

Community and Economic Value of the North Lot Project

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"Helping Communities and Organizations Create Their Best Futures"

About the Report

The following assessment on the economic and community value of the North Lot redevelopment is our independent assessment of how the proposed project would support the larger neighborhood, City, and State goals around economic development and sustainable growth. In preparing this report for Daniels Real Estate, BERK used the 2008 Washington State Input/Output to estimate direct, indirect, and induced jobs stemming from construction and occupancy of the North Lot redevelopment. All figures are in 2011 dollars. Much of the information on the neighborhood context draws on our experience working with the City of Seattle's Office of Economic Development and a Pioneer Square Revitalization Committee on the development of *Pioneer Square 2015: A Strategy for Seattle's First Neighborhood*.



2025 First Avenue, Suite 800
Seattle, WA 98121

www.berkconsulting.com

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PROJECT TEAM

Morgan Shook, Project Manager

Allegra Calder, Lead Analyst

THE COMMUNITY AND ECONOMIC VALUE OF THE NORTH LOT PROJECT

Executive Summary

- Pioneer Square is a **unique asset for the City**. Other Seattle neighborhoods do not have the same combination of history and architecture, and this experience cannot be replicated with new materials in other places in the region. In addition, several large surface parking lots present redevelopment opportunities. However, to date the area has not attracted much new development and investment.
- Current **challenges** in the neighborhood include disorderly conduct on game days, a concentration of social service providers, a disproportionate share (relative to other neighborhoods) of subsidized housing, higher office vacancy rates, and perceptions of poor public safety.
- Successful regional centers will need to provide efficient land use, balancing the needs for housing and industry and providing mobility through transit and opportunities to walk and bike. Of the available options to maintain and increase the region's economic competitiveness, investments that support **transit oriented development** are likely to provide the largest incremental solution to the region's congestion and mobility problems.
- The North Lot development will **generate economic activity** associated with the construction and occupancy of the housing, office, and retail components of the project.
- The \$34 million investment in the planning and construction of the podium would generate an additional \$32 million in indirect/induced activity, bringing the total economic value to approximately \$66 million. The full buildout of the project places a total of \$290 million in economic activity into the local economy. The spending of those dollars by employees and firms contracted to build the project would in turn support an additional \$268 million in economic activity in the state, **bringing the total economic value to approximately \$558 million**.
- The 19,000 square feet of retail space in the podium phase would provide approximately **38 jobs** with the additional **21 jobs** coming from employee and business spending. The entire project would provide space for approximately **1,430 jobs** with over 90% of the jobs in the professional and service industries. The "ripple" effect of these direct jobs would generate demand for an additional **3,540 jobs** in the state.
- There are few sites in the region that can offer the same level of access to amenities such as parks, trails, and waterfront views; and, access to services like transit, quality education, shopping, and entertainment as Pioneer Square. For Seattle to be competitive and successful, **Pioneer Square must be competitive and successful**.
- The North Lot project will add a **significant amount of housing** to the neighborhood that ultimately will improve the quality of the experience in Pioneer Square. The project also **helps improve the region's mobility challenges** by providing more efficient land use. It will do this by planning for dense, mixed-use, transit oriented development in the Seattle downtown core – taking advantage of its proximity to a multimodal transit hub.

INTRODUCTION TO PIONEER SQUARE

Seattle's first downtown, the Pioneer Square neighborhood is a Historic District and home to many architecturally significant buildings. Although the central business district has moved north, Pioneer Square still houses many commercial and office spaces, nightclubs, restaurants, and bars, and has a residential population of approximately 2,000.

The economic fortunes of the neighborhood have waxed and waned over the years. The most recent recession saw several retail businesses depart (though other businesses opened) and media attention that focused on public safety in the area. However, the area is also home to many long-time, locally-owned businesses, technology and gaming companies, and professional service providers.

Pioneer Square is a unique asset for the City. Other neighborhoods do not have the same combination of history and architecture, and this experience cannot be replicated with new materials in other places in the region. In addition, several large surface parking lots present redevelopment opportunities. However, to date the area has not attracted much new development and investment. Apart from economic conditions, building codes in the historic core have limited potential building heights and thus the number of units that could be built making redevelopment less viable for developers.

King Street station is located at the edge of the neighborhood and is a major transit hub for the region. Buses, trains, and streetcars all connect through the station and the Colman ferry dock is not far away. The combination of available land and the transit connections make Pioneer Square a smart location for additional density and new development.

Challenges in the Neighborhood

Housing and Social Services

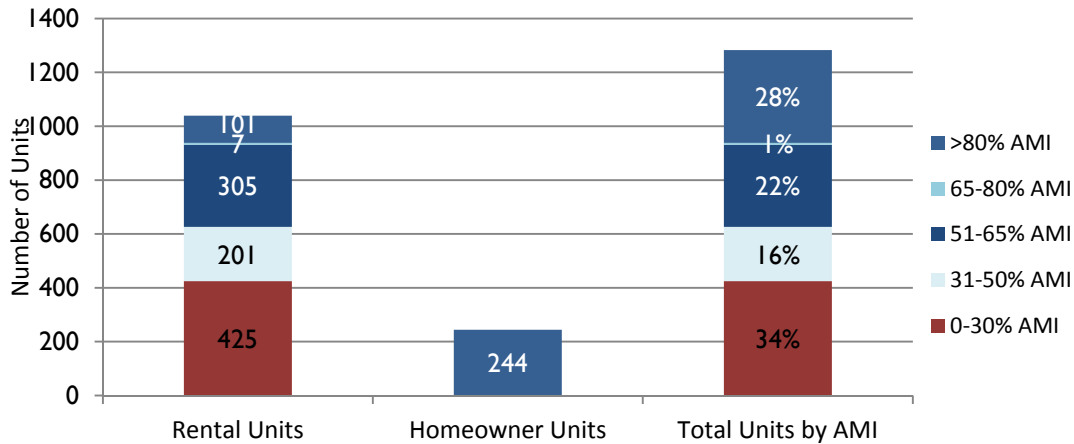
Qwest Field and Safeco Field are both located in the neighborhood. On game days, the area is packed with sports fans, which provides a boost for local businesses. However, the influx of crowds also proves challenging for residents as disorderly conduct is more frequent, there are complaints of late night noise once the bars close down, and traffic congestion increases as game attendees search for parking. On days when there are no scheduled games, this large area made up of several blocks of buildings and parking is quiet with few signs of life.

Residents in the area are committed to improving the economic vitality of their neighborhood, as seen by the recent formation of the Alliance for Pioneer Square. Increasing the number of residents, in particular, those living in market rate units, to shift the balance from a resident population that is majority subsidized to one with a greater mix of incomes is a priority of the Alliance.

According to the 2008 South Downtown Housing Inventory 72% of the 1,283 housing units in Pioneer Square are government funded or subsidized for people earning 80% or less of area median income (AMI). As shown below in Exhibit 1, only 28% of the total units are occupied by residents earning above 80% of the AMI. With 244 owned units, the homeownership rate is 19%, which is below the 49.6% for Seattle as a whole.¹

¹ Data for the City of Seattle comes from the 2005-09 American Community Survey, Occupancy Characteristics.

Exhibit 1 - Pioneer Square Housing Units by Type and Affordability



Source: City of Seattle, South Downtown Housing Inventory, 2008.

In addition to the population living in subsidized units, there is daily population that comes to Pioneer Square to access the many social service providers. While there is support for the services provided and recognition of the tremendous need that exists, many residents and businesses think that with more residents overall, many of the public safety concerns associated with such a large population of homeless and deeply subsidized residents would diminish.² With its Livable South Downtown planning effort, the City of Seattle’s Department of Planning and Development has demonstrated its commitment to encouraging economic growth and new housing through upzones to increase allowable density.

While the crime statistics in Pioneer Square are comparable and in some cases lower than other downtown areas, there does seem to be a perception that the area is unsafe.³ Neighborhood blog, The New Pioneer Square, reported that according to the Seattle Police Department, the Pioneer Square “west” neighborhood, which includes everything west of 2nd Avenue Extension is on par with North Lake Union (Fremont/Wallingford) in terms of major crimes (murder, rape, assault, robbery, burglary, larceny/auto theft) and is generally lower than the rest of downtown Seattle.⁴ Outside of crime, a larger issue for the community, and issue that exists in other parts of the downtown, is the social and commercial disruption stemming from public nuisances in the neighborhood.

Commercial Real Estate

The table below in Exhibit 2 shows the number of buildings and the corresponding square footage for Downtown Seattle overall and its seven submarkets. There are 49 buildings in Pioneer Square that account for 9% of the office space in the Seattle Downtown Area.

² Information about perceptions of public safety from BERK’s work with the City of Seattle’s Office of Economic Development and the Pioneer Square Revitalization Committee in producing [Pioneer Square 2015: A Strategy for Seattle’s First Neighborhood](#).

³ Based on Seattle Police Department, crime statistics from July and December 2010. Available at: http://www.seattle.gov/police/crime/2010_PrecinctCrime.htm

⁴ Pioneer Square has the same major crime stats as Fremont + Wallingford, The New Pioneer Square, March 23, 2010. Available at: <http://www.thenewpioneersquare.com/pioneer-square-crime-stats-fremontwallingford/>

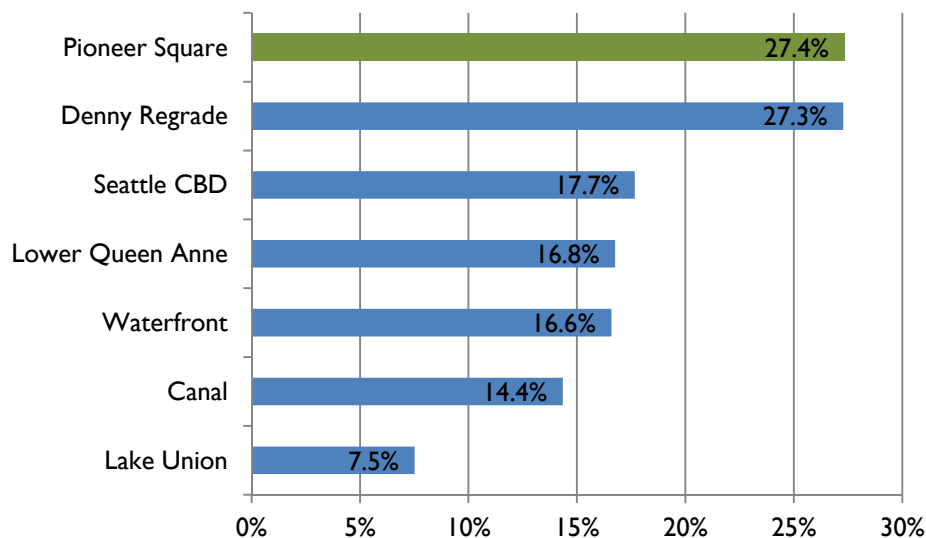
Exhibit 2 – Comparison of Inventory

Market	Buildings	Square Feet	Square Feet %
Seattle CBD	77	20,313,798	48%
Waterfront	31	2,232,173	5%
Pioneer Square	49	3,935,789	9%
Denny Regrade	49	6,935,851	16%
Lower Queen Anne	39	3,049,683	7%
Lake Union	67	4,354,944	10%
Canal	30	1,323,832	3%
Downtown Seattle	342	42,146,070	100%

Source: CB Richard Ellis, Market View, Puget Sound Office - Seattle Insert, Fourth Quarter 2010

As shown in Exhibit 3, Pioneer Square had the highest total vacancy rate (27.4%) for office space in the Downtown Seattle submarkets.

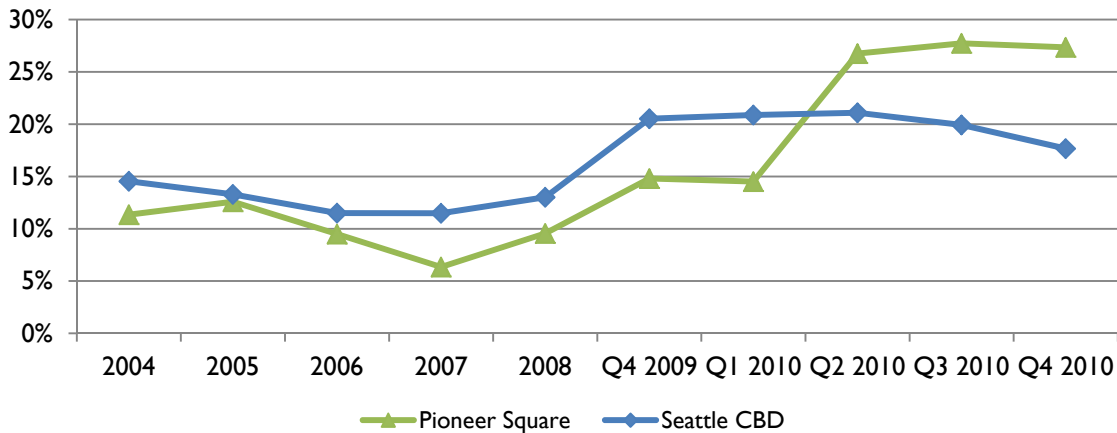
Exhibit 3 – Vacancy Rates by Submarket, Q4 2010



Source: CB Richard Ellis, Market View, Puget Sound Office - Seattle Insert, Fourth Quarter 2010

Per Exhibit 4, after 2007, vacancy rates in Pioneer Square began to rise and then increased sharply between Q1 and Q2 in 2010. The increase in vacancy rates relative to the Seattle Central Business District reflect a smaller margin of error that many businesses in the area face given the current conditions in the local and regional market place. A core market component for neighborhood and community scale retail is the presence of a sizable local of households that can bring with them some level of spending power to support local businesses. Stated another way, the baseline spending power within the neighborhood provides less cover for businesses in Pioneer Square making them more vulnerable to the cycles in the broader economy.

Exhibit 4 – Historical Total Vacancy Rates



Source: CB Richard Ellis, Market View, Puget Sound Office - Seattle Insert, Fourth Quarter 2010

ECONOMIC COMPETITIVENESS AND QUALITY OF LIFE CHALLENGES THE REGION

In an increasingly congested and developed Puget Sound region, a key to long-term economic strength and sustainability will be the availability of sites for basic industries—sites that are supported by a strong urban structure. The state and regional economy is powered by idea-rich clusters around urban centers. These centers are incubators of innovation and growth because they provide the type of close proximity, diversity of experience, and living amenities that are crucial for the sharing of public services, business support services, skilled employees, and knowledge spillovers.

Successful regional centers will need to provide efficient land use – balancing the needs for housing and industry. Further, they will offer a range of mobility options with the requisite level of amenities and public spaces that support a strong community. Concentrated growth in urban centers allows public service providers to use existing and new infrastructure efficiently, and minimizes the environmental impact of growth. This concentrated and dense growth improves accessibility and mobility for walking, biking, and transit.

Transportation and mobility is a major challenge facing the central Puget Sound region. The region is behind in making the transportation investments in automotive, transit, freight, and other modes needed to support a competitive economy that will lead to sustained regional growth. Congestion-driven productivity losses are a drag on the economy that not only impede the ability to move around the region, but also have an impact on quality of life. As the region’s economy continues to be driven by knowledge-based jobs, the deterioration in quality of life can lead to the loss of talented people who have the choice to live and work anywhere.

Transit’s role in solving these issues will be paramount since it is unlikely that investments in road capacity can address the long-term problems posed by increased congestion. While availability and quality of transit service impact the level of roadway congestion, they are also key solutions to its mitigation. Of the available options to maintain and increase the region’s economic competitiveness, investments that support transit oriented development are likely to provide the largest incremental solution to the region’s congestion and mobility problems.

THE ECONOMIC VALUE OF THE NORTH LOT PROJECT

The North Lot development will generate economic activity associated with the construction and occupancy of the housing, office, and retail components of the project. Economic output, job creation, and labor income are separated into 1) one-time impacts related to construction and 2) annual recurring impacts resulting from on-going occupancy and operation of the facilities at steady state.

Economic Value of Construction

Preliminary site design and construction costs estimates for the entire project reach approximately \$300 million in 2011 dollars. Translating this value to spending in construction and related fields (i.e. accounting for land purchases, etc.) brings the cost of the project to approximately \$290 million. Most of this spending is accounted for in the construction industry (\$273 million) with the remainder going to the architecture, planning, real estate services, marketing, and engineering firms (\$17 million). The larger project will be preceded by a “catalytic” podium phase that will set the stage for expansion of the project to include more housing, retail, and office uses.

Economic Output

Exhibit 5 summarizes the economic output of both the podium and complete project.

Exhibit 5 – Economic Output

Economic Output	Podium Phase	Complete Project
Direct Activity	\$34,314,000	\$289,882,000
Indirect and Induced Activity	\$31,919,000	\$268,117,000
Total	\$66,233,000	\$557,999,000

Source: BERK, 2011. All estimates are in 2011 dollars.

The \$34 million investment in the planning and construction of the podium would generate an additional \$32 million in indirect/induced activity, bringing the total economic value to approximately \$66 million. The full buildout of the project place a total of \$290 million in economic activity into the local economy. The spending of those dollars by employees and firms contracted to build the project would in turn support an additional \$111 million in economic activity in the state, bringing the total economic value to approximately \$558 million.

Jobs and Income

Exhibit 6 represents the estimated employment effects associated with the construction of the podium and complete project phases. The spending on planning, engineering, architectural, and other related real estate services before construction would support approximately 35 jobs for the podium phase. Actual construction of the podium phase would support 205 jobs in the construction industry. Combined, the podium phase would support a total of 240 jobs. The “ripple” effect of construction would generate demand for an additional 280 jobs in the state. Of the 280 indirect/induced jobs, a vast majority of those jobs would be concentrated in the local area. Many of the construction workers are drawn from the local labor pool and would spend their income in their communities. The high bulk and associated transportation costs of construction materials necessitates that they be sourced by local firms (concrete, glazing, etc).

Exhibit 6 – Job Creation

Jobs	Podium Phase	Complete Project
Direct	240	1,980
Indirect and Induced	280	2,380
Total	520	4,360

Source: BERK, 2011.

Construction of the entire project would support 1,980 jobs and support the demand for an additional 2,380 indirect/induced jobs (total of 4,360).

A vast majority of these jobs are local, drawing from the local labor supply of the various trades involved in construction. The incomes of the jobs tied to the construction of the project are fairly well-paying. The median household income in Seattle in 2009 was roughly \$59,000 – approximately \$51,500 for the entire US. The labor income tied to the project is summarized in Exhibit 7 and shows the average job from construction estimated to bring \$58,000 per year per worker.

Exhibit 7 – Labor Income

Labor Income	Podium Phase	Complete Project
Direct	\$13,893,000	\$115,852,000
Labor income/Job	\$57,900	\$58,500
Indirect and Induced	\$11,819,000	\$99,176,000
Labor income/Job	\$42,200	\$41,700
Total	\$25,712,000	\$215,028,000

Source: BERK, 2011.

By any measure, the construction industry has suffered disproportionately since the beginning of the recession in late 2007. Between 2007 and 2009, construction firms in Washington State have cut more than 51,000 jobs. Accelerating the construction of the project has the ability to mitigate some of these losses. Further, many of these jobs represent entry-level positions in the construction industry, such as laborers and support staff. For those who have lost their jobs in these industries due to the recession, many have found these levels of income difficult to replace given the relative lack of demand and portability of their skills.

Economic Value of Occupancy and Operation

Once the project is complete, the entire North Lot project will house:

- Businesses that occupy 400,000 square feet of office space
- Shops, Bars, and Restaurants in 35,000 square feet of retail space
- Households and Families in 800 units of housing

The catalytic podium phase will have some of these uses, but in smaller amounts. The podium phase will include capacity for parking, supporting infrastructure, and utilities; and has 49 units of housing and 19,000 square feet of retail space.

Economic Output

Exhibit 5 summarizes the economic output of firms occupying and doing business in both the podium and complete phases of the project.

Exhibit 8 – Economic Output

Economic Output	Podium Phase	Complete Project
Direct Activity	\$2,307,000	\$328,456,000
Indirect and Induced Activity	\$2,358,000	\$398,293,000
Total	\$4,665,000	\$726,749,000

Source: BERK, 2011. All estimates are in 2011 dollars.

The full buildout of the project would likely house a mix of professional service firms whose total annual economic output (e.g. value of the goods and services) would total approximately \$328 million for the state economy. The spending of those dollars by employees and firms housed in this space would in turn support an additional \$398 million in economic activity in the state, bringing the total economic value to approximately \$726 million.

Jobs and Income

The podium phase contemplates a small amount of retail space that would likely house shops, a small grocer, restaurants, or bars. The 19,000 square feet of retail space would provide approximately 38 jobs with the additional 21 jobs coming from employee and business spending. The entire project would provide space for approximately 1,400 jobs with over 90% of the jobs in the professional service industries. The “ripple” effect of these direct jobs would generate demand for an additional 3,540 jobs in the state (total of 4,970).

Exhibit 9 – Job Creation

Jobs	Podium Phase	Complete Project
Direct	38	1,430
Indirect and Induced	21	3,540
Total	59	4,970

Source: BERK, 2011.

At this time, the uses for the 19,000 of commercial space as part of the podium phase is unknown, but it is hoped that it will house a tenant that can provide full time employment opportunities at competitive wages.

THE NORTH LOT REDEVELOPMENT STRENGTHENS PIONEER SQUARE, THE CITY, THE REGION, AND THE STATE

For a neighborhood like Pioneer Square, with its proximity to Seattle’s major employment centers, its capacity to support urban density and serve as home to diverse households, the potential to bolster Seattle’s competitiveness in the long-run is difficult to overstate. There are few sites in the region that can offer the same level of access to amenities such as parks, trails, and waterfront views; and, access to services like transit, quality education, shopping, and entertainment as Pioneer Square. For Seattle to be competitive and successful, Pioneer Square must be competitive and successful.

As Seattle competes with other global cities for talented individuals and value producing firms, offering people a set of exceptional foundational experiences that are collectively experienced as “quality of life” cannot be understated. Providing these things in the long-run while protecting the environment and not adding to roadway congestion will differentiate high and low performing areas. The North Lot development has the ingredients to help both the local community and Seattle be successful.

An important factor in attracting businesses that are net-exporters of goods is the location of large well-suited properties. The North Lot site can accommodate multiple large office spaces including a large campus-

style space that has extremely high amenity value due to its waterfront location and access to entertainment, and retail nodes in the region. The experience in Pioneer Square is unique in the region; this distinctive mix would be attractive to a host of businesses that seek innovative and talented individuals who prefer interesting and engaging places.

The North Lot development will also help to improve the region's mobility challenges by providing more efficient land use. It will do this by planning for dense, mixed-use, transit oriented development in the Seattle downtown core – taking advantage of its proximity to a multimodal transit hub. The project will also take advantage of Seattle's existing built and public service infrastructure. Stated another way, the net public costs of accommodating growth at the North Lot (estimated to be almost 1,600 people) will be much less expensive than making those additions in places where there is no capacity to accommodate them.

The North Lot project will add a significant amount of housing to the neighborhood that ultimately will improve the quality of the experience in Pioneer Square. Currently, the neighborhood has little in the way of market rate housing – adding this critical component to the area will contribute significantly to this goal of income diversity through additional residents. As more residents move in, demand will increase for local amenities, benefiting existing businesses and providing opportunities for new ones.

Development of the North Lot will also mitigate the hollowed-out effect that is experienced on days when there are no games: empty parking lots, little on-the-street activity, or consumer demand. More residents and employees in the neighborhood represent a consistent and stable spending base that will help a greater mix and quality of local shops, restaurants, and bars.

Finally, increased development will bridge the gap between Pioneer Square and its neighbor, the Chinatown/International District. While the existing railroads and street network will still exist, the effect of infill development should help to make the neighborhoods feel less isolated from one another – and from the rest of the City. The potential for these communities to complement each other will mutually reinforce the City's need offer unique, well-connected, integrated, and sustainable neighborhoods.