

# APPENDIX A: DOWNTOWN OLYMPIA MARKET CONDITIONS SUMMARY

## PART I: REGIONAL MARKET CONDITIONS

### 1.0 OVERVIEW

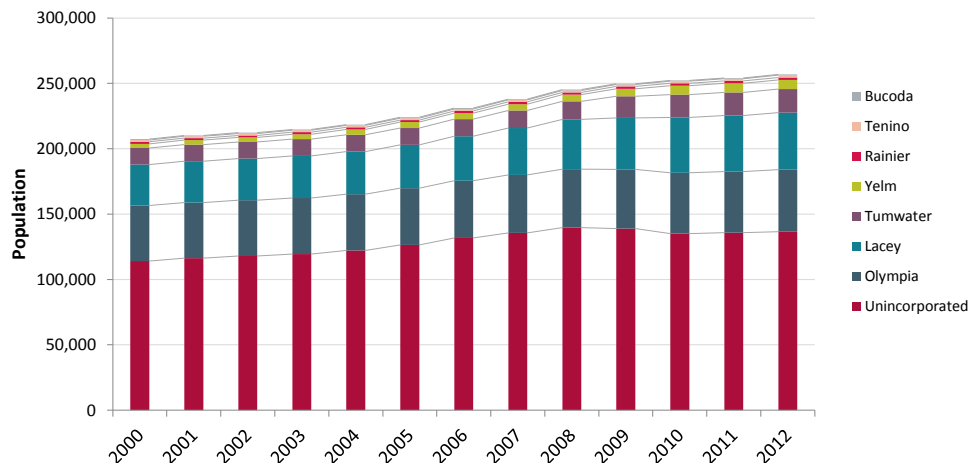
- State government anchors the employment base in Thurston County. Government employment is down through and recovery. State government employment does not look to be growing in the near-term and will not be a driver of the regional economy in the near future. This trend impacts the demand for office space, both existing and new development.
- Thurston County benefits from regional economic growth and activity in the Puget Sound region that filters down to the County as the region grows. Joint Base Lewis McChord has increased demand for housing in the region, particularly Lacey.
- Rents for most development types are still at a low point from the recession, which makes it difficult for new development to substantially increase the income potential of a property through redevelopment. There are a number of sites throughout the region for development to choose from. New development will likely choose the easiest and cheapest sites before more challenging in-fill development.
- Suburban/urban infill development continues to be oriented towards vacant land. Much of the new development in areas since 2000 (for all product types) has been oriented around areas easily accessibility from Interstate-5 and major arterials with less expensive land.
- There are growing signs of an urban infill market in Olympia in part driven by a changing demographic oriented urban living. In the last ten years, most recent building activity in Olympia has focused on rehabilitation or remodeling of existing space with limited new development. As growth picks up, multi-family development is the most likely market ready, and it likely will occur in easily developable and/or high amenity areas that are most attractive.
- Continued population growth in the region will generate demand for additional housing and commercial services, such as general services, retail, and health care. However, there is not a shortage of easily developable sites (e.g. vacant, low intensity) throughout the region, which gives users a number of site options to choose from.

## 2.0 REGIONAL MARKET TRENDS

### 2.1 Regional Economic Drivers

#### Population and Demographic Trends

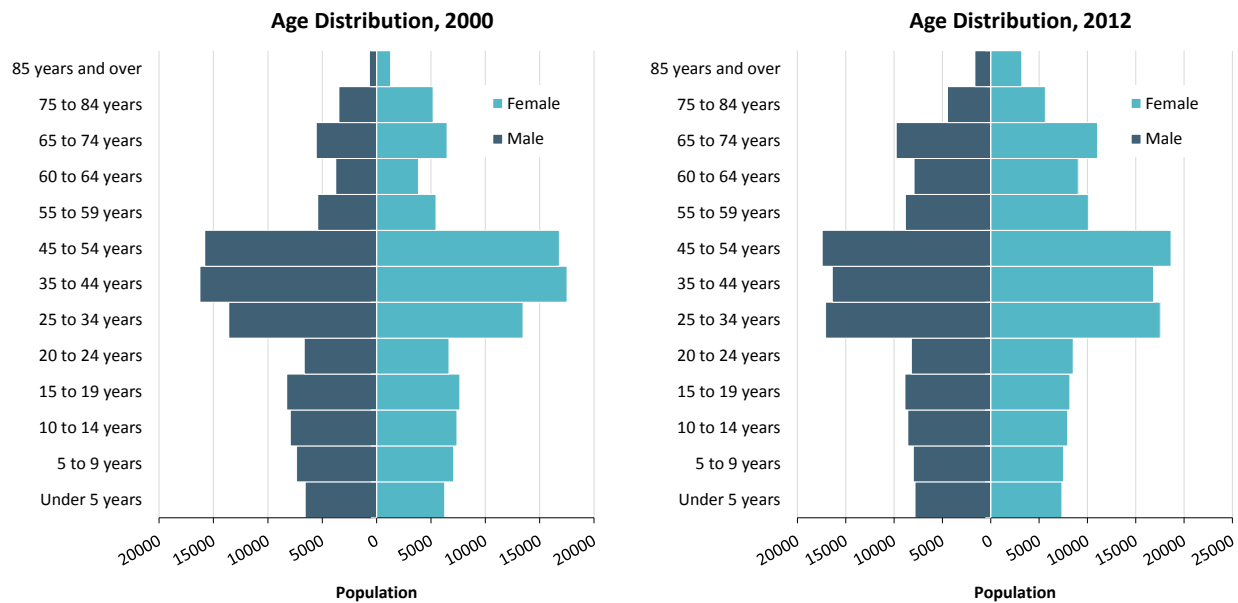
Thurston County Population Growth, 2000-2012



Source: Washington Office of Financial Management, 2013; BERK, 2013

- The region's population has been growing at an average annual rate of 1.8% since 2000 and added almost 50,000 people.
- Olympia's share of the County's population has decreased from 2000 to 2010, but has made small increases in the last couple of years.
- During this period, Olympia grew at an average annual rate of 0.9%, and added 4,685 people since 2000, excluding annexations.
- Most of the population growth in the county is happening in neighboring cities and unincorporated areas. Lacey grew the most adding 12,068 people, excluding annexations, over the same period at an annual rate of 2.8%.

## Thurston County Age Distribution, 2000 and 2012

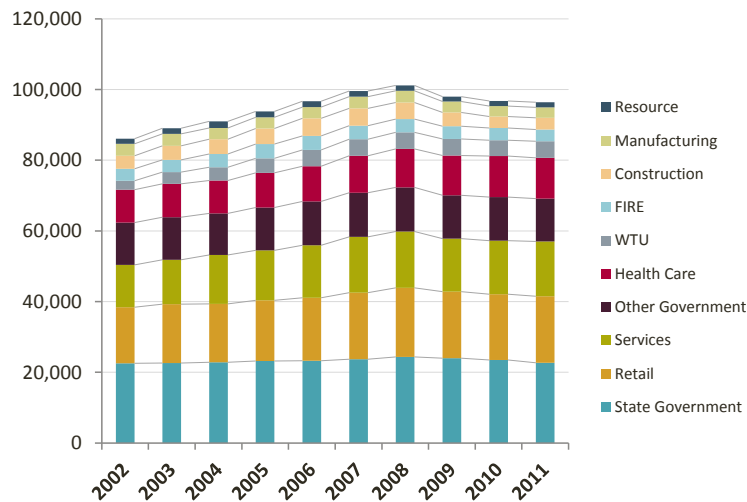


Source: US Census, 2000; Washington Office of Financial Management, 2013; BERK, 2013

- The region's population has aged since 2000, with 62% of population growth occurred among those 55 years of age or older.
- The population 20-34 years of age has also increased, adding 11,000 since 2000 at an average annual rate of 2.0%.

## Employment Trends

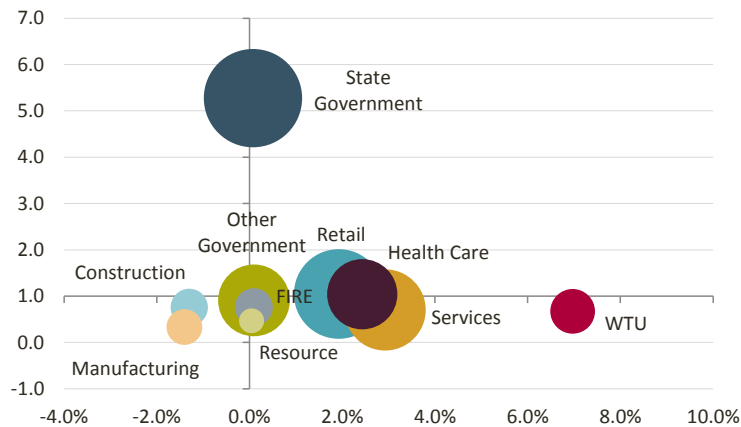
### Thurston County Employment by Sector, 2002-2011



Source: Washington Employment Security Department, 2013; BERK, 2013

- State government employment is the largest sector in Thurston County. Total employment for the sector has been fairly flat since 2002 and has decreased since 2008.
- Services has growth the most (3,529) followed by retail (2,969), health care (2,247), and warehousing/transportation/utilities (2,130) since 2002.
- Construction and manufacturing are the only two sectors that had slight decreases.

## Employment Change, Size, and Concentration, 2002-2011

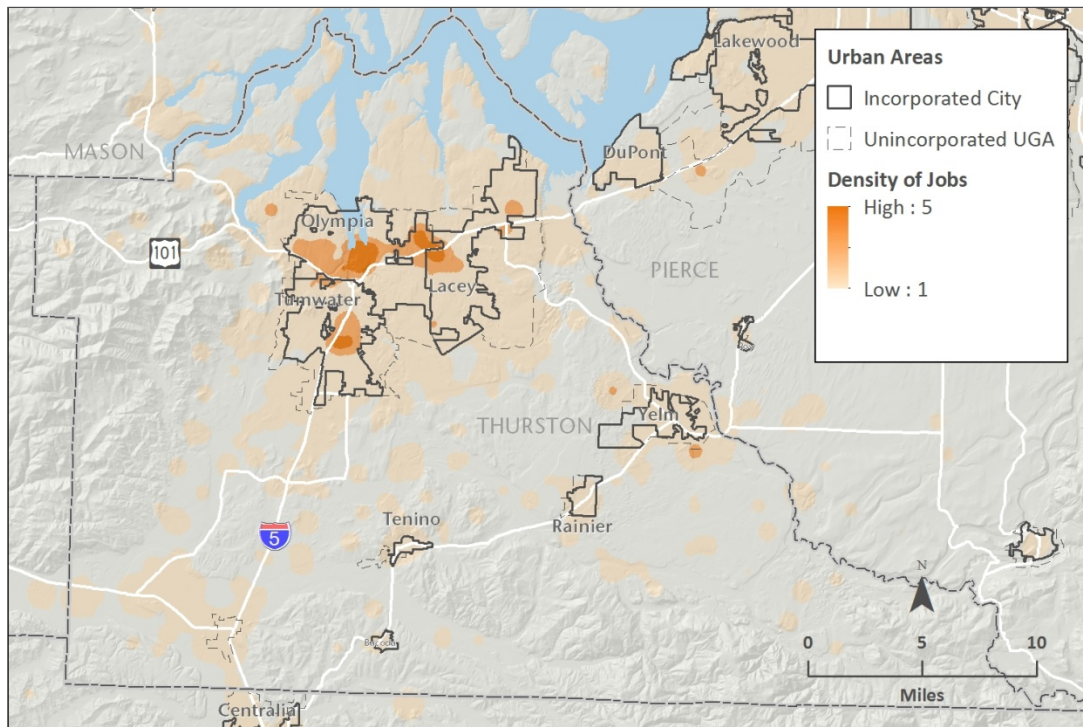


Source: Washington Employment Security Department, 2013; BERK, 2013

- State government provides a large stable base of employment for the region, even after the recession and decrease in state government employment.
- Growth areas are in warehousing/transportation/utilities (WTU), services, health care, and retail. None of these sectors is more concentrated than would typically be seen at the state level.
- With the exception of WTU sector, these sectors respond to population growth in the region.

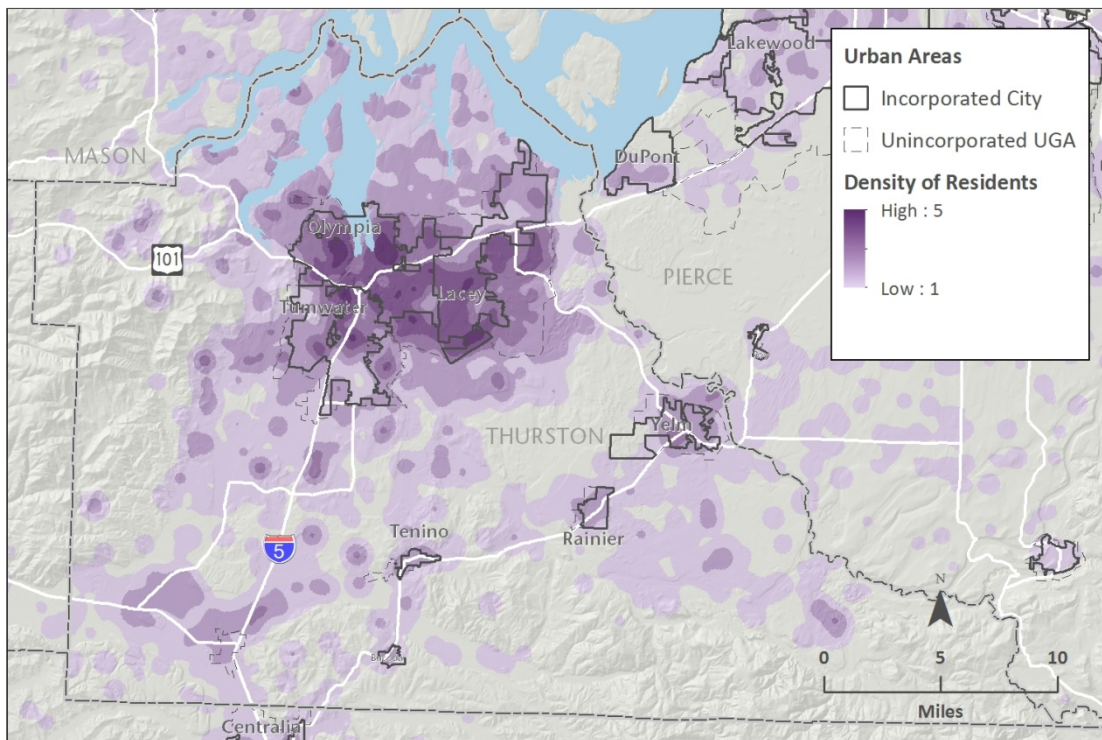
## Commute Patterns

### Where Thurston County Residents Work



Source: US Census Local Employment Dynamics, 2013; BERK, 2013

### Where Thurston County Workers Live



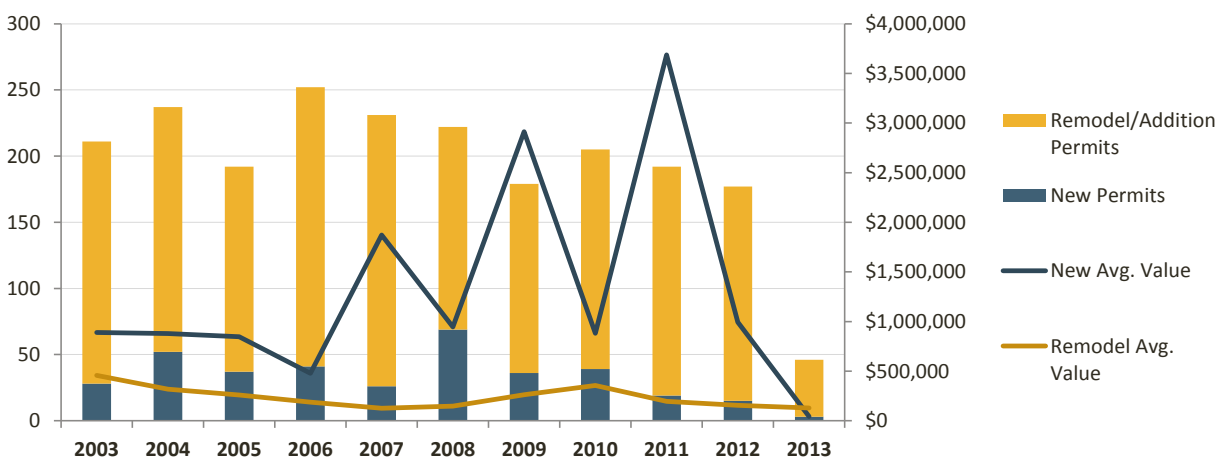
Source: US Census Local Employment Dynamics, 2013; BERK, 2013

- Most Thurston County residents work in commercial areas of Olympia, Tumwater, or Lacey. A smaller concentration commutes to Joint Base Lewis McChord (JBLM) and Yelm.
- Those who work in the county live throughout the area, with most concentrated in Olympia, Tumwater, and Lacey.

## 2.2 Regional Assessment by Development Type

### Commercial Development

**Olympia Commercial Building Permits: New Construction and Remodel/Additions, 2003-2013**



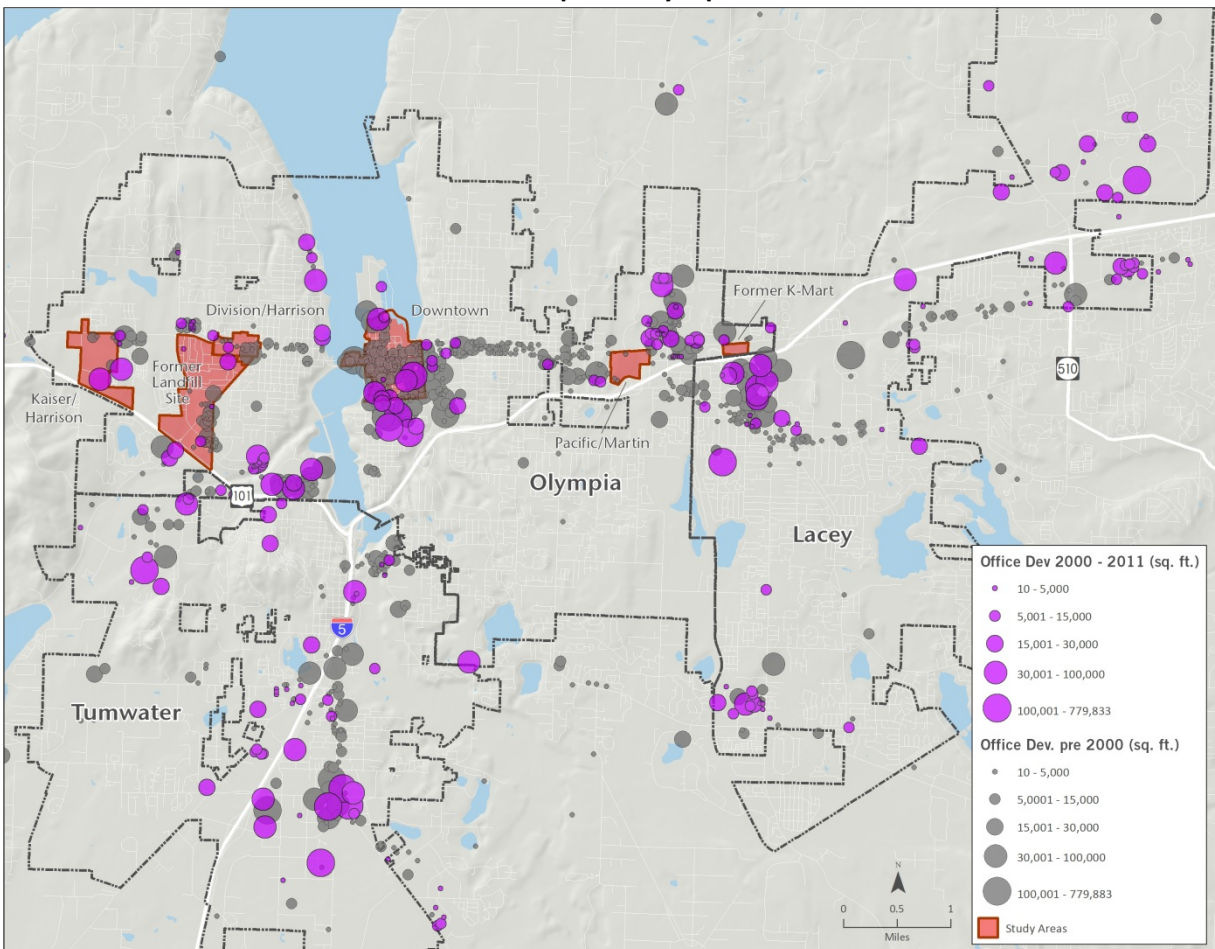
Source: City of Olympia, 2013; BERK, 2013

- There is some gaining confidence in investors as the value or permit activity continues to climb.
- The large majority (83%) of commercial permit activity since 2003 in the city has been for remodels or additions.
- The average value of these remodels has been fairly low at \$242,000 from 2003 to 2013.
- The number of remodels has been fairly consistent over the period averaging about 170 permits. New construction permits has varied much more, both in number and value.
- A few of the recent new construction projects have had higher values, indicating developers are willing to invest more in Olympia.



## Office

### Office Development by Square Feet

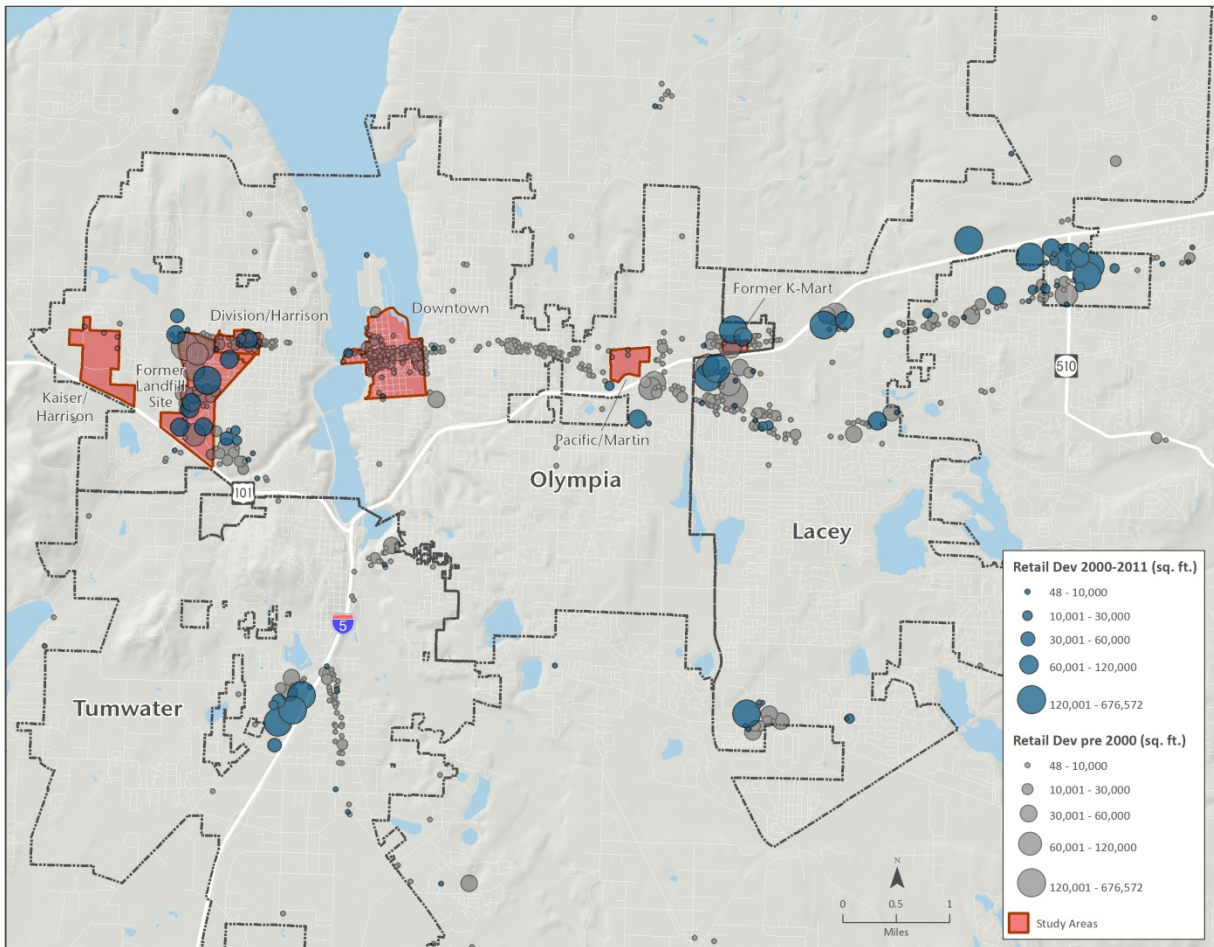


Source: Thurston Regional Planning Council, 2011; BERK, 2013

- Downtown Olympia, Lacey, and Tumwater are the major office clusters in the region.
- Only a small amount office development (470,000 total square feet) has occurred in the Olympia area since the start of the recession in 2008. Only one Class A office building was built during this period (185,000 total SF).
- Overall, there is a high vacancy rate (11.2% in the first quarter of 2013) for office space in the region for all classes. This rate is partly due to recent office vacations by state agencies.

## Retail

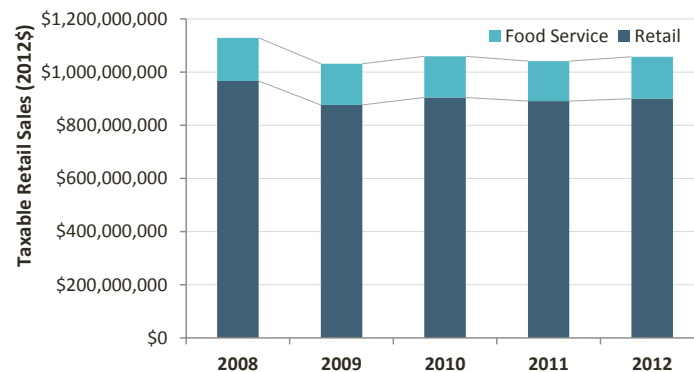
### Retail Development by Square Feet



Source: Source: Thurston Regional Planning Council, 2011; BERK, 2013

- Most retail development since 2000 has been large scale and auto-oriented and have clustered around highway interchanges.

### Retail and Food Service Taxable Retail Sales, 2008-2012

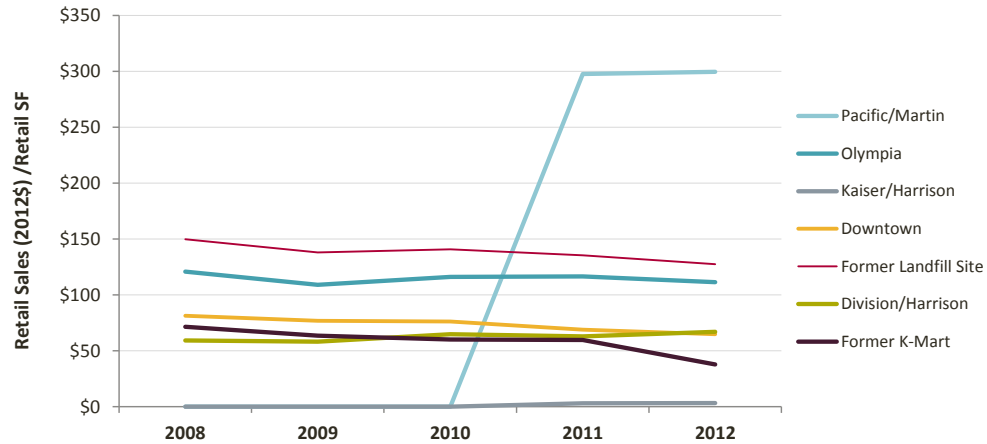


Source: Washington Department of Revenue, 2013; BERK, 2013

- On an inflation-adjusted basis, retail sales for retail goods decreased in 2009 and have been flat since.
- Sales for the food service sector have stayed relatively even after decreasing slightly in 2009.



### Retail Sales per Square Foot by Study Area

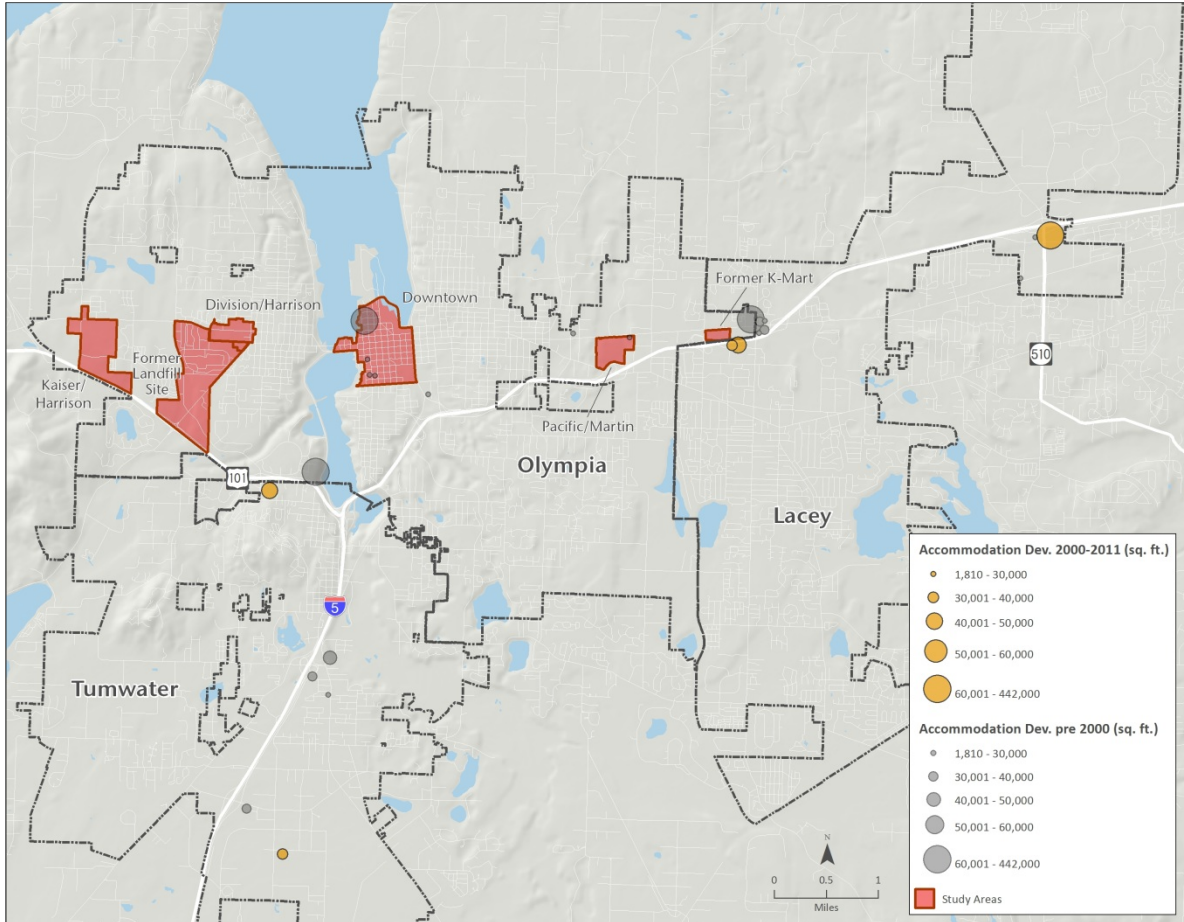


Source: Washington Department of Revenue, 2013; Thurston Regional Planning Council, 2011; BERK, 2013

- On a per square foot basis, sales have declined in most of the study areas. The Former Landfill Site has the higher average retail sales per square foot.
- A couple of exceptions are Pacific/Martin, which saw new business, and Division/Harrison, which has increased its retail productivity since 2009.
- Retail productivity of Division/Harrison is now similar to Downtown Olympia.

## Accommodations

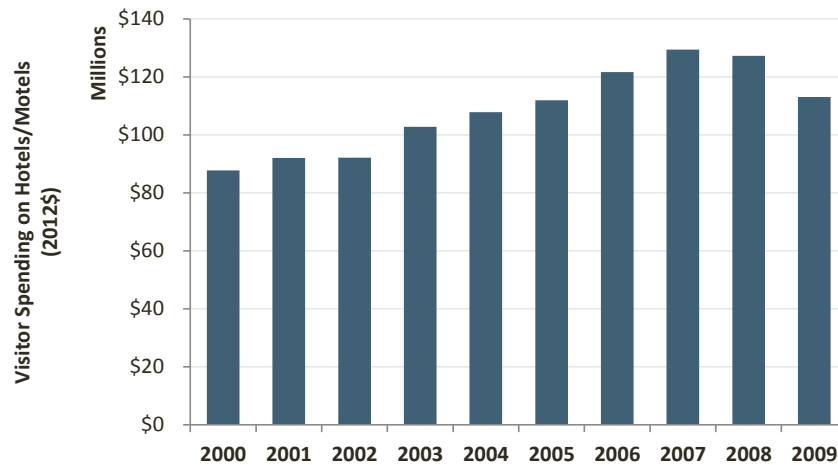
### Accommodation Development by Square Feet



Source: Thurston Regional Planning Council, 2011; BERK, 2013

- The Olympia area has had a limited number of new hotels/models built since 2000.
- Most of the existing hotels/motels are oriented along Interstate-5.
- Still researching...Look into Smith Travel data?

### Thurston County Visitor Spending on Hotels and Motels (2012\$), 2000-2009



Source: Dean Runyan Associates, 2010

- Spending on hotels and motels in Thurston County showed strong growth from 2000 to 2007 with average annual growth of 5.7%. Spending then dipped in 2009.
- While not available for Thurston County, statewide visitor spending on hotels and motels rebounded in 2010 close to what it was in 2006.

## Multi-Family

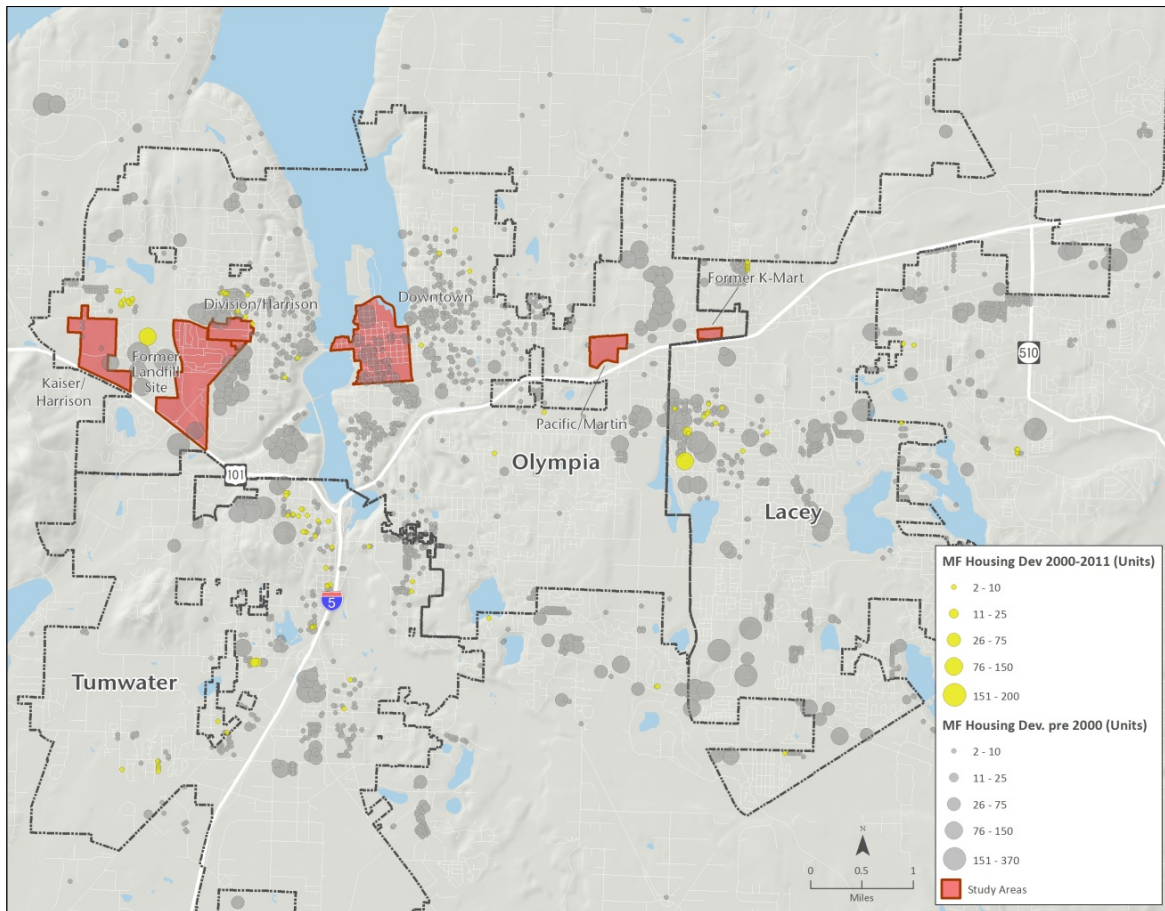
### Thurston County Housing Absorption

Units	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total Units - Thurston County	1,717	1,769	2,029	2,672	2,466	2,917	2,944	1,457	1,096	2,407	1,171
MF Units - Thurston County	79	106	299	576	105	184	691	110	184	375	289
MF Units - Olympia	2	24	5	35	39	53	82	46	85	356	296

Source: Washington Office of Financial Management, 2012; BERK, 2013

- Since 2002, almost 3,000 new MF housing units have been developed in Thurston County of 22,600 total housing units added. One-third (1,023 units) of new MF units were developed in Olympia.
- In their study for the TRPC, New Home Trends projected demand for over 14,000 new multi-family units from 2010 to 2030 in Thurston County, which would be almost two and a half times the number of units developed per decade as was seen over the last ten years.

### Multi-Family Housing Development by Units



Source: Thurston Regional Planning Council, 2011; BERK, 2013

- Most multi-family developments built since 2000 have been small with 10 or fewer units.
- Recent multi-family development has not concentrated in any particular location, and has occurred throughout the Olympia/Tumwater/Lacey urban area.

## PART II: DOWNTOWN MARKET CONDITIONS

### 1.0 OVERVIEW

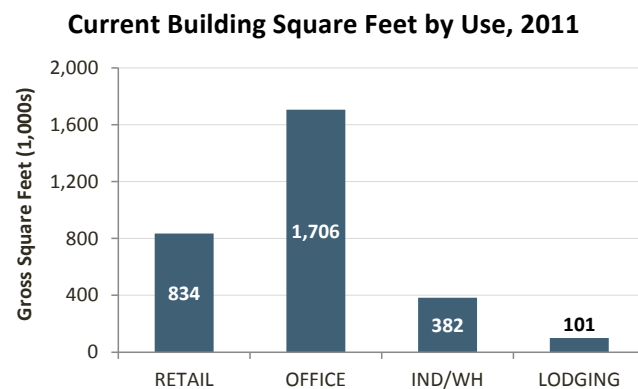
- Demand from those users who need to be downtown (such as state government, the Port, and related uses) is not a growing part of the economy.
- The redevelopment hurdle downtown is higher than other locations because of higher land and construction costs.
- Commercial rents are not yet high enough to justify new commercial construction in Downtown Olympia.
  - Office rents have decreased from \$19.60 /SF/Yr in 2009 to \$15.70/SF/Yr today as vacancies have increased.
  - Retail rents are more stable, but decreased from \$14.10/SF/Yr in 2009 to \$12.10/SF/Yr today.
- Low vacancy rates and modest rent increases for apartments citywide, as well as some anecdotal evidence, suggest that there is near-term demand for multi-family housing. Recent successful multi-family housing projects (building reuse) have occurred downtown as well.
- Over \$100 million of public investment has been made downtown by the City and Port of Olympia in new buildings and parks, including a new City Hall, the Hands On Children's Museum, LOTT Clean Water Alliance offices, East Bay Plaza, and Percival Landing Park.

### 2.0 MARKET CONDITIONS

#### 2.1 Current Conditions

- Population: 1,120
- Housing Units: 884
- Employment: 8,500

Industrial	450
Government	2,790
Retail	830
Other Commercial	4,430



Source: Thurston Regional Planning Council, 2011; BERK, 2013

- Downtown Olympia is primarily an employment center with 8,500 jobs.
- Most of the building stock downtown is office uses, with over 1.7 million square feet of office space.
- Retail uses also have a sizable share of the building stock, with 843,000 square feet of space. Retail only accounts for 830 jobs, however.



## 2.2 Development Type Assessment

### Office

- New office development is unlikely under current market conditions. Given that the downtown office market is strongly based on state government, which is not likely to grow in the near-term, the currently market fundamentals are unlikely to change dramatically.
- Since 2000, almost all development (94%) in downtown has been office space (1.2M SF).

**Office Development by Square Feet**



Source: Thurston Regional Planning Council, 2011; BERK, 2013

- The map above shows office development with building built after 1999 in purple. Most of the new office space has occurred on the south end of the downtown near the State Capitol Campus.

**Downtown Office Rents and Vacancy Rates, 2009-2013**

	2009	2010	2011	2012	2013
Rents	\$19.61	\$19.24	\$18.58	\$15.81	\$15.69
Vacancy Rates	4.8%	7.0%	8.7%	8.8%	9.7%

Source: CoStar, 2013

- Office rents have decreased every year since 2009 and drops sizably from 2011 to 2012.
- Vacancy rates are increasing, and are currently near 10%.

## Retail

- New retail development is challenging under current market conditions.
- While there is limited supply (low vacancies), there is also a lack of demand for new retail uses and that demand has been decreasing over the last 5 years.
- The challenges in the retail market also pose a challenge for mixed use projects with a retail component.

### Retail Development by Square Feet



Source: Thurston Regional Planning Council, 2011; BERK, 2013

- Little new retail development has occurred in the downtown since 2000.
- Most of the retail building space is older and relatively small (less than 30,000 square feet).

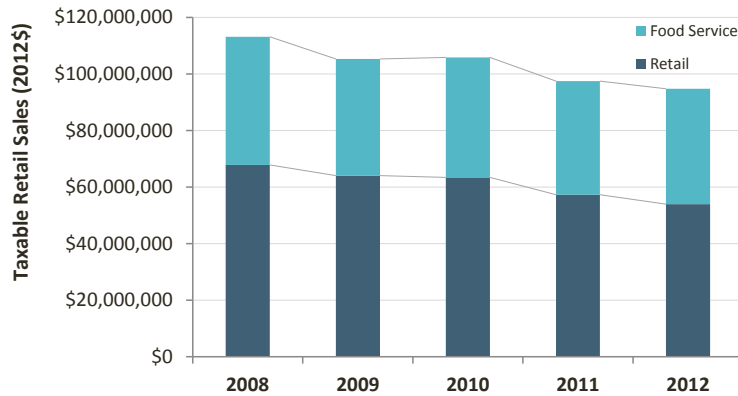
### Downtown Retail Rents and Vacancy Rates, 2009-2013

	2009	2010	2011	2012	2013
Rents	\$14.12	\$18.52	\$18.84	\$11.15	\$12.06
Vacancy Rates	5.1%	4.2%	4.9%	2.5%	3.9%

Source: CoStar, 2013

- Retail rents are relatively low and have varied over the last five years.
- Vacancies have decreased to below 5%, which indicates there are limited opportunities for new retail uses.

### Retail and Food Service Taxable Retail Sales, 2008-2012



Source: Washington Department of Revenue, 2013; BERK, 2013

- Taxable retail sales in downtown have been declining since the recession, primarily driven from a decline in retailing (non-food service) activities.

### Retail Sales per Retail Square Foot, 2008-2012

Area	2008	2009	2010	2011	2012
Olympia	\$149.01	\$135.97	\$143.14	\$142.93	\$138.88
Downtown	\$135.66	\$126.33	\$126.95	\$116.89	\$113.60

Source: Washington Department of Revenue, 2013; Thurston Regional Planning Council, 2011; BERK, 2013

- Retail productivity (retail sales per square foot of retail space) has also been declining, and in 2012 was significantly below the overall average for the city.
- Declining productivity indicates a lack of demand that has not increased as the economy has improved.



## Multi-Family Housing

- There have been a few new infill projects within the study area, along with recent successful multi-family housing projects (building reuse), and some anecdotal evidence, which suggest new multi-family developments are likely viable in the downtown area.
- Low vacancy rates and modest rent increases citywide suggest that there is near-term demand for multi-family housing.

### Multi-Family Development by Units



Source: Thurston Regional Planning Council, 2011; BERK, 2013

- Currently there are almost 900 multi-family housing units downtown, which are spread out through the downtown.

### Olympia Rental Market Trends, 2008-2013

	2008	2009	2010	2011	2012	2013
Average Rent	\$759	\$798	\$785	\$822	\$840	\$855
Vacancy Rate	2.6%	5.3%	6.3%	4.8%	6.5%	3.9%
Offering Incentives	7.1%	30.8%	39.5%	26.8%	39.5%	29.6%

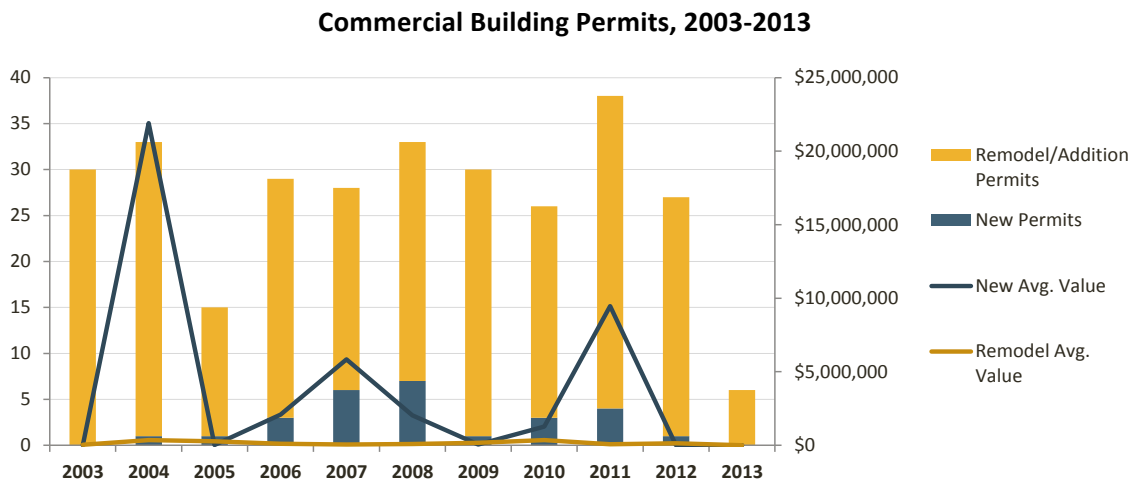
Source: Dupre + Scott, 2013

- Average apartment rents in Olympia have increased by almost \$100 over the last 6 years.
- Vacancy rates are relatively low over the last 6 years and are currently at less than 4%.

## 2.3 Development Activity

- Development related activity in downtown increased up to 2008 and the start of the recession.
- Since 2008, there has been a few new construction permits and land sales and prices have decreased substantially. Most of the activity has been the reuse of existing buildings.

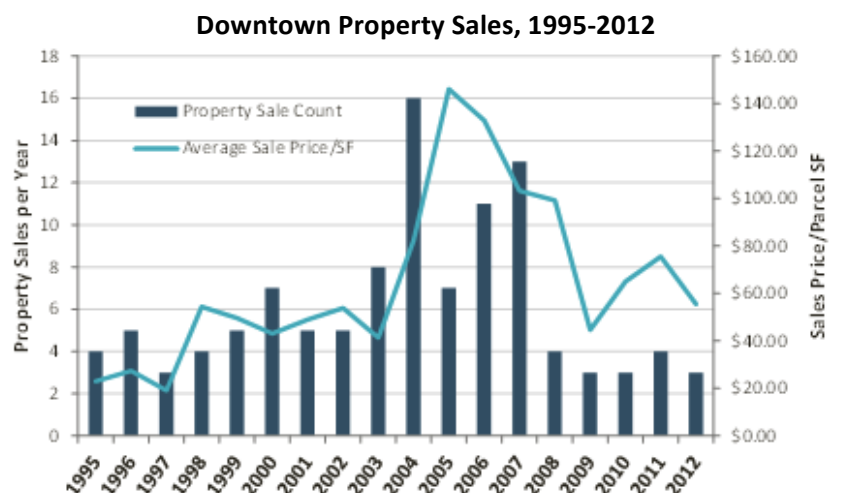
### Building Permits



Source: City of Olympia, 2013; BERK, 2013

- Most of the investment activity in downtown has been in the rehabilitation and reuse of existing buildings. The average value of remodels or additions over the 10 year period has been relatively low at about \$150,000. The citywide average value of remodels for commercial buildings is \$242,000 for the same period.
- Downtown did see an increase in new construction permits up to 2008.

### Property Sales and Value



Source: Thurston Regional Planning Council, 2012; BERK, 2013

- Property Sales Since 2008 and Average Price per Lot SF: **17 Sales, \$81.13 per SF**
- Prior to the recession, there was strong upward movement on land sales and prices. The dampening effect of the recession, decline in state government investment, and perceived hostility to new development downtown has depressed prices.



## 2.4 Buildable Land Supply and Assembly Issues

- Overall, there is substantial amount of buildable land available in downtown – notwithstanding any remediation or site prep issues.
- Most of the sites are considered redevelopable; only a few properties are considered vacant.
- Most redevelopable properties likely have an income producing use on the property (including parking lots) making the land cost and redevelopment hurdle higher for these properties.



Source: Thurston Regional Planning Council, 2011; BERK, 2013

- Vacant Acres: 3.5
- Redevelopable Acres: 49.4
- Redevelopable are classified into three categories.
  - Very High - Less than 3,000 building square feet per acre or building value to land value ratio less than 0.5.
  - High - More than 3,000 building square feet per acre and a building to land value ratio between 0.5 and 1.
  - Medium: More than 3,000 building square feet per acre and building to land value between 1.0 and 2.0.

## 2.5 Infrastructure/Public Facilities

- **Parks:** Heritage Park, Percival Landing, Port Plaza, Sylvester Park
- **Streetscape:** Historic Downtown, Transit Center, Greyhound Bus Depot
- **Water/Views:** Capitol Lake, Budd Inlet (Marine Waterfront), waterfront access
- **Other:** Capitol Theater, WA Center for Performing Arts, WET Science Center, Hands-On Children’s Museum, Public Library, Post Office, Capitol Campus