

City of Edgewood Economic Development Consulting Services

Task 3A & B

**Market Analysis for the Edgewood Commercial Corridor:
Including Town Center, Meridian Corridor Master Planning Area
and the Proposed Northern Business Park**

**FINAL
Technical Memorandum**



**Prepared by Ravenhurst Development for the City of Edgewood
Revised September 11, 2003**

1. Introduction

As part of the City's economic development consulting team, Ravenhurst Development was asked to provide real estate market analysis for the Edgewood market, and to recommend a scale of development and mix of uses appropriate for the proposed Civic Center, the Meridian Corridor and the possible future business park. This report presents analysis, findings and recommendations for Task 3A and 3B of the Economic Development work scope. The report incorporates four sets of comments and feedback received from the Edgewood City Council: (1) comments from Council on the initial draft report, which was presented and discussed at the February 25, 2003 City Council meeting; (2) comments from City staff on the May 14, 2003 revised draft; (3) comments made and issues discussed at a City Council retreat held on June 11, 2003; and (4) discussion at the City Council meeting on September 9, 2003. Subsequent to the June 11th meeting, the report was updated and revised to encompass Council questions and comments, and to reflect final provisions in the Title 18 Development Standards, approved by Council Ordinance 03-0203 on May 27, 2003, effective June 10, 2003.

The report's methodology began with a review of current and proposed City regulations and reports including the following:

- Draft Economic Development Report
- Draft Title 18 – Development Standards (draft and final, as adopted by Ordinance 03-0203)
- Design Guidelines
- Sign Regulations

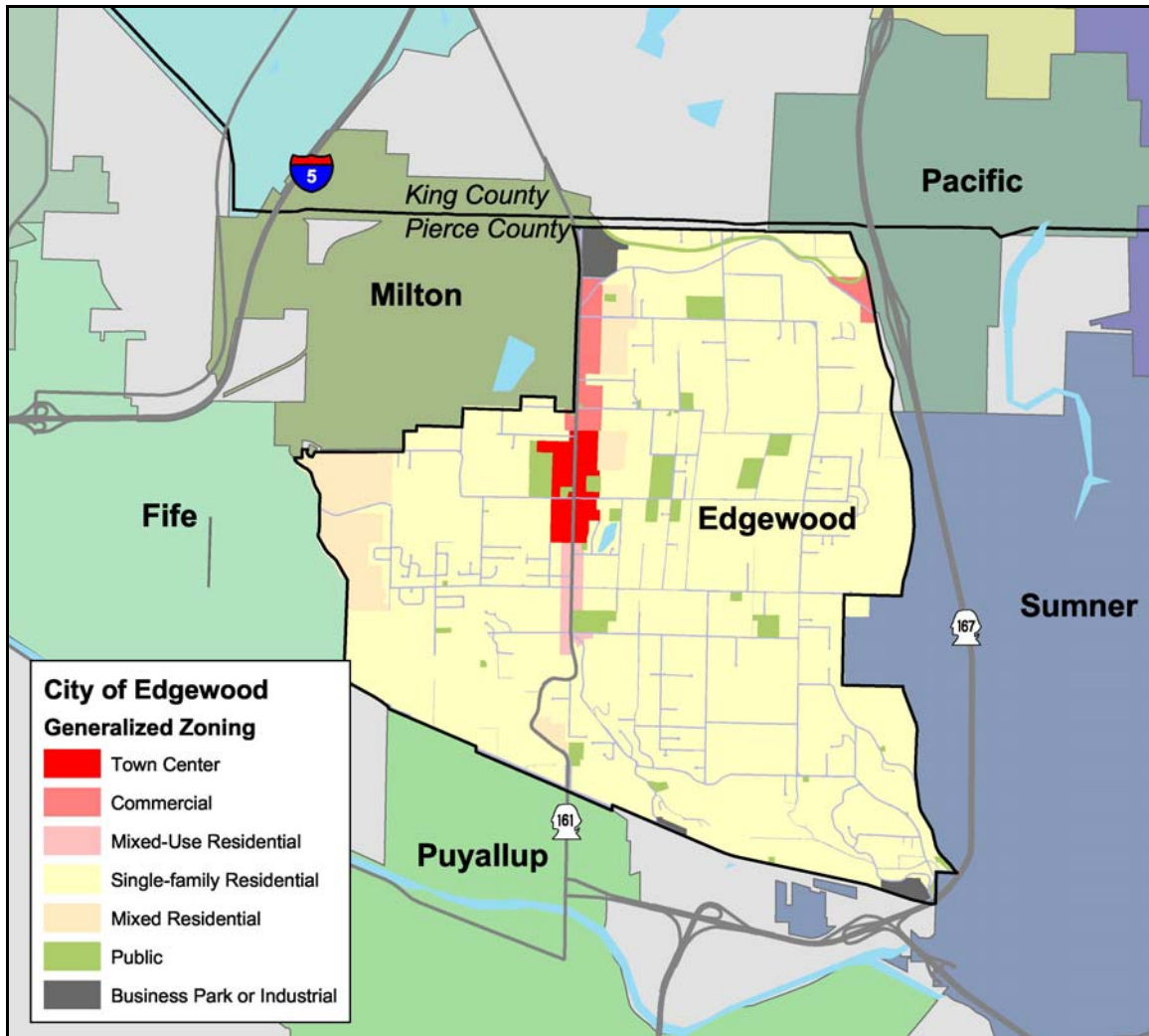
We then toured the trade area and spent time in the community, interviewed the City Manager, Public Works Director and Associate Planner, and conducted nearly 30 interviews with City staff, citizens, property owners, business owners, real estate brokers and property developers. (Please see Attachment A for a list of interviews conducted.)



2. Commercial Market Characteristics

Commercial Market Area: The Edgewood commercial district encompasses the areas zoned as Commercial, Town Center and Mixed Use Residential. The commercial district extends a considerable distance along Meridian Avenue, from 5th at the northern end of the City, to south of 36th (Exhibit 1). The Town Center District of approximately 60 acres lies between the areas zoned Commercial (to the north) and Mixed Used Residential (to the south).

EXHIBIT 1: CITY OF EDGEWOOD GENERALIZED ZONING AND NEIGHBORING CITIES



Source: City of Edgewood (2003), Washington State Office of Financial Management (2003)

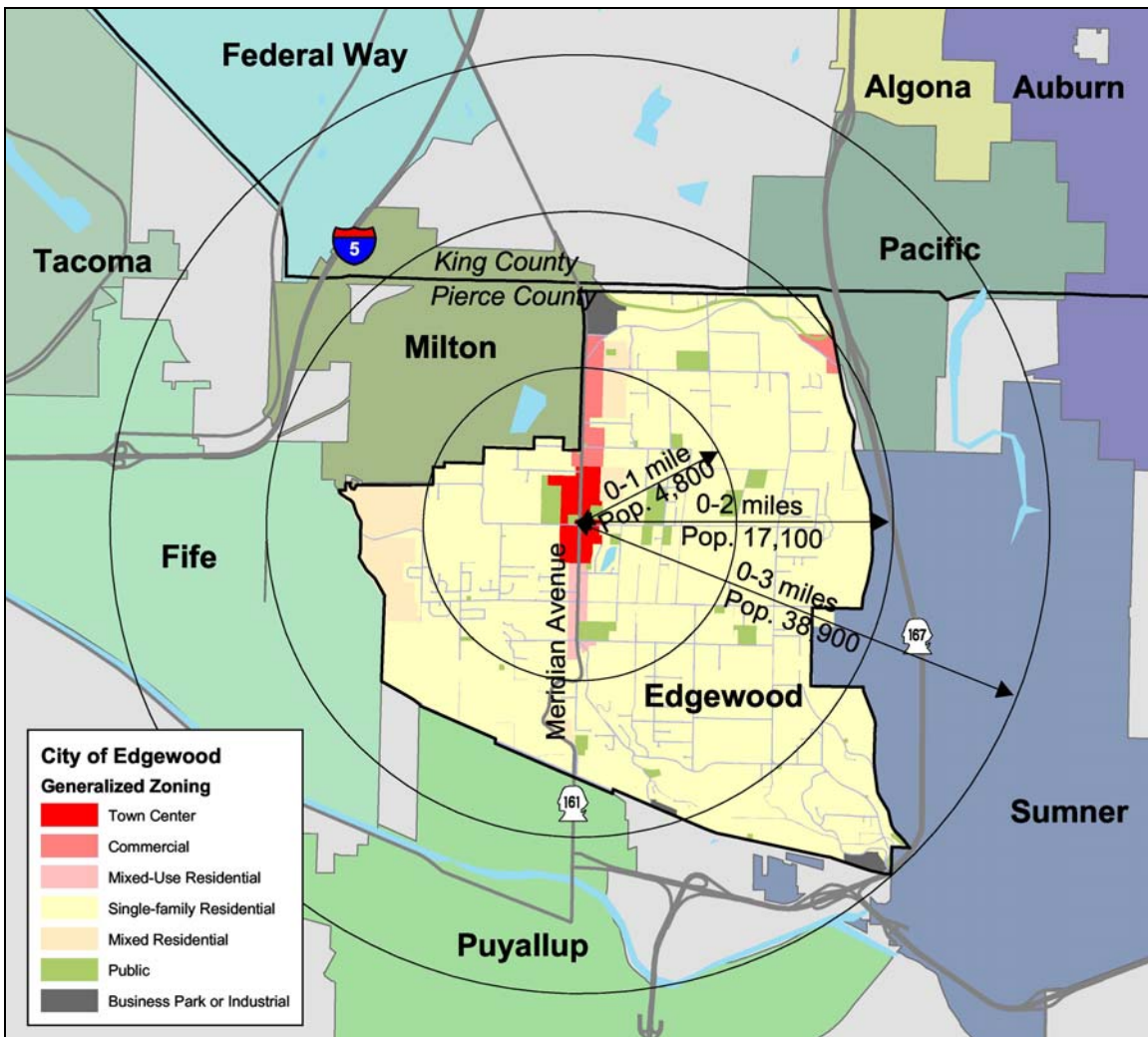
Town Center Zoning District: As noted in the City's Title 18 Development Standards, "the Town Center Zoning District provides for a small town center and regional destination



by creating a special commercial focus based on Edgewood's unique local character. This district encourages planned multiple family and senior housing that supports the surrounding commercial activities." (Edgewood Municipal Code 18.80.080).

Trade Area Definition: Meridian Avenue is a dividing line between the cities of Edgewood and Milton, and from a market standpoint, the commercial frontage on the Milton side of Meridian Avenue is part of the same market area. The trade area includes all of Edgewood and Milton, but does not extend far beyond the City limits. Based on our assessment of competitive market conditions, the effective trade area is smaller than the three mile ring, and includes a population of between 15,000 and 20,000 people. (Population rings shown in Exhibit 2; as a point of context, the combined population of Edgewood and Milton is 14,884 residents.)

EXHIBIT 2: POPULATION RINGS CENTERED ON EDGEWOOD TOWN CENTER



Source: U.S. Census Bureau (2000)



Retail Market Character: Edgewood's retail district is anchored by two grocery stores and a new Walgreen's. The former Ernst hardware store is partially vacant, and the balance of the retail occupancies is a typical combination of small shops providing neighborhood goods and services. National and regional retail chains are somewhat under-represented, but both national and independent food service and restaurants are well represented. Retail businesses appear to be healthy.

Office Market Character: There are no significant office buildings or complexes in the commercial district. Some non-retail businesses can be found in single-story buildings that could house either office or retail establishments.

Commercial Vacancies and Rental Rates: There has been very little leasing activity in the commercial district in the past few years. The Safeway center has some shop vacancy, and has not been able to fill all of the space vacated by Ernst. The Video Update building has had a vacant space for over two years, with no retail prospects. Rental rates for retail shop space range from \$14.00 to \$18.00/sf, which is well below the rates necessary to support new development.

Proposed New Developments: We have identified only one new retailer actively negotiating for a new building in the commercial district. Other than Walgreen's and the Windmill Storage project, there has been no significant new construction in the district for a number of years.

Absorption Rates: Unless the community experiences significant residential growth, there is little reason that the area will attract many new commercial properties. For planning purposes, the City should project between 10,000sf and 20,000sf of new commercial development per year within the Commercial, Mixed-Use Residential and Town Center zones, and principally along Meridian. In some years there may be little or no new development, and some of the development will occur on the Milton side of the street. This projection does not include businesses outside of the principal commercial corridor.

Long-term Potential: Edgewood is a stable community with good incomes. Edgewood's 1999 median household income was \$56,700, as reported in the 2000 U.S. Census. Edgewood's median household income ranked third among all cities in Pierce County (Exhibit 3).



**EXHIBIT 3: 1999 MEDIAN HOUSEHOLD INCOMES,
SELECTED CITIES IN PIERCE COUNTY**

City	1999 Median Household Incomes	2000 Population
Bonney Lake	\$60,300	9,687
Edgewood	\$56,700	9,089
Milton	\$48,200	5,795
Puyallup	\$47,200	33,011
Pacific (all)	\$45,700	5,527
Sumner	\$38,600	8,504
Tacoma	\$37,900	193,556
Fife	\$31,800	4,784
Pierce County	\$45,204	700,820

Source: U.S. Census Bureau (2003)

The commercial properties that serve the community are correctly sized for the market, and the tenants in place are fundamentally healthy. The market is likely to grow slightly, and the tenant mix will roll over as shopping habits and customer needs change over time. Even if the zoning allowed for large-scale commercial development in Edgewood, such development is not likely to occur. A strong residential market is very possible however.

Impact of Sewers: The City is working on a General Sewer Plan, and in the future, sewers are expected to be constructed along Meridian Avenue, in the City's commercial core. Currently however, there are no sewers in Edgewood, and the lack of sewers prevents some businesses from locating in the community, in part because of a rural perception, and in part because the sewer capacity is needed for some uses. The presence of sewer connections has led some recent development to locate on the Milton side of Meridian Avenue. When sewer connections are installed, land values will increase by \$2.00 to \$3.00 along the Meridian frontage, with the biggest increases coming for those larger properties where development is not feasible without sewer connections.



3. Civic Center Characteristics and Market Potential

The City has delineated an eight-acre "Civic Center" area within the 60-acre Town Center zoning district. The Civic Center area encompasses property around and behind City Hall. The City plans for both new public and private sector development in this area, and is embarking upon a master planning process for the site.

Orientation: One of the site's design challenges will be the orientation of the project with respect to Meridian Avenue. On one hand, the commercial elements will need the exposure to Meridian to help draw in business, and the Civic Center complex should be clearly visible from the principal route that brings both residents and visitors through the community. One of the purposes of the Civic Center concept is to create a focal point and signature for the community, and therefore it must be visible by people passing through town. At the same time, Meridian is a busy commercial thoroughfare. The City's design and development standards make it clear that strip center commercial development is not the image that the community wants to foster. The challenge for the design will be to have a strong enough orientation to Meridian that the commercial businesses in the Civic Center can survive, without letting the traffic and bustle of the street intrude too far into the site.

Scale: The scale of the project must reflect both the community and the commercial potential of the market, if the Civic Center is to be primarily developed and tenanted by private businesses. Projects must also conform to scale parameters established by the City's Title 18 Development Standards (EMC 18.70). Matching the rural character of the community, the buildings to be developed are likely to be single-story, with generous open space between them. From a commercial market demand and absorption perspective, individual buildings should be between 8,000sf and 12,000sf, although the public buildings in the complex may be larger if needed. Even if developed in phases and including the public buildings, total development in the Civic Center area will probably be less than 40,000 to 50,000sf.

Mix of Uses: It is important that the complex have a mix of uses, with both public sector buildings like the City Hall, library and community center, as well as private, commercial uses such as shops, professional offices and restaurants. Without the public uses, there is little demand for a multi-tenant commercial center, and without the commercial uses, there will not be enough activity to bring the project to life.

Market Potential: As stated in earlier sections of this report, there is not a lot of unfilled demand for commercial space in Edgewood. In order to attract tenants to the Civic Center, it must be conceived as a special place that provides amenities and an identity that cannot be achieved elsewhere along Meridian. The most likely commercial tenants for this kind of project are personal services (salon, barber, nails), medical professionals (dentist, pediatrician, chiropractor), financial services (brokerage, credit unions, tax consultants), boutique food (wine shop, tea house, coffee bar) and professional offices



such as attorneys. Uses that are not likely include a large-scale restaurant, clothing stores, "specialty retail" or most national retail tenants.

Phasing Profile: Private developers are unlikely to build these buildings without commitments from at least the primary tenants, so we expect the project would be developed one 10,000sf building at a time, and the first commercial building would be constructed only after the first public building is completed. Build-out of the entire site -- perhaps four to six buildings -- could easily take eight to ten years.

Development Economics: Buildings that would be appropriate to this complex would have a high level of architectural character and would have extensive glazing, weather protection for pedestrians (awnings), low site density and extensive landscaping. All of these elements add significantly to the cost of construction. These buildings could easily have construction costs of \$150/sf in today's dollars, which would require rent levels of over \$30.00/sf. This compares to market rents in the trade area of under \$20.00. The principal challenge in this project will be to develop design standards that allow for an interesting character without escalating the costs to the point that no tenants can afford to lease space there.

Planning and Infrastructure Requirements: Because market conditions alone do not support the need for a Civic Center project (and Civic Centers are rarely sponsored by cities because of a market need), the City will need to play a role in planning and funding infrastructure needed for site development. Typical city roles encompass facilitating land assembly, site master planning and potentially environmental review, and infrastructure development, including streets, sidewalks, water and sewer systems. Edgewood is well on its way in this regard, with the Civic Center/Meridian Corridor master planning project and sewer system planning.

Business Community Support: The most likely developers, builders, investors and occupants of your Civic Center live in your community. They are the property owners and business owners along Meridian, and the business people that grew up in Edgewood, still live here and want to see progress in their community. The City Council and staff cannot turn this concept into reality without the support and cooperation of the business community because the project will either be built on private land, or be next to and compete with private projects next door. The first step in planning the Civic Center is to recruit the participation and support of the Edgewood business and real estate community, because they have the most to gain or lose by this development. The project cannot be done without their active involvement.



4. Economic Development Challenges for Town Center and the Meridian Avenue Corridor

In our discussions with City staff, business owners and citizens, we met with both dreamers and pragmatists, optimists and folks just frustrated by the process. From these discussions, several key issues emerged that speak to the challenges of commercial development in the City. These issues are summarized below:

Fears about Explosive Growth: There appears to be great concern in parts of the community that if left unchecked, Edgewood will turn into another South Hill. In fact, that is highly unlikely. In commercial terms, South Hill is a busy retail destination because the mall is located there, and national retailers tend to cluster around malls. The residential market south of the mall is exploding because land is available and it is zoned for high density development, and this contributes to the retail growth.

The commercial market in Edgewood is fundamentally different. The market is geographically limited by the edges of the plateau, and by the commercial centers already in place to the north (Federal Way) and south (Puyallup). Commercial development in Edgewood will only occur to support the residential growth that occurs within the community, and residential growth appears to be occurring at the rate of about 50 homes per year. This residential growth rate is not strong enough to stimulate significant commercial development in the trade area.

Managing Opportunities through Development Regulations: The problem with development regulations and zoning is that the City cannot cause things to happen; it can only prevent them from happening. The City's Title 18 Development Standards are very clear and thorough, but they are also quite restrictive. By regulating the maximum size of the commercial uses allowed, the City may be precluding them from occurring at all. We have often heard the desire for a good restaurant in the community, but most full service restaurants are larger than 8,000sf, and under the City's new standards, would not be allowed (EMC 18.70.090). Movie theaters are a fashionable way for communities to extend the hours of activity in their downtowns and stimulate coffee shops, restaurants and bookstores (all desirable elements of a Civic Center), but under the new regulations, a theater use can occupy no more than two acres of gross land area, which is too small to build and park even a two screen theater.

The Look of Meridian and Preserving the Rural Character: The City desires to protect the rural character of the community, for good reason, and that carries over into both the development standards and the design guidelines. As a result, the design guidelines make it challenging to develop commercial property along Meridian. Part of the challenge is that since the guidelines were enacted, Walgreen's appears to be the only project that has had to comply with the standards, so the regulations have not been tested in real life. If and when the larger parcels along Meridian get their sewers and try to develop, it will be difficult for them to comply.



5. Town Center/Meridian Corridor Residential Market Assessment

Our scope of work called for a market assessment of both commercial and residential uses in the Town Center district. The City's Title 18 Development Standards allows for a maximum residential density of 10 dwelling units per acre in the Town Center district (18.80.080), which compares with 4 (MR-1) and 8 (MR-2) dwelling units in the Mixed Residential areas (18.80.050) and 6 dwelling units per acre in the Mixed Use Residential areas (18.80.060).

The following residential market assessment is primarily based on familiarity with and expertise with the Pierce County residential market, supplemented by interviews with residential developers and builders who are or have been active in the Edgewood market, and discussions with civil engineers regarding the technical issues identified below.

Mixed-Use Residential Development Market Challenges: Mixed-used development is more difficult than either pure residential or pure retail development, and is economically justified only where there is a strong market for both uses. Accommodating the technical needs for both uses within one building increases the construction costs, and therefore the rents that must be achieved. Many of the examples of mixed-use buildings in the Puget Sound area are principally residential projects, with subsidized retail on the ground floor because it was required by the zoning, or they are located in districts that have both high residential demand and high street level pedestrian and commercial activity.

To be economically viable, mixed use buildings must generally have at least three levels of apartments over the retail base, with a building height of at least 45 feet. This kind of zoning does not exist in Edgewood, nor do the commercial rents support the kinds of rent that would be required (\$25-30/sf/year for the retail space, and more than \$1.20/sf/month for the residential units).

For the retail uses to have any chance of success, the buildings would have to be located facing Meridian, and this is probably not an attractive residential orientation, especially given the other residential options in the community. Overall, it would be very difficult to successfully develop mixed-use properties in Edgewood for some time to come.

Physical Challenges and Impediments to Development: The market for new single family homes in Edgewood is strong, as it is in all of Pierce County. The challenge in Edgewood is supply, as developers and builders cannot find sites on which they can economically build. The most significant physical impediment to developing more residential properties in Edgewood is geological. Glacial till is the predominant soils type in the City, and it has very low permeability, which tends to increase the land required for septic drainfields and stormwater discharge. In response to this problem, the City has



enacted stringent stormwater regulations, which result in higher than average site development costs.

Regulatory Restrictions: Sanitary septic systems are regulated by the Tacoma-Pierce County Health Department. Thus, while Edgewood's soils conditions are absolutely real, the development challenge is magnified by the fact that the City has adopted restrictive codes and standards pertaining to septic systems. The septic system requirements appear to be similar to Pierce County and other jurisdictions, but according to developers and engineers we interviewed, the stormwater regulations are more stringent than the County's, adding significant cost to residential development. Minimum and maximum lot sizes may aggravate the condition, as they allow for limited flexibility in site configuration.

The most significant restriction is the requirement that septic and stormwater drainfields must be contained within each parcel. If a property owner has a two acre parcel that he wants to divide into four lots, but only one of the lots has good drainage because of the prevalent soils conditions, many municipalities would allow for a community drainfield area, serving all four lots. Edgewood does not allow community drainfields for either septic or stormwater, so in the two-acre case, three of the lots would be required to have expensive drainage systems, when an economical and natural drainage solution existed within the larger property.



6. Business Park Market Assessment

Part of our assignment was to assess the market conditions and development environment with regard to the business park land use at the north end of the City.

Optimal Business Park Characteristics: The ideal business park infrastructure includes telecommunications, power service and sewers. Convenient access to multiple highways will be important to some tenants, a low-key environment will be favored by others. A flat site is important for both flexibility and site cost considerations. Because many of the businesses will be start-ups or small, private firms, low rent and simple buildings are essential, and a business-friendly city government is important.

Edgewood's Characteristics: Although the site is not perfectly flat, the topography, location, size and transportation connections are adequate for business park development. As a community that is close to major transportation and urban facilities (airport, freeway, big city) but tucked away, Edgewood will be desirable to some businesses, especially those with local ties. Location decisions are often made by the owner for non-business reasons.

The properties within the Business Park zoning district are not likely to be developed as business parks until sewers serve the area, and the first business park project is not likely to be large enough to pay for the sewer extensions. While some individual business park tenants may not have significant plumbing requirements, the need for flexibility and the ability to re-lease vacant spaces mandates that sewer be in place. Other than warehouse operations, few business or industrial users can locate in septic areas.

Design Guidelines: Business park buildings are generally tilt-up concrete with flat roofs. These do not conform to the City's design standards, and would have difficulty with the pitched roof requirement, the lot coverage standards and the blank wall provisions. It will probably be necessary to draft new guidelines specifically for the business park use.

Development Environment: The issues facing development of the Town Center and commercial areas are the same in the business park. Edgewood is not an easy community in which to develop property, and the City has not always maintained a positive relationship with its business owners. The business environment is an important factor in the siting decision for a company, and the best prospects for your business park are local business people. To attract companies to the community will require a positive approach to business development.

Business Park Potential: It is difficult to quantify the development potential of the business park district. There are successful business parks in virtually all of the surrounding communities, and it is important that Edgewood have this land use type to offer to potential developers and tenants. Other than the lack of sewers, there is nothing to prevent this use occurring in Edgewood, but the properties do not have any



competitive advantage over neighboring communities. What will fill the Edgewood business park area is the desire to locate in Edgewood, and that requires a regulatory climate that encourages business and allows for cost-effective design and construction.

Industrial Land Potential: Similar statements could be made about industrial land in Edgewood. There is virtually no zoned industrial property in Edgewood, but it is important that the City have this classification of land to offer to developers and users that want to locate (or keep) their industrial businesses in the community. As the City's fiscal analysis has shown, it is difficult to prosper as a City without commercial businesses and industrial jobs, so a land inventory that includes business parks and industrial properties is an important asset.



7. Comparison with the City of Milton's Zoning Codes

At the City Council meeting on February 25, 2003, we were asked to compare the City of Milton's development standards and zoning codes to those of Edgewood, to see whether they might explain why Milton has more commercial development activity than Edgewood. Milton's codes are available on their web site, and we spoke with John Adamson, Milton's Director of Community Development.

Milton has approximately 170 acres of undeveloped industrial land, and only ten acres of undeveloped commercial property. The City has a simple zoning code. There are eight zoning classifications, similar to the Edgewood plan, and the principal development standards appear in two tables in the zoning code. The first is a Table of Uses, which describes what kinds of uses are permitted in each zoning classification. The uses and where they can occur is very similar to Edgewood. The second table is call the "Table of Bulk and Dimensional Regulations". This sets out densities, lot coverage, setbacks and building heights for each zone. In the "Business" zone, which is equivalent to the Edgewood "Commercial" zone, for example, buildings may be 45 feet high, with a maximum lot coverage of 60% and a floor area ratio of 1:1. There are no minimum setbacks, but there is a requirement for 8 ft planting strips on all sides of a commercial property.

Milton has no design standards. The zoning code table sets out the only design requirements. There are no maximum building areas or restrictions based on use type. There are no regulations regarding building orientation, presentation to the street or orientation of the parking lots. There are no requirements for design features or roof shapes. We got the impression that Adamson might like a little more control, but not that the system was dysfunctional or inadequate in any significant way.

The base residential zoning allows for four units per acre, with multi-family zoning based on twelve units per acre. Minimum lot size for a single-family home is 8,000sf. Density bonuses are designed to encourage adult retirement community housing, but not affordable housing. The entire community is served by Pierce County sewers.



Attachment A: Partial Listing of Individuals Interviewed

Henry Lawrence, City Manager
Doc Williams, Associate Planner
John Adamson, City of Milton
Don Hawkins, Business Park property owner
Bob Goodman, civil engineer
Dave Hendrickson, residential developer
Dave Rowland, residential developer
Clark McGowen, residential developer
Tony McGowen, residential developer
Ron Kiehne, residential developer
Bill O'Ravez, business/property owner
Gary Patterson, residential developer
Arvin Vander Veen, Economic Development Commission, broker
Linda Burgess, Economic Development Commission
Dan Burgess, property owner
Jeff Stokes, business/property owner
Lorin Ginther, property owner
Bob Knudson, property owner
Tim McMahon, broker, Washington Commercial
Lee Guillory, broker, SeaPac Realty
Mark Pass, broker, SeaPac Realty
Dan Durr, broker, First Western Properties
Wilma Warshak, broker, Colliers
Ken Barnes, appraiser, Cushman & Wakefield
Dan McReynolds, Parametrix
Doug Bershauer, Parametrix

