CITY OF KIRKLAND
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MEMORANDUM

To: City Council

From: Dave Ramsay; Ellen Miller-Wolfe; Eric Shields

Date: March 7, 2006

Subject: Economic Development

The purpose of this memo is to suggest a framework for Council Retreat discussion on economic development. The proposed framework should help Council understand the policy underpinnings and history of our current economic development approach, the goals we have established for that program, and a snapshot of the current economic picture, so as to better address the following in this retreat session:

- The opportunities and challenges that present themselves
- Strategies we might enlist to respond to them
- Resources needed to mount strategies

Background

Comprehensive Plan Goals and Policies

The City's Comprehensive Pan contains seven broad goals for economic development, along with policies for the achievement of each goal. A complete copy of the Element is included in the packet. Following is a listing of the goals and a summary of key policies:

ED-1: Foster a strong and diverse economy consistent with community values, goals & policies.

Three policies discuss fundamental objectives for economic development:

- a strong job and wage base,
- the provision of goods and services to the community,
- strengthen the tax base.

Other policies support:

- complimentary business clusters
- a balance of jobs and housing (1.5 jobs per housing unit)
- Kirkland as a visitor destination
- home based businesses

- retention of existing businesses and attraction of new ones

ED-2: Promote a positive business climate
Policies support:
- valuing the role of businesses in the community
- a reasonable, responsive and timely tax and regulatory environment
- a culture of creativity and innovation
- consideration of the economic impacts and benefits of land use decisions
- education and training opportunities and a skilled work force
- incentives to encourage economic development

ED-3: Strengthen the unique role and economic success of Kirkland's commercial areas
Policies support:
- economic success within business districts
- operation of businesses to enhance community character and minimize impacts
- infill and redevelopment consistent with role of each commercial area
- development standards to promote attractive commercial areas

ED-4: Develop and implement economic development strategies that reflect the role of Kirkland businesses in the regional economy
Policies support:
- competitive advantage of Kirkland businesses
- collaboration with other cities and agencies to enhance Eastside and regional economic development

ED-5: Provide infrastructure and public facilities to support economic activity and growth
Policies support:
- building and maintaining infrastructure to support the business community
- strong circulation linkages within commercial areas
- regional infrastructure initiatives

ED-6: Foster collaborative partnerships among community interest groups to achieve desired economic goals
Policies support:
- working with business organization and community stakeholders
- partnership of diverse community representatives to develop and implement strategies

ED-7: Recognize Kirkland's artistic, cultural, historic and recreational resources as important contributors to economic vitality
Policy supports:
- businesses and organizations involved in arts, historic preservation and civic activities

<u>Pathway to Kirkland's Economic Future</u> (TIP report)

This report was completed in March, 2005 under the auspices of the Kirkland Economic Partnership (KEP). The purpose of the report was to "prepare a strategic plan to help guide Kirkland's future economic

development efforts." The report was prepared in three phases, the findings of which are summarizes as follows:

Discovery

Three themes:

- Kirkland is a highly desirable place to live and work
- Change in Kirkland is slow and often difficult
- Residential quality of life is the cornerstone for Kirkland decision-making

Four key issues need to be addressed:

- Lack of undeveloped land
- Undesirable perception of the business environment
- Promotion of development in specific areas (Totem Lake and Downtown)
- Communication

Opportunity

Preliminary strategies:

- Create a new economic development authority and establish a formal communications strategy for economic growth
- Improve the business investment environment
- Focus on prime development areas: Totem Lake and Downtown
- Develop a marketing plan directed toward the Puget Sound market

Implementation

Final strategies:

- Capitalize on regional growth
  - Take advantage of expansion of knowledge industries.
  - Strengthen relationship to technology industries and supporting professional services.
- Improve the business investment environment
  - Kirkland needs to be perceived as a good place to do business
  - Integrate planning and zoning issues with the needs of business & developers
- Business growth areas
  - Three key areas: Totem Lake, Downtown and 85th St. Corridor
  - Juanita Village is a good example of how redevelopment can provide housing and retail opportunities while enhancing quality of place.
- Communications and organization
  - Media strategy
  - Coordinated public input
  - Person or entity with clear responsibility for economic development

<u>Kirkland Industrial Zoning Study</u>

Issues prompting study:

- Whether designated industrial lands will retain and attract intended businesses, or whether demand and needs of new users will find the overall characteristics insufficient to meet their needs.
- What types of City actions might be needed to retain and/ or attract industrial uses?
- If industrial is less likely, what are the alternatives and how is the transition accomplished?

Conclusions:

- Shift from industrial type uses is already a factor in leasing space. Finding industrial tenants is increasingly difficult. Warehouse and distribution are moving to other areas with newer, less costly stock closer to labor force.
- Demographic changes, home pricing, increasing land values, traffic congestion, and employment shifts militate against competitively priced industrial space. Based on trends, emphasis should be on creation of higher density employment space for professional and technology uses that can employ high wage local residents and that can afford higher land and development costs.
- Most effective change is not in the City's hands, but with property owners of obsolete stock. Due to market changes, industrial zones have become target seeking lower rents than in other commercial zones. As the number of other uses increases in industrial zones, the area is less attractive for industrial uses.
- City actions should focus on ideas of clustering businesses, providing buffer or transition zones and re-aligning ideas about attracting new businesses.

Actions to retain businesses:

- Zone for finer grain of uses. Where industrial preservation is desired and possible, eliminate uses erode industrial character.
- Buffer areas preserved for industrial uses with transition retail and service uses.
- Make auto row designation separate from technology uses.

Actions to enhance redevelopment

- Rezone area overtaken by non-industrial uses to better match future employment and neighborhood trends
- Consider some conversion to residential buffers near existing residential areas.
- Resolve zoning to allow clear certainty for redevelopment.

Actions to create conditions for new businesses:

- Revise regulations to allow supporting retail and services for professional offices and technology uses.
- Increase building height limits in areas where conversion to office and technology uses is desired.
- Reduce setback requirements for office and technology uses.
- Establish different street standards for industrial areas than for office and technology areas.

Topics for Council Discussion

What are the opportunities and challenges for the Kirkland economy?

Opportunities

The Puget Sound region is experiencing an economic upturn with an expected continuation of economic prosperity – 3.0% growth for the next few years. Kirkland is home to some of the rising business clusters (IT, FIRES) and well-known businesses that exemplify these clusters (FileNet, Google, HouseValues.com, Bungie Studios). The downtown and neighborhoods are known attractions to well-compensated, knowledge-based employees who populate these firms.

Kirkland has significant medical, construction, and auto sales business clusters; medical is buoyed by the Evergreen Hospital expansion and the nearby biotech concentration in Bothell, construction is benefiting from a boom in home building and remodeling, while auto sales remain a consistent retail anchor of the local economy. The city offers a variety of retail options, ranging from small neighborhood shopping areas to the big box stores in Totem Lake etc., to downtown, a destination/tourism venue as well as a neighborhood.

Challenges

- In the office market, a large number of speculative office buildings (7) due to come on line over the next several years in Bellevue could impact the Kirkland market much like the drop in prices and vacancies impacted markets during the dotcom bomb. How best to compete?

- Do we understand the product that key business clusters are looking for? Do we have adequate space (or land zoned appropriately) to reap the benefits of small high tech and professional service firms who would locate here? Totem Lake office space is the second phase of the project, and Park Place second phase development plans will need to be revived. Land ripe for redevelopment may need to be assembled in order to be put to productive reuse, and those property owners convinced of the value proposition in redevelopment. Traffic congestion could limit development capacity for certain commercial districts.

- Improving the vitality of downtown is critical because of its contribution to the local economy as a tourist destination, its attraction to new economy businesses and the high paying jobs they provide, and new residential development. There are 25 known vacancies in downtown at present. Concerns range from whether the right mix of businesses exists, to recruitment and sustainability of unique businesses. (Unique businesses are more likely to be undercapitalized and not equipped with viable business plans to sustain their operations). There also is concern about the fragility of the sense of place that downtown conveys through its buildings, armature, and art. How best to ensure this uniqueness with the onslaught of new construction? Last, for those who consider downtown their neighborhood, there is a concern about lack of professional services, especially medical services, and the concentration of the latter around the hospital.

- The development community's perception of our taxes and permitting is critical to the success of recruitment and retention. There are mixed opinions, some of which might be assuaged by reliable information and real-time applications to individual businesses. Our materials need to respond to the needs of target clusters (business and demographic data, available sites etc.), the concerns of complex development projects, as well as helping those who seek simpler permits (i.e. separating the sign requirements and application on the website might be best for this popular permit).

- Kirkland's residential neighborhoods (and the business districts that serve them) are key business attractors. (FileNet for example went from 18% to over 50% of employees living in Kirkland since opening in 1999). Making sure that neighborhood business districts remain vital is important to the vitality of the local economy and the attractiveness of residential neighborhoods.

What are the strategies Kirkland might adopt to meet challenges/realize opportunities?

- Work internally or with a consultant to weave the results of Industrial Land and TIP studies and delineate, prioritize, and implement economic development strategies in City staff workplans and consultant contracts

- Promote the Kirkland business climate by enhancing the **'Doing Business in Kirkland'** space on the City website including:
    - Business districts – boundaries, zoning etc.
    - Opportunity sites – Zoning updates, contacts, brief descriptions, mapping
    - Fact sheet on comparative tax rates with surrounding communities with real-time computation of probable taxes for prospective businesses
    - On-line permit and license applications
    - Average permit time/costs for land use and building permit processes-could also be a real-time computation
    - Regular updates to property owners (web subscribers), developers, realtors, site selectors and others advising them of zoning that promotes development – comprehensive listings and by business district

- Tourism provides a number of jobs and strong tourism marketing should support the tourism development goals of the city and tourism stakeholders, and work in concert with local economic development. Consumers want diverse experiences and make choices regardless of organizational borders and boundaries. Vital to building sustainable tourism and gaining overnight and day trip visitors is:
    - Development of the Downtown core and Totem Lake, events and festivals, parks and beaches, taking advantage of trends and working to address challenges.
    - Currently Kirkland hotels are booked at 60-70% or better Sunday through Thursday, but lag over the weekends (Friday- Saturday). The addition of the Heathman Hotel in 2007 and the Courtyard by Marriott this summer will add additional rooms for visitors and help to increase the overall LTAC budget.
    - The tourism marketing strategy encompasses all of Kirkland and also should continue to branch out beyond the city borders to make linkages that make sense to the consumer/target markets. Kirkland's marketing efforts will yield the greatest results by linking to other destination marketing organizations (DMOs) wherever possible. This will leverage visitor awareness throughout the Eastside, Puget Sound, Pacific Northwest, and the domestic and international travel marketplace.

- Develop marketing plan to promote Kirkland to a variety of audiences.
    - Translate planning reports (Industrial Lands, Community Profile), and projects (i.e. Totem Lake Mall) and events into promotion pieces.
    - Set meetings with editorial boards of local newspapers and magazines
    - Place pieces in regional and local media
    - Use web-cams to promote the progress of Totem Lake Mall
    - Provide WSDOT video of I-405 work and other capital projects to area businesses to communicate timelines, optional routes etc., to customers

- Provide hands-on technical assistance (planners and others) to help owners/developers implement land assembly/redevelopment. (City of Tacoma has exemplified this approach.)
- Define enhancement programs for each business district type. Possible programs ongoing and new might include:

    - **Totem Lake** – Totem Lake Mall coordination and promotion
    - **Totem Lake West** – Implement plan (informational and promotional) to help mitigate impacts of I-405, Totem Lake Mall construction
    - **Downtown** – Determine whether to revisit Downtown Strategic Plan.
    - **Downtown** - Determine whether to restart Lakeshore Plaza project.
    - **Downtown** - Retain CTED or private consultant to oversee study of mix of uses and to prepare recruitment/retention plan
    - **Downtown** – Provide technical assistance to tenants to prepare business plans, marketing plans, through Bellevue or UW Bothell Entrepreneur Centers etc.
    - **Neighborhood business districts** – Work with Chamber and City neighborhood program to build relationships with business leaders and between business and neighborhood leadership

- Target industry clusters such as satellite software development companies and life science businesses (health care) and form task forces to plan and execute recruitment campaigns
    - Identify 2-3 CEOs per cluster to form task forces
    - Prepare business plan for recruitment
    - Design, distribute recruitment package
    - Work closely with local business organizations, enterpriseSeattle, Trade Development Alliance, trade groups such as the Washington Software Alliance and others to promote Kirkland business and recruit businesses representing key clusters

- Identify indicators and performance benchmarks for economic development program and implement performance measurement program
    - Goals of the program, revenue, jobs, services might be the basis of benchmarking

Is Kirkland organized to respond to challenges, launch strategies?

After a series of contractual engagements with economic development staff, the City has retained an Economic Development Manager located in the CMO to delineate long and short-term strategies for addressing economic development goals. In addition, a part-time Advocate, paid for by the City and employed by the Chamber, advises small businesses on permitting and other business with the City, and also arranges retention visits with local employers. An Advisory Committee comprised of local businesses, business organizations, institutions, neighborhood advocates and City representatives meets monthly to share information and receive updates from the Advocate regarding retention activity. Assessments of the performance of the Advocate and the KEP Advisory Board are ongoing.

Strategies

- Strengthen connections between economic development and all other city activities
- Centralize business information on City website with links to other business sites
- Prepare report on Kirkland Economic Partnership (KEP), and Advocate role, including input from advisory board membership, city staff and clients served, best practices from other cities, etc.
- Prepare options for economic development organizational structure and service delivery vehicle for Council consideration

Staff has prepared several maps and a list of major development projects for use in the Council's discussion on economic development (see attached).

Major Development Projects

Projects Under Construction

- Kirkland Central Condominiums – *110 units at Kirkland Ave. & State St.*
- Boulevard Condominiums – *119 units* at *Kirkland Ave. east of 3rd St.*
- Heathman Hotel – *91 rooms at Kirkland Ave. & 3rd St.*
- 617 Market – *25 condominium units.*
- 1414 Market – *5700 sq. ft. of office*
- Lee Johnson auto sales – *Net 41,000 sq. ft. new showrooms and maintenance building on NE 85th St.*
- Evergreen Hospital – *New 238,000 sq. ft. bed tower and 70,000 sq. ft. emergency center.*
- Marriot Hotel – *150 hotel rooms on NE 124th St. & 113th Ave. NE*

Building Permit Applications In Review

- Honda Auto Dealership Expansion – *15,800 sq. ft. building expansion*
- Evergreen Gateway Center - *77,500 sq. ft. office and transit center permit ready to issue.*
- Rite Aid Store – *New 12,000 sq. ft. store on Totem Lake Blvd. & NE 124th St.*
- Seawest – *New 3,400 sq. ft. retail/ office building on NE 85th St. & 128th Ave. NE.*
- Rose Hill Gateway - *New 4,000 sq. ft. retail/ office building on NE 85th St & 132nd Ave. NE*
- NW University - *43,000 sq. ft. academic building.*
- Affinity (formerly Almond) Condominiums – *Grading permit for 36 units at 124th Ave NE & 113th Ave. NE.*
- State St. Condominiums –*Grading permit for 116 units on 2nd Ave. S. & State St.*
- Eastside Preparatory School – *pre-submittal for remodel of existing buildings in Lindbrook office park.*

Zoning Permit Applications Under Review

- Shumway PUD – *9 new residential units approved.*
- Rosinski Reasonable Use Permit – *2nd remand to HE on 3/16; back to CC 4/18 or 5/4.*
- Lake Wash Tech College Master Plan Update – *HE hearing completed; to CC in March or April.*
- Rhode Reasonable Use Permit –*HE hearing in March; to CC in May.*
- Schneider Reasonable Use Permit – *HE hearing in March; to CC in May.*
- Goldenman Office (at Yarrow Bay Marina) – *55,000 sq. ft.*; *hearing yet to be scheduled.*

Probable Permit Applications

- Totem Lake Mall – *Net 350,000 sq. ft. new retail, 216 residential units and 144,000 sq. ft. of office, pending design review application by June.*
- Sidorco site – *Potential 170,000 sq. ft. of office space in four or five buildings.*
- Assembly of God site – *Potential 40,000 sq. ft. office building on State St. & 2nd. Ave. S..*

Development Inquiries

- McLeod property – *Exploring options for property on Lake Ave. south of Kirkland Ave.*
- Dayton property – *Assisted living facility on Kirkland Ave. west of 3rd St.*
- NE 124th St. at about 130th Ave. NE – *Assisted living*
- Wadell property – *multi-family at NE 120th St at 128th Ave NE*
- Shnitzer – *Discussing new office building in Par Mac.*

Summary

- Office projects
  - In construction: 5,700 sq. ft.
  - In permit review: 140,000 sq. ft.
  - Probable: 354,000 sq. ft.
- Commercial projects
  - In construction: 41,000 sq. ft. + 241 hotel rooms
  - In permit review: 31,500 sq. ft.
  - Probable: 350,000 sq. ft.
- Residential projects
  - In construction: 254 units
  - In permit review: 161 units
  - Probable: 216 units
- Institutional projects
  - In construction 308,000 sq. ft.
  - In permit review: 43,000 sq. ft.

CITY OF KIRKLAND ECONOMIC ACTIVITY ZONING MAP

Department of Planning and Community Development

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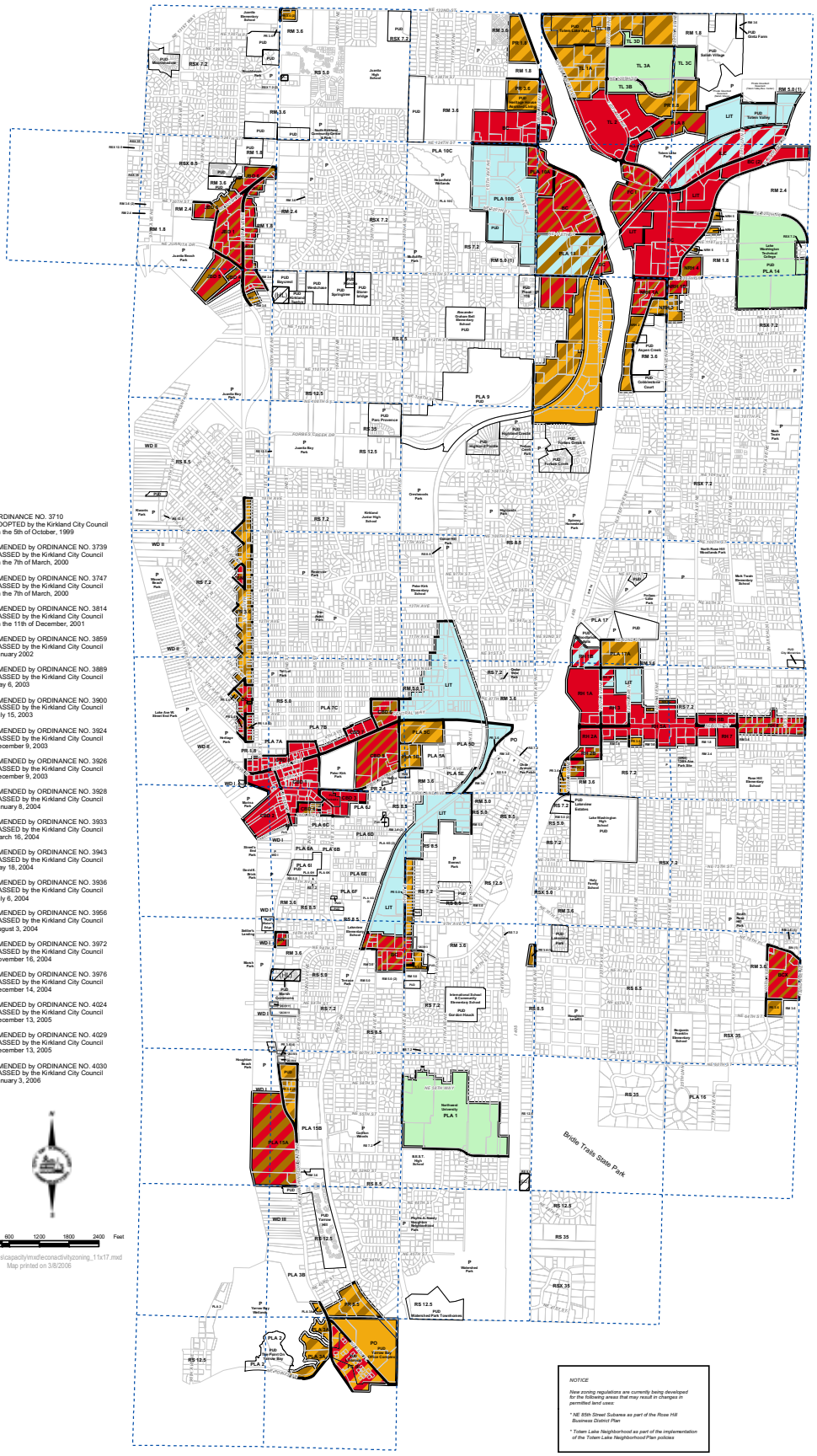

ORDINANCE NO. 3710
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Map printed on 3/8/2006

NOTICE

New zoning regulations are currently being developed for the following areas that may result in changes in permitted land uses:

** NE 85th Street Subarea as part of the Rose Hill Business District Plan*

** Totem Lake Neighborhood as part of the implementation of the Totem Lake Neighborhood Plan policies*

Single Family Residential: RS 35 / RSX 35; RS 12.5 / RSX 12.5; RS 8.5 / RSX 8.5; RS 7.2 / RSX 7.2; RS 5.0 / RSX 5.0

Multi-Family Residential: RM 5.0; RM 3.6; RM 2.4; RM 1.8

Waterfront Districts: WD I; WD II; WD III

Professional Office Residential: PR 5.0; PR 3.6; PR 2.4; PR 1.8

Freeway Commercial: FC I; FC II; FC III

Planned Area — PLA
Public Use Zone — P
Light Industrial Technology — LIT
Industrial Limited Commercial — ILC
Neighborhood Business — BN
Community Business — BC/BCX
Central Business District — CBD
Professional Office — PO
Juanita Business District — JBD

PLA Planned Area

PUD Planned Unit Development

(HL) Historic Landmark
(EQ) Equestrian
(AE) Adult Entertainment

Subject to Resolution or Ordinance No.

Suffix

(1) Development proposal must be consistent with appropriate neighborhood plan policies, specifically applicable to this property, contained in the Comprehensive Plan and processed through Process IA.

(2) Development proposal must be consistent with appropriate neighborhood plan policies, specifically applicable to this property, contained in the Comprehensive Plan.

(3) Development proposal must be consistent with appropriate neighborhood plan policies, specifically applicable to this property, contained in the Comprehensive Plan; and the portion of any building fronting on 124th Ave. N.E. shall be exclusively occupied by office uses.

(4) Development proposal must be consistent with appropriate neighborhood plan policies, specifically applicable to this property, contained in the Comprehensive Plan and processed through Process IIB.

- Retail (ground floor); potential upper story office or housing
- Retail or office
- Retail, office or housing
- Retail or office; potential upper story office or housing
- Retail/office/industrial
- Office
- Office or housing
- Industrial or office
- Industrial, office or housing
- Institutional

CITY OF KIRKLAND ECONOMIC ACTIVITY LAND USE MAP

Department of Planning and Community Development

5 4 3 2 1

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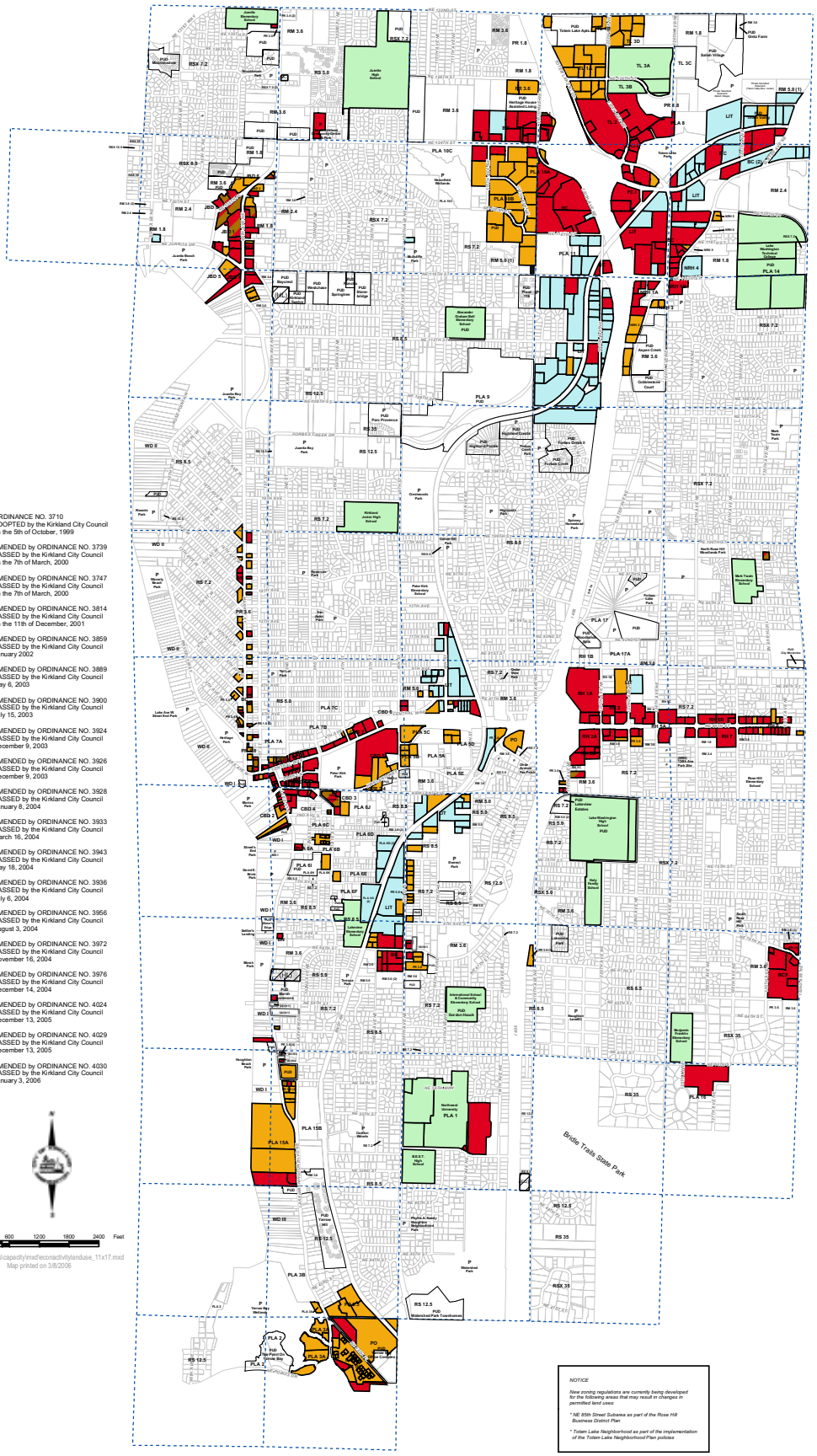

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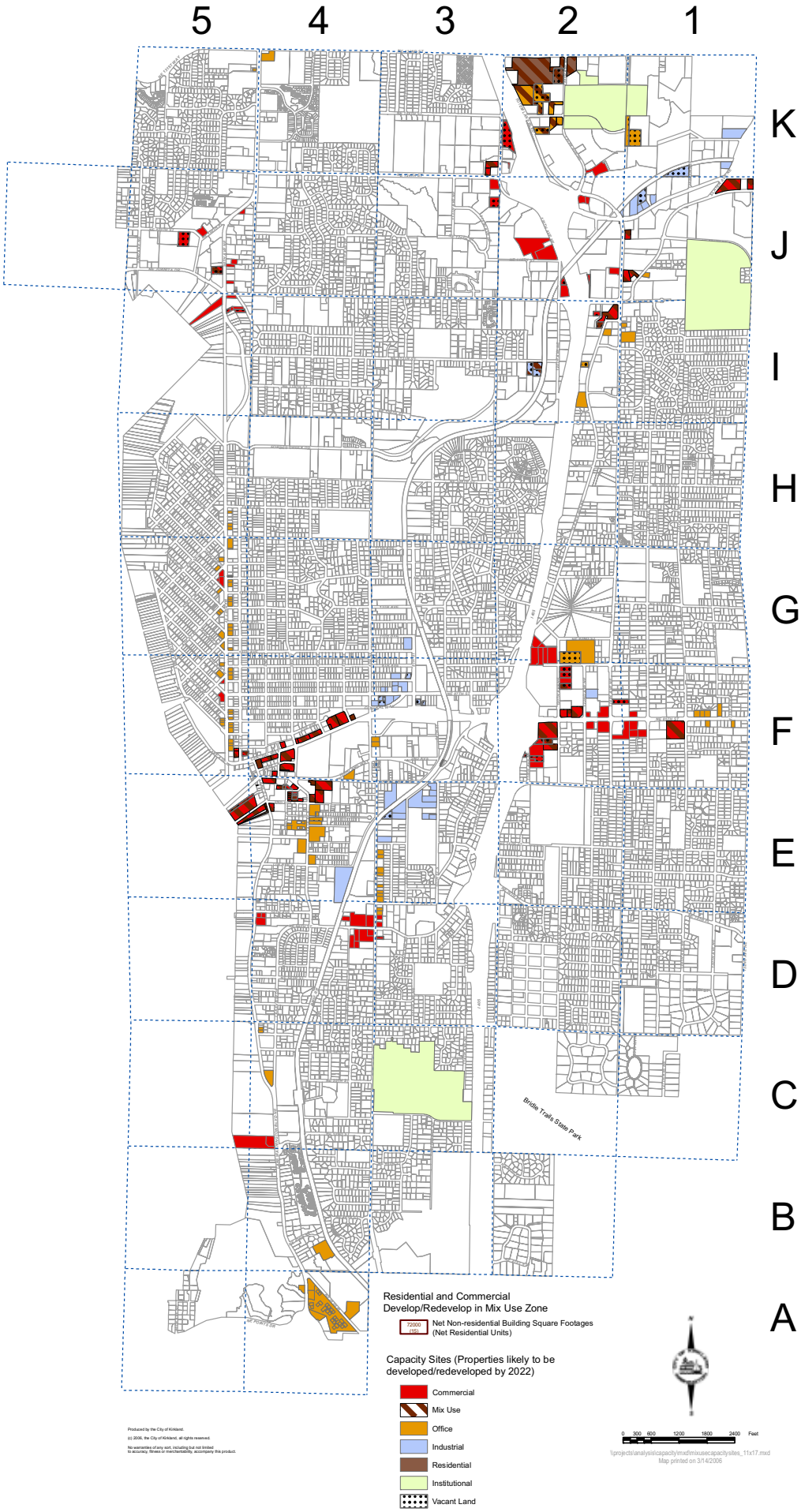
Commercial (retail, services)
Office
Industrial
Mixed Use
Institutions

CITY OF KIRKLAND 2022 CAPACITY

PARCELS MORE LIKELY TO REDEVELOP

Department of Planning and Community Development



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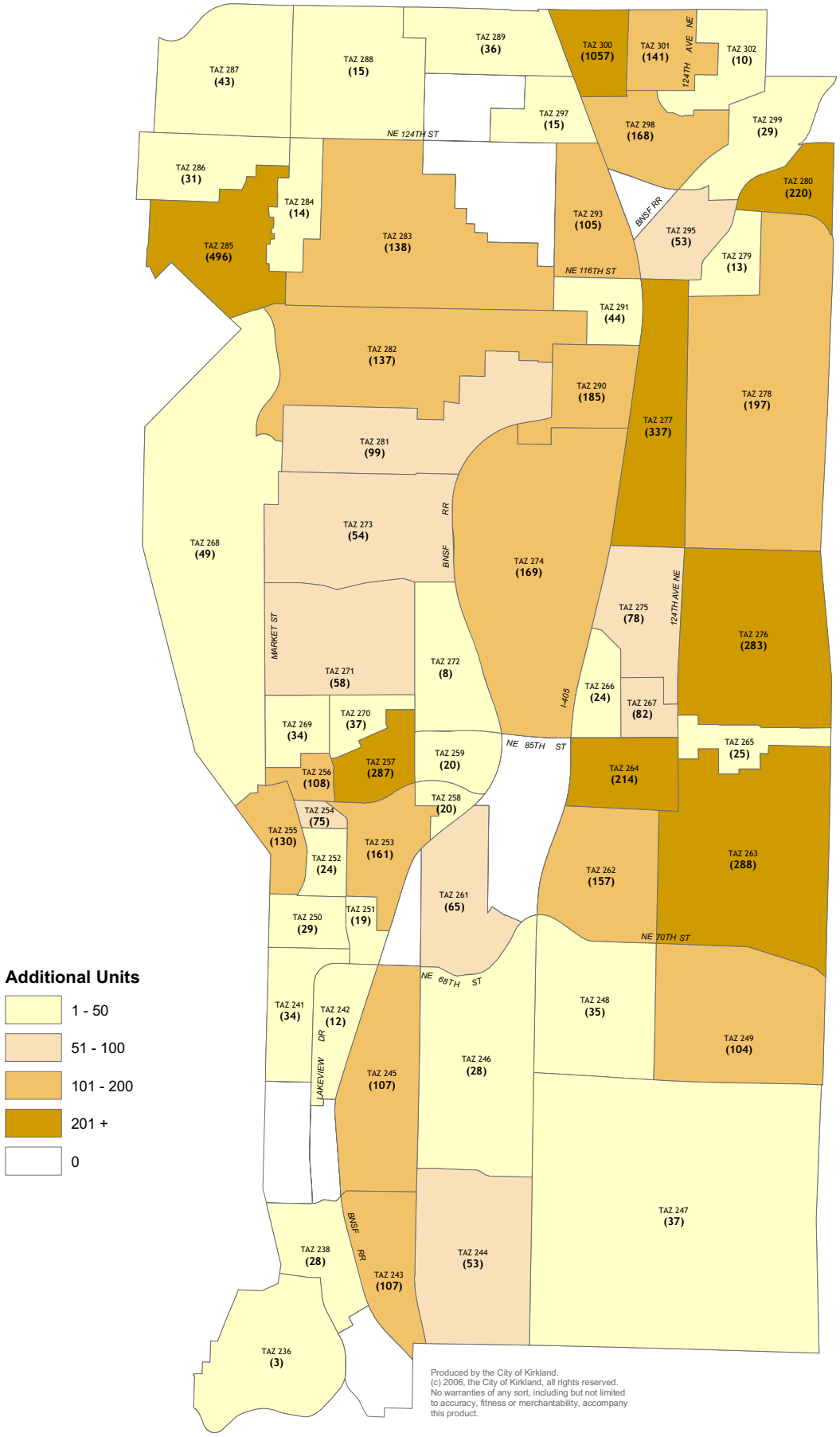
Housing Capacity 2003 - 2022
(Net Additional Housing Units)



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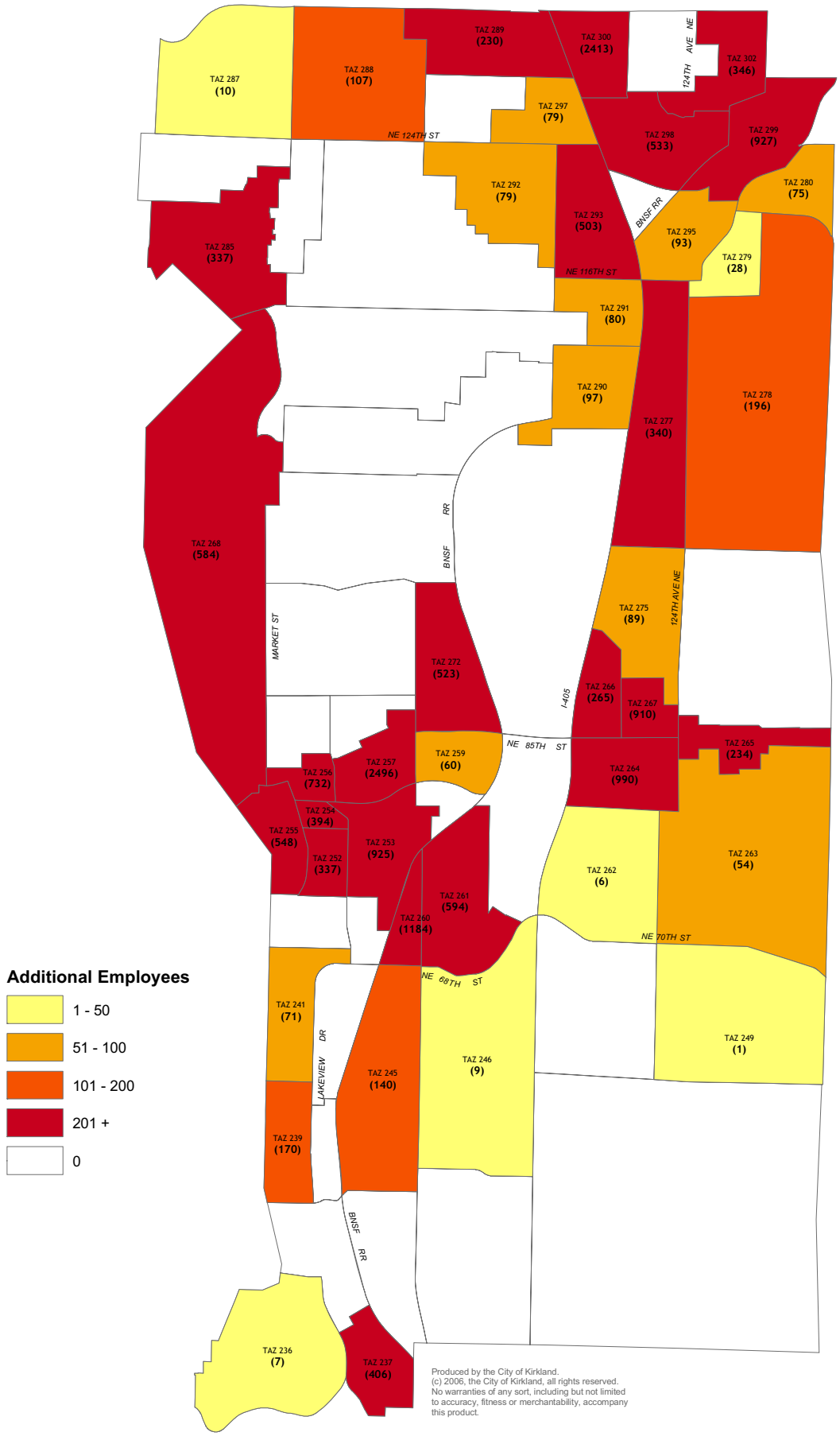
Employment Capacity 2003 - 2022
(Net Additional Employees)



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Housing and Employment Growth

	1991	2000	2003	Increase 1991-2003	Average Annual Increase	2022 Growth Targets	Av. Annual Increase 2003-2022	Comp. Plan Capacity (2003- 2022)
Housing	18,664	21,831	22,120	3456 (19%)	288	27,311	273	27,974
Employment	21,864	32,384	34,843	12,979 (59%)	1081	41,184	333	53,128

Jobs/ Housing Balance

	1991	2000	2003	2020	2022 @ Target	2022 @ Capacity
Kirkland	1.17		1.57		1.5	1.9
King Co.		1.61			1.9	
Metropolitan Area		1.31		1.35		

PATHWAY TO KIRKLAND'S ECONOMIC FUTURE

PREPARED FOR THE KIRKLAND ECONOMIC PARTNERSHIP

PREPARED BY

T·I·P STRATEGIES

MARCH 2005

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PROJECT TEAM

TIP Strategies, Inc.

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executive summary

TIP Strategies, Inc. (TIP) was engaged by the Kirkland Economic Partnership (KEP) to identify a pathway to a strong economic future for Kirkland. The purpose of our work is to assess the many economic alternatives available to the community and make recommendations for action. Kirkland's location in Puget Sound offers unique opportunities. The reputation and image of the city are a key factor in its future growth. TIP believes acceptance of our definition of economic development – *the application of public resources to stimulate private investment* – is critical to understanding our work program, strategic analyses and recommendations.

From the outset, TIP emphasized "quality of place" over all other factors. TIP believes there is an important distinction between "quality of life" and "quality of place." Quality of life is generally inward looking and focused on preserving those elements that have traditionally defined the community. Quality of place, on the other hand, is dynamic and recognizes the importance of growth and the risk of becoming stagnant. This distinction has enormous economic and fiscal implications. Investment is the key concept. Investment occurs as retail spending from non-residents, in commercial development, and in a diversified job base. Without private investment – and the tax and employment benefits this creates – Kirkland's quality of place will decline.

How the city would capitalize on new development opportunities must to be balanced against those factors that have made Kirkland what it is today: one of the most attractive communities in the Northwest.

APPROACH

TIP was engaged by KEP to prepare a strategic plan to help guide Kirkland's future economic development efforts. This plan builds on information compiled and analyzed by the consulting team with input from KEP, city officials, and other key stakeholders. This document is a direct result of these discussions and of additional research conducted by members of the consulting team. The project was conducted in three phases – Discovery, Opportunity, and Implementation. Each phase concluded with a Technical Memorandum and discussion of our findings with the Project Steering Committee. The three Technical Memoranda are appended to this report.

Discovery – This phase consisted of a SWOT analysis and assessment benchmarking of similar communities, and a survey of local attitudes and opinions. Three themes emerged from our survey:

1. Kirkland is a highly desirable place to live and work.
2. Change in Kirkland is slow and often difficult.
3. Residential quality of life is the cornerstone for Kirkland decision-making.

From our SWOT analysis, TIP identified four significant issues that Kirkland must address if the city was to pursue active economic development. These issues included:

1. Lack of undeveloped land.
2. Undesirable perception of business investment environment.
3. Promotion of development in specific areas of the city (Totem Lake and Downtown).
4. Communication.

Opportunity – Specific development opportunities were considered and preliminary strategies were drafted for discussion. We concluded that Kirkland has a highly positive image and local opportunities exceed the physical capability of Kirkland to accommodate existing markets for businesses that might seek to invest in the community. Preliminary strategies addressed four areas:

1. Create a new economic development authority and establish a formal communications strategy for economic growth.

2. Improve the business investment environment.

3. Focus on two prime development areas: Totem Lake area and Downtown.

4. Develop a marketing plan directed toward the Puget Sound market.

Implementation – In this phase, strategies were built-out and action items were offered to the steering committee and city council for review.

The consulting team held meetings in Kirkland specific to each phase and received input from key stakeholders during focus group meetings. Input received from the workshops and focus group meetings was combined with the consulting team's quantitative analysis, benchmarking, and experience to develop the recommendations outlined in this plan. The recommendations were also compared with the city's comprehensive plan to ensure that they were complementary.

KEY FINDINGS

Challenges > As a result of interviews and background analysis, it became apparent that there were significant challenges to the straightforward implementation of an economic development strategy. These challenges revolve around three issues:

- Realizing a shared vision
- Reaching consensus on the appropriate level of business growth and development
- Accepting a regional role

These challenges go to the heart of how Kirkland sees itself. It also touches on what posture Kirkland should take towards retail growth on the one hand, and commercial development on the other.

TIP's recommended response to these challenges included a series of community workshops to explore various scenarios and their implications for the community, a communications strategy for development-related issues, and a city-level review of the final Pathway recommendations and their appropriateness. These three challenges are complex issues that go beyond traditional economic development. In practical terms, this means finding a balance between residential property taxes, income growth from employers, and the amenities represented by retail diversification.

Below is a summary of the key findings, all of which relate to the challenges:

Regional technology growth > There is nothing about the growth of technology that one can take for granted. Countless communities across the country see this as the target sector of choice (even as the definition continues to blur). Nevertheless, Kirkland is extremely well positioned to capture a major cluster of this industry through continued investment in software related businesses. We have made this our top industry sector because the likelihood of success is extremely high, and because the opportunities are varied

Kirkland's economy is strong and diverse. A healthy mix of businesses provides valuable economic returns including varied employment opportunities and high wages, a strong tax base with sustainable revenues that help fund public services, and a broad range of goods and services.

City of Kirkland Comprehensive Plan

enough to justify a multi-phased approach. Kirkland has the opportunity to redevelop existing commercial areas, has access to a dynamic workforce, and is in the path of major new investments.

Strength of the neighborhoods > No one can question that neighborhood quality of life issues are paramount in Kirkland's decision-making. We would argue that a balanced quality of place based approach to commercial and retail development strengthens neighborhoods. It does this in several ways:

Changing demographics and lifestyles. Unlike many suburban cities, Kirkland is much more than a bedroom community to Seattle. Various forces drive that distinction, including the overall expansion of employment on the Eastside. The ability to work near one's home is increasingly appreciated and is one of the hallmarks of progressive communities. As the population ages, this will become increasingly valued.

Value of amenities. Every neighborhood values a diversity of services and entertainment and, indeed, the demands for these amenities are dynamic and increasing. Overall business growth increases the likelihood that retail (from restaurants to boutique shopping) and other amenities will flourish. It is clear from our analysis that these services cannot flourish in Kirkland solely in support of local residents. To sustain themselves, most local suppliers rely on businesses located throughout the region and on visitors to the City of Kirkland.

Tax structure. Kirkland is in a strong fiscal position. A balanced approach to residential and commercial property taxes has served the community well and should be maintained.

Communications and organization > A well-managed communications strategy is essential to a successful economic development effort. This matters from a variety of perspectives: public support for projects requiring city infrastructure investment, and maintaining close relations with the city, business organizations and citizens at large. It is also a critical component of how Kirkland is seen in the region: how Seattle newspapers and television portray the city, and how developers and investors perceive the city as a location for investment.

The creation and underwriting by the City of the Kirkland Economic Partnership (KEP) was, in part, an effort to give economic development a higher profile, especially in communications and marketing. It was also intended to improve relations between the business community and the city as a whole. The efforts of KEP in many important areas (e.g., KirklandProspector, website, and the Pathways study) have been excellent. In fact, the www.Kirklandnow.com website is a model of an effective tool, with its fresh, up-to-date look. Despite these achievements, the organization has lacked the financial and organizational support as well as professional Economic Development expertise required to carry out a true economic development effort. KEP should be viewed as a good ***first*** step. With the adoption of an economic development strategy and the implementation of its recommended actions, realization of the economic development vision contained in the City's Comprehensive Plan is possible.

Market position > Kirkland has several areas in which redevelopment can occur, and this process is beginning. In comparison to other Eastside communities there have been no major new business oriented investment in the city over the last decade – despite rapid growth on the Eastside. In view of the strength of both the local and the regional market for commercial development this suggests that a re-evaluation of economic development is in order.

STRATEGIES

In many communities, economic development activities are undertaken in a vacuum—as if "jobs" were somehow independent of the people who hold them. Workers need places to live, amenities, and educational opportunities. Quality housing, good restaurants and good schools,

and leisure time activity opportunities are not luxuries for an educated workforce—they are necessities. These strategies are about quality of place. By meeting a balance between growth and the needs of existing residents, Kirkland will thrive.

The following strategies provide a pathway to a strong economic future for Kirkland. While the specific recommendations have undergone changes with each review by the city, the framework has remained the same. The emphasis on quality of place, regional growth, local development sites, and communications and organizational issues are the backbone of the plan.

Strategy One: Capitalize on Regional Growth > Kirkland is in an ideal position to take advantage of the regional expansion of knowledge industries. Among these industries, software, medical, and professional services are the prime targets. Strengthening the city's relationship with technology companies (especially on the Eastside), and supporting the growth of professional services – from medical to legal to design – is the first priority.

Strategy Two: Improve the Business Investment Environment> Business climate issues are invariably contentious. Kirkland needs to be perceived as a good place for business investment – not just a good business address. Striking the right balance between new growth and an appreciation of why residents chose the community in the first place is daunting. This strategy addresses the cooperation and support needed to ensure responsible development by integrating planning and zoning issues with the needs of businesses and developers.

Strategy Three: Business Growth Areas > Several areas of Kirkland are suited for – and are already experiencing – new development. How the city supports this growth and where it places its priorities are of immediate importance. Totem Lake, the downtown, and the 85th Street corridor are the most conspicuous examples. Juanita Village, already nearing completion, provides an excellent example of how redevelopment can provide additional housing and retail opportunity while enhancing the quality of place.

Strategy Four: Communications and Organization > Successful economic development occurs when local government, citizens, local business organizations, and the media are in concert. This can be achieved through specific actions that include a media strategy, coordinated public input, and a person or entity with clear responsibility for economic development.

KEY QUESTIONS

- Is software a solid investment for Kirkland?
- Is the timing right for software recruitment?
- How can Kirkland capitalize on regional growth?
- Is there a danger of Kirkland becoming too dependent on knowledge industries?

strategy one: capitalize on regional markets (SOFTWARE, MEDICAL, & PROFESSIONAL SERVICES)

A commitment to an industry sector means that it represents a solid investment capable of paying back dividends to the community. These "dividends" can come in four forms:

- increased higher-wage employment.
- greater tax revenues.
- higher community visibility and an improved image.
- increased amenities that contribute to quality of place.

Non-residential development can increase tax revenues in a number of ways. First, commercial zones typically have higher assessments and require fewer municipal services than residential areas. Successful developments can also spur development or re-development of adjacent properties. Commercial development, such as office buildings, can even have a greater fiscal benefit than industrial development, which frequently receives tax abatements and may require costly infrastructure investment. In the absence of business activity, the burden of funding city services falls disproportionately on residential property owners. Because of this, municipalities typically seek a balance between business and residential assessment.

The software sector has been chosen as the first and most important of Kirkland's targeted industries. Among the software sectors, enterprise software holds the most immediate promise. Not only is the region replete with senior-level software engineers, there is a venture capital firm (OVP Venture Partners) already located in Kirkland. This unusually advantageous situation can translate into success. While most cities struggle to capture this kind of opportunity, Kirkland has the capacity to realize it. Additionally, digital gaming development has significant expansion potential. Kirkland already is home to several companies in this industry. Kirkland should better understand the requirements and attractions for these companies, some of whom are backed by major entertainment industry funding.

We believe that Kirkland must act promptly to capitalize on this targeted industry and not simply rest on its image. The reason for prompt action has more to do with the City's land capacity than with any weaknesses in enterprise and application software. In other words, TIP believes that targeting this sector will take a combination of recruitment as well as developer/investor relationships to ensure the necessary facilities become available in Kirkland.

Two other sectors round out TIP's recommendations: medical service and professional services. In the case of medical services, Evergreen Hospital and nearby medical support services provide an ideal growth sector. Medical services and medical technology includes not only physicians, but also a wide range of technicians. The active involvement of the city in support of this sector (with special emphasis on specialization) will yield tangible results. Professional services, while not a typical industry target, are ideally suited for Kirkland. Capturing a portion of this sector will require careful work with the development community, and cannot rely on a traditional marketing campaign.

ACTIONS

1. Support the expansion of enterprise software companies in Kirkland >

Specific tasks:

Identify software companies within the greater Seattle area. Contact these employers to determine their expansion potential, current and future workforce requirements, desirable physical facilities, timing requirements and need to link to other firms. The purpose of this task is market research. To be effective in promoting Kirkland as a desirable location for software development, an understanding of the criteria for decision-making in selecting a business location is paramount. Kirkland can then ensure that it meets market preferences.

Work with venture capital companies and other financiers, both in Kirkland and in the region, to foster entrepreneurial growth and financing options. The primary goal for this task is to identify the criteria used by financial investors in selecting locations for investment and ensuring that Kirkland can meet those requirements.

Work with the Seattle King County EDC to identify prospects from outside Puget Sound.

Pursue further efforts to expand higher education capacity in Kirkland, with emphasis on software engineering and marketing curricula. While the question of funding large educational institutions is beyond the scope of the KEP, support should be given to the continued success of ***existing*** *higher education facilities in the city, particularly where linkages to Kirkland-based businesses are evident. The first step is to identify the needs of facilities in the area, such as DigiPen, and determine if there is a way for local institutions to provide it.*

2. **Encourage medical technology >** The expansion of Evergreen Hospital offers economic development opportunities. Medical services and medical technology includes not only physicians, but also a wide range of technicians.

   Specific tasks:

   Build upon recent involvement with the hospital planners to identify and capture opportunities.

   Ensure communication links are established to medical support activities and that appropriate type of development is possible in the medical precinct.

   Ensure the availability of amenities for employees in this area.

3. **Expand professional services >** Service employers – such as customer service centers, corporate headquarters, and mid-level professional service providers – provide high wage jobs with a relatively small impact on the community (i.e., no environmental issues, no increase in truck traffic, and no emissions).

   Specific tasks:

   Recruiting these firms will require some of the following elements:

   - *close cooperation with the development community*
   - *an understanding of how zoning and approval issues affect particular sites*
   - *nearby housing availability*
   - *availability of nearby amenities*

KEY QUESTIONS

- What is the best way to balance business growth with neighborhood needs?
- What is the best way to address development barriers?
- How does city activity relate to economic activity in general?

strategy two: improve the business investment environment

A Kirkland business address has a desirable cachet in Puget Sound. The pattern of commercial development over the last decade on the Eastside demonstrates, Kirkland is not viewed as a good business investment location. The perception of potential business investors is critical to successful economic development and it must be addressed in Kirkland if it is to secure a strong and balanced economic future.

There is no question that this is a sensitive issue. TIP feels that concerns about the investment environment are valid and must be integrated with city planning and the benefits to residential neighborhoods. Businesses that locate in Kirkland have expectations for how they will be viewed and how they will be supported. Without a larger commitment, even those companies that do move to the community might well identify more with Seattle than with Kirkland. They may—and some have—created a business address that links them entirely to Seattle.

KEP's efforts to identify and articulate business investment concerns has been important, and its role in this strategy can continue to be significant. Some of the actions listed below have already seen progress. TIP's emphasis on these items is meant to reinforce their importance and their specific role in the larger strategy.

ACTIONS

1. **Continue to expand the inventory of existing businesses and prospects >** Kirkland database of existing businesses and prospects is an important tool and should be maintained. And expansion of the GIS-based real estate site would be of great value. A clear understanding of the types of businesses already in the community, in addition to keeping tabs on new locations and expansions, is key to on-going economic development.

   Specific tasks:

   Link the city's GIS capacity to business information. Extract information for periodic analysis. (For example business mix change, sales tax generation, land values and assessment). Tax records, utility hookups, and ownership transfers can be important sources for information.

   Generate prospect management initiatives in conjunction with developers, brokers, and site selectors.

2. **Review regulations, procedures, and policies for their impact on business investment. >** Several business people interviewed indicated that city procedures generated significant friction on their business investment activities. In a competitive environment, such as the Seattle metro area, this has a negative impact on recruitment efforts and can even hinder the expansion and retention of existing businesses.

   Specific tasks:

   The Department of Planning and Community Development has worked hard to improve communications. Nevertheless, the risk and uncertainty for projects at their initiation remains high. Particular attention should be paid to timing and approval procedures from initial inquires to final approval.

Create an ombudsman strategy to serve all Kirkland businesses, not just new and small businesses (also see Strategy Four).

3. **Consider an incentive policy in light of broader target industries >** Incentives policies are not limited to tax abatement or financial inducements. Kirkland has the ability to provide infrastructure support and other incentives in support of desirable employers.

   Specific tasks:

   A list of non-financial incentives that the City of Kirkland may contribute should be compiled, and criteria for their availability established.

   Kirkland should implement policies that target industries based on the following priority:

   - *software*
   - *knowledge industries other than software (qualified by sector, i.e., technology intensive, and by wages). The digital gaming industry has been suggested as an opportunity.*
   - *professional service providers*
   - *R&D*

   The policies should address issues such as infrastructure support, creative land assembly strategies, and custom tailored development agreements. Development agreements are formal agreements between the developer and the city that outline the conditions each party to the agreement must meet. They can be structured in a number of ways, ranging from simple letter agreements between contracting parties, to more detailed agreements that require specific performance criteria where the public contribution may be recaptured if the criteria are not met. In addition to providing some certainty for the parties, a development agreement can provide specific benefits to the City of Kirkland in addition to support for the development itself. This may be as simple as making tennis courts available to neighborhood residents or it may involve a contribution to the cost of a neighborhood transportation facility such as a pedestrian and bike path connecting the medical precinct to Totem Center.

4. **Establish relationships with capital sources >** Economic development organizations greatly expand their influence when they can bring financial resources to a deal. The difference between merely identifying sources and forming working relationships with financiers is an important one. These relationships are nurtured through membership in professional associations, one-on-one meetings, and participation in joint projects.

   Specific tasks:

   Identify and visit venture capital and other start-up financing sources in the Greater Seattle area to document their needs and ensure they understand the opportunities in Kirkland.

   Expand and strengthen relationships with bankers, brokers and other real estate investors

   Use financial sources to understand investment conditions necessary for Kirkland

KEY QUESTIONS

- What is the function of Downtown Kirkland?
- Is Totem Lake a second "downtown?"
- How is a significant investment in commercial center infrastructure justified?
- Does it matter where the "downtown" is?
- How are Kirkland's commercial centers affected by:
  - ✓ Transportation
  - ✓ Redevelopment potential
  - ✓ Neighborhood expectations
  - ✓ History
- What are the economic spin-offs for major employers and for new residents?

strategy three: support prime development areas (TOTEM LAKE, THE DOWNTOWN AND 85TH STREET)

Greater Seattle is a highly competitive business investment environment. The type of retail mix, available housing products, variety and availability of amenities for employees, and business perception of the community all help determine whether economic development objectives can be realized.

TIP feels that emphasis on specific redevelopment areas can enhance of Kirkland's economic growth by:

- Creating distinctive "urban center" identities as a focus for growth.
- Allowing retail opportunities that respond to current market preferences and trends.
- Providing housing products that complement urban center activities.
- Developing suitable commercial space for professional service firms that can serve small to mid-size companies.

BACKGROUND

One of the older cities in the Puget Sound area, Kirkland is almost fully developed and, unlike the surrounding communities, has little vacant land. As the original settlement grew, a number of commercial areas emerged. Some of these commercial areas served small market areas – others catered to a larger, citywide or regional market. Three commercial centers in Kirkland - Totem Lake, Downtown, and 85th Street, are significant in the pursuit of a strong economic future for Kirkland. They comprise the majority of redevelopment opportunity, and they already attract a market that is larger than Kirkland. Other commercial areas in the city are of smaller scale and will redevelop as local opportunities are recognized (e.g., Juanita Village).

Totem Lake

The single dominating factor of this area is Interstate 405 and its interchange. This infrastructure created immediate development potential not available anywhere else in the city. The existing commercial activities have emerged haphazardly, with distinctive sub-areas that bear little relation or connection to each other:

- the hospital district
- the four corners of the prime intersection (which remain unrelated to each other)
- Parmac

Partly because of the haphazard growth, there is significant redevelopment potential in each of the areas. While a major mall redevelopment is in discussion, there is no definitive development scenario. The proposed scenario shows little integration with the other areas at Totem Lake.

The comprehensive plan policies for the Totem Lake Plan describe the desirable outcome for the redevelopment of the area, but very little is said about how this would be done. A plan of action by the City of Kirkland to ensure that this redevelopment takes place is required. A design charrette involving businesses, property owners, and potential investors working with professional urban designers (with the specific goal of identifying ways to overcome the

massive transportation-imposed barriers that segment the area) could be commissioned by Kirkland as a first step in developing this plan. A strong focus for Totem Lake Center can be identified through this approach and designed to serve as a unifying element for the six discrete areas of this future urban center.

Downtown Kirkland

Downtown Kirkland at one time was the commercial center for the Eastside, second only to downtown Seattle. In the past 25 years, downtown has decreased in importance as a retail and business service center for Kirkland and the surrounding region and is now a leisure time activity center (for both residents and visitors to Kirkland) with some elements of local retail and business service activities and an emerging specialty (niche market) center. Downtown is clearly not the primary retail destination for Kirkland residents and it has not been a focus of commercial office development. Downtown does have a significant number of redevelopment opportunities that can play a role in Kirkland's economic development.

85th Street Commercial Area

The 85th Street commercial area is a highway oriented "strip development" that depends heavily on the high volume of traffic passing through the zone. With the exception of servicing the commercial needs of the nearby neighborhoods of North and South Rose Hill, it is not a strong commercial destination. The redevelopment capacity of the 85th Street Area, while not insignificant, is substantially less than the Totem Lake and downtown areas where a different (i.e., more regional) market will be in play. The major issues in the redevelopment of 85th Street commercial area will relate to parcel size and configuration.

If Kirkland public resources are used for the attraction of private investment, it is our opinion that these resources should be allocated to areas where they would provide the most benefit to the city. The NE 85th Street Commercial Area, while an important retail corridor, does not require the same level of public resources to attract private investment as Totem Lake and downtown. With the exception of addressing parcel size and configuration issues, special attention is not required in this area beyond the general elements outlined in Strategies 1, 2 and 4 which apply to all business areas of the city.

Commercial Office Issues

Professional office space—designed to accommodate small practices providing health care, legal services, and similar employment—is typically an important part of a successful community. In Kirkland, professional office space will also include the work places for the target industries identified in Strategy 1.

The appeal of living closer to work may encourage professionals already residing in Kirkland to locate their practice in the preferred development areas (especially downtown), or draw new residents to the community. Housing within walking distance of the place of employment is a constant theme of this report and Kirkland can realize this vision in ways that few suburban communities can. There is the opportunity for a range of housing types including urban housing, lofts, town houses and live/work units. This expands the types of housing that are needed to accommodate young and old, single, married and families. It allows us to live close to our grown children and our older parents.

In this model, building sizes vary, although all are "human" in scale with limits placed on building heights and total square footage. Town centers are designed with a pedestrian orientation, and the majority of parking is consolidated at the rear of buildings or center of the block. While modern lifestyles require that automobile traffic be accommodated, parking requirements can often be reduced because of the mix of uses. Design standards can be used to enhance the small town feel of a town center by requiring attractive and varied building facades, encouraging quality landscaping and lighting design, and making parking less obtrusive.

In addition to a balanced mix of uses, strong design standards and attractive streetscapes, successful town centers require consensus and cooperation between public and private

stakeholders. The willingness to link this design to employment (through a coordinated marketing strategy) is an important element in determining economic success. In other words, housing should link to professional service and "knowledge industry" employment, which in turn can fuel retail sales and strengthen the housing market.

TIP has also reviewed the draft Kirkland Industrial Zoning Study prepared by UrbanAdvisors. We feel that the findings of that study are congruent with our recommendations and approach. Specifically:

> *"Employment trends projected by PSRC indicate that Kirkland is likely to have a greater need for office space than for industrial flex space over the next 25 years. The current vacancy and strong rental rates indicate that Kirkland is a desirable area for office location."*

Retail Issues

The question of retail growth has already been mentioned several times. Since retail sales tax plays a large role in city revenues, we feel that it is shortsighted not to emphasize retail growth. As a result, a separate strategy for retail attraction can be important to Kirkland.

Traditional economic development operates on the assumption that the service sector does not "drive" the economy. It holds to the view that public entities need only concern themselves with primary jobs, and that incentives and other support are best reserved for manufacturing. The immediate consequence of this view is that our expectations for growth are largely unmet, while some of the greatest opportunities for job growth are overlooked.

TIP believes that the service sector in general, and retail in particular, is deserving of the same attention and strategic consideration normally reserved for other sectors. National trends indicate that future job growth will be found primarily in the service sector, including retail. And our experience suggests that the type and scale of retail development will have a profound impact on a community's ability to attract and retain workers.

- **Retail is increasingly seen as an amenity without which other economic sectors find it difficult to recruit workers.** While traditional theory sees retail as a spin-off effect from the manufacturing sector, many successful communities now recognize that a thriving retail sector helps attract large employers to a region. The increasing emphasis on what Richard Florida calls "the creative class" has forced a reconsideration of the amenities and benefits of a community quite apart from the immediate availability of employment. People want and expect retail, and they have become increasingly refined in their specific interests. These interests extend beyond large shopping malls and now include specialty retail in the downtown, open-air lifestyle malls, and locally owned boutiques.

- **The sales tax effects of retail growth have tremendous ramifications for a city's overall budget.** While Kirkland has a relatively balanced revenue stream, the loss of retail growth to surrounding communities has impacts that may be comparable to the loss of manufacturing and technology jobs. In fact, the benefits of regional employment in the "primary" job sector may not exceed those in the service sector. Where workers spend their money matters, and it may matter more than where the primary job is based.

- **Urban development patterns are heavily influenced by the scale and location of retail centers.** Whatever the economic theory behind job growth, communities have other reasons to support a retail strategy, regardless of the economic theory behind job growth. Where retail centers locate matters to infrastructure investments: to transportation and to sewer and water. It is no exaggeration to say that Kirkland is already vested in a retail strategy – albeit one that is not explicit. We can say this because retail development – whenever it occurs – goes forward with implicit public support. This support is based on assumptions and values that are often not articulated, but which can run squarely into the concerns of neighborhoods, environmental groups, or other developers. Without a well-articulated strategy, a city is put at risk. Vacant retail space and empty parking lots dot

our urban landscape, testimony to bad public and private investment decisions. With a clear strategy, we influence future growth across a broad economic and social spectrum.

ACTIONS

1. **Ensure that Totem Lake and the downtown expand on commercial office space, retail, and housing >** The development strategies for these areas have arisen almost entirely through the city's planning department. There appears to be no specific economic focus for these plans and, as a result, employment opportunities have been identified in a theoretical, not a practical, framework.

   Specific task:

   Review existing plans and proposals to ensure redevelopment with a mix of employment opportunities congruent with the targeted industries.

2. **Conduct city and developer workshops to enhance the potential for success in redeveloping these areas >** The broader development community should be actively engaged in design and build-out options for all the specified areas.

   Specific tasks:

   Hold development workshops.

   Prepare preliminary development cost estimates for respective sites.

   Explore the possibility of a town center as part of the Totem Lake development.

3. **Prepare a retail strategy >** To maximize mixed use planning, retail targets should be selected based on their ability to contribute to the city's overall economic growth by providing alternatives to destination shopping in Seattle and the other Eastside communities.

   The consulting team recognizes that the Kirkland economic development focus on software and "knowledge industry" growth is the central task. We also appreciate the fact that retail recruitment is not an accepted economic development target. Nevertheless, this plan encourages the city to assist in a retail strategy.

   Specific tasks:

   Conduct a retail assessment of the Eastside market area. This assessment can be prepared in-house based on existing market data.

   Examine data on consumer spending patterns of existing residents.

   Develop high profile targets based on the ability of those retailers to attract dollars from outside of Kirkland (i.e., other than purely local service).

   Identify development sites for retail clusters.

strategy four: communications and organization

Kirkland is a community with a well-respected and professional staff and has achieved several notable developments The city can – and should – leverage those assets and its reputation on behalf of future growth. Since there is little question that Kirkland will grow, the question is how and where. In other words, the city should not take success and high value development for granted. Kirkland's future development opportunities can be better managed and have broader benefit to the city and its citizens when it speaks with a single voice on economic development. Kirkland would benefit from improved communications regarding development issues.

ACTIONS

1. **Create a new focus for economic development >** While a specific organizational recommendation is premature (pending the outcome of various retreats, workshops and public discussions), it is TIP's considered view that Kirkland would be best served by a single focal point for all economic development activity. This "new focus", would be responsible for the implementation of the City's economic development strategy. This new economic development entity could have advisory committees for targeted areas (such as the Downtown Action Team) to assist in implementing the City's Economic Development Strategy and to monitor and evaluate progress in achieving community goals.

   KEP was intended to play this role, and may still play it, but the commitment must be much greater on the part of the city. This need can be met by a new organization (such as a development authority) or by an individual (combining the role of economic development manager and business ombudsman at the assistant city manager level). The specific mechanism is less important than the willingness to assign responsibility in several key areas. These areas include the following:

   - Implementing a marketing and recruitment campaign for targeted industries (see below)
   - Providing support for existing businesses (retention and expansion)
   - Providing financial and deal structure review for major development projects (including cost benefit and other impact analyses as well as evaluating pro forma requirements for a successful business investment)
   - Liaison with the city council and with the planning department to ensure that comprehensive plan goals are met
   - Acting as an ombudsman for business-related issues

   The benefits of this approach are wide-ranging. Individual projects can be professionally reviewed before they go to council, businesses and developers will have a single point of contact, and new business growth can proceed in a targeted fashion. Most importantly, economic development can occur in a managed way.

2. **Develop a communications strategy >** This strategy should include both internal relations (i.e., citizens, neighborhoods, and city council communications) and a well-managed public relations campaign. Public relations helps establish relationships with those in a position to disseminate information about Kirkland, as well as those who would consider relocating to the community. This would include reporters, state and regional economic development officials, elected officials, and local and regional business and

community leaders. Most importantly, it would include developers with an interest in Kirkland who appreciate the importance of design.

Specific tasks:

Create awareness about what Kirkland has to offer by hosting special events. Examples include:

- *Site location visit. Consider inviting site location specialists, commercial real estate brokers, and land developers to tour the community. The site location consultant could be asked to speak to the Economic Development Advisory Board and city officials regarding impressions of the city and its amenity and opportunities. In exchange for compensating the site location specialist for their time and efforts, the community would gain valuable insight as to how it is perceived by outsiders, as well as establishing a new relationship with site consultants in the targeted industries.*

- *Networking events. Hold meetings and forums on economic development and growth related issues. These events can be held in the Eastside or Seattle as well as in Kirkland, and can be co-hosted with other organizations.*

3. **Prepare a marketing strategy >** An effective marketing strategy pays huge dividends. The specific elements the marketing strategy should include a clear message about Kirkland as a location for business investment; building on the positive image Kirkland has as a business address. This message must be clearly supported by all players in Kirkland's economic development activities from mayor and council to the chamber and existing business operators, as well as residents and neighborhood groups. The marketing strategy should identify likely groupings of companies in Puget Sound, outline a schedule for their approach, and indicate goals that define the success of the marketing strategy. The strategy should be developed and implemented by the entity responsible for economic development in Kirkland. The marketing strategy should be developed after the requirements of potential investors for target markets are understood and found acceptable to Kirkland.

4. **Continue to improve marketing materials >** Brochures, profiles, maps, newsletter, and other promotional materials are most effective when part of a broader effort (including revised web links). These materials convey both Kirkland's image and address the audience's needs for focused, up-to-date information. Current efforts in this direction have been well executed and should be maintained.

Specific tasks:

Use the material developed by KEP to prepare a press kit. A press kit is one of a community's most important media relations tools. It is a set of materials available to initiate interest or respond to information requests from journalists and other writers. Among the materials to be included in the press kit are:

- *Cover letter to answer specific questions or address specific topics the writer is covering, as well as offering to put the writer in touch with potential interviewees.*
    - *Fact sheet about Kirkland.*
    - *List of major employers.*
    - *Unique features of the area.*
    - *Copies of other articles that have been published about Kirkland.*
    - *New expansions and locations in the area.*

Increase visibility in local and regional papers by submitting stories and press releases on a regular basis.

- *Develop list of reporters with key publications and establish a relationship with them.*
- *Based on these conversations and input from city and chamber representatives, prepare a schedule of press releases for distribution to local newspapers and regional publications, like the Puget Sound Business Journal. Focus press releases on a particular event or the release of a new report or key indicator about the area. Think about how press releases and stories can be used to improve communication about events or issues of interest to current residents.*

Identify trade publications for key industries and geographic markets and prepare similar list of contacts and schedules.

Identify other media outlets, such as radio or regional TV broadcasts

SUMMARY

Kirkland has a unique role in Puget Sound. From an economic development perspective, it is the ability to integrate a variety of employment opportunities with a livable and vibrant community. Unlike bedroom communities that emphasize only housing and neighborhood issues, and unlike employment centers that give no thought to amenities and lifestyle, Kirkland has the potential to operate less as suburb and more like a truly autonomous community. That vision is within reach. It is the intent of this plan to help achieve that vision.

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APPENDIX A: DISCOVERY PHASE, OCTOBER 2004

MEMO TO: KIRKLAND PATHWAY STEERING COMMITTEE
FROM: TIP SRATEGIES, INC.

TIP Strategies, Inc. has been engaged to help identify a pathway that will guide the City of Kirkland toward a strong economic future. This memorandum, the first of three to be provided by the Consultant to the Steering Committee, documents our work during the Discovery Phase of the Project. Qualitative information regarding Kirkland's strengths, weaknesses, opportunities, and threats (SWOT) is outlined in this memorandum. Profiles of three benchmark communities are provided in the last section of this report.

Significant quantitative data regarding Kirkland is available in the Community Profile provided in the City's Website. This information has been reviewed by TIP and supplemented by information provided below.

During September 13 through 16, TIP conducted interviews regarding Kirkland's economy with knowledgeable local sources. These personal discussions were supplemented by a number of telephone interviews with additional sources. A SWOT analysis was developed from the interviews with local experts, a review of the quantitative data regarding Kirkland and the Puget Sound Region, an examination of City of Kirkland policy and land use documents, and our experience in evaluating a community's economic potential.

Three themes emerged from our Discovery work:

1. Kirkland is a highly desirable place to live and work.
2. Change in Kirkland is slow and often difficult.
3. Residential quality of life is the cornerstone for Kirkland decision-making.

Broadly speaking, economic development strategies emerge directly from the SWOT analysis. Weaknesses – even if not directly related to economic development – must be addressed, and strengths must be supported and reinforced. Similarly, threats to the economic well being of the community must be anticipated and responded to before they become crises. Opportunities, on the other hand, should be acted upon aggressively and, if possible, collaboratively. This is another way of saying that economic development is not just a plan; it is also attitudes and actions. The commitment of the city government, the local business community, and local neighborhood associations will be essential to securing a strong economic future for Kirkland.

STRENGTHS

The strengths of a community have both a historical and a geographic context. Beyond that, they are linked to leadership and community involvement. In all these regards, Kirkland's strengths place it in a unique position within the region. Since the Puget Sound Region enjoys a national prominence, Kirkland has every reason to be proud of its assets.

Image > Kirkland's location at the center of the King County and the Puget Sound urban region represents a significant asset. With an estimated 3.4 million people in the metropolitan area, Kirkland is able to draw on the mystique of Seattle, Bellevue and Redmond, both from a business standpoint and from a marketing perspective.

The additional perception of the Eastside as a high tech center has immediate benefits to Kirkland. Itself the home of world-renown start-up companies, it is no stretch to imagine Kirkland as an entrepreneurial and innovative community.

POPULATION CHANGE AND COMPONENTS OF CHANGE BY COUNTY: 2000 TO 2004

County	2000 Census	April 1, 2004 (Estimate)	Change 2000 to 2004		Components of Change 2000 to 2004				State Rank	
			Net	Percent	Births	Deaths	Natural Increase	Net Migration	By % Change	By Total 2004 Population
King	1,737,034	1,788,300	51,266	3.0%	88,526	46,614	41,912	9,342	18	1
Kitsap	231,969	239,500	7,531	3.2%	11,921	7,112	4,809	2,722	15	6
Pierce	700,820	744,000	43,180	6.2%	40,575	21,720	18,855	24,327	8	2
Snohomish	606,024	644,800	38,776	6.4%	33,949	15,901	18,048	20,728	6	3
Region Total	3,275,847	3,416,600	140,753	4.3%	N/A	N/A	N/A	N/A	N/A	N/A

Source: 2000 U.S. Census Bureau, State of Washington Office of Financial Management

POPULATION CHANGE: 2000 TO 2004

City	2000 Census	2004 Estimate	Change 2000 to 2004	
			Net	Percent
Bellevue	109,569	116,500	6,931	6.3%
Bothell	30,150	30,930	780	2.6%
Issaquah	11,212	15,510	4,298	38.3%
Kirkland	45,054	45,800	746	1.7%
Redmond	45,256	46,900	1,644	3.6%
Woodinville	9,194	9,915	721	7.8%

Source: 2000 U.S. Census Bureau, State of Washington Office of Financial Management Note: Bothell population was calculated by adding King County partial estimate (16,250) with Snohomish County partial estimate (14,680).

Population growth in King and Kitsap Counties has been driven by natural increase rather than net migration. By contrast, more than half of the growth seen in Pierce and Snohomish Counties during the same period has been the result of migration. While population growth – in itself – is not necessarily a strength or a weakness, it does provide a framework for understanding options available to the community. Kirkland's very modest population increase reveals it as the slowest growing city examined in this assessment. It suggests, variously, that there are a greater number of housing options elsewhere in the region and that the amount of available housing in Kirkland is declining (at all price points). Is this the same as saying that Kirkland is built-out? And if it is, does Kirkland accept the risks associated with being a community whose only growth will come from redevelopment? These are not economic development issues in a direct sense, but they do influence tax revenues and employment options.

Transportation > Despite regional traffic congestion, Kirkland has remarkable accessibility. Direct four lane highway connections are possible in all directions. Interstate 405 (originally intended as the Interstate 5 bypass of Downtown Seattle) connects north and south and directly to SeaTac Airport, as well as to Interstate 90 East. Three I-405 intersections serve Kirkland and State 520 (at the southern Kirkland City border) connects directly west to Seattle, the University of Washington and to I–5. Finally, 520 connects east to I-405 and Redmond and the Microsoft Campus.

Quality of place > Few communities can rival the appeal of Kirkland. An appealing lakeside atmosphere within easy reach of a large urban center is a rare combination. Downtown is "pedestrian scale" with low buildings and no major roadways. Retail businesses offer a broad range of services, especially in proportion to the size of the city. Residences (and many businesses) have superior western views of Lake Washington, the downtown Seattle skyline, and the University of Washington.

Real estate > Kirkland further benefits from its strong standing in a region where it is considered a desirable place to live and work. Real estate brokers consider Kirkland the "hot" location in the regional office market, outside of downtown Seattle. Selected Class A office space in Kirkland, specifically Carillon Point, rents in excess of $30/SF, well-above the South King County

GREATER SEATTLE AREA (INCLUDING KIRKLAND

Source: Mapquest

submarket average, and has been as high as $49/SF. However, a glut of office construction in Bellevue as the dot-com bubble was bursting caused office rents to plummet on the Eastside in recent years.

The greatest concentration of the region's office space (and office-using jobs) is from downtown Seattle eastward across Lake Washington and into the Eastside suburbs. As might be expected, retail space is more evenly distributed geographically; it correlates largely to population density.

The region's industrial space is heavily concentrated from the southside of Seattle down through the Kent Valley and into Pierce County. Within this north-south band, industrial land prices tend to fall as one heads south into areas with greater greenfield availability. The Eastside is home to relatively little industrial space (and few true industrial jobs). The "industrial" space that exists on the Eastside is more likely to be flex/tech space (a hybrid of office and industrial) than warehouse or manufacturing space. This concentration of flex/tech space helps explain why the industrial vacancy rate is relatively high on the Eastside. Recent industrial construction, as the table below indicates, is tending to push from the Kent Valley southward.

MARKET STATISTICS, MID-YEAR 2004

		Seattle (close-in)	South King County	East King County	Snohomish County	Pierce County	Kirkland
Office	Total SF	43,897,897	12,511,377	29,596,560	7,447,054	5,987,243	4,906,000
	Vacant SF	6,320,422	2,676,544	4,269,548	1,330,335	821,339	N/A
	Vacancy rate	14.40%	21.39%	14.43%	17.86%	13.72%	N/A
	Under Construction (SF)	1,339,200	0	0	33,000	57,000	N/A
	Absorption *(1st half 2004)*	763,974	-273,136	225,992	-43,204	111,544	N/A
	Rent *(Class A)*	$22-$26	$18-$22	$18-$24 ($21-$25 Bellevue CBD)	$19-$22	$19-$22	N/A
Retail	Total SF	6,402,581	14,600,385	14,254,914	12,599,241	12,683,356	3,463,900
	Rent	N/A	N/A	N/A	N/A	N/A	N/A
	Under Construction (SF)	48,000	420,000	710,500	310,000	20,000	N/A
Industrial	Total SF	65,420,953	97,148,750	25,592,799	19,827,089	33,928,287	3,349,000
	Vacant SF	3,727,194	8,297,329	3,796,769	3,010,347	3,182,556	N/A
	Vacancy rate	5.70%	8.54%	14.84%	15.18%	9.38%	N/A
	Under Construction (SF)	0	883,500	0	0	59,252	N/A
	Absorption *(1st half 2004)*	231,571	938,556	-76,436	-44,630	863,076	N/A
	Land Values	$10-$30/SF	$6-$9/SF	$9-$15/SF	$3-$6/SF	$2.25-$6/SF	N/A
	Lease Rates	$5.40-$7.20/SF	$3.36-$4.08/SF	$5.40-$7.20/SF	$3.96-$4.80/SF	$3.36-$4.20/SF	N/A

Sources: GVA Kidder Mathews, Kirkland Community Profile, Note: Unless otherwise noted, all rents are expressed annually: $/SF/year

Residential real estate prices (and assessments) in Kirkland have increased faster than commercial assessments. ECONorthwest's *"Tax Burden Analysis"* from May 2001 underscores that fact. Kirkland's non-residential property tax assessments represent the lowest percent of total tax receipts in the region. A growing disproportion of non-residential tax receipts has potentially significant economic implications for a community. While there is no perfect formula for balanced assessment, most cities see great risk in an overdependence on residential property taxes. The reasons for this are apparent to city governments; after all, tax revolts often begin with frustration over residential property tax increases.

REAL PROPERTY ASSESSMENTS FOR SELECTED COMMUNITIES: 2000

Jurisdiction	Non-residential	% of Total	Residential	% of Total	Total Taxable Real Property	Population
Kirkland	$1,050,316,987	21%	$3,857,295,136	79%	$4,907,612,123	45,054
Bellevue	$4,179,277,621	30%	$9,708,789,479	70%	$13,888,067,100	109,569
Bothell *(King Co. portion)*	$390,020,905	30%	$923,268,299	70%	$1,313,289,204	16,185
Kent	$2,450,250,949	45%	$3,039,317,917	55%	$5,489,568,866	79,524
Redmond	$2,287,468,424	43%	$3,059,163,595	57%	$5,346,632,019	45,256
Renton	$1,557,847,778	41%	$2,267,015,077	59%	$3,824,862,855	50,052
Unincorporated King County	$1,107,187,275	4%	$24,975,498,526	96%	$26,082,685,801	352,764

Source: King County Assessor's Office

Community participation > Kirkland benefits from a high level of civic involvement. Both residents and businesses (especially those in the downtown) are heavily vested in the future of the city. This is amply demonstrated by the Kirkland Association of Neighborhoods, Kirkland Downtown by the Lake and the Kirkland Chamber of Commerce. As a result, the decision-making process is highly inclusive, and encourages (and receives) participation from all stakeholders. For example, the City of Kirkland planning process incorporates "Neighborhood Action Teams" to generate consensus in decision-making.

OPPORTUNITIES

> "Kirkland is a highly attractive community with an appealing mix of tourism products and activities of interest to the visitor market. However, it is not an obvious tourist destination."
>
> Kirkland Tourism Program, Marketing Action Plan, November 2002

Opportunities for Kirkland greatly outweigh those of similar suburban communities. Through sound planning, the city has preserved options for itself that have become closed to others. Much of this centers on the fact that Kirkland provides a broad range of amenities and does not rely exclusively on Seattle for cultural attractions and entertainment venues. As a result, Kirkland has a significant opportunity to position itself as a tourist venue for those seeking smaller-scale, more family-oriented entertainment. Existing parks and waterfront activities, restaurants, shops, and downtown cultural activities are attractive to residents, and have begun to draw regional visitors. The possibility of extending this tourist activity through enhanced accommodations, and aggressive marketing efforts could extend visits and greatly increase retail spending.

In addition, Kirkland can establish niche retail and service markets for itself. Such niches might include cultural attractions (re-thinking the art and music scene), retail "themes," and business networking functions (smaller in scale than typical conventions).

Business recruitment and expansion > From the point of view of business attraction, Kirkland can tout all the benefits of the region, and yet position itself as a viable alternative to the congestion and pressure of Seattle. This task is made easier by Kirkland's inclusion in regional marketing initiatives. The continuing opportunity to position Kirkland within the region is available in a number of areas.

Among the immediate targets available to Kirkland are Eastside technology companies that are expanding or spinning off new business ventures. These businesses typically are looking for better quality light industrial facilities and Class A office space. Kirkland currently has over 275 high tech businesses, with over 2575 employees, as identified by the city. In 2001, software and information technologies had the largest percent increase in employment growth of any Washington industry.

Entrepreneurial companies are also legitimate targets. Fox TV and McCaw Cellular, as well as Rosetta Impharmatics, began in Kirkland. The opportunity to build on this tradition, from both a marketing as well as from a facilities standpoint, would be the envy of any city in the country. As the table below indicates, Kirkland has a high share of employees working from home, indicating the level of local entrepreneurial activity. Those "garage" businesses that develop into a larger entity constitute an often forgotten local market.

EMPLOYED RESIDENTS WORKING AT HOME: 2000

	Kirkland	King County	Seattle	Bothell	Redmond	Bellevue
Share of Employed Residents Working at Home	5.3%	4.4%	4.6%	4.3%	5.1%	4.7%
Ratio of Employed Residents Working at Home to Metro Average	121.7%	101.0%	105.6%	98.7%	117.1%	107.9%

Source: 2000 Census

Development potential > The vitality of downtown is one of the economic strengths of the community. New employment opportunity, however, now rests largely with redevelopment throughout Kirkland. The table below documents existing development and potential for business expansion under current regulation for significant neighborhoods. Opportunities for additional business development are clearly concentrated in Downtown (Moss Bay) and Totem Lake.

EXISTING AND POTENTIAL DEVELOPMENT — SELECTED NEIGHBORHOODS

	Existing Development (sq. ft.)				Potential Development (sq. ft.)				TOTAL		
Neighborhood	Commercial	Office	Industrial	Total	Commercial	Office	Industrial	Total	Potential + Existing (sq. ft.)	Vacant (Acres)*	Acres
Everest	50,382	186,581	378,293	615,256	50,448	491,987	65,467	607,902	1,223,158	19	173
Lakeview	96,830	2,005,789		2,158,133	71,738	163,484		235,222	2,393,355	18	293
Moss Bay	792,663	831,805	265,151	2,185,381	482,903	1,368,687	-7,800	1,843,790	4,029,171	7	246
North Rose Hill	428,355	178,892	106,038	1,179,588	398,653	500,542	14,022	913,217	2,092,805	53	760
Totem Lake	1,366,501	1,222,638	2,229,244	6,210,006	1,109,800	539,494		1,649,294	7,859,300	50	620
Subtotal	2,734,731	4,425,705	2,978,726	12,348,364	2,113,542	3,064,194	71,689	5,249,425	17,597,789	147	2,092
All other	729,169	480,055	369,882	2,918,241	597,794	592,319	100,789	1,290,902	4,209,143	116	3,172
TOTAL	3,463,900	4,905,760	3,348,608	15,266,605	2,711,336	3,656,513	172,478	6,540,327	21,806,932	263	5,264

Source: Kirkland Community Profile 2004 Draft Update **includes residential zoning*

Much of downtown could be redeveloped with a retail ground floor and two office or three residential stories, although the office option is clearly less attractive in the current development environment. Such an approach would need to be balanced against the community's overall image of itself. There is little question, however, of the economic benefits of creating additional commercial retail and office space.

A number of downtown projects are already in the planning and approval stages, including Lake Street and Central Ave, 3rd and State, Lakeshore Plaza, and the Quadrant/Transit property. Other downtown sites are ready for redevelopment: the Antique Mall, the Safeway site, and Kirkland Avenue and Lake Street.

In addition, the owners of Totem Mall are intending a major redevelopment and the Evergreen Hospital expansion will generate additional demand for nearby medical services.

Additional redevelopment opportunities could be considered wherever current industrial space is being underutilized or vacated. This approach is also aggressive, but it suggests a scenario that can meet the demands of economic growth without seriously compromising the city's quality and image.

WEAKNESSES

Kirkland has few obvious weaknesses. Among suburbs of major metropolitan cities, it has retained a distinct identity, has a deeply involved citizenry, and remarkable amenities. The threat of regional economic downturns, however, exposes the most significant of weaknesses: the lack of suitable areas for the creation of new employment centers.

Development (and redevelopment) opportunities > The city of Kirkland is largely built-out. There are no major tracts of land available for development. Further, land parcel size and configuration in downtown, and to some extent Totem Lake, are not conducive to redevelopment. The irregular street pattern also makes reconfiguration of existing land and buildings in both areas more difficult.

Land ownership issues further complicate this situation. Absentee landowners of significant parcels are less likely to have any vested interest in redevelopment. Second, there are no significant parcels under single ownership, beyond those already identified. Finally there are always a number of landowners with no obvious interest in redevelopment.

Land prices in Kirkland are high. While this is a benefit for tax revenues, it requires a project with sufficiently high revenues or else the development will not be achieved. The Leland Consulting Group has identified this potential problem for the 85th Street Corridor in a 2000 report.

Tax structure > Kirkland has a heavy reliance on sales tax revenues and residential property taxes. Seen in conjunction with regional economic threats, this reliance suggests a potential structural imbalance. Auto sales, for example, are heavily dependent on low interest rates and stable employment. When these change, sales decline and the city's revenue

stream can turn into a trickle. Housing sales, once driven by lower costs than those in Seattle and surrounding communities, now reflect the high desirability of significant portions of Kirkland as a residential location.

Development regulations > Careful and detailed city regulations and policies are clearly designed to protect residential quality. This naturally creates additional cost for business developments, with little prospect of increased return. Related to this is a lengthy development approval process that discourages investors who require quick turnaround in order to justify their investment. In addition, the neighborhood approval process can result in reduced development opportunity when local residents refuse to accept a development application that conforms to existing regulations.

THREATS

Threats to the economic well being of a community can be both external and internal. It is a mistake, however, to look at either one in isolation. External threats, such as regional economic cycles, can be exacerbated or mitigated by specific actions. Similarly, building strictly on internal strengths (such as community involvement and strong neighborhoods) runs the risk of losing ground in the intensely competitive regional environment in which businesses (and residents) make employment decisions.

Regional dependence > The most obvious threat facing Kirkland is its dependence on the overall economic health of the Puget Sound area. This is not a minor point. It is TIP's view that the *Pathway* should take this fact into consideration in each of its recommendations. In other words, Kirkland can – and should – provide some level of insulation against regional market downturns. The possibilities for doing this are, of course, limited. As Puget Sound goes, so goes Kirkland. But negative effects can be minimized. Employment opportunities in close proximity to one's residence are a powerful draw. So also is a vibrant downtown and retail sector that will continue to draw activity even during a regional downturn. This threat is never more dangerous than when interest rates are low and there is relative complacency. The region, however, has a long history of downward employment spirals. This risk goes beyond Boeing, and includes the regional overdependence on technology companies and a narrow focus on a single emerging business sector (biotechnology).

Land and building costs > The increased desirability of Kirkland as a residential location can result in land too expensive for business. There are specific actions that can be taken to reduce these costs. It would be possible to increase the supply of available land and buildings, linked to changes in zoning and to aggressive redevelopment. While there may be sound reasons not to take this direction, the threat of reduced growth and restricted land availability deserves close consideration.

CONCLUSION

The balance of Kirkland's strengths and weaknesses show in a highly favorable light. The threats and opportunities, however, require additional consideration. This is another way of saying that there is a risk for complacency even – or perhaps especially – in a community as successful as Kirkland.

BENCHMARKING

To better understand the options available to Kirkland, the consulting team selected three communities to benchmark regarding development patterns. Each city, like Kirkland, is an affluent suburb that is approaching complete build-out.

Alexandria, VA (Washington, DC) > While considerably larger than Kirkland in population, Alexandria's land area is fairly similar. Other demographic factors, including education levels, income levels, and household composition, are similar to Kirkland. Alexandria is an example of a community that was built out somewhat sooner than Kirkland and is now further progressed in its developmental evolution and population density.

Cupertino, CA (San Jose) > Cupertino's population, land area, and density are nearly identical to Kirkland. Like Kirkland, the median household income in Cupertino is well above the metro average, as is the ratio of residents who work at home.

Littleton, CO (Denver) > Littleton is similar to Kirkland in population and in most demographic variables. It also has a very similar composition of housing stock. A hospital campus is one of the city's primary employers. Other than that, there are few dominant private-sector employers; most office and retail employers tend to be smaller firms. Like Kirkland, the ratio of residents who work at home is well above the metro average.

SELECTED DEMOGRAPHIC CHARACTERISTICS OF BENCHMARK COMMUNITIES: 2000

Metropolitan Area	Seattle	Denver	San Jose	Washington DC
Comparison Suburbs	Kirkland	Littleton	Cupertino	Alexandria, VA
Population	45,054	40,340	50,546	128,283
Land Area (square miles)	10.68	13.52	10.94	15.18
Population Density (persons per square mile)	4,220	2,985	4,620	8,452
Median Age	36.1	38.6	38.0	34.4
Average HH Size	2.13	2.29	2.75	2.04
Share of Adults (Age 25+) with a Bachelor's Degree or Higher	47.4%	40.1%	65.4%	54.3%
Foreign Born Share of Population	14.4%	5.7%	42.8%	25.4%
Average Travel Time to Work (Minutes)	21.9	24.8	25.8	29.7
Median HH Income	$60,332	$50,583	$100,411	$56,054
Median HH Income as a Share of Metro	114.3%	98.8%	135.1%	90.1%
Non-Hispanic White Share of Population	83.1%	86.8%	47.8%	53.7%
Married Couples with Children as a Share of all HHs	16.8%	20.4%	36.4%	12.4%
Single and Living Alone as a Share of all HHs	35.6%	33.3%	19.6%	43.4%
Single-Family Detached Homes as a Share of Housing Units	44.3%	49.6%	61.1%	14.8%
Share of Housing Units Built 1970-1989	48.6%	40.9%	36.1%	33.9%
Share of Employed Residents Working at Home	5.3%	5.2%	4.1%	3.5%
Ratio of Employed Residents Working at Home to Metro Average	121.7%	115.1%	131.4%	95.7%

Source: 2000 Census

SELECTED CHARACTERISTICS OF BENCHMARK COMMUNITIES

Metropolitan Area	Seattle	Washington DC	Denver	San Jose
Comparison Suburbs	Kirkland	Alexandria	Littleton	Cupertino
Sources of Revenues:	100.0%	100.0%	100.0%	100.0%
Property taxes	24.3%	58.1%	7.9%	13.2%
Sales taxes	30.3%	5.6%	59.1%	31.6%
Other taxes	27.8%	17.8%	0.0%	27.0%
Intergovernmental transfers	12.3%	12.4%	21.0%	13.0%
Fees, earnings, & misc. sources	5.1%	6.0%	12.0%	15.1%
for FY ending:	*31 Dec 2002*	*30 June 2003*	*2002*	*30 June 2003*
Citywide office vacancy rate	N/A	8.9%	13.7%*	24.0%
latest as of:	N/A	*2004Q2*	*2004Q2*	*2004Q2*
Single-family home price	N/A	$474,661	$265,390	$942,875
latest as of:	N/A	*2004*	*2004Q2*	*2004Q1*
Major private employers	Evergreen Hospital (1,863), Lake Washington School District (641), City of Kirkland (581), Kenworth Truck Co./PACCAR (386), Costco Wholesale (300)	INOVA Alexandria Hospital (1,539), Institute for Defense Analysis (1,200), American Diabetes Association (900), Center for Naval Analysis (600), U.S. Boatowners Association (570), Corporation for Public Broadcasting (500)	EchoStar, Quest, Littleton Adventist Hospital, and "lots of small tech companies"	Apple Computer (HQ), Portal Software (HQ), Symantec (HQ), Hewlett-Packard (division), Borland Software (division), Vallco Fashion Park (regional mall)

Sources: Cities of Kirkland, Alexandria, Littleton, and Cupertino; Alexandria Economic Development Partnership; CB Richard Ellis; Dataquest

**Note: Littleton's office vacancy rate is for the Southwest Denver submarket (which includes Littleton).*

ALEXANDRIA VA (WASHINGTON, DC)

What has been the city's role in economic development over the past 10-20 years?

The city formed the Alexandria Economic Development Partnership (AEDP) in 1992 as a public-private partnership. The mayor, the city manager, and a council member have seats on the board (private sector controls the rest). While the city provides some funding, the AEDP is run separately from the city itself. The focus is largely on recruitment and marketing to increase the job base and retail base, but an underlying goal is to shift the city's tax base from 60 percent residential sources to 50 percent. Recruitment has focused on trade associations, technology companies, and professional services.

How extensive is pressure to preserve residential quality of life? What are the trade-offs?

Quality-of-life is a major priority. Citizens are actively involved in the development process, with the preservation of open space taking precedence over economic development.

What have been the local obstacles to expanding commercial/industrial development?

One of the projects that AEDP has struggled with most is the new headquarters complex for the U.S. Patent and Trademark Office (5 of 7 buildings now completed) which relocated from nearby Crystal City. Alexandria residents were deeply concerned about the impact of new traffic in the community, but these issues were eventually resolved and the project went forward. The mayor and the council have been supportive of economic development and this keeps the process moving along.

Are employment centers integrated into the community? If so, how?

Alexandria is an older city and one of the densest suburbs in the U.S., but like most suburbs, a majority of commuter traffic flows out to other areas. Alexandria is fortunate to have four metro stops, but ironically, none of them is densely developed. One of the main future land use goals is to develop these transit stops as integrated, mixed-use live/work communities using "smart growth" principles. King Street (the main retail street in the historic district) has many buildings with ground-level retail and mixed uses above. The city would like to extend this type of development into other targeted development areas, particularly around the metro stops.

How much vacant land is left in the city?

There is "way less than 1 square mile" of vacant land left in the city. There is little industrial-zoned land. Land use is predominately residential, office, and commercial -- not industrial.

What lessons can be learned?

Alexandria offers an example of what a community like Kirkland looks like after it has mostly developed and then begun to redevelop. Quality of life (including preservation of remaining open space) is a very vocal argument that residents express, but citizens' arguments are often weighed against the city's long-term goal of reaching a 50/50 balance in tax revenue sources between residential and nonresidential land uses.

CUPERTINO, CA (SAN JOSE)

What has been the city's role in economic development over the past 10-20 years?

The city's role in economic development has tended to be reactive rather than proactive. There is no dedicated office or officer for economic development promotion. Instead, the city formed an economic development board about 10 years ago. The board includes members from the city, the chamber, property owners, and businesses. The city's general plan includes a "weak" element for economic development.

How extensive is pressure to preserve residential quality of life? What are the trade-offs?

There is pressure to "preserve the character of residential areas". This means that residents do not want the city to grow any denser that it currently is. *Example:* Two projects (Kempton Hotel and Verona Apartments) were recently approved in a non-residential area. There was no vocal protest from residents at the time the projects were proposed. Both developments were 6-8 stories, and their size was not really noticed by residents until construction began. The backlash began after construction was underway. Local residents have now gathered enough signatures to get 3 proposed new initiatives on the November election ballot. These three initiatives propose (1) a maximum height limit of 36 feet; (2) a minimum setback of 35 feet; and (3) a ceiling on residential density of 15 units per acre. Any project that doesn't meet these standards would automatically be thrown to a public vote.

What have been the local obstacles to expanding commercial/industrial development?

There is very little vacant land left, so the city's focus is now shifting to redevelopment. Some older industrial buildings are now in mixed-use zoning districts where some properties have been converted to new uses. The biggest obstacle to development is that land is very expensive; for developers to be profitable, they must have density in their projects. If the proposed ballot initiatives are approved in November, they will likely reduce developer interest in the city.

Are employment centers integrated into the community? If so, how?

In general, office developments are in stand-alone office parks and are not well-integrated into the city. The city is trying to change this by promoting more mixed-use redevelopment, but has had limited success so far. The areas that could best be redeveloped more densely are the large surface parking lots of major employers, but the property owners have thus far been reluctant to do this, mostly for corporate security reasons.

How much vacant land is left in the city?

There is "very little" vacant land left—325 acres. Of the remaining developable land, it is zoned 13% office/industrial, 4% retail/commercial, 5% standard residential, and 78% hillside residential. The office/industrial-zoned land is held by one owner (Hewlett-Packard) that is interested in selling.

What lessons can be learned?

There is tension between the city's long-term goal of redeveloping existing properties more densely and the residents' efforts to obtain direct veto power over high-density projects. If proposed ballot initiatives pass in November, developer interest in the city is expected to wane.

LITTLETON, CO (DENVER)

What has been the city's role in economic development over the past 10-20 years?

The city's economic development policy changed dramatically in about 1987. The city council was "fed up with out-of-town companies" that had no commitment to the community. This view was prompted when Lockheed Martin (then a major local employer) announced a huge layoff. The city decided to abandon any recruiting of large companies, and instead to focus exclusively on helping the community's existing businesses prosper. This has been the policy ever since.

How extensive is pressure to preserve residential quality of life? What are the trade-offs?

Littleton is "affluent and well-educated" and quality of life issues are taken seriously. This means that the focus is on "civic infrastructure." There is a large amount of park space in the community as well as bike trails (one park alone is 650 acres). The development review process is "stiff." The community maintains high standards for landscaping and signage in new developments, and is currently looking at ways to apply these standards to older properties. Officials hope to use incentives to encourage property upgrades and/or higher-density redevelopment for mixed uses. They may consider combining regulatory measures with incentives, but they have not done so yet. The community follows the principle that you have to create an environment that will attract and retain high quality residents.

What have been the local obstacles to expanding commercial/industrial development?

There is a "stiff development review" process. The community focuses on small-scale projects and is generally skeptical about large-scale development proposals. A recent proposal for a 76-acre redevelopment was turned down by the city council. This proposal would have included big-box retail and large amounts of parking, but it was perceived as not a good fit for the city.

Are employment centers integrated into the community? If so, how?

Redevelopment and planning are generally geared toward developing "corridors" within the city. "Corridor studies" are often prepared. The hospital campus is a rather large employment center in Littleton. Light rail reached Littleton in 1999 and there is a stop near (but not at) the hospital; the city has worked with transit operators to develop good bus connections from the light rail stop to the hospital campus.

How much vacant land is left in the city?

Only 200 acres of vacant land are left in the city. Most of the focus is on redevelopment of older areas. There are no significant amounts of industrial or manufacturing land use in Littleton.

What lessons can be learned?

Littleton is an example of a community that has turned its back on large-scale development and instead encourages small-scale development (employers, retail, etc.). The city focuses (successfully) on being a high-amenity community that will attract and retain high-income, highly educated residents.

ATTACHMENT 1: LIST OF TIP INTERVIEWS

September 13 – 16, 2004

Ben Lindenkugel, *Director – Community Relations, Evergreen Healthcare*
Betty Spieth, *Coordinator, Kirkland Economic Partnership*
Teddy Overleese, *Advocate, Kirkland Economic Partnership*
Jim Lauinger, *Council Member, City of Kirkland*
Jessica Greenway, *Council Member, City of Kirkland*
Mary-Alyce Burleigh, *Mayor, City of Kirkland*
Joan McBride, *Council Member, City of Kirkland*
Tom Dillon, *Council Member, City of Kirkland*
Charles Temple, *Accounts Director, Concur Technologies*
Janice Soloff, *Senior Planner, City of Kirkland*
Eric Shields, *Planning Director, City of Kirkland*
Jeremy McMahan, *Planning Supervisor, City of Kirkland*
Marilynne Beard, *Finance Director, City of Kirkland*
David Ramsay, *City Manager, City of Kirkland*
Nancy Cox, *Development Review Manager, City of Kirkland*
Ken Carlson, *Building Services Manager, City of Kirkland*
Brenda Cooper, *IT Director, City of Kirkland*
Keith Maehlum, *President, Maehlum Development*
Douglas Davis, *President, Hallmark Realty*
Bonnie Lindberg, *Associate Broker – Commercial, Hallmark Realty*
Michael O'Brien, *Owner, Toyota of Kirkland*
Karen Tennyson, *Kirkland Association of Neighborhoods*
Jim McElwee, *Kirkland Association of Neighborhoods*

Group discussions were also held with:

Kirkland Association of Neighborhoods representatives
Kirkland Downtown by the Lake Directors
Kirkland Chamber of Commerce Executives

Jon Roberts, Managing Director
E-mail: jon@tipstrategies.com
Bob Thompson, Sr. Associate
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APPENDIX B: OPPORTUNITY PHASE, NOVEMBER 2004

MEMO TO: KIRKLAND PATHWAY STEERING COMMITTEE
FROM: TIP SRATEGIES, INC.

TIP Strategies, Inc. has been engaged by the City of Kirkland and the Kirkland Economic Partnership (KEP) to help identify a path to guide Kirkland toward a strong economic future. This memorandum, the second of three to be provided by the Consultant to the Steering Committee, documents our work during the Opportunity Phase of the project. Building on our assessment of Kirkland's overall economic development environment completed in the initial Discovery phase, we outline a number of strategies to address the strengths, weaknesses, opportunities, and threats identified in Technical Memorandum #1.

PROGRESS TO DATE

Kirkland's location in the "high tech" Eastside of the Puget Sound metropolitan area, transportation connections, and positive image in the region, contribute to a real opportunity for economic development in the community.

Critical elements of the local economic environment influencing the choice of strategies were identified in Technical Memorandum #1. They include: 1) the absence of undeveloped land and other significant opportunities for economic development, 2) a perception of Kirkland as an expensive and difficult location for business investment, 3) high land value – driven by the desirability of Kirkland as a residential location, and 4) sensitivity of city revenues to regional economic conditions.

The first two elements can be addressed by a well-designed and implemented economic development strategy. The third is a result of regional market forces combined with Kirkland's quality of place. The city can wield little influence over this aspect. However, it is important to recognize that, with the current land use regulations, the market value of land for multi-family residential redevelopment in Kirkland can approach (and likely, eventually, exceed) the market value of the same land for commercial development. The fourth element revolves around city revenues. In Kirkland the low proportion of non-residential assessment increases the vulnerability of the Kirkland residential taxpayer.

City revenues for government activities fall into four main categories: sales taxes (25.7 %), charges for services (23.7 %), property taxes (21.5 %), and other miscellaneous revenues. These revenue streams provide the funds for city services (non–utility), and any drop in revenue from one of the categories must either be matched by an increase in another category or a reduction in city services. Sales tax revenue, and to a lesser extent, charges for services, are directly related to Puget Sound regional economic conditions which have a pattern of significant swings. With the next economic downturn, sales tax revenues will fall and Kirkland will be faced with difficult decisions regarding level of government services and property tax rates.

Land zoned for business use in Kirkland comprises 21% of the total assessed real property value, although it occupies only 10% of the total land area in the city. This proportion of non-residential to residential assessment is the lowest of any municipality on the Eastside. Clearly, with no change to the existing pattern of development in the community, the major burden of any increase in property tax will accrue to residential properties.

A **strong tax base with sustainable revenues** to fund public services for Kirkland requires a better balance of residential and non-residential property assessments. The strategies outlined below address this issue.

Three themes emerged from our discussions with Kirkland politicians, city staff, local business owners and operators, neighborhood residents, and knowledgeable individuals in the Puget Sound region. These themes should not be interpreted as the only ones consistent with Kirkland values.

1. Kirkland is a highly desirable place to live and work.
2. Change in Kirkland is slow and often difficult.
3. Residential quality of life is the cornerstone for Kirkland decision-making.

These unique aspects of the Kirkland business environment combined with local attitudes and values are significant in defining Kirkland's economic development environment. The first demonstrates a market demand for additional development. The second theme describes a mode of decision-making in Kirkland that creates an undesirable situation for developers and business investors. The third theme articulates the considerable emphasis on residential quality (despite the broader nature of theme #1). This value, held so dearly by Kirkland residents, is compatible with the pursuit of scenario #3. We believe that it is only through full realization of its business potential that the quality of life enjoyed by Kirkland residents can be maintained.

OPPORTUNITIES

On October 6, TIP conducted a Context Mapping workshop with council members, senior city staff, and representatives of the business and residential communities in Kirkland. This session, which initiated TIP's Opportunity Phase, reviewed milestone economic development activities in Kirkland's past and examined potential appropriate opportunities. The Context Mapping session established two insights into Kirkland's economic development environment: 1) that the perceptions gathered about the community are sound, and 2) that the range of economic development options open to the city – while limited – lend themselves to more aggressive and creative action.

Based on those discussions, and the research and interviews conducted by TIP, three scenarios were presented as the most likely models for future growth. This was followed by a discussion of economic development strategies and actions, within the context of a "vision" for the city.

Scenario One: Current Trends

The first of the scenarios, linked to the strong influence of neighborhood associations, is to limit economic development to the retention of existing businesses, with minimal encouragement for business recruitment, commercial and industrial opportunities, or city policies endorsing aggressive business expansion. Direct support for economic development generally occurs with support for small-scale tourism, festivals, and the inclusion of downtown business organizations in the same manner as residential community groups. This can best be described as a current trend scenario.

Scenario Two: Full Build-out

The second scenario calls for a build-out to existing capacity. Most of the business development opportunity under this scenario occurs in Totem Lake and to a lesser extent in the downtown. This scenario does not specifically call for re-zoning; however, over the next one or two decades, changing markets will demand revised zoning. There should be no expectation of achieving full build out of existing zoned opportunity without creating additional opportunity and permitting adjustments for special circumstances. Business recruitment would again be limited, and would favor retail with some support for professional services.

Scenario Three: Renewed Economic Activity

The third scenario envisions increased economic strength. While the character of the city would remain essentially unchanged (a beautiful and neighborhood-friendly lake-side community), there would be an active and aggressive effort to increase non-residential uses and to expand the base of business beyond retail sales receipts.

TIP will direct its efforts towards the economic development vision stated in the draft Comprehensive Plan:

> *"Kirkland's economy is strong and diverse. A healthy mix of businesses provides valuable economic returns including varied employment opportunities and high wages, a strong tax base with sustainable revenues that help fund public services, and a broad range of goods and services."*

This vision describes a Kirkland as outlined in scenario #3 above. We believe this scenario to be compatible with Kirkland's fundamental values (specifically, the preservation of residential quality) and that it can lead to an improved quality of place if properly pursued. It will however, require changes in both the physical structure of the community as well as the manner in which decisions are made concerning economic development.

PROPOSED STRATEGIES

Six proposed economic development strategies for Kirkland are presented below. These strategies derive from the work undertaken during the Discovery Phase and define the pathway to the vision articulated in the Comprehensive Plan. An economic development strategy is not just a pathway; it is also attitudes and actions. The participation of the city government, the local business community, and local neighborhood associations will be essential to securing a strong economic future for Kirkland.

The first two strategies address the elements identified in the Discovery Phase, those that can be influenced directly by city intervention. These are: 1) the built out nature of the community and the lack of significant opportunities for economic development, and 2) a perception of Kirkland as an expensive, and difficult location for business investment. The two remaining elements help identify parameters that will be the subject of specific actions in the next phase. They also provide a means to measure the effectiveness of implementing the strategies.

The third and fourth strategies relate to specific areas of the city where the majority of redevelopment opportunities are located: Downtown, and Totem Lake.

The final two strategies provide direction on communication about Kirkland's economic development. One deals with marketing and how Kirkland should present itself to the wide array of potential business investors. The final, and perhaps most critical of the strategies, deals with all participants within the city – that is residents, existing business owners and managers, neighborhood groups, business associations as well as civic employees.

Strategy One: Development Opportunities

Unlike most of the surrounding municipalities on the Eastside, Kirkland is essentially fully developed, leaving redevelopment as the primary option. Non-residential redevelopment of existing built sites brings with it issues that must be addressed if development is to be realized. These include: interruption of a revenue stream, dealing with existing structures, historic property boundaries that were determined long ago for significantly different conditions, community resistance to change, and regulatory policies that may no longer be appropriate for a specific site (or today's market). Redevelopment opportunities in Kirkland must compete for business investment within a Puget Sound market dominated by vacant commercial land where these issues are minimal. Kirkland needs to understand how these issues affect redevelopment and ensure that suitable regulations and the application of these regulations do not discourage business investment. There are also opportunities to increase the supply of redevelopment sites by targeting underutilized city land for economic development or through rezoning.

Kirkland should increase the supply of sites available for business redevelopment and improve the opportunities for redevelopment of existing underutilized and inefficient properties.

Strategy Two: Development Climate

In its early years and until the last decades of the 20th century, Kirkland was clearly the business center for the Eastside. Currently, Kirkland's image is positive, and the community is viewed as a highly desirable place to live and work. However, Kirkland does not have the reputation of a business-oriented community. Minimal commercial redevelopment since Park Place, and the slow growth of the non-residential assessment base, gives credence to this perception and highlights the task ahead.

Kirkland is viewed as a desirable business address but it is not a "top of mind" location for regional investors. This is in large part due to the slow and difficult development approval process. Although the city has made policy statements about development potential through such documents as its Comprehensive Plan, and Zoning Plan, these

targets are frequently not realized in the final development. Commercial investors will choose a regulatory environment that is predictable and that results in a realistic development pro forma.

An essential component of this strategy should be directed toward existing businesses. Too many existing business owners consider the actions of the City of Kirkland to be business unfriendly. This perception must change. It can only change if the City of Kirkland is seen to be doing all that it can do to create a business friendly environment. The efforts initiated by KEP in business retention indicate that Kirkland is aware of the importance of this activity. Gaining a clear understanding of the needs of current business owners, and ensuring that business owners understand the limitations on city actions is part of the communication process discussed in Strategy Six.

Kirkland should improve the local business climate. Actions for this strategy should reduce the difficulty and time required for development approvals, ensure that the full potential of each redeveloped site is achieved, and support the existing businesses.

Strategy Three: Totem Lake

For the Totem Lake area, the city's orientation towards retail establishments needs to be re-considered. Of prime importance is a strategy for the attraction of retail spending from throughout the region. The opportunities for additional commercial office development afforded by Evergreen Hospital and other elements of the regional market, combined with the physical potential of Totem Lake, provide a setting whereby a substantial commercial center can be realized. The City has already begun this process by the designation of Totem Lake as a Commercial Center.

Currently, Totem Lake lacks a coherent identity and performs a commercial function that has developed from its location at a major intersection on I 405. The Evergreen Hospital complex at the Northeastern edge of Totem Lake is not part of the area's identity except by proximity. In Totem Lake the legal parcel pattern is convoluted, and many of the parcels are small. The area is highly divided by transportation facilities. Almost all existing business functions are ready for redevelopment. The perception is that this area of Kirkland is poised for significant growth.

The redevelopment of Totem Lake would benefit significantly from city resources. Specific economic development oriented activities would including land assembly, re-zoning, infrastructure investment, and public-private partnerships with the development community.

The City of Kirkland, through an appropriate economic development authority, can provide both the direction and the will to realize the potential of the Totem Lake Commercial Center.

As a designated Commercial Center, the Totem Lake area should be subject to special attention, including a strong commitment by the City to facilitate redevelopment as soon as practicable.

Strategy Four: Downtown

Downtown Kirkland has not benefited from a significant business investment in the past decade. The major focus of downtown development prior to that time was based on multi-family developments that have included ground floor retail. It is well known and appreciated for its small scale, pedestrian friendly environment where restaurants and art galleries are predominant uses. With its parks, recreational and cultural facilities, downtown is a place where Kirkland residents spend their leisure time. The downtown does not have a significant office component. While it does provide a certain number of retail services to Kirkland residents, it clearly is not the retail center of choice for the bulk of Kirkland residents and it has certainly lost ground to the newer, larger Town Centers of Redmond and Bellevue. In addition, retail activity is seasonal and the resulting fluctuations in sales volume can create a precarious situation for business owners.

The city's orientation towards downtown, and retail establishments generally, would need to be re-considered through a strategy that addresses tourism and the attraction of retail spending from throughout the region. Opportunities in

the areas of tourism will draw upon existing dining and leisure activities. Retail outlets that respond to niche markets can attract visitors from outside Kirkland and compete with residential uses in the high cost of land. A substantial component of upper floor offices can support these activities as well.

Kirkland should be active in downtown redevelopment and take a strong role in achieving the full potential for this area.

Strategy Five: Marketing

In order to attract business investment, Kirkland must ensure that its message is available to prospective investors. The current program of providing information through the Internet does make considerable detail available, however it is essentially passive. Given the scale of the opportunity in Kirkland, new commercial markets would be well-positioned in the Puget Sound region. A well thought-out marketing effort would not need to be focused on a specific target group, but would enhance the existing view of Kirkland. Significant opportunities will lie in the business sectors that are already well represented on the Eastside.

Marketing Kirkland will require focused research to identify local companies looking to expand, as well as liaison with real estate professionals who specialize in this activity.

A wide attraction effort is already undertaken by other regional agencies, including the State of Washington, as well as the EDC of Seattle and King County. Kirkland can support and participate in their efforts .

The Kirkland marketing message should be based on quality of place and the amenities available to those who are employed in Kirkland. Opportunities for tenant specified redevelopment will be limited at best and recruitment activities should reflect the available built space at any given time. An effort to attract developers of flexible business space would be appropriate.

The Kirkland economic development authority should develop a marketing plan directed toward companies in the Puget Sound region that are seeking new premises.

Strategy Six: Communication

Successful economic development occurs when citizens, city government, local business organizations, and the local media are all in concert with the goals of economic development and the appropriate message is fully communicated to potential investors. The existing economic development goals as expressed in the Comprehensive Plan vision are neither shared, nor do they appear to be used in decision-making. There is a climate of distrust between the city, residents, and businesses. We believe this derives from a lack of knowledge by all parties. Consequences of economic development (or lack thereof), a limited range of available city actions, the ability to maintain residential quality, as well as the fiscal and physical requirements of a successful business community are all elements that must be understood.

A communications program is achieved through specific actions that include a marketing strategy and a co-coordinated and informed public involvement program. This program should be educational and incorporate a meaningful feedback mechanism into the decision making process. The responsibility for this communication strategy must rest with a single authority. While TIP was not tasked with an organizational review, it is clear that the city, the chamber and local business organizations, and the Kirkland Alliance of Neighborhoods and residents would need to agree on a new entity to pursue these goals. That organization would have full responsibility for actions with respect to economic development, and operate under the normal regulatory controls that are the mandate of a city government. The strategies identified above, while they could be carried out to a limited degree by the city or the KEP, require a broader commitment and a more holistic approach than current staffing (and mandate) allows.

City leaders should establish a formal communications strategy and link that strategy to the formation of a new economic development authority.

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APPENDIX C: IMPLEMENTATION PHASE, JANUARY 2005

MEMO TO: KIRKLAND PATHWAY STEERING COMMITTEE
FROM: TIP SRATEGIES, INC.

Kirkland's economic future is in the balance. As one of Puget Sound's most desirable communities, it has seen explosive growth in residential appraisals. This surge in home values, however, has not been matched by commercial and industrial activity. This has resulted in an imbalance whose effects are becoming increasingly apparent: in the downtown, in job growth, and in commercial property tax receipts.

The Pathways Report takes seriously the economic development vision of the city. This statement stresses a diverse economy and the importance of job growth. In this statement, TIP finds support for the important distinction between "quality of life" and "quality of place." While quality of life is inward-looking, quality of place is dynamic and supportive of growth and diversity. Quality of place recognizes the importance of neighborhoods, but also sees that a community that is not welcoming of outside investment will become stagnant. This distinction has enormous economic and fiscal implications. Investment is the key concept. Investment occurs in the form of retail spending from non-residents, in commercial development, and in establishing a diversified job base. Without private investment – and the tax and employment benefits this creates – Kirkland's quality of place will decline.

TIP recognizes that there are challenges to a straightforward implementation of the strategies we propose. While we have prepared an implementation schedule for these strategies, we have also sought to address the challenges directly. This has two advantages:

1. It recognizes the political realities which constrain elected officials, and
2. It provides a means by which action items can be improved upon through public input.

We recognize that the Pathways Report will require greater involvement of citizens and neighborhood associations, not just the business community. It is our belief, however, that this process will result in a more vibrant and dynamic community.

BACKGROUND

TIP Strategies, Inc. has been engaged by the City of Kirkland and the Kirkland Economic Partnership to help identify a pathway that will guide Kirkland toward a strong economic future. This draft memorandum, the last of three to be provided by the consultant to the Steering Committee, documents our work during the Implementation Phase of the project and will be combined with Technical Memoranda #1 and #2 to produce a final Project Report. This phase builds on our work during Phases 1 (Discovery) and 2 (Opportunity). In this phase, we identify recommended actions for Kirkland and lay out the challenges mentioned above and suggest a process to address these challenges.

DISCOVERY (PHASE 1)

Kirkland's location in the "high tech" eastside of the Seattle metropolitan area, its transportation connections, and its positive image in the region, create a sound opportunity for commercial investment in the community. Land zoned for business use in Kirkland comprises 21% of the total assessed real property value, although it occupies only 10% of the total land area in the city. This proportion of non-residential to residential assessment is low compared to most other cities in the Puget Sound region.

SWOT Analysis > TIP undertook an assessment of Kirkland's economic strengths and weaknesses in the context of the Puget Sound regional economy. In addition, we described and evaluated opportunities as well as threats to Kirkland's future economic development.

From our analysis, TIP concluded that Kirkland has a highly positive image and, as a result, local opportunities exceed the physical capability of Kirkland to accommodate existing markets for businesses that might seek to invest in the community. Our analysis identified significant issues that Kirkland should address if the city wishes to pursue active economic development. These issues included:

1. Lack of undeveloped land.
2. Perception of business investment environment.
3. Development in specific areas of the city (Totem Lake and Downtown).
4. Communication.

Community Discussions > Three themes emerged from discussions with Kirkland politicians, city staff, local business owners and operators, neighborhood residents, and knowledgeable individuals in the Puget Sound region.

1. Kirkland is a highly desirable place to live and work.
2. Change in Kirkland is slow and often difficult.
3. Residential quality of life is the cornerstone for Kirkland decision-making.

The first demonstrates a market demand for additional development. The second theme describes a mode of decision-making in Kirkland that creates an undesirable situation for both developers and business investors. The recent decade of slowed commercial investment in Kirkland is due in large part to the development environment described by the second theme. The third theme articulates the overwhelming emphasis on residential quality. This value, held so dearly by Kirkland residents, can be compatible with increased commercial economic development, although many residents clearly fear that economic development automatically degrades quality of life. We believe that it is only through full realization of its business potential that the quality of life enjoyed by Kirkland residents can be maintained. TIP believes that a community that is not dynamic and responsive to regional trends is stagnant. Our emphasis on quality of place over quality of life seeks to capture that distinction.

OPPORTUNITY (PHASE 2)

To kick off Phase 2, TIP conducted a Context Mapping workshop with council members, senior city staff, and representatives of the business and residential communities in Kirkland. This session reviewed milestone economic development activities in Kirkland's past and examined potential opportunities. The Context Mapping session confirmed that the perceptions gathered about the community are sound. It also explored an economic development vision statement for Kirkland.

The City of Kirkland's economic development vision statement from its draft Comprehensive Plan reads:

> *"Kirkland's economy is strong and diverse. A healthy mix of businesses provides valuable economic returns including varied employment opportunities and high wages, a strong tax base with sustainable revenues that help fund public services, and a broad range of goods and services."*

The Comprehensive Plan vision describes a Kirkland that can only be achieved by an aggressive economic development program. The future described by this vision statement is compatible with Kirkland's fundamental values (specifically, the preservation of residential quality) and can lead to an improved quality of place if properly pursued. TIP considers

this vision appropriate and will use it as the basis for the development of strategies in Phase 2 that address the economic development issues identified in our Discovery Phase.

STRATEGIES

TIP identified four strategies for a strong, dynamic, and balanced economy that will lead Kirkland to a future described by the vision statement. Reduced from the original six, this approach is more streamlined and responds more directly to the challenges described below.

The strategies address critical issues that can be influenced directly by city intervention: 1) the built-out nature of the community and the consequent lack of significant opportunities for economic development, and 2) a perception of Kirkland as an expensive and difficult location for business investment. The strategies also call for special attention in areas where the majority of redevelopment opportunities are located: Downtown, and Totem Lake. A marketing approach to the Puget Sound region rounds out the strategies.

Recommended strategies are:

1. Form a new economic development authority and establish a formal communications strategy for economic growth.
2. Improve the business investment environment.
3. Focus on two prime development areas: Totem Lake area and Downtown
4. Develop a marketing plan directed toward the Puget Sound market.

These strategies were reviewed with the Project Steering Committee in November 2004 and a possible range of actions for Kirkland to undertake in pursuit of these strategies was explored.

IMPLEMENTATION (PHASE 3)

The implementation phase of the Pathways project identifies the actions Kirkland needs to take in order to pursue the strategies identified in Phase 2. Responsibilities, timelines, and cost implications for these actions are also included.

In preparing for this phase, TIP recognized that there would be significant challenges to the implementation of the strategies. Many of the issues identified in the earlier phases cannot – and should not – be treated lightly. As a consequence, we have identified what we believe to be the major barriers and have tried to deal with them directly and forthrightly. Since each of the three challenges has a significant public relations component, it is TIP's view that there should be a process for addressing them. This will influence the roll-out of the final economic development pathway.

CHALLENGES

In reviewing our work to date, TIP has concluded that 3 major challenges face Kirkland's economic development efforts. Until these challenges are fully understood, accepted and properly addressed, we believe Kirkland will be unable to achieve the vision in the draft Comprehensive Plan and TIP's Pathway recommendations.

Challenge # 1 – Shared vision for the future of Kirkland

From our discussions with the Steering Committee, Kirkland residents and residential organizations, and the business community, TIP concludes that a shared, long-term vision for the future of Kirkland is not present in the community. While there is a common view that Kirkland should not compromise its quality of life, there is no shared view of the criteria that ensure that "quality." Broadly, one set of criteria describes residential quality, i.e., those elements that impact what a resident experiences in their neighborhood (for example, minimum traffic, safety, good views, quiet

street, etc.). A second set of criteria is broader, and involves total quality of place elements (variety of shopping and leisure opportunities, availability of work nearby, etc.).

There is an extensive consultation process for development decision-making in Kirkland. This lengthy consultation process results in a statement of general agreement amongst participants on outcomes. Participants, however, often finish the consultation process with different interpretations of the agreed-upon statements. Frequently, those who disagree with its outcome do not recognize the consultation process as legitimate, leading to renewed controversy. This places Kirkland decision-makers in a tenuous position. They are faced with a difficult task when any change from existing physical infrastructure of the city is proposed. The manner in which Kirkland makes decisions about development (i.e. business investment) has clearly discouraged investors. A shared vision is required for successful economic development.

While TIP initially presented the opportunities for economic development along a continuum of choices (with three scenarios), we now believe that there are two basic choices.

Two visions of Kirkland's future:

1. A residential oriented city where commercial activities are directed primarily towards Kirkland's current population. The sole exception for attracting a larger market would be in the Totem Lake urban center. Commercial investment is neither pursued nor easy to achieve in downtown and neighborhood commercial areas.

   Consequences: Non-Kirkland residents have few reasons to come downtown and retail business activities are dependent on nearby residents. These residents are increasingly likely to be well-off singles, "empty nesters" and working couples. Kirkland's image as a desirable place to live has led to higher residential land prices that exceed the values for commercial use. The percentage of Kirkland residents who work in Kirkland has decreased significantly and public transit use has decreased. Totem Lake redevelopment does generate new employment, but it is concentrated in the low wage retail sector. It is likely that regional targets for employment are not met. This is a description of the community that is at the end of the path Kirkland has been following for the past 10 years.

2. An alternative scenario is of a dynamic urban center that provides a wide range of services to local residents **and** attracts significant spending from outside the community. This is the current vision statement of the Comprehensive Plan. Totem Lake/Evergreen Hospital area is developed as a major regional service center and has become the new Kirkland "Uptown".

   Consequences: The downtown is vibrant year-round with multiple leisure activities for Kirkland and other King County residents. Kirkland also becomes a secondary destination where tourists are likely to stay overnight, and shop in the specialty "niche market" stores that have clustered in the downtown. Complementing this area are many restaurants and bars. The downtown is also an office location of choice for smaller technology service companies in the region and their well-paid employees. Regional targets for both commercial and residential growth are met or exceeded.

Either of the two scenarios described above could occur. The first scenario protects the neighborhoods and benefits accrue to individual residential properties. The second focuses on the quality of Kirkland as a place with the capacity for amenities that benefit local residents and draw visitors to the community.

The full implications of each of the scenarios must be understood before a common future is pursued in Kirkland. We believe that much of the current controversy derives from a misplaced fear that commercial investment automatically degrades residential quality of life. A thorough public examination of future options is necessary before agreement can be reached. Specifically, it must be understood that decisions about planning and zoning are an integral part of economic development and about how the future will unfold.

Challenge # 2 – Commitment to a strong development approach

A second major challenge currently facing Kirkland economic development is the lack of commitment to commercial and industrial development. The difference between the future described by policy documents and the actions taken by the community creates confusion among Kirkland taxpayers as well as potential investors. An alarming manifestation of this lack of a shared vision is clear dissonance between Kirkland City policy statements and formal regulatory requirements, and the physical changes that have actually taken place in Kirkland over the past ten years.

Surrounding communities have attracted considerable business investment as well as extensive development of residential properties in the last decade; Kirkland has seen only a minor increase in residential activity and little significant business investment. Policy and regulatory documents that have remained basically the same over the past ten years provide for up to 6.5 million additional square feet of commercial development and 7,000 additional residents in the community. Continued declining interest in investment in Kirkland can be expected to lead to a deteriorated commercial (and residential) infrastructure. Change and continued investment are fundamental elements of a healthy city that seeks to maintain an outstanding quality of place. Otherwise the city will stagnate.

Kirkland must not only make a commitment to a specific future; it must also establish mechanisms that deliver on that commitment.

Challenge # 3 – Acceptance of Kirkland's role in the region

Kirkland's economic environment is very much influenced by forces outside of the community. Kirkland must be knowledgeable of those forces, accept their influence on the community and take actions that will exploit their positive aspects to ensure that the community remains a location of choice in the Puget Sound region. The surge in residential assessment values compared to commercial values in the recent past is a disturbing trend, influencing the perception of Kirkland as a poor place for business investment. The consequences of this regional trend in market choice need to be understood and Kirkland must take action to ensure desirable consequences are the result.

Trends that will influence the future of Kirkland include: retail shopping habits and preferences, demographic shifts (such as the aging population), housing purchase patterns, attitudes toward downtown as a leisure destination, and increased demand for diverse retail spending. These are well understood by investors who make their decisions in anticipation of benefiting from these trends. Kirkland should do no less in making decisions about its future.

From the opportunity (market) perspective, Kirkland is clearly poised to become a desirable urban center in Puget Sound, one where quality of place is unexcelled. Conditions are in place. The market available to Kirkland is upscale, accessible, and appealing to developers. Kirkland is well positioned in the Puget Sound region, with good access to all areas. The image of the community as a location of choice is among the best in Puget Sound. The community has the physical opportunity to accommodate substantial business investment – outside of existing residential neighborhoods and without a significant change in land use.

RECOMMENDED RESPONSE TO CHALLENGES

TIP believes that a concerted and well-orchestrated response is essential to meeting the challenges. This response must begin with the city itself: its elected leaders and its staff. Since the critical issue centers on a shared vision for economic growth, we feel that the following steps will be necessary:

1. Arrange for a series of "community summits" (or comparable forums) in which the consequences of the scenarios are open to a wide-ranging discussion. Specific attention should be paid to how the vision would be realized in practical ways, e.g., how planning and zoning will affect development patterns, how economic development incentives apply to downtown, how neighborhood associations view commercial development and the value of amenities.

2. Develop a communications strategy specific to development-related issues. This strategy should include direct communications with residents, with neighborhood associations and with businesses. It should also address regional players who may be considering investment in Kirkland. This is especially important in light of TIP's strategy for regional marketing.

3. Reexamine the strategies and the Pathway actions recommended by TIP and confirm (or reject) their validity. This is the final step before formal adoption of the plan. Since the action items commit Kirkland to a higher business profile in the region, supported by an independent economic development authority, this is a necessary response. Without this response, the plan would be destined to lie dormant.

ACTIONS

The following are the actions that support the strategies. An implementation table identifying responsible parties and time frames supplements this section.

Strategy 1: Form a new economic development authority and establish a formal communications strategy for economic growth.

There is no identifiable agency with responsibility for economic development in Kirkland. Activities are carried out by several public and private agencies whose mandates are largely self-defined, imprecise, and uncoordinated. No individual is committed to economic development on a full-time basis and those persons who do economic development frequently do so as one additional assignment that may not be appropriate to their full-time responsibilities. Perhaps more importantly, there is no shared economic vision and a clear lack of trust between the residential and business communities (and their organizations) that manifests itself in extensive public debate with Council over business investment proposals. No agency or individual has been recognized in all of our discussions to date that can bridge this confidence gap. A new economic development authority—independent, knowledgeable, professional, and able to establish the trust of varied interests—is required in Kirkland.

The single purpose of this authority would be to advance economic growth in Kirkland. The responsibilities of this organization would be broad and its initial task would be to implement the activities outlined in this report. This authority should be a true partnership of the public and private sectors. It should have the ability to independently report to Council on matters of economic development, but would have no authority in the area of development approval.

In addition to the need for an economic development authority, Kirkland should put in place a communications strategy for development issues. This strategy – referenced in the Challenge section – should precede public discussion of the economic development authority.

Specific actions to be undertaken include:

1. Prepare a formal mandate for an Economic Development Authority and create the authority. The authority should operate under auspices of a board of directors, consisting of public and private organizations. The following structure is representative of a typical 10 member board:

    Developers (3)

    City manager or mayor (1)

    City attorney (1)

    Public-at-large and neighborhood associations (3)

    Business representation, small and large (2)

    Staffing for the Authority should consist of an executive director, a marketing director, and at least one administrative assistant.

    The legal structure of the organization should be established by the city, presumably as a 501(c)(3).

2. Prepare a communication strategy, to be managed by the city, for the primary purpose of advancing economic development understanding in Kirkland. A "communications manager" with experience in public relations would be the ideal candidate for this position. Economic development would not necessarily be the only function of this staff person,

but it would be an important priority. In addition to coordinating press releases and preparing informational material, the manager would also schedule and conduct public meetings.

Strategy 2: Improve the business investment environment.

Although there are indications of strong market opportunities in Kirkland, the community is perceived as a difficult location for new development. The pace of new investment has slowed in relation to surrounding communities. A commitment to the redevelopment of existing, underutilized properties is an important priority. Land availability, assembly and reconfiguration, displacement of existing uses, community expectations, and the revision of regulations are all factors in changing the business climate. Changing market demands, and the competitive pressure of communities in Puget Sound, must be addressed if investment is to be attracted to Kirkland.

Specific actions to be undertaken include:

1. Review existing policy and regulatory requirements for areas suitable for redevelopment and identify how those policies can be amended to enhance the potential for new investment. This activity may lead to rezoning of specific areas and to incentives and other inducements to ensure responsible growth.

2. Conduct a complete audit of the city's relationship to business licensing, building permits, and related development procedures. Time and cost requirements should be evaluated, as well as the relationship to public comment and city council review of projects.

3. Prepare a template for improved interaction with the business and development community. This "template" should Identify needs and offer a positive response to existing businesses and to prospective investors.

These actions are not dependent on the formation of an economic development authority. They should, however, be linked to the communications strategy and Kirkland should re-position itself as a desirable location for business investment (see Strategy 4).

Strategy 3: Focus on two prime development areas: Totem Lake and Downtown

The majority of economic growth for Kirkland will occur in these two areas. By focusing resources, the potential benefits to the community are significant. While other commercial centers will attract investment, they are of significantly smaller scale and are less concentrated.

Totem Lake

Specific actions to be undertaken include:

1. Develop and publish a long-term vision for this area that recognizes current market requirements for an urban center. This center should be a mixed-use development incorporating retail venues with housing, entertainment, and commercial activity. This vision should encompass the entire Totem Lake Commercial district, including the Evergreen Hospital and Parmac Business Park.

2. Through the Economic Development Authority, the City should increase investment in this area. While transportation and related physical improvements (sewer and water) are already planned, the vision for a vibrant commercial district can be enhanced. This would include recruitment of technology-intensive businesses and health care related activities, as well as working with the developer(s) to identify Class A office tenants.

Downtown

Specific actions to be undertaken include:

1. Similar to the Totem Lake approach, develop and publish a long-term vision for this area that recognizes current market trends for a vibrant and active downtown. Exploring the opportunities for niche and tourism commercial opportunities and identifying specific targets for investment in these sectors should precede this vision.

2. Investigate the opportunities for City of Kirkland participation in investment in this area. This may include redevelopment of existing city properties, creation of new civic infrastructure, establishment of additional civic amenities or restructuring the transportation system.

3. Undertake an expanded tourism initiatives project with the specific objective of increasing the length of stay for visitors to downtown Kirkland.

4. Identify and promote a "signature development" proximate to the downtown.

These two areas represent enormous potential for the City. While development at Totem Lake is likely to occur in any event, a more holistic approach (i.e., one that enhances Kirkland's "quality of place") will need a higher level of public involvement. Without an economic development authority, it is unlikely that this holistic approach will be successful. In the case of Downtown, a specific retail strategy that involves existing businesses and helps identify and recruit new merchants is crucial.

The signature project of Action 4 is completely dependent on the Economic Development Authority. It is also a major reason for having a communications strategy in place.

Strategy 4: Develop a marketing plan directed toward the Puget Sound market.

Kirkland does not operate in a vacuum. New commercial and office development must be competitive in the region. At the same time, business expansion on the Eastside offers specific opportunities to the city. A marketing and recruitment strategy aimed at technology-intensive businesses and high-value service providers is likely to yield tangible benefits.

Specific actions to be undertaken include:

1. Prepare a marketing message that emphasizes Kirkland's willingness to attract investment.

2. Promote Kirkland regionally and solicit individual companies in cooperation with developers and city officials.

3. Assemble a "tool kit" of economic development incentives and inducements that are compatible with Kirkland's vision for balanced growth.

IMPLEMENTATION SCHEDULE

ACTION	PURPOSE	RESPONSIBILITY	TIME FRAME	BUDGET
Develop shared vision	To ensure the entire community is supportive of economic development actions	City of Kirkland	Immediate	
Establish responsible party or extend KEP	To advise Council and be responsible for a balanced Kirkland economy. To act and be seen as an independent source of information in Kirkland decision-making	City of Kirkland Business Community Residential Communities	Immediate	
Review regulatory and procedural requirements	To create appropriate opportunities for economic development	City of Kirkland to implement changes	Ongoing - upon completion of visioning	
Use City land for economic development objectives	To initiate business investment in critical areas To generate funds to pay for economic development activities	EDA (as agent for City)	Early	
Provide support to existing business	To ensure existing business infrastructure remains viable	EDA	Early	
Undertake signature project(s)	To provide an initial project in a critical area	City of Kirkland Business Community (PPP)	As Appropriate	
Tourism initiative	To increase tourism spending in Kirkland	Business Community (Tourism Committee) City of Kirkland	Upon completion of visioning	
Marketing	To attract investment	EDA	Upon completion of Challenge activities	
Support state and regional ED activities	To attract investment	EDA	Immediate and ongoing	

Kirkland Industrial Zoning

Prepared for:

City of Kirkland Planning

April 12, 2005

By:

UrbanAdvisors Ltd

Executive Summary

The City of Kirkland retained Urban Advisors Ltd to assist in providing information for making decisions regarding the current industrial zoning policies. Three issues prompted this inquiry:

- First, given the industrial zoning specified, whether lands designated for industrial or manufacturing uses will likely retain and attract the businesses intended or whether the demands and needs of new users will find the overall characteristics of the area insufficient for their locational needs; and
- Second, based on the study findings, what types of City actions might be needed to attract or retain manufacturing/industrial uses in Kirkland?
- Third, if industrial is less likely, what are the alternatives and how is the transition between uses accomplished?

The Study Areas

Urban Advisors was given six industrial areas, broken into six study sites, to evaluate: Upper Totem Lake (Area A), 405 Business Area (B1), Parmac (B2), Norkirk (Area C), Moss Bay (Area D) and Rose Hill (Area E). While the intent of current zoning is to provide land for industrial, light industrial and "tech" employment, much of the built space in the industrial areas is zoned for and used otherwise.

Change in Employment and Demographic Profile

The primary purpose of industrial zoning in Kirkland was, historically, to provide sufficient space for local jobs at family-wage incomes. Over the years, however, the bulk of employment in Kirkland has shifted to other occupations (classified as Financial Insurance Real Estate and Services by the Puget Sound Regional Council) than either skilled or unskilled occupations involving manufacturing or the trades. Projections to year 2030 by PSRC indicate that this trend will continue. As employment has shifted, the demographic profile of Kirkland has changed.

When we examine household change by age and income we find that in general, households with annual incomes below $75,000 are decreasing, while those with incomes above $99,000 are increasing. This indicates that while some households are gaining in income there is also some amount of replacement taking place in which lower income households leave and higher income households move in.

In response to demographic change housing pricing in Kirkland has increased. According to the Kirkland Community Profile, average rents in Kirkland increased from $624 in 1990 to $1,241 in 2001, and average home sale prices increased from $172,196 in 1996 to $267,508 in the first quarter of 2000. According to the 2000 census, the average value of an owner occupied unit (all units, not just those for sale) in Kirkland was $318,000, and estimates from ESRIBIS indicate that this value has increased to $399,000 in 2004. Should this trend continue the average home value is expected to rise to approximately $497,000 by 2009.

The implications of age shift and income shift are that given the limited land base, housing prices have been bid upward out of the price range of moderate income households, and that

more residents in Kirkland will be working at higher wage jobs as this change continues. To balance the demographic and housing changes with employment will require a shift from lower to higher wage employment within the city if provision of local employment for residents is a policy goal.

Interview Results

As part of the process for this study, interviews were conducted with current tenants, owners and brokers of industrial land in Kirkland. Their comments reflect a history of the change in Kirkland, assessments of current conditions for industrial use, speculations on future use, and ideas for the retention of existing local businesses. The interview comments are summarized below.

Land Pricing for industrial has risen to $12 per square foot, expensive for distribution but not unreasonable for offices. Interviewees expressed that the lack of available land and rising land pricing are an issue for continued industrial flex space development. All of those interviewed felt that use is shifting toward non-industrial and high-tech uses. The market rent for industrial for existing stock in Kirkland was seen as less competitive than other areas. It was felt by interviewees that the zoning no longer matches the needs of the market.

Those interviewed felt that much of the industrial labor force had to come from outside the city because wage rates would not support housing ownership in Kirkland. It was felt that the local labor force is shifting toward office-based employment including professional services, high-tech occupations and financial occupations (this is confirmed by the enumeration of employment by residence cited in the Kirkland Community Profile as well as long-range trending by PSRC).

Summary of Conclusions

The first major conclusion regarding industrial zoning in the study areas is that the shift from manufacturing, warehouse and distribution uses to other uses is already a factor in the leasing of industrial/flex space. Finding industrial users is increasingly difficult, and warehouse and distribution uses are moving regionally to areas with newer, less costly stock and a local labor force that can live in reasonably close proximity at moderate wage rates. The trend in spec built industrial and warehouse space is occurring elsewhere on less valuable land with highway access.

The combination of demographic change, home pricing, rising land values, regional traffic congestion, and shifts in projected employment militate against the continued feasibility of low-cost space for industrial that can remain competitive in regional and international markets. The trends indicate, on the contrary, that an emphasis should be placed on the creation of higher density employment space for financial, insurance, real estate, services and “tech” uses that can employ higher wage local residents of Kirkland and can afford the land and development costs for higher density.

The most effective change possible is not in the hands of the city, but in the inclinations and actions of property owners of obsolete stock. Because of market changes, industrial zones have become targets for non-industrial use seeking lower rents. As old industrial stock becomes less

useful for its intended use it is leased for other uses to the point that true industrial use becomes isolated. As noted in the Comprehensive Plan, businesses cluster together. When an area becomes predominantly non-industrial, it is less attractive to industrial users.

In considering city actions for these areas it is suggested that the idea of clustering business, providing buffers or transition zones between uses and re-aligning ideas of what is required to attract new business be made the focus of changes. For instance, many retail uses allowed currently do not fit well with industrial use but would be excellent land uses as transitions between industrial and residential land uses. In some cases higher density residential could augment and act as a transition buffer between lower density residential and office/tech use. Office/tech can act as a transition between industrial and commercial areas. At the same time, the "new employment" desired does not need to be placed under industrial zone regulations, but may be an entirely different employment center with its own guidelines for streets, setbacks and mix of uses.

Actions to Retain Business

- Zone for industrial with a finer grain than is done currently
- Buffer needed industrial from neighborhoods and other high traffic use that could cause conflict with truck traffic, noise issues and working hours - create buffers as transition zones that allow the range of non-industrial businesses retail and sevice specified in the current ILC and LIT codes
- Make an Auto Row Designation separate from Tech land use – group with wholesale trade and distribution use, strip centers or buffer from tech and business park areas

Actions to Enhance Redevelopment

- Adjust zoning for sites overtaken by non-industrial use to better match future employment and neighborhood trends
- Consider some conversion to residential buffers where adjoining residential areas and current use make industrial infeasible
- Resolve zoning to allow very clear certainty for redevelopment.

Actions to Create Conditions for New Business

- Alter code for tech/professional office/FIRE areas in LIT, ILC and PLA areas so that they can be designed for amenities with ancillary retail, services, etc., supportive of other uses
- Adjust height limits and floor area ratios in ILC and LIT to enable conversion to higher density employment
- Setbacks – create differing standards for tech/office areas and industrial areas
- Create separate standards for Truck streets vs. Pedestrian Streets to match intended use, i.e. warehouse/distribution versus tech office areas

Introduction

The City of Kirkland retained Urban Advisors Ltd to assist in providing information for making decisions regarding the current industrial zoning policies. Three issues prompted this inquiry:

- First, given the industrial zoning specified, whether lands designated for industrial or manufacturing uses will likely retain and attract the businesses intended or whether the demands and needs of new users will find the overall characteristics of the area insufficient for their locational needs; and
- Second, based on the study findings, what types of City actions might be needed to attract or retain manufacturing/industrial uses in Kirkland?
- Third, if industrial is less likely, what are the alternatives and how is the transition between uses accomplished?

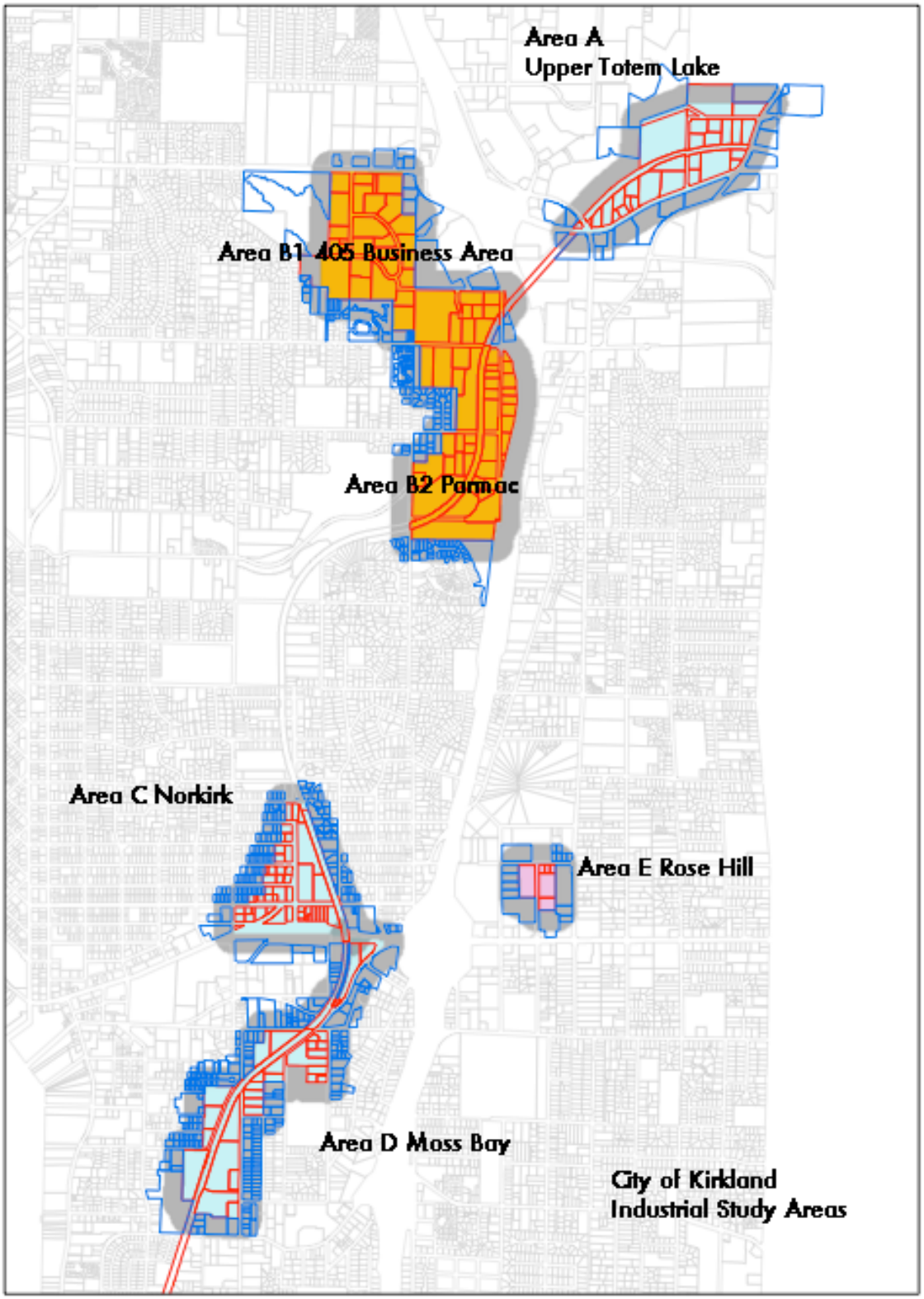
To begin the study, Urban Advisors toured the industrial zones in Kirkland to understand access and site conditions as well as adjacency of other uses to the industrial area. After the tour of industrial sites, Urban Advisors acquired data on industrial trends, both national and local, and from the City Geographic Information System (GIS) database to identify industry clusters, property values and intensity of land use. Urban Advisors also obtained demographic projections from ESRI Business Information Systems and long-term employment projections from the Puget Sound Regional Council (PSRC) in order to understand the dynamics of the labor market in Kirkland.

Following initial data collection Urban Advisors interviewed industrial property owners, tenants, and brokers regarding the current state of the markets for the uses permitted in the industrial zones in the study area. After the interviews Urban Advisors reviewed the data and drew findings based upon the data and the interviews regarding the viability of current zoning and its likely use in the future.

After a review of the information provided from the City's excellent GIS database some further questions regarding land use arose: Why is so little space taken by the intended high-tech uses? Should some office users in pre-1990 space (Financial, Insurance, Real Estate, Services, Professional) be more logically located in space that is more efficient? Should institutional uses co-exist with industrial given the inherent conflicts between use types? Should land intensive uses such as automobile sales be located in industrial zoning areas, precluding more intense use for future jobs if employment is a priority? And finally, is the zoning effectively promoting the re-use of the valuable land resources?

The Study Areas

Urban Advisors was given six industrial areas, broken into six study sites, to evaluate: Upper Totem Lake (Area A), 405 Business Area (B1), Parmac (B2), Norkirk (Area C), Moss Bay (Area D) and Rose Hill (Area E). These areas are illustrated in the map on the following page. Within the entire study area (which includes business commercial in Area E as well as industrial) Kirkland includes six zoning designations comprising a total area of approximately 303 acres of which approximately 38 acres are rights of way. Two of the six zones are industrial/light industrial zones intended for industrial, technology and manufacturing uses: Industrial Limited Commercial (ILC) at 21.45 acres acres, and Light Industrial Technology (LIT) at 155.82 acres (not including rights of way).



Source: City of Kirkland GIS

The study area also includes three Planned Light Industrial Areas (PLA's 6G, 10B and 11) of 84.5 total acres. In addition there is land zoned BC (Business Commercial) comprising another 2.84 acres of land.

Zoning in the Study Areas

	Study Area						
Zoning	A	B1	B2	C	D	E	Totals
BC						2.84	2.84
ILC	21.45						21.45
LIT	20.46		68.21	25.96	37.23	3.96	155.82
PLA 6G					10.01		10.01
PLA 10B		52.80					52.80
PLA 11		21.65					21.65
Totals	41.91	74.45	68.21	25.96	47.24	6.80	264.58

The Intended Use of the Industrial Zones

The industrial zoning designations LIT and ILC allow the following uses:

LIT Zone Allowed Uses
Manufacturing
Retail Storage Service
Warehouse Storage
Industrial Laundry
Wholesale Printing/Publishing
Wholesale Trade
Contracting Services (Plumbing, etc.)
Retail Banking and Financial Services
High Tech
Office Use
Auction Houses
Kennels
Day Care Centers
Recycling Centers
Public Utility Use
Government and Community Facilities
Hazardous Waste Treatment
Vehicle/Boat Sales and Repairs
Fast Food Restaurants
Public Parks

ILC Zone Allowed Uses
Manufacturing
Retail Storage Service
Warehouse Storage
Industrial Laundry
Wholesale Printing/Publishing
Wholesale Trade
Retail Contracting Services (Plumbing, etc.)
Retail Banking and Financial Services
High Tech
Office Use
Auction Houses
Kennels
Day Care Centers
Recycling Centers
Public Utility Use
Government and Community Facilities
Hazardous Waste Treatment and Storage
Vehicle/Boat Sales and Repairs
Fast Food Restaurants
Public Parks
Retail Rental Services
Retail Dept Store, 75,000 Square Feet or More
Mixed Use with 7 or more uses
Athletic Instruction
Hotel or Motel
Retail Printing/Publishing
Vehicle Service Stations

As industrial zones, ILC and LIT are somewhat unusual in the range of use allowed. The exact requirements for each use are given in sections 55.15 and 57.15 of the Kirkland Zoning Code. Height limits are between 25 and 35 feet, making two building stories the upper limit in both zones.

The Kirkland Comprehensive Plan outlines a series of concepts and goals regarding land use. Among those that are significant for planning the land use for employment zones are the following.

> The Land Use Element:
>
> "Seeks a balanced and complete community with shops, services and employment close to home…"
>
> Policy LU-6.1: Provide opportunities for light industrial and high technology uses.
>
> Policy LU-6.2: Encourage and support locations for businesses providing primary jobs in Kirkland
>
> The Economic Element:
>
> "Policy ED-1.5.: Encourage clusters of complementary businesses Industry clusters are geographic concentrations of mutually supportive businesses. In 2003, the prominent business clusters were in the areas of automobile sales and services, art galleries, healthcare, restaurants, high technology, and furniture sales. Encouraging clustering of complementary businesses helps diversify our local economy. Businesses can foster a competitive economic advantage by locating near each other to draw consumers, to be near the wholesale distributor or to attract employees."

Two major themes are implicit in these statements: that balance requires local jobs for local residents, and that a balanced employment area will offer the possibility of aggregation of business clusters to serve business. A logical result of such policies would be zoning to create employment centers that actually employ local residents, and zoning that reduces conflict between incompatible clusters of uses.

Because of trends in employment and land pricing, industrial use is less competitive than other land uses. The average household income in Kirkland is much higher than the wage provided by industrial or warehouse/distribution employment, and many employees are not residents but commuters from other areas. Land pricing is an issue, as those interviewed have pointed out, because it is now difficult to create an industrial use that can afford the cost of a Kirkland location. To serve the need for local employment posited in the Land Use Element would require businesses that pay significantly higher wages than industrial use does currently.

Business clusters are not only complementary, they are also exclusive, i.e., they locate near like businesses but also avoid areas with unlike businesses or areas with businesses that preclude the provision of a suitable working environment. As an example, automobile dealerships aggregate together and high-tech firms aggregate together, but automobile sales and high-tech do not cluster with each other. High tech firms tend to cluster in two settings: park-like campuses or areas with urban amenities. Automobile sales create large paved areas without urban amenities that depend

upon traffic volume for visibility and access. Both uses are necessary in Kirkland for a balanced economy, but they are not necessarily complementary.

Current Use of Industrial Land

While the intent of current zoning is to provide land for industrial, light industrial and "tech" employment, much of the built space in the industrial areas is zoned for and used otherwise. Services is the largest use, occupying approximately 19 percent of the space, followed by wholesale/distribution at 14.9 percent, manufacturing at 13.8 percent, "tech" business at 12.2 percent, professional offices at 10.5 percent, automobile sales and service at 9.6 percent, retail at 7.5 percent, contractors and construction at 5.7 percent, Financial/Insurance offices at 4 percent and educational/institutional uses (including churches, daycares, dance studios, and education) at 2.8 percent.[1] The average intensity of land use is a floor area ratio of 0.20.[2]

Table 1: Industrial Area Use by Business Type

	Study Area						Percent/Use
	A	B1	B2	C	D	E	All Areas
Auto	32.7%	0.0%	14.1%	14.6%	0.4%	0.0%	9.6%
Contract	6.6%	0.0%	12.9%	3.1%	4.4%	1.3%	5.7%
FIRE	2.2%	8.6%	0.0%	0.9%	7.4%	0.0%	4.0%
Institutional	1.2%	7.6%	0.0%	2.1%	2.5%	0.0%	2.8%
Manufacturing	15.2%	1.8%	14.3%	11.1%	30.4%	0.0%	13.8%
Professional	1.6%	19.6%	4.8%	3.7%	6.7%	73.9%	10.5%
Retail	9.6%	5.5%	11.1%	4.1%	6.3%	5.5%	7.5%
Tech	4.6%	39.6%	4.8%	2.7%	0.6%	2.8%	12.2%
Services	17.0%	10.1%	18.3%	34.6%	23.3%	14.7%	19.0%
Wholesale	9.3%	7.1%	19.7%	23.0%	18.0%	1.7%	14.9%
FAR of Use	0.14	0.17	0.21	0.25	0.22	0.24	0.20

Source: City of Kirkland GIS

To understand space use, building and use by decade were examined. Table 2 and Chart 1, below, show the percentage of space built by decade. Approximately 24 percent of space was built in the 1990's, very little before 1960 and the bulk from 1960 to 1989.

[1] Services include businesses that do things as opposed to businesses that only sell things. It is a wide category that includes everything from auto shops to beauty shops and hotels. For the purposes of this study, professional services and education have been recorded separately. Restaurants have been classed under Retail. The term TECH has been applied to anything to do with software and computers whether services or sales.

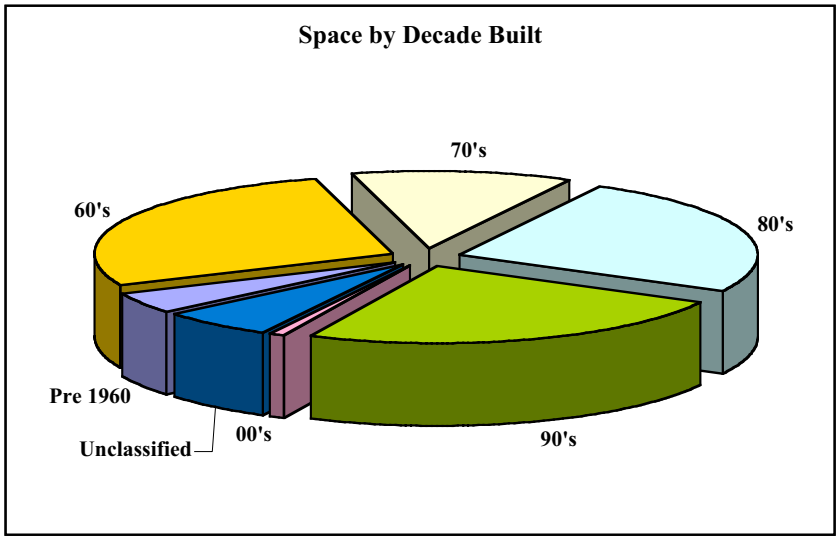
[2] Floor Area Ratio is defined as the square feet of use divided by the square feet of land on which the use is sited so, for instance, a 10,000 square foot building on a 20,000 square foot lot would have a floor area ratio of 0.5. A ratio of 0.19 would yield a building of 3,800 square feet on a 20,000 square foot parcel.

Table 2
Industrial Area Space Built by Decade

	Square Feet	Percent
Pre 1960	96,116	5%
60's	585,647	28%
70's	251,666	12%
80's	533,181	25%
90's	514,661	24%
00's	18,000	1%
Date Unkown	128,168	6%
Total	2,127,439	100%

Source: City of Kirkland GIS

Chart 1: Space by Decade

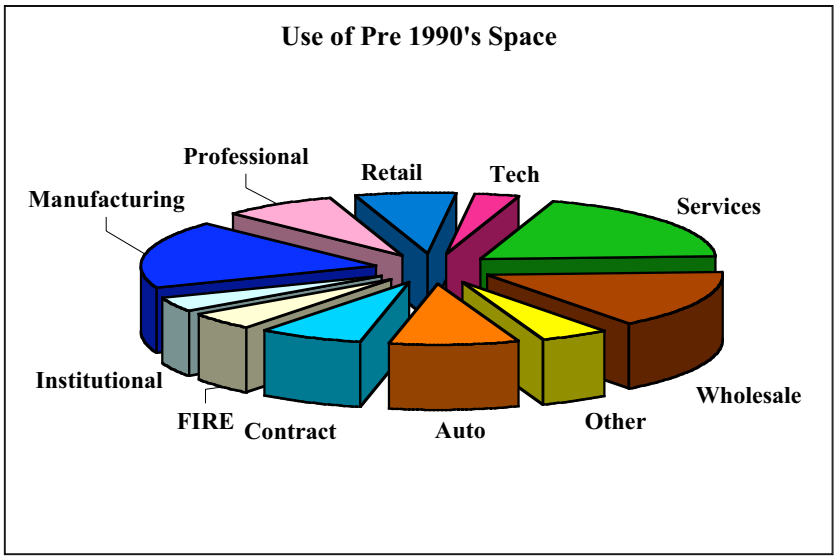


Source: City of Kirkland GIS

The age of structures has an impact on users location choice as is shown in the Charts 2 and 3. Space built before 1990 has been occupied by a number of uses, led by services manufacturing and wholesale/distribution categories, with significant area used for contracting, automobile sales and service, retail, institutional, office and professional uses.

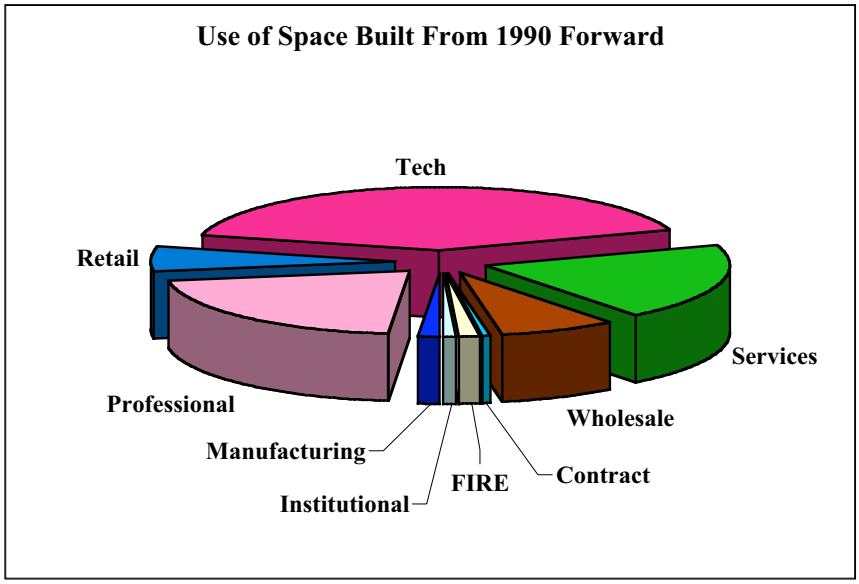
In contrast, 41 percent of newer space is occupied by "tech" business, with the bulk of the remainder going to Professional offices, services, and wholesale distribution. One of the national trends in industrial/tech space has been the choice of buildings, either of historic value and renovated to spec, or newer with electrical and communications systems and a lack of interior barriers to use.

Chart 2: Users of Pre-1990 Space



Source: City of Kirkland GIS

Chart 3: Users of Space Built from 1990 Forward



Source: City of Kirkland GIS

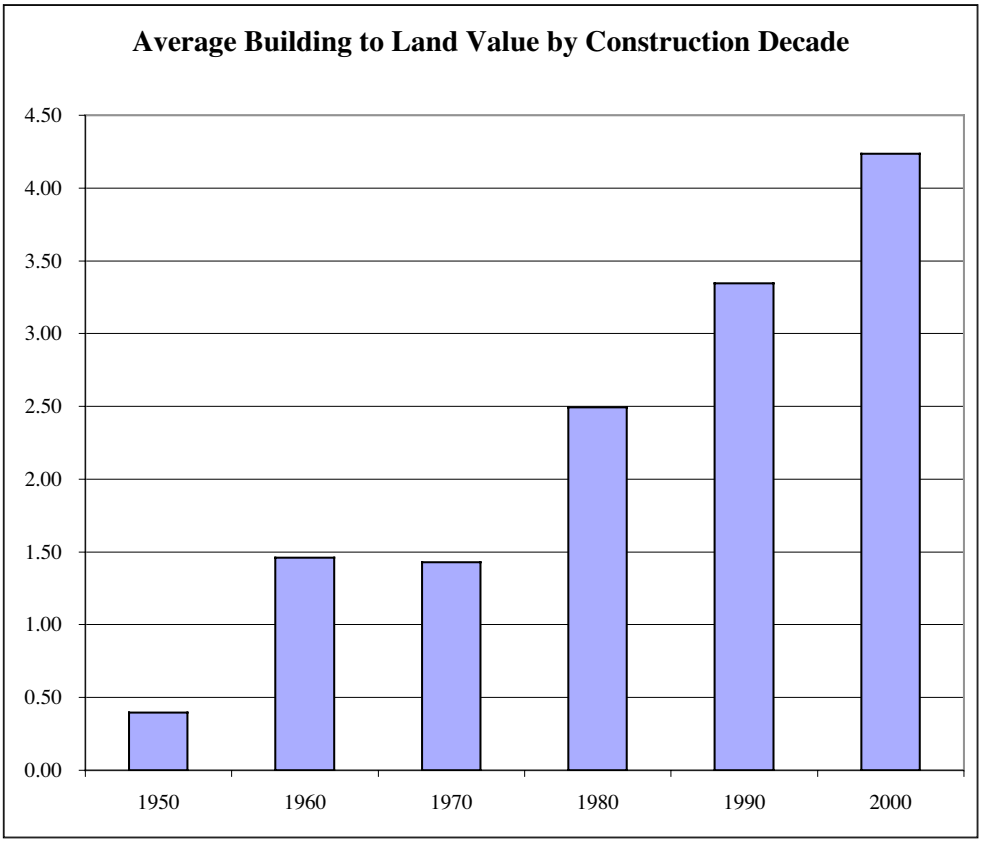
What these charts seem to be telling us is that the stock created before the 1990's is not as attractive to the industries the City of Kirkland has hoped to attract through its light industrial tech zoning. Combined with the difficult economy that was a result of the stock market devaluation of 2000, this has resulted in the use of industrial/flex space for non-industrial uses. Some areas such as the east side of 405 are an artifact of changing zoning in response to changing market conditions. Retail is primarily non-main-street uses that seem to support other uses in the

area (such as flooring, tools and water heaters) and maintains a similar proportion in pre and post 1990 space.

Another factor to be considered is the intensity of land use desired in the City. Given that the current use in the area is of very low intensity even for uses that are now normally developed in Kirkland at much higher intensity, and further, that some inventory can be expected to redevelop because of its age and relative obsolescence (both functional and financial), planning for the future will require examining higher intensity scenarios for appropriate uses, to estimate the capacity in land that may be available in the future.

The economic value of existing building stock is also an issue in redevelopment, as is the effect of zoning restrictions on site coverage and building height. One measure of the viability of building stock is the relative value of buildings to land. Chart 4 below demonstrates the ratio of building to land value by decade of building construction.

Chart 4: Value Ratios



Source: City of Kirkland GIS

The ratio of building to land value by decade built suggests that, in order to achieve financial feasibility, higher value and higher density structures have been created in later decades to offset rising land pricing in Kirkland. It also suggests that for successful redevelopment to take place, should this be necessary, that recapturing the value of land will require densities and types of use

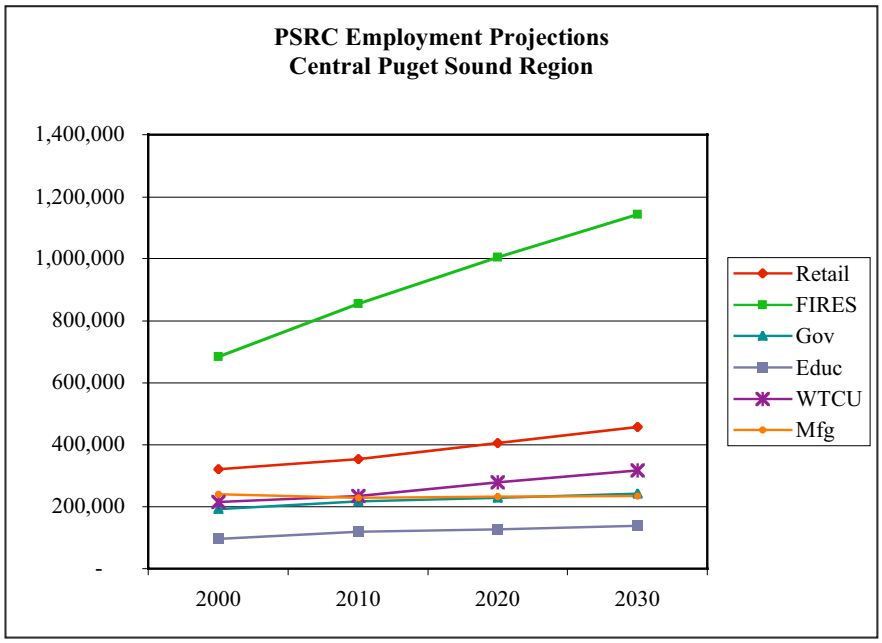
that may not fit traditional single story, low-density industrial development types designated in the zoning.

The patterns of use noted in this analysis raise questions regarding the intended use (and planning comprehensively for future use) that were asked in the introduction. Answering such questions requires understanding trends in industrial real estate in the region and nationally, as well as the space needs of future employment. All of this must also be balanced with the planning requirements of the Urban Growth Area to provide sufficient space for all of the projected future uses including housing, commercial real estate and industrial space.

Industrial Employment Trends in the Central Puget Sound Region

Industrial employment is composed primarily of manufacturing and distribution. According to PSRC, manufacturing employment in the central Puget Sound region is projected to decline slightly from 2000 to 2030, while other sectors grow (see Chart 5). The greatest growth is expected in the Financial, Insurance, Real Estate, Services (FIRES) sector, with an increase of approximately a 460,000 employees to 1.1 million employees, at which point this sector will represent 45 percent of all employment. FIRES employment is followed by retail, with an increase of approximately 137,000 jobs. Wholesale trade, transportation, communications and utilities (WCTU) are expected to increase over the long term by approximately 103,000 jobs. By 2030 manufacturing employment (235,491) is expected to comprise only nine percent of all employment in the Seattle region.

Chart 5: Regional Employment Projections



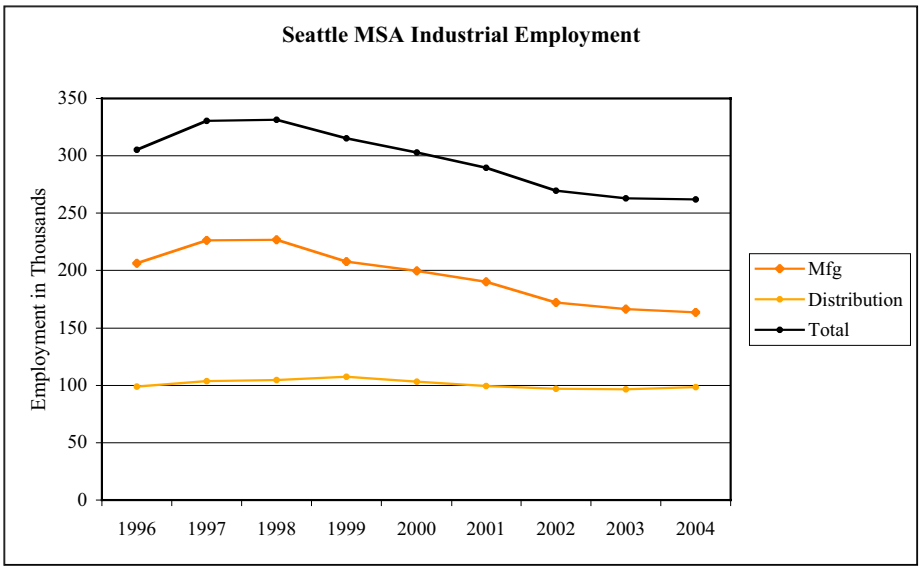
Source: PSRC

In the short term, according to TortoWheaton Research, regional manufacturing is projected to lose employment through year 2004, while distribution remains relatively flat (see Chart 6). Over time, it is clear that the need for new development in the four county region will be spurred by office employment, services, and retail sectors rather than manufacturing and distribution. Trends in employment within Kirkland adhere to a similar pattern.

Kirkland Employment Trends

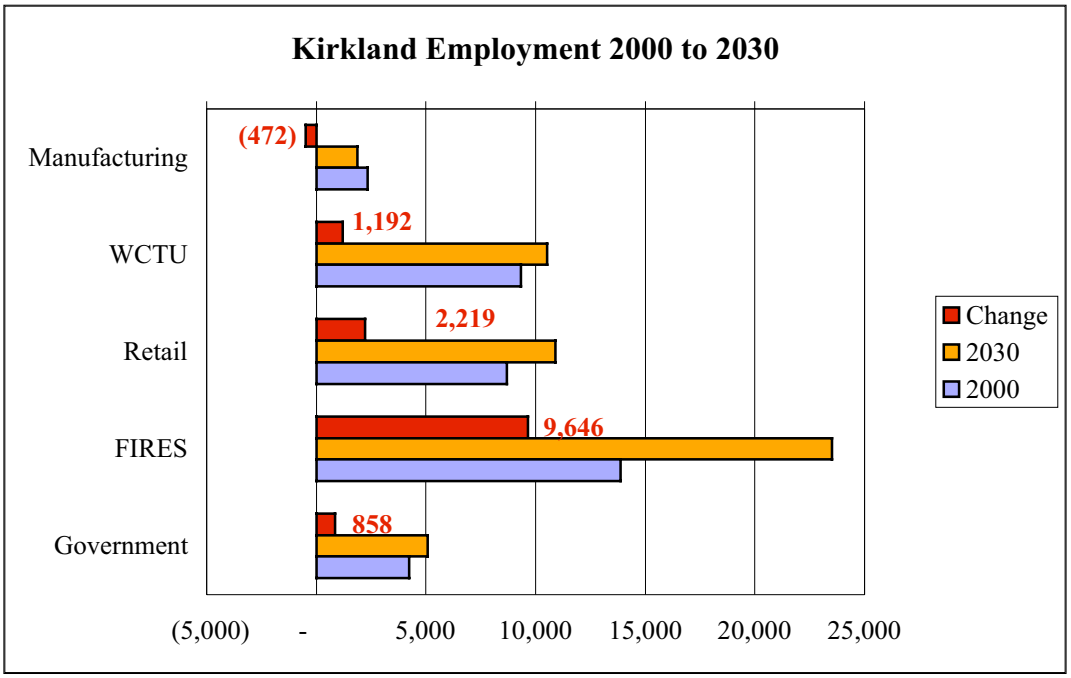
The primary purpose of industrial zoning in Kirkland was, historically, to provide sufficient space for local jobs at family-wage incomes. Over the years, however, the bulk of employment in Kirkland has shifted to technical occupations rather than either skilled or unskilled occupations involving manufacturing or the trades. Kirkland had approximately 39,000 jobs and 45,000 residents in year 2000. Trends from PSRC indicate that employment is shifting from manufacturing to other categories in Kirkland (see Chart 7 below). Consistent with the shift in employment is a demographic shift to higher income groups (see the section on demographics). The demand for housing has resulted in housing values out of the reach of typical industrial employees unless they are long-term residents with existing equity.

Chart 6: Recent Seattle MSA Industrial Employment Trends



Source: TortoWheaton Research

Chart 7: Kirkland Employment From 2000 to 2030

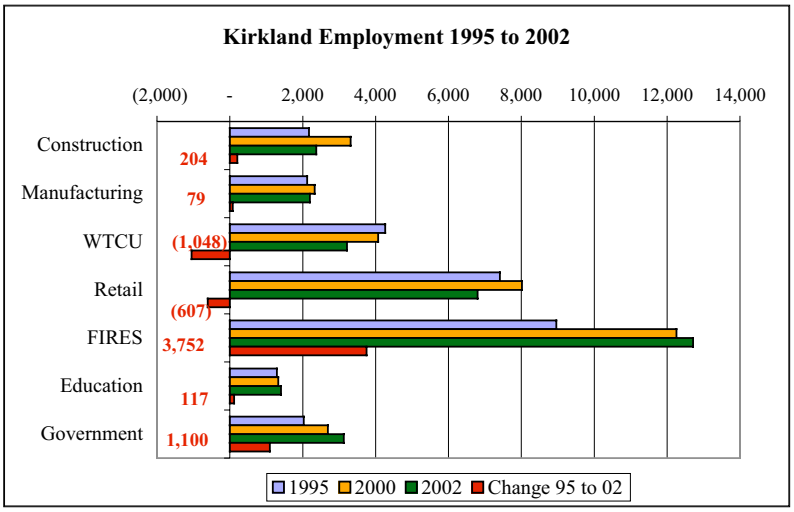


Source: PSRC

Kirkland employment trends projected by PSRC from 2000 to 2030 are presented in Chart 7, above. The largest sector by far is in FIRES employment with over 13,800 jobs. In the case of Kirkland, many of the office jobs are not only in finance or real estate but are office jobs for various sectors including technology. The next sector is Retail with over 8,600 jobs, followed by Warehouse and distribution, Communications, Transportation and Utilities (WCTU) with slightly over 9,300 jobs. In terms of growth in employment by sector, the greatest numbers of new employees were in FIRES, followed by WCTU, Retail, Manufacturing and then Construction. By 2030, 24 percent of jobs are expected to be in industrial land use sectors, (compared with 36.5 percent in 2000), 45 percent in office and services categories, 21 percent in retail and 10 percent in government.[3]

[3] Jobs that use industrial land (not necessarily the broader range of uses allowed by zoning) include construction, manufacturing and warehouse, transportation, communication and utilities (WCTU).

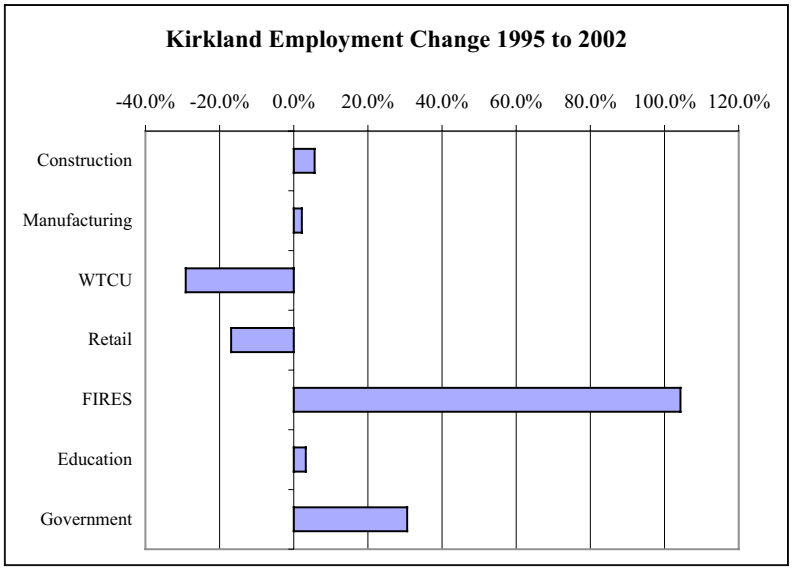
Chart 8: Kirkland Employment Change 1995 to 2002



Source: PSRC

The rate of change by employment sector reveals some interesting trends. Chart 8 shows employment change from 1995 to 2002 while Chart 9 shows *percentage* of employment change from 1995 to 2002.

Chart 9: Percent of Employment Change 1995 to 2002



Source: PSRC

WCTU employment declined approximately 29 percent from 1995 to 2002. FIRES employment grew approximately 104 percent. Manufacturing grew by 2 percent in the same period. Construction provided support services for residential development and the change in office employment. Manufacturing as a primary industry served less of this support function and, in line with national trends, experienced lower growth rates than the other sectors. The decline in

WCTU and Retail shown is consistent with national economic downturn in which fewer goods were shipped, stored and sold.

Jobs provided in Kirkland are not the same as jobs held by residents of Kirkland. As of year 2000, Kirkland residents held 27,454[4] jobs while employment in Kirkland was 38,827. Because of the way data is collected it is not clear whether residents are employed in the city or in other cities, but it does show that at 11,373 must have commuted from outside the city. What is more significant is that of the 19,841 jobs in construction, wholesale trade, warehousing, transportation, utilities and retail, only 7,140 Kirkland residents were employed in these sectors. This means that at least 12,671 people or 64 percent of the employees must have commuted from elsewhere. In contrast, FIRES jobs and residents employment are roughly in balance.

The implications for land use and transportation policy are not clear, but one possible conclusion is that there may be a need for more housing at appropriate pricing for employees for sectors with lower wage employees. Alternately, one might foresee that, over time, shifting demographics will encourage employers to move where their employees live in order to capitalize on lowered commute costs, and employment will shift to higher income jobs that better match the income profiles needed to afford housing in Kirkland. Neither of these possible conclusions is mutually exclusive; as markets change, projections indicate increasing employment in FIRES jobs, and industrial space trends seem to indicate that industrial uses are moving elsewhere, but there will still be a need for housing for people in the other workforce categories which will still be a vital and necessary part of the local economy.

Kirkland Industrial Space Market Costs and Trends

The Seattle metropolitan area industrial real estate market is broken up into 5 submarkets: Downtown, Eastside, Northend, Southend and Tacoma. Kirkland, part of the Eastside submarket, is competing directly with the Northend and Southend submarkets[5]. According to the Kirkland Community Profile, Kirkland currently has 3.2 million square feet of industrial space, at a vacancy rate over 20 percent according to interviews with local brokers. Kent Valley, on the other hand has over 48 million square feet of space. The entire Southend submarket, Kirkland's immediate competition, has over 111,000,000 square feet of space at a vacancy rate of 11 percent. Asking shell rates for Kirkland space are $6.24 per square foot, higher than in Kent Valley ($3.96 to $5.28 per square foot) or other Southend locations except for SeaTac, which has airport related businesses paying more for proximate locations. The triple net charges in Kirkland (costs over and above the rent paid by tenants) are around $0.15 in Kirkland, approximately half of industrial shell rents in Kent. With triple net charges, leasing industrial space in Kirkland can cost much more than industrial space in purely industrial areas such as Kent Valley, but is on a par with Redmond which is experiencing the same shift to non-industrial use as Kirkland.[6]

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[4] Number s from the Kirkland Community Profile

[5] The Eastside submarket includes Bellevue, East King County, Kirkland, Newport/Issaquah, Kirkland, Woodinville, and the I- 90 and 520 corridors. Northend includes Bothell/Kenmore, East Snohomish County, Edmonds/Lynnwood, Everett, Mill Creek/N Creek, North Snohomish County, Northgate/North Seattle and South Everett/Harbor Point. Southend includes Auburn, Federal Way, Kent Valley, Parkland/Spanaway, Puyallup/S Hill, Renton, SeaTac/Burien and Tukwila.

[6] While Kirkland industrial vacancy sounds high, it is comparable to the Bellevue CBD at 25%, Redmond at 18 percent, and better than areas of Seattle such as the Denny Regrade at 42 percent. Rates for space in Bellevue are $0,60 per square foot, while in Redmond rates are at $0.56 per square foot. Redmond has been experiencing a similar shift in industrial to other business as seen in Kirkland.

One of the trends in the current industrial market is for tenants to move from old space to new, more efficient build-to-suit space. This is made feasible by low financing rates. The result is that older space on the market has more difficulty in leasing for its intended use. The current land use trends in Kirkland confirm this, with older industrial/flex space being leased to a variety of non-industrial uses and all industrial use now of light industrial types.

Short-term projections by TortoWheaton Research for industrial space in Kirkland forecast continued high availability rates and low annual absorption. To understand whether there is a continued need for promotion of manufacturing or industrial zoning as a means to support living wage jobs for the residents of Kirkland, one must assess the demographic change in Kirkland and the projected changes to come in the next five years (see the section on demographics, Page 14).

Kirkland Office Market Trends

Kirkland has approximately 4.5 million square feet of office space according to the Kirkland Community Profile. Direct vacancy in 2004 is around seven percent, or 10.6 percent with sublease space included, a lower rate than all eastside markets other than Redmond and the I-90 corridor. Average rents in Kirkland are slightly over $25 per square foot, virtually the same as the downtown Seattle average, and higher than all other eastside submarkets.

Employment trends projected by PSRC indicate that Kirkland is likely to have a greater need for office space than for industrial flex space over the next 25 years. The current vacancy and strong rental rates indicate that Kirkland is a desirable area for office location. Given the relative value of office space rents to industrial rents, office development is also more likely to be economically competitive than industrial/flex space. Currently, office development is somewhat restricted in the industrially zoned areas due to height restrictions of 25 to 35 feet from floor elevation. A typical low or mid-rise office building would be between four and six stories, or 60 to 75 feet in height. Typical retail/office mixed use buildings would be in the range of 65 to 80 feet (the first floor of retail is normally a 15 foot floor height as opposed to office space at 12 feet).

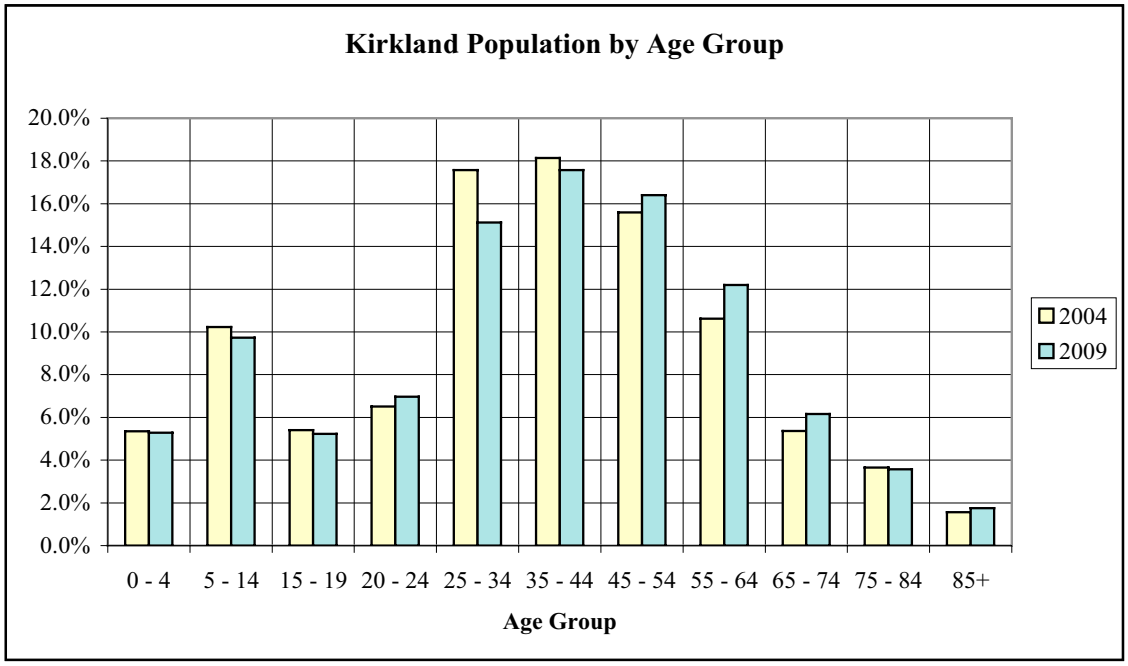
Office users are also sensitive to surrounding land use. According to the Urban Land Institute, "new economy" users are looking for offices with nearby amenities such as cafes, restaurants, banking or ATM's, and services to support long hours at work, such as convenient access to drycleaners and daycare. They also tend to cluster in areas where there are other like businesses and an available workforce. Downtown Kirkland fulfills these requirements, but the industrial areas are less attractive due to the mix of auto sales, older strip malls and other auto-oriented businesses seeking low space rents.

If we examine the employment trends from PSRC, it would appear that Kirkland will have need of something in the range of 2 million more square feet of office space by 2030. In order to develop office for the future through redevelopment it will be necessary to reconsider height limits and surrounding land use for the office use to be feasible and also appeal to the higher end jobs that would employ local residents. The only way to accomplish development on this scale with the existing land resources is to achieve higher floor area ratios. Higher intensity development can make redevelopment a viable option for many properties that are losing market viability because of industrial competition regionally, nationally, and internationally.

Kirkland Demographic Trends

This section discusses current demographic trends in Kirkland, their implications for local employment and for people locally employed to afford living and working in Kirkland. Data were acquired from the 2000 Census and ESRI Business Information Services (ESRIBIS). Projected population change in Kirkland shows a shift toward older households, as shown in Chart 10 below.

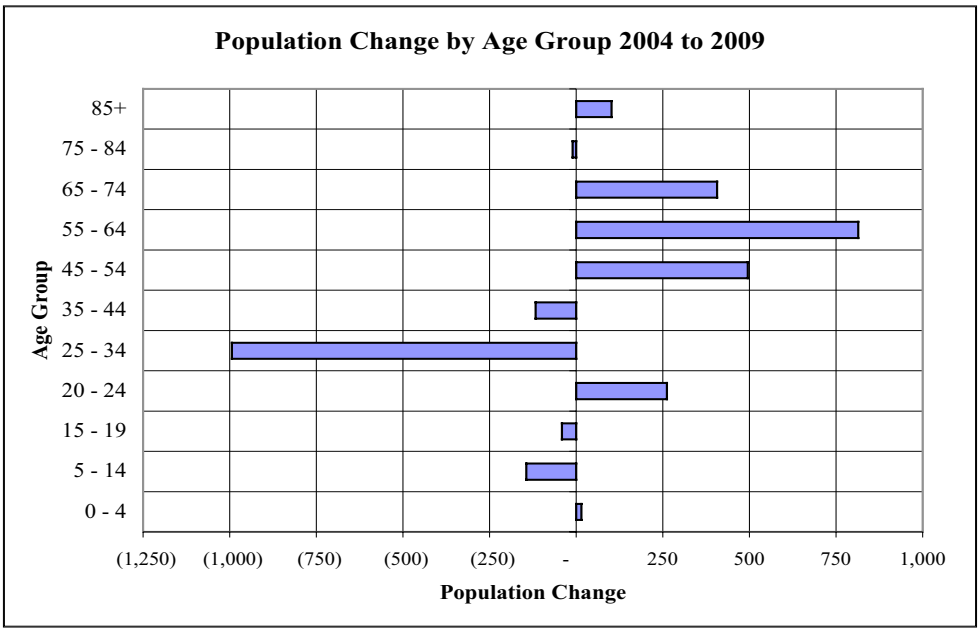
Chart 10: Population by Age Group



Source: ESRIBIS

In order to understand the trend in change, existing population was subtracted from projected population and the result is shown in Chart 11. The greatest positive change is in population between 45 to 74 years of age, and the greatest negative change is in population between 25 to 44 years of age. Some change is simply from age shift occurring over a five year time period, but the trend is marked enough to allow the conclusion that Kirkland is shifting from younger family households to older, smaller households likely to have fewer children at home.

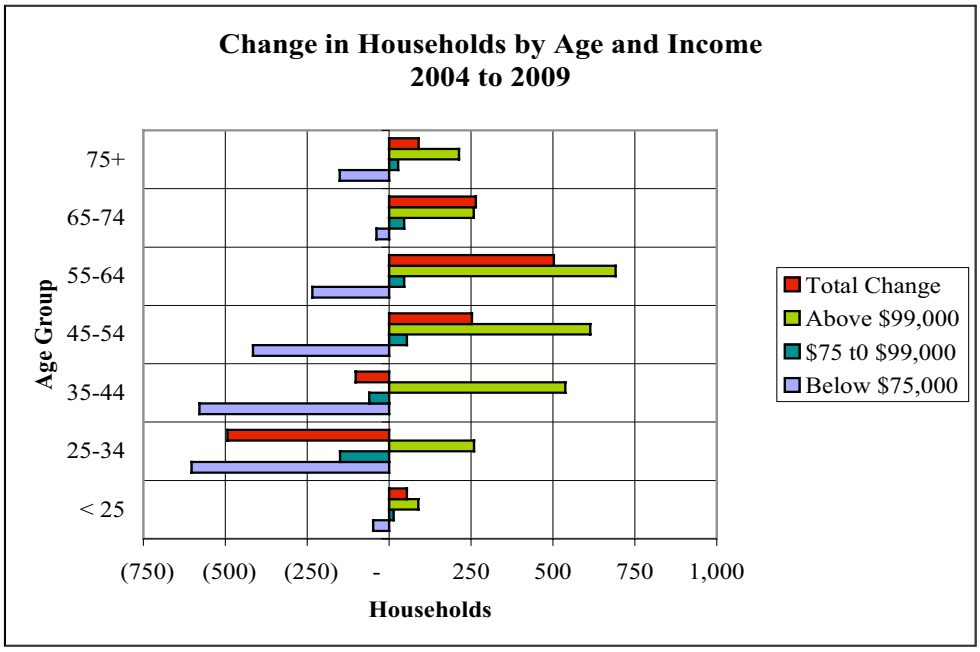
Chart 11: Population Change by Age Group



Source: ESRIBIS

To further understand change in Kirkland household change by age and income was examined and is illustrated in Chart 12.

Chart 12: Household Change by Age and Income

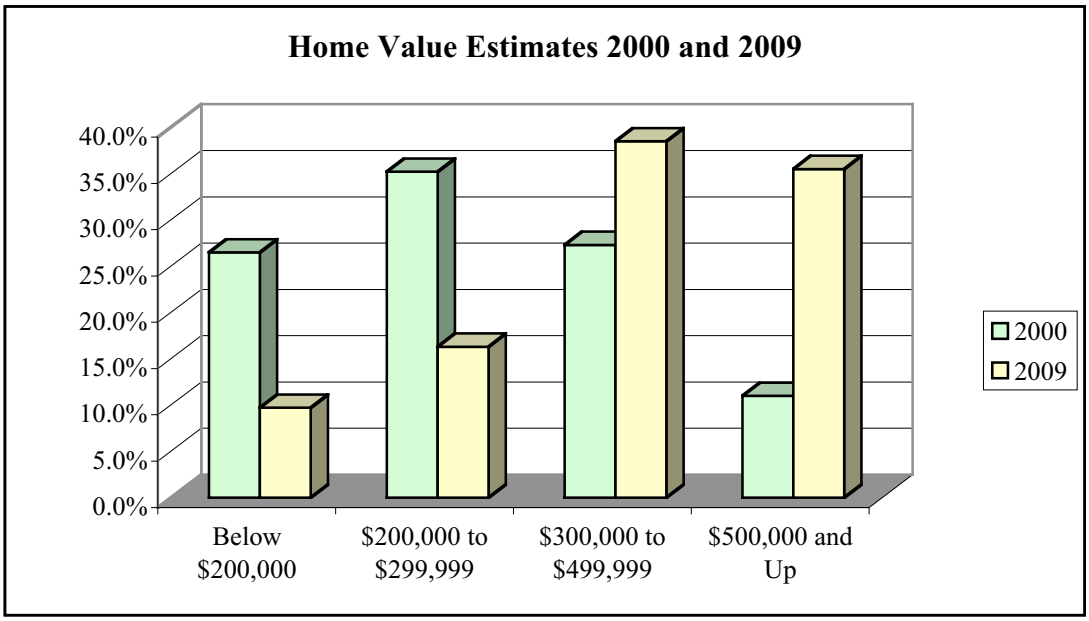


Source: ESRIBIS

When we examine household change by age and income we find that in general, households with annual incomes below $75,000 are decreasing, while those with incomes above $99,000 are increasing. This indicates that while some households are gaining in income there is also some amount of replacement taking place in which lower income households leave and higher income households move in.

In response to demographic change housing pricing in Kirkland has increased. According to the Kirkland Community Profile, average rents in Kirkland increased from $624 in 1990 to $1,241 in 2001, and average home sale prices increased from $172,196 in 1996 to $267,508 in the first quarter of 2000. According to the 2000 census, the average value of an owner occupied unit (all units, not just those for sale) in Kirkland was $318,000, and estimates from ESRIBIS indicate that this value has increased to $399,000 in 2004. Should this trend continue the average home value is expected to rise to approximately $497,000 by 2009.

Chart 13: Home Values 2000 to 2009



Source: Census Bureau and ESRIBIS

Chart 13 shows home values from the 2000 Census and estimated values by 2009. It illustrates that homes below $200,000 in value will constitute less than ten percent of the housing stock, while homes over $500,000 will rise from ten percent to approximately 40 percent of stock by 2009. In aggregate, in 2000, homes under $300,000 in value made up about 64 percent of stock. In 2009, homes with values *over* $300,000 will make up about 70 percent of stock; those below $300,000 will make up about 30 percent.

The implications of age shift and income shift are that given the limited land base, housing prices have been bid upward out of the price range of moderate income households, and that fewer residents in Kirkland will be working at lower wage jobs as this change continues. To balance the demographic and housing changes with employment will require a shift from lower to higher wage employment within the city if housing-jobs balance is a policy goal.

Kirkland Industrial Trends Interviews

As part of the process for this study, interviews were conducted with current tenants, owners and brokers of industrial land in Kirkland. Their comments reflect a history of the change in Kirkland, assessments of current conditions for industrial use, speculations on future use, and ideas for the retention of existing local businesses. The interview comments are summarized below. These comments are the opinions and perceptions of those interviewed. While one can agree or disagree on some points, and individual comments may not be in agreement with others, they are important because they reflect the perceptions and beliefs of current users, tenants, owners and brokers of industrially zoned land uses in Kirkland.

Land

Land Pricing for industrial has risen to $12 per square foot, expensive for distribution but not unreasonable for offices.

Interviewees expressed that the lack of available land and rising land pricing are an issue for continued industrial flex space development. One business user noted that at current land prices a new industrial or wholesale business could not afford to locate in Kirkland.

At the same time, one interviewee believes that while manufacturers are unlikely to locate in Kirkland, they would locate their offices in Kirkland's industrially zoned land.

Trends in Use

All of those interviewed felt that use is shifting toward non-industrial and high-tech uses. It was noted that heavy industrial has left Kirkland and that leasing of older industrial/flex facilities is going to retail and services such as Pump It Up, uses requiring large spaces such as batting cages, and various types of office use.

Recent departures of several large tenants have produced the major vacancies in Kirkland. These include the Sedorco facility, and the Totem Lake Commerce Center. Reasons quoted include difficulty re-leasing included obsolete building type and lack of built-in building systems or difficulty in building configuration. The soft markets in industrial and office were also quoted as difficulties. The market rent for industrial for existing stock in Kirkland was seen as less competitive than other areas.

Another factor quoted was a lack of agglomeration, i.e. that with diminishing industrial use, prospective tenants of industrial space believed that they would be "isolated" and perhaps subject to complaints about noise, traffic, or round-the-clock work shifts.

It was felt by all interviewed that land pricing makes higher density use necessary to pay for the land.

Perceptions of Regulation

Interviewees differed in their opinions on working with the city. Opinions ranged from "easy, much better than Redmond," to "change is too difficult."

It was felt by interviewees that the zoning no longer matches the needs of the market in several ways. Industrial density limitations are seen as precluding higher uses that would allow the re-use of old industrial sites. The relative proximity in some areas of residential and nearby retail and service use are seen as conflicts for industrial use that could be opportunities for future use if zoning were changed to allow office, or mixed use at higher density.

Automobile sales were cited as incompatible with high tech and professional office use, but not incompatible with construction supply uses or warehouse/distribution uses.

When asked how zoning should be altered for the areas it was felt that the current flexibility for retail and services is useful but that the industrial construction types outlined in the code (including height) were hampering redevelopment.

Several interviewees felt that there was a need for greater certainty in the approval process, both in achieving approvals but also in not approving uses in areas where they are incompatible with existing uses or planned proposed uses.

Labor

Those interviewed felt that much of the industrial labor force had to come from outside the city because wage rates would not support housing ownership in Kirkland. One interviewee noted that only employees who arrived in Kirkland before the current pricing rises were able to afford the area.

It was felt that the local labor force is shifting toward office-based employment including professional services, high-tech occupations and financial occupations (this is confirmed by the enumeration of employment by residence cited in the Kirkland Community Profile as well as long-range trending by PSRC).

Conclusions on Industrial Zoning in Kirkland

This study was started with a series of questions to be answered:

- First, given the industrial zoning specified, whether lands designated for industrial or manufacturing uses will likely retain and attract the businesses intended or whether the demands and needs of new users will find the overall characteristics of the area insufficient for their locational needs;
- Second, based on the study findings, what types of City actions might be needed to attract or retain manufacturing/industrial uses in Kirkland?
- Third, if industrial is less likely, what are the alternatives and how is the transition between uses accomplished?

To answer the first question, the first major conclusion regarding industrial zoning in the study areas is that the shift from manufacturing, warehouse and distribution uses to other uses is already a factor in the leasing of industrial/flex space. Finding industrial users is increasingly difficult, and warehouse and distribution uses are moving regionally to areas with newer, less costly stock and a local labor force that can live in reasonably close proximity at moderate wage rates. The

trend in spec built industrial and warehouse space is occurring elsewhere on less valuable land with highway access.

The combination of demographic change, home pricing, rising land values, regional traffic congestion, and shifts in projected employment militate against the continued feasibility of low-cost space for industrial that can remain competitive in regional and international markets. The trends indicate, on the contrary, that an emphasis should be placed on the creation of higher density employment space for financial, insurance, real estate, services and "tech" uses that can employ higher wage local residents of Kirkland and can afford the land and development costs for higher density.

At the same time, employment trends through 2030 indicate a continued demand for space for WCTU land uses. To remain competitive these uses will require newer buildings wired and constructed for the integration of information technology into operations. This will likely require redevelopment, rather than refitting of older building stock.

The answer to the second question is more complicated and requires elaboration. Zoning does not match current use or market conditions, but it appears that redevelopment can occur if higher-density use is allowed where appropriate. As noted in the section on current land use, the existing floor area ratios are very low for many of the current uses such as office and retail use. To understand the implications of allowing densities that would match market conditions, the capacity of the area under redevelopment was examined and is illustrated in Table 3 and Table 4, below.

Future Capacity at Higher Densities

Between 2000 and 2030, Kirkland is projected to gain over 10,000 new employees. Using typical ratios by type of employment, the total need for future space for new employment is almost four million square feet in FIRES, Manufacturing and WCTU categories (see Table 3).

Table 3
Land Needed for Employment Change 2000 to 2030

	FIRES	MFG	WCTU	Totals
Employment Change	9,646	(472)	1,192	10,366
Square Feet/Emp	221	570	655	255
Use Square Feet	2,131,766	(269,040)	780,760	2,643,486
FAR	1.00	0.25	0.25	0.63
Land Square Feet	2,131,766	(1,076,160)	3,123,040	4,178,646
Acres	49	(25)	72	96

If one assumes current feasible floor are ratios for each type of employment space, the land required is approximately 96 acres (not including rights of way). If redevelopment of obsolete space is assumed for the industrial areas at typical floor area ratios (see Table 4), it may be possible to accommodate 70 percent of office for FIRES use and all Manufacturing and WCTU use within the existing industrial zones, with a reserve of land for future employment or other uses. Keeping in mind that the time horizon for change is 25 years, it is not implausible that redevelopment can produce more efficient land use in Kirkland. The question is not whether

these uses will ever take place, but rather how to seize the opportunity that future employment change represents for the citizens, businesses and landowners in Kirkland.

Table 4

Current Building Space Use Use

	A	B1	B2	C	D	E	Total Use SF
Auto	84,804	0	90,700	40,470	1,750	0	217,724
Contract	17,252	0	82,882	8,700	20,140	926	129,900
FIRE	5,713	48,299	0	2,587	34,074	0	90,673
Institutional	3,100	42,761	0	5,685	11,400	0	62,946
Manufacturing	39,500	10,100	92,091	30,800	139,431	0	311,922
Professional	4,027	109,488	30,524	10,227	30,662	52,218	237,146
Retail	24,900	31,023	71,011	11,500	28,756	3,900	171,090
Tech	12,015	221,481	31,000	7,600	2,680	2,000	276,776
Services	44,100	56,360	117,674	95,888	106,715	10,419	431,156
Wholesale	24,139	39,583	126,490	63,700	82,409	1,200	337,521
Total Use	259,550	559,095	642,372	277,157	458,017	70,663	2,266,854
Land Area	1,825,629	3,243,100	2,971,353	1,130,816	2,057,942	296,095	11,524,935
FAR of Use	0.14	0.17	0.22	0.25	0.22	0.24	0.20

Land Needed At Efficient Floor Area Ratios

Fire/Pro Space	9,740	157,787	30,524	12,814	64,736	52,218	327,819
Land @ FAR of 1	9,740	157,787	30,524	12,814	64,736	52,218	327,819
Retail/Services/Tech	81,015	308,864	219,685	114,988	138,151	16,319	879,022
Land @ FAR of 0.4	202,538	772,160	549,213	287,470	345,378	40,798	2,197,555
Con/Mfg/Wh	80,891	49,683	301,463	103,200	241,980	2,126	779,343
Land @ FAR of 0.3	323,564	198,732	1,205,852	412,800	967,920	8,504	3,117,372
Land Req w/o auto	535,842	1,128,679	1,785,589	713,084	1,378,034	101,520	5,642,746
Plus Auto Land	853,421	0	521,453	259,784	136,911	0	1,771,569
Total Land Required	1,389,263	1,128,679	2,307,042	972,868	1,514,945	101,520	7,414,315
Acres	31.89	25.91	52.96	22.33	34.78	2.33	170.21

Future Land Scenario After Redevelopment

Total Currently Used	41.91	74.45	68.21	25.96	47.24	6.80	264.58
Less Efficient Use for Current Space	(31.89)	(25.91)	(52.96)	(22.33)	(34.78)	(2.33)	(170.21)
Less Future Need for Mfg/Wh/Dist/Comm/Trans/Utils							(46.99)
Less Future Need for 70% of FIRE/Tech/Services (from PSRC)							(34.26)
Remainder							13.12

Table 4 above outlines how much land would be required to meet future needs for employment based upon redevelopment of obsolete stock and achieving more efficient land use. If land use can be made more efficient through redevelopment, the current level of use will take approximately 101 fewer acres and the city will be able to accommodate all of its WCTU employment through 2030 with currently zoned land resources (manufacturing employment is expected to decline and thus use less land than today). A further assumption was that 70 percent of office use (FIRES) could be placed within the study area. With these assumptions there is still a reserve of land for future use

The third question regards city actions to achieve the best use of the industrial areas given the conclusions above. While there is no crystal ball available to tell one exactly what areas of business and commerce will be important over the long time period discussed in projections, several areas of action suggest themselves: actions to retain industrial businesses, actions to enhance redevelopment and actions to create the conditions that will attract new business. Needless to say, many of these actions overlap the categories and to make a transition from existing to future use a number of possible actions should be evaluated.

The most effective change possible is not in the hands of the city, but in the inclinations and actions of property owners of obsolete stock. Because of market changes, industrial zones have become targets for non-industrial use seeking lower rents. As old industrial stock becomes less useful for its intended use it is leased for other uses to the point that true industrial use becomes isolated. As noted in the Comprehensive Plan, businesses cluster together. When an area becomes predominantly non-industrial, it is less attractive to industrial users. Over time, in areas where industrial use has diminished, owners of industrial properties will seek to lease to other uses, making conflicts of use even more likely for remaining industrial uses. This trend is also likely to drive up land pricing faster than would occur in primarily industrial areas.

In considering city actions for these areas it is suggested that the idea of clustering business, providing buffers or transition zones between uses and re-aligning ideas of what is required to attract new business be made the focus of changes. For instance, many retail uses allowed currently do not fit well with industrial use but would be excellent land uses as transitions between industrial and residential land uses. In some cases higher density residential could augment and act as a transition buffer between lower density residential and office/tech use. Office/tech can act as a transition between industrial and commercial areas. At the same time, the "new employment" desired does not need to be placed under industrial zone regulations, but may be an entirely different employment center with its own guidelines for streets, setbacks and mix of uses. These ideas are elaborated in the actions listed below.

Actions to Retain Business

- **Zone for industrial with a finer grain than is done currently**

Current zoning applies to large areas that contain a wide variety of conditions. It is suggested that zoning be examined around existing viable industrial flex and that smaller industrial areas be identified and reserved for retaining industrial use for existing facilities and future WCTU employment. In these identified areas zoning should perhaps be less broad than the current regulations, which allow a number of uses that are eroding the industrial character.

- **Buffer needed industrial from neighborhoods and other high traffic use that could cause conflict with truck traffic, noise issues and working hours.**

Upon identifying the areas where industrial flex is to be retained, create buffers as transition zones that allow the range of non-industrial businesses specified in the current ILC and LIT codes, such as the retail and service uses that could also interface with the edges of surrounding commercial and residential zones.

- **Make an Auto Row Designation separate from Tech land use – group with wholesale trade and distribution use, strip centers or buffer from tech and business park areas**

Automobile sales are a high value use for the city and the sales agencies tend to cluster together. They can group well with wholesale and distribution uses in areas with high visibility not needed by more industrial types of use. They are not as good a fit with professional, office, and high tech users. Because the zoning for tech areas also allows auto sales without any specification regarding location, any site can be converted to auto sales by right and lessen the potential for attracting new office uses. For this reason, it is suggested that actual areas be designated for auto sales rather than simply an inclusion in the code that is not site specific. This would encourage the clustering of auto-oriented businesses without producing conflict for other uses that are not inherently auto oriented. If done carefully, such areas can also act as land banking for more intensive uses if the auto-oriented uses become less viable over time.

Actions to Enhance Redevelopment

- **Adjust zoning for sites overtaken by non-industrial use to better match future employment and neighborhood trends**

There are sites currently zoned industrial that are now surrounded by non-industrial use and could be better used for more intense development. For these sites, the only option for owners is to lease to non-industrial uses or to redevelop. Some sites may now be appropriate for office use but cannot be feasibly redeveloped under existing height and use restrictions. Keeping in mind what has been suggested regarding reserving and retaining areas for industrial use, a careful re-evaluation of areas not so reserved could allow redevelopment for future office or tech use and such redevelopment can act as a buffer to more industrial or more residential use adjoining depending upon the character of the area.

An example might be a site in the LIT zone with has an existing obsolete industrial structure surrounded by retail and low-intensity office use. Such a site when redeveloped could accommodate live/work space, mixed-use office/retail, professional offices or tech uses, or a combination of these uses. The difficulty for such a site is that current limits preclude this intensity of redevelopment. As a result the owner is likely to lease to short-term business and non-industrial uses. A four-acre site could be programmed for 150 live/work units, 160,000 square feet of office, 100,000 square feet of office with another 30,000 to 40,000 square feet of retail, or a mix of these uses to match the conditions of the adjoining properties. This would convert an underused liability for the owner into a catalyst for future development.

- **Consider some conversion to residential buffers where adjoining residential areas and current use make industrial infeasible**

Where surrounding use is primarily residential and non-industrial uses predominate, it may be most useful to redevelop some sites into residential types that can act as a buffer between low-density neighborhoods and higher intensity office/tech. Medium-to-high density residential and office tech use are not in conflict and residential can act as an effective buffer that reinforces and preserves adjoining residential while providing residential opportunities for employees of the adjoining employment area.

- **Resolve zoning to allow very clear certainty for redevelopment.**

There is such a wide variety of uses allowed in the industrial zones that a user seeking a high quality employment area has no certainty that new use on an adjoining property will not be for low-density uses that may not be compatible. While areas are needed for all the retail and service uses included in the code, the uses are a grab-bag, with some that are compatible with future employment trends and many that are not. It is suggested that in areas where office tech uses are desired that many of the current allowed retail and services not related to business or services needed by business and employees be made conditional, and that purely auto-oriented services be allocated to other areas.

Actions to Create Conditions for New Business

- **Alter code for tech/professional office/FIRE areas in LIT, ILC and PLA areas so that they can be designed for amenities with retail, services, etc.**

Tech and office users favor different environments than do purely industrial users or wholesale and distribution users. Tech/office can exist in an environment with shared parking, retail and business services. They do not need industrial type street or parking standards and can appreciate a greater mix of uses. Amenities such as pedestrian-oriented development that includes cafes and restaurants, daycare services, dry-cleaners, banking or ATM facilities, software sales, and potentially even live-work space are feasible and attractive. Other tech users may want an "office park" type of environment that does not include auto-oriented uses but does have trails and open space, with limited business serving retail within the park.

- **Adjust height limits and floor area ratios in ILC and LIT to enable conversion to higher density employment**

The current height limits in ILC and LIT are too low for the financial feasibility of redevelopment. The PLA zones in this study allow six stories. The code should be re-examined and refined with regard to specific areas for redevelopment, and in identified areas for redevelopment to attract office/tech uses height limits and floor area ratios should be raised.

- **Setbacks – create differing standards for tech/office areas and industrial areas**

The setbacks required in industrial areas are inappropriate and unnecessary for office/tech uses. There is no reason for office buildings not to adjoin sidewalks, and less necessity for screening landscaping and other site mitigations seen in industrial areas designed aesthetically for passing

auto traffic. Large setbacks prevent the viability of mixed-use business by precluding a pedestrian environment that is inviting.

- **Truck streets vs. Ped Streets**

Industrial area streets are typically designed for large trucks, with standards requiring large rights of way without parking. These are unnecessary for tech and office uses and their associated retail and service businesses. It is suggested that street standards for tech/office areas approximate business district standards to allow on-street parking, pedestrian street width, pedestrian sidewalks (twelve to sixteen feet), pedestrian lighting and minimal building setbacks. The object of this is to create employment centers that have a distinct and identifiable sense of place, with pedestrian oriented amenities for employees.

The Individual Areas

- **Area A Upper Totem Lake**

Current Use: Automobile oriented 33 percent, services 17 percent, retail 9.6 percent, wholesale 9.3 percent, other uses minor

Buffer Uses: Retail, service automobile, minor tech use, residential where appropriate

Potential Actions: Possible auto row location along NE 124th Street with good freeway and arterial visibility and access

- **Area B1 405 Business Park**

Current Use: Technical 40 percent, professional 20 percent, Institutional 7.6 percent, wholesale 7.1 percent, retail 5.5 percent, stock from the 80's and 90's

Buffer Uses: Retail and service

Potential Actions: Area is mostly built out, but there may be opportunity for infill office and some opportunity for adjoining housing

- **Area B2 Parmac**

Current Use: Wholesale 19.7 percent, services 19.3 percent, manufacturing 14.3 percent, professional offices 9.6 percent, minor technical use, approximately 60 percent of stock from 1960's

Buffer Uses: Mostly residential built within the last 25 years

Potential Actions: This area represents a major redevelopment opportunity for the city with over 400,000 square feet of stock from the 1960's at very low floor area ratios. At the same time it includes a number of viable businesses in existing older stock. It is suggested that the

manufacturing and services zoning be retained but that the longer term planning focus engage redevelopment potential through a relaxation of height limits, setback standards, street standards and other aspects of purely industrial zoning. There are many retail and service uses that may be compatible here but the intent is not to allow typical one-story low cost buildings even if new. Higher density, higher intensity and mixed use is preferred. This is an area where live/work or higher density housing could act as a buffer between existing uses while the area transitions to higher density use over the time period of the PSRC projections (2030). The ultimate use of the area could be a new employment zone as suggested above. Because of the surrounding residential use this area has a high potential in the long term horizon for creating employment that would correspond directly to the residential communities surrounding it with pedestrian streets, retail mixed use and technical and professional employment.

- **Area C Norkirk**

Current Use Services 35 percent, wholesale 23 percent, automotive 15 percent, manufacturing 11 percent, most stock built in the 1980's

Buffer Uses: Mostly residential, with CBD6 commercial and small amounts of PLA 5c, 5d

Potential Actions: Consider some rezoning to uses such as live work or two story mixed use employment as buffer to reduce conflict between single family residential and existing vital services, wholesale and manufacturing uses

- **Area D Moss Bay**

Current Use: Manufacturing 30 percent, services 23 percent, wholesale 18 percent, office/professional/tech 14 percent

Buffer Uses: mixed between PLA 5e, 5d, 6d and 6f, and BC and residential

Potential Actions: On obsolete sites consider clustering office or mixed use, buffer residential by allowing some conversion of zoning, keep retail focused in one area to maximize its value and limit non-industrial uses in viable manufacturing and wholesale zones to preserve existing vital business.

- **Area E Rose Hill**

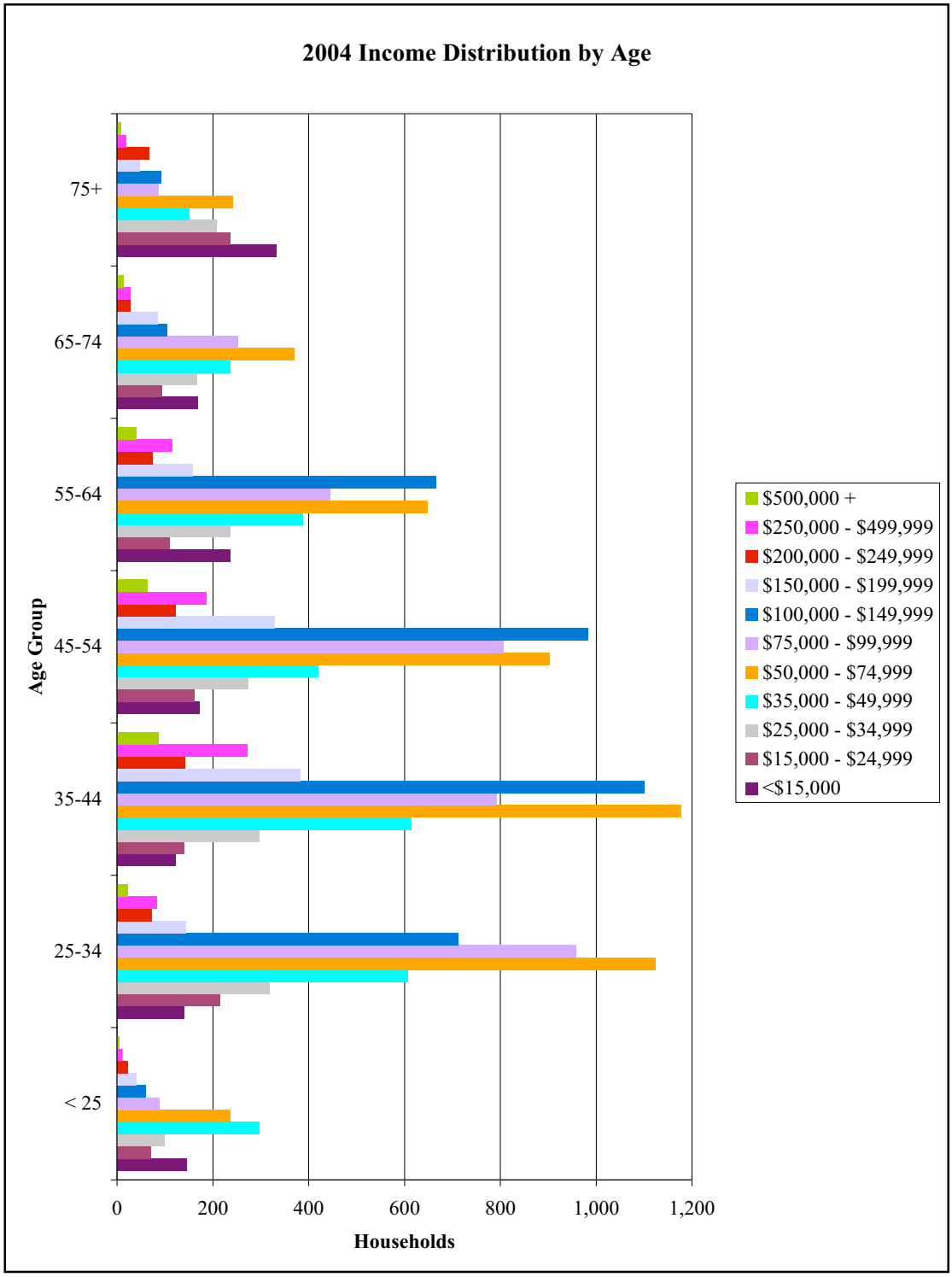
Current Use: Mainly Technical/professional at 76.7 percent.

Buffer Uses: Mostly retail and services

Potential Actions: Suggest rezoning to a new employment zone to allow intensification of major uses.

Appendix

Age By Income 2004
Zoning Codes in the Study Areas



Source: ESRIBIS

Zoning Code in the Study Areas

BC	Section 45.10
LIT	Section 55.15
ILC	Section 57.15
PLA 6G	Section 60.87
PLA 10B	Section 60.142
PLA 11	Section 60.152

Attach Sheets to Document

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A VIEW FROM CORPORATE AMERICA

THIRD EDITION

FINAL REPORT
SEPTEMBER 2002

I

INTRODUCTION AND METHODOLOGY

In 1996 and then subsequently in 1999, Development Counsellors International (DCI) conducted surveys of corporate executives to determine the "customer's perspective" on the most effective strategies and techniques in economic development marketing. **In 2002, DCI directed a follow-up survey to determine changes in the perceptions of corporate leaders in the United States.**

A random selection of 2091 companies with annual revenues of $100+ million was selected. The survey targeted executives with direct site selection responsibilities and was heavily weighted toward the following business titles: "Chief Executive Officer," "President," "Chief Financial Officer," and "Vice President." In addition, 158 U.S.-based site selection consultants were included in the survey sample.

Questionnaires were accompanied by a personalized letter from DCI's President, Andrew Levine, and were mailed to the survey audience.

Completed questionnaires were returned to DCI for processing. A total of 287 completed surveys were received. All surveys were edited for completeness and the responses to open-ended questions were coded. A copy of the questionnaire and cover letter can be found in Appendix A.

Every sample survey is subject to sample error, that is, the amount the actual data would be expected to vary from results that would be obtained if the entire population, as defined, were interviewed. The maximum expected sampling error for this study of 287 corporate executives is ±5.5% at a 95% confidence level. That is, if 100 samples were drawn from the same population of businesses, 95 times out of 100, the responses would vary 5.5 percentage points from what would normally be obtained if a complete census of the same businesses were conducted.

It is important to note this is a study of perceptions. A perception is an attitude, belief or impression and not necessarily a reflection of reality. Business executives have certain identifiable opinions and beliefs about doing business in the United States and Europe. Some of these perceptions may be accurate and some may be genuine misperceptions.

II

COMPARATIVE RATING OF INFORMATION SOURCES INFLUENCING PERCEPTIONS OF BUSINESS CLIMATES

In all three studies, the respondents were asked to select the "three leading sources of information" influencing their perceptions of a state or region's business climate. The 1996 study had 12 possible sources – *articles in newspapers and magazines, business travel, dialogue with industry peers, direct mail, meetings with economic development groups, national surveys, personal travel, print advertising, TV/radio advertising, TV/radio newscasts/shows, word of mouth and other.* In the 1999 and the current studies, *on-line sources* was added to this list.

In the recent study, the three leading sources of information overall were identified as:

- Articles in newspapers & magazines 62%
- Dialogue with industry peers 56%
- Business travel 47%

In fourth place, "word of mouth" follows at a distant 29%. "National surveys" and "Meetings with economic development groups" follow with 23% and 21%, respectively. The remaining sources listed were identified by 20% or less of the respondents.

The following table illustrates the findings of the 2002 survey.

Table 1:
LEADING INFORMATION SOURCES ON BUSINESS CLIMATE
(2002 Survey)

Sources	Respondents	Change since 1999
Articles in newspapers & magazines	62%	⟷
Dialogue with industry peers	56%	↓
Business travel	47%	⟷
Word of mouth	29%	↑
National surveys	23%	↓
Meeting w/ economic development orgs.	21%	↓
TV/Radio newscasts/shows	14%	↑
Personal travel	14%	↑
Other	14%	↑
On-line sources	9%	⟷
Print advertising	4%	⟷
Direct mail	2%	⟷
TV/Radio advertising	0%	⟷

These results when compared to the 1996 and 1999 responses show significant changes. **As the table below demonstrates, while U.S. corporate executives remain steadfast in the three leading sources information influencing their perceptions of an area's business climate, the relative importance of these sources has shifted.** "Articles in newspapers in magazines" has moved into first place for the first time.

Table A:
COMPARATIVE INFORMATION SOURCES
(20002 v. 1999 v. 1996 Surveys)

Sources	**2002**	**1999**	**1996**
Articles in newspapers & magazines	62%	61%	60%
Dialogue with industry peers	56%	71%	68%
Business travel	47%	45%	52%
Word of mouth	29%	21%	24%
National surveys	23%	31%	34%
Meeting w/ economic development orgs.	21%	27%	24%
TV/Radio newscasts/shows	14%	7%	4%
Personal travel	14%	8%	21%
Other	14%	8%	15%
On-line sources	9%	9%	-
Print advertising	4%	3%	4%
Direct mail	2%	3%	1%
TV/Radio advertising	0%	1%	0%

It is important to note that although "articles in newspapers and magazines" moved into first place, the percentage of executives to choose this source remained stable. "Dialogue with industry peers," in the number 2 spot, dropped significantly from its high point at 71% in 1999 to only 56% in 2002. "National surveys" also dropped significantly, from a high of 34% in 1996 to a 23% rating. **"On-line sources" which was expected to gain in importance, instead garnered the same percentage of responses in 2002 as in 1999, 9%.**

III

COMPARATIVE RATING OF MARKETING TECHNIQUES

The respondents were asked to rate the effectiveness of eight marketing techniques used as a means of reaching corporate leaders considering a new site location. These techniques, frequently used in economic development marketing, were rated on a 1 to 5 scale, where 1 equals "poor" and 5 equals "excellent."

When combining the percentage of responses which were either a "4" or a "5", "planned visits to corporate executives" received 53%. This technique also received the highest rating in the 1996 and 1999 studies. In the 2002 study, the ratings were as follows:

TABLE 2:
MOST EFFECTIVE MARKETING TECHNIQUES
(% Rating 4 or 5 on a 5-point scale)
(2002 Survey)

Technique	Percentage	Change since 1999
Planned visits to corporate executives	53%	⇧
Public relations/publicity	40%	⇔
Hosting special events	37%	⇔
Internet/Web site	34%	⇔
Direct mail	33%	⇧
Trade shows	32%	⇩
Advertising	21%	⇔
Telemarketing	4%	⇔

Once again, U.S. data from the 1999 study and the original 1996 data were used to draw comparisons with the most recently collected. The following table illustrates this comparison.

Table B:
COMPARATIVE MARKETING TECHNIQUES
(% Rating 4 or 5 on a 5-point scale)
(2002 v. 1999 v. 1996 Surveys)

Techniques	2002	1999	1996
Planned visits to corporate executives	53%	46%	53%
Public relations/publicity	40%	38%	39%
Hosting special events	37%	42%	39%
Internet/web site	34%	37%	18%
Direct mail	33%	25%	25%
Trade shows	32%	45%	39%
Advertising	21%	19%	19%
Telemarketing	4%	6%	7%

It is noteworthy that "public relations/publicity" moved up in the ratings, returning to the number 2 spot it held in 1996. "Internet/website" moved from the number 5 spot to number 4, though with a slightly smaller percentage than it had in 1999 (34% v. 37%). "Trade shows" lost ground since our last study, losing 13 percentage points and falling to sixth place.

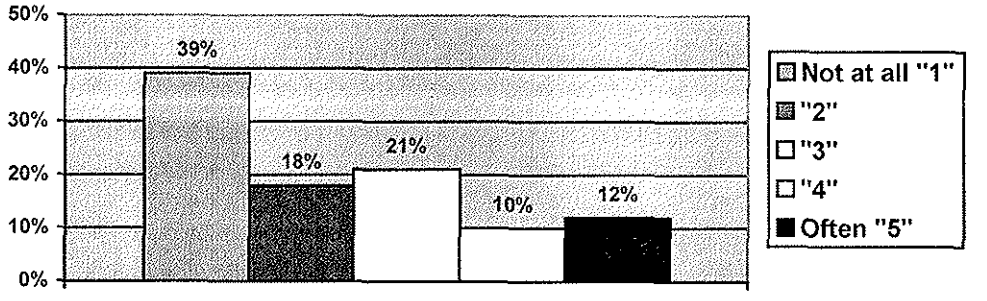
IV

THE INTERNET'S ROLE IN CORPORATE SITE SELECTION

The respondents were asked how often the Internet was used as a source for information in their last site search. A scale of 1-5, where 1 equals "Not at all" and 5 equals "Often," was used. **A lower than expected, twenty-two percent indicated either "4" or "5" in response to this question.**

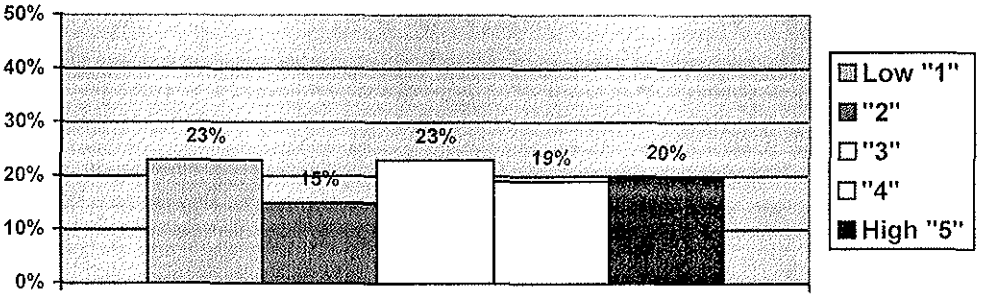
The breakdown of all responses follows.

Chart 1:
USE OF THE INTERNET DURING SITE LOCATION SEARCHES



Respondents were also asked the **likelihood of visiting an economic development organization's website during their next site location search.** Thirty-nine percent answered "4" or "5", on a scale from 1 to 5, where 1 equals "low" and 5 equals "high." The following chart summarizes all responses.

Chart 2:
LIKELIHOOD THAT AN ECONOMIC DEVELOPMENT ORGANIZATION'S WEBSITE WOULD BE VISITED DURING NEXT SITE SEARCH



Respondents were presented with a list of twelve features that are commonly included in the design of an economic development organization's website:

- *directory of available buildings & sites,*
- *list of leading local employers,*
- *demographic information (e.g. population size, average income, age distribution),*
- *information on local schools (including colleges and universities),*
- *information on available incentives,*
- *news section that describes current developments,*
- *testimonials from local companies,*
- *photos/maps of the community,*
- *information on quality of life (e.g. residential neighborhoods/ recreation options),*
- *information about the community's target industries,*
- *current comparisons to competitor locations (e.g. cost comparisons) and*
- *website sitemap.*

Survey participants were asked to select the features that are most important to the usefulness of the website.

The top three responses were:

- Information on available incentives 78%
- Demographic information 75%
- Directory of available buildings & sites 61%

All responses are presented on the following page.

TABLE 3:
MOST USEFUL FEATURES OF AN ECONOMIC DEVELOPMENT ORGANIZATION'S WEBSITE
(% of respondents who selected each feature)
(2002 Survey)

Feature	2002
Information on available incentives	78%
Demographic information	75%
Directory of available buildings & sites	61%
Current comparisons to competitor locations	45%
List of leading local employers	44%
Information on the community's target industries	30%
Information on quality of life	28%
Information on local schools	25%
Photos/maps of the community	21%
News sections that describes current developments	17%
Testimonials from local companies	16%
Website sitemap	9%

These questions were not asked in previous surveys, therefore comparative data is not available.

V

REGIONAL RANKING OF BUSINESS CLIMATES

The survey once again included an opportunity for the respondents to rate regional business climates in the United States. A map of the U.S. (see sample survey in Appendix A) divided the country into six regions – Northeast, Midwest, Mountain West, Pacific, Plains and South.

Using a 1 to 5 scale (1 equals "poor;" 5 equals "excellent,") the respondents were asked to rate their opinions of the business climate of each region. The following table provides the responses for the participants of this survey. The number in parentheses after each percent indicates the rank order of the region.

Table 4:
PERCEIVED BUSINESS CLIMATES OF U.S. REGIONS
(% Rating 4 or 5 on a 5-point scale)
(2002 Survey)

Business Climates	Aggregate
South	71% (1)
Midwest	52% (2)
Plains	37% (3)
Mountain West	33% (4)
Pacific	32% (5)
Northeast	27% (6)

While the South and Midwest remain in the top two spots overall, the Plains region moved into third in the 2002 study. The Mountain West region moved up in the rankings, while the Pacific region fell to fifth place. The Northeast retained its sixth place position.

The chart on the following page shows changes over time.

WINNING STRATEGIES IN THE ECONOMIC DEVELOPMENT MARKETING GAME

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EXECUTIVE SUMMARY

Development Counsellors International (DCI) conducted a third survey of corporate executives with site location responsibilities to measure trends in the most effective strategies and techniques in economic development marketing. The seminal report "*Winning Strategies in the Economic Development Marketing Game*" was presented in 1996, and was based on the responses of 173 senior executives (chief executive officers, presidents, vice presidents and corporate real estate executives) from U.S. companies. A follow-up report, "*Prospects for the New Millennium: Winning Strategies in the Economic Development Marketing Game*" was completed in 1999 and included business leaders from the United States and Europe.

In the current study, "*A View from Corporate America: Winning Strategies in the Economic Development Marketing Game,*" only U.S. executives are included. The following summary is based on the aggregate responses of 287 business leaders.

As in the previous study, the respondents represent senior level executives from companies with over $100 million in annual gross revenue.

Key findings:

1. **For the first time, *"articles in newspapers & magazines"* surpassed *"dialogue with industry peers,"* as the leading source of information influencing the executives' perceptions of a state or region's business climate.** "*Business travel*" was selected as the third most influential source of information.

2. "*Planned visits to corporate executives,*" "*public relations/ publicity,*" and "*hosting special events*" received the highest ratings among all economic development marketing tools.

3. **Forty percent of respondents indicated a strong likelihood that they would use an economic development organization's website in their next site location search.** The executives named "*information on available incentives,*" "*demographic information*" and "*directory of available buildings & sites*" as the most useful features of an economic development organization's website.

4. **The South continued to be rated as the region with the most favorable business climate in the United States.** The Pacific region experienced a significant drop in the business climate rating.

5. When asked to list the most favorable business climates among the 50 states, **Texas, North Carolina and South Carolina received the highest tally (in order of selection).**

6. The least favorable rating of business climates among the U.S. states was given to California, New York, and Massachusetts.

7. **The United Kingdom was perceived as having the most favorable business climate among 17 countries in Western Europe, followed by Ireland and Germany.**

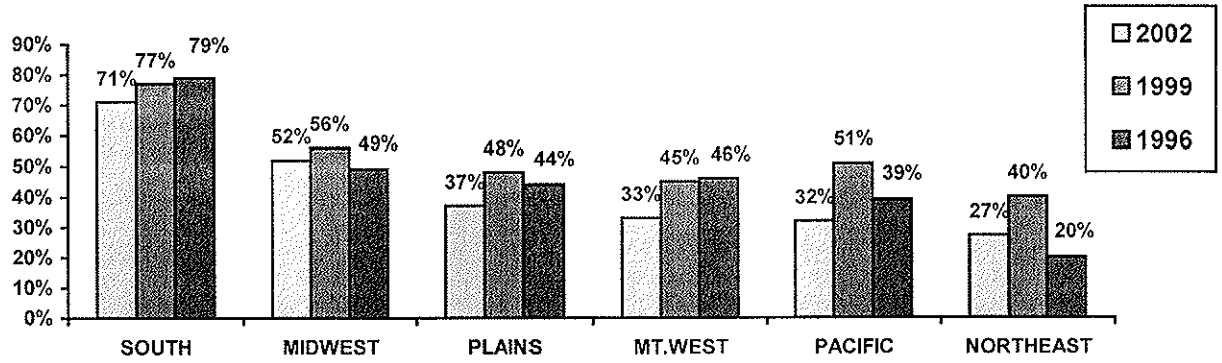
8. Overall, France was considered to have the least favorable business climate in Europe, followed by Germany (as already noted, also selected among the best business climates in Europe) and Italy.

9. Sixty-three percent of the respondents indicated having worked with economic development organizations. These organizations were viewed favorably by the majority of respondents.

10. "Information/assistance in obtaining financial/tax incentives" was identified as the most important service provided by economic development groups. This was followed by "general information about the community," "information/assistance with workforce/training resources," and "contact/coordination with local authorities/ elimination of "red tape."

11. **When asked to identify the most likely candidate for their company's next move or expansion, *"manufacturing/production plant,"* was the most common response.** This was followed by *"corporate, division or regional headquarters," "distribution center"* and *"regional sales office or service center."* When compared with the 1999 survey, the current findings reflect a strong shift away from regional sales or service facilities.

Chart 3:
PERCEIVED BUSINESS CLIMATE COMPARISON
(% Rating 4 or 5 on a 5-point scale)
(2002 v. 1999 v. 1996 Surveys)



U.S. executives continued to rank the South and the Midwest favorably with these two regions remaining in the first and second places respectively over the course of the six years since 1996. Corporate leaders in this study continue to have strong impressions of these regions, particularly in the South, as a good place to do business.

It is also worth noting the fall in the Pacific region's rating. After gaining 12 percentage points between 1996 and 1999, it lost 19 percentage points in 2002.

The chart above also reveals a slight downward movement in perceptions of every region's business climate. No region scored higher in 2002 than in 1999 and only two, the Northeast and the Midwest scored higher in 2002 than in 1996. This may be attributed to current uncertainties about the U.S. economy as a whole.

VI

FAVORABILITY RATINGS OF U.S. STATES

Most Favorable Rating

When asked to list the states that are perceived as having the most favorable and least favorable business climates among the 50 states, the corporate respondents' answers varied. **Overall, Texas was mentioned as having the most favorable business climate, followed by North Carolina and South Carolina.** Florida and Georgia rounded out the top five. The percentage rating was:

1. Texas 25%
2. North Carolina 20%
3. South Carolina 18%
4. Florida 18%
5. Georgia 15%

When compared to the 1999 survey, California is the only state to be dropped from the top 5. The table on the following page shows the comparisons of the 2002 data with 1999 and 1996.

Table C:
MOST FAVORABLE BUSINESS CLIMATE
(2002 v. 1999 v. 1996 Surveys)

2002	1999	1996
Texas (25%)	Texas (30%)	North Carolina (33%)
North Carolina (20%)	California (22%)	Texas (28%)
South Carolina (18%)	North Carolina (20%)	Georgia (27%)
Florida (18%)	Georgia (17%)	South Carolina (21%)
Georgia (15%)	Florida (14%)	Tennessee (20%)

Appendix B shows the number and percentage of respondents for all U.S. states.

Least Favorable Rating

Negative perceptions of California's business climate have increased substantially among corporate executives. While in 1999, about 25% of U.S. executives named California as having a "least favorable" business climate, in 2002, 57% named California in this category. Overall in 2002, California, New York, and Massachusetts were rated the three least favorable business climates.

The states judged to have the least favorable business climates were:

1. California 57%
2. New York 36%
3. Massachusetts 18%
4. New Jersey 15%

The ratings among the remainder of the states were quite diffuse. A fifth place state could not be ascertained accurately.

There is little movement among the ranking of the least favorable states when comparing the 2002 study with the 1999 and 1996 studies. New York and California switch first and second places in 2002. For the first time, Connecticut fell out of the top 5 in 2002.

Table D:
LEAST FAVORABLE BUSINESS CLIMATE
(2002 v. 1999 v. 1996 Surveys)

2002	1999	1996
California (57%)	New York (29%)	New York (55%)
New York (36%)	California (25%)	California (47%)
Massachusetts (18%)	Massachusetts (19%)	New Jersey (20%)
New Jersey (15%)	New Jersey (14%)	Massachusetts (19%)
	Connecticut (10%)	Connecticut (9%)

Appendix B shows the number of answers and the percentage of respondents for all U.S. states.

VII

FAVORABILITY PERCEPTIONS OF BUSINESS CLIMATE IN EUROPE

The 1999 survey introduced the question rating business climate favorability among 17 western European countries. The 17 countries were:

- Austria
- Belgium
- Denmark
- Finland
- France
- Germany
- Greece
- Ireland
- Italy
- Luxembourg
- The Netherlands
- Norway
- Portugal
- Spain
- Sweden
- Switzerland
- United Kingdom

In 2002, the question was repeated.

Most Favorable Rating

The rating among the respondents was very strong, with 68% citing the United Kingdom as having the most favorable business climate. Ireland followed with 46%. The list below gives the top five European countries rated with a most favorable business climate.

1. United Kingdom 68%
2. Ireland 46%
3. Germany 36%
4. Spain 29%
5. The Netherlands 23%

These responses mirror the responses from 1999. Once again, the U.K. was considered as having the most favorable business climate. The table presented on the following page shows how consistent executives' opinions of European business locations have been.

TABLE E:
MOST FAVORABLE EUROPEAN BUSINESS CLIMATE
(2002 v. 1999 Surveys)

2002	**1999**
United Kingdom (68%)	United Kingdom (65%)
Ireland (46%)	Ireland (52%)
Germany (36%)	Germany (36%)
Spain (29%)	Spain (32%)
The Netherlands (23%)	The Netherlands (24%)

Least Favorable Ratings

Sixty-three percent of respondents consider France to have the least favorable business climate among the European countries; this represents a spike in France's negative rating, which in 1999 was only 47%. Germany, which is also considered as having a most favorable business climate, follows with 34%. Italy with 32% and Greece with 28% round out the list. The remaining responses were very diffuse. A fifth place country could not be ascertained accurately. The list below provides a breakdown of responses.

1. France 63%
2. Germany 34%
3. Italy 32%
4. Greece 28%

When compared to the responses from the U.S. corporate executives in 1999, these responses show a change in the ordering of the countries, though the list remains the same. Once again, France was considered as having the least favorable business climate. The table below shows the change in U.S executives' opinions of European business locations.

TABLE F:
LEAST FAVORABLE EUROPEAN BUSINESS CLIMATES
(2002 v. 1999 Surveys)

2002	1999
France (63%)	France (47%)
Germany (34%)	Greece (39%)
Italy (32%)	Italy (35%)
Greece (28%)	Germany (29%)

Appendix C shows all European states and the number of responses garnered for "most favorable" and "least favorable" business climate.

VIII

PERCEPTIONS OF ECONOMIC DEVELOPMENT ORGANIZATIONS: A COMPARATIVE VIEW

Overall, 63% of the respondents indicated having worked with economic development (ED) organizations.

Respondents were also asked to rate their overall impression of economic development organizations with whom they have worked. Using a 1 to 5 scale (1 equals "not favorable;" 5 equals "highly favorable"), about 53% of the business leaders in the current study selected a "4" or "5" rating which indicates a most favorable response to working with ED groups.

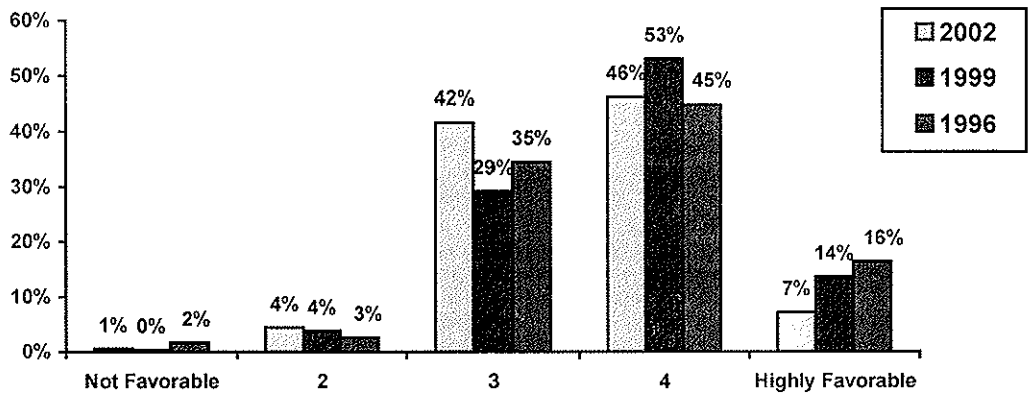
The following table provides a breakdown of the 2002 results to this question.

Table 5:
OVERALL IMPRESSIONS OF ED ORGANIZATIONS
(2002 Survey)

Rating	Respondents
Highly favorable "5"	7%
"4"	46%
"3"	42%
"2"	4%
Not favorable "1"	.6%

The chart below compares how U.S. corporate executes rated economic development organizations in 1996, 1999 and 2002.

Chart 4
RATING COMPARISON:
CORPORATE IMPRESSIONS OF
ECONOMIC DEVELOPMENT ORGANIZATIONS
(2002 v. 1999 v. 1996 Surveys)



When asked the open-ended question "*In a typical site location search, what is the most important thing an economic development organization could do for you or provide to you?*" the responses were varied. Frequent responses included:

- Information/assistance in obtaining financial/tax incentives 54%
- General information about the locale, including available sites 29%
- Information/assistance with workforce/ training resources 12%
- Contact/coordination with local authorities; elimination of "red tape" 11%

An accounting of all responses is provided in Appendix D.

IX

FACILITY MOST LIKELY TO BE INVOLVED IN THE NEXT SITE SELECTION DECISION

As in the1999 and the 1996 studies, survey participants in 2002 were asked: "*The next time you move, expand, consolidate or add a new facility, which of the following would be the most likely candidate for such a change?*" Respondents were asked to choose one from the following list of options:

- Corporate, division or regional headquarters
- Manufacturing/production plant
- Regional sales office or service center
- Distribution center
- Back office facility (financial services, data processing or telemarketing center)
- Other

Overall, 44% of the respondents selected manufacturing or production plant as the most likely candidate for the next corporate change. This was followed by 19% choosing corporate, division or regional headquarters and 15% favoring distribution centers. The following table provides a breakdown of all responses.

Table 6:
NEXT CHOICE FOR CORPORATE FACILITY CHANGE
(2002 Survey)

Facility	Respondents	Change since 1999
Manufacturing/production plant	44%	⇧⇧
Corporate, division or regional headquarters	19%	⇔
Distribution center	15%	⇧
Regional sales office or service center	14%	⇩
Back office facility	8%	⇩
Other	7%	⇔

When compared to the 1996 and 1999 studies, the current findings reflect a dramatic shift back towards manufacturing facilities. In 1999, manufacturing/production plant facilities decreased 17%, moving into third place.

Another significant change is that regional sales office or service center falls to fourth place in 2002. It had been rated first among the six choices in 1999, up from third place in 1996.

Table G:
COMPARATIVE CHOICES FOR FACILITY CHANGES
(2000 v. 1999 v. 1996 Survey)

Facility	2002	1999	1996
Manufacturing/ production plant	44%	20%	37%
Corporate, division or regional headquarters	19%	21%	22%
Distribution center	15%	10%	8%
Regional sales office or service center	14%	28%	17%
Back office facility	8%	14%	13%
Other	7%	8%	3%

X

DEMOGRAPHIC PROFILE OF RESPONDENTS
(2002 Survey)

Business Type

Manufacturing	60%
Non-manufacturing	40%

Gross Revenue

$500+ million	43%
$250-499 million	21%
Less than $250 million	36%

XI

A WORD ABOUT DCI

DCI is the only firm that specializes exclusively in all phases of economic development marketing. Since 1960 DCI has served clients in both the U.S. and abroad including 35 U.S. states, 23 countries, six Canadian provinces and more than 100 regions and communities.

Our areas of expertise include:

- Editorial Placement/Public Relations
- Direct Mail/Telemarketing
- Special Events
- Corporate Executive/Media Audits
- Sales Literature
- Prospect and Site Selector Meetings
- Marketing Blueprints
- Themeline Development
- Tourism Development

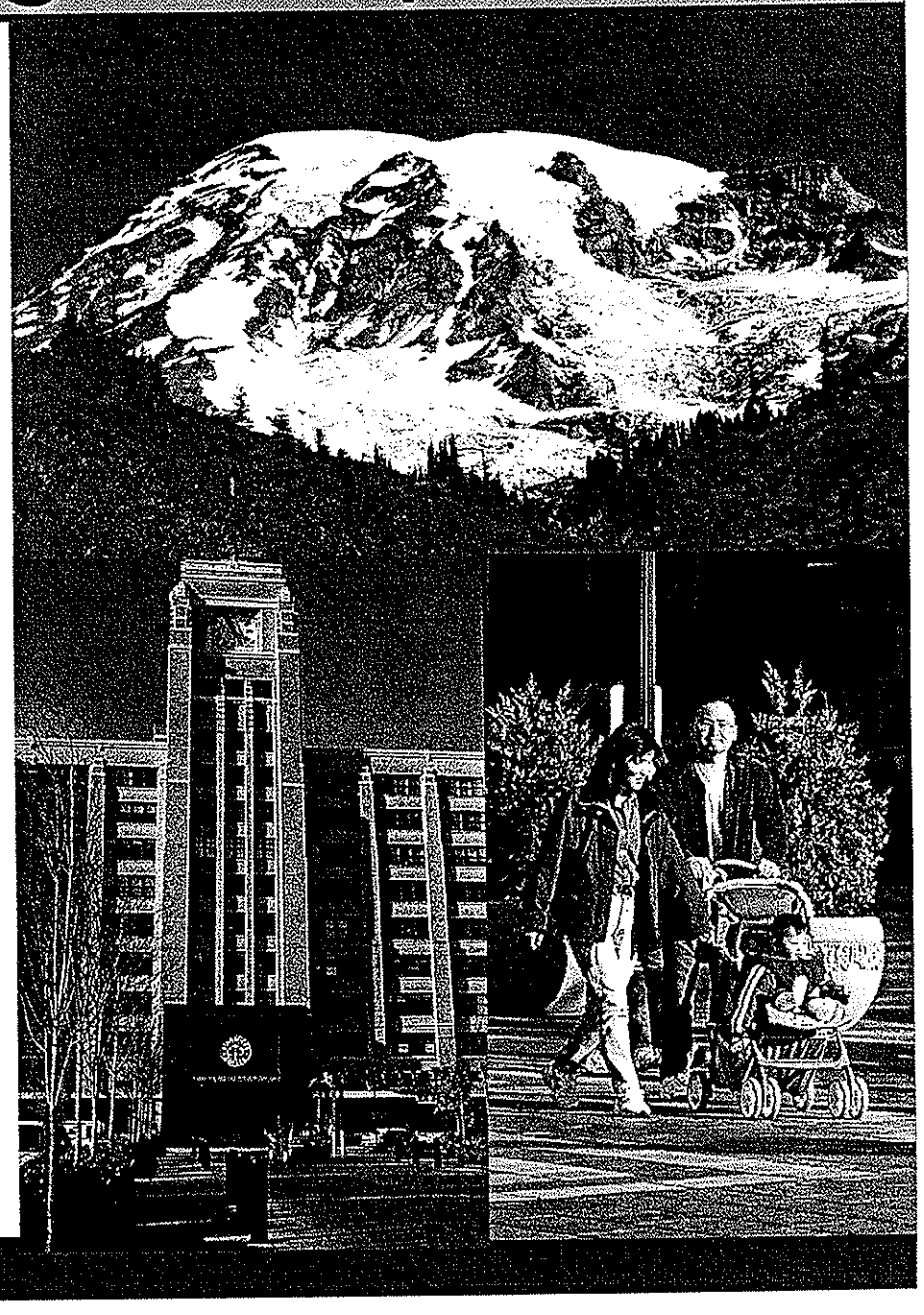
Located in the media capital of the world, DCI has worked with more economic development groups than all other marketing agencies combined. The firm also has frequently formed alliances with local advertising, public relations and marketing agencies providing specialized, economic development input.

The Changing Economic Situation

- The way the world does business is changing
- Regions have emerged as the basis for global competition for jobs and resources
- Many of the world's most prominent companies can be headquartered anywhere on the globe
- Businesses will locate where there is a high quality of life, good infrastructure and supportive government policies

Six Guiding Principles

1. People living here have good jobs and earn good incomes
2. Jobs are created by businesses
3. Embracing our region's diversity is good for business
4. The region has vibrant cities and thriving communities
5. The region has a healthy and beautiful environment and a good quality of life
6. Regional collaboration on a shared economic agenda ensures our region's long term, sustainable economic prosperity



Work Program

- Coalition Building
  - 7 Co-chairs
  - 125+ Partner Organizations
  - 3,500+ Communications/Email Network

- Strategy Development
  - Understanding our strengths and weaknesses
  - Identifying our best economic opportunities and changes required to succeed
  - A commitment to taking action
  - 5 Pilot Clusters, with 27 action teams
  - 6 Foundation Initiatives

The Strategy: A Two Pronged Approach

Cluster Approach

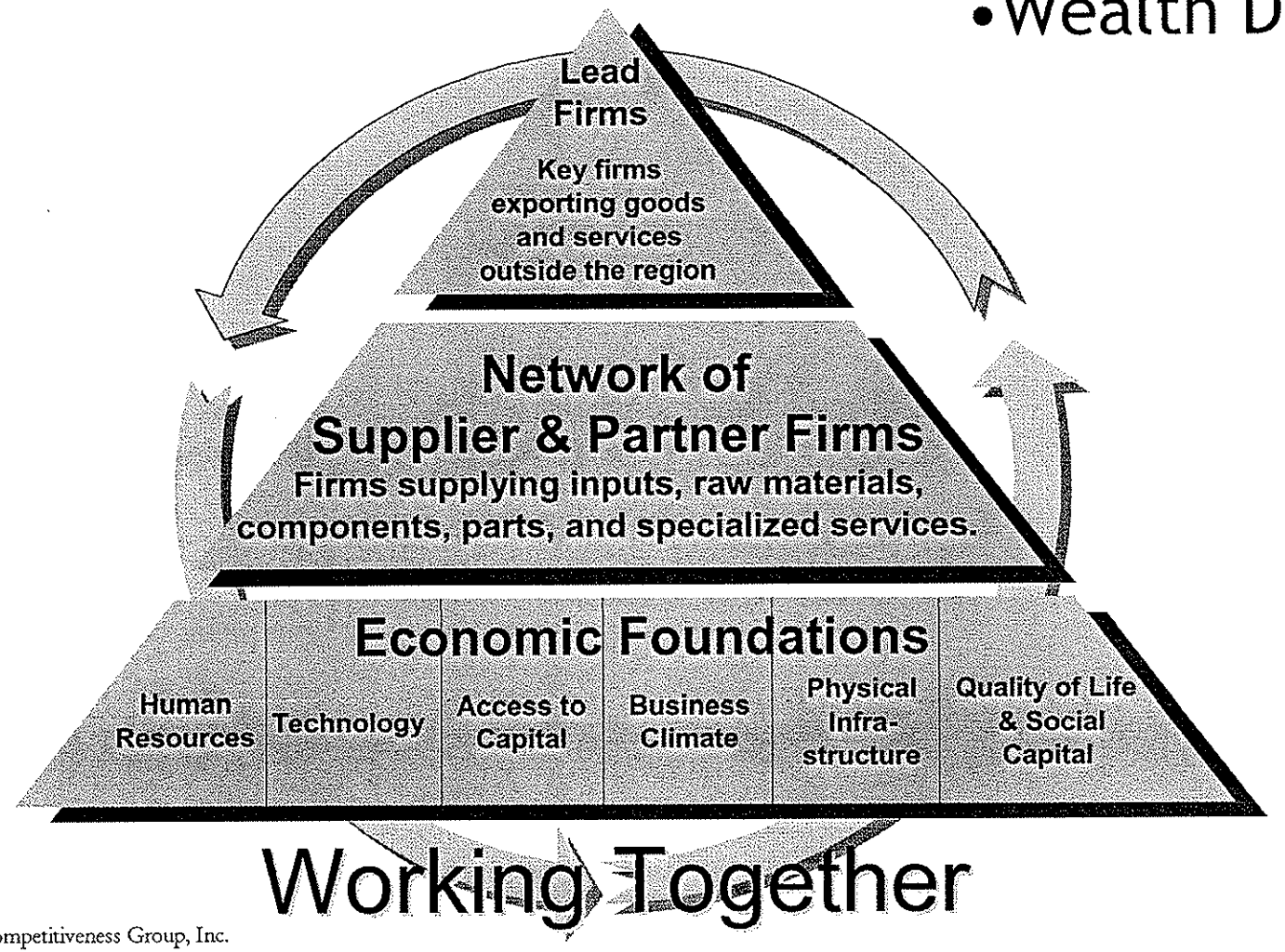
1. Examining the unique needs of individual clusters and collaborating regionally to meet those needs *(new way of looking at economy)*

Foundation Approach

1. Improving the regional economic foundations common to all clusters and the local-serving economy to meet the changing needs of the market *(new way of working together on major issues)*

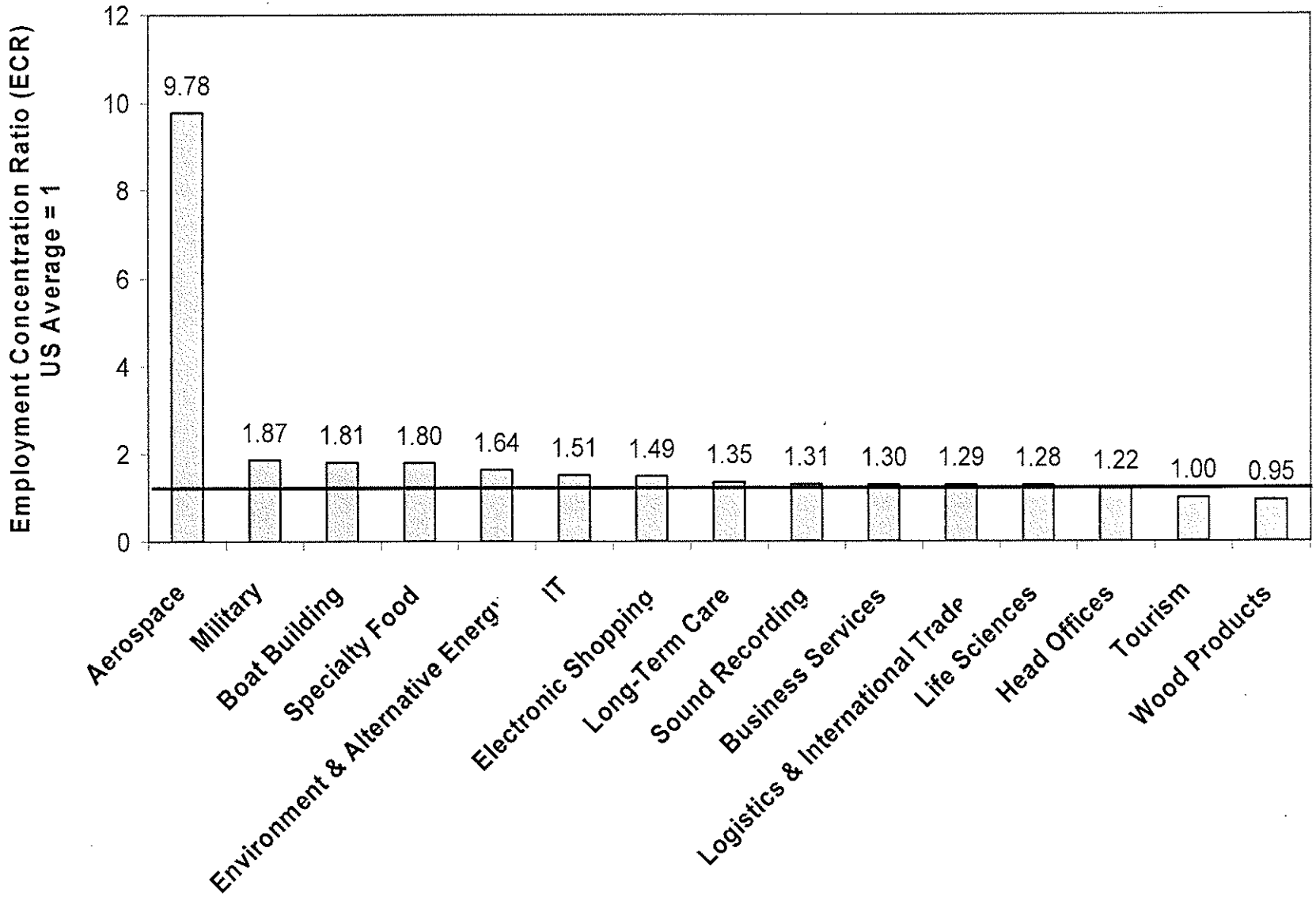
What Is a Cluster?

- Export-Oriented
- Wealth Drivers

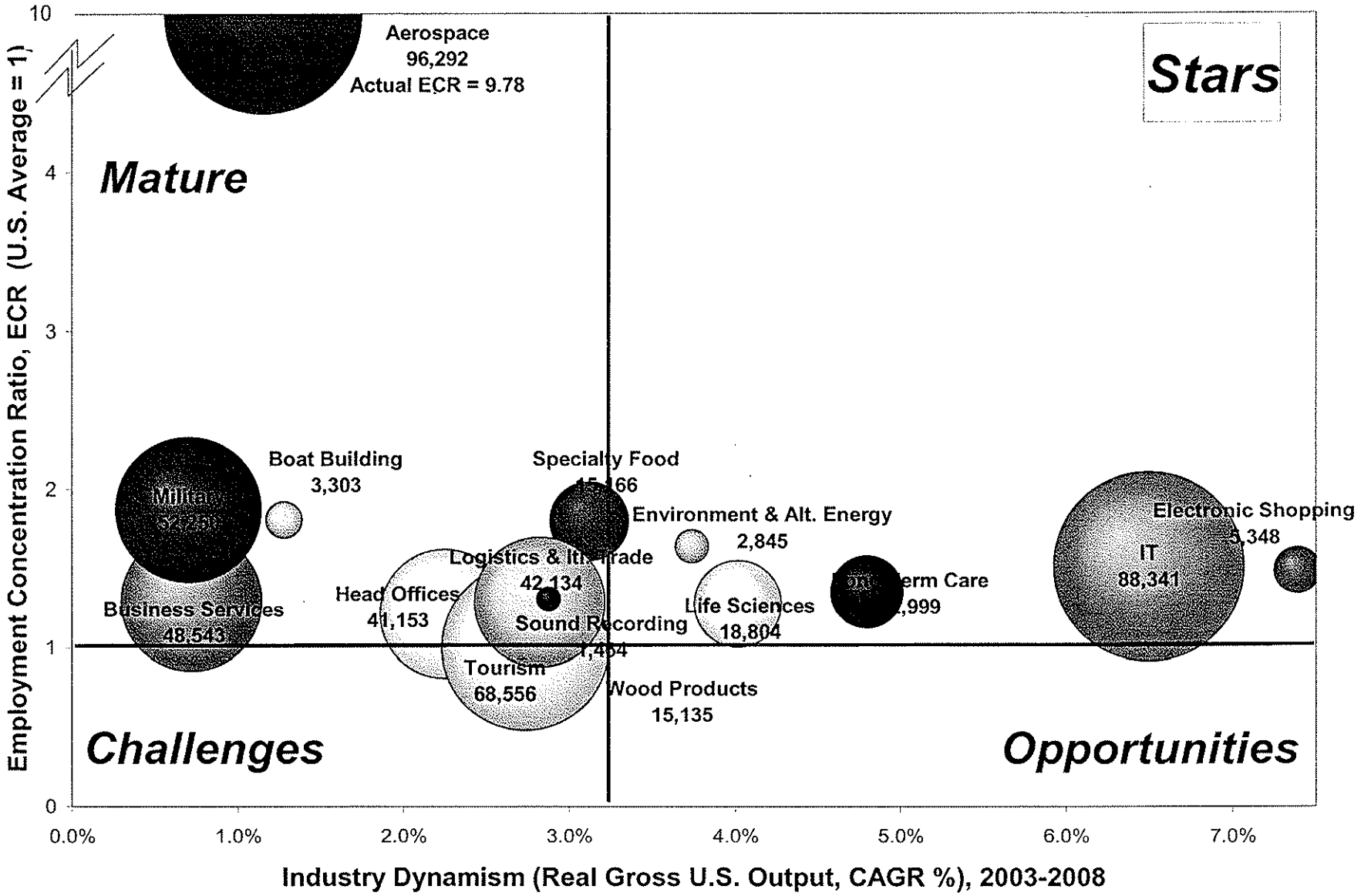


2001 Economic Competitiveness Group, Inc.

Region's Economic Structure – 15 Clusters at or above average



Puget Sound's Clusters



Technology-Led Economic Development

What Companies Seek from Communities
Tools to Respond

Presented to: American Planning Association
Presented by: Dr. Rhonda Phillips, CED, AICP, rhondap@ufl.edu
Director, Center for Building Better Communities
University of Florida, http://web.dcp.ufl.edu/urp/

Small town tech

- Biotech in the back 40…can small communities compete for tech-based economic development?

Goals:

- 1. Review the "site selection" factors tech companies use
- 2. Present a response communities can develop

1. What Tech Companies Seek from Communities

- 12 factors that influence technology business locations.
  - A. Government and Public Policy
    - Interaction and relationship between public and private sectors; support for research institutions;
    - Look at examples of combinations of government policy and private sector cooperation….

B. Workforce

VIRGINIA BIOTECHNOLOGY CENTER

- Adequate supplies of high-skill labor biggest challenge facing tech
- Skills, costs, productivity, and education are evaluated simultaneously

C. Geographic Location and Industry Clusters

- Clusters offer benefits – urban advantage, yet…
- Also academic/research facilities
- Example: DeLand, FL for biotech manufacturing

- D. Transportation
  - Express delivery, air freight important
  - Most prefer locations within 60 to 90 minutes of a major hub airport
- E. Taxes and Incentives
  - Simple business/personal tax structure locations preferred
  - Can be tie-breakers, all other factors being equal

F. Telecommunications Infrastructure

- Essential for most tech companies
- Fiber-optic at minimum
- Redundant connections
- Example: LaGrange, Georgia

- G. Educational Institutions, Research Centers, Training Facilities
  - Preparing the workforce
  - Availability of sites
  - See Paducah, KY example
- H. Community Responsiveness
  - Like to move quickly through the site selection process
  - Flexibility

- I. Utilities
  - Uninterrupted power supply crucial to most
  - Sufficient capacity
  - See Littleton, CO's three levels of infrastructure approach
- J. Building and Site Requirements
  - For those without stringent requirements, quickly available leasable space is preferred
  - First to market syndrome

- K. Quality of Life
  - Subjective, but very real
  - Cultural/recreational (again, the university link); affordable and attractive housing; medical services; climate
- L. Local Government's Influence
  - Can significantly influence tech companies
  - Like to see "community improvement" mentality

2. Tools to Respond

- 3 Categories of "tools"
  - 1. Policies and regulations
  - 2. Financial and nonfinancial incentives
  - 3. Real estate and facilities

Modifying the "typical" development approach

- The TRIAD:
  - 1. Recruitment of external economic activities
  - 2. Retention and Expansion of existing firms
  - 3. Indigenous entrepreneurship

TED Category	Recruitment	Retention and Expansion	Indigenous Entrepreneurship
(1) Policy/Regulatory	Regulatory environment supportive of technology business	Ensure that local policy or regulatory environment is not hindering success of existing businesses	Small business development assistance programs; workforce training and skill development
(2) Financial/Incentive based	Financial incentives are particularly relevant when technology companies are starting out.	Make incentives available for existing businesses	Incentives available for new start-up technology firms,
(3) Real estate based	Technology parks typically offer advanced telecommunications infrastructure as well as other benefits	Survey current and future space needs of technology businesses	Technology business incubator programs to foster start-up and growth of new technology businesses,

Structuring the Response

- Before *any activity* – a TECHNOLOGY AUDIT

The Technology Audit

- Typically includes:
  - Local and regional economy analysis
  - Inventory of existing industries and their needs
  - Assessment of physical and knowledge infrastructures
  - Identify competitive strengths (and weaknesses)
  - Catalogue of supporting programs, policies, organizations

Audit • • Technology Plan

- Local government and nonprofit organizations
- Audit provides information to construct the plan of action
  - Target industries
  - Programs to develop, etc.

Inspirations

- Small town tech
  - Winchester, VA
  - Clallam County, WA
  - Alachua, FL

Resources

- Phillips and Robert Pittman. *Technology-Based Economic Development*, IQ Report Vol. 34/No. 5, May 2002. ICMA (http://bookstore.icma.org)
- Phillips. *Evaluating Technology-Based Economic Development, Gauging the Impact of Publicly-Funded Programs and Policies,* The Edwin Mellen Press, 2003 (www.mellenpress.com)
- State Science and Technology Institute, www.ssti.org

LEASING ISSUES WITH TECHNOLOGY INTENSIVE TENANTS

Summary: Various lease issues frequently arise in leases to tenants whose business is involved with or relies heavily upon technology, such as:

- **Credit enhancements when leasing to dot.coms and Startups:** These tenants often have a very short operating history, low capitalization, and weak credit. As a result, landlords generally require a high level of security for the Lease and are sometimes more restrictive in various lease provisions than they normally would be with other tenants. Also, some landlords are requesting (and obtaining?) portfolio liens. I have no experience with this type of security but you might call other attorneys in your network to learn more about this.

- **Infrastructure:** These technology intensive tenants often place a higher than normal burden on the electrical power and HVAC system of the building.

- **Building Burden:** Often the staff of the high technology tenant work very extended hours and/or multiple shifts. In addition, in order to keep their overhead low, these tenants often have a very high concentration of people within their premises – much higher than office tenants generally. The additional concentration of staff and the longer working hours place a much higher burden on the building. The burden is seen in areas such as bathroom supplies, accelerated wear and tear on the common area improvements (carpeting, wall coverings, etc.), and increased frequency of cleaning being required in common areas. In addition, with large numbers of people coming and going at all hours, frequently increased security is required. We will discuss the importance of anticipating this additional burden and the how to address the burden in cost reimbursements (to avoid spreading the additional cost to other tenants) and allocations of responsibility for tenant caused damage.

- **Flexibility**: These tenants desire great flexibility in their occupancy. They want options to expand, rights of first refusal, rights to terminate, etc.

- **Communications Equipment:** Frequently, these tenants require the right to bring in additional communications capabilities, sometimes including dedicated fiber optics, and including use riser space to route communications. Also, they often require the right to install antenna or satellites on the roof. In addition, these tenants need category 5 wiring, T1 and T3 lines, and fiber optics and conductivity. These tenants may also request the right to bring alternative telecommunications providers into the building.

Tousley Brain Stephens PLLC
700 Fifth Avenue, Suite 5600
(206) 682-5600

EASTSIDE BUSINESS March 2006

Business Development Center Established at UW Bothell

University of Washington Bothell Interim Chancellor Steven G. Olswang recently announced the establishment of the Business Development Center at UW Bothell. The center will provide assistance to small business clients with special focus on start-ups in emerging industries, existing companies seeking to leverage technology to develop their businesses and women- and minority-owned businesses.

"Like most areas, this part of the Puget Sound region is populated by small businesses providing necessary goods and services that make up approximately 80 percent of known employers. These small businesses often need technical assistance to grow. This is where the University of Washington Bothell (UWB) can help," Olswang stated.

The Business Development Center (BDC) will be an administrative unit of UWB's Business Program and will provide one-on-one business counseling on the Bothell campus. In addition, student consulting teams at UWB and at educational institutions partnering with the BDC will provide technical assistance to business owners. Partner institutions currently include Cascadia Community College, Edmonds Community College, Everett Community College, Lake Washington Technical College and Shoreline Community College.

Dr. Steve Holland, Professor and Director of the Business Program stated, "By engaging students in assisting with the growth and expansion of area businesses, the Center will simultaneously support student learning and contribute to economic development in the region."

Recognizing that such centers contribute to local and regional economic development, King County and the cities of Bothell, Kenmore and Woodinville committed funds to establish the BDC. According to the Small Business Administration, programs similar to this one have historically generated at least $3 in additional local tax revenue for every $1 of investment.

Manny Ocampo, Assistant City Manager and the City of Bothell's liaison to the Business Development Center said, "The City of Bothell is excited about partnering with the University of Washington Bothell in this vital economic development resource that will contribute to the quality of life. The Business Development Center is a catalyst for public, business and educational collaboration that will ensure this region continues to prosper and will only strengthen the overall community sustainability."

Walter Freytag, a faculty member in the UWB Business Program, will be directing the operations of the BDC. Dr. Freytag was instrumental in the development of an organization with a similar mission, the Bellevue Entrepreneur Center, and continues to serve as its Vice President. The BDC will also be closely allied with the highly successful Business and Economic Development Program at the University of Washington Seattle.

"Seeing first-hand the benefits that centers such as these bring to the area's businesses, including job creation and retention, is truly gratifying. Being able to bring these benefits to businesses in the north Puget Sound region is a great step forward," said Dr. Freytag.

The University of Washington Bothell campus was founded in 1990 to serve King and Snohomish counties and north Puget Sound area students seeking four-year degrees. UW Bothell offers degree programs in business, nursing, education, computing and software systems, and the interdisciplinary arts and sciences. With the Fall Quarter 2006, UW Bothell welcomes its first freshman class as it becomes a full four year university.

For further information about the Business Development Center and its services contact Walter Freytag at wfreytag@uwb.edu.

Netstar Communications, Inc.

Netstar is a telecommunications expense and inventory management company owned by Tony Cheng and his wife, MaryPat Theiler-Cheng. The company, located in Bellevue, helps businesses get more out of their telecom services with fewer headaches and a better bottom line. Netstar helps companies manage their telecom inventory and save money in the process. It works with their clients to design unique solutions single carriers can't offer. Netstar simplifies the process of purchasing and managing telecom accounts by providing a single point of contact for the business entity. They save clients significant amounts of money by leveraging their relationships with carriers and by applying their extensive knowledge of the telecom market. The company started in the Puget Sound area and now serves clients across the country.

Netstar was paired with City University School of Business and Management students. The students held different specialties in marketing, finance, and operations, and were tasked with developing a business plan for the company that will take them through the next two years. They worked directly with the Chengs, effectively functioning as senior consultants to the company. The experience was not only rewarding for the students, but also for the Chengs.

The outcomes were very positive. The firm experienced 25% growth in revenues in 2004. They are now focused on a website, brand development, a marketing plan, and customer management software. MaryPat concludes that "business owners tend to suffer from a sense of isolation; when you work with a student team you are challenged to dig deeper, get beyond your walls and think of many more ways of making progress." Tony adds that working with the student team "made it fun."

City University began participating in the BEC program last year. Currently, over 36 students participate, averaging 150 hours per team. Student teams focus on four core areas: management, project management, marketing, and accounting. Through this partnership students are able to build lasting relationships with business owners, often times resulting in a lifelong mentor, and business owners receive hands-on senior-level counsel on key aspects of their business. It's the perfect example of a win win learning opportunity.

Magellan Architects

Magellan Architects, located in Redmond, WA, was one person's dream to own their own business. Pedro de Magalhães Castro was born and raised in Rio de Janeiro. He attended Washington State University. Then, after assembling the right credentials and working for MulvanneyG2, an internationally recognized Bellevue firm, Pedro opened the doors of his own company, Magellan Architects, on February 1, 2001. Like a true start-up, Pedro started from scratch with a lot of knowledge about architecture but only a little knowledge about what it takes to run a business. A search for help led him to Corey Hansen, the Bellevue WSBDC business counselor. Corey suggested that Pedro also work with a student consulting team from the University of Washington-Bothell.

The team worked on a number of products including a market analysis, an identification of competitors, a phone survey to determine satisfaction with the firm's services, and special niches that the firm might pursue including biotech and environmentally sustainable architecture.

King County Business Journal reported that Magellan was the fourth fastest growing minority-owned business in the state of Washington. Pedro reports that his company is adding an employee every six months with the goal of a staff of ten people, including six architects and four support staff. To safeguard his investment from dot-com bombs and other unforeseen market downturns, Pedro's company is already diversified – currently work is distributed among residential (20%), retail (40%), schools (20%), and tenant improvement (20%) projects. Most important is to provide client-oriented services and solid quality design.

Bellevue Entrepreneur Center
227 Bellevue Way NE, PMB 355
Bellevue, WA 98004

Bellevue Entrepreneur Center

Annual Report 2004

The BEC welcomes ~
Victoria Van-Nguyen, Executive Director,
425-564-2548; 425-564-4023 - FAX
vvannguyen@msn.com
www.beconline.org

Meeting the Needs of Emerging Business

The Bellevue Entrepreneur Center accelerates the development of emerging businesses in culturally diverse communities on the Eastside. In partnership with local organizations the BEC assists with financing, marketing, and operations.

www.beconline.org
Tel: 425.564.2548

History

In May 2002, a City of Bellevue-sponsored focus group of minority- and women-owned businesses in the Crossroads neighborhood indicated many challenges to growing businesses. Lack of information, access to business assistance programs, language, and cultural constraints were the primary challenges that needed to be addressed.

From this beginning, the Bellevue Entrepreneur Center (BEC) was created to organize many scattered resources into a single network for those seeking to start or expand a business. By strengthening relationships among business service providers and offering convenient multiple locations to access these services, the BEC helps Eastside emerging businesses accelerate growth and contribute to the prosperity of the community.

BEC Eastside Microloan Fund

It has long been recognized that in addition to technical assistance, early stage businesses also need access to capital. However, traditional sources are often not available to start-ups, and this is particularly true for the BEC's target clientele, women, and minority entrepreneurs.

To meet this need, the Bellevue Entrepreneur Center launched a Microloan Fund in the latter part of 2004. Capitalization for the fund has come from contributions by Community Capital Development and Eastside Commercial Bank. During 2005, we anticipate growing the fund through additional contributions.

Qualified businesses can borrow up to $35,000 to start and grow their businesses. A business plan and ongoing technical assistance from a BEC business counselor are required. The BEC made its first loan in December, 2004, for $5,400. Carole Butkus, former Director of the Women's Business Center in Seattle, has been retained as the BEC's Microloan Officer. She will also be providing business counseling to microloan clients.

Demonstrated Need

National statistics indicate that immigrant and minority populations frequently turn to self-employment and small business ownership and that minority and women entrepreneurs receive more direct benefits from technical assistance than majority males. According to the 2000 census, minorities now number at least 24.5% of Bellevue's population (vs. 13.3% in 1990). Minorities and women are approximately 60% of the clients at Bellevue Community College's Washington Small Business Development Center. Targeting these populations for enhanced business assistance services is an effective strategy for Bellevue's and the Eastside's overall economic development.

BEC 2004 Performance

Counseling and Consulting	2003	2004
Business Assistance Requests	1,100	910
Business Counseling Clients	115	209
University Consulting Projects	12	12
TOTAL	**1,227**	**1,131**
Hours of Counseling/Consulting	7,573	5,447.5*
Estimated Market Value	$818,500	$691,000
Business Training Attendees**	250	2,029
Economic Impact		
Jobs Retained and Created	200.5	215
Reported Revenues	$15,532,650	$24,472,913
Loans & Equity Investment	$4,541,000	$6,651,215
Estimated Economic Impact***	$11,558,600	$17,401,200

* Lower 2004 consulting hours are due to changes in UW Bothell student consulting course length and calendaring.

** Training programs are offered by the Bellevue Entrepreneur Center in partnership with WSBDC@BCC, WSBDC/NW Entrepreneur Network, WSBDC/Eastside Women's Network, and the Department of Labor.

*** Based on Washington State Small Business Development Center (WSBDC) data.

BEC Financial Statement

For the year ending 12/31/04

Revenues	
UW-Bothell, BCC, and City U. Services	$361,000
Small Business Administration Funding	58,000
Legal and Accounting Services	3,000
Donations	26,250
TOTAL REVENUES	**$448,250**
Expenditures	
Counseling Staff	$15,815
Rent	15,580
UWB, BCC, and CU classes	342,900
WSBDC at BCC	52,200
Marketing	2,080
Admin. Staff	3,667
Misc.	4,530
TOTAL EXPENSES	**$436,772**
Surplus	**$11,478**

These numbers include both cash and in-kind contributions.

BEC Partners/Supporters

Banner Bank
Bellevue Community College
City of Bellevue
Community Capital Development
KeyBank
Port of Seattle
Small Business Administration
S.C.O.R.E.
Washington State Hispanic Chamber of Commerce
Bellevue Chamber of Commerce
Circle of Friends
City University
Eastside Commercial Bank
King County
The Seattle Foundation
Small Business Development Center
University of Washington-Bothell

And special thanks to Curtis Y. Nakayama, C.P.A., of James Erickson & Co., P.S., Alex Modelski, Attorney at Law, Business & Technology Law, and Daniel J. Silthorp, University of Washington Board Fellows Program, for their services to the BEC.

BEC Business Counseling and Training

The BEC focuses on the needs of under-served communities but provides free and confidential assistance to any small business owner on the Eastside. In 2003, over 1,000 requests for service received immediate service to start, expand, or save their business. The net impact in 2003 was over $6,000,000 and in 2004 is over $17,000,000. BEC training, sponsored by the WSBDC@BCC, is hailed as one of the best small business training programs in the state. Events co-sponsored with organizations such as the Eastside Women's Network for Entrepreneurial Training and the Northwest Entrepreneur Network, collocated with the BEC at BCC, attract hundreds more entrepreneurs.

BEC Board of Directors

Officers

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Vice President: Walter R. Freytag, Ph.D., Senior Lecturer-Business Administration Program, University of Washington-Bothell
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The Honorable Connie Marshall, Mayor, City of Bellevue
Warren W. Buck, Ph.D., Chancellor, University of Washington, Bothell
Michael Easton, Ph.D., President, City University
B. Jean Floten, President, Bellevue Community College
Betty Nokes, President & Chief Executive Officer, Bellevue Chamber of Commerce

Staff

Mike Luiten, Acting Executive Director
Carole A. Butkus, Business Counselor & Loan Officer, Bellevue Entrepreneur Center
Corey L. Hansen, Business Development Specialist, Washington Small Business Development Centers
Louis Watanabe, Business Development Counselor, Bellevue Entrepreneur Center

Mailing Address:
Bellevue Entrepreneur Center
227 Bellevue Way NE, PMB 355,
Bellevue, WA 98004
Office Location: BCC North Campus, 10700 Northup Way, Bellevue, WA 98004

Business

- Contracting and Purchasing
- Economy and Trade
- Licenses and Permits
- Planning and Development
- Taxes

Seattle is a flourishing metropolis -- driven by a diverse and resilient economy, strong entrepreneurial spirit and historically vital business sectors. Use the choices below to see what makes Seattle thrive and to find City resources to help your business grow.

- Contracting and Purchasing Services
  City business, consulting, construction, vendors, contractors, purchasing, RFPs, RFQs, ITBs...
  - Overview: Doing Business with the City
  - RFPs, RFQs, and ITBs
    Current Requests for Proposals, Requests for Qualifications, Invitations to Bid
- Economy and Trade
  economic development, business advocates, international trade, chamber of commerce...
- Licenses and Permits
  business licensing, development and planning permits, property use, street and traffic permits...
- Planning and Development
  neighborhood, community, and regional comprehensive planning...
- Taxes
  city, county, and state taxes...

HIGHLIGHTS

Trade Deve
Alliance of (
Seattle
Promoting (
Seattle as one of Nortl
America's premier
international gateways
commercial centers.

Written Off: Generatio
Town Hall presents An
Kamenetz, columnists
Village Voice, talks ab
new economics of beir
young.

Northgate District Revitalization
Communities, busines
government working t
on major projects at
Northgate.

Create a Th
Business Dis
A Guide to (
Neighborho
Business District Reso

Doing Busin
Seattle
Contact you
business ad
and get answers to yo
questions about how t
business in Seattle.

Guide to Ma
Property an
Use
City maps t
with commercial boun
zoning and permits.

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www.wiredcityusa.com is the business information site for the City of Tacoma Washington
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