

TUMWATER TOWN CENTER



NEW MARKET

INDUSTRIAL CAMPUS

Real Estate Development Master Plan

MARKET PROFILE

Draft - April, 2015



*Community Attributes tells data rich stories about communities
that are important to decision-makers*

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INTRODUCTION

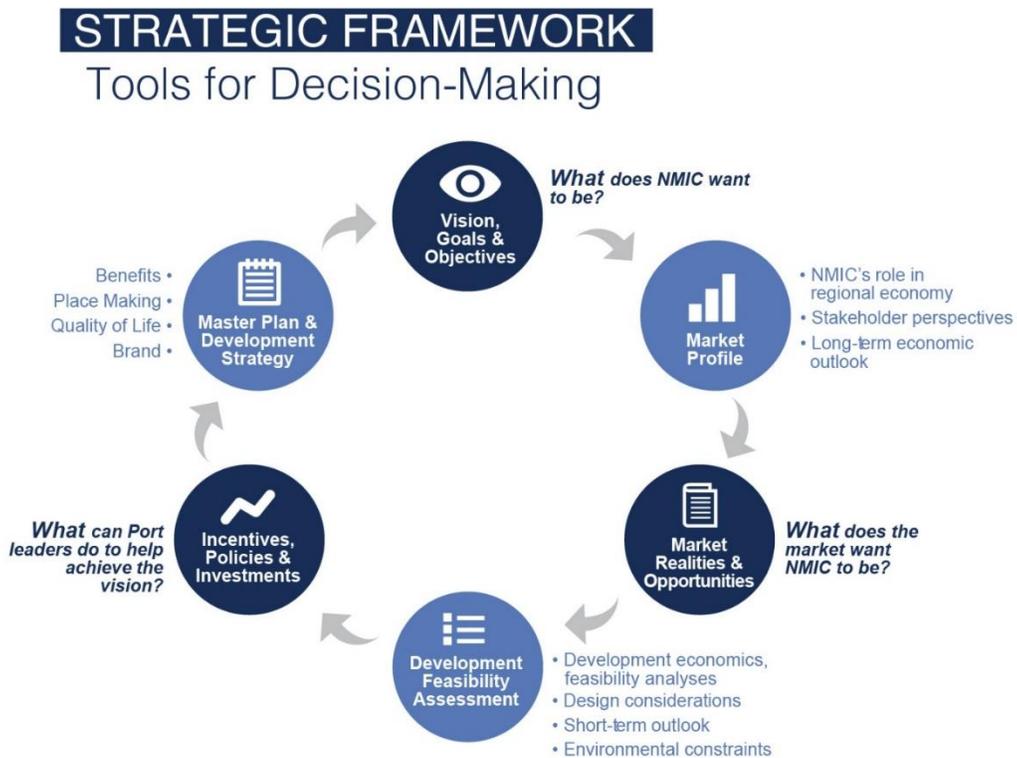
The New Market Industrial Campus (NMIC) in Tumwater is a major asset of the Port of Olympia and Thurston County. The campus is not only a significant revenue driver for the Port, but also serves as a resource for local businesses and citizens alike. Nevertheless, land in NMIC is underutilized, and the Port has commissioned a real estate development master plan to guide the design and implementation of improvements to the campus.

An initial step in the creation of a real estate development plan for the Port and NMIC is to construct a detailed market profile of the regional economy as it relates to NMIC. The focus of the profile is to understand the economic forces that will affect short-term development feasibility and the long-term realization of the Port’s vision for the property.

APPROACH

This Market Profile analyzes real estate market indicators and assesses regional and local economic indicators and growth forecasts to create a strong foundation upon which to base the Real Estate Master Plan. The analytical framework for the project is summarized in **Exhibit 1** and informs the approach to this Market Profile. This analysis begins with a high-altitude three-county (Lewis, Pierce and Thurston) analysis of regional economic data and then subsequently narrows its focus down to a review of local and site-specific trends, assets and challenges. The approach is generally organized as follows:

Exhibit 1. Project Approach



METHODS

The approach to this work leverages CAI's extensive experience in economic and real estate analysis. The analysis draws on data compiled specifically for this report, including:

- **Demographic data** from the American Community Survey and US Census Bureau
- **Employment and industry data** from Washington Employment Security Department (ESD) and Washington State Office of Financial Management (OFM)
- **Real Estate data** from CoStar, LoopNet, Kidder Mathews, Prime Locations, Dupree + Scott Apartment Advisors and primary sources, including brokers and developers familiar with NMIC and the local market
- **Parcel and property data** from Thurston County and Pierce County Assessors and the Port of Olympia
- **Forecasts** from Thurston Regional Planning Council (TRPC) for population and employment
- **Business surveys** from the Thurston Economic Development Council (TEDC)

Ultimately, the Market Profile provides critical information for the data-driven design process, which will create an urban design concept that reflects market realities and is ready for implementation.

ORGANIZATION OF MARKET PROFILE

This report is organized into the following sections and organizes data by geography from broad to specific:

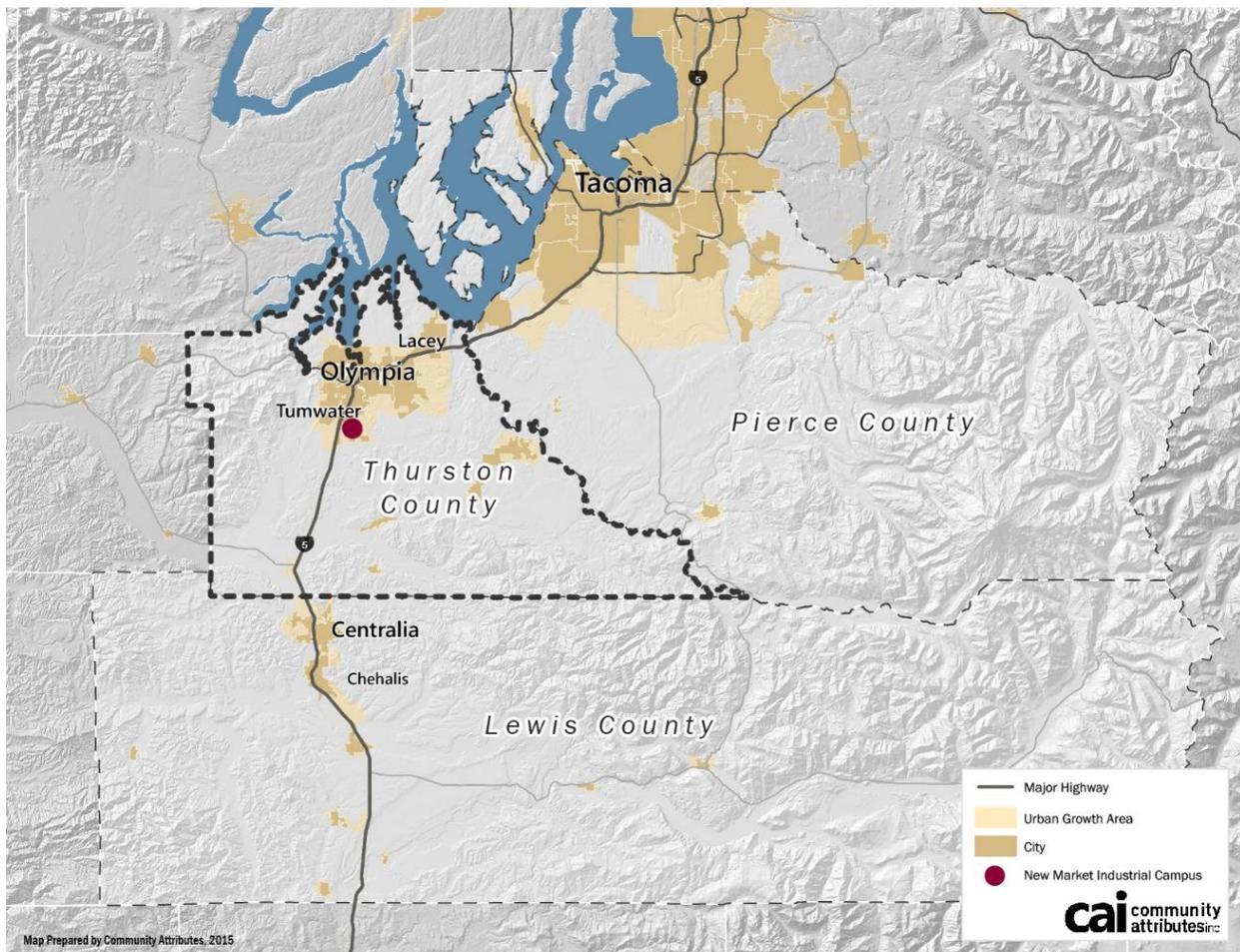
- 1. Characteristics of the Regional Market** - This section provides an overview of economic indicators and trends in the three county region (Lewis, Pierce and Thurston counties) and assesses Thurston's relative competitiveness.
- 2. Local Submarkets: Olympia, Lacey and Tumwater** - This section analyzes trends in population and employment as well as real estate market indicators for major development types.
- 3. The New Market Industrial Campus Today** - This section presents information on current tenants, industry clusters, planning context and potential real estate market opportunities and challenges for NMIC.

1. CHARACTERISTICS OF THE REGIONAL MARKET

The Port of Olympia is the only Port Authority in Thurston County. To the north and south, the Port of Tacoma and Port of Chehalis are the relevant port districts in adjacent counties. All three of these entities operate within a broad regional market that encompasses the central portion of Washington's share of the Interstate 5 corridor (**Exhibit 2**). While this is an advantageous location for a wide range of uses, the Port of Olympia and the New Market Industrial Campus (NMIC) compete with properties and property owners up and down the corridor for uses and users that are tied to existing supply and distribution chains in west-central Washington. For this reason (and in this report) the regional market is defined and analyzed as Pierce, Thurston and Lewis counties.

Each county within the regional market has a unique economic base, and each individually may also participate in other economic regions, but geographic proximity and infrastructural linkages unite these three counties in particular. This section of the Market Profile explores the Port of Olympia's role within this region and presents data related to the regional economic landscape, including housing, employment and real estate market conditions.

Exhibit 2. NMIC Regional Location Map, NMIC



Source: Community Attributes Inc., 2015.

THE PORT OF OLYMPIA'S ROLE

The Port of Olympia controls several key assets in Thurston County and is a driver of both employment and domestic and international trade in the region. Furthermore, port districts in the state of Washington have an economic development mandate and the power to finance long-term investments that spur local growth. As such, it is important to understand the Port of Olympia's role within the local economy and the relationship between the vision for NMIC and the Port's mission.

PORT DISTRICTS IN WASHINGTON

Port districts in Washington are unique; they are governed by an elected commission and operate independently of other local jurisdictions. There are 75 port districts in the state of Washington.

A port district's primary goal is economic development for its community, primarily through the creation, attraction and retention of living wage jobs. Port districts are able to finance the long-term investments needed to create incentives for this growth through four different sources of revenue: taxes, service fees, bonds and grants or gifts.



Log Ship, Port of Olympia
Source: Washington Ports Association

Because ports can levy taxes and reinvest revenues in their communities, as well as buy, develop, lease and sell property, they serve as economic engines for their regions. According to the Washington Port Association, port-led investments include marine terminals, airport facilities, improved rail infrastructure and industrial parks.

PORT OF OLYMPIA AT A GLANCE

The Port of Olympia was founded in 1922. Its key facilities include the International Seaport, Swantown Marina and Olympia Regional Airport. The Port also has significant real estate interests in other parts of Thurston County, including the East Bay and Market Districts (Olympia) and Tumwater Town Center/NMIC (Tumwater).

In 2012, the Port Commission adopted Vision 2025, a strategic plan to guide the organization's efforts between 2013 and 2025. The report reaffirmed the Port's mission, to "create economic opportunities by connecting Thurston County to the world by air, land, and sea", and identified nine targets for Port properties. These targets establish specific development goals for NMIC: to work with the City of Tumwater to generate 15 acres of commercial development and 30 acres of industrial development on Port-owned Tumwater properties in the industrial campus.

A VISION FOR NMIC

Properties along Tumwater Boulevard are located within Tumwater Town Center and represent an intriguing opportunity for office and retail development; similarly, properties south of Tumwater Boulevard may be well-suited to accommodate new and existing industrial uses.

However, the Port's Vision 2025 plan recognizes certain challenges for redevelopment efforts, including:

- Ongoing recovery of the local economy from the Great Recession
- Environmental constraints and regulatory regimes
- Need for additional planning, permitting and infrastructure improvements, as well as a comprehensive approach to freight and transportation planning

In this light, the Port's goal to generate 45 acres of new development in NMIC is ambitious and calls for additional planning efforts that leverage existing assets. Many of these assets will be explored in greater detail throughout this Market Profile, but some Port-owned facilities and existing programs are intrinsically important to the planning process.

OLYMPIA REGIONAL AIRPORT

The Washington State Department of Transportation (WSDOT) classifies the Olympia Regional Airport, owned by the Port of Olympia, as a regional service airport, meaning that it has the same physical attributes as a commercial airport but is not generally used for passenger travel on commercial aircraft. Over time, regional service airports may be converted into commercial airports, given sufficient demand.

A study commissioned by WSDOT in 2012 study found that Olympia Regional supported 227 direct and indirect/induced jobs, but the facility's impact isn't limited to job creation; the Olympia Regional Airport is a key means of moving goods in and out of the region and may be a cog in the distribution networks of NMIC tenants.



Looking east toward Mt. Rainier from the Olympia Regional Airport
Source: Community Attributes Inc. (2015)

FOREIGN TRADE-ZONE #216

The South Puget Sound Foreign-Trade Zone (FTZ), administered by the Port of Olympia, has a service area that spans across four counties – Kitsap Lewis, Mason and Thurston – and includes 13 industrial parks or properties (magnet sites). NMIC and Olympia Regional Airport are two of three Port-owned properties that fall within the FTZ.

FTZ programs are federally authorized places that allow U.S.-based companies to defer, reduce or eliminate U.S. Customs duties on products admitted to the zone. This program aims to increase global competitiveness of local manufacturers and encourage economic diversification in the South Puget Sound region, and could be a critical incentive for industrial users seeking to relocate or expand in Washington.

TUMWATER TOWN CENTER

Port-owned properties in NMIC overlap with the Tumwater Town Center planning area. This intersection will be explored further in a later section of this Market Profile, but it should be noted that the overlap provides the Port with a flexible framework for NMIC that can be tailored to accommodate a portion of the region's demand for office and retail products in a walkable, mixed-use district. Existing assets in Tumwater Town Center include the City of Tumwater's civic campus, the Washington Department of Labor and Industries offices and the New Market Skills Center.

POSITIONING THE PORT PROPERTIES

NMIC is well-served and well-positioned to meet the needs of a diverse array of tenants, but some uses may fit the local and regional conditions better than others. The following section examines the regional economic landscape in order to provide context for the planning process and guidance for the Port as it seeks tenants to fill vacancies and foster growth in NMIC.

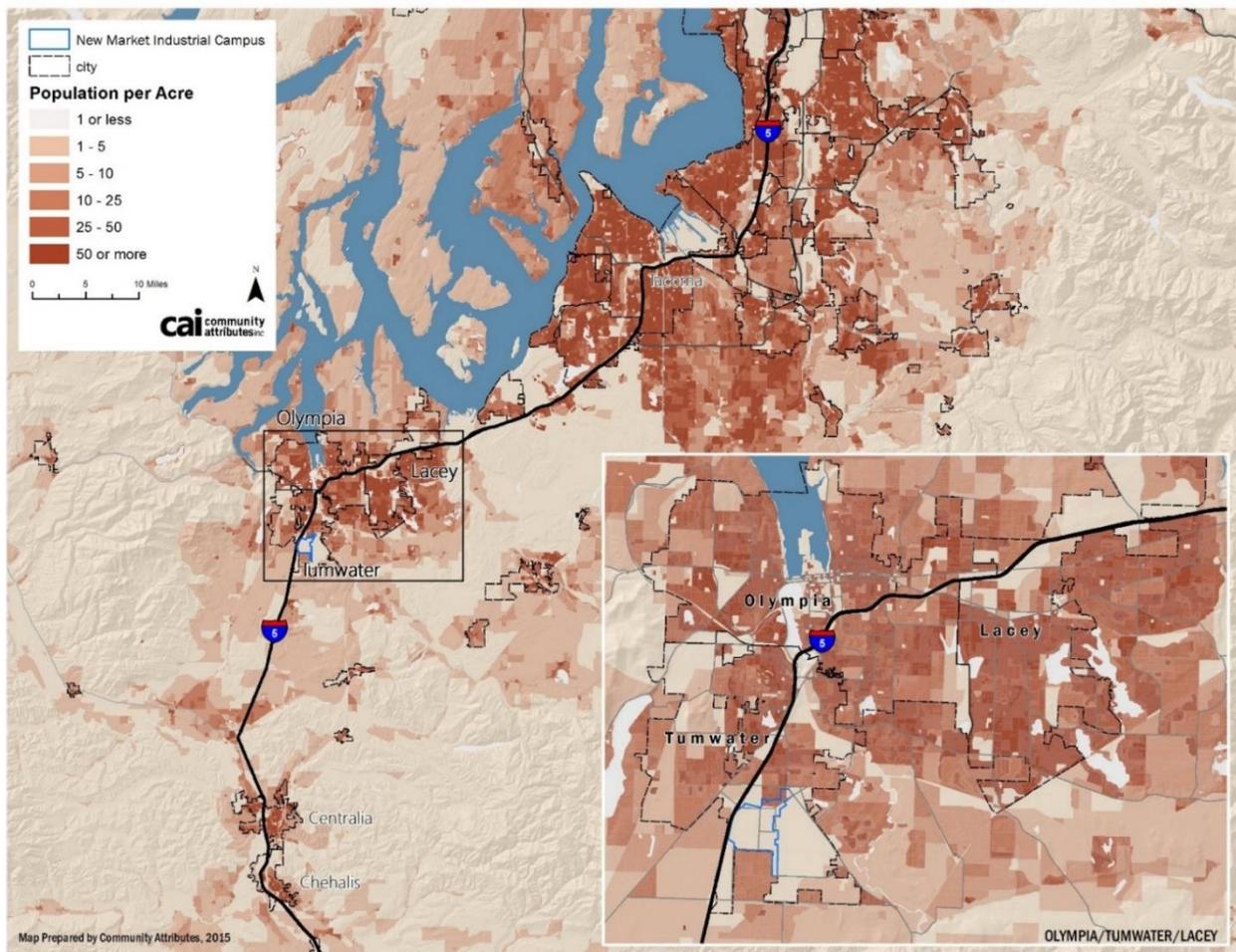
REGIONAL ECONOMIC LANDSCAPE

Locations along the Interstate 5 corridor throughout Washington State compete for various forms of economic activity that are tied to marine, rail, air and other transportation infrastructure as well as the region's natural resources and existing industry clusters. A cursory analysis of population, households, key industries and employers in Pierce, Thurston and Lewis counties provides a regional baseline and a framework to better understand economic development opportunities.

THE SOUTH SOUND REGION

NMIC and the City of Tumwater are located south of Olympia in central Thurston County. The site is at the southern limits of a dense population chain that extends from Snohomish County south along Puget Sound (**Exhibit 3**).

Exhibit 3. Population Density in Pierce, Thurston and Lewis Counties, 2010



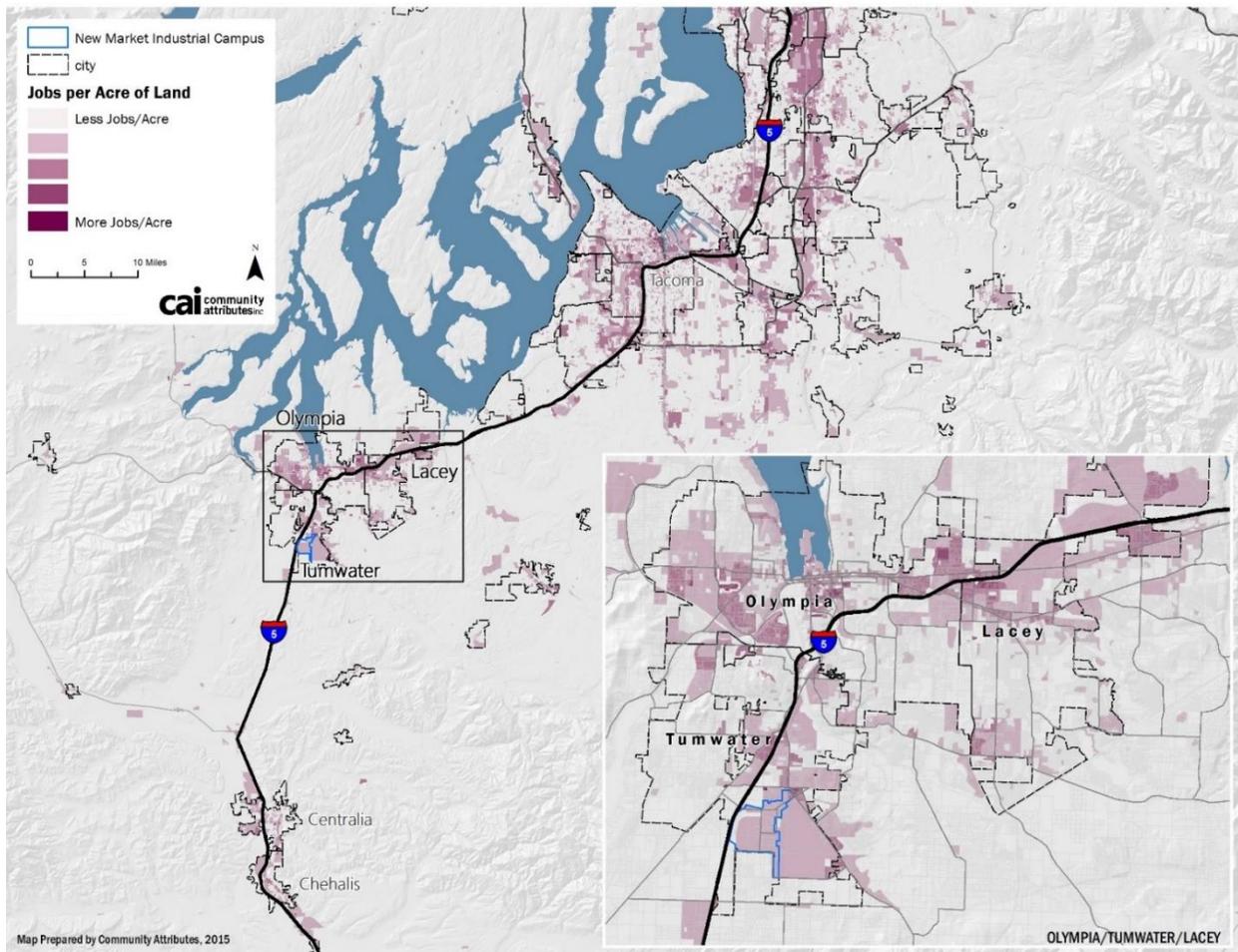
Source: U.S. Census Bureau ACS, 2010; Community Attributes Inc., 2015

Olympia, Lacey and Tumwater house the majority of residents in Thurston County with the most densely populated parts of the County located to the north and east of NMIC. There are pockets of moderate density to the south of NMIC. Centralia and Chehalis, which together

form a growing population center in Lewis County, are located approximately 20 miles south of NMIC.

Employment centers are also located up and down the population chain, but jobs are more concentrated than people, as large employers often cluster. The Kent Valley and the Port of Tacoma show high job densities on the map in **Exhibit 4**, and there is significant job-generating commercial space in Centralia and Chehalis as well. In closer proximity to NMIC, jobs are concentrated in downtown Olympia, the Mottman Industrial Park, Lacey's Woodland District, Hawk's Prairie and along Capitol Boulevard in Tumwater.

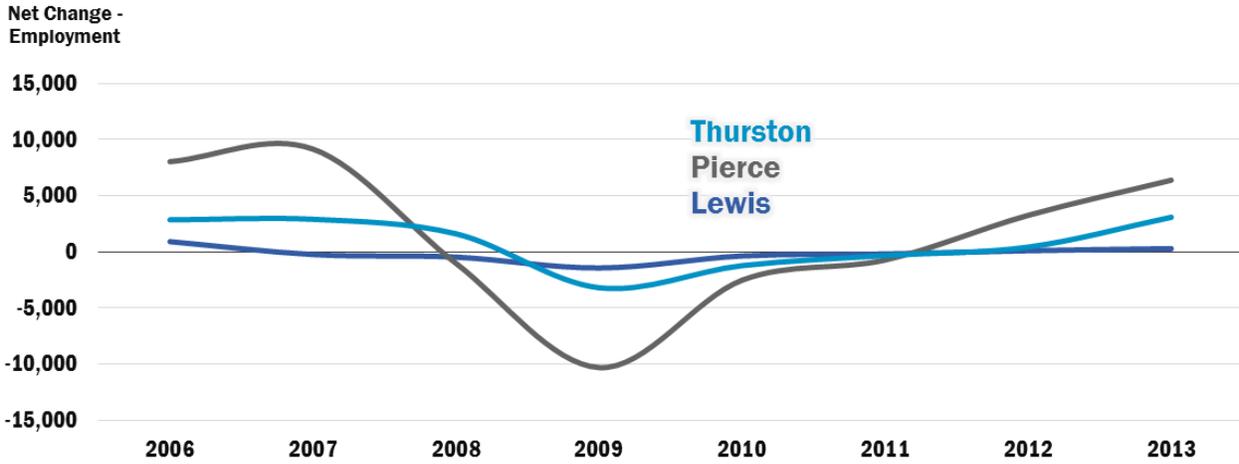
Exhibit 4. Employment Density in Pierce, Thurston and Lewis Counties, 2011



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

These job centers remain intact after the Great Recession, though the region, like many, sustained significant job losses from late 2008 through early 2012. The graph in **Exhibit 5** illustrates the net change in employment in Thurston County between 2006 and 2013, with the recessionary losses clearly visible. Job losses were greatest in Pierce County, which also has the highest total number of jobs out of the three counties. Lewis County began losing jobs earlier than the others and has only just begun to grow again. Of the three, only Thurston County is seeing similar job growth in 2013 as it did at its pre-recession peak.

Exhibit 5. Annual Net Change in Employment, Pierce, Thurston and Lewis Counties, 2006-2013



Source: Washington Employment Security Department, 2015

The composition of jobs differ between counties as well, and the following section will examine the varying employment drivers in Pierce, Thurston and Lewis counties.

REGIONAL INDUSTRY CLUSTERS AND EMPLOYMENT DRIVERS

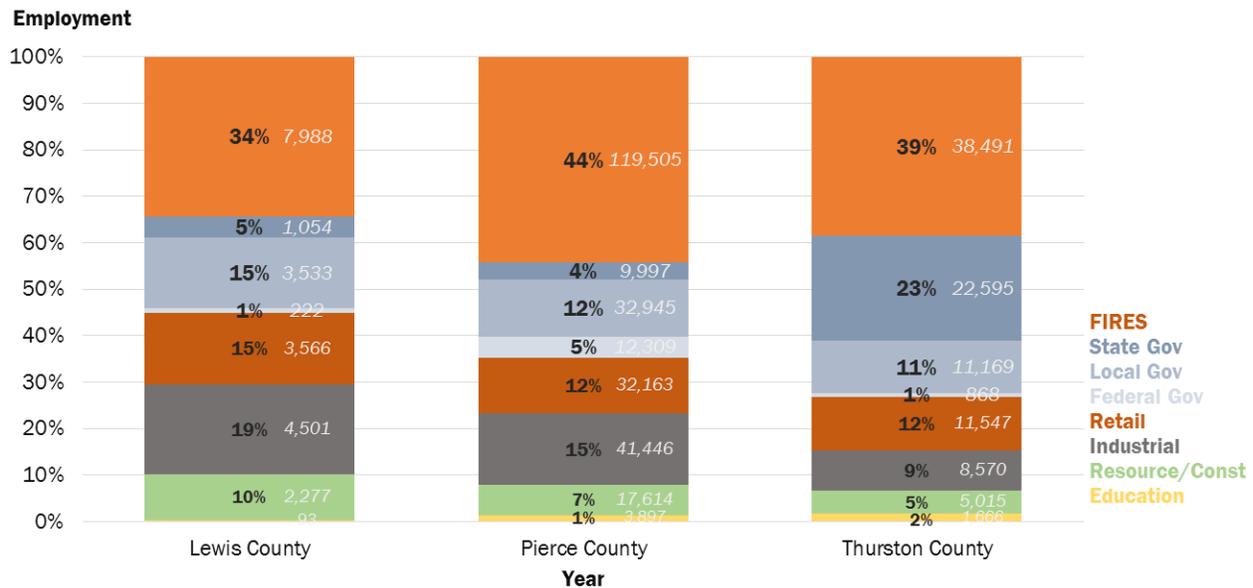
The character of employment changes across the three-county region. Pierce County, which is an important part of the central Puget Sound region as well as a participant in the South Sound region, leads the latter in the FIRES (Finance, Insurance, Real Estate and Services) sector with 44% of employment and about 120,000 jobs. The 38,500 FIRES jobs in Thurston County account for 39% of employment and the approximately 8,000 FIRES jobs in Lewis County account for 34%. This sector is a major driver of office utilization and therefore has important implications for development patterns in commercial areas.

The Thurston County economy appears most reliant on government employment, which is no surprise given that Olympia is the state capital. Federal, state and local government jobs combined account for 35% of Thurston County jobs, but only 21% in Pierce and Lewis counties. Government jobs supplement the FIRES-based demand for office space and are distributed throughout the Thurston County submarkets in Olympia, Lacey and Tumwater.

Though all three counties have notable industrial lands and a history of natural resource-based employment, these sectors are more prevalent in Lewis County, where they account for 29% of total employment countywide (versus 22% and 14% in Pierce and Thurston counties, respectively). Lewis County also has a concentration of retail jobs (15%), which may be due in part to the significant presence of outlet retailers.

These data are found below, in **Exhibit 6**.

Exhibit 6. 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

Though additional forecast data will be presented later in this Market Profile, the existing employment profile suggests several key findings related to regional growth opportunities. Furthermore, the Pacific Mountain Workforce Development Council (PMWDC), a nonprofit organization serving Grays Harbor, Lewis, Mason, Pacific and Thurston counties, conducted a study in 2012 that identified five key growth sectors for this larger region, which provides context for trends affecting Thurston County and NMIC. The five sectors are IT & telecommunications, medical services & life sciences, food production, wood product & paper manufacturing and chemical product & plastics manufacturing.

IT & TELECOMMUNICATIONS

Employment in the IT & telecommunications industry, primarily in the areas of computer programming and data processing-related services, is expected to grow substantially in the next five years. The cluster's employment in 2012 was over 24,300. Computer systems design is, by far, the largest growth driver of the core industries. Beyond the core, purchasers & distributors will also increase employment, through doctor offices, hospitals and professional consulting services.

MEDICAL SERVICES & LIFE SCIENCES

The presence of several major medical facilities and health care companies has made the region a hub for the medical services & life sciences industry. Additionally, the area has seen an increase in the manufacturing of health care products, a trend that is expected to continue over the next several years. In 2012, the medical services & life sciences cluster employment was around 22,500. Job growth is predicted to grow mainly for doctor offices and hospitals, which are also connected with many other target clusters as a major purchaser of supplies.

FOOD PRODUCTION

The food production cluster employed around 35,500 in 2012, with animal and crop production accounting for the majority of core industry jobs. Strong job growth is expected in certain industries, primarily in farming as well as purchasing & distribution in the form of restaurants and supermarkets. Other activities related to this cluster, such as food processing, are likely to remain stable or decline in the near future.

WOOD PRODUCT & PAPER MANUFACTURING

Wood product & paper manufacturing is one of the smaller clusters studied in this report, with around 21,400 employed in 2012. As has been the general trend for this cluster's core industries, employment will continue to decline in the coming years. However, some wood-related activities are anticipated to increase in employment, such as the manufacturing of wood containers & pallets, hardwood veneer & plywood and custom architectural woodwork & millwork.

CHEMICAL PRODUCT & PLASTICS MANUFACTURING

The smallest of the clusters studied by the PMWDC, the chemical product & plastics manufacturing cluster supported approximately 20,600 jobs in 2012. While glass manufacturing-related activities are expected to grow, all other core industries within this cluster will decline. Core industry employment is very small relative to the other clusters studied, reflecting their relatively minor presence in the region. The main driver will be purchasers & distributors of these products for use in hospitals, crop production and doctor offices.

TOURISM & RECREATION

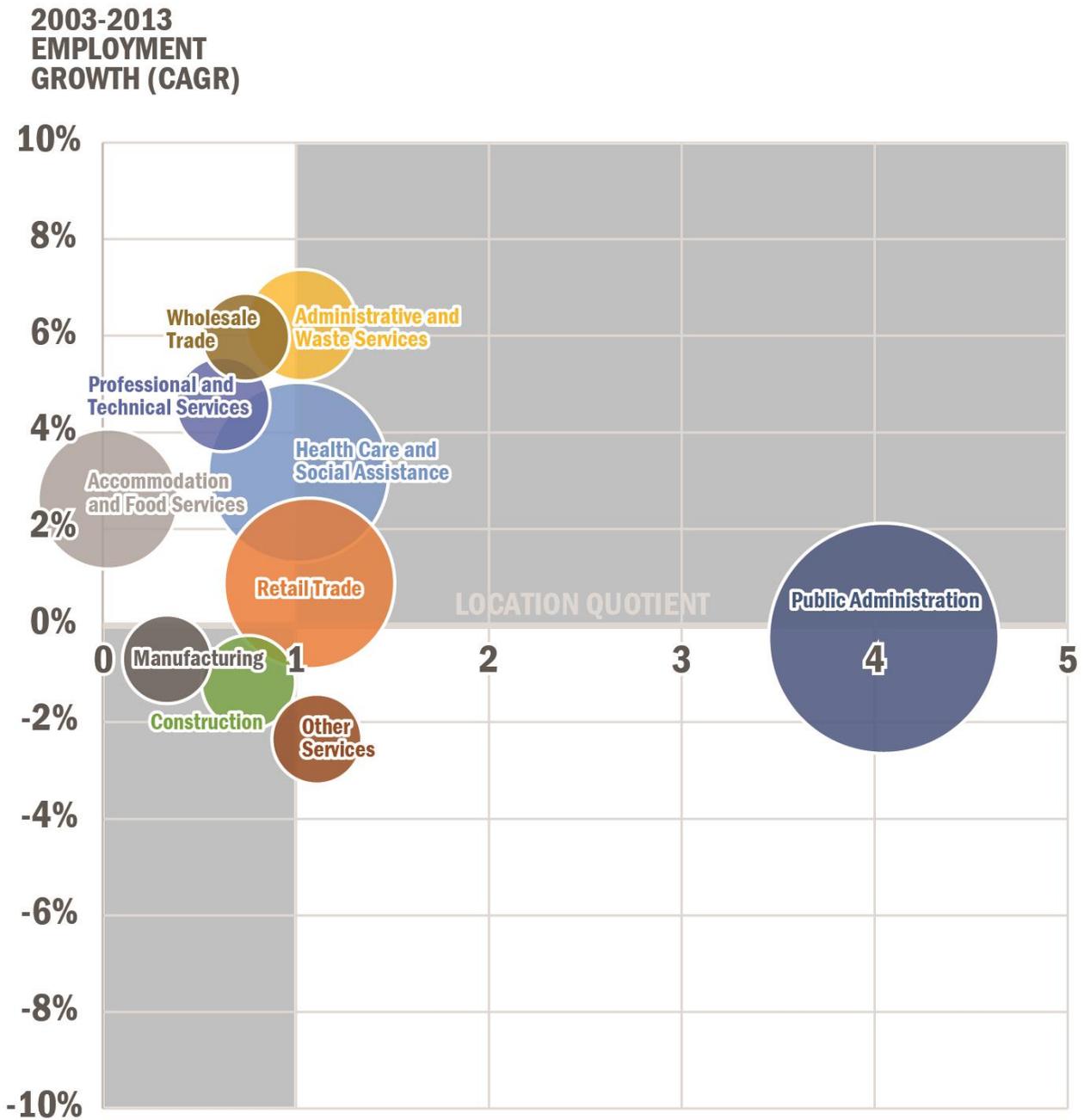
Out of all the industries studied in the PMWDC report, the tourism & recreation cluster had the highest employment levels, with over 39,100 employed in 2012, and is expected to grow substantially over the next several years. Though tribal data was not available, casinos and casino hotels were probably the largest core industry employers. Growth is anticipated to be driven by hotels and sporting goods stores.

ASSESSING COMPARATIVE STRENGTHS

The extent to which growth opportunities for Thurston County coincide with or diverge from the opportunities for this larger region, as identified by the PMWDC, may be elucidated by data that assesses the county's growing clusters relative to a larger geography. **Exhibit 7** presents the location quotients for Thurston County's ten largest two-digit NAICS sectors by total employment.

A higher location quotient, graphed on the X-axis, indicates that Thurston County has a higher concentration of jobs in a sector when compared to Washington State as a whole. Each sector is represented by a circle that is scaled to represent the size of the sector in total employment. Circles that are located below zero on the Y-axis have experienced a net loss of jobs since 2003, while positive Y-values indicate growth during the same time period.

Exhibit 7. Location Quotients for 2-Digit NAICS Sectors by Total Employment and 10 Year (2003-2013) Employment Growth, Thurston County, 2013



Source: U.S. Bureau of Labor Statistics (2013); Community Attributes Inc. (2015)

NAICS 92 (Public Administration) has lost jobs since 2003, but it is by far the most concentrated sector in Thurston County. This reflects the data in **Exhibit 6**, but places additional importance on the question of whether the government sector will grow or shrink in the future. Administrative and Waste Services, Wholesale Trade, Professional and Technical Services, Health Care and Social Assistance, Accommodation and Food Services and Retail

Trade have all grown during the 2003-2013 time period, but Thurston County is not characterized by particularly dense concentrations in any of these sectors. In fact, where high-growth sectors have particularly low location quotients (like NAICS 72—Accommodation and Food Services), the market for products associated with these sectors may be underserved, and there may be an opportunity to attract additional employers in those sectors. This finding accords with the PMWDC report that indicated that tourism and recreation have potential for growth.

Both Manufacturing and Construction sectors show relatively low employment and negative growth (i.e. job loss) from 2003 to 2013. As such, the bulk of wood product and paper manufacturing jobs from the PMWDC report may be more likely to locate outside of Thurston County. Moreover, NMIC and the Port of Olympia may be well-served by identifying non-traditional industrial and commercial users that are not explicitly tied to resource extraction.

Many of these sectors are represented by some of the county's largest private employers, given in order of total employment in **Exhibit 8**. While diverse in the number and types of businesses present, Thurston County lacks the major private employers that are more prevalent in Pierce, King and Snohomish Counties (e.g. Boeing, Microsoft). State employment, of course, forms a crucial component of the workforce, but is not represented in the exhibit.

Exhibit 8. Top Private Employers in Thurston County, 2014

Rank	Company Name	Location(s)	No. Employees
1	Providence Saint Peter Hospital	Olympia	1,700
2	Walmart Supercenter (3 locations)	Lacey, Tumwater, Yelm	1,023
3	Safeway (5 locations)	Lacey, Olympia, Tumwater, Yelm	876
4	Xerox	Lacey	650
5	Lucky Eagle Casino	Rochester	600
6	Nisqually Red Wind Casino	Olympia	600
7	Weyerhaeuser Company (3 locations)	Olympia, Rainier, Rochester	565
8	YMCA (2 locations)	Olympia	551
9	Great Wolf Lodge	Grand Mound	500
10	Panorama	Lacey	500
11	Washington State Employees Credit Union	Lacey, Olympia, Tumwater	499
12	Capital Medical Center	Olympia	469
13	Group Health Cooperative	Olympia	421
14	Costco (2 locations)	Lacey, Tumwater	420
15	Fred Meyer (2 locations)	Lacey, Tumwater	407
16	Titus-Will	Olympia	150
17	Home Depot (3 locations)	Lacey, Olympia, Tumwater	395
18	Cabela's	Lacey	300
19	Olympia Intercity Transit	Olympia	300
20	Twinstar Credit Union	Olympia	300
21	Ostrom Mushroom Farms	Olympia	250
22	Top Food & Drug	Olympia	250
23	Lowe's Home Improvement (2 locations)	Lacey, Olympia	240
24	Anthony's Restaurants (2 locations)	Olympia	220
25	Amcor Rigid Plastics	Tumwater	200

Source: TEDC, 2014

REAL ESTATE CONDITIONS

Accurate market data is essential to understand the competitive environment for real estate investors, property owners and those who shape development regulations. This section of the Market Profile presents rigorous data collection organized along the following lines:

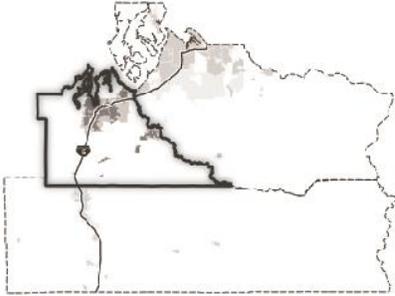
Greater South Sound Region

- Thurston County (**Exhibit 9**)
 - Thurston County Vitals
 - 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)

- Pierce County (**Exhibit 10**)
 - Pierce County Vitals
 - 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)

- Lewis County (**Exhibit 11**)
 - Lewis County Vitals
 - 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)

Exhibit 9. Real Estate Indicators, Thurston County, 2007-2014



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

- > High retail square footage per capita with strong retail lease rates
- > Large office segment propelled in part by State government
- > Development activity slow to rebound from recession

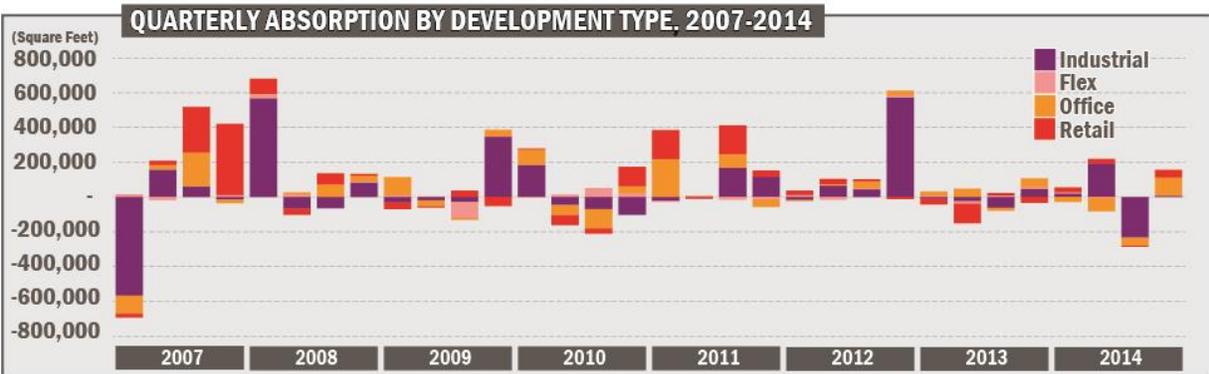
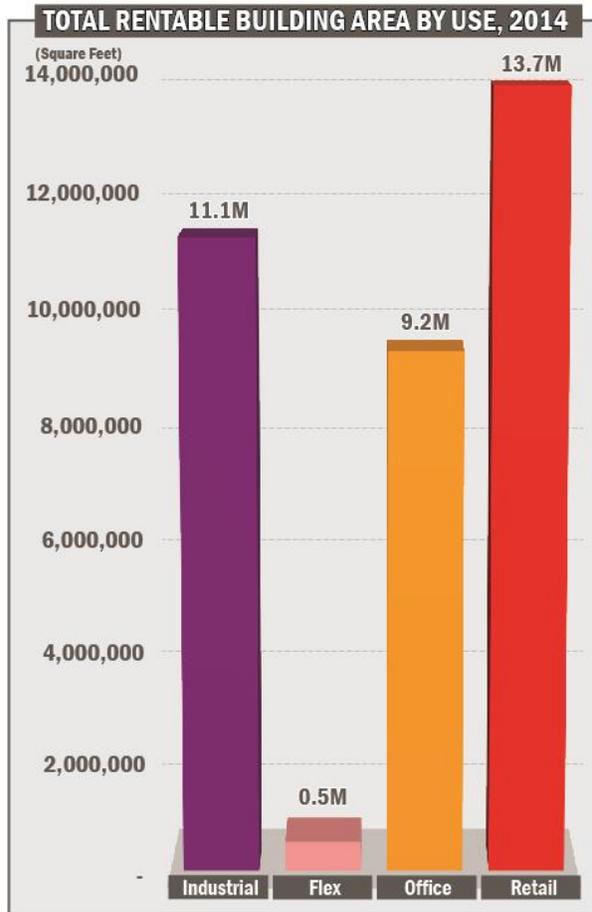
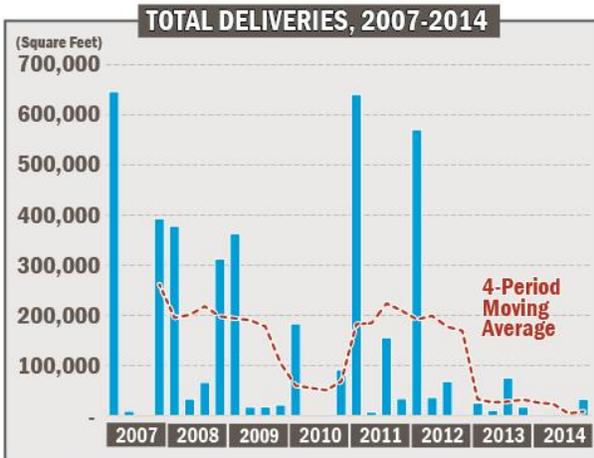
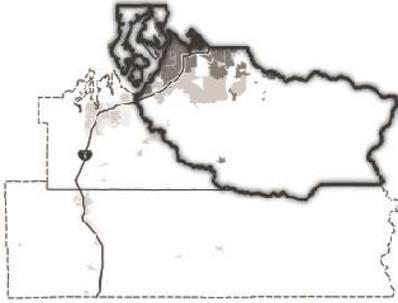


Exhibit 10. Real Estate Indicators, Pierce County, 2007-2014



POPULATION (2014):	821,300
HOUSING UNITS (2014):	335,252
EMPLOYMENT (2013):	269,876
MEDIAN HH INCOME (2013):	\$59,204

- > Significantly larger population and job center than Thurston and Lewis counties
- > Disproportionately large industrial segment and consistently positive net industrial absorption
- > Development activity coming back after recession

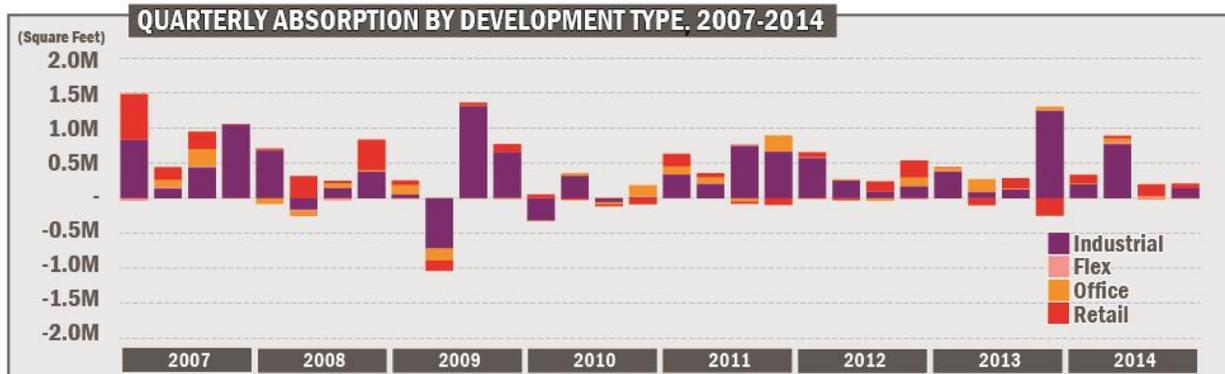
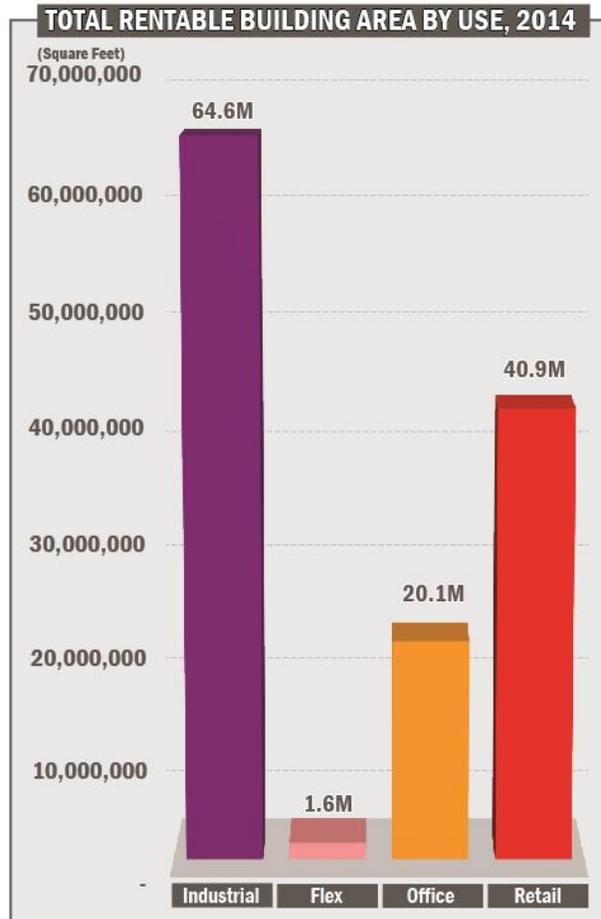
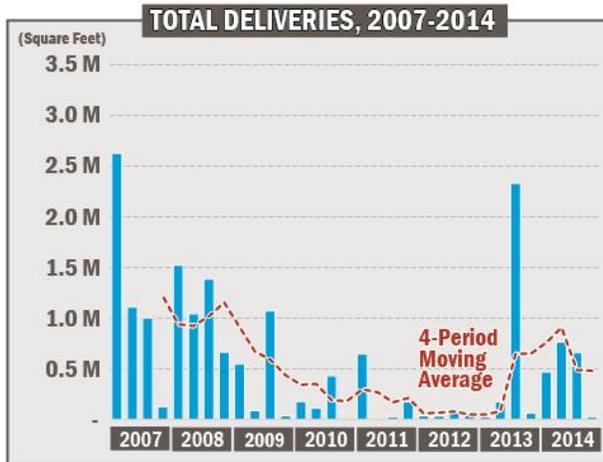
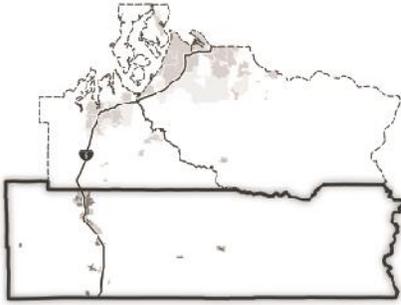
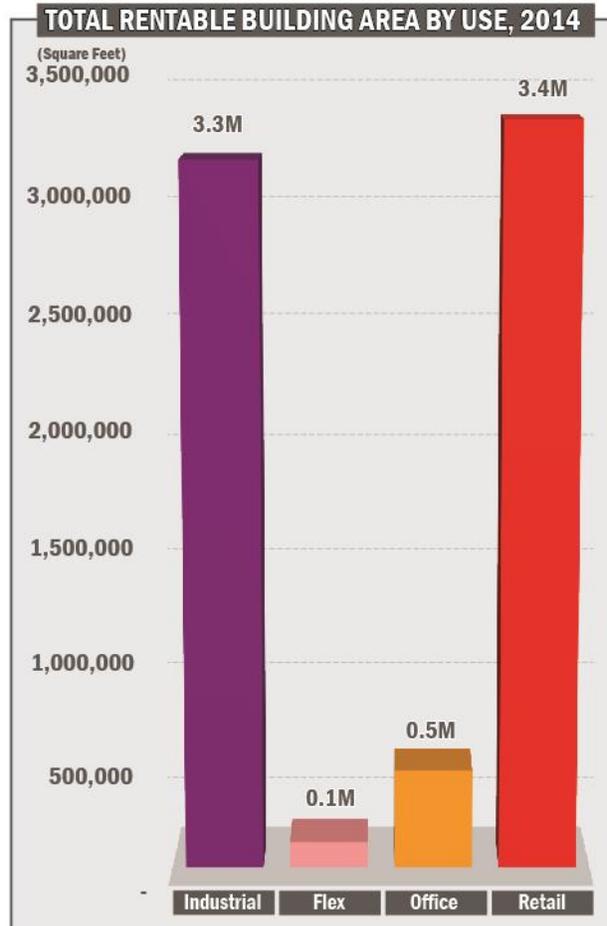
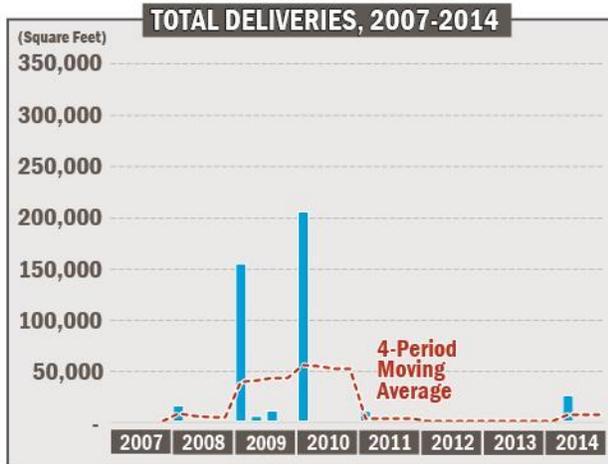


Exhibit 11. Real Estate Indicators, Lewis County, 2007-2014



POPULATION (2014):	76,300
HOUSING UNITS (2014):	34,709
EMPLOYMENT (2013):	23,234
MEDIAN HH INCOME (2013):	\$42,860

- > Inconsequential office segment relative to Thurston and Pierce counties
- > Minimal development activity since early 2010
- > Lower than average industrial and retail lease rates



THE REGIONAL PERSPECTIVE: IMPLICATIONS FOR MASTER PLANNING

The employment and market data contained in the previous sections have implications for an assessment of competitive advantages in Thurston County. This assessment, in turn, helps refine the understanding of what NMIC's role could be in the local and regional economy. Subsequent sections of this profile will provide data on submarkets within Thurston County, but the key findings from regional data are as follows:

- + State government employment is a significant presence in Thurston County, due in large part to the location of the Washington State Capitol in Olympia; the state's continued operations will drive office leasing throughout the county. The location quotient data shows strong employment concentrations in public administration as well as administrative and waste services.
- + Resources-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. The PMWDC report's focus on food production and wood and paper manufacturing is a testament to this.
- + 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, as existing flex inventory is priced similarly to industrial space and is limited in availability. 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 according to the location quotient data, and professional and technical services has posted significant growth as well.
- + Tourism and recreation should provide a growth opportunity in Thurston County, which benefits from existing assets and good accessibility. The location quotient data indicates that the related industry of accommodation and food services is small in Thurston County, but that it has grown significantly in the last decade.
- 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 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.
- Thurston County is a secondary market for major institutional investors, and development has rebounded more slowly from the Great Recession when compared to Pierce, King and Snohomish counties.

2. LOCAL SUBMARKETS: OLYMPIA, LACEY AND TUMWATER

For the purposes of this report, submarkets are defined as Olympia, Tumwater and Lacey, which are the three most populous cities in the County. The data for each submarket is presented by major use (e.g. industrial, office); each section consists of maps, real estate market data, lease and sales comps and forecasts, as appropriate. Data analysis for these submarkets will help refine findings from the regional data to determine a specific market niche for NMIC.

SUBMARKETS IN CONTEXT

Olympia serves as the major employment center among the three submarkets, with over 53,000 jobs in 2010 (Exhibit 12). Currently, Lacey has about 5,400 more jobs than Tumwater. By 2035, Lacey is expected to gain another 18,000 jobs; over the same period of time, Tumwater's job growth will be much lower, adding only about 9,700 new jobs. Jobs in the commercial segment are expected to propel overall job growth in all three submarkets.

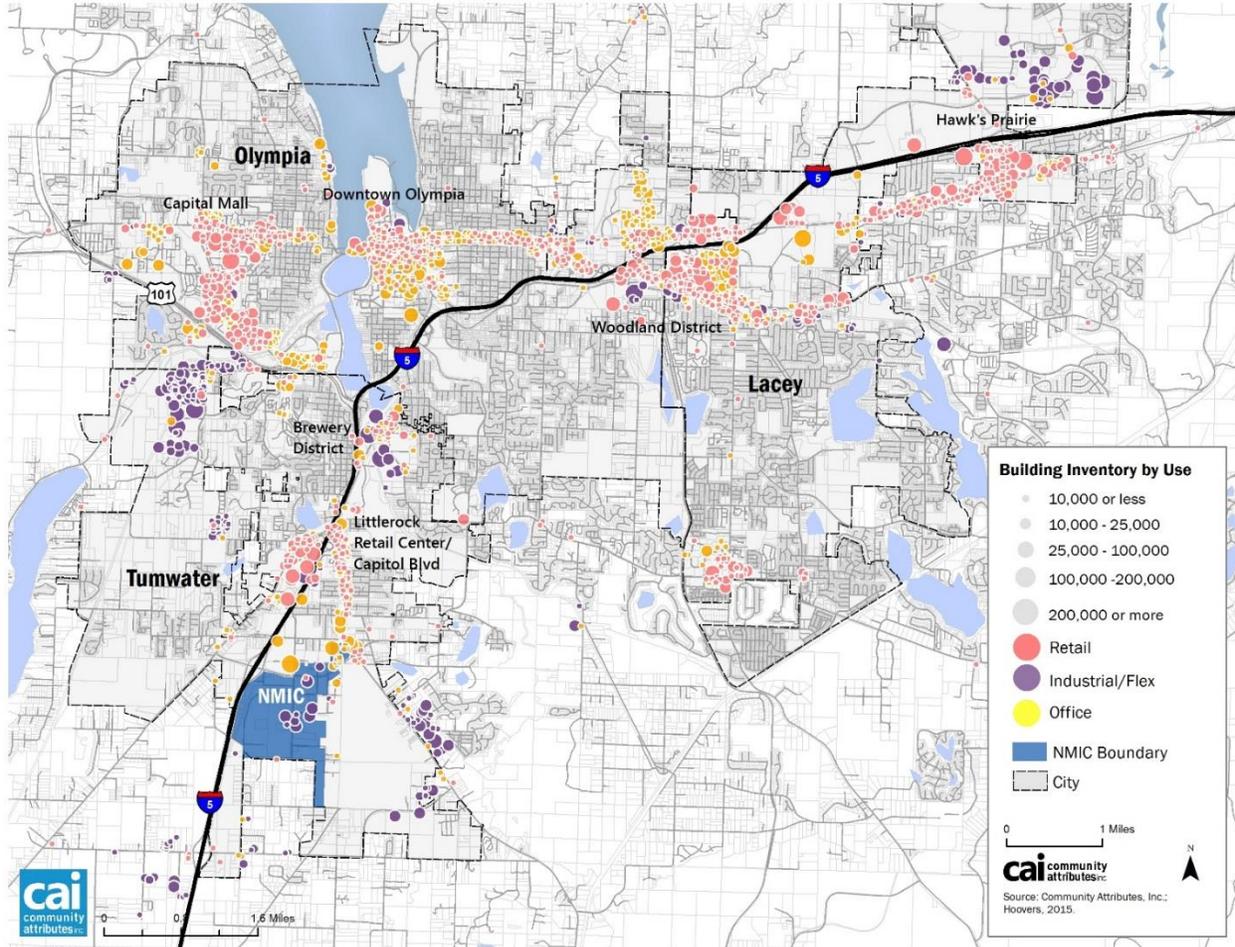
Exhibit 12. Forecasted Employment by Industry, Olympia, Lacey, Tumwater, 2010 and 2035

Industry	Year/ Change	Tumwater		Lacey		Olympia	
	Resources	2010	94	0.4%	319	1.1%	104
	2035	94	0.3%	293	0.6%	104	0.1%
	Change	0	-0.1%	-26	-0.5%	0	-0.1%
Industrial	2010	4,206	17.9%	3,574	12.3%	3,168	6.0%
	2035	5,977	18.0%	6,750	14.3%	5,339	7.4%
	Change	1,771	0.1%	3,176	2.0%	2,171	1.4%
Commercial	2010	9,450	40.2%	19,386	67.0%	33,449	63.0%
	2035	15,264	45.9%	32,096	68.1%	47,501	65.8%
	Change	5,814	5.7%	12,710	1.1%	14,052	2.8%
Government	2010	9,745	41.5%	5,661	19.6%	16,368	30.8%
	2035	11,931	35.9%	7,981	16.9%	19,271	26.7%
	Change	2,186	-5.6%	2,320	-2.6%	2,903	-4.1%
Total	2010	23,495	100.0%	28,940	100.0%	53,087	100.0%
	2035	33,265	100.0%	47,120	100.0%	72,215	100.0%
	Change	9,770	0.0%	18,180	0.0%	19,128	0.0%

Source: TRPC, 2013.

The commercial inventory in Olympia, Tumwater and Lacey is mapped in **Exhibit 13**. Olympia and Lacey have the largest clusters of commercial building area, a pattern that follows the area's population density.

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



Source: Community Attributes Inc. (2015)

The subsequent sections will analyze key data for the major building types – industrial, flex, office, retail and residential – to determine the relative market conditions in each submarket. Trends in lease rates, deliveries, total rentable building area, absorption and vacancy rates offer insight into the health of the submarket and suggest future trajectories for each product.

In addition to the market indicators, an assessment of existing developments provides an understanding of the competitive landscape that potential projects face in the submarket. Lease rates, vacancy rates and other data reveal the overall performance of different building types and indicate what may be achievable for future developments in NMIC. Comparable developments appropriate for use as a baseline for each of the building categories were selected and any unique attributes were highlighted.

The analysis culminates in an assessment of the strengths and weaknesses of each major market segment. The assessment is informed by previously discussed market and economic analysis as well as interviews conducted with several real estate professionals active in the local market.

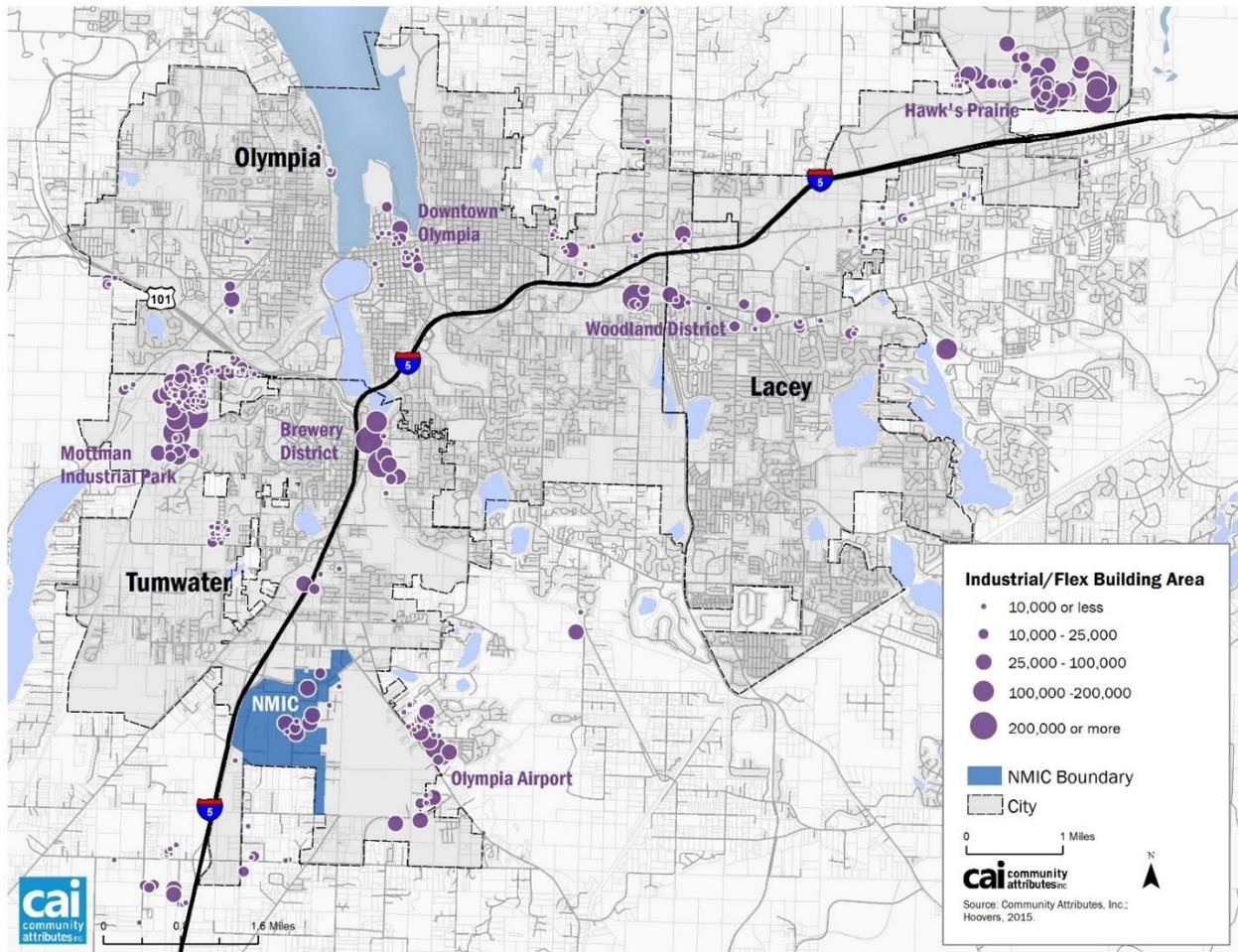
- Industrial/Flex Development
- Office Development
- Retail Development
- Residential Development

INDUSTRIAL/FLEX DEVELOPMENT

Exhibit 14 is a map of industrial/flex properties in the Olympia-Lacey-Tumwater submarket. The map reveals major industrial centers to the west in Tumwater (Mottman Industrial Park) and to the northeast at Hawk's Prairie in Lacey. There is also a small industrial cluster in Tumwater's Brewery District. The Port of Olympia's industrial properties are scattered throughout the submarkets, with small concentrations near downtown Olympia in East Bay and at NMIC.

Notably, many of these clusters have recently undergone extensive planning efforts. The subarea plan for Hawk's Prairie in Lacey was revised in 2008, the Woodland District form-based code planning process is underway in 2015, the Brewery District Plan was adopted by the Tumwater City Council in 2014, and development guidelines for the Port's East Bay District were approved by the Port Commission in 2011. Many of these places offer infrastructure that is not currently in place in NMIC.

Exhibit 14. Industrial Property Inventory, Olympia/Tumwater/Lacey, 2015



Source: Community Attributes Inc. (2015)

DRIVERS OF INDUSTRIAL AND FLEX DEMAND

Employment in various industrial and commercial sectors drive the demand for industrial space; these types of employers, in turn, are attracted by proximity to raw materials, access to infrastructure, existing supply and distribution networks and a talented workforce, among other factors. Given the amenities that the Thurston County submarkets offer to industrial firms, as well as certain salient macroeconomic factors, some industrial sectors are expected to grow faster than others in Thurston County. **Exhibit 15** shows that the fastest growing sectors, transportation and warehousing and wholesale trade, are expected to add approximately 1,670 jobs in the next 20 years.

Exhibit 15. Forecasted Job Growth for Industrial Uses, Thurston County, 2015-2035

Industry	Land Use/ Building Type	Employment			
		2015	2035	Net New Jobs	Growth (CAGR)
Transportation and warehousing	Industrial	2,960	3,940	980	1.4%
Wholesale trade	Industrial	3,410	4,100	690	0.9%
Manufacturing	Industrial	3,200	3,540	340	0.5%
Nondurable Goods	Industrial	1,370	1,550	180	0.6%
Durable Goods	Industrial	1,830	1,990	160	0.4%
Utilities	Industrial	250	290	40	0.7%
Subtotal		13,020	15,410	2,390	0.8%

Source: Thurston Regional Planning Council, 2013

Because industrial uses are typically characterized by low employment densities, modest job growth in any given industrial segment can support significant industrial space. Transportation and warehousing and wholesale trade both drive demand for light industrial and flex products, while manufacturing is classified as a heavy industrial use. The comparatively high growth among the former has implications for opportunities to serve industrial users in NMIC.

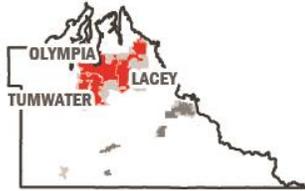
KEY INDUSTRIAL AND FLEX INDICATORS

Comparing trends and current benchmarks in real estate data between Olympia, Lacey and Tumwater provides context for an assessment of the relative health of industrial properties in the submarkets and provides critical information for a detailed feasibility assessment of individual industrial projects on specific sites in NMIC. Of the uses analyzed, industrial has had the most activity recently, with the recent delivery of 500,000 square feet in Lacey (**Exhibit 20**). Furthermore, the vast majority of recent transactions, large and small, have also occurred in Lacey. However, all three submarkets appear to have projects in the pipeline.

Tumwater has the highest industrial lease rates on average, with the least amount of rentable building area, whereas the opposite is true for Lacey. Vacancy rates in Lacey and Tumwater have been relatively stable, with Tumwater's rate at less than half of Lacey's current average (7%). Vacancy rates in Olympia recently doubled, jumping to 12% in 2014 as the submarket saw negative absorption of 170,000 square feet.

Flex uses are a small component of all submarkets, with few deliveries and variable lease rates (**Exhibit 16**).

Exhibit 16. Industrial Real Estate, Thurston County Submarkets, 2007-2014



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

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

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

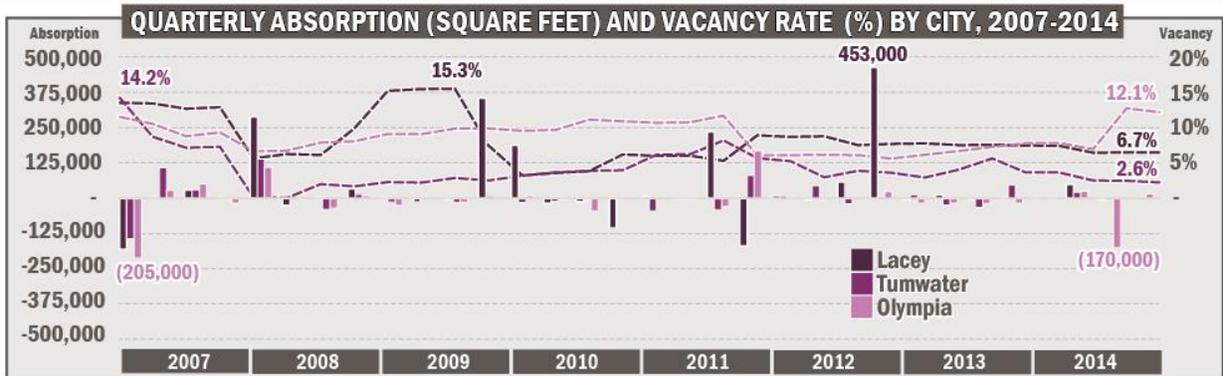
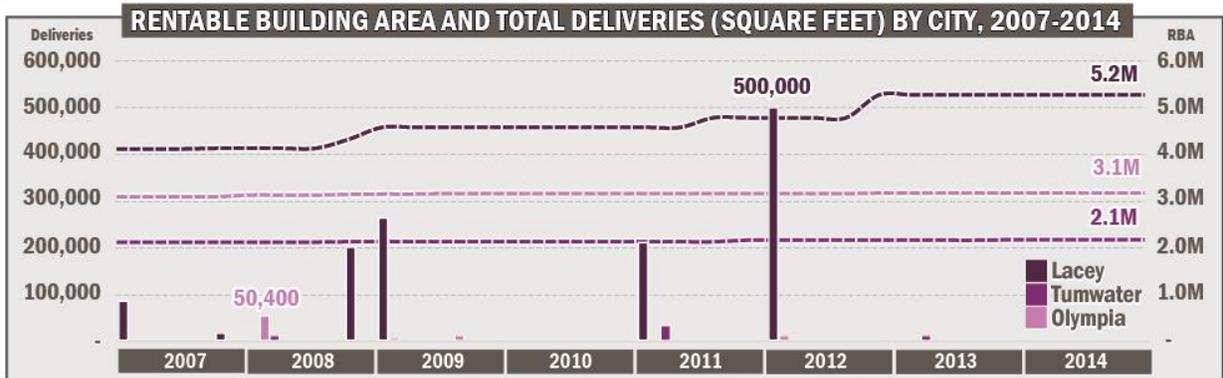
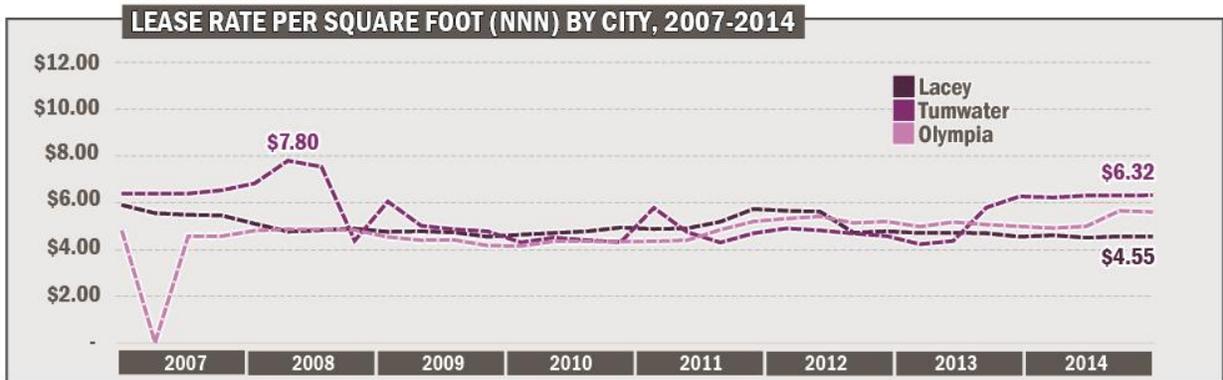
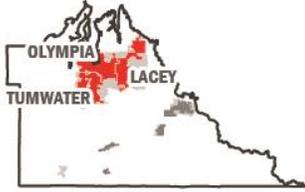


Exhibit 17. Flex Real Estate, Thurston County Submarkets, 2007-2014



TRANSACTIONS (2014 LEASES, BY SIZE):

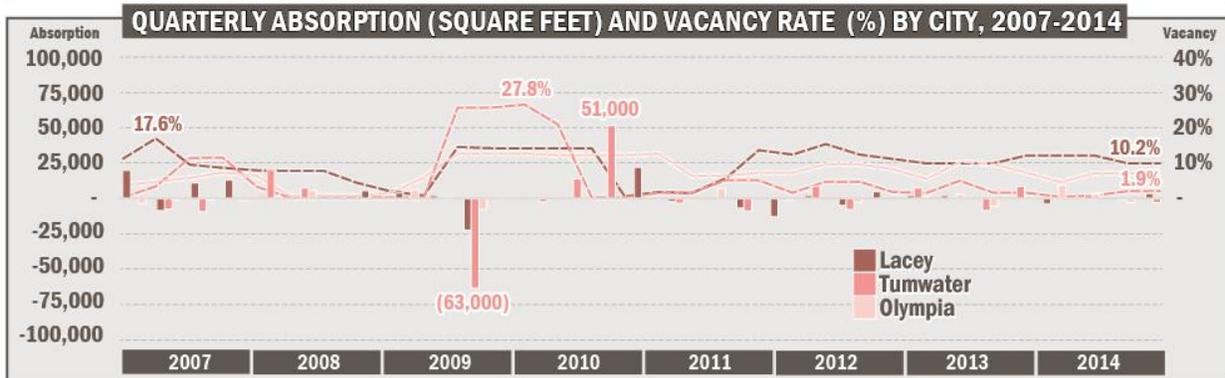
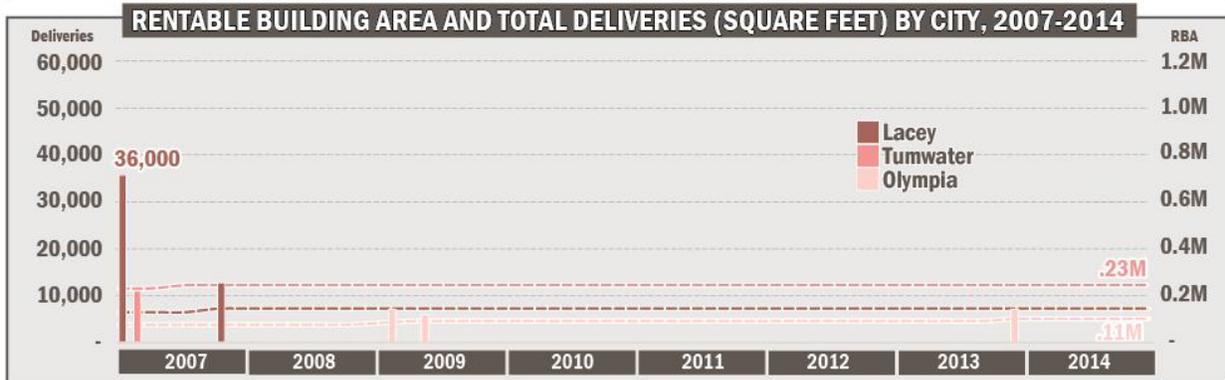
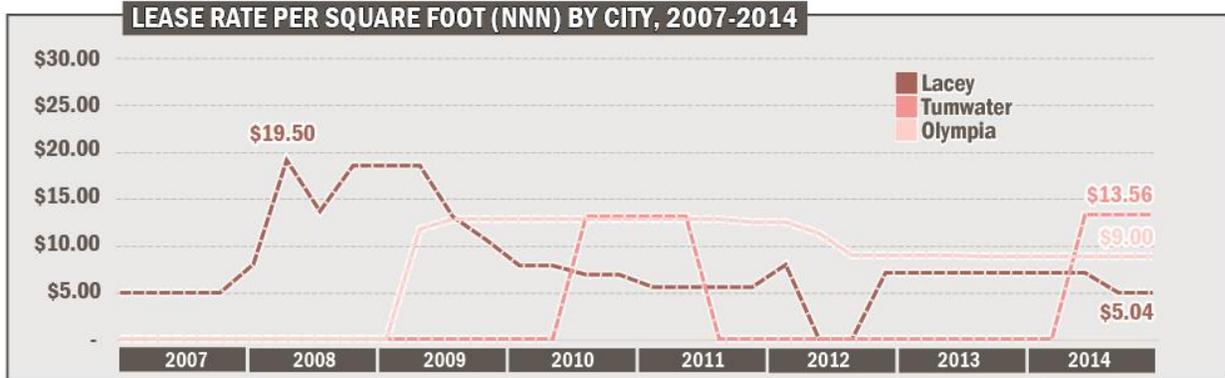
ADDRESS	CITY	SIZE (SF)	PRICE/SF
8294 28th Ct. NE	Lacey	3,630	\$7.80
715 78th Ave. SW	Tumwater	2,810	\$4.80

THURSTON COUNTY VITALS:

Rentable Building Area:	513,600
Available Building Area:	37,200
Lease Rate per Square Foot:	\$7.20
Total Deliveries (2014):	0
Net Absorption (2014):	4,200
Average Cap. Rate (2014):	n/a

PIPELINE:

ADDRESS	CITY	BLDG. SIZE	STATUS
2310 Mottman Rd. SE Bldg. 2	Olympia	8,000	proposed
2310 Mottman Rd. SE Pad Site	Olympia	4,200	proposed
2310 Mottman Rd. SE Pad Site	Olympia	7,300	proposed



INDUSTRIAL AND FLEX COMPS

Most of the available land in NMIC is positioned for lease rather than for sale. However, some brokers familiar with the submarket believe that the majority of industrial users prefer to own their facilities outright rather than to lease. Nevertheless, there is a market for both for-lease and for-sale industrial properties, and both are represented in this comps analysis.

LEASE COMPS

Selected industrial lease comps are presented in **Exhibit 18**. Newer developments, such as First Park Meridian Campus and Hawks Prairie III Corporate Park (see Industrial Sales Comps), are marketing their properties with additional amenities like access to recreation and ease of commute from residential communities to attract tenants. These comps suggest that properties in close proximity to Port facilities may be able to command higher rents.

Exhibit 18. Industrial Lease Comps

First Park Meridian Campus - Building D		<i>Flex Industrial</i>
Three buildings plus a ±18 acre yard area located within a 1,154 acre master planned community. LEED Gold Core and Shell certified. All buildings fully occupied.		
Street Address	9127 Polaris Lane NE	
City	Lacey	
Year Built	2009	
Land Area (ac)	6.54	
Building Size (sf)	130,500	
Stories	1	
Annual Lease Rate (per sf)	\$4.08 Shell \$10.20 Office	
Fife Commerce Center - Building B		
One of two buildings designed for use as a distribution center located within Fife's industrial area. Offers quick access to the Port of Tacoma.		
Street Address	2511 70th Avenue E	
City	Fife	
Year Built	2006	
Land Area (ac)	18.54	
Building Size (sf)	452,600	
Stories	1	
Annual Lease Rate (per sf)	\$5.04 Shell \$10.20 Office	
Lakewood Industrial Park - Building 27		
Newest addition to the industrial park that hosts over 2 million square feet of manufacturing facilities and distribution warehouses. Also has rail service.		
Street Address	4625 100th Street SW	
City	Lakewood	
Year Built	2014	
Land Area (ac)	5.42	
Building Size (sf)	136,300	
Stories	1	
Annual Lease Rate (per sf)	\$4.68 Shell \$10.20 Office	

Sources: CoStar, 2015; Pierce and Thurston County Assessors, 2015; LoopNet, 2015; NW Building, LLC, 2014; Kidder Mathews, 2014

SALES COMPS

Exhibit 19 presents recent sales in the submarket. Activity in the 550 acre Frederickson Industrial Area in Pierce County is notable because it was owned by the Port of Tacoma for several decades before the Port began selling portions of it to industrial users. In addition to robust retail activity, Lacey’s Hawks Prairie has experienced substantial growth in industrial development.

Exhibit 19. Industrial Sales Comps

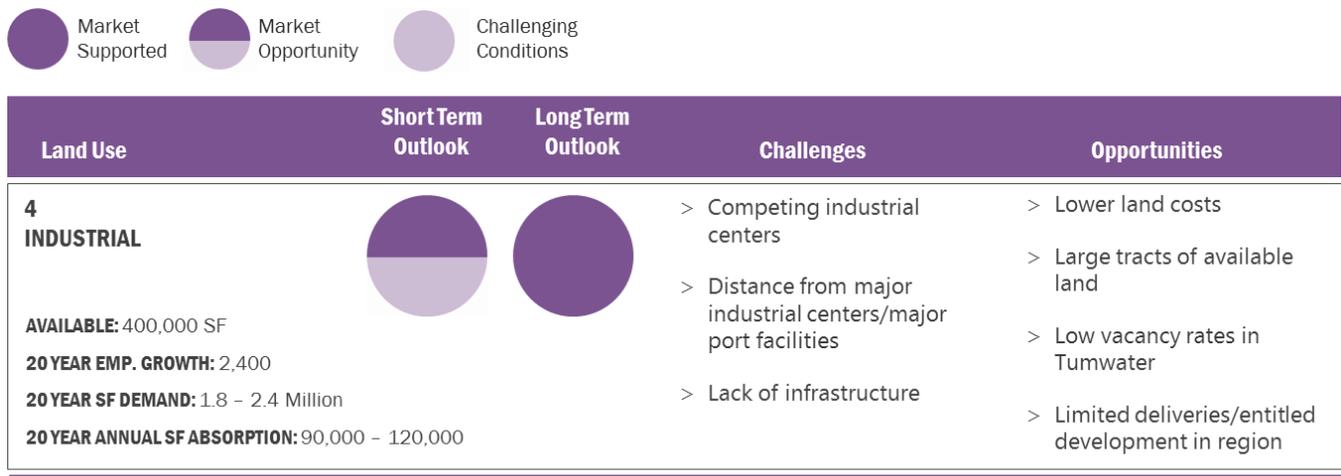
Pacific Steel and Recycling		Port-owned Industrial
Purchased in 2011 from the Port of Tacoma, which initially owned 550 acres in Frederickson, to be used as a scrap metal sorting and packaging yard.		
Street Address	18727 38th Avenue E	
City	Frederickson (Tacoma)	
Year Built	2009	
Land Area (ac)	42.46	
Building Area (sf)	8,160	
Buildings	3	
Total Purchase Price	\$1,800,000	
Hawks Prairie III Corporate Park - Harbor Wholesale Foods		Industrial
Twelve build-to-suit or pad-ready land sites for sale/lease located on 160 acres. Property also includes a 48 acre park with jogging trails and recreational area.		
Street Address	3901 Hogum Bay Road NE	
City	Lacey	
Year Built	2013	
Land Area (ac)	12.34	
Building Size (sf)	200,000	
Stories	1	
Sale Price (per sf)	\$8.50; land only	
Frederickson Industrial Center		Industrial
James Hardie Building Products, LLC purchased in 2014 to expand existing plant in the same area. Property includes manufacturing and distribution facilities.		
Street Address	4621 192nd Street E	
City	Tacoma	
Years Built	1985 - 2003	
Land Area (ac)	47.03	
Building Area (sf)	372,412	
Buildings	8	
Total Purchase Price	\$27,900,000	

Sources: CoStar, 2015; Pierce and Thurston County Assessors, 2015; LoopNet, 2015; The Olympian, 2014; WA Real Estate Advisors, 2015

FINDINGS: INDUSTRIAL AND FLEX USES IN THE SUBMARKETS

The data above suggest several findings for industrial and flex uses in Olympia, Lacey and Tumwater. These findings are outlined below, and add context to the regional trends identified earlier in this report. Ultimately, local and regional data together inform an assessment of the role for each major use in NMIC (**Exhibit 20**).

Exhibit 20. Industrial Market Assessment, 2015



Source: Community Attributes Inc. (2015)

- + 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 extremely high flex lease rates (\$13.56) and extremely 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.

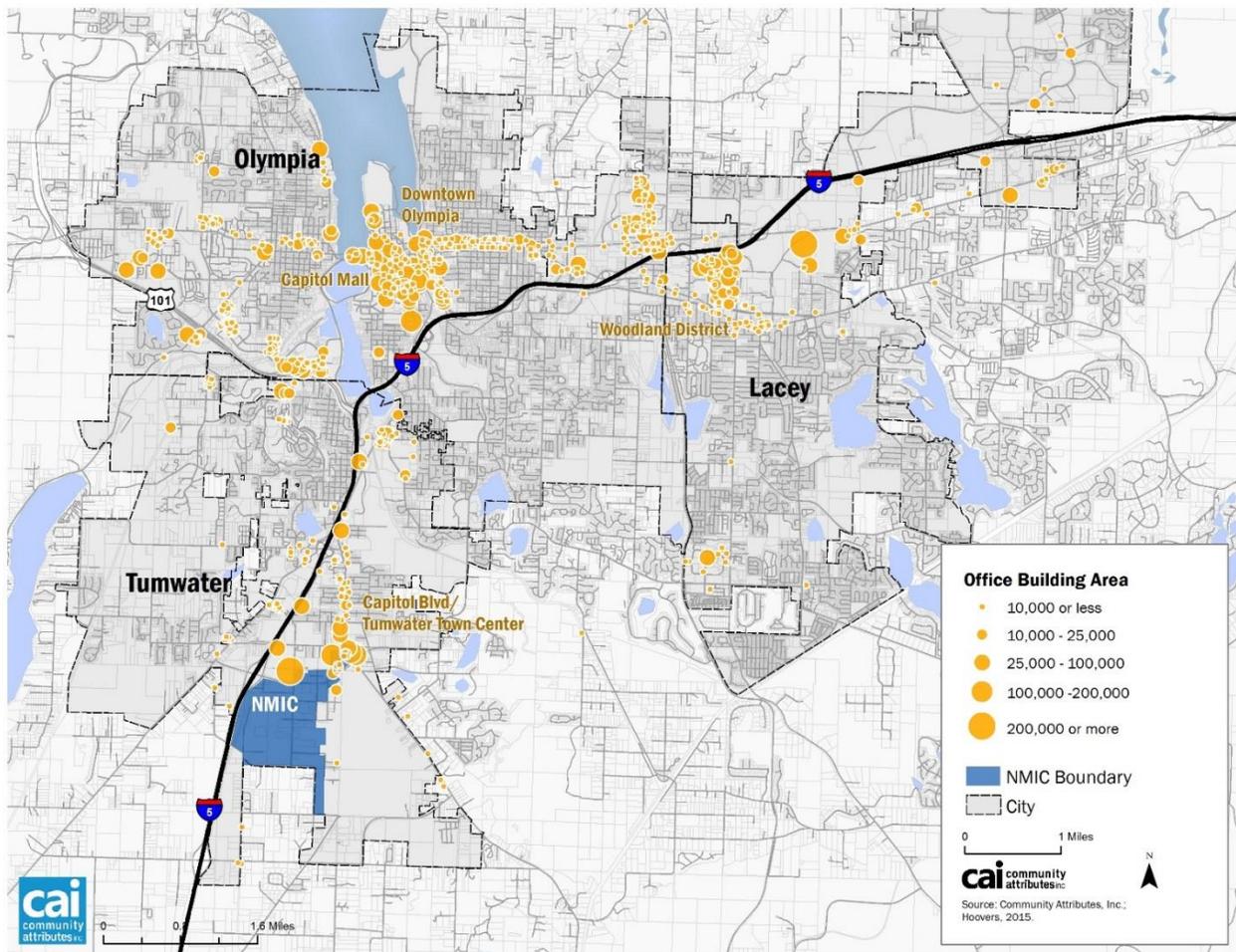
- A comps analysis indicates that places with significant infrastructure and amenities command higher lease rates than currently paid by industrial tenants at NMIC.

OFFICE DEVELOPMENT

The geographic distribution of office properties is presented in **Exhibit 21**. As expected, Olympia has the highest concentration of office space area, which is partially attributable to the presence of state government facilities. Lacey and Tumwater are both home to a substantial inventory of state-occupied office space, and the state's long-term plan to expand office locations in these submarkets may continue to drive construction and absorption.

Whether occupied by public or private organizations, offices spaces are distributed throughout Thurston County's submarkets. Downtown Olympia is a hub for office, but is complemented by smaller clusters in west Olympia, a linear array of offices stretching east toward Lacey along Martin Rd., and notable clusters in and around Lacey's Woodland District. There is also a significant concentration along Capitol Boulevard in Tumwater. Given that office products often house everyday services, it is unsurprising that these uses are more distributed throughout the submarkets.

Exhibit 21. Office Property Inventory, Olympia/Tumwater/Lacey, 2015



Source: Community Attributes Inc. (2015)

DRIVERS OF OFFICE DEMAND

Demand for office space is based on office-using employment; industry sectors that require office space provide everyday services, so office products are usually distributed throughout cities and metropolitan areas. Nevertheless, office uses typically have higher employment densities than other major commercial and industrial uses. As a result, offices sometimes cluster in central business districts, where jobs in professional services, finance and insurance, real estate and other sectors realize economies of scale by locating near amenities (e.g. restaurants, public transportation) that these employment densities mandate.

The aforementioned sectors are likely to grow rapidly in Thurston County in the next two decades. Forecast data in **Exhibit 22** shows higher average growth (1.8%) annually for all office-using employment sectors, and particularly high growth for professional and business services (2.3%). Examples of occupations in this high-growth sector include legal services, accounting and tax preparation, architectural and engineering services, advertising, scientific research, computer programming, and management. The forecasts indicate that the county could add 8,600 jobs in these sectors by 2035; the submarkets that capture this growth will be in a position to capture additional office development.

Exhibit 22. Forecasted Job Growth for Office-Using Industry Sectors,
Thurston County, 2015-2035

Industry	Land Use/ Building Type	2015	2035	Net New Jobs	Employment Growth (CAGR)
Professional and business services	Office	15,300	23,900	8,600	2.3%
Other services, except public administration	Office	9,070	12,880	3,810	1.8%
Finance and insurance	Office	4,380	6,000	1,620	1.6%
Real estate and rental and leasing	Office	5,390	6,530	1,140	1.0%
Information	Office	1,630	1,960	330	0.9%
Federal government - civilian	Office	980	1,120	140	0.7%
Subtotal		36,750	52,390	15,640	1.8%

Source: TRPC, 2013.

In Thurston County more than anywhere else in Washington State, employment in state government also drives the demand for office space. **Exhibit 23** indicates that state government jobs (excluding education) in the county could grow by 3,900 between 2015 and 2035. Not all of these jobs will require office space directly, as some state employees work in specialized facilities; however, with state jobs in education (i.e. public universities) excluded, the countywide forecast in **Exhibit 22** yields a ballpark figure on which to based demand projections for office space.

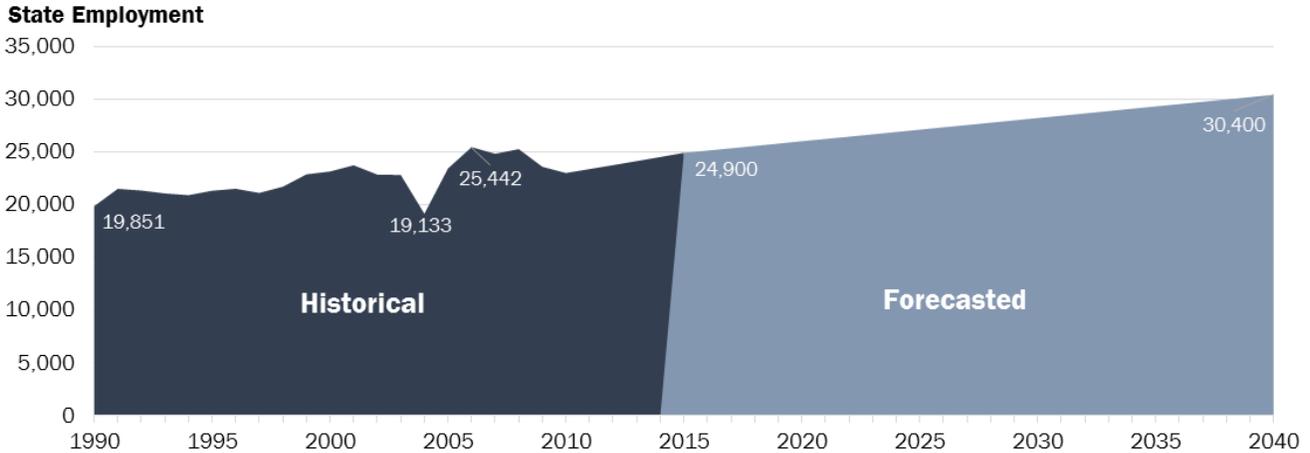
Exhibit 23. Forecasted Job Growth for State and Local Government, Thurston County, 2015-2035

Industry	Land Use/ Building Type	Employment			
		2015	2035	Net New Jobs	Growth (CAGR)
Education, Health, & Social Services	Civic/Government	19,000	26,000	7,000	1.6%
State education	Civic/Government	1,620	2,100	480	1.3%
Local government	Civic/Government	12,200	16,900	4,700	1.6%
Subtotal		32,820	45,000	12,180	1.6%
State government, except education	State Government	23,300	27,200	3,900	0.8%
Subtotal		23,300	27,200	3,900	0.8%

Source: TRPC, 2014

A closer look at historical and forecasted growth in state employment illustrates Tumwater’s relative position within Thurston County in terms of demand for state facilities. Total state employment in Thurston County (including education) is expected to climb from approximately 24,900 in 2015 to more than 30,000 in 2035 (**Exhibit 24**). Historical growth from 1990 to 2010 illustrates the recent volatility in state employment.

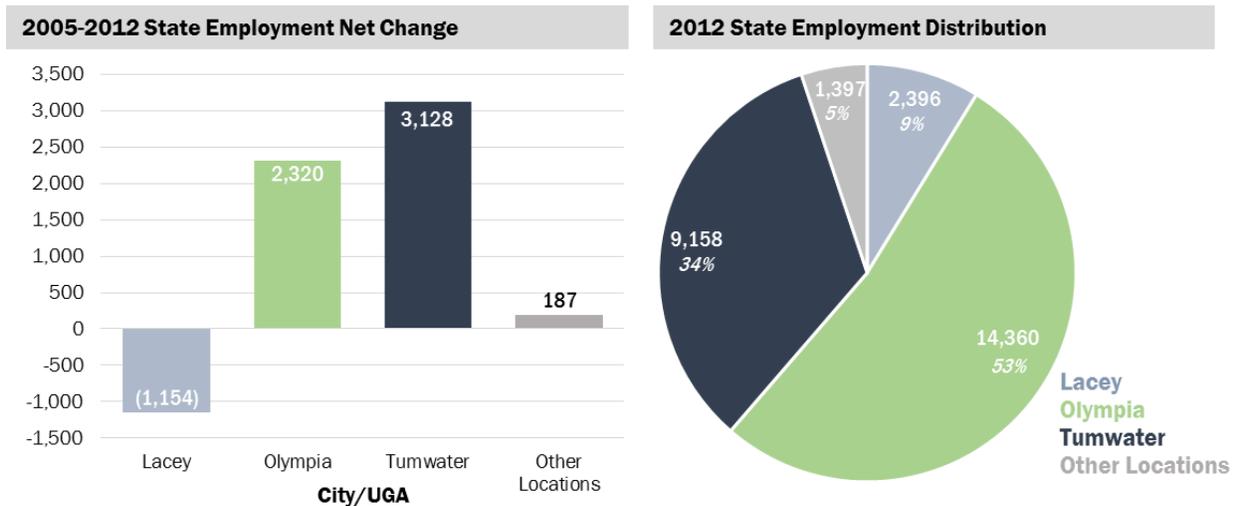
Exhibit 24. Historical and Forecasted State Government Employment (*including* Education), Thurston County, 1990-2040



Source: TRPC, 2014.

Approximately 34% of all state employment in Thurston County is located in Tumwater with more than 3,100 jobs added since 2005, more than any other city in Thurston County (**Exhibit 25**). This confirms anecdotal evidence that state jobs are moving—largely from Lacey—to Tumwater.

Exhibit 25. State Employment Summary, Thurston County, 2005-2012



Source: TRPC, 2014.

The 2014 update of the Thurston County Buildable Lands analysis indicates that there are, on average, 3.3 employers per 1,000 square feet of commercial space (including vacancies) in the county’s urban areas. Trends toward telecommuting, shared office space and smaller personal offices notwithstanding, this indicates that the combined demand from job growth in office-using (non-education) state government and private sector office-users could generate around 5.9 million square feet of new office space.

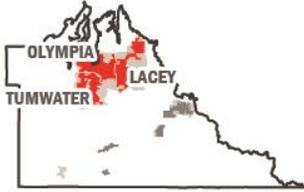
KEY OFFICE INDICATORS

Key real estate indicators for office uses are given in **Exhibit 26**. Based on these data, Olympia has the largest inventory by far, with more than 5 million square feet (compared to 2.1 million and 1.6 million in Lacey and Tumwater, respectively). Olympia also appears to be the most active office submarket at this point in time, with the two largest transactions and the two largest pipeline projects in 2014. Furthermore, the Olympia submarket has the highest average lease rates and the lowest average vacancy rates for office uses.

Despite Olympia’s strong position, all three submarkets have experienced some degree of stagnation in recent years. Lease rates have held constant or gradually declined since 2008; deliveries have been minimal since early 2011; and vacancy rates have been relatively stable (except in Lacey) at just under 10% since 2008.

Lacey has significant vacancies in its office market and hasn’t experienced new office deliveries since 2009. However, Lacey’s Woodland District is being repositioned to capture new investment in office uses in the area and new construction and rehabilitation projects are already planned or underway.

Exhibit 26. Office Uses, Thurston County Submarkets, 2007-2014



TRANSACTIONS (2014 LEASES, BY SIZE):

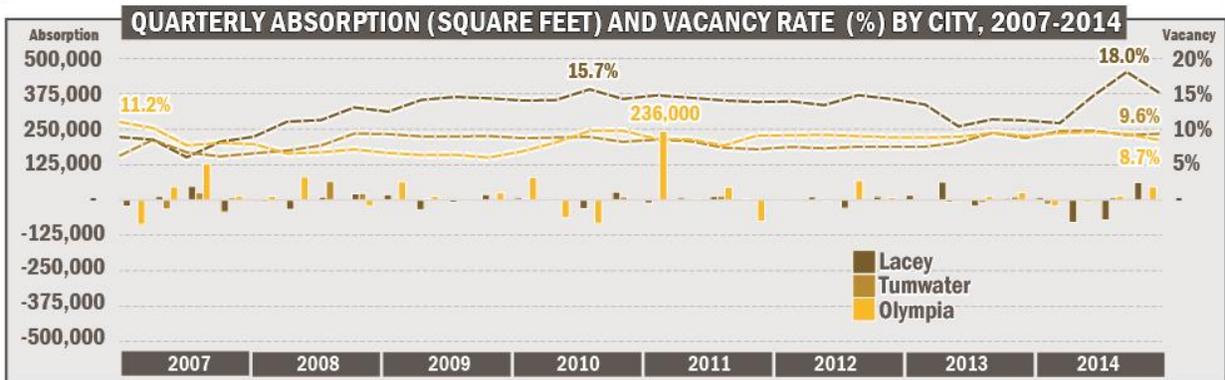
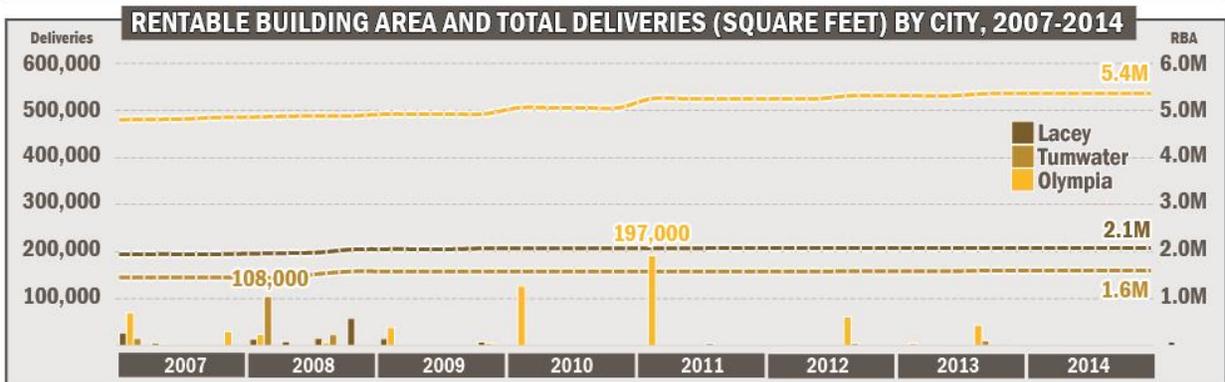
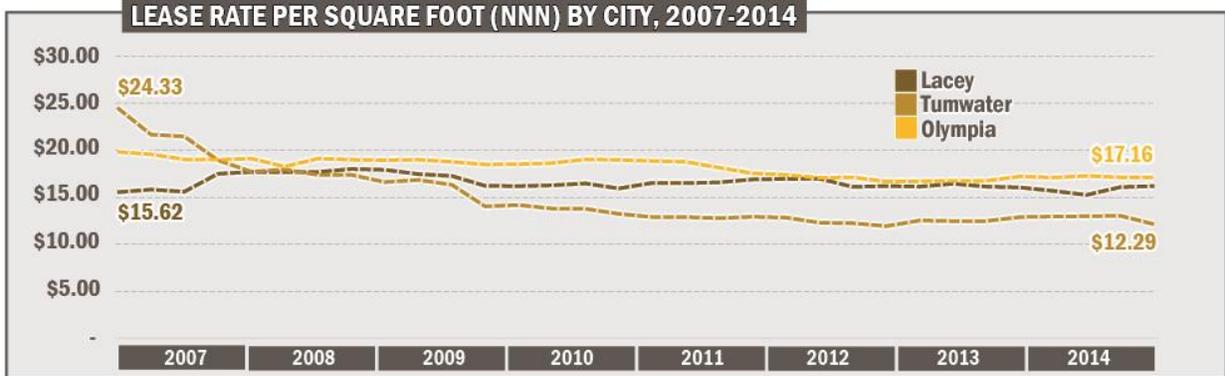
ADDRESS	CITY	SIZE (SF)	PRICE/SF
1835 Black Lake Blvd. SW	Olympia	38,434	n/a
400 Union Ave. SE	Olympia	11,617	\$16.00
6135 Martin Way E	Lacey	9,800	\$12.00
612 Woodland Square Loop	Lacey	8,296	\$17.50

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%

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



OFFICE COMPS

As the previous section of this report indicates, private and public sector users both drive office sales and leasing. As a result, this comps analysis identifies properties in both sectors.

STATE GOVERNMENT

Exhibit 27 provides data on several state government office leases in Tumwater and Lacey. As the state continues to look beyond Olympia’s boundaries, developers are creating office buildings specifically tailored for government use, such as Wright Runstad’s Edna Lucille Goodrich Building in Tumwater. Understanding the unique locational preferences for the state is critical to planning effectively for growth in the office sector.

Exhibit 27. Government Office Lease Comps

Edna Lucille Goodrich Building		Government Office
Fully leased to State Departments of Corrections and Transportation. Has 2,400 sf first floor retail and courtyard oriented towards future Town Center. Class A, LEED Gold certified.		
Street Address	7345 Linderson Way SW	
City	Tumwater	
Year Built	2005	
Land Area (ac)	20.17	
Building Size (sf)	226,221	
Stories	4	
Annual Lease Rate (per sf)	\$18.95	
Tumwater Town Center 3		Government Office
Class B office space located at the intersection of Capitol Boulevard and Tumwater Boulevard fully leased by Washington State Departments of Labor & Industries and Health.		
Street Address	243 Israel Road	
City	Tumwater	
Year Built	2006	
Land Area (ac)	1.46	
Building Size (sf)	157,625	
Stories	5	
Annual Lease Rate (per sf)	\$22.36	
Blake Office Park - Building A		Government Office
One of two Class B office buildings located in Lacey’s Woodland District, fully leased by Washington State Department of Social and Health Services.		
Street Address	4450 10th Avenue SE	
City	Lacey	
Year Built	1999	
Land Area (ac)	5.38	
Building Size (sf)	54,400	
Stories	2	
Annual Lease Rate (per sf)	\$17.80	

Sources: CoStar, 2015; Thurston County Assessor, 2015; OFM, 2015; Wright Runstad, 2015

PRIVATE SECTOR

The following comps are from office properties in Thurston and Pierce counties (**Exhibit 28**). Notably, even class A space in Lacey appears to garner lower lease rates than many spaces leased to public sector tenants.

Exhibit 28. General Office Lease Comps

Sixth Avenue Center		Office
Class A office space with excellent access to I-5 located within Lacey’s Woodland District. Currently 81% leased by public and private sector tenants.		
Street Address	4317 6th Ave SE	
City	Lacey	
Year Built	1989	
Land Area (ac)	1.72	
Building Size (sf)	25,468	
Stories	3	
Annual Lease Rate (per sf)	\$15.50	
Commerce Business Center I		Office
Class B office space located just north of I-5 in Hawks Prairie. Currently 47% leased to two private sector companies.		
Street Address	2590 Willamette Drive NE	
City	Lacey	
Year Built	2001	
Land Area (ac)	0.99	
Building Size (sf)	21,107	
Stories	2	
Annual Lease Rate (per sf)	\$12.00	
Prium Business Center		Office
Class B office space immediately north of I-5, near Port of Tacoma. Currently 33% leased to a single tenant.		
Street Address	6416 Pacific Hwy E	
City	Fife	
Year Built	1999	
Land Area (ac)	0.75	
Building Size (sf)	27,856	
Stories	3	
Annual Lease Rate (per sf)	\$18.00 - \$23.00	

Sources: CoStar, 2015; LoopNet, 2015; Pierce and Thurston County Assessors, 2015; Kidder Mathews, 2015

FINDINGS: OFFICE USES IN THE SUBMARKETS

The data above suggest several findings for office uses in Olympia, Lacey and Tumwater. These findings are outlined below, and add context to the regional trends identified earlier in this report (Exhibit 29).

Exhibit 29. Office Market Assessment, 2015

Land Use	Short Term ¹ Outlook	Long Term Outlook	Challenges	Opportunities
1 OFFICE: STATE GOVERNMENT AVAILABLE²: 1.151,200 SF 20 YEAR EMP GROWTH: 3,900 20 YEAR SF DEMAND: 585,000 – 975,000 20 YEAR ANNUAL SF ABSORPTION: 29,250 – 48,750			<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
2 OFFICE: PROFESSIONAL/SERVICES AVAILABLE²: 1.151,200 SF 20 YEAR EMP GROWTH: 15,600 20 YEAR SF DEMAND: 2.3 – 4.6 Million 20 YEAR ANNUAL SF ABSORPTION: 29,250 – 48,750			<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.

Source: Community Attributes Inc. (2015)

- + 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.

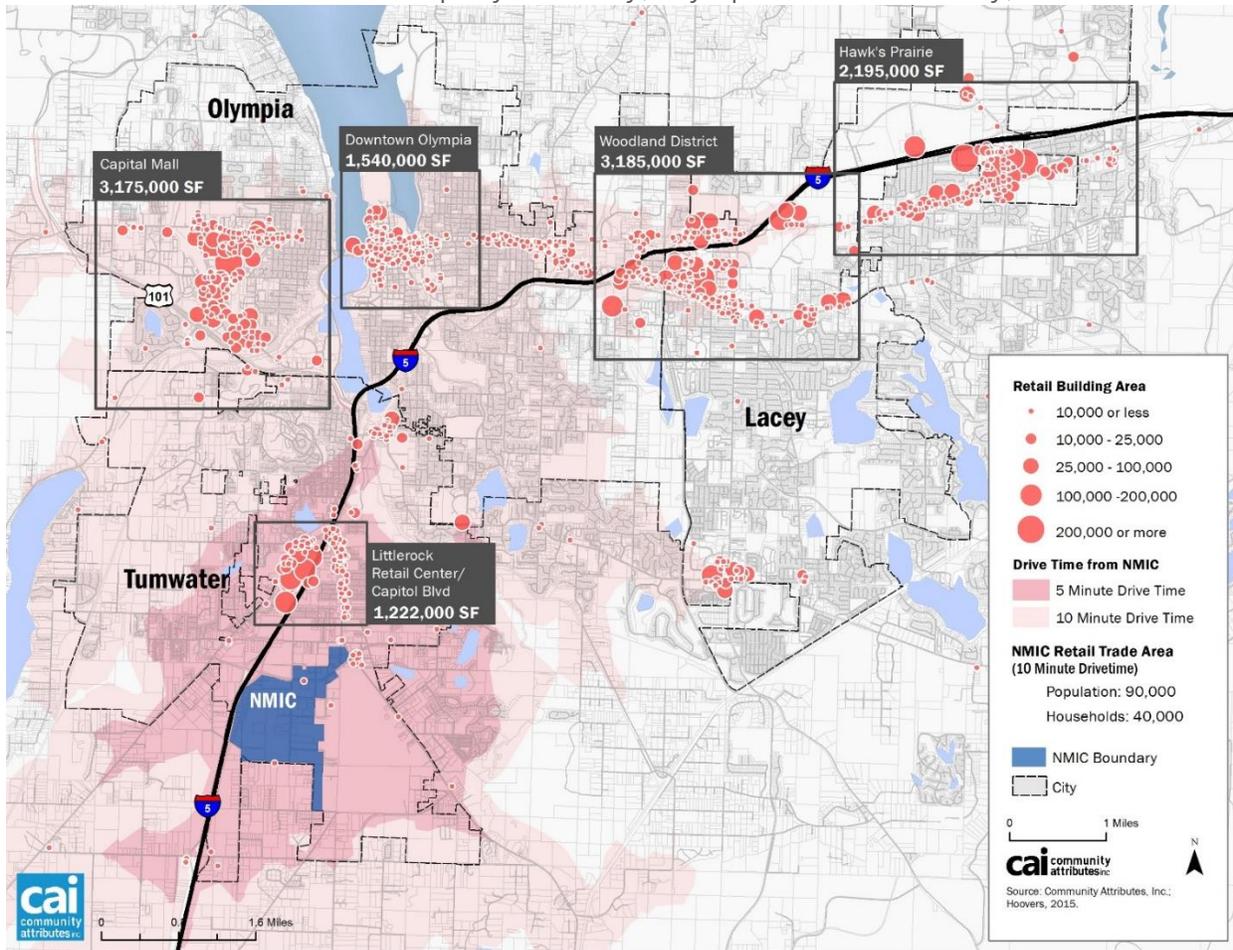
- The office sector in the submarkets has been slow to recover from the effects of the Great Recession; time will tell how quickly development activity will rebound, but evidence of stagnation in the office market persists.
- Olympia is the predominant submarket for office uses, as key real estate metrics indicate clearly. Development-ready sites in Tumwater compete with Olympia and will need to demonstrate added value.

RETAIL DEVELOPMENT

Exhibit 30 shows the distribution of retail property in the Olympia-Lacey-Tumwater submarkets and highlights concentrations of retail building space. There are several existing retail clusters that may compete with retail development in NMIC. Lacey’s Woodland District and Olympia’s Capitol Mall are home to the largest retail concentrations in the area, with significant clusters in Lacey’s Hawk’s Prairie and Downtown Olympia, as well. In Tumwater, the retail uses on and around Littlerock Road and Capitol Boulevard total more than 1.2 million square feet. This retail cluster has important implications for retail development in NMIC due to its proximity; the cluster is within the five-minute drive time indicated on the map in Exhibit 30, meaning NMIC would likely need to differentiate its offerings to compete.

NMIC is home to few retail uses currently. Competitive retail centers are also more centrally located relative to concentrations of housing. Many retailers prefer locations within close proximity to these “rooftops”, since many households will shop for daily needs in a location that is conveniently located nearby. While this may be disadvantageous for retailers in the short term, new housing development in the Tumwater urban growth area (UGA) could provide the households that retailers routinely look for.

Exhibit 30. Retail Property Inventory, Olympia/Tumwater/Lacey, 2015



Source: Community Attributes Inc. (2015)

There are additional, site-specific challenges and opportunities for retail in NMIC, however. For example, proximity to Interstate 5 is advantageous because it provides convenient access for Thurston County residents. At the same time, many sites in NMIC—including those in closest proximity to the Interstate 5 exit—lack convenient access from major arterials or are obscured from traffic by tree cover and other visual obstructions.



Existing retail uses in NMIC sometimes suffer from a lack of visibility and difficult access.
Source: Community Attributes Inc. (2015)

Given a choice, many retailers will locate along the home-bound commute for would-be shoppers. For NMIC, this means that the best locations for many types of retail may be along well-traveled roads that workers in NMIC drive to get home every day. Exhibit X provides some information about commute patterns, which can inform an understanding of retail potential within NMIC. The map indicates that workers in NMIC and at the Olympia Regional Airport largely live in Tumwater east of Interstate 5 and in east-central Olympia. The map, which analyzes the locations of residents by census tract, also shows that tracts up and down the I-5 corridor house a significant portion of workers in NMIC. These data imply that most retailers would prefer positions along Tumwater Boulevard or Capitol Boulevard, which funnel traffic toward I-5 on-ramps. The north and east sides of these roads are likely preferable, since these locations require an easier right turn for north and eastbound traffic, but both sides of these key thoroughfares may be the best locations for retail.

DRIVERS OF RETAIL DEMAND

Demand for retail space is a function of consumer spending, but employment forecasts can also shed light on potential retail development patterns because new jobs in retail and related trades necessitate increased retail space (**Exhibit 31**).

Forecasts show moderate growth for the retail trade sector (1.2%) annually, with robust growth in the retail-related sectors of accommodation and food services (1.4%) and arts, entertainment and recreation (2.2%). These data accord with the regional forecast from the PMWDC that favors tourism-related uses.

The highest growth sector—arts, entertainment and recreation—entails employment in spectator sports, performing arts, museums, historical sites, gambling, amusement, recreation and related industries. According to the Bureau of Labor Statistics, common occupations within these industries are amusement and recreation attendants, fitness trainers and aerobics instructors, waiters and waitresses, lifeguards, ski patrol and other recreational protective service workers, and bartenders. These jobs don't often require traditional retail space, so planning for them is more challenging. Nevertheless, these sectors offer a growth opportunities for the Thurston County submarkets.

All retail sectors in total are expected to add more than 9,000 jobs between 2015 and 2035. This amount of job growth, at existing employment densities for retail jobs, may support more than three million square feet of additional retail if spending patterns remain constant. If spending patterns change, observed employment densities may not hold and job growth may not translate into demand for brick and mortar retail space at the same rate. Regardless, the submarkets within the region will compete for this retail space. The allocation of household growth between the submarkets may impact the distribution of new retail space.

Exhibit 31. Forecasted High-Growth Employment Sectors, Thurston County, 2015-2035

Industry	Land Use/ Building Type	Employment			
		2015	2035	Net New Jobs	Growth (CAGR)
Retail trade	Retail/Commercial	16,100	20,500	4,400	1.2%
Accommodation and food services	Retail/Commercial	9,200	12,170	2,970	1.4%
Arts, entertainment, and recreation	Retail/Commercial	2,960	4,600	1,640	2.2%
		28,260	37,270	9,010	1.4%

Source: TRPC (2013)

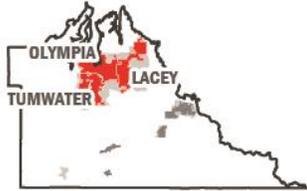
KEY RETAIL INDICATORS

The data in **Exhibit 32** suggest that retail uses are a strong presence in Thurston County. Retail uses have more inventory (measured in rentable building area) and higher average lease rates than any other commercial use in the county. Retail uses also posted the strongest net absorption in 2014. Vacancy rates are also reasonably low, with each submarket averaging between 5% and 8%. These are signs of a healthy retail sector.

These are reasons to be optimistic about the potential for new retail in the submarkets, but there are also reasons for caution. The current retail inventory in the county is much higher than would be expected given the countywide population. In other words, the retail square footage per capita is well-above average. This suggests that the region could be over-retailed. Furthermore, new retail demand appears to be shifting toward the Lacey submarket specifically, which captured the largest transactions in 2014 and which has three of the four largest development projects in the pipeline.

Tumwater's position within the county is unique. Even if the county has a larger than expected concentration of retail uses, Tumwater has the highest lease rates (\$22.28) and the lowest vacancy rates (5.0%) of all submarkets. Retail square footage per capita in Tumwater is also significantly lower than in Olympia or Lacey. While this is likely due to the fact that the northern submarkets have larger trade areas than Tumwater (therefore capturing spending from areas well beyond their jurisdictional boundaries), these data taken together imply that Tumwater may be able to support additional retail and suggest that increasing Tumwater's trade capture at the southern end of the Olympia metro (and into Lewis County) may be one way to bring the city's retail square footage per capita in line with the other submarkets.

Exhibit 32. Retail Uses, Thurston County Submarkets, 2007-2014



TRANSACTIONS (2014 LEASES, BY SIZE):

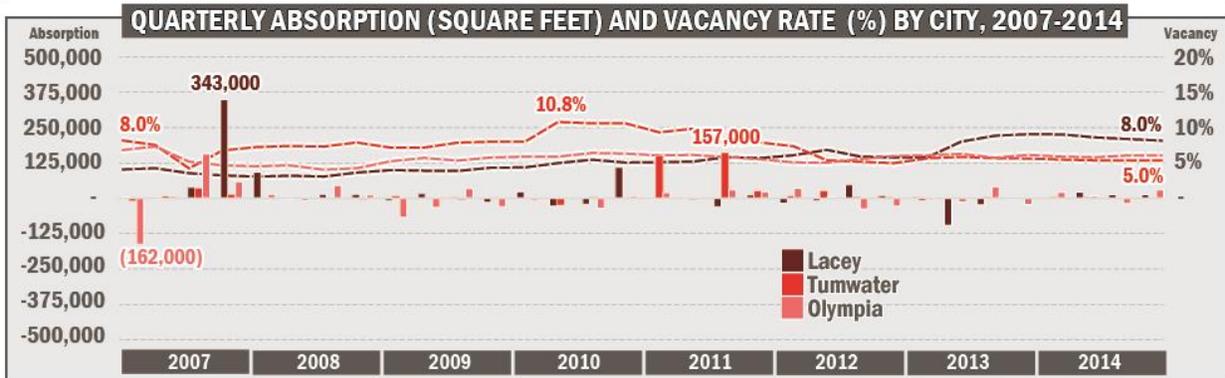
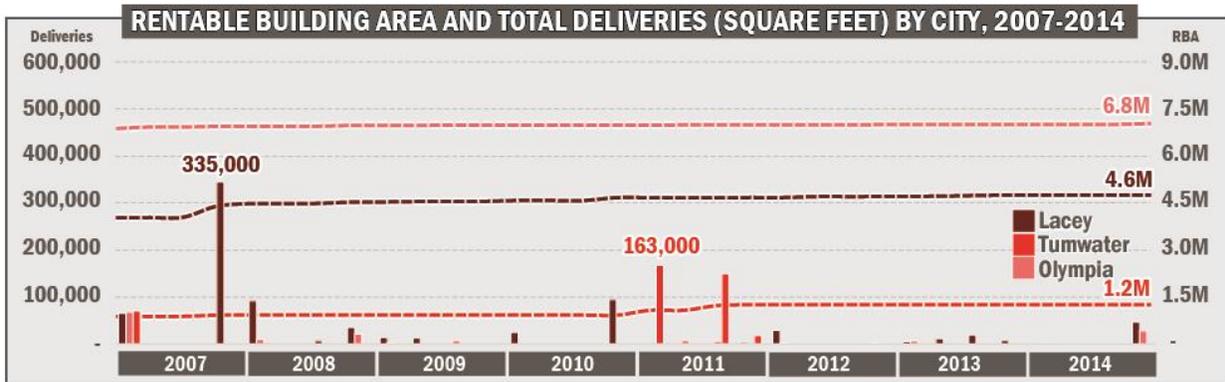
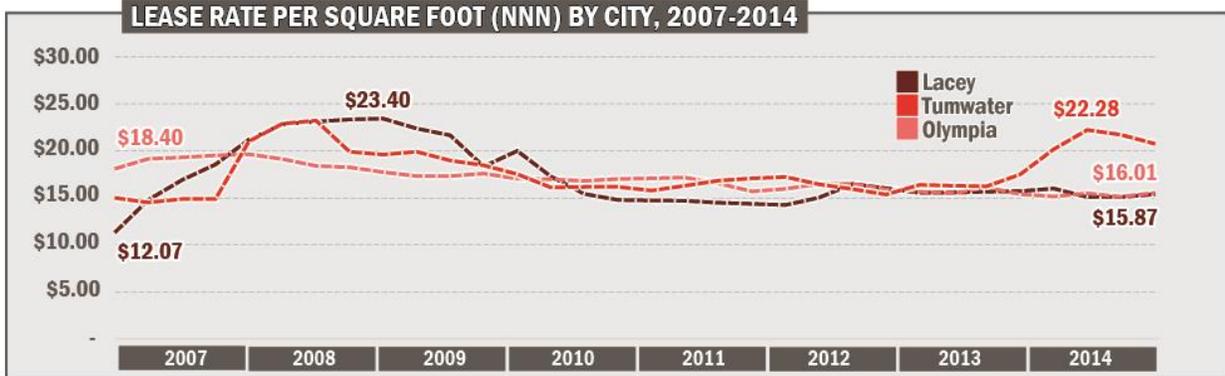
ADDRESS	CITY	SIZE (SF)	PRICE/SF
5110 Yelm Highway SE	Lacey	45,000	n/a
1210 Franz St.	Lacey	5,750	\$7.48
1520-1540 Cooper Point Rd. SW	Olympia	5,500	\$24.00
213 Sussex Ave.	Tenino	5,400	\$4.44

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%

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



RETAIL COMPS

Exhibit 33 provides a selection of comps from locations that would likely compete with new retail development in NMIC. Locations near an anchor, such as Fred Meyer, generally command higher rents and have higher occupancy rates than those lacking anchors. This analysis suggests that mixed-use retail currently struggles in Tumwater. Old Towne Plaza's significant vacancy rate nine years after construction is thrown into relief with the Landing at Hawk's Prairie, where retail spaces have attained similar levels of occupancy in the first two years after construction. While mixed-use retail products may be feasible in Tumwater in the future, current examples indicate that strip retail is likely to be most feasible in the near-term.

Though the project is not represented in **Exhibit 29**, the Port of Centralia's Centralia Station, which is currently under construction, will provide an important comp. This 43-acre property is intended to be a major regional commercial center, which will be easily accessible from Interstate 5 due to WSDOT's planned interchange improvements at Mellen Street. It is anticipated to have a large retail anchor, smaller commercial establishments, medical offices, tech warehouses, facilities for Centralia College and recreational space. The Port spent over four years working with the City of Centralia, WSDOT and elected officials to make this development a reality.

Exhibit 33. Retail Comps

Fred Meyer Shopping Center Retail

Pad building located in the north of the Fred Meyer site at the intersection of Trospen Road and Littlerock Road. Fully leased.

Street Address 575 Trospen Road SW
City Tumwater
Year Built 2002
Land Area (ac) 0.52
Building Area (sf) 6,060
Stories 1
Annual Lease Rate (per sf) \$27.00



Old Towne Plaza Retail

Retail and restaurant development with no anchor tenant at the intersection of Capitol Boulevard and Tumwater Boulevard. Currently about 52% leased.

Street Address 111 Tumwater Blvd SE
City Tumwater
Year Built 2006
Land Area (ac) 3.37
Building Size (sf) 89,000
Stories 3
Annual Lease Rate (per sf) \$7.00 - \$20.00



The Landing at Hawks Prairie Phase II - Building B Retail

Phase II of this 9 acre retail center includes three buildings. Building B has three suites and a larger space occupied by Navy Credit Union. Currently about 51% leased.

Street Address 8048 Martin Way E
City Lacey
Year Built 2013
Land Area (ac) 1.17
Building Size (sf) 8,100
Stories 1
Annual Lease Rate (per sf) \$26.00 - \$30.00

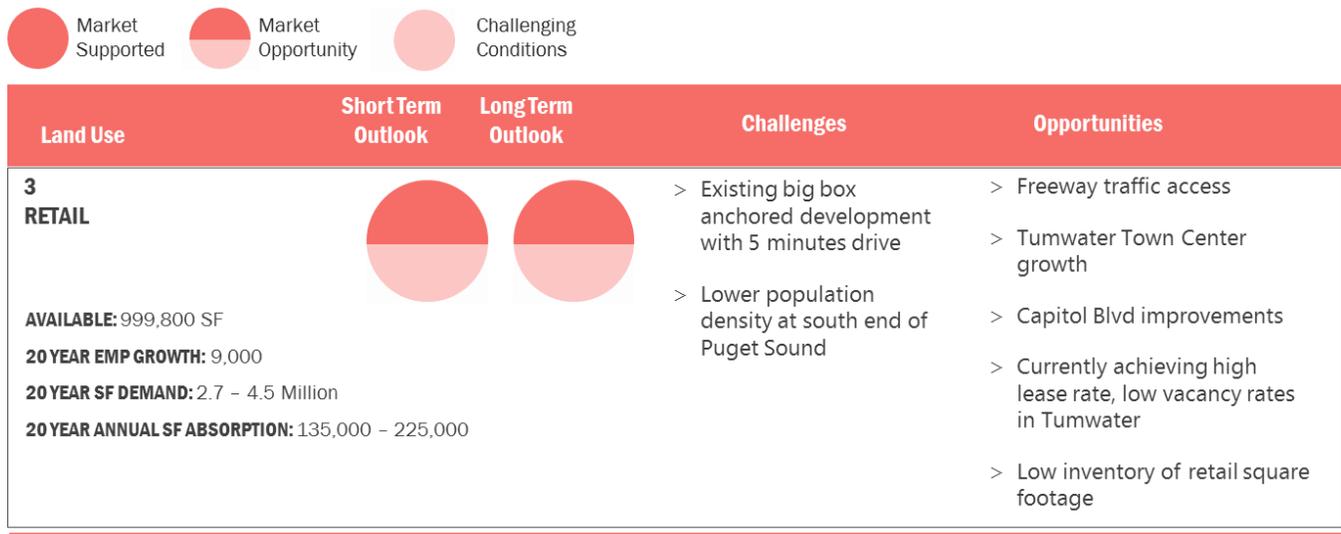


Sources: CoStar, 2015; Thurston County Assessor, 2015; LoopNet, 2015; Andover Company, 2015

FINDINGS: RETAIL USES IN THE SUBMARKETS

The data above suggest several findings for retail uses in the submarkets. These findings are outlined below, and add context to the regional trends identified earlier in this report (**Exhibit 34**).

Exhibit 34. Retail Market Assessment, 2015



Source: Community Attributes Inc. (2015)

- + Retail is robust across all submarkets; the sector 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.
- + Though regional data suggests that Thurston County has a higher number of retail square feet per capita when compared with Pierce and Lewis counties, 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.
- + Recreation, which is housed in the retail sector and which was identified in the regional data as a growth industry, 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.

- 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.

RESIDENTIAL DEVELOPMENT

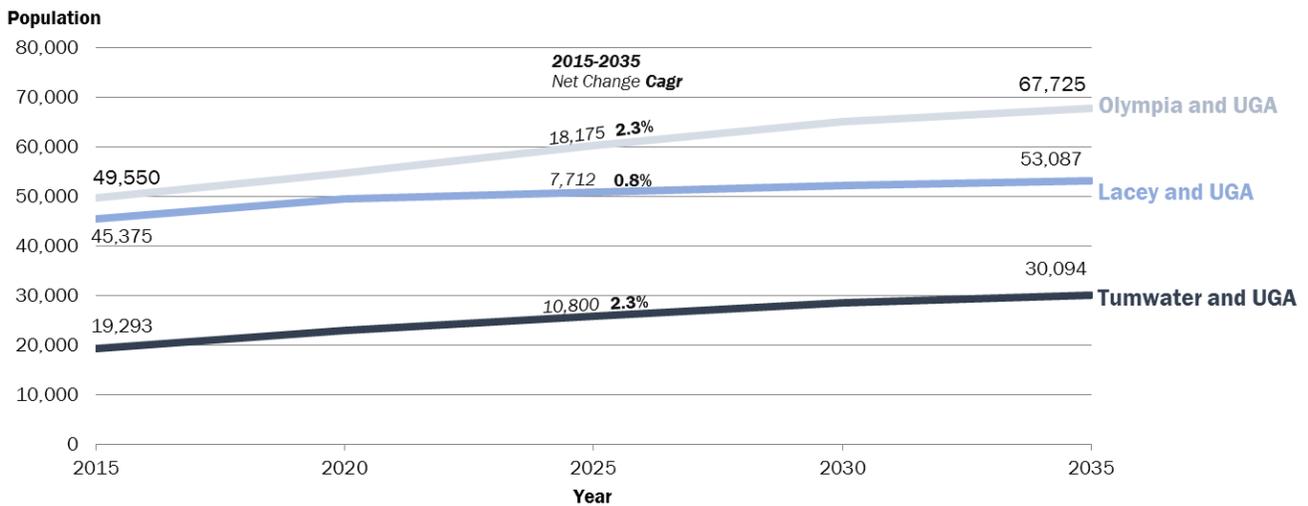
While residential uses are not currently planned on any Port-owned properties, this is an important product type to consider because of the multifamily developments envisioned in Tumwater Town Center. Several Port-owned properties in NMIC also lie within the boundaries of Town Center, so the applicable development regulations and the City’s visioning process allow for residential development, but these uses would need to accord with the Port’s vision for NMIC and its economic development mission, as well.

DRIVERS OF RESIDENTIAL DEMAND

Demand for new housing products is driven by increases in population. Forecasts from the Thurston Regional Planning Council offer population projects for submarkets within the county, which help to understand and quantify the need for new housing units in the coming decades.

According to these forecasts, all three major submarkets in Thurston County are projected to grow substantially over the next 20 years. Olympia is expected to grow more than any of the other submarkets, potentially adding about 18,200 residents by 2035 (Exhibit 35). The 2.3% compound annual growth rate (CAGR) forecasted for population in Olympia is robust. Tumwater, too, is projected to grow at a 2.3% annual rate, adding almost 11,000 residents over the forecast period. The forecasts call for Lacey to grow at a lower rate of 0.8%, adding about 7,700 residents.

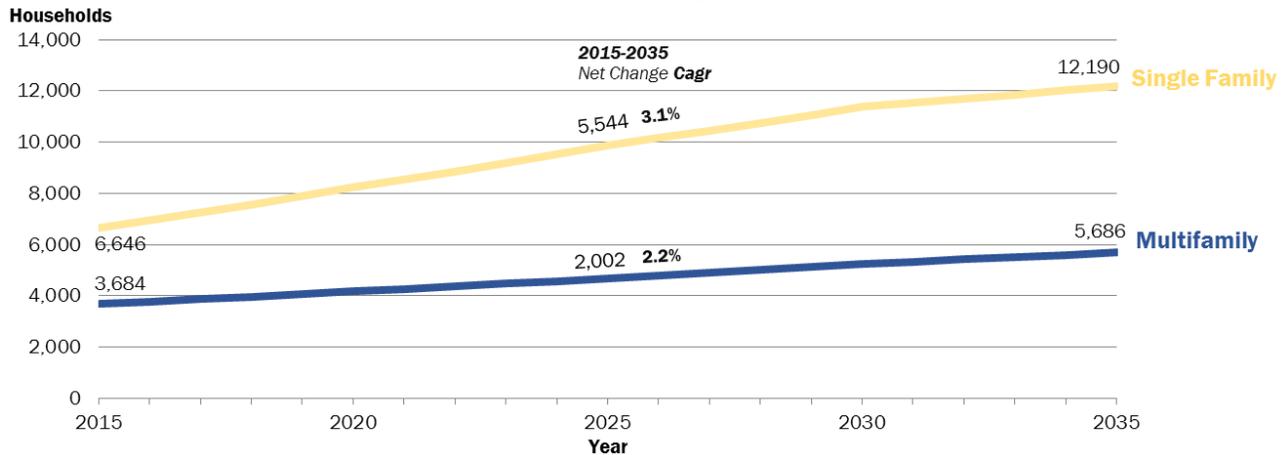
Exhibit 35. Forecasted Population Growth, Olympia, Lacey and Tumwater, 2010-2035



Source: TRPC, 2014.

Population growth generates demand for housing units. Projected population growth in Tumwater is expected to create demand for approximately 7,700 new housing units between 2015 and 2035, implying that, on average, there will be 1.43 people per new household in the submarket. The majority of new Tumwater residents are expected to be housed in single family residences, but the forecasts indicate that multifamily products will account for about 2,000 (27%) of the total new housing units (Exhibit 36). The addition of higher-density housing in Tumwater, a portion of which is targeted for Tumwater Town Center, will impact the NMIC properties and the potential demand for mixed-use development that includes office and retail uses.

Exhibit 36. Household Growth, City of Tumwater, 2015-2035



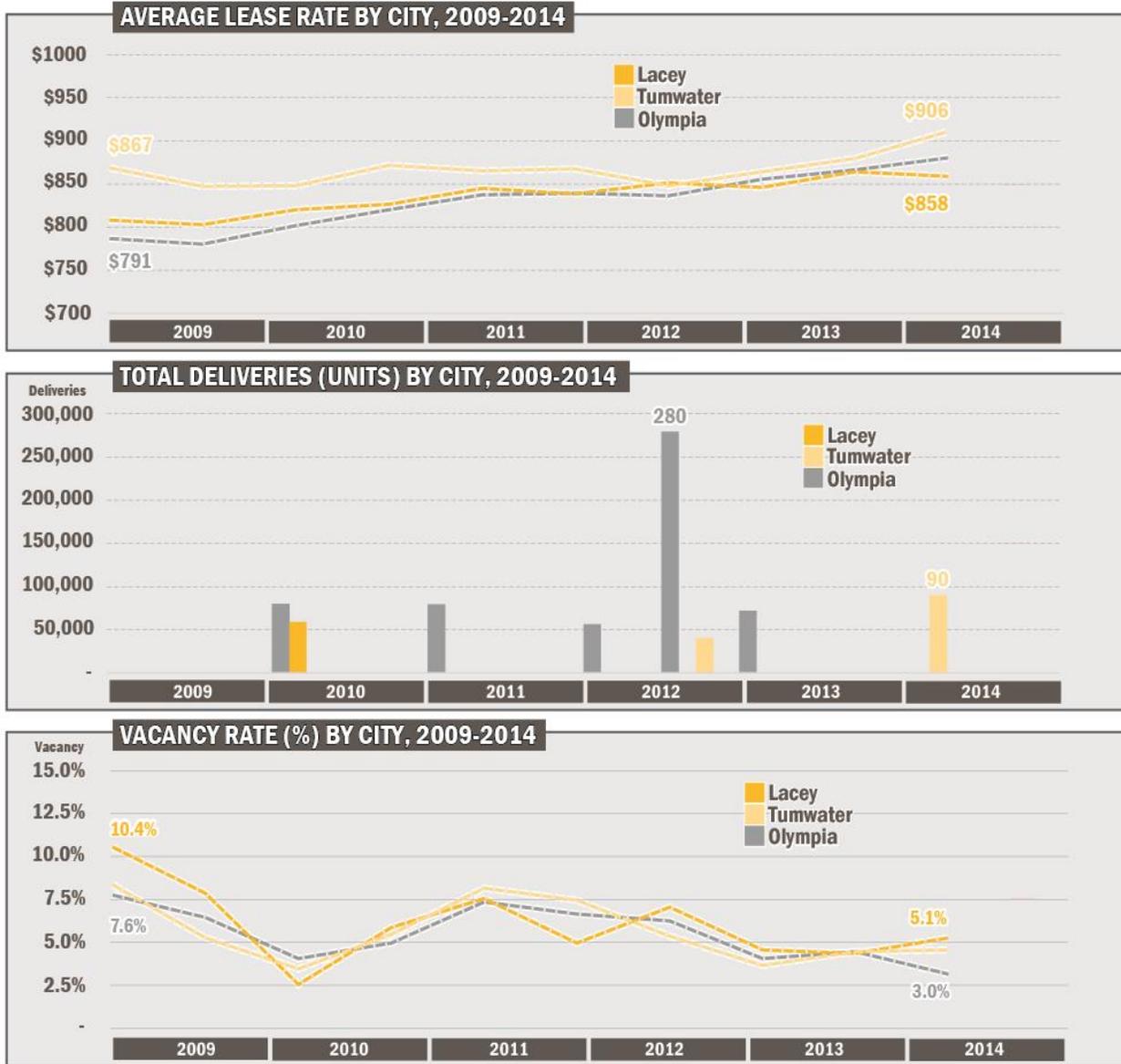
Source: TRPC, 2014

KEY RESIDENTIAL INDICATORS

Exhibit 37 presents key market indicators for multifamily residential development. Relative to Olympia and Lacey, Tumwater has similar lease and vacancy rates. Lease rates are marginally higher in Tumwater (\$906 to a low of \$858 in Lacey), while vacancy rates are nearly identical to Lacey (4.9% in Tumwater and 5.1% in Lacey) and lower in Olympia (3%). In an absolute sense, however, both lease and vacancy rates are rather low.

Low vacancy rates suggest additional, unmet demand for multifamily housing. Limited inventory and few recent deliveries—only 90 units were delivered across all submarkets in the year from Q2 2013 to Q2 2014—reinforce this interpretation of the data. However, low lease rates indicate a limited willingness to pay for multifamily units. Taken together, these data suggest that Thurston County is a fledgling market for multifamily development, and while there is demand for additional apartment units (evidenced further by forecasts for multifamily housing units), current lease rates will only support certain lower-cost building typologies. For example, four-to-six story mixed-use apartment buildings tend to require rents of about \$2.00 per square foot (i.e. \$1200 for a 600 square foot one-bedroom unit) to justify the construction cost. As such, multifamily development across the submarkets in the near future is likely to be lower in density and lighter on amenities when compared to multifamily products common in more urban locations with sophisticated multifamily markets.

Exhibit 37. Multifamily Assessment, 2015



Source: Dupree + Scott Apartment Advisors, 2014.

FINDINGS: RESIDENTIAL USES IN THE SUBMARKETS

The data above suggest several findings for residential uses in the submarkets. These findings are outlined below, and add context to the regional trends identified earlier in this report (**Exhibit 38**).

Exhibit 38. Multifamily Market Assessment, 2015

Land Use	Short Term Outlook	Long Term Outlook	Challenges	Opportunities
5 MULTIFAMILY VACANCY RATE: 4.0% 20 YEAR POP GROWTH: 104,135 20 YEAR MULTIFAMILY HOUSING GROWTH: 14,302			<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

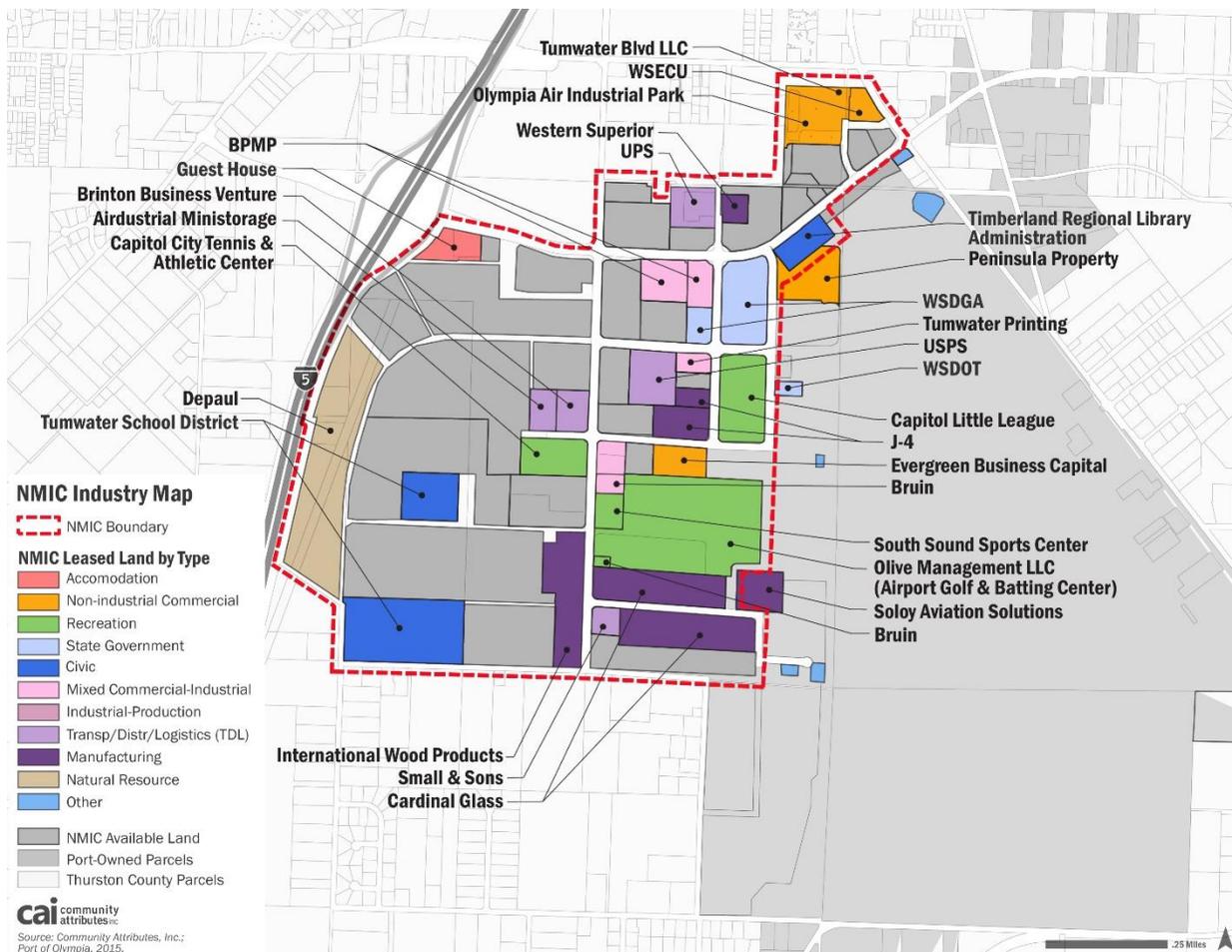
Source: Community Attributes Inc. (2015)

- + 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).
- + Tumwater has the highest lease rates for multifamily projects and is the only submarket to have seen multifamily units delivered since Q1 2013.
- + 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

3. THE NEW MARKET INDUSTRIAL CAMPUS TODAY

NMIC is currently home to a variety of industrial, natural resource and light industrial businesses as well as a number of recreational users and a couple of retail establishments. **Exhibit 39** shows leased and available land as well as tenants, color-coded by general category of business. Industrial uses (like Soloy Aviation and Cardinal Glass) are clustered in the center of the property, with several manufacturing users located at the southern end of the campus. A concentration of recreational users (including Capitol Little League, the South Sound Sports Center, the Airport Golf and Batting Center and the Capitol City Tennis and Athletic Center) exists along the eastern edge of the property, with a mix of commercial, government and civic uses located near Tumwater Boulevard. There are important uses located on adjacent parcels as well, including a residential neighborhood south of NMIC, the offices of the Washington Department of Labor and Industries north of the site at the intersection of Tumwater Boulevard and Linderson Way, and the City of Tumwater’s civic campus along Israel Road.

Exhibit 39. Current Tenants and Industries, NMIC, 2014



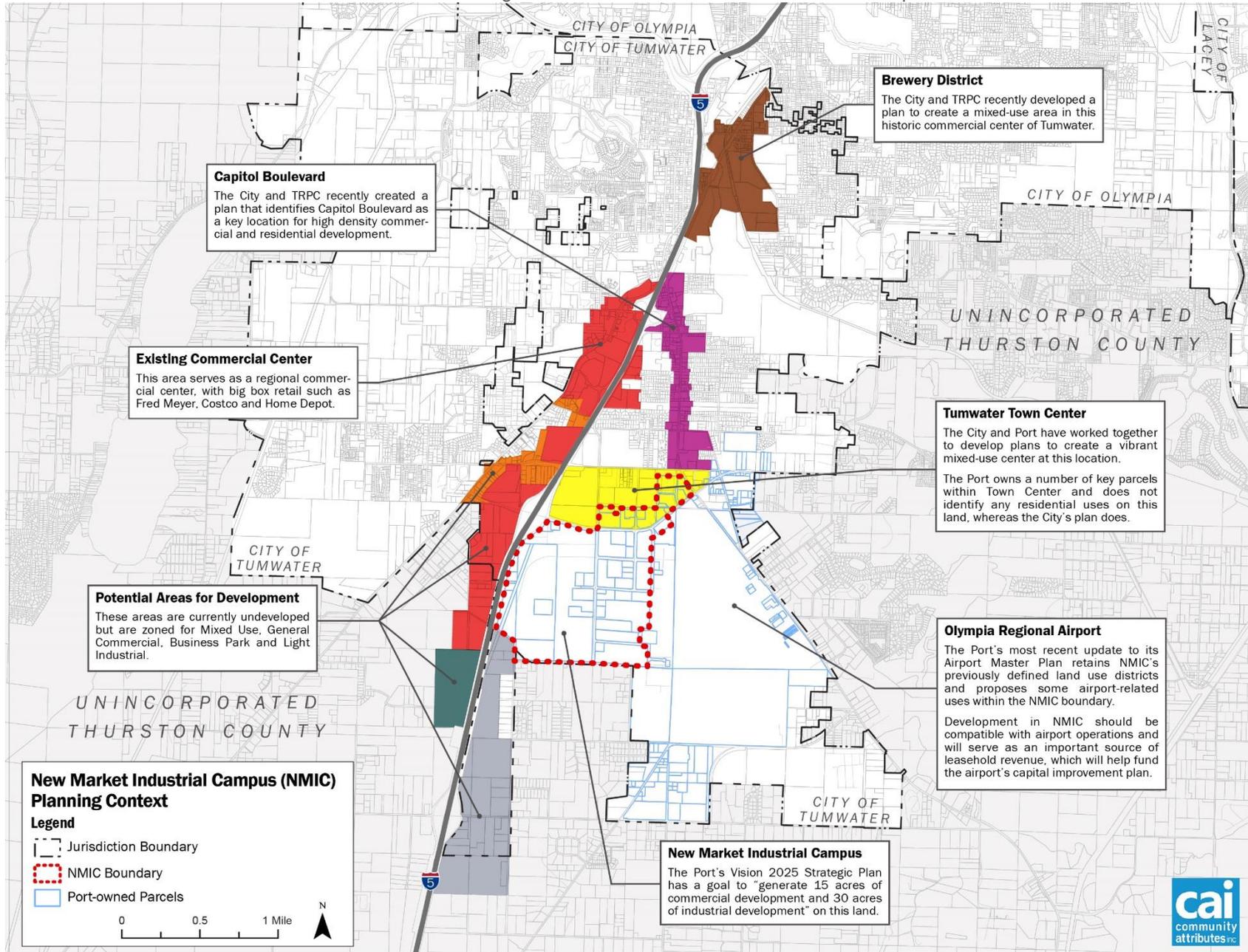
Source: Community Attributes Inc. (2015)

PLANNING CONTEXT

NMIC is subject to development regulations from both the City of Tumwater and the Port of Olympia. Some parts of the site are explicitly located within multiple planning areas; properties along Tumwater Boulevard are located within NMIC and Tumwater Town Center. While both the city and the port are interested in fostering development on these parcels, each may have a unique vision for the property.

Tumwater has also been targeting other areas for economic development, like the Brewery District and the Capitol Boulevard Corridor. The visions, goals and strategies of these related plans provide a helpful foundation for the current plan, which will need to be complementary to ongoing planning efforts. **Exhibit 40** outlines the study area for each of these related plans.

Exhibit 40. Planning Context of New Market Industrial Complex



CURRENT ZONING

TUMWATER TOWN CENTER

The City of Tumwater established the Town Center Zone District (TC) in 2002 to encourage mixed use, transit-oriented development on land directly north of NMIC along Tumwater Boulevard. This zoning designation includes four subdistricts – Civic, Mixed Use, Professional Office and Residential. Industrial uses are not allowed, aside from facilities constructed on Port of Olympia owned land prior to January 1, 2000. **Exhibit 41** presents a summary of development standards for the TC zone.

Exhibit 41. Town Center Zone Subdistrict Development Standards

Subdistrict	Max. Height (ft)	Density
Mixed Use	65	2.0 FAR (max.)
Professional Office	100	N/A
Residential	55	30 du/ac (min.)
Civic	65	N/A

Source: City of Tumwater Municipal Code, 2015

While Tumwater Town Center is zoned to allow residential development, Port-owned properties may constrain these residential uses where TC zoning is present. First, residential uses may not meet the informal job creation goals the port holds for new development. Second, FAA regulations on properties near the airport may preclude residential uses even where they are enabled by the underlying zoning. Finally, existing Port of Olympia planning documents show that TC-zoned lands north of Tumwater Blvd. are slated for commercial development, so it remains to be seen if there is interest in residential development on these properties.

AIRPORT RELATED INDUSTRIAL

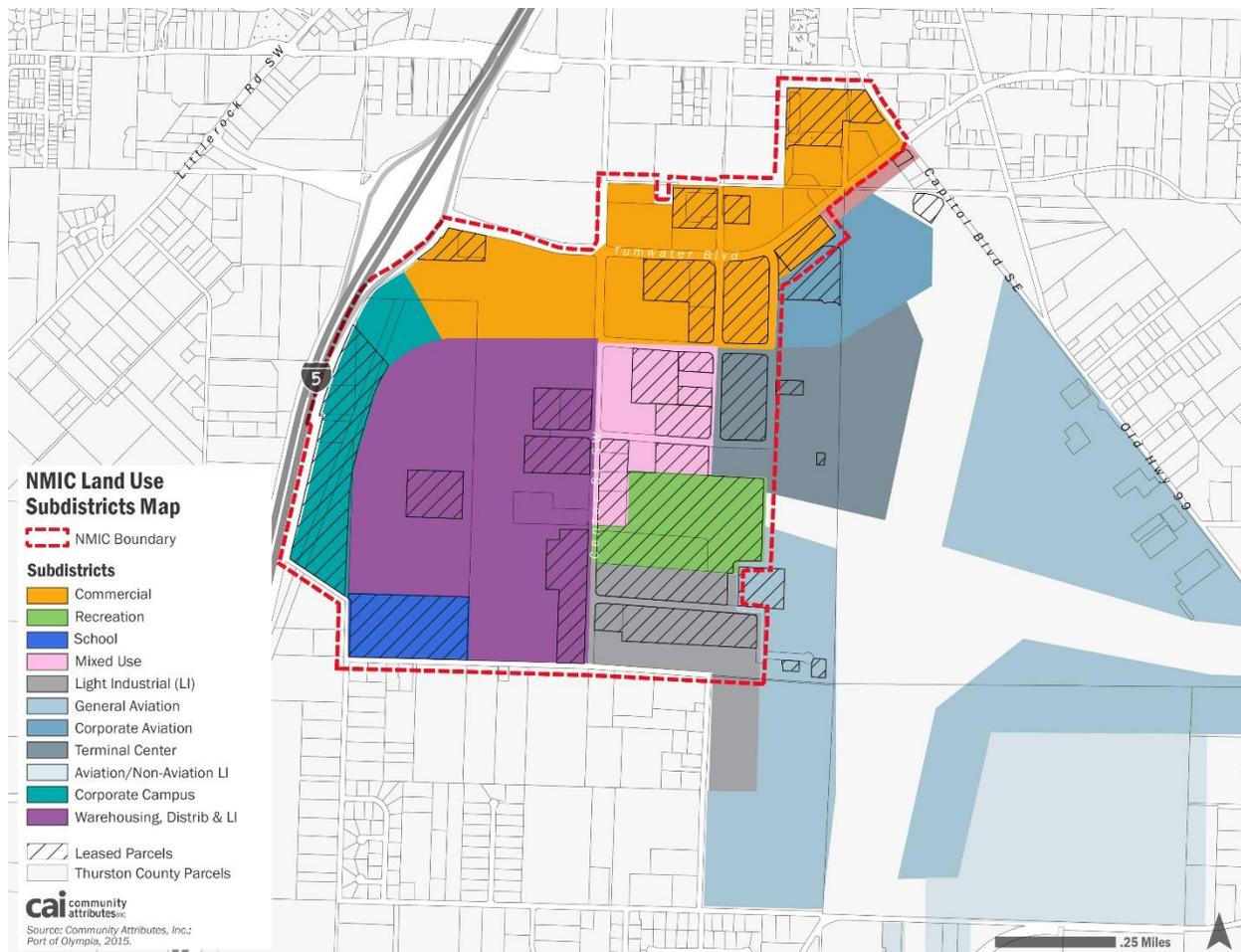
The Airport Related Industry Zone District (ARI), codified in 1995, was created to ensure that uses at or near the Olympia Regional Airport are compatible with airport operations and adjacent neighborhoods. The City, based on the Port's land use designations, has identified a variety of land use districts within NMIC, which are summarized in **Exhibit 42** and mapped in **Exhibit 43**.

Exhibit 42. Airport Related Industrial Zone Development Standards

Land Use District (primary land use)	Max. Height (ft)	Min. Setbacks (ft)		
		Front	Side	Rear
Corporate Campus (office and commercial)	80	20	10	10
Commercial (retail, office, hotel)	75	20	10	10
Warehousing, Distribution, Light Industry	50	20	10	10
Mixed Use (commercial, office, warehousing & LI)	50	20	10	10
Light Industry (LI)	50	20	10	10
Recreation	30	10	0	10

Source: City of Tumwater Municipal Code, 2015.

Exhibit 43. NMIC Land Use Subdistricts



Source: Port of Olympia, 2015

Other development regulations are likely to impact development patterns in NMIC as well. One example may be regulations on tree-cutting. Many parcels in NMIC are heavily forested, and stringent tree-preservation guidelines—or severe penalties for cutting mature trees—could hamper development feasibility.



*Much of NMIC currently has a rural character; dense stands of trees and thick underbrush cover much of the site.
Source: Community Attributes Inc. (2015)*

STAKEHOLDER PERSPECTIVES

To better understand NMIC's current role in the region, a two-part stakeholder engagement process was used to solicit feedback from area professionals. The first part of this process consisted of business interviews, and the second entailed conversations with real estate professionals throughout Thurston County. Findings from each are presented below.

BUSINESS INTERVIEWS

Thurston Economic Development Council (TEDC), in partnership with Thurston Regional Planning Council (TRPC), interviewed 31 businesses located near Olympia Regional Airport, including businesses in NMIC and Tumwater Town Center. These interviews were conducted to better understand the perceptions of local businesses on economic drivers in the region and general real estate conditions within the study area. The following is a summary of key takeaways from these interviews.

LOCAL PERSPECTIVES ON ECONOMIC DRIVERS

- Olympia Regional Airport is a strong anchor for aviation-related businesses, as well as commercial establishments that serve the customers and employees that frequent these businesses
- State employees have the potential to be a strong customer base for area retail
- Certain commercial facilities in NMIC—like the UPS distribution center in Town Center—are an amenity for manufacturers and wholesalers located in the vicinity

GENERAL FEEDBACK ABOUT NMIC AND TUMWATER TOWN CENTER

- Great access to I-5, Old Hwy 99 and seaport
- Central location between Seattle and Portland



*NMIC's easy access to Interstate 5—and to Seattle and Portland—is an important asset for tenants.
Source: Community Attributes Inc. (2015)*

REGIONAL REAL ESTATE CONDITIONS

- Available, relatively affordable land is plentiful
- Port of Olympia's lease rates may be relatively more expensive

POTENTIAL IMPROVEMENTS AND CONCERNS

- Would like to see more retail and private businesses as well as manufacturers and fabricators
- Would like the Port to sell off some parcels of land to private developers
- Unclear to what extent gophers will impact development
- Widen Old Hwy 99 to improve truck and business access
- Need better telecommunications infrastructure west of airport
- Use conflicts between industrial and commercial businesses

REAL ESTATE CONVERSATIONS

The following is summary of interviews with local real estate professionals. The interviews were conducted to inform the real estate market profile and the relative position of NMIC in the regional market. Conversations focused on NMIC's strengths and challenges as they pertain to various real estate development opportunities. Emphasis was placed on the overall demand for industrial, office and retail uses and NMIC's overall competitiveness with other competing commercial centers.

Industrial Users

- Industrial users prefer land sales over long term leases: the Port needs to move towards fee simple sales or they need to find a way to make users amenable to long term leases
- Land leases can affect the ability to obtain financing and this is important to consider
- Trucking routes to the south are a challenge because of the school and single family neighborhoods
- Access to Portland is not a factor or major consideration
- Users of industrial land from Lacey south can be described as:
 - Looking for people/businesses to serve
 - Looking for proximity to raw product and/or and customer base
 - Such businesses are fewer and farther between

Commercial Users

- State government is the only large office user in the region that demands large footprint office space
- Retail users and hotels are generally more accepting of long term land leases but industrial users don't like land leases (especially in smaller markets like Tumwater/Olympia)
- Need to consider other non-industrial uses along I-5
- NMIC is at the sound end of the population chain

Process

- The Tumwater permitting and regulatory environment has improved, but the perception of business-friendliness is an important factor in attracting new businesses
- There are several things the Port could do to better market NMIC, including:
 - Bring in anchors and junior tenants to buy land

- Continue to lease land on smaller sites (such as pad sites), which will garner strong rents and produce revenues for the Port
- Identify opportunities to actively entitle and develop land in NMIC
- Frontage partially improved (50%)
- Infrastructure already invested in or at least planned and/or partially built



*Many streets in NMIC lack basic infrastructure, like sidewalks.
Source: Community Attributes Inc. (2015)*

TOWARD A DATA-DRIVEN DESIGN

Stakeholder perspectives, current assets, local and regional forecasts and the Port's own aspirations are all important components of this market profile. As a whole, the profile anchors future work on the New Market Industrial Campus Real Estate Development Master Plan. Work in subsequent phases will translate market-ready development products into physical building typologies and will site them in appropriate locations throughout NMIC. Ultimately, these data will aid in implementation of the Master Plan.