

How were the proposed mix of uses determined for Shoreline Place?

Three main uses are taken into consideration when determining the appropriate mix in a mixed-use redevelopment: commercial retail, commercial office, and residential.

These three uses were outlined in the Planned Action Ordinance (PAO) for the Aurora Square CRA that was approved in 2015. The City studied a range of potential uses in varying levels of intensity to determine the environmental impacts that the redevelopment of the overall CRA would have and associated mitigation measures. The PAO allows for flexibility between the three uses as long as the associated impacts of the proposed project are less than the thresholds studied in the Environmental Impact Statement.

When MGP acquired the Sears at Aurora Square in mid-2017, we began studying the market related to all three of these land uses. In addition to a complete demolition of improvements and new mixed-use construction, we studied the ability to reuse the existing Sears building.

The following offers a summary of our findings related to each of the three primary uses and ultimately how our market research, along with other factors such as community feedback, informed the proposed mix of uses at Shoreline Place.



Commercial Retail

We generally begin this process by approaching potential “anchor” tenants. Anchor tenants become the catalyst around which a project is designed and executed.

A grocery store would normally be the primary "anchor" for a successful project, but with Central Market next door that was not deemed a relevant use to pursue in a redevelopment scenario for this site.



In this market, the transformative "anchor" tenants could include groups such as Target, Nordstrom Rack, a gym, or a movie theater, to name just a few. Once Sears announced its closure and we were able to solicit interest from retailers in early 2018, we created specific site plans for these various prospective users and engaged in conversations to determine viability.

The feedback from the market was that there were several of issues with the site. First, Alderwood Mall and Northgate Mall are too close to justify a new store in the market (even with the downsizing of Northgate). Second, the lack of visibility from a major freeway was considered a challenge for these anchor retailers. Lastly, the significant cost to upgrade and reuse the existing Sears building or to pursue new construction were a considerable impediment to justify a new store in this location.

Based on this feedback, the decision was made to move forward with Central Market (which is owned by other property owners) as the retail anchor for this project.

The approach to retail we proposed on our site is a reflection of this market input in addition to the feedback from more than 6,000 community survey responses that indicated an overwhelming preference for restaurants and a University Village-type configuration.

The quantity of retail was driven by the site design, including limitations on the depth of spaces, proximity to parking, and visibility and access. Initial retail square footage estimates assumed the use of shared parking agreements with adjacent owners. We reduced retail square footage to provide sufficient parking (5 stalls per 1,000 square feet) on our property without relying on shared parking agreements.

Commercial Office

While MGP focuses on retail properties, office space development and office space leasing are also important components of our mixed-use projects. For example, we recently developed 400,000 square feet of office space for Facebook at San Antonio Center in Mountain View, CA, and we are converting an old Macy's store into a 200,000 square foot creative office building adjacent to a retail and apartment project at NoHo West in North Hollywood, CA. It is our experience that, where feasible and where market demand exists, including office space in a mixed-use project provides an important addition of daytime traffic that helps elevate the retail sales volume and therefore the associated quality of retailers and restaurants.

The type of commercial office space referred to in this analysis is similar to the "anchor" comparison for retailer. These are uses large enough that they can anchor a project (approximately 100,000-300,000 square feet).

MGP consulted with office leasing brokers from CBRE about potential office space. Market feedback suggested that demand was insufficient for this market due to the lack of visibility from a major freeway, lack of existing inventory with a proven/existing tenant base, and market rents being too low to justify the cost of new construction.

Freeway visibility, while not a need for all office space in the region, is seen as a critical component as one moves away from the urban sub-markets of Seattle/South Lake Union, Bellevue, and Redmond. Having this visibility helps establish the credibility of an office sub-market and freeway signage can often act as enough of an incentive for prospective tenants to make up for a less proven location.

Having a proven submarket with existing inventory of available space is important as it helps put the location on the radar of potential tenants and brokers. It can also offer the ability to accommodate future growth for a tenant.

The ability to charge rent that justifies the cost of new construction is the largest barrier to current office development at Shoreline Place. Costs for a new office building would be in the range of \$500-\$550 square feet. We would target rents of \$36-\$45 per square foot but the current market rents in the area are around \$20-\$25 per square foot per year – almost a 50% differential.

Community members suggested we consider co-working operators as a potential use for the project. In response to that request, we reached out to WeWork, Regus, and local co-working operators. They expressed similar concerns about the lack of established office space in the vicinity. There was insufficient demand for co-working space at Shoreline Place to speculatively assume this would be a major component of the redevelopment.

These challenges are significant enough to move the planning effort into evaluating uses other than speculative office building. There may be small professional office uses as part

SHORELINE PLACE

of the retail square footage but nothing of the scale contemplated in the PAO or the CRA EIS (250,000 square feet).

Should office demand shift over time, sufficient capacity (more than 700 net new PM peak hour trips after the 100 trips associated with Shoreline Place at build out) is available within the threshold established through the Planned Action Ordinance to allow a future phase of Shoreline Place to pursue that use.

In the near term, WSDOT anticipates doubling their head count within the CRA property, which will help contribute daytime foot traffic that having on onsite office use would provide.

Residential

The demand for housing of all types is an ongoing concern of policy makers and land use planners in the greater Seattle area. The diversification and depth in the job market means the region is experiencing considerable population growth and demand for housing.

This shift has resulted in a change to land use planning where residential uses are taking greater priority in mixed-use redevelopments. This has been made evident in recent months with Simon Property Groups announcement that, in light of market demand shifts and the advent of light rail, Northgate Mall will be reimagined into a blend of residential, retail, office, and entertainment (hockey) uses.

Residential ownership and rental costs have risen in recent years, driven by a combination of demand outstripping supply and construction cost increases. The various multifamily projects planned or under construction in Shoreline will provide a diversity of housing options, offering a balanced base for current residents entering into a transitional period of their lives or for incoming Shoreline residents saving for homeownership or evaluating living in the community of Shoreline while saving for or prior to making a commitment to homeownership.

While condominium laws in the State continue to present an impediment to condo development, the Shoreline Place project does not preclude the ability for the residential units to be built as or converted to condos. In the current market, however, the anticipated housing type are rental apartments.



The 1,358 units proposed in the plan support the PAO and CRA goals of revitalizing the former Sears site. This quantity of units is well within the trip thresholds previously approved by the PAO. The plan also includes 2.75 acres of publicly accessible open space compared to the 0.3 acres of open space required based on the mix of uses proposed.

Entertainment Space

The CRA notes that demand may exist for a permanent sound stage or entertainment venue. Given the specialized use and significant cost associated with such a venue, such a venture would not prove viable at this time. With minimal options to re-use the space, pursuit of such a speculative venture is not a viable solution to catalyze Shoreline Place.

Entertainment is more likely to be provided within the contemplated Open Space System as noted in the Supplemental Site Design Guidelines where provisions for a small performance stage, outdoor cinema, or farmers market can be accommodated.

Similarly to the office market, should the situation change and a viable solution present itself, MGP's property only accounts for 25% of the CRA and another location may be identified and pursued at a later date.

Proposed Mix of Uses

With close proximity to high frequency public transportation, Shoreline Community College, and WSDOT's regional headquarters, the mix of retail and residential uses we have proposed will provide the needed blend of activity that will continue to be in demand for the foreseeable future and that will act to catalyze the CRA.

The PAO provided flexibility to allow a developer such as MGP to shape the project to meet current and projected land use demands while ensuring compliance with the Environmental Impact Statement. From a traffic generation perspective, multi family is the least intensive use of the three uses described in this analysis.

It is based on this critical market feedback that MGP is proposing the mix of uses found in the plan for Shoreline Place.