

DATE: January 29, 2016
TO: Leonard Bauer
FROM: Lorelei Juntunen and Erik Rundell
SUBJECT: KAISER/HARRISON ANALYSIS EXECUTIVE SUMMARY

Introduction

The City of Olympia desires 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 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 work will support the City of Olympia in updating the comprehensive plan designations and zoning for the area.

The market trend information used in the 2013 study and in this update is from CoStar, a proprietary commercial real estate information data source, based on regular surveys of individual properties. However, CoStar provides only a sample of all commercial properties and reliability can be an issue for some, often smaller, geographies. To supplement the CoStar data, ECONorthwest also conducted a number of interviews with business and property owners, neighbors and interested citizens, and local brokers and property managers familiar with the West Olympia area. These interviews provided a more nuanced and on-the-ground perspective that is not available from the CoStar data. In some cases, brokers provided supplemental data.

This memorandum combines the results of the qualitative and quantitative analysis to address these key questions:

- What uses are the potential drivers of development and most likely uses for the Kaiser-Harrison area in the near-term?
- What type and scale of uses, particularly retail, are likely in the area?
- How does the Highway 101 ramp construction and timing factor into the development of different uses?
- What other needs – such as infrastructure, open space, and transportation – does the area have?

The remainder of the executive summary combines and interprets the findings from the analysis and interviews, and provides conclusions related to updating comprehensive plan designations. Two appendices provide greater detail on: (1) market data and analysis, and (2) interview findings.

Summary of Findings

Market Trends

The office market has improved over the last two years, but is still affected by changing demand from the State of Washington for office space in the region. For the Kaiser-Harrison area, some limited medical and personal service office space is a potential opportunity. However, it is not likely to be a significant driver of development in the area.

The multifamily rental market has shown strong growth over the last few years. However, future demand for additional rental multifamily housing may be waning as vacancy rates have recently increased. Going forward, the form and type of new housing development in the Kaiser-Harrison area will be based on future demand for rental versus owner-occupied housing and overall growth of the region.

The retail market has also modestly improved in the last few years. Rents have been increasing and vacancies are relatively low. 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.

Type and Scale of Retail Uses

A key question to address in the Comprehensive Plan update relates to the type and scale of retail that is appropriate and market-supported in the Kaiser Harrison area. Findings related to this topic include:

- Retail uses catering to local (neighborhood) retail needs and services are a likely need for the Kaiser-Harrison area, especially given the recent increase in housing development in the area.
- Anchor and Class A retail spaces in West Olympia are performing well and have low vacancy rates. Smaller and lower quality retail spaces have somewhat higher vacancies. Anecdotal evidence from interviews supports a finding that smaller-scale retail is struggling in the Olympia market when it is not well designed and well-located.
- Regionally, the number of sites for new medium size retailers (stores needing 20,000-60,000 square, such as a grocery store) is limited, and the Kaiser-Harrison area is a potential destination for these uses within the region. 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 face challenges.
- The Kaiser-Harrison area could likely support a retail center with a total of about 100,000 to 150,000 square feet of retail space. The anchor tenant(s) for the retail center will be important in attracting the target market and in attracting and leasing the smaller retail establishments that would locate within the retail center. Neighborhood and site amenities, such as open space and outdoor seating, also influence the type of retail tenants and shoppers the center attracts.

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- The construction of the proposed access ramps at Kaiser Road would increase the attractiveness of the site for more sizable retail centers and anchor tenants. Not constructing the ramps would not preclude development of a more sizable retail center, but it may delay when it is built and also affect the overall scale of the retail developed. The ramps could also make the southern end of the Kaiser Harrison study area—which is closer to the access ramps and has better visibility from Highway 101—more attractive for a retail center.

Other Needs and Issues

- The neighborhood lacks a central public gathering place; this should be addressed in a future retail or neighborhood development.
- Accommodating parking will be important, particularly for retail development. Any sizable retail development will serve more than the local population, and require a fair amount of parking area. To be successful in attracting the proximate neighborhood market, designs must accommodate parking in an attractive manner that supports smaller- to medium-scale retail, quality streetscapes, and a walkable neighborhood.
- The area needs better walking and biking connections. These include more and better connections to access surrounding neighborhoods, the Evergreen Parkway Trail, and nearby Grass Lake Park. Walking and biking connections within the area as it develops will also be important.
- Much of the study area is within a wellhead protection area. As a result, low-impact development stormwater mitigation will be required on site, which will add to the cost of new development. If it is possible to provide district stormwater facilities—especially if it uses natural features and is incorporated into community open space or walking / biking networks—it will improve the likelihood of success.
- Interviewees had mixed opinions regarding the need for increased access to Highway 101 through construction of the Kaiser Road freeway. The construction of the ramps would likely be important for any sizable retail uses.

Conclusions

Based on the market analysis update and interviews, **retail** and **housing** will be the primary drivers of new development in the Kaiser Harrison area. Medical office uses also present a limited opportunity. The study area may be able to realize an additional medical office development or two, especially if it is located near the Capital Medical Center. As an example, the recently constructed clinic building on Capital Mall Drive is about 60,000 square feet. The mix of retail and housing can take a variety of forms, and this will be influenced by the zoning changes the City makes, when and if the highway access ramps are built, local amenities, and changes in the real estate market.

There is likely potential for a medium size retail center with approximately 100,000 to 150,000 total square feet of commercial space in multiple retail units. Including parking and stormwater mitigation, a development this size would have to be roughly **10 to 12 acres**.

If desired, the zoning to allow this scale of retail development would need to be flexible enough to accommodate 20,000 to 60,000 square foot buildings for a retail anchor tenant, yet also ensure smaller retail spaces and a more walkable design and public spaces. Design guidelines related to site layout and development standards can have an important role in ensuring walkable design, public amenities, and architectural quality. More attractive (and costly) design requirements will also influence the tenants attracted to this type of shopping center, as well as those that have the ability to pay rent levels required for the development to be financially feasible.

Accommodating both aspects is not unprecedented. Below are two examples of recent retail developments that are of similar character and tenant types. Both are potential retail centers in the Kaiser-Harrison area that include more walkable design and public space elements. Both hide parking behind buildings and orient retail toward the street.

Timberland Town Center, Portland

Commercial Square Feet	90,000
Retail Anchor	Market of Choice grocery (40,000 square feet)
Supporting Commercial	Pet store, pharmacy, coffee, restaurant, fitness, tax services
Amenities	Public plaza, pedestrian walkways, connections to walking trails



Source: Gramor Development (gramor.com),

Mill Creek Town Center, Mill Creek

Commercial Square Feet	>300,000
Retail Anchor	Central Market grocery, LA Fitness, Everett Clinic
Supporting Commercial	Restaurants, medical offices, offices, furniture, coffee, bar
Amenities	Public plaza, sidewalk seating, mixed use residential



Source: Google Earth