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HARBOR STEPS

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Background

In August 1994, Harbor Properties Inc., a Seattle-based developer opened the 169-unit Harbor Steps Apartments and the adjacent staircase park. The Harbor Steps Park was an important functional amenity both for the project, but more broadly for the city of Seattle. Modeled loosely after the Spanish Steps in Rome, it provided a highly animated pedestrian connection from First Avenue to Seattle's waterfront. Its location across from the Seattle Art Museum and less than 3 blocks from the Pike Place Market provided safe and attractive pedestrian access in a location that was previously inaccessible. It became part of the "must see" list of tourist spots for Seattle as well as a wonderful place for local office workers to meet, eat and relax 12-15 hours a day.

Harbor Steps West was the first of 4 towers planned for the 2+ acre site situated between Seattle's First and Western Avenues, in what was traditionally NOT a residential neighborhood. The apartments opened at a time that the Seattle economy was on the road to

recovery but had not yet reached the economic highs that would be achieved later in the decade as a result of the dot-com era. Harbor Steps West was in some respects a "beta test," allowing the developer to test product design, pricing and demand dynamics with a manageable level of risk. Seattle had previously seen only limited demand for "luxury" residential apartments with the majority of the housing previously built for either the low-end to mid-level markets.

The profile of the renters in Harbor Steps West were largely single professionals and couples without children with an average age in the high 30's to low 40's. Over 30% were new transplants to Seattle, with a surprising number choosing "urban" living while still working in suburban locations, in particular Microsoft which was located 20-30 minutes away in Redmond, WA.

As was typical of the time, there was very little pre-leasing done prior to opening. The leasing staff started roughly 45 days prior to the building opening and



relied on limited site signage, PR and traditional print advertising to attract prospects. The building was well-received by the market at rents roughly 10-15% over other downtown high-rises and achieved 98% occupancy roughly 6 months after opening. As a result of this success and the continued strengthening of the overall regional economy, the company began construction on the 25-story second tower (with 7 additional levels of amenities and parking) in July 1995 with a targeted opening of July 1, 1997.

Harbor Steps East

The Harbor Steps East tower was comprised of 285 residential apartments and additionally included ground floor retail, a 20 room B&B style hotel, community areas, sports and fitness rooms, and several levels of landscaped courtyards and residential common areas. At the commencement of construction, proforma rents were set in the range of \$1.45 p/sf and projected to escalate roughly 5% a year putting target rents at lease-up in the general range of \$1.60-\$1.62 p/sf. When the project broke ground, proforma assumptions related to rents and pre-leasing in particular were still fairly conservative with a projection of 40-50 pre-leased homes and a roughly 12 month lease-up.

By the middle of 1996, Harbor continued to see strong demand at Harbor Steps West and recognizing this demand and the scarcity of new product planned to hit the market, formulated an aggressive plan to pre-lease apartments prior to completion of construction. The goals set were to reduce the project lease-up from the proforma target of 12 months to 6 months and push rents by another \$0.10-\$0.15 p/sf, positioning the project about 15% above comparables in the market. The

primary reasoning behind this decision was the following:

- By accelerating the lease-up and stabilization by 6 months, the direct effect would be over \$1.0M in first year net operating income;
- Risk mitigation – pre-leasing validated market acceptance and unit design and provided the company with quick consumer feedback;
- The accelerated lease-up would allow the company to retire the construction debt significantly ahead of plan, generating an addition \$1.0M in interest savings over proforma and allowing for a permanent loan to be put in place on both properties;
- By paying off the construction loan and putting in place long-term financing, the company could move 6-12 months faster in the commencement of construction on the 3rd and 4th towers – originally planned to be built separately, but ultimately done together at tremendous cost savings.

The Plan

In October 1996, the Harbor Properties board approved a plan to increase the projected marketing “lease-up budget” from roughly \$300,000 to \$650,000, for the reasons described above and based on the projection that the added costs would more than be made up from the additional rental income in year 1. The underlying theory of the plan was that apartments could be marketed and pre-leased in a manner similar to how condominiums were being presold in various resort and urban settings. While in 2012 this may not seem that novel of a concept, in 1996 there was very little proof, and none in Seattle, that apartment renters

would make a commitment to rent an apartment much more than 30-60 days in advance of actual need.

The plan benefitted by several pre-existing conditions, that while not absolutely required – as proved on other sites – certainly added to the project’s ultimate success:

- The project had a strong recognized brand;
- The Seattle economy was beginning to improve and there was a large influx of renters, many from out of the region who were craving a more “urban” living experience;
- The property had an existing on-site staff and sales office that could be cost-effectively leveraged to support pre-leasing;
- The seasonality of the lease-up was aligned with existing trends in the rental market; specifically, a spring/summer lease-up was deemed a better time than a fall/winter lease-up.

The basic elements of the marketing plan were relatively straightforward. It’s important to note that at the time this plan was developed and launched, the internet and email were still in relatively early stages.

Strategy

1. Allow current residents to move to the new tower and provide a minor incentive if they referred a renter;
2. Stage events/tours with as many local groups, employers as could be identified that would potentially have qualified renters as a part of their entity;



Harbor Steps

LOCATION: 1221 1st Avenue, Downtown
Seattle, Washington

DEVELOPMENT: Mixed-Use / High-Rise For-Rent
Residential / Retail / Public Park /
Office / Hotel

TEAM: Harbor Properties, Inc.

DETAILS: 730 residential units, 31,000 sf of office, 51,600
sf of retail, 28-room boutique hotel, 640 spaces
of below-grade parking; public park; completed
November, 2000.

OF NOTE: ULI Award of Excellence for Large Scale
Residential Projects, 2001

First Avenue in downtown Seattle should have been the city’s best neighborhood with the famous Pike Place Market as its primary draw. However, prior to the construction of Harbor Steps, it was riddled with gun shops, strip clubs and retailers with bars on their windows.

The visionary development of Harbor Steps was a catalyst for change in the entire area. The Seattle Art Museum elected to develop across the street from the site, and face their front door toward the development. The four tower, mixed-use development is truly a village center within the city of Seattle and has its own small grocer, a child care center, restaurants, galleries, a yoga studio, fashion boutiques, a small inn, and every amenity from a basketball court to a swimming pool, all of which can be utilized by its residents, commercial tenants and guests. In addition, what is entirely unique about this development is the team’s decision to build and continuously operate at their own expense, a public park down the center of the project, including 3 levels of fountains, areas for sitting and steps that reconnect downtown with the Seattle waterfront.

3. Direct mail all the close-in residential neighborhood apartment residences with a simple invitation to tour the building;
4. Create “press” opportunities every other week and try and maintain PR “buzz” for entire 6 months of pre-leasing;
5. Create “best in class” collateral including a large model, great brochures and floor plans, advertising and swag that would demonstrate quality above all else. This campaign execution ultimately received a top award by the NAHB;
6. Have a highly qualified/trained sales team that was capable of telling/selling the Harbor Steps story and relentlessly follow up with prospects;
7. Avoid incentives and don’t apologize for price;
8. Support charitable events with residential auction items (penthouse use for a year) to expose the project to the market and influencers;
9. Create a full block construction wrap that was 20-25 feet high at key points with large format graphics showing the lifestyle of the project;
10. Raise awareness in nearby office towers by installing a large format banner on floors 20-24 during construction inviting prospects to visit and “rent here now”;
11. Recognizing that Harbor Steps Park had become a major landmark, continue to program events in the park and install signage in the park;
12. Again utilizing signage, make the site visible to the Pike Place Market which, aside from being a major tourist attraction, was also a likely destination for people relocating to Seattle.

Execution

The campaign was launched in early 1997. In the 6 months prior to completing the project, the sales and marketing team executed the basic strategies previously mentioned.

At the opening of the building on July 1, 1997, roughly 220 of the 285 apartments were rented. Based on the extraordinary lease-up success, the company had determined in the spring that the next biggest challenge was going to be moving the 200+ renters into the apartments in the planned timeframe that had been committed to during the lease-up. To address this challenge the company hired a moving company at a cost of roughly \$1,000 per day to help facilitate the move-in. All totaled in the first 30 days, the company moved 170 residents into the building with an additional 80 moving in during the month of August. The logistical challenges of achieving this were complicated by the fact that the project was served by only 3 elevators, one of which needed to be allowed to “run free” for residential use, one for dedicated move-ins and the third for both move-ins and some post completion punch list work. A dedicated move-in coordinator was hired for 120 days to manage the entire move-in process and this became a major customer service “win” for the project.

By late September (80 days after opening) the building was 100% leased and as of October 15 +/- 100% of the units were occupied. Approximately 40 residents from the first tower moved to tower 2. This temporary dip in occupancy was reestablished by December 1997.

By January 1998, both phases were fully stabilized and the company was concurrently finalizing their take-out financing and construction financing for phases 3 and 4.

These two towers, which brought an additional 300+ units to the project were started in 1998 and opened in 2000. Utilizing many of the same strategies as Harbor Steps, while also integrating a more robust email and web strategy, the company, despite a down economy, achieved stabilized occupancy at highest market rents within 6 months of that projects completion.

Conclusions

Today's market, in 2012, is quite different from the late '90s era of Harbor Steps' launch. Competition has increased in downtown Seattle, with more apartment projects and condominiums available to rent. The neighborhoods surrounding downtown have expanded and improved, with many close-in options in refashioned places such as 1st Hill, Capitol Hill, Queen Anne, and South Lake Union. All of this competition has brought unit finishes and upgrades to very high levels. In addition, the ubiquity of the Internet has made the market far more transparent and remote shopping much easier than in 1997.

While there is no doubt that market conditions played a significant part in Harbor Steps' success, it has also consistently outperformed the competition in terms of occupancy and rent in both good and bad markets. Even today, with the project's towers being between 10-20 years old and beginning to show some age, Harbor Steps still remains one of the higher rent and demand projects in Seattle.

The lessons learned from Harbor Steps still apply to today's market. Ultimately, to execute an aggressive pre-leasing campaign, it requires a strong commitment from the project's ownership. In addition to the traditional strategies and tactics outlined in this article, a successful project will also need to develop and

manage a comprehensive proactive and reactive digital campaign. Consumers are more knowledgeable and empowered than ever before; as such, ownership must be nimble and flexible in dealing with micro changes in market conditions.

Robert Holmes was CEO and President and Stephen Fina was VP Leasing and collaborated on the write-up. Harbor Steps was the vision of the company's Founder, Stimson Bullitt.



Lessons Learned

Pre-Leasing – While most developers did some form of nominal pre-leasing, Harbor Steps and Harbor Properties, Inc. made pre-leasing integral to their project. Drawing upon inspiration from projects by companies such as Intrawest and Irvine Company, they combined a strong story with effective tools to drive demand – for example, there was a discovery center with marketing collateral and a robust, well-done project model that you could actually “see yourself” in.

Retail and Commercial Plan – All four phases of Harbor Steps had significant retail components. In each lease-up and a key part of the pre-leasing story was the role that retail would play in creating animation, community and the overall “lifestyle” of the project. This included simple things like a flower shop in the lobby, to more complex plans like integration of a small scale grocery into the project.

The Inn at Harbor Steps – The inclusion of a 20-room Inn into the Harbor Steps was a major selling feature for people downsizing from homes and/or those who had frequent guests/visitors. The Inn offered rooms to residents at a significant discount and the associated meals (more breakfast/afternoon wine/tea/cheese) were open to residents at a nominal cost. This is an amenity that no other apartment or condominium project could offer and in some respects was the model that condo/hotel projects in Seattle would embrace almost a decade later. The Inn also allowed for the expansion of the concierge services that again didn’t exist in most residential buildings at this time. The key lesson with the target demographic is that they were willing to pay premium rents for premium services.

Restaurants – Given the pioneering location of Harbor Steps and some second-level restaurant spaces, the company anticipated restaurant turnover and invested more than most developers in tenant improvements and FF & E. This allowed for easier re – leasing as the new operators did not have to invest in FF & E.

Fitness and Health Amenities – Harbor Steps at its completion had a full complement of fitness and work-out amenities. Unfortunately, these were undersized in early phases (and arguably poorly located) which resulted in some duplication in future phases. It would have been more ideal to either have scaled properly in phase I or to have designed those spaces to be converted to other uses once large final amenities were built in future phases. Similarly, the four towers and variety of different entry points into the projects created some logistical challenges with everything from concierge staffing to storage, package delivery, etc.

Corporate Housing – Harbor Steps benefitted and occasionally suffered as a result of corporate housing providers. These groups paid a 15%-20% premium and at various times rented as many as 15% of the residences in the project which provided a steady stream of prospective long-term renters. However, when the economy slipped, particularly in 2001-2002, the corporate housing providers pulled out (despite language in their agreements which was to the contrary), creating a higher vacancy rate.

Meeting Areas, Entertainment Rooms and Business Centers – Harbor Steps had a variety of small meeting, entertainment and break out rooms throughout the complex. These generally got high usage levels by residents. In most cases the rooms could have been made smaller or designed to create more nooks or separate areas. More lounge/comfortable seating vs. meeting type seating. Harbor had included in Phases 3 and 4 a conference and meeting center as part of its retail program. This amenity wasn’t widely utilized or valued by residents and was not a commercial success either. The market today had plenty of more natural alternatives for meeting and conference space and therefore the spaces are better designed for private parties. Soundproofing of these areas was sometimes an issue particularly for the immediate adjacent neighbors.



Neighborhood Affinity Card and Extended Benefits – Harbor developed for its residents, with its retail tenants and ultimately surrounding neighbors, an affinity card that provided residents a discount on goods and services. This card was a nice perk when presented to residents and served as a value add, but did not “tip the scales” in most cases. It also required a fair amount of management by the on-site staff. This is probably less relevant today with the prevalence of Groupon and the like. Harbor also offered special discounts and promotions to the resorts in its portfolio. These were again nice value adds for some residents but were minor pieces in the overall success and brand.

Parking – The parking garage was not reserved for just residents, but open to the public. Monthly parking renters allowed us to oversell capacity by roughly 30%. In other words, we sold 650-700 monthly parking passes for a garage that had only 450-500 stalls.

Pets – A major miss in the early days of Harbor Steps and one which was never fully resolved was making the project pet friendly. At best the project was pet tolerant. Today’s renters are far more likely to have and demand that pets (of all sizes) not only be allowed at the project but also that great pet spaces be created as part of a project. As an example, Harbor Steps has a small dog walk area in a garage (that never was used given this horrible location); new projects today are creating dog walks on roof top gardens as a featured amenity.

Attracting Families – The inclusion of an on-site daycare as a retail tenant was an important element in trying to attract young families with non-school aged children to move to Harbor Steps. The ability to take your child in an elevator versus a car to an on-site day care and then walk to and from work was a major attraction to those with kids and/or those who thought at some point they might have kids. Although the daycare facility was viewed as a benefit by prospective renters and helped to drive traffic and interest, ultimately there were not many families that signed on as renters. This reflects the ongoing challenge of marketing higher-density living to this demographic when there are plentiful lower-density options in the metropolitan area.

PR and Awards – Harbor Steps throughout its 10 year development cycle spent a great deal of time on PR and as a result became a widely recognized project regionally and nationally. This ultimately resulted in a ULI project of the year award and a variety of sales and marketing awards. Developers and municipal groups from around the country would frequently visit Harbor Steps to learn “how to do it right” in terms of development and marketing.

The Steps – The Steps are a major project differentiator and a downtown Seattle amenity used by visitors, office workers, Ferry commuters, and residents on a regular basis. Along with the Pike Place Market, Seattle Art Museum and Benaroya Hall, it is considered a Seattle gem and a “must see.” The Steps have always been privately owned (unlike a City park which was a rejected option) which assures a high level of maintenance and upkeep as well as supervision.