

2004-2010

South Lake Union Development Update



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in conjunction with

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March, 2011

South Lake Union

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A project of City of Seattle's Office of Economic Development
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Selected development projects in South Lake Union Urban Center from 2004 to 2010.

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the Sommers report addressed this concern by dividing the analysis into two phases and providing a range of potential development scenarios.

Phase 1 was defined as the period between 2004 and 2007. At the time of his report, many real estate development projects were quite definitively in the pipeline. To calculate the tax revenue generated by these projects, Sommers aggregated the tax revenue streams from these planned developments.

Phase 2 was defined as the period between 2008 and 2020. In his study, Sommers estimated two different streams of development, a full build-out scenario and a partial build-out scenario. The full build-out analysis assumed that real estate activity in the neighborhood would meet the 2020 projection contained in the Heartland analysis. The partial build-out projection assumed that only half of the phase 2 development would be actualized.

Sommers emphasized that the utility of his report was to provide an analytic framework to understand how the real estate activity in this Urban Center could generate jobs and tax revenue for the City to meet its neighborhood and citywide needs. He commented that it would be wise for City officials to review these development projections at various timeframes.

At the end of phase 1, the City of Seattle's Office of Policy and Management authored an update on South Lake Union development.

“Estimates for both commercial and residential development are clearly speculative for Phase II...Periodic review of the extent of build-out in South Lake Union is recommended.”

Dr. Paul Sommers

At the end of 2010, three years of phase 2 development will have been completed. The City of Seattle's Office of Economic Development is pursuing Dr. Sommers' recommendation and has commissioned this study. This 2010 update to *The Potential Economic and Fiscal Impacts of South Lake Union Development* provides the most recent data for real estate development in South Lake Union and compares the rate of development in between 2004 and 2010 to the Heartland projection and estimates the tax revenues to the City of Seattle from this activity.

South Lake Union Development

Projections

The Sommers study based its real estate development projections on the original Heartland study and segregated the markets into biotech, office, retail/hotel and residential sectors. Table 1 summarizes the projections for both the full build-out and the partial build-out scenarios.

Table 1. Estimated Net New Additions to Developed Space in South Lake Union Neighborhood by Phase (million square feet) and by Scenario

	Phase 1	Full Build-out		Partial Build-out	
		Phase 2	Total	Phase 2	Total
Commercial					
Biotech	1.382	1.138	2.520	0.569	1.951
Office	0.708	3.252	3.960	1.626	2.334
Retail/Hotel	0.120	0.600	0.720	0.300	0.420
Commercial Sub-Total	2.210	4.990	7.200	2.495	4.705
Residential	0.833	6.830	7.663	4.215	5.048
Total	3.043	11.820	14.863	6.710	9.753

Employment in the new developments in South Lake Union was projected to range from 15,000 to 23,000 permanent jobs, with another 350 to 750 annual construction jobs through the development phase. Table 2 summarizes the job creation estimates included in the Sommers report.

Table 2. Job Creation Estimates for South Lake Union Neighborhood by Phase and by Scenario

	Phase 1	Full Build-out		Partial Build-out	
		Phase 2	Total	Phase 2	Total
Biotech	3,159	3,141	6,300	1,571	4,730
Office	2,518	12,213	14,731	6,107	8,625
Retail/Hotel	732	1,946	2,678	973	1,705
Total Permanent Jobs	6,409	17,300	23,709	8,651	15,060
Construction (per year)	628	753		376	

Actual South Lake Union Development (2004-2007)

Since the early 2000's, South Lake Union has been a center of real estate development in the City of Seattle. As the Heartland report projected, the large number of underdeveloped parcels with close proximity to downtown proved to be a strong economic engine for re-development. With early life sciences investments in the Fred Hutchinson Cancer Research Center and the University of Washington's Life Sciences Campus, the neighborhood became a strong magnet for the Seattle's biotechnology cluster.



During the 2004-2007 timeframe, over 4.6 million square feet of new building were constructed in the South Lake Union Urban Center¹. In the commercial sector, construction for biotechnology space outpaced the other sectors with 67% of the development. The actual development during this period exceeded the projections from the Sommers report by 52%. Table 3 compares the projected and actual square footage for development by sector.

Table 3. Actual Development vs. Projected During 2004-2007 Period

	2004-07	
	Projected	Actual
Biotech	1,382,080	1,784,808
Office	707,800	716,799
Retail	119,865	162,116
Total Commercial	2,209,745	2,663,723
Residential	0	0
Units	157	1,854
Square footage	833,200	1,951,748
	0	0
Total Square Footage	3,042,945	4,615,471

Chart 1 gives a visual representation of actual development in each building sector compared to projections between 2004 and 2007. All sectors outperformed the estimates during this period.

¹ Appendix 1 details the development activity by parcel.

Chart 1. Actual Development (2004-2007) in South Lake Union by Sector Compared to Projections (Square Feet)

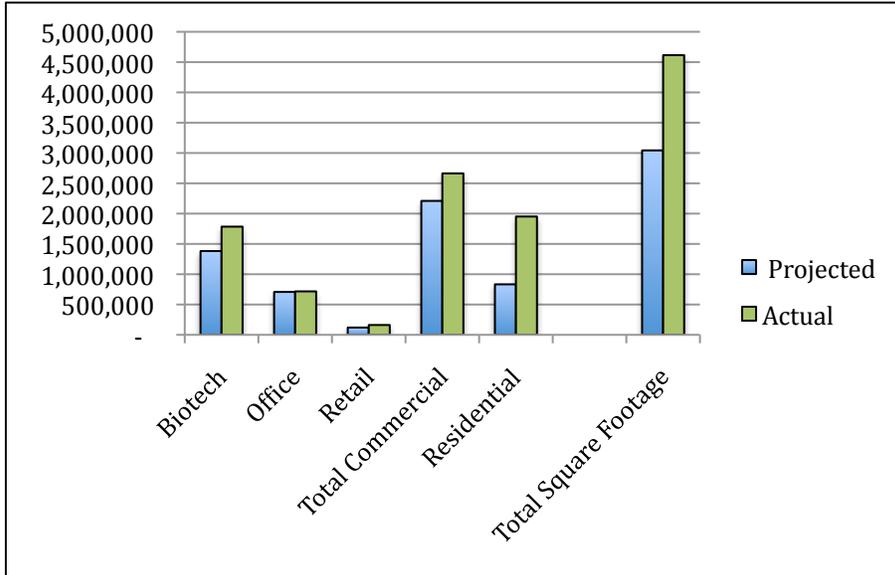
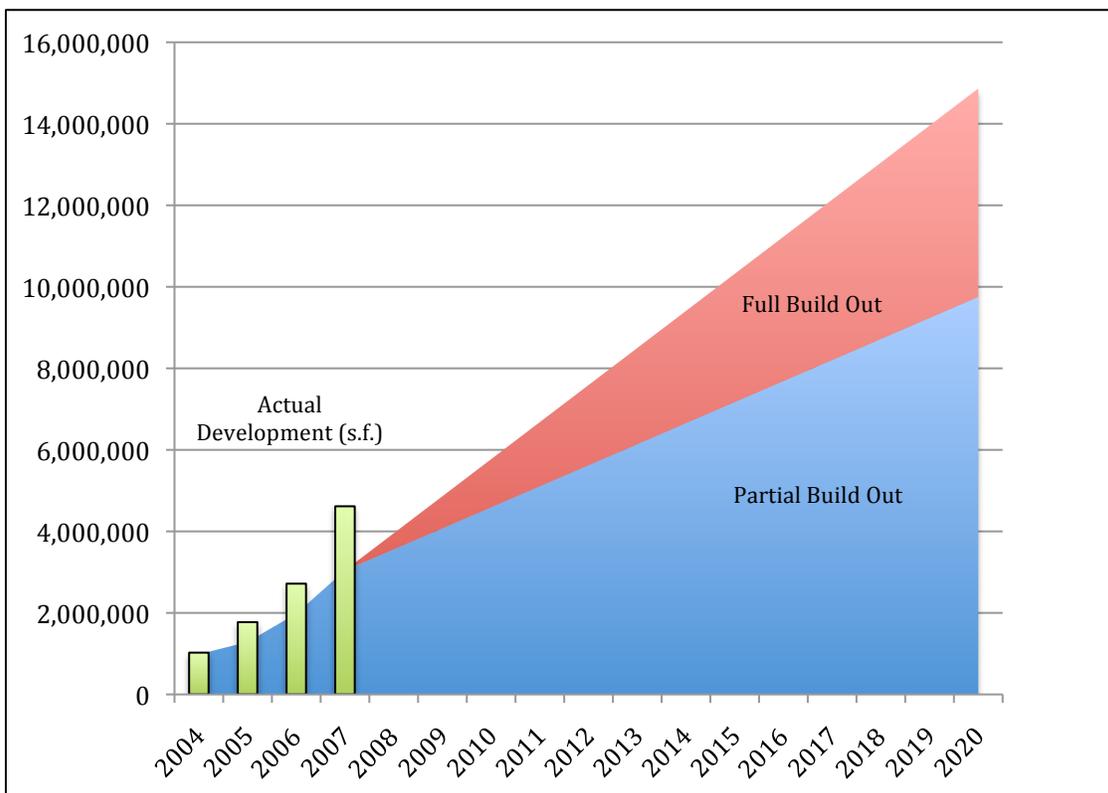


Chart 2 illustrates the status of development activity at the end of phase 1 against a backdrop of the overall 20-year projections.

Chart 2. Total Development (2004-2007) Compared to Full Build Out and Partial Build Out Scenarios



Actual South Lake Union Development during the First Three Years of Phase 2 (2008-2010)

The phase 2 time period identified in the Sommers Report began in 2008. It coincided with the beginning of the national economic recession. The real estate and construction industries were among the hardest hit.

In the South Lake Union business district, however, construction cranes continued working. Vulcan’s development of a business campus for Amazon drove building activity during the 2008-2010 period. In the Cascade neighborhood, four housing projects added to the construction².

The total development for the first three years of phase 2 exceeded the partial build-out scenario, but fell short of the full build-out scenario. Table 4 details the projected and actual development activity over the past three years.

Table 4. Actual Development vs. Projected During 2008-2010

	2008-10		
	Full Build-out	Partial Build-out	Actual
Biotech	262,615	131,308	0
Office	750,462	375,231	1,494,623
Retail	138,462	69,231	95,563
Total Commercial	1,151,538	575,769	1,590,186
Residential			
Units	2,102	1,051	217
Square footage	1,576,154	972,692	149,278
Total Square Footage	2,727,692	1,548,462	1,739,464

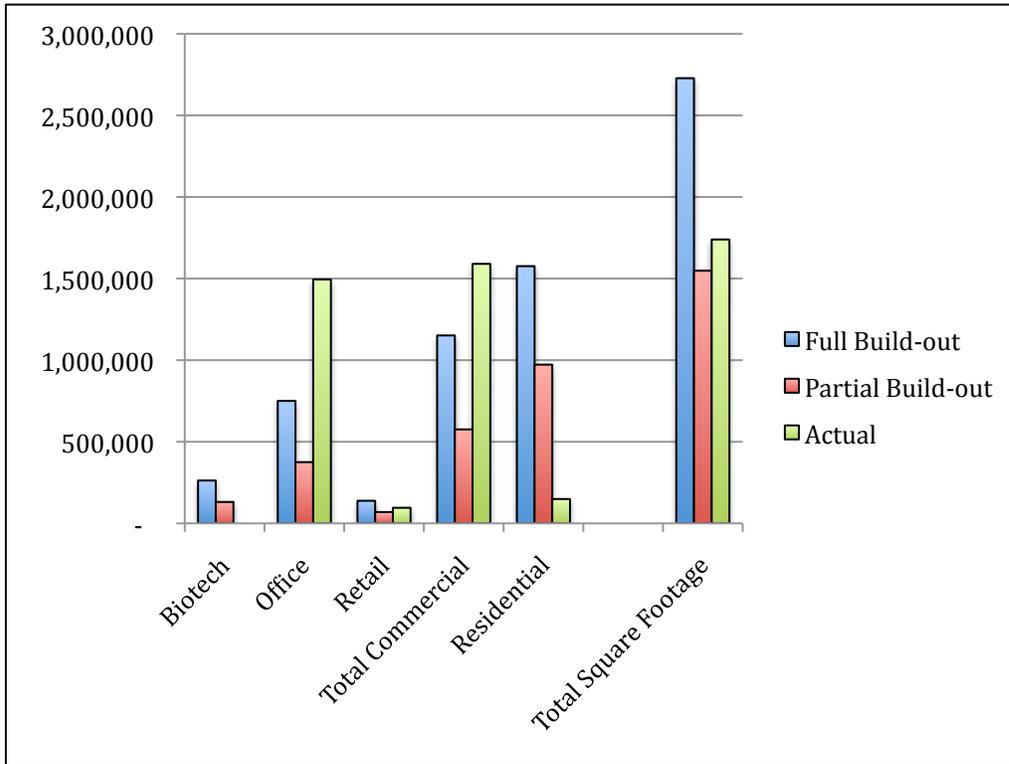
South Lake Union development over the past three years was dominated by office development, representing over 86% of the building activity. The influence of a slow housing market resulted in only one private market-rate development during this time frame. No development activity occurred in the biotechnology sector over the past three years. Chart 3 compares actual development in each



² Appendix 2 details the development activity by parcel.

sector to the projections in both full build-out and partial build-out scenarios.

Chart 3. Actual Phase 2 (2008-2010) Development in Sector Compared to Projections (Square Feet) by Scenario



Actual South Lake Union Development: Total to Date (2004-2010)

Despite the fact that the pace of development slowed slightly during the past three years, activity in South Lake Union from 2004-2010 exceeded the most optimistic projections from the Sommers report.

Table 5. Actual Development vs. Projected During 2004-2010 Period

	2004-10		
	Full Build-out	Partial Build-out	Actual
Biotech	1,644,695	1,513,388	1,784,808
Office	1,458,262	1,083,031	2,211,422
Retail	258,327	189,096	257,679
Total Commercial	3,361,283	2,785,514	4,253,909
Residential			
Units	2,995	1,944	2,071
Square footage	2,409,354	1,805,892	2,101,026
Total Square Footage	5,770,637	4,591,407	6,354,935

Due in large part to the Amazon campus construction, the office sector development has led the pace, exceeding the full build-out scenario by over 50%. Construction of laboratories and offices for biotechnology purposes is also exceeding the full build-out scenario.

Retail space development to date is 99.7% of the full build-out scenario and housing development is at 87% of the higher estimate. As Chart 5 demonstrates, both of these sectors are exceeding the partial build-out scenarios.

Chart 5. Total (2004-2010) Development in South Lake Union by Sector Compared to Projections (Square Feet)

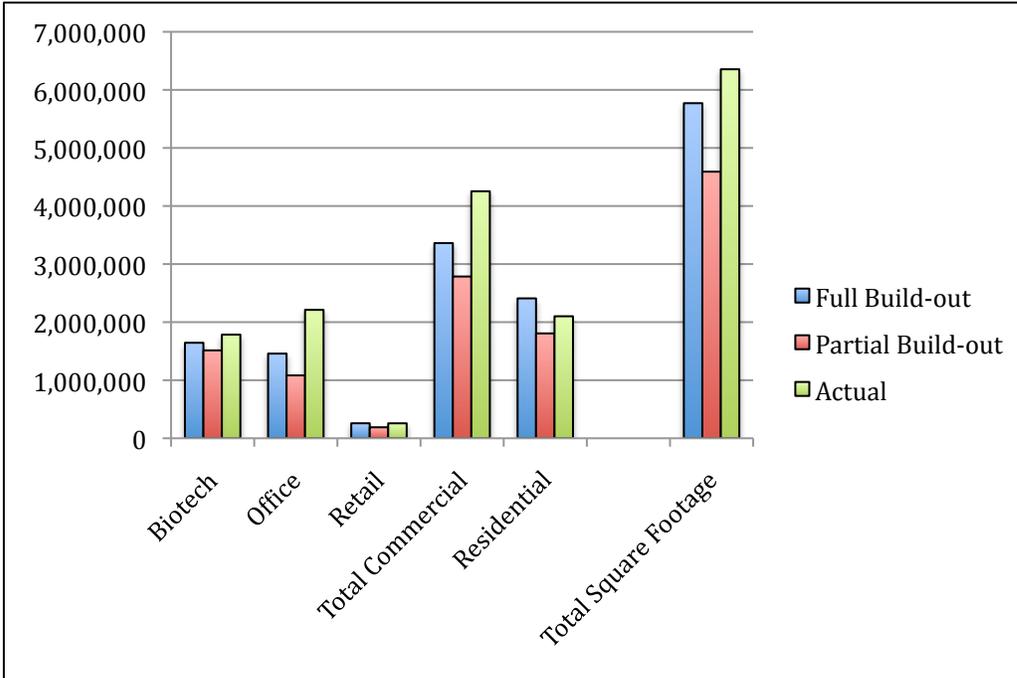
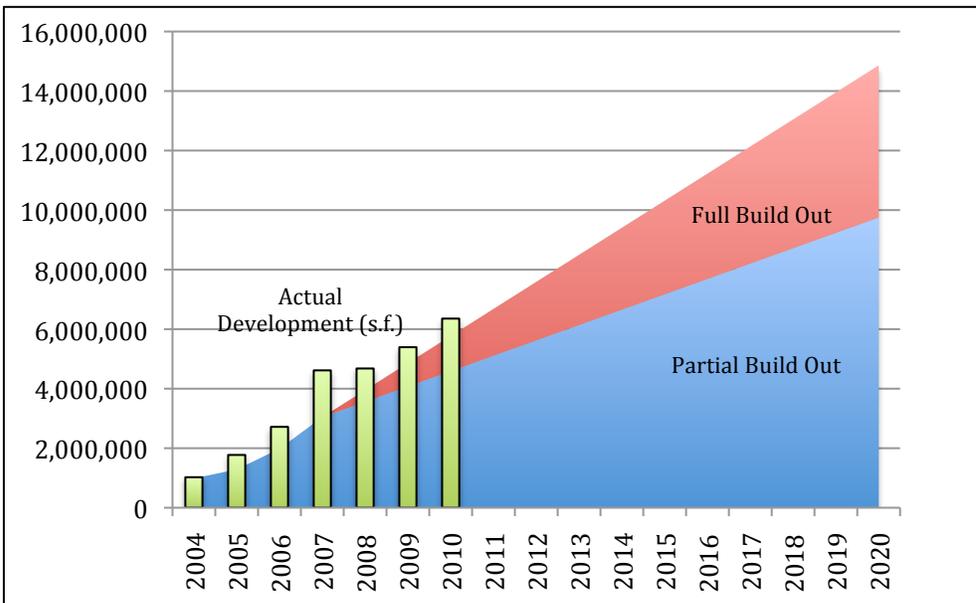


Chart 6 illustrates the total real estate development in South Lake Union from 2004 to 2010 compared to the partial and full build-out estimates.

Chart 6. Total Development in 2010 Compared to 20-Year Projections (Square Feet)



Job Creation

The Sommers analysis estimated job creation due to real estate development in South Lake Union. The report identified employment additions in three areas.

- Employees in new commercial developments
- Construction jobs associated with new building
- Indirect jobs from economic activity

This update focuses only on the direct job generators--new employees and construction jobs.

Sommers Methodology

The new job calculations in the Sommers analysis were based on numbers of employees per square foot of new development, and the construction jobs were calculated by the value of real estate construction. The following assumptions formed the foundation of the projections:

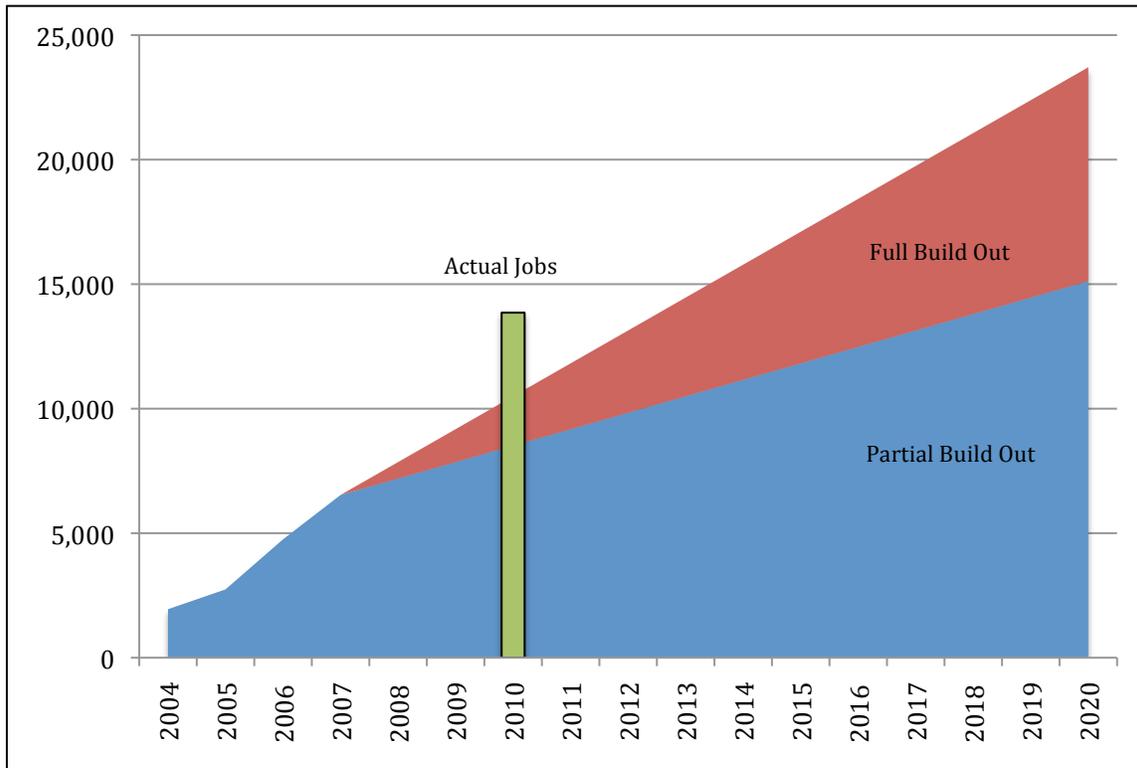
- 3.72 employees per square foot of new office development
- 3.72 employees per square foot of new retail development
- 2.5 employees per square foot of new biotech development
- 7 construction jobs per \$1 million in new construction spending

Given the real estate development activity in the commercial sector during the 2004-2010 period, the job base in South Lake Union is exceeding the projections. Sommers estimated the range of direct permanent jobs to be approximately 8,500 to 10,500 by 2010. The actual employment number is over 13,500, 29% greater than the full build-out estimate. Table 6 lists the jobs by sector and Chart 7 illustrates the progress toward the 2020 direct job development projections.

Table 6. Actual Jobs vs. Projected During 2004-2010

	2004-10		
	Full Build-out	Partial Build-out	Actual
Biotech	4,112	3,783	4,462
Office	5,425	4,029	8,226
Retail	961	703	959
Total	10,497	8,516	13,647

Chart 7. Total Jobs in 2010 Compared to 20-Year Projections



Due to the greater real estate development activity, annual construction jobs have exceeded the projections in the Sommers report, as Table 7 details.

Table 7. Actual Annual Construction Jobs vs. Projected During 2004-2010

	2004-10		
	Full Build-out	Partial Build-out	Actual
Annual Construction Jobs	682	520	996
Total	682	520	996

Revenue Generation

Property Tax

Sommers Methodology

The increased revenue stream to the City of Seattle from property taxes is calculated from the additional assessed value due to development. Sommers estimated this increase and then multiplied it by the City's property tax assessment rate. For these calculations, Sommers used the following assumptions:

- Cost of new construction would be:
 - \$251 per square foot for biotechnology space
 - \$200 per square foot for office and retail development
 - \$100 per square foot for residential development
- Land would comprise 15.38% of the overall property value
- City of Seattle's property tax rate equaled \$2.94 per \$1,000 assessed value

City Revenues

The development in the South Lake Union neighborhood between has increased the neighborhood's assessed value by just over \$1.1 billion from 2004 until 2010. This amount is greater than the projections for the full build out scenario, as shown in Table 8.

Table 8. Actual Value of Development vs. Projected During 2004-2010

	2004-10		
	Full Build-out	Partial Build-out	Actual
2004	\$159,789,699	\$159,789,699	\$114,684,100
2005	\$63,433,804	\$63,433,804	\$83,506,400
2006	\$106,525,960	\$106,525,960	\$19,914,100
2007	\$183,791,416	\$183,791,416	\$355,643,000
2008	\$115,311,597	\$62,960,414	\$298,228,630
2009	\$115,311,597	\$62,960,414	\$184,524,763
2010	\$115,311,597	\$62,960,414	\$50,218,200
Total	\$859,475,669	\$702,422,120	\$1,106,719,193

Consequently, the additional property tax revenue directed to the City of Seattle has outpaced projections. The City is now receiving over \$3.4 million per year in additional property tax revenues due to South Lake Union development.

Table 9. Additional Property Tax Revenue to City of Seattle vs. Projected During 2004-2010

	2004-10		
	Full Build-out	Partial Build-out	Actual
2004	\$469,782	\$469,782	\$337,171
2005	\$656,277	\$656,277	\$587,734
2006	\$969,463	\$969,463	\$652,961
2007	\$1,509,810	\$1,509,810	\$1,726,572
2008	\$1,848,826	\$1,694,914	\$2,644,660
2009	\$2,187,842	\$1,880,017	\$3,232,194
2010	\$2,526,858	\$2,065,121	\$3,414,683
Total	\$10,168,860	\$9,245,385	\$12,595,975

B&O Tax

Sommers Methodology

Business and Occupation taxes for companies operating in South Lake Union will accrue to the City of Seattle. Sommers used the following assumptions to calculate the City's B&O revenue stream:

- B&O tax receipts for office employees equal \$306 per year per employee
- B&O tax receipts for retail employees equal \$254 per year per employee
- There will be no B&O receipts for biotechnology employees due to state tax exemptions.

City Revenues

As noted earlier, employment growth in South Lake Union has exceeded projections. Consequently, the estimated B&O revenue from companies in South Lake Union has outpaced the projections, as shown in Table 10.

**Table 10. Additional B&O Tax Revenue to City of Seattle
vs. Projected During 2004-2010**

	2004-10		
	Full Build-out	Partial Build-out	Actual
Office	\$5,760,408	\$5,039,420	\$7,048,137
Retail	\$1,096,350	\$987,538	\$931,130
Total	\$6,856,758	\$6,026,958	\$7,979,267

Sales Tax

Sommers Methodology

Sales tax revenue accrues to the City through assessments on construction and retail sales. The construction sales tax does not apply to biotechnology buildings due to a statewide tax exemption. The following are assumptions used by Sommers to project sales tax revenues:

- Sales tax rate of 9.3%
- City's share of sales tax revenue is 9.659%
- Retail sales equal \$15.53 per square foot of retail establishments
- There will be no construction sales tax receipts for biotechnology developments due to state tax exemptions.

City Revenues

Expected sales tax revenues as a result of South Lake Union development are exceeding the full build-out scenario, due to the increased real estate development and the creation of space for retail activity.

**Table 11. Additional Sales Tax Revenue to City of Seattle
vs. Projected During 2004-2010 Period**

	2004-10		
	Full Build-out	Partial Build-out	Actual
Construction Sales Tax	\$5,007,718	\$3,453,910	\$5,281,855
Retail Sales Tax	\$1,475,918	\$1,268,179	\$1,478,214
Total	\$6,483,636	\$4,722,089	\$6,760,069

Utility Taxes

Sommers Methodology

Utilities taxes are generated by the usage of water, sewer, electric, garbage, telephone and thermal energy services. The following are assumptions used by Sommers to project utility tax revenues:

- Utility tax revenues will total:
 - 20.6 cents per residential square foot.
 - 22.2 cents per office and retail square foot.
 - 42.6 cents per square foot of biotechnology/lab space.

City Revenues

Due to the increased real estate activity in South Lake Union, the City of Seattle is realizing increased revenues from utility taxes. Consistent with Sommers' methodology, the City has realized \$1.75 million more revenue from utility taxes than expected under the full build-out scenario.

Table 12. Additional Utility Tax Revenue to City of Seattle vs. Projected During 2004-2010 Period

	2004-10		
	Full Build-out	Partial Build-out	Actual
Utility Tax	\$5,959,590	\$5,325,401	\$7,705,232
Total	\$5,959,590	\$5,325,401	\$7,705,232

Total City Revenue to Date

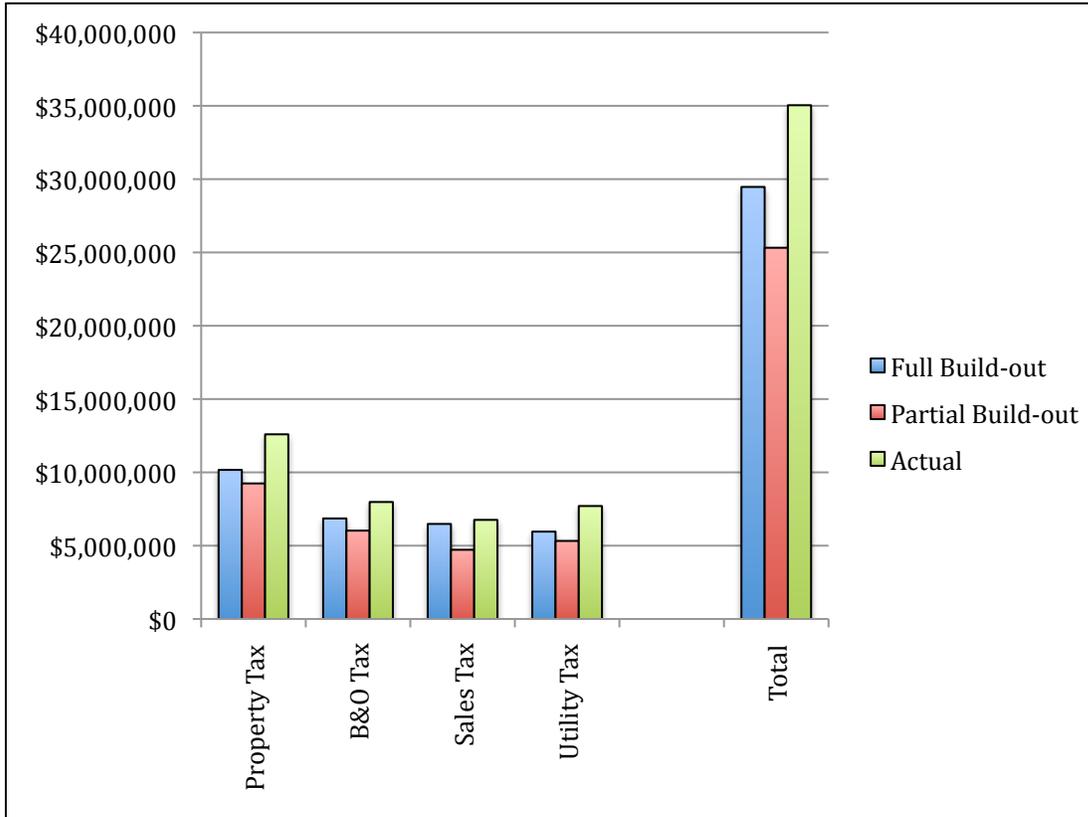
The real estate development in the South Lake Union urban center has generated over \$35 million in tax revenue to the City of Seattle between 2004 and 2010. This rate exceeds the full build-out scenario by 19% and has produced \$5.5 million more than the most optimistic estimation in the Sommers report.

Table 13 summarizes the increased tax revenues to the City of Seattle and Chart 8 compares the revenues to the Sommers Report projections.

Table 13. Additional Total Tax Revenue to City of Seattle vs. Projected During 2004-2010 Period

	2004-10		
	Full Build-out	Partial Build-out	Actual
Property Tax	\$10,168,860	\$9,245,385	\$12,595,975
B&O Tax	\$6,856,758	\$6,026,958	\$7,979,267
Sales Tax	\$6,483,636	\$4,722,089	\$6,760,069
Utility Tax	\$5,959,590	\$5,325,401	\$7,705,232
Total	\$29,468,844	\$25,319,833	\$35,040,543

Chart 8. Additional Total Tax Revenue to City of Seattle vs. Projected During 2004-2010 Period



Conclusion

Between 2004 and 2010, the real estate development activities in Seattle's South Lake Union neighborhood have exceeded the projections incorporated in Paul Sommers' *The Potential Economic and Fiscal Impacts of South Lake Union Development* report. Since 2004, the assessed value of newly constructed building exceeds \$1.1 billion. In this timeframe, the neighborhood has attracted over 13,000 permanent jobs, achieving over 72% of the City's 2024 Comprehensive Plan goal for the South Lake Union Urban Center. This magnitude of construction and economic activity has resulted in an average of \$5 million per year in additional tax revenues to the City of Seattle.

Appendix 1. Phase 1 (2004-2007) Development Projects in South Lake Union by Sector (Square Feet)

Tenant	Net Rentable Square Feet				Units
	Biotech	Office	Retail/Hotel	Residential	
Tommy Bahama		79,302	7,318		-
Novo Nordisk	96,188				-
Alcyone			1,570	120,000	161
NBBJ		182,221	23,792		
Skanska			5,000	124,000	172
Amlis35			5,234	256,746	197
Borealis			3,700	32,920	53
Cairns Apartments			2,910	70,801	109
Denny Park Apartments			5,587	27,869	58
Dexter Lake Union Apartments			28,641	257,767	201
Discovery Center		12,900			
Merck/Rosetta	140,605				
Howard S. Wright Office		95,840	8,006		
Mirabella (CCRC)			36,207	687,941	396
Neptune Apartments		14,000	7,222	195,351	200
Rollin Street			17,784	220,813	208
SBRI	105,000		7,411		
U.W. Phase I	105,000				
U.W. Phase II	256,000				
Veer Lofts			1,425	73,305	99
Weber-Thompson Bldg		36,405	3,593		
Group Health, Microsoft		289,000	42,424		
FHCRC Yale Building	372,000				
FHCRC Arnold Building	353,918				
Cancer Care Alliance	51,600				
Blume Company	177,056		5,000		
	1,657,367	709,668	212,824	2,067,513	1,854

Appendix 2. Phase 2 (2008-2010) Development Projects in South Lake Union by Sector (Square Feet)

Tenant	Net Rentable Square Feet				Residential Units
	Biotech	Office	Hotel/Retail	Residential	
Amazon		315,513	10,200		
Amazon		113,889	1,595		
Amazon		158,333	14,038		
Amazon		276,806	39,500		
DECS				46,995	50
LIHI			588	36,101	83
SCCA		16,054	2,831	44,486	80
Weiss-Jenkins		69,541	1,880		
Residential				21,696	4
Amazon		544,487	24,931		
Total	0	1,494,623	95,563	149,278	217