

# Master Plan Update

## PDA Council Discussion

December 21, 2023



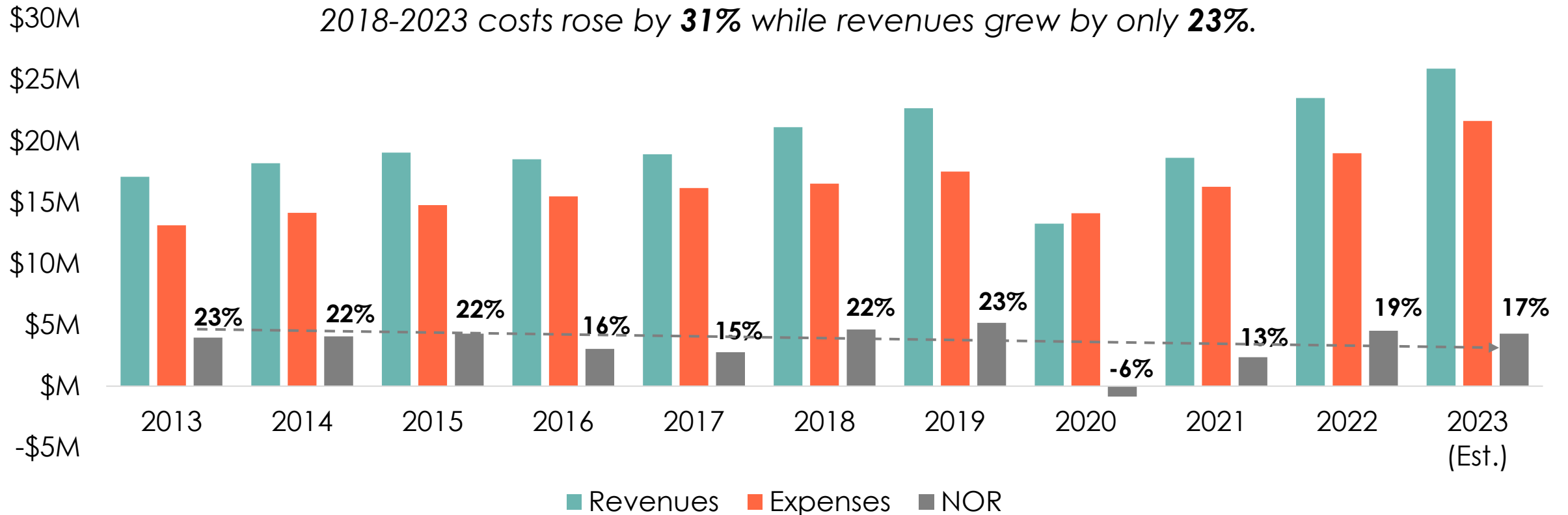
# FINANCIAL ANALYSIS

# PDA Historic Operating Margins

The PDA has operated at an average margin of 19% over the last decade, which enabled operating viability through COVID and critical capital maintenance.

## PDA Revenues & Expenses (2013-2023)

2018-2023 costs rose by **31%** while revenues grew by only **23%**.

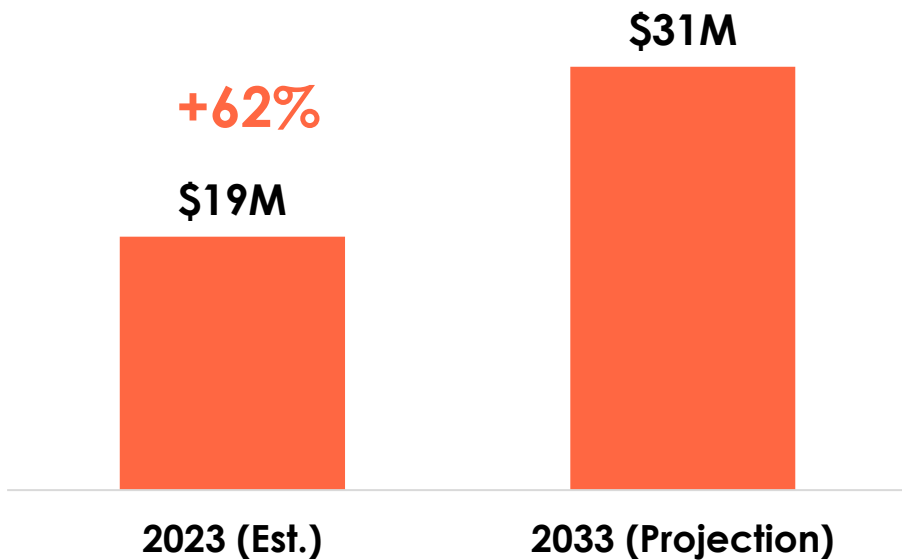


Source: PDA data. Operating margin defined as net operating result divided by revenues. Operating Expenses include Expenses, Debt Reserves, Designated Reserves, LID, and Pension Contributions.

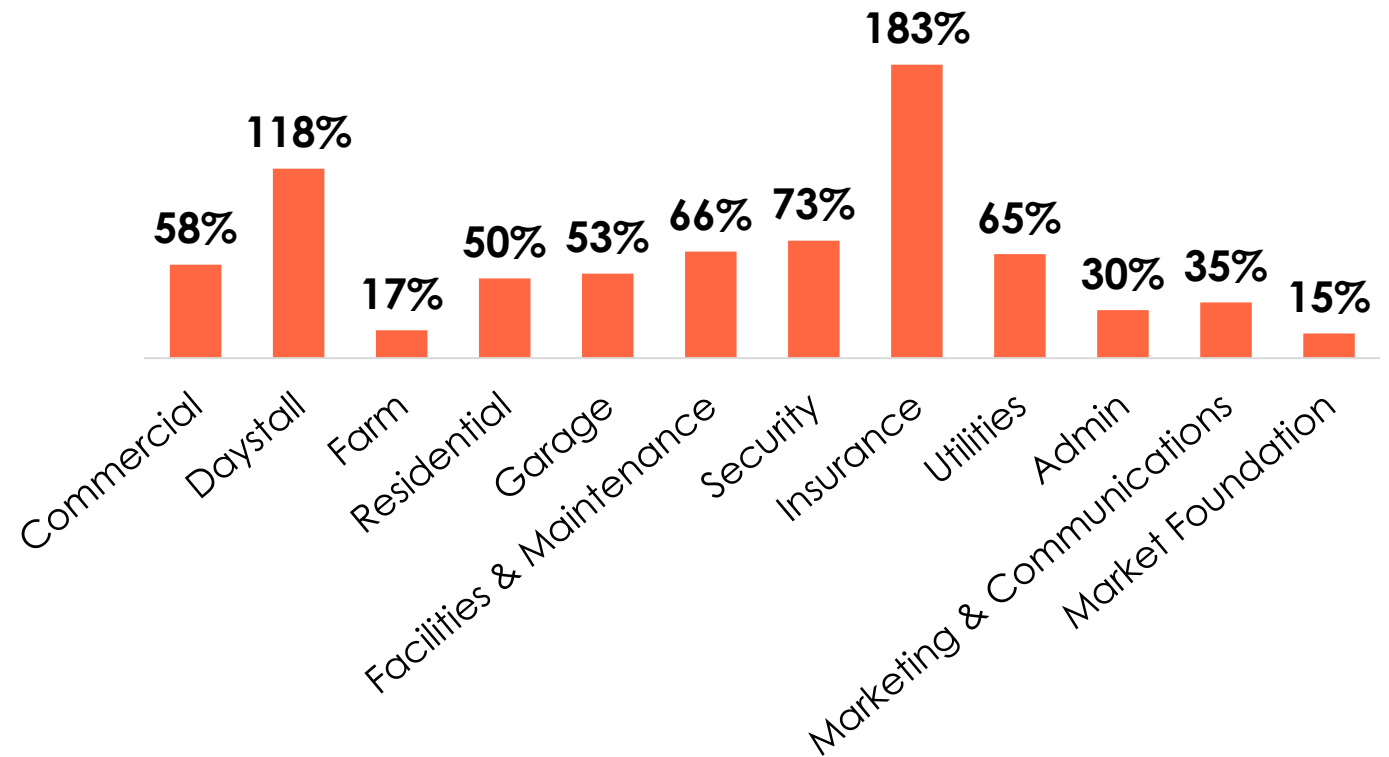
# Rising Operating Expenses

Expenses are projected to increase 5% annually (62% total) over the next 10 years, due to modest underlying inflation, plus higher increases in labor, utilities, and insurance costs.

### Operating Expenses (2023-2033)



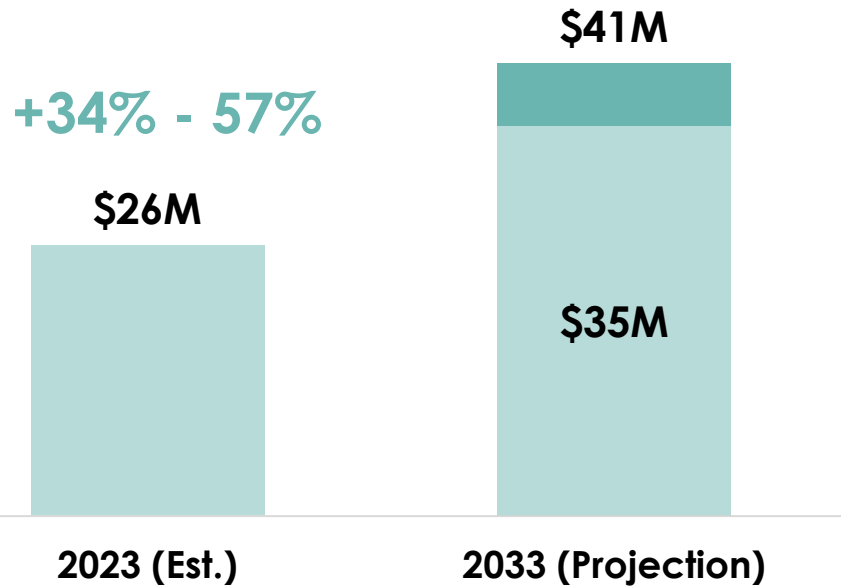
### Operating Expenses Aggregate Growth by Category (2023-2033)



# Modest Revenue Growth

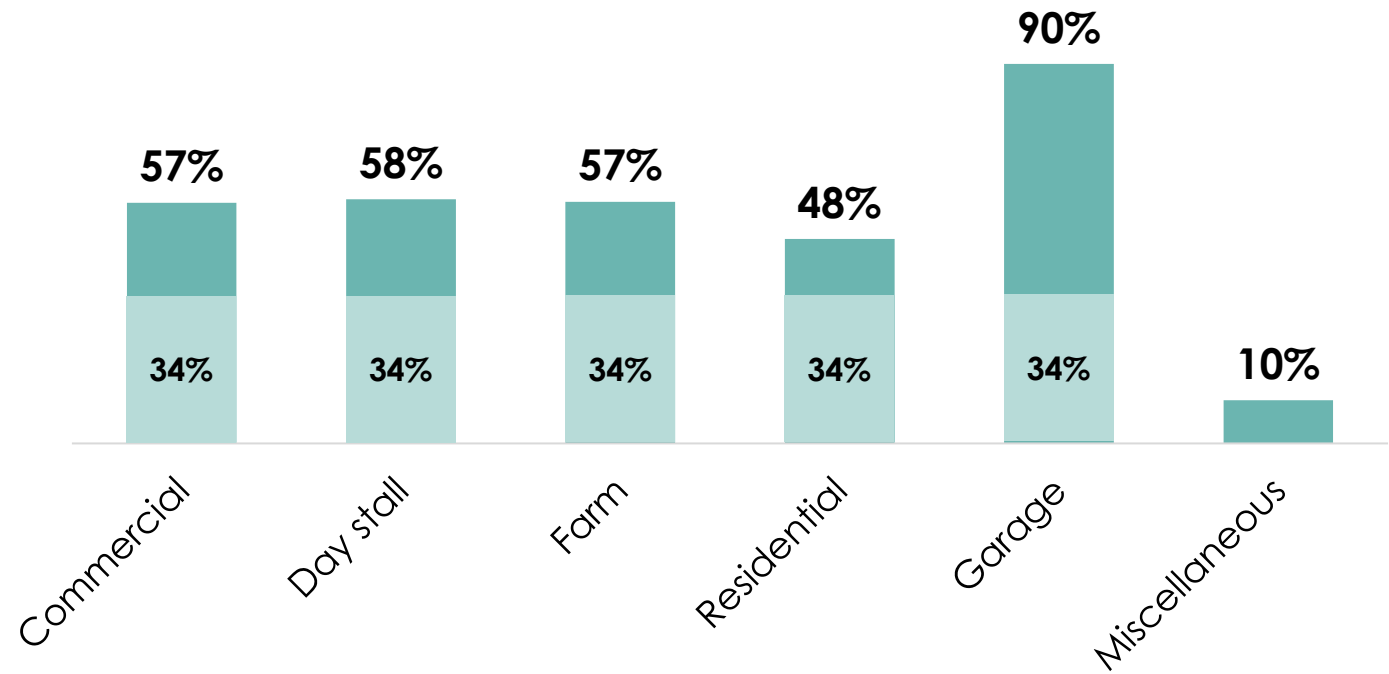
Revenues are projected to increase 3% annually over the next decade under the status quo. Increasing the lease escalation to 5% results in revenue growth matching expense growth.

### Operating Revenues (2023-2033)



- Annual Growth 3%
- Annual Growth 5%, considers lease escalation

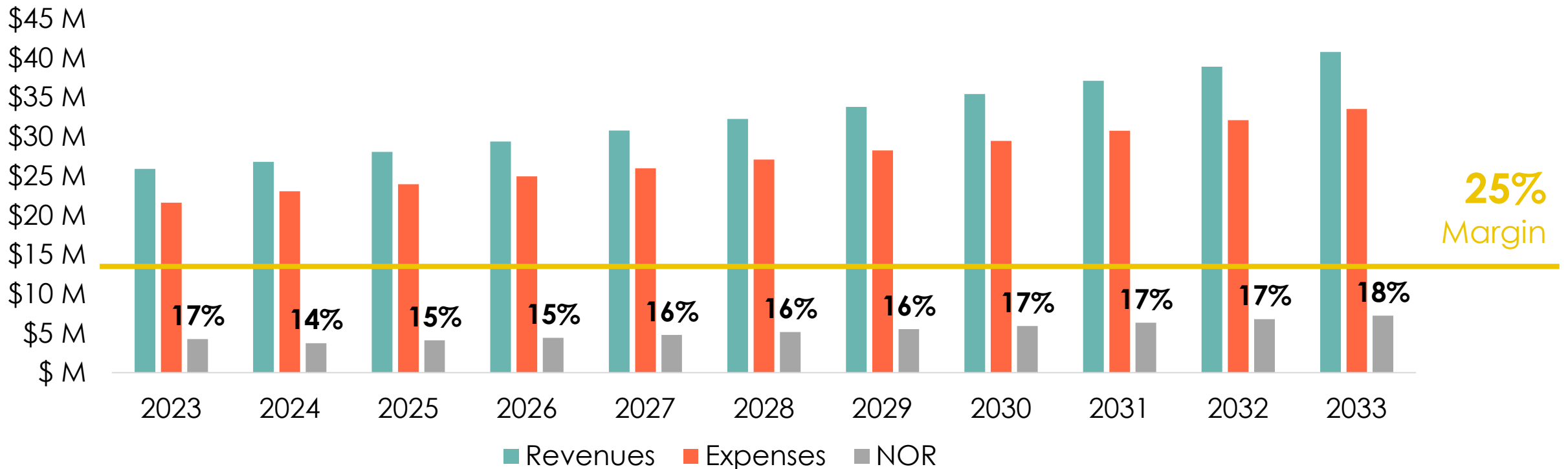
### Operating Revenues Aggregate Growth by Category (2023-2033)



# PPM 2033 Projections

With a 5% escalation and no major unpredictable events or recession, the PDA will still not be able to achieve a target net operating margin of 25% over the next decade. The gap will be \$3.9M in 2033.

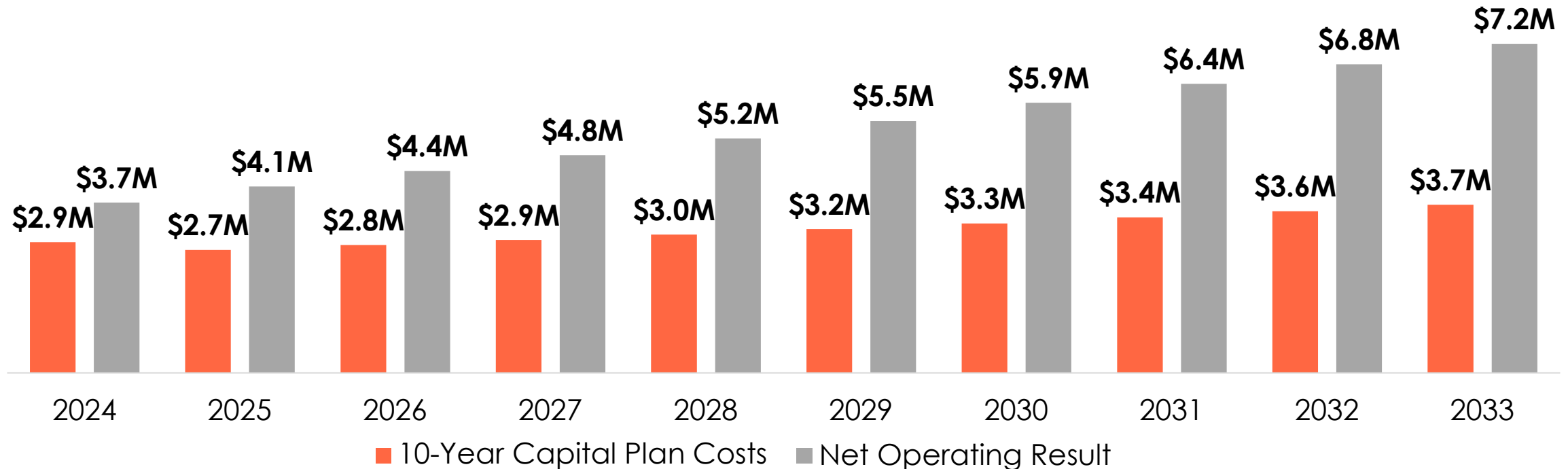
## PDA Revenues & Expenses (2023-2033)



# PPM 2033 Projections

The 10-year Capital Plan requires the PDA to spend nearly 60% of the Market's net operating margin over the next decade. Significant additional revenue will be needed for capital investments associated with the Master Plan.

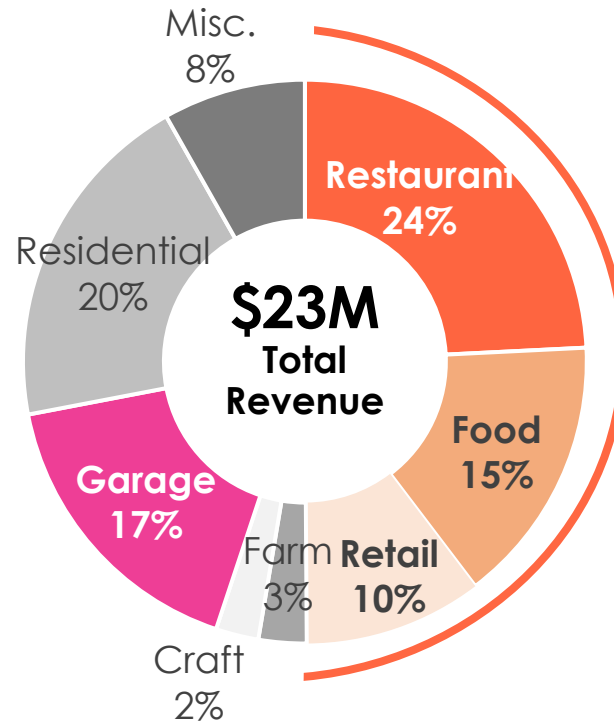
## Forecasted Capital Projects vs. Operating Margin (2024-2033)



# PDA Revenues Today

Commercial and garage rents are primary levers to raising new revenue: affordable housing rents cannot be raised, and daystalls will never be a major revenue source.

**Distribution of PDA Revenue Sources, 2022\***



**Commercial Rents (\$13M, 49%)**

- Restaurant
- Food
- Retail

\*Food, Restaurant, and Retail revenues to PDA include base + percentage rent as well as Common Area Charges (CAC). Revenues from Utilities, Tenant Reimbursement, and Late Fees/Service Charges are included in Misc. instead of their respective merchant type because they could not be disaggregated. Does not include payments/reimbursement from PPMQB3 (entity created by PDA to facilitate new market tax credit funding). Source: PDA data.



# Strategies for Revenue Generation

There are a variety of strategies that the PDA can implement over time, monitoring their efficacy to increase revenues while advancing the Market's goals of reattracting local visitation and supporting local entrepreneurship.

- **Increased Garage Rates**
- **Tenant Curation** for Vendor Sustainability & Increased Commercial Rents
- **Recovered Revenues from Streamlined POS**
- **New Earned-Income Programming**
  - Mission-Based Sponsorships
  - Local Delivery
  - App & AR Experiences

# Garage Assumptions

## **PPM garage parking rates are 159% below market-rate.**

- \$4/hour at PPM, as compared to an average of \$10/hour at 11 nearby garages.
- A 50% increase in PPM parking rates brings the cost of parking to \$6/hour, still well below market-rate.

**The PDA is currently reviewing any regulatory barriers to increasing parking rates for visitors only and excluding Market community members.**

# POS Implementation Assumptions

**Businesses would benefit from a number of improvements that will reduce operational costs and increase sales performance by 5%:**

- Better inventory management and reporting
- Reduced operating costs & time-savings
- More streamlined & efficient customer experience
- Improved customer management and data collection
- Improved customer marketing & personalization

**Benefits to the PDA include:**

- More precise reporting of percentage rent
- Timelier & more accurate sales reporting from tenants
- Better evaluation of marketing promotions and events

# New Earned-Income Programming Assumptions

## **\$400K Mission-Based Sponsorships**

- 4 annually with average sponsor at \$100K

## **\$1.2M Local Delivery**

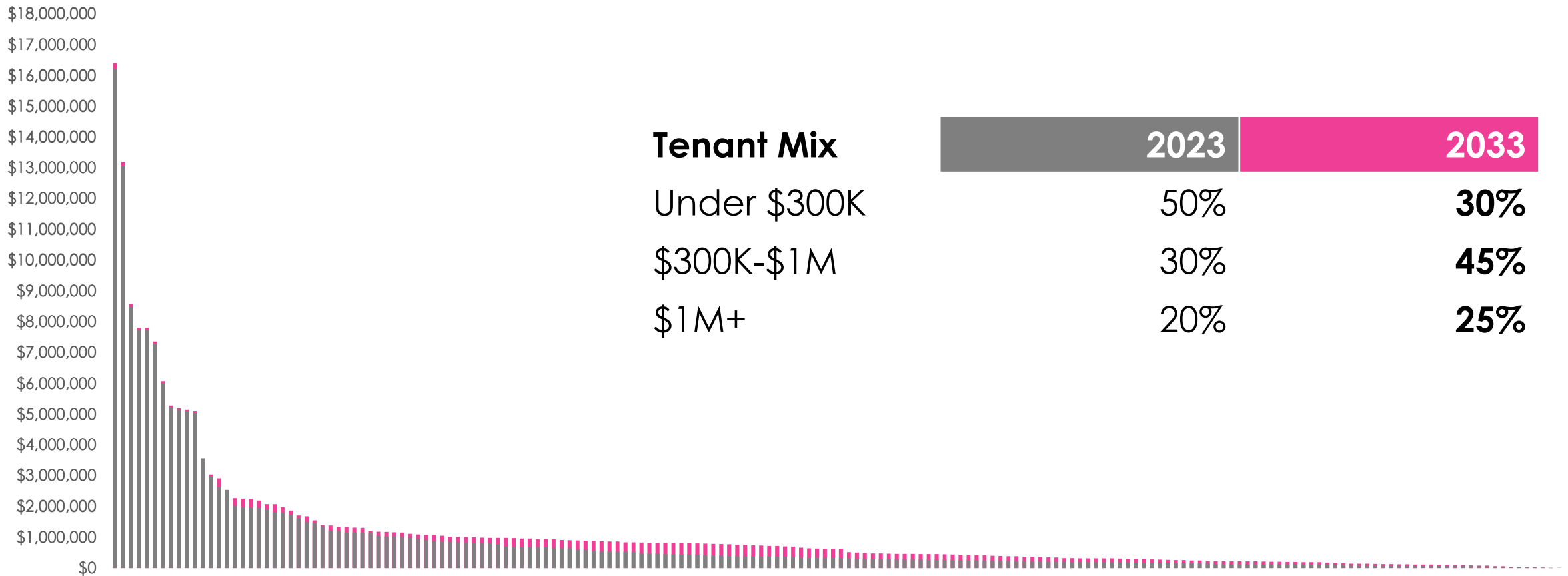
- Restaurant & Food Vendor participation rate: 50%
- Sales Increase: 50%
- PDA collects 6% percentage rent + 10% delivery fee on additional sales

## **\$1.5M App & AR Experience**

- Capture rate of 2.5% (300,000 people, assuming 12M annual visitors)
- \$5 ticket fee per visitor

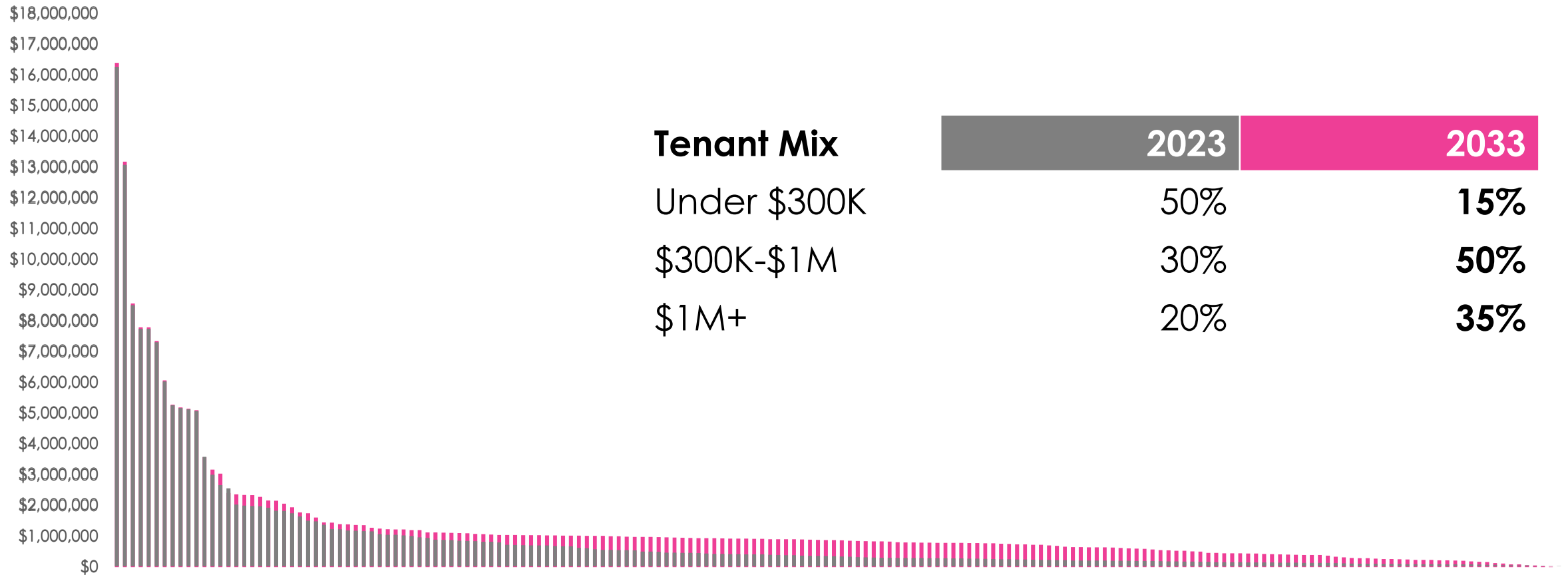
# Commercial Sales & Tenant Mix Assumptions

**A 20% increase in tenant sales** – achieved through marketing of Food Life, programmatic support of existing business growth, and more intentional tenant recruitment and curation – **can add ~\$2M in additional annual percentage rent for the PDA.**



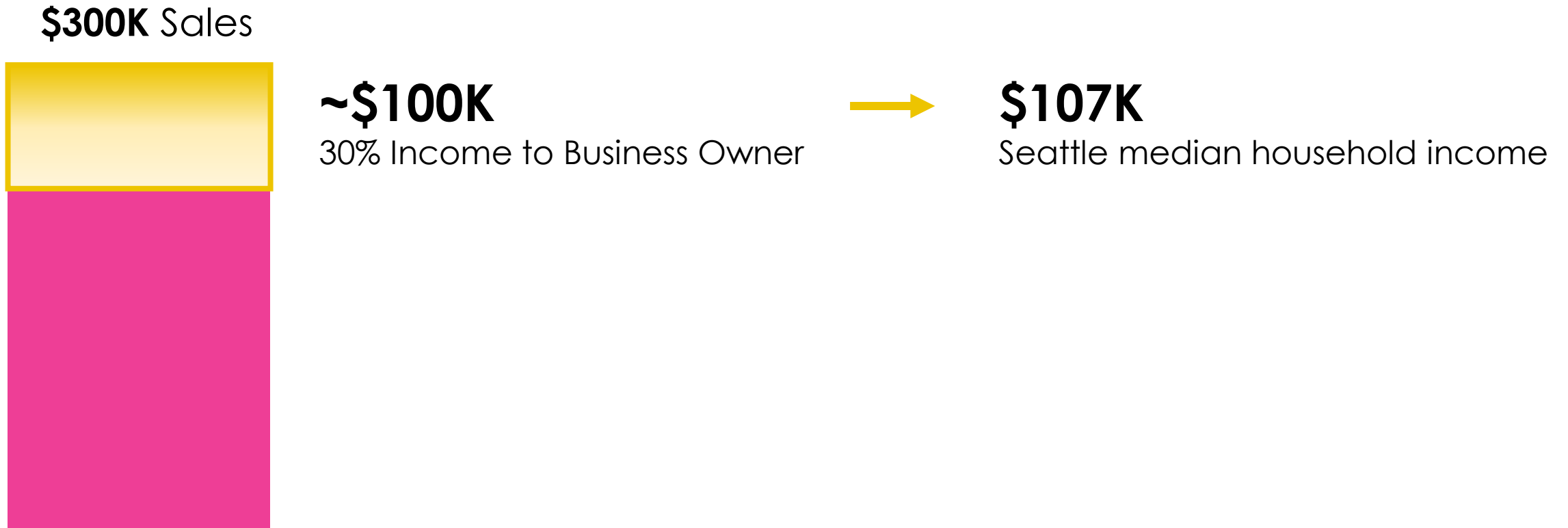
# Commercial Sales & Tenant Mix Assumptions

A more proactive approach to tenant curation could yield **a 35% increase in tenant sales** and **add \$3.6M+ in additional annual percentage rent for the PDA.**



# Shared, Community Responsibility for Market Success

Increased tenant sales will not only reinforce the Market's long-term financial sustainability, but also support income and wealth generation for the Market's diverse vendors.



# Tenant Curation

## Challenges to Tenant Curation to Date:

- Lease turnover is slow.
- The PDA does not address when failing businesses continue to occupy space. (Supporting “marginal” businesses does not mean supporting failing businesses.)
- MHC guidelines are based on 50-year-old assumptions about how businesses are operated, constraining leasing and merchandising flexibility.
- Infrastructure and capital investments needed to support business operations and reconfigure spaces are challenging.



# Revenue Generation

The PDA could generate at least \$6.3M in additional annual revenues. The PDA can tailor its curation approach depending on future capital needs.

**\$6.3M+**



**\$2M+** Tenant Curation for Vendor Sustainability and Increased Commercial Rents

**\$3.1M** New Earned-Income Programming

- \$400K Mission-Based Sponsorships
- \$1.2M Local Delivery
- \$1.5M App & AR Experiences

**\$700K** Recovered Revenues from Streamlined POS

*Assumes a 5% recovery rate from implementing a new POS system.*

**\$500K** Increased Garage Rates

*Assumes a 50% increase to be closer to market rate.*

# Capital Project Financing at PPM

- The PDA understands that it is responsible for capital projects associated with regular maintenance.
- To support large-scale, campus-wide capital projects, the Market has a history of receiving funds through a voter-approved levy.
  - The PDA should engage the City now to ensure that this mutual understanding about major capital project funding remains in place.
- Revenue-generating projects, such as those outlined in the Master Plan, can be considered as part of the levy funding but can also be funded by increased Market revenues.

# Implementation Next Steps

## Next 18 Months:

1. Research & implement a Point-of-Sales (POS) system(s). Closely monitor revenue impact.
2. Survey tenants that have leases ending in 2024-2025, ascertain their contemporary aspirations, and identify ways to support business sales above \$300K.
3. Implement 5% escalation on leases.
4. Hire and/or contract leasing professionals to help commercial tenant curation.
5. In concert with MHC, develop curation processes and clustering strategies that support Master Plan goals. Identify opportunities for new, distinctive offerings across dining, farm, retail, and crafts, including greater BIPOC representation, that will reinforce Pacific Northwest Food Life brand, reattract locals, and increase revenues.
6. Establish annual targets and guidelines for assessing business performance, including setting lease term expectations.
7. Increase garage rates over the next two years.
8. Develop and implement transition plans for less committed and retiring tenants.

# Implementation Next Steps

## Next 18 Months (continued):

9. Partner with existing incubator/accelerator(s) to deliver business support services.
10. Develop and launch events and rotations calendar with Food Life experiences to test draw of locals and regionals and experiment with sponsorship.
11. Identify space for pop-ups and short-term leases.
12. Proactively recruit tenants to fill future vacancies. This could include a small number of local pre-established restaurants or food vendors to serve as anchors.\*
13. Commence discussions with the City to confirm scheduling a next generation levy for major capital projects at the Market (life-cycle systems replacement and potentially projects associated with the Master Plan).
14. Identify PPM “missions” and secure potential mission-based sponsors.
15. Explore and select a model for local delivery for Market businesses.
16. Identify potential partners to develop an app & AR experience, beginning with beta testing of an app such as a “Market Journeys” guided tour.

\*Pre-established businesses eligible for location in the Market can be narrowly defined and follow the precedent of municipalities that have restricted retail chains based on their number of establishments and ownership location. For example, pre-established businesses at PPM could be limited to a defined percentage of spaces, required to be locally owned and founded, and have no more than 1-2 other locations.

# Summary: Revenue Generation Strategy Phasing Over Next 3 Years

| Next Steps                                  | 2024 |   | 2025 |   |   |   | 2026 |   |   |   | 2027 |   |
|---|------|---|------|---|---|---|------|---|---|---|------|---|
| 1. Research & implement POS                 | █    | █ | █    | █ | █ | █ | █    | █ |   |   |      |   |
| 2. Review tenant leases                     | █    | █ |      |   |   |   |      |   |   |   |      |   |
| 3. Implement rent escalation                | █    | █ |      |   |   |   |      |   |   |   |      |   |
| 4. Hire/contract with leasing professionals | █    | █ |      |   |   |   |      |   |   |   |      |   |
| 5. Develop curation process                 | █    | █ | █    | █ |   |   |      |   |   |   |      |   |
| 6. Establish annual targets                 |      | █ | █    |   |   |   |      |   |   |   |      |   |
| 7. Develop transition plans                 |      | █ | █    | █ |   |   |      |   |   |   |      |   |
| 8. Increase garage revenues                 |      |   | █    | █ | █ | █ |      |   |   |   |      |   |
| 9. Partner with incubators/accelerators     |      |   |      | █ | █ | █ |      |   |   |   |      |   |
| 10. Develop and launch events calendar      |      |   |      | █ | █ | █ |      |   |   |   |      |   |
| 11. Identify spaces for pop-ups             |      |   |      | █ | █ | █ |      |   |   |   |      |   |
| 12. Recruit tenants for future vacancies    |      |   |      | █ | █ | █ | █    | █ | █ | █ | █    | █ |
| 13. Commence levy discussions with the City | █    | █ | █    | █ |   |   |      |   |   |   |      |   |
| 14. Secure mission-based sponsors           |      |   |      |   |   |   | █    | █ | █ | █ |      |   |
| 15. Launch local deliveries                 |      |   |      |   |   |   |      | █ | █ | █ | █    |   |
| 17. Launch beta AR app experience           |      |   |      |   |   |   |      |   | █ | █ | █    | █ |

**DRAFT PLAN UPDATE**

# Updated Timeline

- **Second week of January (date to be finalized):** Master Plan meetups to solicit feedback from the community
- **January 15:** PDA to provide feedback to HR&A on Draft #1 of Master Plan
- **January 17:** HR&A to attend Executive Committee
  - Master Plan feedback
  - Capital Project Phasing led by Mithun (*new special topic presentation*)
- **January 25:** HR&A to attend Council meeting
  - Governance Discussion led by HR&A (*new special topic presentation*)
- **February 7:** HR&A to submit Draft #2 of Master Plan\*
- **February 15:** Special PDA Meeting with HR&A to review Draft #2\*
- **February 21:** PDA to send feedback on Draft #2 to HR&A\*
- **Early/mid March:** Final Master Plan submitted to PDA
- **March PDA Council Meeting:** Master Plan adopted by PDA Council via resolution

\*Shifted back 1 week to allow for special topic discussions.

# Council Feedback: Major Themes

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## Overall assets and themes to better highlight

- Meet the Producer
- Food Life
- Farmers
- Artists and crafters
- PPM's DEI legacy – e.g., has supported immigrant farmers from the start
- Social service provision and affordable housing
- Better highlighting PPM as a community and the benefits of collaboration



# Selected Council Feedback: Physical Investments

- **Future of Heritage House: renovation vs. redevelopment?**
- Questioning of an array of specific actions, including:
  - Reconfiguration of DownUnder
  - Highlight the western façade of the Main Arcade with visible vertical circulation
  - Outdoor seating and terracing of Soames Dunn courtyard

**Bold text** = comments from multiple reviewers (no topic had more than 2-3 comments)

# Selected Council Feedback: Rules and Organizational Structure

- **Need discussion of PDA/Council board and governance structure**
- **Need a strategy for MHC engagement and coordination**
- **DEI – questions about effectiveness of some strategies – e.g., Equity Core Team, bringing in a facilitator, relationships with BIPOC orgs**
- Greater emphasis on partnerships with social service providers
- Need discussion about how the PDA/Council can engage more community members

**Bold text** = comments from multiple reviewers (no topic had more than 2-3 comments)

# Overview of Revised Master Plan Draft

- **Introduction** – *Updated, expanded*
- **Vision and Goals** – *Updated, expanded*
- **Strategies and Actions** – *Updated, expanded, reorganized*
  - **Food life curation and programming to reattract locals and help businesses thrive**
  - **Physical Investments to support economic performance, inclusivity, space capacity, downtown/waterfront connectivity, and delightful public space.**
  - **Partnerships to amplify social impact**
- **Implementation** – *To be included in next draft - after special topic discussions with Council*
  - *Financial Sustainability (today's discussion)*
  - *Market Rules and Business Operations (1/25 discussion)*
  - *Market Organizational Structure (1/25 discussion)*
  - *Phasing and Metrics (1/17 discussion of capital project phasing)*

## Questions as you review

- Is this version of the draft clear to you? Are there parts of the language or logic you didn't understand?
- Is the expanded text capturing the information, trends, and considerations that are important to provide a broad audience with an understanding of the state of the Market today, what the Master Plan is trying to achieve, and how?
- Do the revised vision, goals and strategies outlined match your understanding of the discussions and decisions we've made as a Council?
- **With this review, the Council needs to confirm the final list of strategies. Are there strategies or actions that you think we need to discuss as a group?**