

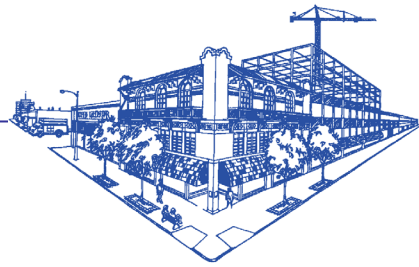
APPENDIX A:

MARKET OPPORTUNITIES ASSESSMENT

- SeaTac City Center Economic Opportunities Review (E.D. Hovee & Company, LLC)

E. D. Hovee & Company, LLC

Economic and Development Services



MEMORANDUM

To: Brian Scott
BDS Planning & Urban Design

From: Eric Hovee

Subject: SeaTac City Center Economic Opportunities Review (Revised)

Date: November 19, 2019

On behalf of the City of SeaTac, BDS Planning & Urban Design is providing preliminary urban design framework services. A key component of this sub-area planning process involves a review of existing market studies and preparation of an economic opportunities report. This background report is prepared for BDS and the City of SeaTac by the economic and development consulting firm E. D. Hovee & Company, LLC.

This economic opportunities report is organized to cover the following topics:

At-A-Glance Summary
Review of Existing Market Studies
Demographic & Economic Update
Framing Opportunities
Next Steps

Information regarding preliminary redevelopment site identification and property validation will be provided as part of next step deliverables.

Please consider this as a revised draft report subject to review by BDS and the City of SeaTac. Further revisions may be made with to address remaining questions and comments received.¹

AT-A-GLANCE SUMMARY

In conjunction with urban design framework services, an updated economic opportunities analysis is being conducted for City Center SeaTac. Observations and findings from work completed to date area summarized as follows.

Review of Existing Market Studies. An initial step taken with this analysis has been to briefly review seven City Center and related market studies conducted for SeaTac over the last two decades – building from rather than re-inventing initiatives previously taken. Key findings from this review of prior market studies are three-fold:

- Consistently expressed are themes of **airport-oriented** lodging and park-fly operations as continuing opportunities, offset by more limited opportunities for retail and dining.
- There are mixed opinions as to realistic prospects for **office, housing and mixed-use**, together with questions as to whether market rents will support costs of development.
- True City Center **transit-oriented development (TOD)** has yet to materialize and continues to represent a missed economic opportunity for SeaTac and the metro region.

Demographic & Economic Update. Three market geographies have been utilized for comparative purposes with this analysis – the City Center plan subarea (with 5,600 residents estimated as of 2019), entire City of SeaTac (population 29,180) and a greater SeaTac (south end) market area (of 298,500 residents):

- City Center **population** tends to be growing more slowly but is younger, more diverse, less educated and with lower incomes than the city and greater market area.
- City Center **households** are evenly split between family and non-family living, with high proportions of 1-person households, with two-thirds as renters and multi-family residents. Residential construction has lagged behind the rest of the city in recent years.
- PSRC data indicates that SeaTac has an **employment** base of an estimated 34,140 jobs as of 2018 – an increase of 4,220 jobs (+14%) in just the last three years since 2015. The primary source of this reported job gain has been with wholesale and transportation related activities – focused around the Sea-Tac International Airport.
- As of 2015 (the latest year with comprehensive data for a sub-city geography), U.S. Census data indicates that the **City Center** accounted for about 14% of jobs city-wide – focused in hospitality and management/administrative jobs, albeit with relatively lower wages and with somewhat younger workforce than is the case city-wide (as with airport-related employees just west of the City Center subarea).
- The greater SeaTac market is well served with **retail** overall – with retail sales that exceed resident-generated demand alone. Overall City Center capture of this southside market is relatively small – peaking at a 4% share of the market for dining. The best opportunities are likely to be for businesses that cater both to destination hospitality and local resident/employee needs – in a pedestrian-scale, TOD mixed-use setting.

- When viewed in terms of **current rents** (including lodging rates), SeaTac consistently underperforms the metro market across apartment, retail, office, and hotel product types – making it difficult for new construction to demonstrate project feasibility. Market feasibility may increasingly require a more diverse set of urban mixed-use development concepts – attracting rents closer to market averages.
- For SeaTac’s City Center, **mixed use** may include residential above commercial but also other formats including mixes of retail, office, conferencing, hotel, and extended stay concepts with structured parking. The SeaTac market will remain airport-driven – with as yet untapped potential as a globally significant airport city.

Framing Opportunities. Among urban centers in the Puget Sound region, SeaTac is presented with a unique set of market opportunities predicated on *network effects* – as a real estate product or service that can yield greater value with customer use and cross-shopping. As airport usage increases, there is correspondingly greater demand for airport support services – notably lodging, extended stay residential, parking, dining, entertainment and convenience-oriented services.

This cumulative value is best captured when seemingly disparate real estate products and customers are linked (or networked) – making it ever easier for airport users, employees, and residents to each layer in their share of spending potential. An *aerotropolis* (or airport city) concept is one where each new development provides added incentive not just to pass through – but linger. Provide office space, conferencing, traditional and flexible lodging, and dining/entertainment with SeaTac as the complete one-stop package deal.

This approach requires investors and developers willing to step out beyond the tried and tested. Whether and how this might be applicable for SeaTac can be further explored in subsequent project work tasks involving preparation of a vision statement and urban design concept based on community and stakeholder input including a City Center charrette process. To summarize, pivotal market-responsive economic development opportunities ahead include:

- Improved linkages with the airport – specifically airport services including lodging, extended stay, convenience retail/dining and park & fly.
- Expanded office employment for businesses with global footprint and as an emerging southside Class A office cluster.
- Preparation for potential reduction in future parking demand with changes in vehicle technology and consumer preferences – eventually freeing up City Center land for other airport and community driven transit-oriented and mixed-use development concepts.
- Short-term opportunity for more intensive residential and neighborhood commercial uses within the portion of the City Center area away from International Boulevard.

Next Steps. This economic opportunities review will be refined in response to charrette discussion and refinement of a design framework going forward. An added next step will be to identify and validate realistic site development opportunities.

REVIEW OF EXISTING MARKET STUDIES

An initial step taken with this economic opportunities report is to review other City Center and related market studies conducted over an approximate two decade time period including:

- SeaTac TOD review (1998)
- SeaTac Station Area Market Analysis (2005)
- SeaTac Economic Development Project (2004-06)
- SeaTac LRT Station Area Economic Benefits Analysis (2009)
- 2010 Streetsense Station Area Market Study
- South 200th Station Area Market Report (2012)
- Sea-Tac International Airport Economic Impacts (2018)

While some conditions have changed, these reports remain useful to set a broader city- and region-wide context from which to better understand SeaTac's competitive market strengths and challenges. This review aims to identify which of the *takeaways* remain important today and which have been supplanted or modified by changing conditions locally and regionally – especially in the wake of the Great Recession, ensuing recovery and now re-normalized growth opportunities. The aim is to build from rather than re-invent initiatives previously taken.

Each report is briefly reviewed with summary observations, in turn.

SeaTac TOD Review (1998)

A draft report titled *SeaTac Segment of LINK Light Rail Market Review and Assessment of Transit Oriented Development Opportunities* was prepared for the City of SeaTac by Berk & Associates, Inc., September 1998. The purpose of the memorandum report was to provide background information, enabling alternative development scenarios to be prepared for the City Center Plan – specifically the types of transit-oriented development (TOD) opportunities that could occur at each station site.

Key market sectors addressed included hotel/hospitality, commercial parking, office space and retail sales. Station sites considered at the time were a north station (at S 160th Street), north central station (170th), south central station (188th), and 200th Street. Of these sites, 160th and 200th are outside the current City Center study area; only one station at 176th was constructed as the SeaTac / Airport light rail station.

Growth projections were made for each ¼ mile station area to 2020 with and without transit. While considerable development was forecast even without transit, relatively little added development was forecast with transit. For the north central station, the TOD “bump” was only an added 14% in employment and less than 1% increase in housing units as compared to without transit conditions. The impacts of transit on residential development, in particular,

were described as “relatively minimal” because the then proposed 170th station area was already designated for future residential development.

Similar forecast results were noted for a potential south-central station at 188th. Forecast 2020 employment gains with a 188th transit station at International Boulevard would be 12% greater and housing development no different than if light rail transit was not implemented. An overall conclusion of the report was that light rail might not provide much impetus for net added commercial or residential growth (beyond what was already allowed by existing zoning). However, the report also concluded that: “The presence of light rail offers opportunities to possibly attract a higher income demographic, as has been evidenced in other communities, and more generally as an additional amenity to help the City achieve its GMA housing goals.”

SeaTac Station Area Market Analysis (2005)

In December 2005, Community Attributes provided a draft *SeaTac Station Area Action Plan Market Analysis and Development Considerations report to the City of SeaTac*. The report focused on relocation station site opportunities at 154th Street in Tukwila and at 176th Street in SeaTac’s City Center (as were later constructed). The analysis concluded that:

- Additional lodging focused toward a more upscale market segment appeared to be the best opportunity for the SeaTac station area of the uses considered.
- Training centers were noted as an emerging new use based on early success of the then operating Washington Mutual Training Center – or possibly a multi-tenant version of WaMu “with tenants leasing private spaces and sharing classroom and lodging space.”
- Conversion of surface to structured parking was viewed as potentially viable – as “SeaTac land values are at a tipping point to support structured parking” but dependent, in part, on co-location with higher-end lodging to better cover structured parking costs.
- Market factors favored potential office development – as for a major corporate headquarters or similar anchor – but would require rental rates above what the market then supported.
- Studio residential generated “significant interest by developers and stakeholders” – especially if “bundled” with lodging units for airport crews and related workers valuing immediate airport access – but with feasibility hampered by below market rental rates in the SeaTac area.
- Retail was viewed as most feasible when developed as “a relatively minor but supporting use for lodging, office, or other (e.g. residential)” – with SeaTac opportunities further limited by existing destination retail in the Tukwila urban center.
- Mixed use development was described as “always difficult,” otherwise receiving limited consideration in this 2005 market report.

SeaTac Economic Development Project (2004-06)

Over a two-year period, E. D. Hovee & Company prepared a business “icon” and targeting program for the City of SeaTac. Key business clusters for which current or prospective competitive advantage were identified for SeaTac included:

- **Hospitality** – including entertainment, dining, convenience and specialty retail focused on the International Boulevard corridor (in both single and multi-tenant configurations), expanding and diversifying current offerings while improving the quality of the visitor experience.
- **Corporate Office** – focused on potential business icons including end-user/ build-to-suit projects identified in cooperation with regional brokerage and development interests.
- **Mixed Use** – to serve hospitality-related dining, retail and entertainment together with mid-high rise corporate office and exploration of residential/mixed use potential.
- **Air Logistics** – in partnership with the Port of Seattle, involving potential development of aviation commercial sites.

While the geographic area covered was the entire City of SeaTac, three of the four targeted business clusters were directly focused on the City Center area. Air logistics activity involved properties to the west of International Boulevard but with indirect opportunities for professional and trade-related firms supporting the airport logistics activity.

Stakeholder involvement included property owners and developer interests, Hotel-Motel Advisory Committee and City Council review. Key project deliverables were a business prospectus, business icon contact database, and an implementation plan with a business marketing program.

By Resolution #05-020, the Council on November 22, 2005 authorized the preliminary reservation of up to \$18.3 million in funding for public use and purpose as economic development incentives for qualified mixed-use financing. Separately provided was assistance in a business ambassador program to market SeaTac properties to interested end users and development clients. In the last phase of the project, principal Eric Hovee conducted confidential interviews with City Council members regarding development negotiations for two mixed use proposals being considered by the City pursuant to the RFP process, including financial evaluation and comparison of the two proposals.

SeaTac LRT Station Area Economic Benefits Analysis (2009)

Community Attributes (CAI) completed a third draft *City of SeaTac Light Rail Transit Station Area Economic Benefits Analysis* in March 2009. The purpose of the report was to describe “anticipated fiscal revenues, along with jobs, wages and additional benefits anticipated to come with station area absorption and development” at the 154th SeaTac Airport station areas.

CAI forecast that development at the Airport Station could increase from:

- 340 residences already in place to 726 housing units with implementation of the Station Area Plan.
- Increase from 1.45 million square feet of non-residential space to 1.96 million with Station Area Plan implementation
- Increase from 957,000 square feet to 2.758 million square feet of commercial and business parking use.

The net increase in municipal (property tax, sales tax, building permit and other general fund) revenues would be \$2 million as a one-time benefit from construction and \$2.1 million per year from added on-going business and residential use.

The report comprised a build-out plan rather than market analysis. Also noted is that the report did not attempt to distinguish between development expected to happen as a result of in-place zoning (without LRT) versus the added increment of development resulting from the anticipated transit investment.

Streetsense Station Area Market Study (2010)

The firm Streetsense completed a *City of SeaTac Station Area Market Study*, January 26, 2010 – the purpose of which was to identify and quantify existing and future demand in the SeaTac Station area. The analysis was “geared toward the potential SeaTac Airport Retail, Dining, and Entertainment District.”

The market study identified both primary and secondary trade areas for purposes of analysis. These were the areas viewed as posing “the most direct competition to the Station Area as well as the area from which the area has the highest potential for drawing consumer expenditures.” The geography covered by the secondary trade area defined by Streetsense is again utilized with this 2019 updated market analysis, as described later in this memorandum.

Key observations or “population principles” of the Streetsense report were two-fold:

- 1) Less-than-stellar demographics do not make successful development impossible in this area. It just means that price-point must be carefully considered.
- 2) The opening of the SeaTac/Airport Central Link light rail station will impact this market significantly; however, the degree to which it will do so is virtually impossible to quantify, especially when the station is not yet open and ridership numbers are just projections. We would recommend doing intercept surveys with light rail riders to help form a vision for the Station Area.

Preliminary summary conclusions by real estate product type for the station area were as follows:

- If amenities and pricing were right, a small amount of 200-250 multi-family units could be supported for “a very particular population including airport employees.”
- There is opportunity for “utilitarian” non-speculative office development and possibly for professional loft offices above retail and build-to-suit opportunities catering to the aviation business in SeaTac.
- SeaTac does not need “more of the same” in terms of retail – especially since the overall regional market is “oversupplied.” However, within SeaTac’s primary trade area, several gaps were identified in strategic categories as with home furnishings, electronics/appliances, specialty food stores, sporting goods and specialty retail, and limited service dining, perhaps with an outlet component, in a more open-air type environment – also a bowling or adult game center (like Dave and Busters) adjacent to a restaurant cluster. Total demand was estimated to be in the range of 150-250,000 square feet for a small outlet center coupled with a small grocer and restaurant cluster – augmented by free, highly visible and easily accessible parking.
- While most hotel patrons drawn to SeaTac will be value-oriented in a market already well served but with “not great” occupancies, what was viewed “clearly missing” would be a small, one-of-a-kind, boutique hotel with some ancillary meeting space.

South 200th Station Area Market Report (2012)

On behalf of Sound Transit, the commercial brokerage firm Kidder Mathews submitted a *South 200th Station Area Market Report*, dated November 7, 2012. The report was intended to evaluate opportunities for public-private development partnership at the South 200th LRT station.

While the geographic focus of this study was outside the immediate City Center area, the following observations would be potentially applicable to City Center projects as well:

- Demand for added lodging would most likely be focused on a select service or extended stay hotel of 120-150 rooms.
- Unless a large office user locates in the station area and “catalyzes the market,” there would likely be insufficient demand to support added office development over the next five years.
- The most attractive retail sites are International Boulevard corner parcels, most suitable for auto-oriented drive-up business – with perhaps some service retail to serve SeaTac area job growth.
- While not attractive for affordable (income restricted) housing, light rail is expected to improve the area’s desirability “in combination with other infrastructure investments.”
- There is moderate demand for added Park & Fly parking but with 200th not as attractive unless sites are located adjacent to the LRT station.

Sea-Tac International Airport Economic Impacts (2018)

Community Attributes, Inc. (CAI) prepared a *Sea-Tac International Airport Economic Impacts* report for the Port of Seattle in January 2018. As the 9th busiest airport in the U.S. hosting nearly 47 million passengers in 2017, SeaTac's economic impacts were identified as including:

- On-site direct employment of 19,100 jobs with wages averaging \$73,500 as of 2017.
- Statewide impact of \$22.5 billion in economic activity, 151,400 jobs and \$7.1 billion in total compensation.
- Serving 8.2 million visitors traveling to Washington state through SeaTac – supporting 68,200 jobs, \$2.2 billion in annual compensation and \$5.9 billion in total economic activity especially for lodging, food and transportation.
- City of SeaTac-specific support for an estimated 24,100 jobs, 1.7 billion in total compensation and \$6.1 billion in economic activity as of 2017.
- Also cited were Port of Seattle economic development projects in Des Moines (for a business park) and Burien (Northeast Redevelopment Area Project) – but no specific projects specifically noted within the City of SeaTac.
- Planned capital improvements expenditure of \$3.2 billion over 5 years – including the International Arrivals Facility and North Satellite Modernization Project.

Observations Summarized

From this review of prior market, business development and economic impact related studies, three observations are offered as pertinent to this 2019 urban design framework process:

- There has been reasonable consistency of viewpoints as to pivotal market opportunities for SeaTac's City Center. Airport-oriented hotel and park & fly operations have been consistently viewed as having continuing market support – although there have been varied opinions as to market segment and product types most feasibly served. Retail prospects have uniformly been viewed as less favorable due to existing south end market saturation – with the exception of some added local and airport dining, entertainment and/or service-related retail.
- There have been divergent opinions as to realistic market prospects for office, housing and mixed-use development – with prospects viewed less favorably through the Great Recession and its immediate aftermath. With continuing economic recovery, market demand now appears more favorable, though there remains uncertainty as to whether rents will support costs of development – as considered later in this memorandum with discussion of current indicators of real estate market demand.
- Perhaps most significantly, true transit-oriented mixed use, public-private development has yet to materialize in SeaTac's City Center subarea – despite the presence of the region's largest airport and a now in-place light rail transit system. This continues to represent missed economic opportunity – for the City of SeaTac and the metro region.

DEMOGRAPHIC & ECONOMIC UPDATE

With review of past work in hand, this economic opportunities report now proceeds to an updated demographic and economic review of the immediate City Center in the context of the entire City of SeaTac and a more encompassing Greater SeaTac market area. Included is consideration of market geographies, comparative demographics, housing, employment, and retail sales – followed by discussion of real estate indicators of market demand.

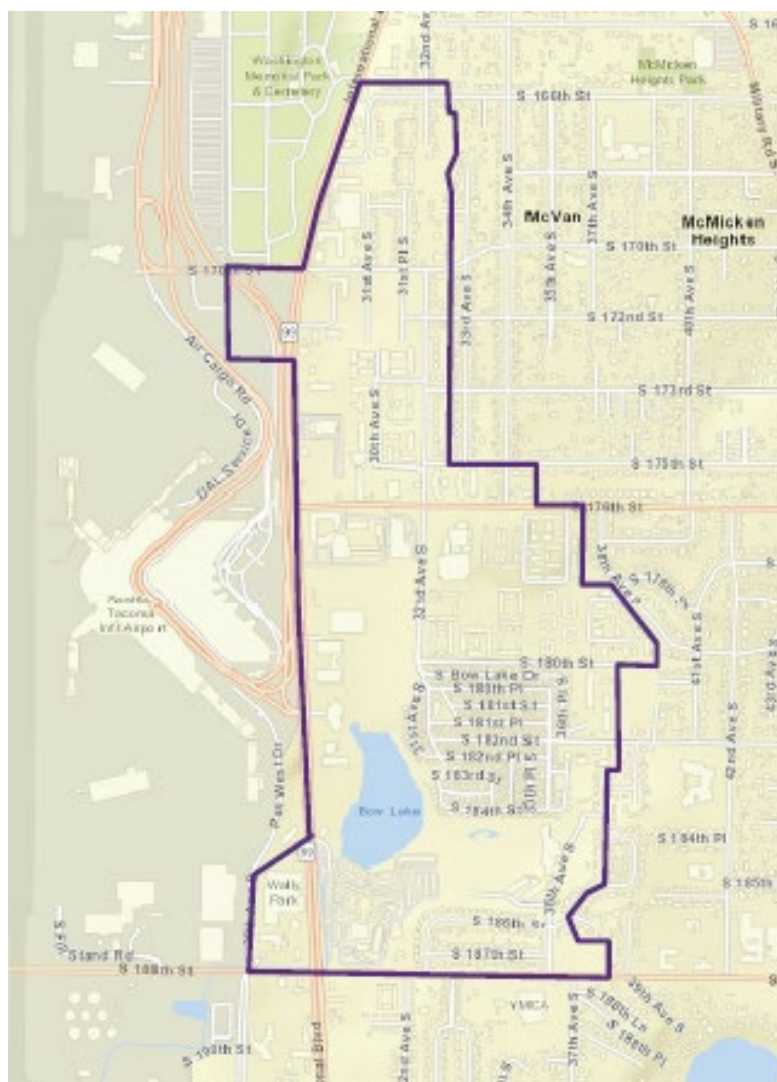
Market Geographies

For purposes of comparative analysis, three market geographies are of greatest interest:

- The **City Center** planning sub-area (shown by the map to the right), is defined as bounded by the Highway 99/ International Boulevard corridor to the west, from about S 166th Street to the north, then extending south between 32nd/33rd Avenue to S 175th, from which it runs irregularly south to a southern boundary at S 188th Street.

This 300+ acre area is situated immediately adjacent to the Sea-Tac International Airport and comprises the commercial and higher density core of the city.² As of 2019, the City Center sub-area had over 5,600 residents, accounting for about 20% of SeaTac's population city-wide.

SeaTac City Center



Source: Environics/Claritas and E. D. Hovee.

- Boundaries of the incorporated **City of SeaTac** extend just west of the Sea-Tac International Airport, north to S 128th Street, on Military Road to just south of I-405, east to the I-5 freeway, then to S 228th Street.

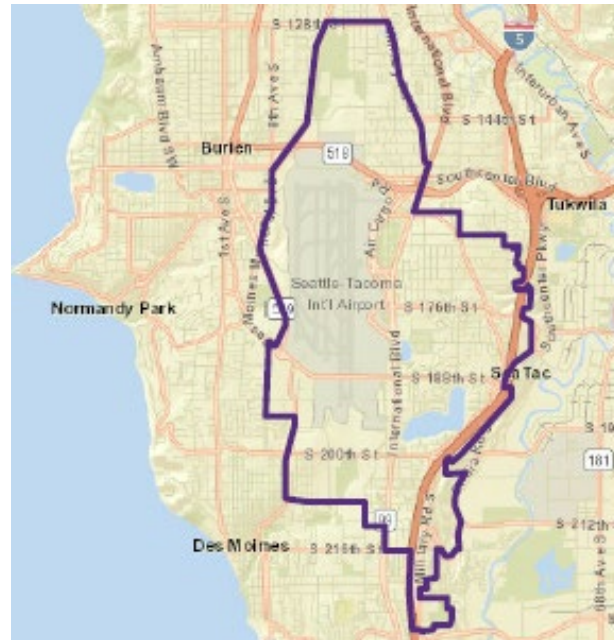
As of 2019, the Washington State Office of Financial Management (OFM) estimates the city's population to be comprised of approximately 29,180 residents.³ SeaTac's population represents close to 10% of the Greater SeaTac market area, considered next.

- The **Greater SeaTac** market area is defined consistent with what was previously identified as a secondary trade area as part of a market study prepared by Streetsense in 2010. This represents the market reach of major shopping center destinations as with Southcenter in Tukwila. This greater market area is bounded by Puget Sound on the west, extending to the Duwamish industrial area and adjoining neighborhoods to the north, going southeast along Lake Washington to Renton, south along I-405 and then SR 515 into downtown Kent and to a southern boundary of about S 277th Street. Population of this greater market area is estimated at approximately 298,500 residents as of 2019. This equates to over 13% of the 2.226 million residents of King County.

Area Demographics

For this analysis, primary reliance is given to proprietary data of Environics/Claritas with estimates as of 2019.⁴

City of SeaTac



Greater SeaTac



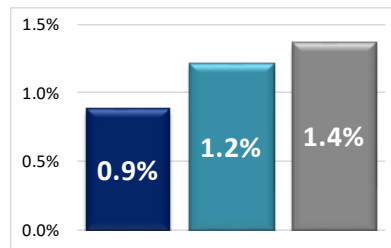
Source: Environics/Claritas and E. D. Hovee.

As illustrated by the charts to the right:

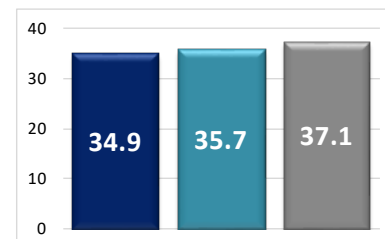
- **Population** of the SeaTac's City Center area has increased at a slower pace than for the city as a whole and the Greater SeaTac market area since 2010. City-wide growth is also below the statewide growth rate averaging 1.3% per year through this decade.
- As might be expected for a community oriented to SeaTac International Airport, **median age** for the City Center area is below that of the Greater SeaTac / South County area (which is comparable to the state). Median age has increased across all three geographies – up by the most (+ 1.9 years) for the City Center area.
- All three geographies have “majority minority” populations. As of 2019, the **minority** proportion accounts for an estimated 68% of City Center residents, with the white-only proportion at 32%. Since 2010, the minority proportion has increased for the City Center and city-wide geographies by about 8-9% points and by 6% points for the greater SeaTac market area.
- With some variation, 50%+/- of the adult population in all geographies have completed **some college or more** – with the rate lowest at 47% for City Center residents. However, only 16% of City Center residents have a bachelor's degree or better vs. 22% of all SeaTac and 28% of greater SeaTac residents.
- At just under \$40,000, **median household income** of City Center households is 66% that of all households city-wide and 61% of households throughout the greater SeaTac area. All three geographies are well below a statewide median income estimated at \$73,800 as of 2019. Only 20% of City Center households have incomes of \$75,000+ per year as compared with 40% of all SeaTac households and 43% of all households in the greater SeaTac market area.

Area Demographics (2019)

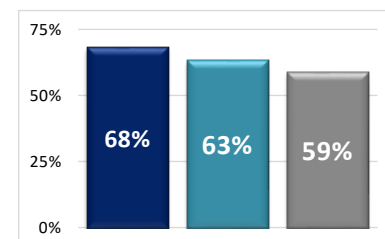
% Population Growth/Yr (2010-19)



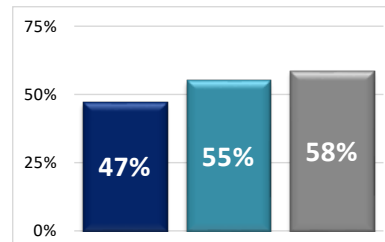
Median Age of Population



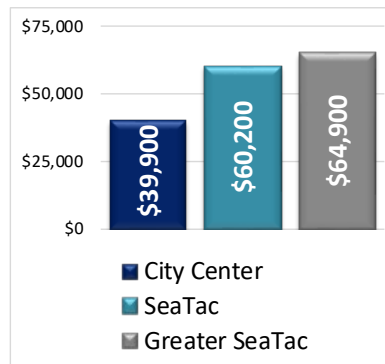
% Minority Population



% Some College & More (age 25+)



Median Household Income



Source: U.S. Census and Environics.

For the City Center area, poverty rates are somewhat above those of the comparison geographies – at 14-15% of all families as compared with 11% of SeaTac and 12% of greater market area families.

Other demographic characteristics of note for this market study report include the following:

- Of six **single- and multi-race categories** (other than white-only), the City Center and entire SeaTac have higher proportions than is the case for the greater SeaTac market area – with the exception of Asian-alone residents and persons who identify as being of two or more races.
- Due in part to smaller household size, the typical household in the City Center area has less than 1.5 **autos per household**, as compared with ratios of 1.9 and 1.8 for the entire city and greater market area, respectively. However, the proportion of City Center residents with no vehicle is only 11%, just 2-3 percentage points above the “no vehicle” rates for the other two comparison geographies.
- About 55% of City Center residents **drive alone** to work, a lower rate than the 67% proportions indicated for the other two geographies. However, average commute time is greater for City Center workers – at 37 versus 33-34 minutes.
- While a somewhat higher 16% proportion of the City Center work commute by public transit than the 13-14% ridership rates city-wide and for the greater market area, the more noticeable difference is found with those who **walk to work** – at 15% of workers living in the City Center area versus 2-5% for those of the greater market area and city of SeaTac, respectively. This indicates opportunity to improve the City Center pedestrian environment as an important element of the urban design framework process.
- At 62% of all persons age 16+, **labor force participation** for City Center residents is below the 66-67% participation rates of the entire city and greater market area. A higher proportion of City Center workers are employed in blue collar or service occupations than is the case for the other two geographies.
- Certain **occupations** also are somewhat more highly associated with City Center area residents – including transportation/material handling, sales related, building/grounds maintenance, office/administrative, personal care service, construction, management, production, protective services and food preparation. Taken together, these occupations account for 86% of persons living in the City Center area – compared with 77% city-wide and 72% for the greater SeaTac area.

Housing

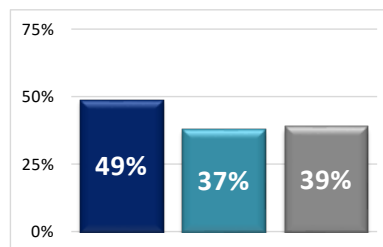
When it comes to housing, the differences between residents of the City Center area and the other two comparison geographies are more pronounced. As with demographic information, comparisons are with the entire population of SeaTac and the greater SeaTac market area extending north into south Seattle, east to Renton, and south to Kent and Des Moines. City Center residents clearly are accustomed to a more urban lifestyle than their counterparts who live elsewhere in the greater SeaTac community.

As illustrated by the graphs to the right:

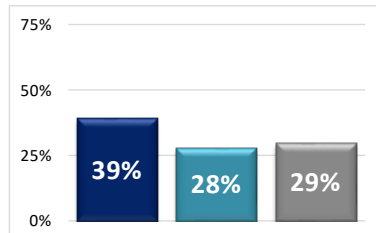
- Nearly half of all City Center households are accounted for by **non-family households**, above the 37% and 39% proportions for the all SeaTac and greater market area households, respectively. Households with no residents under age 18 represent 67-72% of all households across the three geographies considered with this analysis.
- Not surprisingly, the proportion of housing units comprised of **1-person households** is also above average – though by not as large a proportion as for non-family households. This suggests that a large portion of non-family households are doubling up, as with room-mates or other shared living options.
- For the City Center area, nearly two-thirds (66%) of occupied housing units are **rented**, as compared to less than half for the other two geographies. As an added point of comparison, renters account for about 37% of occupied housing statewide.
- **Multi-family units** also account for 66% of all City Center housing – as compared with 42% of housing units for the entire city and greater market areas. Within the City Center area, just under one-quarter of multi-family units are in complexes of 50+ units with 66% in projects of 5-49 units and 9% in plexes.
- While only one-third 30% of the City Center housing in-use inventory is owner-occupied, housing values for all homes (whether or not on the market) are relatively modestly valued at a **median value** of \$255,000. For at least some of these homes – especially where there is zoned potential for more intense redevelopment in the future – property value may be more in the land than the structure. City-wide, home values appear to be about 13% below the greater market area median.

Comparative Housing (2019)

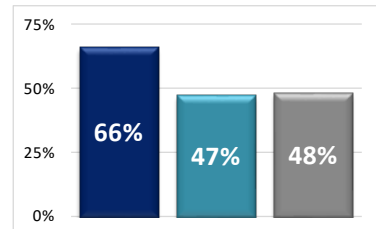
% Non-Family Households



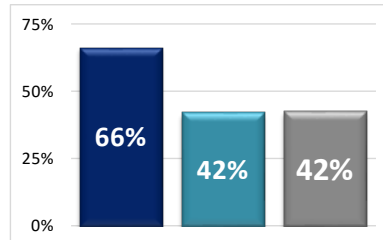
% of 1-Person Households



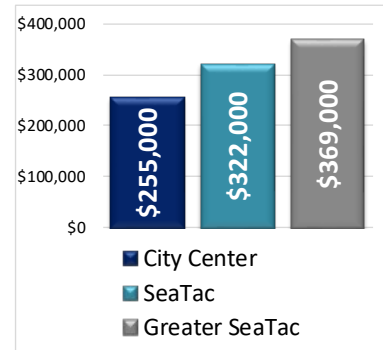
% Renters



% Multi-Family Units (2+ Units)



Median Value Owner Housing



Source: U.S. Census and EnviroNics.

One other factor is of note with this analysis -- the relatively **greater age** of the City Center's housing inventory. Only 13% of housing in the City Center area has been constructed from 2000 to present – as compared to 20-21% both city-wide and for the greater market area. Available City data indicates no City Center multi-family projects have been constructed since 2007.⁵

Taken together, the housing data describe a City Center market that is more urban than all of SeaTac or the greater SeaTac market area – likely with growing divergence in the years ahead.

Employment

Two sources of information regarding employment are available for the entire City of SeaTac – PSRC and the U.S. Census. Each source has its own advantages and limitations as described in this memorandum. Taken together, the sources are useful to provide a composite albeit somewhat incomplete understanding of City Center employment vis-à-vis the entire City and greater market area.

PSRC Data. PSRC provides covered employment data on a city- as well as region-wide level. While PSRC data is not readily available on a sub-city basis or for the customized greater market area, it is most useful in understanding city-wide employment trends in recent years. For this analysis, comparative data is provided for 2015 and 2018, as shown by the following chart.

PSRC data indicates that SeaTac had a total count of about 34,140 jobs as of 2018. This represents a substantial increase of 4,220 jobs from 2015-18 (a gain of 14%).

WTU (which includes wholesale and transportation activities) accounts for over 18,800 in-city jobs as of 2018, approximately 55% of SeaTac's total employment. This sector also accounts for close to 80% of the net job growth experienced city-wide from 2015-18.

Most of this WTU employment activity is centered at and adjoining the airport – primarily west of International Boulevard and the City Center area.

SeaTac Employment (2015, 2018)

Job Sector	2015	2018	# Chg 2015-18
Const/Res	327	582	255
FIRE	929	1,132	203
Mfg	892	471	(421)
Retail	692	695	3
Services	8,181	8,644	463
WTU	15,472	18,823	3,351
Govt	2,785	3,159	374
Educ	638	629	(9)
Total	29,916	34,136	4,220

Source: PSRC.

City Center employment benefits indirectly from spin-off business generated by airport operations and on-site businesses. City Center business sectors benefited include lodging, dining, and parking activity – together with office employment and some convenience retail. Of particular note is improved occupancy recently indicated for City Center office towers situated immediately east of the airport – attributable in part to airport related business activity.

U.S. Census Data. City-wide employment information as available from PSRC can be further augmented by relatively new data tools available from the U. S. Census Bureau. The Census Bureau now provides an interactive mapping tool called *On-the-Map*, making sub-county data for customized geographies available.

For this analysis, the most recent available jobs data is compared for the greater City Center area vis-à-vis the entire city and greater SeaTac market area. As with PSRC information, employment data from this source is by *place of work*, rather than place of residence.

As of 2015 (the most recent year for which complete Census data has been available to cover all three geographies), comparative job counts are summarized as follows:

- **City Center** – over 3,900 jobs from businesses and other organizations located within this subarea.
- **SeaTac** – home to 27,400 jobs city-wide (the majority of which are associated with the Sea-Tac International Airport). This job count is about 8% less than the PSRC employment estimate as of 2015.⁶
- **Greater SeaTac** – with an employment base estimated at 223,900 jobs.

Whether considered in terms of PSRC or Census data, SeaTac can be considered as *job-rich* relative to population. Based on Census data, SeaTac accounted for about 10% of the population versus at least 12% of the employment base of the greater market area – as of 2015.

Per census data, close to 60% of employment in the city is accounted for by just one industry – transportation (with associated warehousing). Employment increased by 20% overall from 2010-15, well above the 12% employment increase noted for the greater SeaTac market area.

Virtually all of SeaTac’s net job gain from 2010-15 is accounted for by an increase in the number of in-city transportation-related jobs. *Note:* PSRC data indicates that transportation-related jobs account for on a slightly lesser 80% of net job growth experienced city-wide in the next three years of 2015-18.

The City Center area presents just the opposite picture as relatively *jobs-poor* – accounting for 19% of SeaTac’s population but only 14% of its reported job base (as of 2015). Close to half of SeaTac employment is accounted for by hospitality businesses (i.e., accommodation and food services).

Census data also indicates that City Center employment declined from 2010-15. However, all of City Center this decline has been attributed to transportation-related employment which was increasing city-wide. This may be due to reassignment of jobs from the City Center area to another part of the city.

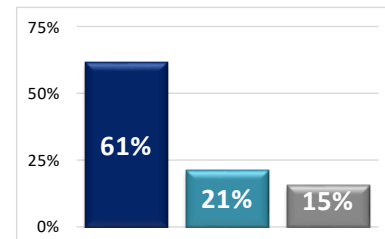
Additional Census-based *place of work*-related jobs data are as illustrated by the graphs to the right:

- City Center’s job base is clustered around two disparate but **strong sectors** – accommodation/food services (47% of area jobs) plus management/administrative jobs (for an added 14%). By comparison, these sectors account for only 21% of jobs city-wide and 15% of total employment for the greater market area.
- However, **job growth** of the sectors that have had a comparative edge in the City Center has lagged behind employment gains for the greater SeaTac market area. City Center jobs in accommodations/food service increased by only 10% from 2010-15 vs. 23% for the greater market area; however, office jobs increased.⁷
- Due largely to the lower **wage profile** of the accommodations/food services sector, the proportion of City Center workers earning more than \$3,333 per month (or \$40,000 per year as of 2015) is considerably below that of employees working city-wide or throughout the greater SeaTac market area.⁸
- **Age of workers** in the City Center does not vary appreciably from that of the two comparison geographies. The City Center has a somewhat lower proportion of employees age 55 and over with slightly larger proportions of its labor force among younger working age cohorts.
- Similarly, there are some albeit not substantial differences in the **educational levels** of workers age 30 and over. Across all geographies somewhere in the vicinity of 59-65% of workers have some college training – with or without a degree. About 29% of City Center workers have a bachelor’s degree or better. This increases to 30% for workers city-wide and to 31% of persons employed throughout the greater SeaTac market area.

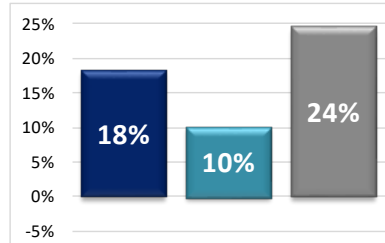
As illustrated, the greatest difference between the City Center area and the two comparison geographies are in

Comparative Job Mix (2015)

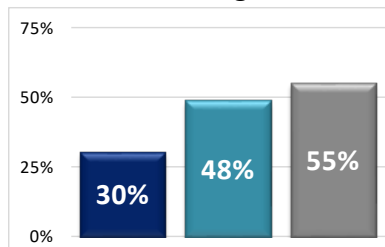
% All Jobs – Strong CC Sectors



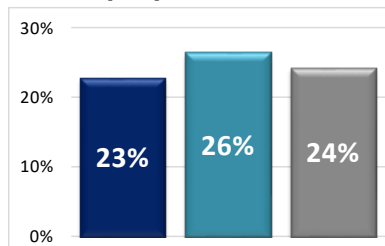
% Growth – Strong CC (2010-15)



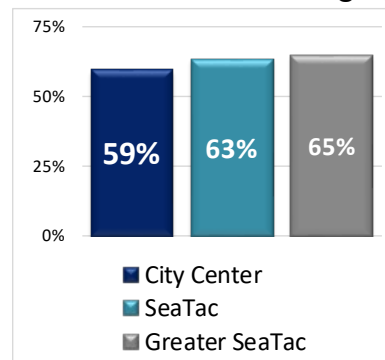
% Workers Earning \$3,333+/Mo



% Employees 55+ Yrs Old



% Workers w/Some College (30+)



Source: U.S. Census *On-The-Map*.

the industry mix of the job base and wage levels. Two added notes are of importance in understanding the employment profile of workers in the City Center as compared with the entire city and greater market area

- First, the City Center is **more diverse** when viewed by race. About 40% of City Center workers are persons of color – well above the 31% and 25% proportions city-wide and for the greater market area. There is little difference in the 8-10% of the workforce that is Hispanic or Latino across all three geographies – a difference in ethnicity, not necessarily in race.
- Second, two of three geographies have a workforce with a **higher proportion of men** than women workers – with City Center being the exception. About 54% of city-wide workers and 57% of greater market workers are male versus 46-47% for the City Center.

Retail Sales

Retail sales analysis for SeaTac is complicated by the fact that the City Center and the entire city represent only a small portion of the **retail supply** that serves local residents and workers. Most notably, the regional Westfield Southcenter Mall is located only 3-4 miles from the City Center area – serving much of the local and greater market area need, especially for comparison goods and services purchased on the basis of price and selection.

From a **demand perspective**, the retail evaluation is further complicated by the presence of an international airport and associated lodging that generate much of the City Center's retail sales – especially for food and beverage sales. On a city-wide level, it is not directly possible to distinguish the portion of retail sales generated by local resident or worker patronage from sales made to persons visiting SeaTac going to or coming from an air travel destination.

However, with these caveats in mind, it is possible to provide some general observations about the character and depth of the retail market for the City Center area and entire City in the context of a greater SeaTac market area – based on Environics/Claritas data as most readily available. This analysis starts with greater SeaTac trade area, then drills down to assess the City Center's role within the greater market and the SeaTac residential community.

Current & Future Retail Greater SeaTac Demand. As of 2019, the greater SeaTac market area with nearly 300,000 residents generates **retail demand** (or spending) of an estimated \$4.20 billion per year. For purposes of this analysis, this figure excludes internet and gasoline station retail – neither of which necessarily require any significant bricks-and-mortar presence. Environics/Claritas estimates that internet sales likely equate to about 14% of the retail expenditures by trade area residents.

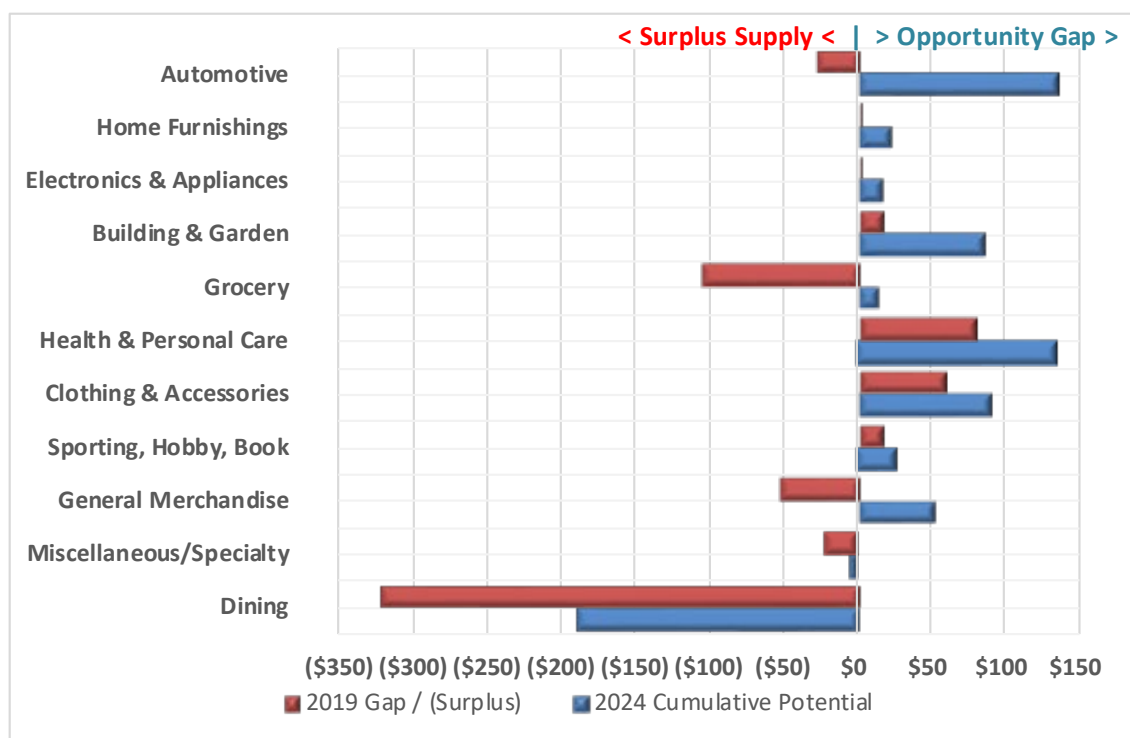
Retail sales actually experienced from stores and restaurants in this trade area are in the range of \$4.55 billion – meaning that actual sales exceed resident generated demand by \$355 million. This is not surprising as the combined effect of the airport and Southcenter is to draw in expenditures from persons who live outside the greater SeaTac market area.

Looking ahead, retail demand can be expected to increase in response to population growth, though some of this growth may be tempered by reduced purchases of an aging population coupled with greater market capture from internet retailers as with Amazon. Environics/Claritas projects that non-internet/non-gas retail demand within the greater trade area will increase by an estimated \$735 million per year by 2024.

Unmet Demand. While the needs of the greater SeaTac market area appear to well taken care of on an overall sales basis, there are specific categories of retail demand that are not fully met within the trade area. As illustrated by the following graph, there is considerable variation between retail sectors in terms of relative retail market capture.

The graph below shows the current (2019) opportunity gap (or surplus supply) in **red** and the total potential in the years immediately ahead (with added demand growth to 2024) in **blue**.

Greater SeaTac Trade Area Retail Sales Opportunity Gap / (Surplus) - \$ Millions



Source: Environics/Claritas as compiled by E. D. Hovee

Retail Well-Served. As depicted by the graph, automotive, grocery, general merchandise (department and discount store), miscellaneous/specialty and dining establishments experience greater sales volume than what greater SeaTac residents alone would support. The extent of oversupply due to non-local market capture is greatest for dining for which sales exceed locally trade area demand by more than \$320 million per year.⁹

Opportunity Gaps. Despite the overall strength of the greater trade area's retail activity, there are several retail categories for which some level of sales leakage is noted. The categories

for which resident demand is currently most undersupplied appear to be for apparel and health and personal care (including pharmacy) retail – with annual net sales leakage in the range of \$54 million and \$79 million, respectively.

Lesser levels of sales leakage are noted for building and garden and sporting/hobby/book retailing. And for two categories – home furnishings and electronics/appliances – locally generated demand appears to be roughly in balance with resident generated demand.

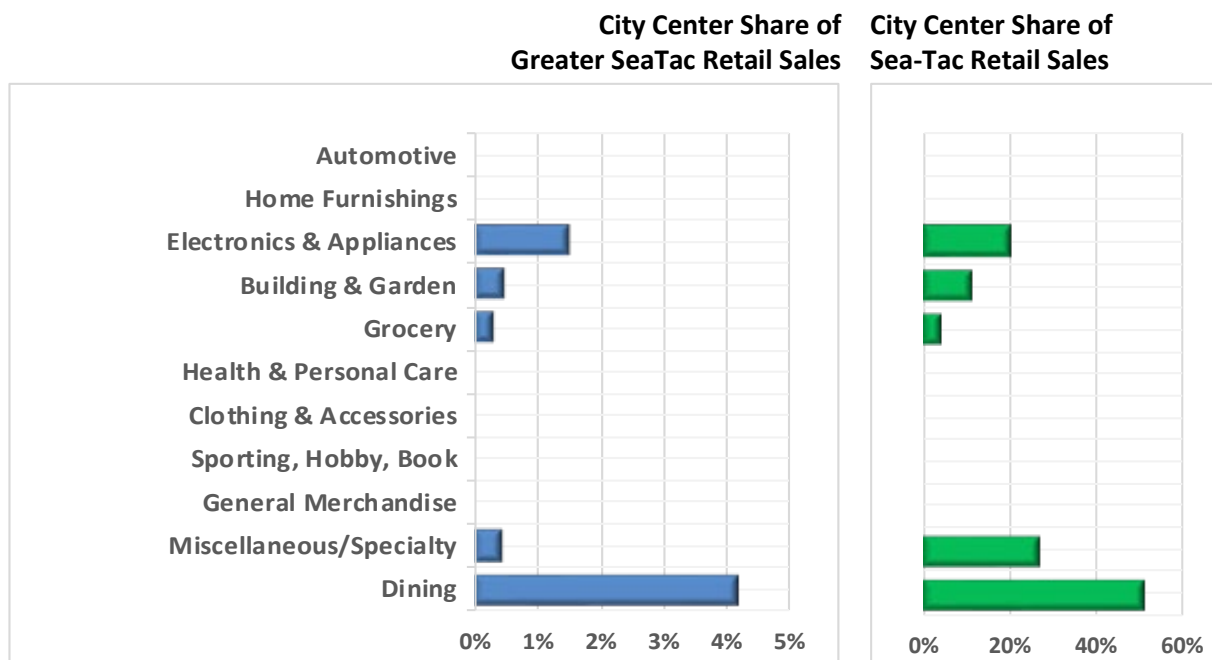
Future Opportunity with Market Growth. Retail opportunities look stronger when future trade area growth is taken into account. Projected is that categories including automotive, grocery, and general merchandise flip from oversupply to net sales leakage in the next five years – unless retail capacity within the greater SeaTac trade area is added with new projects.

For dining, oversupply is reduced. However, if visitor spending for dining remains strong, this market growth should create new opportunities for added dining as well (in the net range of over \$130 million of added local consumer generated revenue potential by 2024).

City Center & SeaTac Market Shares. Focusing on the City Center subarea:

- Overall City Center capture of the regional market is relatively small – peaking at a 4% share of greater SeaTac market area sales for dining, followed by electronics/appliances.
- When considered as a share of city-wide retail volumes, the City Center’s market shares are more impressive – at 51% of dining and 27% of city-wide specialty store volumes.

City Center Capture of Greater Trade Area & Local Retail Sales (2019)



Source: Environics/Claritas and E. D. Hovee.

Categories for which the City Center area has virtually no market presence include automotive, home furnishings, health/personal care, apparel, specialty and general merchandise retail.

Factors Affecting Future Commercial Retail Opportunity. For purposes of discussion, the following factors are identified as affecting commercial retail opportunity for the greater SeaTac market and City Center, respectively:

Global/Regional Factors:

- **Demographics** – population and income growth generally work to increase retail demand, although potentially offset by an aging population; however this is less of a factor for SeaTac with a built-in younger demographic than for Washington state. To the extent that this younger demographic can be more effectively served, there is added retail upside potential for SeaTac in the years ahead.
- **Greater SeaTac Market Area Opportunity Gaps** – with few current readily apparent underserved retail store types, except possibly for health/personal care and apparel.
- **Internet Retail Competition** – best exemplified by the continued penetration of Amazon and other internet-focused firms into traditional retail strongholds ranging from books to grocery, as well as continued consolidation of other retailer businesses in categories as diverse as apparel and pharmacy/health care.
- **Critical Mass** – a challenge in smaller communities of less than 100,000 population which are often inadequate to support the business models of some national or regional retail chains. This is particularly challenging for retailers with an established market presence just a handful of miles away – although this may change as more chains have incentive to downsize some of their traditional large format floorplate expectations.

City Center & SeaTac Specific Factors:

- **Building on Existing Strengths** – most important for SeaTac’s existing dining and lodging infrastructure, especially to the extent that the product offerings and accessibility can be upgraded and diversified to meet a broader range of visitor and traveler interests.
- **Complementary Destination Hospitality & Local Retail** – encouraging businesses that cater both to local and visitor markets as should be possible with dining and entertainment options as well as with some convenience services – such as specialty grocery and pharmacy readily accessible to short-stay travelers, residents and workers.
- **Exploring Sites Accessible to both Visitors & Locals** – not necessarily on but close to the International Boulevard corridor, offering immediate north/south and east/west access to the airport, hotels, office complexes, and SeaTac area places of residence.
- **Incenting Pedestrian Scale & Transit-Oriented Mixed Use** – with greater emphasis on residential development serving area employees (short- and longer-stay) and continued transition to structured park-fly buildings, opening sites for mixed use environments with multiple lodging, residential, retail/entertainment, and high profile office options.

Current Indicators of Real Estate Market Demand

Looking beyond demographic and economic indicators, it is useful to also review what is happening *on the ground* regionally and locally – especially over the last 1-2 years to mid-2019:

- As of the 2nd quarter of this year, the region's **multi-family housing** market “continues to ride a wave of demand that is being buoyed by corporate office expansions, record prices for land development deals and robust investor interest for a wide spectrum of CRE (commercial real estate) assets.”¹⁰ In addition to these economic factors, other market drivers include reduced affordability of home ownership and lifestyle decisions by millennials to remain in urban settings longer, both delaying and reducing family formation. At 4.9% as of Q2, metro-wide vacancy rates continue to decline from the 5.1% vacancy rate experienced in 2018. Average rents are up by more than 3.5% on an annualized basis. While new construction has slowed somewhat region-wide in 2019, net demand (or absorption) continues strong. The largest new projects continue to be focused on close-in Seattle, followed by the Eastside.
- While the Puget Sound region still outperforms the nation with lower **retail** vacancy and better rent growth, the demand (or absorption) of space has slowed in the last year. The retail investment market continues to be targeted for core Class A quality product with low capitalization (cap) rates. However, malls are increasingly challenged by retail closures affecting both department store and smaller infill tenant spaces – often requiring repositioning for non-traditional uses (as is now occurring with redevelopment of Northgate Mall for mixed-use commercial/residential and an NHL training center).
- **Office space** demand is strong with 1.7+ million square feet absorbed in the first half of 2019 – with the bulk of new leases occurring in downtown Seattle and Eastside. Amazon, Apple and Drop Box together account for 1.45 million square feet of lease transactions. Tacoma is experiencing negative absorption with outflow of tenants but with the south end up by close to 255,000 square feet year to date – though not currently in SeaTac/Burien. Southend vacancies are in the 20-30% range for Renton/Tukwila and Federal Way/Auburn – strongest at less than 6% in the Kent Valley. A major factor affecting Renton/Tukwila vacancy is construction of the 486,000+ square foot Southport Office Campus – with no tenants landed as of mid-year 2019.
- After several years of strong economic growth and new development, regional **lodging** occupancies now appear to be softening somewhat (down by 1% point in the last year). Declining occupancies and reduced revenue per available room (RevPAR) are noted for Seattle (Downtown and North) properties – while other submarkets remain positive. Six new hotels opened in the first half of 2019 plus a new SeaTac Hilton Garden Inn. Room rates continue to increase, though more slowly than in recent years. If the economy stalls out or moves toward recession, lodging occupancies could be more adversely affected short-term, though the long-term outlook regionally remains strongly positive.

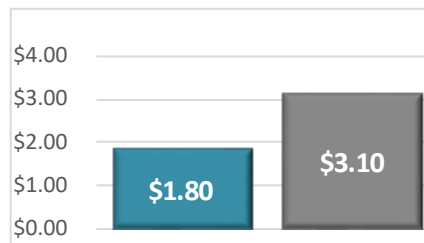
Increasingly, the real estate development and brokerage community has come to identify regional sub-markets less by political boundaries and more by submarkets distinctive to each

real estate product type. The local and greater market geographies described below follow the conventions currently being applied by firms active with each product type, briefly summarized as follows:

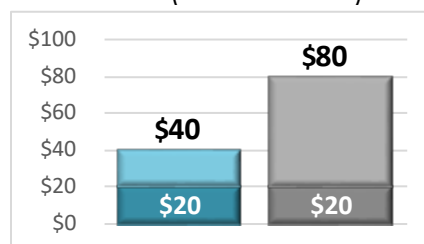
- At \$1.80 per square foot per month, SeaTac **apartment rents** are 40% below Seattle-wide rents (for an area extending from Mountlake Terrace south to Des Moines). However, over the past year, SeaTac rents have increased by about 10%, above the 3% average rent increase areawide. At 810+ square feet, average unit size is also 16% more than the less than 700 square foot average size for the greater Seattle area.
- **Retail rents** increasingly are categorized more by generalized urban versus suburban locations. While Seattle CBD rents can reach up to \$80 per square foot with mixed use rates at up to \$50, suburban rents are in the \$20-\$40 range with southside properties at the lower end of this range. South King County vacancies average 4.1%, double Seattle vacancies and 25% above the region-wide vacancy figure of 3.3%.
- As of Q2 2019, **office market rents** for SeaTac-Burien average just under \$29 per square foot, 26% below the Puget Sound average of \$39. Vacancies are double the regional average and absorption year-to-date has been slow; however 130,000 square feet is under construction.¹¹
- The commercial brokerage firm Kidder Matthews identifies seven discrete Seattle-Tacoma lodging submarkets including two in SeaTac – defined separately as midscale and upscale. **Hotel room rates** now average \$105 for SeaTac midscale and \$155 for upscale properties – though both are below the regional wide room rate averaging \$175. SeaTac upscale properties experience 77% occupancy – above the midscale figure of 73% and the region-wide average of just under 76%. One SeaTac hotel (Comfort Inn) has sold this year and a Hilton Garden Inn opened in March 2019. SeaTac’s revenue per available room (RevPAR) also is increasing more rapidly than for the region.

Per Square Foot Rents (2019)

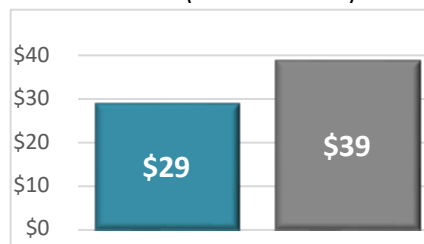
Apartments (monthly)



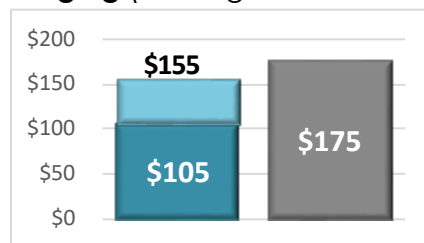
Retail (Annual NNN)



Office (Full Service)



Lodging (Average Room Rate)



Local Market

Note: Definitions of local and greater market areas vary depending on the source, as described in accompanying text.

Sources: Rent *Café*, Kidder Mathews, Colliers, Newmark Knight Frank, CBRE, as of 1st-2nd quarter 2019.

FRAMING OPPORTUNITIES

When viewed in terms of current rental characteristics (including lodging rates), it is clear that SeaTac consistently underperforms the greater market across apartment, retail, office, and hotel product types. There may be multiple reasons for these disparities – including increased cost of International Boulevard land (driven by parking operations), older than average real estate product, construction cost escalation, geographic separation posed by the airport to potential market area immediately west of International Boulevard, and/or competition from nearby commercial uses outside SeaTac. In any event, these and other market factors make it difficult for new construction to demonstrate project feasibility.

For SeaTac's City Center, **mixed use** may include residential above commercial but also other formats including mixes of retail, office, conferencing, hotel, and extended stay concepts with structured parking. The SeaTac market has been and can be expected to remain airport-driven – with as yet untapped potential as a globally significant airport city.

Project feasibility for new construction increasingly will require a shift toward urban mixed-use development concepts – attracting rents closer to (or even above) market averages. As an airport-driven market, there remains an untapped dynamic for SeaTac to be repositioned as a west coast or globally recognized *airport city*.

Among urban centers in the Puget Sound region, SeaTac is presented with a unique set of market opportunities predicated on *network effects* – as a real estate product or service that can yield greater value with customer use and cross-shopping. As airport usage increases, there is correspondingly greater demand for airport support services – notably lodging, extended stay residential, parking, dining, entertainment, supportive business services, and convenience-oriented services.

This cumulative value is best captured when seemingly disparate real estate products and customers are linked (or networked) – making it ever easier for airport users, employees, and residents to each layer in their share of spending potential and market capture. An *aerotropolis* (or airport city) concept is one where each new development provides added incentive not just to pass through – but linger. Provide office space, conferencing, traditional and flexible lodging, and dining/entertainment with SeaTac as the complete one-stop package deal.

This approach requires investors and developers willing to step out beyond the tried and tested. This is best facilitated by a common vision or sense of purpose between the City and business community – including discussion of appropriate land use policies, incentives and infrastructure investment.

Whether and how this might be applicable for SeaTac can be further explored in subsequent project work tasks involving preparation of a vision statement and urban design concept based on community and stakeholder input including the City Center charrette process.

To summarize, pivotal market-responsive economic development opportunities ahead include:

- Improved linkages with the airport – specifically airport services including lodging, extended stay, convenience retail/dining and park & fly.
- Expanded office employment for businesses with global footprint and as an emerging southside Class A office cluster.
- Preparation for potential reduction in future parking demand with changes in vehicle technology and consumer preferences – eventually freeing up City Center land for other airport and community driven transit-oriented and mixed-use development concepts.
- Short-term opportunity for more intensive residential and neighborhood commercial uses within the portion of the City Center area situated away from International Boulevard.

NEXT STEPS

This economic opportunities review will be refined in response to charrette discussion and refinement of a design framework going forward. An added next step will be to identify and validate realistic site development opportunities.

ENDNOTES

- ¹ Information for this market and economic impact report has been obtained from sources generally deemed to be reliable. However, E. D. Hovee does not guarantee the accuracy of information from third party sources and information is subject to change without notice. Observations and findings contained in this report are those of the author and should not be construed as representing the opinion of any other party prior to their express approval, whether in whole or part.
- ² Preliminary GIS data files for the City Center indicate that tax lots within the subarea comprise a total of just over 304 acres. This excludes non-parcelized land such as street rights-of-way.
- ³ Environics/Claritas estimates SeaTac's population as of 2019 to be 29,990, nearly 3% above the OFM estimate.
- ⁴ Environics data is customized to the geographies indicated and benchmarked to U.S. decennial and more frequently generated American Community Survey (ACS) data.
- ⁵ The current GIS database does not provide date of construction for all City Center taxlots with structures.
- ⁶ While the reasons for the difference between city-wide employment estimates of PSRC and the U.S. Census Bureau are not clear, one possible reason lies with allocation of employment by jurisdiction. This is often the case for airport related activities where the number of persons paid from a SeaTac location may not be the same as those actually working on-site in SeaTac.
- ⁷ An example of the resurgence in office demand is provided by the signature twin 12-story towers and a 4-story office building totaling 550,000 square feet with the SeaTac Office Center. In recent years, more than \$10 million reportedly has been spent in upgrading the complex with "new amenities modern and up-to-date cosmetic materials, updating and adding conference rooms, upgrading and expanding the fitness center, upgrading building systems, and making exterior improvements."

Building occupancy has increased from 62% in late 2015 to more than 90% as of July 2019. Key tenants include Alaska Airlines, Lynden, TSA, the Port of Seattle and 13 Coins. The south end remains the region's poorest performing submarket with vacancy rates of 22% as of 2019 Q2, but better for SeaTac/Burien at 14.4%. Average asking rent in the south end is \$33 per square foot per year as compared with \$48 in Seattle's CBD and close to \$52 in downtown Bellevue, per brokerage firm Newmark Knight Frank (NKF).

Advantages cited for this SeaTac office location include proximity to the airport and light rail together with low rents and ample on-site parking. Based on information from Urban Renaissance Group press release of July 26, 2019 and *Puget Sound Business Journal* titled: "Urban Renaissance Group has new partner on SeaTac office towers," July 29, 2019.
- ⁸ The average wage of airport employees is noted at \$73,500 (as of 2017), as reported by a 2018 Port of Seattle Airport Economic Impact Study. This is considerably higher than the wage profile indicated for the employees at establishments located in the City Center area.
- ⁹ Greater SeaTac retail (across multiple jurisdictions) is intended to include dining and other on-site retail activity at the Sea-Tac International Airport. As of 2019, total retail (including dining) sales for the Greater SeaTac market area total \$16.0 billion. Of this amount, about \$1.0 billion is attributable to sales within SeaTac (including retail volume at the airport). Retail sales within the City Center portion of SeaTac are estimated at \$154 million.
- ¹⁰ Dennis Kaiser, "Seattle Multifamily Market Soars to New Heights," *Connect Seattle Commercial Real Estate News*, August 15, 2019.
- ¹¹ CBRE provides office data specific to SeaTac – indicating office vacancy of 6.7% as of the 2nd quarter 2019, average rent rate of \$27.79 for Class A space, and net absorption of 60,000 square foot in the past year. Expansion of the Alaska Air headquarters represents a significant owner-user build-to-suit project.