

MEMORANDUM

DATE: December 21, 2009

TO: Larry Toedtli, The Transpo Group
Jeff Wilkens, Wenatchee Valley Transportation Council

FROM: Morgan Shook, Erik Rundell, Jay Rogers, and Brett Sheckler

RE: DISCUSSION DRAFT: Market Assessment for North Wenatchee Avenue Transportation Master Plan

1.0 INTRODUCTION

The planning and construction of new transportation improvements can affect existing land uses and plans for future development. Likewise, the type and pattern of development can influence and impact travel patterns and the demand for transportation resources. Transportation investments are among the largest of public investments, and thus their anticipated impacts play a critical role in the planning cost-benefit calculus.

As a result, it is important to coordinate transportation and land use planning decisions so that they are complementary rather than contradictory. This ensures that transportation planning decisions support land use planning objectives and vice versa. Correspondingly, the WTC and its members would like the market assessment to consider market-wide supply-and-demand issues, recent development trends, and the outlook for different types of commercial development as a key input into the transportation planning process as it seeks to coordinate likely land use with transportation improvements.

The purpose of this assessment is to understand the types and densities of future land uses that may locate in the corridor. This understanding will be used to inform the development of the North Wenatchee Avenue Transportation Master Plan. In addition to the general market assessment, specific attention is directed towards 1) understanding the potential multifamily housing in the corridor in support of an "urban node" land use mixing multifamily housing with other uses; and 2) examining the market implications within the broader context of the City's broader land use goals.

2.0 ANALYTIC APPROACH

This market assessment provides both a region-wide perspective, and then a focus on the North Wenatchee Avenue corridor study area. The assessment of the local real estate market includes an analysis of the land supply as well as capacity for commercial and multifamily products. The development capacity of key areas in the corridor are drawn from city and county zoning code and polices, existing city and county buildable lands analyses, and a review of the developable and redevelopable areas. This assessment is intended to provide a foundational understanding of the study area against the broader supply of commercial and multifamily sites in the region. The real

estate demand analysis provides a long-term examination of changes in population, employment and other economic drivers of land demand to assess the relative magnitude of demand for commercial space in the region.

To the extent possible, the demand assessment involves generating plausible ranges of development that the region might be expected to support, in terms of square footage, by type (retail, office, multifamily). These demand estimates for commercial square footage, or residential units, are then translated into demand for land under varying density assumptions.

Using the supply and demand analysis as a foundation, this report evaluates the market situation on a regional basis to assess the extent that the corridor is likely to be competitive for residential and commercial uses over the planning period compared to other areas in the region.

2.1 Study Area Overview

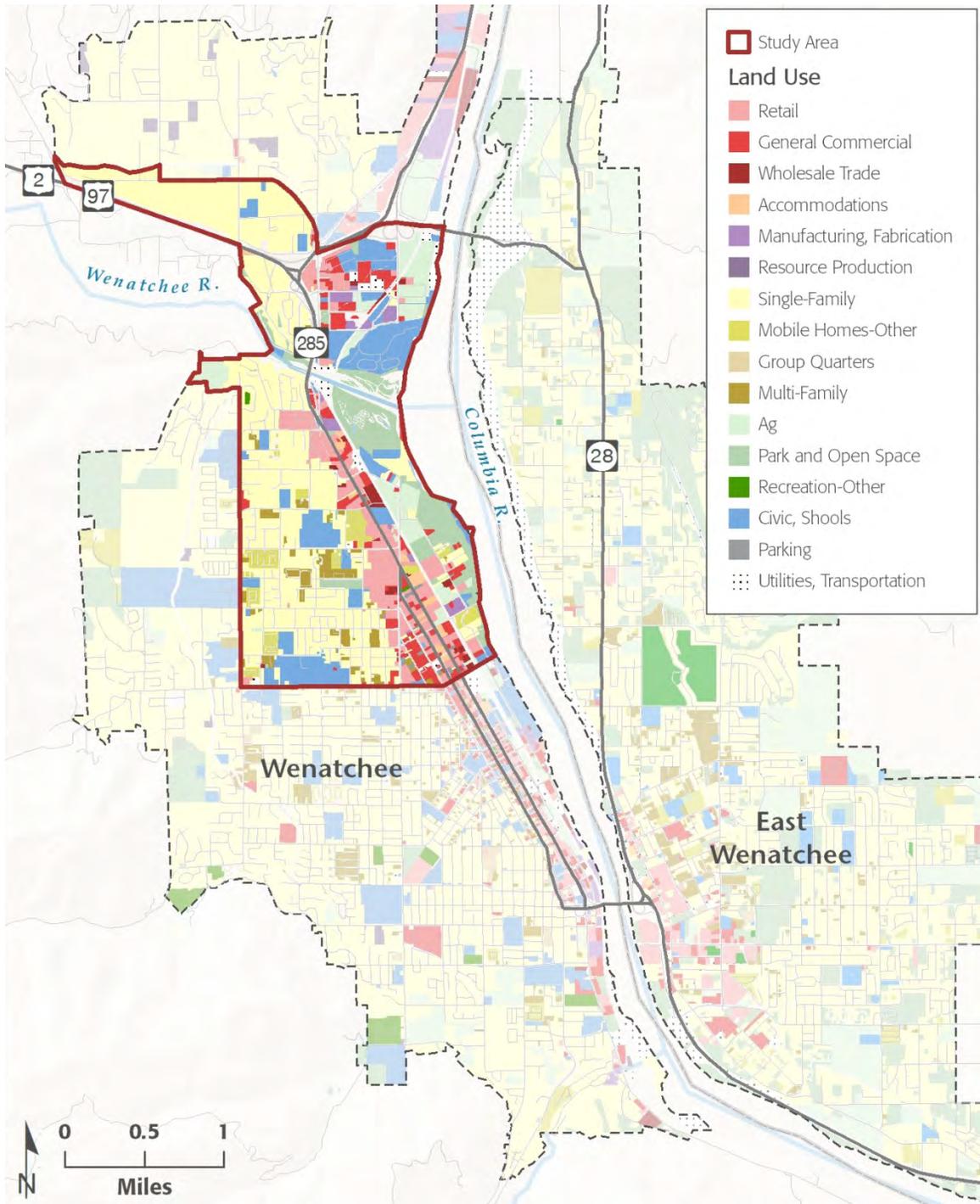
The study area for this assessment stretches along North Wenatchee Avenue (SR 285) between US 97/2 and Downtown Wenatchee. Properties directly adjacent to North Wenatchee Avenue are primarily commercial and the underlying zoning allows for mixed use. The Olds Station area north of the Wenatchee River has a mix of commercial and industrial uses. The Port of Chelan, one of the larger property owners in this area, recently completed a strategic planning effort that envisions a shift in development focus for the property—a shift away from industrial uses towards more development of a campus-style technology and office park at the site.

The area south of the Wenatchee River and north of Downtown is predominately auto-oriented retail and commercial uses. As part of the Corridor Master Planning process, it has been contemplated that this area could also serve as a location for a high density residential and/or retail node at the site of an existing shopping center half-way between the Wenatchee River and Downtown.

Immediately south of the study area, downtown Wenatchee itself represents a mixture of residential, retail, office and civic uses, and it contains the City's historic core of commercial buildings.

The study area also includes the Wenatchee Waterfront area along the Columbia River, which is planned for significant redevelopment. The City's 2004 Waterfront Sub-area Plan includes a variety of residential, retail, office, lodging, and recreational development in this area. At build-out, the Waterfront would be estimated to have 1,440 higher density housing units, 96,000 square feet of retail space, and 220,000 square feet of office space. Exhibit 1 shows the corridor and the land uses within one half mile of SR 285.

Exhibit 1
Map of Study Area



Source: Chelan County, 2009; Douglas County, 2009; BERK, 2009

Note: The land use designations above are taken from the present use description from the respective county assessor's office. The land use designations will not necessarily match current zoning code or comprehensive plan designations.

3.0 SUMMARY OF FINDINGS: IMPLICATIONS FOR NORTH WENATCHEE AVE TRANSPORTATION PLANNING

When considering coordinated transportation and land use planning options for the North Wenatchee Avenue corridor, BERK believes that there are five key considerations:

1. **Vision for Downtown** - The City of Wenatchee has developed a vision for Downtown Wenatchee as a vibrant center of the community. The City's Comprehensive Plan sees downtown as "the heart and soul of the community," and it envisions a vibrant, pedestrian-oriented center that offers a robust mix of retail, restaurant, entertainment, and services that will serve as a regional center of commerce and be attractive to the City's residents and visitors alike. The City has invested a substantial amount of resources in supporting this vision.
2. **Vision for Waterfront** - Complimenting the City's vision for Downtown, the City envisions continued Waterfront development that takes full advantage of the location and the amenities offered by parks, trails, proximity to downtown, and the riverfront itself. The City plans on creating a pedestrian-oriented development, including significant amounts of multifamily (higher density) housing, configured in a way that allows the Waterfront and Downtown to complement one another, (1) improving quality of life for the City's residents, and (2) attracting visitors to the City.
3. **The role of multifamily housing in achieving the City's vision** – To support the City's overarching vision for Downtown and the Waterfront, the City would like to see substantial development of multifamily housing. As envisioned, this housing will provide important close-in support for pedestrian-oriented commercial development, promoting a critical mass of street-level activity. Such development, however, will require a shift in the nature and amount of multifamily development in the City above and beyond recent experience.

Historically, residential development in Wenatchee and the broader region has been substantially skewed towards single-family housing. Depending on the period analyzed, the City has seen an average of between 24 and 42 multifamily units added per year, and these units have been scattered in relatively small developments (e.g. total units in structure) around the City. Given historic trends, it is entirely possible that demand for multifamily housing will be a scarce commodity within the region's planned urban centers with the amount of planned units in excess of demand.

4. **Retail in the region is auto-oriented and recent growth has been tilted towards East Wenatchee** - Retail activity in Wenatchee and East Wenatchee is heavily auto-oriented. The retail activity in Wenatchee and East Wenatchee captures retail purchases from a large and far-flung population base and from the large amount of regional tourism activity within the Greater Wenatchee area. The two cities' most successful retail sectors (General Merchandise and Building Materials/Garden Supply) captured more than 150,000 person-expenditures in 2008—counts of person-expenditures which far exceed the combined population of the two cities (or even Chelan and Douglas counties combined).

Looking to the future, any given retail site in the study area will face competition from competing centers both within and outside the City. From 1999 through 2008, Wenatchee and East Wenatchee increased retail sales capture by more than 25,000 person-expenditures

(growing from 82,000 person-expenditures captured in 1999 to more than 107,000 in 2008). However, more than 60% of that growth occurred in East Wenatchee.

Assuming past trends continue, suggest that successful retail strategies need to consider (1) accessibility of the retail center by car, and (2) the ability of a given retail center to attract visitors from a great distance (or larger market area).

5. **Long-term development capacity within the City probably exceeds the amount of foreseeable demand** – For both the multifamily and commercial uses (retail and office); there is a significant amount of long-term supply of land (both vacant and redevelopable) relative to the amount of estimated development demand. From a supply perspective, the City's zoning code (and its significant flexibility) permits multifamily and commercial uses throughout much of the City. Coupling zoning flexibility with the City's current low-density development pattern and availability of vacant land, the City has ample supply throughout (note that the supply is spread out in both large vacant parcels as well as numerous underutilized properties).

This abundance of developable capacity means that when demand does materialize and development occurs, it has multiple options on where it might locate (both outside and inside the study area). This observation is evidenced by the location decisions of recent developments in the two-city region which shows a level of dispersion.

In light of these five considerations, the following observations on the potential development patterns in the corridor are offered to inform the development of the North Wenatchee Avenue Transportation Master Plan.

In particular, the following observations address potential for multifamily housing and commercial development in the corridor in support of an "urban node," in the context of the City's broader goals.

Pedestrian-Oriented Development in the Corridor

In terms of the North Wenatchee Avenue Transportation Master Plan planning, this assessment was specifically tasked to assess the feasibility of a pedestrian-oriented, "higher density" urban node featuring a mix of multifamily and other commercial uses—a node that would be located on the corridor in the vicinity of Maple Street and Springwater Avenue. The question with regards to transportation planning is: if such a "higher density" node is feasible, what are the appropriate transportation investments that could be implemented to potentially support and/or encourage it?

Given the findings of this market assessment, BERK believes that such a development would not be competitive in the market because 1) the supply of land for which this type of development would be competing for demand is not constrained by zoning within the City, thus there are a variety of options where development can choose to locate; 2) there is limited demand in the region as a whole for the type of multifamily and commercial uses that an "urban node" setting would need to be successful; and 3) the area in the corridor is not as attractive as other areas in the City, such as Downtown and the Waterfront where this type of development pattern is already envisioned.

If the City and its regional partners took enough supportive actions (transportation, land use requirements, and development of public amenities), one can envision a scenario where the City could be successful at fostering development of a new pedestrian-oriented urban center along the North Wenatchee Avenue corridor. However, given a limited amount of urban-oriented retail/office and multifamily demand in the region projected for the future, it is unlikely that such a vision would

be accomplished to the fullest extent. Moreover, and perhaps more important, development of an urban node on North Wenatchee Avenue would almost certainly siphon off demand for multifamily and pedestrian-oriented commercial uses that the City is counting on to achieve its vision for its Downtown and Waterfront urban centers.

The Broader Vision for Downtown Wenatchee and Wenatchee Riverfront

The City has developed a compelling vision for Wenatchee's Downtown and Waterfront, and it has taken significant steps and investments to put in place the foundation that will allow that vision to be realized. Even though significant public policy and investment have been committed and more is needed, it is clear that achieving the vision for Downtown and the Waterfront is far from certain.

To make the vision for Downtown and the Waterfront a reality, the City needs to foster a vibrant mix of new pedestrian-oriented retail, restaurant, services, higher density housing, and office uses. As shown in the assessment, the City can expect to see *some* level of growth in all of these uses over the coming decades. However, to date, development of urban centers – centers combining a dense mix of residential, retail, and commercial uses – is not yet a reality in Wenatchee, or in the broader region.

Given the region's general auto-oriented nature everywhere except the downtown center (and given that the demand for households or businesses to locate in a pedestrian-oriented urban center is largely unproven in the region), BERK believes it would be prudent for the region to do as much as it possibly can to help ensure that its vision for Downtown and the Waterfront comes to fruition, including the choice of transportation investments along the North Wenatchee Avenue.

From a development-demand perspective, the Waterfront and Downtown will need to attract much, if not all, of the multifamily demand identified in this analysis to be successful. The Waterfront and Downtown nodes also need to attract a healthy share of expected regional growth in restaurants and pedestrian-friendly retail and services. Given these realities, we suggest that the City would be well served if it does as much as it can to focus anticipated growth in higher density uses in and around these areas.

From a transportation-strategy perspective, the calculus is similar. If the Waterfront and Downtown are to emerge and remain as centers of commerce—centers that are attractive to area residents and visitors alike—it will be important to ensure that these areas of the City are accessible. Given the auto-oriented nature of the region, this is likely to mean that the best bet will be a coordinated strategy that facilitates access to these areas by both auto and other means.

Retail Centers – The Potential for Complimenting Centers of Activity

To achieve the City's compelling vision for the Waterfront and Downtown, the commercial development in these two areas will have to differentiate themselves from, and be complimented by, commerce located along the North Wenatchee Avenue corridor.

The City's vision for Downtown and the Waterfront includes an urban mix of uses including multifamily, attractive public spaces, and a mix of retail and services that supports, and requires pedestrian activity on the street. This vision is compelling, and if realized, the two urban areas will combine to serve as a center of commerce and entertainment that will attract area residents and visitors alike. In many respects, the vision is one of creating a "lifestyle" center where eating, shopping, recreation, entertainment, and business all intermingle.

In many instances, such lifestyle centers can compliment, and be complimented by, auto-oriented retail centers on their periphery (just as big box power centers compliment malls in the state's biggest regional retail centers). In effect, the pedestrian-oriented Waterfront and Downtown serve as one anchor that draws trips to Wenatchee, while auto-oriented big box/power centers on North Wenatchee Avenue serve as another powerful attractor. In a world where people have options about where they go and what they do with their time, the gravitational pull of two complimentary attractors can be the key to success.

Office Development – A Parallel Story

The situation for office development is similar to the story about multifamily housing and retail. Based on the supply assessment, the region has enough capacity to accommodate the likely range of future demand for office space. Again, this abundance of developable capacity means that when demand does materialize and development occurs, it has multiple options on where it might locate.

Within Wenatchee, commercial zoned property along North Wenatchee Avenue, in Downtown, on the Waterfront, and at Olds Station area (which the Port of Chelan is planning to develop as a technology and office center) are likely to capture a large portion of future growth for office and other commercial uses. In addition, substantial land supply also exists in East Wenatchee and its urban growth area.

Across the landscape of the greater Wenatchee area, there are location patterns for office uses. Existing "core" office uses (higher density and larger scale users such as medical offices and professional services) are concentrated in the Downtown area with some spaces in office parks in East Wenatchee. Personal service office uses (lower density "retail like" office spaces such as insurance or real estate offices where consumer auto access is more important) are primarily located along North Wenatchee Avenue, as well as the Downtown and East Wenatchee.

As demand for new office space grows, the established Downtown will continue to compete for the core, higher-density office uses. In addition, the development on the Waterfront, which is planned to accommodate 220,000 square feet of office space, and the Old Station (which could hold large campus-style development) will also compete for similar office users making for a highly competitive landscape. The North Wenatchee Avenue corridor is likely to be fairly competitive in attracting the personal service office uses that it currently supports.

Summary of Key Implications for the Transportation Master Plan

Integrating transportation and land use planning will help shape priorities for transportation investments and ensure that new transportation projects and land use plans support and reinforce each other to achieve coordinated objectives. Based on the findings and observations in this market assessment, BERK believes there are four key issues that the Transportation Master Plan should consider:

- **Preserve and expand throughput capacity in the North Wenatchee Avenue corridor for access to/from Wenatchee's commercial districts, neighborhoods and key regional institutions:** Retail activity in the Wenatchee Valley region is heavily auto-oriented and will likely continue to be so in the future. BERK believes that successful commercial districts throughout the region need to be accessible by car and public transit, particularly for visitors from the larger market area.
- **Planning for a new mixed use, dense urban district along North Wenatchee Avenue is not supported by the market analysis:** Significant transportation investments that

North Wenatchee Avenue Transportation Master Plan Market Assessment

support higher-density urban development and housing along North Wenatchee Avenue rather than investments that preserve regional traffic and transit mobility would almost certainly act to siphon off demand for multifamily and pedestrian-oriented commercial uses that the City of Wenatchee is counting on to achieve its vision for its Downtown and Waterfront urban centers.

- **Within the North Wenatchee Avenue study area, address mobility needs and local circulation patterns that serve automobile-oriented retailers as traffic volumes continue to grow:** It will be important to ensure business accessibility and efficient local circulation patterns within the corridor with roadway investments that also preserve access to the region's other centers of activity and commerce, specifically Downtown and the Waterfront.
- **Build on the existing strengths of the North Wenatchee Avenue commercial district and make transportation system investments that help differentiate the three commercial districts within the City of Wenatchee - Downtown, the Waterfront District and North Wenatchee Avenue:** Although somewhat counter-intuitive, all three distinct districts will benefit by their close proximity, each functioning as a strong attractor that will bring additional activity to their neighboring districts. Specifically, continuation of the auto-orientation and big box retail development along North Wenatchee Avenue can enhance rather than detract from commerce in the Downtown and the Waterfront Districts.

4.0 POPULATION, HOUSING, AND EMPLOYMENT

The following section provides a summary of the current situation and historical trends in the region. This summary establishes the socio-demographic context for the market assessment by detailing changes in employment, population, and housing.

4.1 Employment Growth

The economies in Chelan and Douglas Counties are driven by the agriculture industry. As seen in Exhibit 2 below, agriculture makes up the largest share of employment for both Chelan and Douglas Counties. However, in Douglas County agriculture jobs have been declining since 2000 at an average rate of -0.2%. Chelan County agriculture employment has increased since 2000 at an average rate of 1.8%

The tourism industry, particularly in the Chelan County, has become a strong driver of employment and spending in the region. As a result, the region (Chelan and Douglas Counties) has seen growth in the accommodation and food service industries.

Total county-wide employment has grown at a faster rate in Douglas County (2.2%) than in Chelan County (1.2%). Douglas County has seen strong employment growth in construction employment, retail trade, and accommodation/food services. Douglas County has also captured all the growth in retail jobs over the time period; Chelan County saw a slight decrease in retail employment

**Exhibit 2
Summary of Current Employment, 2000-2008**

	2000	2008	Average Annual Growth Rate
Chelan County			
Agriculture, Forestry, Fishing & Hunting	7,338	8,445	1.8%
Total Government	6,141	6,581	0.9%
Health Care and Social Assistance	3,893	4,727	2.5%
Retail Trade	4,472	4,397	-0.2%
Accommodation and Food Services	3,209	3,640	1.6%
Total Countywide Employment	35,814	39,252	1.2%
Douglas County			
Agriculture, Forestry, Fishing & Hunting	2,696	2,663	-0.2%
Total Government	1,878	2,180	1.9%
Retail Trade	1,220	1,500	2.6%
Accommodation and Food Services	572	708	2.7%
Construction	358	647	7.7%
Total Countywide Employment	8,885	10,569	2.2%

Source: WA Employment Security Department (ESD), 2009; BERK, 2009

4.2 Population Growth

Driven by the economic growth over the past decade, the region’s population has grown at rate of 1.2%, adding approximately 11,000 individuals and bringing the two-county population to a little over 110,000 people (Exhibit 3 and Exhibit 4). Much the growth has been centered in Douglas County.

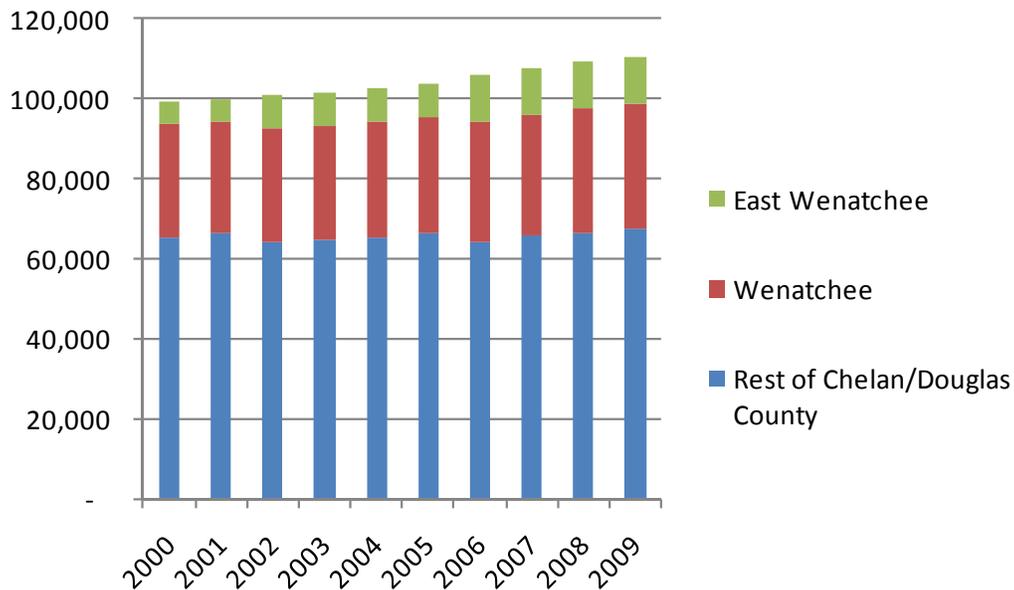
**Exhibit 3
Summary of Population Growth Rate (2000-2009)**

	Growth Rate	2009 Pop.	Change
Chelan County	0.96%	72,600	5,984
Douglas County	1.60%	37,600	4,997
Total for Both Counties	1.17%	110,200	10,981

Source: OFM, 2009; BERK, 2009

Combined, the Cities of Wenatchee and East Wenatchee represent approximately 40% of the two-county region with 42,000 of the 110,000 people living in the area. East Wenatchee has grown substantially faster than Wenatchee during the time period, doubling its population during this time period. Nominally, much of the population growth between the two cities has occurred in East Wenatchee, as shown in Exhibit 4. However, a closer inspection of the population growth shows that much of this increase is due to annexation, rather than through natural growth (including in-migration of people).

**Exhibit 4
Summary of Nominal Population Growth: Wenatchee and East Wenatchee
(2000-2009)**



Source: OFM, 2009; BERK, 2009

Exhibit 5 illustrates this issue by factoring in the impact of annexation has had on the actual rate of growth within the cities. For example, while it appears that the City of East Wenatchee has added about 6,000 people between 2000 and 2009, much of this growth was due to annexation with

about 5,200 of the people the result of annexation. This is not to suggest that the annexation areas were not growing rapidly during this time, but it does show that the City (without annexation) was growing a much slower rate.

To a lesser degree, the same issue exists with the City of Wenatchee. However, after accounting for growth due to annexation in the two cities, it shows that much of the growth in the two-county region could be accounted for in areas not in Wenatchee or East Wenatchee, but rather in areas elsewhere in the counties.

**Exhibit 5
Population Growth: Factoring in Annexations (2000-2009)**

	Growth Rate	2009 Population	Population Change	Growth from Annex	Non-Annex Change	Natural Growth Rate
Wenatchee	1.18%	30,960	3,104	856	2,248	0.87%
East Wenatchee	8.16%	11,660	5,903	5,290	613	1.13%
East/ and Wenatchee	2.67%	42,620	9,007	6,146	2,861	0.91%
Rest of Chelan/Douglas	0.33%	67,580	1,974	(6,146)	8,120	1.30%

Source: OFM, 2009; BERK, 2009

4.3 Housing Growth

Similar to the population situation, the growth in housing units has followed much of the same pattern. Over the past decade, the region has grown at rate of 1.6% adding approximately 6,700 units, bringing the two-county total to a little over 50,000 housing units (Exhibit 6).

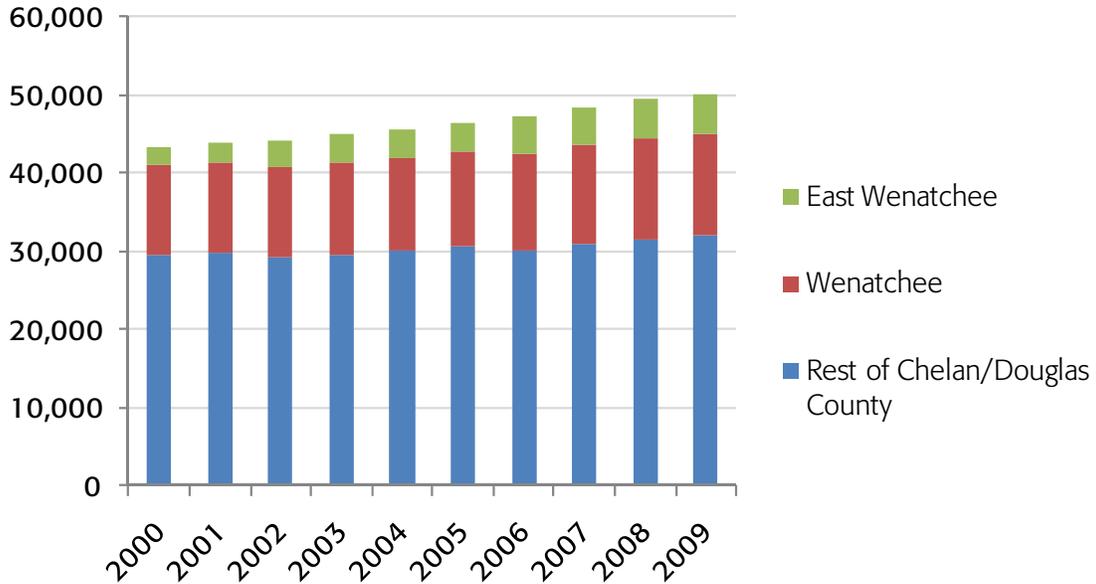
**Exhibit 6
Summary of Housing Growth Rate in the Region (2000-2009)**

	Growth Rate (2000-2009)	2009 Units	Change 2000-2009
Chelan County	1.43%	34,562	4,155
Douglas County	2.05%	15,544	2,600
Totals for Both Counties	1.62%	50,106	6,755

Source: OFM, 2009; BERK, 2009

Combined, the Cities of Wenatchee and East Wenatchee account for approximately a third of the two-county region's housing units. Between the two cities, more housing has been added to East Wenatchee than Wenatchee during the time period. East Wenatchee doubled its housing unit total during this time period (Exhibit 7).

**Exhibit 7
Summary of Total Housing Unit Growth: Wenatchee and East Wenatchee
(2000-2009)**



Source: OFM, 2009; BERK, 2009

Accounting for the impact of annexations shows the same issue presented in examining population growth. The non-annexed portions of the cities grew at slower rates than would be inferred without accounting for annexation.

**Exhibit 8
Summary of Housing Growth Rate: Factoring in Annexation (2000-2009)**

	Growth Rate (2000-2009)	2009 Units	Change 2000-2009	Growth from Annex	Non- Annex Change	Natural Growth Rate
Wenatchee	2.89%	12,896	1,410	313	1,097	2.69%
East Wenatchee	8.55%	5,084	2,655	2,247	408	1.74%
East Wenatchee/Wenatchee	3.90%	17,980	4,065	2,560	1,505	2.55%
Rest of Chelan/Douglas County	0.98%	32,126	2,690	(2,560)	5,250	1.84%

Source: OFM, 2009; BERK, 2009

Focusing on the amount of multifamily housing, the U.S. Census Bureau's provides an estimate of the percent of housing stock at that has multiple units in it. From this data source, both Wenatchee and East Wenatchee have similar amount of higher density housing. Higher density housing in this analysis is defined as structures with three or more units in them. Duplexes are excluded since they are typically permitted in single family zoned areas.

Applying the percentages in Exhibit 9 to the total stock of housing in Exhibit 8 results in an estimate of about 3,300 higher density multifamily units in Wenatchee and approximately 600 units in East Wenatchee.

**Exhibit 9
Distribution of Multifamily Units in Wenatchee and East Wenatchee**

	Wenatchee	East Wenatchee
Singlefamily (duplex)	67%	66%
Multifamily (3+ units)	26%	25%

Source: U.S. Census Bureau, 2009; BERK, 2009

Note: Data for Wenatchee come from the estimates from the US Census 2008 American Community Survey. Data for East Wenatchee come from the US Census 2000 Decennial Census, the last data which data is available for this geography.

5.0 PLANNING AND FORECASTS

The following section gives an overview of employment, population, and housing projections by summarizing public planning information and, where available, official forecasts for the region.

5.1 Employment

Employment growth projections by the Employment Security Department (ESD) are only available for regional Workforce Development Areas (WDAs). The North Central Washington District (Chelan, Douglas, Adam, Grant, and Okanogan Counties) is projected to add a total of 8,100 jobs and grow at a rate of less than 1.0% over the next eight years (Exhibit 10). Education and health services are projected to have the strongest growth in the region, adding 2,200 new jobs. Education and health services represent more than 25% of the projected growth between 2007 and 2017 in North Central Washington.

Employment trends for Wenatchee and East Wenatchee are likely to be similar to the overall growth in North Central Washington. Recent growth in the tourism market has proven to be an important driver of employment growth for these communities. Also, as the population continues to grow in the region, the demand for services will increase, driving employment in industries such as education and health services. ESD does not include agriculture in their long-term employment projections, but growth in this sector is expected to be stable and likely to follow recent trends, which suggest a growth rate of about 0.3% per year.

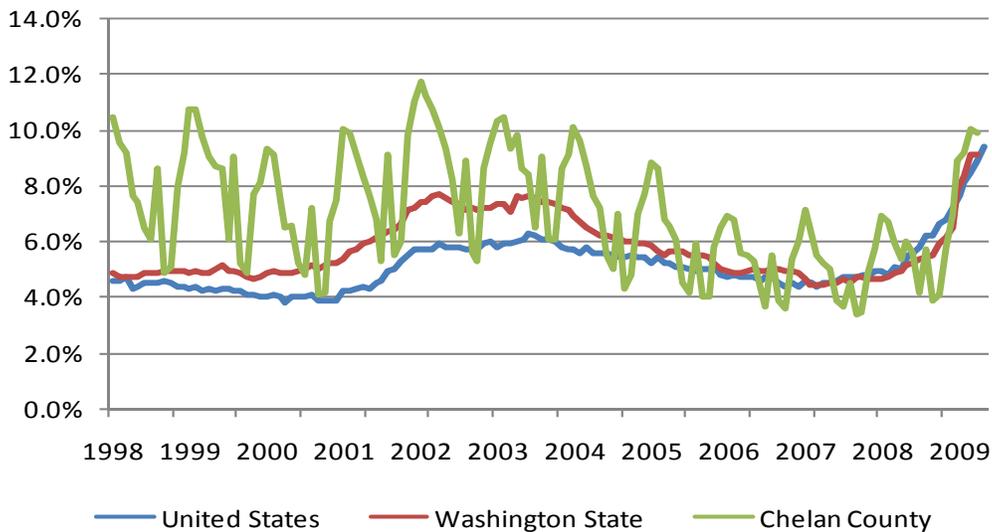
**Exhibit 10
Summary of Forecasted Long-term Employment
North-Central Washington (2007-2017)**

Industry	2007 Employment	2012 Employment	2017 Employment	Cumulative Jobs Added 2007-2017	Growth Rate
Education And Health Services	10,100	11,100	12,300	2,200	2.0%
Leisure And Hospitality	9,200	10,000	10,700	1,500	1.5%
Retail Trade	11,700	12,500	13,200	1,500	1.2%
Government	23,100	23,400	24,500	1,400	0.6%
Construction	5,400	5,200	5,900	500	0.9%
Total Nonfarm Employment	84,700	86,900	92,800	8,100	0.9%

Source: ESD, 2009; BERK, 2009

These estimates were created by ESD before the current economic recession. The region has been significantly impacted by the recession with substantial loss of employment. The unemployment rate is the percentage of the total labor force that is unemployed but actively seeking employment and willing to work. The unemployment rate is a good lagging indicator of the performance of the economy. A lagging indicator trails the direction of the economy, typically by a few economic quarters.

**Exhibit 11
Comparison of Unemployment Rates (1998-2009)**



Source: ESD, 2009; BLS, 2009

In Chelan County, the unemployment rate has spiked since the beginning of the recession in December 2007. Exhibit 11 summarizes the trends for Chelan County, Washington State, and the U.S. As the Exhibit shows, the unemployment rate in the County historically presents wide variations due to seasonality from the presence of the agricultural industry. The magnitude of the variation declined in the last five years due to better employment opportunities in the County as well as more year-round work in the agricultural industry. The recent rise in unemployment is trending with patterns seen in the U.S. and Washington State economies.

5.2 Population

In the long-term, the Office of Financial Management's (OFM) population forecasts for the region estimate an annual growth rates between 0.6% and 1.8% for Chelan County and 0.6% and 2.3% for Douglas County. The current population estimate is for the two-county region is about 110,000. The forecast estimates that by 2030 the region may grow by another 10,000 to 60,000 people.

**Exhibit 12
Summary of GMA Population Forecasts (2005-2030)**

	2005	2030			Rate		
	Est.	Low	Medium	High	Low	Medium	High
Chelan	69,200	80,009	93,523	107,177	0.6%	1.2%	1.8%
Douglas	34,700	40,197	49,627	61,216	0.6%	1.4%	2.3%
Total	103,900	120,206	143,150	168,393	0.6%	1.3%	2.0%

Source: OFM, 2009; BERK, 2009

For the Urban Growth Area of Wenatchee, the City estimates that it will add another 16,945 people by 2025.¹ The City of East Wenatchee estimates that it will add another 13,026 people by 2025.² It is important to note, at least from a planning perspective, that East Wenatchee plans on accounting for roughly the same amount of future growth as Wenatchee over the time period even though it currently has a substantially smaller city population.

5.3 Housing

Based on the population growth forecasts for each City, an estimated 15,475 additional housing units will be needed by 2025 (the planning horizon year in Wenatchee’s Comprehensive Plan) to accommodate the projected future population.

The City of Wenatchee’s Comprehensive Plan does not specifically address a target for multifamily housing. In order to estimate a likely target for multifamily units, the 2008 American Community Survey is used to develop the percentage of current housing units that are multifamily (more than 3 units in the structure). This percentage is then applied to the 2025 Comprehensive Plan’s housing target to estimate the share of multifamily units. Estimates of multifamily units for East Wenatchee are taken from the City’s Comprehensive Plan. The City’s Plan only goes out to the 2022 planning horizon; therefore, a 2025 estimate is imputed using the City’s assumption on persons per housing unit and the relative amount of total housing that is expected to be multifamily. These estimates are shown in Exhibit 13.

¹ City of Wenatchee Comprehensive Plan, 2008.

² City of East Wenatchee Comprehensive Plan, 2006. The 2025 estimate is imputed from the actual 2022 estimate to provide a consistent comparison with Wenatchee.

**Exhibit 13
Summary of Comprehensive Plan Housing Targets**

	Current Units	New Units	Total
	2009	2025	
Total Units	17,980	15,475	33,455
Wenatchee	12,896	8,375	21,271
East Wenatchee	5,084	7,100	12,184
Estimated Multifamily Units	4,100	3,232	7,332
Wenatchee	3,337	2,167	5,505
East Wenatchee	763	1,065	1,828

Source: OFM, 2009; BERK, 2009

The combined UGAs are expected to accommodate an additional 15,475 units by 2025 (based on forecasted population growth). East Wenatchee is planning to absorb the majority of this housing unit growth even though it currently comprises only a third of the current housing unit base for the two areas.

It is important to recognize that the estimate above accounts for approximately 1,440 of Wenatchee’s imputed 2,167 additional housing units that are assumed to be a part of the Wenatchee Riverfront Subarea Plan. Given the cost of land along the waterfront, however, the Subarea Plan assumes that only higher-density residential options (such as apartments, condos, and townhomes) are likely to be viable options for future development. Accounting for this subarea in the multifamily totals, leaves the City of Wenatchee with a target of approximately 700 multifamily units for elsewhere in the City.

6.0 REVIEW OF PRIVATE INVESTMENT SITUATION

The demand estimates developed later in this analysis are primarily driven off rates of historical growth – mostly within the last decade which saw fairly robust growth in the national, state, and local economy. The following discussion is designed to be a point of context for private investment when considering the demand forecasts given the large amount of uncertainty that exists in how (and when) the economy might recover.

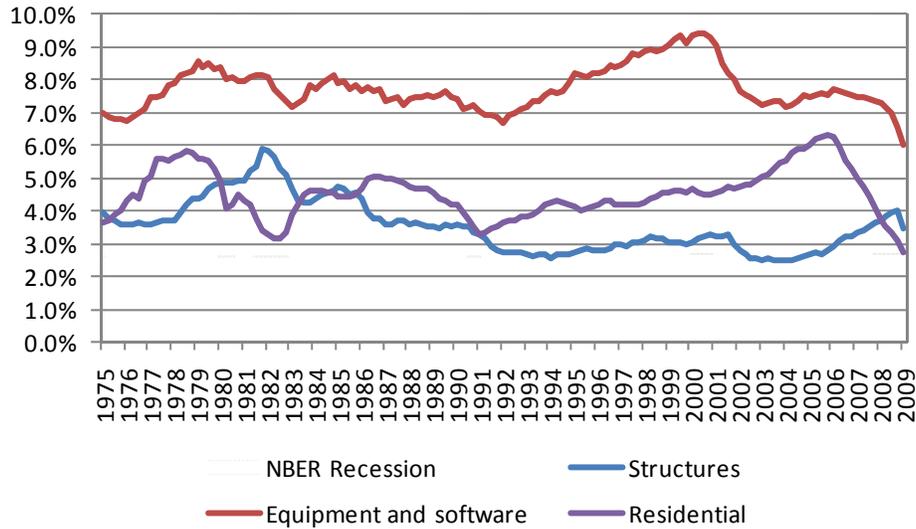
The demand for commercial land has been impacted by the current economic recession. Investment by businesses and commercial real estate entities are likely to lag significantly in the near-term, due to reduced demand for products and services, resulting in under-use of capacity in industrial production. The commercial property sector in the U.S. (and the region) is being hit hard by the current financial and economic downturn, resulting in the shrinkage of overall private lending activity.

The most direct impact of the current recession will be the short- to mid-term decline in the demand for commercial space. Commercial real estate is a capital-intensive business in which lending capacity has diminished because of the absence of securitization in the lending markets. In addition, the fundamentals in these industries are driven by the health of the overall economy, so a result of the current recession is a decline in both commercial occupancy rates and rents.

The region’s strength in agriculture is likely to help insulate the regional economy somewhat, since demand for food products has not fallen as precipitously as for other products. However, Chelan

County's manufacturing and professional service firms are likely to feel these impacts more than other sectors. In terms of the land demand analysis, the current recession will have the impact of dampening demand for commercial space, at least in the short-term.

**Exhibit 14
Components of Non-Residential, Private Investment (as a percent of GDP)**

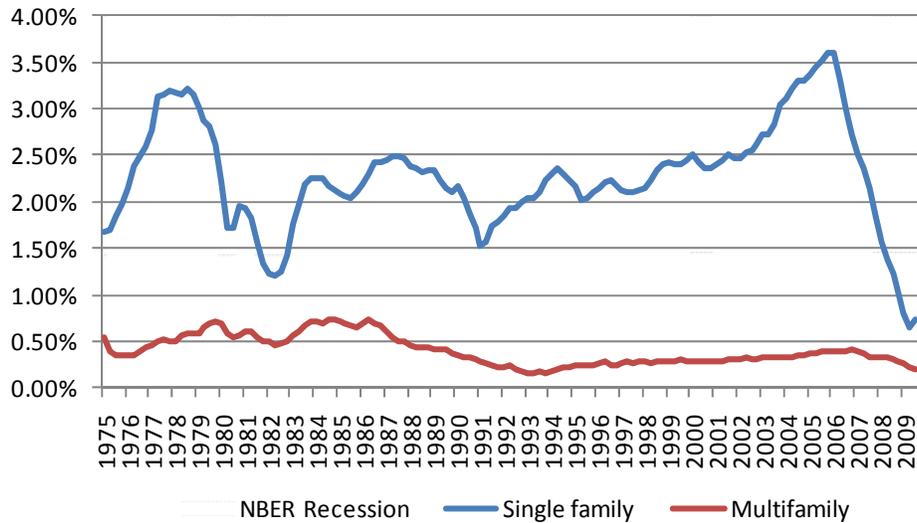


Source: Bureau Economic Analysis, 2009. National Bureau of Economic Research, 2009.

Exhibit 14 shows non-residential and residential investment as a percent of GDP. As the Exhibit shows, all areas of private investment have significantly declined. Private business investment in equipment and software declined 33.8% from this time in 2008, and investment in non-residential structures is down 44.2% (annualized). These trends are important to follow because investments in equipment and software are generally coincident with the economy, indicating the need to invest in order to meet increasing demand. The investment in non-residential structures typically trails the overall economy, due to the time it takes for new facilities to be built once demand for production resumes. However, the most precipitous drop in investment has been in the area of residential building. After peaking in 2005, residential investment has dropped to historic lows.

Breaking down the investment trends for residential structures shown in Exhibit 14, Exhibit 15 details the split between single family and multifamily structures. While much of the expansion in the housing market was due to inflation in single family structures in the last decade, there was also some run-up in multifamily as well. However, since the peak in the housing market, private investment in both types is off during the recession.

Exhibit 15
**Components of Residential, Private Investment (as a percent of GDP),
Single Family and Multifamily**



Source: Bureau Economic Analysis, 2009. National Bureau of Economic Research, 2009.

In the current recession, private non-residential investment (structures, and equipment and software) have taken large declines. In previous recessions, the economy began recovering before non-residential investment in structures began to increase before employment and residential investment. This is likely to be the situation in this recession, due to the current inventory of commercial space and excess capacity in industrial production due to decreased demand.

7.0 SUPPLY AND DEMAND ASSESSMENT

This assessment develops land supply and demand estimates for multifamily housing, retail, and offices uses for the City of Wenatchee. After the review of land supply and demand, the assessment addresses key market dynamics that frame the long-term market situation for the North Wenatchee Avenue corridor.

7.1 Multifamily Housing

Supply Assessment

The land supply analysis assessed Wenatchee’s buildable land capacity using 2009 Chelan County parcel data and City of Wenatchee zoning. The analysis estimated net buildable parcel acreage for multifamily and commercial development in the UGA by subtracting environmentally critical areas, and accounting for infrastructure and right-of-way needs and market factors.

Capacity figures for the Wenatchee Waterfront in this analysis come from the 2004 Wenatchee Waterfront Sub-area Plan and they were used in place of the calculated capacities. The Plan’s capacity figures were added to the calculated multifamily and commercial capacities for the remainder of the Wenatchee UGA to arrive at total land capacity figures.

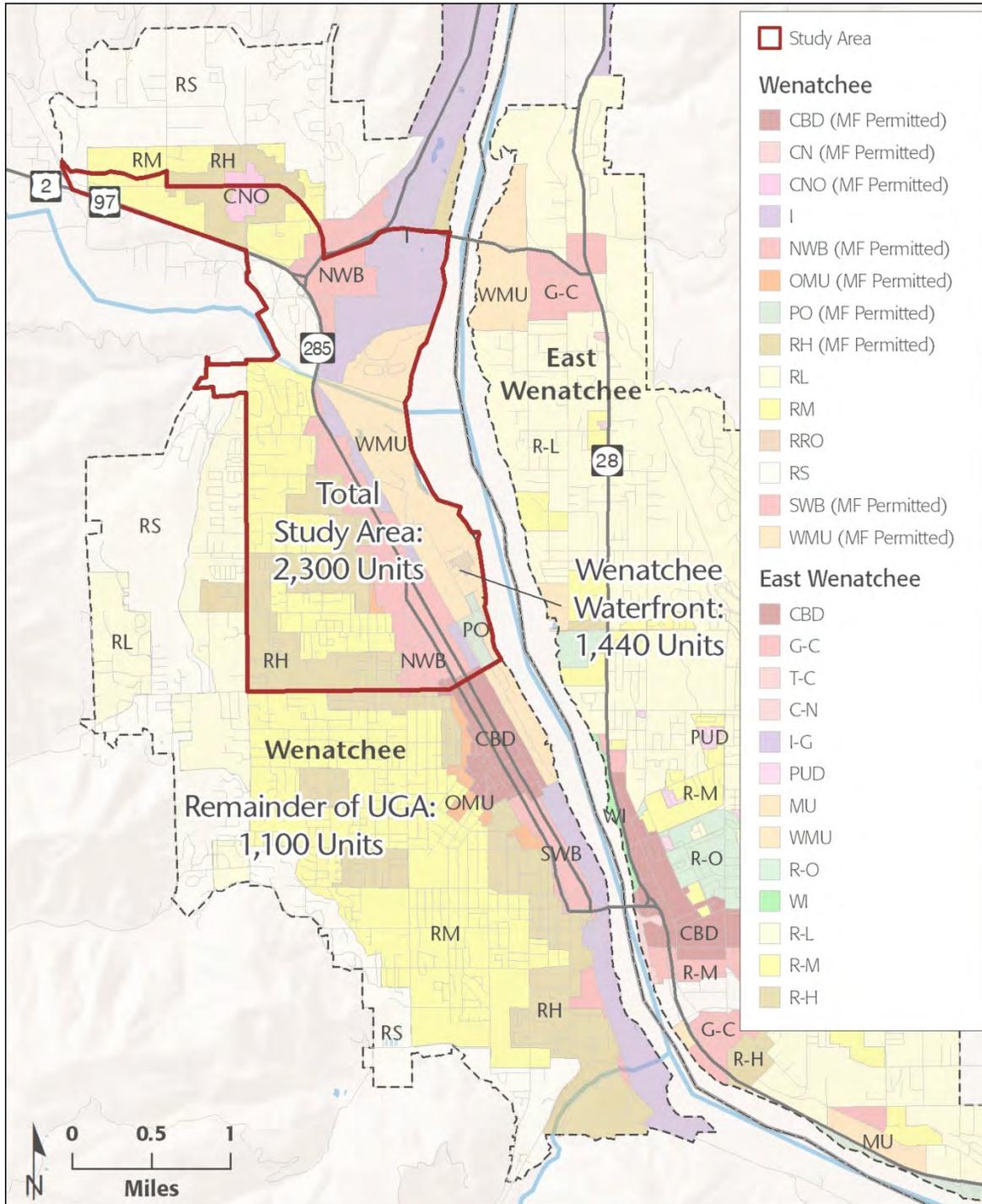
Based on the land capacity analysis, Exhibit 16 and Exhibit 17 show that Wenatchee’s UGA has capacity for around 3,400 multifamily housing units. The majority of the unit capacity, 2,300 of the 3,400 units, is in the North Wenatchee Avenue corridor study area. The Wenatchee Waterfront has a large portion of that capacity with 1,440 units. The remainder of the UGA outside of the study area has capacity for about 1,100 additional units.

**Exhibit 16
Multifamily Zoned Vacant and Redevelopable Parcel Capacity**

Area	Multi-Family Unit Capacity
Wenatchee UGA	3,400
Study Area	2,300
<i>Waterfront</i>	<i>1,440</i>
Remainder of UGA	1,100

Source: Chelan County Assessor, 2009; BERK, 2009

Exhibit 17
Map of Multifamily Housing Capacity



Source: OFM, 2009; BERK, 2009

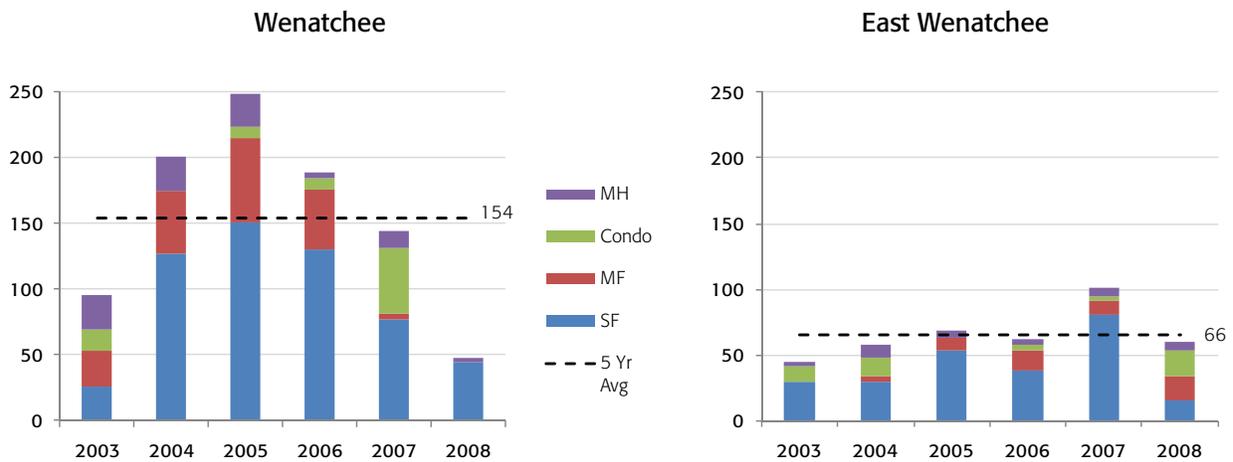
Demand Assessment

The demand analysis examines the rate that multifamily units are expected to enter the Wenatchee and East Wenatchee markets over the long-term planning horizon. As a starting point for the future demand assessment, it is helpful to first look at historical trends in multifamily development. Since there are no readily available market data on actual multifamily construction by year and unit count for the immediate area, building permits are used to approximate the absorption rate for the local market. The absorption rate is a measure of the ability of the real estate market to absorb all of the housing units for sale/rent in a given amount of time.

Exhibit 18 and Exhibit 19 summarize the housing permits for Wenatchee and East Wenatchee from 2003-2008. The past five years of permit growth in the region are characterized by the same level of volatility experienced in the US housing market with a peak in 2005 and a sharp drop in 2008. Together, both cities averaged about 220 units a year over this time period.

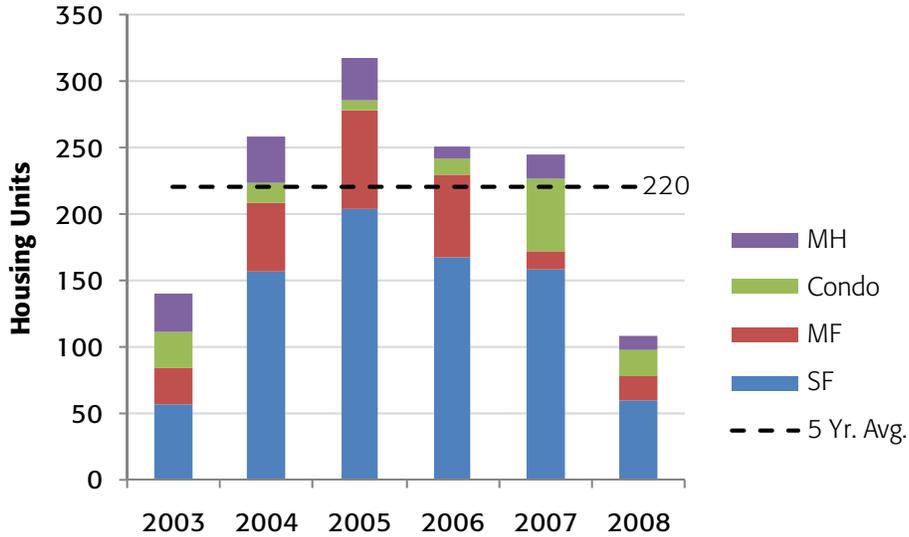
The majority of demand was for single family residences with substantial amounts of multifamily housing between 2004 and 2007. The City of Wenatchee had the most activity, averaging 154 units a year, compared to East Wenatchee (66 units).

**Exhibit 18
Summary of Housing Permit Activity by City, 2003-2008**



Source: City of Wenatchee, 2009; City of East Wenatchee 2009; BERK, 2009

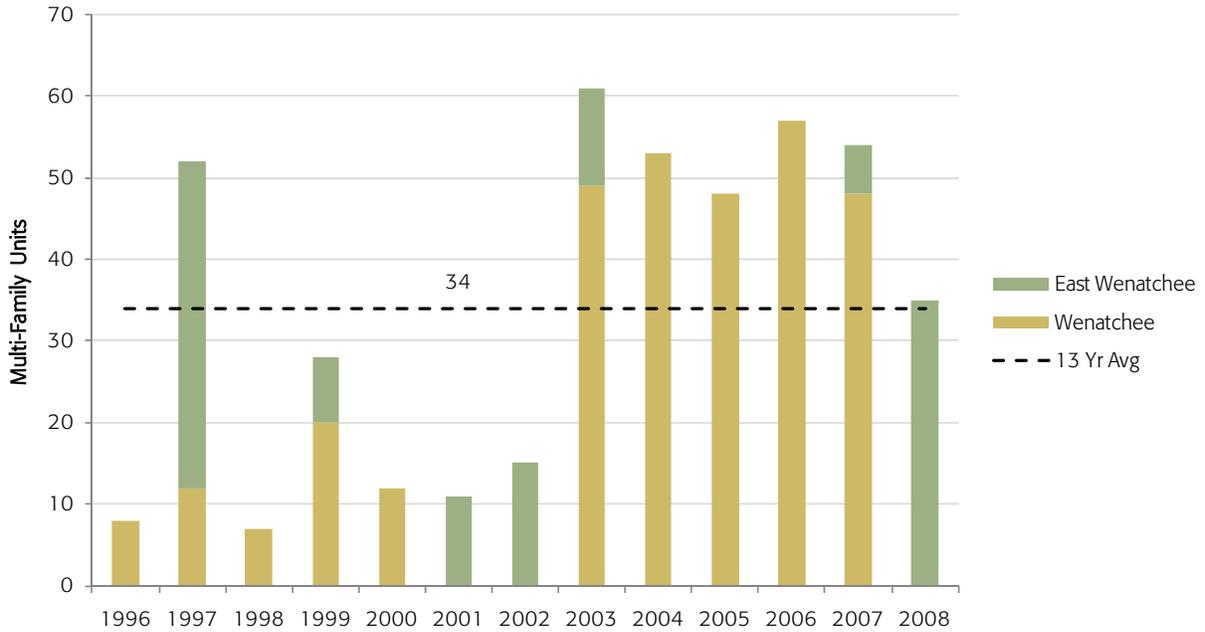
Exhibit 19
Combined Housing Permit Activity for Wenatchee and East Wenatchee, 2003-2008



Source: City of Wenatchee, 2009; City of East Wenatchee, 2009; BERK, 2009

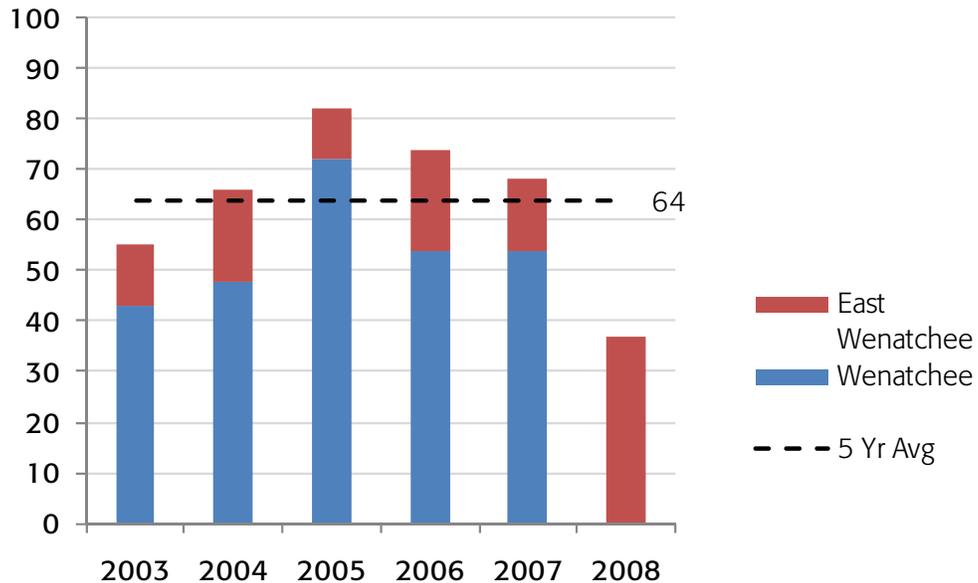
Permit data from the two cities provides only a five-year window during a period that was at the peak of the nationwide housing bubble. To assess the growth in multifamily units over a longer period of time, housing permit data from the U.S. Census Bureau is used. The Census permit figures (Exhibit 20) are imputed values based on residential building permits reported monthly or annually (depending on the jurisdiction) to the Census Bureau by individual municipalities and counties. For the years where there is overlap with the cities' figures, the data does not show a substantial amount of variance.

Exhibit 20
Summary of Housing Multifamily Permit Growth, US Census Data



Source: US Census, 2009; BERK, 2009

Exhibit 21
Summary of Housing Multifamily Permit Growth, Wenatchee and East Wenatchee



Source: City of Wenatchee, 2009; City of East Wenatchee, 2009; BERK, 2009

Using these two sources as a basis provides a range (high and low) of estimates of the potential rate of future demand for multifamily units in the City. The Census data estimates that Wenatchee is

averaging about 24 units a year over the past 13 years. The City’s recent housing activity during the last five years suggests that the higher end of the demand spectrum could be at 45 units a year. The City of East Wenatchee has a range of 10-19 units per year over the same time period. Because the housing bubble peaked in 2005 and 2006, the low end estimate based on the Census’ 13 year average is probably a more realistic figure going forward.

Exhibit 22 summarizes these multifamily housing permit trends and indicates the likely range of the area’s overall long-term demand for multifamily housing. According to Exhibit 22, if growth over the next 15 years falls within historical absorption ranges, the Wenatchee/East Wenatchee area is estimated to experience demand for between 510 and 960 multifamily housing units. The City of Wenatchee’s share of this demand would be between 360 to 680 multifamily units.

**Exhibit 22
Summary of Multifamily Housing Demand**

	Census Permits	City Permits
Wenatchee (Avg)	24	45
East Wenatchee (Avg)	10	19
Total	34	64
 Demand for Additional Units (2025)		
Wenatchee	360	680
East Wenatchee	150	280
Total	510	960

Source: OFM, 2009; BERK, 2009

Market Dynamics

Most of the housing demand has been in single-family homes with 67% and 66% of permitted units for Wenatchee and East Wenatchee, respectively. Based on the City of Wenatchee’s Comprehensive Plan, the City is planning on accommodating 8,375 total units by 2025. If the ratio of single-family to multifamily development remained the same as today, 2,167 of those additional units would be multifamily.

Using Census and City permit data, the Wenatchee has been averaging 24 (13 year historical Census figures) and 42 (5 year historical City figures) multifamily units a year, respectively. If these trends continue, the City would realize 360 to 680 new multifamily units by 2025 (Exhibit 22). The supply analysis for the Wenatchee UGA identified a capacity for about 3,400 multifamily housing units, far and away above the capacity identified needed to accommodate demand.

Another way to put this finding in context is to examine the amount of population growth that has occurred in the past as basis for the future. Over the past 10 years, the City of Wenatchee has added 2,248 in non-annexation population growth and accounts for 20.4% of the two–county overall population growth. For the next 20 years, it is possible to construct a low and high population growth scenario.

For a low estimate, one could assume that the population grows much like the previous decade and the City adds another to 4,500 people over 20 years. For a higher range, one could take the OFM high population forecast for Chelan County and assume that Wenatchee continues to amass a 20%

share by the forecasted growth. The high forecast estimates that the county would add 34,000 people. A 20% share of that gets Wenatchee about 6,800 in population growth.

Applying the Wenatchee's Comprehensive Plan person per household estimate (2.53) nets approximately between 1,800 (low estimate) and 2,700 (high estimate) total housing units over the next 20 years. Using the current 25% share of higher density multifamily housing in the City indicates that anywhere between 440 and 670 units could be expected over that time. Even doubling that share to 50% produces estimates (880 and 1340 units) that are still far below planning and capacity targets.

**Exhibit 23
Comparison of Multifamily Housing Demand and Supply in Wenatchee**

	Units in 2025
Estimated Planning Target	2,167
Supply	3,400
Demand	360 to 680

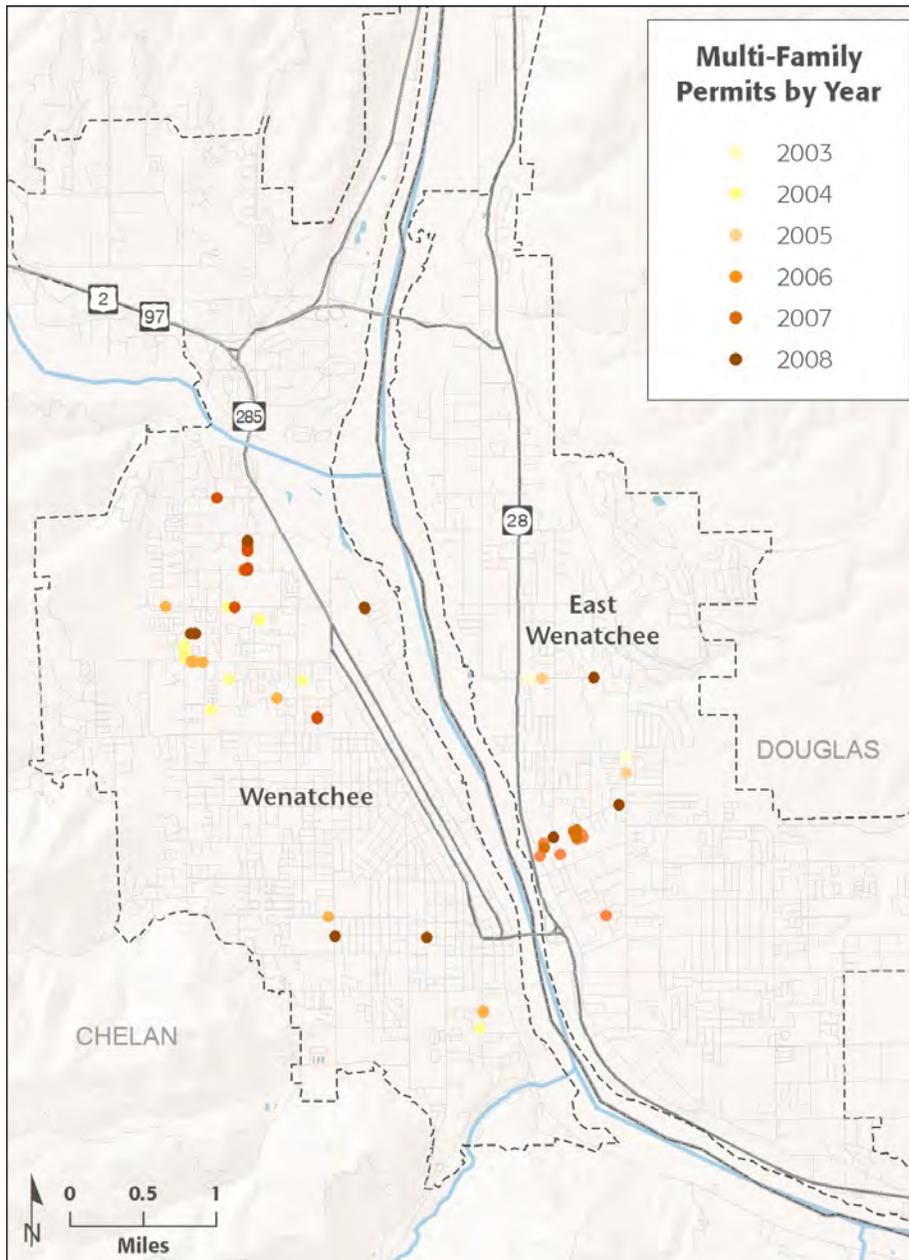
Source: OFM, 2009; BERK, 2009

While the City is planning for a larger amount of capacity, identified in its Comprehensive Plan and codified in its zoning code, the amount of demand for multifamily housing is far outstripped by the available capacity in the City. Even using the region-wide estimate of around 510 to 960 units, the City would not reach the levels identified in the capacity analysis.

The abundance of capacity means that when demand materializes and development occurs, it has several options on where it might locate. This observation is evident in the location decisions of the region's recent multifamily development. Exhibit 24 shows the location of multifamily building permits between 2003 and 2008. Since multifamily is zoned throughout the City and there is substantial development (and redevelopment) capacity in those zones, the location of the permitted development is scattered throughout the City.

Given historic trends, it is entirely possible that demand for multifamily housing will be a scarce commodity within the region's planned urban centers. Historically, residential development in Wenatchee and the broader region has been substantially skewed towards single-family housing. Depending on the period analyzed, the City has seen an average of between 24 and 42 multifamily units added per year, and these units have been scattered in relatively small developments (e.g. total units in structure) around the City. In an ideal world, this housing will provide important close-in support for pedestrian-oriented commercial development, promoting a critical mass of street-level activity. Such development, however, will require a shift in the nature and amount of multifamily development in the City.

Exhibit 24
Map of Multifamily Permits



Source: OFM, 2009; BERK, 2009

7.2 Retail
Supply Assessment

The supply assessment for retail and other commercial uses focuses on the amount of building square feet that commercial zoned property in the UGA could support. Because retail, office and other commercial uses can be built in the various commercial zones (CBD, CN, NWBD, SWBD, and OMU), square feet figures are for all commercial uses, not just retail uses.

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Market Assessment**

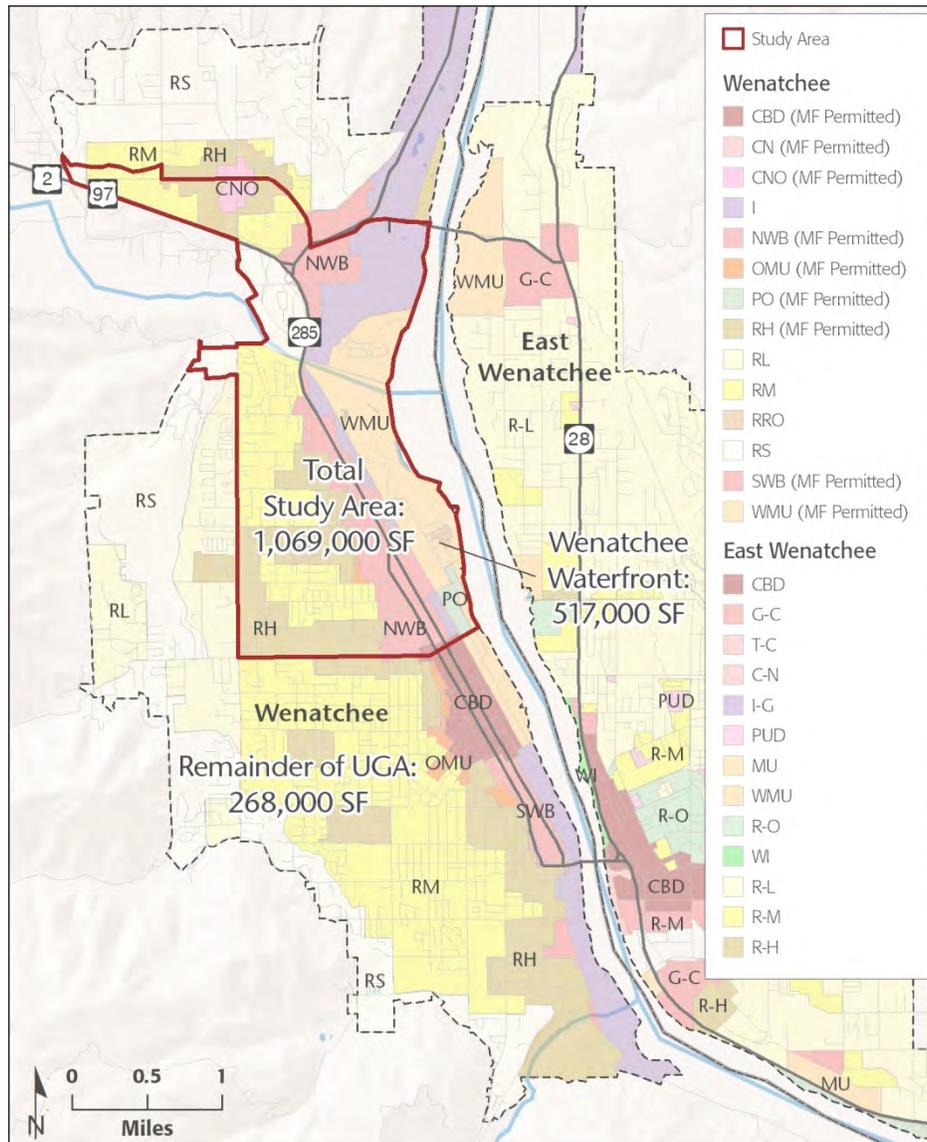
Overall, Wenatchee has capacity for a fair amount of commercial development with capacity for 1.3 million square feet. Again, the redevelopment of the Wenatchee Waterfront supplies a sizable amount of capacity for commercial buildings with 517,000 square feet available, about half of all capacity available in the study area. The remainder of the UGA has capacity for about 268,000 of commercial uses, most of this on several large vacant parcels on Easy Street in Sunnyslope north of the study area.

**Exhibit 25
Commercial Zoned Vacant and Redevelopable Parcel Capacity**

Area	Building Square Feet
Wenatchee UGA	1,337,000
Study Area	1,069,000
<i>Waterfront</i>	<i>517,000</i>
Remainder of UGA	268,000

Source: Chelan County Assessor, 2009; BERK, 2009

Exhibit 26
Map of Commercial Capacity



Source: Chelan County, 2009; Douglas County, 2009; BERK, 2009

Demand Assessment

Demand for new retail space is driven by increases in population and household income. The spending power of a trade area’s population can be converted into estimates of retail square footage by using assumptions about the average spending per capita in various retail categories and the average sales per square foot generated at typical retailers in those same categories.

For example, if a trade area comprised 1,000 persons who spent on average \$2,000 per person annually on groceries, and grocery stores in the area average \$400 of sales per square foot, one could calculate the square footage of grocery store space supported by these residents to be 5,000 square feet.

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For the purposes of estimating demand growth in Wenatchee, two trade areas were analyzed. The trade areas include:

- **Primary Trade Area** –Wenatchee UGA and East Wenatchee UGA.
- **Secondary Trade Area** – Areas within 45-minute drive of Wenatchee and East Wenatchee.

Based on population projections for the Wenatchee and East Wenatchee urban growth areas, it is estimated that more than 28,000 new residents will move into the primary trade area. Given typical spending per resident, these new residents could support over 1.2 million square feet of new retail space, of which a fraction would be in retail sectors like restaurants (111,000 sf), apparel and accessories (42,000 sf) and books, music, and periodicals (5,000 sf). Exhibit 27 below shows a detailed representation of this sample calculation for demand generated by population growth in the primary trade area. These same calculations were carried out for population growth in the secondary trade area (18,872 additional population by 2025), which added another 786,000 square feet of future retail demand.

In the above calculations, and in Exhibit 27 and Exhibit 28, the categories of *restaurants*, *apparel and accessories*, and *books, music, and periodicals* have been highlighted because they represent key categories of specialty retail that can fit well as pillars of pedestrian-oriented urban centers.

**Exhibit 27
Retail Space Projections, Primary Trade Area
2008-2025**

How many people will move into the primary trade area in the next 17 years?					
1	Estimated population growth between 2008 and 2025	28,471 persons			
How much new retail space will these new residents support?					
		Restaurants	Apparel & Accessories	Books, Music, & Periodicals	All Retail (No Auto)
2	Income adjusted retail revenue (GBI) per capita, 2008 <i>(The average amount each resident in the trade area spends annually)</i>	\$1,446	\$768	\$85	\$13,748
3	Estimated increase in retail revenue due to population growth <i>(Line item 1 multiplied by line item 2)</i>	\$41,169,389	\$21,862,480	\$2,417,018	\$391,405,797
4	Dollars per s.f. of retail space <i>(Assumption based on regional averages)</i>	\$370	\$510	\$430	\$330
5	Total increase in retail space demand (sf) <i>(Line item 3 divided by line item 4)</i>	111,269	42,868	5,621	1,186,078

Source: WA Employment Security Department, WA Department of Revenue, Urban Land Institute, BERK, 2009

It is important to note that Exhibit 27 is estimating the *entire* pool of retail demand in the primary trade area. Retailers in Wenatchee can only expect to capture a portion of this new demand since much of the spending, particularly in the “other retail” category, will be captured by the regional retail competition in East Wenatchee. Typically, increases in retail market penetration (or capture) are driven by the emergence of compelling retail centers that are large enough to attract nearby consumers and compete with other retailers in the area.

When one adds in the retail square footage that would be supported by expected growth in Wenatchee’s secondary trade area, total supportable space increases from almost 1.2 million square feet to a total of almost 2.0 million square feet (Exhibit 28).

**Exhibit 28
Demand for Retail in Region**

Supportable Space from New Population 2008-2025 (SF)	Trade Area		
	Primary	Secondary	Total
Restaurants	111,000	74,000	185,000
Apparel & Accessories	43,000	28,000	71,000
Books, Music, & Periodicals	6,000	4,000	10,000
All Retail (No Auto)	1,186,000	786,000	1,972,000

Source: BERK, 2009

Again, it is important to note that the above estimates of square footage that would be supported by market-area population growth reflect the size of the “whole pie.” Wenatchee is in a position to compete for a portion of that pie, but how competitive Wenatchee will be is an open question—a question that hinges in part on how successful the City can be in achieving its vision for the Waterfront, for Downtown, and in supporting the success of auto-oriented retail centers elsewhere in the City, including those that fall within the study area for this Master Planning process.

Market Dynamics

For the past 10 years, Wenatchee has maintained a relatively strong share of the regional retail market compared to other nearby cities in Chelan and Douglas County. However, recent trends have indicated that Wenatchee is losing its regional market positioning to East Wenatchee (or framed in more positive terms, Wenatchee has held steady its retail position while East Wenatchee has emerged as a strong player in the retail landscape).

One way to talk about market position is in terms of retail “capture rates.” A capture rate describes the number of “person-expenditures” a retail area captures. For example, if a typical household in the Washington spends \$1,000 per person annually on grocery store purchases, and if grocery stores in Wenatchee capture \$10 million in grocery sales per year, then Wenatchee stores are said to “capture” the equivalent of 10,000 people’s expenditures (\$10 million of expenditures divided by \$1,000 per person = 10,000 person-expenditures). This figure of 10,000 person-expenditures represents Wenatchee’s “capture rate” for grocery sales.

Person-expenditures are essentially a measure that estimates the market size being served by a particular retail sector. High-performing retail sectors will typically draw in person-expenditures that exceed the population of immediately surrounding areas because they capture retail sales from persons outside the immediate community. Inversely, less successful retail sectors will have fewer person-expenditures than the surrounding population because trade area residents are “leaking” elsewhere to do their shopping.

This section presents person-expenditures for Wenatchee and East Wenatchee. By looking at the volume of sales in the Wenatchee retail market and its main competitors, one can identify opportunities to develop strategies that build off existing strengths or shore up weaker sectors.

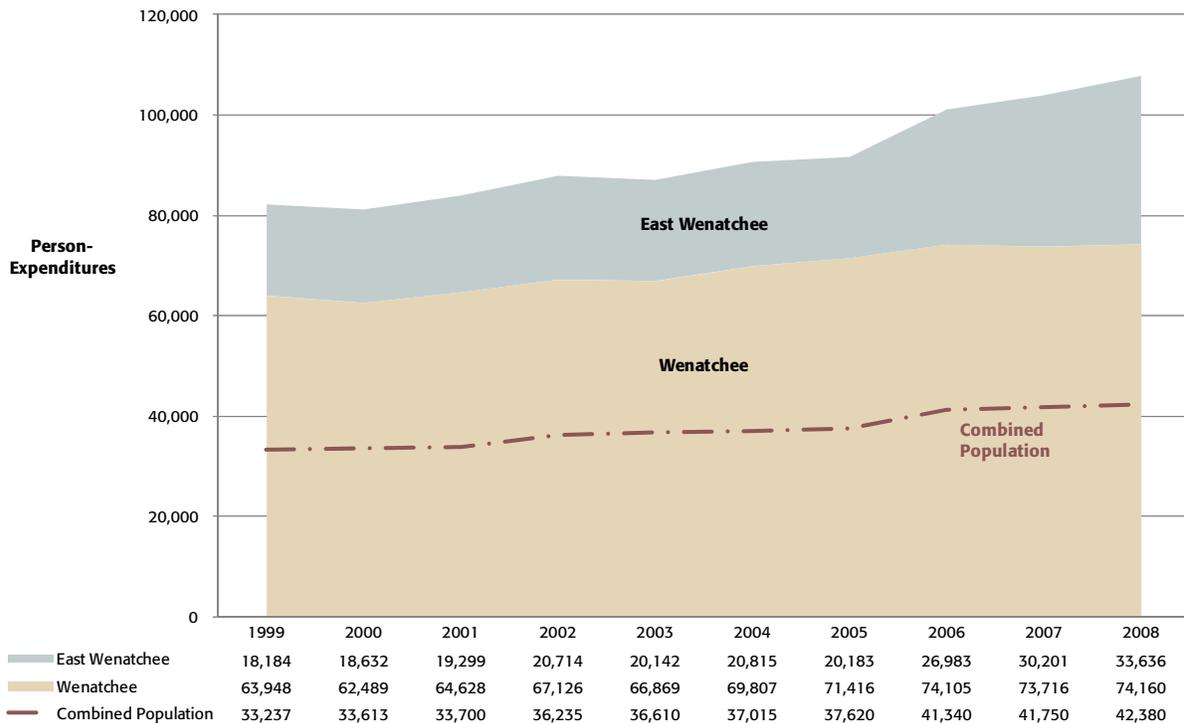
Exhibit 29 shows that Wenatchee’s capture rate of all retail sales has grown from 63,948 person-expenditures in 1999 to 74,160 in 2008. If Wenatchee were to have a retail presence on par with its

**North Wenatchee Avenue Transportation Master Plan
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population, then one would expect the City's capture rate to be close to Wenatchee's population of over 30,000. The current capture suggests that Wenatchee businesses are drawing from a customer base more than twice as big as its population. This indicates that Wenatchee is a strong regional retail center that serves a much larger market area, drawing consumers from other parts of Chelan and Douglas Counties, and probably beyond.

The scale of Wenatchee's retail sales, in relation to East Wenatchee, is illustrated in Exhibit 29. Collectively, the two-city retail base in Wenatchee and East Wenatchee has increased at an average annual rate of 2.7% over the past 10 years. In 2008, Wenatchee captured a greater share of person-expenditure in the two-city area (69%) than East Wenatchee (31%). However, in terms of growth trends, East Wenatchee has seen the most rapid increase in retail sales capture over the past 10 years, growing at an annual average growth rate of 7.1%, compared to a modest 1.7% average annual growth rate for Wenatchee.

**Exhibit 29
Total Retail and Restaurant Capture Rates for
Wenatchee & East Wenatchee, 1999-2008**



Source: Washington Department of Revenue, 2009

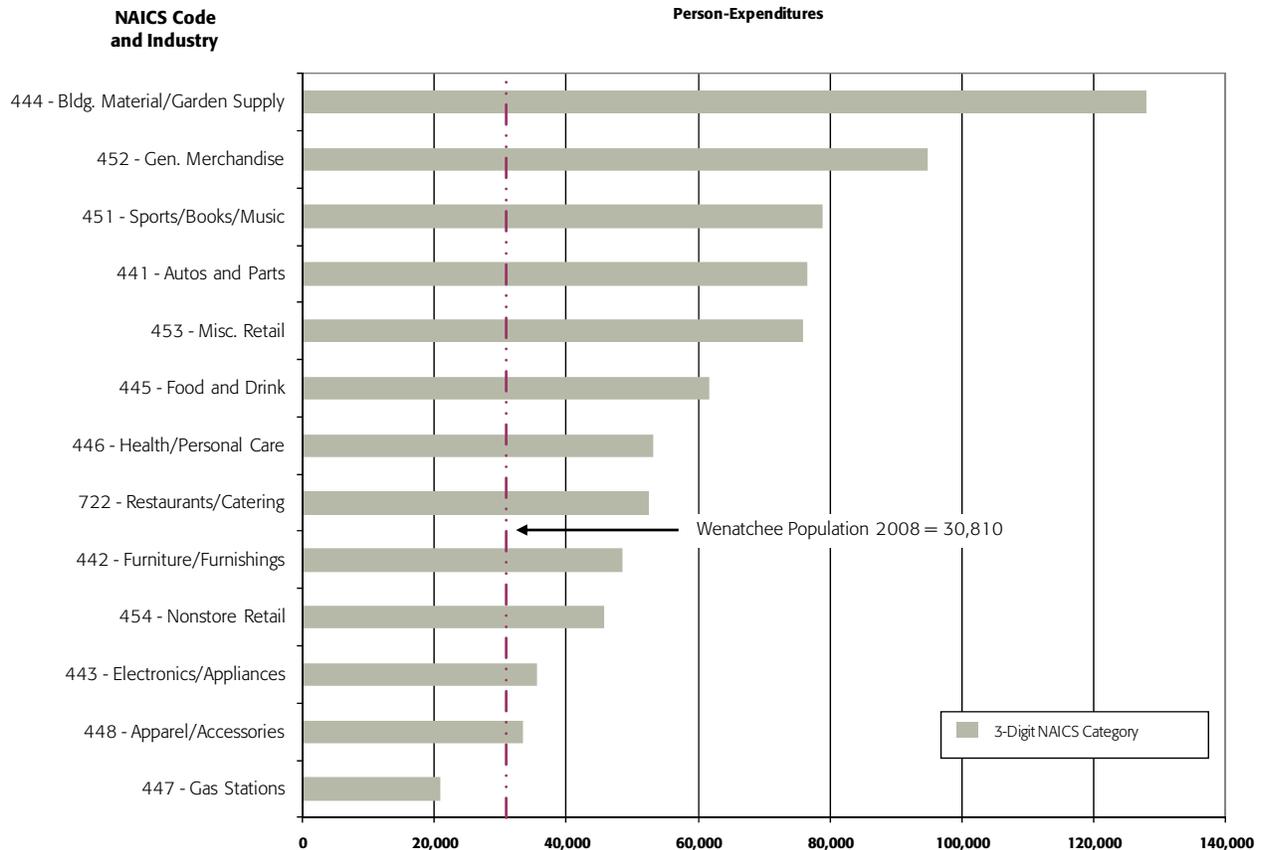
Note: The capture rates in this chart are additive. For example, in 2008, Wenatchee captured 74,160 person expenditures and East Wenatchee captured 33,636 for a total of about 107,796 person expenditures.

Exhibit 30 shows the person-expenditures for Wenatchee retailers in 2008. The retail sector in Wenatchee is particularly strong in almost all categories. Wenatchee has very strong retail sales in building materials/garden supply, which includes sales in stores such as Home Depot, and strong

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sales in general merchandise, which includes sales from large department stores such as Fred Meyer and Costco. Also, Wenatchee is particularly strong in automobile sales. Wenatchee retailers are likely drawing spending in these categories from consumers in surrounding communities. Wenatchee has less of a retail presence in some retail categories such as electronics, apparel, and gas stations. Spending in these categories is possibly “leaking” out to other retail clusters in Chelan County and East Wenatchee.

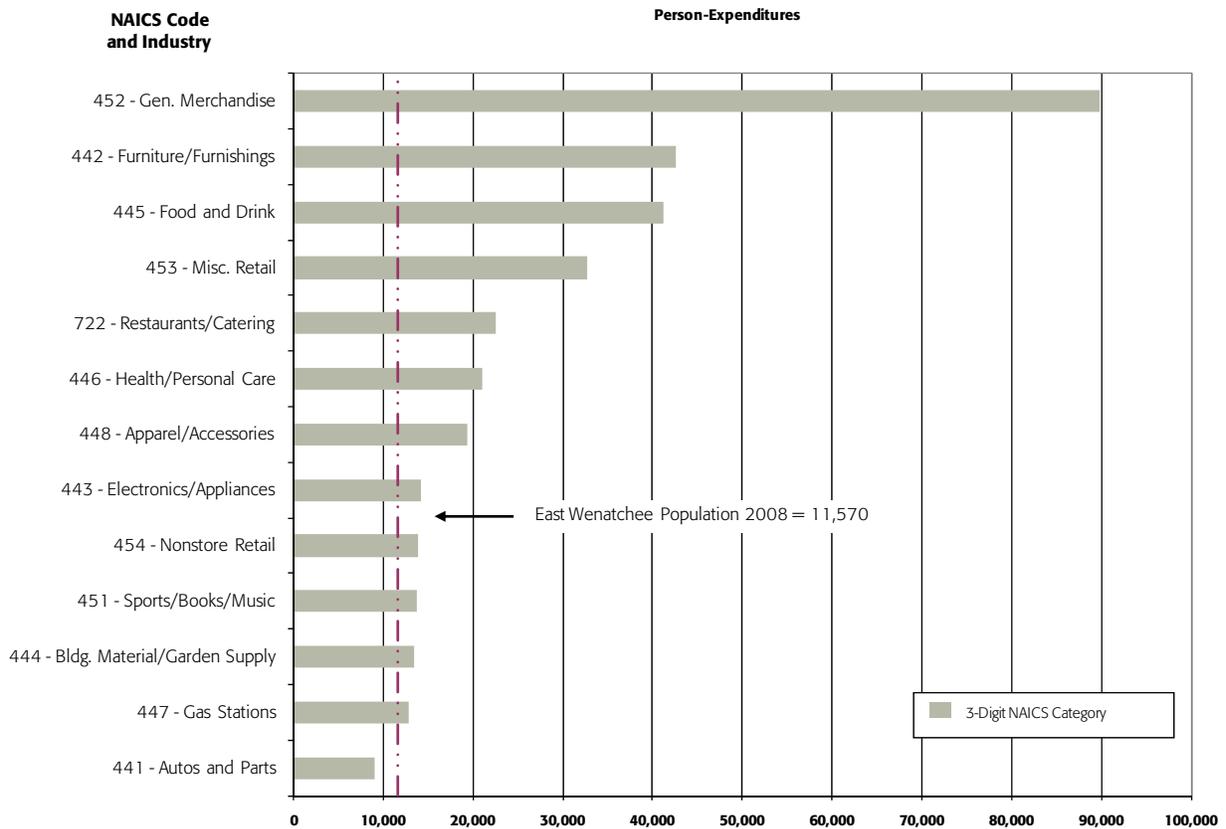
**Exhibit 30
Person-Expenditures in Wenatchee by Retail Category, 2008**



Source: Washington Department of Revenue, 2009

Exhibit 31 shows the person-expenditures for East Wenatchee retailers in 2008. East Wenatchee’s greatest retail sector strengths are in the general merchandise category. It is clear that large-scale retailers and furniture/furnishings store options in East Wenatchee are drawing customers from a large regional trade area. Most, if not all, of this general merchandise retail capture can be explained by the presence of the Wenatchee Valley Mall, which is the only large regional mall in the two-county region. East Wenatchee has less of a retail presence in many of the retail categories that Wenatchee possesses relative strength in, such as building materials/garden supply and auto parts, suggesting that spending in these categories is likely “leaking” out to Wenatchee.

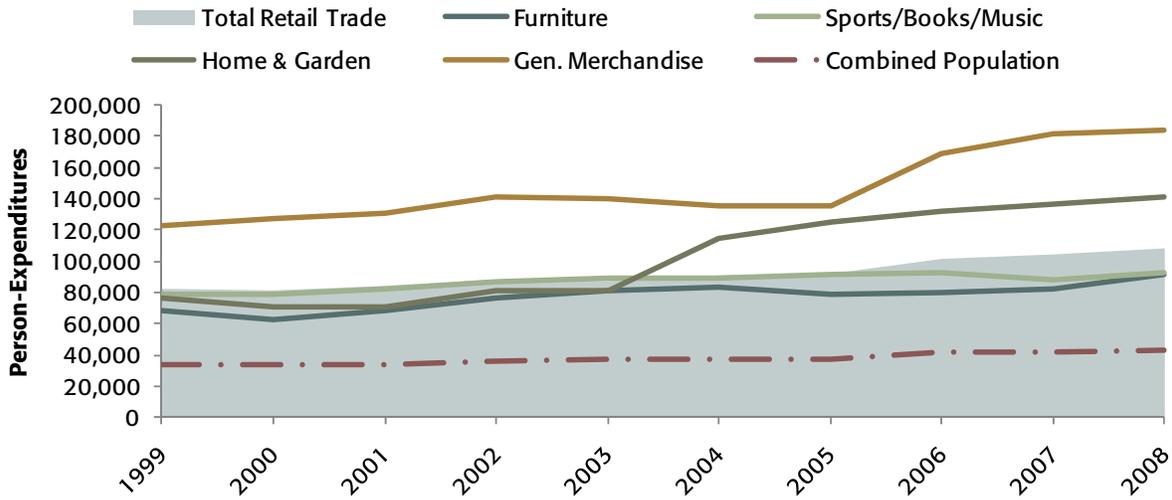
Exhibit 31
Person-Expenditures in East Wenatchee by Retail Category, 2008



Source: Washington Department of Revenue, 2009

Combined retail capture within Wenatchee and East Wenatchee is strong in the retail industries displayed in Exhibit 32. The retail capture for these industries is more than twice the combined population. The capture is particularly strong in general merchandise and home and garden. Total retail trade for the two-city area also is more than twice the combined population.

**Exhibit 32
Combined Person-Expenditures by Retail Category, 1999-2008**



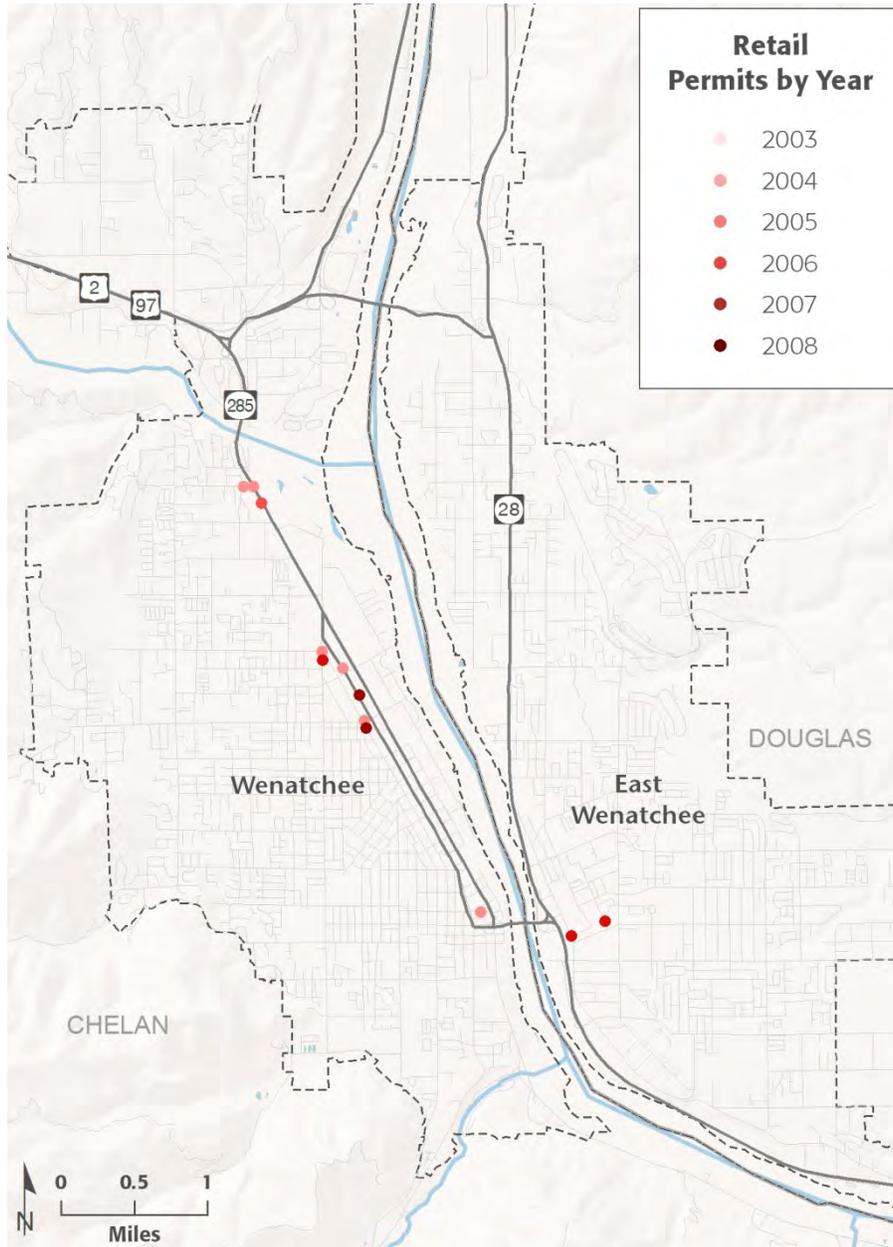
Source: Washington Department of Revenue, 2009

Given all of the uncertainties in play, it is not possible to estimate with precision the market capture for Wenatchee compared to East Wenatchee going forward. In the near-term, the economic recession has depressed consumer spending, and it is uncertain how long it will be before retail spending will rebound. In addition, recent trends in retail activity suggest that East Wenatchee is increasing its market capture and has the land capacity to continue this trend, especially in larger scale and auto-oriented strip retail. As we noted previously, Wenatchee’s success in competing for retail dollars is likely to hinge on (1) how successful the City will be in achieving its vision for the Waterfront and Downtown urban areas and (2) how successful auto-oriented retail areas will be at attracting retail dollars.

From a competitive perspective, different areas of the City will be more desirable locations for different types of retail uses. The personal-expenditure figures indicate that Wenatchee is a regional retail center drawing a significant number of people from outside the City. It is expected that Wenatchee will continue to be a large regional draw in the future. The type of retail that currently services the regional demand are mainly auto-oriented retail uses such as those along North Wenatchee Avenue and around the Wenatchee Valley Mall. Of areas within the City of Wenatchee, the North Wenatchee Avenue corridor has the strongest competitive positioning to capture regional retail demand. As can be seen in Exhibit 33, almost all the recent building permits for retail uses for Wenatchee and East Wenatchee since 2003 have been along North Wenatchee Avenue.

Smaller scale, higher value, and/or more lifestyle retail uses (such as restaurants, bookstores, and entertainment uses) do not require as much space or parking needs as regional retail draws, and one can point to instances where these kinds of uses can do well in an environment with more urban amenities. Within Wenatchee, Downtown and Waterfront areas that fulfill the City’s vision would be attractive locations for these types of retail uses. In fact, attracting these kinds of uses to Downtown and the Waterfront will be a necessary step if the City’s vision is to be achieved.

Exhibit 33
Map of Retail Permits



Source: City of Wenatchee, 2009; City of East Wenatchee, 2009; Chelan County, 2009; BERK, 2009

Tourism and Attracting Retail Dollars from a More Far-Flung Population

The figures reflected in Exhibit 32, on page 34, demonstrate that in total, Wenatchee and East Wenatchee capture in excess of 150,000 person expenditures in two major retail categories: (1) *general merchandise*, and (2) *home and garden*. Since this count of person-expenditures exceeds the population of the two cities (and even Chelan and Douglas counties as a whole) these capture rates

suggest that Wenatchee and East Wenatchee are currently drawing expenditures from a far-flung market area.

If the two cities were to maintain this dominant market position, one could expect retail square footage demand growth to exceed the growth estimated in Exhibit 28. Continued population growth in places like Chelan or the Methow Valley *could* drive demand for retail space in the Wenatchee/East Wenatchee retail landscape.

On the other hand, as these more far-flung areas continue to grow, one would expect to see an increasing probability that competing retail centers will emerge. To one degree or another, these emerging centers would be expected to cannibalize retail purchases that have historically taken place in Wenatchee and East Wenatchee.

A potential counterbalance to this cannibalization risk is the opportunity that is presented by tourism spending. Chelan County and other counties in North-Central Washington State attract a good deal of tourism today, and with strong growth in the state as a whole, and the Puget Sound area in particular, tourism is expected to continue growing in coming decades. To the extent that Wenatchee can attract greater shares of tourism spending in coming years, the City has an opportunity to bolster its retail offerings (and its retail capture). It is in this context that the success of Wenatchee’s Downtown and Waterfront are particularly important.

If Wenatchee is successful in developing a compelling, authentic, and high-amenity center of urban activity, then the City has a greater chance of increasing its capture of tourism spending.

7.3 Commercial and Office

Supply Assessment

As identified in the retail section above, the commercial land supply assessment is for all commercial zoned land in the UGA. The assessment determined that Wenatchee had capacity for 1.3 million square feet (592 parcels) of commercial zoned land. The vast majority of that capacity is in the North Wenatchee Avenue corridor, and more than one-third of the commercial land capacity is within the Wenatchee Waterfront area with 517,000 square feet of building capacity.

**Exhibit 34
Commercial Zoned Land Capacity**

Area	Building Square Feet
Wenatchee UGA	1,337,000
Study Area	1,069,000
<i>Waterfront</i>	517,000
Remainder of UGA	268,000

Source: Chelan County Assessor, 2009; BERK, 2009

Demand Assessment

In order to assess whether Wenatchee’s existing supply of commercial buildable land is adequate to accommodate future growth, it must be compared to a projection of future demand for space. Based on ESD’s long-term employment projections for North Central Washington, it is estimated that non-retail commercial demand for space driven by employment growth will be almost 900,000 square

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feet over the next 17 years. It is important to note that ESD’s projections were done in 2007 before the current recession. As a result, it may likely take longer than 17 years for the region to reach the demand levels based on the employment projections.

The total square feet estimate is derived by multiplying the incremental growth in employment by average employment density (square footage per employee) assumptions for each sector.

**Exhibit 35
Commercial Employment Growth and Space Demand**

Commercial Demand (Wenatchee & East Wenatchee)	2007	2025	Change 2007-2025
Employment	13,600	16,500	2,900
Space Demand* (sf)	4,080,000	4,950,000	870,000

* Assuming 300 sf / employee

Source: WA ESD, 2009

Assuming that the employment distribution between Wenatchee and neighboring cities remain generally the same, Wenatchee and East Wenatchee can expect to support about two-thirds of the commercial employment growth in North Central Washington, which would create a demand for about 600,000 square feet of building space.

Demand for retail space was determined to be between 900,000 and 1.2 million square feet. Combined, there is an overall demand for 1.5 to 1.8 million square feet of total commercial (retail and non-retail uses) in the Wenatchee and East Wenatchee area.

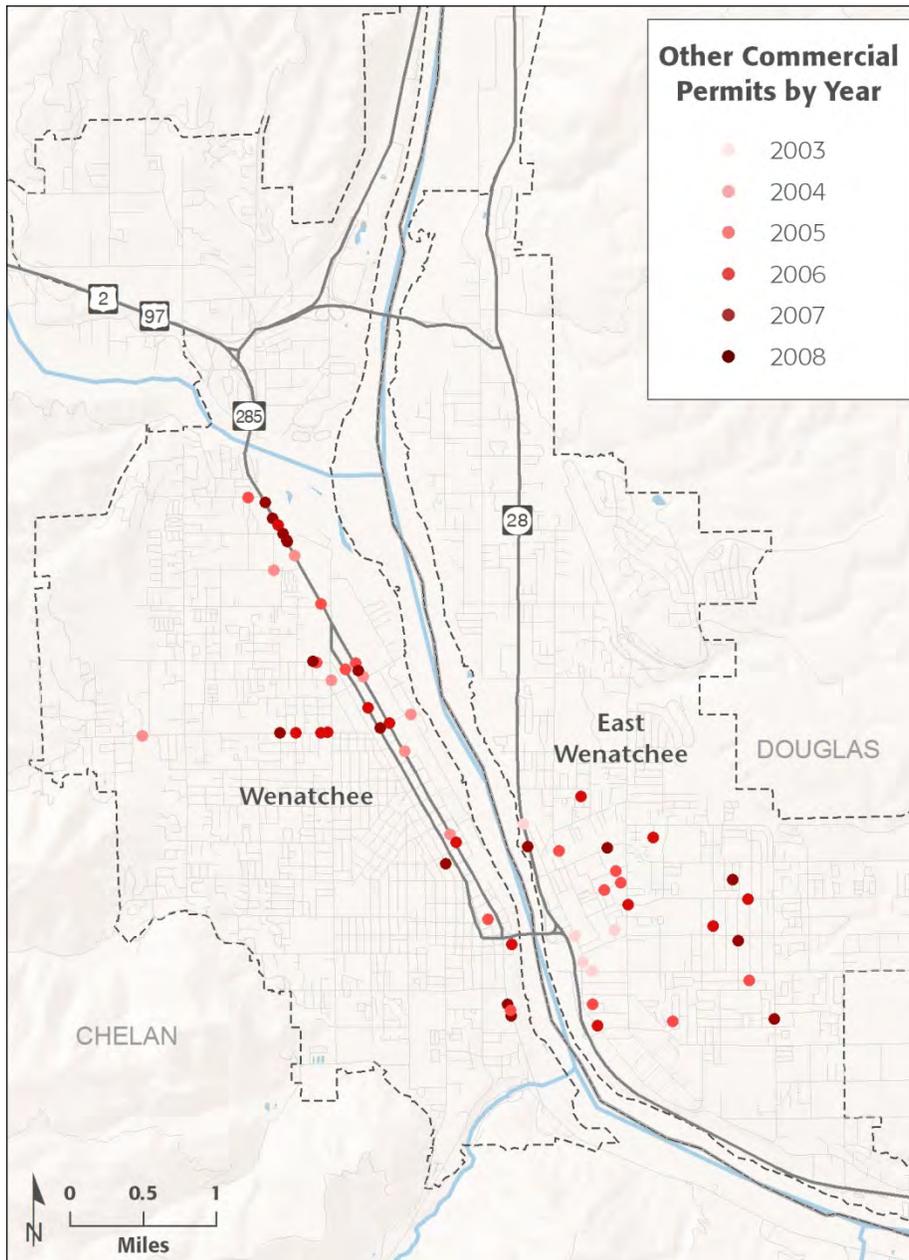
Market Dynamics

Based on the supply assessment, Wenatchee alone has capacity for more than 1.3 million square feet of commercial space (Exhibit 25), which should be enough to accommodate the 600,000 square feet of future regional demand for space within the City itself.

Within Wenatchee, the relative size of available commercial zoned property and accessibility would suggest that the North Wenatchee Avenue, Downtown, Waterfront, and the Olds Station area, which the Port of Chelan is hoping to develop as a technology and office center, would be the likely centers of future growth for office and other commercial uses. . In addition, substantial land supply also exists in East Wenatchee and its urban growth area.

Exhibit 36 below shows the location building permits for non-retail commercial uses. Most of the concentration in Wenatchee is along the North Wenatchee Avenue corridor, while commercial development activity is more dispersed in East Wenatchee.

Exhibit 36
Map of Other Office/Commercial Permits



Source: OFM, 2009; BERK, 2009

Within the competitive landscape of Wenatchee, existing “core” office uses (higher density and larger scale users such as medical offices and professional services) are located in the Downtown. Personal service office uses (lower density “retail like” office spaces such as insurance or real estate offices) are located along North Wenatchee Avenue as well as the Downtown. As demand for new office space grows, the established Downtown will continue to compete for the core, higher-density office uses.

In addition, the development on the Waterfront, which is planned to accommodate 220,000 square feet of office space, and the Old Station area will also compete for similar office users making for a

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fairly competitive landscape. Even with the development of an urban node in North Wenatchee Avenue corridor, it would be difficult for such a development to capture a sizable share of core, higher density office demand in a competitive landscape with a number of options that are more established, offering a higher set of amenities (Waterfront), or offering green field pad development opportunities with better highway access (Olds Station).

The remaining personal service oriented office users will likely continue to locate along the North Wenatchee Avenue corridor and in the Downtown taking advantage of automobile access and less expensive land (and rents).