

DATE: October 30, 2015
TO: Leonard Bauer
FROM: Lorelei Juntunen and Erik Rundell
SUBJECT: KAISER/HARRISON SUBMARKET ANALYSIS UPDATE

Introduction

This memorandum provides an update on real estate market trends for the Kaiser/Harrison opportunity area following the findings in the 2013 Opportunity Area Investment Strategy. That report identified the Kaiser Harrison area as an opportunity site needing “catalytic” action to realize its development potential. The report also identified inappropriate zoning and potentially low rents as a barrier to development.

The City has not updated its policies and zoning for the area, which is primarily designated for Professional Office and Multifamily Housing and Medical Services. As a result, this market analysis will support the City of Olympia in updating the comprehensive plan designations and zoning for the area.

In addition, the City of Olympia is looking at constructing new access ramps for Highway 101 at Kaiser Road and an off-ramp at Yauger Way. The project would provide better and more direct access to the Kaiser-Harrison study area and West Olympia. As a result, the project has the potential to affect the market for different uses. Retail uses would be the most likely affected. Better access would broaden the market area for retailers making the study area potentially more attractive for retail uses serving customers outside the local neighborhood.

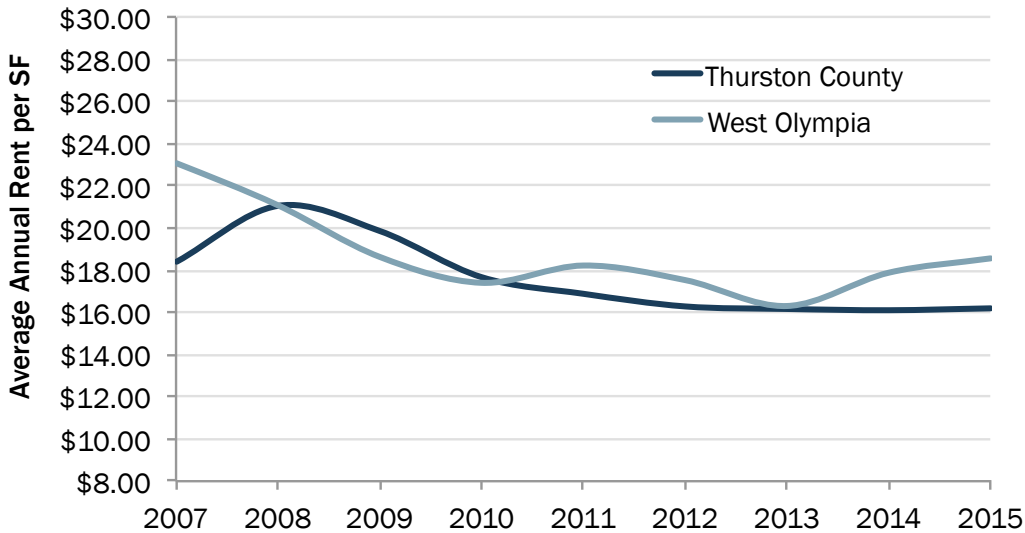
The remainder of the memorandum updates and summarizes rent, vacancy and absorption trends for retail, office, and multifamily uses. Each section focuses on the western Olympia submarket and compares those figures to the regional market, Thurston County in this case.

Retail

Regionally and in western Olympia, the retail market was fairly weak due to the recession. In the last two years both geographies have realized small improvements as the economy has become stronger.

- Average rents for retail space have declined in both Thurston County and the western Olympia submarket from 2008 to 2013.
- As of the second quarter of 2015, western Olympia rents averaged \$18.57 per square foot compared to \$16.20 per square foot in Thurston County.
- Western Olympia’s retail rents have increased over the last two years, while countywide rents have stayed flat.

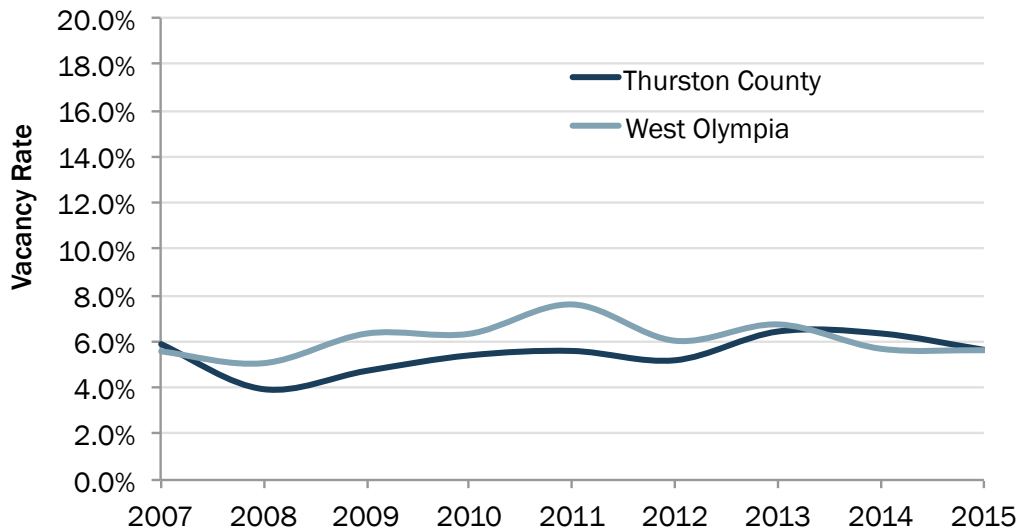
Figure 1. Average Retail Rent per Square Foot, 2007 to 2014, Nominal Dollars



Source: CoStar.

- Retail vacancy rates are about the same as they were in 2007, and they have decreased slightly over the last two years in western Olympia.
- In both Thurston County and western Olympia, the 2015 vacancy rate is 5.6%.

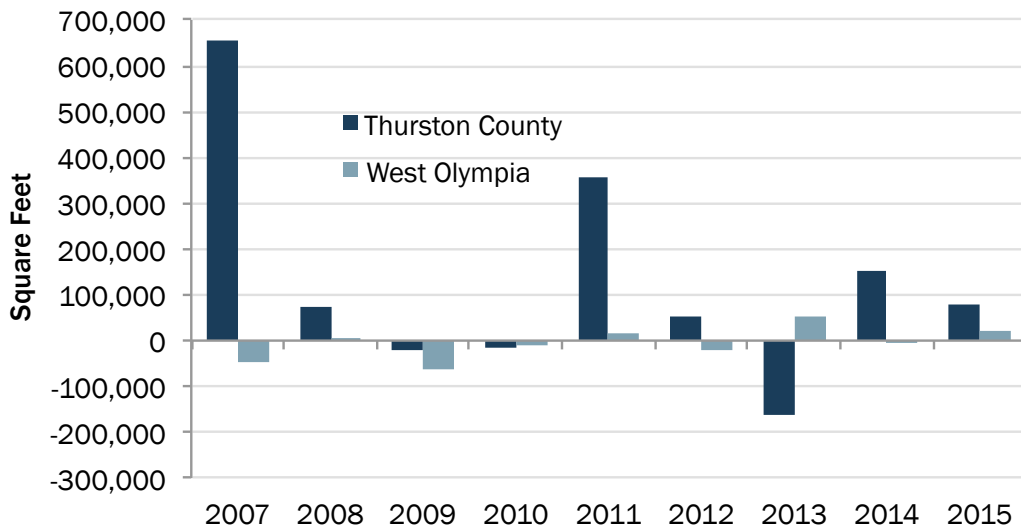
Figure 2. Retail Vacancy Rate, 2007 to 2014



Source: CoStar.

- The market for retail space in western Olympia saw relatively little activity over the period from 2007 to 2014 (Figure 3).
- Western Olympia specifically has had negative absorption of retail space of over 50,000 retail square feet from 2007 to 2015.
- Thurston County absorbed large square feet of retail space intermittently in 2007, 2011 and 2014, likely from new large developments.

Figure 3. Retail Net Absorption (Square Feet), 2007 to 2014



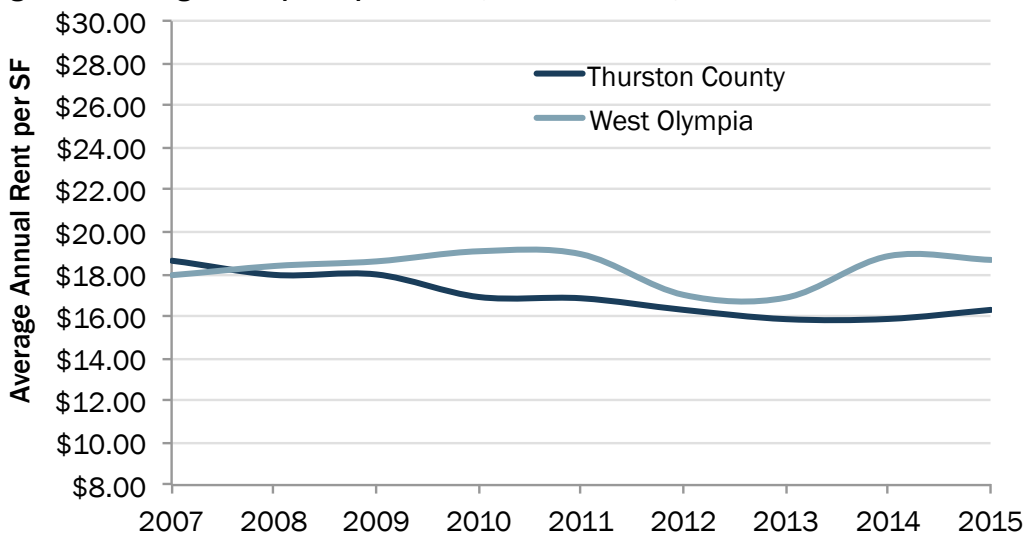
Source: CoStar.

Office

The office market in western Olympia has realized a marked improvement over the last two years with decreasing vacancies and increasing rents. Thurston County overall has realized a similar, but less pronounced improvement.

- Regionally, average office rents have not recovered from the start of the recession.
- Average office rents in western Olympia increased by over \$2.00 per square foot from 2013 to 2014 and have remained relatively flat into 2015.
- As of the second quarter of 2015, Thurston County office space cost \$16.31 per square foot on average compared to \$18.68 per square foot in western Olympia.

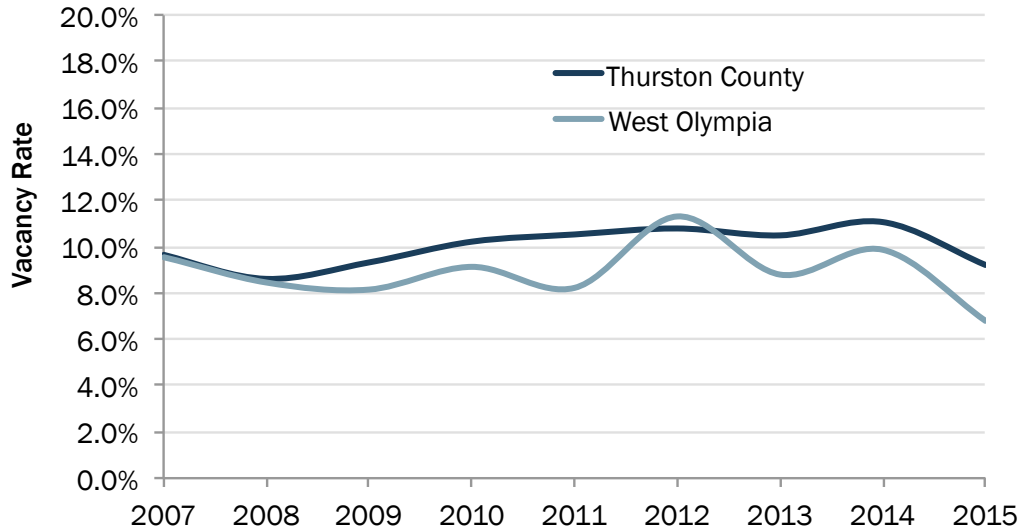
Figure 4. Average Rent per Square Foot, 2007 to 2014, Nominal Dollars



Source: CoStar.

- Office vacancy rates in Thurston County and western Olympia have decreased sharply in the last year.
- Office vacancy rates in Thurston County are 9.2%, which is near their pre-recession level. Vacancy rates in western Olympia are 5.6%, below where they were at in 2007.

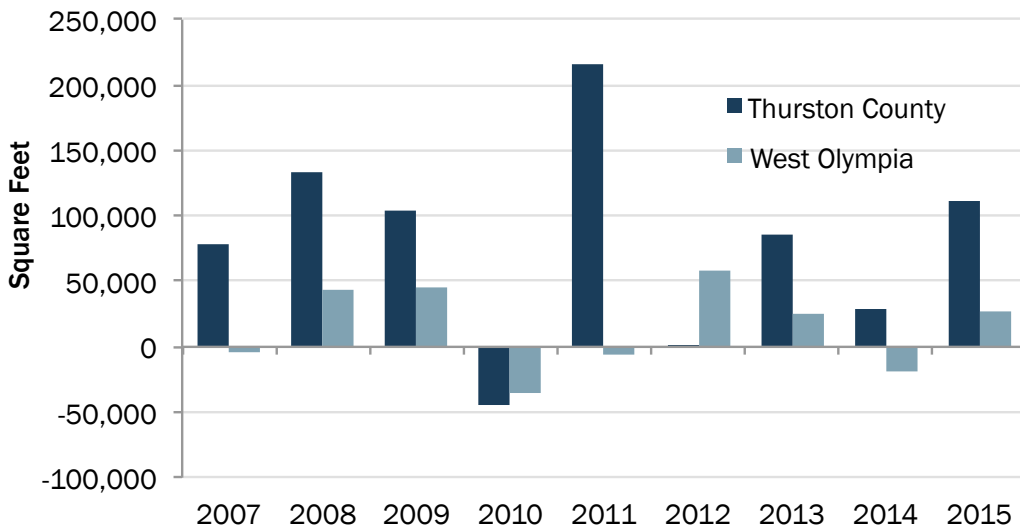
Figure 5. Office Vacancy Rate, Thurston County and Western Olympia, 2007 to 2014



Source: CoStar.

- The office space market in Thurston County had mostly positive absorption from 2007 through 2014, despite small or negative gains in 2010 and 2012.
- Absorption in western Olympia followed a similar trend, however absorption was negative in 2007 and 2014.

Figure 6. Office Net Absorption (Square Feet), 2007 to 2014



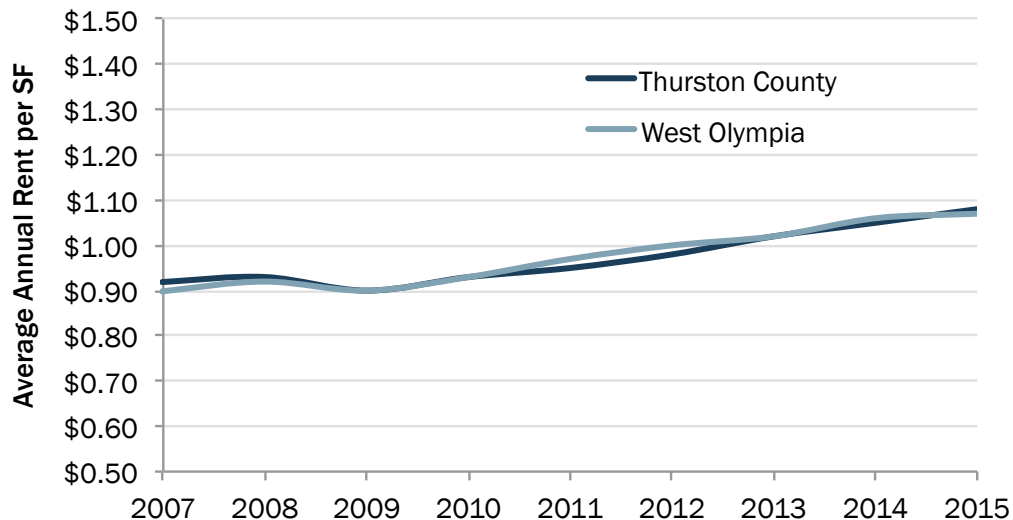
Source: CoStar.

Multifamily

The multifamily market has continued strong growth since 2012 in both Thurston County and the western Olympia.

- Average multifamily apartment rents rose in both Thurston County and western Olympia from 2007 to 2015.
- Apartment rents in both geographies mirrored each other closely and rose from around \$0.90 to around \$1.07 per square foot in 2015.

Figure 7. Average Multifamily Rent per SF, 2007 to 2014, Nominal Dollars

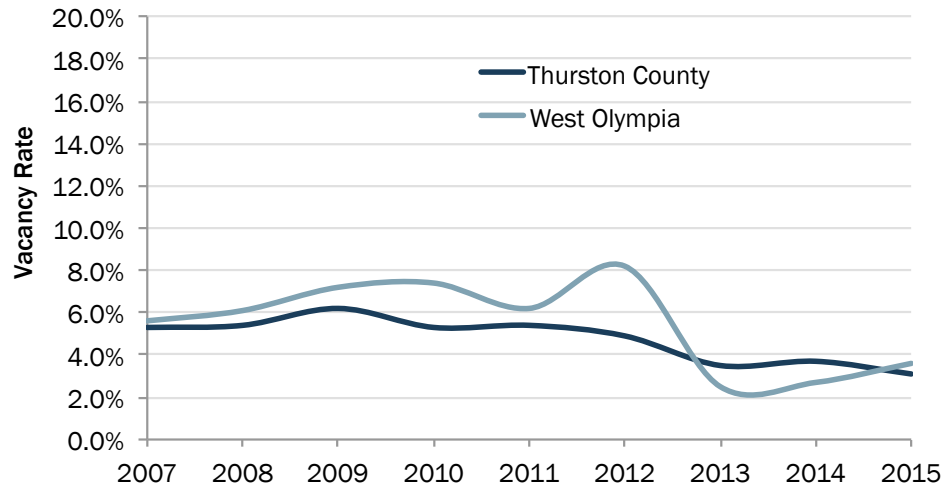


Source: CoStar.

Note: The geographic submarket for western Olympia in this chart differs slightly from that of prior charts and includes areas west of Black Lake Boulevard and west of the city limits. .

- Multifamily vacancy rates have decreased in both Thurston County and western Olympia since the start of the recession in 2008.
- From 2007 to 2015, vacancy rates fell from 5.3% to 3.1% in Thurston County and from 5.6% to 3.6% in western Olympia.
- However, vacancies in western Olympia have increased over the last two years.

Figure 8. Multifamily Vacancy Rate, 2007 to 2014

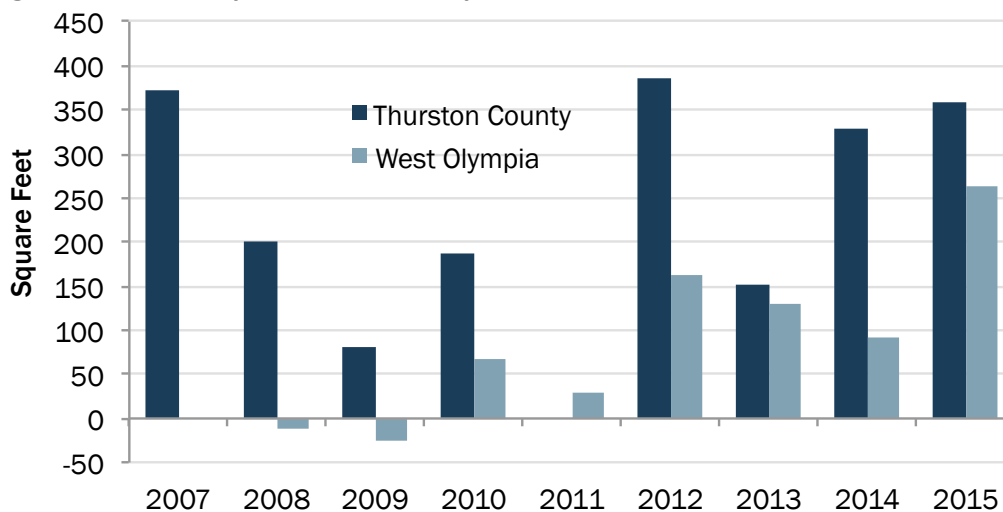


Source: CoStar.

Note: The geographic definition of western Olympia in this chart differs slightly from that of prior charts.

- The multifamily market in Thurston County maintained strong positive absorption from 2007 through 2015.
- Similarly, western Olympia's multifamily market was modestly positive or negative from 2007 to 2011, but saw an uptick that began in 2012 and lasted into 2015.
- In just the first half of 2015, western Olympia absorbed over 250 new apartments units.

Figure 9. Multifamily Net Absorption by Units, 2007 to 2014



Source: CoStar.

Note: The geographic definition of western Olympia in this chart differs slightly from that of prior charts.

Conclusions

The real estate market fundamentals for retail, office, and multifamily housing have improved over the last two years, after a prolonged period of little to no improvement after the start of the

recession in 2008. Multifamily housing in particular has realized sizable growth over the last three years, absorbing 650 new units.

The demand for new retail and office space, and even apartments, in the Kaiser/Harrison opportunity area is less certain. Vacancy rates for all three uses are at or lower than before the recession. Based on the market analysis update, three uses are potential opportunities for the Kaiser-Harrison study area, which are discussed in more detail below.

- **Medical Office.** New medical office space is a potential opportunity for new construction in the Kaiser-Harrison area. The market for office space showed improvement in West Olympia with vacancy rates decreasing below 6 percent. In addition, proximity to the Capital Medical Center is an attraction for medical office uses, and the region's growing and aging population will generate more demand for medical office uses in the future. However, the scale and timing of the possible demand for additional medical office uses is not certain. As a result, this use may be a supplementary use rather than a driver of growth for the area.
- **Multi-Family.** The multi-family rental market has shown strong growth over the last few years. While still low, apartment vacancy rates in West Olympia increased the last two years indicating future demand for additional rental multifamily housing may be waning. Continued regional population growth will generate demand for additional housing. The future demand for the mix of new rental housing versus new owner-occupied housing will affect the form and type of new housing development in West Olympia and the Kaiser-Harrison area specifically.
- **Retail.** Population growth in West Olympia will likely create demand for more locally serving retail uses. The retail market in West Olympia has modestly improved in the last few years; rents have increased and vacancies have decreased. West Olympia has realized little new retail development as the area has grown in population, which may lead to a need for additional retail space. However, the changing retail landscape – such as the increase of online shopping, decline in traditional shopping malls, and the success of warehouse stores – means any new retail development will likely be smaller-scale and catering to local retail needs and/or a format that offers an experience and atmosphere that will attract shoppers away from online options and warehouse stores.