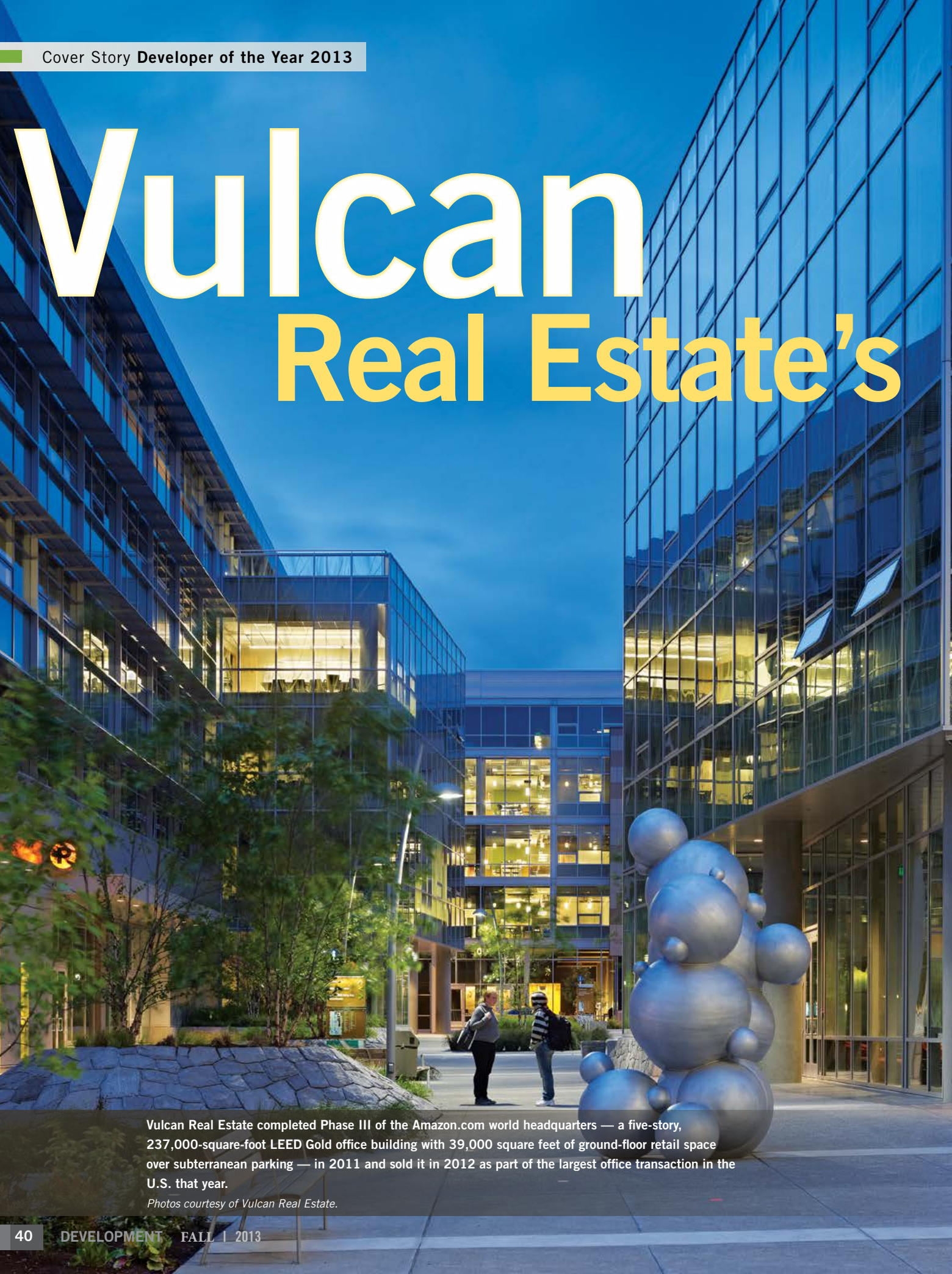


Vulcan Real Estate's



Vulcan Real Estate completed Phase III of the Amazon.com world headquarters — a five-story, 237,000-square-foot LEED Gold office building with 39,000 square feet of ground-floor retail space over subterranean parking — in 2011 and sold it in 2012 as part of the largest office transaction in the U.S. that year.

Photos courtesy of Vulcan Real Estate.

Bold Vision

■ By Ron Derven

Microsoft co-founder **Paul G. Allen's** real estate development company, Seattle-based Vulcan Real Estate, is leading one of the largest urban redevelopment efforts in the U.S. Vulcan's ability to articulate a vision; collaborate with multiple public and private entities; obtain expensive infrastructure improvements; and finance, design, deliver, and fill office, scientific, medical, residential, and retail structures turned around an underused, aging industrial neighborhood just south of Seattle's central business district.

Sparked by the development of Amazon.com's new world headquarters in the neighborhood, public and private investments to date have attracted 15,000 net new full-time, nonseasonal permanent jobs to the area, more than 1,000 construction jobs annually, 3,600 new housing units, and \$156 million in new tax revenue for the city — 85 percent of which is recurring tax revenue. Vulcan's success in Seattle's South Lake Union District has shaped the firm into an urban

redevelopment expert capable of and willing to take on complex urban redevelopment projects. Because of the firm's thorough approach to real estate development and community building, as well as its social consciousness, financial consistency, active support of the industry through NAIOP, and general industry and business leadership, NAIOP has selected Vulcan Real Estate as the 2013 Developer of the Year.

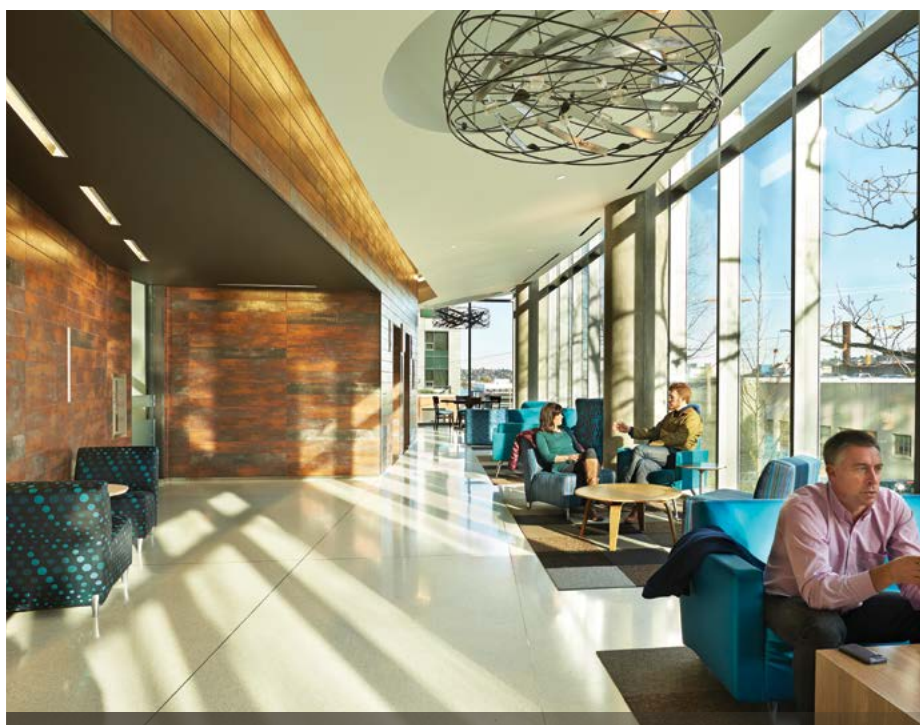
Beginning with a Catalytic Project

Vulcan Real Estate was formed and acquired its original 10 acres of land in the South Lake Union District in 1996 through a rather unusual set of circumstances. A series of articles in The Seattle Times had strongly promoted the idea of a city park, similar to Central Park in New York City, that would cover an area from the CBD to Lake Union.

A group of citizens created the Committee for the Seattle Commons and asked Paul Allen, owner of Vulcan, Inc. (a firm that he had founded in 1986 with Jo Lynn Allen to manage his business and charitable endeavors), to contribute to the endeavor. A generous philanthropist, Allen told the group that he would make a contribution to the proposed park, but it would be structured as a loan so that the nonprofit group could acquire some seed parcels. Allen then would forgive the loan when the plan for the park, which had to go before the voters of Seattle, was approved.

The voters, however, considered the plan twice and rejected it both times. Allen took a deed in lieu of foreclosure, and acquired 10 acres of property in South Lake Union. That was the start of Vulcan Real Estate, now an integral part of Vulcan, Inc. (as is Vulcan Capital, which oversees Allen's other investments). Between 1996 and 2006, Vulcan Real Estate acquired a total of 60 acres in the district, much of which it has since developed and sold. Today, it owns 43 acres there, including 30 acres of land that are ripe for development.

"I joined Vulcan from an institutional background at the end of 2001 to take the portfolio — which was largely land at the time — and turn it into an income-producing portfolio of properties," said **Ada Healey**, vice president. At the time that she came onboard, Vulcan Real Estate had only two other employees. Over the next few years, as Vulcan's growth intertwined with that of South Lake Union, Healey built a 30-person integrated team, most of whom have now worked together for between eight and 10 years.



Open spaces within the Amazon.com world headquarters feature abundant daylight and comfortable gathering places.

Facing Challenges

The great challenge Vulcan Real Estate faced initially in South Lake Union, according to Healey, was to convince both the public and private sectors about the potential of the South Lake Union District and to get them to back the vision with financial resources. Once an industrial area where Bill Boeing test flew airplanes and Henry Ford had a Model T assembly plant, the neighborhood had gone downhill. When Healey joined Vulcan, the company owned buildings housing a number of seedy uses, and the neighborhood was home to many others.

"With this unsavory activity on the street, the challenge was to convince the city that the area could be an economic engine for the region, generating hundreds of millions of dollars in tax revenues," she said. "The city needed to invest hundreds of millions of dollars to improve public transportation, parks, and open space; bolster the

power supply and underground power lines; and improve a major roadway running through South Lake Union."

The city was not quick to finance new infrastructure but, ultimately, it did step up and financed the upgrading of a major road through South Lake Union, the addition of mass transit into the area in the form of a streetcar line, and the upgrading of public parks. It also supported a change in zoning to permit higher-density residential and biotech uses.

The second big challenge was convincing new tenants that South Lake Union was worth moving into, because in 2002 none of the infrastructure improvements that Vulcan needed had been undertaken or even funded. Despite this, Vulcan opened five buildings in 2004 and 2005.

Vulcan's crowning achievement was the completion of a five-phase development project for Amazon.



The Institute for Systems Biology's 140,000-square-foot global headquarters in South Lake Union houses a 3,000-square-foot data center capable of storing about 1 petabyte of scientific data (more than four times as much as the Library of Congress) as well as laboratory and office space.

com's new world headquarters. This deal is the largest office lease transaction in Seattle's history; it comprised 1.7 million square feet of office space and 100,000 square feet of street-level retail space in 11 buildings, including two historic rehabs. Amazon's move marked a high point for South Lake Union and the area's revitalization. (For more on this project, see "Amazon Stays True to the Urban Grid," *Development*, Spring 2013, p. 44, naiop.org/amazonspring2013.)

Developing with a Social Conscience

Vulcan Real Estate is deeply committed to fostering healthy, vibrant, and diverse communities. This philosophy has been integral to its initial and continuing success in South Lake Union. "We are evaluated here at Vulcan Real Estate based on a triple-bottom-line performance criterion," explained

Healey. "We need to provide market returns back to the enterprise, we want to be leaders in environmental sustainability, and we need to have a positive impact on our community."

That support at South Lake Union has involved efforts on a variety of fronts. These have included contributing millions of dollars to preserve existing housing and to building new affordable housing, commissioning local artists to create 13 public artworks, preserving historic structures, and sponsoring local events such as the annual South Lake Union Block Party, which — in addition to being a lot of fun for residents and tenants — also raises thousands of dollars for local nonprofit groups.

Recognition for High-Quality Products

The many awards that Vulcan Real Estate has won from a wide range of national, state, and local organizations, including the American

Institute of Architects, the National Association of Home Builders, the Downtown Seattle Association, the Quality Growth Alliance, the Urban Land Institute, and NAIOP's Washington State Chapter, underscore the quality of the Vulcan's products and services. Healey attributed the firm's high performance to its team of professionals, noting that there is good chemistry and a high level of energy and enthusiasm within the team. "The work is a lot of fun," she said. "Further, we are very collaborative and everyone is encouraged to speak their minds and debate points."

Maintaining Financial Stability

Clearly, being part of a larger enterprise that is owned by one of the nation's wealthiest individuals is a somewhat different platform than that of many real estate development companies. Healey noted,

however, that Vulcan Real Estate is held to task to produce investment returns, so it is benchmarked against various indices and reports quarterly on its performance.

“Paul Allen is a generous philanthropist,” she said, “but his investments in real estate are not part of his charitable activity. We finance our projects using traditional debt capital and we have relationships with 25 lenders, both on the construction and the permanent [loan] sides. We compete for capital here in our firm with the other investment professionals who invest in public equity, private equity, venture capital, and fixed income.”

Supporting NAIOP

Vulcan Real Estate has been a strong supporter of the NAIOP Washington State Chapter since 2002 and a premier sponsor of the chapter since 2006. Two of Vulcan’s real estate directors — **Robert S. Arron**, senior director, real estate marketing and leasing, and **Sharon Coleman**, director, real estate development — have served on the chapter’s board for multiple years (Arron was its president in 2010), and five other Vulcan staffers also are active NAIOP members.

Healey believes that NAIOP is a strong organization and said that the company enjoys the relationships it has developed there. “For us, NAIOP serves three very important functions. First, it is a great way to build relationships and to network in the industry. Second, NAIOP



Vulcan Real Estate has focused its development activities in Seattle’s South Lake Union District (outlined and highlighted above), a formerly underused neighborhood just south of the CBD.

provides an excellent platform for education and learning from experts about important current issues. Finally, NAIOP has a powerful lobbying arm, and it is nice to be part of an organization that can lobby a real estate issue so that individual companies do not have to do that heavy lifting alone.”

Looking to the Future

Looking ahead, Vulcan has big plans for South Lake Union. For the immediate future, the company will focus on leasing up 466 multifamily housing units that it will deliver this year, as well as on breaking ground on the Allen Institute for Brain Science and two new 12-story buildings for Amazon. (See “Notable Vulcan Transactions” on page 46.)

“In the longer term,” said Healey, “we expect to continue developing the 30 acres we still have in our portfolio in South Lake Union. That includes a full block at a prominent

intersection at the south end of the neighborhood where we own all four corners and have developed the other three with a mix of uses, including for-sale housing, luxury apartments, a Pan Pacific hotel, office space, and retail — with Whole Foods, West Elm, Ann Sacks Tile, and Bang & Olufsen.

“In addition, the University of Washington School of Medicine has two more life sciences buildings planned for a site they ground lease from us. We have already developed about 550,000 square feet for them and will act as the development manager for another 360,000 square feet when they are ready.”

Vulcan Real Estate is in the planning stages for three blocks near the waterfront portion of South Lake Union and also plans on renovating a 10-acre marina property immediately across the street from those three blocks.



The 450,000-square-foot mixed-use LEED Gold 2201 Westlake building comprises a 12-story office tower and a 19-story residential condominium tower as well as retail space and subterranean parking.



Phase IV of the Amazon.com headquarters included the renovation of the historic Terry Avenue Building, which has been converted into retail space for three restaurants.

Finally, Vulcan has expanded its business model by pursuing opportunities to partner with public and nonprofit agencies as a development partner. In January 2103, the Seattle Housing Authority board voted unanimously to enter into negotiations with Vulcan to become its master development partner in replacing the 30-acre Yesler Terrace's aging public housing with a new mixed-income community. This ambitious redevelopment project on First Hill, a neighbor-

hood within walking distance of downtown, is zoned for up to 5,000 units of market-rate, workforce, and low-income housing as well as 900,000 square feet of office and/or life sciences space and 85,000 square feet of neighborhood amenities and services.

"At one point we considered expanding our footprint beyond Seattle — we actually bought an Opus-developed building in the Phoenix area from three lenders in 2010, leased it up, sold it at the end of last year, and made a nice

return," explained Healey. "But our principle is more comfortable staying closer to home, and we have plenty to do here. So I suspect we will continue to focus our efforts in the Northwest and the greater Seattle area. We feel good about our success here and will be sticking to the market we know best in terms of players, dynamics, and the like." ■

By **Ron Derven**, contributing editor, *Development*.

Notable Vulcan Transactions, 2012 – 2013

During the past 18 months, Vulcan Real Estate has made news with sale transactions, leasing activity, and new development starts.

Sales transactions. The value of Vulcan's real estate portfolio peaked in 2012 at more than \$2.5 billion. Capitalizing on market conditions in the fourth quarter of the year, the company sold half its operating portfolio to take advantage of the peak pricing, record low cap rates, and low interest rates. Key sales transactions included the following:

The Amazon Campus, Seattle.

Vulcan sold 1.8 million square feet of office and retail space (Phases I through V) to Amazon for \$1.154 billion. This was the largest office transaction in the U.S. in 2012; the sales price was more than 1.5 times construction cost. Sale date: December 21, 2012.

Westlake-Terry, Seattle. Vulcan sold this two-building office complex containing 280,000 square feet of office space and 45,000 square feet of ground-floor retail space to Kilroy Realty, a publicly traded REIT, for \$170 million. Sale date: January 16, 2013.

Tempe Gateway, Tempe, AZ.

Vulcan sold this eight-story, 264,000-square-foot office and retail building for \$66.1 million, less than two years after it had purchased the building (Vulcan's first purchase outside Seattle), to Parkway Properties. Sale date: December 21, 2012.

Leasing activity. Vulcan executed 1.7 million square feet of new or renewal leases and achieved an average occupancy of 96.4 percent in its commercial portfolio. The firm welcomed more than 25 new retail shops, services, and restaurants to South Lake Union.

New development activity. Vulcan was involved in significant development activity in 2012 and 2013, including the following projects:

Stack House, two seven-story residential buildings with 278 rental apartments over subterranean parking and the renovation of a 35,000-square-foot historic structure known as the Supply Laundry Building. Expected completion: third quarter 2013.

The Martin, a 24-story residential high-rise building with 188 rental apartments over above-grade parking and 4,000 square feet of ground-floor retail. Expected completion: third quarter 2013.

University of Washington Medicine Phase 3.1, a seven-story, 183,000-square-foot life sciences research facility over subterranean parking (which also will serve a subsequent Phase 3.2). Completed: first quarter 2013.

Amazon.com Phase VI, a six-story, 376,000-square-foot, two-building build-to-suit project with 15,000 square feet of ground-floor retail space over subterranean parking. Expected completion: fourth quarter 2014. (In addition, Vulcan recently signed a lease with Amazon for Phases VII and VIII, another 600,000 square feet of build-to-suit office space, which brings the total amount of Amazon build-to-suit product now in the Vulcan pipeline to about 1 million square feet.)

Allen Institute for Brain Science, a build-to-suit property that will contain 260,000 square feet of biotech space preleased to the Allen Institute and 11,000 square feet of ground-floor retail over subterranean parking. The project is still in pre-development planning, but is fully committed. Expected completion: third quarter 2015. ■



University of Washington Medicine

