

DRAFT MARKET ANALYSIS

TUMWATER TOWN CENTER

NEW MARKET
INDUSTRIAL CAMPUS
Real Estate Development Master Plan

New Market Industrial Campus &
Tumwater Town Center
Real Estate Development Master Plan
Advisory Committee Meeting #3

April 16, 2015

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CONSULTING SERVICES

 **Port of Olympia**



Founded in 2005, **Community Attributes Inc. (CAI)** tells data-rich stories about communities that are important to decision makers.

- > Regional economics
- > Land use economics
- > Land use planning and urban design
- > Community and economic development
- > Surveys, market research and evaluation
- > Data analysis and business intelligence
- > Information design

Contents

1. Background
2. Regional Economics Overview
3. Olympia Tumwater Lacey Submarkets
4. NMIC Today
5. Implications for Master Planning

1. Background

Where we're at in the process

- > Conducted a market analysis to understand NMIC's relative position within the regional and local real estate market
- > Overall Scope of Work:
 - > **Market Profile**
 - > Market Concepts – Site Specific Implications
 - > Alternatives and Concept Development Scenarios
 - > Real Estate Development Plan

Market Profile Approach

Regional overview of economic and real estate indicators

- > Comparison of Lewis, Thurston and Pierce Counties

Detailed analysis of Thurston County Submarkets

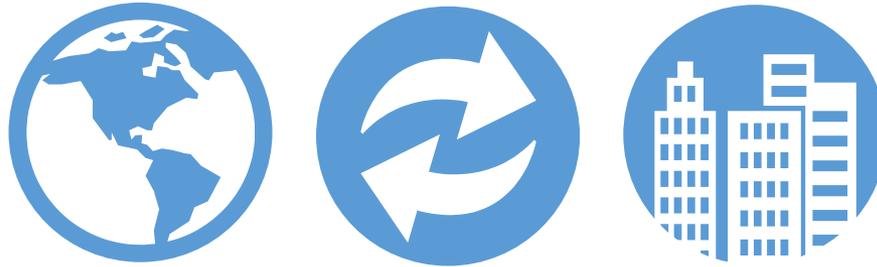
- > Olympia, Tumwater and Lacey
- > Focus on major uses and distribution of commercial centers

Focus on NMIC today and implications of regional and submarket indicators

- > Assessment of major uses and their potential in NMIC
- > Overview of demand for space based on regional forecasts

2. Regional Economics

Ports in Washington State



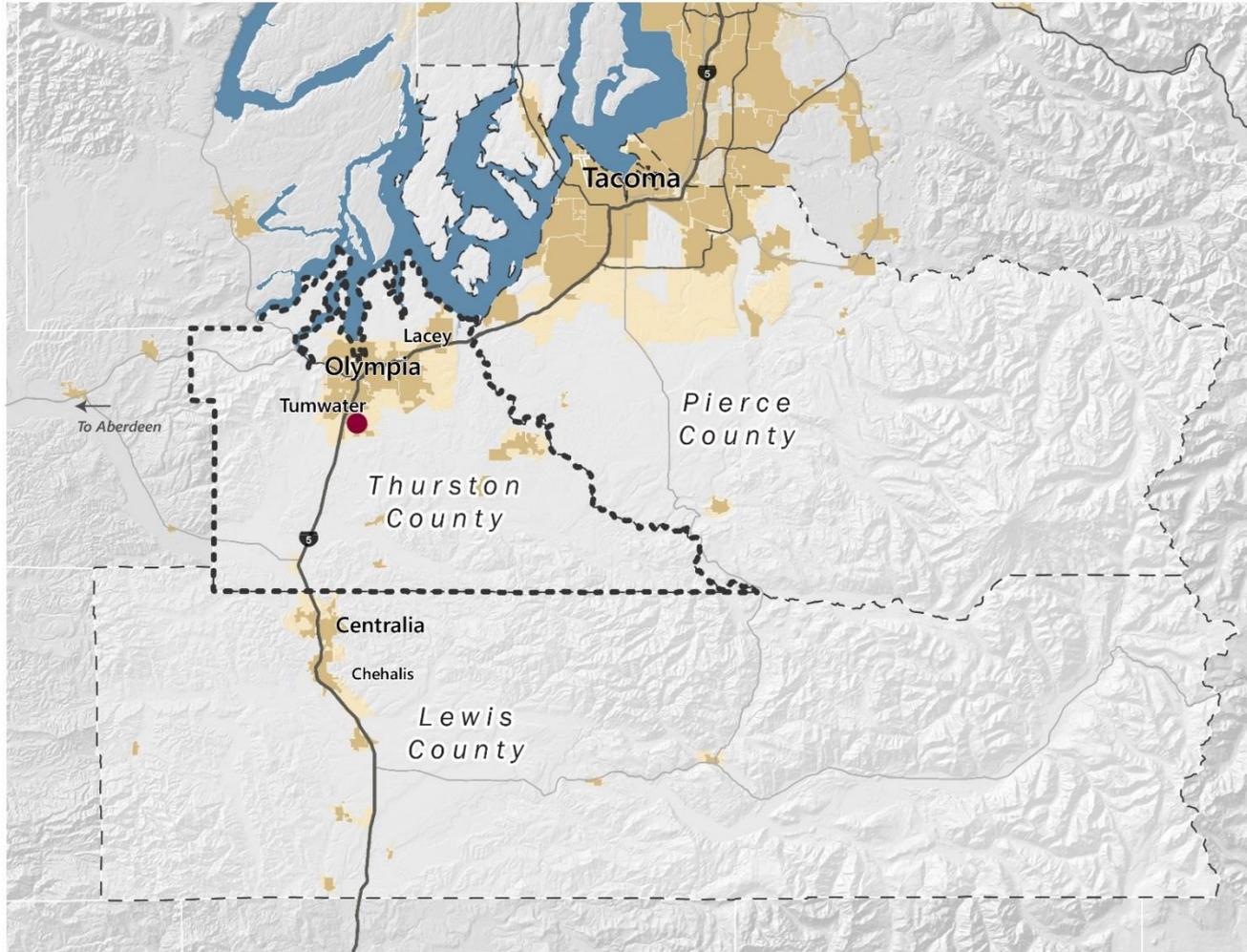
How Ports approach industrial development:

- > The Washington State Legislature has been generous in granting authority to pursue industrial development – the fastest growing segment among ports.
- > Port districts can construct buildings and structures to accommodate virtually any type of industrial or economic activity.
- > These facilities are generally the sort that the private sector can't -or won't – build or improve.
- > Ports can also develop the infrastructure – water and sewer systems, and roads – necessary to attract job-creating businesses.
- > Once a facility is built, it is often leased to businesses that generate jobs in the community.

Source: Washington Ports Association

Regional Overview

Exhibit 1. NMIC Regional Location Map, NMIC



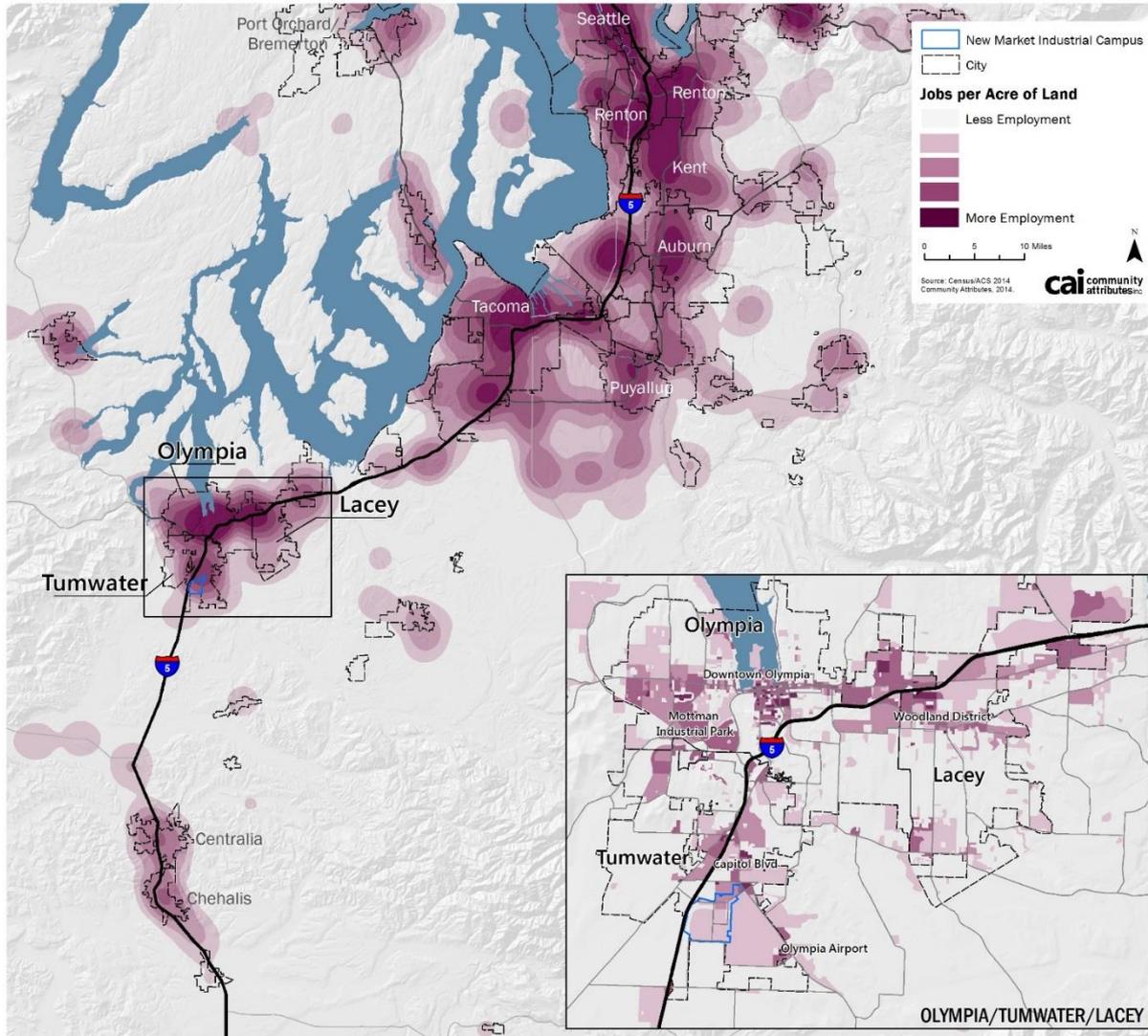
Source: Community Attributes Inc., 2015.

Regional overview of economic and real estate indicators

- > Comparison of Lewis, Thurston and Pierce Counties
- > Identify regional clusters
- > Analyze growth potential
- > Assess Thurston County's role in the region and implications for NMIC

Regional Overview

Exhibit 2. Employment Density in Pierce, Thurston and Lewis Counties, 2011



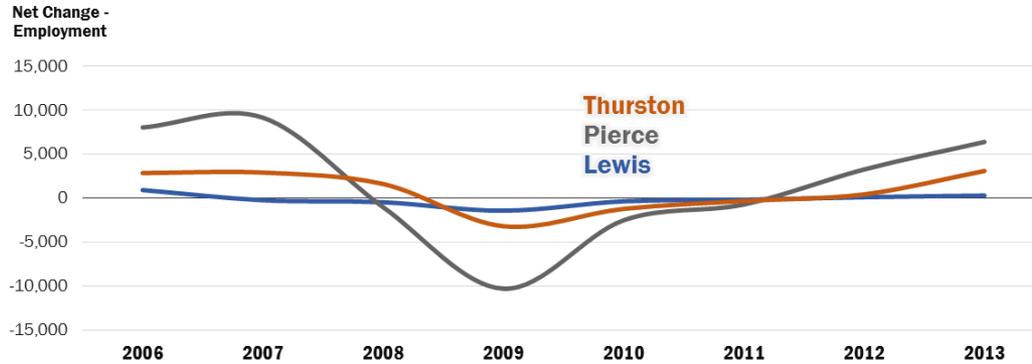
Understand the economic landscape

- > Where is NMIC located in terms of regional commercial centers?
- > What are the existing employment centers in Thurston County?

Source: U.S. Census Bureau ACS, 2011; Community Attributes Inc., 2015

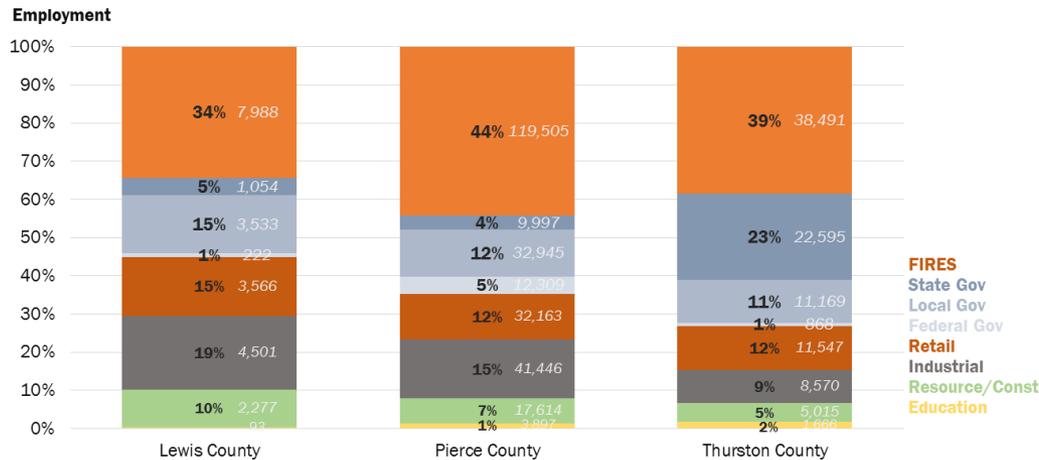
Regional Employment

Exhibit 3. Annual Net Change in Employment, Pierce, Thurston and Lewis Counties, 2006-2013



Source: Washington Employment Security Department, 2015

Exhibit 4. Employment by Industry, Pierce, Thurston and Lewis Counties, 2013



Source: Washington Employment Security Department, 2015

Note: FIRES stands for Finance, Insurance, Real Estate and Services

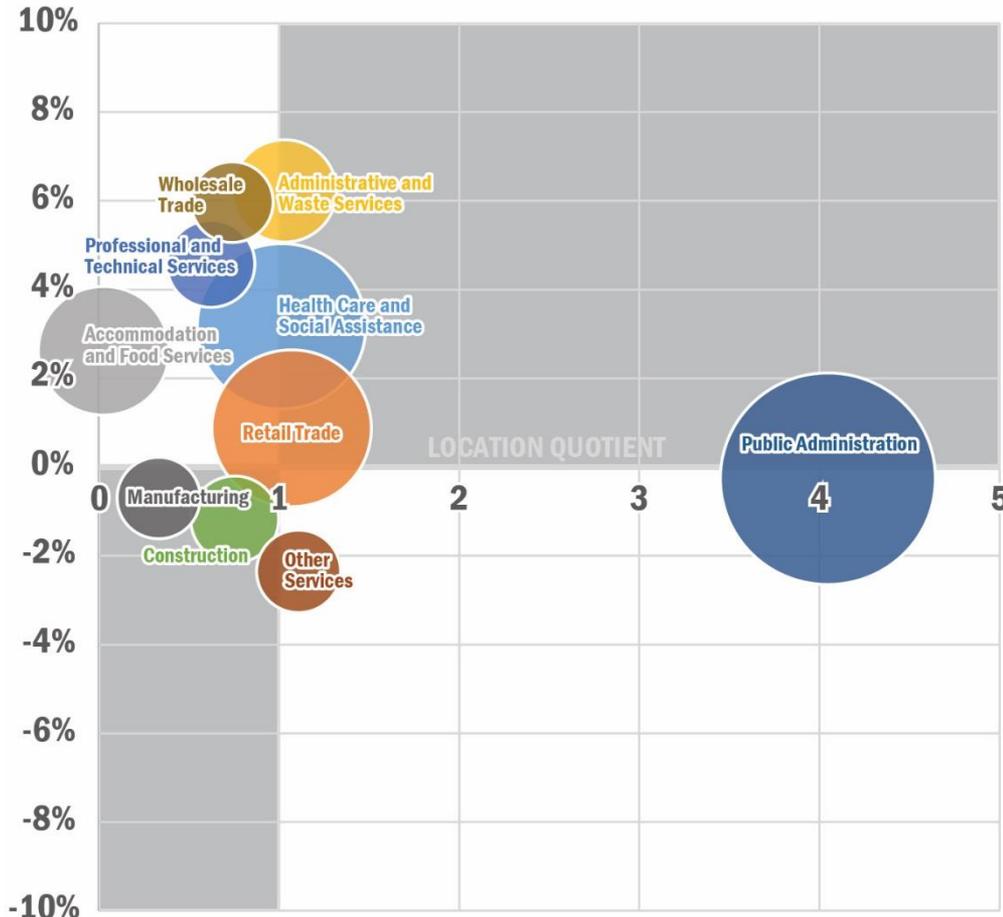
Understand the economic landscape

- > How has Thurston county recovered compared to other counties?
- > The industry mix in Thurston County is unique with the presence of state government and less reliance on industrial uses

Regional Industry Sectors

Exhibit 5. Location Quotients for 2-Digit NAICS Sectors by Total Employment and 10 Year (2003-2013) Employment Growth, Thurston County, 2013

**2003-2013
EMPLOYMENT
GROWTH (CAGR)**



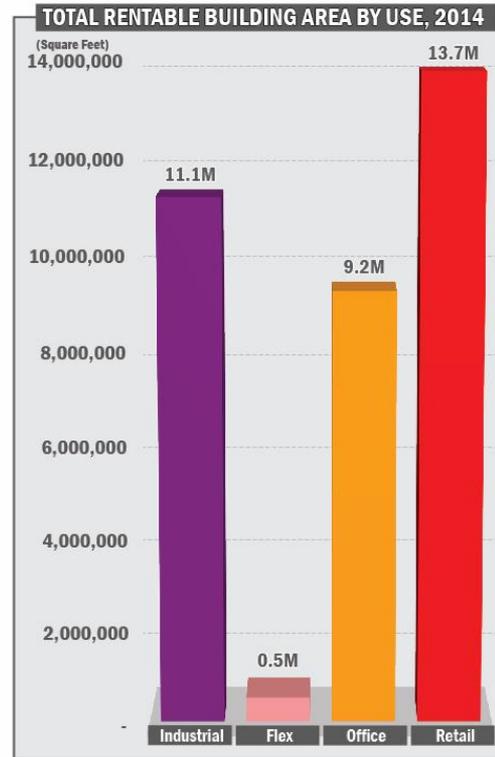
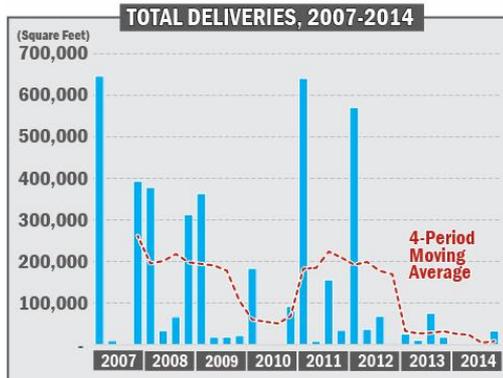
Source: U.S. Bureau of Labor Statistics, 2013

Focus on Industries

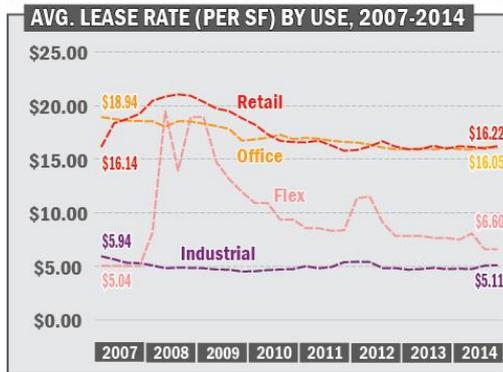
- > IT & Telecommunications
- > Medical Services & Life Sciences
- > Food Production
- > Wood Product & Paper Manufacturing
- > Chemical Product & Plastics Manufacturing
- > Tourism & Recreation

Regional Real Estate Conditions

Exhibit 6. Real Estate Indicators, Thurston County, 2014

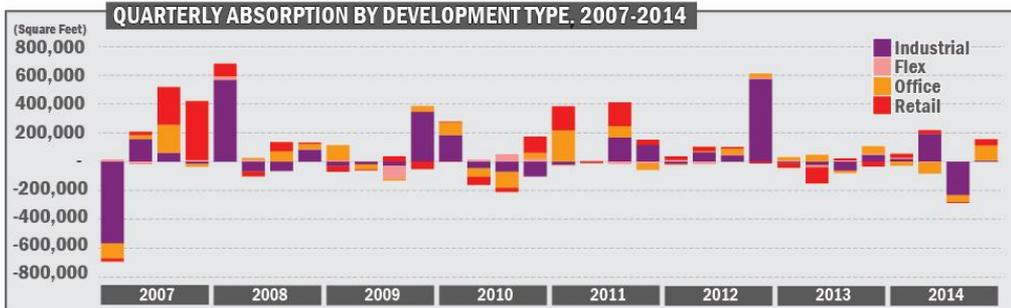


POPULATION (2014):	264,000
HOUSING UNITS (2014):	113,283
EMPLOYMENT (2013):	99,921
MEDIAN HH INCOME (2013):	\$62,229



Real Estate Indicators

- > Total Deliveries (2007-2014)
- > Total Rentable Building Area by Use(2014)
- > Average Lease Rate per Square Foot by Use (2007-2014)
- > Quarterly Absorption by Development Type (2007-2014)



Regional Takeaways

THE REGIONAL PERSPECTIVE: IMPLICATIONS FOR MASTER PLANNING

- > The real estate market in Thurston County has **rebounded more slowly** from the Great Recession when compared to Pierce, King and Snohomish counties.
- > State government employment and the state's continued operations will **drive office leasing** throughout the county.
- > **Resource-related manufacturing** represents a competitive advantage for Thurston County, which sits at a crossroads of major transportation infrastructure and has access to timber, agriculture and mining - *food production and wood and paper manufacturing are two industries currently present in NMIC.*
- > Retail clusters in Thurston County serve a large market from Joint Base Lewis-McChord to the north to Centralia in the south. Market data suggests that the **retail market is healthy**, and that Thurston County is a regional hub for retail offerings.
- > **High quality flex/office space may complement existing office and retail offerings** in Thurston County.
 - Uses like IT and telecommunications and medical services and life sciences may provide tenants for such space.
 - **Health care, in particular, is a strong and growing industry in Thurston County** and professional and technical services has posted significant growth as well.

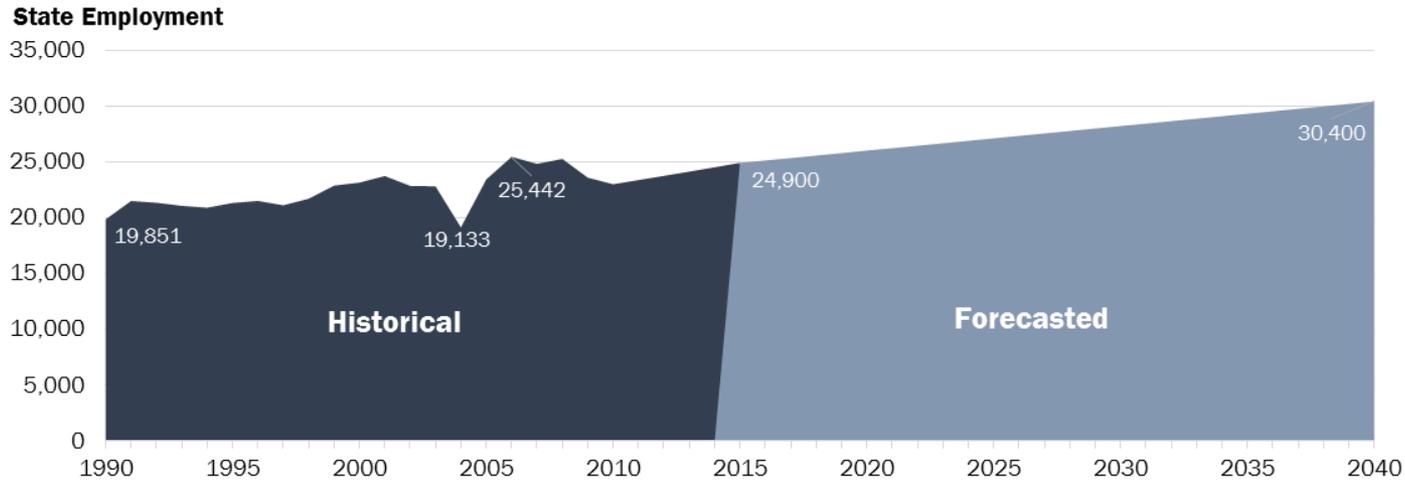
Regional Takeaways, continued

- > Industrial uses, broadly, are represented more strongly in Pierce County than in Thurston or Lewis counties;
 - Many industrial users may choose to cluster with existing Pierce County firms due to existing distribution networks and other locational advantages. This is evidenced by real estate market data and by the location quotient data, which shows that **manufacturing uses represent a small and shrinking concentration in Thurston County over the last decade.**
- > Existing retail concentrations in Thurston County may deter retail expansion, since **retail square footage per capita is high** relative to the region.

3. Olympia, Tumwater & Lacey Submarkets

Market Indicators

Exhibit 7. Historical and Forecasted State Government Employment (*including* Education), Thurston County, 1990-2040



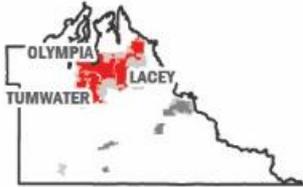
Source: TRPC, 2014.

Growth in Thurston County

- > State government employment is forecasted to grow but will be outpaced by growth in other office using industries such as professional services

Market Indicators - Industrial

Exhibit 8. Industrial Real Estate Indicators, Thurston Submarkets, 2014



THURSTON COUNTY VITALS:

Rentable Building Area: 11,155,000
 Available Building Area: 882,100
 Lease Rate per Square Foot: \$5.24
 Total Deliveries (2014): 0
 Net Absorption (2014): 21,900
 Average Cap. Rate (2014): n/a

TRANSACTIONS (2014 LEASES, BY SIZE):

ADDRESS	CITY	SIZE (SF)	PRICE/SF
2660 Willamette Dr. NE	Lacey	48,600	\$6.00
9225 Polaris Ln. NE	Lacey	40,000	\$4.08
2830 Willamette Dr. NE	Lacey	33,000	\$5.28
8109 River Dr. SE	Olympia	29,025	\$4.56

PIPELINE:

ADDRESS	CITY	BLDG. SIZE	STATUS
2901-3111 93rd Ave. SW	Tumwater	1,318,500	proposed
2311 93rd Ave.	Tumwater	608,500	proposed
Hogum Bay Rd. Bldg. K-Lot 16	Lacey	500,000	proposed
Hogum Bay Rd. Bldg. H-Lot 12	Lacey	500,000	proposed

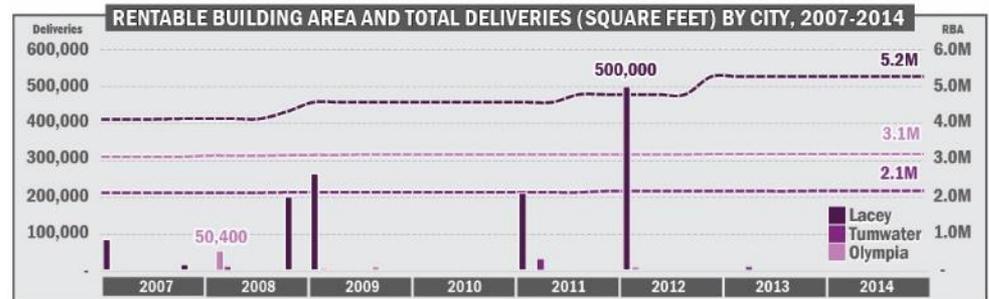
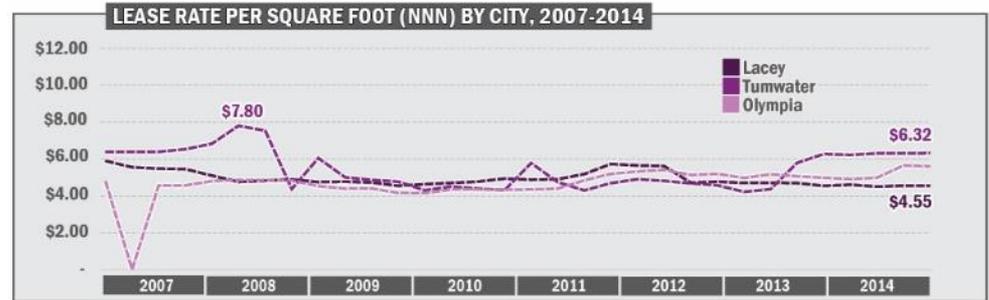
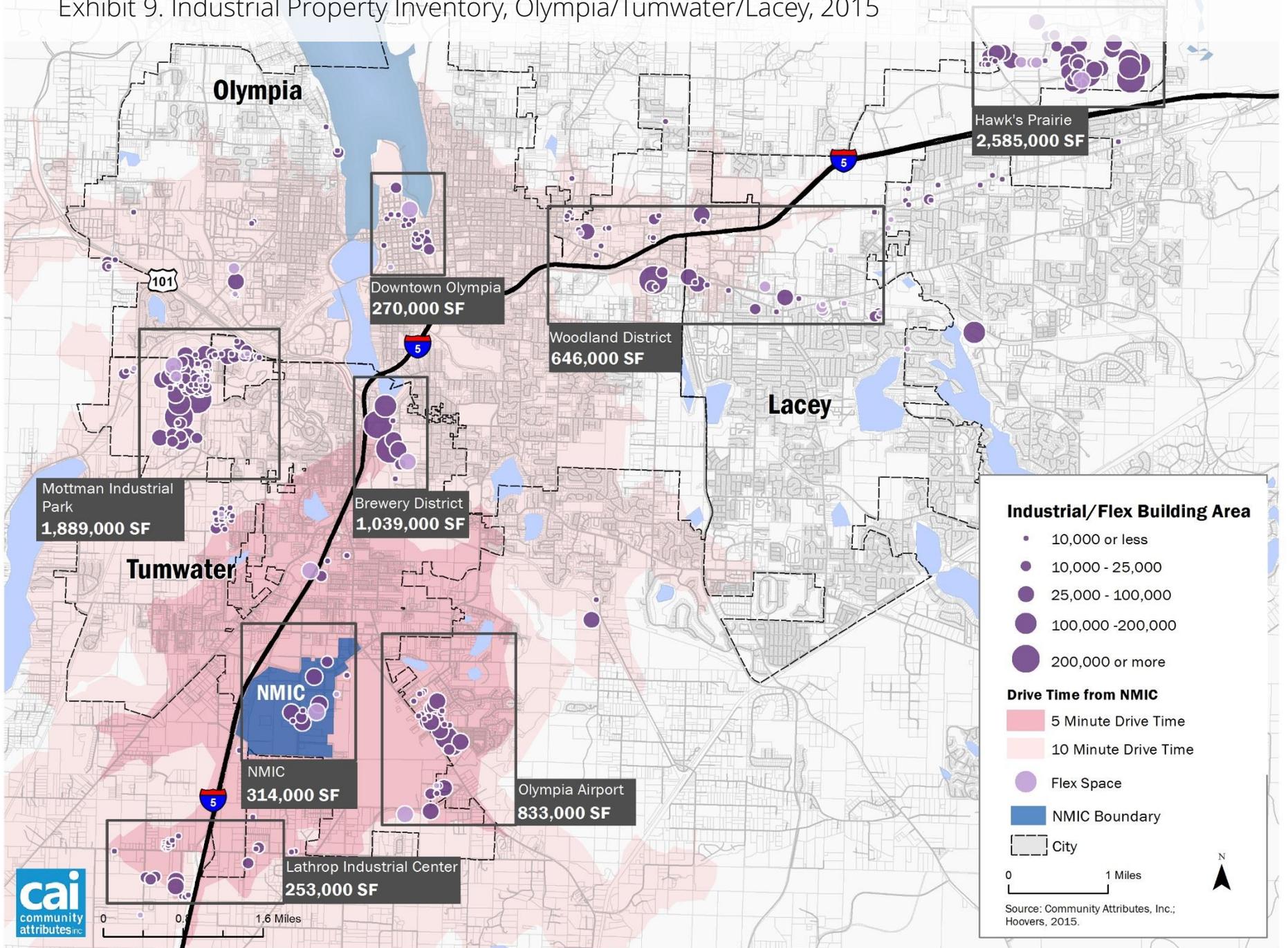
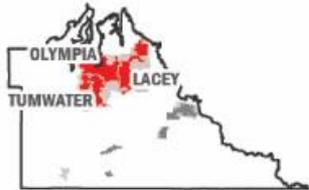


Exhibit 9. Industrial Property Inventory, Olympia/Tumwater/Lacey, 2015



Market Indicators - Office

Exhibit 10. Office Real Estate Indicators, Thurston Submarkets, 2014



THURSTON COUNTY VITALS:

Rentable Building Area:	9,252,000
Available Building Area:	1,151,200
Lease Rate per Square Foot:	\$16.20
Total Deliveries (2014):	0
Net Absorption (2014):	55,909
Average Cap. Rate (2014):	7.4%

TRANSACTIONS (2014 LEASES, BY SIZE):

ADDRESS	CITY	SIZE (SF)	PRICE/SF
1835 Black Lake Blvd. SW	Olympia	38,434	n/a
400 Union Ave. SE	Olympia	11,617	\$16.00
6135 Martin Way E	Lacey	9,800	\$12.00
612 Woodland Square Loop	Lacey	8,296	\$17.50

PIPELINE:

ADDRESS	CITY	BLDG. SIZE	STATUS
7153 Cleanwater Ln. SW	Olympia	73,952	proposed
209 Lilly Rd. NE	Olympia	32,000	proposed
8288 28th Ct. NE Bldg. 5	Lacey	9,150	proposed
4508 Intelco Loop SE Bldg. 2	Lacey	7,000	proposed

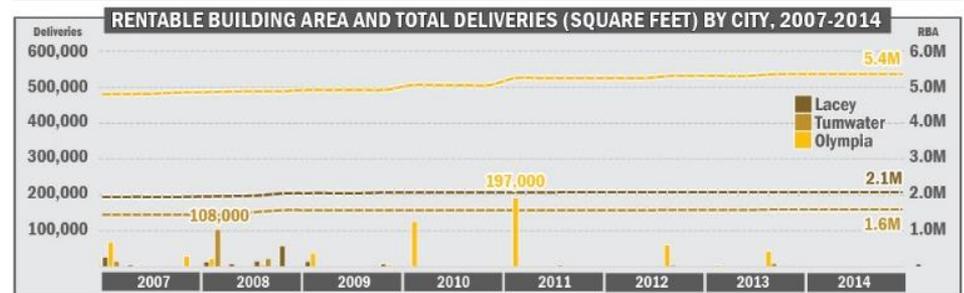
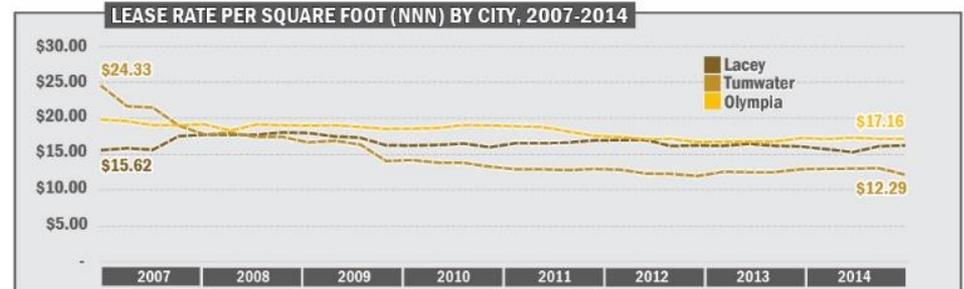
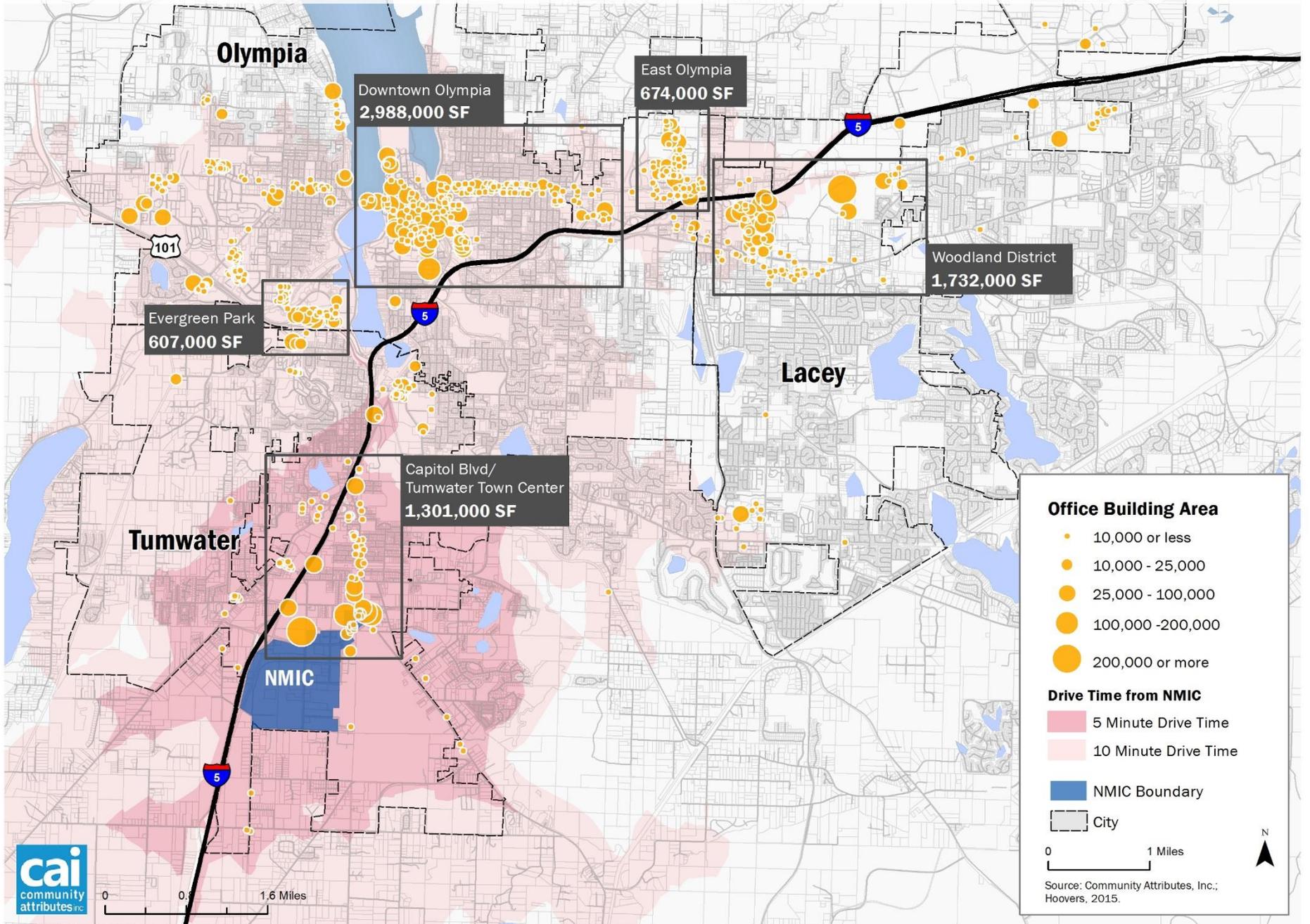
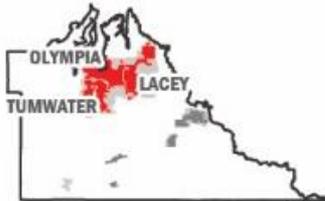


Exhibit 11. Office Property Inventory, Olympia/Tumwater/Lacey, 2015



Market Indicators - Retail

Exhibit 12. Industrial Real Estate Indicators, Thurston Submarkets, 2014



THURSTON COUNTY VITALS:

Rentable Building Area:	13,696,000
Available Building Area:	999,800
Lease Rate per Square Foot:	\$16.37
Total Deliveries (2014):	79,700
Net Absorption (2014):	69,100
Average Cap. Rate (2014):	7.3%

TRANSACTIONS (2014 LEASES, BY SIZE):

ADDRESS	CITY	SIZE (SF)	PRICE/SF
5110 Yelm Highway SE	Lacey	45,000	n/a
1210 Franz St.	Lacey	5,750	\$7.48
1520-1540 Cooper Point Rd. SW	Olympia	5,500	\$24.00
213 Sussex Ave.	Tenino	5,400	\$4.44

PIPELINE:

ADDRESS	CITY	BLDG. SIZE	STATUS
SW Kingswood Dr.	Tumwater	90,000	proposed
2524 Marvin Rd.	Lacey	40,000	proposed
0 College St. SE	Lacey	39,800	proposed
2500 Marvin Rd. NE Bldg. 1	Lacey	30,000	proposed

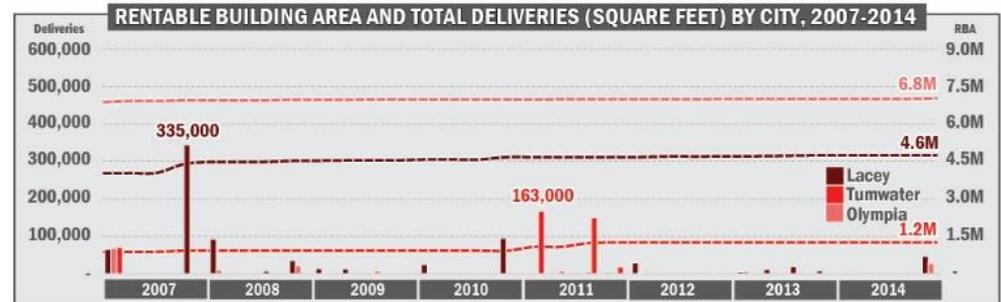
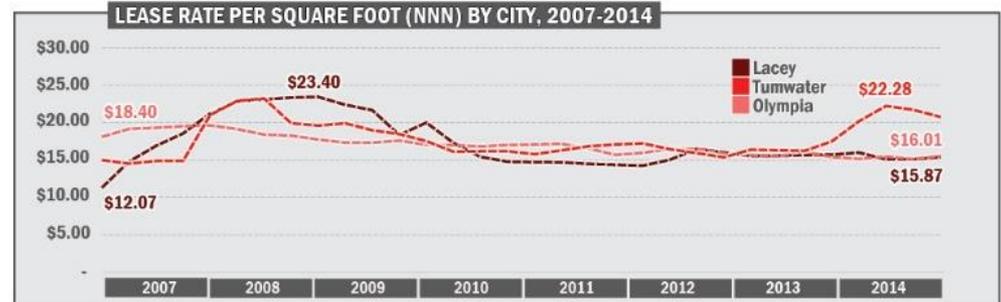
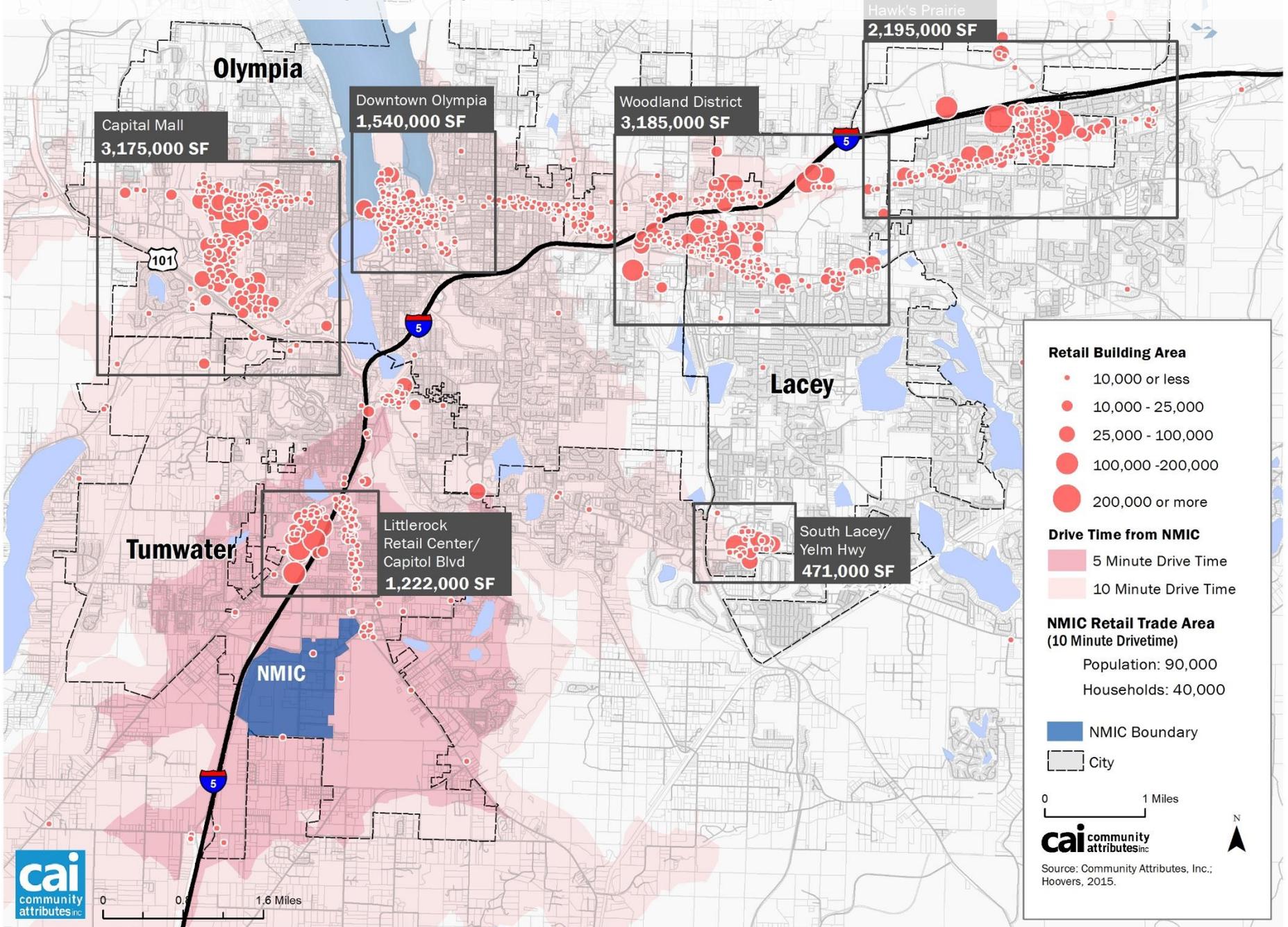


Exhibit 13. Retail Property Inventory, Olympia/Tumwater/Lacey, 2015



Source: Community Attributes, Inc.; Hoovers, 2015.

Regional Commercial Activity

Ridgefield, WA – Port of Ridgefield

Discovery Ridge



Residential, Commercial, Light Industrial

Size: 30 flat, divisible acres; 25 acres MOL net developable.

Utilities:

- Water & Sewer
- Electric
- Natural Gas
- Telecommunications

Miller's Landing



Site Condition

- Fully Remediated Brownfield Property
- No wetlands
- Environmental Areas Described
- All Development Areas are above
- 100 Year Flood Plain

Development Entitlements

- Phased Development Strategy
- Project Subdivision Pending
- Shoreline Vested
- Traffic Impact Analysis Completed

Public Amenities

- Paved Riverfront Walking Trail
- Improved Boat Launch
- Day Dock / Transient Moorage
- Public Use Areas
- Walking Access to
- Ridgefield National Wildlife Refuge

Regional Commercial Activity

Mottman Industrial Park – Tumwater, Washington



Mottman Business Park is located within Mottman Industrial Park in Tumwater, just south of Highway 101. It is 52 acre development project including the Ridgeview Office Park, a nine building multi-tenant office complex totaling 27,000 square feet. Currently, three lots are for sale, ranging in size from 1.5 to 2.6 ac.

(from Berschauer Group Inc)

Regional Commercial Activity



Lacey, WA – Hawks Prairie

Hawks Prairie 111 Corporate Park

Strategically located with immediate access to Interstate-5, Hawks Prairie 111 Corporate Park benefits from being only 30 minutes from The Port of Tacoma, and within one hour of The Port of Seattle, Seattle, Washington and within two hours of Portland, Oregon.

Developed by Teutsch Partners, Hawks Prairie 111 Corporate Park offers build-to-suit opportunities for sale or lease in sizes ranging from 25,000 SF to 500,000 SF or pad-ready land sites for sale or lease.

Amenities

- Adjacent to 36 hole golf course
- Recreational area and jogging trails (48 ac set aside for woodland and wetlands)
- Nearby affordable housing, excellent schools and major retail centers

(from Washington Real Estate Advisors)



The Landing at Hawks Prairie

This shopping center consists of 9 acres of land with approximately 80,000 sq.ft. of GLA and a strong tenant mix anchored by LA Fitness. The center was completed in 2009 and is considered to be the premiere shopping center in South Puget Sound of Washington.

(from Lucia Development)

Regional Commercial Activity



Centralia Station

Centralia Station is a proposed development to be located off the new Mellen Street interchange that will create jobs and promote economic development in Centralia. The project will be a multi-use development envisioned to include:

- Large businesses including major retailers
- Community college facilities in partnership with Centralia College
- Retail space
- Office space
- Medical facilities
- Restaurants
- Sports fields
- Tech warehouse space

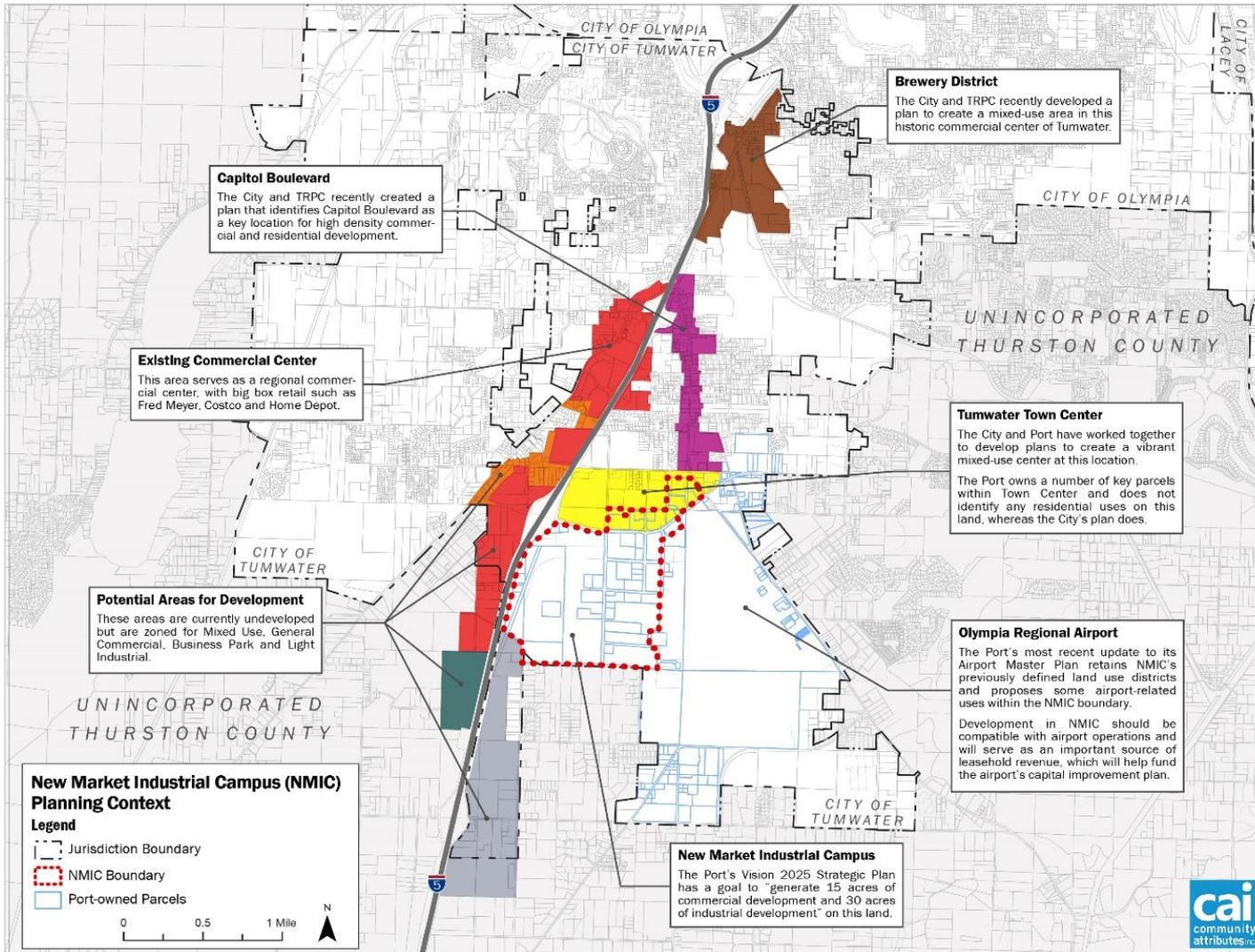
Benefits

- Project will create hundreds of local jobs during construction period
- Upon completion, Centralia Station businesses will create hundreds of permanent jobs
- Project will generate significant tax revenue to support important social services and education
- Partnership with Centralia College will expand education and learning opportunities
- Expanded retail and restaurant choices will serve nearby Providence Centralia Hospital
- Construction of sports fields and hiking trails will create new recreational opportunities

4. NMIC Today

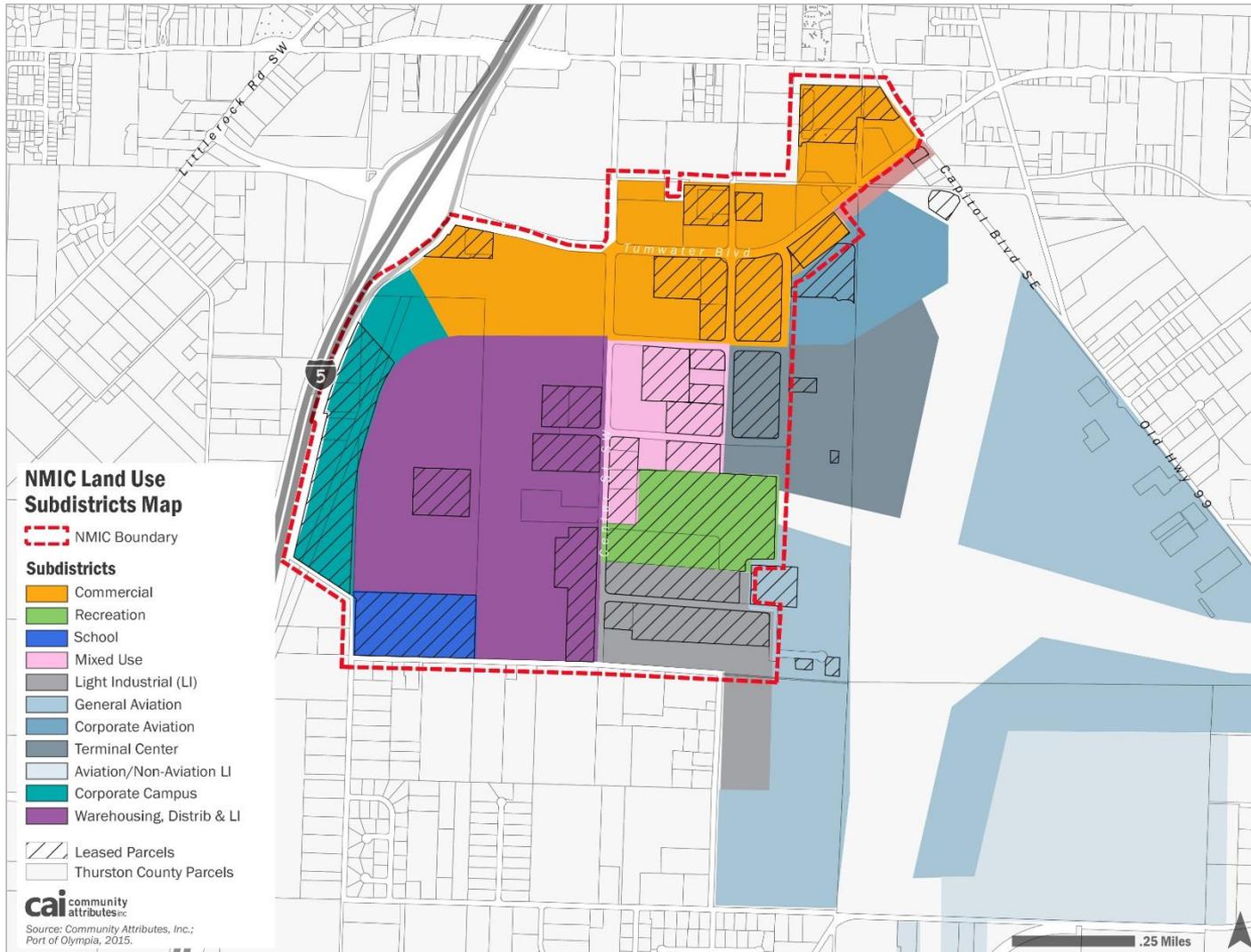
NMIC Today

Exhibit 14. Planning Context of New Market Industrial Campus (NMIC)



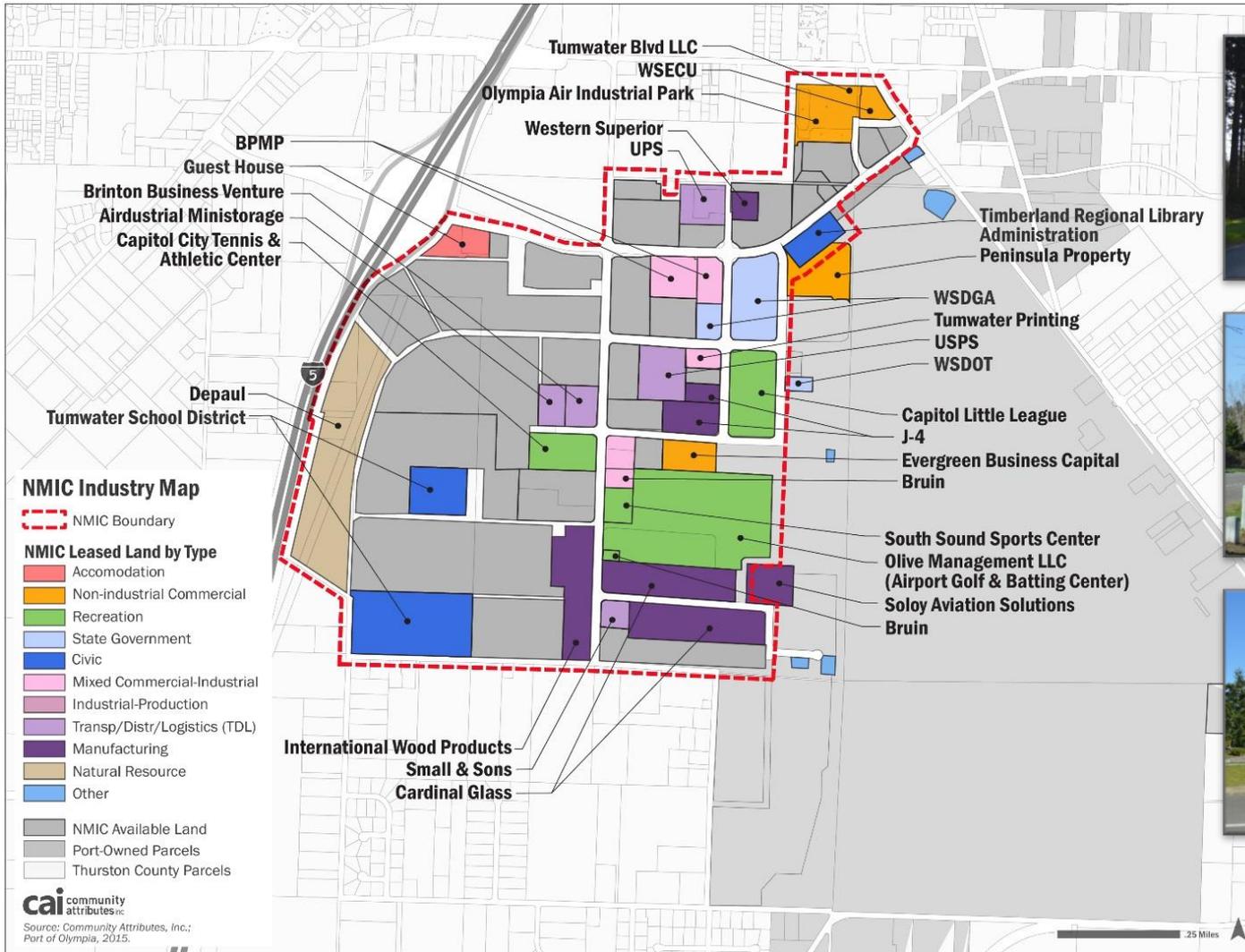
NMIC Today

Exhibit 15. NMIC Land Use Subdistricts, Port of Olympia



NMIC Today

Exhibit 16. Tenant and Industry Map, NMIC



5. Implications For Master Planning

Implications For Master Planning

Exhibit 17. The Potential for Industrial and Flex in NMIC



Land Use	Short Term Outlook	Long Term Outlook	Challenges	Opportunities
<p>4 INDUSTRIAL</p> <p>AVAILABLE: 400,000 SF</p> <p>20 YEAR EMP. GROWTH: 2,400</p> <p>20 YEAR SF DEMAND: 1.8 – 2.4 Million</p> <p>20 YEAR ANNUAL SF ABSORPTION: 90,000 – 120,000</p>			<ul style="list-style-type: none"> > Competing industrial centers > Distance from major industrial centers/major port facilities > Lack of infrastructure 	<ul style="list-style-type: none"> > Lower land costs > Large tracts of available land > Low vacancy rates in Tumwater > Limited deliveries/entitled development in region

Implications For Master Planning

The Potential for Industrial and Flex in NMIC

- + Industrial uses are slated to occupy a larger share of total employment in all three submarkets, and continued employment growth drives industrial development.
- + **The largest industrial pipeline projects are in Tumwater**, which attests to demand, though there is uncertainty surrounding when or if they will be built.
- + Tumwater's **industrial lease rates are significantly higher** (\$6.32) than found in the other submarkets, and **vacancy rates are significantly lower** as well (2.6%), suggesting unmet demand.
- + Tumwater has relatively high flex lease rates (\$13.56) and relatively low flex vacancy rates (1.9%), suggesting unmet demand.
- Leasing activity seems to indicate **significant interest in the Lacey submarket, limited availability in Olympia and Tumwater submarkets**, or both.
- The development pipeline indicates significant interest in NMIC's competitors, with activity at the Mottman Industrial Park by South Puget Sound Community College in Olympia and at Hawk's Prairie; Mottman, in particular, appears well-positioned to improve its flex space offerings.
- A comps analysis indicates that **places with significant infrastructure and amenities command higher lease rates** than currently paid by industrial tenants at NMIC.

Implications For Master Planning

Exhibit 18. The Potential for Office in NMIC



Land Use	Short Term ¹ Outlook	Long Term Outlook	Challenges	Opportunities
<p>1 OFFICE: STATE GOVERNMENT</p> <p>AVAILABLE²: 1,151,200 SF</p> <p>20 YEAR EMP GROWTH: 3,900</p> <p>20 YEAR SF DEMAND: 585,000 – 975,000</p> <p>20 YEAR ANNUAL SF ABSORPTION: 29,250 – 48,750</p>			<ul style="list-style-type: none"> > Uncertainty of state office demand in near and long term > Competition amongst submarkets/cities 	<ul style="list-style-type: none"> > Presence of existing government tenants in NMIC > Large nearby government office presence to north > Recent growth in state offices in Tumwater > Planned growth in Tumwater Town Center
<p>2 OFFICE: PROFESSIONAL/SERVICES</p> <p>AVAILABLE²: 1,151,200 SF</p> <p>20 YEAR EMP GROWTH: 15,600</p> <p>20 YEAR SF DEMAND: 2.3 – 4.6 Million</p> <p>20 YEAR ANNUAL SF ABSORPTION: 29,250 – 48,750</p>			<ul style="list-style-type: none"> > Recent low absorption > Lack of large scale users in market > Demand limited to small scale spaces/footprints > Larger developments limited to build to suit opportunities 	<ul style="list-style-type: none"> > High forecasted growth regionally in Professional and Business Services long term

¹ Short term is based on the current state of the real estate market as defined by current market conditions, lease rates, absorption, etc...

² Available office space includes both public and private sector office space.

Implications For Master Planning

The Potential for Office in NMIC

- + Forecasts indicate **significant demand for office products in the next two decades** across all submarkets, including Tumwater. Both private sector and public sector office-using employment is expected to increase, though **the private sector is forecasted to grow at a significantly higher rate.**
- + Public sector office users (i.e. Washington State) represent a unique opportunity for Tumwater; **the historical and forecast employment data indicate an ongoing shift from Lacey to Tumwater** that, if it continues, will position the latter to capture new investment in high-quality space.
- + Tumwater's plethora of development-ready greenfield and brownfield sites are well-suited to **provide amenities** like LEED certification, networked open spaces and campus-like environments, which are associated with higher lease rates in the comps analyzed.
- The office sector in the submarkets has been **slow to recover from the effects of the Great Recession**; time will tell how quickly development activity will rebound, but evidence of stagnation in the office market persists.
- Olympia is the predominant submarket for office uses, as key real estate metrics indicate clearly. Development-ready sites in Tumwater compete with Olympia and will need to demonstrate added value.

Implications For Master Planning

Exhibit 19. The Potential for Retail in NMIC



Land Use	Short Term Outlook	Long Term Outlook	Challenges	Opportunities
3 RETAIL AVAILABLE: 999,800 SF 20 YEAR EMP GROWTH: 9,000 20 YEAR SF DEMAND: 2.7 - 4.5 Million 20 YEAR ANNUAL SF ABSORPTION: 135,000 - 225,000			<ul style="list-style-type: none"> > Existing big box anchored development with 5 minutes drive > Lower population density at south end of Puget Sound 	<ul style="list-style-type: none"> > Freeway traffic access > Tumwater Town Center growth > Capitol Blvd improvements > Currently achieving high lease rate, low vacancy rates in Tumwater > Low inventory of retail square footage

Implications For Master Planning

The Potential for Retail in NMIC

- + Retail has more rentable building area than any other major use in the county. **Retail also posted stronger net absorption and higher average lease rates in 2014 than all major uses studied.**
- + The Tumwater submarket may be **under-retailed relative to other submarkets** in the county. Retail square footage per capita in Tumwater is just 45% of square footage per capita in Olympia and 61% of square footage per capita in Lacey.
- + **Tourism and recreation employment is forecasted to grow significantly** in Thurston County, indicating demand for space. This particular category of retail has a symbiotic relationship with the accommodation and food services segment.
- Certain retail segments, including accommodation and food services, continue to be dependent on the fragile economic recovery and, in particular, on government regulations on travel and discretionary spending.
- There are physical constraints to retail development in NMIC, including dense groves of trees that impede views to retail establishments and their signage. **NMIC, by virtue of its location, is located peripherally relative to concentrations of housing in Tumwater and the county.**

Implications For Master Planning

The Potential for Retail in NMIC

- NMIC has no existing retail concentration, while significant retail clusters are located throughout the county in Tumwater (at Littlerock Road), Olympia (in downtown and by the Capital Mall) and in Lacey (in the Woodland District and at Hawk’s Prairie). NMIC is also not alone as an aspirational commercial center in Tumwater; **it will compete directly for many types of retail with Capitol Boulevard to the east.**
- NMIC, at the southern end of the metropolitan area, may **compete with outlet offerings in Centralia and Chehalis**, which typically entice customers to drive longer distances in order to obtain better pricing.
- Lacey has some momentum in the retail sector, as evidenced by the volume and size of retail transactions and pipeline projects in 2014. Tumwater has one large pipeline project near Littlerock Road, but the “big box” format prevalent in that part of the city may not be replicable in NMIC.
- New retail products built close to NMIC are struggling; vacancies in recently constructed projects along Capitol Boulevard sometimes top 50%. Moreover, **there appear to be few examples of successful mixed-use retail across the submarkets.**

Implications For Master Planning

Exhibit 20. The Potential for Residential in NMIC



Land Use	Short Term Outlook	Long Term Outlook	Challenges	Opportunities
<p>5 MULTIFAMILY</p> <p>VACANCY RATE: 4.0%</p> <p>20 YEAR POP GROWTH: 104,135</p> <p>20 YEAR MULTIFAMILY HOUSING GROWTH: 14,302</p>			<ul style="list-style-type: none"> > Low rents found in Tumwater > Limited demand in short term > Lack of amenities > Alignment with goals/objectives of Port 	<ul style="list-style-type: none"> > Long term growth and demand for multifamily housing in Thurston County > Low vacancy rates

Implications For Master Planning

The Potential for Residential in NMIC

- + Tumwater's population (including UGA) is expected to grow rapidly (2.3% annually) between 2015 and 2035, which is a similar growth rate to Olympia and faster growth than is expected in Lacey. Forecasts indicate the potential for 10,800 new residents and about 7,500 new households.
- + Growth in single family housing units is forecasted to be particularly robust (3.1% annually) with strong growth in multifamily housing units as well (2.2% annually).
- + **Vacancy rates in all submarkets are low** enough to suggest unmet demand for multifamily housing; rates ranged from 3.0% in Olympia to 5.1% in Lacey in Q2 2014.
- To some extent, Olympia, Lacey and Tumwater are all unproven markets for certain housing typologies, including mixed-use multifamily. There are few examples of such development throughout the county.
- **Multifamily lease rates are generally too low to support any level of density that requires structured or underground parking**; the multifamily market would need to mature significantly before these more urban housing typologies are feasible.
- There are policy questions that need resolution surrounding the **appropriate role and scale of residential uses in Tumwater Town Center and on or around Port-owned properties.**

Thank you!