

ECONOMIC POTENTIAL FOR FIVE CORNERS AND WESTGATE COMMERCIAL CENTERS

PROPERTY COUNSELORS

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INTRODUCTION AND SUMMARY

BACKGROUND AND PURPOSE

The City of Edmonds has identified the Five Corners and Westgate commercial districts as areas for targeted economic development. The University of Washington, College of Built Environments is working with the City to identify land use and urban design opportunities in the two areas. The City has asked Property Counselors to prepare an evaluation of the economic potential for the area to determine the types of uses that would be supported by the market, and feasible for the private sector to develop.

ORGANIZATION OF REPORT

This report documents the results of this analysis. It is organized in three additional sections.

Economic Conditions and Trends

Factors Affecting Development Feasibility

Supportable Development

SUMMARY OF RESULTS

The likely type and timing of future development in the two centers can be summarized as follows.

5 CORNERS

- Short term redevelopment is unlikely - but long term (beyond five to ten years) is feasible,

- Building types are likely to be 4 stories or less, with some surface parking and some under-building parking– with potential for shared parking between uses.
- Uses are likely to be ground floor Convenience Retail with apartments above or service sector offices (insurance, real estate, etc.)

WESTGATE

- Good potential for some short term redevelopment with further redevelopment over the long term (beyond five to ten years)
- Building types are likely to be mixed use and single purpose buildings. Mixed use buildings likely to be 4 stories or less, with some surface and some under-building parking– with potential for shared parking between uses.
- Retail uses would serve community scale trade area with the potential for new restaurants, entertainment uses, garden shops, & electronics.
- Mixed use could support apartments and service sector offices (insurance, real estate, etc) above retail or in separate buildings on the site

ECONOMIC CONDITIONS AND TRENDS

OVERVIEW

Future development opportunities at Five Corners and Westgate will depend on trends in population, housing, employment, and retail sales. Recent trends for each are described below.

- **Population and Housing.** Population in Edmonds increased slightly from 39,544 in 2000 to 40,900 in 2010 (according to Washington Office of Financial Management statistics), an average annual rate of .3%. The slow rate reflects the fact that the community is largely built-out.
- The number of housing units in the City grew at an average annual rate of .5% over the decade. The average population per housing unit has dropped from 2.26 to 2.22. The percentage of multifamily units has increased from 34.4% in 2000 to 36.1% in 2010. Additional multifamily units represented 68.8% of the total increase as new units over the period.
- **Employment.** Employment in Edmonds increased at an average annual rate of .5% between 2000 and 2009. Services and wholesale/transportation/utilities increased over the period while retail, finance, insurance, and real estate declined. If these trends persist into this current decade, the demand for office space will be mixed.

- **Retail Sales.** Taxable retail sales in Edmonds grew from \$506 million in 2004, to a peak of \$607 million in 2007, and returned to \$506 million in 2009. Considering retail sectors other than auto sales, together with food service, personal services, repair and miscellaneous services; taxable sales actually grew steadily throughout the period, from \$165 million in 2004 to \$209 million in 2009. Routine purchases of goods and services were relatively immune to the recent economic downturn.
- Assuming continuation of these trends, neighborhood centers are likely to be affected by:
 - Modest growth in population and stronger growth in multifamily residential development.
 - Continued steady growth in retail demand for goods and services, purchased close to home.
 - Modest demand for local serving office uses.

DESCRIPTION OF THE NEIGHBORHOOD CENTERS

The two neighborhood centers differ in both scale and mix of uses. The following table summarizes the amount of area zoned for commercial use (BN and BC) and building square footage by land use.

Table 1
Summary of Land Use Characteristics

	Five Corners		Westgate	
	Acres	Bldg. SF	Acres	Bldg. SF
Retail	1.07	13,256	16.73	1 65,804
Service	1.67	17,504	4.66	34,844
Office	2.37	19,010	3.21	28,634
Institution-Church	1.30	12,192		
Single Family Residential			1.93	5,881
Multifamily Residential	0.73	9,464	0.63	-
Undeveloped			2.81	-
Total	7.14	71,426	29.97	235,163

As shown, the Five Corners Center is seven acres in size, while the Westgate Center is almost 30 acres. The major uses in Five Corners are office (spread among many small buildings), services (including the athletic club as well as personal services), and institutions (the Lutheran Church). Westgate Center is a major retail center, with two anchor grocery stores and several in-line retail buildings. Service uses include a bowling alley. Generally, the Five Corners is characterized by older buildings; while there have been several new buildings in the Westgate area.

Both centers are located on major arterials through the city. Average daily traffic (ADT) in 2004 was measured at the following levels.

Table 2
Average Daily Traffic Volumes – 2004

	ADT	Direction
Five Corners		
Main Street	9,076	
Bowdoin	4,184	
212th	5,628	westbound
	7,194	eastbound
84th	6,224	
Westgate		
Edmonds Way		
West of 100th	10,666	eastbound
	11,298	westbound
East of 100th	12,390	westbound
	11,202	eastbound
100th		
North of Edmonds Way	6,750	northbound
	4,700	southbound
South of Edmonds Way	6,899	northbound
	6,871	southbound

Source: City of Edmonds

ROLES OF COMMERCIAL CENTERS

Commercial centers can be classified in a hierarchy according to the size of a center and its trade area. Table 3 summarizes the characteristics of nine different types of retail centers. Traditional centers vary in scope from a convenience shopping center, anchored by a convenience grocery or drugstore, up to a super-regional shopping center (such as Alderwood Mall) that features three or more full-line department stores. The lifestyle center, off-price center, outlet center and power centers are more specialized centers featuring a narrower range of business or building types.

The Westgate and Five Corners Centers can be classified within this hierarchy. Five Corners serves as a convenience shopping district. It is somewhat larger in size than a typical convenience center, but that reflects its previous role as a neighborhood shopping center when it still hosted a grocery store. Westgate is the size of a community shopping center but offers the business mix of neighborhood shopping centers with grocery and drugstore anchors.

A particular district or center's role is determined not just by trade area demand conditions, but by supply conditions as well. There are several competitive commercial areas in the Edmonds and the southwest Snohomish County area. Local-serving retail includes convenience and neighborhood scale commercial development. Within Edmonds, local retail competitors include:

- Firdale Village offers approximately 32,000 square feet of commercial space on three acres. At this size, and without traditional anchors, the center will serve more as a convenience center for the surrounding residential development.
- Perrinville offers several commercial buildings at the eastern edge of the city. With 15 acres zoned for commercial development, it is larger than Five Corners. But it has no major anchors, and serves as a convenience and service center.
- Downtown Edmonds meets some local retail needs with a small grocer and a variety of retail shops, restaurants, and local services. Downtown also serves as a specialty center that offers a waterfront village atmosphere that attracts visitors as well as local residents. It also features relatively higher density residential development that supports local business.
- Highway 99 includes the range of businesses typically found along a highway of this significance. It offers traditional highway-oriented businesses that serve a regional customer base. It also serves a regional trade area with the Asian markets. Finally, it serves the local trade area with grocery and drugstores, restaurants and local services.

Table 3
Comparison of Retail Center Types

<p>Convenience Shopping Center</p> <p>Anchors Convenience grocery, drug store</p> <p>Number of Stores 3-20 stores</p> <p>Total Retail Space 10,000-30,000 square feet</p> <p>Site Area 1-3 acres</p> <p>Market Area Population under 20,000</p> <p>Market Area Radius under 2 miles</p>	<p>Lifestyle Center</p> <p>Anchors Specialty apparel, home and garden</p> <p>Number of Stores 40-100 stores</p> <p>Total Retail Space 150,000-500,000 square feet</p> <p>Site Area 10-30 acres</p> <p>Market Area Population 100,000-250,000 people</p> <p>Market Area Radius 8-15 miles</p>
<p>Neighborhood Shopping Center</p> <p>Anchors Supermarket and Drug Store</p> <p>Number of Stores 10-40 stores</p> <p>Total Retail Space 30,000-100,000 square feet</p> <p>Site Area 3-10 acres</p> <p>Market Area Population 10,000-30,000 people</p> <p>Market Area Radius 1-3 miles</p>	<p>Off-Price Center</p> <p>Anchors Off-price/discount</p> <p>Number of Stores 20-60 stores</p> <p>Total Retail Space 100,000-500,000 square feet</p> <p>Site Area 5-15 acres</p> <p>Market Area Population 80,000-250,000 people</p> <p>Market Area Radius 6-15 miles</p>
<p>Community Shopping Center</p> <p>Anchors Junior department or discount</p> <p>Number of Stores 25-80 stores</p> <p>Total Retail Space 100,000-450,000 square feet</p> <p>Site Area 10-30 acres</p> <p>Market Area Population 30,000-75,000 people</p> <p>Market Area Radius 3-8 miles</p>	<p>Outlet Center</p> <p>Anchors Manufacturer's outlet store</p> <p>Number of Stores 30-100 stores</p> <p>Total Retail Space 200,000-800,000 square feet</p> <p>Site Area 20-50 acres</p> <p>Market Area Population 200,000-600,000 people</p> <p>Market Area Radius Over 50 miles</p>
<p>Regional Shopping Center</p> <p>Anchors 1 or 2 full-line department stores</p> <p>Number of Stores 50-100 stores</p> <p>Total Retail Space 300,000-750,000 square feet</p> <p>Site Area 30-50 acres</p> <p>Market Area Population 100,000-250,000 people</p> <p>Market Area Radius 8-15 miles</p>	<p>Power Center</p> <p>Anchors Large warehouse/discount retailers</p> <p>Number of Stores 10-200 stores (mainly large retailers)</p> <p>Total Retail Space 250,000-800,000 square feet</p> <p>Site Area 20-50 acres</p> <p>Market Area Population 250,000-500,000 people</p> <p>Market Area Radius 12-50 miles</p>
<p>Super-Regional Shopping Center</p> <p>Anchors 3 or more full-line department stores</p> <p>Number of Stores 100-300 stores</p> <p>Total Retail Space 600,000-2,000,000 square feet</p> <p>Site Area 40-100 acres</p> <p>Market Area Population 250,000-600,000 people</p> <p>Market Area Radius 12-50 miles</p>	<p>Sources:</p> <p>Urban Land Institute, Dollars and Cents of Shopping Centers</p> <p>Property Counselors</p>

MARKET SUPPORT FOR NEIGHBORHOOD COMMERCIAL DEVELOPMENT

The population within potential trade areas for each center is summarized in Table 4.

**Table 4
Trade Area Characteristics**

	Five Corners	Westgate
Population 2011		
Within 1 mile	16,493	20,030
3 miles	61,810	53,913
5 miles	223,815	212,891
Aggregate Household Income-2011 (millions)		
Within 1 mile	\$390.5	\$537.9
3 miles	1,621.9	1,515.6
5 miles	5,590.6	5,323.7

Source: Commercial Brokers Association

Both centers serve trade areas with populations more than adequate to support neighborhood scale commercial activity – 30,000 people within a three mile radius.

Each center can also serve residents within walking distance. Pedestrians are considered willing to walk one-quarter mile (roughly 5 to 10 minutes) for goods and services that they use regularly. They are willing to walk one-half mile for goods and services that provide a somewhat unique destination. The number of households within these distances of each center is summarized in the following table:

Table 5
Population and Housing Estimates within Walking Distance

	Five Corners	Westgate	Downtown
Population			
Within ¼ mile	1,657	1,243	1,945
Within ½ mile	4,096	2,676	3,655
Housing Units			
Within ¼ mile	435	236	774
Within ½ mile	1,078	586	1,297

Downtown has the greatest number of housing units within walking distance, but Five Corners actually has a higher estimated population within one-half mile. Westgate has approximately one-half the number of housing units as Five Corners, within both one-quarter and one-half mile.

The average household can support 72 square feet of retail development as documented in the report by Greg Easton and John Owen, *Creating Walkable Neighborhood Business Districts*. The largest categories are department, eating/drinking, grocery, gas station, apparel, and drug. While the grocers, drugstores, cleaners, florists, video-entertainment, and eating/drinking establishments are common tenants in neighborhood business districts, the others are usually found in higher-level retail centers. Of the 72 square feet per household, forty square feet are in retail categories that are found in neighborhood centers. However, 15 square feet per household represents a more realistic level of sales that a neighborhood center can capture, as much of the retail market demand would be picked up in larger retail centers.

Using a factor of 15 square feet of neighborhood business space per household, the necessary number of households to support a neighborhood business district would be:

	Retail Square Feet	Required Households
Corner grocery scale	15,000	1,000
Small neighborhood business district	30,000	2,000
Large neighborhood business district	50,000	3,300

The current number of households within one-half mile of Five Corners is approximately equal to the number required to support a convenience-scale retail center. Demand is roughly in balance with supply for local goods and services in this area. In Westgate,

however, the number of households is well short of the number required to support a convenience center. The actual amount of development greatly exceeds the amount that is supportable by the nearby residents. The center is dependent on a trade area much larger than one-half mile.

Additional housing development around both centers will increase the level of support for retail uses, but will represent only a small portion of the market support for Westgate.

COMPARISON OF PRICES, RENTS AND VALUES

A comparison of prices, rents and values provides a measure of the competitive position of the two neighborhood centers, both with respect to each other and the competitive areas in the city. Current conditions are compared in general terms in the following table.

Table 6
Local Area Prices and Rents

	Five Corners	Westgate
Land: (\$/SF)		
Unimproved		\$25
Commercial Zone w/Residential	\$25-30	\$30-40
Retail/Office Rents (\$/Sq Ft/yr net)	\$18	\$17-25
Apartment Rents (per month)		
Rent	\$740-830	\$750-1,150
Rent/Square Foot	\$.90-1.04	\$.90-1.04
Condo Sales Price:		
Total Price	\$200,000	\$265,000
Price/Sq.Ft.	\$150-187	

LAND PRICES

There are very few sales of undeveloped commercial sites in either neighborhood center. Property zoned for apartments and retail on the north side of Edmonds Way at 98th is for sale for \$25 per square foot. This is at the low end of the price range for commercial sites on Highway 99.

Many commercial sites for sale have existing single family houses. The prices for these parcels are determined as much by the income potential of the current improvements as the value of bare land. There are several homes on community-zoned sites east of Westgate at prices of \$30 to \$40 per square foot. Prices around Five Corners are somewhat lower at \$25-30 per square foot. By comparison, some commercial lots with homes in Downtown Edmonds are as high as \$70-80 per square foot of land area.

RETAIL/OFFICE RENTS

Rents in existing commercial buildings on Five Corners are approximately \$18 per square foot per year triple net (unit property expenses). These rents are comparable to the \$17 rates in older buildings in Westgate as well as the Perrinville area. Rents in newer buildings are \$20 to \$25 per square foot or more. These rents are comparable to average retail rents in Edmonds/Lynnwood/Mountlake Terrace. Space along the waterfront in Edmonds commands the highest rents at \$25 to \$28 per square foot for offices on Admiral and Railroad.

APARTMENT RENTS

There are no major apartment complexes in either Five Corners or Westgate. There are several buildings to the east of Westgate, including Edmonds Highlands, Edmonds Crest, and Edmonds Gateway with rents averaging \$.90 to \$1.04 per square foot per month; and east of Five Corners in a similar range. The range brackets the average for the city as a whole of \$1.00 per square foot per month as reported by Dupre and Scott in their Apartment Vacancy Report. Surprisingly, Edmonds has the lowest average rent per square foot per month for Snohomish County submarkets, trailing not only Mill Creek at \$1.22, but also Lynnwood at \$1.07, and Mountlake Terrace at \$1.09

CONDOMINIUM PRICES

There are at least a dozen condominium or townhouse projects immediately around Five Corners with more than 200 condominium units in total. The largest building is the 66-unit Montclair Building built in 2002. There are several units for sale in the complex at prices ranging from \$150,000 to \$225,000. Prices per square foot vary from \$150 to \$187. The average price of units sold in southwest Snohomish County and Everett was approximately \$150 per square foot in 2009.

There are no condominiums in the immediate area of Westgate.

FACTORS AFFECTING DEVELOPMENT FEASIBILITY

MARKET SUPPORT FOR MIXED USE DEVELOPMENT

A successful mixed development requires a site that is appropriate for all the uses in the project. A strong housing component can't overcome a bad retail location and vice versa. Sometimes single use developments are more feasible and appropriate. In Edmonds, the two neighborhood centers are well located for commercial development. The Five Corners area also has shown itself to be an attractive multifamily residential location. Westgate does not currently offer much multifamily development, but there is attractive multifamily development to the east.

DEVELOPER BENEFITS OF MIXED USE

Mixed use development typically provides higher site density by stacking multifamily residential development over commercial uses. The amount of development that can occur on a parcel of land directly affects feasibility in a variety of ways:

- Higher density spreads the cost of acquiring land over a larger amount of income-producing built area. While the prices for vacant land are relatively low in the area, the price of an improved property for redevelopment can be significantly higher.
- There are some efficiencies in construction costs related to greater height (e.g., amount of roof area per square foot of development).
- Higher density provides a greater number of households to support nearby commercial development. As described earlier, approximately 1,000 households are necessary to support a convenience grocery store; 2,000 households are necessary to support a small neighborhood business district; and 3,300 households are necessary to support a neighborhood shopping center.

INCREASED DENSITY AND PARKING

The increased density associated with mixed use often requires structured parking. The cost of structured parking can be \$15,000 to \$30,000 per space compared to \$4,000 per space for surface parking. However, a project that can meet the needs of its tenants, while reducing the number of parking spaces, can reduce the overall cost of the development. In particular, a project located near public transportation and community services may require less parking. Traditional lending underwriting requirements call for one parking space per bedroom. However, households in denser urban environments are reducing their dependence on private autos, and new projects are offering parking at lower rates, or offering residents the choice of whether to use a space or not. The City of Seattle does not specify a minimum number of parking spaces for Downtown residential projects, and as a result the amount of parking in new buildings is dictated by the developer's perception of market requirements. While luxury condo projects with large units have been developed recently with two spaces per unit, many new projects offer less than one space per unit. Several new projects in the Pike-Pine Corridor have less than 0.5 spaces per unit. Several projects in Belltown have parking at 0.6 to 0.86 spaces per unit. The planned Othello Station North mixed use project on the Sound Transit LINK light rail line in Seattle will provide .74 spaces per unit.

The appropriate amount of parking depends on the location and characteristics of the tenant.

DENSITY, HEIGHT, CONSTRUCTION TYPE, AND COST

Additional density often is achieved through greater height. Building codes in most communities allow five floors of residential over one to two floors of commercial use

(approximately 65 to 75 feet in height) with wood frame construction for the residential floors. If buildings are taller, more costly concrete or steel construction is required. Concrete or steel construction is 50% to 60% more expensive. The cost premium effectively precludes buildings within the range of 75 feet to 125 feet in height. Four floors can provide construction efficiencies without maximizing the amount of amount of development allowed by building codes

NECESSARY RENTS AND PRICE LEVELS

The cost levels for both mid-rise (five or fewer floors of residential) and high rise dictate threshold rent levels for feasibility. A mid-rise building will require rents of approximately \$1.60 to \$1.75 per square foot per month, while a high rise will require rents of \$2.50 or more. Smaller suburban markets generally can't support these rent levels. In comparison, the average rents for newer apartment buildings in Seattle (built since 2000) are approximately \$2.00 per square foot for downtown and close-in neighborhoods (including Belltown and Capital Hill), and \$1.80 per square foot for neighborhoods such as Ballard, University, and Green Lake.

Supportable rents are determined by a variety of factors related to location and project features. Rent factors at levels required for feasible new development are well above current levels in the local market, but higher real rents attainable over time as the area are established and recognized as a desirable location.

LAND PRICES AND FEASIBILITY

Higher land prices provide an incentive for higher density while lower prices provide a disincentive. For example, if land costs \$30 per square foot, it's cheaper to buy land for surface parking than to build a structure. If land costs more than \$60 per square foot of potential building area, it's necessary to achieve additional density to support the land cost. Land prices in the neighborhood centers are definitely below the \$60 per square foot level even for redevelopment sites. However, there aren't many sites available, and higher density development is probably the highest and best use in the long term.

ECONOMICS OF REDEVELOPMENT

Redevelopment (renovation or replacement of existing structures) can be very expensive because of the potential lost income stream from an existing use. Even a dilapidated single family home may have more value as a residence than as a vacant site for commercial or mixed use development. Renovation of existing structures may be more feasible than replacement in many instances in the short term (five to ten years).

SUPPORTABLE DEVELOPMENT

FIVE CORNERS

The Five Corners area meets the location requirements for mixed-use development. It is located on well-traveled arterials and has a base of established commercial businesses. It is also an established multifamily concentration in the city, with several condominium projects, developed as recently as 2002. The types of uses that are supportable are described below.

Retail. The area will likely continue to serve as a convenience retail district. Trade area population and transportation patterns aren't likely to change enough to affect its role. Further, there aren't available vacant sites in the project area for a major retail anchor to serve as a catalyst in the short-term. Over the longer term, (beyond ten years), there will be opportunities for redevelopment. The area will continue to support local retail businesses such as:

- small-scale grocery
- food services
- personal services
- convenience retail

The scale of these uses is consistent with ground floor retail spaces in mixed-use buildings. There is always potential for businesses that establish a strong local reputation and become a destination. These businesses can become catalysts for new related businesses.

The retail businesses will serve both pedestrians for the surrounding residences, and drivers on the local arterials. While the parking requirements may be somewhat reduced as a result, there will still be the need for convenient, visible, and accessible parking.

Office. There will continue to be demand for local-servicing businesses in the finance, insurance, real estate and service sectors. Many of these businesses could be located in ground-floor commercial space, or in an upper floor over retail.

Multifamily Residential. The area can support additional density in multifamily development. Much of the existing multifamily development is condominiums. Given the collapse in housing prices in the past three years, it is unlikely that condominiums will be a favored product over the next five to ten years, either for developers or purchasers. Apartments are likely to be favored as vacancy rates fall and prices rise. Apartments are likely to be smaller on average than the existing condominiums in the area (600-10000 square feet rather than the 1000-1,700 square

feet). Residents will include both young singles and couples, as well as retirees. Uses like the athletic club are a strong amenity for these potential residents.

Current rents in the Edmonds market aren't high enough to support the cost of mixed-use development with all parking underground. However, a four-story building, with some under-building parking and some surface parking, could be developed at a cost that might be feasible with rents at about \$1.25-1.30 per square feet. Rents at these levels might be attainable in the Edmonds market within five to ten years.

WESTGATE

The Westgate area has potential to meet the location requirements for mixed-use development. It certainly is a strong retail location. It isn't an established multifamily residential location, so such development would have to create its own attractive residential environment. The types of uses that are supportable are described below.

Retail. The area can continue to serve a community-scale trade area, as it evolves with some higher level retail offering. Many of the popular offerings at regional malls are increasingly available in smaller retail settings. A broad range of restaurants and dining establishments can provide an anchor to a business district of this size. Entertainment and games activities could be included. Further, "lifestyle" businesses such as apparel, home and garden accessories, and electronic devices can complement the business mix. Such uses would have to be developed in a coordinated fashion on a sufficient scale.

Office. As with Five Corners, there will continue to be demand for local-servicing businesses in the finance, insurance, real estate, and service sector. Many of these businesses could be located in single-purpose commercial buildings like the new offices at 102nd and Edmonds Way.

Multifamily Residential. The best opportunities for developing new multifamily residential would be at the eastern edge of the district where there is available undeveloped land near existing apartments. As in Five Corners, the demand over the next five to ten years is likely to be apartments rather than condominiums. The average size is likely to be 600 to 1200 square feet, and would serve young singles and couples, and empty nesters.

As with Five Corners, current rents in the Edmonds area aren't high enough to support the cost of mixed-use development with all parking underground, however, a four story building with some under building and some surface parking could be developed at a cost that might be feasible with rents at \$1.25-1.30 per square foot. Rents at these levels might be attainable in the Edmonds market within five to ten years.

The larger retailers will continue to occupy single-purpose buildings. But such buildings can be sited to appeal to pedestrians as well as patrons in automobiles.