

# Economic Impacts of the Proposed SODO Arena

## Impacts on South Seattle Industrial Areas and Regional Considerations

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*Community Attributes Inc. tells data-rich stories about communities that are important to decision makers.*

*About Community Attributes Inc.*

CAI is a Seattle-based consulting firm with more than 10 years of experience in helping clients make informed decisions through economic, demographic and planning data. The CAI team has extensive experience with data-driven, regional industrial land studies, as well as economic and market studies for industrial lands. Past projects include:

- Puget Sound Regional Council: Industrial Lands Analysis
- City of Seattle: Local Production Study
- City of Seattle: Economic Analysis of Proposed Coal Train Operations
- City of Seattle: North SODO Station Area Job Strategy, Land Use & Transportation Study
- City of Seattle: Basic Industries Economic Impact Analysis
- City of Seattle: Industrial Lands Surveys and Needs Assessment
- Port of Olympia: New Market Industrial Campus Real Estate Development Plan
- Cities of Arlington and Marysville: Manufacturing/Industrial Center Market Study
- City of Bremerton: South Kitsap Industrial Area Subarea Plan and Market Analysis

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# EXECUTIVE SUMMARY

## Summary of Findings

- Businesses and government agencies located in SODO study area employed an estimated 42,700 covered workers in 2014.
- More than half the sales generated by private sector businesses in the study area came from manufacturing, and warehousing, transportation and utilities.
- The Port of Seattle facilitated the movement of \$18.4 billion in containerized maritime imports and exports through its terminals in SODO in 2014.
- Marine cargo activities at the Port of Seattle supported 8,900 direct jobs in 2013.
- The FEIS estimates an average wage of \$50,600 per year for jobs brought in by the proposed arena; currently, the average wage in SODO is \$70,400.
- Stakeholders are concerned the proposed arena will lead to additional non-industrial uses to follow and displace current industrial land uses in SODO.
- Traffic congestion associated with the proposed arena is expected to affect trucking operations that use port terminals to export shipments.
- Multiple events held on the same day in SODO are estimated to occur every 5 to 6 days on average if the proposed arena is constructed.
- Shipments to and from Eastern Washington and areas north of Seattle along the I-5 corridor are expected to be the most disrupted by anticipated traffic congestion.
- The intersection of First Avenue South and South Atlantic Street is part of a route commonly used by trucks for state-based trips and would bear heavy traffic impacts from the proposed arena.
- Trucks moved an estimated \$356 million in marine cargo (imports and exports) across the South Atlantic Street/First Avenue South intersection in 2014.
- Between 35 and 40 events per year are anticipated to switch from being held at Key Arena to the proposed arena, resulting in event-related revenue displacement of \$3.2 million to \$3.7 million from Key Arena.

## Background and Purpose

The Port of Seattle requested an analysis of the potential economic impacts associated with the new arena proposed for Seattle's south industrial area (referred to in this report as SODO). The proposed facility would be designed to accommodate NBA and NHL games, along with concerts and other major year-round events such

as major trade shows. The Port of Seattle desired an analysis that characterized the impacts of the arena on business operations in the immediate area—including port and related operations and businesses—and the significance to the broader regional economy. In 2014 the ports of Seattle and Tacoma formed the Northwest Seaport Alliance to manage the marine cargo business of both ports.

## **SODO's Role in the Regional Economy**

SODO is a nexus for regionally significant industrial activities. A challenge for SODO policymakers, businesses and land owners, is that developers and business operators tied to *all* land uses want to be in SODO, as demonstrated in numerous market studies for the City of Seattle in recent years (several by Community Attributes for Seattle's Office of Economic Development and the former Department of Planning and Development). Industrial business owners find expansion difficult due to very little industrial space (land or buildings) available. Industrial users see less expensive places in other cities in the region, and other regions in the U.S., as more affordable options. Non-industrial users are willing to pay more for land and space in SODO, and make operating an industrial business in SODO more expensive. SODO is home to large format retailers, as well as office, most notably the headquarters for Starbucks and the Seattle City School District.

A major concern among stakeholders is that commercial and other non-industrial uses they believe will accompany the new arena will displace current industrial uses in SODO. Interviewees are concerned the introduction of a new arena, coupled with the expected congestion will further erode the viability of remaining industrial activities in the region.

An estimated 42,700 covered workers were employed at businesses and government agencies in SODO in 2014 (U.S. Census Tract 93). Many of these jobs were in businesses and activities considered to be basic (activities that provide goods and services to customers outside the region, and therefore attract revenue from outside sources). Factoring indirect and induced impacts, these activities support an estimated 100,000 jobs across the countywide economy in 2014.

The Final Environmental Impact Study (FEIS) on the proposed arena released May 7, 2015 uses a much smaller geographic area for analysis, and arrived at estimates of total employment of 14,719 workers (a different data source was also used).

SODO private sector businesses generated an estimated \$13.6 billion in sales in 2014.<sup>1</sup> More than half of sales came from manufacturing and warehousing,

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<sup>1</sup> Estimate of business revenues attributable to SODO business activities by Community Attributes based on the ratio of business output per worker by industry.

transportation and utilities, based on employment representation in SODO and industry worker-to-revenue ratios statewide.

## **Industrial Lands High Market Demand and Decreasing Affordability**

The Seattle close-in industrial market, which includes SODO, had a very low vacancy rate of 1.5% at the end of Q4 2015. The market was below the Puget Sound industrial real estate market vacancy rate of 3.9%, and far below the national average of 6.7% (Colliers International, 2016). The limited supply of industrial property in Seattle results in rising rents and higher building sale prices, even for other industrial uses. These market conditions have raised concerns among industrial business owners about the affordability of Seattle's industrial space. Affordability is a concern for both business retention, as it affects businesses' bottom line and limits their ability to expand, and a hurdle for attracting new businesses.

## **Marine Cargo Activities**

Marine cargo activities are critical to Washington's economy and SODO is the gateway to the Port of Seattle for exports. In 2014, the Port of Seattle facilitated the movement of \$18.4 billion in containerized maritime imports and exports through its terminals in SODO, though this amount is down from a peak of \$41.6 billion in 2010 (adjusted for inflation). Major port and freight logistics assets within SODO include terminals 30 and 46, the BNSF Seattle International Gateway railyard, several trans-loading operations, and a heavy-haul corridor purposed with movement of truck loads to and from local and regional locations and port terminals. In addition, the surrounding SODO area includes other port terminals and the Union Pacific Argo railyard.

Maritime jobs that support marine cargo handling include stevedoring (longshoremen and terminal operators), freight forwarders, fueling services, towing, and rail and truck operations. Based on work previously done by the Port of Seattle, marine cargo activities at the Port supported 8,900 direct jobs in 2013. Factoring in indirect and induced impacts, marine cargo activities at the Port of Seattle supported 23,400 jobs statewide in 2013 and \$1.8 billion in business revenues and \$581.1 million in local purchases.

The handling of discretionary cargo is another source of value-added activities serving shippers outside the region, supporting stevedoring and other port logistics jobs within the Puget Sound. Discretionary cargo is so named because shippers have the discretion to bring their cargo through almost any port when the final destination will be reached by intermodal transportation. Because of the nature of discretionary cargo as not from or destined to the Pacific Northwest, these cargo flows are subject to competition from other alternative ports across the West Coast, such as LA/Long

Beach, Vancouver, BC, and Prince Rupert, BC. Ocean carriers are concerned with the efficiency by which they can move cargo on and off their ships and minimize docking time. Similarly, shippers depend on reliable, predictable shipping times at the lowest possible cost. Further research is needed to understand the extent to which expected congestion in the vicinity of port operations may influence ocean carriers' port-related decisions.

## **Congestion Issues in SODO**

The location of a new arena in SODO is expected to create significant new traffic congestion in the study area, according to previous traffic analysis performed for Port of Seattle (Heffron Transportation). This new congestion is expected to aggravate conditions for industrial users in the area. In addition to local circulation impacts, Port trucking operations are also expected to be disrupted—primarily shipments to and from destinations in Eastern Washington or areas north of Seattle along the I-5 corridor. The intersection between First Avenue South and South Atlantic Street is part of a route commonly used by trucks for these state-based trips, and would bear heavy traffic impacts from the arena. Companies affected by this anticipated congestion include Eastern Washington commodity shippers transporting apples and hay, and trans-loading operations in the region. According to interviewees, for shipments within a 500- to 750-mile radius of the Port of Seattle, freight via rail is typically not economically feasible, and truck shipments are said to be the best option.

Truck trips between terminals and the Seattle International Gateway railyard are thought to be the most affected by the proposed arena. Trips that cross over East Marginal Way are not expected to be heavily affected by added arena-induced congestion, though arena visitors traveling by car may use East Marginal Way as a route or for parking.

According to traffic studies performed for the Port of Seattle, trucking companies typically elect not to dispatch drivers after 2 p.m. on weekdays when Mariners games are scheduled. According to the Port's analysis, when Mariners night games take place, truck trips to and from port terminals typically drop by 9%, though this amount varies based on the number and size of ships berthing at port terminals.

Port terminals generally operate between 8 a.m. and 5 p.m. Most port terminal trucking traffic peaks between 8 and 9 a.m. and again between noon and 2 p.m. Afternoon truck trips peak earlier in the day to avoid commuter rush-hour traffic, and also allow some drivers to return to Eastern Washington within a standard work day. Similarly, the Seattle City School District dispatches its food deliveries from its headquarters in SODO early in the morning, and maintenance and repair workers in the early afternoon.

## **Port-related Activities and Trucking Operations Vulnerable to New Congestion**

The two main port terminals most vulnerable to added congestion are terminals 30 and 46. Both rely on trucks to move containers between port facilities, local and regional destinations, and railyards (draying). Based on data from the Port of Seattle, interview feedback, and existing transportation reports, the trucking activities most exposed to added congestion are truck shipments that cross the South Atlantic Street/First Avenue South intersection. This intersection, with a level of service grade of “F,” is part of the heavy haul corridor. This section is part of the primary route for trucks moving between terminals 30 and 46, and traveling on Interstate 90, or north of downtown along Interstate 5.

Based on data on truck trips and federal data on containerized shipments, trucks moved an estimated \$356 million in marine cargo (imports and exports) across the South Atlantic Street/First Avenue South intersection in 2014. These truck trips represent an estimated 2.8% of all twenty-foot equivalent containerized shipments through port facilities.

A large share of shipments that cross the South Atlantic Street/First Avenue South intersection are en route to trans-loading facilities within SODO and the surrounding region. These operations entail reconsolidating cargo, and exchanging cargo amongst 40-foot marine and 53-foot domestic containers. These shipments also transport containerized agriculture commodities, primarily from Eastern Washington. These producers often have no alternative mode for shipping their harvest to the port for export. Even modest disruptions in scheduled shipments due to congestion can affect the transportation of crops. This is especially a concern for exporters when fresher produce from other locations is more readily available for overseas markets.

Farmers and other commodity interests in Washington, which benefit from the lower exporting costs due to an excess of imported over exported containers, may be adversely impacted by expected congestion if imports decline.

### **Other Impacts Tied to Arena**

CAI interviewed 13 stakeholders representing local businesses, port terminals, rail and trans-loading operations, and commodity commissions. Among interviewees, the most salient concern was the perceived lack of understanding among city and special interests of the importance of industrial lands and industrial activities within the SODO district. As pointed out by several interviewees, the loss of industrial lands is understood to be irreversible.

The Port of Seattle competes with other West Coast ports over discretionary cargo (cargo to and from domestic locations outside the region). With the reduction in

truck trips on weekdays when Mariners games are scheduled, some maritime interests are concerned the port may become a less desirable location for some ocean carriers. Expected traffic congestion associated with the proposed arena is anticipated to further erode SODO's functional role as an industrial and freight logistics base. Interviewees expressed concern that this could put Seattle at a disadvantage against other major West Coast container loading centers such as Prince Rupert and Vancouver in British Columbia, and LA-Long Beach.

Interviewees also raised concerns about safety issues related to arena operations. Some interviewees emphasized South Holgate Street as especially vulnerable to potential accidents between trains, pedestrians and cars. Similarly, others noted SODO's current configuration is not highly compatible with large numbers of pedestrians coming in or out of the arena, though there are potential mitigation strategies (and investments) that could address this.

### **Displacement of Revenues at Key Arena**

As of 2015, the existing Key Arena facility has operated at a surplus. According to the FEIS, the proposed arena would have to hold 35-40 non-sporting events throughout the year to be financially viable. The FEIS suggests between 35 and 40 events currently held at Key Arena would eventually move to the new SODO arena, which would result in facility revenue losses of between \$3.2 million and \$3.7 million. The diversion of these activities would likely result in negative earnings for Key Arena.

### **Jobs from Arena Activities**

The proposed arena will have a jobs impact from projected construction and operations. According to the FEIS, the construction phase will include direct spending of \$390 million, of which \$351.7 million will be spent within the City of Seattle. Total economic activity supported by the arena construction phase—including direct impacts as well as additional jobs, revenues, and labor income supported through business-to-business transactions and income expenditures—is estimated to total \$533.4 million in revenues for King County and 3,570 jobs.

Annual ongoing arena operations can be divided into two types of direct spending. The first is on-site spending, including tickets and arena vendors; and the second is off-site spending, such as visitor spending on hotels, nearby restaurants and retail. Both categories can be considered *direct*, as the spending originated from visitors to events at the proposed arena. According to the FEIS, on-site spending will support an estimated 1,005 jobs each year, including professional athletes, administrative jobs, and many vendor and retail positions. Of total wage disbursements, an estimated 35% will be retained and spent within King County. Professional athletes whose earnings typically constitute the largest share of wage disbursements from

arena operations often live out of state, thus the majority of their wages are not retained locally. Off-site impacts, according to the FEIS, will directly support an estimated 667 jobs across the county, the majority with vicinity of the arena.

The FEIS estimates the arena will have an estimated total economic impact of \$313.1 million, based on on-site and off-site direct activities and factoring in indirect and induced effects (multiplier effects). According to the FEIS, after considering substitution effects—the diverting of consumer spending from other leisure activities to arena events—and adverse effects of the arena on industrial activities and trucking within SODO, the estimated net impact of the arena sums to between \$230.5 million and \$285.8 million.

Previous work on Key Arena found the majority of jobs directly in support of arena activities were relatively low-paying and often part-time in nature (Beyers W. , 2006; Beyers B. , 2012). Based on FEIS analytics, each million dollars of direct spending tied to arena operations (on-site and off-site) directly supports 8 jobs within King County. According to data provided in the FEIS, the average wage compensation for direct jobs, including on-site and off-site activities, is an estimated \$50,600 per year (and a portion of these jobs would not include benefits). For on-site jobs only, the average compensation is an estimated \$38,200 per year. Currently, the average wage in SODO is \$70,400, not including benefits (which may raise compensation 15-20%).