

7a. Staff Report - Proposed Development Agreement

Planning Commission Meeting Date: March 7, 2019

Agenda Item: 7a.

PLANNING COMMISSION AGENDA ITEM CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: Proposed Development Agreement – Redevelopment of Sears Site at Shoreline Place
DEPARTMENT: Planning & Community Development
PRESENTED BY: Paul Cohen, PCD Planning Manager
Rachael Markle, PCD Director
Nathan Daum, Economic Development Manager

Public Hearing
 Discussion

Study Session
 Update

Recommendation Only
 Other

Introduction

Tonight's meeting is to introduce the Planning Commission to the proposed redevelopment of a portion of Shoreline Place (formerly Aurora Square), commonly referred to as the "Sears site," owned by the Merlone Geier Partnership (MGP).

To facilitate this redevelopment, MGP is seeking to enter into a Development Agreement for the 17.31-acre Sears site. MGP proposes to redevelop the site into a more intense, mixed-used, pedestrian friendly, and transit supported community.

While the City has approved Master Development Plans (MDP) in the past,¹ a Development Agreement is not the same thing. A Development Agreement is a voluntary contract between the City and the property owner setting forth the development standards and other provisions that apply to, govern, and vest the development for the term of the Development Agreement.

RCW 36.70B.170 has always granted the City authority to enter in a Development Agreement but, as part of the light rail station subareas, in 2015 the City adopted SMC 20.30.355 in order to set forth the procedures and criteria under which the City would consider such an agreement.

As mandated by RCW 36.70B.200, SMC 20.30.070 and 20.30.355 classify a Development Agreement as a "Type L – Legislative" decision because approval of the agreement requires the adoption of an ordinance or resolution by the City Council. Prior to adoption, these same provisions direct that the Planning Commission is to hold a public hearing on the proposed development agreement and forward its recommendation to the City Council.

¹ Development in the campus zones mandates the use of an MDP. SMC 20.40.045(C); SMC 20.30.353. For example, MDPs have been approved for Shoreline Community College and Crista.

Approved By:

Project Manager 

Planning Director 

7a. Staff Report - Proposed Development Agreement

MGP Proposal of the Sears Site

MGP proposes to create a town center community in the center of Shoreline Place for people to live, shop, gather, and recreate. The proposed redevelopment will bring a 1960s mall into the present with an urban designed setting that creates a more pedestrian-centered experience with under building parking, private open space and common public places, integrated new retail, and visual connections from balconies to pedestrian areas below. This type of redevelopment is anticipated to draw people from the surrounding community into the site.

The redevelopment includes removal of the existing Sears building, developing seven (7) multi-family buildings providing 1,358 residential units and two (2) commercial buildings adding 72,160 square feet of new space, public and private open space, street, intersection, and bike lane improvements. The redevelopment will also provide various improvements to public infrastructure, including streets and utilities, along with facilitating better access to transit and park facilities.

As shown in the conceptual design **Attachment A**, MGP intends to develop the Sears site in five (5) phases (Blocks A-E) over a 20-year time period. MGP's market analysis and rationale for the mix of land use and project elements is provided in **Attachment B**.

Background

The City has pursued the redevelopment of Aurora Square almost since its incorporation in 1996. Consultants and City's Economic Development managers have worked with the property owners to improve the site to simulate job creation and to increase community services and retail choices. Below is a recent chronology of supportive City actions that led to the proposed Development Agreement to redevelop the Sears site.

- 2009: City adopts *Vision 2029* and incorporates it into the Comprehensive Plan.²
- 2012: City substantially updates the Comprehensive Plan³

² Vision 2029 articulates what the City sees it can become by the year 2029, namely "a thriving, friendly city where people of all ages, cultures, and economic backgrounds love to live, work, play, and most of all, call home." Vision 2029 also established the Framework Goals that provide the overall policy foundation for the Comprehensive Plan and support the City's vision. Vision 2029 speaks to as a city of neighborhoods, each with its own character and sense of place, and to Aurora Avenue as the City's signature boulevard thriving with a variety of shops, business, eateries, entertainment, and housing options. Vision 2029 can be reviewed at: <http://www.shorelinewa.gov/home/showdocument?id=9651>

³ As required by the Growth Management Act, the City updated its Comprehensive Plan and expanded many goals and policies within the Land Use, Community Design, Housing, Economic Development, and Capital Facilities Elements to encourage redevelopment at a pedestrian-scale providing variety of housing types and retail opportunities. The current version of the City's Comprehensive Plan can be reviewed at: <http://www.shorelinewa.gov/government/departments/planning-community-development/city-plans/comprehensive-plan-and-master-plans/comprehensive-plan>

7a. Staff Report - Proposed Development Agreement

- 2012 and 2013: City designates Aurora Square as a Community Renewal Area and adopts the Aurora Square Community Renewal Area Plan.⁴
- 2015: City designates the Aurora Square Community Renewal Area as a “Planned Action.”⁵.
- 2015: The City adopts sign regulations specific to the Aurora Square Community Renewal Area.⁶
- 2015: Aurora Square is rebranded to Shoreline Place.
- 2017: The Sears site was sold to MGP.
- 2018: MGP holds a community-wide meeting at Shoreline Community College to allow the community to understand its plans for Shoreline Place.
- 2018: MGP submits an application for a Development Agreement on December 21, 2018.

Development Agreement Process

SMC 20.30.355 provides the requirements for a Development Agreement. As a “Type L – Legislative” decision, the Planning Commission is to hold a public hearing on the proposed development agreement and forward its recommendation to the City Council. If the City Council approves the Development Agreement, it will do so by ordinance or resolution. The required content of a Development Agreement is listed below followed by the decision criteria by which the City Council will determine whether or not to approve the Development Agreement.

- **SMC 20.30.355(B) Development Agreement Contents**

1. Project elements such as permitted uses, residential densities, and nonresidential densities and intensities or building sizes;
2. The amount and payment of impact fees imposed or agreed to in accordance with any applicable provisions of State law, any reimbursement provisions, other financial contributions by the property owner, inspection fees, or dedications;

⁴ By designating Aurora Square as a Community Renewal Area (CRA), the City has a toolkit of powers that can be utilized to bring renewal to an economically blighted area. The City’s ultimate vision was for the site to be the “intersection of life, study, entertainment, housing, sustainability, and retail.” The CRA Plan can be reviewed at: <http://www.shorelinewa.gov/business/aurora-square-community-renewal-area>

⁵ Planned Actions are authorized under the State Environmental Policy Act (SEPA) and bring together environmental analysis and mitigation measures prior to a project proposal. Because of the upfront environmental analysis, the review process for developments satisfying the criteria set out in the City’s Planned Action Ordinance is expedited and not subject to further environmental review. The Aurora Square CRA Planned Action Ordinance can be reviewed at: <http://www.shorelinewa.gov/home/showdocument?id=21860>

⁶ Given the nature of the CRA, the City adopted regulations in order to provide a more cohesive master sign program that would facilitate successful economic development.

7a. Staff Report - Proposed Development Agreement

3. Mitigation measures, development conditions, and other requirements under Chapter 43.21C RCW;
 4. Design standards such as maximum heights, setbacks, drainage and water quality requirements, landscaping, and other development features;
 5. Affordable housing units;
 6. Parks and open space preservation;
 7. Phasing of development;
 8. Review procedures and standards for implementing decisions;
 9. A build-out or vesting period for applicable standards;
 10. Any other appropriate development requirement or procedure;
 11. Preservation of significant trees; and
 12. Connecting, establishing, and improving nonmotorized access.
- SMC 20.30.355(C) Decision Criteria

Decision Criteria. A development agreement (general development agreement and development agreements in order to increase height above 70 feet) may be granted by the City only if the applicant demonstrates that:

1. The project is consistent with goals and policies of the Comprehensive Plan. If the project is located within a subarea plan, then the project shall be consistent with the goals and policies of the subarea plan.
2. The proposed development uses innovative, aesthetic, energy-efficient and environmentally sustainable architecture and site design.
3. There is either sufficient capacity and infrastructure (e.g., roads, sidewalks, bike lanes) that meet the City's adopted level of service standards (as confirmed by the performance of a transportation impact analysis) in the transportation system (motorized and nonmotorized) to safely support the development proposed in all future phases or there will be adequate capacity and infrastructure by the time each phase of development is completed. If capacity or infrastructure must be increased to support the proposed development agreement, then the applicant must identify a plan for funding their proportionate share of the improvements.
4. There is either sufficient capacity within public services such as water, sewer and stormwater to adequately serve the development proposal in all future phases,

7a. Staff Report - Proposed Development Agreement

or there will be adequate capacity available by the time each phase of development is completed. If capacity must be increased to support the proposed development agreement, then the applicant must identify a plan for funding their proportionate share of the improvements.

5. The development agreement proposal contains architectural design (including but not limited to building setbacks, insets, facade breaks, roofline variations) and site design standards, landscaping, provisions for open space and/or recreation areas, retention of significant trees, parking/traffic management and multimodal transportation improvements and other features that minimize conflicts and create transitions between the proposal site and property zoned R-4, R-6, R-8 or MUR-35'.

6. The project is consistent with the standards of the critical areas regulations, Chapter 20.80 SMC, Critical Areas, or Shoreline Master Program, SMC Title 20, Division II, and applicable permits/approvals are obtained.

Staff Recommendations

No action is required at this time.

Next Steps

Staff will return with the proposed DRAFT Development Agreement; the MGP's responses to SMC 20.30.355 (C) Decision Criteria; staff's analysis to the responses, and a Planned Action SEPA determination.

Unless additional study of this item is requested by the Planning Commission, staff will schedule a Public Hearing after which the Planning Commission will make its recommendation to the City Council.

Staff anticipates the Development Agreement will be discussed and a decision made by City Council in June 2019.

Attachments

Attachment A - Conceptual Development Plan and Design

Attachment B - Shoreline Place Conceptual Guide Plan – Proposed Project Elements
Market Analysis and Rationale)

NEW NEIGHBORHOOD AXONOMETRIC | LOOKING WEST



Community Open Space
& Dog Run

7 levels
(5-7 levels of Residential
/ 3 levels Parking)

7 levels
(5 levels of Residential
/ 2 levels Parking)

7 levels
(5 levels of Residential /
2 levels Retail & Parking)

7 levels
(5 levels of Residential /
2 levels Retail & Parking)

Lower Ground Level- Retail,
Lobby and Garage Entrance

Proposed Development Agreement - Attachment B

Attachment B (Market Analysis and Rationale)

Shoreline Place Conceptual Guide Plan – Proposed Project Elements

Background:

The ordinance designating a planned action for the Aurora Square Community Renewal Area (PAO) contemplates the following of new land uses within the Community Renewal Area (CRA): 1,000 residential units (totaling 1,000,000 sf or 1,000 sf/dwelling unit); 250,000 sf of retail uses; and 250,000 sf of office uses. These new land uses correspond to Alternative 3 reviewed in the Planned Action EIS. The PAO allows shifting development amounts between these land uses when the total build-out is less than the aggregate amount of development reviewed in the Planned Action EIS; the traffic trips for the preferred alternative are not exceeded (1,605 net new PM Peak hour trips); and the development impacts identified in the Planned Action EIS (EIS) are mitigated consistent with Exhibit A to the PAO.

Shoreline Place proposes 1,358 residential units and approximately 75,610 square feet of commercial land use. These Project elements are based on Merlone Geier Partners' extensive market analysis. Merlone Geier Partners (MGP) has prepared this memorandum to assist the Planning Commission and City Council in understanding its rationale for the proposed mix of uses. The consistency with the PAO trip budget are reviewed in the December 19, 2018 Transportation Consistency/Traffic Impact Analysis/TENW and associated supplemental traffic analysis.

Components of Mixed-Use Developments:

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

When MGP acquired the Sears at Aurora Square mid-2017, a deep dive into the market commenced related to all three of the land uses contemplated in the PAO. In addition to these uses, MGP studied the ability to reuse the existing improvements along with the viability of a complete demolition of existing improvements and new construction. The following offers a summary of the findings related to each of the three primary uses studied in the EIS and ultimately how that feedback, along with other factors, including robust community comments, informed the proposed mix of uses at Shoreline Place.

Commercial Retail:

MGP has the benefit of being one of the largest owners of grocery/drug anchored retail centers on the west coast. This allows MGP real time access to retail decision makers to assist with underwriting and site planning across a diverse and constantly changing landscape in multiple markets.

Approved By:

Project Manager _____

Planning Director _____

Proposed Development Agreement - Attachment B

The group of tenants who are approached in this process begins with "anchor" tenants who, if interested in the location and site dynamics, become the catalyst around which a broader project is designed and executed. A grocery store would normally be the primary "anchor" for a successful project but, given the successful Central Market, MGP deemed a grocery store not to be a relevant use to pursue in a redevelopment scenario. In this market, the transformative "anchor" tenants could include groups such as Target, Nordstrom Rack, a full-service fitness user such as 24 Hour or LA Fitness and any number of cinemas, to name just a few. Once Sears announced closure and we were able to solicit interest from the retailers in the market in early 2018, we created specific site plans for these various prospective users and engaged in conversations with the goal of landing an anchor tenant.

The feedback from all of the anchors was that there were several issues with the site. First off, the proximity to Alderwood Mall and Northgate Mall. Both Malls are too close to justify a new store in the market. Second, the lack of visibility from a major freeway was considered a challenge for these anchor retailers. Lastly, the costs for an adaptive reuse of the existing improvements or for new construction were a considerable impediment to justify a new store in a somewhat pioneering location according to their metrics.

Based on this feedback MGP concluded that Central Market is the "anchor" for Shoreline Place and we were not going to be able to land another "anchor" who could provide an adequate amount of foot traffic to activate a Sears redevelopment. The approach to retail that has been proposed is, therefore, a reflection of this market input in addition to the feedback from more than 6,000 community survey responses. These survey responses played a valuable role in gauging what were the most important elements for the community and restaurants clustered around plazas/gathering areas were at the top of the list. As a result, the revised plan reflects not only the feedback from the community but also from the retailers in the market.

Commercial Office:

While MGP focuses on retail properties, office space development and leasing is also an important focus and component of MGP's retail driven mixed-use projects. For example, in Mountain View, CA, at MGP's The Village at San Antonio Center, 450,000sf of Class A office space was recently developed for Facebook. At MGP's NoHo West project in North Hollywood, CA, an old Macy's store is being converted into a 200,000sf creative office building adjacent to and part of a dynamic retail and apartment project. It is MGP's experience that, where feasible and where market demand exists, introducing office space into a mixed-use project provides an important addition of daytime traffic that helps elevate the sales volume and, therefore, the associated quality of retailers/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 (75,000-300,000sf) that they can anchor a project. Smaller components of office space are typically not significant enough to create a market.

Proposed Development Agreement - Attachment B

It is important to note that, in evaluating the type of commercial office space that might be viable at Shoreline Place, MGP consulted with office leasing brokers John Bower and Scotta Ashcraft of CBRE regarding the site for potential office space. Market feedback suggested that demand was insufficient for this market due to its lack of visibility from a major freeway, lack of existing inventory with a proven/existing tenant base and market rents being insufficient to justify the cost of new construction. Freeway visibility, while not ubiquitous 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 does help establish the credibility of an office sub-market and freeway signage can often act as enough of incentive for prospective tenants to move into an otherwise unestablished market. Having a proven submarket with existing inventory of available space also is important as it helps put the location on the radar of tenant representatives and brokers. It can also offer an ability to accommodate future growth for a tenant.

The ability to charge the rents in a sub-market that are sufficient to justify the cost of new construction is the largest impediment to current office development at Shoreline Place. With costs for a new office building being in the \$500-\$550/sf range (after taking into account land, parking structure, building shell, building core, building improvements, landscaping and amenities), rents would need to be in the \$36-\$45 per square foot per year NNN range to allow a market return of 7-8% on that investment. Current office rents are in the mid to high \$20 NNN range. These challenges are significant enough to move the planning effort into evaluating uses other than speculative office.

Medical Office: As a side note, medical office space is another use that was evaluated. Paul Carr of CBRE pointed to the recent expansion of various medical providers along Hwy 99 as examples of all the major medical groups who have an interest in providing their services to the market, already have a presence. As a result, no major medical office component was pursued. Smaller professional office space for dentists, orthodontists, chiropractors, etc. may be offered within the context of the proposed commercial retail footprint but nothing of the scale contemplated in the PAO.

Residential:

The demand for housing of all types is an ongoing concern of policy makers and land planners in the Greater Seattle area. The diversification and depth in the job market (tech, education, aerospace, life science) has been made manifest in recent years by the unprecedented apartment leasing velocity in the region.

This shift has resulted in a change to project planning where residential uses are taking greater priority in mixed-use redevelopments and the synergies between residential and commercial retail uses are becoming a desirable land use planning solution. 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 also risen in recent years driven by a combination of demand outstripping supply along with construction cost increases. The housing proposed at Shoreline Place with adjacency to daily needs such as grocery and transit, 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

Proposed Development Agreement - Attachment B

residents also transitioning to either save for homeownership or to evaluate living in the community of Shoreline prior to making a commitment to homeownership.

Conclusion:

The plan for Shoreline Place to build a multi-phased vertical mixed-use environment within close proximity of high frequency public transportation, Shoreline Community College, WSDOT's regional headquarters which is growing to 700 employees will provide the needed blend of uses that will continue to be in demand for the next 20+ years.

From a traffic generation perspective, multi family is the least intensive use of the three described in this analysis. The PAO provided for an appropriate amount of 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 development intensity contemplated in the FEIS.

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