

EXHIBIT TWO

Briggs Village Commercial Market Demand Study

November 27, 2023

KEY FINDINGS

- A population of **12,900 in the Briggs Village trade area** currently generates \$38.8 million annually in grocery spending.
- Competitive grocery supply exists primarily at Little Rock Road in Tumwater and Little Prairie Center in Lacey.
- Retail gap analysis indicates some grocery spending leakage in the Briggs Village area and potentially some demand for a specialty grocer; however, the quantifiable demand **falls well short of supporting a minimal amount of square feet** for a viable small grocery store.
- The trade area household composition of Briggs Village **does not align well with analogous trade areas** for other specialty grocery anchored retail developments.
- Prevailing sentiment among interviewed brokers and stakeholders with local knowledge of the Briggs Village market suggests that the trade area is not viable for a small grocery format and is challenging for retail uses more broadly.

INTRODUCTION

Background and Purpose

Briggs Town Square Holding Corp. seeks objective, third-party analysis of present demand for commercial space in Briggs Village, a planned development in Olympia, Washington. The analysis will inform discussions and deliberations regarding the density of development across Briggs Village, and the type of commercial businesses suitable to locate at Briggs Village. Density decisions will affect other land uses on-site, most notably parking requirements, which also tie to commercial demand considerations. Moreover, the City of Olympia has requested a grocery store as one of the commercial uses to include in Briggs Village. An assessment of market support for a small grocery at Briggs Village is included in this analysis.

Methods

This analysis draws on existing data sources to assess the demand for commercial services at Briggs Village. Data sources include published demographic and consumer behavior data from ESRI Business Analyst and

real estate market data from CoStar. Demand for various retail offerings is gauged via a gap analysis of retail demand and supply for a variety of retail types. An additional analog analysis also assesses the viability of a grocery store at Briggs Village based on comparable mixed-use developments with small-format specialty grocery stores in the state.

Organization of Report

- Briggs Village Development Plan
- Market Conditions for Commercial Development
- Demand Analysis

BRIGGS VILLAGE DEVELOPMENT PLAN

The following section provides an overview of the Briggs Village development plan. The location of Briggs Village within the Olympia market is detailed, followed by breakdowns of both residential and commercial space from the most current development plans.

Briggs Village: Apartments, Amenities, and Future Growth

Located at the southernmost edge of the city of Olympia, Washington, Briggs Village is a mixed-use development that sits at the junction of Henderson Boulevard and Yelm Highway, ideally positioned for residents to access a variety of local amenities, including Ward Lake, Hewitt Lake, Olympia Dog Park, Kettle View Park, and Pioneer Park. The development is located approximately 1.2 miles east of the I-5 corridor, 2.2 miles southeast of Downtown Olympia, and approximately 2.5 miles northeast of the Olympia Regional Airport.

The development plan for Briggs Village has gone through several iterations. The most current site plan specifies that the development will include 1,250 total residential units. Of these residential units, 223 will be single-family, with 135 detached units and 88 townhomes. Another 847 units will be multifamily, with 24 duplexes, 699 apartments, and 124 mixed-use units over commercial space. The remaining 180 units include 54 accessory dwellings and 126 multi-family units adjacent to the Village Square.

Current and Future Commercial Uses

Parking stalls have been allotted in the Briggs Village development plan for both residential and commercial space. A breakdown of these space allotments is provided in **Exhibit 1**. In total, Village Center parking will include 838 stalls. The majority of these stalls are allocated to off-street parking. Additional parking stalls are allotted to the YMCA and to the mixed-use district of the development.

Exhibit 1. Briggs Village Parking Allotments

Parking	Stalls
Village Center Off-Street	707
Village Center On-Street	131
YMCA	155
Mixed-Use District	580

Additional space within the development has been designated for commercial uses. A total of 52,500 square feet are allocated for community uses, and 49,700 square feet of this allotment has already been filled by a YMCA fitness club on site. A range of 1,500 to 12,000 square feet is allocated for a grocery store. Other retail and office uses be included as well. Total retail space may occupy between 15,000 and 54,485 square feet. Total office space may occupy between 5,000 and 31,000 square feet. In total, commercial space will total between 78,700 and 144,185 square feet in the Briggs Village development.

This abundance of commercial space warrants an analysis of which uses may be optimal for the Briggs Village development. The following section discusses the potential for office and retail uses to succeed at Briggs Village and informs a later analysis of retail leakage to identify how the Briggs Village trade area, and Thurston County at large, may be currently underserved based on retail supply and demand across a variety of sectors. Particular focus will be given to the potential for a new grocery store at the development.

MARKET CONDITIONS FOR COMMERCIAL DEVELOPMENT

The following section provides essential context for understanding the commercial real estate market surrounding Briggs Village. CoStar data is sourced to analyze real estate markets for retail and office spaces in Thurston County, Olympia, Tumwater, and Lacey.

Office Uses

The decline of office space in central business districts resulting from the COVID-19 pandemic and its aftereffects has been well-documented, both in

economic research^{1 2} and in mainstream media coverage^{3 4}. Workers who would previously commute into downtown areas have settled into new rhythms of productivity from the comfort of their homes, with little evidence suggesting they will return to the office anytime soon without a mandate from leadership. This seismic shift in where and how work is done has spurred the decline of office real estate in urban environments across the country. The Seattle region leads the country in reticence to return to the office⁵.

The adversities facing office real estate, by contrast, have been milder in the Olympia market. **Exhibit 2** shows quarterly office market rents and vacancy in both King County and Thurston County from 2007 to present. Though rents are, expectedly, much higher in King County than Thurston County, both counties exhibit an increasing trend in office rents, even in the midst of the COVID-19 pandemic. Where these markets differ directionally is in vacancy. Seattle has experienced exponentially increasing office vacancy over the course of the pandemic, driven by reactive work-from-home policies and, commensurately, decreased demand for space. Conversely, Thurston County has managed to keep office vacancies relatively low over the course of the pandemic.

¹ <https://siepr.stanford.edu/publications/policy-brief/donut-effect-how-covid-19-shapes-real-estate>

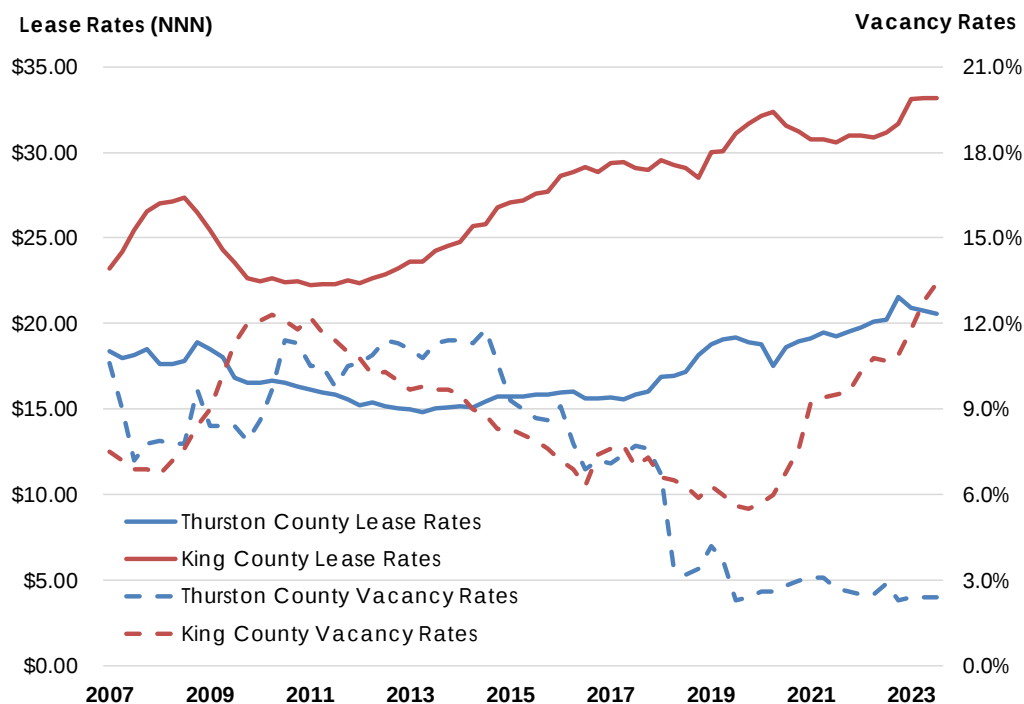
² <https://www.brookings.edu/articles/to-recover-from-covid-19-downtowns-must-adapt/>

³ <https://www.nytimes.com/2022/11/17/business/office-buildings-real-estate-vacancy.html>

⁴ <https://www.nbcnews.com/business/economy/empty-office-buildings-downtown-what-happened-rcna77443>

⁵ <https://www.seattletimes.com/business/seattle-area-office-market-makes-painful-adjustments-to-post-covid-normal/>

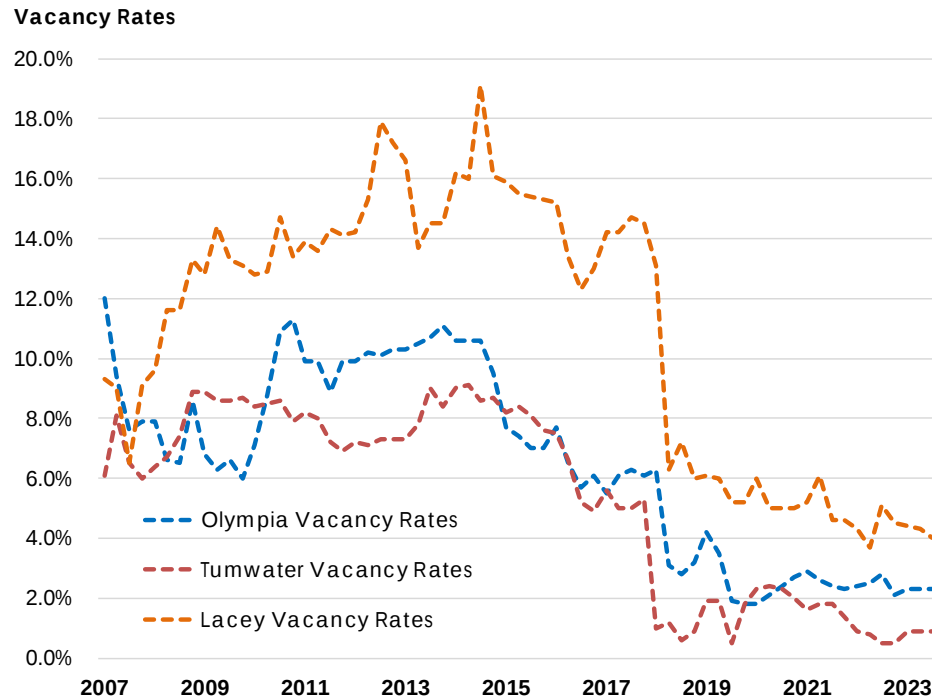
Exhibit 2. Office Vacancy & Rents: King County vs. Thurston County



Sources: CoStar, 2023; Community Attributes, 2023.

The apparently low office vacancy maintained by Thurston County is not attributable to the more exurban or rural parts of the county masking a declining narrative. In fact, breaking out office rents and vacancy for the three central cities in Thurston County: Olympia, Tumwater, and Lacey, reveals that these trends hold even for the more urbanized areas of the market. **Exhibit 3** shows office vacancy rates for Olympia, Tumwater, and Lacey from 2007 to present. Office vacancy in Olympia increased dramatically in the years following the 2008 financial crisis, but began a sharp downward trend after 2014. Tumwater's office vacancy dipped slightly in the early 2010s, but rose again before declining in tandem with Olympia after 2014. Office vacancy in Lacey spiked dramatically after the financial crisis, and exhibited dramatic volatility before beginning a general decline after 2014.

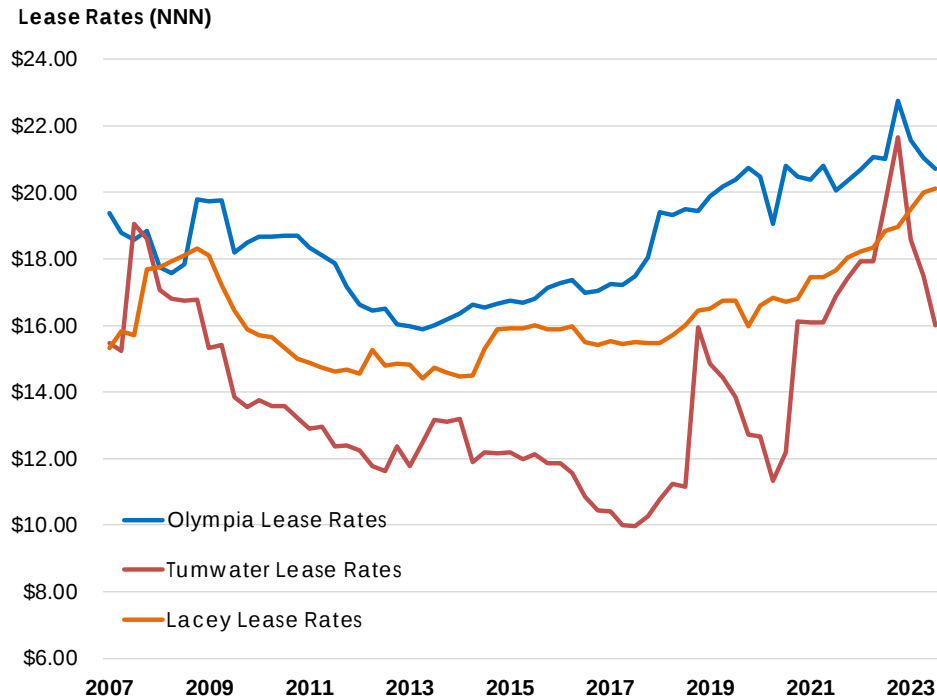
Exhibit 3. Office Vacancy Rates: Olympia, Tumwater, and Lacey



Sources: CoStar, 2023; Community Attributes, 2023.

Breaking out office space rents by city also reveals trends that were not present in the Thurston County data in aggregate. **Exhibit 4** shows office rents from 2007 to present for Olympia, Tumwater, and Lacey.

Exhibit 4. Office Rents: Olympia, Tumwater, and Lacey



Sources: CoStar, 2023; Community Attributes, 2023.

Rents across all three cities do appear to follow a general trend of decline through the early 2010s, with rents eventually increasing through the latter half of the decade through to 2023. Tumwater exhibits markedly greater volatility in rental rates than Olympia and Lacey, with substantial spikes and valleys in 2018, 2020, and 2022. All markets saw dips in rents during the pandemic, though all three cities have been quick to recover. Notably, since the fourth quarter of 2022, both Olympia and Tumwater have experienced substantial decline in office rents. This decline could signal the beginning of a period of low demand which may, in turn, impact future vacancy. In summation, prevailing trends in office space vacancy and rents paint a very different picture of Thurston County than King County and other cities across the country.

There are a variety of forces that may explain why Thurston County has appeared to be less susceptible to the effects of remote working on downtown office space. Olympia's market for office space is a natural outlier due to the density of government agencies and state organizations based in the city. The state government leases 32% of its office space in the Olympia market, a substantially higher figure than the overall metric of 11% statewide⁶. The

⁶ <https://news.theregistryps.com/washington-state-government-plans-significant-reduction-in-office-space-to-adapt-to-remote-work-trend/>

city has also made efforts to recycle old office buildings into mixed-use developments in recent years⁷.

Retail Uses

The following section defines neighborhood retail centers and presents preliminary data analysis to characterize the retail real estate market in Thurston County. Additional data related to the grocery market is also presented, along with a typology of the competitive grocery landscape.

Neighborhood Retail Centers

Both the city of Olympia and developers are keen to gauge the viability of a variety of retail uses at Briggs Village. Retail may serve as a preferable alternative to office space, as it is less likely to be affected by work-from-home policies outside of central business districts. Retail uses will also boost the gravity of the Briggs Village development, potentially attracting visitors beyond the immediate residents of the center.

Briggs Village may be classified as a neighborhood retail center. Per the Urban Land Institute's *Retail Development Handbook*⁸, neighborhood centers are characterized by an offering of convenience goods that meet the daily needs of a localized trade area. These needs may include foodstuffs, dining, drugs, dollar stores, or other services. Neighborhood retail centers typically range from 30,000 to 100,000 square feet, with a trade area approximated by a 5- to 10-minute drive time, serving between 3,000 and 40,000 people. Roughly half of all neighborhood centers in the country are anchored by a supermarket, and approximately one third are anchored by a drug store⁹. Neighborhood retail centers are also characterized by a noticeable lack of big box stores that tend to locate in power centers or malls to serve much larger trade areas. Neighborhood centers are more likely to feature local offerings to cater to a local market, making them ideal for smaller formats and new concepts. Certainly, with its current offering of fitness facilities, a coffee shop, a dentist office, a taphouse, and an ice cream shop, Briggs Village fits this retail center classification.

Retail Real Estate Market

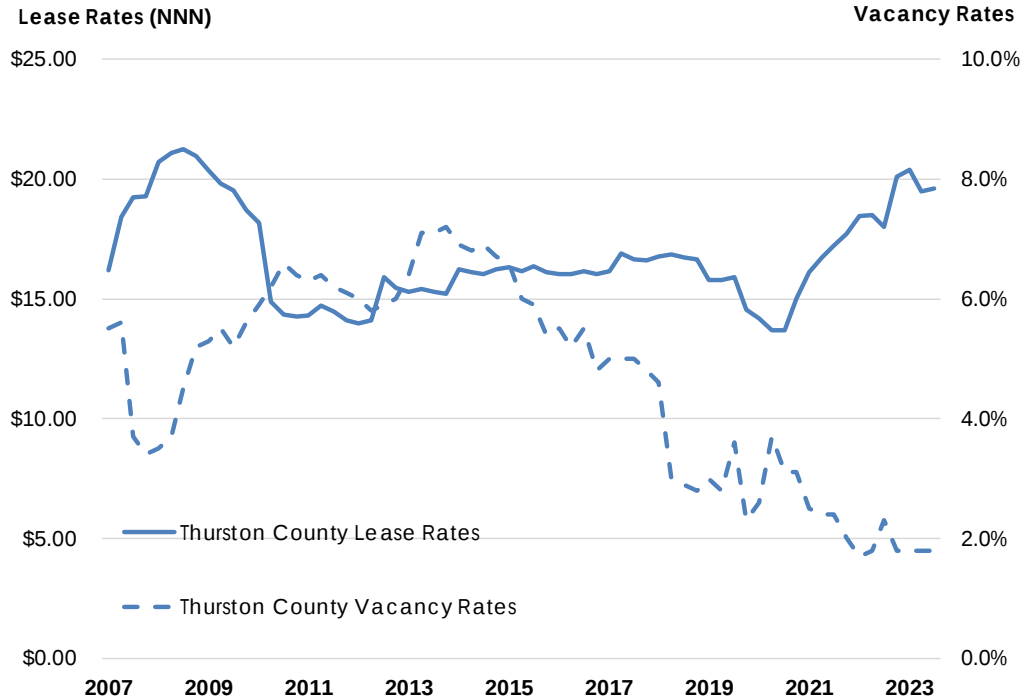
The market for retail real estate in Thurston County has begun to recover from the adverse effects of the COVID-19 pandemic. **Exhibit 5** shows both vacancy rates and rents in the retail real estate market from 2007 to present.

⁷ <https://www.thejoltnews.com/stories/old-building-in-review-for-a-mixed-use-commercial-space-capitol-way-in-olympia,7137>

⁸ Kramer, A. (2008). *Retail development*. Urban Land Institute. (p.10)

⁹ Thrall, G. I. (2002). *Business geography and new real estate market analysis*. Oxford University Press. (p.167)

Exhibit 5. Retail Rents & Vacancy: Thurston County

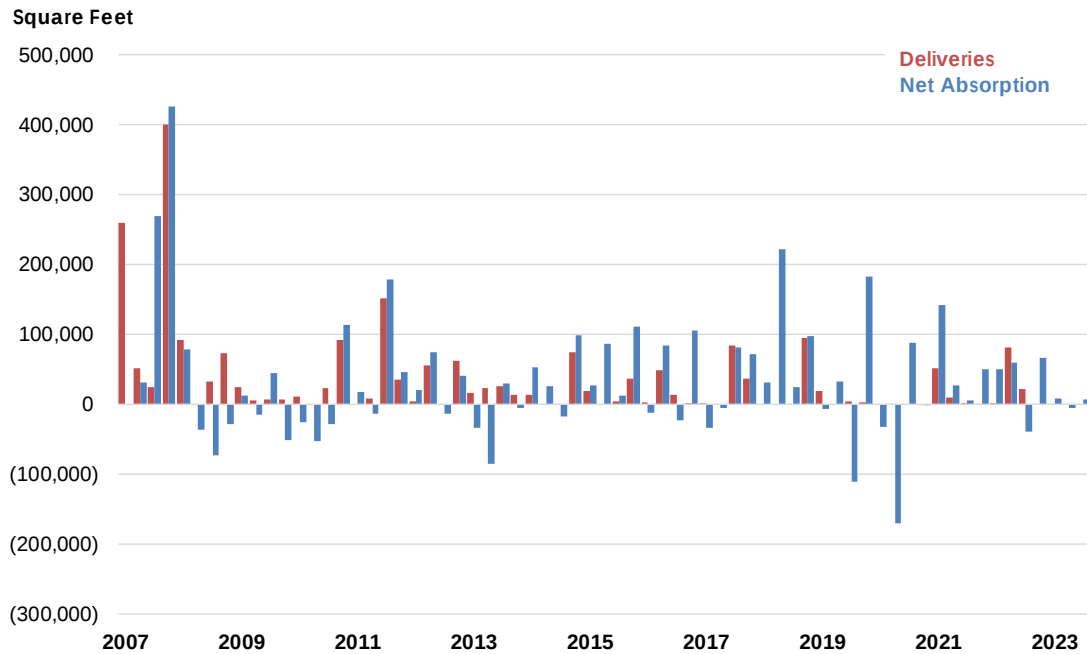


Sources: CoStar, 2023; Community Attributes, 2023.

Vacancy rates for retail properties in Thurston County spiked slightly in 2020 in response to lower traffic to many stores, resulting in closures. Vacancy rates, however, have continued a general decline through 2021 and into 2023. Commensurately, rents for retail properties fell during 2020 but have since recovered to their highest levels in over a decade. This signals that demand for retail space in the market is high, with high occupancy across retail centers and landlord's free to negotiate higher rents.

Analyzing net new deliveries and absorption over time further contextualizes the overall health of retail real estate in Thurston County. **Exhibit 6** provides both metrics from 2007 to present. Net new deliveries slowed down dramatically due to the pandemic, and the year 2020 saw no new retail real estate raised in the county. However, since 2022, over 100,000 square feet of retail space has been built. Net absorption was also negative for most of 2020, signaling that more retail space became vacant than occupied at the onset of the pandemic.

Exhibit 6: Retail Deliveries & Absorption: Thurston County



Sources: CoStar, 2023; Community Attributes, 2023.

The recovery of the retail market in Olympia, in particular, has been spurred by new private investment to bring new retail and service spaces to the downtown area. In 2022, The Rants Group oversaw numerous transactions in the downtown area to either break new ground or revitalize urban space to support new retail and service concepts¹⁰. In aggregate, real estate market data from CoStar demonstrates that the market for retail space in Thurston County, while still recovering, is generally healthy. Certainly, the future of retail real estate is more stable than office, as companies continue to allow their employees to work from home.

Retail at Briggs Village

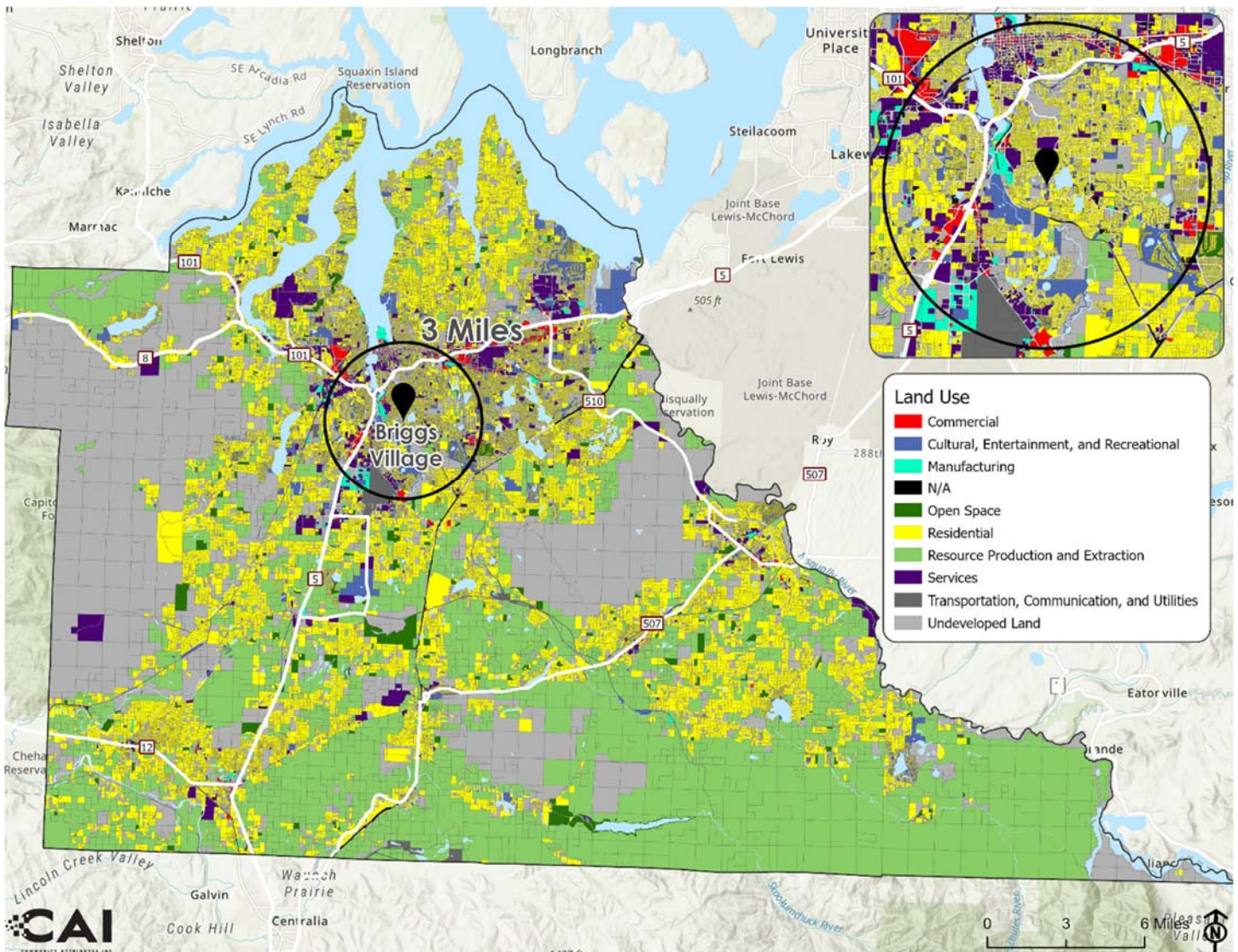
There are several key considerations when identifying new retail to introduce at Briggs Village. Ideally, new retail should appropriately compliment existing tenancy in the center to avoid redundancy in offerings. Some tenants may advocate for exclusions in lease agreements to prevent competitors from co-locating in the same development. Further, new retail at Briggs Village should serve to increase the overall gravity of the center and, by extension, provide an incremental lift in traffic to other stores at the site. Finally, new retailers at the site should cater appropriately to tastes and trends in the market. Careful consideration should be given to the demographics of Briggs

¹⁰ <https://www.thurstontalk.com/2022/09/12/downtown-olympia-flourishes-with-commercial-growth-and-development-from-support-of-the-rants-group/>

Village’s retail trade area. The gap analysis provided in the subsequent section identifies key sectors of retailing that may be underserved in the Briggs Village trade area. Identifying these gaps in the market can inform tenant mix strategy for the development, but the presence of a gap alone does not mean that the space available at Briggs Village offers an appropriate site for in-demand retail.

The current retail landscape of Thurston County is organized into pockets of development concentrated around five centers of regional gravity: Capital Mall, just north of US-101, a regional node in Tumwater along the I-5 corridor, two additional interstate nodes in Lacey, and downtown Olympia. Additional smaller retail developments are scattered throughout the county in more localized neighborhood trade areas. The land use map provided in **Exhibit 7** shows these pockets of commercial activity within three miles of the Briggs Village site.

Exhibit 7. Thurston County Land Use Map



Sources: *Thurston County Community Planning, 2023; Community Attributes, 2023.*

Expectedly, some of the larger retail developments in the market offer a selection of big box stores. A large retail node along Little Rock Road, located adjacent to the I-5 corridor, 1.7 miles southwest of Briggs Village, includes a Walmart Supercenter, Costco, Fred Meyer, Safeway, auto dealerships, and other smaller retail formats. Capital Mall, the largest retail node in the county, includes traditional mall anchors such as J.C. Penney and Macy's. The development also features other big boxes such as Best Buy, T.J. Maxx, and Target. The larger regional retail centers to the northeast in Lacey offer a variety of big box department stores and grocers, including Target, Kohl's, Walmart, Home Depot, and Costco. Downtown Olympia includes a variety of smaller restaurant and retail concepts to service urban residents and drive

foot traffic from the greater city. In contrast to these larger centers of gravity, Briggs Village must offer amenities to serve a more localized neighborhood trade area, with emphasis on convenience and day-to-day needs rather than scale.

As mentioned previously, smaller retail centers can also serve as proving grounds for unique retail concepts that source local products and offer a unique shopping experience to both local residents and visitors. Sand Point Village in northeast Seattle serves as a compelling case study for this phenomenon. Nestled between Laurelhurst, Hawthorne Hills, and Windermere, less than a mile from Wolf Bay, Sand Point Village offers a variety of neighborhood amenities. Key anchors include City People's Mercantile and Ketterman's Sand Point Pharmacy. Both stores place an emphasis on catering to and serving their local neighborhood, with City People's Mercantile offering a boutique variety of home goods, hardware, and novelties. Sand Point Village is also bolstered by several local restaurants and shops, including winter sporting goods and wine. The retail node is surrounded by a mix of both single-family housing, and apartments and condos. This long-standing neighborhood center serves as a potential guidepost for the future development of Briggs Village into an equally vibrant, locally focused destination.

Grocers and Food-Related Retail

The City of Olympia has advocated for the development of a grocery store at the Briggs Village site. The closest grocery store is a 50,000 square foot Safeway at Tumwater Center, 1.1 miles northwest of Briggs Village. The remaining grocery stores in the market all require more than a 5-minute drive from Briggs Village to reach.

Thurston County is home to a diverse ecosystem of grocery stores. Each grocery type differs in its product assortment, footprint, trade area size, and value proposition. The largest grocery stores include supercenters and wholesale clubs such as Walmart and Costco. The second largest type are traditional supermarkets such as Albertson's and Safeway. Another type encompasses specialty chains, local co-ops, and farmstands. These grocers tend to be smaller in size, and emphasize locally and ethically sourced products, experiential retailing, and fresh organic produce. Another type of grocer is ethnic stores. Thurston County has several stores that cater specifically to Asian and Hispanic segments of the population. In this grocery typology, an "other" category includes discount grocers such as Grocery Outlet and restaurant supply outlets such as CHEF'STORE. These other formats are less frequent in the Thurston County grocery landscape. A complete review of the grocery ecosystem in Thurston County is provided in **Exhibit 8**.

Exhibit 8. Thurston County Grocery Landscape

Grocery Type	Units	Footprint	Median Footprint	Value Proposition	Banners
Supercenter or Wholesale club	9	94K - 200K ft ²	157K ft ²	<i>Buy-in-bulk discounts, massive selection, on-site service offerings – often found in regional power centers</i>	Costco, Walmart, Fred Meyer, Target
Traditional Supermarket	15	33K - 100K ft ²	50K ft ²	<i>Traditional produce, frozen, and dry goods offering – often found in neighborhood centers or regional power centers</i>	Safeway, Albertson's, Haggen, QFC
Specialty Grocer	7	3.3K – 16K ft ²	5.7K ft ²	<i>Specialized offering of local, ethically-sourced foods, emphasis on fresh, natural foods, typically higher price points</i>	Olympia Farmer's Market, Olympia Co-op, Spud's Produce, Trader Joe's
Ethnic Grocer	5	2.7K - 15K ft ²	8.3K ft ²	<i>Offering catering to prevailing demographics, import and specialty goods from specific nation or region</i>	Airang Oriental Market, Hong Phat Market, Tenino Fresh Market
Other	6	1.6K - 30K ft ²	21K ft ²	<i>Includes restaurant supply stores, discount grocers, and a local convenience store</i>	CHEF'S STORE, Grocery Outlet Short Stop

Sources: ESRI Business Analyst, 2023; Google Earth, 2023; Community Attributes, 2023.

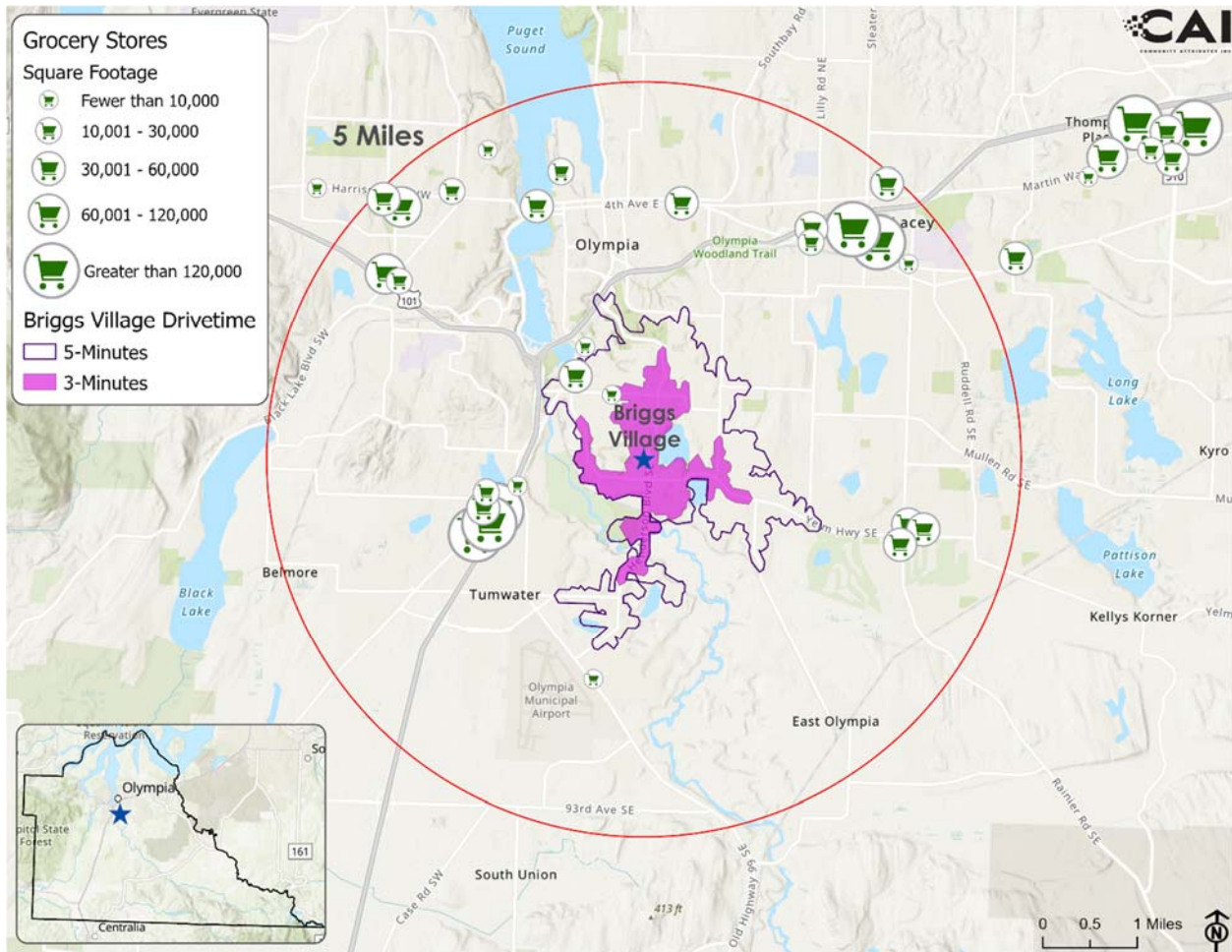
With the exception of supercenters and wholesale clubs, any of the above grocery types could serve as a neighborhood grocery for a localized trade area, assuming the footprint of the store is compatible with the site and the demographics and demand of the market will ensure acceptable store performance. While a neighborhood grocer may be assorted to serve the grocery needs of a localized trade area population, it may, alternatively, serve as a compliment to an existing grocery offering. This is especially true for ethnic and specialty grocers. These formats are uniquely equipped to offer specialty products that may compliment the offerings of a larger supermarket or supercenter that already exists within the market. It is not uncommon to find specialty grocers like Trader Joe's near Costco locations¹¹. With this complimentary offering, customers are able to purchase essential goods and

¹¹ Reed et al. (2023). Evaluating the factors influencing the location strategies of specialty grocers versus traditional supermarkets in the United States. *Applied Geography*, 158, 103034.

general merchandise at the wholesale club, and additional specialty items at the specialty grocer.

The map provided in **Exhibit 9** shows Briggs Village's trade area, and the competitive supply of grocery stores surrounding the development. The Briggs Village trade area stretches to the north and the west, encompassing primarily residential neighborhoods. To the south and east, the trade area is cut by intervening physical geography. Tumwater Valley Golf Club and the Deschutes River create a natural border to the trade area, making it inconvenient for residents of Briggs Village to easily access the interstate. A single grocery store is located within the Briggs Village trade area, a 50,000 square foot Safeway supermarket at Tumwater Center. Five additional grocers are located at a large regional node along the I-5 corridor: CHEF'STORE, Costco, Walmart, Fred Meyer, and Safeway. An additional community retail node to the west offers a Safeway, Walmart Neighborhood Market, and QFC supermarket. Certainly, there are many food store options available to Briggs Village residents and surrounding neighborhoods, but only one supermarket is conveniently located within 5 minutes of the development. An additional convenience store, Short Stop, sits approximately 0.75 miles northwest of Briggs Village. This store is less than 2,000 square feet with a limited offering of convenience items.

Exhibit 9. Briggs Village Grocery Competitive Landscape

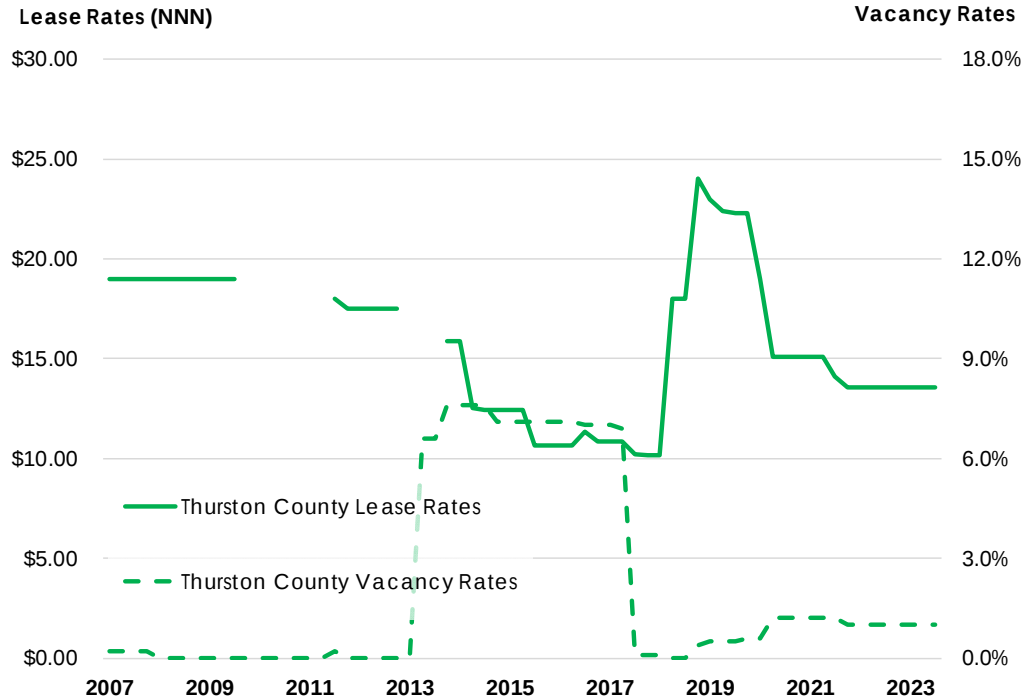


Sources: ESRI Business Analyst, 2023; Community Attributes, 2023.

Grocery Real Estate Market

CoStar real estate market data allows for the analysis of sub-types of retail real estate for certain retail uses. Data for supermarket real estate in Thurston County is available from 2007 to present. However, there are some gaps in the data. **Exhibit 10** provides lease rates and vacancy among Thurston County supermarkets.

Exhibit 10. Supermarket Rents & Vacancy: Thurston County



Sources: CoStar, 2023; Community Attributes, 2023.

Rent rates in Thurston County for supermarket spaces have followed a gradual decline after the 2008 financial crisis but spiked dramatically in 2018. Rents appear to decrease again in response to the COVID-19 pandemic and, potentially, in response to increased omni-channel activity in the grocery sector and retail at large. Vacancy rates in supermarket real estate have remained relatively low since 2007, signaling a market that is, for the most part, either adequately serviced or under-serviced, with a healthy grocery market where supermarkets are performing strongly.

DEMAND ANALYSIS

The following analysis section gauges the potential for a variety of retail types to succeed at Briggs Village based on a gap analysis of current retail supply and demand. An additional analysis of analogous neighborhood retail centers with grocery anchors is also provided to further analyze the potential for a grocery format at Briggs Village.

Stakeholder Perspective on Market Demand

CAI interviewed a licensed real estate broker to obtain a qualitative assessment of market conditions and potential support for various uses at the

Briggs Village site. The interviewee indicated that observed traffic counts are relatively low and limit exposure for tenants at Briggs Village. According to the interviewee, traffic counts along Yelm Highway are significantly higher, and yet would still offer limited support for a grocery or supermarket. The most visible site within the Briggs Village commercial area, and the site best-suited to retail activity, is already occupied by a YMCA. To the extent that the site could serve and support any food and beverage-related retail, the interviewee indicated that a smaller but established restaurant may be feasible, although these tenants typically prefer greater proximity to a regional mall (or similar retail anchor). Ultimately, the interviewee concluded that even if there is some unmet demand for a grocer or similar uses, the Briggs Village site is not a location that is well-suited to satisfy that demand.

Further discussion with stakeholders also revealed that a conventional 5-minute drive time trade area that may normally be appropriate for a neighborhood retail node like Briggs Village may not accurately reflect the market conditions and low gravity the of Briggs Village site.

Grocery

Gap Analysis

Gap analysis is designed to determine whether a given market or geographical area is underserved by its current retail offering. In this analysis, retail supply and demand are measured for various retail store or product types. Supply and demand are captured through retail sales and consumer expenditure, respectively. Retail sales by NAICS code for the Briggs Village trade area (5-minute drive time) and for Thurston County are sourced from ESRI Business Analyst. Consumer spending by product is also sourced from ESRI Business Analyst. CAI aggregated and analyzed this data for retail sectors in both market areas. A demographic overview of the Briggs Village trade area at various scales is provided in **Exhibit 11**.

Exhibit 11. Briggs Village Trade Area Composition

	3-Minute Drive Time	5-Minute Drive Time	Thurston County
Total Population	3,482	12,904	306,125
Population Density (per acre)	3.9	4.6	0.6
Median Household Income	\$107,891	\$96,240	\$83,130
Median Home Value	\$471,702	\$453,969	\$436,776
Population Over 65	21%	21%	19%
Average Household Size	2.63	2.55	2.51
% Owner-Occupied Housing	75%	74%	66%
% Renter-Occupied Housing	21%	23%	30%
% Black Population	1%	2%	3%
% Hispanic Population	7%	7%	11%
% Asian Population	9%	9%	6%

Sources: ESRI Business Analyst, 2023; Community Attributes, 2023.

The residential area surrounding the Briggs Village development has higher household incomes than Thurston County overall. As the trade area is reduced from 5-minutes to a more conservative 3-minute drive time polygon, household incomes continue to increase incrementally. Further, the Briggs Village trade area has a slightly higher senior population relative to the county overall. The majority of housing units in the trade area are owner-occupied, with pockets of both Asian and Hispanic consumers present in the trade area.

Retail demand (expenditure) and market supply (sales) data are provided in **Exhibit 12**. The Sector column provides a list of retail sectors within the market. The Sales column captures total retail sales reported by local retailers. The Spending column records how much consumers spent. The Gap field reports total surplus or shortage. Retail sectors are experiencing shortage (or leakage) when consumer demand exceeds market supply. Conversely, a sector is experiencing a surplus when market supply exceeds demand. Retail leakage indicates that consumers are travelling beyond the trade area or market boundary to consumer a particular good or service. Conversely, the incidence of surplus may signal that retail sales within the market are being generated beyond the trade area itself because spending exceeds what would be expected based on resident buying power alone.

Exhibit 12. Retail Gap Analysis

Sector	Briggs Village: 5-Minute Drivetime			Thurston County		
	Sales	Spending	Gap	Sales	Spending	Gap
Motor Vehicles/Parts	\$381,000	\$22,223,000	-\$21,842,000	\$1,139,243,000	\$478,802,000	\$660,441,000
Furniture	\$2,969,000	\$23,136,000	-\$20,167,000	\$92,527,000	\$478,623,000	-\$386,096,000
Electronics/Appliances	\$0	\$6,066,000	-\$6,066,000	\$105,524,000	\$127,694,000	-\$22,170,000
Building Materials/Gardening	\$1,307,000	\$14,745,000	-\$13,438,000	\$452,479,000	\$349,289,000	\$103,190,000
Food & Beverage	\$37,035,000	\$42,605,000	-\$5,570,000	\$756,758,000	\$901,602,000	-\$144,844,000
Health/Personal Care	\$2,025,000	\$48,917,000	-\$46,892,000	\$177,911,000	\$1,026,229,000	-\$848,318,000
Fuel Stations	\$8,029,000	\$13,284,000	-\$5,255,000	\$309,580,000	\$296,604,000	\$12,976,000
Clothing/Accessories	\$745,000	\$12,747,000	-\$12,002,000	\$108,722,000	\$264,052,000	-\$155,330,000
Sports/Hobby/Misc	\$2,397,000	\$3,117,000	-\$720,000	\$462,516,000	\$66,631,000	\$395,885,000
Arts/Entertainment/Rec	\$803,000	\$2,929,000	-\$2,126,000	\$187,330,000	\$55,490,000	\$131,840,000
Food/Drink Service	\$7,109,000	\$20,549,000	-\$13,440,000	\$376,346,000	\$437,614,000	-\$61,268,000
Total	\$62,800,000	\$210,318,000	-\$147,518,000	\$4,168,936,000	\$4,482,630,000	-\$313,694,000

Sources: ESRI Business Analyst, 2023; Community Attributes, 2023.

Retail demand and supply for the grocery sector is captured in the Food & Beverage row of **Exhibit 12**. The Briggs Village trade area exhibits a modest shortage of about \$5.6 million. This leakage is equivalent to 13% of total food and beverage spending, and is relatively small compared to other sectors captured in the analysis. It signals that the majority of consumers within the trade area are getting their grocery needs met by offerings within the trade area, presumably the Safeway supermarket at Tumwater Center.

We may gauge how much food store space could be supported by this \$5.6 million leakage using a key grocery statistic: sales per square foot. The average grocery (a supermarket) sees \$500 in sales per square foot^{12 13}. Assuming this metric holds for the Briggs Village trade area, \$5.2 million in leakage could, theoretically, support an 11,000 square foot supermarket (assuming no sales transfer from the Safeway at Tumwater Center and no incremental lift in spending). Even if those assumptions are relaxed, this footprint is not sustainable for a traditional supermarket, and is far smaller than most prototypes. It is possible, however, that the current retail leakage could support a smaller specialty grocery format, if the site met other locational criteria for the operator. Specialty grocery stores are assumed to make approximately \$600 per square foot^{14 15}. At this rate, Briggs Village could, theoretically, support a 9,200 square foot specialty grocery store. This footprint is reasonable for a specialty grocer. It should be noted that the presence of Short Stop on North Street less than a mile northwest of Briggs

¹² <https://progressivegrocer.com/jll-report-fresh-value-key-grocery-future>

¹³ <https://smallbusiness.chron.com/industry-standard-gross-margin-groceries-38121.html>

¹⁴ <https://www.glenview.il.us/Documents/Bess%20Site/10.a%20Bess%20Sale%20-%20PSA%20-%2006-19-18.pdf>

¹⁵ <https://www.downtownnorthville.com/download/7144/Retail%20Market%20Study.pdf>

village would hamper the potential market penetration of a small convenience store, cutting off the trade area substantially to the north.

While this analysis of supportable retail space is informative, it does little to account for the actual composition of the Briggs Village trade area. When assessing the viability of any store, geodemographics and analogs should be considered. The following analysis adds an additional level of nuance to the gap analysis by benchmarking the potential 9,200 square foot grocery location at Briggs Village against comparable neighborhood grocery nodes across the state that also feature a specialty grocer or specialty food store.

Analog Trade Area Analysis

While the gap analysis does point to retail leakage in the Briggs Village trade area that may support a 9,200 square foot specialty grocery store, further analysis is required to understanding if the demographic composition of the trade area is appropriate to attract a specialty grocer to the Briggs Village site. To gauge this, analogous neighborhood retail centers featuring small specialty grocery stores were surveyed throughout the state of Washington. Three appropriate analogs were identified: Harbor Greens at University Place, Harbor Greens at Gig Harbor, and Trader Joe's in Spokane.

Harbor Greens, located on Bridgeport Way in University Place, serves as an appropriate analog to Briggs Village for this analysis due to its similar store size (10,300 square feet), its specialty grocery offering, and its small, localized retail trade area. The store is located near several apartment complexes, similar to Briggs Village. The Harbor Greens store in Gig Harbor sits along Olympic Drive in a small mixed-use development. The store is co-located with a coffee shop, gym, and dentist office – a very similar tenant mix to the current Briggs Village roster. At 11,000 square feet, this specialty grocery anchor is a potential guidepost for the kind of grocer that might succeed at Briggs Village. The final analog is a Trader Joe's location in Spokane. The store sits adjacent to several smaller apartment complexes, covers a trade area that is largely residential, and at 13,400 square feet, is one of the smaller stores in the Trader Joe's network.

Stacking the key characteristics of each of these trade areas (using the 5-minute drive time polygon for Briggs Village) will reveal how attractive Briggs Village may be as a trade area to a prospective specialty grocer tenant. **Exhibit 13** provides the population, income, and grocery spending per capita for each trade area.

Exhibit 13. Briggs Village Trade Area Analog Analysis

Trade Area*	Trade Area Population	Household Income	Consumer Expenditure (Food At Home)	Spending Per Capita
Briggs Village	12,900	\$96,200	\$38,898,000	\$3,000
Harbor Greens - University Place	33,400	\$83,500	\$106,528,000	\$3,200
Harbor Greens - Gig Harbor	8,400	\$104,000	\$32,196,000	\$3,800
Trader Joe's - Spokane	27,200	\$71,000	\$69,093,000	\$2,500
Average	23,000	\$81,100	\$82,685,100	\$3,600

**All trade areas based on 5-minute drive time polygons*

Sources: ESRI Business Analyst, 2023; Community Attributes, 2023.

An analysis of analogous neighborhood retail developments anchored by small format specialty grocers reveals that the Briggs Village trade area has a population that is too small to support a small grocery store. Median household income levels in the Trader Joe's and University Place Harbor Greens trade areas are substantially lower than Briggs Village. However, these trade areas have much larger populations to offset this difference and drive sales volume.

Harbor Greens in Village Place shows slightly higher spending per capita than Briggs Village. The Harbor Greens location in Gig Harbor has a substantially smaller trade area than Briggs Village in terms of raw population. However, household incomes are almost \$10,000 higher in this trade area. The Gig Harbor location also enjoys seasonal incremental lifts in sales due to tourism and its convenient throughfare location.

In summation, while the gap analysis indicates some grocery spending leakage for the Briggs Village trade area that can potentially support a small specialty grocery footprint, the trade area composition of the Briggs Village development does not align closely enough with analogous developments in Washington to suggest that the development can successfully attract a specialty grocer tenant, or that the tenant will achieve acceptable store performance. This finding signals the need to consider alternative retail types that may succeed in the Briggs Village development.

Retail

Gap Analysis

Grocery notwithstanding, the gap analysis featured in **Exhibit 9** provides additional direction for which types of retail may be most sustainable for the Briggs Village trade area. Expectedly, all retail types are experiencing some degree of leakage in the Briggs Village trade area. This is due to the small size of the area and the limited retail nodes within. It is intuitive that consumers living in this area would need to look elsewhere for many of their

needs, and there are multiple high-gravity retail nodes less than 10 minutes away from the Briggs Village site to cater to those needs.

To accurately identify which leakages may be best filled by retail space at Briggs Village, it is important to consider how leakages shift at the county level. Motor vehicles and parts, building materials and gardening, fuel stations, sports/hobby/miscellaneous, and arts/entertainment and recreation are all sectors experiencing a surplus at the county level. These are types of retail that are unlikely to be underserved in the county. In fact, the analysis suggests consumers are travelling into Thurston County to spend in these sectors. Implicitly, consumers in the Briggs Village trade area may not have a pressing need for products/services in sectors experiencing leakage in the Briggs Village trade area that are still maintaining a retail surplus at the county level. There are retail offerings in these sectors available beyond the Briggs Village trade area in Thurston County.

What is of greater interest here are those retail sectors that are experiencing leakage within the Briggs Village trade area and at the county level. These sectors include furniture, electronics, healthcare and personal care, clothing, and dining. For these retail sectors, the gap analysis signals a more pressing need to increase retail offerings to serve not only Briggs Village consumers, but Thurston County as a whole. These sectors present a greater opportunity to boost the gravity of Briggs Village as a neighborhood retail center by offering stores and services that may potentially draw in consumers from beyond the Briggs Village trade area.

For each of these retail sectors, we may calculate the total square footage of retail space supportable by each shortage. **Exhibit 14** shows the footprint each leakage may support assuming no competitive sales transfer or incremental lift in spending.

Exhibit 14. Supportable Retail Space by Sector

<u>Briggs Village: 5-Minute Drivetime</u>				
Sector	Establishments	Gap	Sales Per Square Feet	Supportable Retail Space
<i>Furniture</i>	2	-\$20,167,000	\$196	102,900
<i>Electronics/Appliances</i>	0	-\$6,066,000	\$387	15,700
<i>Health/Personal Care</i>	2	-\$46,892,000	\$347	135,100
<i>Clothing/Accessories</i>	2	-\$12,002,000	\$247	48,700
<i>Food/Drink Service</i>	14	-\$13,440,000	\$491	27,400

Sources: ESRI Business Analyst, 2023; International Council of Shopping Centers, 2021; Datex Property Solution, 2021; FurnitureToday, 2020; Community Attributes, 2023.

Health and personal care establishments make up the largest gap in the retail market and, commensurately, can support the most retail space in the Briggs Village trade area. This could include doctor's offices or other medical facilities. Furniture also has a large gap in spending that supports retail space equivalent to a large, big box store. However, Briggs Village does not have the capacity for a traditional big box furniture store. Additional gaps for clothing stores and restaurants signal that Briggs Village could allocate additional space to apparel retail or dining, though these stores may prefer a location with higher traffic and better visibility. Finally, a small gap remains in electronics and appliances that can support a small to medium retail footprint. While this footprint cannot support a large box like Best Buy, it certainly can accommodate a smaller electronics store. It should be acknowledged that several of these sectors, namely electronics and furniture, have been adversely affected by changes in consumption patterns driven by e-commerce and the COVID-19 pandemic. These are lines of products that consumers often purchase through digital channels to enjoy lower search costs and a wider variety of products to choose from. Additional research would be required to gauge whether a small furniture or electronics store could succeed at the Briggs Village development in the current retail economy.

FINDINGS & CONCLUSIONS

This report detailed an analysis of potential retail offerings for the Briggs Village development. Gap analysis identifies opportunities by retail type based on current retail supply and demand. While a grocery spending leakage in the Briggs Village trade area can potentially support 9,000 square feet of specialty grocery space, the composition of the Briggs Village trade area does not align well with analogous trade areas that are anchored by similar small specialty grocery stores. This signals the need for alternative types of retail. Based on retail gaps at the county level, the most feasible retail types to introduce at Briggs Village are identified as furniture, electronics/appliances, health and personal care, apparel, or dining. Current leakage in the Briggs Village trade area and prevailing sales per square foot metrics indicate different sustainable footprints for each type. Healthcare and personal care and furniture can support over 100,000 square feet. Apparel can support 48,000 square feet. Dining can support 27,000 square feet, and electronics/appliances can support 15,000 square feet.

Limitations

Retail gap analyses have some key limitations that should be considered. Importantly, the sales and spending data sourced from ESRI Business Analyst does not parse out sales made through online channels. Including this data in the analysis could change overall retail demand and supply in

the market. Gap analysis is also unable to identify the geographic origins of retail shortage or surplus. It is not possible to profile the consumers who are contributing to retail sales for a given market. Further, gap analysis assumes implicitly that all local consumer expenditure is self-contained within the geographic area of interest. For example, a consumer who purchases motor vehicle parts from a store in a neighboring county would still report their expenditure as a resident of Thurston County. This can potentially overinflate consumer demand metrics across retail sectors, particularly for goods that are often purchased on trips, such as dining, clothing, and fuel.

An additional important limitation to consider with regard to the above demand analysis is that, although the gap analysis may signal opportunities for stores in various retail sectors to succeed, the characteristics and composition of the Briggs Village trade area will not necessarily align with the real estate strategies of national banners. Many national and regional chains operate with specific site criteria which are applied to assess the overall viability of a particular location or market. These companies may also work with in-house or third-party analytics teams to model projected performance at prospective sites. Although outstanding retail demand in the Briggs Village trade area could be attractive for a retail chain in theory, there may be other attributes (co-tenancy, square footage, population density, income, competitive landscape, etc.) that will disincentivize chains to consider Briggs Village for a new location.

Finally, it is important to note that the completion of additional units will shift overall market demand and improve the viability of certain retail formats. Currently, Briggs Village is slated for a total of 1250 residential units. The lift in population density provided by these net new units at Briggs Village may yield a lift in demand that could attract a pizzeria, insurance agent, healthcare tenant, or a small food store.