



MEMORANDUM

DATE: April 11, 2005

TO: Mark Griffin, Port of Seattle

FROM: Michael Hodgins and Brett Sheckler

RE: **Assessment of Potential Net New Economic and Fiscal Impacts of North Bay Development Alternatives**

1. Introduction: Analytic Purpose and Approach

Purpose of the Analysis. This memorandum provides an assessment of the potential “net new” economic and fiscal impacts associated with North Bay Environmental Impact Statement (EIS) Development Alternatives. Preceding memoranda (*Preliminary Economic and Fiscal Assessment of North Bay Development Alternatives, Berk & Associates, January 2005*) presented analysis of total economic and fiscal impacts associated with the various Development Alternatives, summarizing the potential employment, income, and revenue that would be generated by new businesses locating at North Bay and adjacent sites.

Upon review of these analyses, the question was posed: What portion of the potential new economic activity on the site would represent “net new” economic activity to the region rather than a redistribution of activity that could have occurred elsewhere in the region, in King County, or in City of Seattle.

The question of net new impacts is an important one. As a regional economic development agency and significant contributor to regional and statewide economic growth, the Port of Seattle seeks to use and leverage its resources to ensure economic vitality. In recognition of this purpose, the Port’s mission statement for North Bay articulates a vision embracing use of the site’s unique attributes to drive growth in the regional economy:

*North Bay is a dynamic and thriving center that advances the region’s vitality and generates **new net revenues for the Port and the region** through building on the present maritime industrial job activity and adding employment in emerging industrial sectors that will shape the region’s future. (Emphasis added.)*

By making property at North Bay available for different types of uses, the Port of Seattle is changing the competitive landscape for specific types of businesses and tenants. Therefore, the key issue in assessing North Bay’s potential for generating net new revenues and employment is whether the

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availability of property at North Bay enhances the opportunity to attract the types of tenants that will drive expansion of the regional and local economy.

A Qualitative Assessment is Required. This memorandum addresses the extent to which Development Alternatives at North Bay and adjacent sites would help drive overall expansion of economic activity rather than contribute to a redistribution of activity that could have occurred elsewhere in the region, in King County, or in the City of Seattle. Thus, development is considered “net new” if it can be demonstrated to have come from outside the area in question. Businesses locating at North Bay that would have otherwise located outside the City of Seattle would be considered “net new” from the City’s perspective. Likewise, tenants that were considering sites outside King County would be considered “net new” to the County and those looking for sites outside the region would be considered “net new” to the regional economy.

This memorandum does not include specific forecasts of net new jobs or revenues that would accompany the six Development Alternatives. Rather, this memorandum provides a qualitative assessment of the relative **opportunity** that each alternative offers for driving net new economic expansion at the regional, County, or City level.

The extent to which future activity at North Bay contributes to economic expansion will be determined by the tenants or businesses that locate on the site. With no specific tenants yet identified, it is not possible to forecast precisely what role those prospective tenants will play in overall economic expansion. At this stage of planning, it is appropriate to provide a qualitative and comparative assessment of the Development Alternatives, to understand and determine the best opportunities to attract the type of businesses that will create “net new” economic growth.

Overview of the Development Alternatives. The EIS includes six Development Alternatives under study for the North Bay site and adjacent Armory and BNSF properties:

- **Alternative 1:** Maximum development without residential – would provide approximately 7.0 million square feet (s.f.) of commercial activity on the combined North Bay, Armory and BNSF development sites. Almost 90% of the development would be concentrated in R&D research facilities and office .
- **Alternative 2:** Maximum development with residential – same overall development intensity as Alternative 1, with 2.1 million s.f. of residential space. The share of R&D and office uses is reduced to approximately 60%.
- **Alternative 3:** Medium development **with residential** – includes approximately 5.0 million s.f. of development, 400,000 s.f. of which would be residential. The R&D/office share is assumed to be almost 80%.
- **Alternative 4:** Medium development **with residential** (No Armory or BNSF sites) – includes 3.2 million s.f. of development, 1.0 million s.f. of which would be residential. The R&D/office component is assumed to be 60%.

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- **Alternative 5:** Low density and current zoning – would include approximately 1.0 million s.f. of new commercial development, 45% of which is assumed to be R&D/office space.
- **Alternative 6:** No further development – the property is assumed to be used for surface storage uses such as dry boat storage and parking for Seattle School District buses.

Approach to Residential Uses. As described above, three of the six Development Alternatives include residential uses. As part of the planning process, the Port will make a policy determination about the potential role of residential uses at North Bay. While there are a number of reasons why the Port should consider residential uses on the site – including benefits to urban form, achievement of growth management objectives, efficient use of a potential multimodal transportation system, and most importantly, the potential for housing to help attract companies that will bring net new economic benefits to the region – housing by itself is not a net new activity generator. Because housing development is an activity that follows changes in regional demand, it does not create regional demand in and of itself.

Since potential residential uses at North Bay are not intended to directly drive regional economic growth, they have been excluded from this assessment of the potential for net new economic benefits.

2. Fundamental Concept: Economic Expansion Hinges on New Demand

At the most fundamental level, economic expansion of a regional economy is driven by the introduction of new demand for the region's goods and services. In some instances, new demand is introduced by an influx of dollars in people's pockets. People may come to the region, to visit or to stay, bringing with them dollars that have been earned elsewhere. Alternatively, residents or businesses may see an influx of dollars in the form of transfer payments or other sources of income. Another significant source of new demand within a region's economy is new or expanding industries. Examples of these might include:

- Boeing signing a deal to sell \$1 billion in new 777s to Quantas;
- A local entrepreneur establishing a business that taps into a national market for a new industrial component; or
- A foreign microchip manufacturer choosing to locate a new fabrication facility in the Puget Sound area, employing regional resources to meet its already-developed national or international market for microchips.

From a regional perspective, the only way that the availability of a piece of land can affect economic expansion is if the property represents a unique opportunity to attract new activity to the region. If the region as a whole has an ample supply of suitable land for a given use, then expanding that supply will have little impact on overall economic growth.

3. North Bay's Role in Economic Expansion

How one evaluates the potential for net new economic and fiscal impacts of a proposed development depends on one's perspective. The broader the perspective, the shorter the list of developments that will have a net new impact on the economy. For example, Boeing's decision to build the 7E7 in Everett had a positive net economic impact on the State, regional and local economies, because most of the competing sites were located outside the state. However, the choice had no real impact on the national economy, since the activity would have taken place somewhere in the U.S. In the same way, a decision by Microsoft to continue its expansion by redeveloping parts of its Redmond campus as opposed to expanding in Issaquah had no net effect on the economic conditions at the State, regional or County level, but will have a significant impact on future economic conditions within the two cities involved.

To understand the potential for net new economic impacts resulting from any of the North Bay Development Alternatives, it is necessary to consider this issue from three perspectives: regionally, and from the perspectives of King County and the City of Seattle. Each of these perspectives is explored below.

Net New Benefits from a Regional Perspective

As a large, flat, mostly environmentally clean, largely vacant waterfront property located near Elliott Bay, in the heart of Seattle, North Bay does offer unique development opportunities that could drive regional economic growth. The extent to which the property can be leveraged to take advantage of its economic growth potential will depend on the uses for which it is made available. The greatest opportunities for driving regional growth will come from users who most value the site's unique attributes and might otherwise locate outside the Central Puget Sound region. Such users might include:

- A large or mid-sized national or international company seeking a flagship headquarters in Seattle;
- An established, successful bio-tech or bio-medical research firm seeking a presence in Seattle's emerging biotech cluster;
- A bio-tech firm seeking a manufacturing facility for which proximity to research centers and access to skilled workers are more important than ready access to the region's highway system; or
- High technology and emerging industrial businesses looking to locate in the region and considering options elsewhere in the country.

If the site's unique characteristics were to attract such a user—a user who might otherwise choose not to locate in the Puget Sound region—then its development would drive regional economic growth. By bringing with it an already-established position in national or international markets, the new company would inject a new source of demand for regional resources.

In contrast, uses that are unlikely to drive regional economic growth are those that could potentially locate at many sites throughout the region, or that largely cater to industries that do not contribute to regional output. These uses include traditional industrial and retail.

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Traditional Industrial Use. As explained in the *Traditional And Emerging Industrial Land Market Study* conducted as part of the North Bay planning process, North Bay lacks the key site characteristics that large traditional industrial users tend to prefer. While the site is large, flat, and proximate to dock and rail, its relatively poor access to the region's highway system, especially I-5 and I-90, is critically important to many industrial business types, especially Warehouse and Distribution and Manufacturing. Larger properties, with better transportation access are readily available for these uses in the Kent Valley, and in Pierce and Thurston Counties. Another significant impediment to large traditional industrial uses is the site's relatively high land and development costs relative to costs of alternative locations within the region.

The *Traditional and Emerging Industrial Land Market Study*, Berk & Associates, 2005, found that one potential pool of tenants for close-in industrial properties are those that need daily access to markets in the immediate area. Examples of these types of firms include contractors and suppliers serving City businesses and residents, and service businesses such as printers serving the downtown market. Since these users serve a local market, they do not introduce new regional demand, and hence do not drive regional economic growth.

Another source of potential industrial demand for North Bay facilities comes from relatively small local businesses that serve a national or international market. While these users could be accommodated by space developed in North Bay, they would not be locating in that space because of North Bay's unique characteristics. From a regional perspective, these users have an array of alternative siting opportunities that would be more economic in terms of costs to the business and improved market access.

Retail Use. Similar to local-serving industrial users, retail is a commercial use that responds to local demand rather than driving it. New retail uses located anywhere in the region are unlikely to drive regional growth. The only exception would be a retail activity that is closely connected to a new tourism draw, such as new retail at a cruise terminal or at an airport where the focus is primarily on visitors. Another example would be a retailer that is able to draw visitors from outside the region — visitors who would otherwise not make the trip — such as national furniture marts located on the East Coast and in parts of the Midwest. These large-scale facilities are destination retail outlets drawing visitors from outside the region and the State, and bringing new money into the regional economy.

Net New Benefits from Subregional Perspectives

In addition to the types of uses that would be considered net new from a regional economic perspective, there will be other potential uses that, if drawn to North Bay, could provide net new jobs and tax revenues from a subregional perspective. The degree to which North Bay might produce net economic and fiscal benefits at the subregional level is related to how North Bay changes the competitive position of the affected jurisdictions — King County or the City of Seattle — relative to their subregional competitors.

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King County Assessment. The principal factors in considering the potential for net new benefits at the County level is the extent to which North Bay offers an opportunity to draw activity that might otherwise have occurred outside the County but within the region. In particular, if North Bay is able to attract high technology, bio-tech and bio-medical research or manufacturing, or other growth-oriented emerging industries, then King County will benefit by capturing these types of businesses and their economic benefits. Absent better choices, some of these growth-oriented firms are likely to look beyond King County in making location decisions. One potential focus area for this activity is South Snohomish County, where there is already a small and growing bio-tech cluster, including Amgen and the new Berlex bio-tech manufacturing facility.

City of Seattle Assessment. Focusing more narrowly on the City of Seattle, the key issue in identifying opportunities to bring net new economic activity to the City is the extent to which the North Bay site offers a locational advantage compared with other parts of King County. Given North Bay's unique characteristics and development opportunities, it is likely that the site could attract tenants and businesses that would not otherwise choose to locate in Seattle. Within the City, there is not another site comparable to North Bay in terms of size, single ownership and control, potential for large-scale development, waterfront views and access, and proximity to downtown, Elliott Bay, South Lake Union, and the surrounding densely developed residential neighborhoods.

There are a range of potential users that could be drawn to North Bay that otherwise might look outside the City of Seattle for a suitable location. These potential tenants include:

- Biotech and biomedical research firms that would otherwise seek to locate on the Eastside or South King County;
- Bio-tech manufacturing facilities that would most likely locate in the Renton or Bothell/South Snohomish County areas;
- Campus-style headquarters complexes that might locate somewhere on the Eastside or in North or South King County;
- Mid-size manufacturers that might otherwise be attracted to the Kent Valley, Pierce or Thurston Counties;
- Smaller industrial users displaced from the BINMIC area and that might otherwise relocate to the Eastside or South King County; and
- Retailers who might otherwise locate in the growing population centers to the north, south and east of Seattle.

4. Assessment of North Bay Development Alternatives

Key Findings. The greatest opportunities for development at North Bay to drive economic growth will take advantage of the scale, unique features and location of the site for use as a company headquarters or campus, as a site for a large bio-tech or bio-medical research facility, as a site for a bio-tech production facility, or as a home for other successful and growth-oriented emerging industries. With these opportunities in mind, the EIS Alternatives with the highest potential to create “net new” economic benefits are those that envision significant development of R&D and office uses on the site.

Given that the majority of traditional industrial users expected to be attracted to North Bay will value its proximity and access to local markets, these users will not introduce new **regional** demand. Therefore, these users are likely to provide little opportunity to spur **regional** growth. Traditional industrial users do, however, present modest opportunities for net expansion from the County and more likely from the City perspectives. Retail uses offer very little opportunity to introduce new demand for regional resources, but do provide a small opportunity to increase Seattle and King County’s retail capture rates due to potential stemming of leakage to neighboring jurisdictions.

Exhibit 1 presents an assessment matrix of the six Development Alternatives under study in the EIS process. The matrix rates each Alternative in terms of its potential to stimulate net economic expansion from a regional, County, and City perspective, based on the Alternative’s scale of development and mix of land uses.

**Exhibit 1
Assessment of the EIS Development Alternatives
and their Relative Potential to Create “Net New” Economic Benefits**

	Opportunity to Stimulate Net Economic Expansion		
	Regional	King County	Seattle
Alternative 1: Maximum development without residential	●	●	●
Alternative 2: Maximum development with residential	◐	●	●
Alternative 3: Medium development with residential (Armory)	◑	◑	◐
Alternative 4: Medium development with residential	◒	◒	◑
Alternative 5: Low Density – current zoning	○	◑	◑
Alternative 6: No further development	○	○	◒

● Greatest Opportunity

◐

◑

◒

○ Least Opportunity

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The following is a brief summary of the assessment of the Development Alternatives presented in Exhibit 1:

- **Alternative 1** offers the maximum amount of flexibility and density for R&D/lab and commercial uses, and would therefore provide the best opportunity to attract the types of development and tenants that could drive “net new” economic benefits from all three jurisdictional perspectives --- the region, County, and the City of Seattle.
- **Alternative 2** offers similar potential as Alternative 1, however the level of regional economic growth potential is somewhat lower, due to the addition of housing to the development mix. While housing may provide other important project benefits, such as the ability to attract precisely the kind of high tech and bio-tech tenants that will drive net new economic growth, by itself it does not provide net new benefits. However, even with housing in the development mix, the quantity of R&D/lab and office space in this Alternative translates into relatively high potential for net new benefits from the County and City perspectives.
- **Alternative 3** significantly limits the scale of development (in particular the R&D component) as compared with Alternatives 1 and 2. This reduced scale, in turn, reduces some of the uniqueness of the property and its potential competitiveness for large-scale bio-tech, bio-medical or headquarters tenants. Thus, the economic growth potential of this Alternative from both regional and King County perspectives is lower than that of Alternatives 1 and 2. While these factors would also limit economic growth potential from the City of Seattle's perspective, with the level of development assumed in this Alternative the North Bay site is likely to remain quite attractive relative to other large sites within the County.
- **Alternative 4** further scales back development of office and R&D space from that envisioned in Alternative 3 and replaces the displaced square footage with residential units. This reduction in the potential scale for office and R&D space further reduces the uniqueness of the property, resulting in a further reduction in the potential for attracting the type of tenants that will contribute to net new benefits to the regional, County or City economies.
- **Alternative 5** is unlikely to generate any net new economic benefits at the regional level, since there are many other competing and relatively attractive sites throughout the region for the types of uses allowed under current zoning. The opportunities improve when viewed from the County or City of Seattle perspective where the likely “net new” benefits come from attracting uses that would otherwise locate in South King County, North Pierce County or South Snohomish County.
- **Alternative 6**, the No Action Alternative, presents few, if any, opportunities to generate net new economic benefits.

5. Opportunities for North Bay Development to Indirectly Support Regional Economic Growth

While the list of potential North Bay tenants that could provide **regional** economic benefits is relatively short (large or mid-size firms seeking a regional, national or international headquarters location in Seattle; large or mid-sized bio-tech research firms seeking a presence in Seattle's emerging bio-tech cluster; or large bio-tech production facility), a successful North Bay development can still have a significant indirect impact on the region's economy. A successful development of the magnitude under consideration for the North Bay and Armory sites would result in higher Port of Seattle revenues. These additional revenues could then be reinvested by the Port of Seattle in its core businesses and in its regional economic development efforts.

6. Conclusion

This memorandum seeks to answer the question: *What types of economic activity at North Bay would represent the greatest opportunity for net new economic activity to the region, King County or the City of Seattle, rather than a redistribution of activity that could have occurred elsewhere in the region, County, or City?*

The analysis concludes that the extent to which an opportunity exists depends on the perspective from which one is asking the question:

- **From a regional perspective** the most flexible and potentially intensive development scenarios present the best opportunities for attracting the type of tenants and activity that will truly be new to the region. These include corporate headquarters and campus developments for growing, successful companies, and building space for major high tech, bio-tech or bio-medical businesses which otherwise might locate outside the region.
- **From the County perspective** the conclusions are similar to those from the regional perspective, since adding North Bay to the supply of potential development sites does not materially change the competitive situation between King County and the rest of the region.
- **From the City of Seattle perspective** there are many more potential opportunities for attracting net new benefits under all of the development scenarios, except for Alternative 6. The principal factor in this assessment is the fact that in many of the site's development scenarios, North Bay will largely be gaining tenants at the expense of areas outside Seattle but within King County.