

# KING COUNTY FOOD FACILITY

*Business Concept*



Beets  
\$2.00 per bunch

Carrots  
\$2.00 per bunch

Fennel  
\$2.00

Squash  
\$2.00 each

Source: KingCounty.gov

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# INTRODUCTION + SUMMARY

## SUPPORTING A RESILIENT LOCAL FOOD SYSTEM

In partnership with local food businesses, nonprofits, and other community partners, King County is pursuing efforts to strengthen the Seattle region's local food system and increase access to healthy, affordable food for underserved communities. These efforts hit a major milestone in 2014, when King County adopted the Local Food Initiative—a roadmap for reinforcing and enhancing the local food system across the region. Through the Local Food Initiative and associated efforts, a major weakness of the local food system has become apparent: a deficiency in food-related infrastructure. Specifically, the County and partners have observed that there is insufficient kitchen, processing, packaging, storage space, and transportation capacity to adequately and efficiently connect local food producers with target markets.

But the County also recognizes that the challenges faced by the local food system are larger than that. The local food system is composed of a diverse range of stakeholders, including small- and medium-sized farms, small food distribution companies, farmers markets, food banks, and customers. This constellation of partners requires not just commercial kitchens and warehouse space, but opportunities to coordinate their activities, build strong relationships, and explore creative partnerships.

**The Local Food Facility hopes to become a pivotal hub in the King County local food network, helping to grow businesses and connect local food partners. In the face of the COVID-19 pandemic and its related impacts to food businesses, as well as the increased demand for hunger relief services, the need for the food facility is larger than ever.**

## THE FOOD FACILITY

In response to a groundswell of interest in supporting the local food system, King County proposed the idea of a consolidated 'local food facility'—a multipurpose food processing and distribution facility that could meet the needs of multiple food system partners while also providing local food businesses with ready access to their target markets, especially in underserved communities. The food facility could become a powerful node in the local food system—strengthening existing relationships and building new ones. It would also provide many small food businesses with access to food infrastructure to help them grow and thrive. Done right, the food facility could be transformative for the King County local food system.



Source: PREP Atlanta

This project involved the following considerations:

- **Food facility concept:** What programmatic elements should the facility include to achieve its mission and financial sustainability?
- **Ownership and governance:** What considerations should impact decisions about facility ownership and management? What options exist? And, what are their pros and cons?
- **Operating forecast:** What do we know about the likely operations and financial performance of the facility over time?
- **Capital funding assessment:** How might public and private partners fund the development of the facility?

In addressing the above considerations, we developed a food facility concept focused on core facility components and governance and funding considerations to move it towards reality. This project has highlighted the strong interest and need for such a facility in the King County region. **Our analysis leads us to conclude that this food facility concept could be financially sustainable if executed under the right ownership and governance model.** This report summarizes our analysis and recommendations.

# FOOD FACILITY CONCEPT

## CONCEPT DEVELOPMENT CONSIDERATIONS

After a robust research phase, ECONorthwest worked with King County and their partners to identify a programmatic concept for the food facility. The following criteria shaped the development of the concept.

- What is the nature of demand for the potential food facility components?
- How might these local food facility components be most efficiently structured/organized to promote a functioning and successful food facility?
- Given the nature of local food system's value chains, what site and locational characteristics are important to a properly functioning food facility?
- Given the geography of the region and the network of the existing local food system, where would a food facility best create more network efficiencies?

At a foundational level, our research confirms what many in the local food system already know: **there are real friction points in the local food system** that hinder its overall efficiency and influence the full range of food system actors. For example, we found that:

- Despite the presence of many commercial kitchens in the Seattle region, food entrepreneurs still struggle to access affordable kitchen space.
- Small-scale food distributors have logistical challenges aggregating small farm products and efficiently bringing them to market.
- Local food producers find it hard to access kitchens, storage, and a distributor to effectively scale their companies.
- For most local food facility components, a local food producer's ability to take advantage of services offered depends on the affordability of services and accessibility of the facility in terms of hours and location.
- Hunger relief organizations have inefficient supply chains due to the lack of affordable warehousing space—especially cold storage space.
- Many local food producers desire business support and training services to help them thrive and scale up their business.

## CONCEPT SUMMARY

A new local food facility presents an opportunity to ameliorate some or all of these challenges. By providing a one-stop location for local food system actors to meet, build their businesses, and work together to solve food system issues, a local food facility could enhance existing food system relationships and propel emerging food businesses. **We recommend two focal points to drive the food facility concept:**

- **Scale:** The food facility should help local food businesses “Scale Up”. There is an acute scarcity of food system infrastructure that serves small to medium sized food companies. The purpose of the local food facility should be to help small but established food businesses move from a startup phase to a stabilized/consistent growth phase. It should focus on “graduating” these businesses and moving them into the more traditional food industry market.
- **Connect:** The food facility should be a connection point for everyone in the local food system. The success of the local food facility will be linked to the strength of the partnerships and collaborative relationships that emerge through the activities and work that takes place there. In our discussions with local food system actors, we heard again and again about the desire to foster better relationships with their peers and to have better access to mentors and experts.



Source: PREP Atlanta

# FOOD FACILITY CONCEPT

To accomplish these goals, the food facility would feature several components, including:

- Production kitchen space
- Dry storage (warehouse space)
- Cold storage
- Office space/meeting rooms
- Flex/event space

## PRODUCTION KITCHEN SPACE

Kitchen space is a must-have component for the food facility. Depending on the size of the facility, the kitchen space would occupy between 3,000 and 6,000 total square feet. This space would be broken up into 1,500 to 2,000 square foot individual kitchens. Depending on the needs of tenants, each kitchen would feature specific equipment and have limits of ingredients and food types. For example, a “protein kitchen” would feature equipment required for processing and cooking of meat and fish. A different kitchen might have a vegan-only restriction. For the kitchen space to work efficiently, it would need easy floor-level access to cold storage.

## DRY STORAGE (WAREHOUSING SPACE)

Storage space is another essential component of the food facility. The size and layout of storage space is likely to vary depending on the scale and design of the food facility. The facility’s “clear height”—a measurement from the floor level to the lowest ceiling rafter, along with the type of storage rack systems used will impact efficiency. In addition, adequate aisle space is needed for easy storage access.

## COLD STORAGE

Cold space, which is either refrigerated or freezer space, is the third must-have component of the food facility. Cold storage is needed both for storing ingredients that are used to make finished food products, and for the food products before they are picked up for distribution and delivery. Cold storage is expensive to build and to operate. Consideration should be given to right-sizing cold storage space while also allowing for future expansion. Cold storage can be oriented vertically with stacked storage systems or horizontally with more linear storage racks. Horizontal systems tend to be preferred by operators but take up valuable floor space.

## EXHIBIT 1. CONCEPTUAL DEVELOPMENT PROGRAM

FACILITY COMPONENT	SIZE RANGE
Production Kitchen(s)	3,000 - 6,000 SF
Dry Storage	20,000 - 40,000 SF
Cold Storage	1,000 - 3,000 SF
Office Space/Meeting Rooms	1,000 - 2,000 SF
Flex/Event Space	Varies
Non-leasable/Common Areas	15 to 25% of gross building area
<b>TOTAL</b>	<b>25,000 - 50,000 SF of building area</b> Actual building size will vary.

The table presents a conceptual development program for the food facility. Actual component sizes will vary, especially if an existing building is chosen for the facility.

## OFFICE SPACE/MEETING ROOMS

A minimum amount of office space will be needed for administrative staff and operations. Beyond the minimum, additional office space could potentially be leased out to food business tenants as co-working space. Meeting rooms would advance the food facility’s mission to connect local food system partners. Meeting rooms could provide space for small classes, trainings, taste tests, and other food system activities. Depending on the facilities layout, office space could be on a mezzanine level so that it doesn’t detract from floor space activities.

## FLEX/EVENT SPACE

Flexible space and space that is organized to host events would help the facility achieve its goal of connecting food system partners. These spaces, although important for bringing community members together, are difficult to monetize. For this reason, it should be kept to a minimum viable scale or integrated into a flexible warehousing area.

# FOOD FACILITY CONCEPT

## FOOD FACILITY LOCATION AND SITE CRITERIA

Through our research, we identified location and site factors that will influence the success of the food facility. These factors are intended to help identify a general location and a specific site for the facility that positively impacts its operations and is convenient for its users.

## LOCATION FACTORS

Location factors describe the general locational qualities and characteristics of an area. They aim to guide facility planners to districts within King County that are suitable for the food facility.

### EXHIBIT 2. LOCATION FACTORS

LOCATIONAL FACTORS	CONSIDERATIONS FOR LOCAL FOOD FACILITY	TARGET AREAS
Local and Regional Accessibility	<ul style="list-style-type: none"> <li>Accessibility by whom is a key question. A local food facility will need a location that is accessible by key users, suppliers, and their customers.</li> <li>Traffic patterns and congestion have strong effects on accessibility. The local food facility should consider the impacts of local traffic patterns.</li> <li>Proximity to regional transportation networks—importantly highways—is a key consideration.</li> <li>Access to transit will be important for facility workers.</li> </ul>	<ul style="list-style-type: none"> <li>Close to freight route</li> <li>½ mile to transit stop</li> </ul>
Proximity to Complementary Uses	<ul style="list-style-type: none"> <li>At a basic level, similar industrial and production uses nearby would help the local food facility function without external hinderances on facility activities.</li> <li>Other complementary food production uses or organizations could amplify the effectiveness of the facility and the local food network in general.</li> </ul>	<ul style="list-style-type: none"> <li>Consideration of proximity to existing food facilities and “food clusters.”</li> </ul>
Zoning and Land Use Regulations	<ul style="list-style-type: none"> <li>Local food facilities typically involve industrial activities and uses—food processing, storage (warehousing), distribution. For this reason, most local food facilities are located in industrial zones.</li> <li>Some facility activities, like commercial kitchens, are permitted in commercial zones. Although a combination of industrial and commercial uses would mean that the facility would have to locate in a zone that allowed all of those uses.</li> </ul>	<ul style="list-style-type: none"> <li>Appropriate land use to allow for legal use of food facility components.</li> </ul>
Infrastructure and Utilities	<ul style="list-style-type: none"> <li>The transportation infrastructure at and around the local food facility will determine the ease by which users and suppliers can access it. Box trucks and tractor-trailers require varying sizes of turning, parking, and loading spaces. Consideration should be given to what types of trucks will need to access the facility.</li> <li>Food production can require industrial level utilities. Large ovens, packaging systems, and other equipment may require heavy-power or substantial water or gas lines</li> </ul>	<ul style="list-style-type: none"> <li>Adequate surrounding transportation infrastructure to accommodate trucks.</li> <li>Sufficient utility systems to support food facility components.</li> </ul>
Visibility and Exposure	<ul style="list-style-type: none"> <li>Visibility and exposure are crucially important to the success of retail properties specifically. If the local food facility is to feature a retail outlet, consideration should be given to the location’s general visibility and the specific positioning of the retail space.</li> </ul>	<ul style="list-style-type: none"> <li>Visibility and exposure is not a core requirement for the food facility uses that are currently being promoted. If a retail use is to be considered, visibility and exposure should be considered.</li> </ul>

# FOOD FACILITY CONCEPT

Through conversations with King County Staff and the Project Advisory Committee, the general area for consideration of the food facility is the southern portion of King County. The general area discussed has been the industrial corridor that stretches down Interstate Five from the SODO district within the City of Seattle, through Georgetown, Bryn-Mawr, Skyway, SeaTac, and south to the City of Kent. Many of the neighborhoods in this area have above average qualities for the locational factors described in this section.

## SITE FACTORS

Site factors describe specific site characteristics that will influence the efficiency of facility operations. There are two site factors: site size and parking/loading areas.



View of SODO.

Source: Vmenkov CC BY-SA 3.0

## EXHIBIT 3. SITE FACTORS

SITE FACTORS	CONSIDERATIONS	TARGET AREAS
Site Size	<ul style="list-style-type: none"> <li>Industrial properties typically have building-to-land ratios of 0.25 to 0.33, meaning that industrial buildings occupy one quarter to one third of the land on their site. Although the usefulness of these metrics will vary from property to property, in general they provide a helpful guide to ensure that an industrial property has adequate site space for outdoor storage, loading areas, parking, stormwater systems, and landscaping.</li> </ul>	<ul style="list-style-type: none"> <li>A building-to-land ratio of 0.25 to 0.33 is desirable for a food facility.</li> </ul>
Parking and Loading Areas	<ul style="list-style-type: none"> <li>At a minimum, the food facility will require adequate parking for its employees, and occasional visitors. Should uses like a shared-office space or an event area be desired, more parking will be required.</li> <li>Truck loading and turning space should be considered. The ability for trucks to access and maneuver to and around the site will greatly impact the efficiency of the facility.</li> </ul>	<ul style="list-style-type: none"> <li>A parking ratio of 0.5 to 1 per 1,000 SF of building space should be adequate for employee parking. Higher density uses like a shared office and event space will require more on-site parking.</li> <li>Adequate on-site truck parking, loading, and maneuvering space.</li> </ul>



# OWNERSHIP, ECONOMIC MODELING + FUNDING

This section describes the ownership and financial considerations for the food facility concept. It is aimed to help the County and their partners understand the tradeoffs that result from varying ownership models and operating plan decisions.

## OWNERSHIP MODELS

The ownership model of the food facility will play a central role in determining how the facility will be funded and how it will operate. There are several models to consider for the food facility.

Deciding the appropriate model requires an evaluation of their tradeoffs with respect to several key criteria:

- **Access to capital:** Different types of entities (i.e. public, private, nonprofit) will have different sources of capital that they can access at different costs and legal limitations.
- **Financial exposure:** Tax exempt status and ability to realize economies of scale are both factors that influence the financial viability of the facility and differ among ownership and operating models.
- **Accountability:** Different operating models and partnering entities will influence metrics of success and accountability mechanisms. The culture of accountability will inform the definition of success and the flexibility of its measurement.



## NON-PROFIT OWNERSHIP

Some food facilities, particularly those embedded in the hunger relief sector, are nonprofit owned and operated. A board of directors would govern the organization providing accountability from the enabling members. An executive director, accountable to the board, with the support of a small staff would manage the operations. Generally speaking, the benefits of non-profit ownership and management are:

- Access to public funding
- Access to tax-exempt donations
- Reduced operating costs via property tax exemptions
- Ability to run as a mission-based organization with accountability to a larger group of stakeholders.

Additional benefits would be realized if the non-profit were to operate the facility as efficiencies would likely arise from having on-site administrative staff. The primary potential drawback of having a non-profit operating model for the county is some removed level of accountability from county leadership.

## PUBLIC OWNERSHIP

King County (or other municipality) could choose to own and operate the food facility as a County venture. There are several sub-options for public ownership. The County could own and operate the facility outright, it could form a Public Development Authority (PDA) to operate the facility under public ownership, or it could own the facility and contract operations to a non-profit entity.

PDAs are unique, independent government entities governed by a board of directors. They are legally separate from the County, which allows them to pursue public purpose activities independent from other functions of County government.

The benefits of public ownership include:

- Access to public funds
- Property tax exemptions
- Ability to run a narrowly defined enterprise organization.

The primary drawback to the first option is that the operation of a specific enterprise needs specialized skillsets not typically a part of government operations. PDA operation would solve this challenge, but the facility would be still accountable to the County (or other sponsoring jurisdiction), as opposed to

# OWNERSHIP, ECONOMIC MODELING + FUNDING

an outside set of stakeholders seen in the non-profit setting. A PDA could still have some financial relationship to the sponsoring local government.

## FOR-PROFIT OWNERSHIP

The County may choose to find a private entity to construct, own, and manage the Center. The benefits of a for-profit entity include:

- Access to traditional sources of bank financing and private equity to fund construction.
- Responsiveness to operational challenges.

The drawbacks of a for-profit entity are the prioritization of, and accountability to, profit over mission and the increase in operating costs associated with property tax payments. Given the difficulty in monetizing the expansive community and local food system benefits, and the probability of small profit margins, a for-profit entity is unlikely to have an interest in owning and operating the facility.

## FOOD FACILITY ECONOMIC MODELING

At this point, the food facility is in a conceptual phase. No site has been identified for its location and no final decisions have been made about the facility's size and layout. Our research has informed an understanding of the uses or "components" of the facility; and how integral each of these components is to the overall functioning of the facility. At this initial point in the planning phase, we can make educated estimates about the facility's economic viability. This section examines those economic factors with the goal of helping the reader understand the range of possible economic outcomes and the tradeoffs inherent in decisions that impact the facility's finances. In this section, we explore the following key questions:

- **Determining the Facility's Cost:** What is the likely cost to construct or acquire the facility?
- **Operating Plan Analysis:** What options are there for a facility operating plan? And what are the economic tradeoffs of those options?
- **Economic Constraints + Facility Feasibility:** What do the operating plan models mean for rent or fees paid by facility users?

As described in the Food Facility Concept section, the area under consideration for siting the facility is along the Interstate Five corridor, from SODO in the north to the city of Kent in the south.

## DETERMINING THE FACILITY'S COST

The cost to build the food facility will depend on several factors. If the facility is to be constructed from the ground up and the land for the facility needs to be purchased, then the costs could be quite high. If an existing facility can be acquired or if land for the facility is donated free of charge, then the cost could be modest. Just how expensive the facility will cost cannot be accurately estimated until sites or buildings have been identified. However, through observations of current land and building transaction prices, along with construction cost estimates from similar facilities, we are able to establish a range of potential costs for the facility.

## LAND VALUES AND CONSTRUCTION COSTS

Observations of land values for properties appropriately zoned for the facility and within the area under consideration vary from as low as \$15 per square foot to as much as \$40 per square foot. The variance in land values is related to factors such as quality of location, site size and shape, surrounding uses, and connections to services and utilities. In general, it can be assumed that properties with values at the lower end of the price range reflect qualities less in demand to those at the top end of the range. Our review of recent land transactions indicates that properties which are most ideally suited for the food facility have values in the higher end of the range. Many of these properties transacted with values of about \$25 per square foot.

To construct a new facility is usually more expensive than acquiring and modifying an existing building; although, this is not always the case. Our research of industrial building construction costs indicated a range of hard costs—the cost to building the building's shell absent "soft costs" (design and finance fees), interior tenant improvements, and other fees—to be from \$100 to almost \$200 per square foot.

# OWNERSHIP, ECONOMIC MODELING + FUNDING

## WHAT DOES THIS MEAN FOR THE FACILITY'S COSTS?

Our research into land values and construction costs established a range for the two largest capital items for developing the food facility. In addition to these costs are soft costs, a developer's fee, a contingency set aside, and tenant improvements.

Tenant improvements describes the customized buildout of interior building spaces with paint, fixtures, lighting, and other features suitable for the tenant that will occupy the space. For most industrial facilities, tenant improvements (TIs) are modest and inexpensive. For a food facility, there are two unique components that cost more than usual TIs: a commercial kitchen and a cold storage area. Each of these components require unique and often customized interior buildouts, fittings, utility connections, and fixtures. From conversations with developers of similar facilities—in particular The Redd in Portland, Oregon—we get a better understanding of these costs. Using that data, we are estimating interior buildout costs for production kitchens to be about \$150 per square foot and the buildout of cold storage space to be about \$200 per square foot. These rates, combined with TIs for the other facility components, create a “blended rate” for interior buildout costs.<sup>1</sup> Exhibit 4 illustrates the likely range of development costs for a 50,000 square foot food facility if it were to be constructed new on a purchased parcel of land.



## EXHIBIT 4. ESTIMATED COSTS FOR A 50,000 SF FACILITY + PURCHASED LAND

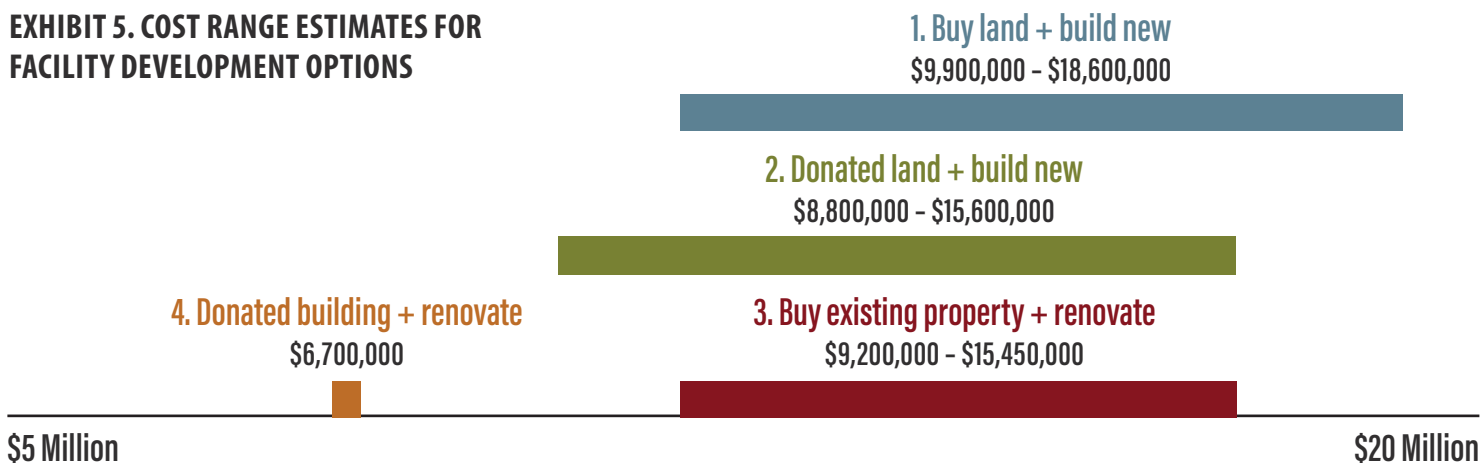
COST ITEM	ASSUMPTION	LOW COSTS	HIGH COSTS
Land Cost	Range from \$15 to \$40/SF	\$1,125,000	\$3,000,000
<b>Building Costs</b>			
Hard Costs	Range from \$100 to \$200/SF	\$5,000,000	\$10,000,000
Soft Costs	25% of hard costs	\$1,250,000	\$2,500,000
Contingency	5% of hard and soft costs	\$312,500	\$625,000
Developer Fee	5% of hard and soft costs, and contingency	\$328,100	\$656,300
Tenant Improvements	\$40/SF blended rate	\$1,860,000	\$1,860,000
<b>Total Development Cost Rounded</b>		<b>\$9,875,600</b> <b>\$9,900,000</b>	<b>\$18,641,300</b> <b>\$18,600,000</b>

Source: ECONorthwest, various sources

<sup>1</sup> Despite the high costs for the kitchen and cold storage space, the large size of the facility and the minimal build-out costs of other parts of the facility result in a blended TI rate of about \$40 per square foot.

# OWNERSHIP, ECONOMIC MODELING + FUNDING

## EXHIBIT 5. COST RANGE ESTIMATES FOR FACILITY DEVELOPMENT OPTIONS



The estimated costs to acquire a parcel of land and build a new food facility ranges from \$10 million to over \$18 million. However, this is not the only development option. The food facility could be built on donated land or an existing building could be acquired and renovated for the facility. In all, we see four possible development options:

1. Purchase a parcel of land and build a new facility.
2. Land is donated, most likely by a public sector partner, and the facility is built new.
3. An existing building is acquired and renovated for the facility.
4. An existing building is donated and renovated for the facility.

The possible reality for each of these options hinges on the partners that come together to support the food facility and their capacity to support the project. These options range in cost. Exhibit 5 summarizes the high-low cost scenario estimates for each option.

The options range in cost from \$6.7 million to almost \$19 million. Option 4, where a building is donated and renovated for the food facility, is the least expensive option. It is also the most unlikely scenario, as buildings are rarely repurposed without an acquisition fee. As will be discussed in the next section, the economics of food facilities is such that acquiring an existing building, using donated land, sourcing outside grants or low-cost debt to finance capital costs, or a combination of those methods may be the only way to establish a financially sustainable facility.

## EQUITY, DEBT, AND CAPITAL COSTS

Experience from other similar facilities shows that the few facilities that rely on debt to pay for a sizable portion of their capital costs are able to achieve financial sustainability in the long run. Facility revenues are limited and margins between revenues and operating costs are slim. Those facilities that are able to thrive usually are able to do so by sourcing their capital cost needs primarily through grants, donations, and direct financial support from the public sector. Some carry a small amount of low-cost debt. But sourcing funds from traditional loans is unlikely to enable the facility to survive financially.

...the economics of food facilities is such that acquiring an existing building, using donated land, sourcing outside grants or low-cost debt to finance capital costs, or a combination of those methods may be the only way to establish a financially sustainable facility.

# OWNERSHIP, ECONOMIC MODELING + FUNDING

Using the cost range for the newly constructed food facility (\$10 to \$18.7 million), we modeled the balance between debt and equity from a 20 percent debt load to an 80 percent loan. (Exhibit 6).

The model showed that for the facility to cover debt service payments would mean a \$3 to \$19 per square foot revenue stream *after operating expenses are taken into account*. In other words, on top of rent needed to support the operations of the facility, additional rent would be needed to service the debt. Average market rent for industrial properties in the corridor that stretches down Interstate Five from SODO in Seattle to Tukwila is about \$12.50 per square foot. Assuming the average rent is attainable, the additional rent needed to service the modeled debt would increase the base rent by 25% to 150% and push it beyond affordable levels for most, if not all, facility users.

The model reinforces the assumption that the facility would be challenged to get tenants to pay enough rent to support debt service payments. This means that the County and their food facility partners should aim to source the majority of the facility's capital costs from grants, donations, and other direct payment or low-cost sources. In the next section, we delve deeper into the facility's operating plan with further discussion about the facilities operating expenses and revenue streams needed for it to be economically sound.

## OPERATING PLAN ANALYSIS

An operating forecast appropriate for this stage of the facility is mainly concerned with net cash flows. This type of analysis shows revenues and expenses associated with operations only to better understand the financial position of the underlying enterprise. Generally, this perspective uses a cash-accrual basis net of any depreciation. Ultimately, incorporating these elements will undoubtedly impact the bottom-line and will be appropriate at later phases of the project.

Building from the cost analysis, the operating model illustrates the rents needed to financially sustain the facility. There are several components to ongoing costs associated with the facility. There are (1) costs associated with the real estate—"Operating Costs," and (2) costs associated with the facility operations—"Business Costs." This is different than a typical industrial real estate economic model, as "business costs" are usually associated with a private tenant and therefore they are not linked to the real estate. This is an important distinction;

EXHIBIT 6. ANNUAL DEBT PAYMENTS PER SQUARE FOOT

DEBT LOAD	LOW END OF COST RANGE	HIGH END OF COST RANGE
80%	\$10	\$19
70%	\$9	\$17
60%	\$8	\$14
50%	\$6	\$12
40%	\$5	\$10
30%	\$4	\$7
20%	\$3	\$5

...the County and their food facility partners should aim to source the majority of the facility's capital costs from grants, donations, and other direct payment or low-cost sources.

# OWNERSHIP, ECONOMIC MODELING + FUNDING

**EXHIBIT 7. FOOD FACILITY ESTIMATED OPERATING COSTS**

OPERATING EXPENSES	% OF TOTAL
Real Estate Taxes	40%
Repair/Maintenance	20%
Utilities	20%
Janitorial	10%
Grounds/Landscaping/Parking area	5%
Replacement Reserves	5%
<b>Total Operating Expenses per SF</b>	<b>\$6.00</b>

the food facility is not just a typical real estate deal. It is an enterprise focused on supporting small businesses. For this reason, the “business costs” are an essential part of the facility’s economic model.

Exhibit 7 and Exhibit 8 show the costs associated with both the operating costs and the business costs. Operating costs include real estate taxes, repair and maintenance, utilities, janitorial costs, grounds and landscaping, and replacement reserves (savings for major structural upgrades). These costs will vary depending on several factors, including the efficiency of building systems (utilities) and the ownership model (a non-profit or publicly owned facility would not need to pay real estate taxes). Administrative costs are usually a line item in operating costs. In this model, we have assumed those costs to be included with the business costs.

**EXHIBIT 8. FOOD FACILITY BUSINESS COSTS**

ITEM	ANNUAL COST
Annual Salary/Benefits for Operations Manager	\$100,000
Supplies/Equipment/IT	\$25,000
Meeting and Event Space	\$2,500
Professional Services	\$5,000
<b>Total Business Costs per SF</b>	<b>\$2.75</b>

Business costs are estimated on an item by item basis. These costs include the salary and benefits for an onsite food facility manager and costs associated with managing the enterprise.

## OPERATING MODEL OPTIONS

The operations for the facility could be structured in a couple ways. The options for the operation model hinge on who manages the day-to-day food facility enterprise. These two options are:

- **Dedicated Staff Model.** In this model, the County runs the food facility business. They hire staff to manage the facility and would be responsible for day-to-day operations and the business costs connected to the enterprise.
- **Concession Model.** With a concession model, the County would offer an ongoing rent concession to a food facility master tenant to manage the facility business.

**EXHIBIT 10. OPERATING MODEL COMPARISON**

MODEL	PROS	CONS
Dedicated Staff Model	<ul style="list-style-type: none"> <li>• The County has direct control over the day-to-day operations of the facility.</li> </ul>	<ul style="list-style-type: none"> <li>• Managing the facility’s operations creates an ongoing cost for the County and opens it up to more financial risk.</li> </ul>
Concession Model	<ul style="list-style-type: none"> <li>• The delegation of day-to-day management of the facility insulates the County from operations responsibilities and challenges.</li> <li>• Reduced rent for a master tenant is likely to mean more stability of operations, as the master tenant is less likely to default on their lease.</li> </ul>	<ul style="list-style-type: none"> <li>• A poor operator could mismanage the facility potentially leading to its failure.</li> </ul>

# OWNERSHIP, ECONOMIC MODELING + FUNDING

The economic differences in each of the operating models will have an impact on the viability of the facility. In the dedicated staff model, the County would be responsible for paying the ongoing business costs associated with running the food facility. In the concessions model, a master tenant would be given a rent concession equivalent to the ongoing business costs. The economic impact associated with the concession model is that the master tenant gets a reduced rent while the County can focus solely on the real estate operating costs of the facility.

This change of who runs the business goes beyond the benefit to the County of a deferral of responsibilities for day-to-day operations. A reduced rent is a powerful way to support the long-term financial stability of the facility. It means that a master tenant is less likely to default on their lease. For example, we estimate business costs to be about \$2.75 per square foot. If the master tenant is paying \$15 per square foot in rent, the concession would constitute an 18% rent reduction—a substantial discount.

## ECONOMIC CONSTRAINTS + FACILITY FEASIBILITY

There are two primary constraints that limit the viability and scale of the food facility.

- **Capital:** The amount of capital (equity) that can be raised to support the facility's construction.
- **Rent:** The amount of rent that tenants, or by extension food facility members are able to pay.

### CAPITAL

As an example of how these two constraints limit the facility, consider a facility with a cost of \$15.1 million (an amount that is near the center of the cost range presented earlier). If the County cannot raise more than \$5 million in equity, the remaining costs will need to be financed and passed on to tenants to cover debt payments. Using current loan terms and assumptions about financing costs and combining those with operating and business costs in the concession business model, a master tenant would need to pay a rent of about \$20 per square foot to support the \$15.1 million facility in this example. This amount of rent may or may not be affordable for a master tenant. How achievable it is for the master tenant will depend on their economic strength and how they are able to pass on costs to sub-lessors (food facility members).



### RENT

The amount of rent that tenants are able to pay is an important consideration for the food facility. It is important not just because the amount of rent that can be charged will be capped by the tenants ability to pay but also because, unlike a typical private real estate deal, a core goal of the facility is to make sure that its financially accessible by its core target tenants; in this case, emerging food companies. To achieve this goal, the facility needs to offer rents that are at the least affordable for its tenants, if not deeply discounted from market rates.

Many food facilities rely on membership models to offer an affordable and flexible facility access for small food companies. Going back to our example \$15.1 million facility, for some master tenants a \$20 rent may only be an affordable rate if they are able to secure enough memberships to offset their own rent. If we assume that food facility members are limited to a monthly fee of \$350—a fee level that a recent survey of local food entrepreneurs indicated was common—then the master tenant would need to secure 230 annual memberships to offset their rent.

# OWNERSHIP, ECONOMIC MODELING + FUNDING

## EXHIBIT 11. FOOD FACILITY ECONOMIC MODEL, COSTS AND CONSTRAINTS

	FACILITY COST RANGE		
	\$9,900,000	\$15,100,000	\$18,600,000
Capital: Equity Limit	\$5,000,000	\$5,000,000	\$5,000,000
Rent: Monthly Membership Fee	\$350	\$350	\$350
Master Tenant Rent (per SF)	\$12	\$20	\$25
Annual Memberships Needed to Cover Rent Costs	150	230	300

Source: ECONorthwest (all values rounded)

Exhibit 11 shows several more examples of how these two constraints—equity and rent—impact the economics of the food facility. As expected, at the low end of the cost range a lower rent and fewer memberships are needed for the facility to achieve economic viability. Given the higher rent and the higher number of memberships needed, the higher end would be more difficult to achieve.

### FUNDING OPTIONS SUMMARY

Income from the food facility's operations alone are not likely to provide enough revenue to finance the facility's construction. In addition, depending on the operating model, the facility's operations may require alternative sources of on-going revenue for it to achieve financial feasibility. This means the facility will have to look for other funding sources.

For the facilities construction, comparable food facilities have relied heavily on both public grants and private donations. These sources help avoid the additional and on-going operations cost of debt payments associated with traditional capital borrowing. Less or no reliance on traditional financial borrowing products can also lower overall capital financing costs, as interest and administrative fees are less or absent with grants and private donations. However, like similar facilities, the food facility is likely to need multiple funding sources to attain the capital needed for its construction.

Beyond operating income, there are two main categories of funding that the operator should consider: public sources and private sources. Public funds may come from federal, state, or local governments, usually in the form of grants or low-cost loans. Most government grant and loan programs require a local funding match, and fund dollars are usually only available for construction. Private sources of money may come from donations on behalf of a charity or foundation, advertising, or partnerships.

Below is an overview of funding sources that may be available for the food facility. Ultimately, the options available will depend on what entity owns and manages it, competing priorities for public dollars, and how much risk the public sector is willing to take in providing or pursuing alternative financing among other factors. Once an ownership and operating model is defined, an in-depth financial strategy will be appropriate to identify funding sources.

### FEDERAL FUNDING OPPORTUNITIES

- **U.S. Department of Agriculture (USDA) grants.** The USDA provides priority funding for community food system projects under several of their programs. There are grants to incent projects to become self-sustaining and planning grants, among others. Many federal grants for food projects are housed within the USDA.
- **U.S. Treasury New Market Tax Credits.** This program provides private investors with federal tax credit for investments made in economically distressed communities. The facility would need to be located in a qualifying U.S. Census Tract. This program is competitive and has an extensive and expensive application process. Although new market tax credits could be a powerful funding tool for the facility, these funds have been harder to access in recent years.
- **U.S. Economic Development Agency (EDA).** The EDA offers a variety of grant programs, one of which the facility may use to fund a portion of its construction. Qualified applicants may apply for a Public Works and Economic Adjustment Assistance program for grants of \$100,000 to \$3,000,000 to fund construction of projects that “create jobs, leverage private capital, encourage economic development, and strengthen America’s ability



# OWNERSHIP, ECONOMIC MODELING + FUNDING

to compete in the global marketplace.” In response to the COVID-19 pandemic, new funds from the EDA could become available for projects like the food facility.

- **U.S. Department of Health and Human Services (HHS) grants.** HHS has several grant programs that could be used to support the development of a food facility. In particular, the Community Economic Development (CED) grant program offers grants to support economic development projects in low income areas.

## STATE FUNDING OPPORTUNITIES

- **Washington State capital budget.** The State has several grant programs that should be considered. The State’s Community Economic Development Board (CERB) grant program could assist with future facility planning. Other State grants might be able to assist with a property purchase or facility construction. Facility planners should continue to seek funding from the State as it moves through the design and development process.
- **Direct appropriations.** There may also be opportunities for the facility to gain funding through one-off opportunities sponsored by State legislators.

## LOCAL FUNDING OPPORTUNITIES

- **King County Funding.** As a potential lead sponsor, the County could appropriate funds for the food facility, provide in-kind staff support, or support the facility through other means. The County already has programs with aligned goals for the facility including the Communities of Opportunity program, the Regional Food Assistance program, and those of the Solid Waste division of the Department of Natural Resources and Parks.
- **The Port of Seattle.** The Port of Seattle has an explicit role in economic development and in recent years has expressed interest in supporting local food businesses. The Port could contribute to funding the food facility in several ways, including donation or a low-cost lease for a site or building, a one-time financial contribution, or an ongoing operations contribution.
- **Private partnerships and advertising.** Private companies may be willing to sponsor or support specific segments of the facility. For example, an existing food distributor or food company may be willing to be the “master



tenant” for the facility; subleasing or providing memberships for other, less established, food companies. Advertising, either on physical facility assets, or connected to marketing campaigns could also provide a revenue source.

- **Private and philanthropic donations.** Private donations can take many forms. Individuals, foundations, corporations, and crowdfunding may all be possibilities for the food facility. If the facility is organized as 501(c) (3) non-profit, it may have an easier time soliciting donations, as they are tax-deductible.

# RECOMMENDATIONS + NEXT STEPS

...food facilities can be financially challenging to sustain. However, with thoughtful planning, strong partnerships, and creative funding, food facilities can flourish.

The research and analysis conducted for this project have demonstrated the need and interest in a new food facility in King County. Should the new facility become a reality, it could further many King County public goals, including:

- Bolster support for emerging food businesses and the growers, distributors, retail outlets, and other small businesses that benefit from a robust local food network.
- Play a strong role in relaunching the restaurant and local food sector in response to the major economic damages that they have suffered due to the COVID-19 pandemic.
- Provide a gathering place for local food partners and advocates.
- Serve as a training center for small business owners and their employees.
- Connect small businesses with technical and finance resources.
- Strengthen the existing network of local food facilities.

Despite these overwhelmingly positive benefits, food facilities can be financially challenging to sustain. The capital required for their construction, the ongoing costs to operate them, high local property values, and the lack of credit worthiness and ability of tenants to pay fees or rent all combine to create a difficult economic situation. However, with thoughtful planning, strong partnerships, and creative funding food facilities can flourish.

This feasibility study is the first step in a more involved process to control, permit, construct, and operate real estate for the purpose of the local food facility. Exhibit 12 lays out the stages of a land development project with the expressed intent to operate the facility. In the case of the food facility project, the county is that first step of an involved process that has to plan, build, and operate a facility.

## EXHIBIT 12: KEY ASPECTS OF THE REAL ESTATE “LIFE-CYCLE” PROCESS

The County has addressed the first phase of the project and now needs to engage on next phases of the work. This work must advance the following issues so that County can move to the next major milestone of the project: land control.

### 1. Strategy and Feasibility

- What “value” can be created?
- What necessary skills, resources, partnerships will be needed?
- What are the risks of failure?
- Is there a viable path to “success”?

### 2. Land Control

- Is land under control or will it need to be acquired?
- Will changes to land entitlements be needed?
- What and how much environmental review be need?
- What type of land use or construction permits will be required?

### 3. Land and Building Development

- What type of utility or transportation improvements will be necessary?
- How can construction or renovation be accomplished efficiently?

### 4. Building Operation and Renovation

- How will the building be operated and managed?
- How quickly can the building be leased up?
- What unique tenant improvements will be required?

### 5. Land and Building Revelopment

- Are there serious physical or functional deficiencies that the improvements must be torn down and/or re-developed for another use?



# RECOMMENDATIONS + NEXT STEPS



## KEY RECOMMENDATIONS

Should King County and their partners decide to move forward on the food facility concept, we recommend that they consider the following future phases of work:

- **Continue to engage with stakeholders.** For this project, King County convened a Project Advisory Committee comprised of local food advocates from non-profits, private companies, and the public sector. This group has already played an important role navigating the food facility concept to its current form. As the concept continues to be refined and gets closer to reality, this group will be instrumental in keeping it aligned with the vision and needs of local stakeholders and in helping to develop a broader base of support from local food system actors and the public.
- **Identify an ownership structure and an operating model.** As discussed in this report, the ownership structure for the food facility will inform the type and extent of funding that the facility can access. It will also help determine the financial expectations of facility partners and influence the type of operating model for the facility to use. As core facility partnerships start to emerge, the County and their partners should work together to identify the ownership structure that supports the vision for the facility, aligns with partners' financial risk tolerance and expectations.
- **Engage with a real estate expert to identify potential sites and refine the food facility concept.** At this point, the County has not yet identified a location for the facility. Each potential site, or existing building, will come with its own unique characteristics

that will propel or hinder the food facility concept. We recommend that the County work with a real estate expert to identify suitable sites for the facility and to help weigh the characteristics of each site. A real estate expert, like a developer that has worked on similar facility projects, should also have the ability to demonstrate the economic tradeoffs presented by each site. A real estate expert could also help the county move through the development process, as outlined in Exhibit 13 on the next page.

- **Develop a capital funding plan.** Our economic analysis showed that the food facility will face real financial challenges unless several steps are taken to reduce costs; in particular upfront capital costs for the facility's construction. Creating a robust capital funding plan that includes an exploration of low-cost capital sources and alternative revenue generation strategies will help create a solid financial foundation for the facility. Because this type of work is highly specialized, we recommend that King County retain a finance consultant to assist with the development of the funding package.
- **Foster commitments from public and private sponsors.** Additional work is needed to identify and cultivate relationships with partners, sponsors, and potential facility operators/tenants. The strength of these relationships and the capacity and resources captured by acquiring these partnerships will determine the ultimate path for the food facility. This ongoing task should focus on a collaborative refinement of the facility concept to advance shared priorities among partners and build a deep and diverse bench of support.

# RECOMMENDATIONS + NEXT STEPS

## EXHIBIT 13: KEY REAL ESTATE ACTIVITIES FOR THE FACILITY

### Site Selection and Acquisition

- Where will the site be?
- New construction or renovation?
- Due diligence completed?

### Funding and Financing

- What are the amounts and timing of expected capital expenditures, holding costs, and operating expenses as well as sales, rents, and other income?
- How will the future capital flows be managed and to whom and in what form will they be reported?
- Given the risk, returns, and timing of the capital flows of the development, what is the appropriate capital structure and how can capital sources be secured?
- What role of King County funding be?

### Operating and Governance Plan

- How will the program and real estate elements of the project be operated?
- What role will King County have in the facility governance?

### Marketing Strategies

- How, when, to whom should the development be promoted and advertised?

### Improvement

- What are the planning and design considerations?
- What type of building engineering will be required?
- Are their unique constructability considerations?

### Environmental

- Is there environmental contamination?
- Are their cultural or historic elements?
- How will building efficiency be addressed (i.e., LEED or other certification)?

### Approvals and Permits

- What public or private approvals need to be addressed?

### Transportation and Accessibility

- Have on- and off-site access been worked out for consumers, tenants, and suppliers?

### Disposition and Exit Strategy

- Are their plans for holding or disposal of the building, regardless of program success?

## DETAILED COST RANGES FOR EACH OPTION

There are several options for how the food facility could be developed. Each option differs by which cost items are donated, purchased, or (in the case of the acquisition of an existing building) are renovated.

# APPENDIX A: FOOD FACILITY COST BY OPTION

COST ITEM	ASSUMPTION	LOW COSTS	HIGH COSTS
<b>Option #1: Purchased Land + Build New 50,000 SF Facility</b>			
Land Cost	Range from \$15 to \$40/SF	\$1,125,000	\$3,000,000
<b>Building Costs</b>			
Hard Costs	Range from \$100 to \$200/SF	\$5,000,000	\$10,000,000
Soft Costs	25% of hard costs	\$1,250,000	\$2,500,000
Contingency	5% of hard and soft costs	\$312,500	\$625,000
Developer Fee	5% of hard and soft costs, and contingency	\$328,100	\$656,300
Tenant Improvements	\$40/SF blended rate	\$1,860,000	\$1,860,000
<b>TOTAL DEVELOPMENT COST / ROUNDED</b>		<b>\$9,875,600 / \$9,900,000</b>	<b>\$18,641,300 / \$18,600,000</b>
<b>Option #2: Donated Land + Build New 50,000 SF Facility</b>			
Land Cost	Donated land	-	-
<b>Building Costs</b>			
Hard Costs	Range from \$100 to \$200/SF	\$5,000,000	\$10,000,000
Soft Costs	25% of hard costs	\$1,250,000	\$2,500,000
Contingency	5% of hard and soft costs	\$312,500	\$625,000
Developer Fee	5% of hard and soft costs, and contingency	\$328,100	\$656,300
Tenant Improvements	\$40/SF blended rate	\$1,860,000	\$1,860,000
<b>TOTAL DEVELOPMENT COST / ROUNDED</b>		<b>\$8,750,600 / \$8,800,000</b>	<b>\$15,641,300 / \$15,600,000</b>
<b>Option #3: Buy Existing Building + Renovate</b>			
Acquisition Cost	Range of \$50 to \$175/SF building area	\$2,500,000	\$8,750,000
<b>Building Costs</b>			
Core and Shell Improvements	\$60/SF	\$3,000,000	\$3,000,000
Tenant Improvements	\$40/SF blended rate	\$1,860,000	\$1,860,000
Soft Costs	25% of hard costs	\$1,215,000	\$1,215,000
Contingency	5% of hard and soft costs	\$303,800	\$303,800
Developer Fee	5% of hard/soft costs and contingency	\$318,900	\$318,900
<b>TOTAL DEVELOPMENT COST / ROUNDED</b>		<b>\$9,197,700 / \$9,200,000</b>	<b>\$15,447,700 / \$15,450,000</b>
<b>Option #4: Donated Building + Renovate</b>			
Acquisition Cost	Range of \$50 to \$175/SF building area	-	-
<b>Building Costs</b>			
Core and Shell Improvements	\$60/SF	\$3,000,000	\$3,000,000
Tenant Improvements	\$40/SF blended rate	\$1,860,000	\$1,860,000
Soft Costs	25% of hard costs	\$1,215,000	\$1,215,000
Contingency	5% of hard and soft costs	\$303,800	\$303,800
Developer Fee	5% of hard/soft costs and contingency	\$318,900	\$318,900
<b>TOTAL DEVELOPMENT COST / ROUNDED</b>		<b>\$6,697,700 / \$6,700,000</b>	<b>\$6,697,700 / \$6,700,000</b>

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