Public & Private Investments in SOUTH LAKE UNION

JUNE 2012

Report prepared for the City of Seattle's Office of Economic Development

BERK

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Introduction & Context

BACKGROUND

Over the past two decades, the South Lake Union (SLU) neighborhood in Seattle has undergone a significant transformation from an area primarily characterized by older warehouses, poor mobility, and a lack of public and private investment into an emerging residential and employment center.

The scale and pace of this transformation has been remarkable and is the result of significant commitments on the part of the City of Seattle (the City) and private property owners and developers.

The transformation has not been easy. The City and its residents have grappled over the vision for the neighborhood. The actions and motivations of all parties involved with the neighborhood's change have been subject to intense scrutiny, skepticism, and criticism.

PURPOSE OF THE EVALUATION

The City of Seattle's Office of Economic Development wants to better understand the relationship between public sector actions and private investment decisions in SLU and how this relationship has contributed to SLU's transformation.

Report Organization

The report is organized into five key areas.

Introduction & Context
The background and purpose of the evaluation.

A Neighborhood Grows
A description of the neighborhood's change over time.

South Lake Union's Story
A chronicle of the public and private events in the area.

Impact of SLU Growth
A summary of the key impacts of growth in SLU.

Lessons Learned
Reflections on the course of public actions in the area and implications for future decisions.

About the Authors

BERK is an interdisciplinary public policy consultancy. Since its founding in 1988, BERK has worked with hundreds of communities and organizations to create living plans that energize and direct community activities, investments, programs, and policies.

Heartland LLC is a Seattle-based real estate consulting and investment firm with over 28 years of experience designing, analyzing, and implementing strategies for complex real estate projects and portfolios.

This report focuses on the broader context and community impact that resulted from public actions and investment in the area, and evaluates how public actions regarding land use and infrastructure affected private investment decisions in South Lake Union. The intent is to develop a deeper understanding of how South Lake Union has changed and what lessons can be learned from the SLU example.

What are the Key Questions?

There are four central questions for this inquiry:

- **How has South Lake Union changed?**
- **How and why did this change happen?**
- **How has the City of Seattle and the public benefited from these changes?**
- **How might the SLU experience inform future decisions about City actions and investments?**

Our Approach

This evaluation addresses these key questions by grounding the story of what was happening in land development around data analysis. In addition to the data analysis, qualitative contextual and personal experiences of those involved were folded into the story to better understand the nuances and complexities of the change experienced by the neighborhood.

To the extent possible, principal actors (e.g. public officials, City department staff, SLU tenants, private investors, and developers) were interviewed for their perspective on the critical elements of SLU's story of transformation.

Geography

The report primarily is focused on development within the SLU Urban Center (right), but also considers changes in nearby neighborhoods (Denny/Broad and Lower Queen Anne) where those changes informed, or were influenced by changes in SLU.

REPORT ORGANIZATION

This report is organized into five sections. The first sections provide an overview of the study's purpose and approach as well as provide background on public-private partnerships. The next sections show how the neighborhood has changed and chronicle the timeline of public and private activity in the neighborhood. The final sections summarize the impacts of development on the neighborhood and look at what lessons can be learned from the City of Seattle's actions and implications for future land use decisions.

FIRST, SOME DEFINITIONS

The terms public, private, and public-private are used throughout this report and deserve some definition and discussion.

What do we mean by "public"?

"Public" refers to the collective action of the community as embodied by separately elected and managed local, regional, special purpose, state, and federal governments. While all these agencies have some impact on land use, this evaluation focuses specifically on the actions of the City of Seattle. The City has the greatest control and ability to affect land use and real estate development and does so principally in four key areas.

Land Acquisition and Disposition

Cities acquire and sell land for a range of public uses. As a buyer, the City has the ability to assemble land into larger or more conducive configurations. As a seller, it has the ability to negotiate the conditions of the sale with the buyer to control future uses on a site and/or to negotiate conditional provision of public goods like affordable housing, open space, and the like.

Land Use Regulation

Cities are the main regulator of land use within their borders. Through its Comprehensive Plan, zoning and building codes, and design review process, the City controls the type, scale, and character of land use throughout the City. At the Comprehensive Plan level, the City sets the strategic vision for an area and then codifies it through the zoning and building codes. The design review process allows for public engagement to encourage better design and flexibility in the application of development standards (though only for specific large scale projects in certain areas of the City).

Infrastructure Investment

The City spends millions of dollars each year investing in transportation, transit, parks, and utilities. These investments provide the necessary infrastructure and amenities that support Seattle's neighborhoods and commerce. These investments are critical to the economic development and placemaking efforts of the City and its residents.

Public Services

The City provides a range of administrative, business, public safety, and human services. It can directly affect the nature and character of a local area by deploying targeted and/or different levels of these services. For example, increased police service to an area can address public safety concerns, while targeted housing policies and investments can address affordability issues.

What do we mean by "private"?

"Private" refers to private sector investment in real estate through the purchase and/or development of property. Private investment in real estate is typically made to realize some financial gain from the land based on the rents paid by tenants. The willingness of tenants to pay higher rents is a function of how tenants value that location over other locations.

Where real estate investment occurs is based on the relative value and risk among alternative development opportunities. Generally, there are two key elements that have a significant influence on real estate investment decisions:

- Market conditions (rent levels, land values, vacancy rates, etc.), and
- The regulatory framework and infrastructure that shape development plans.

What do we mean by "public-private partnerships"?

Typically, public-private partnerships describe joint ventures between a government agency and a private enterprise. A key feature of these partnerships is the sharing of risk among parties, usually proportioned to the value expected to result from the contemplated action.

The level of risk is an important lens to view the nature and relationship of public and private actions in South Lake Union. On the private side, for an area that had not seen significant investment for decades, solving this risk/value proposition (i.e. can higher rents be supported to justify investments in new, larger structures?) was a critical barrier for large scale development to move forward.

For the City, the risk/value question was one of achieving broader public goals through the creation of a physical environment that matched an emerging market opportunity.

As part of SLU's transformation, there were specific public-private partnerships between the City and the private sector as well as more informal relationships around strategy and planning. This evaluation explores the range of partnerships by looking at specific ventures or activities between public and private actors that took place over the last two decades.

The following sections discuss how the neighborhood has changed, particularly over the past 20 years.

A Neighborhood Grows

South Lake Union has been affected by shifts in the economy, major infrastructure projects, and changes in land use regulation, which all have impacted the type and intensity of land uses in the area.

PRE-1990 SLU

Zoning changes in the 1950s restricted the development of residential housing in SLU and allowed and favored light industrial uses. Many of the businesses in the area provided supporting services to businesses and employees downtown. During the 1960s, the construction and completion of Interstate 5 separated the neighborhood from Capitol Hill.

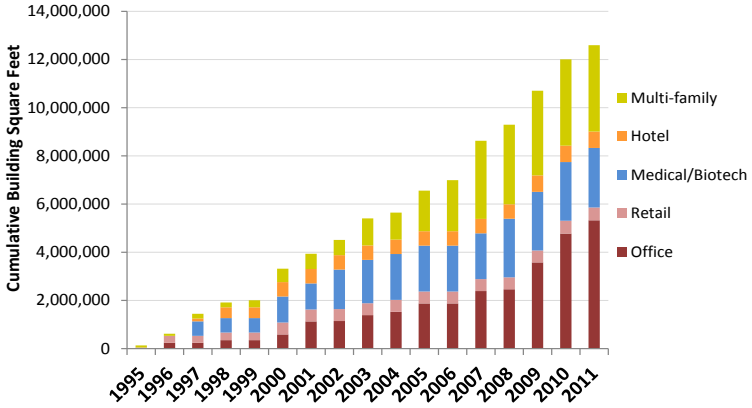
Source: City of Seattle Archives

1990 TO PRESENT

Over the last 20 years, South Lake Union has changed significantly in scale, activity, and character. In the early 1990s, the area consisted primarily of auto-oriented commercial and light industrial uses, with a small number of people living in the Cascade neighborhood.

Today, SLU is a dense, mixed-use urban neighborhood. It is an employment center within the City and has an increasing number of retail stores, restaurants, and housing. The area is a center for a number of growing sectors such as biotechnology, information technology, and global health, and is home to a number of prominent companies and organizations such as Amazon.com,

Cumulative Square Feet Built in SLU, 1995-2011



Source: Heartland, King County Assessor

REI's flagship store, Fred Hutchinson Cancer Research Center, and the University of Washington Medical Research Labs.

The scale and type of development that has occurred in South Lake Union over the last 20 years is striking. Since 1995, nearly 12.5 million square feet of space has been built within the neighborhood. This development has completely changed the building stock and supply of commercial space and housing units in the area.

In the early-2000s, much of what was built was biotechnology and office space. By the mid-2000s, more multi-family residential space began to be built. Office space increased substantially again in 2009 with the development of Amazon.com's campus in the neighborhood. Since 1995, just under half of the space built has been new office buildings, while residential buildings and medical and biotechnology uses have accounted for 28% and 20% of that development, respectively.

Square Feet Built in SLU, 1995-2011

Development Type	Total	Percent
Office	5,325,471	43%
Multi-Family	3,496,825	28%
Medical/Biotech	2,471,037	20%
Hotel/Motel	681,659	5%
Retail	532,778	4%
Total	**12,507,770**	**100%**

Source: Heartland, King County Assessor

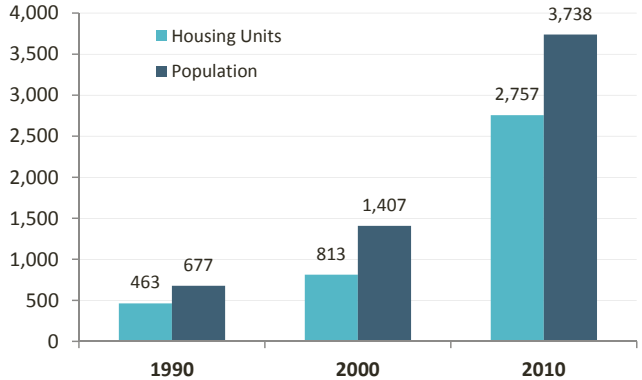
New SLU Residents

Since 1990, SLU has added more than 3,000 new residents, with much of this growth occurring in the last decade. In 1990, SLU had a population of 677. By 2010 the population of the area had increased to 3,738. The SLU neighborhood grew at an average annual rate of 18% a year during this time period. For comparison, the rest of the City grew at a rate of 1.6%.

During this period, SLU has become more prosperous overall while maintaining a diversity of income levels. From 2000 to 2010, the number of people living in poverty in the neighborhood fell from 40% to 21%. The median household income increased from $21,600 to $30,300. This increase was driven by growth in the number of households making more than $50,000, which increased from 11% to 36% of households. The area also saw a similar rise in the number of residents with college degrees, which went from 20% to 46%.

The growth patterns indicate that the neighborhood is also becoming more "family friendly". With a more diverse housing stock and the presence

South Lake Union Population and Housing Growth



Source: US Census

of amenities, the number of families in the area is growing. The presence of families increased from 13% to 20% of all households in the area during the 2000's. The number of families with children nearly doubled during that same time. (Source: US Census Tract 73 covering most of the SLU and a portion of the Denny/Broad area).

Diversity in Housing

Almost 2,300 units of housing have been developed in South Lake Union since 1990. Most of these units have been rental apartments. However, the 2000s saw significant growth in owner-occupied housing, increasing from 1% of total units in 2000 to 10% of all units by 2010.

Affordable Housing

South Lake Union has been the focus of many affordable housing programs, generating millions of dollars in public investment to help maintain a diversity of housing types as the area developed. Affordability is based on a fixed-percentage of household spending dedicated to housing relative to adjusted median household income.

Of the nearly 2,300 housing units developed in SLU between 1990 and 2010, approximately one third (690) of these units were below market affordable units. This has been possible through multiple City programs and tax credits as well as direct investment funded from the City's Housing Levy and other public

Population Growth, 1990-2010

Source: US Census

sources. At the time of this publication, the City of Seattle's Office of Housing is preparing a separate document that will address these efforts in further detail.

Employment Growth and Change

Over the last 20 years employment has shown strong growth. In 1995, the area had a total of 14,570 jobs – 30% of these jobs were in industrial sectors, including manufacturing and warehousing, transportation, and utilities. Five percent of these jobs were in professional, computer, and technical services.

Today, South Lake Union has an estimated 23,000 (2012 estimate) jobs. South Lake Union's share of Seattle's total employment has also increased. From 1995 to 2010, the City added a net 34,000 jobs. South Lake Union represented 1 in 10 of those new jobs, indicating that the neighborhood is increasingly a major driver of economic opportunity in the City.

The overall composition of the jobs has changed, too. Services and computer, scientific, and technical services have grown the most (at a rate 10% a year) while manufacturing and warehousing jobs have decreased. In 2011, industrial sectors comprised only 4% (compared to 30% in 1995) of total employment, while professional, computer, and scientific services comprised 15% of all employment.

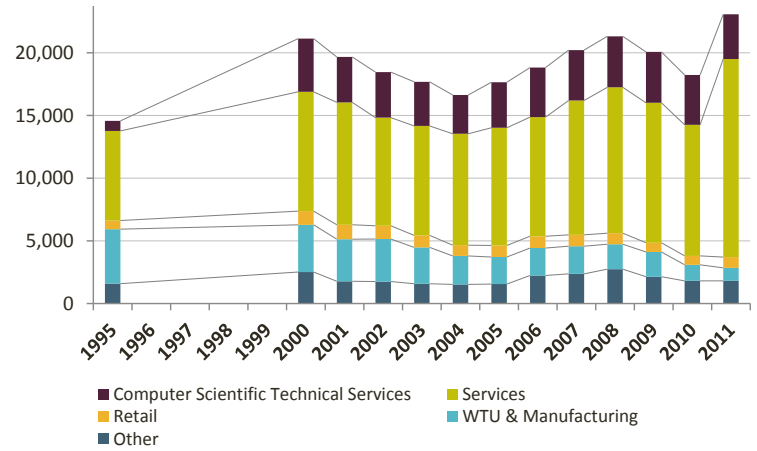
Overall, the increase in residents and workers has created a dynamic urban neighborhood that is realizing its potential as the urban center envisioned in the City's Comprehensive Plan and the region's regional growth strategy, Vision 2040.

SLU Covered Employment, 1995-2011

Industry	1995		2011	
Services (Professional and Personal)	7,149	49%	15,801	68%
Warehousing & Manufacturing	4,340	30%	1,035	4%
Other	1,590	11%	1,811	8%
Computer, Scientific, Technical Services	801	5%	3,567	15%
Retail	690	5%	857	4%
Total	14,570	100%	23,071	100%

Source: PSRC; BERK estimate 2011

SLU Covered Employment, 1995-2011



Source: PSRC, BERK estimate 2011

SLU's Story of Change

The SLU Eras

Chapter 1: Wane of the Historical Land Uses

Chapter 2: Deliberations on the Future

Chapter 3: Proof of Concept

Chapter 4: Market is Made

ELEMENTS OF THE STORY

The events and circumstances shaping the neighborhood reach back decades. In some instances, they have been very direct and high profile. In other ways, they have been building from a number of incremental actions.

To understand the relationship between public and private decisions, the study considers the sequence of the public and private actions that took place in SLU and how each changed the value and/or risk associated with development in the neighborhood. The evaluation does this by addressing four main elements.

Describe the Context

Often lost in the discussion of land development is the broader economic context shaping the actions of public and private parties. This evaluation tries to provide a description of the larger events and forces influencing land use and development decision making.

Identify the Major Public Actions

It is important to identify the specific regulatory and investment decisions that contribute to creating the environment where large private investments are made. It is also necessary to assess the relative contribution of specific public actions in shaping decisions of developers and others to invest in South Lake Union.

Identify the Major Private Investments

In this section, the report identifies where and when buildings were constructed in SLU and the context and/or impact of the development on the neighborhood.

Describe the Public-Private Relationships

In some instances, the City and private interests combined to partner on both public and private projects. Describing the parameters of these partnerships illustrates how the public and private sides approached specific land development challenges and opportunities.

FOCUS ON KEY ERAS AND MILESTONES

The history of development in the area is divided into four key eras to better understand the sequence of actions and events and how previous actions influenced later decisions. While SLU has grown tremendously over the last 20 years, the nature and drivers of that growth are tied to key events and milestones that altered the trajectory of the neighborhood going farther back than 20 years. Before getting to the key eras, it is important to frame the change in SLU against two deep-seated economic drivers of change.

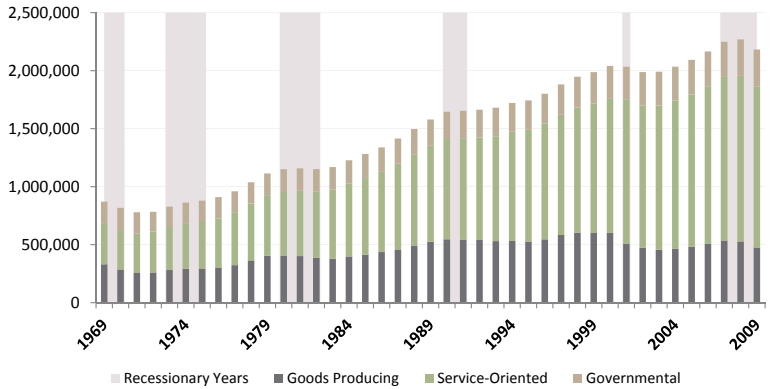
BROADER ECONOMIC FORCES AT WORK

Over the last two decades economic forces have influenced urban land development and public policy in the region. Washington's - and particularly the Puget Sound Region's - increasingly global economy has made it a center for growth and investment, which has led to a substantial an increase in jobs and housing in the region.

Shift from Manufacturing to Services

One of the biggest drivers of demand for urban land has been the structural shift in the economy away from manufacturing and "goods-producing" to a more "service-based" economy. Service jobs are broadly defined to cover a range of technical, professional, personal, and health services.

Seattle Metropolitan Statistical Area Employment



Source: Bureau of Labor Statistics

In 1969, two out every five jobs in the Seattle region (Seattle, Bellevue, Tacoma, Everett) was a service-based job. By 2009, three out of every five jobs in region were service-based. Service-based jobs grew at almost four times the rate of goods-producing jobs. This shift in the economy has had a tremendous impact on how people and businesses value land within cities and Seattle specifically. This issue particularly impacts areas close to the central business district that have been historically oriented towards low density uses - like SLU.

The primary reason for the increase in demand for close-in and dense locations are the "clustering" benefits that businesses (and people) get when they locate near each other. This clustering allows businesses to share suppliers, gain access to skilled employees, and generate new ideas.

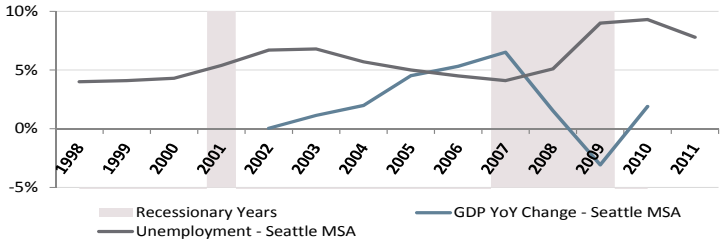
For a city like Seattle - whose economy is driven by ideas, science, and innovation in its basic industries (i.e. aviation, technology, software, shipping, etc.) and the supporting services those industries need (health care, business and finance, legal services, and education) - these benefits are an important component of Seattle's economic growth.

The Business Cycle

The ebbs and flows of private investment, firm productivity, and employment are, to a large degree, unpredictable. The periods of contraction, expansion, and recession frame land development and public decisions, and are a central part of the decisions and outcomes within SLU.

The chart below shows changes in unemployment and local gross domestic product (GDP). Increases in GDP fueled investment in commercial buildings during expansionary times. The "dot com" bust and the Great Recession created employment and budget challenges for the City (i.e. more need for services with fewer revenues to support them).

Changes in Unemployment Rate and GDP



Source: Bureau of Economic Analysis

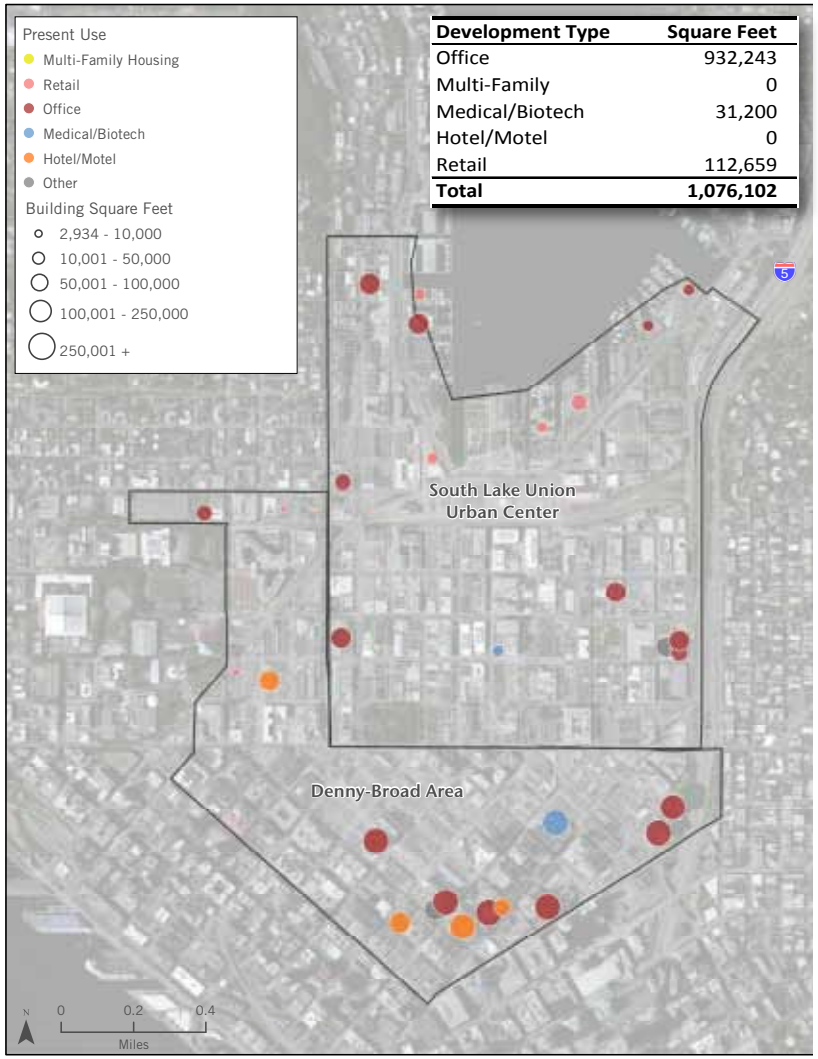
RIPE FOR CHANGE

On the land use side, much of the area was already built out in its pre-2000 form. The neighborhood consisted of a variety of building types and uses, ranging from residential in the Cascade neighborhood to more commercial and light industrial uses that housed services supporting downtown businesses.

During the 1980s, the area did not see a great deal of new private investment. However, limited development in the Denny Triangle close to the downtown core suggested that larger forces in land development would begin to put pressure on much of the existing land uses in the area. The City recognized this pressure when it created the Industrial Commercial Zone in the mid-1980s, which allowed for emerging uses like biotechnology.

At the same time, changes in statewide land use planning began to take form. The late 1980s also saw a large influx of new residents moving to the Puget Sound region. Concerns over urban sprawl and impacts to rural lands kicked-off conversations about how the region and state should grow while protecting rural lands. The Shoreline Management Act, passed in 1972, required municipalities to do more intentional planning around their waterfronts. In the City's 1987 Shoreline Management Program, much of the Lake Union waterfront was opened up for commercial uses.

SOUTH LAKE UNION: BUILDINGS BUILT 1980-1989



Development Type	Square Feet
Office	932,243
Multi-Family	0
Medical/Biotech	31,200
Hotel/Motel	0
Retail	112,659
Total	**1,076,102**

The map above shows the location, size, and type of new development during the time frame (source: King County Assessor)

PUBLIC

Bay Freeway Properties

City of Seattle acquires land for the Bay Freeway in SLU. Opposition mounts to the elevated freeway and plans for construction are scuttled in a special election in 1972. The City maintains control of the land.

Shoreline Management Act

Washington's Shoreline Management Act was passed by the legislature in 1971 and affirmed by voters in 1972. The Act governs the use and development of Washington's shorelines and creates a unique partnership between local and State government.

IC Zoning Created

The Industrial Commercial (IC) zone is created in the mid-1980s and is applied to South Lake Union to help attract research and development uses, in particular biotech and software development businesses.

Seattle's Shoreline Program

Seattle's 1987 Shoreline Management Program opens the SLU shoreline to commercial uses. It shifted South Lake Union use from industrial to commercial, and concentrated SLU waterfront industrial uses in Salmon Bay in Ballard.

1970s — Late 1980s

Chandlers Cove

Waterfront commercial uses begin to develop on the Lake Union waterfront. Chandler's Cove is redeveloped and expanded in the southern most portion of the lakefront.

PRIVATE

1 Introduction & Context
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5 Lessons Learned

Milestone Event

Key Public-Private Partnership

THINGS COME TO A HEAD

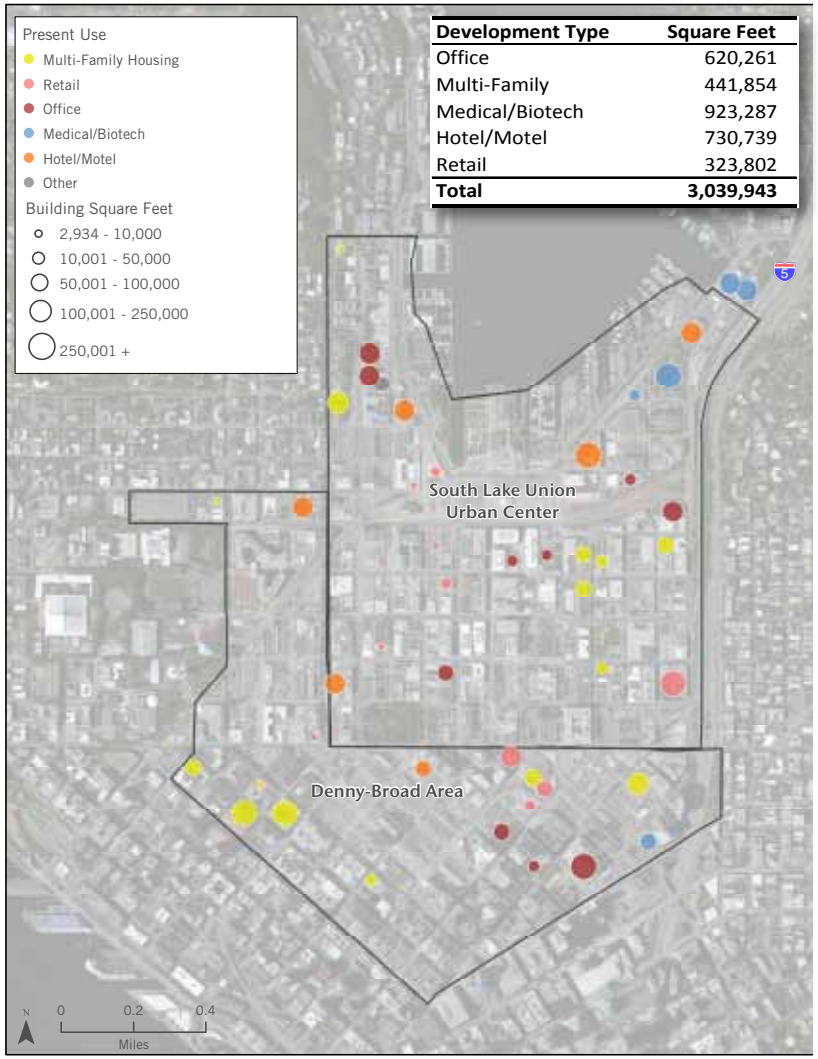
Perhaps the most important chapter in SLU's current story is the 1990s, a time when citizens, business interests, and elected officials publicly grappled with complex land use issues in the neighborhood. The passage of the Growth Management Act in 1990 brought on a wave of public discussions around land use within the broader context of long-range livability goals where cities and counties were compelled to be more intentional with their land use planning and laws.

Against this backdrop, Seattleites began a public dialogue about the future of SLU. The introduction of the Seattle Commons Park concept in 1991 and the subsequent public votes in 1995 and 1996 around a property tax levy to construct the project is the single greatest determinant of the course the neighborhood took. By forcing the issue around the Commons, the public votes set SLU off on a different trajectory. Paul Allen's involvement with the Common's group also began Vulcan's involvement as a land owner and developer in the area.

During this decade, SLU saw the first wave on pioneer projects in the area. The arrival of the Fred Hutchinson Cancer Research Center, ZymoGenetics, and REI signaled a shift in the market as perceptions of SLU properties began to change.

On the heels of the Commons vote, the City channeled the neighborhood passion into the first Neighborhood Plan for the area. The Plan solidified the need to address the Mercer corridor and the lack of neighborhood parks.

SOUTH LAKE UNION: BUILDINGS BUILT 1990-1999



Development Type	Square Feet
Office	620,261
Multi-Family	441,854
Medical/Biotech	923,287
Hotel/Motel	730,739
Retail	323,802
Total	**3,039,943**

The map above shows the location, size, and type of new development during the time frame (source: King County Assessor)

PUBLIC

Vision 2020

Vision 2020 was adopted in October 1990 by the General Assembly of the Puget Sound Council of Governments. The plan sought to concentrate new employment centers and connect the centers with a regional rapid transit system.

Growth Management Act

In 1990, the Washington State Legislature passed the Growth Management Act (GMA). GMA requires collaborative planning between counties and cities. It encourages development in urban areas where public facilities and services exist or can be efficiently provided.

First Comprehensive Plan

In 1994, Seattle Comprehensive Plan under GMA designated SLU as an "urban hub village". The urban hub village was the predecessor of the urban village concept in the current Comprehensive Plan.

Seattle Commons

The Commons idea was first proposed in 1991. In 1995, a citizen-driven plan for a 61-acre park in SLU , funded by a $111M property tax levy loses 47-53. A smaller version also fails in 1996. Paul Allen loans the Commons group $20 million for land acquisition.

SLU Neighborhood Plan

After the Commons vote, the City begins the neighborhood planning process with the SLU neighborhood. The plan envisioned opportunities for working, living, and playing in the SLU neighborhood. The eventual plan (1998) would stress the importance of fixing the Mercer Corridor and creating a regional lakefront park in the neighborhood. These efforts provided momentum for the current respective projects.

1990 — 1999

Fred Hutchinson Cancer Research Center (FHCRC)

In 1992, the FHCRC, a world-renowned nonprofit research organization moved to its current campus in South Lake Union. Locating in SLU was choice borne from the need for more space to grow and better proximity to researchers at UW and clinicians on First Hill. The campus would also undergo a major expansion to its research facilities in 1996.

ZymoGenetics

ZymoGenetics buys Seattle's former steam-plant building for $1.6 million and spends $25 million to renovate it. They move into the facility in 1993.

Paul Allen Acquires SLU Commons Land

Paul Allen acquires the 11.5 acres of land that the Commons groups had secured via a $20 million loan from Allen. Allen tells the Seattle Times after the second Commons Vote: "Although I'm disappointed this measure did not pass, I respect the voices of the voters who have defeated the Commons. My loan to the Seattle Commons will not be renewed, and I will be moving ahead with other projects and investments for those funds" (The Seattle Times, May 22, 1996).

Vulcan Land Assembly (late 1990s - early 2000s)

Vulcan begins to acquire land in the SLU area. At its peak, Vulcan would control roughly 60 acres of land, or a little less than half of all developable land in the area.

REI Flagship Store

In 1996, REI opened its flagship store on a 2.1-acre city block, bordered by Eastlake and Yale Avenues and John and Thomas Streets. The access and visibility of the site offered a unique opportunity for the retailer as it embarked on a series of new store openings.

PRIVATE

Milestone Event

Key Public-Private Partnership

SEPARATE, BUT COORDINATED

By 2001, Vulcan, fresh off acquiring a bulk of their land holdings, began to ramp up their development team and vision for the transformation of SLU. Led by a well-capitalized development team, Vulcan offered the City the coordinated development of SLU as a life science, technology center, and residential community that would serve as an economic driver for the City and region.

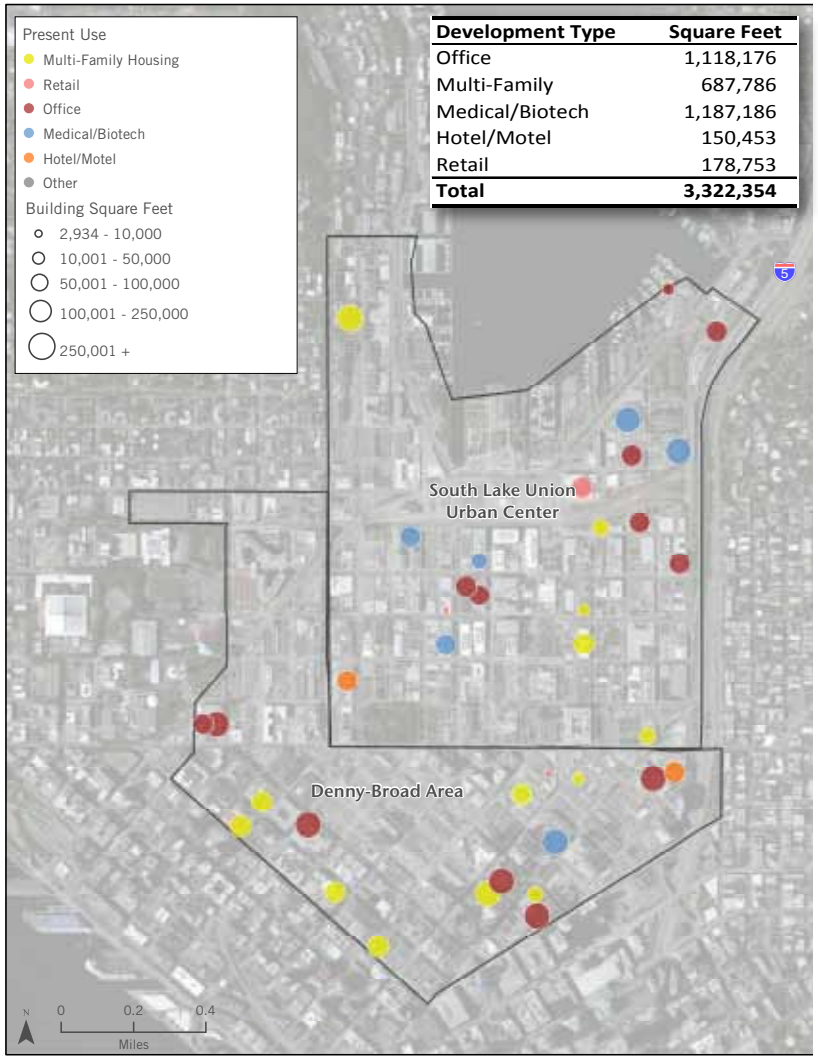
The incoming City administration, grappling with the "dot com" bust and large budget deficits (in part, driven by the passage of I-747 limiting property tax growth), was receptive to Vulcan's vision for SLU being a driver of economic opportunity and potential broadening of the City's tax base.

The key aspect of the relationship between Vulcan and the City was that both began a series of formal and informal partnerships centered around two things:

- Facilitating the development of private projects by aligning the regulatory environment with real estate market opportunity, and
- Working together to put in place the needed and desired community infrastructure (i.e. parks and transportation).

Both parties acknowledged difficulties with the relationship, but also point out that much of the progress was incremental. Each side independently evaluated the merits of specific proposals, albeit with a broad understanding that greater economic development opportunities in the area could spin off both public and private benefits. Together, these cumulative actions led to the first series of developments demonstrating some "proof of concept" around the idea that SLU could be a high density jobs and residential center.

SOUTH LAKE UNION: BUILDINGS BUILT 2000-2004



Development Type	Square Feet
Office	1,118,176
Multi-Family	687,786
Medical/Biotech	1,187,186
Hotel/Motel	150,453
Retail	178,753
Total	**3,322,354**

The map above shows the location, size, and type of new development during the time frame (source: King County Assessor)

PUBLIC

City Acquires Navy Property

In 2000, the US Navy conveyed the deed to its five acres of land to Seattle Parks and Recreation. The transfer consolidated the South Lake Union site into what would become a 12-acre park on the shores of Lake Union.

City Sells Bay Freeway Properties

In 2002, $20.2 million is generated from the land proceeds.

UW Phase 1 "Text Amendment"

The UW, Vulcan, and City Administration lobby for a special rezone, known as a "text amendment," allowing the bypass of the typical rezone process. This controversial action is used in successive individual rezones to amend the base zoning for specific projects.

The "Biotech Amendment"

The City Council approves Resolution 30610 in 2003, affirming the City's "commitment to making the South Lake Union area the region's most competitive location for biotech research and manufacturing". The amendment allowed for some deviations in building height, rooftop equipment, and parking to accommodate the special needs to biotech institutions.

Streetcar Planning

Building on the Portland Streetcar example, both private interests and the City administration agree that a SLU Streetcar from downtown could offer connectivity and mobility enhancements on the scale needed to support the magnitude of the mixed-use environment envisioned in the area. The Streetcar would open in 2007.

2004 Comprehensive Plan

SLU is designated an urban center with functional designation of mixed residential and employment. Urban center policies include zoning, infrastructure, and transit investments to support a high-density employment and mixed-use neighborhood.

Mercer Corridor Solution

A decade long process of neighborhood and transportation planning culminates in the recommendation for a two way Mercer. In 2004, the City authorizes the environmental review - engineering and design starts in 2007.

Cascade Playground

Approximately $500,000 from the Pro Parks Levy is earmarked for upgrading Cascade Playground.

2000 — 2004

On top of the land purchase price, Vulcan also contributed $5 million to renovating Lake Union Park and provided for 50 units of affordable housing, which was built at the corner of Dexter Avenue North and Denny Way.

UW Research Expansion

The UW, facing a research-space crunch in 2002-2003, agrees to locate in South Lake Union given the proximity to the main campus and to the FHCRC and ZymoGenetics. The granting of the text amendment clears the way for UW to move to SLU.

Streetcar LID

The Council approves (2006) final assessments of the Local Improvement District (LID) 6750 for the construction of the Streetcar. Private payers in the LID district contributed $26.1 million matched with a variety of state and federal funds covering the rest of the $56 million project. No general fund monies are used to construct the streetcar.

Biotech Expansion

In 2003 and 2004, scientific research firms Seattle Biomedical Research Institute and Rossetta are the first set of early Vulcan tenants in SLU.

Vulcan contributes an additional $600,000 to further upgrade the park bringing the total project to $1.1 million.

PRIVATE

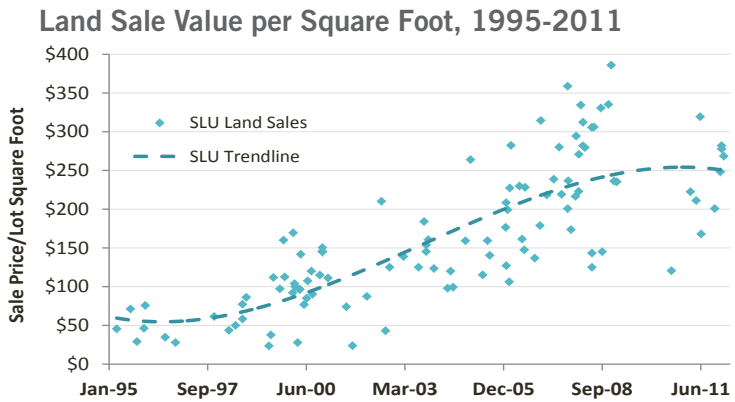
Milestone Event

Key Public-Private Partnership

SLU TAKEOFF

The culmination of the public commitments (e.g. investments and regulatory changes), corresponding private investment, and significant partnerships removed much of the development uncertainty in SLU. Based on developer's/investor's willingness to pay for available land the market was prepared to fulfill, the vision that SLU could be a vibrant, mixed-use, amenity-filled, and high-tech employment center had been achieved.

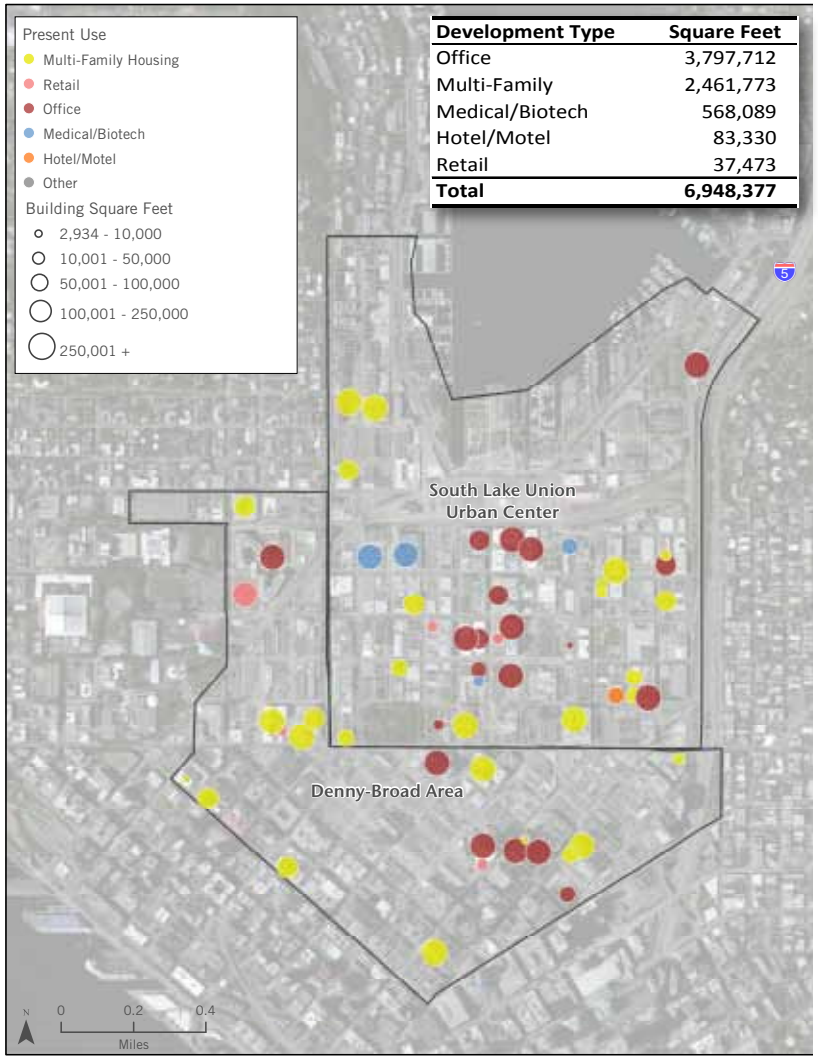
The chart below shows land sales over time and illustrates this "making of the market". As it becomes clearer that tenants are willing and able to bear higher land costs, it raises the underlying value of the land.



Source: King County Assessor

With the market made, a second wave of developers/investors and tenants entered the market. During this time, many of the public projects neared completion (Streetcar, Lake Union Park, etc). The fast pace of change and the potential for more development kicked off a broader planning process for the area, culminating in the current rezone proposal.

SOUTH LAKE UNION: BUILDINGS BUILT 2005 TO PRESENT



Development Type	Square Feet
Office	3,797,712
Multi-Family	2,461,773
Medical/Biotech	568,089
Hotel/Motel	83,330
Retail	37,473
Total	**6,948,377**

The map above shows the location, size, and type of new development during the time frame (source: King County Assessor)

PUBLIC

Amazon "Text Amendments"

In 2007, the City Council approves a text amendment allowing the construction of 160 foot tall buildings. The City also grants Vulcan a series of alley vacations.

Mercer Corridor Construction

The City of Seattle begins construction on the first phase of the Mercer Corridor project in 2009. The $190 million project is funded with $83 million of City capital funds leveraged with $40 million in federal and $32 million in private contributions.

Lake Union Park

Seattle Parks Foundation celebrates the grand opening of Lake Union Park in 2010. The $31 project is funded with $5 million in park levy monies with the rest coming from State, private foundation, and private sources.

Vision 2040

SLU is designated a Regional Growth Center, an area of higher-intensity development that contains a mix of land uses and services. Regional Growth Centers are where major regional investments for transportation and other infrastructure should be prioritized and where the region will direct growth and development

Seattle City Light Substation

A $201 million project authorized by the Council to be completed by 2016. The substation adds needed power to the area and also provides redundancy for downtown. While the project costs are borne by all rate payers, SLU payers will pay a higher rate to recoup any network investments.

SM Zoning

2005 change from Commercial to Seattle Mixed zoning in SLU encourages residential and mixed-use projects.

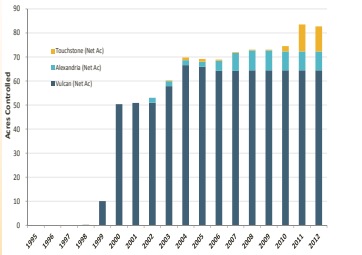
SLU Rezone Kick-off

In 2008, the City begins the urban design framework process, which leads to the SLU rezone proposals.

2005 — 2012

Other Major Interests Enter the SLU Market

While Vulcan continued to be the largest driver in SLU development, new institutional and private interests enter the market.



Source: King County Assessor

As part of the text amendment agreement, Vulcan will build the campus to LEED standards and contribute $6.4 million to the City's affordable housing fund.

Vulcan contributed $31 million to toward the Mercer Corridor project.

Vulcan contributed $10 million towards the Lake Union Park project, about a third of the total project's budget.

2200 Westlake

While not technically in SLU, this 2006 project along the streetcar line anchored the southwester corner of the area and demonstrated that a mixed-use project with a grocery store could be viable anchor and service for residents and employees in the area.

Amazon Headquarters

Amazon takes occupation of several phased buildings in the Terry/Boren area of SLU. The total build out of the headquarter campus covers roughly 1.6 million square feet.

PRIVATE

Milestone Event

Key Public-Private Partnership

Impact of SLU Growth

As summarized in the timelines of significant actions, South Lake Union has transformed into a more complete, higher density, mixed-use neighborhood providing employment, housing, and urban amenities to a range of people. Along these lines, the neighborhood is realizing itself as the urban center designated in the City's Comprehensive Plan as well as realizing the goals and benefits associated with the Plan.

PUBLIC BENEFITS

The growth in South Lake Union benefits not only those who live and work in the neighborhood but residents and workers in surrounding neighborhoods - such as the Central Business District, Eastlake, and Queen Anne - and all of Seattle. The public benefits to the neighborhood and City include improved infrastructure and additional amenities, more housing choice and more affordable housing units, economic growth and job creation, and increased tax revenues.

Infrastructure and Amenities

The added infrastructure and amenities in the neighborhood improve mobility and quality of life in the neighborhood. Transportation investments, such as the Streetcar and Mercer Street corridor improvements, make it easier for residents and workers to get to and through South Lake Union as it continues to develop and grow. The addition of Lake Union Park, Cascade Playground, and the Museum of History and Industry (MOHAI) add green space and recreational opportunities to a neighborhood previously lacking such space. It also makes the neighborhood a destination for people to visit, adding to the broader fabric of citywide attractions and amenities.

Housing

As discussed earlier, considerable housing growth has occurred in South Lake Union with almost one third of the units built as below market affordable units. In addition to the increased housing options, the units built in SLU are in close proximity to a large number of jobs. This proximity improves Seattle's jobs-housing balance and offers new options for residents seeking well located housing across a wide range of price points.

Residents of denser, mixed-use neighborhoods that are well served by transit, such as South Lake Union, are also less dependent on automobiles for getting around, helping to reduce increases in traffic congestion and automobile emissions as Seattle grows.

Economic Opportunity

Beyond the sheer growth in employment in the area, the nature of the businesses and jobs locating in SLU is extremely important to Seattle and the region's economy. The science and technology-related businesses in the area anchor a strong innovation/technology/biotechnology sector within the City. Firms in this sector rely on a well-educated labor force and their employees are some of the most well paid in the region.

These economic benefits are not limited only to these individuals, however. The innovation/technology/biotechnology sector and its productivity gains are the economic driver of both employment and wage increases for other supporting businesses in the city.

Businesses in this sector produce large "multiplier" effects that create additional opportunities for other businesses and people in the professional, personal, and public service sectors.

For example, technology businesses need supportive services in the form of lawyers, accountants, and building managers. In addition, their employees need the services of carpenters, hair stylists, restaurant servers, and physicians. The taxes generated by these businesses and their employees in turn support public services and servants such as bus drivers, teachers, police officers, and firefighters.

What distinguishes the innovation sector (and its importance to the City) from the supporting service sector is one of *cause* and *effect*. It is the productivity gains in the innovation sector that drive both employment and wage increases in the supporting service sector.

Investments: Infrastructure

The City of Seattle made significant investments of taxpayer and City utility ratepayer funds to support the growth of South Lake Union. The five major infrastructure projects (see table below) cited in this report cost well over $480 million. The City of Seattle contributed $311 million to these projects.

City taxes funded $96 million for three projects, the development of Cascade Park ($515,500), Lake Union Park ($9.4 million), and the Mercer Corridor project ($86.1 million).

Utility rate-supported funding is contributing a total of $215 million for two projects, a power substation to be completed in 2016 (the largest investment at $201.5 million) and $13.5 million towards the Mercer Corridor project.

Funding for Major Projects by Source

Key Project	Total Cost	City Tax-Supported Funding	City Utility Rate-Supported Funding	Other Public Funding	Private Funding
Lake Union Park	$31M	$5M Pro Parks Levy; $4.4M in other City appropriations		US Navy deeded 5 acres to Seattle in 2000; an additional $1.3M from Washington Wildlife and Recreation Program	$20M raised from the Seattle Parks Foundation from private donors, including $10M from Vulcan
Streetcar	$56.4M			$30 million in state and federal funding	Local Improvement District contributes $26.2M toward construction
Cascade Park	$1.1M	$515,500 as part of the Pro Parks Levy			$600,000 from Vulcan
Mercer	$190.5M	$86.1M of City Capital funds	$13.5M from SCL and SPU in 2010 Capital funds	$30M in federal TIGER grant (stimulus); $9.5M in grants from PSRC	$31.4M from Vulcan; $0.7M from additional SEPA mitigation fees
Substation	$201.5M		$60.5M of SCL funds already allocated with a $141M request from SCL to build out the substation		
Total	**$480.5 M**	**$96 M**	**$215 M**	**$90.8 M**	**$79.1 M**

Source: City of Seattle

Of the roughly $311 million in direct City investment, the City was able to generate an additional $170 million in funding for projects from other public or private sources; a match of $0.55 on each dollar invested by the City. State and federal funding sources supported the development of the streetcar and the Mercer Corridor project. The State also contributed funds for Lake Union Park. Private money for the two parks came from the Seattle Parks Foundation and Vulcan Real Estate, who benefited from the value additional green space provided in the neighborhood. A Local Improvement District (LID) was formed to help fund the construction of the streetcar, which benefited the properties along the streetcar line the most.

Growth in Tax Revenue

The new development and subsequent occupation of buildings has led to increases to the City's tax base. The City has benefited from timely development in SLU with major investments coming on the heels of the "dot com" bust and the Great Recession, periods where the City faced significant budget deficits.

Tax revenues were estimated based on the characteristics of the development that has occurred in South Lake Union from 2000 to 2011. Tax revenues are broken into three categories:

- **One-time Revenues.** These General Fund revenues are tied to the construction of buildings and include the retail sales tax on construction and the business and occupation (B&O) tax on gross receipts.
- **Recurring Revenues.** These General Fund revenues are derived from the occupation of residential and commercial structures by residents, businesses, and employees and include the property tax, retail sales tax, B&O tax, and utility taxes.
- **Non-General Fund Capital Restricted Revenues.** These revenues are statutorily restricted to fund capital expenses and include the real estate excise tax and the state distribution of the motor fuel tax.

While this approach does not address some of the complexities inherent in estimating the overall net fiscal benefits to the City, it nevertheless provides a reasonable order of magnitude estimate of the contribution from the new SLU activity. The following is a brief discussion of some of the issues that are not explicitly factored into the estimate of new tax revenues.

- **Displaced activity.** The potential tax impact of displaced activities is excluded because it would require estimating the degree that these activities have either relocated elsewhere within Seattle or sales have shifted to other Seattle-based businesses.
- **Impact of relocations to SLU.** Some of the new activity in SLU has relocated from other parts of the City. The analysis assumes that over time, vacated space will be put to productive use and so the activity in SLU does increase the overall fiscal capacity of the City.
- **Spillover benefits to other SLU properties.** The analysis does not try to capture the increased economic activity elsewhere in SLU that

Total Revenues from Development, 2001-2022

Revenue Source	2001-2011	2012-2022	2001-2022
One-Time General Fund Revenues			
Sales tax on construction	$15,900,000	$5,700,000	$21,600,000
B&O tax on construction	$4,000,000	$1,400,000	$5,400,000
Recurring General Fund Revenues			
Sales tax	$18,000,000	$40,900,000	$58,900,000
Utility tax	$17,000,000	$55,800,000	$72,800,000
B&O tax	$46,200,000	$149,800,000	$196,000,000
Property tax	$35,900,000	$94,300,000	$130,200,000
Total General Fund Revenues	**$137,000,000**	**$347,900,000**	**$484,900,000**
Total Capital Restricted Revenues	**$18,900,000**	**$8,400,000**	**$27,300,000**
TOTAL REVENUES	**$155,900,000**	**$356,300,000**	**$512,200,000**

Source: BERK

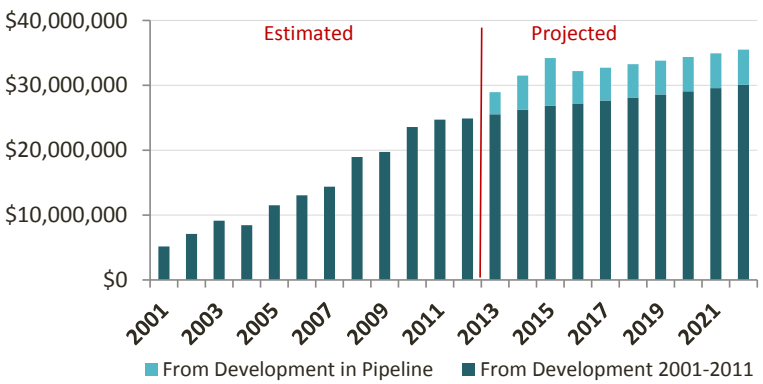
is a result of the presence of new residents and employers. For example, increased sales at existing SLU businesses from new residents in the community.

With these limitations in mind, it is estimated that between 2000 and 2011 development in the SLU urban center accounted for almost $156 million of the City of Seattle's revenues. Over 85% of that revenue ($137 million) was directed into the general fund, with 85% of that total coming from recurring revenue sources that continue to generate tax revenue for the City.

In addition to development that occurred from 2000-2011, additional projects are in the development pipeline (currently under construction and/or will be completed by 2015). Revenue from these new projects will increase the recurring revenues from the development that has already occurred. As the neighborhood continues to build out beyond 2015, future development will continue to add to the recurring revenues generated by the neighborhood.

The funding for certain voted City initiatives also benefit from development. For voted levies and bonds, hundreds of millions of dollars of incremental taxable assessed value are added to the City's tax base, either increasing the tax yield or lowering property taxpayer's responsibility. In practical terms, the addition of new development increases the amount of funding available to these programs.

Total Annual Revenue, 2001-2022



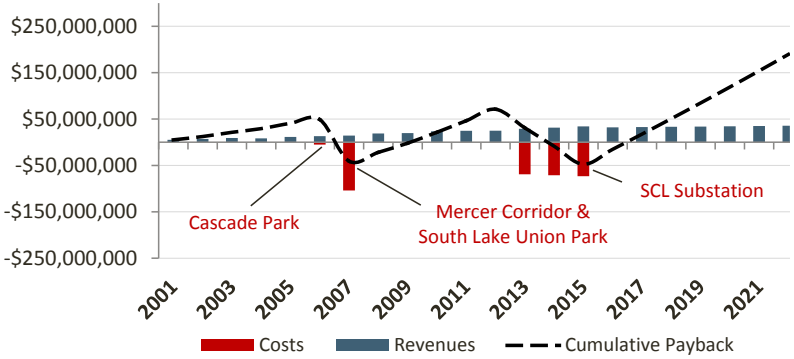
Source: BERK

PAYBACK ON CITY INVESTMENT

A simple payback analysis can be done by comparing the stream of new tax revenues from development activity between 2001 and 2015 to the investments made by City of Seattle taxpayers ($96 million in local tax-funded capital contributions and $215 million in utility rate payer funding). As shown in the chart below, the direct investments are estimated to be repaid by 2017. The investments have to a large degree been "financed" on a pay-as-you-go basis, leaving a cumulative surplus of $191 million in 2022.

While the two largest investments (Mercer Corridor and the substation), directly benefit SLU residents and business, they also benefit the nearby neighborhoods and the City as whole. In this sense, growth in SLU has borne a larger share of the overall project costs.

Cumulative Payback (Revenues-Costs), 2001-2022



Source: BERK

Lessons Learned

WHAT CAN WE TAKE AWAY?

This last section reflects on the development that has occurred in SLU over the past two decades and the actions of the public and private actors. It then offers some considerations for what might be valuable for City decision making in South Lake Union and in other neighborhoods.

What was Unique in SLU?

Some of what occurred in SLU is a combination of potentially unrepeatable circumstances. Key ones are listed below:

- **Private Land Assembly**. Major private interests (Vulcan being the most significant) were able to acquire (and control through economic downturns) a large portion of SLU. Having this amount of land control, investment capital, and a vision for the area that aligned with market demand is extremely uncommon. From a partnership perspective, it would have been highly unlikely that the City could have forged the agreements necessary to realize the current situation for two main reasons: 1) these redevelopment and infrastructure projects are complex and cover a large area, and negotiating with multiple interests during a limited time of opportunity raises the likelihood of failure; 2) with such a substantial holding, the risk/value proposition for Vulcan was well in their favor, allowing them to contribute significantly to several public projects because the returns would accumulate to multiple properties.
- **Timing**. In many ways, SLU was ripe for the next chapter in its story. The access to Lake Union and proximity to downtown and other close-in neighborhoods made SLU a likely opportunity one way or another. The fact that much of the opportunity ripened during a time of easy financial leverage for housing and commercial development did not hurt.
- **Local Firms and Institutions**. While not completely unique, the role that institutions and firms like UW and FHCRC, and later Amazon.com, played in the growth of SLU cannot be understated. Not only did they invest in SLU, they did so during times of economic hardship when the employment and taxes generated through construction helped soften the blow of two recessions.

How did Public Action Facilitate Development?

City decisions around zoning changes and public investments in SLU have led directly to changes in employment, residential character, and public amenities in the area. It is safe to say that, absent City actions detailed in the preceding timeline, the City would not have realized the gains in employment, housing, and taxes to the extent evident today.

While it is nearly impossible to distinguish how any one choice has impacted the area, it is more instructive to examine how cumulative actions have led to change in the area.

First, the City implemented and partnered on local, regional, and statewide comprehensive planning efforts designed to put in place more intentional and coordinated measures around land use and transportation. These planning and placemaking efforts started some 30 years ago, long before peak development momentum.

Specifically, the City, partnering on regional planning efforts convened by Puget Sound Regional Council via the Vision 2020 and 2040 plans, set forth the broad regional framework designed to concentrate growth in urban areas. The City reinforced those regional plans with its own set of Comprehensive Plans, the most recent designating SLU a high density, mixed-use "urban center".

Second, the City took direct action to change the zoning in the area to better attract and accommodate specific uses and tenants. Starting with the change to IC zoning in the mid-1980s (allowing for biotechnology and software uses) and then the biotechnology amendment in 2003, the City created the regulatory structure to accommodate the needs of specific industries that were pivotal in creating the type of knowledge-based industries there today.

These broad actions were supplemented with a series of incremental and targeted zoning changes for specific development projects. These "text amendments" were instrumental to the development of many key projects.

Lastly, the City either supported or directly invested in the placement of public infrastructure and amenities in the neighborhood. The City recognized that the dense, mixed-use neighborhood developing in SLU needed key pieces of supportive infrastructure to work properly. These investments took the form of projects that more directly supported SLU like the Streetcar and Cascade Park, to broader projects like the Mercer Corridor project and Lake Union Park.

In summary, the City used its regulatory tools to increase private land value. The subsequent development necessitated increased public infrastructure investment. Taxes revenues from subsequent development and increase in land value has to a large degree "self-financed" improvements whose beneficiaries extend outside the South Lake Union neighborhood.

WHY TAKE ACTION?

The City of Seattle has a wide range of important needs such as public safety, environmental health, social services, transportation, jobs, housing, and utilities, among others. The list of needs often outweigh the limited financial and staff resources necessary to tackle these challenges.

Seattle's built environment is a crucial component of its fiscal, economic, environmental, and social health, and its choices regarding growth and land use actions impact a number of important public priorities, including:

- **Economic Opportunity**. The range of employment opportunities and the real wage gains of employees.
- **Constituent Tax Burdens.** Efficient land use and public services and growth can keep tax burdens lower than they would otherwise be (see sidebar to the right).
- **Productive and Efficient Returns on Infrastructure.** Infrastructure is by nature a capacity building asset. Utilizing that capacity most efficiently is a high priority for cost effective investment.
- **Climate and Environmental Sustainability.** Efficient land use (more people/workers in well served urban areas) can reduce greenhouse gasses and lower impacts on sensitive environments.
- **Equity.** The interests of vulnerable and underprivileged people.

STRATEGY FOR PUBLIC ACTION

The public sector, and City of Seattle specifically, essentially has four tools it can use to influence development. The City can:

- Control, regulate, and tax land use,
- Invest in infrastructure (parks, transportation, etc.),
- Deliver essential public services (public safety, transit, etc), and
- Acquire and sell land.

Growth and Fiscal Sustainability

Local governments must balance their budgets. Decreases in revenues must be offset with service cuts or increases in taxes. The limitation on property taxes in 2001 forced Washington cities to embrace new models of fiscal sustainability. Over the last decade, revenue growth driven by consumer spending and leveraging B&O and utility taxes has been sufficient to meet cost increases. However, the recession and the decline in certain taxes led to widespread cuts in employees and services.

With a challenging local tax structure, cities must define with their residents the elements of the "social contract": balancing the extent and nature of public service with taxes. How a city manages growth goes a long ways towards defining this balance.

When new development occurs, it generates both one-time and ongoing revenues. The new development may also result in new costs in the form of increased demands for City services. However, when development is located within existing urban areas, there are significant opportunities to leverage existing service and infrastructure capacity. These economies of scale present a significant opportunity for cities that can attract targeted growth to have a greater ability to bend the revenue curve in their favor.

The implication for elected officials and residents is that either a greater amount of public services can be supported -- since revenues are growing faster than costs -- or constituent tax burdens can be lowered without compromising services. In addition, lower effective tax burdens also allow residents to bear greater amounts of voted tax burdens for specific public benefits and infrastructure.

Given the unique situation of the South Lake Union story, the public priorities, and tools available, what lessons can be learned and carried forward for decisions about future public actions?

Placemaking: Shape Growth

Understand the Marketplace

Understanding a neighborhood's position in the marketplace is key to taking actions that will be the most effective in the immediate future. For example, understanding when new investment would be triggered allows the City to focus its limited resources on actions that will be the most productive and beneficial use of those resources.

Identify Areas of Opportunity and Gaps

While understanding the development opportunity is essential, the City must also understand the current condition within the neighborhood and seek to invest in the types of things that will bring about change. In the case of SLU, the City embarked on creating a unique community ecosystem necessary to support the community that is there. In creating these ecosystems, the City must identify the gaps (the distance between reality and vision) so that it can prioritize its actions and investments.

Focus Action

The City should direct public actions that capitalize on opportunities, build on community assets, and close gaps. On the regulatory front, it is critical to align the regulatory framework with an area's vision and market demand. Infrastructure can be targeted to support specific land uses or can be used to solve specific growth constraints. Incremental adjustments to different types and levels of public services can address public safety and livability issues. Lastly, the City's ability to acquire, assemble, modify, and sell land provides a unique opportunity to reposition land holdings that may be important to realizing the community vision.

Implementation: Get the Most for the Dollar

Create Value

Regulatory actions in SLU were able to create incremental tax value to the City. Conceptually, a portion of that value can be "dedicated" to support the necessary public improvements in the area.

Leverage Actions

Leveraging actions refers to both private and other public actors. The City needs to identify how the placemaking actions above create value (public and private) for interested parties and where that value can be used for leveraging actions and investments with partners.

Realize Returns

Once actions and investments are made, the City should ensure that its policies and land use regulations are aligned to those actions to fully realize their future benefits.

Equity: Foster Diverse and Equitable Communities

While growth can offer many broad public benefits, those benefits might not flow equitably to all. To build diverse and equitable places, the City needs to ensure that its placemaking actions also address those who may be negatively impacted. Additional tools and policies to do this include investment in affordable housing development, inclusion of incentive zoning, tax breaks, historic preservation incentives, transit investments, and use of development agreements.