

Market Findings for North Wenatchee

Prepared for the City of Wenatchee

Introduction

The North Wenatchee project includes 110 acres located between North Wenatchee Avenue and the Columbia River waterfront, adjacent to city parks, and within walking distance of the Toyota Center. This document is an overview of current and projected market characteristics for this area, the larger urbanized area of which Wenatchee is a part, and the Wenatchee metropolitan statistical area, which includes Chelan and Douglas Counties. Data for this overview comes from the State of Washington Office of Financial Management, the US Census, ESRI Business Information Services, the Census Local Employment Dynamics database, the Washington Employment Security Department, the Bureau of Economic Analysis and the Bureau of Labor Statistics.



The site is currently in industrial use, and is bisected by the BNSF railroad tracks parallel to North Wenatchee Avenue. City of Wenatchee intends to create a unique district at the site that includes a commercial destination along North Wenatchee Avenue, repurposed land use at the waterfront, and a mix of uses including residential and retail in a walkable compact configuration. A city goal is to see substantial change in five years and a complete build-out in fifteen years.

The purpose of this overview of market factors is to understand the mix of uses and their magnitude that can be feasibly placed at this site.

Summary of Conclusions

Demographic Trends

There is sufficient growth in population for the Wenatchee MSA (metropolitan statistical area) to support multi-family development: approximately 2,880 units of attached and multifamily by 2040 and 441 multifamily units by 2021. The Wenatchee area (Wenatchee, East Wenatchee and Sunnyslope) can expect to capture at least two-thirds of MSA attached and multifamily demand. If national trends in lifestyle and household formation of non-family households continue as they are now, these numbers will increase over trended projections based upon past local housing preferences.

There will be a need for new senior housing as those who are aging in place will need to move to housing that requires less driving, less maintenance by the householders, and provides some services for those unable to drive any longer.

Income change by household age indicates that much of the growth is in households with annual incomes over \$74,999, with slight growth of households with incomes below \$50,000 in the age cohorts of 25 to 35 years and 45 to 54 years old.

Because of the change in income demographics, some proportion of existing units may become considered obsolete or less desirable than newer units designed more recently, particularly in multifamily units, and in housing vacated by senior households that move as the capacity to maintain a house and grounds and the ability to drive decreases.

New Employment Space Must be Flexible

Employment projections for the Wenatchee area indicate employment growth from 2016 through 2024 of approximately 3,400 to 3,460 new jobs, enough to occupy 323,000 square feet of office and 547,000 square feet of flex or other space.

The market for flexible space is for businesses that need space that can be multi-purpose, without many of the furnishings, fixtures and equipment typically included in standard office space. This flexibility can allow light industry, uses that require some amount of storage space with associated office, businesses with specialized equipment such as laboratories or research and development, and other uses that require space beyond employee space, at a cost lower than standard office space that can enable new business location or support business expansion.¹ Because the plan calls for a mix of uses, new employment will be part of an innovative district that will be unique in the region, and flexibility of building types and use will lower financial, market and operating risks for owners and developers.

¹ Businesses that may have a need for flex space rather than traditional office may include: Agriculture; Mining; Utilities; Construction; Manufacturing; Wholesale Trade; Transportation & Warehousing; Information; Professional, Scientific & Tech Services; Administrative & Waste Management; Educational Services; Health Care & Social Assistance; Arts, Entertainment & Recreation; Food Services; and Other Services

North Wenatchee Retail District

Retail in the Wenatchee area captures 94 percent of MSA retail sales, and is 1.8 times local demand. As the MSA population increases, the urban center is likely to retain its position as the retail hub and the need for retail space will increase. By 2021, Wenatchee area demand will increase sufficient to support between 40,000 to 60,000 square feet, while new employment will add to local retail demand even if the jobholders do not live in Wenatchee, perhaps another 50,000 square feet. Total MSA demand by 2040 could support an additional 400,000 square feet

Retail formats are changing nationally to what is called “experience” retail. This is retail that is aggregated with restaurants and entertainment uses in a compact walkable outdoor public space that allows friends and family to meet in public. The retail on offer in Wenatchee, except for downtown, is in auto-oriented formats that are losing market share and sales per square foot from newer competition. The city has an opportunity to use the study site for this style of retail development. In other markets nationally, the difference in sales and leasing rates in experience retail are roughly double that of a typical grocery-anchored strip center. To take advantage of this opportunity will require an aggregation of 100,000 to 125,00 square feet, an amount that provides critical mass and is within the limits of the market.

The market for retail and restaurants in Wenatchee is not for high-end establishments, but for those that offer value along with reasonable quality. Given current leasing rates in Wenatchee this also means that the buildings, urban amenities, street furniture, parks, etc. need to be sufficient for creating an urban public realm but not expensive.

Potential Program for the North Wenatchee District

The current proposed design indicates a variety of uses as shown in the accompanying graphic.

The table that follows indicates a proposed range of land uses in square feet.



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Site Land Use	Buildout	
Lt. Industrial (0.25 FAR)	140,000	Square Feet
Professional Office (0.5 FAR)	50,000	Square Feet
Employment Flex (0.3 FAR)	120,000	Square Feet
Commercial (0.3-0.5 FAR)	120,000	Square Feet
Retail (0.5 FAR)	125,000	Square Feet
Residential Units (40 du/ac) Parks	850	Units
Parks	3.75	Acres

The table of proposed uses offers reasonable estimates for office, flex, and light industrial use based upon the projected employment change. The retail capture and residential capture are aggressive and will depend on the plan appealing to new residents and new business in a format that is unique in the region. The retail opportunity depends on some measure of residential, while the residential requires the retail amenities for this project to operate as a unique destination. Employment opportunities are keyed to businesses that need flexibility of use and desire to locate where there are amenities rather than in an isolated industrial zone.² As the project progresses, more detailed programming will refine the set of land uses and square feet in the district.

One of the main obstacles to development is site access. The design team has suggested a new site access point, extending McKittrick Street eastward into the site. To support the use of the area between the railroad tracks and the river, this access is critical in opening opportunities. It will provide a visible gateway from one of Wenatchee's most traveled arteries and can enable a residential district with office, retail and entertainment amenities that otherwise would tend to locate elsewhere with more visible access. While stand-alone residential is possible, to make a destination on the site, a mix of uses is desirable and is less likely without the access improvements. Land abutting the railroad tracks would also gain access that does not exist now, enabling new business locations and strengthening the district as an employment address.

² In earlier studies for Kirkland and Redmond, we found that new businesses in categories that used to be a form of industrial were choosing to locate outside of traditionally industrial zoned districts. The preferred locations were those where amenities such as cafes, restaurants, banking and services such as daycare were easily available. The uses filling the older industrial space in such zones ranged from dance studios, indoor tennis, wholesale outlets such as plumbing supplies, and even churches.

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Wenatchee Demographic Change

The following tables show projected demographic change in five years for the Wenatchee area and the MSA.

Wenatchee, E. Wen., Sunnyslope	2010	2016	2021	Change 16-21
Population	58,895	61,374	63,506	2,132
Households	22,202	22,964	23,713	749
Families	14,973	15,415	15,880	465
Non-Family Households	7,229	7,549	7,833	284
Percent Non-Family	32.6%	32.9%	33.0%	37.9%
Average Household Size	2.62	2.64	2.64	-
Owner Occupied Housing Units	13,712	13,977	14,388	411
Renter Occupied Housing Units	8,490	8,987	9,325	338
Renter Percent	38.2%	39.1%	39.3%	45.1%
Median Age	36.0	36.4	36.7	0.3
Median Household Income		\$51,044	\$53,120	\$2,076
Average Household Income		\$67,946	\$74,474	\$6,528

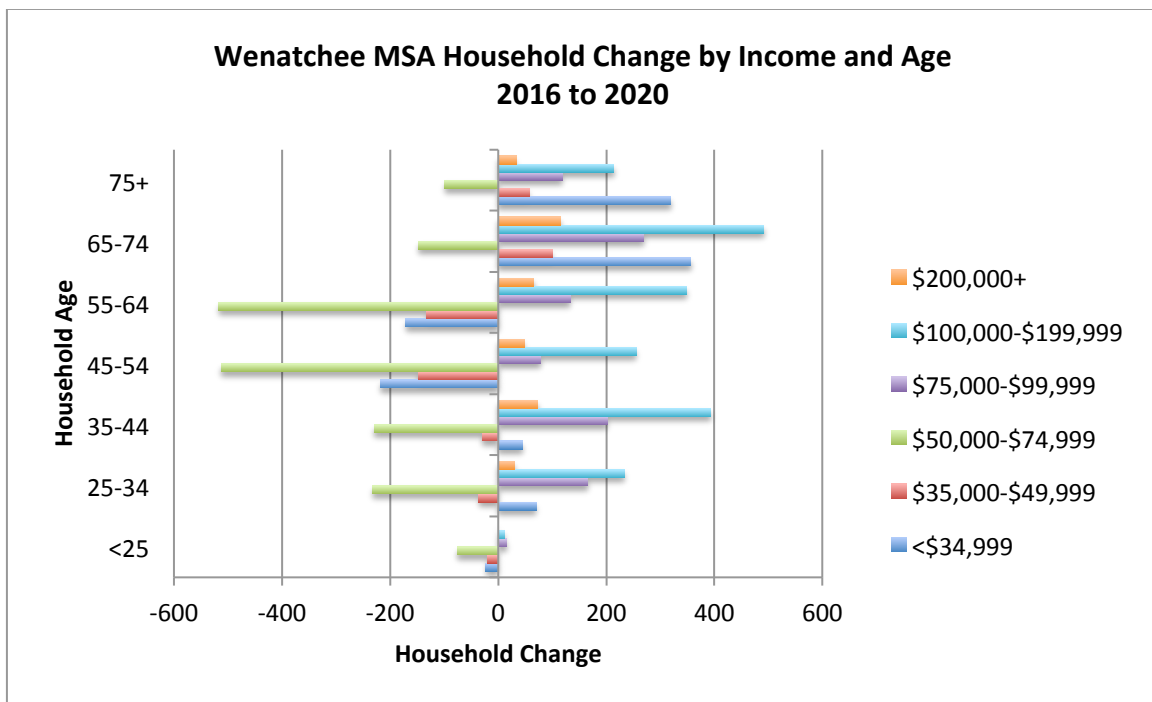
Wenatchee MSA	2010	2016	2021	Change 16-21
Population	110,884	116,543	121,224	4,681
Households	41,721	43,562	45,215	1,653
Families	29,035	30,198	31,286	1,088
Non-Family Households	12,686	13,364	13,929	565
Percent Non-Family	30.4%	30.7%	30.8%	34.2%
Average Household Size	2.63	2.65	2.65	-
Owner Occupied Housing Units	27,405	28,238	29,258	1,020
Renter Occupied Housing Units	14,316	15,324	15,957	633
Renter Percent	34.3%	35.2%	35.3%	38.3%
Median Age	38.4	39.0	39.6	0.6
Median Household Income		\$52,156	\$54,673	\$2,517
Average Household Income		\$69,430	\$76,451	\$7,021

Household growth from 2016 to 2021 is projected to be ± 1,653 households
There is growth in owner-occupied units of 1,020 units, and 623 rental units.

Changes in households by age and income are shown in the following table and chart.
The first table highlights senior versus non-senior household growth.

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Wenatchee MSA Household Income	Non-Senior Households			Senior Households		
	2016	2021	Change	2016	2021	Change
<\$15,000	3,321	3,541	220	1,477	1,844	367
\$15,000-\$24,999	2,459	2,151	-308	1,829	1,925	96
\$25,000-\$34,999	2,794	2,585	-209	1,741	1,953	212
\$35,000-\$49,999	4,726	4,361	-365	2,262	2,419	157
\$50,000-\$74,999	6,606	5,041	-1,565	2,472	2,226	-246
\$75,000-\$99,999	4,282	4,877	595	1,019	1,406	387
\$100,000-\$149,999	4,318	5,186	868	1,041	1,557	516
\$150,000-\$199,999	1,355	1,728	373	362	551	189
\$200,000+	1,167	1,384	217	331	480	149
Totals	31,028	30,854	-174	12,534	14,361	1,827



There is a predicted loss of 89 households under age 25 and under \$75,000 indicating that young people are leaving the MSA. It is possible this is due to constrained employment opportunities, but also may have to do with insufficient choices in housing and neighborhood lifestyles.

Senior households comprise 110.5 percent of all growth—this is partially households aging in place, but may also include migration by retirees. In any case, there will be a need for senior housing. As local seniors move to senior housing, their units will be taken up by non-senior households, but the housing stock may not be as suitable for

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parts of the non-senior demographic. At the same time, there may be a need for non-senior housing due to income shift; all growth in households under 65 years is in household incomes over \$74,999, so perceptions of existing stock may render some units obsolete.

Long-term Population Projections

Washington OFM Population Projections

	2015	2020	2025	2030	2035	2040
Chelan County	75,180	78,586	81,885	84,778	87,168	89,246
Douglas County	40,603	43,619	46,662	49,583	52,256	54,762
Totals	115,783	122,205	128,547	134,361	139,424	144,008
Change from 2015		6,422	12,764	18,578	23,641	28,225
Annual Change %		1.1%	1.0%	0.9%	0.7%	0.6%
1 Person HH		559	1,110	1,616	2,057	2,456
2 Person HH		880	1,749	2,545	3,239	3,867
Three Person HH		390	774	1,127	1,434	1,712
Four or More		626	1,244	1,810	2,304	2,750
HH Change from 2015		2,454	4,877	7,099	9,033	10,785

In the absence of household projections, current household sizes from the Berk and Associates August 24, 2016 housing need draft report were used with state projections to calculate a breakdown of household change. ESRI projections are less robust than state projections. Looking at both, by 2040 the MSA is expected to grow by between $\pm 9,800$ to $\pm 10,650$ households. The types of units that might be desired are shown in the next section on housing types based on preference data from ESRI

Tapestry Preferences for Housing Types

Current estimates of housing preferences show that for the MSA, single-family detached units are 73 percent of all units while for the urbanized area comprised by Wenatchee, East Wenatchee and Sunnyslope single family is a more typical 63 percent of unit preference.

Distribution of Housing Preferences

2016 ESRI Tapestry	SFD	Townhouse	Duplex	Fourplex	Apartments
MSA	28,842	1,983	1,315	1,671	5,544
Percent	73.3%	5.0%	3.3%	4.2%	14.1%
Wenatchee, E. Wen., Sunnyslope	13,517	1,450	932	1,231	4,473

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From housing preferences we can see that the urbanized area of the MSA is expected to capture two-thirds of apartment units within five years.

Distribution of New Households by Housing Type

Short Term ESRI	New HH's	SFD	Townhouse	Duplex	Fourplex	Apartments
MSA	1,653	1,211	83	55	70	233
Wenatchee, E. Wen., Sunnyslope	749	469	50	32	43	155
Wenatchee, E. Wen., Sunnyslope Percent	45.3%	38.7%	60.4%	58.5%	60.8%	66.6%

If long term projections are divided into potential housing preferences based upon current demographics, the urbanized area may capture between ± 900 to $\pm 1,000$ apartment units by 2040 as shown in the following tables. Total multifamily units estimated in these scenarios are between $\pm 1,660$ to $\pm 1,800$ or 360 multifamily units every five years.

Distribution of New Households by Housing Type--State Projections

2015 to 2040	New HH's	SFD	Townhouse	Duplex	Fourplex	Apartments
MSA	10,785	7,904	543	360	458	1,519
Wen, E. Wen., Sunnyslope	5,920	3,704	397	255	337	1,226

Having shown a long-term scenario based upon past trends, it is necessary to point out that non-family households are growing at a faster rate than family households and that non-family households have a higher rate of preference for apartments. If the five percent increase in non-family households within five years shifts housing type demand, it could result in a need for an additional 45 to 90 units in multifamily in the short term.

For that reason, the long term housing preferences in the tables are a conservative estimate. Further, the current occupation of duplexes, and three or four unit buildings may shift to apartments as these “plex” units become older and less desirable in comparison to newer, better-appointed multifamily units in an area with amenities for residents.

Retail/Services

Wenatchee is the center for retailing for an area that extends beyond its MSA. Demand within the MSA was \$1.55 billion in 2015 (spending by residents) versus sales of \$2

billion. For the combined areas of Wenatchee, East Wenatchee, and Sunnyslope local demand was \pm \$795 million versus sales of \$1.46 billion showing that capture is \pm 1.8 times local demand. The Wenatchee-East Wenatchee-Sunnyslope capture of MSA sales was estimated to be \pm 94% of total MSA sales. This means that as the MSA grows, Wenatchee-East Wenatchee is likely to add more retail to satisfy wider area demand.

By 2021 MSA demand will increase by approximately \$43 million, enabling support for between \pm 40,000 to \pm 60,000 square feet of retail. Between 2019 and 2024 non-farm employment is expected to rise by \pm 2,280 jobs in Wenatchee. It does not seem unreasonable that the city may capture a large proportion of the spending from the newly employed. If 75% of spending were captured, by 2024 that would add support for \pm 50,000 square feet. By 2040, total MSA retail demand could increase over 2016 by \pm 400,000 square feet. Since the Wenatchee area is the hub for retail and is likely to remain so, much of the space needed will be there.

The major challenge for retail is finding a format to compete. New retail must offer something different from the current experience in order to compete with the two existing major centers and existing scattered retail strips and freestanding big box locations. All of the existing retail except for downtown is auto oriented. Experience retail is a format that has not been done here yet. Experience retail offers a walkable environment like a main street, and offers a type of urban experience that people find compelling in comparison to standard auto-oriented retail. Given the potential for horizontal mixed use on the site, and given potential by 2024, a plan for something more than 100,000 square feet arranged in concert with housing and employment uses could create an unusual and attractive place to visit for current and new residents, especially if it can also contain entertainment uses that offer casual dining.

Regarding restaurants, over 90% of MSA adults visited fast food restaurants at least once in 6 months, 75% visited family chain restaurants once in 6 months, and only 12% went out for fine dining in 6 months. This suggests that offerings for new restaurants must offer value and experience that competes with well-known chains.

Grocery is a challenge for the site. Grocery Outlet adjoins the site on North Wenatchee Street, Target and a Haggen store with pharmacy are within walking distance, Walmart has a superstore just north of the site, and Safeway is a very short drive from the site. There are also natural food stores close to the site. That said, if the site offers a compelling mix, a small store of \pm 20,000 square feet might be supportable if in a format like the New Seasons Market chain, which competes successfully adjacent to Walmart and Fred Meyer stores and has done well in lower income neighborhoods.

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Employment and Space Need

Non-Farm Employment Wenatchee, East Wenatchee, Sunnyslope	LEHD	Est.	WA Projections		2016-24
	2014	2016	2019	2024	Change
Mining, Quarrying, and Oil and Gas Extraction	-	-	-	-	-
Construction	918	968	1,049	1,071	103
Manufacturing	691	691	691	714	23
Wholesale Trade	805	841	898	944	103
Retail Trade	3,518	3,636	3,821	4,003	367
Utilities	1,080	1,080	1,080	1,080	-
Transportation and Warehousing	508	533	572	593	60
Information	622	646	684	746	100
Finance and Insurance	631	631	631	631	-
Real Estate and Rental and Leasing	266	266	266	288	22
Professional, Scientific, and Technical Services	819	854	910	1,001	147
Management of Companies and Enterprises	35	35	35	35	-
Other Professional Services	625	675	759	893	218
Educational Services	2,691	2,691	2,691	3,364	673
Health Care and Social Assistance	5,767	5,999	6,364	7,010	1,011
Arts, Entertainment, and Recreation	473	487	509	545	58
Accommodation and Food Services	2,318	2,422	2,588	2,804	382
Other Services (excluding Public Administration)	679	702	738	797	95
Public Administration	1,191	1,221	1,267	1,318	97
	23,637		25,553	27,837	3,458

Employment change for office occupations indicates the ability to fill ± 323,000 square feet. Space need for non-office occupations or uses ± 547,000 square feet. Because of the local constraints on construction cost versus leasing rates, in order to meet this need it will be necessary to consider building types that can lower construction costs to local leasing rates.

Wenatchee, East Wenatchee and Sunnyslope in 2014 had the following commuting pattern. The percent of local jobs held by non-residents was ± 57.5%.

2014 Commuting Non-farm Jobs	Employed
Total Jobs in Area	28,135
Local Jobs held by Non-residents	16,180
Local Jobs held by Residents	11,955
Local Residents Who Commute Out	11,634

This pattern may indicate a potential for shifting residential demand for proximity to employment. Approximately 65%, or ± 10,500 of those commuting in for jobs were in lower income employment (below \$39,000 annually). If Wenatchee can capture a significant amount of the expected non-farm employment increase in the MSA, it will boost housing demand. To achieve capture Wenatchee must offer choices that will be

attractive to future demographics, and as seen from the demographic change, Wenatchee is currently losing young people. The study site offers an opportunity to meet both employment space need and multifamily unit needs.

The Site Program and Cost Constraints

Demand for residential units, employment space and retail services are sufficient for a program that spans a ten-year build-out. The question is whether that space can be provided while achieving rates of return acceptable to developers and investors.

Cost Constraints

According to R.S. Means Construction Data, Wenatchee average materials cost is 102.8 percent of national averages while installed cost is 85.6 percent of national averages for a combined average cost of 95.3 percent of national averages. A typical three story apartment building costs \pm \$120 per square foot nationally, and for Wenatchee should then cost \pm \$115 per square foot, not including land, site work or soft costs. Expected rates of return are around 6 percent for apartments. Given these constraints, a typical three-story wood-frame apartment needs to rent for around \$1.48 per square foot per month. This is at the upper end of rental for Wenatchee, but not beyond what is currently on the market. Given predicted income change from ESRI projections, a two bedroom renting for \$1,180 is affordable to MSA households at median income and will become more affordable over time.

Commercial property has a higher rate of return required than residential property, 8 percent, because of higher leasing risk and higher operating risk--retail and restaurants can and do fail, while people always need places to live. A new three to four story office building shell costs \pm \$126 per square foot nationally, and for Wenatchee should be \pm \$121 per square foot. At that cost a triple net rent of approximately \$18 per square foot annually is required for a market return on asset. This is possible in Wenatchee, but for provision of space to boost employment, most spaces needed are not likely to be in standard office and should be of a type that is able to yield a market return at lower leasing rates. Flex space that comes in at \$90 per square foot for shell would return a market rate for investors at a leasing rate of \$14.25 per square foot triple net.

Retail leasing asking rates are between \$6 and \$24 per square foot. At a Wenatchee retail shell cost per square foot of \$91, a one-story retail building would need a lease rate of around \$14 per square foot triple net for a minimum market return on asset. If the retail is in a mixed-use building, the leasing rate must rise to around \$20-\$23 per foot triple net to account for increased cost depending on building type.