



CASE STUDY

WATERFRONT PLACE APARTMENTS

GRAHAM

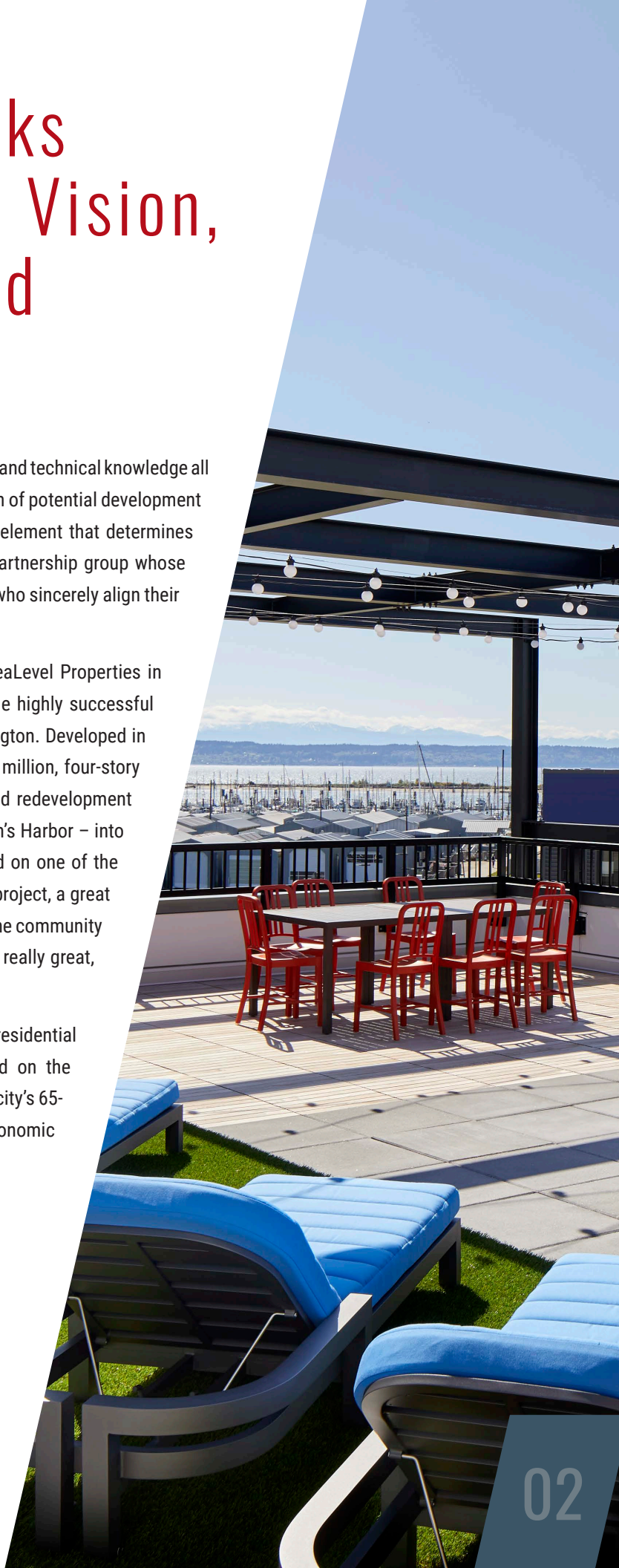
Overcoming Risks Through Shared Vision, Commitment and Collaboration

Development expertise, financial acumen, local experience and technical knowledge all are important criteria in a real estate developer's evaluation of potential development partners. But to Kyle Weeks, the true essence – the key element that determines success and helps overcome challenges – is finding a partnership group whose people think the same way, who truly share the vision and who sincerely align their interests for the long-term.

Weeks, the Director of Multi-Family Development with SeaLevel Properties in Seattle, and his colleagues are basking in the glow of the highly successful opening of Phase I of Waterfront Place in Everett, Washington. Developed in partnership with Gracorp Properties, the 266-unit, US\$57 million, four-story rental apartment complex is the anchor for the city's bold redevelopment of its historical industrial harbor area – dubbed Fisherman's Harbor – into a highly livable contemporary waterfront district centered on one of the West Coast's two largest public marinas. "It's a beautiful project, a great location, the architects and designers did a great job and the community is behind it," says Weeks. "The unit design and layout are really great, the functionality is excellent."

Waterfront Place is the Port of Everett's first-ever residential development. SeaLevel Properties' keenness was based on the company's belief that a well-tuned blend of features in the city's 65-acre redevelopment could buoy rental rates from a non-economic

...the 266-unit...four-story rental apartment complex is the anchor for the city's bold redevelopment of its historical industrial harbor area...





level to generate a reasonable investment return. So the project clearly carried a number of risks, and that narrowed the playing field of development partners, making it even more important to find the right one. “It was a tight project as far as returns, and our success was predicated on achieving strong rents based on an unproven theory,” notes Weeks. “Luckily for us, we felt from the beginning that Gracorp truly had our best interests at heart.”

Gracorp was established in 2008 and has since become the real estate development subsidiary of The Graham Group. The company is currently developing 11 projects in the United States and Canada, valued at a combined \$1.2 billion, with a focus on multi-family residential, commercial, office and industrial projects.

Gracorp brings a complete range of capabilities to suit the owner’s needs. This can include pre-development, land acquisition, debt and equity finance (including through dedicated Gracorp-managed investment funds), entitlement, design and engineering, construction, leasing, operations/property management and asset management. Perhaps most important, Gracorp brings the leading construction capabilities and track record of Graham itself. “We are all looking out for each other’s best interests and that of our owners and shareholders,” says

Joe Augello, Gracorp’s Managing Director in Seattle. “And what helps throughout the process is communication, finding solutions together. And that has made this project such a success.”

It was this internal symbiosis, added to the great relationship between Gracorp and SeaLevel Properties that, everyone agrees, helped make Waterfront Place a triumph. The benefits were concrete. Thanks to the expertise of Graham, the team was able to make up 17 weeks of delays and deliver Phase I on schedule.

“Problems happen in construction,” notes Robert Combs, Graham’s Senior Project Manager. “Like, in our instance, finding big wooden underground structures that weren’t known before. But the pre-existing relationship of trust, the knowledge that we have each other’s best interests in mind, is a huge built-in advantage for Graham-Gracorp that enables a level of collaboration that otherwise might not be the case.”

Although Phase I construction took under two years to complete, the project was years in the making. The locally based, family-owned SeaLevel Properties learned about the proposed Waterfront Place through a friend. “We really loved the potential,” recalls Weeks.



Arranging the financing, however, was another matter. “Market rents were not supporting the project numbers, and our incumbent partner got cold feet,” recalls Weeks. “But we believed in the potential for waterfront property to attract higher rents, based on some case study comparisons in Seattle, including one wildly successful project where they created a waterfront neighborhood out of nothing.” This, he continues, “supported our idea that we would see a bump in rents – but the partner didn’t see it that way.” The project, however, was too large for them to take on by itself.

SeaLevel Properties therefore prepared a partnership offering, engaged a brokerage, and Gracorp entered the picture. “It was a great relationship from the start,” says Weeks, kick-started in part by the warmth generated when it turned out one of SeaLevel’s executives, who had grown up in Canada, had played on the same youth soccer team as Gracorp Vice President, Bruce Black. “Full-service delivery is the number-one tangible need in a development partner, technical capacity is great, and good ideas are very helpful – but you’re going to be working with these people for four to five years. So the relationship is truly key, and we clicked from the get-go: attitudes, mindsets, good people all around.”

“Whenever you’re the first at something it can be a little bit more risky, but Fisherman’s Harbor is a great story: People love living on the water, they love being near their boats,” says Augello, who established the Seattle office for Gracorp. “Adrien Rahbar, Associate Director from Gracorp’s Vancouver office, spent a lot of time in the early days with SeaLevel Properties and did an excellent job of ‘getting the narrative’ and understanding the story of this project.”

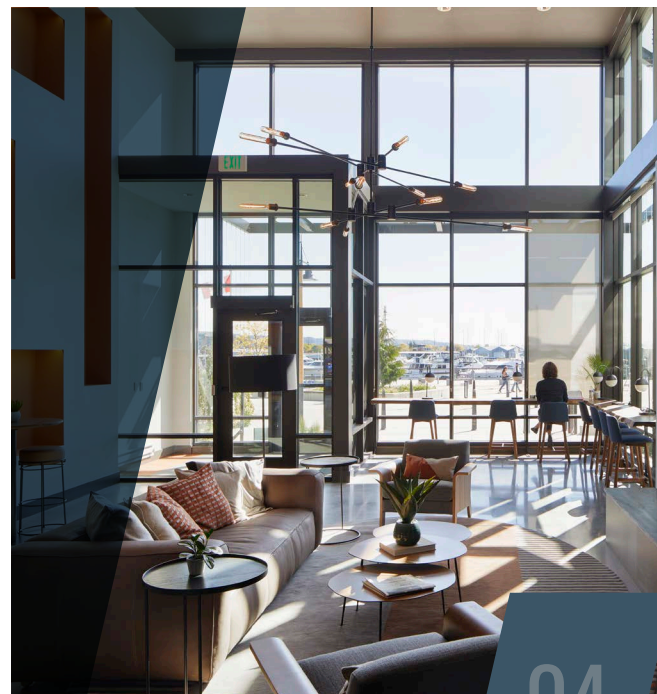
Of course, a lot of hard work lay ahead. “The Port of Everett site is somewhat challenging, demanding significant due diligence,” recalls Augello. “Having a developer being very close to a general contractor generates communication synergies. We utilized Graham to assess risk and reward, and we felt the reward was worthwhile.”

The negotiated contract resulted in creation of GVest Waterfront Place LP, a 50-50 partnership between SeaLevel Properties and Gracorp. Seattle-based Tiscareno Associates was chosen as the architect. Gracorp, notes Augello, “had significant input on design, applying our expertise to improve the units.”

For debt financing, Gracorp suggested seeking a federal loan under Housing and Urban Development (HUD)

“Whenever you’re the first at something it can be a little bit more risky, but Fisherman’s Harbor is a great story: People love living on the water, they love being near their boats”

Joe Augello
Gracorp’s Managing Director in Seattle



section 221(d)(4). “It’s not easy to get, it takes 18 months or more of qualification process – a time-frame that the environmental aspects of being on the water lengthened to two years – and it needs a very solid contractor,” says Augello. “But it enables leverage of up to 80 percent, a lower interest rate, and it’s non-recourse.” With Graham’s involvement and the development team’s financial acumen, they were successful in securing the HUD financing.

In addition to the Waterfront Place apartments, Fisherman’s Harbor will also include a boutique hotel, restaurants, new trails and regional parks, public gathering spaces, and commercial, retail and marine sales and services. Waterfront Place’s role is to “activate” life in the surrounding new district. The two-building, 240,000-square-foot complex includes studio through three-bedroom layouts ranging from 450 to 1,393 square feet.

The interior design and materials evoke the region’s, timber, industrial, fishing and maritime histories while simultaneously feeling airy, contemporary and attractive. Residents will have access to a fitness center, communal kitchen and meeting space, outdoor terraces, dog-washing room, a bar and a games room. “A big part of multi-family

buildings is making apartments live bigger than they are,” confides Weeks. “In the great collaboration with our friends [Gracorp and Graham], we each added some fresh ideas. The units look really good and live really well.”

Construction began in September 2019 and, given the wood-framed metal-clad design, was expected to be straightforward. The Gracorp-Graham combination facilitated early contractor involvement, allowing the team to apply value engineering, review constructability to find efficiencies, and avoid needless future costs. “By coming as a package deal – Graham and Gracorp – they’re more invested in it than if they were just a contractor,” agrees Weeks. He also gives Graham strong marks for doing its best to mitigate material shortages and escalating prices caused by North America’s renovation-driven construction boom.

The following July, however, a four-alarm fire leveled the South building but, thankfully, caused no fatalities or serious injuries. Graham resumed construction with remarkable speed and by October, concrete was being poured for the South Building’s new foundations. The partners worked closely to overcome the effects of the fire and two other delays: the first related to finding



massive buried old timbers at the site, the second due to the COVID-19 shut-down.

“Despite the unforeseen challenges, what made it all successful really came down to the relationships within the team, including the superintendents, and with the sub-contractors,” says Combs. “It’s a tight team that works really well together, and we work to maintain those relationships, and they reciprocate by understanding what our schedule needs are, and to keep executing.” In the end, notes Combs, “We actually handed over the first building on the original contract day. That was remarkable.”

The 135-unit Phase I, named The Sawyer at Waterfront Place, opened in mid-May 2021 with a grand ribbon-cutting. Market uptake has been strong. Rents of \$1,400-\$4,500 per month, says Weeks, are “significantly surpassing our expectations in a region where a lot of areas are actually down.” Construction on the South Building, meanwhile, is targeted for completion in August 2022. Predicts Gracorp’s Augello: “I think the project will do incredibly well as it leases up, and will be a big contributor to the transformation of the Everett Waterfront.” **G**

