

City of Lynnwood Highway 99 Corridor Urban Activity Profile and Market Assessment

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EXECUTIVE SUMMARY

This interim findings report frames economic and market conditions along the Highway 99 corridor in Lynnwood and areas north of Lynnwood. The report establishes a platform of key findings and trends from which to begin identification of site-specific opportunities and strategies for development and redevelopment. A final report at the completion of this study will include findings gleaned from stakeholder meetings, site-specific feasibility analysis and recommended strategies to support the City's long-term planning for the Highway 99 corridor.

Lynnwood's Highway 99 Corridor appears to include ample opportunity for redevelopment. Continued growth expected for the Puget Sound region coupled with Lynnwood's desirable location positions the City well in terms of future demand for all land uses. The City's location brings many advantages including proximity to Boeing employment to the north in Everett, the growing employment base in Bothell, Eastside King County commerce centers in Bellevue and Redmond and access to Seattle to the south.

Transit improvements planned for the corridor are anticipated to make the corridor in Lynnwood more desirable for transit-oriented uses, including multifamily housing developments and a mix of retail and commercial services. Other areas in proximity to the corridor that will drive future demand include growing medical centers to the south in Edmonds, office demand stemming from Premera Blue Cross in Mountlake Center, and the City of Lynnwood's own growth plans for its City Center and Alderwood Mall.

The report brings together a large volume of data and market findings from interviews of corridor stakeholders. Key findings explored within, include:

- The corridor in the study area includes a broad range of uses, spanning retail, office, housing, government uses, industrial, warehousing, hotels and more. Nearly all types of land uses are represented along Lynnwood's Highway 99 Corridor.
- The corridor study area is so long that markets and planning strategies will likely require breaking the corridor into four or five segments, as has been done in this report.
- Many, many parcels qualify under typical criteria for being redevelopable, as shown in detail in maps herein. Relatively few parcels are actually vacant at present, though their combined land area totals more than 20 acres.
- The non-residential development along the corridor is evenly split amongst retail, office and all other uses, in terms of both numbers of parcels devoted to each group and total square footage of building space.

The “all other” group includes warehousing and industrial space primarily, followed by a mix that includes motels and recreational uses.

- Soft office rents and high vacancies in the Northend of the Seattle office market, compared to tight markets in Seattle and Bellevue, suggest in the near-term at least, that larger office developers continue to favor employment centers more centrally located in the region. Lynnwood’s own City Center ambitions would further challenge office development considerations along Highway 99.
- Retail along the corridor has always been highly visible and successful. Retail and real estate professionals in the area report strong and strengthening markets at present for retail space in the study area. Upgrading the existing mix of retail should be the primary focus of retail strategies, along with integrating retail into a desirable corridor-wide plan that incorporates planning considerations (transportation, accessibility and more).
- A fairly broad range of housing and mixed-use residential developments appear to merit close attention. Apartment rents have increased in Lynnwood in recent months, as is the case elsewhere in the region. New residential construction sells well in Lynnwood, with higher prices for both condominiums and single-family products than found on average in Snohomish County.
- Planned transit improvements spur creative energy for new development products. Developments benefit from increased pedestrian activity and potentially a greater concentration of commuters using the corridor. Mixed-use and transit-oriented development project can serve as a catalyst and anchor for broader activity nodes, which will likely be the focus of subsequent work for the corridor strategy.

INTRODUCTION

Background and Purpose

The City of Lynnwood is exploring the potential for new development along the Highway 99 corridor, with particular consideration to redevelopment and bus rapid transit (BRT) opportunities in conjunction with Community Transit's planning efforts. The City is in the process of determining the market potential and economic feasibility of new development and implementation strategies to encourage desired development along the Highway 99 corridor.

This interim findings report frames economic and market conditions along the Highway 99 corridor in Lynnwood and areas north of Lynnwood. The report establishes a platform of key findings and trends from which to engage community stakeholders in the planning process, and to begin identification of site-specific opportunities and strategies for development and redevelopment. A final report at the completion of this study will include findings gleaned from stakeholder meetings, site-specific feasibility analysis and recommended strategies to support the City's long-term planning for the Highway 99 corridor.

Methods

Research methods to inform this report include analysis of economic and demographic secondary data relevant for Highway 99 corridor planning and development, including US Census data, private vendor data, published real estate reports and media research. In addition, the report reflects interviews with real estate professionals familiar with Lynnwood markets, and property and business owners and managers. Finally, analysis reflects a synthesis of information gathered from project team meetings, City-provided data, and field work (notes from touring the study area).

Organization of the Report

This report is organized into the following sections:

- **Highway 99 Corridor Existing Conditions.** This section includes an assessment of physical characteristics and current land uses, demographics, and traffic conditions and patterns along the corridor.
- **Market Assessment.** This section includes an overview of real estate market conditions, including an assessment of demand for retail, office, residential and lodging land uses, land values and competitive supply.
- **Next Steps.** This section outlines next steps in the study process, including site-specific analysis, stakeholder meetings and strategy identification.

HIGHWAY 99 CORRIDOR EXISTING CONDITIONS

Land Uses

The Highway 99 corridor study area is bounded by State Route 525 (unincorporated Snohomish County) to the north and the Lynnwood/Edmonds city boundary to the south. While the study is primarily focused on those parcels of land adjacent to the corridor, analysis also includes commercial and residential development within 0.5 miles to the east and west of Highway 99 along several more intensely developed and active intersections. The development patterns along these intersections are important to consider as the land use activities that radiate out from the corridor relate to and in many instances support the Highway 99 corridor economy. A map of the Highway 99 corridor study area and existing land uses are presented below as **Exhibits 1a-1d**.

The Highway 99 corridor comprises a broad mix of land uses, serving varied users and customers.

- Auto dealers maintain a strong presence on the corridor, along with numerous auto-related retailers and service providers.
- Several community/neighborhood shopping centers are prominent along the Highway 99 corridor, anchored by grocery stores and offering convenience shopping, personal services and fast food and casual dining restaurants.
- Asian (primarily Korean) businesses and markets are also concentrated in commercial centers dispersed along the corridor.
- Edmonds Community College generates many trips along the corridor. While the college itself is set back from Highway 99 itself, the college is a significant influence on the travel patterns of highway users.

Other land uses along the highway include offices, professional and health-related services, banks and check cashing outlets, mobile homes, multifamily housing, recreation, motels, and vacant parcels.

Exhibit 1a. Existing Land Uses Along the Highway 99 Corridor

SR 525 Interchange to 164th St SW

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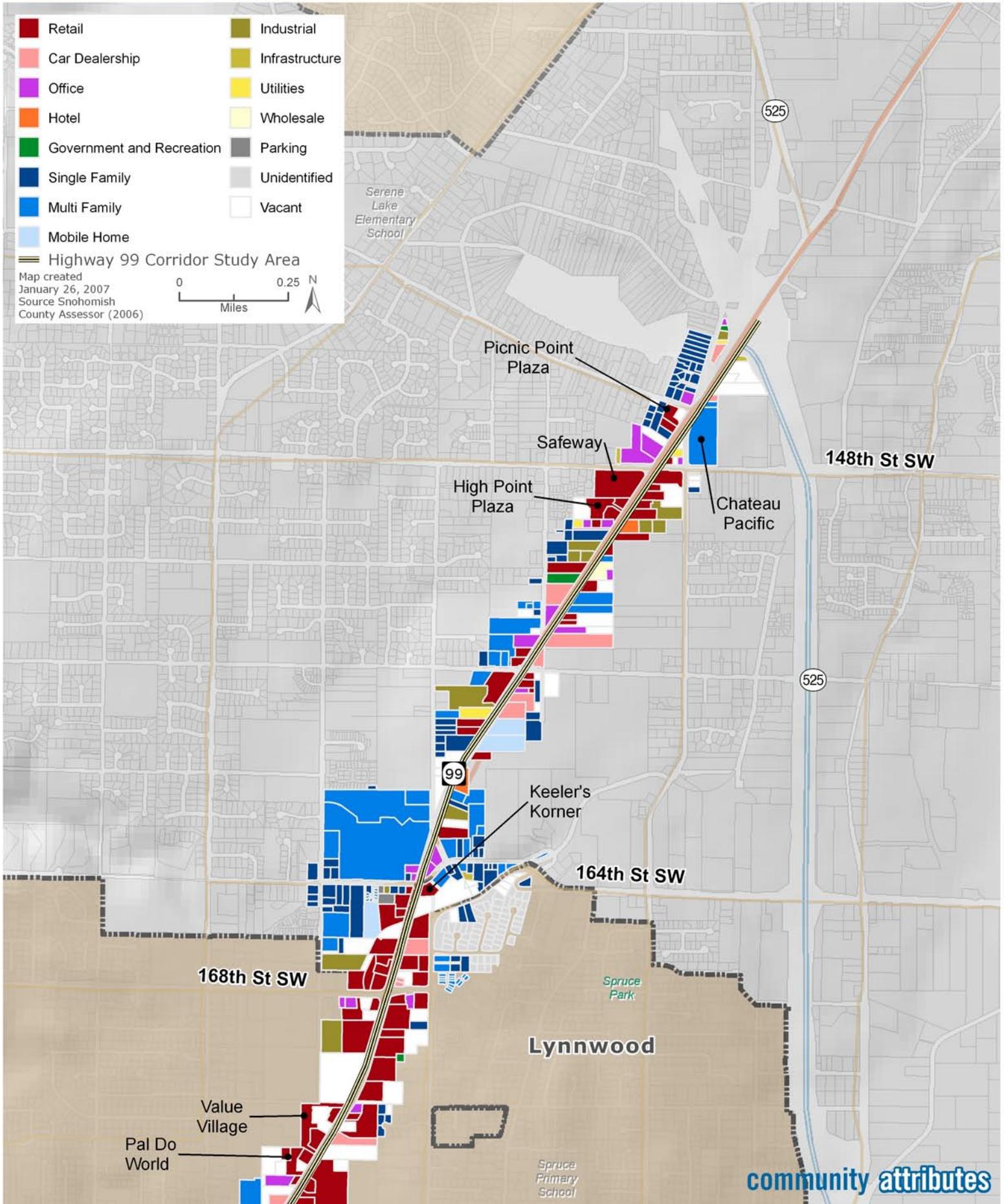


Exhibit 1b. Existing Land Uses Along the Highway 99 Corridor

164th St SW to 188th St SW

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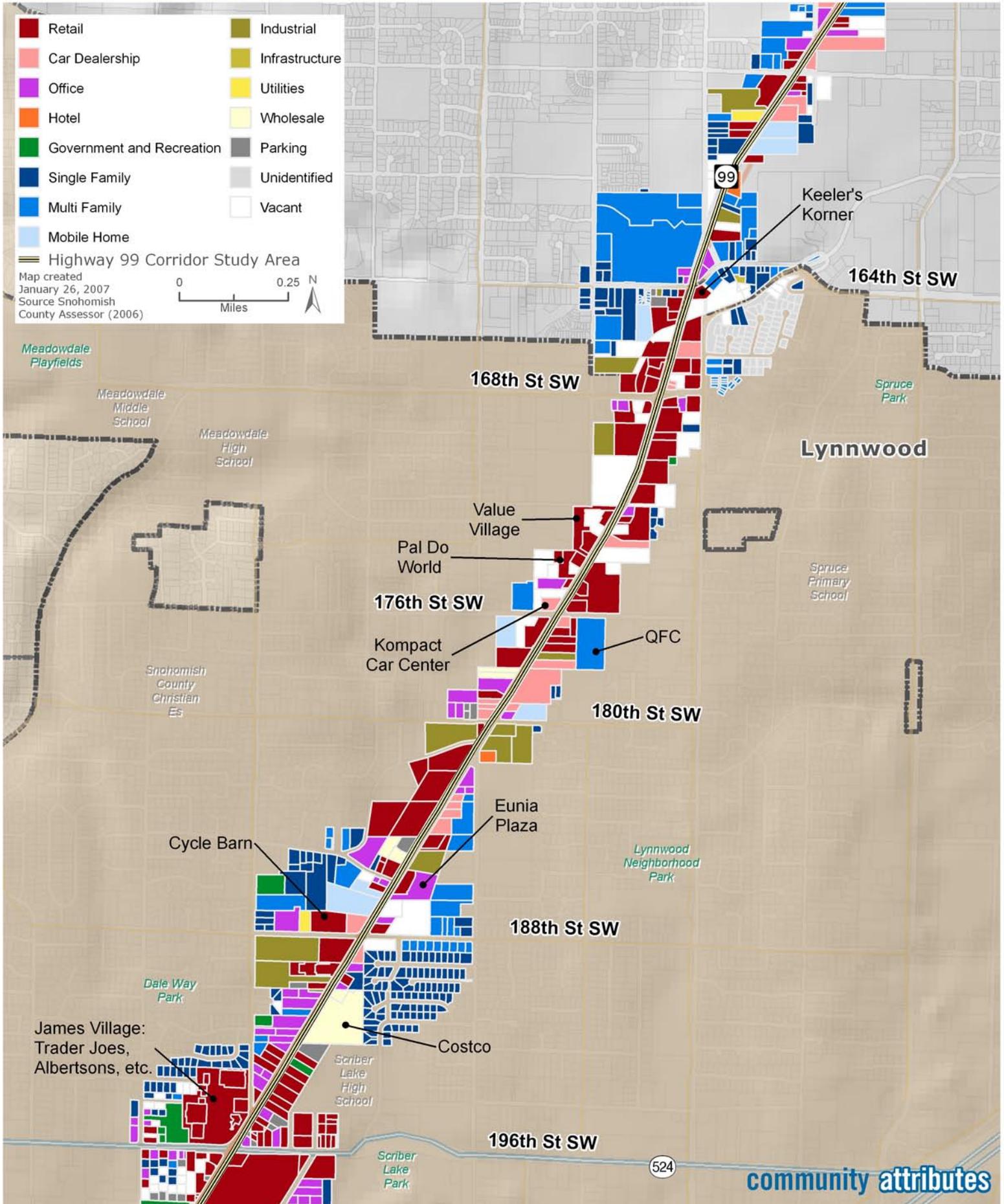


Exhibit 1c. Existing Land Uses Along the Highway 99 Corridor

188th St SW to 200th St SW

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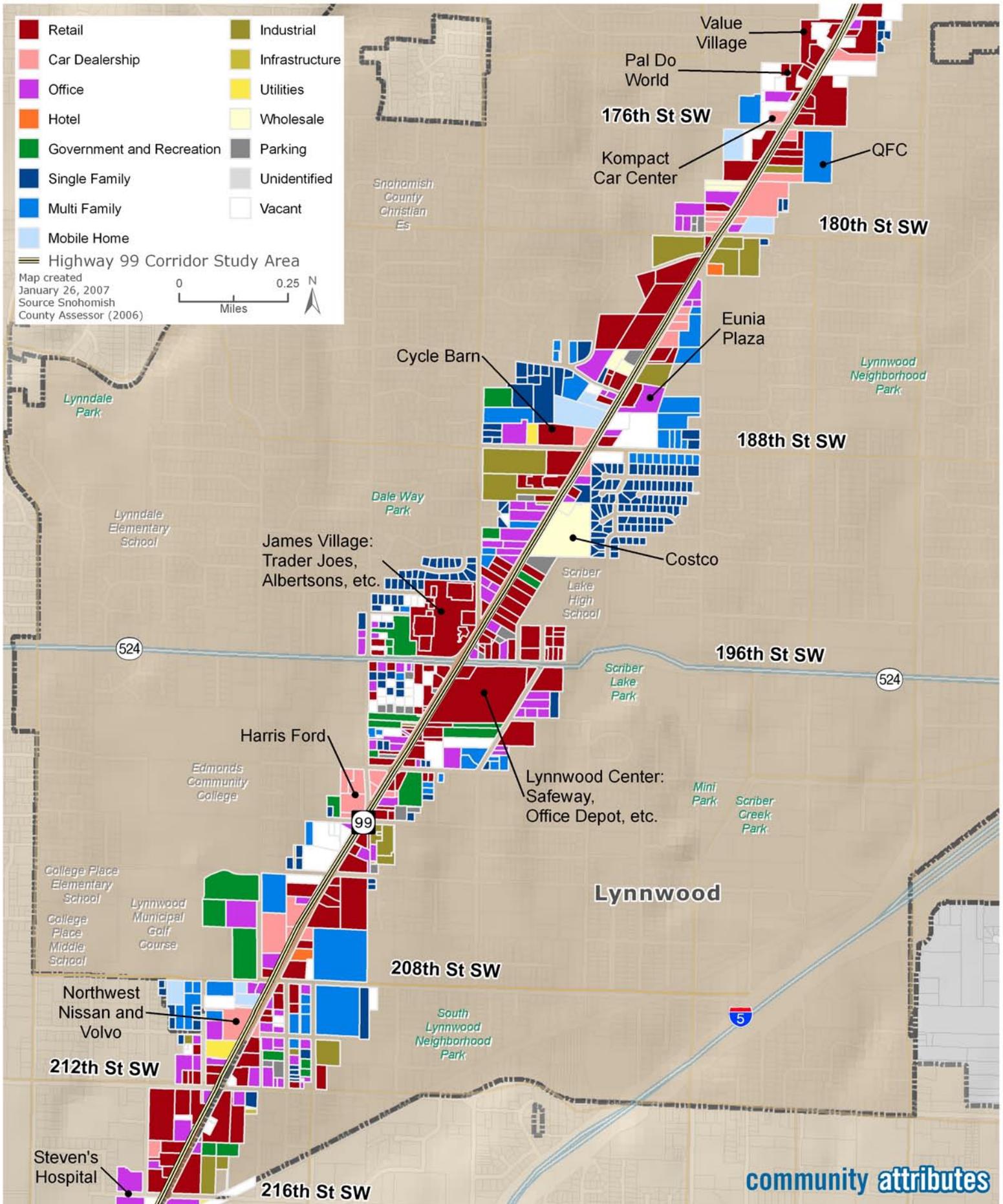
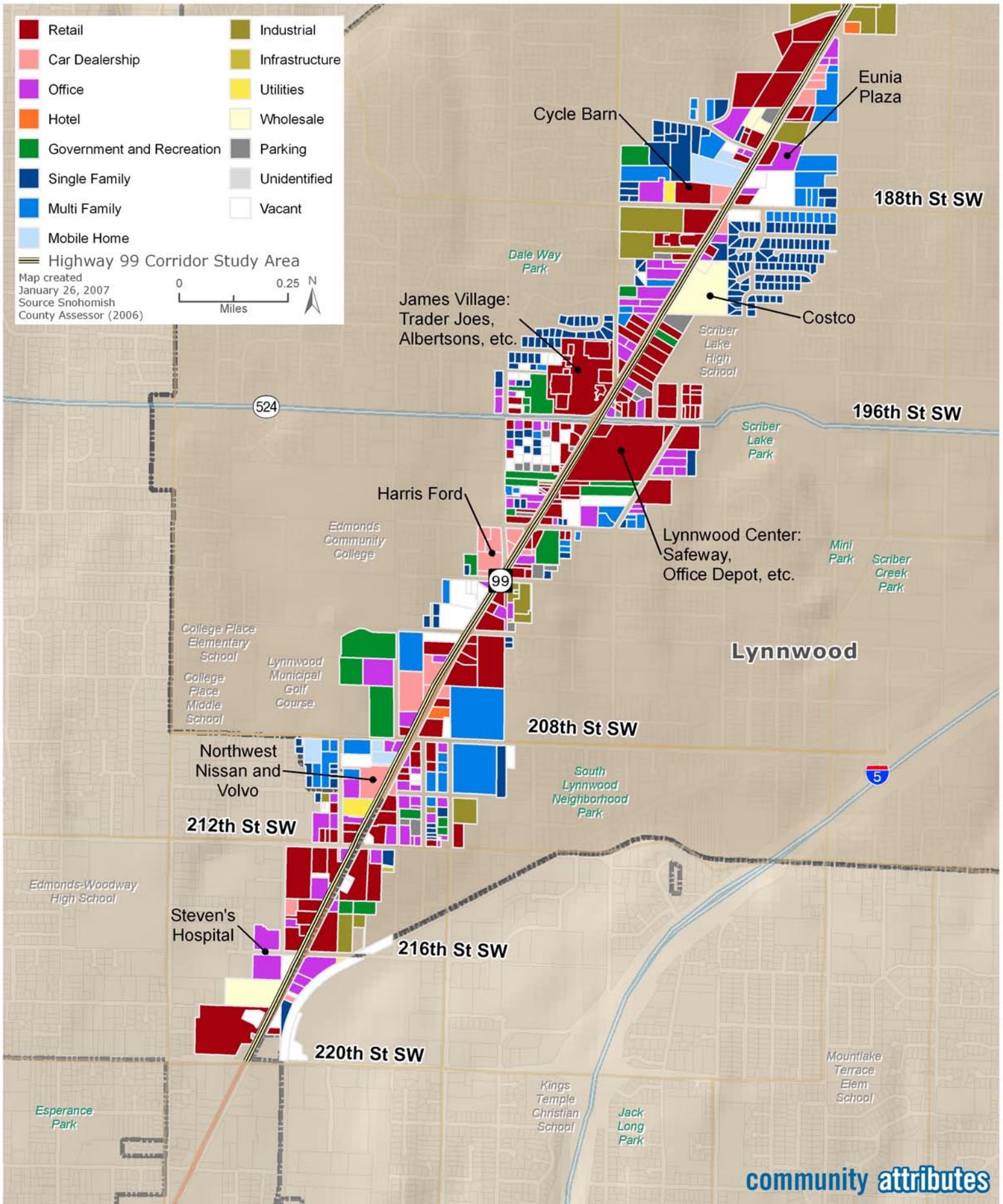


Exhibit 1d. Existing Land Uses Along the Highway 99 Corridor

200th St SW to 208th St SW

-Draft



Parcels that are included in the Lynnwood Highway 99 corridor study area are summarized below in **Exhibit 2**. In all, 708 million square feet of land area (16,200 acres) and 22.9 million square feet of built area comprise the corridor study area, which includes the northern portion of the corridor that is located in unincorporated Snohomish County, as well as those parcels within 0.5 miles to the east or west of Highway 99.

Exhibit 2
Existing Land Uses Along the Lynnwood Highway 99 Corridor

Land Use	Number of Parcels	Built Space (S.F.)	Land Area (S.F.)	Built Space to Land Area
Retail				
General Retail	134	1,178,767	5,232,905	23%
Groceries	17	268,384	1,226,390	22%
Other Food Retail	29	507,236	5,364,434	9%
Eating and Drinking	21	70,469	626,502	11%
Car Dealership	44	253,370	2,514,764	10%
Gas Station	7	6,619	181,723	4%
Lumber, Paint, and Hardware	24	237,242	1,192,439	20%
Department Store	1	42,552	595,167	7%
Total Retail	277	2,564,639	16,934,324	15%
Office				
Consumer and Business Service	181	923,315	6,662,308	14%
Construction Offices	41	167,160	1,173,852	14%
Medical Service	37	1,044,400	12,463,377	8%
Total Office	259	2,134,875	20,299,537	11%
Housing				
SF Detached	3,778	5,733,838	47,649,793	12%
MF Attached	2,658	9,020,612	341,986,206	3%
Mobile Home	959	897,048	244,582,913	< 1%
Duplex	96	213,232	1,354,688	16%
Group Quarters	6	272,692	517,515	53%
Total Housing	7,497	16,137,422	636,091,115	3%
Government				
Civic	40	289,352	3,877,806	7%
Education	17	59,326	5,025,985	1%
Government	2	27,825	372,575	7%
Total Government	59	376,503	9,276,367	4%
Other				
Hotel	8	79,106	303,923	26%
Industrial	29	291,823	2,077,400	14%
Infrastructure	10	3,727	454,197	1%
Parking	23	1,792	553,416	< 1%
Recreation	12	156,694	7,710,068	2%
Utilities	19	235,216	5,631,492	4%
Warehousing, Storage	60	701,375	5,830,855	12%
Wholesale	11	188,991	1,483,097	13%
Total Other	172	1,658,724	24,044,449	7%
Vacant				
Unidentified	4	2,913	852,238	< 1%
	6	24,105	796,669	3%
Total	8,274	22,899,181	708,294,698	3%

Source: City of Lynnwood, 2006

Segments and Nodes

The broad mix of land uses along the Highway 99 corridor can be broken out into segments, based on general development patterns and land use activities. These segment designations do not imply strict barriers or boundaries to the types of future development that may occur on specific parcels along the highway, but rather offer a framework for how to examine existing conditions along a sizeable stretch of Highway 99. The following sections offer a descriptive overview of development from north to south, with key activity nodes identified.

SEGMENT 1: SR 525 INTERCHANGE TO 164TH STREET

- At the 525 interchange, the north end of the Corridor study area is a two-story City Bank office, and Chateau Pacific, a senior housing development, is to the east. Also nearby, a U-Haul Self Storage facility is under construction.
- Multifamily residential development is to the west of Highway 99 between 148th and 156th; and higher quality and new residential construction is to the east.
- Two retail centers: High Point Plaza mostly occupied by Korean businesses, and Picnic Point Plaza, a new retail center just leasing up with several Asian businesses.

SEGMENT 2. 164TH STREET TO 188TH STREET

- This segment of the highway is a mix of new development and underutilized opportunity sites.
- Historic Landmark/Identity Node: Keeler's Korner Restoration Project is underway at 164th on the east side of Highway 99.
- From 164th to 168th to the east of Highway 99, there is much new single family residential and multifamily housing under construction. The projects being built appear to be slightly higher quality than existing product in the area.
- From 172nd to 176th there is retail activity node that includes Value Village, Kompact Car Center, Cycle Barn, and the Korean market, Pal-Do World. Adjacent to this retail concentration is a relatively new fitness center and beauty salon, which in contrast to neighboring retail is more contemporary and upscale in its design character.
- To the east of the highway is another neighborhood shopping area anchored by a QFC grocery store. This center is older and a more typical looking strip commercial center along the corridor.

- At 176th there is a mobile home park on the west side of the highway, with a newer condominium building just behind it. This contrast in development quality can be found throughout the Highway 99 corridor, with underutilized parcels adjacent to new market-driven developments.
- Just north of 186th is a new development called Eunia Plaza. The building only has two tenants currently (Korean medical businesses), and may suffer from visibility limitations. However, this is another example of new higher quality development that is happening along Highway 99 in Lynnwood.

SEGMENT 3. 188TH STREET TO 200TH STREET

- This segment comprises the core of retail activity along the Highway 99 corridor in Lynnwood, concentrated around the 196th Street. There is a very active node of commercial activity around the intersection, and extending towards Edmonds Community College to the west and Alderwood Mall to the east.
- At the northeast corner of this intersection is James Village, which includes: Trader Joes, Half Price Books, Radio Shack and Albertsons.
- Across the street is Lynnwood Center, with larger retail spaces including: Joann's Fabric, Office Depot and Safeway.
- Other major retailers within this segment of the highway include: Cycle Barn, Harley Davidson, Costco Business Center, Guitar Center and RV Sales.
- Edmonds Community College lies just to the west of this segment at 196th SW.

SEGMENT 4. 200TH STREET TO 208TH STREET

- Most car dealerships are concentrated between 200th and 208th Streets, including: Ford, Lexus, Dodge, Hyundai, and Honda. Dispersed in between these larger parcels is a mix of varied retailers and smaller businesses.
- Cash and Carry and Pay Day Loans each occupy standalone retail space at 200th and 204th Streets.
- Along 200th Street on the eastside of Highway 99 is a concentration of multifamily housing (around Scriber Lake Road), some office space, and the Lynnwood Bowl and Skate.

SEGMENT 5. 208TH STREET TO 216TH STREET

- This southern most portion of the Highway 99 corridor also reveals a mix of underutilized parcels and new market-driven development. Behind a RV park to the west of Highway 99 are relatively new condominium units and a new single family homes construction site.
- Just north of 216th Street are numerous auto-related businesses, and some more the auto dealerships (Acura and Toyota).
- Medical office uses are generally concentrated to the east and west of Highway 99, between 216th and 220th. Stevens Hospital and other medical office buildings are located to the west, and Premera's offices are to the east in the Hall Creek Business Center.

Vacant and Underutilized Lands

Exhibit 3 presents vacant and underutilized parcels within the Highway 99 corridor study area that may be appropriate for development or redevelopment. The determination of re-developable land is based on the ratio of assessed improvement values over assessed land values, an industry standard technique to make such a judgment. Any developed land parcels could be redeveloped, but this ratio method details the likelihood that an existing development would be torn down to make way for a new development. As **Exhibits 3a-3d** demonstrate, many parcels in the Highway 99 corridor study area are either vacant or underutilized and meet the ratio criterion for redevelopment potential.

Site visit and fieldwork observations identified properties that could be suitable for redevelopment, particularly when seen in context with surrounding development and land use activities. Key opportunity sites/areas identified are as follows:

- Between 148th and 164th Streets on the eastside of the highway, there are several underutilized parcels: Firewood Company site, Monte Cristo Motel (for sale), and the Lake Hill Motel. Vacant lots also exist to the west of Highway 99 along this stretch of highway.
- Between 180th and 186th Streets is a mix of older strip malls, the Lynnwood Motor Inn and East Mobile Home Park. At 180th Street is the Pull-a-Part, a large, underutilized parcel.
- A collection of numerous, smaller vacant parcels exists to the southwest of the Highway 99 and 196th Street intersection and also to the southwest of the 202nd Street intersection.

An RV park on the west side of the highway and a Christmas tree lot to the east are found between 208th and 212th Streets. In addition, several small and older buildings consume only a small portion of the land in this area (e.g. Lynnwood Gun and the Institute of Asian Culture and Development).

Exhibit 3a. Vacant and Redevelopable Parcels

SR 525 Interchange to 164th St SW

-Draft

Suitability for Redevelopment

- Vacant or Redevelopable
- Mobile Home
- Potentially Redevelopable
- Not Likely Redevelopable



Map created June 12, 2007
Source Snohomish
County Assessor (2006)

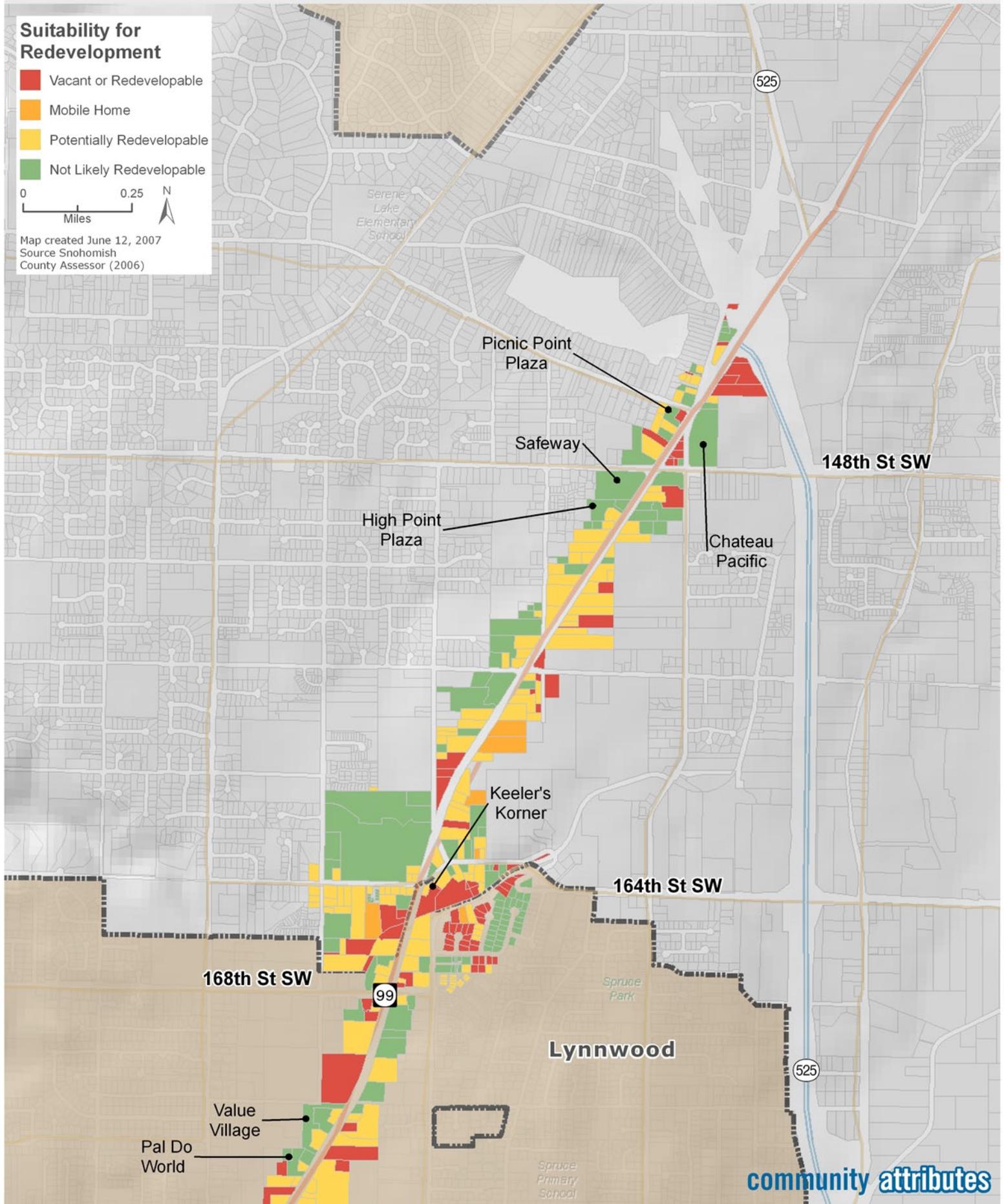


Exhibit 3b. Vacant and Redevelopable Parcels

164th St SW to 188th St SW

-Draft

Suitability for Redevelopment

- Vacant or Redevelopable
- Mobile Home
- Potentially Redevelopable
- Not Likely Redevelopable



Map created June 12, 2007
Source Snohomish
County Assessor (2006)

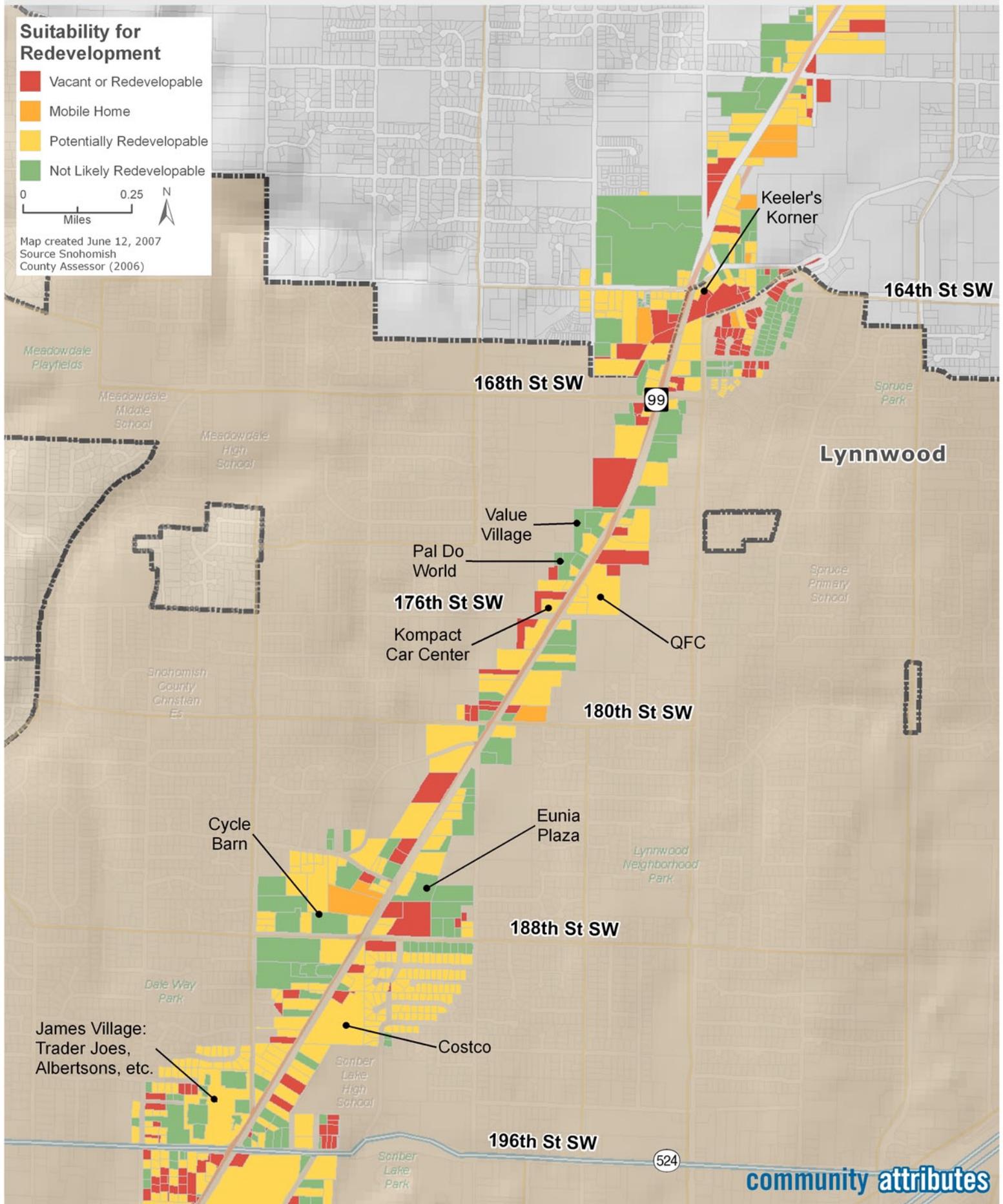


Exhibit 3c. Vacant and Redevelopable Parcels

188th St SW to 200th St SW

-Draft

Suitability for Redevelopment

- Vacant or Redevelopable
- Mobile Home
- Potentially Redevelopable
- Not Likely Redevelopable



Map created June 12, 2007
Source Snohomish
County Assessor (2006)

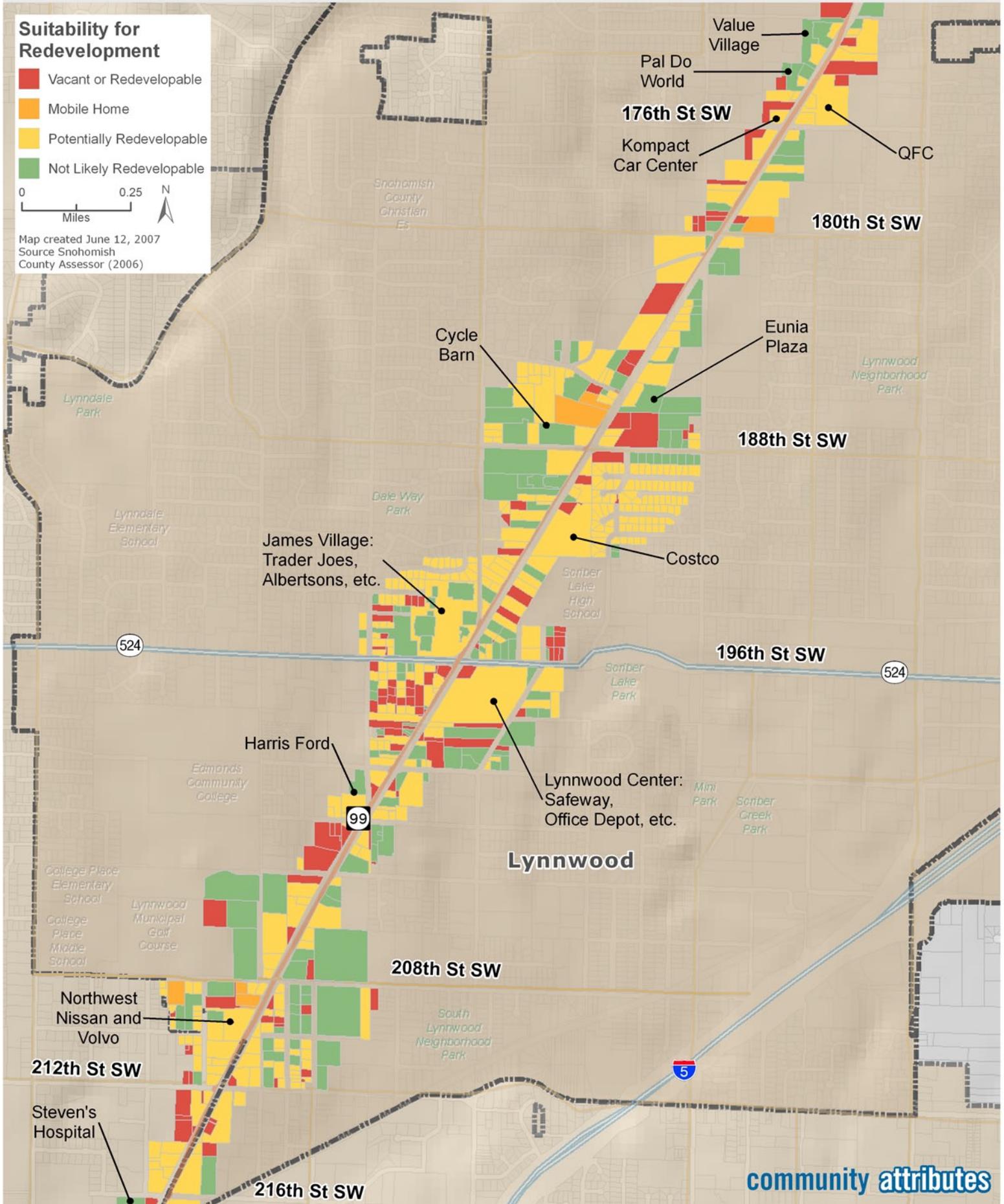


Exhibit 3d. Vacant and Redevelopable Parcels

200th St SW to 208th St SW

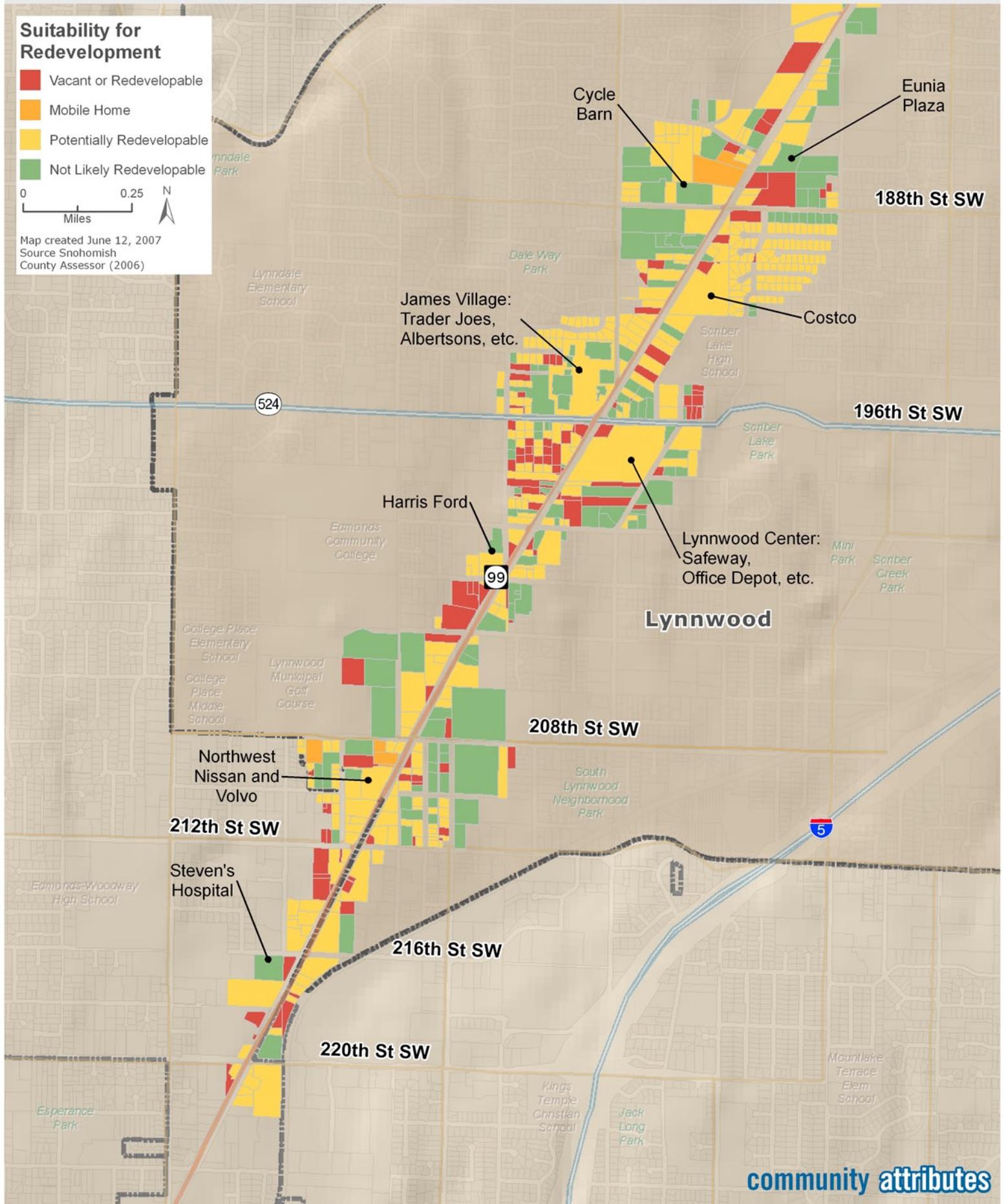
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Suitability for Redevelopment

- Vacant or Redevelopable
- Mobile Home
- Potentially Redevelopable
- Not Likely Redevelopable



Map created June 12, 2007
Source Snohomish
County Assessor (2006)



Highway 99 Traffic

Highway 99 is a major regional north-south vehicular corridor, and in Lynnwood, as in most cities through which Highway 99 passes, the area is dominated by land uses and activities which support automobile and public transit uses. With an average of 34,000 vehicles per day traveling along the Lynnwood segment of Highway 99, this segment of Highway 99 is generally as heavily traveled as any portion of the highway north of Seattle.

The most recent traffic collection data come from 2006, when the City of Lynnwood measured Highway 99 traffic counts for one p.m. peak hour (between 4:30 and 5:30 PM), and found 2,935 vehicles passed through, including both northbound and southbound in all lanes.

The traffic consists of a somewhat heavier concentration of southbound vehicles during the morning peak and a heavier concentration of northbound vehicles during p.m. peak hours. Approximately 60% of the evening peak hour traffic is driving northbound; 40% traveling southbound.

A perhaps lesser known traffic concern for market understanding in this area, is that traffic volumes crossing Highway 99 from the east or from the west are also heavy, averaging an estimated 16,000 vehicles per day in some areas along the highway in Lynnwood. This traffic is even more evenly split, with 55% westbound approaching the highway and 45% eastbound.

Exhibit 4 and **Exhibit 5** below present commute patterns through the Lynnwood Highway 99 corridor (between S 196th and 212th Streets) which depict travelers' origins and destinations during the p.m. peak travel times (from 4:30 p.m. to 6:30 p.m.). The maps are based on traffic modeling data provided by the Puget Sound Regional Council, and are meaningful in that they reveal travel patterns and specific geographic areas that can be considered primary trade areas that support the corridor's economic vitality.

About half of the vehicles using Highway 99 in Lynnwood are coming and going to places within city limits, as shown. About one-quarter are coming from and going to places in Shoreline. Other trip origins and destinations are concentrated in places north, around South Everett and Mukilteo.

As illustrated in **Exhibit 4**, 56% of all trips passing through the Lynnwood Highway 99 corridor originate within the Lynnwood area during the peak p.m. period; 25% originate in the South Edmonds and Shoreline areas, and 7.5% originate in the South Everett area.

Destinations for peak PM travelers passing through the Highway 99 corridor are also largely concentrated within the Lynnwood area (48%), as presented in **Exhibit 5**. The South Edmonds/Shoreline and Mukilteo/South Everett areas capture 16.9% and 15.2% respectively of the destinations to which peak PM drivers are traveling.

Exhibit 4 Origins of Trips Along Hwy 99 Between S 196th Street and 212th Street (Peak PM), 2006

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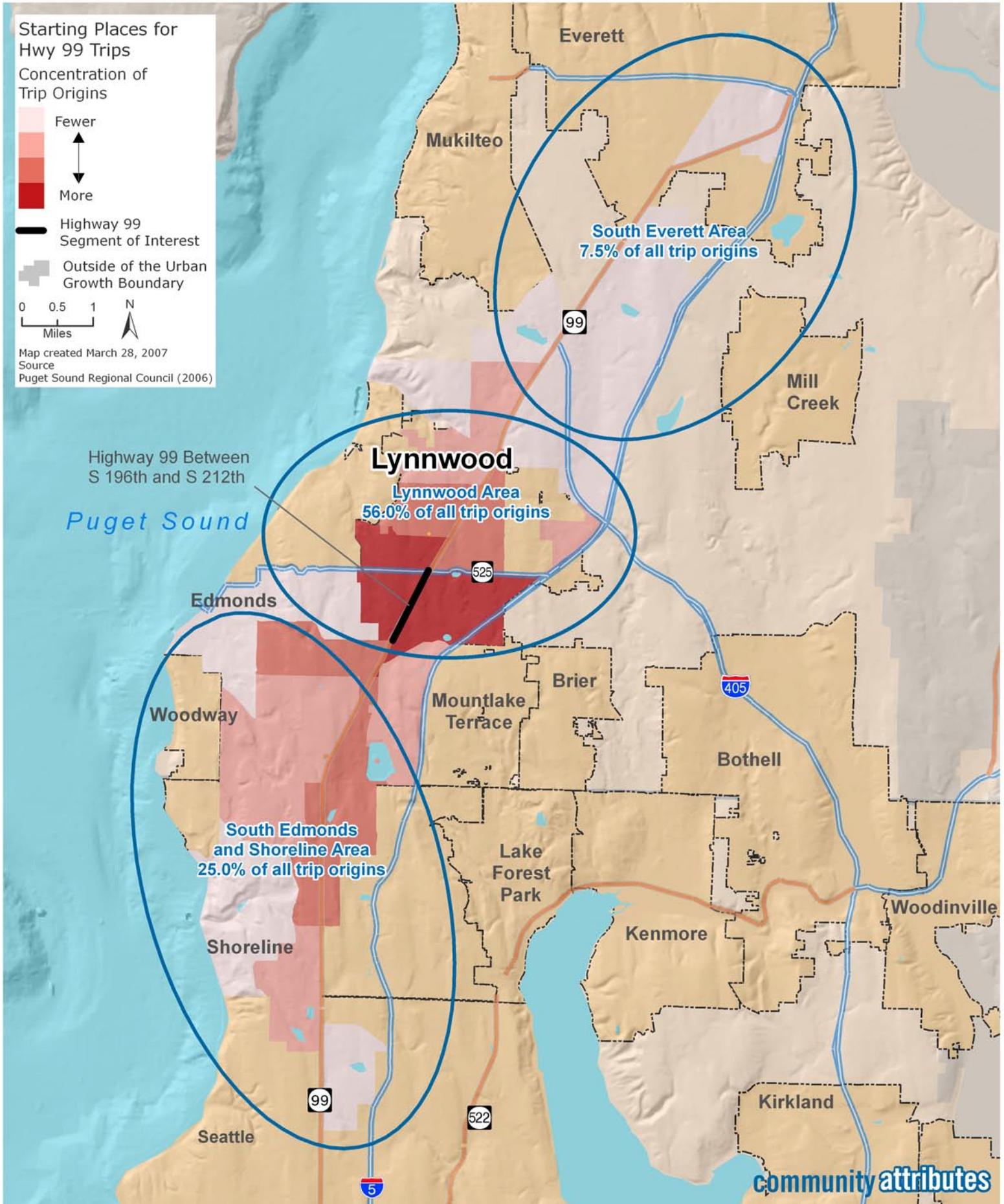
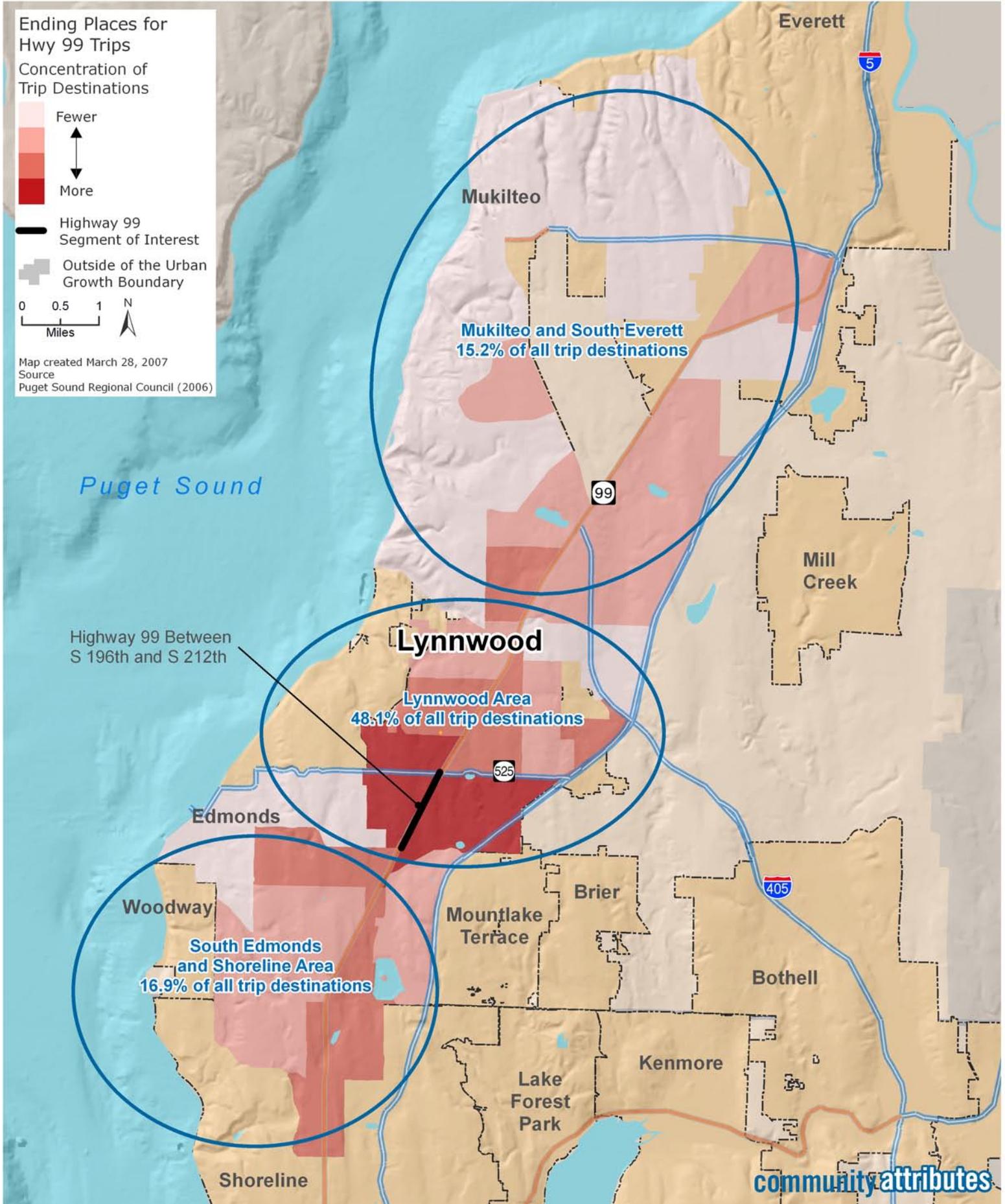


Exhibit 5 Destinations of Trips Along Hwy 99 Between S 196th Street and S 212th Street (Peak PM), 2006

-Draft



Community Transit

Community Transit is currently in the planning stages of a major new bus rapid transit (BRT) initiative for the Highway 99 corridor. Community Transit describes this effort as “bundling high quality, higher capacity transit service and facilities together along a corridor to provide a faster, more reliable and more comfortable riding experience for customers that mimics what riders experience on rail systems.” (*Community Transit TDP 2004-2009, p.82*) The BRT will service an 18.6 mile corridor with approximately 14 to 18 stops.

In January 2007, a Community Transit Technical Advisory Committee presented BRT conceptual station designs for review and comment. Conceptual station designs are linear in design in order to minimize the built footprint, and will accommodate riders sitting on both sides of the structure, providing protection from the weather in all directions. Lighting and way-finding features are also being incorporated into design schemes, although signage, lighting, ticket vending machines and other details are still in flux.

The City anticipates that Community Transit will locate two or three stations along the Highway 99 corridor in Lynnwood. Community Transit will work in concert with the City of Lynnwood to determine the most appropriate and effective station locations.

As this Highway 99 corridor study evaluates the market potential and feasibility for new development and redevelopment in Lynnwood, the potential for future station locations will be incorporated into strategic planning and future implementation strategies, as the location of a BRT station area will be an attractive development amenities and likely play a catalytic role in attracting particular development and land use activities.

Demographics

Population and Households

Population growth in Snohomish County has outpaced that of the three other central Puget Sound counties in recent decades (King, Kitsap and Pierce Counties). The County experienced its single largest decade population gain between 1990 and 2000, with a 30% growth in population, or an average annual growth rate of 2.7%. According to the *Snohomish County 2005 Growth Monitoring Report*, Snohomish County continues to exhibit the fastest rate of population growth among the four central Puget Sound counties since 2000.

Population and household growth in communities in the southern portions of the county are projected to grow more rapidly through 2030, according to County and Puget Sound Regional Council (PSRC) projections released in Fall 2006. Forecast analysis zones, or FAZs, are defined by the Puget Sound Regional Council’s small area forecast model, and incorporate County planning staff input to produce household and job forecasts for the County and the region.

Exhibit 6
Regional Population Growth by FAZ in Snohomish County, 2000 – 2030

	2000	2010	2020	2030	Growth Rates 2000-2030	
					Cum	CAGR.
7205 Lynnwood West	14,149	14,546	15,404	15,404	9%	0.49%
7206 Lynnwood East	16,906	18,123	20,147	22,494	33%	0.96%
7515 Alderwood Mall	3,375	4,455	6,168	7,956	136%	2.90%
8000 Mukilteo area / Southwest Everett	10,846	14,011	15,878	17,310	60%	1.57%
7526 Harbour Pointe	13,931	17,005	19,482	21,079	51%	1.39%
7537 Paine Field	17,831	23,710	27,941	30,659	72%	1.82%
8115 Everett Mall	24,685	29,412	33,586	36,351	47%	1.30%
7026 Edmonds North	9,832	10,468	10,672	11,013	12%	0.38%
7025 Edmonds South	18,840	20,349	22,473	24,531	30%	0.88%
7015 Woodway area / Esperance	15,856	15,854	16,918	18,211	15%	0.46%
Snohomish County	605,986	733,732	862,126	966,926	60%	1.57%
Central Puget Sound Region	3,275,809	3,695,516	4,148,693	4,544,179	39%	1.10%

Source: Puget Sound Regional Council (2006)

- Lynnwood FAZs found along the Highway 99 corridor have much slower population growth rates than countywide. City population growth generally matched or outpaced regional growth from about 1975 through the mid-1990s; around 1997 the rate of growth slowed and is projected to remain at a rate lower than that for the county. This is likely due to the fact that the corridor is largely built out and does not have much additional capacity for residential development under its current zoning.
- The Alderwood Mall FAZ, however, has a forecasted compound annual growth rate that is nearly twice that of Snohomish County; the area's population is expected to almost double itself by 2030.
- Lynnwood East's population is expected to grow nearly twice as fast as Lynnwood West's population. Edmonds Community College is in this area, anchoring this sub-region's growth.

Exhibit 7 Regional Population Forecasts, 2000-2030

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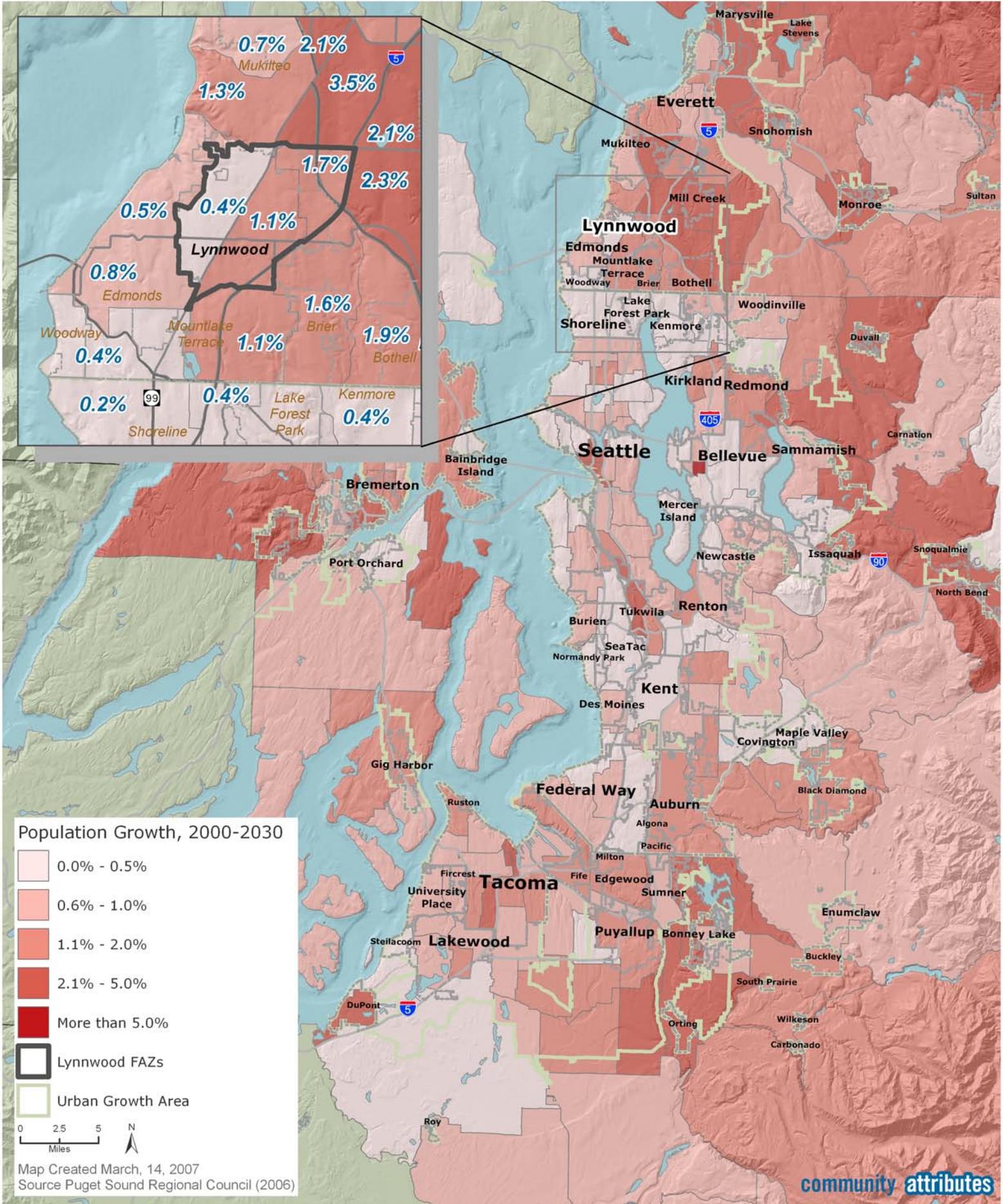
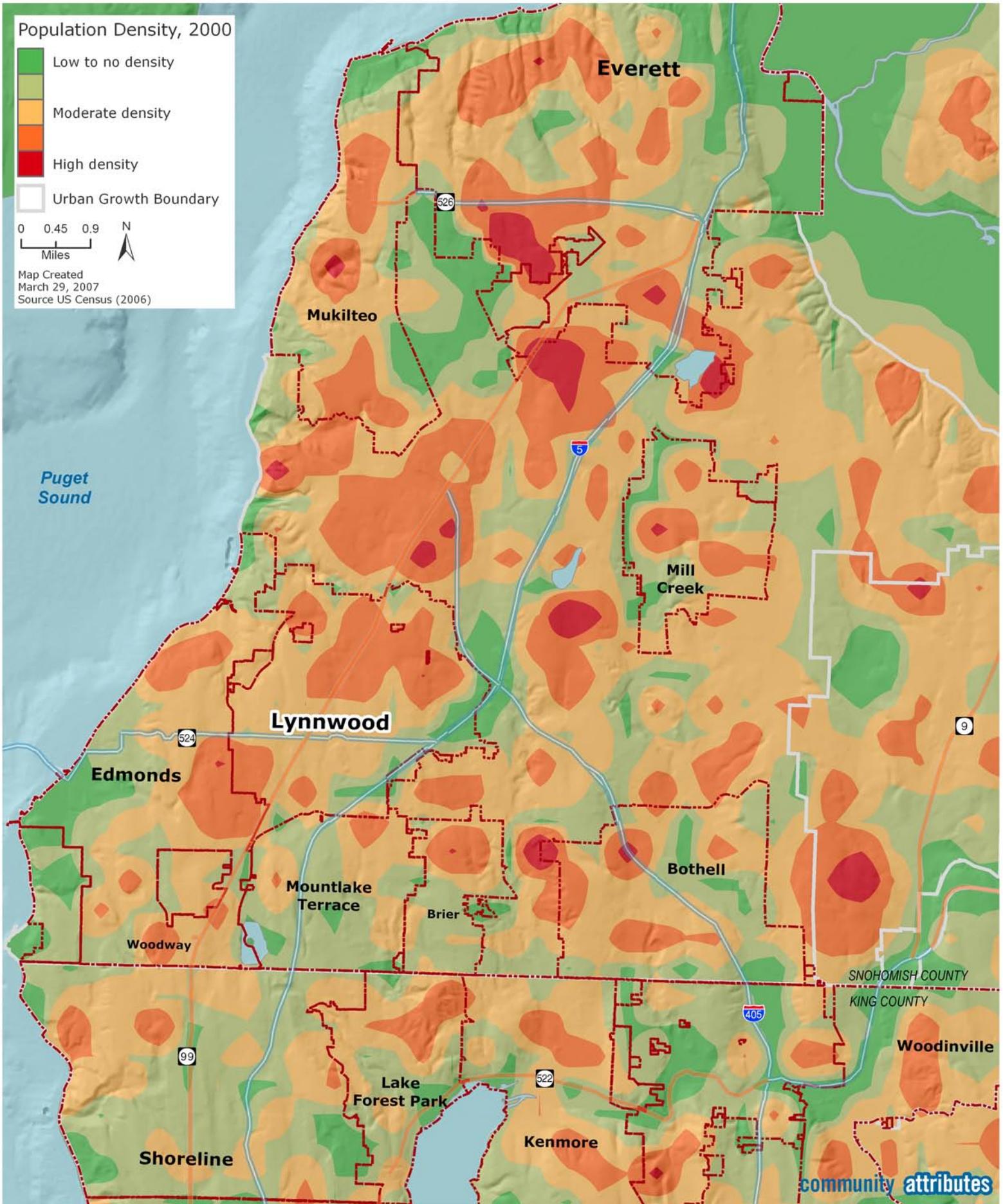


Exhibit 8 Population Density, 2000

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Income, Age and Race

The City of Lynnwood's Economic Profile (2004) presents the following demographic snapshot:

- The median household income reported for Lynnwood in the 2000 U.S. Census was \$42,814. This is nearly 20% lower than the median for King County (\$53,157) and Snohomish County (\$53,060).
- Age composition in the City of Lynnwood is comparable to that of the Puget Sound region; 27% of the local population is 19 years or younger in the City of Lynnwood, which is the same percentage for the central Puget Sound region (Snohomish, King, Kitsap and Pierce counties combined) region, according to the 2000 U.S. Census.
- Foreign-born residents comprise 21% of Lynnwood's population, which is a larger share than the neighboring cities of Edmonds and Bothell, which both have 11% foreign-born residents.
- Lynnwood's foreign-born residents mostly emigrated from Asian countries such as Korea, Vietnam, the Philippines, and China, as well as the Ukraine.

Economic Conditions

Employment

REGIONAL OVERVIEW

The *Snohomish County Tomorrow 2005 Growth Monitoring Report* tells a story of renewed job growth conditions for the county. Between 2004 and 2005, the average annual number of non-agricultural jobs increased by 5% in the county. This follows a five-year period during which the County's employment base was either flat or had a slight net job loss. Since 2000, job gains in the service-providing categories increased by 12.7%, which includes financial activities, professional and business services, wholesale trade, education and health services, and government.

Boeing, located in the City of Everett, is the largest employer in Snohomish County; aerospace is the largest industry cluster. While 13% of the region's total employment is located within Snohomish County, 26% of the region's manufacturing jobs are located within the County.

The outlook for employment growth remains optimistic for Snohomish County over the next ten years, according to *The Puget Sound Economic Forecaster*. While employment growth is projected to grow annually by 1.6% in the four-county region between 2006 and 2016, the average annual employment growth rate for Snohomish County is projected at 2.1%. The Puget Sound region will continue to fare well, according to Conway and Pederson's September 2006 Forecaster Report, due to: "the long-term trend of people moving west; the attractiveness of

the region as a place to live and locate jobs; and the lingering momentum of the current economic recovery.” Snohomish County in particular will benefit from the continued movement of people and businesses out from the center of the region, in search of available and more reasonably priced space.

LOCAL TRENDS

The City’s Economic Profile describes local employment trends as follows:

- Local residents commute to employment locations throughout the region. Key employment destinations include Lynnwood and Downtown Seattle, followed by the University of Washington, Bellevue, Bothell and Mountlake Terrace.
- The City of Lynnwood shares the same jobs to housing ratio as that for the central Puget Sound region, with 1.6 jobs for every housing unit. All other cities in southwest Snohomish County have jobs-to-housing ratios of 0.8 or less, indicating Lynnwood’s role as an economic activity center.
- As a place of employment, Lynnwood draws commuters from throughout the region, although most heavily from a five to six mile radius to the north around Everett.
- More than one-third of jobs in Lynnwood are in the retail sector (38%) and are concentrated around the Alderwood Mall. This percentage of retail jobs far exceeds that for neighboring and comparable cities. Lynnwood also has a relatively greater concentration of jobs in the Finance, Insurance and Real Estate (FIRE) sector at 9%, compared with 7% for Snohomish County and 5% for King County. Lynnwood has more jobs in this sector than any other city located between Seattle and Everett.

MARKET ASSESSMENT

Retail

Regional Overview

Retail demand for the Puget Sound region was strong in the first half of 2006 and is indicative of a positive outlook for the next several years, according to research reports from the region's commercial and retail realty companies. **Exhibit 10** presents retail market statistics for 2006 to date for the region's retail sub-markets. Market data specific to the Highway 99 corridor can be found in the next section of this report.

Exhibit 10
Puget Sound Overall Retail Market Statistics, First Half 2006

Market	Gross Leasable Area (SF)	Vacancy Rate	Total Absorption (SF)	Under Construction (SF)	Direct Asking Rate NNN/SF/YR
Downtown Seattle	1,382,317	3.23%	2,244	168,000	\$38.33
Southend	10,343,485	1.87%	95,132	316,222	\$21.79
Eastside/Bellevue	11,042,749	3.63%	25,993	84,250	\$25.19
Northgate/North Seattle	3,265,712	1.99%	25,026		\$23.44
Lynnwood/Mountlake Terrace	2,601,683	4.93%	(33,602)		\$21.24
Everett/N. Snohomish Co.	3,992,120	2.10%	(9,769)		\$18.39
Northend/Everett	9,859,515	2.81%	(18,345)	476,000	\$20.37
Pierce Co./Tacoma	7,874,720	2.57%	3,965	550,000	\$16.99
Regional Totals	40,502,786	2.76%	108,989	1,594,472	\$22.23

Source: CB Richard Ellis, 2006

Key regional themes and trends from **Exhibit 10** include:

- Vacancy rates for retail are tight throughout the region, and this has led to increases in rental rates, which have increased over \$1.00 to \$22.23 per square foot, triple net since the end of 2005.
- Lynnwood/Mountlake Terrace rents are lower than the regional average, at \$21.24 per square foot in 2006. This is not surprising given the strong retail markets of Downtown Seattle and Bellevue. Retail rents drop below the Lynnwood/Mountlake Terrace average as you move further north towards Everett in Snohomish County.
- The Lynnwood/Mountlake Terrace total retail vacancy rate of 4.93% is indicative of strong market conditions, although higher than the regional total of 2.76%.

Additional trends that affect retail markets regionally and in Lynnwood include:

- Construction for new and expanded mixed-use and life style centers, particularly in suburban markets such as Lynnwood (Alderwood Mall),

Renton, Kent, and Federal Way continues to gain momentum in the Puget Sound region. Expansions continue at Alderwood Mall, Bellevue Square, Northgate Mall in Seattle and Westfield Shopping Center (formerly Southcenter Mall) in Tukwila. The largest of the new projects under construction is The Landing, a 46-acre project on the south end of Lake Washington in Renton. The former Boeing property is currently being redeveloped as a new urban center to include parks, multifamily housing, restaurants, shops and a cinema.

- Other smaller suburban communities seek the creation or revitalization of town centers, which calls for denser, pedestrian-oriented development, typically with residential units stacked over street-level retail space.
- Retail tenants who are new to the Puget Sound seek to establish a regional presence through location specific development. For example, Kohl's department store's strategic placement in Lynnwood, Redmond, Covington, Marysville and Southcenter.

Highway 99 Retail Conditions

The retail and service-oriented businesses located along the Highway 99 corridor in Lynnwood range from high-end auto dealerships, big box centers, ethnic markets and individually owned mom-and-pop establishments. In total, built area for retail use occupies 2.4 million s.f. of the total built inventory of 22.9 million s.f. found along the corridor. The average retail establishment along the corridor takes up only 15% of its parcel land area with built space.

Retail development patterns in the corridor can be broken into two groups. General Retail, Grocery Stores, and Lumber, Paint and Hardware Stores tend to build out more of their parcels at 20-23% of land area. Car Dealerships, Gas Stations, Other Food Retail (not large grocery stores), Eating and Drinking establishments, and the single Department store in the vicinity all build out much less of their parcel land area at 4%-11% of total land. The bulk of the retail land area (77%) is comprised of, in descending order, General Retail, Other Food Retail and Car Dealerships.

TRADE AREA

Defining the retail trade area(s) for the Highway 99 corridor is dependent upon the retail niche or category located on the corridor: auto dealers and auto-related businesses; Asian markets and ethnic specialty retail; sub-regional and community shopping centers; and smaller convenience-oriented retail. For eating and drinking franchises, the trade area can be a very tight radius (3 or 5 miles) and depends heavily on daytime population. Auto dealerships typically draw from a broader regional market that would include a trade area encompassing a wider swath of Western Washington. Customers come to dealerships on the corridor for reasons such as price points and customer service more than the convenience or location. Ethnic markets, community shopping centers and convenience-

oriented retail primarily serve local Lynnwood residents and employees as well as South Edmonds, Shoreline, Mukilteo and South Everett, which are identified in **Exhibit 4** and **Exhibit 5** as high concentration points of origin and destination for travelers along the Highway 99 corridor.

MARKET CONDITIONS

Interviews with retail professionals working with property owners and businesses along Highway 99 in Lynnwood, as well as real estate investors offer the following insights into current retail market conditions:

- **Highway 99 Corridor is a naturally thriving and appealing business and retail market area.** Its north-south orientation makes the corridor a naturally strong thoroughfare for businesses and residents; Highway 99 serves “an instant advertising function” for the businesses located alongside it.

Other key strengths of the Highway 99 corridor include: an established core of national and regional retailers, population density surrounding all sides of the highway, good freeway access with multiple access points from the corridor highway. Proximity to Alderwood Mall is also a stated advantage for the corridor because its regional draw brings people through Lynnwood; some retailers with a store in the mall also choose to locate a second store on the corridor itself (Sprint/Nextel store is an example).

- **Escalating rents and low vacancy rates.** Most agree that land prices have gone up substantially, and that rents are escalating throughout the corridor. Vacancies on all product types are low and retail is generally strong, however, mixed-use retail has not been particularly successful yet (north of Lynnwood is mentioned as a success). Lynnwood land values are said to range from \$25-35 per square foot, triple net for Class A space.

Lynnwood Center and James Village are particularly strong locations at the 196th St. intersection. Centers anchored by grocery stores are best positioned to attract higher rents and more demand, as evidenced by the aging center on 196th west of the highway which retains an Albertsons, and is commanding rents of \$25 per square foot. Interviewees expect that the rents that have been increasing steadily in recent years will continue the trend.

- **Market conditions are on the upswing.** Brokers are noticing greater investor interest in buying up vacant and underutilized parcels on the corridor for new development, including mixed use projects with multifamily housing.
- **Limited quantity of ideal corridor properties.** The corridor presents some challenges for brokers as some regional and national

retailers are only interested in locating in specific ‘pockets’ along the corridor. For example, the Lynnwood Center is perceived as a desirable retail location, at a key access and focal point on the corridor, with high traffic counts. Retailers that value high traffic counts and easy in/out automobile access do not want to be located amongst the larger car dealerships. Other retailers do want to locate adjacent to aging developments or underutilized parcels.

- **Development opportunities.** Interviewees mention a broad range of development opportunities for the corridor which include:
 - Additional ethnic centers to cater to the population demographic in area.
 - Replication of the kinds of developments that are occurring on the west side of 170th, as well at the intersections of 164th and 188th.
 - Paine Field towards the International Airport and at its South end by 128th is viewed as a future development opportunity site.
 - A next wave of growth is speculated to occur north of 164th to Mukilteo Speedway which is currently underdeveloped and boasts low land prices of \$18-\$20/SF.
 - Another corridor speculation is that as Everett becomes more affluent in the future, then there will be more property ownership than leasing along the corridor.
 - One broker anticipates a mixed- use environment occurring within the next 10 years, while another mentions that limited access for automobiles along the corridor will lead to substantial growth along the east and west arterials of Highway 99’s major intersections.
- **Property redevelopment trends.** Some property owners on the corridor are recognizing the value of their locations and are seeking to make improvements.
- **Development support.** The most frequently cited ways that corridor development could be supported are through creating a fast track approach to permitting for developers, as well as opening up commercial zoning to extend further back from the Highway 99 (1,000 ft.), which would help it compete with I-5. One respondent mentioned that a study comparing the overall revenue generated on Highway 99 to the retail areas associated with I-5 would be useful.

Another respondent believed that the City needs to update its regulations from its current zoning code which supports 1950’s style

auto-oriented development with big set backs, low density, and heavy parking requirements. He also mentions that the City needs regulation that supports the combination of housing and commercial in development (Shoreline serves as an example). In addition, the City of Lynnwood's divided City Council and Fire Marshal must resolve their issues to give owners and developers the comfort needed to move forward with redevelopment.

- **Highway 99 corridor competition.** Areas mentioned include: Shoreline (its big box center in particular), Edmonds, Bothell, Mill Creek and I-5 retail intersections. Tukwila may also be a competitive market, due to Alderwood's competition with South Center. The corridor is believed to compete with major retail intersections of I-5, but is viewed as superior to it for auto-oriented retail due to its ease of access.
- **Transit improvements.** Respondents had mixed responses to the idea of transit improvements with several seeing its development as a critical component to the area's value, while others believing that auto dependencies make the improvements unlikely to work. Some are unsure if light rail would be a good or bad addition, while others do not see it ever expanding to the Lynnwood area. One respondent mentions that transit operations will promote travel by people who do not support the bulk of the commerce that is happening with auto owners. On the other hand, one respondent believes that transit will help drive mixed-use development over time, and another mentions that density or more massing is a positive trend for the area.
- **Demographic changes.** Brokers comments that there is quite a bit of fluctuation in demographics along the corridor, and these variations in household incomes, race, and housing tenure influence the locations for different retail uses.

KEY CORRIDOR RETAILERS

Auto dealerships. Dealerships along the corridor take up 44 separate parcels of land and 2.5 million s.f. of land area. From a development perspective, they build on only 10% of the land in use and the bulk are found within Segment 4 (200th to 208th). (From a broader City economic perspective, of course, vehicle sales provide coveted sales tax revenues to the City.)

Asian retail. There are many service-oriented retail shops throughout the corridor ranging in size from the large international Pal Do market (that likely draws customers from a wide geographic radius) to the smaller individual retail stores and services that cater primarily to an Asian demographic.

Local Serving/Convenience Retail. These include both national and regional tenants as well as local mom and pop stores.

Other Lynnwood Retail

ALDERWOOD MALL

The 1.5 million square foot regional shopping mall includes four anchor department store tenants, more than 200 shops and boutiques within its perimeters, a village-like setup, and entertainment and restaurants throughout (including a 16-screen Cineplex). This shopping area is a major regional draw for the City of Lynnwood.

CITY CENTER

City Center retailers include a broad mix of auto-oriented strip centers and pad development. City plans for City Center, described in the following section, include improved urban design that retailers will embrace along with increased daytime population that office absorption would bring, as well as more households in the City Center's planned multifamily housing.

Other Lynnwood Projects

LYNNWOOD HIGH SCHOOL PROJECT

A new two-story Lynnwood High School building is being built on a 40-acre site with many features beyond the building itself that will serve the Lynnwood community and its students. These include: two lighted, artificial-turf, multi-use soccer and softball fields; a lighted, artificial turf football field with running track; a lighted baseball field and tennis courts; a field-house with concessions; forested creek and wetland areas; a greenhouse and an accessible path around the site to provide educational opportunities about environmental stewardship.

CITY CENTER SUBAREA PLAN

The City of Lynnwood plans to create a vibrant City Center within the next 20 years with a diverse range of projects underway to accomplish these goals. Plans include master plans for city parks, city streets, and the convention center; I-5/196th pedestrian improvements.

Several ordinances have already been adopted, including the City Center Sub Area Plan and the City Center Design Guidelines for development. The Plan and Guidelines lay out the overall intentions of upgrading the city's transportation network and creating a more pedestrian-friendly environment with designed streetscapes, improved pedestrian connectors, and additional public open spaces for active use. The plan attempts to create an environment with a commercial core of retail and business activity mixed with housing, strong cultural attractions and great public spaces and parks. Additional components include enhanced connectivity for pedestrians and vehicular traffic through improved street patterns and other design elements, such as enhanced street level uses and prominent "community gateways" marking key intersections.

Office

Regional Overview

According to Colliers International, a major real estate company that surveys regional office trends, office vacancies run high in the Puget Sound “Northend” office market, in which Lynnwood and these portions of Highway 99 office participate. In the fourth quarter of 2006, Northend office vacancies were 17.1%, up from 16.5% in the previous quarter. This amounts to 670,000 s.f. of office space vacant in the Northend.

Elsewhere in the region office vacancies are much lower, especially in the major office markets of Downtown Seattle and King County’s Eastside, with Bellevue, Redmond, Kirkland and Bothell. Downtown Seattle’s vacancies were at 8.5% at the end of ’06, down from 9.2% at the end of 2006 Q3. Office supply is even tighter in the Eastside market, with vacancies steady at 7.25% throughout the latter half of 2006.

Rents in the Northend average \$24 per s.f. for Class A space, and \$21 per s.f. for Class B space, of which there is an equivalent amount in total (1.9 million s.f. surveyed for Class A; 1.8 million s.f. for Class B). Seattle and Eastside rents average between \$22 and \$28 per s.f.

Exhibit 11 Puget Sound Overall Office Market Statistics, 4Q 2006

Market	Net Rentable Area (SF)	Total Vacancy Rate	Total Absorption (SF)	Under Construction (SF)	Direct Asking Rate Class 'A' Gross, SF/Yr
Downtown Seattle	38,033,308	10.51%	787,645	625,200	\$28.59
North Seattle	1,559,599	10.23%	(57,277)	100,000	\$23.95
Southend	11,016,674	19.75%	106,784	-	\$21.40
Eastside	26,093,563	9.34%	101,133	2,742,439	\$25.77
Lynn/Edm/Mtlk Terr	2,210,836	24.59%	(2,939)	87,385	-
Everett	1,397,112	9.99%	55,115	-	-
Snohomish County	3,607,948	18.94%	52,176	87,385	\$24.86
Tacoma/Fife	3,822,599	7.82%	40,236	-	\$20.82
Regional Totals	84,133,691	11.59%	1,030,697	3,555,024	\$25.68

Source: CB Richard Ellis, 2007

Key regional themes and trends for the office market include:

- Downtown Seattle led the office market in absorption (787,645 square feet absorbed in the fourth quarter of 2006), while the Eastside has become the center of new construction activity, with 2.74 million square feet of new office space under construction.

- Average lease rates in the region are at a four year high, increasing \$0.95 from the previous quarter to \$25.68 per square foot, full service, per year. The Downtown Seattle market experienced the greatest quarterly and yearly gains in lease rates, with Southend market close behind with a \$1.30 per square foot increase over the past quarter.
- Vacancy rates on the Eastside are among some of the lowest in the region at 9.34%, as compared to 11.59% for the region as a whole. The Lynnwood/Edmonds/Mountlake Terrace market posted the highest office vacancy rates at 24.59%.

Additional trends that affect office markets regionally and within Lynnwood are as follows:

- Employment growth in the region continues to outpace the national trends, which will drive increased demand for office space. Boeing has been a bright spot in the region, increasing employment along with recent gains in market share for commercial airplanes.
- Office construction activity is expected to increase in the near future, as rising rents and declining vacancy rates signal developers to move ahead with construction plans.
- Most office market growth has been concentrated in the major employment centers of Seattle and Bellevue. For smaller cities such as Lynnwood, office development typically includes a mix of owner-occupied, smaller office buildings, or low-rise developments, frequently home to medical-dental practices and a mix of professional services.

Highway 99 Office Conditions

The nearest significant concentration of office space along Highway 99 is found immediately south of Lynnwood, between SW 220th Street and SW 216th Street. Land along this segment is within Edmonds City Limits to the west, Lynnwood to the East, as well as a small portion in Mountlake Terrace to the east. Most of the office supply on the west of this segment is devoted to medical office, clustered around Stevens Hospital.

Most of the office space to the east is set back a quarter-mile or so from the highway, and located in the City of Mountlake Terrace. Office in this area is dominated and anchored by Premera Blue Cross. The remainder of the office space in this area houses a mix of office and light-industrial tenants.

Prices are generally lower in the Northend, though vacancies remain high. This appears to limit the potential for major concentrations of office space along Highway 99 in Lynnwood, but the data alone should not rule out consideration of relatively smaller office buildings that might take advantage of local niche

markets and key sites. This potential will be explored further in subsequent phases of the study.

Housing

MULTIFAMILY HOUSING

Lynnwood has a higher percentage of multifamily housing than what is found both in the Snohomish County and the Central Puget Sound Region geographical areas. Single-family housing units almost equal in number the amount of multifamily units (**Exhibit 12**). Whereas single-family housing units in other geographic areas are almost double in quantity the multi-family units available. The percentage of mobile homes in Lynnwood is comparable to what is found in the Puget Sound region, however, Snohomish County as a whole has a slightly greater percentage of this type of housing stock.

**Exhibit 12
Lynnwood Housing Units**

	Housing units, single family	Housing units, % single family	Housing units, multifamily	Housing units, % multifamily	Housing units, mobile home	Housing units, % mobile home	Housing units, other	Housing units, % other	Housing units, total
Lynnwood	7,188	48.12%	7,100	47.53%	641	4.29%	9	0.06%	14,938
Edmonds	12,688	63.28%	7,238	36.10%	115	0.57%	8	0.04%	20,049
Mukilteo	4,896	59.19%	3,345	40.44%	30	0.36%	0	0.00%	8,271
South Everet	6,339	27.09%	15,062	64.36%	1,928	8.24%	72	0.31%	23,401
Snohomish C Region	163,050	62.13%	80,281	30.59%	17,890	6.82%	1,193	0.45%	262,414
	872,712	59.68%	515,214	35.23%	70,352	4.81%	4,060	0.28%	1,462,338

Source: Puget Sound Regional Council, 2005

SINGLE FAMILY

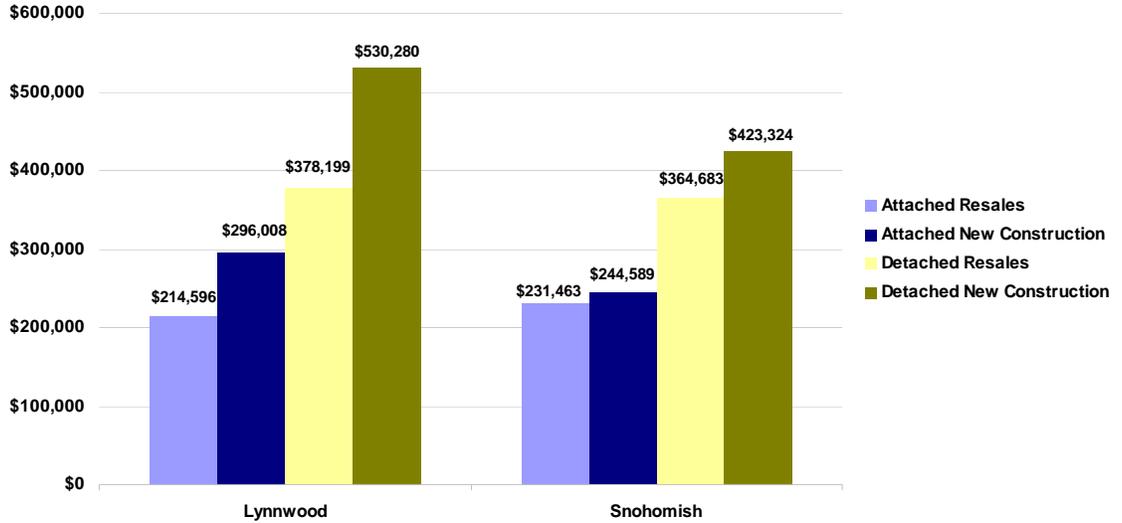
Lynnwood accounts for 9% of Snohomish County's single-family home sales, and 3% of its detached home new construction sales as stated below in **Exhibit 13**. The average sales prices of these detached homes, however, are higher than the average for Snohomish County. For example (**Exhibit 14**) detached home new construction sales during the past year averaged \$423,000 for Snohomish County while they average \$530,000 for the City of Lynnwood.

**Exhibit 13
Lynnwood and Snohomish County Single Family and Condominium Sales,
Q4 2005 – Q3 2006**

	Lynnwood		Snohomish
	Units	% of County	Units
Attached resales	541	22%	2,513
Attached new construction	209	12%	1,786
Detached resales	1,185	9%	13,404
Detached new construction	100	3%	3,170
	2,035	45%	20,873

Source: Central Puget Sound Real Estate Research Committee (2006)

Exhibit 14
Average Sales Prices, Attached and Detached Single Family Homes and
Condominiums
Q4 2005 - Q3 2006

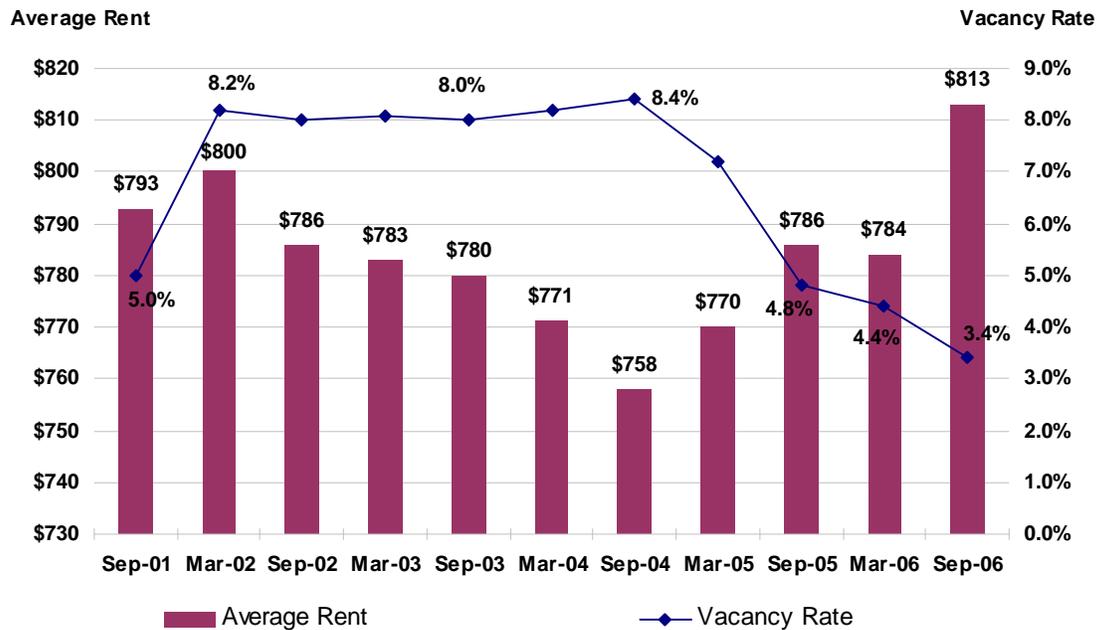


Source: Central Puget Sound Real Estate Research Committee (2006)

MULTIFAMILY

As displayed above in **Exhibits 13 and Exhibit 14**, attached new construction sales in Lynnwood account for 9% of the category for the County of Snohomish, and attached home re-sales account for 20% of the county’s sales. The average sales prices in Lynnwood are slightly higher than Snohomish for attached new construction sales (\$296,008 vs. \$244,589). For attached re-sales, however, they are slightly lower in amount (\$214,596 vs. \$231,463), suggesting that the quality of the multifamily re-sales is slightly lower than what is on the market in Snohomish County in general.

**Exhibit 15
Lynnwood Multifamily Rental Market Data.
2000-2006**



Source: Dupre & Scott Apartment Advisors (2006)

As displayed above in **Exhibit 15**, the rental markets in Lynnwood are fairly strong with a steady decrease in vacancy rates since September of 2004, and a recent sharp increase in the average rental price as of September 2006.

Highway 99 Conditions

SINGLE FAMILY

Single-family detached housing units along the corridor occupy most of the residential parcels in the vicinity at (see **Exhibit 2**) but significantly less land area than other types of housing. (Many individual land owners hold single-family housing land, compared to other uses that occupy more land that is held by fewer owners.)

MULTI FAMILY

Multifamily attached housing uses the next largest amount of parcels along the corridor, but takes up a much larger land area than the single family homes do due to the size of the parcels.

MOBILE HOMES

The corridor has a large amount of land devoted to mobile home parks (5,600 acres in total). Each parcel is highly re-developable for the relatively few renovation needs for practically vacant lands, and for what would potentially be easy acquisition costs for large tracts of land of single ownership.

Lodging

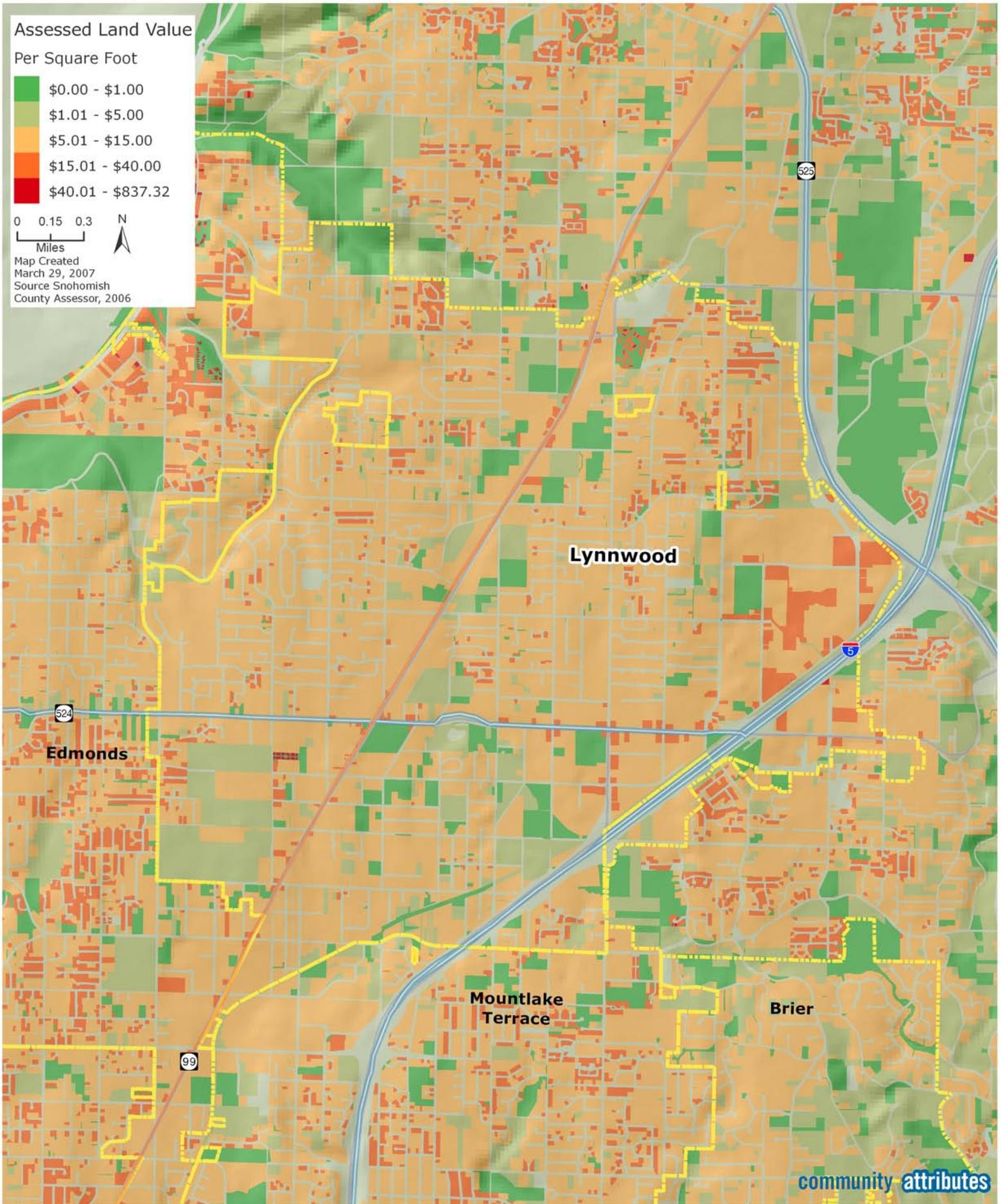
Four motels and one hotel are found along Highway 99 in Lynnwood, including: Lynnwood Motor Inn, Rodeo Inn, Lake Hill Motel, Court of Monte Cristo Motel and the Hotel International. Most listed along the corridor have the capacity of between 50-100 rooms. The status of Court of Monte Cristo Motel is unknown, but it did have a for sale sign during the site survey visit. Ten other hotels and motels with the total capacity of over 1,000 rooms are found off of Highway 99 in the direct vicinity of the Alderwood Mall area. These hotels are primarily representative of hotel chains such as Comfort Inn, La Quinta and Embassy Suites.

Land Values

Land along Highway 99 in Lynnwood has historically been valued lower than residential areas in the vicinity, as shown by County assessed values for land in **Exhibit 14**.

Exhibit 16 Assessed Land Value Per Square Foot, 2006

-Draft



DEVELOPMENT FEASIBILITY ANALYSES

This section presents three case studies of developments representative of concepts discussed at the initial stakeholder meeting. Analysis is based on pro forma income statements (see **Attachment A**) developed for each development, programmed as follows:

#1 Mixed-Use Residential and Retail Development

- A transit-oriented development that clearly establishes the “third place” qualities for community interaction, including open space, transit and non-motorized access and mix of retail and services.
- Size: 4-over-1 construction, 200 housing units, plus 33,000 s.f. of retail and services space in the ground floor.
- Parking: Structured with some ground-level parking.

#2 Community Retail Center

- A retail center anchored by upper-scale grocery that delivers an enjoyable shopping experience. Examples of anchors within the Puget Sound region might include Whole Foods, PCC, MetropolitanMarket or Town & Country Markets (includes Central Market in Mill Creek).
- The retail center is single-level with surface parking, allowing for transit-connectivity and a strong sense of place achieved through public plazas and a broad mix of retailers and services.
- This center would provide for local grocery needs, anchoring a development designed to provide greater place-making than currently found along Highway 99 in Lynnwood. The concept is not intended to compete with Alderwood Mall for regional destination retail.
- Size: 150,000 s.f. of leasable space
- Parking: Surface

#3 Small-Business Center

- A business park that focuses on the needs of small businesses. Provides small spaces that can accommodate the needs of a mix of uses, such as tech companies, small assembly (“urban industrial”), some storage and flexible office configurations.
- “Urban industrial” is a term we have used elsewhere to describe light manufacturing or assembly operations that value an urban location for

access to customers and distribution networks. In some cases, these spaces would include a small showroom or storefront, allowing businesses to “make it in back and sell it out front”.

- Size: 60,000 s.f. (at 300 s.f. per job, this would accommodate 200 jobs, plus or minus a few, depending on the mix of tenants’ space needs and vacancies).
- Parking: Surface

Mixed-Use Residential and Retail Development

Mixed-use development modeled for the Lynnwood Highway 99 corridor includes housing above one floor of commercial space (a configuration of mixed-use development common throughout the region), including structured parking in the form of above-ground parking adjacent to the housing and retail space (less commonly found in this region). **Exhibit A-1a** shows how development costs (**Exhibit A-1c**) and market data (**Exhibit A-1d**) come together for feasibility analysis for owner-occupied condominiums in the housing units. The analysis suggests that such a development would be attractive for owner-occupied housing units but rental rates would challenge the development’s ability to cover the structured parking costs.

Exhibit 15 below presents a summary of market conditions and City actions related to successful development of this product.

Exhibit 15
Market Conditions Targeted for Development Success
of Mixed-Use Housing over Retail

	Current Market	Target Values	Actions Considered
Residential condominium sales	\$ 341 per s.f. or \$300,000 for an 880 s.f. unit	\$315 per s.f. or \$275,000 for an 880 s.f. unit	Keep construction costs low and regulations minimal to avoid driving up prices.
Residential rental rates	\$1.00 per s.f. or \$8,00 per mo. for an 880 s.f. unit	\$2.00 or more per s.f. per unit, or \$1,760 or more for an 880 s.f. unit	Strong transit connections (reducing transportation costs), excellent place-making and reduction of parking costs (eliminate parking costs for developer).
Retail rents	\$25 per s.f.	\$25. per s.f.	Retail success in mixed-use depends on drawing customers from beyond adjacent retail; requires access and visibility to all customers.

Parking

Surface parking more viable, especially for rental and more affordably priced housing units.

Community Retail Center

The Community Retail Center along modeled for the Lynnwood Highway 99 corridor includes single-story retail, an upscale grocer (generously sized for some at 50,000 s.f., such as Trader Joe's or PCC; modestly sized for others, such as Metropolitan Market or Central Market) and surface parking designed for access and retail visibility. **Exhibit A-2a** shows how development costs (**Exhibit A-2b**) and market data (**Exhibit A-2c**) come together for feasibility analysis. The analysis suggests that such a development would require rents above those found today along Highway 99 for retail, which could be supported with a strong design, connectivity and gathering place.

Exhibit 16 below presents a summary of market conditions and City actions related to successful development of this product.

Exhibit 16 Market Conditions Targeted for Development Success of Commercial Retail Center

	Current Market	Target Values	Actions Considered
Retail rents	\$25 per s.f.	\$35. per s.f.	Retail success in mixed-use depends on drawing customers from beyond adjacent retail; requires access and visibility to all customers.
Public Plaza	n/a		City could provide public plaza and transit connections through interior of commercial center
Parking			Surface parking required.

Small-Business Center

The Small-Business Center modeled for the Lynnwood Highway 99 corridor includes inexpensively built, flex-tech space, suitable for a broad range of small and start-up businesses. **Exhibit A-3a** shows how development costs (**Exhibit A-3b**) and market data (**Exhibit A-3c**) come together for feasibility analysis. The analysis suggests that such a development is close to being currently feasible, based on commercial rents found throughout Lynnwood at present.

Exhibit 17 below presents a summary of market conditions and City actions related to successful development of this product.

Exhibit 17
Market Conditions Targeted for Development Success
of Small Business Center

	Current Market	Target Values	Actions Considered
Commercial rents	\$25 per s.f.	\$27 to \$28 per s.f.	Success depends on low-maintenance, flexible space to accommodate the changing needs associated with serving small businesses.
Parking			Surface parking required.

ATTACHMENT A

Lynnwood Highway 99 Study

A1a. Site Suitability Analysis for Mixed-Use Development: Condos

Site Cost or Value			\$6,300,000
Improvement Costs			
Site Improvement Costs		\$1,080,000	
Hard Costs			
Residential	22,000,000		
Retail	3,630,000		
Public Plaza	1,120,000		
Structured Parking	3,300,000		
Total Hard Costs		30,050,000	
Soft Development Costs		9,339,000	
			40,469,000
Entrepreneurial Return			7,015,350
= Total Property Cost (Commercial Operations)			\$53,784,350
		<u>Improvement & Land Costs</u>	
Total Improvement Costs		\$47,484,350	
Residential Cost (total and per s.f.)		34,763,917	\$158 per s.f.
Residential Cost per Unit			\$173,820 per unit
Retail Cost (total and per s.f.)		5,736,046	\$174 per s.f.
Public Plaza		1,769,799	\$111 per s.f.
Structured Parking Cost (total and per s.f.)		5,214,588	\$40 per s.f.
Structured Parking Cost per space			\$15,644 per space
<hr/>			
For Retail			
Minimum Market Value must equal Property Cost (w/ all costs allocated)			\$8,623,220
x Capitalization Rate			7.000%
= Minimum NOI			\$603,625
<hr/>			
Gross Residential Sales Revenue		55,440,000	
Less: Fees, Promotion, Conveyance	2.65%	(1,469,160)	
Net Residential Revenue			53,970,840
Residential Total Costs		\$45,161,130	
Entrepreneurial Return Requirement		5,890,582	
Net Operating Profit			2,919,127
NOI/Unit	14,596		
Gross Operating Profit from Residential			
Gross Revenue from Retail		\$825,000	
(1-Operating Expense Ratio)		70.0%	
Gross Operating Profit from Retail			\$577,500
Total Gross Operating Profit (Retail)			577,500
Cap Rate			1.074%
Gap			\$26,125
Capitalized Gap			\$373,220
Can market support that rental rate?			NO, NOI does not exceed required NOI at market rates

Lynnwood Highway 99 Study

A1b: Site Suitability Analysis for Mixed-Use Development: Rental Units

Site Cost or Value		\$6,300,000
Improvement Costs		
Site Improvement Costs	\$1,080,000	
Hard Costs		
Residential	22,000,000	
Retail	3,630,000	
Public Plaza	1,120,000	
Structured Parking	3,300,000	
Total Hard Costs	30,050,000	
Soft Development Costs	9,339,000	
		40,469,000
Entrepreneurial Return		7,015,350
= Total Property Cost (Commercial Operations)		\$53,784,350
<u>Improvement & Land</u>		
Total Improvement Cost	\$47,484,350	
Residential Cost (total and per s.f.)	34,763,917	\$158 per s.f.
Residential Cost per Unit		\$173,820 per unit
Retail Cost (total and per s.f.)	5,736,046	\$174 per s.f.
Public Plaza	1,769,799	\$111 per s.f.
Structured Parking Cost (total and per s.f.)	5,214,588	\$40 per s.f.
Structured Parking Cost per space		\$15,644 per space
Minimum Market Value must equal Property Cost		\$53,784,350
x Capitalization Rate		7.000%
= Minimum NOI		\$3,764,905
Gross Revenue from Residential	\$4,267,200	
Parking Revenue	\$306,000	
(1-Operating Expense Ratio)	65.0%	
Gross Operating Profit from Residential		\$2,972,580
Gross Revenue from Retail	\$825,000	
(1-Operating Expense Ratio)	70.0%	
Gross Operating Profit from Retail		\$577,500
Total Gross Operating Profit		\$3,550,080
Cap Rate		6.6%
Gap		\$214,825
Capitalized Gap		\$3,068,921
Can market support that rental rate?	NO, NOI does not exceed required NOI at market rates	

Lynnwood Highway 99 Study

A1c. Mixed-Use Development Specifications

Site size in acres or s.f.	<u>Owner</u>	King Co. Assessors
Total project area		180,000
Public Right-of-Way Exclusion		
Net area for development		180,000 square feet
Market land values		\$35.00 per square foot
Site value		\$6,300,000
Site Conditions		
Building footprint		55,000
Surface parking		
Parking structure footprint		55,000
Setbacks and r-o-w	30%	54,000
Public space		16,000
Total development footprint		180,000
FAR		1.4
Residential		
Stories		4
Per Story (sf)		55,000
Total Gross		220,000
Efficiency	80%	
Total Net		176,000
Unit Size		880
Units		200
Retail		
Percent of Ground Floor	60%	
Total Gross Area		33,000
Efficiency	100%	
Total Net		33,000
Public Plaza		
		16,000
Parking		
<u>Required</u>		
Spaces per Unit	1.5	
Spaces		300
Retail Services sf per Space	250	
Retail Services Spaces		132
Total Spaces Required		432
<u>Provided</u>		
Structured Parking		
Stories	2	
Per Story (sf)	55,000	
Total Structure (sf)		110,000
Space Size	330	
Spaces		333
First Floor Parking		
Total Space (sf)	22,000	
Space Size (sf)	330	
Spaces		67
Total Spaces		400
Total Gross Area, Excl. Parking		253,000
Total Gross Area, Including Structured Parking		363,000

Lynnwood Highway 99 Study

A1d. Income and Expense Information

Residential

Leasable Area		176,000
Market Rental Rate per S.F.	Monthly	\$2.00
	Annual	\$24.00
Monthly Rental Rate per Unit		\$1,760
Market Vacancy and Collection Loss		7.5%
Operating Expense Ratio		35.0%
Dupre + Scott Apartment Investment Report		
Parking Rev, per mo., per space		\$100
Occupancy		85%
Sales Price per S.F.		\$315.00
Unit Price		\$277,200

Retail and Library

Retail Leasable Area		33,000
Market Rental Rate per S.F.		\$25.00
Market Vacancy and Collection Loss		5.0%
Operating Expense Ratio		30.0%

Mixed-Use Development Costs & Financing

Land Costs		\$35.00
Total Hard Costs		
Residential Building		\$22,000,000
Retail Space		\$3,630,000
Structured Parking		\$3,300,000
Surface Parking		\$0
Total Hard Costs		\$28,930,000
Improvement Costs		
Site Improvement Costs per sq ft of site		\$6.00 w/ surf. parking
Hard Construction Costs per sq ft of improvement		
Residential		\$100.00
Retail		\$110.00
Public Plaza		\$70.00
Structured Parking		\$25.00
Surface Parking		
Soft Costs per sq ft or as proportion of all hard costs		0.30 =% of hard costs
Entrepreneurial Return Requirement		
<u>Enter only one return requirement:</u>		
Percent of Developer's Cash Investment		100%
Percent of Development Costs		0%

Market Value Conversion

Market Capitalization Rate (OAR)		5.500%
New construction premium		1.500%
New Construction Cap Rate		7.000%
Debt Financing		
Maximum Loan-to-Cost Ratio		85%

Lynnwood Highway 99 Study

A2a. Site Suitability Analysis for Retail Center

Site Cost or Value			\$13,025,833
Improvement Costs			
Site Improvement Costs		\$2,977,333	
Hard Costs			
Retail	16,500,000		
Public Plaza	525,000		
Total Hard Costs		17,025,000	
Soft Development Costs		<u>6,000,700</u>	
			26,003,033
Entrepreneurial Return			<u>5,854,330</u>
= Total Property Cost (Commercial Operations)			\$44,883,197
		<u>Land & Improvements</u>	
Total Improvement Cost		\$31,857,363	
Retail Cost (total and per s.f.)		30,874,978	\$206 per s.f.
Public Plaza		982,386	\$131 per s.f.

Minimum Market Value must equal Property Cost		\$44,883,197
x Capitalization Rate		<u>7.750%</u>
= Minimum NOI		\$3,478,448

Gross Revenue from Retail	\$4,488,750	
(1-Operating Expense Ratio)	<u>70.0%</u>	
Gross Operating Profit from Retail		\$3,142,125
Total Gross Operating Profit		\$3,142,125
Cap Rate		7.0%
Gap		\$336,323
Capitalized Gap		\$4,339,648

Can market support that rental rate? **NO, NOI does not exceed required NOI at market rates**

Capital Supported	\$40,543,548
Development Costs	\$31,857,363
Available for Land	\$8,686,185
RLV per SF	\$23.34

Lynnwood Highway 99 Study

A2b. Retail Center Development Specifications

Site size in acres or s.f.	<u>Owner</u>	King Co. Assessors
Total project area		372,167
Public Right-of-Way Exclusion		
Net area for development		372,167 square feet
Market land values		\$35.00 per square foot
Site value		\$13,025,833

Site Conditions

Building footprint		150,000
Surface parking		178,200
Parking structure footprint		
Setbacks and r-o-w	10%	36,467
Public space		7,500
Total development footprint		372,167
FAR		0.403

Retail

Grocer gross area		50,000
Additional Retail Gross Area		100,000
Total Gross Area		150,000
Efficiency	90%	
Total Net		135,000

Public Plaza

7,500

Parking

Required

Retail Services sf per Space	250	
Retail Services Spaces		540
Total Spaces Required		540

Provided

Surface parking		
Total SF		178,200
Space Size	330	
Spaces		540
Total Spaces		540

Total Gross Area, Excl. Parking

150,000

Total Gross Area, Including Structured Parking

Total Development

Residential Gross Area (excl parking)		
Retail and Library Gross Area	150,000	
Structured Parking Gross		
Surface Parking	178,200	

Lynnwood Highway 99 Study

A2c. Income and Expense Information

Retail

Retail Leasable Area	33,000
Market Rental Rate per S.F.	\$35.00
Market Vacancy and Collection Loss	5.0%
Operating Expense Ratio	30.0%

Retail Center Development Costs & Financing

Land Costs	\$35.00	
Total Hard Costs		
Retail Space	\$16,500,000	
Structured Parking		
Surface Parking	\$0	
Total Hard Costs	\$16,500,000	
Improvement Costs		
Site Improvement Costs per sq ft of site	\$8.00	includes surface
Hard Construction Costs per sq ft of improvement		
Retail	\$110.00	
Public Plaza	\$70.00	
Structured Parking	\$25.00	
Surface Parking		
Soft Costs per sq ft or as proportion of all hard costs	0.30	= proportion of h:
Entrepreneurial Return Requirement		
<u>Enter only one return requirement:</u>		
Percent of Developer's Cash Investment	100%	
Percent of Development Costs	0%	

Market Value Conversion

Market Capitalization Rate (OAR)	6.500%
New construction premium	1.250%
New Construction Cap Rate	7.750%
Debt Financing	
Maximum Loan-to-Cost Ratio	85%

Lynnwood Highway 99 Study

A3a. Site Suitability Analysis for Small Business Center

Site Cost or Value		\$4,725,000	
Improvement Costs			
Site Improvement Costs	\$1,080,000		
Hard Costs			
Retail	4,800,000		
Public Plaza	0		
Total Hard Costs	4,800,000		
Soft Development Costs	1,764,000		
		<u>7,644,000</u>	
Entrepreneurial Return		<u>1,855,350</u>	
= Total Property Cost (Commercial Operations)			\$14,224,350
Total Improvement Cost	\$9,499,350		
Retail Cost (total and per s.f.)	9,499,350	\$158	per s.f.
Public Plaza	0	\$0	

Minimum Market Value must equal Property Cost		\$14,224,350	
x Capitalization Rate		<u>7.0000%</u>	
= Minimum NOI			\$995,705

Gross Revenue from Retail	\$1,410,750		
(1-Operating Expense Ratio)	<u>75.0%</u>		
Gross Operating Profit from Retail		<u>\$1,058,063</u>	
Total Gross Operating Profit			\$1,058,063
Cap Rate			7.4%
Gap			(\$62,358)
Capitalized Gap			(\$890,829)

Can market support that rental rate? **YES, NOI exceeds minimum required NOI at market rates**

Capital Supported	\$15,115,179
Development Costs	\$9,499,350
Available for Land	\$5,615,829
RLV per SF	\$41.60

Lynnwood Highway 99 Study

A3b. Retail Center Development Specifications

Site size in acres or s.f.	<u>Owner</u>	King Co. Assessors
Total project area		135,000
Public Right-of-Way Exclusion		
Net area for development		135,000 square feet
Market land values		\$35.00 per square foot
Site value		\$4,725,000

Site Conditions

Building footprint		60,000
Surface parking		59,400
Parking structure footprint		
Setbacks and r-o-w	10%	13,500
Public space		-
Total development footprint		132,900
FAR		0.44

Flex-Tech

Total Gross Area		60,000
Total Gross Area		60,000
Efficiency	90%	
Total Net		54,000

Public Plaza

0

Parking

<u>Required</u>		
Flex-Tech sf per Space	300	
Flex-Tech Spaces		180
Total Spaces Required		180

Provided

Surface parking		
Total SF		59,400
Space Size	330	
Spaces		180
Total Spaces		180

Total Gross Area, Excl. Parking **60,000**

Total Gross Area, Including Structured Parking

Total Development

Residential Gross Area (excl parking)		
Retail and Library Gross Area	60,000	
Structured Parking Gross		
Surface Parking	59,400	

Lynnwood Highway 99 Study

A3c. Income and Expense Information

Small Business Center

Retail Leasable Area	54,000
Market Rental Rate per S.F.	\$27.50
Market Vacancy and Collection Loss	5.0%
Operating Expense Ratio	25.0%

Small Business Center Development Costs & Financing

Land Costs	\$35.00
Total Hard Costs	
Flex Space	\$12,000,000
Structured Parking	
Surface Parking	\$0
Total Hard Costs	\$12,000,000
Improvement Costs	
Site Improvement Costs per sq ft of site	\$8.00 includes surface
Hard Construction Costs per sq ft of improvement	
Flex Space	\$80.00
Public Plaza	\$70.00
Structured Parking	\$25.00
Surface Parking	
Soft Costs per sq ft or as proportion of all hard costs	0.30 = proportion of h:
Entrepreneurial Return Requirement	
<u>Enter only one return requirement:</u>	
Percent of Developer's Cash Investment	100%
Percent of Development Costs	0%

Market Value Conversion

Market Capitalization Rate (OAR)	5.500%
New construction premium	1.500%
New Construction Cap Rate	7.000%
Debt Financing	
Maximum Loan-to-Cost Ratio	85%