

**City of Covington Downtown Plan and Zoning Study
Market Position Summary and Trends
Property Counselors
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The Downtown Plan and Zoning Study is intended to guide future development in Downtown Covington by identifying an appropriate town center and a regulatory framework to facilitate town center development. One of the early products of the study is a white paper on market conditions and development trends that will affect the potential for a town center. This paper is organized in three sections:

Current Competitive Position

Challenge for Town Center

Outlook for Potential Uses

CURRENT COMPETITIVE POSITION

The draft economic development element of the Covington Comprehensive Plan provides a convenient summary of economic strengths weaknesses, opportunities and threats for the City, as shown in the table on the next page. The following comments are intended to elaborate on the findings of that analysis.

Strength of Retail Core. The pace of retail development has been dramatic. Taxable retail sales in the City have grown at a compound annual growth rate of 14% over the past decade, with faster growth in the most recent four years. The City has attracted most of the major community scale retail center tenants in the market area. It is well established as a community scale retail center, a retail concentration serving a market area with a 50,000 to 100,000 population.

Lack of High Wage Office and Industrial Uses. The City's major employers are in retail, health care, or public sectors. Many local residents have to commute out of the area for high wage jobs.

Competitive Position within Market Area and Larger Region. Covington must compete both locally and regionally for economic opportunities. Locally, it must compete with its immediate neighbors for retail and service development. For example, new development such as the proposed Fred Meyer store at Four Corners in Maple Valley will capture a portion of sales from the eastern portion of the City's current market area. Regionally, the City must compete with other communities for higher level retail development and regional office and retail development.

The City's ability to compete is related to locational factors as well as other desirability factors. Downtown Covington is located near the intersection of State Highway 516 and State Highway 18. Average daily traffic volumes on SR 516 east of SR 18 were 37,000 in 2007, and volumes on SR18 north of SR 516 were 31,000. These volumes are the highest of any highway segments in the Covington area. The City's highway location makes it the most prominent spot within its trade area.

Within the larger region (South County and Eastside) it is less prominent than communities on the interstate highways or highways such as SR 520 and SR167.

Availability of Land. The table highlights an apparent contradiction between the availability of land and the lack of sites. While there is potential land for new development, much of that land is not available for immediate development.

Summary of Competitive Position Draft Economic Element of Comprehensive Plan

Strengths

- Location on Highway 18 as an emerging growth corridor for King County.
- Ability to readily serve a relatively young & affluent trade area.
- Strength and depth of Covington’s retail core.
- Commitment of the city to managed growth & development.
- Potential availability of land to serve anticipated population and job growth.
- Natural corridors & trails.

Opportunities

- Continued retail expansion with attendant sales tax generation.
- High-wage employment growth.
- Hotel, banquet, & entertainment venues.
- Town center & mixed use development.
- Strengthened community identity.

Source: City of Covington Comprehensive Plan, Economic Development Element (Draft #2).

Weaknesses

- Traffic congestion of the Kent-Kangley / 272nd Street (SR 516) highway corridor.
- Substantial out-commuting for high wage employment.
- Need for town center & urban amenities.
- Limited availability of in-city, shovel-ready land for high-wage job development.
- Perceptions of the Covington development and permit process.
- Limited city financial resources to leverage desired economic & mixed use development.

Threats

- Vulnerability to global economic restructuring-especially housing credit & fuel prices.
- Uncertain role of Covington vis-à-vis South County & I-90/I405 neighbors.
- Challenge of attracting pioneering employment & mixed use development.

CHALLENGES FOR COVINGTON TOWN CENTER

There is a common progression for successful suburban communities like Covington, from:

Level 1. Rural Areas with low density single family development, to

Level 2. Suburban areas with medium density single family development and limited commercial development, to

Level 3. Suburban areas with medium density single family development and community scale retail development, and to

Level 4. Urban communities with identifiable town center, diverse employment, and mix of housing densities and types.

A community makes the transition from level 2 to level 3 when it reaches threshold densities to support commercial development. Covington quickly made this transition. The transition from level 3 to level 4 occurs with redevelopment at higher densities, and reduced reliance on the private automobile for transportation. This condition is dependent upon either a public transportation system that provides an alternative to the automobile or an employment concentration that reduces the need to commute outside the city. The urban community can support and in fact requires a town center with mixed use combining higher density residential development, jobs, commercial goods and services.

The economic environment that will support a town center is one in which:

- Higher level retail development can expand the City's market area, and insulate the city from community scale development in adjacent communities.
- Regional and national/international serving office development that provides higher wage jobs.
- Expanded multifamily housing opportunities.
- Public services and amenities.

OUTLOOK FOR POTENTIAL USES

Retail

The current market environment for retail development everywhere is challenging, with many retail chains curtailing their expansion plans in the face of the current economic downturn. As the economy recovers, however, consumer spending will drive demand for new retail development. There are several trends that are relevant to Downtown Covington.

- Big-box retail development will not wane, as there continues to be consumer interest in value-oriented retail venues. Downtown Covington will continue to attract the major national big-box retailers.
- Lifestyle centers featuring a mix of apparel, home and garden, restaurants, and entertainment continue to grow in popularity. Smaller centers with cinemas as the anchors have been developed in smaller communities with local examples such as The Landing in Renton and Kent Station.
- Grocery stores, the traditional anchor of neighborhood shopping centers are becoming more diverse with smaller prototypes suitable for more urban settings.

The best approach for Covington to strengthen its position as a community scale concentration and move toward a larger regional trade area, is to attract additional general merchandise retailers like Kohl's (already located in Covington), Target, JCPenney and Sears; and attract lifestyle center tenants. Both types of retail businesses contribute to the economic vitality of a town center. The lifestyle tenants are consistent with the scale and

characteristics of a town center core. The larger format general merchandise stores can also be accommodated in more urban configurations with multiple levels and structured parking, but this type of development is occurring in areas where sites are scarce and land prices are high.

Office

Many of the high growth, high wage business sectors occupy significant amounts of office space. Sectors such as information technology, life sciences, and clean technologies involve extensive research activities and emphasize human capital. Even sectors such as logistics and international trade, and aerospace involve administrative and professional staff that conduct business in an office environment.

These growth sectors have different locational requirements and preferences.

- The research functions of life science enterprises prefer to locate near the University of Washington and South Lake Union.
- Information technology businesses, particularly software development have often chosen urban locations that are attractive to their young workforce.
- Aerospace companies seek to locate near Boeing facilities.

There are many exceptions, however. Life science manufacturing facilities are often located in suburban business parks in places like Canyon Park in Bothell. Software developers are dispersed widely throughout the region. Back office functions, including service centers are typically located in lower-cost areas (often overseas).

Covington does not enjoy the visibility or access of some of the suburban employment centers in the region. The most likely path for attracting the target sectors often begins with an entrepreneur who already has a connection to the area. Starting small, they grow with Covington. The City could also attract the back office functions of some of these sectors.

Other sectors in the region will continue to grow. Finance Insurance and Real Estate sectors are major users of office space. Professional service businesses also work in office settings. All sectors require office space for administrative functions. Headquarters functions of regional and national firms may be more attracted to locations with higher visibility and easier access, but the back office functions and local serving offices uses will find Covington sites suitable.

Covington currently offers a concentration of medical office buildings and tenants. Demand for these uses will grow as the local population grows. As the concentration grows, it can expand to offer a broader array of medical services.

Residential

Covington has been an attractive community for families, generally looking for single family homes with large yards. There has been only a limited amount of multifamily development. Covington Place Senior Apartments recently opened at the northern part of Downtown. With 121 units in a five story building, this project serves income-qualified seniors. The nearby Adagio apartments were built in 2003 with 200 units in three story buildings. The apartment market is growing, but the condominium market is untested.

The City of Renton has been successful in attracting urban density apartments and condominiums. While Downtown Renton is closer to the employment centers in the region and has more public amenities and public transportation, it does demonstrate that a market exists in smaller communities. Covington would have to provide a desirable environment with commercial services, public amenities, and an attractive physical setting. There may be a lag between the new lifestyle type of retail and new residential development. The initial retail development would likely be single purpose, with mixed use occurring either horizontally or vertically as the residential market evolves.

Townhouse and small lot detached development are additional product types that can contribute to a higher overall density of residential development in the downtown.

Lodging

Lodging typically serves three basic market segments: commercial (business travelers), group (meetings and tours), and other transients (tourists and other non-business travelers). Lodging properties also differ in the range of services they provide, from limited services (sleeping rooms only) to full service (sleeping rooms, meeting facilities, and food service). The potential opportunity for any property or market depends upon the presence of demand generators:

- Local employers or highway traffic in the case of commercial travel.
- Appropriate meeting facilities and local amenities in the case of group travel.
- Local visitor attractions or highway traffic in the case of other transient travel.

Existing demand generators are limited at the present time:

- The local employment base is small.
- There are few local amenities to attract groups.
- There are few local visitor attractions for tourists.

Initially, the strongest characteristic of the area is its highway location. Both commercial and transient travelers who are enroute to other destinations can be attracted to a limited service property with a convenient highway location and adjacent restaurants or commercial services. With an increase in the local employment base over time, the area could support additional hotel development with expanded services.