & 8 (90%)
- New Gateway Building design for previous Build-to-Suit maritime tenant (30%) - although this deal was not finally completed, the work done to date is still largely valuable and a significant portion of this will be re-used going forward
- Existing Ship Supply Building renovation design (30%)
- New West Wall I Building design (30%)
- West Wall open gear storage improvements design (30%)
- 21st Avenue West public street improvements design (15%)
- Port outreach effort with stakeholders (30%)

Final planning and design of the Gateway Building and related facility and public streets improvements will begin immediately after Commission approval of the requested additional design funding. This effort will require some redesign of the previously completed Gateway Building 30% design as noted. Upon completion of the planning and design work, the following additional scope elements will be fully completed:

- Facility master planning (current and future elements included)
- Bid documents for demolition of existing bank building and Net Sheds 7 & 8
- New Gateway Building design
- 21st Avenue West public street improvements design (if required)

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- Design outreach effort with stakeholders by Port

Miller Hull Partnership, LLC, the design consultant currently under contract for the FT Redevelopment program, will perform these services and complete full construction bid documents from their current level. The proposed contract amendment amount for this work is \$1,000,000 which will increase Miller Hull’s FT planning and design services contract to \$2,500,000 total.

Scope of Work

FT Gateway Building site improvements are anticipated to include, but are not necessarily limited to, the following:

1. Demolition and disposal of existing bank building and Net Sheds 7 & 8
2. Construction of new Gateway Building
3. Removal and replacement of associated on-site utility systems
4. Installation of stormwater treatment and management system(s)
5. Removal and replacement of on-site roadway and parking lot pavement
6. Upgrading of wayfinding signage, lighting, landscaping, provision of new public interpretive displays, and on-site parking management as applicable
7. Improvements to public streets contiguous to FT as required by the City of Seattle
8. Implementation of applicable environmental best management practices

Estimated Schedule

Activity

Commission design authorization (initial design)	2016 Qtr 4
Design start (initial design)	2017 Qtr 1
Commission construction authorization	2020 Qtr 2
Construction start	2020 Qtr 4
In-use date	2022 Qtr 3

Cost Breakdown

	This Request	Total CIP
Design/Permitting	\$1,800,000	\$4,800,000
Construction (to date: demolition of bank and net sheds 7 & 8)	\$0	\$18,200,000
Total	\$1,800,000	\$23,000,000

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Suspend completion of FT Gateway Building design

Pros:

- (1) Retains Port capital for other priority projects and financial initiatives

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- (2) Avoids temporary construction impacts to existing fishing and upland tenant business operations.
- (3) Retains use of Net Sheds 7 and 8 for on-site covered storage

Cons:

- (1) Suspended implementation of FT Long-Term Strategic Plan objectives of supporting fishing and maritime clusters.
- (2) Will delay improvement of long-term financial viability of FT.
- (3) Potential loss of new major maritime business tenant(s) at FT.
- (4) Will postpone the addition of needed light industrial space in the Ballard Interbay area FT in an escalating price environment.
- (5) Defer the replacement of existing vacant and dilapidated bank structure with new building asset at site entrance.
- (6) Delay the implementation of more efficient parking program.
- (7) Postpone the enhancement of public awareness and enjoyment of FT.

This is not the recommended alternative.

Alternative 2 – Approve remaining FT Gateway Building Design Funds

Pros:

- (1) Implementation of FT Long-Term Strategic Plan objectives of supporting fishing and maritime clusters.
- (2) Improvement of long-term financial viability of FT.
- (3) Addition of major maritime business tenant(s) at FT.
- (4) Replacement of existing vacant and dilapidated bank structure with new building asset at site entrance.
- (5) Addition of needed light industrial space in the Ballard Interbay area at FT.
- (6) Improvement of on-site parking.
- (7) Enhancement of public awareness and enjoyment of FT as Seattle amenity.
- (8) The property would support the creation of hundreds of new jobs in the maritime/manufacturing sector.

Cons:

- (1) Requires major Port investment of funds over shorter term.
- (2) Requires demolition of Net Sheds 7 and 8 and existing vacant bank.
- (3) Creates temporary construction impacts to existing fishing and tenant business operations.

This is the recommended alternative.

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FINANCIAL IMPLICATIONS

Cost Estimate/Authorization Summary

	Capital	Expense	Total
COST ESTIMATE			
Original estimate	\$0	\$0	\$0
AUTHORIZATION			
Previous authorizations	\$4,325,000	0	\$4,325,000
Current request for authorization	\$1,800,000	0	\$1,800,000
Total authorizations, including this request	\$6,125,000	0	\$6,125,000
Remaining amount to be authorized	\$16,875,000	\$0	\$16,875,000

Annual Budget Status and Source of Funds

This project was included in the 2019 Plan of Finance under CIP #800525 “FT Strategic Plan” with a total project cost of approximately \$23,000,000.

This project will be funded by the Tax Levy.

Pre-Design Financial Analysis and Summary

Project cost for analysis	\$23,000,000
Business Unit (BU)	Maritime Portfolio Management
Effect on business performance (NOI after depreciation)	The new building, when complete, will provide incremental leasing revenue and potentially higher lease rates for existing buildings at FT. Estimated stabilized net operating income for the project is expected to be approximately \$1.5M per year (including depreciation).
IRR/NPV (if relevant)	NPV: (\$8.7M) IRR: 5.5-6%
CPE Impact	N/A

Future Revenues and Expenses (Total cost of ownership)

To be updated once a final design is proposed for Commission approval.

ATTACHMENTS TO THIS REQUEST

- (1) FT Gateway Building PowerPoint

PREVIOUS RELATED COMMISSION ACTIONS OR BRIEFINGS

- September 26, 2017 – The Commission authorized \$1,325,000 construction funding for the demolition of the existing bank building and Net Sheds 7 and 8. This work has not

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yet been advertised for bids, per direction by the Commission, pending finalization of a Gateway Building tenant lease agreement.

- December 13, 2016 – The Commission authorized \$3,000,000 for initial planning and design. The total preliminarily estimated FT Redevelopment design cost was \$7,000,000.
- May 17, 2016 - Commission received a briefing on the planning strategies comprising the Fishermen’s Terminal Long-Term Strategic Plan.
- October 27, 2015 - Commission received a briefing about the progress of the stakeholder outreach program for the Fishermen’s Terminal Long-Term Strategic Plan.
- August 11, 2015 - Commission received a briefing on the proposed scope and goals in advance of the launch of the planning process.