

# **MARKET ANALYSIS OF THE SOUTHEAST CORRIDOR TRANSIT STATION AREAS EXECUTIVE SUMMARY**

Bay Area Economics (BAE), specialists in urban economics and real estate, was retained by the City of Seattle's Strategic Planning Office to prepare a market analysis for use in station area planning for the six future LINK light rail stations that will be located in Southeast Seattle (Beacon Hill, McClellan, Edmunds, Graham, Othello, and Henderson).

The market analysis looked at six land uses (retail, entertainment, office, multi-family residential, civic/arts, and education) and involved a review of existing materials; key informant interviews; quantitative analysis; and application of expert knowledge regarding transit-oriented development (TOD) and urban revitalization.

This report of the market analysis outlines in detail demographic trends in Southeast Seattle; profiles the station areas; describes market conditions for the six land uses studied and the relationship of those uses to economic development and transit; identifies TOD opportunities in the station areas; makes recommendations regarding future studies and planning work and support for TOD; and describes potential gap financing resources.

A chart summarizing station area development opportunities follows the text of this summary. (The appendix to this report contains the separate summaries developed for public presentation describing the conclusions regarding TOD potential; potential for the six land uses; and individual station area community concerns, challenges, opportunities, and recommendations for next steps.) The market analysis identifies the following:

## Southeast Seattle Demographic Trends

Two distinguishing characteristics of Southeast Seattle are that household sizes are noticeably larger than in the rest of the City (an average of 2.70 persons per household vs. 2.04 in the City) and home ownership rates are considerably higher (58 percent vs. 49 percent). Southeast Seattle station areas are the least densely developed of the light rail station areas as measured by dwelling units per acre and floor area ratios (FAR).

Median household income in Southeast Seattle at \$43,201 is 93 percent of the household median income for the City (although levels are lower in the individual station areas), and income distribution is skewed somewhat lower than the rest of the City. Household incomes vary considerably within Southeast Seattle, with the areas closest to Lake Washington having the highest household incomes.

### Station Area Profiles

Because of the pattern of low development density in Southeast Seattle, the population within the ¼ mile radius of the stations that can support TOD projects ranges from approximately 2,000 to 5,000 persons. Projected daily boardings in 2010 for the LINK system range from a low of 600 daily in the Othello area to highs of 4,000 at Henderson and 4,100 at Beacon Hill.

The characteristics of the station areas vary. Beacon Hill is the most residential area. McClellan and Othello, and to a lesser extent Graham, have the strongest commercial base, while Edmunds and Henderson are the least developed of the stations.

### Market Conditions for the Six Land Uses Analyzed

*Retail.* There is a significant leakage of retail sales from Southeast Seattle to other parts of the City. While the number of grocery and drug stores is proportional to Southeast Seattle expenditures, there is market support for additional eating places, apparel and shoe stores, specialty retail, and at least one furniture and home furnishings store. The Southeast Seattle trade area is not large enough to support a department store but may be viable for a “hypermarket” retailer such as Fred Meyer. In each case where preliminary analysis indicates market support for additional retail development, additional analysis is needed to estimate how much of the leakage can be captured by existing and/or new retailers. Displacement from light rail construction will increase demand for retail space in the near term. Further study is required to determine the technical assistance or other resources needed by dislocated retailers.

*Office.* The analysis focused on the potential for locating new small professional and service firms in the station areas and not large corporate tenants. Office use is well-suited for first floors and upper stories of a mixed-used TOD project. Southeast Seattle currently has a limited supply of office space, due in part to low lease rates that do not support new construction. Forecasted employment growth in the region over the near and long term may have a spillover effect in Southeast Seattle which could generate additional demand for office space in the area. Forecasted demand coupled with the demand created by displaced office uses will likely support a moderate level of new office development in some station areas.

*Entertainment.* Entertainment uses that were analyzed include themed restaurants, entertainment-oriented retailers, family entertainment, high-tech entertainment centers, and indoor sports (e.g., rock climbing, roller rinks). Movie theaters were not evaluated because of the multiplex theater proposed as part of SEED's Rainier Court project. Many large entertainment facilities (e.g., high-tech entertainment centers) need to attract customers from a larger regional area and are unlikely to locate in Southeast Seattle in the near term. The multiplex theater planned at Rainier Court offers the best near term

opportunity to increase entertainment uses in the area. Over the long term, there may be potential for family-oriented entertainment uses targeting middle income families that combine food, games, indoor sports facilities (e.g., soccer, rock climbing) in Southeast Seattle. There may also be long term potential for ethnic-themed restaurant clusters that cater to local and regional diners and that could serve as an anchor for a TOD project.

*Multi-Family Residential.* The analysis examined the potential for new for-sale and rental multi-family housing development. Multi-family housing is an important element of TOD projects because it supports transit ridership. Construction of new market-rate rental housing is not currently economically feasible without subsidies, because current rents do not generate sufficient cash flow for interested developers. However, the prevailing low vacancy rates at rental complexes in Southeast Seattle will likely lead to higher rents in the future, thereby providing more support for unsubsidized construction of new market-rate rental units. The recent success of affordable for-sale housing at the Noji Gardens and New Holly developments suggests strong market potential for such projects at TOD densities. The analysis also suggests there may be long term potential for the construction of live/work lofts in TOD projects.

*Education.* The analysis assessed the potential in Southeast Seattle for new private, public and parochial schools, job training facilities, and adult education centers. New educational facilities currently under construction include the "Campus of Learners" at the New Holly development which will house, among other uses, a satellite facility for South Seattle Community College. New public schools are being considered in the Othello station area and in Edmunds station area as part of the proposed redevelopment of the Rainier Vista housing complex. There has also been some discussion of locating a "one-stop" job training center in Southeast Seattle.

*Civic/Arts.* This transit-supportive use includes the functions of government and non-profit institutions such as libraries, community centers, and performing and cultural arts centers. These uses can be good anchor tenants for larger transit-oriented development projects and help strengthen the center of a community. Over the near term, the analysis identified partnership and TOD project opportunities related to the siting of new library facilities and the relocation of displaced facilities. Over the long term, locating government functions in the station areas has the potential to catalyze other TOD.

### Station Area Development Opportunities

Overall, there is near term and long term market support for a moderate amount of new TOD in station areas. New development in the station areas will most likely occur gradually in individual projects at moderate densities and not rapidly in multiple, large-scale projects. This conclusion appears consistent with most Southeast neighborhoods' desire to preserve the predominantly single family residential character of their neighborhoods and to avoid substantially higher density development. This conclusion

also conforms to some neighborhoods' desire to not have new development in the station areas detract from efforts to revitalize their existing retail and commercial areas.

New TOD development will be attracted in the near term to areas with existing concentrations of commercial uses, suggesting the strongest near-term potential for the Othello, McClellan, and Beacon Hill station areas. Less developed areas, such as Edmunds, Graham and Henderson have TOD potential that will increase over the long term. Uses with the most near-term potential are neighborhood-serving retail, small professional and services office, and multi-family residential.

Businesses that will be affected by transit construction need support. This includes determining which properties and businesses will be affected or need to relocate, the extent of the effect, and the potential options for retaining these businesses. The development potential of station areas, including changes in the types of commercial space that may be available and the ability to accommodate displaced tenants needs to be considered. The City could identify technical assistance it can provide to displaced businesses who are interested in evaluating development alternatives for new locations.

Next steps for station area planning and determining the potential for TOD projects in each of the station areas can include: conducting site specific analysis of the financial and physical feasibility of constructing new residential units and commercial space; identifying potential sites with near and long term feasibility; reviewing zoning designations that would create incentives (e.g. increased density, reduced parking requirements); and developing financial incentives to attract developer interest. Measures that could promote TOD projects in station areas include: support for prototype projects to accommodate relocated and new tenants and attract developer interest; public/private projects for key sites; identifying mechanisms to facilitate land assembly to create large enough sites for projects; and coordination between stakeholders.

#### Potential Federally-Funded Gap Financing Sources

The final section of the market analysis outlines a number of new or innovative federal transportation-related funding sources for TOD projects, most arising from the Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21), that can leverage other revitalization efforts. Fannie Mae offers location efficient mortgage programs supporting multi-family residential TOD projects. Economic development and environmental clean-up (brownfield) funds may also be available to support TOD projects.

**[INSERT DEVELOPMENT OPPORTUNITIES CHART]**