

Seattle Daily Journal of Commerce

URBAN 2014

DEVELOPMENT



June 26, 2014

PLACEMAKING IS AT THE HEART OF URBAN INFILL

Successful projects must first focus on how they fit into and connect the neighborhood.

In Seattle our neighborhoods run the gamut from high-density downtown living to historic Columbia City to leafy Green Lake. But what they all do, among other things, is create a sense of place and foster social interaction and community.



BY JIM ATKINS
MACK URBAN

That is why we love our neighborhoods in Seattle. Each is distinct and its own destination.

During the expansion of suburban sprawl, many of Seattle's neighborhoods remained sleepy and underdeveloped with very little change. Not true today.

Today, we see urban infill in every neighborhood. Some of the new development is designed as an extension of the community, offering a sense of place, while other projects have an insular and more institutional design.

Personally, I am not a fan of projects that lack a connection to their surroundings. At Mack Urban, we believe that urban infill needs



Mack Urban's Eleanor project will add 260 apartments in two buildings to Seattle's Roosevelt neighborhood.

IMAGE COURTESY OF RUNBERG ARCHITECTURE GROUP

to do more than infill, it needs to "cultivate the in between" — in other words, maintain and expand the connections between buildings, public spaces, local services, infrastructure and the community.

Compact development needs to take on an interdisciplinary approach to truly add value. Development that is insular will never leverage the specific synergies of a site or create that sense

of place that we all value. In my 20 years of real estate investment in Portland, Los Angeles and Seattle, I have come to believe that to truly create value for a neighborhood, placemaking needs to be a hands-on tool not just a philosophy or urban design concept.

between" in order to maintain the unique character of its many neighborhoods.

It's not hard. In every neighborhood we have aging infrastructure that needs repair or public areas that require restoration. Coordinated infrastructure planning in tandem with new development can help to identify those shared opportunities and break down the typical development silo.

Often projects seem insular because there is nothing to connect them. I'm not advocating that the city transfer costs or the responsibility to private development. Rather, I'm suggesting that neighborhood development works best when the city acts as a coordinated infrastructure planner with a broad vision that can be spread across city departments and individual projects.

Could you imagine if we created form-based development standards in Seattle that graphically spelled out urban performance characteristics, neighborhood by neighborhood? Not just design review that addresses height, bulk and scale but an interdisciplinary approach that leverages the specific synergies of a site combined with that neighborhood's form and character.

At Mack Urban, when we approach a potential investment, we don't start with the "it" (the site). We start with context. And when you focus on context — how the site fits into the place, and connects to the place — you do everything differently. It's why I still get excited every time we start a new project in Seattle. We get to be part of the ongoing evolution of how a community is relating to its past, present and future.

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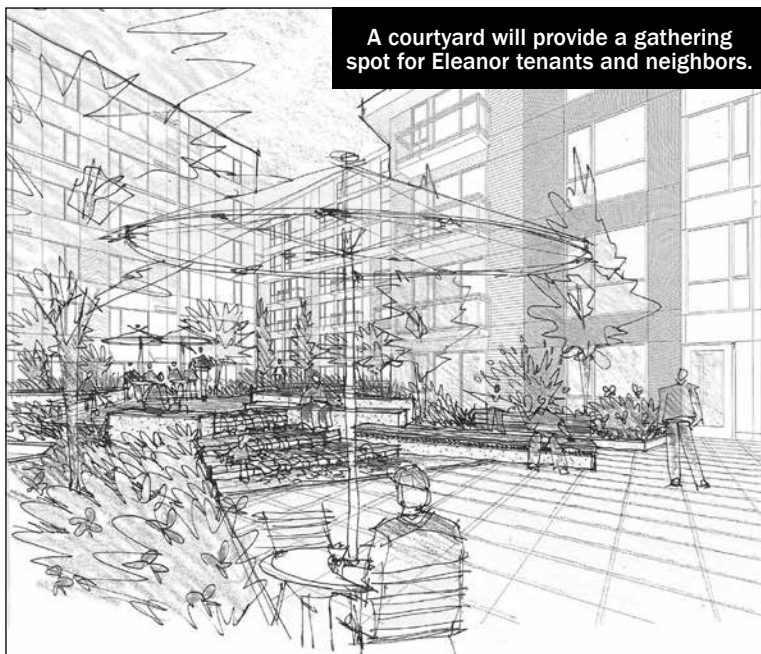
When I worked with Williams & Dame Development on the early design of Portland's Pearl District and the master plan for the South Waterfront, we created development codes that unlike traditional zoning are more flexible about land use while being more specific about development formats. By focusing on the formats we could better influence the character and create authentic placemaking qualities. It sounds technical but it's really very simple.

If you take an interdisciplinary approach you won't get insular development. That is why the Pearl District feels so connected even though the architecture and uses are as varied as any neighborhood or district. It's what led to such placemaking qualities as wooden sidewalks and pedestrian alleys.

Wouldn't those same wooden sidewalks feel authentic in Ballard? That is placemaking. It creates an interdisciplinary approach that connects the past, present and future. It doesn't have to be a bold statement, it just needs to be authentic.

Cultivating the in-between

As developers build more urban infill, the city of Seattle needs to continue to "cultivate the in-



A courtyard will provide a gathering spot for Eleanor tenants and neighbors.

IMAGE COURTESY OF HEWITT



A swale with meandering pedestrian paths at Eleanor will connect one corner of the block to the other.

IMAGE COURTESY OF RUNBERG ARCHITECTURE GROUP

I would get even more excited if we had the tools to find the intersecting benefits of each project.

For example, our new Roosevelt apartment project called Eleanor will have a swale that intersects the middle of the project and provides a pedestrian connection from one corner of a block to the other.

What if that pedestrian connection was part of a greater switchback or urban trail that is not just privately developed but a public-private partnership? It wouldn't happen overnight but nothing that promotes placemaking happens overnight.

leaders and local activist, thousands have worked together to "cultivate the in-between" along the central waterfront in order to ensure that what prevails is a world class public place that is fully engaged and connected to the neighborhood.

Thinking in terms of new partnerships and synergies, the city is developing a waterfront master plan that will be more than the sum. By broadening the landscape, the city has moved from a code-focused perspective to one that is much more about character and form.

Mack Urban is fortunate to be part of this new synergy with one of our projects at Western Avenue and University Street.

As one of the first new residential projects we will precede much of the waterfront improvements. Therefore we must give

careful thought and attention to design cues that the city is developing today. It's important, as our downtown turns toward Elliott Bay, that we are also thinking about how our project, given its location, completes Harbor Steps along University and connects pedestrians to the pier.

We see our project as much more than apartment homes. It is an "in-between" connection linking downtown to the waterfront and will have a placemaking role in promoting pedestrian interaction through its urban form.

At the end of the day, placemaking is all about the leveraged

opportunities that urban infill can bring, as long as it is more than simply infill.

Jim Atkins is managing director of Mack Urban, a West Coast real estate investment and development firm with five projects under development in Seattle.

About the sum

The Seattle central waterfront is an example of successful efforts toward placemaking. From city planners, local businesses, civic



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ON THE COVER

More place, less space is the mantra of apartment developers these days. You won't find individual balconies on many of the newer apartment buildings downtown; instead there are grand communal spaces such as this rooftop deck with pool at The Post on the northern border of Pioneer Square. Turn to page 20 for more trends in apartment development.

PHOTO BY WEBER THOMPSON

URBAN DEVELOPMENT TEAM

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DEMOGRAPHICS, JOBS PUMP UP APARTMENT DEMAND

New apartment construction in Seattle is approaching record rates, with nearly 10,000 units forecasted to come to market this year and 14,000 in 2015.

With the recent trend of declining home ownership rates and changing consumer preferences, more people are looking at apartments as a lifestyle choice rather than an economic choice. Today, nearly



BY JIM WIARD
WMFHA

35 million Americans call apartments "home," with more moving into apartments at a faster pace than in recent years.

Changes in household formation are influencing demand for rental housing. In 1955, married couples with children made up 44 percent of all households. Today they constitute just 20 percent, and that number continues to fall. In this decade, renters could make up 7 million new households — that's half of all new households. Home ownership rates have fallen to numbers not seen since the mid-1990s.

Two large demographic shifts are affecting the local and

national housing market: Echo boomers and the millennial generation are moving into the rental housing market at unprecedented rates, and the population of people turning age 65 is growing rapidly.

Younger people like the convenience and flexibility of renting, particularly in urban areas, as they join an ever mobile workforce. Baby boomers, empty-nesters and near-retirees continue to downsize their housing from the large homes purchased in the past to more manageable sized apartments or condominiums. Both age dynamics support new apartment household formation.

We are fortunate to live in an area with an extremely diverse economy that is attractive to out-of-state transplants seeking exceptional business opportunities and cherished recreational lifestyles. That has helped create an apartment construction boom rarely seen in the Seattle market.

With thousands of new units already delivered, new construction is approaching record rates, with nearly 10,000 units forecasted to come to market in 2014 and an additional 14,000



True North was 58 percent leased before it opened in May.

PHOTO BY NAT LEVY

units set for completion in 2015.

Average rents continue to rise in the Puget Sound region, but in large part due to the impact of new construction.

New construction has been primarily higher-end, market-rate

product in urban areas. These properties are leasing up at rates higher than the current average market rent, thereby increasing the average of all property rents. The influx of new construction will certainly have an impact

upon rent growth, occupancies and concessions in the short term, starting next year.

However, in-migration figures for Washington state and King County are well above average. Apartment demand continues

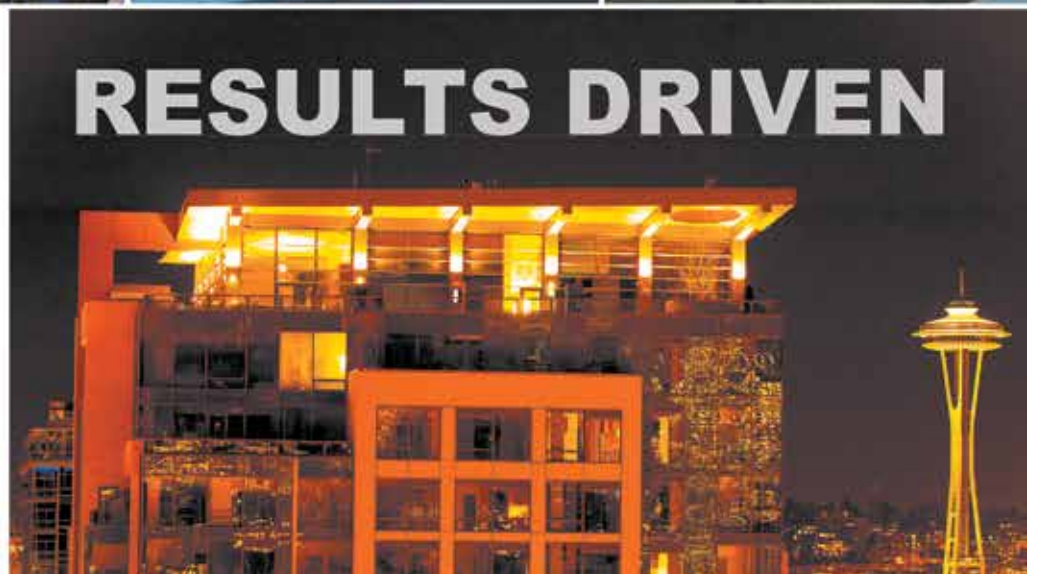


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to outpace supply. Job growth continues to be steady, allowing for strong absorption numbers.

If job creation and in-migration continue to be strong, the impact all the new apartment construction will have on the existing market will be tempered, and strong regional supply-and-demand factors will prevail in 2017 and beyond.

Seattle and the Puget Sound region are a hotbed of construction activity and investment interest spurred by outstanding rent growth and solid demographic and employment factors.

Apartment sales are also approaching a near record pace. According to research conducted by Mike Scott of Dupre + Scott Apartment Advisors, the average price per unit for properties built before 2000 was \$135,000. Properties built in the past five years sold for more than twice that amount, averaging \$288,000 a unit, with average cap rates under 5 percent for these newer construction sales.

With rent increases exceeding 6 percent in many markets, vacancy loss under 4.5 percent, and rental concessions under 1 percent of scheduled gross income, it's no wonder the Pacific Northwest has been looked at by national institutional investors as one of the hottest and most desirable markets in the country.

Shout it from the ever-increasing rooftops: The apartment industry's robust economic engine drove a \$1 trillion contri-



True North, a 286-unit apartment at 801 Dexter Ave. N., is one of the many projects adding 10,000 apartments to Seattle this year.

PHOTO BY MARK DAVIS

bution to the national economy in 2011, according to an economic impact study conducted by Stephen Fuller of George Mason University's Center for Regional Analysis.

With housing finance reform, tax reform and immigration

reform as political hot buttons in our nation's capitol, the Washington Multi-Family Housing Association, through our affiliation with the National Apartment Association, continues to educate our national lawmakers so they better understand the

value of a thriving apartment market to local, regional and state economic growth, as well as to the needs of residents who call apartments home.

Jim Wiard is executive director of the Washington Multi-Family

Housing Association, a nonprofit serving the multifamily real estate sector. WMFHA is the Washington state affiliate of the National Apartment Association, and has nearly 1,000 members with 125,000 rental units under management.

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PREFAB CONSTRUCTION: GOOD TO THE URBAN CORE

Prefabrication allows for greater building density, and makes for a safer and more productive jobsite.

Prefabricated construction is not new, but it's gaining prominence as the building industry continues to recognize the need for faster, higher-quality and more sustainable construction.



BY JOHN PLATON
ADOLFSON
& PETERSON
CONSTRUCTION

Prefabricated components can be used in any building sector to save money and time during construction. In urban environments, prefabricated construction is especially beneficial because it allows for greater building density, and makes for a safer and more productive working environment.

Adolfson & Peterson Construction is developing a light-gauge steel-framed wall panel for the multifamily housing, healthcare, student housing and hospitality markets. Thanks to its post-and-beam design, the steel panel system can be installed quickly, efficiently and safely. As a result,

owners and developers using this prefabricated system can expect to save up to 15 percent on the construction schedule.

The need

Many buildings in the Puget Sound area that used prefabricated components experienced similar schedule savings during construction. A&P recently completed the seven-story Box Car Apartments in downtown Seattle, which was built with a similar panel system, as well as prefabricated stairs.

"Each floor was installed in just one week, allowing other trades to quickly access the site," said Jerry Eubanks, A&P's vice president of operations. "The prefabricated wall panels saved us nearly 12 percent on our construction schedule."

Prefabricated steel panels also allow developers and owners to construct a building that would not have otherwise made financial sense. Wood-frame buildings are less expensive than those built from metal or concrete, but in many urban environments, including Seattle, wood-frame

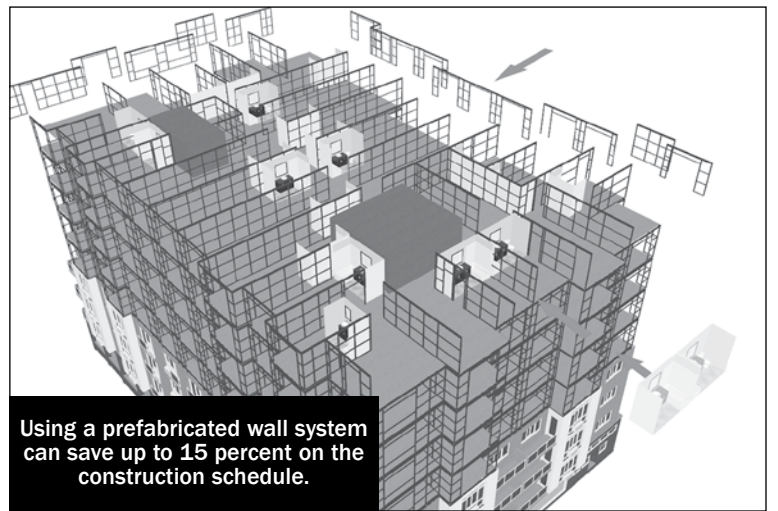
structures are limited to five stories. And although concrete buildings don't face height restrictions, concrete structures under 12 stories are often prohibitively expensive to build.

A&P's panel system addresses both of these construction realities. Buildings using the panel system can be between six and 20 stories. In addition, the prefabricated panel system is as much as 20 percent less costly than concrete.

Seattle is one of the nation's fastest growing cities, and prefabrication allows state-of-the-art facilities to be built much more quickly than those using traditional construction methods, ensuring that owners can generate revenue sooner.

Execution

To ensure the complete success of a project, prefabricated components should be considered at the earliest stages of design. In a collaborative process, architects, engineers, contractors and owners work together to design a building that will benefit from prefabricated components and ensure that the design conforms to the criteria of



Using a prefabricated wall system can save up to 15 percent on the construction schedule.

IMAGE COURTESY OF A&P

each prefabricated component.

Architects are a critical part of this process since they provide important input on design elements and also have the flexibility to specify finishes.

Early selection of prefabricated elements allows production to begin early, and just-in-time delivery of each component ensures that the building site is minimally impacted.

Benefits

Prefabrication provides numerous benefits to schedule, budget, efficiency and safety. Industry research done by McGraw-Hill found that nearly 66 percent of construction firms using prefabrication benefited from a shorter schedule, with 35 percent seeing schedule reductions of four weeks or more.

McGraw-Hill reported that as a result of the shorter schedules, 51 percent of contractors saw project budgets decrease by at least 5 percent.

In terms of efficiency, a recent study at MIT found that typical on-site labor produces an efficiency rating of 40 percent to 45 percent, while labor in a factory setting produces an efficiency rating of 70 percent to 75 percent because workers can more easily access the materials they need, are not affected

by inclement weather, and have safer working conditions.

In the area of safety, Paula Eick, national safety director for A&P, notes that, "It's not uncommon for projects that use prefabricated construction to see significant improvements to safety."

McGraw-Hill found that 37 percent of contractors experienced site safety benefits when prefabricated components were part of a project.

A&P's subcontractor partners are also seeing safety improvements since many of their components are manufactured off-site in controlled environments.

With the increasing demand in urban environments for sustainable, high-quality construction, prefabrication allows the building industry to meet these demands in an innovative and efficient way. Prefabrication helps keep workers safe and drives costs down for owners and developers. It addresses many industry issues and will help move the industry forward by introducing new ways of thinking about construction.

John Platon is a senior vice president at Adolfson & Peterson Construction. He has more than 30 years of construction experience, including nearly 20 years of developing prefabricated building systems such as modular bathrooms by Eggrock Modular.

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RENT HIKES RIPPLE TO THE SUBURBS

Rising urban apartment rent rates may be causing tenants to move to outlying neighborhoods, pressuring rents there.

The Seattle apartment market is a constant conversation topic as development continues to flourish in core urban areas and rent increases continue. Take a deeper look, however, and there are some surprises worthy of discussion.



BY MATTHEW GARDNER
GARDNER ECONOMICS

Of particular interest is that rapid growth in rental rates is not limited to close-in markets. In fact, there are many suburban areas currently outperforming their urban counterparts.

When we look at King County, there are several sub-markets where average rents over the past year have grown at double-digit rates. However, these high-performing markets are not necessarily in areas where one would expect to see such rapid rent appreciation, and include sub-markets such as Magnolia, University District and Issaquah.

Since the spring of 2010, the urban core markets of Belltown, South Lake Union, Capitol Hill, First Hill and Queen Anne have collectively seen rents rise a whopping 33 percent.

It's arguable Seattle has reached an inflection point where rents cannot continue to rise at

this rate, if for no other reason than income growth is not matching rental rate growth — a clear sign that rents will stabilize (but don't expect them to go down).

Suburban ripple effect

Markets are not linear, rather they tend to move in somewhat predictable cycles. Because the market is currently focused on development in urban core areas, these areas are experiencing the greatest employment growth and resultant in-migration. As such, rents have risen exponentially.

A consequence of the rapid rise in urban rental rates is the move by some tenants out of more expensive markets into second-tier markets — such as Ballard, Beacon Hill and Columbia City — which have good access to the primary job centers and rent at a relative discount. In turn, increasing demand has allowed rental rate growth in these subordinate markets to increase exponentially.

Watch for continued rent growth in markets that include the Rainier Valley, Burien, North Seattle, Kirkland and Juanita.

Over the next 12-24 months, reinvigorated suburban markets will begin attracting increased investment from the development community, as yields start improving and this, in turn, will slow development in the urban areas and allow a return to equilibrium.

That said, the fact that these areas are seeing rent growth at a faster rate than the urban markets of downtown Seattle or Bellevue does give one pause for thought.

A question to ponder in the months ahead: Can we attribute at least some of this growth to the fact that many of these sub-markets now or in the future benefit from good access to mass transit? There may be some reasonable causality here.

The rapid expansion of apartment stock in the central city market areas and their corresponding expectations for rental rates could already be influencing tenants to choose to live a little farther out where rents are not quite as high and this has, in turn, translated into faster growth in rents in these more outlying neighborhoods.

Is this a sustainable trend? Only time will tell, but there are several apartment developers who have started to explore opportunities outside the downtown core for future projects and, given typical time frames, it might be an astute move!

King County Annual Rental Rate Growth	
Sub Market	Rate
Bellevue West	6.9%
Bellevue East	7.2%
Redmond	8.0%
Kent	8.2%
West Seattle	8.3%
Kirkland	8.5%
Riverton/Tukwila	9.3%
North Seattle	10.2%
Factoria	10.7%
Juanita	11.3%
Issaquah	11.8%
University District	14.6%
Magnolia	20.9%

SPRING 2013 TO SPRING 2014

SOURCE: DUPRE + SCOTT

Matthew Gardner has more than 25 years of real estate experience. As principal at Gardner Economics, he heads market evaluation, market posi-

tioning, economic base assessment, financial feasibility and fiscal implications of residential and commercial real estate projects.

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BACHELORETTE FLATS: THE NEW FACE OF MULTIFAMILY

Women want safety, security, warmth and comfort – all of which can drastically change how an apartment building is designed and developed.

The world has discovered Seattle.

With the spotlight on our city, newcomers are moving here now more than ever. The demand for new places to live, work,



BY TEJAL PASTAKIA
PASTAKIA + ASSOCIATES

shop and play is occurring at a break-neck pace in a real estate industry that was severely impacted during the recession.

As the urban core is being redefined, the age-old concept of mixed-use that was abandoned in the 1950s is back with vigor. What's different in this cycle is that development includes the influence of many more women, who bring a distinctive set of ideas to the table and have a marked impact on the success of the mixed-use concept.

With financial capital fueling the economic up-cycle and an unprecedented number of multifamily units in the pipeline, the

flurry of activity has allowed more women to enter the construction industry with fresh insights and ideas that are influencing how buildings are designed, constructed and programmed.

Not the 1950s anymore

What typically had been a one-user experience is now much more multifaceted. Throughout my career – from architect to real estate advisor to project manager – I have worked on a variety of living environments and this technical experience combined with my understanding of how men and women use space differently allows me to bring buildings on line that allow placemaking to take the forefront in development.

With over 11,000 apartment and condominium units in the Seattle development pipeline, the successful projects are going to be the ones that take a multifaceted approach.

For instance, how does the building interact with its environment so that the residents

Pastakia + Associates recently helped The Pauls Corporation open the 136-unit ArtHouse apartments in Belltown. Its sky lounge has cozy conversation areas.



PHOTOS COURTESY OF THE PAULS CORPORATION

BACHELORETTE FLATS — PAGE 10

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BACHELORETTE FLATS

CONTINUED FROM PAGE 9

feel part of the community? How does the building achieve the goals and objectives of its investors while also respecting the long-term housing needs and the historical heritage of its neighborhood? As design and budget decisions are made, are we considering how males and females use spaces differently?

For me — working behind the scenes and solving complex development problems while making sure that the final objective is met — a successful project is similar to raising my children to become well-adjusted adults.

More single women renters

In the 1950s, multifamily development was designed for bachelors or the “Mad Men” urban loft. Today, more and more women are choosing to live in urban centers and they have specific details that they are looking for in multifamily buildings.

Women want safety, security, warmth and comfort — all of which can drastically change how a mixed-use apartment building is designed and developed. For example, prior to the recession, the focus on finishes, indoor community spaces and secured access was more of a developer’s afterthought. Today, a successful project will focus on all of the above and pay attention to the little details that make a big difference in leasing an apartment.

Some of those details are sparkling quartz countertops, more daylight, kitchens that entertain (even in a studio apartment), cozy conversation areas in communal spaces, and a dog lounge that is safe and secure at night.

In today’s multifamily market, success is in the details.

That is where I think women in the construction industry are having the biggest success and influence: as real estate investment and project managers. Every day, I juggle a myriad of technical, logistical and design details for my clients. I am both the strategic thinker and the task manager. So, it helps that I also think like a woman when it comes to looking at site acquisition, design layout, where to invest and how to get it all done on time and on budget.

This unique gender perspective brings a new brand of thinking. Marrying economics with design and creating a true balance between the two, that’s the real challenge and the opportunity.

A few Peggy Olsons

Does Seattle have a Peggy Olson (the enterprising businesswoman of “Mad Men”) of construction management?

Yes. We are fortunate to have a few Peggy Olsons who are changing the urban form of our landscape and leading the way

Kitchens at ArHouse are set up for entertaining and have high-end finishes such as quartz countertops.



from the one-user, single-focus multifamily development of the 1950s to the multiuser, denser, pedestrian-oriented development of today.

Thinking back on my own career and unbeknownst to me at the time, my concepts for providing creative solutions for my clients — to maximize their returns while providing the community with a built product that creates a sense of place — are firmly based in my female sensibilities. For me this has evolved into a firm of best practices.

Over the years, both local and outside developers have contributed to our firm’s database of knowledge and given my team our own playbook of best practices. Our clients are learning that this unique skill set is highly valuable in this competitive environment.

So the next time you walk into an apartment building filled with light, see a piece of art strategically placed to give you pause for thought, or drive by a restaurant teeming with energy, you now know there is a Peggy Olson working behind the scenes to pitch and mold our city into the best urban landscape for today and tomorrow.

Tejal Pastakia is a principal of Pastakia + Associates, a Seattle-based developer specializing in mixed-use, urban infill projects in the Puget Sound area.



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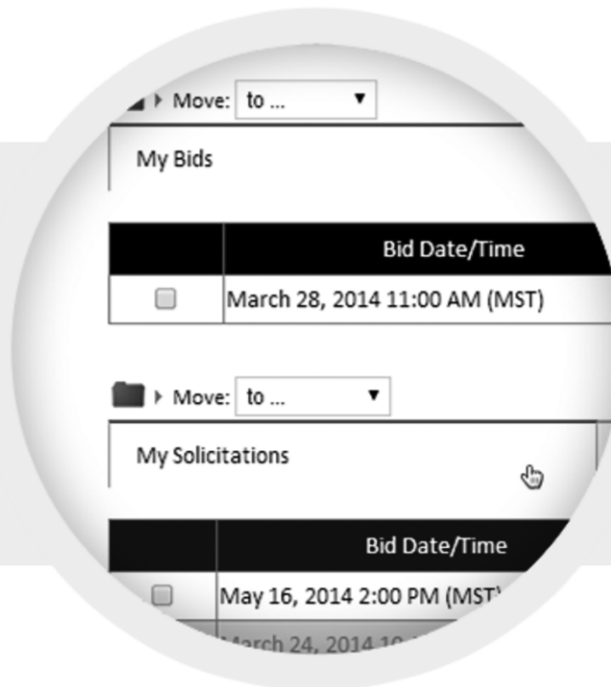


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BIG CHANGES FOR THE SEATTLE WATERFRONT

Monumental changes are in store for Seattle's waterfront after the Alaskan Way Viaduct is removed in 2016 or 2017.

The city hired James Corner Field Operations of New York to lead the design team for the new waterfront, which will connect to downtown and encourage pedestrians with wide sidewalks, trees and plantings, parks and public spaces, and maybe even a pool on a barge. A waterfront promenade would run along the new Alaskan Way.

Here are some of the concept drawings for the new space.



IMAGES COURTESY OF CITY OF SEATTLE / JAMES CORNER FIELD OPERATIONS

The Washington State Chapter of CCIM offers education, networking and monthly Speaker Series luncheons featuring leaders in the Puget Sound commercial real estate market

Attend an upcoming event or class:

September 2014 Speaker Series luncheon "Reconnecting Seattle's Center City to Elliott Bay" featuring Marshall Foster, City Planning Director, City of Seattle

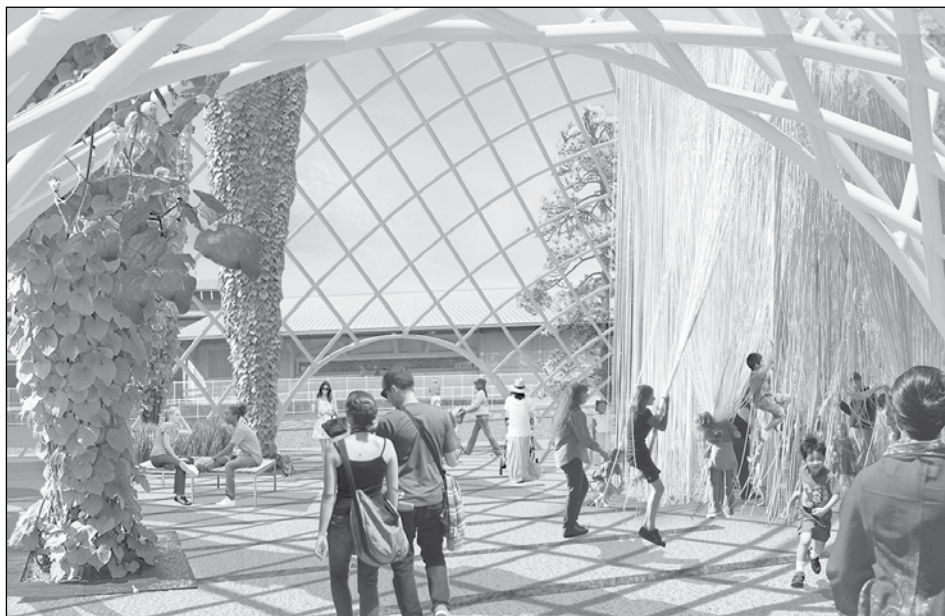
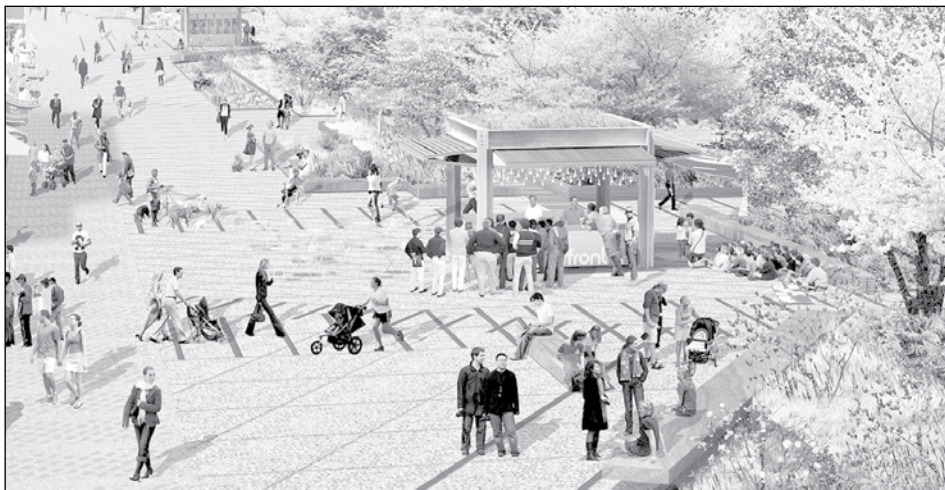
CI102 Market Analysis for Commercial Investment Real Estate October 6-9, 2014 in Kirkland, Washington

The Washington State CCIM Chapter encompasses Washington and Northern Idaho and has nearly 200 members from various real estate and real estate-related firms. Our chapter provides its members with the best in networking opportunities, designation promotion, candidacy guidance and educational opportunities. Visit our website to learn more about becoming a CCIM.



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A CLOSER LOOK AT WHAT'S DRIVING THE APARTMENT BOOM

With limited space, dense development is needed to keep rents from climbing and housing affordable to a range of incomes.

“Are we overbuilt?” The fear of an apartment bubble has been a constant topic of conversation almost since this hot development cycle began, and not everyone agrees on the answer.



BY GEORGE PETRIE
GOODMAN REAL ESTATE

There are two fundamental reasons, however, apartments in Seattle and the Puget Sound region are not overbuilt — now or in the near future.

Steady job growth

The first reason apartments are not overbuilt is year-over-year steady regional job growth.

Seattle and the region are one of the few economies nationwide to regain all jobs lost since 2008. While most of the nation is still clawing out of the Great Recession, Seattle, Bellevue and most of the region are one of a handful of nationwide markets that aren't just surviving, but thriving.

Our region added roughly 50,000 jobs annually between

2010 and 2013 and we'll add another 50,000 or more this year. Much of this job growth is a result of pent-up demand from an economy that ground to a halt in 2007-08, as well as new economic drivers such as growth from Amazon, Microsoft, Boeing, Google and Starbucks. In addition, we benefit from the fantastic health of several economic sectors, from biotechnology and cloud computing to health-care and tourism.

This robust and diverse market growth — especially in technology and business services — is driving remarkably strong office market growth. According to commercial real estate services firm CBRE, office vacancy rates were down for the third straight quarter in the first quarter of 2014 and Seattle office vacancy rates are just under 10 percent (Central Business District vacancy is around 13 percent).

According to commercial real estate company Jones Lang LaSalle, Bellevue continues to dominate as one of the tightest office markets in the nation, with vacancies hovering around 3.9 percent.

It's no wonder Forbes named Seattle the No. 1 city for tech jobs in 2013 and the Urban Land Institute last year ranked Seattle

the No. 4 real estate investment market in the nation.

Adding more than 200,000 jobs to the region in just four years begs the quintessential question: Where do the jobs go at night?

The answer: They want to live as close to their jobs as possible, and rampant housing absorption in Seattle and Bellevue is proof of that. So is sub-market residential development and declining office vacancies, from Bothell and Mill Creek to Renton and Issaquah.

A safe bet

This leads us to the second reason apartments will continue to dominate in the foreseeable future: Apartments will continue to be king until a new ruler proves it can reign.

At almost every price range — from low-income and workforce housing to high-end apartment homes — the demand is high for one of our most basic needs: Shelter. Because of a lack of new home construction and condominium supply, apartments are predominantly fulfilling that need.

And until the market fundamentals shift and condominiums or single-family homes take the

reins, apartments will continue to rule.

Although we're starting to see new downtown Seattle condominiums being developed for the first time since 2007, they won't be the matchstick that lights or sustains this housing market. Lenders and developers agree the risk is still too great. Capital isn't flowing and banks still aren't lending for this product type.

Until that changes, condos are mostly stuck. It's possible, however, that we'll see higher-end apartment buildings switch to condos when the market shifts and some developers are clearly building with that option in mind.

The trend toward the safe-bet apartment build is not just a Seattle fad, it's booming nationwide. Apartment vacancy rates on a national scale are at their lowest in a decade, which is sending rents through the roof, while the inventory of single-family housing is also historically low.

Roughly 70 percent of Seattle is zoned for single-family homes and the likelihood of new product is pretty low, unless we start to rethink how we look at the edges of our single-family zones, for all types of housing.

And because another 15 percent of Seattle land is zoned

industrial, it only leaves about 15 percent or less for mixed-use, dense development.

Density is a must if we are to keep rents from climbing and housing affordable to a range of incomes. This is especially true for commuter-friendly areas, where putting jobs and housing near transit is essential.

At the end of the day, Seattle, Bellevue and most of the region is land-locked — not just by mountains and water, but by the Growth Management Act and Urban Growth Boundary and local land-use policies.

So for now, apartments are king. As long as the jobs and people keep coming, they must go somewhere at night.

The real question to ask isn't if we're facing an apartment bubble, but what are the range of creative tools we need to deploy that will keep urban housing affordable to a range of incomes.

As CEO and president of Goodman Real Estate, George Petrie drives the acquisition, renovation and disposition of more than \$2 billion worth of commercial real estate in four countries. GRE is one of the few private developers in the region providing affordable housing to a variety of incomes.



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NEW FOCUS IS ON EMPLOYMENT-BASED TODS

More planners are taking a look at attracting businesses and jobs – not retail – to anchor housing around transit centers.

It is widely established that concentrating growth near transit is a key strategy for sustainable urban development. Historically, planning for transit station areas has focused on housing rather than employment – when most people think of transit-oriented development, they picture dwellings above street-level retail.

In recent years, however, the value of planning for employment around transit has become increasingly recognized for several reasons. From a practical standpoint, jobs near transit boost ridership and help leverage transit investments. But more importantly, creating a healthy balance between employment and housing is essential for growing a complete community that maximizes opportunities for both residents and workers.

In some station areas the primary need is for new employment that builds upon the assets of the existing community and becomes a source of living-wage jobs for locals. In other cases, the main challenge is to avoid displacement of existing businesses. Industrial jobs are particularly challenging since they can conflict with residential uses, and often rely on the availability of cheap land.

Planning for employment around transit also has the potential to stimulate the creation of innovation districts that capitalize on the co-location of intellectual capital and production resources. High-quality transit access is an increasingly important ingredient for attracting the essential entrepreneurial talent.

Of course the catch is that there's no easy formula for bringing high-quality jobs to desired locations. Do innovation districts just happen, or can the public sector help them along? Via Architecture recently engaged in two employment-based planning efforts that illustrate concepts and approaches, as described below.

Rainier Beach

Seattle's southernmost Link light-rail station is in Rainier Beach, a highly diverse, relatively low-income neighborhood. Within a quarter-mile of Rainier Beach station are a handful of small businesses, and the housing is mostly single-family. There has been no significant redevelopment near the station since the trains started running in 2009.

Employment-based redevelopment near the Rainier Beach light-rail station would create an ideal location for a farmer's market.



IMAGE BY VIA ARCHITECTURE

The city recently completed a neighborhood plan that focused on opportunities in the station area. During this process, the community consistently expressed a high priority for redevelopment that creates high-quality employment that can improve economic mobility for residents, such as low-impact production, light-industrial, food-processing, education and incubator businesses.

To address this goal on the regulatory side, the city is developing new zoning that will incentivize educational, industrial and innovative commercial uses while promoting a vibrant, sustainable and walkable urban environment. Proposed zoning includes floor area or height bonuses for projects with the employment uses noted above, first-floor minimum height requirements for flexible accommodation of commercial uses and special allowances for loading.

With easy access to the industrial corridor that extends south from the Duwamish, Interstate 5, Sea-Tac Airport and downtown Seattle via light rail, as well as relatively low land costs, Rainier Beach is well situated for many types of innovative business pursuits. However, stakeholders also recognized the need to start with a specific sector that could leverage existing community assets



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TODS

CONTINUED FROM PAGE 17

for competitive advantage over surrounding areas, and the idea of a food innovation district rose to the top.

Rainier Beach is home to Seattle's largest urban farm, and its diverse population provides a wealth of ethnic food knowledge. These assets provide a unique opportunity to leverage its light-industrial zone to become a hub of food and agricultural production, combining educational and training facilities with processing and distribution.

To catalyze the growth of a food innovation district, the planning team proposed an opportunity center for food education and entrepreneurship. This facility would combine commercial and training kitchen facilities, classroom space, office space, meeting areas, computer lab and community gathering space.

The city convened a workshop to gather input from potential partners and users of such a facility, including Seattle Tilth, the Emergency Feeding Program, Rainier Valley Food Bank, Project Feast and Fare Start, as well as the Seattle community colleges, Renton Technical College and Bainbridge Graduate Institute.

Input from the workshop led to a prototype building design. Unfortunately, the Rainier Beach station area lacks any existing building stock suitable to be adapted for the center, so new construction will be required.

The next steps to implementing the center involve establishing partners, developing a business plan and space programming,



Full build-out of the Rainier Beach light-rail station area would create a balance of businesses and housing.

IMAGE BY VIA ARCHITECTURE

securing a site and financing, construction, and lastly, operating the facility.

Portland ETOD

The Portland-Milwaukie light-rail extension, due to open in 2015, will have two stations in Southeast Portland's Central Eastside, one of the city's most important and dynamic industrial and employment centers. To address this unique environment, the city and its consultant team have been developing a new model for station area planning known as employment

transit-oriented development, or ETOD.

The overall goal of the city's ETOD approach is to strategically intensify and diversify the range of commercial uses on industrial lands, with the primary intent of increasing jobs, but also to leverage transit investments. At the same time, the city is intent on controlling land speculation, since high costs tend to push out many of the desired businesses. While there is already streetcar service in the Central Eastside, it is not another Pearl District, nor does the city want it to be.

A key strategy will be to reduce conflicts between the Central Eastside's long-established businesses such as lumber and mill works, a dairy, and boat repair, while also welcoming an increasing number of new small, nimble technology and production companies that value a close-in location. These "makers" are seen as an important next generation of commercial enterprise whose employees are likely to bike commute and patronize the small-scale restaurants, bars and lunch spots that have begun to populate the area.

Another important piece of the ETOD puzzle is an intensification of land use in buildings that blend industrial and production uses on the ground floor with flexible office spaces on multiple floors above. The goal is buildings that can provide a delicate balance between a diversity of new businesses, and an industrial core of users that rely on lower land values to stay in business.

This configuration is already beginning to emerge in the Central Eastside, and one of the best examples is the newly constructed Pitman Building, with 11,000 square feet of space for

The newly constructed Pitman Building in Portland's Central Eastside combines commercial kitchens with office space above.



PHOTO COURTESY OF DECA ARCHITECTURE

six production kitchens on the first floor and 3,000 square feet of office space on the second floor. The area's supply of historic buildings is also an asset, as exemplified in the recently renovated Ford Building, a former Model T assembly plant that now houses office, retail, artist studios, and a variety of small, creative businesses.

The role of partnerships

Lastly, partnerships between large institutions and the private sector are an essential ingredient for catalyzing true innovation districts. With the goal of creating an environment suitable for 21st century industry and providing meaningful occupation, many cities are establishing collaborations with universities that have a technical research and innovation focus.

For example, New York City has established a collaboration with Cornell, Teknion (an Israeli tech-

university) and Google. In Portland, there is a huge opportunity to tap into the synergies between the Oregon Museum of Science and Industry, Oregon Health & Science University, Portland State University, the burgeoning "makers" industry, and/or a corporate giant such as Nike.

The Oregon Museum of Science and Industry owns significant riverfront property adjacent to future light rail, and has great potential to leverage its location at a regional transit gateway and bring culture and complementary employment to the Central Eastside. In this case, the most advantageous outcome may be a new large tenant that would both benefit from and contribute to new synergies with existing business clusters.

Dan Bertolet is an urban planner with Via Architecture and writes on urbanism at Citytank.org.

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AFFORDABLE HOUSING GAP WIDENS DOWNTOWN

Seattle needs a comprehensive housing strategy so it won't become like San Francisco, where rents average \$3,000 a month.

Cranes are once again dotting downtown Seattle's skyline, major companies with worldwide brands are setting up shop and downtown employment is at its highest level in more than a decade.



BY MARK BARBIERI
DOWNTOWN SEATTLE ASSOCIATION

Strong employment growth in Seattle's urban core is providing economic opportunity and also increasing demand for housing across Seattle. Tens of thousands of housing units have been created

in Seattle over the last 20 years, but today Seattle lacks a comprehensive plan to maintain affordability and the production of market-rate units.

There's a large metropolitan city 809 miles to the south that serves as a cautionary tale for what can happen when a city's employment base increases with no plan in place to maintain market-rate and affordable housing production.

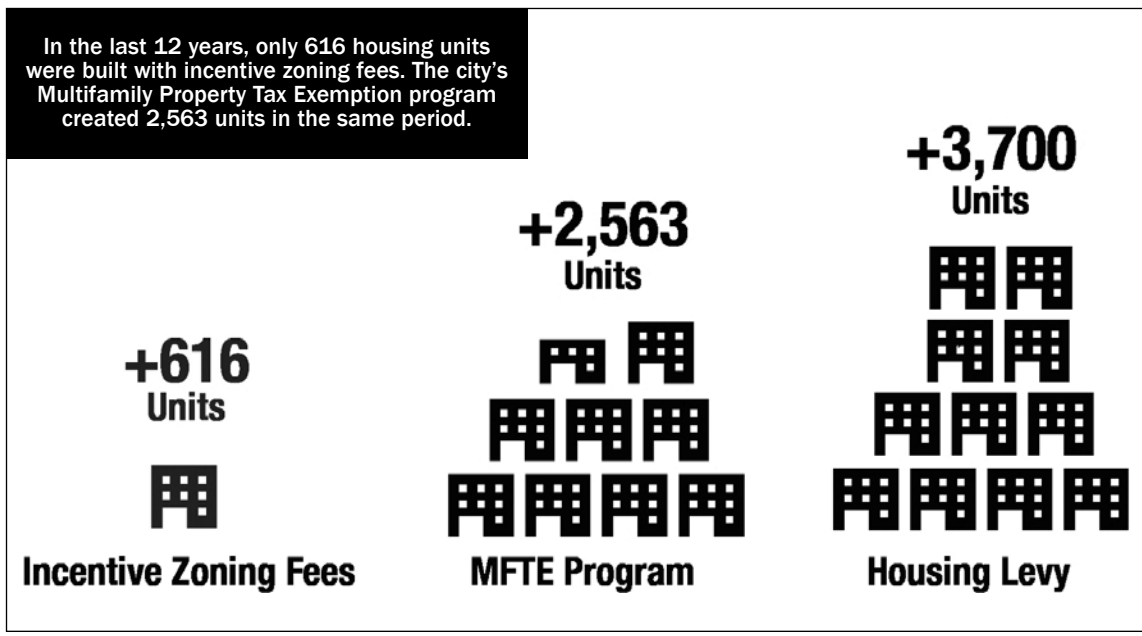
San Francisco is a wonderful city, with many qualities worth emulating: its housing situation isn't one of them. Housing supply didn't maintain pace with demand, and there was down-

zoning and a planning process that shut out density. San Francisco is now trying to play catch up by encouraging new housing, but it may be too late. The average rent in San Francisco is \$3,000 a month and the median home price has hit \$1 million.

Seattle cannot follow this path, but it's one we're sliding toward if we don't develop a comprehensive housing strategy. Today, Seattle has a collection of housing programs, but lacks a city-wide plan to produce market-rate and affordable units to keep pace with strong job growth. The city's current incentive zoning program is not the solution to this problem; the status quo is simply not adding enough affordable housing.

Incentive zoning allows a developer to build above the base height limit, as long as the developer either includes affordable housing as part of their project, or contributes approximately \$22 per gross square foot to the city to fund new affordable housing.

An incentive zoning fact sheet, at <http://tinyurl.com/SeattleZoning>, prepared by the Downtown Seattle Association illustrates the program's shortcomings. Given the existing costs and risks to building to maximum density, 62 percent of the projects eligible for the program have opted not to use it and were built to the base zoning, according to the report. South Lake Union has been a



SOURCE: CITY OF SEATTLE DATA (2013)

hotbed of development the last few years. Yet, just five of 18 residential projects in South Lake Union plan to use incentive zoning. This is a missed opportunity.

Some of the lost benefits: 5,200 construction jobs not created; \$74 million in sales tax

revenue not collected; \$100.8 million in property tax not collected; 3,811 residential units not built; \$10.3 million in transferable development rights not purchased; and \$49.5 million not contributed to affordable housing and day-care programs.

Additionally, in the last 12 years this program has produced the equivalent of just 616 units of affordable housing, while 46,000 new units were developed city-wide in that same

HOUSING GAP — PAGE 22

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7 TRENDS THAT WILL KEEP THE GOOD TIMES ROLLING

Seattle has leapfrogged Boston to become the nation's 21st largest city. More growth is on the way.

Stand anywhere in downtown Seattle or South Lake Union and you will count at least a dozen yellow construction cranes in the sky. Seattle's current construction boom represents a rush to meet anticipated demand for housing, commercial office and hotels.



BY BLAINE WEBER
WEBER THOMPSON

What are the trends and drivers that underpin the current boom, and how long can it last? Here are seven reasons that this current cycle may have real staying power:

1 Fastest growing (and most innovative) U.S. city

Consider this: Seattle just leapfrogged Boston to become the nation's 21st largest city. In the last year, Seattle grew at the highest rate among the 50 most-populous U.S. cities thanks to job growth and attraction of knowledge workers.

Seattle has become a magnet for brain power and innovation, if

not a new mecca for the creative class. The New York Times calls Seattle "The New Center of Tech Boom." The Urban Land Institute reports that "Seattle is enjoying good job growth due to the tech industry, and it is also becoming a core market for foreign investors."

While the Amazon job growth engine dominates the headlines, Seattle's dominance of the cloud computing universe is an even bigger story. Massive data storage centers at Amazon Web Services, Google, HP and EMC have been the catalyst for smaller companies like Apptio, BlueBox, Chef, Concur, Second Watch, Socrata, Tableau and countless others.

Silicon Valley venture capitalist Sean Jacobsohn recently told the New York Times that: "Seattle is right on the cusp of developing its own enterprise start-up ecosystem, particularly focused on business cloud solutions."

2 The rise of the millennials

Generation Y is 100 million strong. Also known as millennials, this group will affect all sectors of our economy due to its sheer size and influence on con-

sumer preference. Educated and mobile, Gen Y'ers are attracted to technology frontier cities like Seattle.

The Urban Land Institute publication "Emerging Trends in Real Estate 2014" concludes that Gen Y'ers are adamant about: walkability, proximity to shopping and entertainment, and convenience to public transportation. Millennials will determine the fate of housing in the next few decades, and they have a very strong preference for living in walkable, urban-center areas.

A massive generational shift is in play here, and the result will be a tsunami of renters and buyers that will seek a much different lifestyle than their suburban parental units. While developers rush to meet this need in downtown Seattle, some speculate that demand could continue to outstrip supply.

3 Boomers — still a force majeure

On the flip side of this demographic shift is another tidal wave: 76 million baby boomers, some of whom want the same lifestyle qualities that are desired by the millennials.

In the recent article "With the kids gone, boomers opt for city life," The Washington Post says: "A mini trend is now taking root in some cities: baby boomers are swapping out their single-family home for the bustle of urban life. These boomers are following a trend that younger people have embraced in droves ... gravitating to dense urban cores near restaurants, shops, theaters and metro stations."

A study commissioned by Redfin shows that between 2000 and 2010, more than 1 million baby boomers moved from homes that were between 40 and 80 miles from the city, to homes in, or within five miles of city centers. A study by the National Association of Realtors confirms this trend: "a substantial number of boomers are interested in smart growth as opposed to suburban sprawl."

If only a small percentage of the boomer generation moves back to the city, the effect will be dramatic.

4 Walkability and transit-oriented housing

For many renters and buyers, walkability is the most important consideration when choosing housing and this trend has fostered the success of Walk Score, a company that quantifies and ranks housing projects on the basis of local walkability and convenience to transit, restaurants, services, entertainment

and other creature comforts.

A recent study published by George Washington University concludes that: "As economic engines and talent attractors — walkability is a crucial component in building and sustaining a thriving urban economy. Walkable cities are better positioned for success, now and in the future."

Seattle will continue to become more walkable, and this will invite more people to live, work and play in the city.

5 More place, less space

Welcome to downsizing. The Urban Land Institute states that: "People and businesses are seeking smaller spaces. They realize that they do not need as much room to live and work, and they want to reduce rents. More people are willingly forsaking space and yards for greater convenience and avoiding car dependence."

Commercial office users are demanding less space per worker and better efficiency as they design for better collaboration. Big box retailers like Target are shifting to smaller urban formats that serve city dwellers more efficiently. Multifamily projects are providing significantly less average square footage per unit, offset by a generous amenity package of socially focused spaces and places.

TRENDS — PAGE 22



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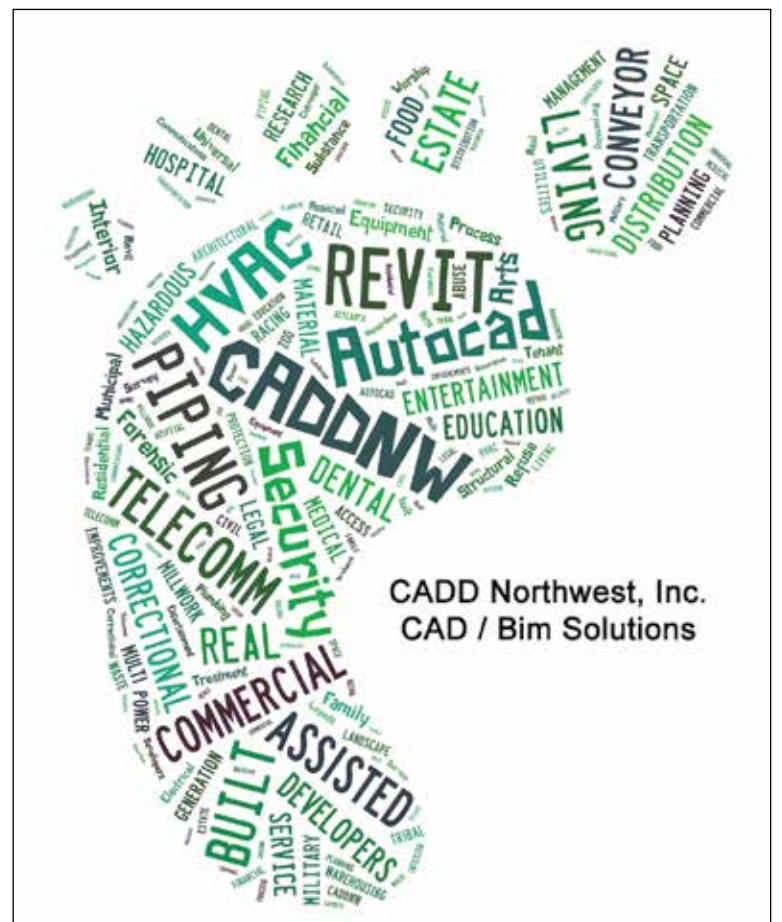
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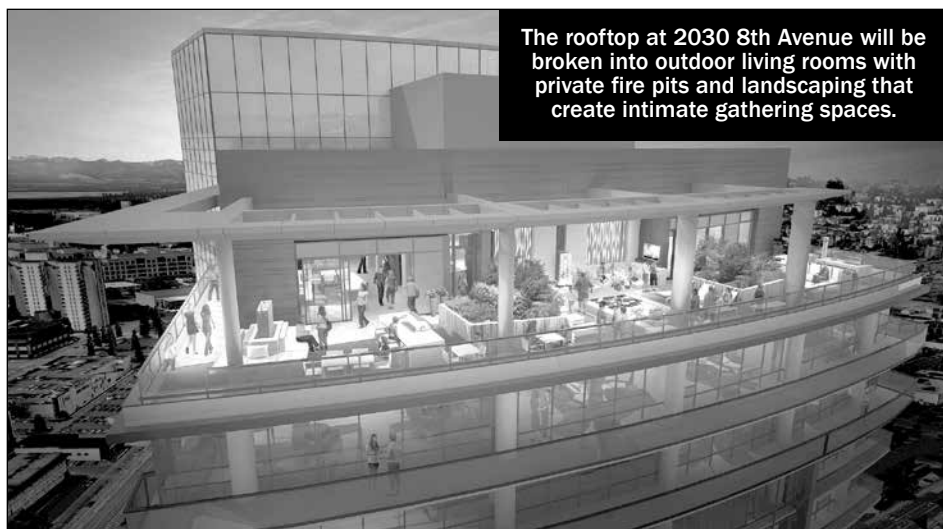
WELCOME TO THE PARTY ZONE

Rooftop terraces and generous socially focused amenity packages have replaced private decks and fireplaces in many downtown Seattle residential tower projects.



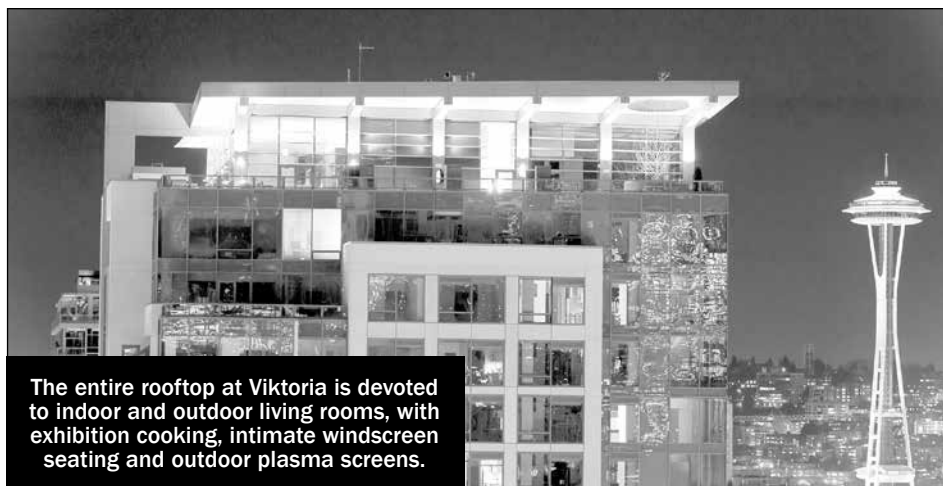
Lush landscape, a reflecting pool and a dog owner's lounge are just a few of the many social amenities at The Post.

PHOTO BY WEBER THOMPSON



The rooftop at 2030 8th Avenue will be broken into outdoor living rooms with private fire pits and landscaping that create intimate gathering spaces.

ILLUSTRATION BY WEBER THOMPSON/STUDIO 216



The entire rooftop at Viktoria is devoted to indoor and outdoor living rooms, with exhibition cooking, intimate windscreen seating and outdoor plasma screens.

PHOTO BY WEBER THOMPSON

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TRENDS

CONTINUED FROM PAGE 20

The Urban Land Institute says it best: “Gen-Y career builders are forsaking suburban lifestyles and willingly move into shoebox-sized apartments near convenience and public amenities, making up for the lack of personal space. The realization dawns that creating something high quality and compact produces a greater yield.”

One example of this in the local housing market is the move away from private decks, in deference to a generous package of socially focused amenities.

6 Seattle is cheap! (relatively speaking)

Consider this: here in small town/provincial Seattle, renters currently pay only 34 percent of total income for housing. San Franciscans and New Yorkers pay 50 percent and 70 percent of their income, respectively. MPF Research confirms that the average rent in Seattle is a bit north of \$1,000; whereas San Francisco is \$2,400 and New York City is \$3,700.

Seattle commercial broker and

blogger Dylan Simon points out that “the salient differentiator in these markets is allocation of dollars earmarked for rent versus transportation.”

Seattle’s relatively less expensive rents are indicative of a housing market that has additional room to grow and thereby sustain momentum.

7 Barriers to entry; condo boom ahead?

Seattle is enjoying the most robust rental housing market

in decades. Recently completed projects in downtown Seattle are leasing with astonishing rates of absorption, and at record prices per square foot — in part due to the fact that local barriers to entry constrain supply that is needed to meet demand.

At some point, the market will saturate, the pendulum will swing and the current apartment boom will morph into a new wave of for-sale product. In response to perceived demand and lack of supply (downtown Seattle condo

inventory is at an all-time low), at least three developers have recently taken the plunge into high-rise condominium development. But, because condo projects face additional risk and general aversion by lenders, that market is not expected to return with enthusiasm anytime soon — at least not until equity for these projects becomes more readily available.

While financial and permitting barriers to entry make it difficult to bring projects to market, constrained supply does help to ensure profitability for those projects that do manage to get built.

Blaine Weber, AIA, directs the High-Rise Design Studio at Weber Thompson, a Seattle-based West Coast design firm specializing in housing, hospitality and commercial office projects.

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HOUSING GAP

CONTINUED FROM PAGE 19

time period.

There are many other options worth examining and more productive tools we can use to build market-rate and affordable housing.

The city’s Multifamily Property Tax Exemption program provides a tax exemption on the residential improvements on multifamily projects in exchange for setting aside 20 percent of the housing units for moderate-wage workers. That program produced more than 2,500 units in the last 12 years, the same period in which incentive zoning led to a little more than 600 units.

The MFTE program is clearly more effective than the current incentive plan. The city should explore expanding this program.

Other cities are looking at creative ways to address their housing situations by leveraging existing municipal resources and applying them toward a solution. Philadelphia, for example, has a plan to transform city-owned properties into affordable housing.

In New York City, Mayor Bill de Blasio released a comprehensive housing strategy in May that aims to produce 200,000 new affordable housing units over 10 years by leveraging city land and subsidies, preserving affordability of existing housing stock and incentivizing new development. That plan can be viewed at <http://tinyurl.com/NYC-HPlan>.

Seattle does not yet face the housing challenges of San Francisco, but if we maintain our current course it won’t be long. Seattle needs a robust and comprehensive housing plan.

Mark Barbieri is the 2014-16 Downtown Seattle Association board chair and executive vice president of Washington Holdings.



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