ECONOMIC IMPACTS OF SEATTLE INDUSTRIAL AREA ZONING CHANGES

PREPARED FOR CITY OF SEATTLE DEPARTMENT OF PLANNING AND DEVELOPMENT

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I. INTRODUCTION AND SUMMARY

INTRODUCTION

Recent stories in the media highlight the moves or potential moves of Seattle manufacturing firms to surrounding communities. While there are a variety of circumstances related to each location decision, a common one is the cost of owning or renting industrial sites and facilities in Seattle. As land price increases outpace the increase in business income, industrial real estate becomes less affordable to industrial users. Purchases of land for non-industrial use can contribute to these increases in price.

In response to pressure on the price of industrial lands, the Mayor of Seattle proposed and the City Council adopted restrictions in December 2007, on the amount of commercial uses that are allowed in general industrial zones. The general industrial zones allow for heavier industrial and manufacturing activity. Lands with these designations represent 90% of all industrial zoned land in the city.

	Previous	Current
IG 1		
Office	50,000 square feet	10,000 square feet
Retail	30,000 square feet	10,000 square feet
IG 2		
Office	100,000 square feet	25,000 square feet
Retail	75,000 square feet	25,000 square feet

The intent of the changes is to reduce the demand for industrial lands for non-industrial uses, and thereby reduce the rate of increase in land prices.

The City's Department of Planning and Development (DPD) has commissioned an analysis of the impact of the restrictions on land prices and industrial absorption. Property Counselors, a Seattle-based economic consulting firm is conducting the study. The scope of the study includes the following:

- Review of industrial market trends for Puget Sound area industrial markets.
- Review of land price trends in Puget Sound industrial areas.
- Analysis of land sales in general industrial zones in Seattle to determine the relationship of intended use and land price.
- Estimates of future demand.

- Consideration of the potential impact of a Transfer of Development Rights (TDR) program in conjunction with the restrictions.

This report documents the results of the analysis. The report is organized in five sections.

Introduction and Summary

Industrial Market Conditions and Trends

Industrial Land Sale Trends

Projected Impacts of Use Restrictions

Potential for Transfer of Development Rights Program

The results are summarized in the remainder of this section.

SUMMARY

INDUSTRIAL MARKET OVERVIEW

The Puget Sound Industrial Market as surveyed by Colliers International includes 225 million square feet of space, of which 55 million or 24% are in Seattle. The Seattle submarket had a very low vacancy rate at 4.3% at the end of 2007. The Seattle submarket absorbed 1.2 million square feet of space between 2001 and 2007, only 7% of the total Puget Sound market, as Seattle has lost market share. Industrial rents in Seattle have remained generally level over the past five years, but exceed the rates in South King County and Snohomish and Pierce counties.

INDUSTRIAL LAND SALE TRENDS

Previous analyses by City staff documented a pattern of industrial land prices in Seattle that were generally stable from 1982 through 2000, with rapid increases thereafter. The analysis in this report focuses on the period 1998 to early 2008. There were 99 industrial land sales during this period as reported by Co-Star. The average sale price tripled over this period, from approximately $10.00 to $34.00 per square foot. However, these sales include some sites that weren't zoned industrial. Price increases for Seattle industrial zoned lands aren't nearly as dramatic. Sixty-five of the 99 total sales in the market were in IG-1 and IG-2 zones in South Seattle and Interbay. Average sale prices increased by 60% in IG-1 zones in South Seattle to approximately $26.00 per square foot. There were too few sales to draw definitive conclusions in the Ballard/Interbay areas. Price increases were modest, although the average prices of Ballard/Interbay IG-2 lands are $30.00 to $45.00 per square foot. The small number of sales in IG-2 zones in South Seattle obscures any trends.

Prices are considerably lower outside Seattle, at $7.00 to $11.00 per square foot in the Kent Valley, $4.00 to $8.00 per square foot in Pierce County, and $5.00 to $8.00 per square foot in Snohomish County. These differences can be attributed to several factors:

- The supply of industrial land is much greater outside Seattle.
- Many of the industrial sites in Seattle have existing improvements which drive up seller expectations.
- Many Seattle sites have unique competitive characteristics, including proximity to the Port, rail access, water access, lower utility costs, or proximity to other users.

IMPACT OF LAND USE RESTRICTIONS

The experience of existing manufacturing companies and the general conditions in the region support the following conclusions regarding industrial development trends:

- Seattle has a competitive advantage over other areas, as reflected in the higher average rents paid by industrial users in Seattle compared to South King County, Pierce County, and Snohomish County.
- Increases in rents haven't kept pace with increases in land prices. Eventually, the price of land will drive up rent levels. With current rents at somewhat stable levels, there hasn't been much pressure on businesses that lease. However, if a business needs to expand or find a new facility, the land price will affect rents for new facilities.
- The highest median land prices for general industrial lands are evident in the IG-2 zoned lands in Ballard/Interbay. IG-1 zoned lands in South Seattle and Interbay are in the $20.00 to $30.00 range. IG-1 zoned lands in South Seattle have shown the fastest rate of increase over the past three years.
- Most recent sales in the general industrial zones have involved non-industrial uses, either committed or speculative.
- Industrial zoned lands are well utilized with only 12% of the lands classified as vacant (*City of Seattle Industrial Land Study,* August 1, 2005), and even that land is frequently used for outdoor staging or storage. The city does not offer the kinds of "greenfield" sites available elsewhere.
- Several manufacturing firms have decided or are considering leaving the city. High land prices, particularly in the Ballard/Interbay area, are a factor. While these businesses are willing to pay more to stay in Seattle, the availability of suitable sites is limited.

Land prices in industrial zones are likely to settle at equilibrium levels in the range of $15.00 to $25.00 per square foot for industrial lands in South Seattle. The industrial lands in Ballard/Interbay, particularly IG-2 lands, have been $30.00 per square foot or higher since 1998, reflecting the impact of demand by non-industrial users much earlier. A stabilized price of $20.00 to $25.00 for these areas would represent a return to price levels pre-1998.

Reduced land price pressures may allow that market share to increase beyond the recent level of 7% of the Puget Sound Industrial Market. The high utilization of the industrial lands will make it difficult to approach market shares commensurate with the city's 24% share of the regional industrial inventory.

POTENTIAL FOR TRANSFER OF DEVELOPMENT RIGHTS PROGRAM

Transfer of development rights (TDR) has been identified as a potential tool to reduce the pressure to convert industrial lands to other uses. Under such a program, an industrial parcel with excess capacity could sell development rights to a developer of another site, allowing the latter project to exceed the amount of development that would otherwise be allowed. In simple terms, the value of the development rights is equal to the prevailing value of land divided by the maximum floor area ratio for that property. The value of development rights could be set at a level of $20 to $30 per square foot. Any point in the range would provide fair value to the seller of the development rights. A value at the lower end of the range would provide a strong incentive to the buyer.

The net impact of a TDR program can be summarized as follows:

- A TDR program would provide a basis for allowing extra density for selected sites that meet stated public objectives.
- A TDR program would provide a source of revenue to property owners who leave their properties in industrial use.
- The program would not address the biggest problem in attracting and maintaining manufacturing firms: the availability of suitable sites for expansion and relocation.
- The availability of the program would offset the dampening effect of the restrictions on non-industrial uses.

II. INDUSTRIAL MARKET OVERVIEW

Seattle is part of the larger Puget Sound Industrial Market. Trends in this market affect land prices in the Seattle industrial areas.

Total building area, vacancy status, and typical rental rates for Puget Sound industrial submarkets as of the end of 2007 are summarized in Table 1.

Table 1
Puget Sound Industrial Market Conditions
Fourth Quarter - 2007

Submarket	Total Sq Ft	% of Total	Vacant Sq Ft	Vacancy Rate	Rent Rate*
Seattle	54,600,181	24.2%	2,352,147	4.31%	$0.41-$0.65
Kent Valley	90,400,592	40.2%	4,243,986	4.69%	$0.32-$0.64
Pierce County	46,163,480	20.5%	3,873,801	8.39%	$0.29-$0.68
Eastside	24,028,346	10.7%	1,785,624	7.43%	$0.63-$0.70
Northend	9,963,989	4.4%	630,721	6.33%	$0.55-$0.65
Total	225,156,588	100.0%	12,886,279	5.72%	

Source: Colliers International, Fourth Quarter 2007, Industrial Statistical Reports

* Net lease basis

Market measures vary according to the source of the information. The Colliers International data provide a consistent time series and detail on subareas.

Industrial space in the Puget Sound region totaled 225 million square feet at the end of 2007, with the Kent Valley submarket accounting for 40% of the total supply. Overall vacancy was 5.7% as of late 2007. Vacancy was highest in Pierce County at 8.4% and lowest in the Seattle submarket at 4.3%. Highest rental rates occur in the Eastside, Northend, and Seattle submarkets.

Historical vacancy trends among the Puget Sound submarkets since 2001 are provided in Table 2.

Table 2
Puget Sound Industrial Vacancy Trends 2001-2007

Submarket	2001	2002	2003	2004	2005	2006	2007
Seattle	3.45%	4.14%	5.46%	5.85%	6.26%	5.69%	4.31%
Kent Valley	10.80%	11.34%	11.87%	8.51%	6.38%	5.12%	4.69%
Pierce County	9.97%	11.00%	8.83%	6.26%	5.03%	7.23%	8.95%
Eastside	12.73%	17.55%	19.43%	18.16%	13.50%	8.09%	7.43%
Northend	14.50%	20.36%	23.69%	21.82%	18.22%	16.33%	6.33%

Source: Colliers International, Industrial Statistical Reports, Year-end 2001-2007

Vacancy in most submarkets has steadily declined during the past four years, with the exception of Pierce County. The greatest decrease is evident in Snohomish County where vacancy peaked in 2003 after Boeing vacated a number of buildings. The Eastside has also experienced a sharp drop in vacancy, going from 19.4% in 2003 to the late 2007 rate of 7.4%. Vacancy in the Close-In Seattle market increased each year between 2001 and 2005, then declined the last two years to its 2007 year-end level of 4.3%.

Table 3 summarizes absorption trends for the period. Absorption is calculated as the change in occupied space over any period. As shown in the table, the period 2001 through 2003 showed negative absorption in total and in four of the five submarkets. This period corresponds to the economic slowdown at the beginning of the decade. Conditions improved considerably in the subsequent four years with total absorption of 26 million square feet. The Close-In Seattle market absorption represents 7% of total absorption in the Puget Sound industrial market, well below its share of the total inventory of 24.2% shown in Table 1. The Close-In market has lost market share to the other submarkets.

Table 3
Puget Sound Industrial Absorption Trends

Submarket	2001-2003	2004-2007	2001-2007	% of Total
Seattle	(1,306,853)	2,547,482	1,240,629	7.0%
Kent Valley	(2,898,434)	9,796,308	6,897,874	38.7%
Pierce County	426,640	9,006,405	9,433,045	53.0%
Eastside	(3,537,365)	2,679,005	(858,360)	-4.8%
Northend	(895,753)	1,992,606	1,096,853	6.2%
Total	(8,211,765)	26,021,806	17,810,041	100.0%

Source: Colliers International, Industrial Statistical Reports, Year-end 2001-2007

Historical rent trends since 2002, as compiled by officespace.com, are tabulated below. This source utilizes data obtained for existing buildings that are available for lease, providing an average shell rate by submarket.

Table 4
Puget Sound Industrial Rents
2002-2007

Market	2002	2003	2004	2005	2006	2007
Downtown	$0.51	$0.52	$0.52	$0.51	$0.48	$0.52
Eastside	$0.59	$0.57	$0.56	$0.56	$0.56	$0.61
Northend	$0.48	$0.47	$0.48	$0.48	$0.48	$0.51
Southend	$0.36	$0.36	$0.36	$0.37	$0.38	$0.41
Tacoma	$0.35	$0.33	$0.33	$0.33	$0.33	$0.34
Total	$0.42	$0.41	$0.41	$0.41	NA	$0.44

Source: officespace.com, Seattle Industrial/Flex Shell Rates, Year-end 2002-07

Rental rates in most submarkets have increased slightly since 2002, although the overall increase is marginal. Again, Pierce County has the lowest rents, averaging $0.34 per square foot as of late 2007. The markets are defined differently in this data source, with Downtown representing the Close-In industrial market. Rents in Seattle are higher than average for the region, but have not increased significantly over the period.

Supply and vacancy data by submarket within the Close-In Seattle market is summarized in Table 5.

Table 5
Close-in Seattle Industrial Vacancy Data
By Submarket as of Year End 2007

Submarket	Total Sq Ft	Vacant Sq Ft	Vacancy Rate
South of Spokane St.	17,895,240	1,194,100	6.67%
North of Spokane St.	10,398,605	299,081	2.88%
North Seattle	14,526,756	538,725	3.71%
West of Duwamish	7,667,950	156,624	2.04%
East Hill	4,111,630	163,617	3.98%
Total	54,600,181	2,352,147	4.31%

Source: Colliers International, Fourth Quarter 2007 Close-In Seattle Industrial Statistical Report

The largest concentration of industrial space is located south of Spokane St., which accounts for one-third of the Close-In market's total supply. This area also has the highest vacancy rate at 6.7% as of late 2007. Vacancy in all the other Seattle submarkets is quite low, ranging from just over 2% west of the Duwamish to just under 4% in the East Hill area (Capitol Hill/Rainier Valley).

Minimal new industrial construction has been completed in the Close-In Seattle market in recent years. The most prominent new project is Cloverdale Corporate Park, consisting of two 50,460 square foot buildings built in 2006 at 9400 Fourth Avenue South. Capital Industries rebuilt 56,145 square feet of manufacturing space on their 5801 3rd Avenue in the Georgetown district in 2005, replacing a building destroyed by a fire the previous year. Colliers International reports that a total of 571,420 square feet of new industrial space was completed in the Close-In market during 2005-2007, but most of this product (other than Cloverdale Corporate Park) is actually office or research/development space rather than industrial space.

III. INDUSTRIAL LAND SALE TRENDS

AGGREGATE TRENDS

Industrial land sale trends in Seattle between 1998 and April 2008 are summarized in Table 6 below. A chart of industrial land price trends going back to 1982 was included in the report of the *Mayor's Recommendations for Industrial Lands,* August 2007. That chart shows only modest increases in prices from 1982 to 2000, with rapid growth thereafter. This section provides a more detailed analysis of the latter period.

Table 6
Industrial Land Sale Trends 1998 to 2008

All Seattle:

Time Period:	1998-2000	2001-2003	2004-2005	2006-2008
Number of Sales	36	26	13	24
Total Land Area (SF)	6,152,476	1,365,193	1,076,292	2,696,280
Average Area (SF)	170,902	52,507	82,792	112,345
Average Price (Per SF)	$10.02	$18.60	$21.04	$34.28
Median Price (Per SF)	$15.53	$27.28	$43.06	$37.46

Source: Co-Star

The Co-Star Group maintains a database of property sales in the region. They report a total of 99 industrial land sale transactions in the Seattle submarket since 1998. Approximately two-thirds of the sales occurred between 1998 and 2003. Average price on a per square foot basis has increased nearly three-fold since 1998 to an average of $34.28 per square foot for 2006-2008. The median price more than doubled to $37.46 per square foot for the current period. The median differs from the average because of the influence of large sites that typically had lower prices per square foot.

The Seattle market as defined by Co-Star includes areas immediately adjacent to Seattle to the south. These include the submarkets of Tukwila/Renton (around Boeing Field) and Burien/Seatac (near South Park). Details on prices in the "Outside Seattle" areas as well as subareas within Seattle are summarized in Table 7.

Table 7
Industrial Land Sale Trends by Subarea 1998 to 2008

South Seattle:

Time Period:	1998-2000	2001-2003	2004-2005	2006-2008
Number of Sales	19	14	4	10
Total Land Area (SF)	1,560,036	809,251	163,217	1,480,291
Average Area (SF)	82,107	57,804	40,804	148,029
Average Price (Per SF)	$16.28	$14.91	$24.75	$15.95
Median Price (Per SF)	$13.73	$20.80	$22.00	$26.31

Source: Co-Star

Ballard/Interbay:

Time Period:	1998-2000	2001-2003	2004-2005	2006-2008
Number of Sales	5	7	3	3
Total Land Area (SF)	166,449	154,870	204,182	514,355
Average Area (SF)	33,290	22,124	68,061	171,452
Average Price (Per SF)	$22.73	$24.18	$47.43	$38.36
Median Price (Per SF)	$30.68	$37.46	$44.78	$37.46

Source: Co-Star

Other Seattle

Time Period:	1998-2000	2001-2003	2004-2005	2006-2008
Number of Sales	6	3	3	8
Total Land Area (SF)	1,423,221	127,294	34,359	319,265
Average Area (SF)	237,204	42,431	11,453	39,908
Average Price (Per SF)	$16.46	$65.50	$74.70	$125.60
Median Price (Per SF)	$40.08	$61.29	$59.81	$144.71

Source: Co-Star

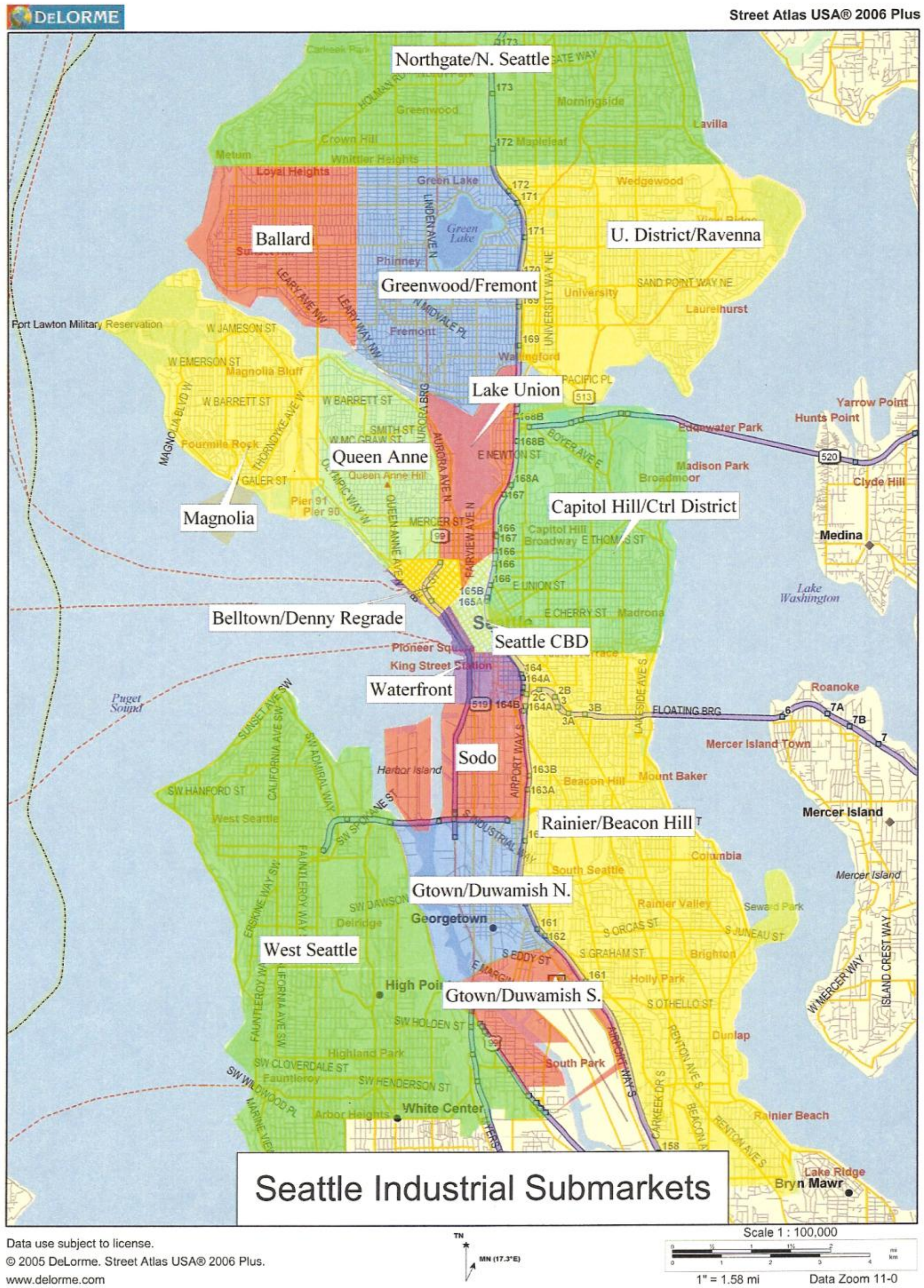
Outside Seattle

Time Period:	1998-2000	2001-2003	2004-2005	2006-2008
Number of Sales	6	2	3	3
Total Land Area (SF)	3,002,770	273,778	674,534	382,369
Average Area (SF)	500,462	136,889	224,845	127,456
Average Price (Per SF)	$3.02	$4.53	$9.42	$23.54
Median Price (Per SF)	$5.92	$4.53	$9.29	$24.84

Source: Co-Star

South Seattle includes the submarkets of SoDo, North and South Duwamish, Rainier Valley/Beacon Hill, and West Seattle (subarea boundaries are shown in Figure 1). The average price was no higher in 2006-2008 than in 1998-2000. However, that result reflected the impact of large land sales. The median prices doubled over the period.

Figure 1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1" = 1.58 mi
Data Zoom 11-0

Ballard/Interbay includes the subareas of Ballard and Queen Anne/Magnolia. The average price increased by 67%, while the median increased by only 22%. "Other Seattle" includes Northgate, Lake Union, Capitol Hill/Central District, CBD, and Waterfront. These areas show the largest increases in price per square foot, with the average increasing from $16.00 to $125.00, and the median increasing from $40.00 to $145.00.

The contribution of the subareas to the overall results is summarized in Table 8. The figures reflect activity in areas that aren't typically considered industrial. A land sale is considered industrial if the current use is industrial. However, many of the sales are in areas designated for commercial uses.

Table 8
Land Sales Trends by Subarea

	1998-2000		2001-2003		2004-2005		2006-2008	
	Sales	Avg Price	Sales	Avg Price	Sales	Avg Price	Sales	Avg Price
South Seattle								
Sodo	8	18.46	3	21.02	2	56.64	2	53.18
Rainier/Beacon Hill	1	13.81	3	47.14	-		2	84.37
Duwamish North	5	14.80	5	17.66	1	26.37	2	2.97
Duwamish south	1	21.64	1	9.11	1	10.55	1	24.10
West Seattle	4	11.16	2	10.63	-		3	22.12
Subtotal	19	16.28	14	14.91	4	24.75	10	15.95
Ballard/Interbay								
Ballard	4	22.21	1	35.00	2	57.84	1	61.11
Queen anne/Magnolia	1	36.68	6	23.43	1	41.72	2	33.95
Subtotal	5	22.73	7	24.18	3	47.43	3	38.36
Other Seattle								
Capitol Hill/Central District	-		-		-		2	163.07
Lake Union	4	61.95	1	54.76	-		5	171.35
Northgate/North Seattle	-		-		1	34.14	1	30.61
Seattle CBD	-		-		1	176.81	-	
Pioneer Square/Waterfront	2	10.94	2	67.66	1	59.81	-	
Subtotal	6	16.46	3	65.50	3	74.70	8	125.60
Total	30	16.70	24	22.13	10	40.55	21	36.06

Source: Co-Star and Property Counselors

Table 9 summarizes the land sale trends by zoning designation. Of the 85 indicated land sales within the city limits, 65 were in the four industrial zones – IB, IC, IG-1, and IG-2. Many of the high priced sales were for properties with non-industrial zoning.

Table 9
Land Sales Trends by Zoning Designation

	1998-2000		2001-2003		2004-2005		2006-2008	
	Sales	Avg Price	Sales	Avg Price	Sales	Avg Price	Sales	Avg Price
IB	1	25.25	-		1	44.78	-	
IC	2	10.94	-		1	59.81	2	111.74
IG1	14	17.84	7	13.97	3	16.66	6	25.64
IG2	10	14.00	11	25.20	3	50.98	4	15.50
C1	-		3	47.14	-		2	109.80
C2	1	105.26	2	20.09	1	34.14	3	38.48
NC1	-		-		-		1	86.09
NC3	1	54.90	-		-		-	
DMC	-		-		1	176.81	1	447.92
PSM	-		1	144.87	-		-	
SCMR	1	95.02	-		-		-	
SM	-		-		-		1	142.91
L-3	-		-		-		1	168.16
	30	16.70	24	22.13	10	40.55	21	36.06

Source: Co-Star and Property Counselors

Since the IG zones represent 90% of the industrial zoned land and are the subject of the recent Council action, it's appropriate to focus on land sale trends in the IG zones, as shown in Table 10.

Twenty-six of the 65 sales were in IG-1 zones in South Seattle. The average sale price figures and median price figures both show significant price increases in the past three years. There were only four sales in IG-1 zones in Interbay. While the number of sales is too small to draw definitive conclusions, the price increases were modest. Fourteen of the sales were in IG-2 zones in South Seattle. The small number of sales in the past two periods obscure any trends. Thirteen of the sales were in IG-2 zones in Interbay. While the number of sales is too small to draw definitive conclusions, the price increases were modest. Prices in these areas were the highest of the four areas in Table 10.

Table 10
Industrial Land Sales Trends – IG-1 and IG-2

South Seattle IG1:

Time Period:	1998-2000	2001-2003	2004-2005	2006-2008
Number of Sales	13	5	3	5
Total Land Area (SF)	1,195,669	284,074	144,317	334,369
Average Area (SF)	91,975	56,815	48,106	66,874
Average Price (Per SF)	$17.81	$17.03	$16.66	$26.72
Median Price (Per SF)	$16.05	$19.59	$17.62	$24.12

Source: Co-Star

Ballard/Interbay IG1:

Time Period:	1998-2000	2001-2003	2004-2005	2006-2008
Number of Sales	1	2	0	1
Total Land Area (SF)	110,206	93,017		97,234
Average Area (SF)	110,206	46,509		97,234
Average Price (Per SF)	$18.15	$4.62		$21.91
Median Price (Per SF)	$18.15	$4.62		$21.91

Source: Co-Star

South Seattle IG2:

Time Period:	1998-2000	2001-2003	2004-2005	2006-2008
Number of Sales	6	5	1	2
Total Land Area (SF)	364,367	395,387	18,900	873,137
Average Area (SF)	60,728	79,077	18,900	436,569
Average Price (Per SF)	$11.27	$11.83	$86.51	$2.75
Median Price (Per SF)	$6.99	$30.56	$86.51	$15.20

Source: Co-Star

Ballard/Interbay IG2:

Time Period:	1998-2000	2001-2003	2004-2005	2006-2008
Number of Sales	4	5	2	2
Total Land Area (SF)	56,243	61,853	195,584	417,121
Average Area (SF)	14,061	12,371	97,792	208,561
Average Price (Per SF)	$31.70	$53.59	$47.55	$42.19
Median Price (Per SF)	$30.68	$37.46	$44.78	$37.46

Source: Co-Star

In summary, the price trend analysis indicates the following:

- Considering all industrial sites in the Seattle market as defined by Co-Star, the average sale prices increased almost three-fold.
- The trends were affected by sales of parcels outside traditional industrial areas, and parcels with commercial zoning.
- Sixty-five of the 99 total sales in the market were in IG-1 and IG-2 zones in South Seattle and Interbay. Average sale price increased by 60% in IG-1 zones in South Seattle. There were too few sales to draw definitive conclusions in the Ballard/Interbay areas, but the price increases were modest. The small number of sales in IG-2 zones in South Seattle obscures any trends.

RECENT SALES

Recent sales provide further insight on the behavior of land prices in the industrial areas. Table 11 summarizes the characteristics of several sales over the past five years.

Table 11
Recent Industrial Sales

				Existing Structures				Land		Intended Use	
No.	Identification/ Location	Sale Date	Sale Price	Year Built	Bldg Area (Sq Ft)	Price/ Sq Ft	Land Area	Price/SF Land	Zoning	Bldg Area (Sq Ft)	Price/ Sq Ft
	Duwamish Area:										
1	Former Nicholson Machine 3670 E. Marginal Way	Nov-06	$5,150,000	1947	79,950	$64.42	231,029	$22.29 *(exc. demo costs)*	IG2U/85	63,000	$105.56 *(inc. demo costs)*
2	Former Warehouse 2462 1st Ave. S.	Jul-06	$5,050,000	1918	21,900	$230.59	31,363	$161.02	IG2U/85	NA	NA
	BINMIC North Area:										
3	Former industrial facilites 1400 Block NW 46th St.	Jan-06	$6,000,000	NA	NA	NA	93,450	$64.21	IG2U/65	134,000	$44.78
4	Former Color Tech, etc. 4517 14th Ave. NW	May-07	$8,925,000	1926/57	80,640	$110.68	102,132	$87.39	IG2U/65	269,000	$33.18
5	Vacant Industrial Land 1616 W. Bertona St.	Mar-07	$3,600,000				51,000	$70.59	IG2U/45	86,500	$58.96
6	Portion - Yankee Grill site 5300 24th Ave. W.	Mar-07	$4,300,000	NA	NA	NA	41,992	$102.40	IG1U/65	134,000	$32.09
7	Former Marco Property (Portion) 2320 W. Commodore Way	Oct-06	$1,600,000	NA	NA	NA	35,164	$45.50	IG1U/45	33,500	$47.76
	BINMIC South Area:										
8	Former Off/Whse Buildings 1800-2000 15th Ave. W.	Jun-04 Mar-01	$4,750,000 $5,250,000	1967	60,595	$78.39	130,680 156,372	$36.35 $33.57	IG2U/45 IG2U/45	80,508	$59.00
9	Former Steel Buildings 1805-1819 15th Ave. W.	Apr-05	$5,500,000	NA	NA	NA	131,834	$41.72	IG1U/45	89,000	$61.80
10	Former School 1600 W. Armory Way	Aug-06	$12,500,000	1942	86,352	$144.76	333,669	$37.46	IG2U/45	NA	NA

Sale 1 is an 80,000 square foot former steel fabrication facility at 3670 E. Marginal Way that was built in 1947. The buyer intends to demolish the improvements and redevelop the 5.30-acre site with a 63,000 square foot Restaurant Depot facility, consisting of wholesale showroom space and 201 parking spaces. Purchase price was $5.15 million in late 2006, or $22.29 per sq ft for the land; inclusion of $1.5 million of demolition costs indicates a land value of nearly $29.00 per sq ft.

Sale 2 consists of four warehouses and a retail building totaling 21,900 sq ft, located at the northeast corner of 1st Ave. S. and Lander St. in the SODO district. The buildings were constructed between 1918 and 1941. This property was purchased by Henry Liebman from the Monorail Authority in mid-2006 for $5.05 million, indicating a land price of $161.00 per sq ft. The buyer reportedly intended to assemble the site with adjacent property to the north for future commercial development, but plans are now on hold due to the industrial land regulatory changes passed by the City in late 2007.

The Monorail Authority had acquired most of the above site in 2004 for $86.00 per sq ft. Liebman previously purchased several adjacent parcels directly north of Sale 2 (all improved with older buildings) between 1995 and 2001 at land prices of $54.00 to $58.00 per sq ft.

Sales 3 and 4 are both full block sites located between 14th and 15th Ave. NW, just east of the Ballard Bridge. Several older industrial structures on Sale 3 were demolished for redevelopment with a 134,000 square foot mixed-use project known as Ballard Blocks 1, consisting of a Trader Joe's, health club, and 468-stall parking garage. Purchase price in early 2006 was $6 million, equivalent to $64.00 per sq ft for the land.

Sale 4 is the entire block directly south of Sale 3. This property sold in May 2007 for $8.925 million, or $87.00 per sq ft of land area. Existing improvements, including the former Color Tech building, totaling 80,640 square feet, are slated for demolition to make way for redevelopment of the site with Ballard Blocks 2, consisting of two buildings: a five-story structure with 25,000 sq ft of ground floor retail, 100,000 sq ft of office, and parking for 262 vehicles below grade; and a four-story structure with 44,000 sq ft of ground floor retail, 100,000 sq ft of office, and parking for 300 vehicles below grade.

Development plans for both Sales 3 and 4 were approved prior to the City's industrial land regulatory changes in late 2007.

Sale 5 is a vacant industrial-zoned site on W. Bertona St., south of the Ship Canal. Proposed development, approved just before the down zone measures were enacted last December, consists of 41,000 square feet R&D, 27,000 sf office, 8,500 sf light manufacturing, 10,000 sf retail, 7,500 sf restaurant, and parking for 178 vehicles. This site sold in March 2007 for $3.6 million, or $71.00 per sq ft.

Sale 6 is a portion of the former Yankee Grill restaurant site on Shilshole Ave. and 24th Ave. W., on the north side of the Ship Canal. The property was split and this transaction represents the purchase of the vacant northern portion by a hotel developer, who had to obtain conditional use approval for hotel use on this IG1 zoned land. Construction of a 6-story, 170-room hotel is slated to commence in the coming months. Sale 6 closed in March 2007 at $102.00 per sq ft, although the buyer began applying for permits three years ago.

Sale 7 is a former industrial marine building in the Marco development between the Ship Canal and W. Commodore Way, just east of Fisherman's Terminal. The structure was demolished and the property is being redeveloped with a four-story, 33,500 square foot administrative office/warehouse facility containing commercial office condos. Sale 7 occurred in October 2006 for $1.6 million, indicating a land price of $46.00 per sq ft. Sales of other sites in the immediate vicinity during the last three years range between $30.00 and $67.00 per sq ft, with current values estimated at the upper end of this range.

Sale 8 is the assemblage of numerous parcels along the west side of 15th Ave. W. in the Interbay area. Four office/warehouse buildings were razed to make way for an 80,508 sq ft retail development anchored by Whole Foods. The north portion of the property was acquired in June 2004 for $4.75 million ($36.00 per sq ft), while the south portion was purchased in March 2001 for $5.25 million ($34.00 per sq ft).

Sale 9 is a three-acre site directly south of Sale 8. The Port of Seattle bought the property in April 2005 for $5.5 million, indicating a land price of $42.00 per sq ft. Proposed development consists of a three-story, 89,000 sq ft office building with 102 parking spaces below grade.

Sale 10 is a 7.7-acre site at the northwest corner of 15th Ave. and W. Armory Way, just north of Sale 8. Existing improvements include a former school built in 1942. This is another property originally acquired by the Monorail Authority that was resold in August 2006. Sale price was $12.5 million, indicating a land price of $37.00 per sq ft.

The 10 sales suggest the following conclusions:

- Only one of the sales (Sale 1) was based on an intended industrial use. The land price per square foot of land is the lowest of the 10 sales.
- Several of the sales were acquired for commercial uses, and development plans are vested (Sales 3, 4, 5, 6, and 8). These sales are relatively older, but the land price per square foot is higher than the average sale prices in the Seattle area.
- Several of the sales were based on intended commercial uses, with development plans affected by the recent restrictions on use (Sales 2, 9, and 10). The land price per square foot is higher than the average sale price in the Seattle area.

INDUSTRIAL LAND VALUES OUTSIDE SEATTLE

Industrial sites elsewhere in the region provide alternatives for Seattle industrial users. Land prices in industrial areas outside Seattle provide a comparison to Seattle areas. In the Kent Valley, the largest industrial market in the Puget Sound region, sale prices have generally ranged from $7.00 to $11.00 per square foot during the last couple of years. The most recent prices, at the upper end of this range, indicate an approximate 20-30% increase since 2006.

Industrial land prices in suburban Pierce County typically fall in the range of $4.00 to $8.00 per square foot, averaging about $6.25 per square foot. Sites closest to the Port of Tacoma generally reflect values at the higher end of this range.

Sales of industrial land in Snohomish County indicate prices of $5.00 to $8.00 per square foot in recent years. Highest prices occur in the Paine Field and Bothell/Woodinville area, while sites in Monroe are typically $5.50 to $6.00 per square foot.

Prices in these other areas are significantly lower than prices in Seattle. These differences can be attributed to several factors:

- The supply of industrial land is much greater outside Seattle.
- Many of the industrial sites in Seattle have existing improvements which drive up seller expectations of value.
- Many Seattle sites have unique competitive characteristics, including proximity to the Port, rail access, water access, lower utility costs, or proximity to other users.

IV. IMPACT OF RESTRICTIONS ON COMMERCIAL USES

The restrictions on the amount of commercial space in general industrial zones have been in effect for less than six months. There are too few recent transactions to determine whether the restrictions have had any effect on land prices. However, the information in the previous section provides a basis for estimating impacts in the future.

RECENT MANUFACTURER LOCATION DECISIONS

Decisions by several local manufacturing firms regarding facilities in Seattle have been widely publicized in recent months. The *Puget Sound Business Journal* ran several articles in the April 2008 editions. The articles discussed several specific manufacturers.

> **Korry Electronics** was seeking a new 250,000-square foot site to replace their facility on Dexter Avenue near Lake Union. The firm was considering a site on Port of Seattle property in Interbay as well as several sites outside the city. (The firm has since chosen to move to Mukilteo.) The firm had a tentative offer from the Port of Seattle, but it was contingent on the Port's rezone of its Interbay property. Uncertainty over the availability of the space forced Korry to move elsewhere. Korry was willing to pay a higher rent in Seattle than in outlying areas.
>
> **Avtech** is looking for an affordable site for a 120,000-square foot facility, to replace its 90,000-square foot current facility in Wallingford.
>
> **GM Nameplate** sold its property with a 114,000-square foot multistory building on 15th Avenue West and is looking for an alternative site for a 150,000 to 200,000-square foot facility.
>
> **University Swaging** is an aerospace company that recently announced a move to Snohomish County. The company has outgrown its current facility of 38,000 square feet in Ballard and will move to a 107,000-square foot facility near Woodinville in South Snohomish County.

All four of these businesses were located in or near the Interbay area. All have outgrown their current facilities and are seeking larger new facilities. Land prices in Ballard and Interbay are certainly an issue as documented in the last section, but availability of sites of suitable size and characteristics is also a key factor in the decision.

FACTORS DRIVING IMPACTS

The experience of existing manufacturing companies and the general conditions in the region support the following conclusions regarding industrial development trends:

1. Seattle has a competitive advantage over other areas, as reflected in the higher average rents paid by industrial users in Seattle compared to South King County, Pierce County, and Snohomish County.

2. Increases in rents haven't kept pace with increases in land prices. Eventually, the price of land will drive up rent levels. With current rents at somewhat stable levels, there hasn't been much pressure on businesses that lease. However, if a business needs to expand or find a new facility, the land price will affect rents for new facilities.

3. The highest median land prices for general industrial lands are evident in the IG-2 zoned lands in Ballard/Interbay. (The highest price for an individual property was for an IG-2 zoned property in South Seattle.) IG-1 zoned lands in South Seattle and Interbay are in the $20.00 to $30.00 range. IG-1 zoned lands in South Seattle have shown the fastest rate of increase over the past three years.

4. Most recent sales in the general industrial zones have involved non-industrial uses, either committed or speculative.

5. Industrial-zoned lands are well utilized with only 12% of the lands classified as vacant (*City of Seattle Industrial Land Study,* August 1, 2005), and even that land is frequently used for outdoor staging or storage. The city does not offer the kinds of "greenfield" site available elsewhere.

6. Several manufacturing firms have decided or are considering leaving the city. High land prices, particularly in the Ballard/Interbay area, are a factor. While these businesses are willing to pay more to stay in Seattle, the availability of suitable sites is limited.

PRICE IMPACTS

The restrictions on the amount of office and retail buildings in general industrial zones will eliminate the speculative transactions evident in Table 12. Land prices in these zones will be affected by:

- What industrial users can afford to pay.

- What land prices were before the acceleration of price increases in recent years.

- What premium an industrial user is willing to pay over the price of a site outside the city.

An equilibrium price in the range of $15.00 to $25.00 per square foot is likely for industrial lands in South Seattle. The industrial lands in Ballard/Interbay, particularly IG-2 lands, have been $30.00 per square foot or higher since 1998, reflecting the impact of demand by non-industrial users much earlier. A stabilized price of $20.00 to $25.00 in these areas would represent a return to price levels pre-1998.

ABSORPTION

The precise impact of stabilized land prices on industrial absorption in the city is speculative. Reduced land prices will lower the overall cost and required rents for new industrial facilities. As noted earlier, however, cost may not be the sole criterion for location decisions.

- On the positive side, businesses are willing to pay a premium for proximity to the airport, Port facilities, existing businesses, affordable utilities, and an established workforce.

- On the negative side, a low cost site outside Seattle with expansion potential will be difficult to duplicate in Seattle.

The non-price factors will continue to influence location decisions.

As presented in Section II, the Seattle share of recent absorption has dropped to 7% of the total Puget Sound area in recent years. While reduced land price pressures may allow that market share to increase, the high utilization of industrial lands will make it difficult to approach market shares commensurate with the city's 24% share of the regional industrial inventory.

V. POTENTIAL FOR TRANSFER OF DEVELOPMENT RIGHTS

Transfer of development rights (TDR) has been identified as a potential tool to reduce the pressure to convert industrial lands to other uses. Under such a program, an industrial parcel with excess capacity could sell development rights to a developer of another site, allowing the latter project to exceed the amount of development that would otherwise be allowed. The seller of the development rights would receive consideration, and thereby be less inclined to allow the property to be converted. The eligible receiving sites for transferred development rights would be limited to specific projects meeting public objectives for economic development and employment retention/expansion.

The potential characteristics of such a program are considered further in this section, along with an assessment of potential impacts.

DEVELOPMENT CAPACITY AND DEVELOPMENT RIGHTS

The Seattle Municipal Code controls development capacity in the general industrial zones through a floor area (FAR) ratio maximum. FAR is the ratio of gross floor area to site area. The code allows for development in the IG1 and IG2 zones up to a maximum FAR of 2.5. The maximum amount of gross floor area on a 100,000 square foot site is 250,000 square feet. Floor area below grade, area for accessory parking and rooftop mechanical structures are exempted from the allowable gross floor area calculation.

As a practical matter, the actual floor area ratio for industrial buildings is typically less than 1.0. Such buildings are often single story, and a portion of the site is used for outdoor storage and staging. Of the ten land sales listed in Table 12, five had existing structures, and the FAR for those sites ranged from .26 (sale number 10) to .79 (sale number 4). The GM Nameplate facility mentioned in Section IV has multistory buildings and an FAR of 1.56, but the building is problematic for the current use.

DPD staff estimate that the average FAR for Seattle industrial lands is .5. There is clearly a large theoretical, if impractical unused development capacity.

TDR VALUES

The value of development rights are determined by the mutual agreement of buyers and sellers. In an efficient market, the buyers and sellers interests will converge.

The buyers of development rights will be willing to pay up to an amount equivalent to what it would cost to acquire development rights through another approach. The simplest approach is to acquire additional site area, presumably on a site adjacent to a subject site. The theoretical value of the development rights is equal to the cost of the land divided by the maximum floor area ratio for that property. The value of development rights associated with land priced at $50 per square foot with a maximum FAR of 2.5, is $20 per square foot of gross floor area. This simple theoretical formula is complicated in the real world by two factors. First, there may not be additional land available next to a subject property. Second, the development economics of an expanded project on a subject site (beyond what's allowed under base zoning) may be different than for the base project. An expanded project may incur additional development costs because of higher cost of construction or the necessity for a parking structure. At the same time, the potential income stream may be proportionately higher because of greater heights and improved views. On balance, the formula still provides a basis for considering impacts.

From the seller's perspective, the determinants aren't as obvious. The seller's options for obtaining consideration for unused development capacity are to sell all or a portion of the property. If the property can be segregated horizontally into an improved and an underutilized portion, the value of the underutilized portion is the value of the underlying land. Under an extreme example, consider a five story building covering 50% of the site. The entire unused development capacity could be sold for the value of the land in the undeveloped half of the site. The equivalent price per square foot of building development rights is equal to the land price divided by the maximum FAR. Under this example the seller would value the development rights at the same price as the buyer. However, under the more likely scenario that the property can't be segregated horizontally, the owner doesn't have a practical alternative other than TDR.

Considering the interest of both parties, the theoretical value of the development rights is equal to the prevailing market price for land divided by the realistic FAR for the property. A rational buyer would not pay more (except under extraordinary circumstances), and the seller has no leverage to demand a higher price.

The theoretical price can be estimated from information in the previous section.

Table 12. Recent Industrial Sales and Development Rights Value

		Price /sf Land	Intended FAR	Price /sf Building
1	3670 E. Marginal Way	$22.21	0.27	$105.56
2	2462 1st Ave. S.	$161.02		
3	1400 Block NW46th	$64.21	1.43	$44.78
4	4517 14th Ave. NW	$87.39	2.63	$33.18
5	1616 Bertona St.	$70.59	1.70	$58.96
6	5300 24th Ave. W.	$102.40	3.19	$32.09
7	2320 W. Commodore	$45.50	0.95	$47.76
8	1800-2000 15th Ave. W.	$36.36	0.62	$59.00
9	1805-1819 15th Ave. W.	$41.72	0.68	$61.80
10	10. 1600 W. Armory Way	$37.46		

There are wide ranges in value on both a per-square-foot of land basis and per-square-foot of building basis. The lowest values per square foot of building area are shown for the transactions with FAR's approaching 2.5. Based on this experience the value of the development rights to the purchaser is approximately $30 per square foot.

From the seller's perspective, given an equilibrium land price of $15 to $25 per square foot of land, and a practical FAR maximum of 1.0, the land value per square foot of building would be $15 to 25.

Overall the value of development rights could be set at a level of $20 to $30 per square foot. Any point in the range would provide fair value to the seller. A value at the low end of the range would provide a strong incentive to the buyer.

IMPACTS

The impact of a TDR program can be evaluated in terms of land values and business retention. Impacts can be understood from the perspective of both the buyers and sellers of development rights.

From the perspective of the seller, the sale of development rights provides a source of revenue to the property owner. If the owner is also the user of an industrial facility, the revenue improves the financial position of staying at the current site compared to relocating elsewhere. If the user is a tenant, the revenue may allow the landlord to moderate rent increases, but may not necessarily affect the financial position of a stay option. More importantly, the payment would do nothing to address the issue of availability of land for expansion. As noted in Section IV, the four businesses that have or are considering relocating are doing so because they have outgrown their existing facilities and can't expand on their existing site.

The availability of a TDR program will offset to some degree the dampening effect on land price increases, of the restrictions on non-industrial uses. The value of a property becomes the sum of its value to an industrial user (the first 1.0 FAR) plus the value of the excess development rights (the next 1.5 FAR).

The net impact of the program can be summarized as follows:

- A TDR program would provide a basis for allowing extra density for selected sites that meet stated public objectives.

- A TDR program would provide a source of revenue to property owners who leave their properties in industrial use.

- The program would not address the biggest problem in attracting and maintaining manufacturing firms: the availability of suitable sites for expansion and relocation.

- The availability of the program would offset the dampening effect of the restrictions on non-industrial uses.