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August 15, 2013

City of Olympia  
Attn: Steve Friddle  
PO Box 1967  
Olympia, WA 98507-1967

RE: EDC Comment on Briggs Village/regional economic conditions and capacity

Dear Steve,

Thank you for the opportunity to provide comment on the status of the region's economy and its impact upon our area's capacity to economically thrive within the market conditions. The Thurston EDC's mission is to create a vital and sustainable economy throughout the county that supports the livelihood and values of our residents. We do that through a focused approach to recruiting investment that supports our community; retaining our existing employer base, and expanding local market opportunities. As such, we maintain a fairly comprehensive working knowledge and data base on our local and regional economic conditions. These resources are locally known as our Economic Vitality Index (which tracks current market conditions and trends at macro and micro levels); as well as the Regional Comprehensive Commercial and Industrial Cluster Analysis (which identifies local economic strengths and trend lines on a per sector basis). We also subscribe to several data sets that provide trend lines on real estate development and real estate market indices. Through this accumulation of information, economic trend lines and data sets, we can proactively address the orderly economic development strategies of our region.

Given the above items, we have been strong supporters of urban density and urban village type developments – and are on the historical record in support of the urban village development proposed for Briggs Village. Our comments conveyed via this letter are in regards to the proposed reduction in the amount of square footage originally proposed for commercial space within the development. Please know that given a review of market conditions – with consideration of recent historical trends and current projected market demand, we strongly recommend that the proponent's proposal to reduce the required commercial space, be approved.

This recommendation is based on the following elements.

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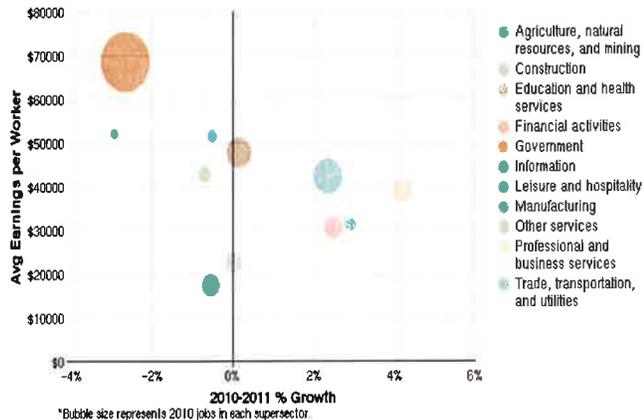
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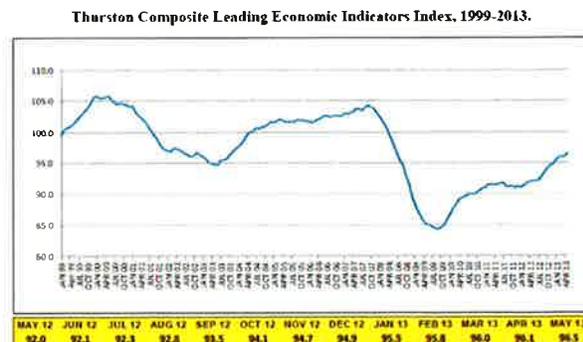
Current office and commercial market conditions in Olympia provide a good synopsis and overview of the county's overall conditions. Current commercial rates are not high enough to justify the

construction/development of larger commercial properties for the market. Office rents in the downtown core have shown a decline in rents per square foot. This decline has been fairly dramatic since 2009, with rates of \$19.60 per square foot down to \$12.10 per square foot in the current market. Retail rental rates continue to trend with office rates. While overall,

Thurston County's economy has stabilized since the dramatic drop of 2008/09 represented by an increase in personal wages and the stabilization of unemployment rates. No new capacity or market demand has been added to Thurston County since 2008 – meaning that we have not seen an expansion of our primary employer – and in fact have seen a continued retraction of our region's major employer – state government. The bubble chart found above is a data description of Thurston County's major economic sectors – with growth trends. State government can be found at the declining and reducing quadrant at the upper left corner – indicating a continued shedding of wages and overall reduction of wages contributed to the regional economy. Also of note is that the major sectors showing growth are the relatively lower wage and total employment sectors. This is indicative of a regional market that has extra capacity built in and until that capacity decreases, will likely result in the continuation of these trends.



There is no mistaking the fact that the county's economy has stabilized and is rebounding from the impacts of a national recession. The current Thurston County Economic Vitality Index (EVI) shows a steady increase in the strength of the region's economy. The most current data for the EVI stands at 96.5 – see EVI chart at right – 2<sup>nd</sup> quarter 2013. This continues the upwards trend of the local economy from the bottom of 84.5. Another item of note is the dramatic drop-off in the fall of 2007, early 2008 representing the local impacts of the national recession. The chart clearly indicates just how far the local market and economy dropped – and is analogous of the economy falling into a 10 foot hole, and climbing half-way back up the drop-off.



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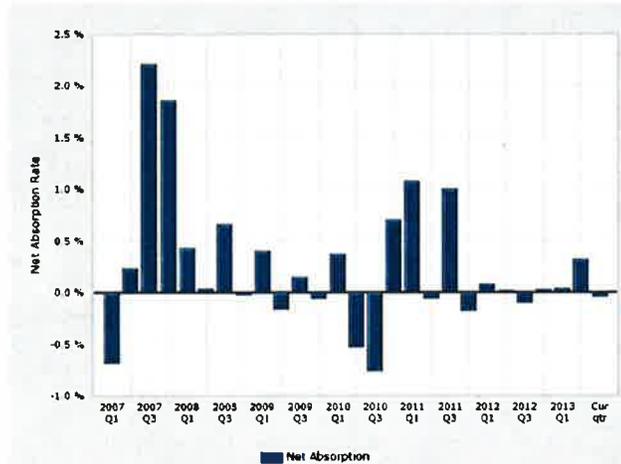
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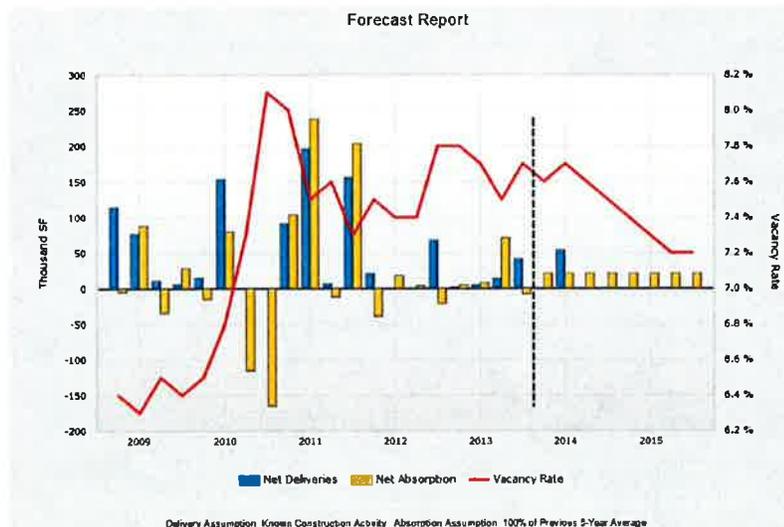
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Currently the net absorption rates for commercial/retail space continues to be at less than 1% countywide. The above discussion and presentation of the market trends indicate that the development of new products onto the market may be challenging both in terms of financing and securing tenants (occupants or employers). The ten year trend line of net commercial/office absorption for the countywide market is a downward angle for net absorption. It has stabilized but is certainly not as dynamic as we would like to see. The graph to the right shows net



absorption since 2007. Any new product such as Briggs Village, brought onto the market will have to be competitively priced and sized to meet the current market conditions of proposed development. It is fairly unrealistic that a larger sized commercial/retail space as originally proposed will be received by the market competitively – and or even financed given the realities of the market. It is incumbent to ensure that the proposal of reduced space is well within the market conditions and reality of future demand.

When looking at future demand for Olympia or Thurston County based commercial real estate development we must be cognizant of the forecasted demand and projected absorption. We have ran a 10-year forecast report – see chart to the right – for Thurston County. Net absorption is indicated by the gold bars which



shows a fairly flat pattern through the year 2015. It should be noted that a great majority of the absorption seen in years prior was predicated upon demand by state government – which as discussed earlier, has diminished. Throughout Thurston County there are currently a number of new projects being planned and marketed. It is

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imperative that Briggs Village, given its unique characteristics of planned residential in concert with a vibrant commercial district - be correctly sized. If it is, then both the residential and commercial components will be the vibrant and dynamic development as originally envisioned and planned for.

**Conclusion:**

The EDC is a strong proponent of urban development – right-sized development for our market can and will be very strong and an asset to the overall economic performance of the region. As such, and given the above quoted data and research, we encourage the City to approve the proponent's proposal to reduce the commercial/office/retail space of the development. Such a reduction will allow the project to meet its original goals for a vibrant planned urban village.

Please do not hesitate to contact me if we can provide anything further.

Sincerely,

**Michael Cade**  
Executive Director