



**COMMISSION  
AGENDA MEMORANDUM**

**Item No.** 8e

**ACTION ITEM**

**Date of Meeting** February 26, 2019

**DATE:** February 19, 2019

**TO:** Stephen P. Metruck, Executive Director

**FROM:** Dave McFadden, Managing Director Economic Development  
Tim Leonard, Capital Project Manager

**SUBJECT:** Terminal 91 (T-91) Uplands Development Phase I (CIP #C800158)

**Amount of this request:** \$4,000,000

**Total estimated project cost:** \$39,000,000

**ACTION REQUESTED**

Request Commission authorization for the Executive Director to execute contracts for overall master planning, environmental review, permitting, and Phase I Design services in an amount not to exceed \$4,000,000, in support of the Port's development of the T-91 Uplands area located north of the Magnolia Bridge. This brings the total authorization to date to \$4,300,000, including \$300,000 previously authorized, of an estimated total Phase I project cost of \$39,000,000.

**EXECUTIVE SUMMARY**

The Port's Real Estate Development Department is proposing to construct two 50,000 square foot light industrial buildings to support maritime manufacturers and fishing industry suppliers in the Ballard Interbay Manufacturing Industrial Center ("BINMIC").

These facilities were proposed within the Port's 2016 Real Estate Strategic Plan. It recommended constructing approximately 700,000 square feet of new maritime light/flex industrial building space on the T-91 Uplands area north of the Magnolia Bridge.

Based on a follow-up T-91 infrastructure study completed in January 2018, new light industrial facility development would unfold over the next 10-15 years in two phases (refer to accompanying PowerPoint). Phase I of the T-91 Uplands Development, located in the northeast corner of the T-91 property, will enable development of approximately 100,000 square feet to be built with minimal infrastructure investment by the Port.

The buildings proposed in Phase I will initially target current T-91 tenants and other maritime customers who have expressed interest in expanding their current operations on the property. The requested Phase I design funds will enable the completion of the following work:

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- Development and approval of Major Phased Development Plan covering both proposed T-91 Uplands Development phases
- Environmental review and community outreach for the Major Phased Development Plan
- Detailed site survey of entire T-91 Uplands area
- Preliminary T-91 Uplands area infrastructure design connected to the Major Phased Development Plan
- Full construction design of Phase I buildings and associated site improvements including necessary T-91 Uplands area stormwater management upgrades to become fully compliant with Port and City of Seattle code requirements

The T-91 Uplands Development project is funded in the 2019-2023 Capital Improvement Plan.

### **JUSTIFICATION**

The T-91 Uplands Development supports and aligns with the Port's Century Agenda goal to double the economic value of the fishing and maritime cluster:

The development project also supports 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.

Additionally, the homeporting of the fishing fleets at Port of Seattle facilities including T-91 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. The T-91 Uplands Development project will support the following planning concepts developed from Port fishing industry stakeholders' input as well as an associated economic cluster study performed by the Port:

1. Develop new light industrial space
2. Expand on the Port's role in workforce development
3. Protect precious land for industrial uses

Studies previously completed by the Port and others within the fishing and maritime clusters have determined that there is currently a limited supply of industrial property in Seattle in general, and Ballard Interbay in particular, resulting in rising rents and building sale prices. The

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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 Terminal 91.

The Ballard Interbay industrial sub-market, which includes Terminal 91, has an extraordinarily low vacancy rate of 0.6 percent at the end of 3Q 2015, well below the Puget Sound industrial real estate market vacancy rate of 4.9 percent, and far below the national average of 6.7 percent. As late as 3Q 2018, the Ballard Interbay industrial submarket vacancy rate is 1.9 percent and the Puget Sound vacancy rate now at 3.5 percent. The lack of acceptable space for businesses operating in this sub-market (Ballard Interbay) is under constant threat of gentrification. By taking advantage of our existing Terminal 91 asset and developing new light industrial space, the proposed Phase I buildings will be able to provide modern, well-designed and constructed spaces to many of the small companies currently doing business in this area.

The tenant profile for the proposed Phase I buildings 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 was 5,000 square feet, and the largest was over 110,000 square feet. On a very regular basis, Port staff is contacted by similar type companies inquiring about space at both Fishermen's Terminal and T-91.

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 proposed T-91 Uplands area buildings will be small and medium sized multi-national operations where the local branch is looking for space to upgrade or enlarge their existing maritime business 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 proposed T91 Uplands buildings 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 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 including Terminal 91.

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***Diversity in Contracting***

In association with this effort, the project manager will work with the Diversity in Contracting Department to determine potential women and minority business participation opportunities and will set WMBE aspirational goals. The applicability of a project labor agreement will be determined as well in coordination with Labor Relations.

The Port is considering issuing two contracts. The first contract is for consulting services related to master planning for T-91 uplands (all phases) and design services related to Phase 1 work. The second contract is for environmental review and permitting. Future design work associated with Phase 2 will be procured separately.

**DETAILS**

The T-91 Uplands Phase I development will create up to 100,000 square feet of new flex industrial building space at the northeast corner of the T-91 Uplands area by taking advantage of connecting to an existing off-site Seattle Public Utilities (SPU) sewer system that is located approximately 50-feet north of T-91's north property boundary. The maximum available capacity in this sewer is the equivalent of the discharge produced by approximately 100,000 square feet of typical industrial building usage.

Based on the Port's 2018 T-91 Infrastructure Study, all other required on-site utility services for the proposed Phase 1 buildings, including water, storm drainage, electrical power, gas, and communications, are planned to be extended from the applicable existing on-site utility systems. A stormwater treatment system to serve the Phase I area, currently non-existent at T-91, will be installed as required to meet the Port's and City of Seattle's stormwater code.

***Scope of Work***

T-91 Development Phase I site improvements are anticipated to include, but are not necessarily limited to, the following:

1. Removal and replacement of associated on-site utility systems
2. Installation of stormwater treatment system
3. Removal and replacement of on-site roadway and parking lot pavement
4. Construction of new buildings totaling approximately 100,000 SF
5. Upgrading of facility signage, lighting, and landscaping as required
6. Improvements to off-site public streets as required by the City of Seattle
7. Implementation of applicable environmental best management practices

**MAJOR PHASED DEVELOPMENT PLAN**

The Port is requesting funds for design, review and permitting for a Major Phased Development Plan (MPDP) through the Seattle Department of Construction and Inspection (SDCI). A MPDP is a unique permitting vehicle under the Seattle land use code, which allows for one land use

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permit to cover multiple development projects on one large site phased over time. A major phased development authorizes construction up to 15 years after the permit is issued.

The MPDP provides flexibility for the Port in planning, design, and construction. The Port will work in partnership with the City of Seattle and neighboring community members on completing a comprehensive environmental review for this project. Similar recent MPDP developments include the Expedia campus in Interbay, the Bill and Melinda Gates Foundation headquarters, and proposed development at University Village.

The MPDP will include all of Phase I and Phase 2 development. Phase I will contain up to 100,000 SF of light industrial buildings and Phase II can accommodate up to 300,000 SF of light industrial space. The Infrastructure Study also concluded that there is the potential for a Phase III that would fully develop the remaining open space on the uplands including up to 600,000 SF of light industrial space. At this initial step, we are only proposing to include Phase I & II in the MPDP and evaluate the need for any more development once this 400,000 SF is constructed and occupied.

The cost of the infrastructure for Phases 1 and 2 comes in at less than \$6M in total. The final Phase III requires more than a \$28 million infrastructure investment in order to achieve the final additional 600,000 SF of space. The initial two phases should take 10-15 years of Port development in order to match the velocity of the market take-up in this sub-market for this type of space. Should the market turn and lease rates rise significantly, the Port should revisit Phase III, but only after seeing significant real demand. In the meantime, the western portion of Terminal 91 Uplands can continue to support critical lay-down areas and parking needed by maritime operations.

Procurement of an Architectural/Engineering design team for the project will begin with the creation and advertisement of a Request for Qualifications immediately after Commission approval of the requested additional design funding. The selected consultant team will perform the necessary design services and complete full construction bid documents under a project specific contract with the Port.

### ***Community Outreach and Communications***

In addition to environmental review, a robust communications and outreach plan will keep stakeholders informed about the schedule, design scope and impacts of the proposed development. Outreach will provide opportunities for a wide range of stakeholders to offer input including residents in neighboring communities, current T-91 tenants, business and maritime industry organizations, and the Port's Neighbor's Advisory Committee. In addition, liaison work will continue with transportation planning teams from the City of Seattle, METRO Transit and Sound Transit to ensure awareness and coordination between projects.

The outreach effort will utilize a number of communications tools including a project kick-off event to inform stakeholders and to understand community and industry issues early in the

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project. The project team will establish an online open house and project email address to ensure continued dialogue throughout the project. Updates also will be provided via media outreach and open houses, along with project updates at industry, business and community meetings.

***Estimated Schedule***

*Activity*

Commission design authorization (initial design)	2019 Qtr 1
Development of Major Phased Development Plan Complete	2019 Qtr 4
Environmental Review of MPDP Complete	2020 Qtr 2
Approval MPDP by SDCI	2020 Qtr 4
Commission construction authorization Phase 1	2021 Qtr 2
Construction start	2021 Qtr 4
In-use date	2023 Qtr 3

<i>ok</i>	This Request	Total CIP
Design/Permitting	\$4,000,000	\$4,300,000
Construction	\$0	\$34,700,000
Total	\$4,000,000	\$39,000,000

**ALTERNATIVES AND IMPLICATIONS CONSIDERED**

**Alternative 1 – Do Nothing – Pass on T-91 Uplands Development Program**

Cost Implications: Loss of potential generated revenue

Pros

- (1) Retains Port capital for other priority projects and financial initiatives
- (2) Avoids temporary construction impacts to existing T-91 upland tenant business operations
- (3) Retains current availability of T-91 uplands for on-site open storage

Cons

- (1) Missed opportunity to achieve Port objectives of supporting fishing and maritime clusters
- (2) Missed opportunity for improving long-term financial viability of T-91
- (3) Missed opportunity to add major maritime business tenants at T-91
- (4) Missed opportunity to add needed light industrial space in the Ballard Interbay area at T-91
- (5) Missed opportunity to replace existing aging storm sewer system with effective stormwater management system, including water quality treatment, at T-91 in full compliance with Port and City of Seattle standards

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- (6) Missed opportunity to improve existing water, sanitary, lighting, electrical, communications, and traffic related infrastructure at T-91

This is not the recommended alternative

**Alternative 2** – Develop T-91 Uplands on a more limited building-by-building basis

Cost Implications: Reduced “economy of scale” cost benefit due to more segmented phasing

Pros:

- (1) Creation of multiple building projects will provide additional opportunities for consulting firms to compete for work
- (2) Construction impact to existing T-91 upland tenant business operations may be more limited at any given time
- (3) The property would support the creation of hundreds of new jobs in the maritime/manufacturing sector

Cons:

- (1) Requires major Port investment of funds
- (2) Requires an increase in costs due to increased number of consultant procurements and multiple construction mobilizations
- (3) Requires additional staff time and cost to manage multiple individual design and construction efforts
- (4) Creates a longer-term, constant, and disruptive construction impact to existing upland tenant business operations due to multiple construction starts and extended overall duration
- (5) Requires consultant firms to spend form time and money responding to individual project based contracts and procurements

This is not the recommended alternative.

**Alternative 3** – Development of T-91 Uplands in two phases

Cost Implications: Results in greatest cost efficiency due to combination of reduced Phase I infrastructure investment and “economy of scale” of multiple buildings being constructed

Pros:

- (1) Achieves Port objectives of supporting fishing and maritime clusters
- (2) Improves long-term financial viability of T-91
- (3) Adds major maritime business tenants at T-91
- (4) Adds needed light industrial space in the Ballard Interbay area at T-91
- (5) Provides a flexible city-approved development plan for phased construction over 15 years to meet market demand
- (6) Provides long-term cost savings due to economy of scale derived from larger (more consolidated) design and construction efforts

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- (7) Replaces existing aging storm sewer system with effective stormwater management system, including water quality treatment, at T-91 in full compliance with Port and City of Seattle standards
- (8) Improves existing water, sanitary, lighting, electrical, communications, and traffic related infrastructure at T-91
- (9) 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 reduction of existing area available for on-site open storage
- (3) Creates temporary construction impacts to existing T-91 upland tenant business operations

***This is the recommended alternative.***

**FINANCIAL IMPLICATIONS**

***Cost Estimate/Authorization Summary***

	Capital	Expense	Total
<b>COST ESTIMATE</b>			
Original estimate	\$39,000,000	\$0	\$39,000,000
<b>AUTHORIZATION</b>			
Previous authorizations	\$300,000	0	\$300,000
Current request for authorization	\$4,000,000	0	\$4,000,000
Total authorizations, including this request	\$4,300,000	0	\$4,300,000
Remaining amount to be authorized	\$34,700,000	\$0	\$34,700,000

***Annual Budget Status and Source of Funds***

This project was included in the 2019 Plan of Finance under CIP800158 T-91 Uplands Development with a total project cost of approximately \$39,000,000.

This project will be funded by the Tax Levy.

***Pre-Design Financial Analysis and Summary***

Project cost for analysis	\$39,000,000
Business Unit (BU)	Real Estate Development
Effect on business performance (NOI after depreciation)	The new buildings, when complete, will provide incremental leasing revenue at T-91. 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

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**ATTACHMENTS TO THIS REQUEST**

- (1) T-91 Uplands Development Design Funding PowerPoint slide presentation

**PREVIOUS COMMISSION ACTIONS OR BRIEFINGS**

November 27, 2018 – Commission approved 2019 Capital Budget and Plan of Finance including T-91 Uplands Development.

October 25, 2016 – Commission received a briefing about the Real Estate Strategic Plan including the T-91 Uplands Development project.