

Seattle Daily Journal of Commerce • July 26, 2018

EASTSIDE

DEVELOPMENT

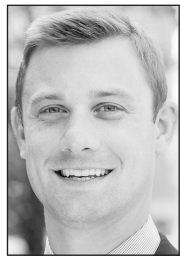


BIG USERS, BUT NO AVAILABLE OFFICE SPACE ON THE EASTSIDE

The current real estate cycle has been stronger and longer than most expected.

The Eastside office market is like a big game of musical chairs. Tenants are scrambling to look for office space, with diminishing options for them to consider.

Driven mainly by large tenants looking for space, there are simply not enough options from which to choose, nor is there a place for everyone to land. Much like a game of musical chairs, it's getting to the point where some office tenants will end up without a "chair" in this current game.



BY ZACH ZABOROWSKI
BRODERICK GROUP

Market dynamics

Vacancy rates for the entire Eastside sit at 8.6 percent, a

10-year low and roughly half of where it was in the middle of the latest recession (16.2 percent). With seemingly no end in sight to the steady demand in the ever-tightening Eastside office market, that number is projected to drop to 7 percent by year end, and down to 6 percent by the end of 2019.

The numbers are even more dire for tenants considering highly desirable downtown Bellevue, where Broderick Group vacancy projections are 4.1 percent for year-end 2018 and 2.3 percent for year-end 2019. In addition to that, asking rates are at a 10-year high of \$36 per square foot annually (inclusive of oper-

ating expenses) for the entire Eastside and projected to grow significantly over the next two years before enough supply can be delivered.

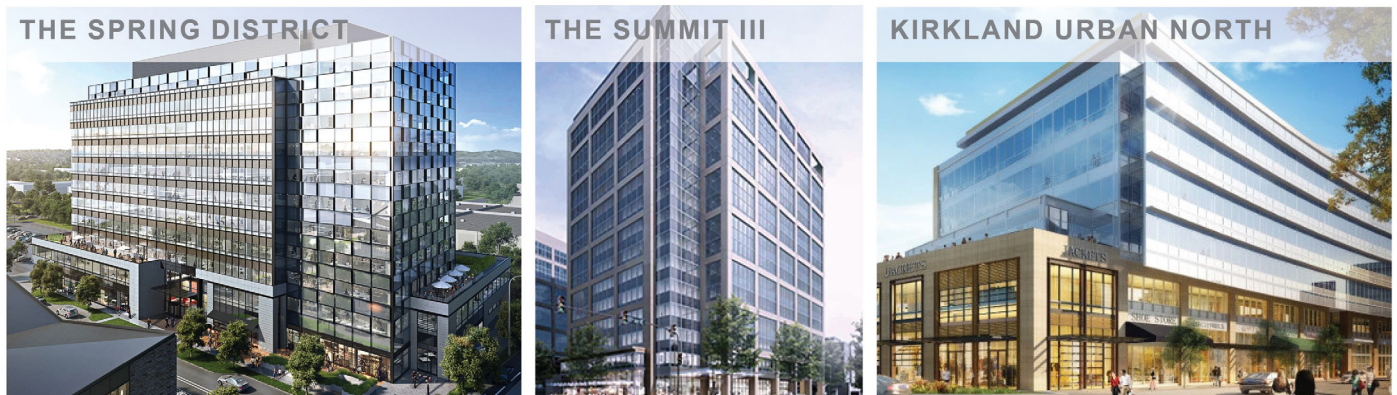
Contributing to the tightness of the market is the lack of large, available contiguous spaces. In a market totaling 34 million square feet, there are only six

options for tenants looking for 50,000 to 100,000 square feet, and only one option for tenants looking for over 100,000 square feet.

Strength in numbers

Perhaps the best indicator of the strength of the current mar-

Eastside Office Market Projected New Developments



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ket lies in the fact that nearly every submarket on the Eastside has experienced growth over the past few years. Of the eight submarkets that make up the Eastside, only the I-90 Corridor has had negative net absorption in 2018. That absorption is generally attributed to Boeing giving back several large blocks of space that it previously leased or owned.

The strongest submarkets have been the Bellevue CBD, Kirkland and Redmond.

The Bellevue CBD has been the bell cow for the Eastside in recent years. It was responsible for over 70 percent of positive net absorption throughout the entire market in 2017.

Kirkland is the tightest submarket, with a vacancy rate of 4.9 percent.

Redmond has been the hottest market in 2018, with a positive net absorption of over 350,000 square feet so far (nearly double the amount of positive absorption when compared to the next closest market).

Tech leads the charge

The Eastside has had the good fortune of calling some of the best companies in the world “homegrown.” Those firms played a vital role in making the market what it is today. However, while the market has experienced organic growth, the rise of the Eastside in the current cycle is largely due to the growing presence of technology companies whose roots stem from other parts of the country, or world.

Since the beginning of 2017, the Eastside has absorbed roughly 1.7 million square feet of space. In those 18 months, more square footage has been leased than in the prior three years combined.

Over 60 percent of the absorption since the beginning of 2017 came from companies in the technology sector. On top of that, tech was responsible for approximately 65 percent of all new leases over 50,000 square feet.

Many of those leases are from companies that had small or non-existent offices in the region prior to 2016.

Will the pendulum swing?

With virtually no new office buildings under construction on the Eastside, excess supply in the short-term will not be the cause of any potential downturn. The first two phases of Kirkland Urban, totaling nearly 400,000 square feet, are set to deliver later this year. That would have brought some relief to the market, but the project is fully committed.

The next projects that will likely deliver needed inventory are Summit III (370,000 square feet) in downtown Bellevue and the Spring District Block 16 (311,000 square feet) just east of downtown Bellevue.

After that, there are no projects ready to go as developers simply underestimated the strength and length of this cycle.

There are approximately 13 potential sites, all in downtown Bellevue, which can deliver approximately 7.5 million square feet of office space. While most of those sites are currently “proposed,” it does beg the question: Which will be the next to move forward?

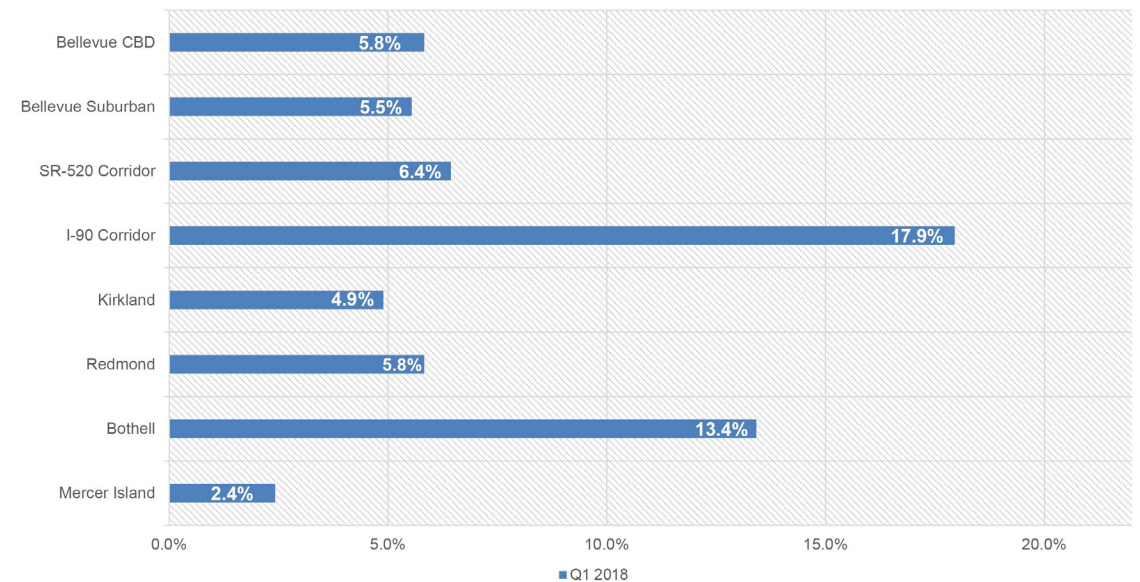
The overriding issue with downtown Bellevue high-rises is time to market, which is approximately four years — providing no relief in the short term. Additionally, with the success of residential in downtown Bellevue, many of the sites will instead be slated for housing.

Another factor that could lead to a slowdown in the market is the amount of sublease space that is available.

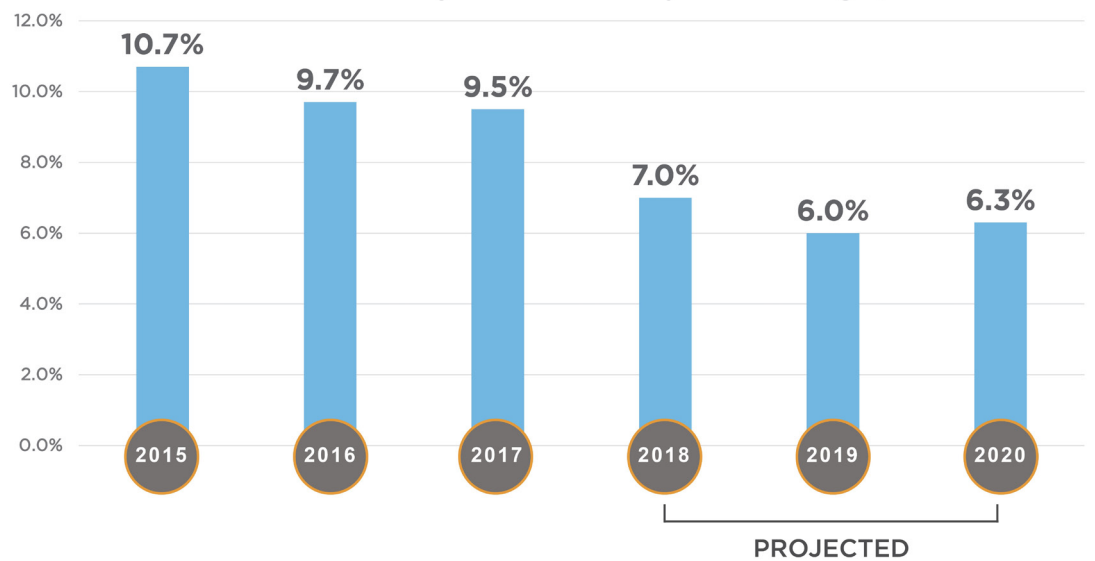
Space available for sublease accounts for 1.17 percent of the total inventory in the market, which is just below the average percentage of sublease availability over the last 10 years (1.2 percent).

If several large subleases came available, especially from large

Eastside Office Market (Current)
Vacancy Percentage by Submarket



Eastside Office Market
Projected Vacancy Percentage, 2015 - 2020

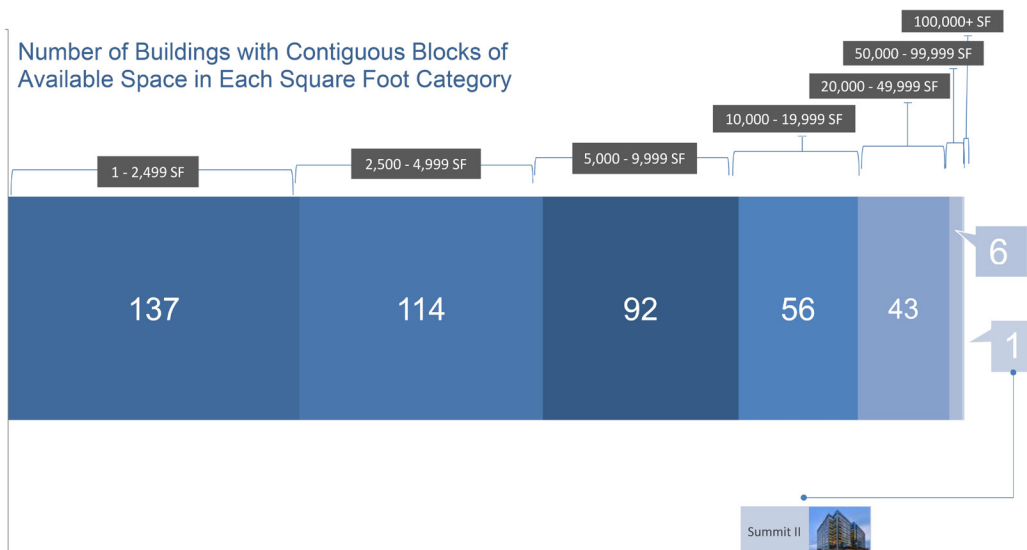


GRAPHICS FROM BRODERICK GROUP

users who have been contributing to the recent growth of the market, it could change the trajectory of the market entirely. In addition, several large leases

BIG USERS — PAGE 11

Eastside Office Market
Contiguous Blocks of Space



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ON THE COVER

One of the hot development areas on the Eastside is the Bel-Red Corridor. Turn to page 6 to find out how parts of the corridor are becoming an urban village.

PHOTO BY SKY-PIX AERIAL PHOTOGRAPHY

EASTSIDE DEVELOPMENT TEAM

SECTION EDITOR: BENJAMIN MINNICK • SECTION DESIGN: JEFFREY MILLER
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MEET THE EASTSIDE'S NEWEST OFFICE SUBMARKET: RENTON

Southport will increase Class A office space in Renton by nearly 60 percent.

For decades, the Eastside commercial real estate community has been largely defined by downtown Bellevue, Redmond and a limited number of other area submarkets.

The distinctions are well-earned: As the state's second largest central business district, Bellevue has a formidable core, with more than 10 million total square feet of commercial office space. And Redmond, after all, is home to Microsoft, which began its tech-office campus development in the mid-1980s, before broadening its footprint later into Bellevue, Seattle and other markets around the world.

Microsoft recently announced a multi-billion-dollar expansion that will bring online some 18 new buildings over the next five to seven years in Redmond, so its reputation as a major part of Seattle's Eastside market should only continue to grow.

Until recently, Renton, at least in the minds of brokers and large-space users, was part of the region's "South End" office market. It is home to the Boeing Renton factory, where many of the world's commercial airline

stock, most notably the 737, are proudly assembled.

In addition to Boeing, Renton has historically been associated with other fine manufacturing corporations, including Paccar, and destination retail such as IKEA and, a few miles away, Westfield Southcenter in Tukwila. And while Renton for years has served thousands of small- and medium-sized businesses through its various low-rise office parks, it symbolically fell outside of the Eastside's commercial real estate catchment zone.

Game-changer

That's all changed with the development of the Southport on Lake Washington project.

The multi-phased mixed-use development has been a game-changer for Renton, helping to bring a large contiguous quantity of Class A office to the city. Just a few years ago, this type of commercial-office transformation would have been unimaginable.

The numbers are staggering. When complete later this year, Southport will deliver nearly 720,000 square feet of office designed for large technology users, spread across three nine-story buildings on the southern shores of Lake Washington.

The office development supplements Southport's existing 383 units of luxury multifamily product completed in 2008, a

When complete later this year, Southport will have nearly 720,000 square feet of office designed for large tech companies.



IMAGE FROM SECO DEVELOPMENT

347-key four-star Hyatt Regency hotel, and a collection of on-site retail and restaurants that, starting next spring, will include Black Rooster, with an authentic gourmet menu drawing on thousands of years of Chinese cooking culture.

The sheer size of Southport's office footprint, as well as the type of future user it will serve, has helped to build Renton's credibility as an Eastside submarket. This project alone will increase by nearly 60 percent the amount of Class A product in Renton which, before Southport, included just over 1.1 million square feet of high-end commercial office, according to market data provided by CBRE.

Furthermore, until now, Renton's office market has really been dominated by Class B space — nearly 2.5 million square feet of it — featuring lower-end finishes and systems that cater to a different type of company than what's typically found in downtown Bellevue and Seattle.

To that end, Southport's office campus will offer buildings with large, efficient floor plates, robust infrastructure and convenient access to luxury amenities both on-site and nearby: the 57-acre Gene Coulon Memorial Beach Park; The Landing, with its 600,000 square feet of entertainment, restaurants and service and retail space; and, of course, Lake Washington, the literal recreational "backyard" for Southport and its tenants.

The combined offerings create a commercial environment that

today's technology companies are actively seeking, whether they're located in an urban center or just down the road in a viable commercial-office submarket. Having a critical mass of Class A space that's close to major highways and arterials and surrounded by a wide range of goods and services helps large users to recruit and retain the industry's best talent.

Not all submarkets the same

Seco's strategy for Renton is not unlike what was created at Carillon Point in Kirkland which, for nearly a century, served as a dance-hall site for tour boats or a blue-collar Northwest shipyard given its location on Lake Washington. Only when developers, led by the Skinner Corp., created Carillon Point's mixed-use village with significant room for technology companies and other major users did Kirkland establish itself as a viable Eastside commercial submarket.

But all submarkets are not created equal. While some offer affordability for both commercial tenants and residential homeowners, they sacrifice convenient access to other commercial centers, given their relative long distances from the downtown core. And others are situated closer to central business districts but are prohibitively expensive to users — if a submarket's lease rates and home prices are similar to Bellevue and Seattle, some users figure they might as well locate their businesses in the core.

The Renton submarket has the best of both scenarios. Just a few miles from downtown, Southport's commercial-office lease rates are significantly less expensive than Bellevue and other Eastside submarkets. At roughly \$38 to \$40 per square foot, Southport is as much as 20 percent less than the comparable Class A office space in downtown Bellevue and Seattle.

Single-family homes in Renton cost less, too. Homeowners searching here can expect to spend hundreds of thousands of dollars less than in neighborhoods immediately surrounding Bellevue, with more availability to consider.

Renton's relative affordability was something that Matthew Gardner, chief economist at Windemere Real Estate, cited in a recent presentation to the Renton Chamber of Commerce. He predicted tech companies will increasingly look to Renton for Class A office space as they continue to be priced out of Seattle, resulting in higher demand for homeownership and apartment rentals for their employees.

It's not just companies in the tech industry that are finding Renton attractive. Totaling more than 7,800 jobs, the health-care industry is now the third-largest employer in Renton. The University of Washington Medicine Valley Medical Center has served Renton since 1947, and is ranked one of the Seattle area's top hospitals. Providence St. Joseph Health, headquar-



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AFFORDABLE HOUSING? YES, BUT EASTSIDE NEEDS MORE

About 36 percent of all Eastside households pay more than 40 percent of their income for housing.

The benefits and pitfalls of fast development in King County are not limited to Seattle: Eastside cities including Bellevue, Kirkland, Redmond, Issaquah and others are changing rapidly, too.

And, while the vibrant economic hubs may seem immune to

issues facing homeless and low-income populations — after all, these are the cities that boast Microsoft global headquarters, Google Northwest offices, Facebook, Expedia and more — the Eastside is also suffering from a rapidly increasing need for affordable housing.

About 36 percent of all households on the Eastside are considered cost-burdened, defined as paying more than 40 percent of income towards housing. Schoolteachers, first responders, retail workers and administrative staff typically earn less than 80 percent of area median income.

Long considered affluent, many Eastside residents now claim to “not be able to afford their own homes,” meaning their income would not qualify them to buy the home they already live in.

At the same time, development opportunities for affordable housing are increasing, too. One of the provisions passed as part of Sound Transit 3 requires that the agency make surplus land available to qualified entities to develop affordable housing. Known as the 80/80/80 rule, this provision opens the door for the development of more affordable housing in high-opportunity areas near transit hubs, shopping, employment, healthcare and other services.

The rule applies throughout the region, and is already driving

developments in the Roosevelt and First Hill neighborhoods of Seattle. Housing that is developed with transit is known as transit-oriented development (TOD) and is eligible for special funding awards through a program by King County.

In the next five years, TOD sites in Bellevue, Kirkland and Redmond will go through a request for proposals process for funding awards. The goal is to provide housing near transit at the same time the train stations open for use. The city of Bellevue will develop two major TOD sites along the Bel-Red corridor at the proposed Bel-Red/130th Station and the Operations and Maintenance Facility East. Each of those is slated to provide more than 200 units of affordable housing.

The first of the TOD projects scheduled to start construction on the Eastside is in Redmond at the master planned community of Esterra Park, on the former campus of Group Health on 156th Avenue Northeast. Imagine Housing has been working with the city of Redmond, Capstone Development, Washington State Housing Finance Commission, ARCH, and King County funders to provide 130 permanent affordable apartments to people earning less than 60 percent of the area median income.

The project is unique for its overall design, which includes almost 12,000 square feet for a YMCA Early Childhood Development Center. Other details include a second tower with another 130 apartment units that will be built and managed by a traditional market-rate developer, multiple open spaces, and shared amenities between the two. Households will have access to Bellevue schools, excellent shopping, restaurants, and will be steps away from transit and

Imagine Housing's affordable apartments at Esterra Park in Redmond will have a 12,000-square-foot YMCA Early Childhood Development Center.



IMAGES FROM IMAGINE HOUSING



BY VILLETTE NOLON
IMAGINE HOUSING

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IMAGES FROM IMAGINE HOUSING

A land deal with St. Luke's Lutheran Church is allowing Imagine Housing to build this 63-unit affordable apartment in Bellevue.



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HOW BEL-RED CORRIDOR COULD RIVAL SOUTH LAKE UNION

Large new projects such as Hyde Square are being designed to compete with more established urban neighborhoods.



BY ROBIN CHELL & SCOTT SURDYKE
ROBIN CHELL DESIGN



Hyde Square opens this month with 630 units and over 30,000 square feet of indoor and outdoor common areas.

When we think of density on the Eastside, many of us think of gleaming towers going up in Bellevue or mixed-use apartments popping up in Redmond and Kirkland.

Though traditional urban centers are all growing during our current boom, a surge of new development is transforming the Eastside's long-standing low-density commercial and industrial districts. Former strip malls and auto dealerships are giving way to large mixed-use and transit-oriented developments.

Nowhere is this transformation more visible than the Bel-Red Corridor. In anticipation of the upcoming Link light rail, this 900-acre area between Bellevue, Redmond and state Route 520 has been rezoned and is set to explode with growth that could rival Seattle's South Lake Union. Thousands of new jobs are slated to be created or relocated

here, with mid-rise office towers of 125 feet or more in some areas. In addition, thousands of new mid-rise residential units are

planned or underway.

Desirable urban neighborhood

In addition to three planned light rail stations, the Bel-Red Corridor benefits from being adjacent to Microsoft's main campus in Redmond. Also, the city of Bellevue, well known for its school system and desirable lifestyle, continues to be a strong draw for newcomers to our state.

While these are all positive attributes for new development, the current transitional nature of the neighborhood presents some challenges when compared to established centers like Redmond, Kirkland and downtown Bellevue.

"With light rail on the horizon, and a strong demand for a Bellevue address, we are seeing the Bel-Red Corridor as the next major hotspot for multifamily

housing," says Emi McKittrick, marketing director for Indigo Real Estate. "However, without a pedestrian-oriented Main Street, walkable boulevards or traditional neighborhood businesses, the key for Bel-Red to staying competitive will be to step up with on-site amenities and services."

With the neighborhood in early stages of transformation, a challenge for new multifamily projects is to provide communities

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One of the amenity buildings will contain this dining lounge and exhibition kitchen.

HYDE SQUARE DESIGN TEAM

Ankrom Moisan
architect

Robin Chell Design
interiors

Murase Associates
landscape

that include social amenities that today's urban renter has come to expect. Without the cool coffee shops, restaurants and breweries, it's easy for prospective residents to perceive this area as a "no-man's land."

Neighborhood perception can be a determining factor when prospective renters are about to commit to \$2,000 a month for a one-room apartment, or \$3,200 for a two-bedroom apartment.

Creating an attractive and desirable community can be challenging when building in markets such as the Bel-Red Corridor, which has a prevalence of big box retail, strip malls and other low-density commercial uses. Yes, there is a convenience provided by chain stores and restaurants, but the charm of a diverse and walkable neighborhood is conspicuously absent.

Larger master-planned developments along the Bel-Red Corridor, including the Spring District and Esterra Park, are moving forward with on-site cafes, brewpubs and other services. However, much of the zoning along the Bel-Red Corridor allows for residential-only uses, thus many new apartment communities will lack ground floor commercial spaces. Though this may be a relief for some developers, the lack of such specialty businesses can adversely affect lease up and tenant retention.

Co-working to cocktailing

With many people moving here from larger international cities, developers and designers are responding to the expectations of these renters. In lieu of on-site specialty shops, there is great opportunity in rethinking and reprogramming traditional apartment amenities. Former single-use amenities such as fitness centers, media rooms and clubrooms are being reimagined as multipurpose spaces that provide round-the-clock activity and plenty of social opportunities.

This approach not only helps activate amenity spaces, but also provides a better sense of community.

The key to implementing this strategy is to provide amenities that are inspired by those shops and services the neighborhood may be currently lacking, such as bike shops, cocktail lounges and cafes. We are seeing a wave



Hyde Square will have extensive outdoor amenity areas.

of new on-site bike maintenance rooms, dog washes, DIY craft rooms, gaming lounges and co-working spaces in new apartments, as well as multipurpose yoga studios, and of course — rooms for gamers.

Bel-Red's new urban village

With its first phase opening this month, Hyde Square has four mid-rise buildings containing 630 apartments, as well as two buildings that house the leasing center and a multitude of amenities. When completed later this year, there will be extensive outdoor amenities, including a dog walk, landscaped courtyards and multiple dining areas.

A goal for this project was to convey a strong sense of place and provide a wide variety of active and social amenities.

Looking beyond the Bel-Red Corridor, our design team felt it was important to capture the spirit of the Pacific Northwest. With four separate residential mid-rises, we turned to the four corners of Washington state to provide inspiration and a unique identity for each building.

The interiors were subsequently designed to reflect a distinct corner or region of the state: The Cascade Mountains, The Coast, The Plains/Palouse and the urban centers of Puget Sound. For example, one of the lobbies is

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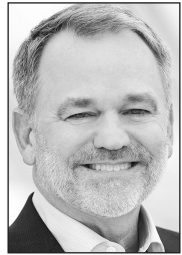
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BELLEVUE CBD'S BIGGEST OFFICE LANDLORD: VULCAN?

The developer says Bellevue is focused on neighborhoods, smart growth and cultivating business.

When Vulcan Real Estate purchased 6 acres for redevelopment in downtown Bellevue, some people in the commercial real estate industry were surprised. Known for the ongoing redevelopment of 60 acres in South Lake Union and our mixed-use residential projects in the Central Area and at Yesler, Vulcan has focused on urban infill development for nearly 20 years.

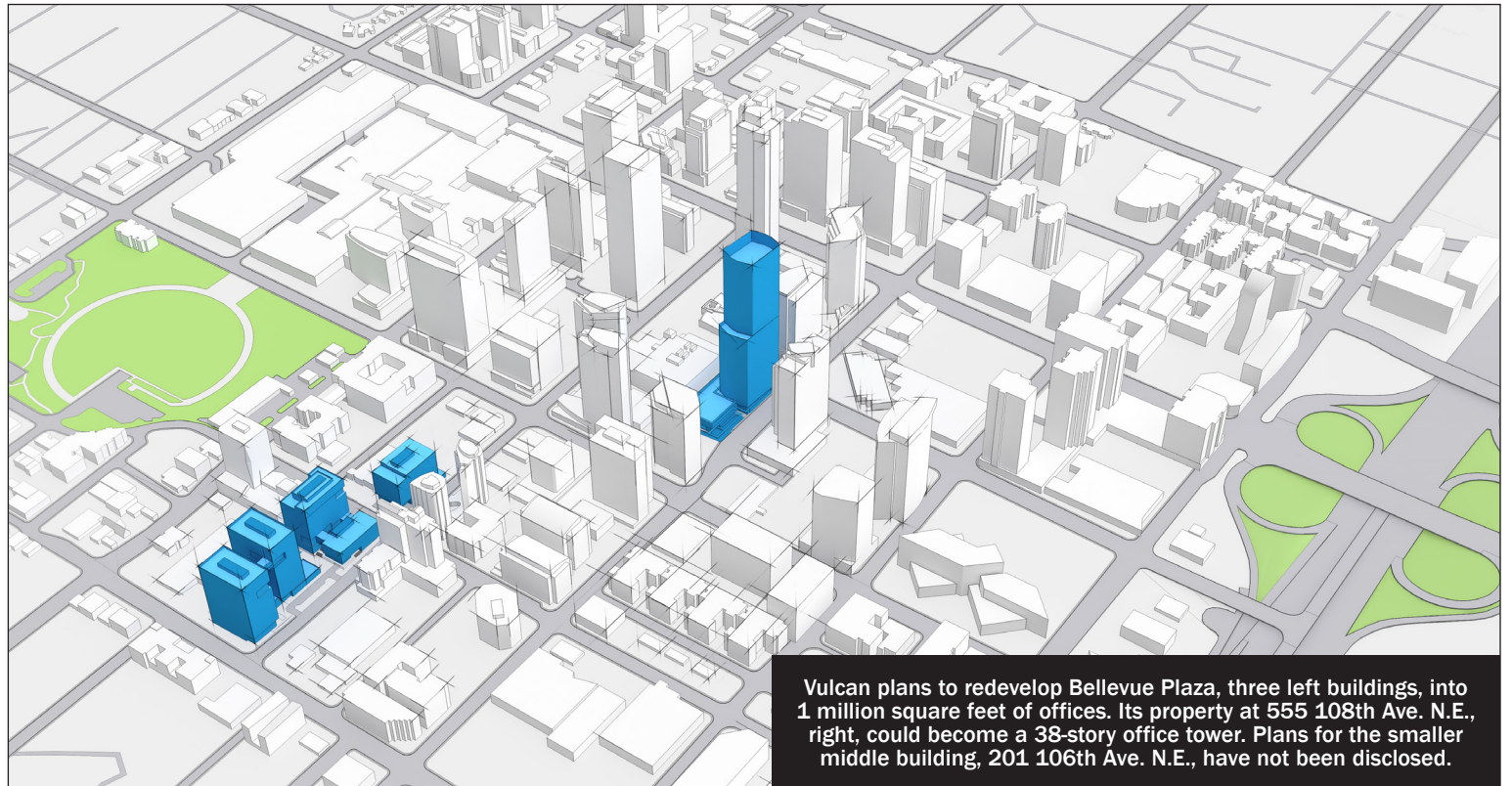


BY SCOTT
MATTHEWS
VULCAN INC.

We were asked: "Why Bellevue and why now?"

Our research into the Bellevue market revealed that Vulcan's development philosophy is nicely aligned with Bellevue's planning and community development guidelines.

Bellevue is focused on neighborhoods, smart growth and cultivating business. Vulcan takes an inclusive, people-first lens, and seeks to develop spaces that facilitate positive human interactions and promote long-term economic growth for everyone. Both approaches aim to create world-class 18/7 neighborhoods that offer a variety of places to live, work and play. These synergies make Bellevue a compelling and



Vulcan plans to redevelop Bellevue Plaza, three left buildings, into 1 million square feet of offices. Its property at 555 108th Ave. N.E., right, could become a 38-story office tower. Plans for the smaller middle building, 201 106th Ave. N.E., have not been disclosed.

IMAGE FROM VULCAN INC.

attractive place to do business.

A funny thing happened as all eyes were pointed on Seattle as the "fastest growing city in America" — Bellevue quietly transitioned into a vibrant economic center. A partial list of recent major leases in excess

of 80,000 square feet to companies such as Amazon, Valve Software, Smartsheet, Pokemon, Salesforce.com and WeWork demonstrate just how desirable downtown Bellevue has become to tech firms. And it continues to appeal to traditional financial, insurance and real estate industries as well.

During this period of strong growth, Bellevue City officials took an inclusive approach, collaborating with investors, developers and employers. After Vulcan's initial investment in the CBD, city officials arranged a tour for us to see firsthand some of the proposed changes for the city and current and future development projects. We felt very welcomed and were excited by the city's engagement.

The business of real estate development is inherently risky and expensive, and many factors that impact the success of new projects are out of a developer's hands. The more a city can do to provide a sense of predictability and collaboration to its legislation and land-use regulations, the more likely developers (and employers) will be to bring economic development, jobs, tax revenue and amenities through new development.

As the number of suitable development sites in Seattle continues to diminish, Bellevue has been working diligently to get its infrastructure and land-use code in order, setting the stage for increased development and density. The recent passage of

the Downtown Livability Initiative by the City Council was the first time in more than 30 years that the zoning code was significantly updated.

The new initiative allows for significantly taller buildings and a greater variety of uses intended to make downtown Bellevue more vibrant, safe, dynamic and memorable.

The upzone greatly improves Vulcan's ability to develop office space at Bellevue Plaza, by increasing commercial floor area ratio (FAR) from three to five times the site area. Vulcan plans to develop an approximately 1 million-square-foot phased urban office complex at this location, and is taking its other sites through entitlement.

The rezone also encourages taller buildings and Vulcan may elect to develop a single office tower at 555 108th Ave. N.E., which at 38 stories would be Bellevue's tallest skyscraper. With a development potential of 2 million square feet, Vulcan could become downtown Bellevue's largest office landlord once its projects are complete.

Anyone who has driven east across I-90 recently has witnessed firsthand that light rail is coming to the Eastside. Anticipated to open in 2023, the East Link will create 10 new stations from Redmond to Seattle, including seven stations in Bellevue. It will give riders a fast, frequent and reliable connection between the Eastside's biggest population and employment centers

and destinations across King, Pierce and Snohomish counties. Easy connections from and to the Bellevue central business district offer large-scale urban office opportunities for growing businesses looking for employee live-work options outside of Seattle.

As research indicates, millennials, who have put off making big life decisions, such as marriage/partnering, having children, buying a house, etc., are now older and have started making those choices. The Brookings Institute declared 2012 as the peak of America's back to the city movement. And while Seattle continues to attract an influx of new residents, there's evidence that millennials starting families prefer the close-in urban hubs like Issaquah, Redmond and Bellevue because they offer an abundance of parks and open space and excellent schools.

Another major initiative that Bellevue has undertaken in recent years is the development of the Grand Connection, a transformative plan to connect pedestrians and bicyclists from Meydenbauer Bay Park to the Wilburton commercial area and the Eastside Rail Corridor, creating new opportunities for public space, recreation and the arts.

Long criticized for the size of its blocks, which made walking in downtown prohibitive, the city has proposed the Grand Connection that will connect pedestrians

VULCAN — PAGE 11

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STRONG EASTSIDE ECONOMY DRIVES MULTIFAMILY INVESTMENTS

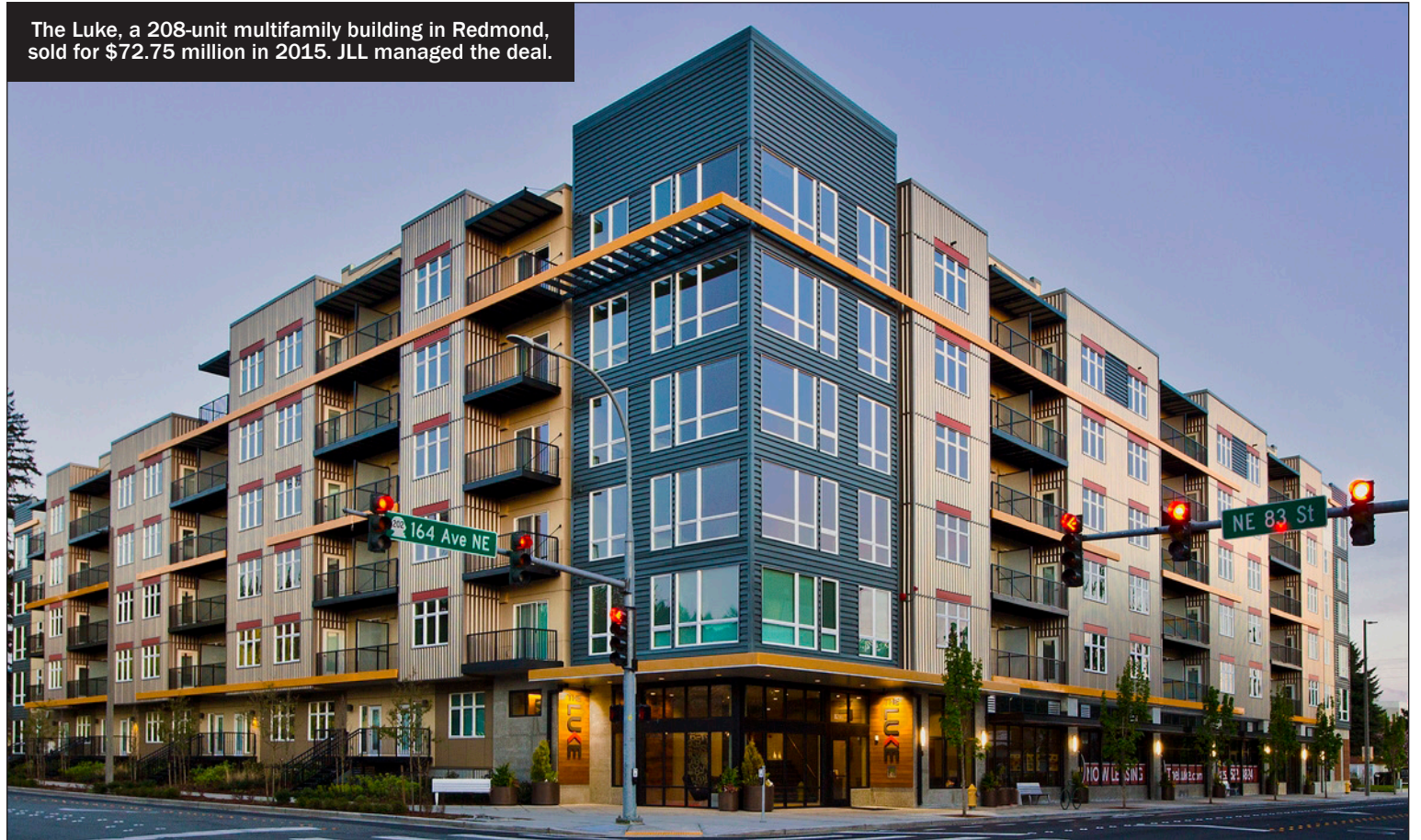
Rent growth in urban Seattle areas has started to slow, but suburban submarkets are still experiencing impressive growth.



BY DAVID YOUNG & KIKI BOONE FAIRCLOTH

JLL

The Luke, a 208-unit multifamily building in Redmond, sold for \$72.75 million in 2015. JLL managed the deal.



IMAGES FROM JLL

The Seattle-Bellevue market continues to grow at an unprecedented pace. The latest employment figures show an annual job growth rate of 3.2 percent; and each year, job growth outpaced projections.

This rapid expansion is due in part to the relative affordability of our region when compared to other West Coast cities. Large tech companies continue to relocate and grow in the Pacific Northwest, expanding their office footprint by hundreds of thousands of square feet.

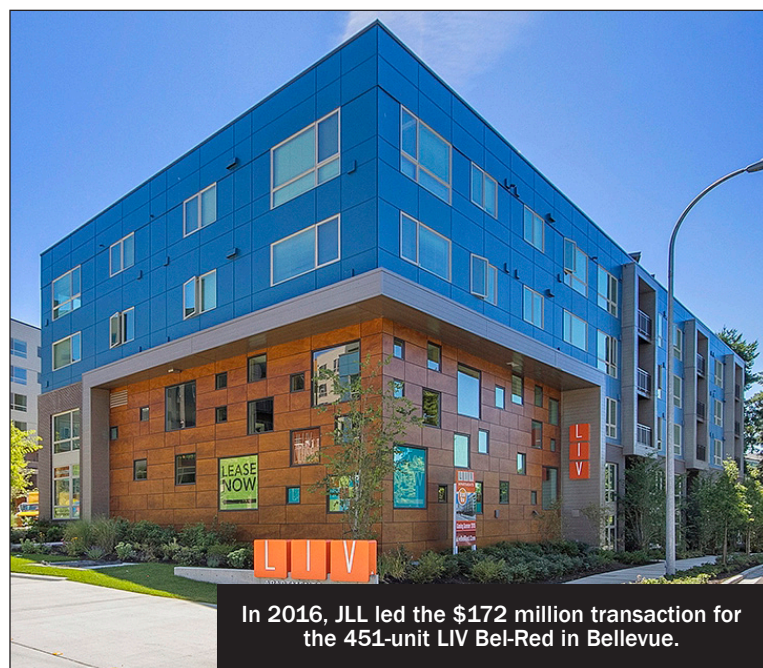
The price to live and conduct business is significantly discounted in comparison to the Bay Area. On average, Seattle-Bellevue employees have 31 percent more disposable income than those in the Bay Area, due to lower housing costs and no state income tax.

Looking at multifamily, the local market is outperforming its West Coast neighbors and investors continue to see future growth for the region. With the recent influx of new supply, rent growth in urban Seattle areas has started to slow, but suburban submarkets are still experiencing impressive growth. Nearly 12,000 units have been delivered each year since 2015, with 64 percent of new multifamily product deliv-

tial for additional rent growth in both Redmond and Kirkland is strong given the high household incomes of residents.

With an Eastside median household income above \$100,000, and a 3-1 income-to-rent qualification at most properties, this suggests that apartment applicants in Redmond and Kirkland can qualify for rents up to approximately \$2,770 a month. Meanwhile, software engineers at Microsoft,

MULTIFAMILY — PAGE 10



In 2016, JLL led the \$172 million transaction for the 451-unit LIV Bel-Red in Bellevue.

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MULTIFAMILY

CONTINUED FROM PAGE 9

with salaries of \$117,000, can qualify for rents around \$3,250.

Microsoft's expansion of its Redmond campus, and the growing footprint of Eastside employers, will further the opportunity for high-paying employment.

Rents in suburban Eastside markets will reach new heights yet remain relatively affordable compared to Bellevue and Seattle. For example, downtown Bellevue averages \$2,915 a month for new units. As monthly rents climb, we expect more income-qualified Puget Sound residents will be attracted to the better value in rental living and high quality of life available within Redmond and Kirkland.

Apartments will also remain an attractive alternative over homeownership, with the median home value on the Eastside now reaching \$950,000 and the

average mortgage payment at \$4,363 per month.

Strong employment

The Eastside employment market is a diverse base of technology, education and healthcare firms, drawing from the area's highly educated employment pool. Downtown Bellevue is one of the tightest office markets in the metro area with a significant presence from notable employers like Valve, Salesforce, Expedia, Google, Bungie, Nintendo, Epic Games and Oculus VR.

Employment in downtown Bellevue more than doubled since 1990 and now exceeds 150,000 workers.

The Spring District, just east of Interstate 405 and south of state Route 520, is a large transit-oriented development under

construction that will add more workers. This 36-acre mixed-use project contains apartments and commercial office buildings, and will be REI's new headquarters in 2020 after it relocates from Kent.

Microsoft, the largest employer on the Eastside and one of the largest in the state, recently announced plans for an expansion that will include 18 new buildings clustered in four distinct villages blended together to create a unified campus. The expansion will add room for up to 8,000 employees in Redmond. The Eastside multifamily market will benefit as an estimated seven additional jobs are created for every tech worker.

Light rail coming

Specific to transportation, the distinct employment market of Bellevue will soon be more connected than ever. The Sound Transit 3 light rail expansion will add over 62 miles of track and is projected to serve over 600,000 riders per day. The rail expansion will connect to existing Sound Transit stations and service will reach the Eastside in 2023/2024 with stops in downtown Bellevue, the Spring District, Microsoft's campus and downtown Redmond.

Upon completion, the new light rail will allow employees to live on either side of Lake Washington and still maintain easy access to all major regional employers.

The multifamily rental market continues to grow given the strong demand for housing across the region. The cost to own a home on the Eastside has never been higher, keeping residents renting for longer periods. Future transportation enhancements will expand the metro, connecting affordable suburbs to major employers.

The Eastside multifamily market maintains healthy leasing fundamentals with economic and demographic indicators pointing towards continued future growth.

David Young is managing director and West Coast lead at JLL. Kiki Boone Faircloth is a senior research analyst for the company.

LEASES & TENANTS

The DJC is always seeking information on leases and property sales

Send yours to Phil Brown at phil.brown@djc.com

BEL-RED

CONTINUED FROM PAGE 7

inspired by the Cascade Mountains, and includes a combination of stone, woods and strong geometric shapes. Another is inspired by the coast, featuring fluid shapes, ocean-blue fabrics and driftwoods.

Abstract photos, colorful murals and custom lighting used collectively tell the story of what makes our region special, and the result is unlike anything else in the Bel-Red Corridor.

Heart of the square

Hyde Square includes two centrally located amenity pavilions, which together have an extensive package of activities rarely seen in a single apartment complex. The buildings have soaring wood ceilings, and the extensive use of glass, wood and dark brick. The result is a clean, modern Northwest aesthetic that fits well within the overall design concept and uniquely sets the project apart.

Inside, the two pavilions offer an impressive collection of amenities that reinforce the active Northwest lifestyle and satisfy the expectations of today's tech-savvy urbanites. Traditional amenities have been reimaged and taken to the next level, complemented by personalized and service-oriented touches. Interior finishes include stone, wood, blackened steel, custom light fixtures and expansive graphics that reinforce the spectacular natural diversity of the Pacific Northwest.

One of Hyde Square's most prominent amenities is the Wellness Center in the east amenity building.

The Wellness Center has a large fitness area and a multi-purpose yoga-flex studio with spinning, stretching and on-demand fitness. Included is the resident spa, with massage and change rooms, and a luxurious rarity for today's apartment communities: a large sauna and

outdoor hot tub.

The ground floor below has a co-working and conference center, fireside lounge and resource library.

Opening later this year will be the west amenity building, which is the hub for Hyde Square's social amenities. This building will have a soaring central fireplace and lounge, private dining room and demonstration kitchen, co-work cafe, and a Northwest-inspired sports and game bar. It will open to an expansive outdoor patio with multiple dining areas, games and barbecues.

The "four corners" concept also carries into Hyde Square's extensive open spaces, which were designed by Murase Associates.

The four main courtyards include flora and materials found in our state's distinct regions, from the lush greenery of the inland coast to the basalt columns found throughout the scablands of the Palouse. The design team was careful to balance the natural elements of the courtyards with active features that help maximize opportunities for outdoor activity.

Hyde Square represents an approach to design and programming that makes it a unique departure from the typical mid-rise product. This strategy was implemented to help elevate the neighborhood experience in this rapidly transforming district. This bold vision, embraced by the entire team, shows that the Bel-Red Corridor has amazing potential to become a truly vibrant neighborhood and an attractive option for urban living.

Robin Chell Design is an award-winning, Seattle-based interior design firm specializing in mid-rise and high-rise multifamily projects.

RENTON

CONTINUED FROM PAGE 4

tered in Renton, has some 2,500 employees at its 12-acre campus. And, Kaiser Permanente Washington, which has a 29-acre campus in Renton built in two phases in 2016-17 at the former Longacres race track site, employs more than 1,300 local professionals.

As the region's commercial real estate market continues to thrive, downtowns and their surrounding submarkets will react to meet the demand for space from growing corporations. Nowhere is that growth more apparent than on Seattle's Eastside, where vacancies are approaching historic lows and companies are expanding and

relocating to take advantage of all the economic and lifestyle benefits its communities offer.

One of those Eastside submarkets, Renton, is more than doubling its Class A offering with the creation of Southport on Lake Washington, a development that will position this one-time manufacturing-based community as a market-of-choice for tech companies for decades to come.

Kip Spencer, a 28-year veteran of the commercial real estate industry, is the director of leasing and marketing at Seco Development. Seco has owned land for over 35 years in Seattle, Bellevue, Kirkland and Renton.

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AFFORDABLE

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Microsoft.

Another project planned on the Eastside includes 255 units at various price points with retail space at the Trailhead in Issaquah, under joint development by King County Housing Authority and Spectrum Development. Also, Downtown Action to Save Housing (DASH) has applied for a permit to redevelop its site in the Glendale neighborhood with 250 units of housing for low-income seniors and families.

Eastside cities recognize that TOD is only one part of the solution and are working hard to find other ways to plan for and provide more affordable housing within their boundaries. For example, in late 2017 Issaquah lifted its moratorium on development and the City Council adopted a housing strategy work plan that includes increasing housing affordability as one of its key goals.

Redmond adopted multifamily property tax exemption regulations in 2017, which have already been applied in 2018 to pave the way to create 210 new affordable apartments. Kirkland has created the Housing Strategy Advisory Group to involve representative stakeholders from throughout the community to help make recommendations for its housing strategy plan.

One major challenge for Eastside affordable developers is the rapidly increasing price of already very expensive land.

Affordable developers have gotten creative, working closely with faith-based communities, as well as cities and King County, to identify land that can be rezoned and developed into affordable housing. For example, Imagine Housing is already under construction with its 30Bellevue project, which will provide 63 permanent affordable apartments close to shopping and transit via a unique land deal with St. Luke's Lutheran Church on Bellevue Way.

Imagine Housing owns and operates 14 affordable housing communities in six Eastside cities: Redmond, Bellevue, Mercer Island, Sammamish, Issaquah and Kirkland. Its goal is to produce 430 more affordable apartments in four to five new communities by the end of 2022, which will roughly double the organization's size.

Unfortunately, all of this is a drop in the bucket compared to the need. County planners have stated that 244,000 more affordable homes will be needed to meet projected growth by 2040.

Villette Nolon is president and CEO of Imagine Housing, the leading nonprofit affordable housing developer focused on East King County.

BIG USERS

CONTINUED FROM PAGE 3

are set to expire in the next 18 to 24 months. If those tenants decide to give back space (not renew their lease), it could add a substantial amount of supply to the market, dampening expectations for the market in the short-term.

The thing about musical chairs is that inevitably the game comes to an end and another one starts, much like the up and down office market cycles of the past. The question for the Eastside is really a matter of what happens first: Does the music stop (i.e. is there an event in the national or local economy that stifles demand) or does someone throw in 10 more chairs (new office projects that increase supply at the wrong time as demand starts to ebb)?

We believe new construction is needed but as always it would be wise for developers to be cautious as we near the end of this strong cycle, and for tenants to recognize that at least for the next two to three years they will have to be creative and flexible to secure the office space needed to accommodate their growing workforces.

Zach Zaborowski is a senior vice president with Broderick Group, a Seattle- and Bellevue-based commercial real estate brokerage.

VULCAN

CONTINUED FROM PAGE 8

and non-motorized vehicles to important civic and public places including Old Bellevue, Bellevue Downtown Park, the pedestrian corridor, Bellevue Transit Center, and the Civic Center District, providing safe access over Interstate 405.

These types of investments into the city's public realm will pay dividends for generations to come. That is how Vulcan approaches its philosophy toward development as well. In short, we see great alignment with Bellevue's inclusive approach to attracting investment — with a collaborative approach that includes the private sector, nonprofits and government. Everyone wins.

Scott Matthews is senior director of acquisitions and residential development for Vulcan Inc. He has more than 30 years of development and management experience in multiple product types.



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