
Des Moines Business Park Analysis

Market Analysis and Prototype Feasibility

August 2023

Prepared for: City of Des Moines

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Acknowledgements

ECONorthwest prepared this report for the City of Des Moines, Washington. ECONorthwest and the City of Des Moines thank those who helped develop the Des Moines Business Park Analysis: Market Analysis and Prototype Feasibility.

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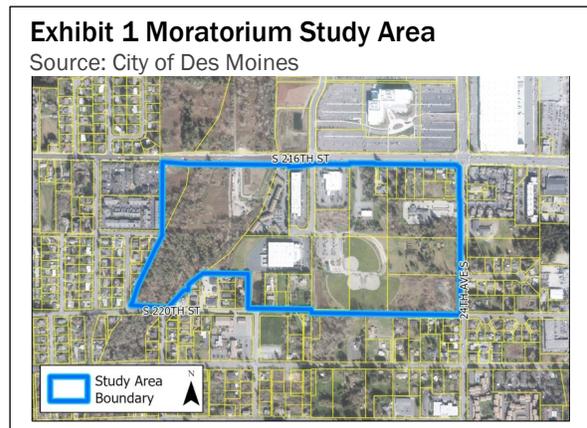
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Executive Summary

In October 2022, Des Moines implemented a development moratorium on the southern portion of the Business Park due to concerns about incompatible development. The moratorium, which expires in October 2023, intends to provide time for the city to analyze the Des Moines Business Park Moratorium Study Area within the current context of its market area, policy environment, and growth targets.

This report aims to answer three primary questions.

- What types of development are most likely to locate in the study area given current and near-term market conditions, use policies, and zoning?
- What are the implications of those development types for the city to meet the employment targets outlined in the King County Buildable Lands Report?
- What tools might the city employ to better assure development in the moratorium area meets city objectives?



ECONorthwest analyzed recent development the Des Moines Business Park Moratorium Study area in relation to the City of Des Moines and to a 5-mile market area radius. To better understand what types of development are supported by current market conditions, ECONorthwest analyzed the financial feasibility of nine development types that could potentially occur in the Moratorium Study Area (see Exhibit 2).

The market analysis finds that most development types tested are financially feasible. Townhomes were found to be the most financially feasible development type analyzed, which is consistent with similar studies ECONorthwest conducted throughout similar communities in the region. While multifamily development is not as financially feasible as townhomes given current market dynamics (interest rates, cost of construction, etc.), it is far denser and improves the likelihood for Des Moines to meet its Urban Growth Capacity housing targets. Key policy questions include: Is more housing appropriate in the study area? If so, what types would be most desirable, while also helping the city achieve its allocated housing growth targets? The recent Housing Needs Assessment completed by AHBL and ECONorthwest as part of the Housing Action Plan demonstrates a need for all housing types, particularly higher density housing types.

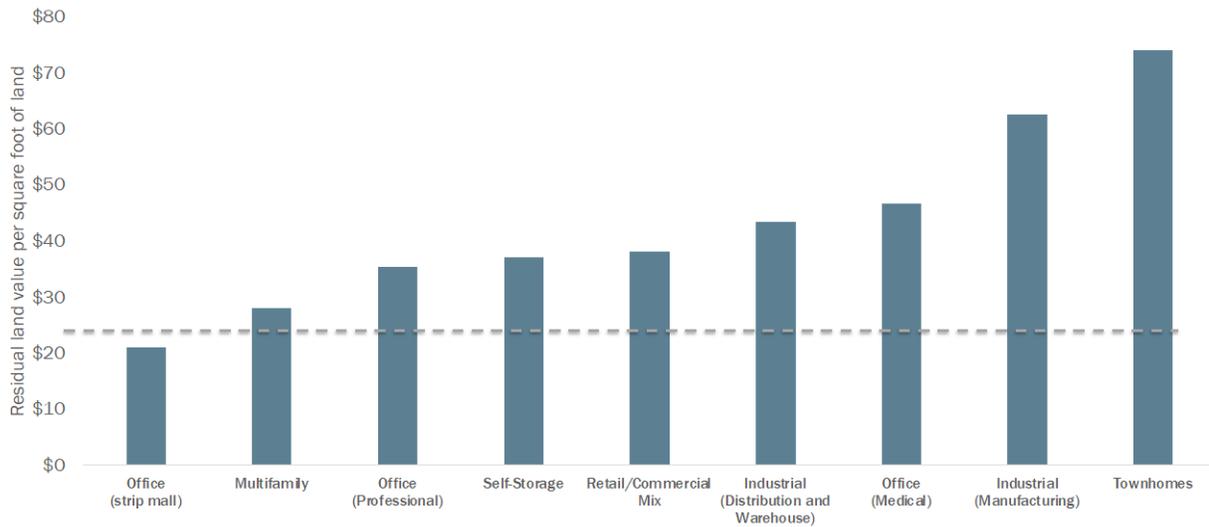
The industrial and manufacturing development types tested are also likely feasible in the study area (as recent development within the Des Moines Business Park has shown), but the amount of buildable land and parcel assemblage required for these uses could limit their development

potential. However, the industrial and manufacturing development that has most recently occurred within the Des Moines Business Park, just north of the study area, have low employment densities. Given the limited amount of employment land left in the city, Des Moines will need to achieve higher employment densities to meet its employment growth targets.

The market analysis results for office development types likely overstate their feasibility. Ongoing office market volatility driven by historically high vacancy rates resulting from post-COVID work-from-home trends create uncertainty for the future of office development.

Exhibit 2: Financial Feasibility Results (development types above the dotted line are likely feasible)

Source: ECONorthwest



Building from the findings of the market feasibility analysis, this report presents potential regulatory options and land use opportunities and constraints within the Moratorium Study Area. It is important to note that the opportunities and constraints presented in this report do not constitute a recommendation or formal evaluation of potential outcomes but serve to provide context for the possibilities and challenges presented by the existing conditions.

Regulatory Options:

The Des Moines Business Park has experienced significant development success, but transportation limitations make additional warehousing or truck-intensive uses undesirable. Amendments to the development code could focus on limiting low-density, truck intensive uses. ECO identified three regulatory options: amending allowable uses in the Business Park zone, creating an overlay zone to prohibit certain uses, or amending plan designations and zoning to encourage alternative land use options.

Land Use Considerations:

The report presents potential land use considerations framed as opportunities and constraints. Two major opportunities within the moratorium study area include helping to achieve both the

PSRC 2044 employment targets and the PSRC 2044 housing targets. Targeting uses that can achieve denser employment, like Riot Games, will help the city achieve its employment targets more efficiently than less dense uses such as warehousing, which would command more physical space within the study area. To achieve the housing targets allocated to Des Moines by 2044, the city will need to add about 3,800 housing units. Including changes to the residential zoning in the study area could help the city make progress towards both achieving growth targets and meeting the local housing needs documented in the recently adopted Housing Action Plan. An emphasis on denser employment and housing, along with existing local recreational amenities, help to achieve allocated growth targets and move the study area towards a more balanced and complete neighborhood.

1. Introduction

The City of Des Moines is preparing to conduct the mandatory periodic update to its comprehensive plan which must be completed by the end of 2024. This process, which will begin in summer of 2023, requires the city to update its entire comprehensive plan, including establishing a vision for future land use and implementing it through amendments to existing zoning and development regulations. The update provides the city with an opportunity to assess how development in the recent past has helped achieve objectives outlined in the comprehensive plan.

In October 2022, Des Moines implemented a development moratorium on the southern portion of the Business Park due to concerns about incompatible development. The moratorium intends to provide time for the city to analyze how the Business Park has developed, what type(s) of development it might expect on undeveloped lands given market conditions and determine if there is a need to reevaluate plan policies, zoning, and other regulations in the area to ensure future development aligns with the city's vision, policy goals and ability to meet its growth targets. The information provided in this report will help inform future policy decisions relating to the Business Park.

Study Area & Development Moratorium

In October 2022, the City of Des Moines adopted a development moratorium (Ordinance No. 1761) for 74 acres located in the Des Moines Business Park area (Exhibit 3). Broadly, the intent of development moratoria was to pause new development applications so the city can review concerns about incompatible development on the remaining vacant lands and to consider new development and zoning regulations. The city cited several factors justifying the moratorium:

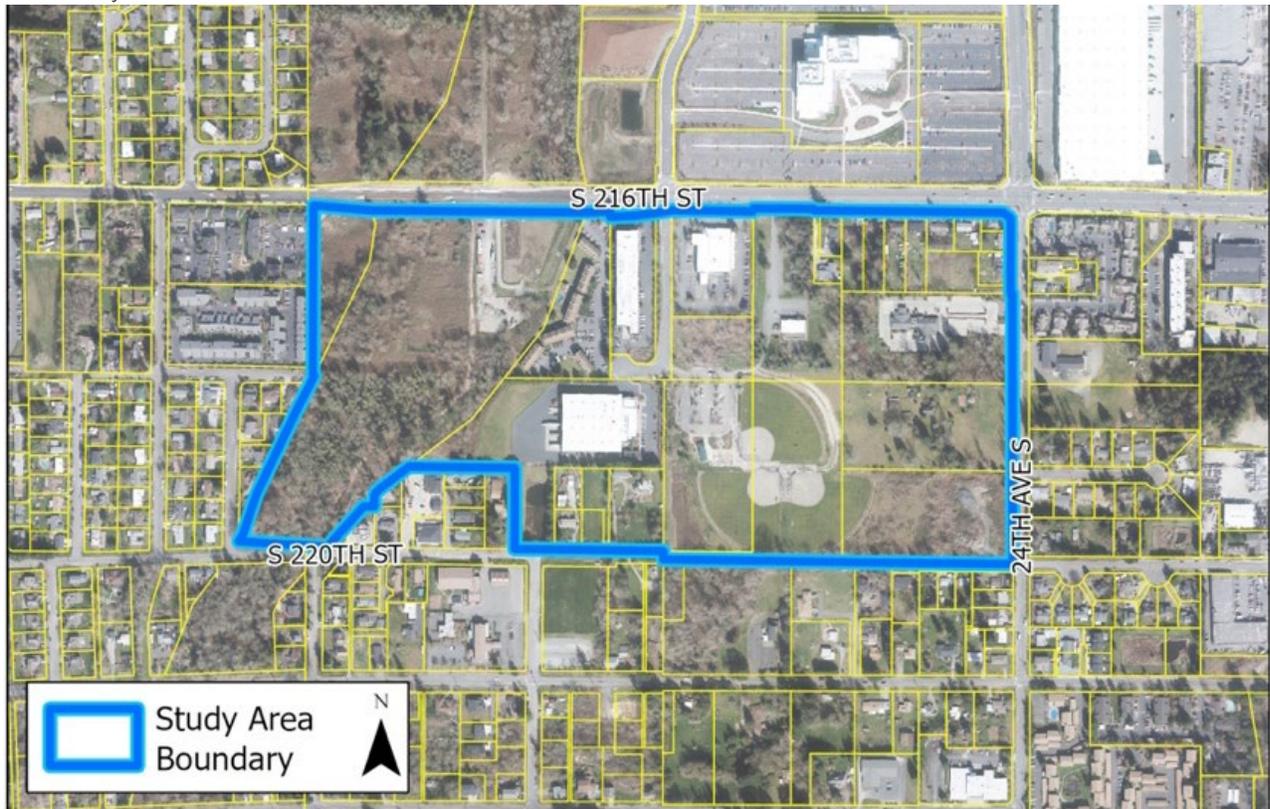
- Over \$30 million invested in transportation and infrastructure improvements to facilitate freight mobility and the creation of family wage jobs in the business park area.
- With the exception of the FAA office building, recent development of the Des Moines Creek Business Park and adjacent commercial properties to the east have been predominantly distribution, warehouse and logistics, and light industrial.
- The city's Comprehensive Plan assumed a more balanced mix of commercial and business uses and job opportunities.
- Additional unanticipated development within the Des Moines Creek Business Park, notably East of 24th Ave S and also in the West end of the Business Park area.
- A moratorium allows the city time to study the area, engage the public, and develop new policies, strategies, or zoning to shape future development trends, facilitate the highest and best use, and create family wage jobs.

- Without a moratorium the city could, in the near future, receive applications for new development that could conflict with the achievement of the long-range vision and job growth for this area.

On April 13, 2023, the Des Moines City Council extended the development moratorium for an additional 6 months, to October 26, 2023, to allow the city adequate time to conduct a more in-depth study of the area and develop new strategies to facilitate development that better aligns with the city’s objectives related to family wage jobs and livability.

Exhibit 3 Moratorium Study Area

Source: City of Des Moines



Key Research Questions

This Market Analysis aims to answer three primary questions.

- What types of development are most likely to locate in the study area given current and near-term market conditions, and use policies, and zoning?
- What are the implications of those development types for the city to meet the employment targets outlined in the King County Buildable Lands Report?
- What tools might the city employ to better assure development in the moratorium area meets city objectives?

Answering these three questions through this market analysis will allow Des Moines to adjust policy and strategies that support strategic market development types.

Organization of this Report

The remainder of this document is organized into the following sections:

- **2. Planning Context** provides an overview of the Des Moines Business Park and describes current land use plans, policies, and regulations in the moratorium study area.
- **3. Market Analysis** discusses future growth targets for Des Moines as well as market demand for various types of employment uses in Des Moines.
- **4. Development Feasibility** presents the results of financial modeling for development prototypes within the moratorium study area.
- **5. Potential Policy Options** outlines potential policy changes, modifications to the Des Moines development code, and opportunities and constraints within moratorium study area.

2. Planning Context

This section provides a more detailed overview of the North Central Neighborhood, the Des Moines Business Park, and the Moratorium Study Area. The intent is to place the Study Area in the broader context of the city's land use and zoning policies and surrounding uses.

The 2015 Des Moines Comprehensive Plan¹ articulates the City Council's vision for 2035 as follows:

"An inviting, livable, safe waterfront community, embracing change for the future while preserving our past."

The Comprehensive Plan notes that by year 2040, the Puget Sound Region is expected to add 5 million people and 3 million new jobs. The plan outlines goals and policies to support economic development and job growth; create strong neighborhoods with a range of housing, commercial, and transportation options; and champion healthy neighborhoods that provide families with a clean environment.

Des Moines is one of seven cities in King County considered a High-Capacity Transit (HCT) Community. HCT communities have access to varying modes of transportation including bus rapid transit (BRT) and light rail, aimed at moving large numbers of people efficiently and reliably throughout the Puget Sound Region. Sound Transit plans to open the Kent Des Moines Link Light Rail Station by 2025, which will connect Des Moines to downtown Seattle in 42 minutes. The expansion of rapid transit options in the area will support future housing and employment growth allocated to Des Moines.

The policy environment has evolved with new guidelines, designations, and targets for Des Moines. The State legislature has required access for ADUs within local jurisdictions; PSRC's Vision 2050 designated Des Moines as a High Capacity Transit Community; actions regarding the provision of affordable and workforce housing are ongoing and expanding; and job growth targets established by the Countywide Planning Policies all impact various aspects of local control and guide certain types of land use policies to assure both compatibility and implementation of these new standards. Both House Bill 1110 and Middle Housing Senate Bill 5235 expanding ADU housing will have broad implications for Des Moines and its growth targets, this study provides an added opportunity to consider some of these issues at a micro-level within the study area.

¹ Des Moines 2035, Charting Our Course for a Sustainable Future, Adopted June 25, 2015. This document is referred to as the "Comprehensive Plan" through the remainder of this report.

https://www.desmoineswa.gov/departments/planning_and_building/plan_development/comprehensive_plan

Des Moines Business Park

Des Moines is located south of SeaTac International Airport in the Puget Sound Metropolitan Region. Despite its inability to grow geographically, consistent with targets established in the King County Urban Growth Capacity Report, the city is planning for significant increases in housing and employment in the next 20 years.² The Comprehensive Land Use Plan establishes goals and policies related to land use that are consistent with the city’s growth targets. The Economy Element describes the city’s vision for future economic growth and includes a single economic development goal: “Promote economic stability, growth, and vitality” (Goal ED 1). The Business Park area plays a prominent role in the city’s economic development vision.

The Comprehensive Plan outlines quality of life goals for new growth and expects new development “to celebrate and enhance the city’s history and identity” as described in the city’s Land Use Element. The Comprehensive Plan identifies the Business Park as an area in need of further improvement, and future development of the study area can help to fulfill the city’s strategic vision for growth in this area.

The Des Moines Business Park³ is within the North Central Neighborhood, which according to the Comprehensive Plan, “is envisioned as a thriving center for trade-related activity that generates new family wage jobs and revenue for the city and advances the region’s vitality by linking businesses to world markets via Sea-Tac Airport.”

The North Central Neighborhood is approximately 245.6 acres and is primarily designated Business Park, but with a considerable amount of residential zoning in the northwest corner and mixed within the moratorium area. The neighborhood has several large businesses, some nonconforming residential uses along S. 216th Street and 24th Avenue S., two city parks and features portions of both the Barnes Creek Trail and Des Moines Creek Trail. Exhibit 4 below provides the breakdown of the North Central neighborhood’s zoning.

Exhibit 4: Zoning in the North Central Neighborhood

Source: Des Moines GIS; King County Assessor; ECONorthwest

Plan Designation	Total Parcels	Acres
Business Park (BP)	35	156.0
Residential Multifamily 2,400 (RM-2400)	2	5.3
Residential Single Family 8,400 (RS-8400)	6	10.0
Suburban Estate (R-SE)	9	65.3
Total	52	245.6

Exhibit 5 below provides the breakdown of zoning in the moratorium study area. The largest designation is Business Park. However, the study area contains a substantial amount of

² <https://kingcounty.gov/depts/executive/performance-strategy-budget/regional-planning/UrbanGrowthCapacityReport.aspx>

³ The Moratorium Study area is within the North Central Neighborhood

residential zoning as well (note that the R-SE zoning is associated with public infrastructure and park facilities). The study area includes the entire North Central Neighborhood’s South Subarea (subarea 3) and part of its West Subarea (Subarea 4). The South Subarea contains the majority of the (re)developable land present in the study area. The West Subarea is envisioned as a desirable resource for recreational amenities to the public and nearby employees, such as completing the connection of the Barnes Creek Trail with the Des Moines Creek Trail to the North.

Exhibit 5: Zoning in the Moratorium Study Area

Source: Des Moines GIS; King County Assessor; ECONorthwest

Zoning	Total Parcels	Acres
Business Park (B-P)	17	33.0
Residential Multifamily 2,400 (RM-2400)	2	5.0
Residential Single Family 8,400 (RS-8400)	6	9.9
Suburban Estate (R-SE)	4	26.0
Total	29	73.9

The city’s Comprehensive Plan and members of staff indicate some desire for the study area to encourage development that utilizes the investment in high-capacity transit infrastructure (connecting Des Moines to the greater King County with bus rapid transit to light rail), capitalizes on the amenities for local employees and residents (such as the Barnes Creek Nature Trail), and helps increase employment opportunities to meet its 2044 employment target. The city hopes to *discourage* additional lower density development (policy ED 1.3), such as warehousing, that strains the limited road capacity (policy ED 1.9; Goal NCN 2; policy NCN 2.1.6 and 2.1.7), generates additional truck traffic, does not meet urban design goals (policy ED 1.1.2), and does not align with the city’s long-term vision for employment growth (Goal NCN 3).

Development in the Des Moines Business Park

The initial master plan for the Business Park was approved in late 2013 and its buildout in the North Central Neighborhood is a major contributor to recent non-residential development in Des Moines. Approximately 2.5 million square feet of commercial and light industrial have been built out over three phases in the last decade.⁴ All of the Business Park development that has occurred was fully leased prior to issuance of Final Certificates of Occupancy, the last of which was issued to the Federal Aviation Administration (FAA) in early 2018. The Business Park houses several prominent employers, including Outdoor Research, Riot Games, the Federal Aviation Administration (FAA), and Amazon's warehousing and fulfillment centers. However, additional warehouse uses are not ideal due to low employment density and reliance on truck transportation, which strains the existing road infrastructure.

⁴ CoStar

The Federal Aviation Administration (FAA) building (Exhibit 6) and Outdoor Research building (Exhibit 7) are both located within the Business Park area. The FAA building, built in 2018 and owned by the Federal Government, contains over 280,000 square feet and at five stories is taller than most of the surrounding commercial buildings. The Outdoor Research building, built in 2018 and owned by Panattoni Development Company, provides nearly 250,000 square feet of space, including warehouse/distribution and an outlet store.

Exhibit 6: Federal Aviation Administration Building, Des Moines, WA

Image source: CoStar



Exhibit 7: Outdoor Research Outlet, Office, and Warehouse, Des Moines, WA

Image source: CoStar



Overall, development in the Business Park has been consistent with the city's vision and implementing regulations for the area. The city is particularly interested in understanding how the development options in the moratorium study area fit with the city's overall vision for the

future, understanding that additional land intensive uses with few employees such as warehouses and mini-storage facilities are likely inconsistent.

The Moratorium Study Area

The study area is a 74-acre site across 29 parcels, located between 216th and S 220th street, with 24th Ave S marking the eastern boundary. The site contains a diverse range of uses, with just over 13 acres dedicated to residential development, including single-family homes and apartments (see Exhibit 8). In addition to housing, the site also features a church, post office, a city-owned park, and light-industrial/warehouse spaces. About 20 acres of critical areas are located in the western part of the study area, where no development is likely to occur. There is also about 5 acres of vacant land, offering potential for further development in the future.

The western part of the study area has land that was acquired by the Washington Department of Transportation (WDOT) for right-of-way for an extension of SR 509. The extension is not going to move forward but the land is still owned by WSDOT. A full inventory of parcels in the study area can be found in Appendix A.

Exhibit 8. Summary of Land Use in the Moratorium Study Area

Source: King County Assessor

Land Use	Number of Parcels	Area (Ac)	Appraised Value (\$)
Apartments	1	3.0	13,946,000
Church	1	4.8	3,704,400
Community Building/City Owned	1	4.1	970,900
Light Industrial/New site of Riot Games	1	6.7	10,497,400
Park/City Owned	3	15.2	1,936,200
Post Office	1	2.7	2,093,400
Single-Family	14	10.5	7,712,000
Storage/Vacant	1	0.3	134,000
Vacant	5	5.0	1,078,700
Warehouse	1	2.0	5,482,400
Greenway/Critical Areas (WSDOT ROW)	1	20.0	0
Total	30	74.3	47,555,400

Plan / Zoning Designations and Development Standards in the Study Area

The city's Preferred Land Use map in the Comprehensive Plan demonstrates some discrepancies between the neighborhood's current zoning and preferred land use. The city's preferred land use maps show a higher concentration of Business Park, Public Facilities, and Park designations, with very few parcels designated for residential uses.

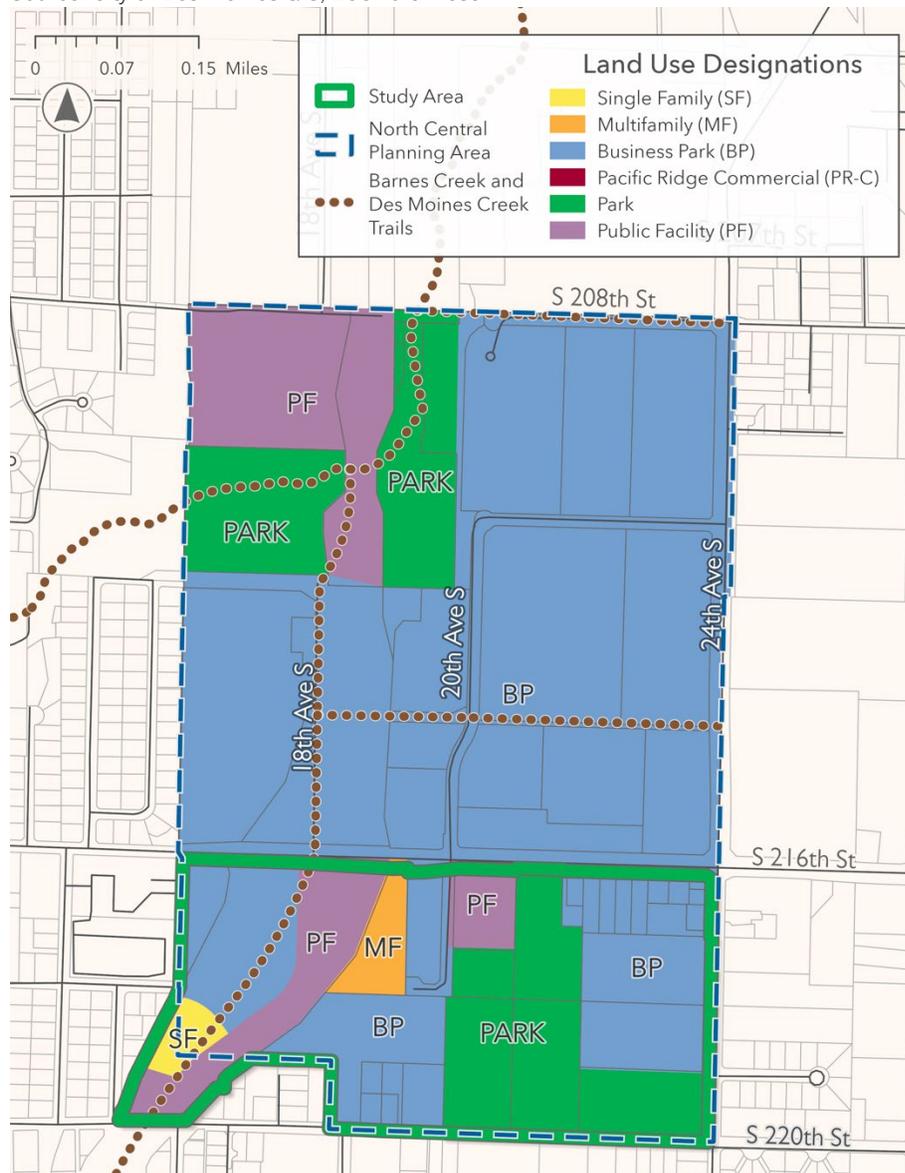
The Study Area includes five plan designations:

- Single family residential
- Multifamily residential
- Business Park
- Park
- Public Facility

Consistent with the city’s vision for the North Central Neighborhood, the dominant plan designation in the area is Business-Park. Several areas are in park use and designated as such. Additional lands are designated Public Facility – including the post office and areas acquired by WSDOT as SR 509 right-of-way.

Exhibit 9: Development Moratorium Study Area, Land Use Designations

Source: City of Des Moines GIS; ECONorthwest



The Study Area contains four different zoning districts; Business Park, RM 2400, R-SE, and RS 8400 (see Exhibit 10). Approximately 45 percent of the area is zoned for Business Park (33 acres) and 55 percent is zoned for residential uses (41 acres).

Exhibit 10: Development Moratorium Study Area, Zoning

Source: City of Des Moines GIS; ECONorthwest

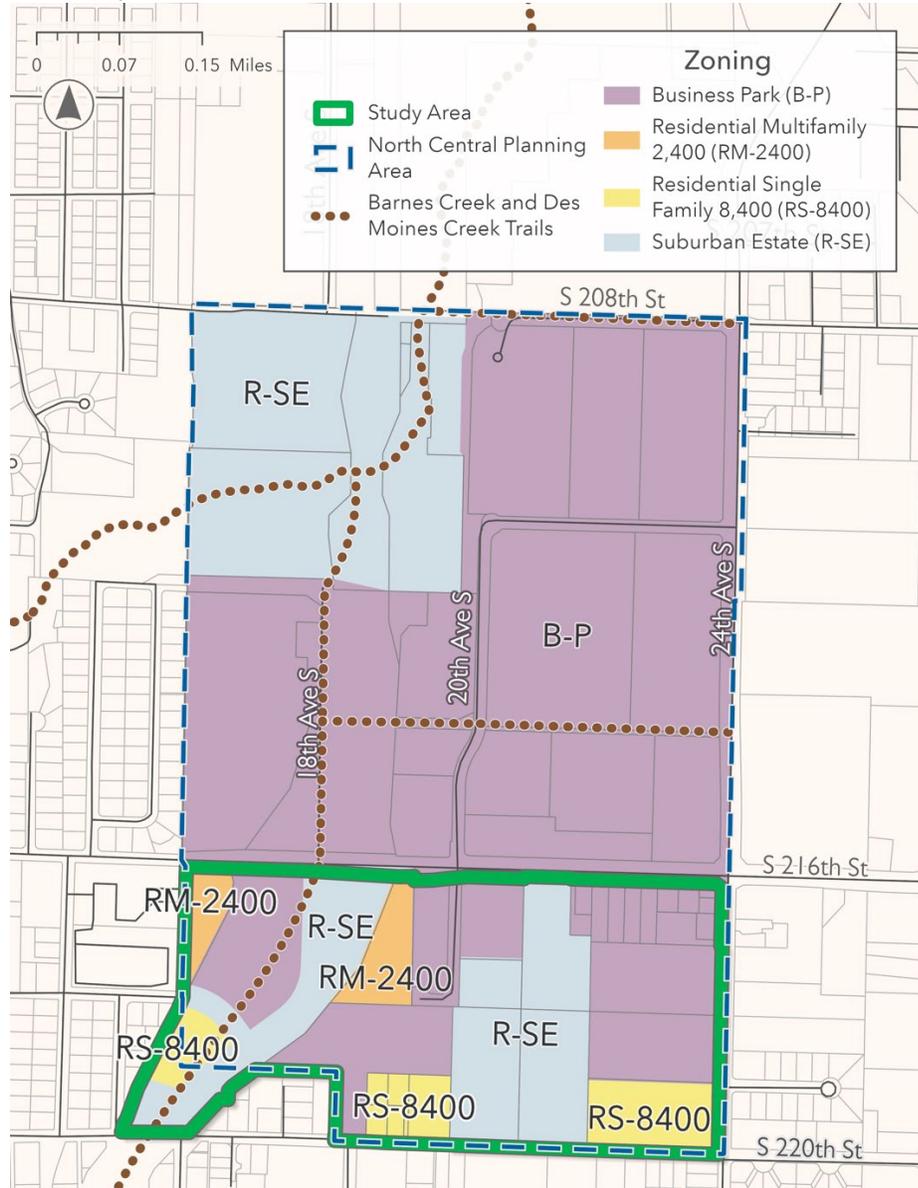


Exhibit 11 summarizes key development standards for zones within the moratorium study area., The Business Park zone (outlined in DMC 18.105) is intended to allow for professional office, light industrial, research and development, service uses, wholesale trade, and limited

retail uses. All development in the Business Park zone must undergo Master Plan Approval to ensure the following⁵:

- Compatibility between business parks and adjacent uses
- Compatibility with the Des Moines Creek Park, Des Moines Creek Trail, Steven J. Underwood Memorial Park, City of Des Moines Activity Center and adjacent residential-designated properties
- New development is consistent with the goals and policies of the City of Des Moines Comprehensive Plan

Exhibit 11: Development Standards for Zones in Study Area

Source: Des Moines Municipal Code Title 18

	BP	RM 2400	RS 8400	R-SE
Min Site Area	2 acres ⁶			
Min Lot Size		7,200 sq ft	8,400 sq ft	35,000 sq ft
Minimum lot area per dwelling		2,400 (~18 units per acre)	4,200 ⁷ (~10 units per acre)	
Height	35 ft ⁸	35 ft	30 ft	35 ft
Max Site Coverage	75%			
Open Space		200 sq ft per unit ⁹		

Residential Zoning

The RM 2400 zone (outlined in DMC 18.65) is intended to permit a greater population density than is allowed in more restrictive zones.¹⁰ Development standards for the RM 2400 zone are aligned by lower-density multifamily development, like middle housing. RM 8400 (DMC 18.55) is a single-family zone but makes allowances for duplex development. The R-SE (DMC 18.85) zone is largely intended for more rural single-family development, characterized by its large lot sizes.

⁵ DMC 18.105.030

⁶ Master plans containing less than the minimum area shall be allowed only if the site adjoins a previously approved master plan

⁷ For duplexes only

⁸ For properties south of South 216th Street

⁹ In developments of 4 or more units

¹⁰ DMC 18.65.030

3. Market Analysis, Development Feasibility, and Growth Targets

This section presents analysis of market factors affecting development in Des Moines and the moratorium study area, a development feasibility analysis of seven building prototypes, and an analysis of how changes in permitted uses, zoning, or other regulations would affect the city’s ability to meet its growth targets. Moreover, this section addresses two of the three research questions for this study:

- Given current and near-term market conditions, land use policies, and zoning, what types of development are most likely to locate in the study area?
- What are the implications of those development types for the city to meet the employment targets outlined in the King County Buildable Lands Report?

This analysis supports the evaluation of opportunities and constraints presented in Section 4 as well as the policy and land use options presented in Section 5.

Growth in Des Moines

Exhibit 12 shows that between 2010 and 2020, the population in Des Moines grew by 11 percent, adding 3,215 new residents. The city grew more slowly than all of the surrounding cities but Normandy Park. The growth in the regional population and high-capacity transit improvements in Des Moines and the surrounding area indicate a growing workforce available for continued increases in employment land use development.

Exhibit 12: Population Growth, Des Moines and Nearby Cities, 2010 and 2020

Source: ACS Decennial

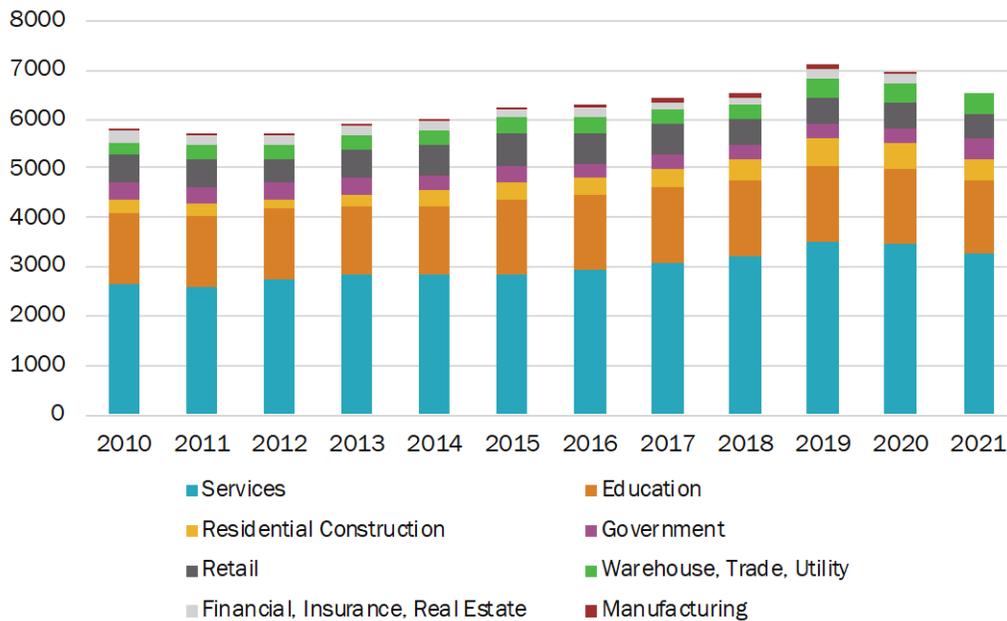
Area	Population		Change 2010 to 2020	
	2010	2020	Number	Percent
Des Moines	29,673	32,888	3,215	11%
Normandy Park	6,335	6,771	436	7%
Federal Way	89,306	101,030	11,724	13%
SeaTac	26,909	31,454	4,545	17%
Kent	92,411	136,588	44,177	48%
Burien	33,313	52,066	18,753	56%

Data in the 2021 King County Urban Growth Capacity Report show that Des Moines experienced an almost 11 percent increase in population from 2010 to 2020, with the number of residents reaching 32,888. During the same period, the city added about 630 housing units, equating to a 5 percent increase and added about 780 jobs, which is about a 17 percent increase in employment.

Exhibit 13 shows employment by sector in Des Moines for the period 2010 through 2021. The data show employment decreased slightly between 2010 and 2012, grew slowly through 2019, and decreased between 2019 and 2021. The largest employment sectors in Des Moines are Services which accounted for 48% of total employment in 2021, and Education, which accounted for 21% of total employment in 2021. Education as a share of total employment is decreasing – education accounted for 25% of total employment in 2010 and 21% in 2021.

Exhibit 13: Employment by sector, Des Moines, 2010-2021

Source: PSRC Covered Employment by City – Major Sector



Development Trends

This section discusses development trends in Des Moines and a broader regional market. ECONorthwest used a five-mile radius to collect and analyze data for the broader regional market. The moratorium study area was used as the center of the five-mile radius. Much of the data presented in this section is from CoStar, a subscription service with extensive data on commercial real estate property.¹¹

Regional Market Trends

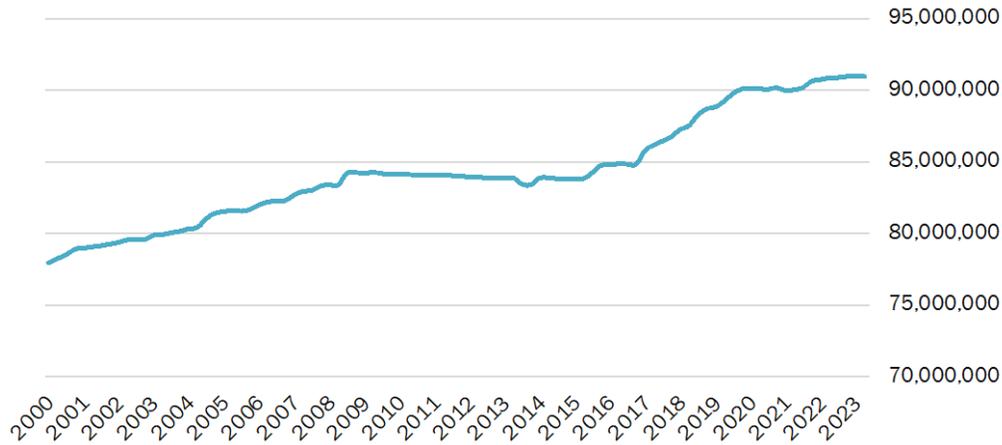
Development within a five-mile radius of the moratorium study has access to diverse markets via water (Puget Sound), air (SeaTac Airport), and major highways (Interstates 5 and 90). As a part of the Seattle Metro Region, overall business growth has been comparatively robust. Exhibit 14 shows 2,845 buildings with over 90 million rentable square feet of non-residential inventory existing within a five-mile radius of the study area. Moreover, rentable square feet grew from 2000 to 2008 and again from 2015 to 2019, with stagnations resulting from the Great

¹¹ <https://www.costar.com/>

Recession in 2008 and the onset of the Covid Pandemic in 2019. The data show a clear relationship between market conditions and non-residential development.

Exhibit 14: Square Feet of Inventory, Non-Residential, Five-Mile Radius, 2000-2023

Source: CoStar



Within the commercial, industrial, and office uses within a five-mile radius of the project area, industrial uses account for 68 percent of the total acreage of development since 2010. Of that industrial development, 70 percent has been either warehouse or distribution centers with another 21 percent as “unreported” (a significant portion of this unreported industrial is likely also warehouse or distribution centers). The predominant warehouse and distribution center uses is consistent with the findings from the King County Urban Growth Report, which shows the majority of non-residential development occurring at low and very-low densities (see Exhibit 21).

Exhibit 15 show that non-residential rents per square foot rose from about \$7/square foot within a 5-mile radius of Des Moines in 2010 up to nearly \$20/square foot in 2023. As rents rose, vacancy declined during this same period, from about 9% in 2010 down to about 4% in 2023.

Exhibit 15: Overall Rent per Square Foot, Non-Residential, Des Moines and Five-Mile Radius, 2000–2023

Source: CoStar

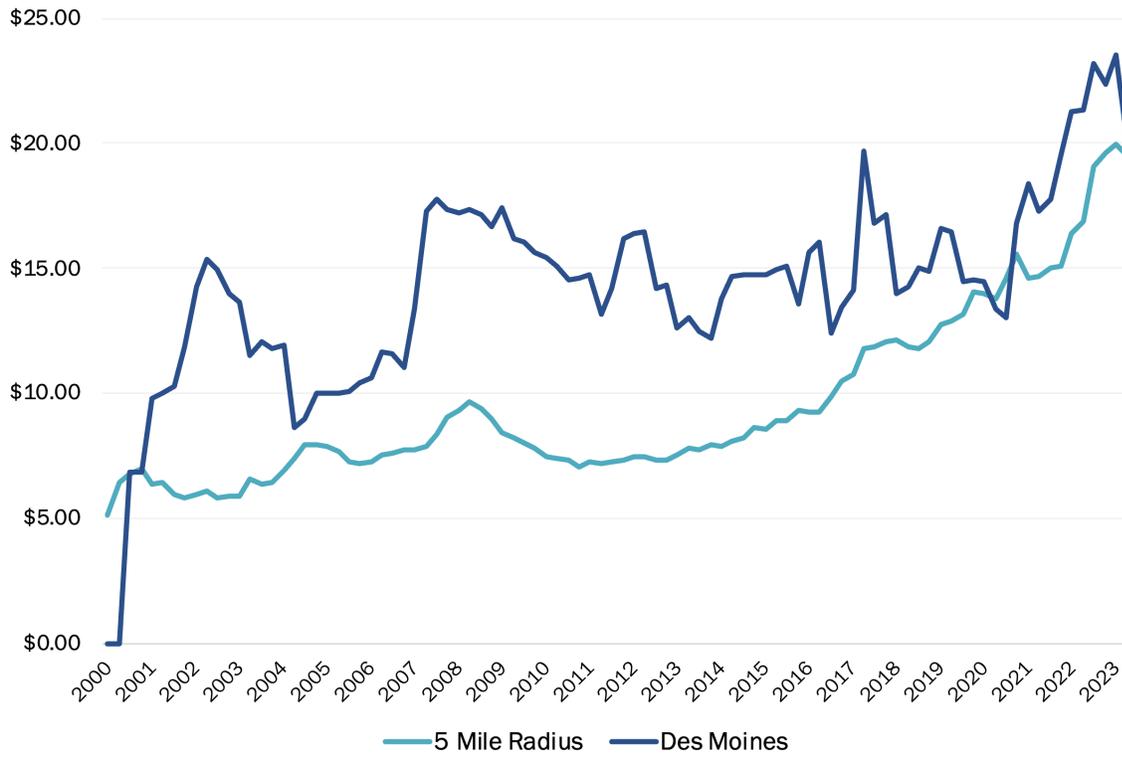
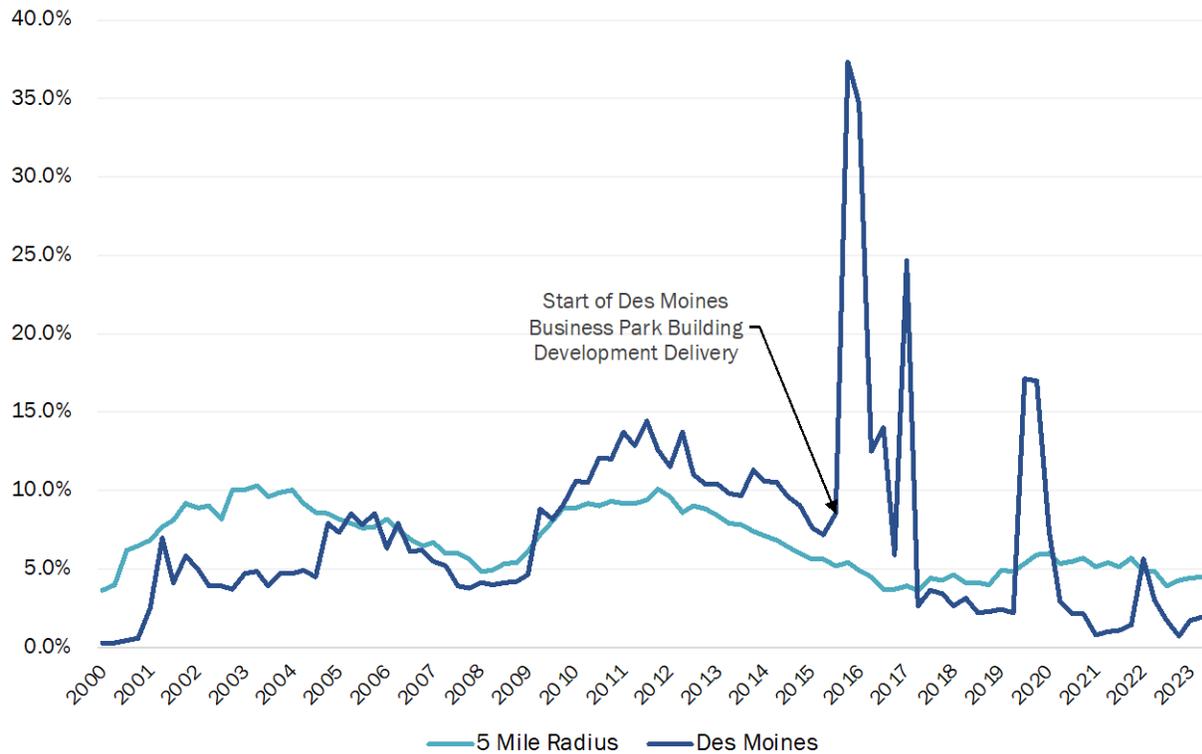


Exhibit 16 shows overall non-residential vacancy rates for the regional study area during the period 2000 through Q1-2023. The data show that vacancy rates lag a few years behind economic cycles and typically take a few years to recover. The exception is the Covid-19 recession of 2020 where vacancies only increased a couple of percentage points between 2019 and 2020 and then dropped back down 2021-2022.

Exhibit 16: Vacancy Rates, Non-Residential, Des Moines and Five-Mile Radius, 2000-2023

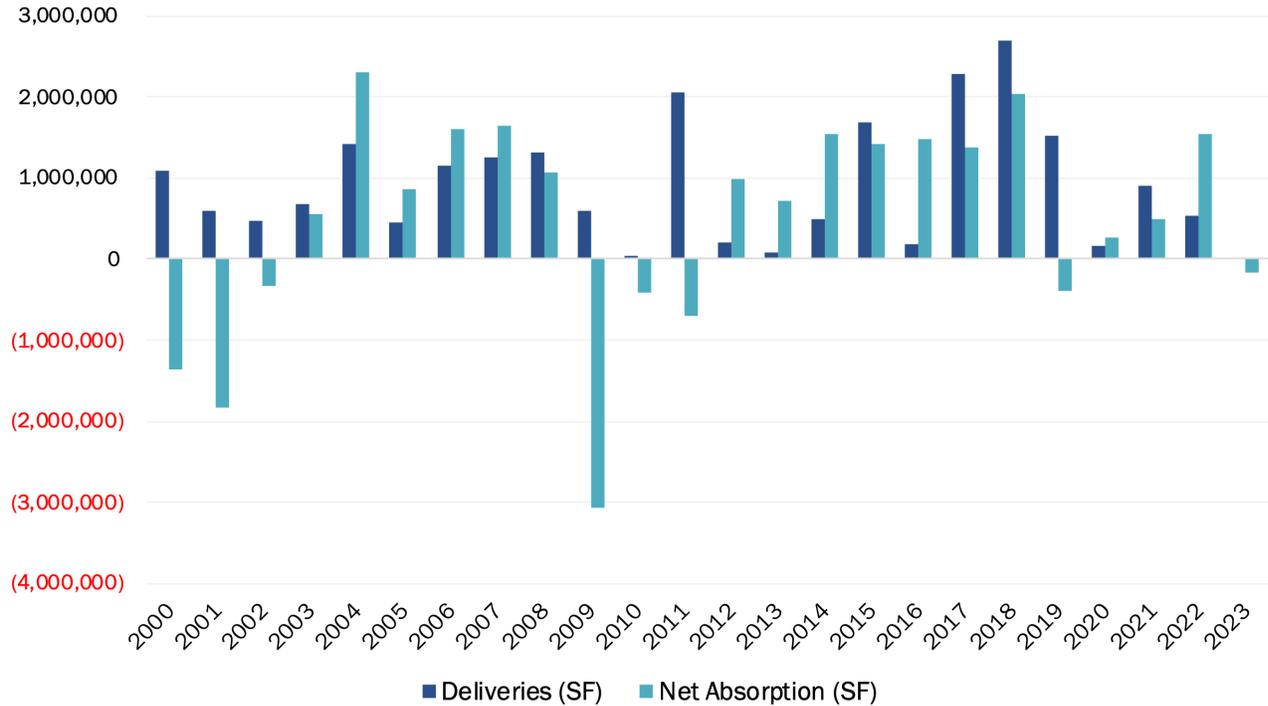
Source: CoStar



Since 2000, the amount of non-residential developments delivered peaked between 2011 and 2012, with about 2,500,000 total square feet of development added to the regional market area (Exhibit 17). This peak in building activity corresponds with a peak in vacancy rates (nearly 10%) that has since declined (both in terms of deliveries and vacancy rates). The rising rents with declining vacancy since 2012 indicate that the supply of non-residential uses is not keeping up with its overall demand, and that additional employment uses would likely continue to be absorbed within the regional market area, as has been the case for the past two decades.

Exhibit 17: Square Feet of Deliveries and Absorption, Five-Mile Radius, 2000-2023

Source: CoStar



Although the trend since 2012 shows a predominance of low and very-low density non-residential development within the regional market area, regional plans and high-capacity transit infrastructure investments position this area to be able to accommodate denser non-residential development.

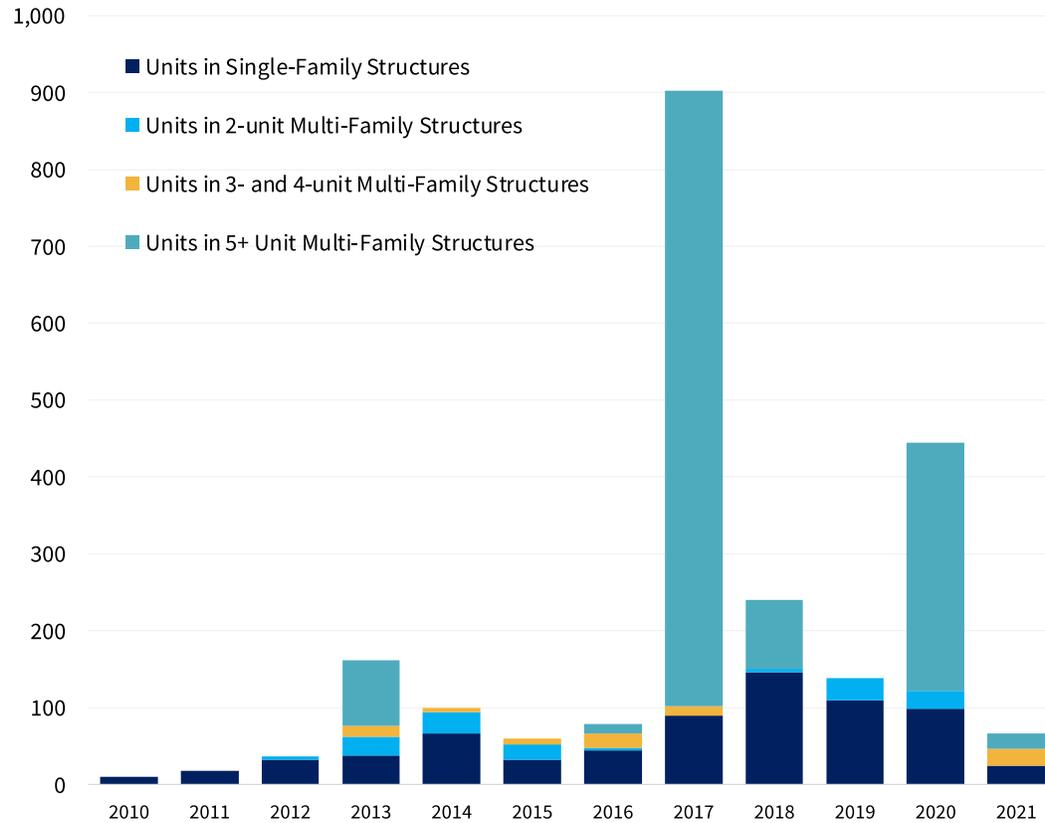
Des Moines Market Trends

Residential

Des Moines has seen major increases in the development of multifamily units (5+ units) since 2010, though deliveries of housing types with fewer units has remained somewhat consistent during this same timeframe. The city added 800 multifamily units (5+ units) in 2017 and another 322 units in 2020. Sound Transit will redevelop about 4 acres adjacent to the new station (currently used for construction staging and mobile offices) into Transit-Oriented Development (TOD) as the light rail station opens. The development is expected to be a mix of uses and have housing units for households with a range of incomes, including long-term affordable housing.

Exhibit 18: Housing Units Built by Type, Des Moines, 2010-2021

Source: HUD User SOCDS Building Permit Database



Non-Residential

The commercial market in and around Des Moines appears strong and growing stronger, capitalizing on access to local water, road, and airways that connect Des Moines with local, regional, and international markets (Exhibit 19). While retail accounts for the most total number of lots in Des Moines (85 unique lot sites), office and industrial account for the largest amount of total square feet of private non-residential land use, accounting for 30 percent (office) and 27 percent (industrial) of the total private non-residential land in Des Moines; these sites are generally much larger in size per lot than most land use types.

Exhibit 19: Non-Residential Land Use, Des Moines, 2023

Source: CoStar

Use Type	Number of Unique Sites	Sum of Land Area (Acres)	Percent of Total Commercial/Industrial Land
Office	31	136	30%
Industrial	18	122	27%
Retail	85	79	18%
Health Care	6	60	13%
Specialty	11	43	10%
Hospitality	8	8	2%
Flex	4	3	1%
Total	163	451	100%

Since 2010, most non-residential development (measured in acres of land) in Des Moines was industrial or office, 49 percent and 45 percent respectively. Of this office and industrial development, almost all of it occurred after 2014 in the Des Moines Creek Business Park (87 percent).

According to the 2021 King County Growth Capacity Report, the non-residential zones of Des Moines are mostly zoned for high and medium high density (FAR greater than 1.0). The study found that what was actually built was low and very low density. Exhibit 20 shows areas zoned for medium high density allow Floor Area Ratios (FAR) between 1.0-3.0, but the average achieved density in these areas is 0.2 FAR. In the areas zoned for high density commercial development, zoning allows FARs of 3.0 or more, but the average achieved density for these areas is 0.5.

Exhibit 20: Non-Residential Zoned Densities, Des Moines, 2012-2018

Source: King County Urban Growth Capacity Report, 2021.

Zoned Density (FAR)	Net Area (sq. feet)	Total Floor Area (sq. feet)	Average Achieved Density (FAR)
Very Low	0 - 0.35 FAR	0	0
Low	0.35 - 0.5 FAR	0	0
Medium Low	0.5 - 1.0 FAR	0	0
Medium High	1.0 - 3.0 FAR	40,980	6,203
High	3.0 & up FAR	3,938,931	2,104,363
Total	3,979,911	2,110,566	0.5

Exhibit 21 shows non-residential achieved densities by density level in Des Moines as reported in the 2021 King County Growth Capacity Report. The analysis shows that the vast majority of non-residential development between 2012 and 2018 occurred at low and very low densities and that the city achieved an overall FAR of 0.5. The achieved FARs during this period are not surprising given the amount of warehouse space that was built in the business park during this period. “Underbuild” (the difference between zoned and achieved densities) is common in commercial and industrial areas. Moreover, the building types developed in the business park are consistent with the findings of our market analysis. While the development outcomes the

city experienced were not unexpected, the city will continue struggling to meet employment growth targets if the delivery of low-density commercial development continues.

Exhibit 21: Non-Residential Achieved Densities, Des Moines, 2012-2018

Source: King County Urban Growth Capacity Report, 2021

Achieved Density Level	Net Area (sq. feet)	Total Floor Area (sq. feet)	Average Achieved Density (FAR)
Very Low	114,290	29,744	0.3
Low	3,724,382	1,853,398	0.5
Medium Low	47,100	29,583	0.6
Medium High	94,139	197,841	2.1
High	0	0	0.0
Total	3,979,911	2,110,566	0.5

Narrowing in on non-residential development in just Des Moines shows similar trends to the 5-mile market area, but with even lower vacancy rates and higher rents. The peak in Des Moines vacancy rates in 2016 coincides with the development and deliveries within the Des Moines Business Park in 2015, which were all quickly absorbed. The current vacancy rate in Des Moines non-residential is around 2 percent, substantially lower than the 5-mile radius market area, which is already low, at about 4 percent.

Exhibit 22 shows that little new non-residential development occurred in Des Moines between 2000 and 2015, but that Des Moines saw a building boom between 2015 and 2018, which more than tripled the amount of non-residential space in the city. The majority of this non-residential development occurred in the Business Park area; the Business Park accounted for over 70% (about 2,500,000 square feet of non-residential development) of the approximately 3,500,000 square feet of total non-residential development that occurred throughout all of Des Moines between 2015 and 2018.

Exhibit 22: Deliveries by Type, Des Moines and Five-Mile Radius, 2000-2023

Source: CoStar

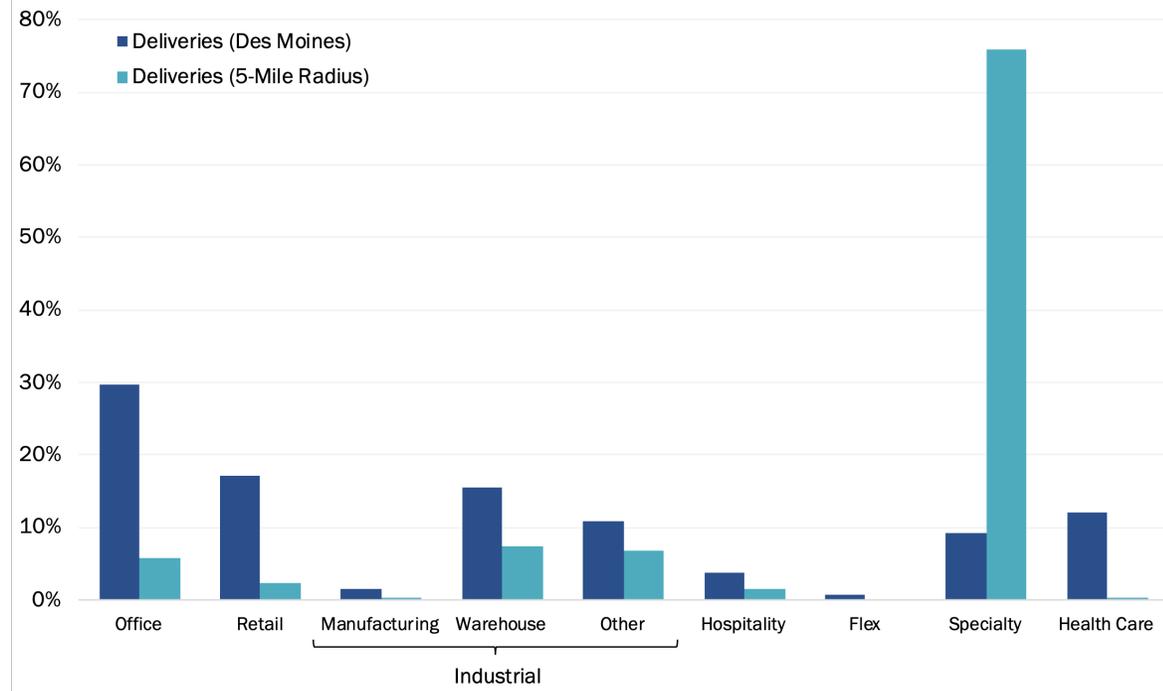


Exhibit 22 shows that the majority of deliveries within Des Moines come from Office and Industrial construction, with more than half of the industrial construction being in the form of warehouses. In contrast, approximately three-fourths of all deliveries in the five-mile radius surrounding Des Moines was "specialty construction," in this case the construction of a very large parking garage serving the Angle Lake light rail station.

Regional Growth Targets

The 1997 Buildable Lands amendment to the Growth Management Act requires six western Washington counties and the cities within them, to measure their land supply (in acres) and land capacity (in housing units and jobs). The intent is to ensure that these counties and their cities have sufficient capacity – realistically measured – to accommodate forecasted growth.

The Puget Sound Regional Council is responsible for establishing regional growth targets. The adoption of VISION 2050 and the Regional Growth Strategy (RGS) in October 2020 provide the foundation for long-range planning in the region. Following the adoption of VISION 2050 in 2020 and subsequent adoption of countywide growth targets in 2022, PSRC released updated land use forecasts called Land Use Vision Implemented Targets (LUV-it).

The forecasts use 2018 as the base year and 2050 as the forecast year.¹² LUV-it establishes sub-regional control totals (including at the city level) and then allocates growth to transportation analysis zones (TAZs). The forecasts include population, households, and employment at both the city and TAZ level.

ECO used the PSRC LUV-it data to assess the implications of changing land use policies, regulations, plan designations, or zoning in the moratorium study area. The intent was to evaluate whether changes would adversely impact the city’s ability to meet its growth targets.

The 2021 Urban Growth Capacity Report presents an assessment of development capacity for future housing and employment in King County. According to the study, “the report is a mid-planning cycle assessment on how jurisdictions are achieving the planning goals of their 2035 comprehensive plans.” Finally, the Report analyzes King County jurisdictions’ progress toward adopted planning goals expressed in the 2012 King County Countywide Planning Policies growth targets and 2015 Comprehensive Plans.

The 2021 Urban Growth Capacity Report found Des Moines has capacity for an additional 8,386 housing units (exhibit 31 in the report). The city is projected to continue growing through the end of the planning horizon in 2044. Des Moines 2044 housing growth target is 3,800 new housing units, representing a 26 percent increase from 2018. This accounts for 13 percent of the total share of housing growth allocated to High Capacity Transit Communities (High Capacity Transit Communities have planned high-capacity transit investments to allow these jurisdictions to accommodate a larger share of future growth; the other six High Capacity Transit Communities include Kenmore, Lake Forest Park, Mercer Island, Newcastle, Shoreline, and Woodinville).

Employment growth is also expected in Des Moines for the foreseeable future. The 2021 King County Urban Growth Capacity Report estimated Des Moines has the capacity for an additional 2,410 total jobs. Des Moines was allocated an additional 2,380 jobs between 2018 and 2044, representing about 9 percent of the total HCT Communities Regional employment target.

Exhibit 23 shows projected growth of population, housing, and employment in Des Moines. The targets show Des Moines adding 9,624 persons, 3,800 housing units, and 2,380 jobs. This is a 30 percent to 34 percent increase between 2018 and 2044.

Exhibit 23: Population, Housing, and Employment Growth Targets, Des Moines, 2018-2044

Source: 2018-2044 King County Growth Targets; (PSRC) VISION 2050 Regional Growth Strategy; PSRC LUV-it forecasts. ^a Population is from the LUV-it Forecasts

	2018	2044 Target	% Increase	2018-2044 Target
Population	31,019	40,643	31%	9,624
Housing	12,700	16,500	30%	3,800
Employment	7,065	9,445	34%	2,380

¹² Note that we use 2044 in our modeling to conform with the growth targets in the 2021 King County Growth Capacity report.

According to the 2021 King County Urban Growth Capacity Report, between 2006 and 2018 Des Moines grew at just 36% of the pace needed to achieve its 2035 employment growth target of 5,800 jobs. As of 2018, Des Moines was under the pace needed to meet its 2035 jobs growth target and needed to grow at an annual rate of 3.2% to reach its remaining target by 2035. The most recent 2021 PSRC Employment data shows a peak in number of jobs in Des Moines in 2019 (7,078) and has since decreased by 4 percent as of 2021 (6,838), an outcome partially attributable to the economic slowdown associated with the COVID pandemic. The largest share of jobs in Des Moines are in the service industry, about 50 percent, followed by education, about 25 percent.

Estimating Demand for Land and Built Space

The demand for land is a derived demand. It derives from a demand for built space, which itself derives from demand for shelter to accommodate human activities (productive and social). An implication is that the demand for buildable *land* is, in part, influenced by the supply of built *space*. Thus, a land needs Assessment should look not only at land, but at built space.

The most simple and aggregate model of demand is more people in a region (e.g., residents and workers) create more demand for built space. This in turn creates a derived demand for land (a place to put the buildings). The aggregate demand model gets more complicated and disaggregated if one considers factors that affect demand for built space.¹³

Several related measures are commonly used in evaluating demand for land and built space. These measures define the arithmetic relationships between building size, floor area, and land area. By definition, employment density is the ratio of labor to land. Several measures of employment density exist: FARs, EPAs, and sq. ft. per employee. To understand the

¹³ Moore and Waddell identified a number of factors that should be considered in a disaggregated demand model. Following are some of the more important factors:

- Product differentiation. There are many types of real estate products (i.e., housing, retail, industrial, etc.). Each of these products has a different demand function.
- Market segmentation. Consumers have different characteristics which causes them to have different preferences for real estate products and land, constrained by demand and financial intermediation lending practices such as changing interest rates.
- Location. The characteristics of a parcel may affect what gets built, but the characteristics of the neighborhood and larger sub-area contribute to value and demand. Location makes a difference.
- Individual preferences and constraints. Urban markets are composed of tens of thousands of individual decisionmakers who have different preferences for real estate products.
- Sub-markets. The variability of products, consumers, and locations creates sub-markets that are more or less substitutable.
- Durability of real estate products. Buildings can last 50 years or more, the long-life of buildings means mobility and filtering must be taken into account when forecasting demand.
- Public policy. Policy affects market demand and supply relationships.
- Demand and supply interaction. What people often refer to as “historical demand” is, technically, the intersection of demand and supply factors at some price.

relationship between Floor Area Ratios, square feet per employee, and employee per acre ratios, we start with definitions.¹⁴

- Floor Area Ratio (FAR). The Floor Area Ratio is the total building square footage (building area) divided by the site size square footage (site area)
- Square Feet Per Employee (SF/Emp). The total square feet required for employees. This includes shared spaces such as lobbies, hallways, elevators and stairwells, restrooms, and other built space.
- Employee per acre ratio (EPA). The total number of employees divided by the size of the site. Implicitly, this is a *net* density figure; it does not include land needed for streets and other public uses.

ECONorthwest used the growth targets as allocated to TAZs to analyze growth patterns in the regional study area and Des Moines, and to estimate demand for built space (in sq ft of floor area) and land (in acres). We started by reviewing research by ECONorthwest and other organizations on employment density.¹⁵

A key theme throughout studies on employment density is the amount of variability that exists within industries, plan designations, or zoning districts. For example, a commercial zone may have employment densities ranging from 0.5 employees per acre for a mini-storage facility to densities over 50 employees per acre for multi-story office buildings. Space per employee tends to show less variability than employees per acre. As a result, most studies use averages which turn out to be an acceptable proxy for larger geographic areas (i.e., they provide reasonable estimates).

ECONorthwest developed two models to estimate built space and land need. The land need estimates do not make a distinction between greenfield development and redevelopment. The model specifications are as follows:

Model 1: King County Growth Capacity Assumptions

Model 1 builds off assumptions used in the 2021 King County Growth Capacity Report. The 2021 report estimated the overall actual square feet per employee in Des Moines was 818 and the average FAR was 0.5. Analysis in Appendix A of the report shows Des Moines averaged 699 square feet per employee for non-industrial jobs, and 3,509 square feet for industrial jobs. This finding is consistent with the overall low employment densities achieved in new development

¹⁴ There is a simple mathematical relationship between the three measures (FAR, SF/Emp, and EPA):

- FAR can be derived from EPA and SF/Emp: $(EPA * 43560) / SF \text{ per Emp}$
- SF/Emp can be derived from EPA and FAR: $(FAR * 43560) / EPA$
- EPA can be derived from SF and FAR: $(FAR * 43560) / SF \text{ per Emp}$

¹⁵ ECO conducted similar reviews for Piece and Clark Counties as part of the 2019 Buildable Land Report updates.

between 2016 and 2019 and could be expected given the amount of warehouse space built in Des Moines between 2015 and 2019.

Appendix D of the Growth Capacity Report presents recommended assumptions for Central Market Area cities in commercial and mixed-use zones (300-600 sf/emp) and industrial zones (700-1,200 sf/emp).

Growth Capacity Modeling for Des Moines used assumptions of 575 square feet per employee for commercial uses and made no assumption for industrial uses as the city does not have any industrial land capacity. For modeling purposes, we used the following assumptions:

Commercial: 575 sf/emp

Industrial: 900 sf/emp

The 2021 King County Growth Capacity Report did not use EPA assumptions, so ECONorthwest used assumptions from Pierce and Clark County. Both Counties assumed 11 employees per acre for industrial uses and 22 employees per acre for commercial uses.

Model 2: Sector-Level Assumptions

Model 2 uses sector level assumptions that build from several studies.¹⁶ Exhibit 24 shows the assumptions used for model 2.

Exhibit 24. Model 2: Sector Level Employee Per Acre and SF/Employment Assumptions

(Con_Res signifies Residential Construction, Manuf_WTU signifies Manufacturing [Wholesale, Transportation, and Utilities], FIRES signifies Finance, Insurance, Real Estate, and Services, Gov signifies Government, and Edu signifies Education)

Sector	EPA	SF/Emp
Con_Res	6	800
Manuf_WTU	12	420
Retail	22	700
FIRES	30	350
Gov	35	300
Edu	15	300

Exhibit 25 shows actual (2018) and projected (2044) employment, by sector and study area for 2018 and 2044 and the growth increment in number of employees and percent change. The results show the regional study area is projected to add 97,754 new employees during the period; Des Moines 8,574, and the Study Area TAZ, 94. Thus, the Study Area TAZ accounts for 1.2 percent of employment growth projected for Des Moines between 2018 and 2044. Given the small amount of employment allocated to the study area, changing land uses would have little overall effect on the city's ability to meet its employment targets. The employment projections provide the basis for estimating built space and acres.

¹⁶ Snohomish County Employment Density Analysis, 2007. Portland Metro Employment Density Study, 1999. Eugene Employment Density Study, 2010.

Exhibit 25. Actual (2018) and Projected (2044) Employment, by Sector and Moratorium Study Area, 2018-2044¹⁷

Source: PSRC LUV-it City Forecasts and TAZ allocations; Analysis by ECONorthwest

(Con_Res signifies Residential Construction, Manuf_WTU signifies Manufacturing [Wholesale, Transportation, and Utilities], FIRES signifies Finance, Insurance, Real Estate, and Services, Gov signifies Government, and Edu signifies Education)

Note: Study Area TAZ covers the moratorium study area south of 216th Ave.

Sector	Regional TAZ Study Area				Des Moines TAZs				Study Area TAZ			
	2018	2044	% Change	2018 - 2044	2018	2044	% Change	2018 - 2044	2018	2044	% Change	2018 - 2044
Con_Res	12,269	13,765	12%	1,496	795	1,193	50%	398	57	63	11%	6
Manuf_WTU	68,471	72,103	5%	3,632	1,948	3,130	61%	1,182	35	48	37%	13
Retail	26,439	57,314	117%	30,875	2,952	5,213	77%	2,261	53	90	70%	37
FIRES	50,032	99,476	99%	49,444	4,204	7,700	83%	3,496	78	132	69%	54
Gov	13,074	17,259	32%	4,185	242	409	69%	167	124	108	-13%	-16
Edu	5,295	13,417	153%	8,122	1,787	2,857	60%	1,070	0	1	na	1
Total	175,580	273,334	56%	97,754	11,928	20,502	72%	8,574	347	442	27%	95

Exhibit 26 shows the results of models one and two for the regional TAZ study area. The output shows the regional study area will need between 32 million and 57 million square feet of new built space between 2018 and 2044. The higher need estimate from Model 1 is a result of higher SF/Emp assumptions. The land demand estimates show less variability as a result of less difference in the EPA assumptions.

Exhibit 26. Built Space and Land Demand, Regional Study Area TAZs, 2018-2044

Source: Analysis by ECONorthwest

(Con_Res signifies Residential Construction, Manuf_WTU signifies Manufacturing [Wholesale, Transportation, and Utilities], FIRES signifies Finance, Insurance, Real Estate, and Services, Gov signifies Government, and Edu signifies Education)

Sector	Model 1: KCGC Assumptions		Model 2: Sector Assumptions	
	Built Space (SF)	Acres	Built Space (SF)	Acres
Con_Res	860,200	68	1,196,800	249
Manuf_WTU	3,268,800	330	1,525,440	303
Retail	17,753,125	1,403	8,378,352	1,403
FIRES	28,430,300	2,247	17,305,400	1,648
Gov	2,406,375	190	1,255,500	120
Edu	4,670,150	369	2,436,600	541
Total	57,388,950	4,608	32,098,092	4,265

Exhibit 27 shows new households forecast between 2018 and 2044 for TAZs in the regional study area and Des Moines. The data are presented in quintiles. For the Moratorium Study Area (TAZ 1040) PSRC forecasts 398 new households (a 72 percent increase) and 942 new persons (a 67 percent increase). Comparing PRSC forecasts for housing and jobs shows PSRC anticipating much more housing growth in the Moratorium Study Area.

¹⁷ The Study Area TAZ Government sector employment shows a decrease between 2018 and 2044, this is likely a result of the greater TAZ allocation that proportionately distributes regional employment projections.

Exhibit 27. New Households, Study Area TAZs, 2018-2044

Source: PSRC LUV-it forecasts; mapping by ECONorthwest

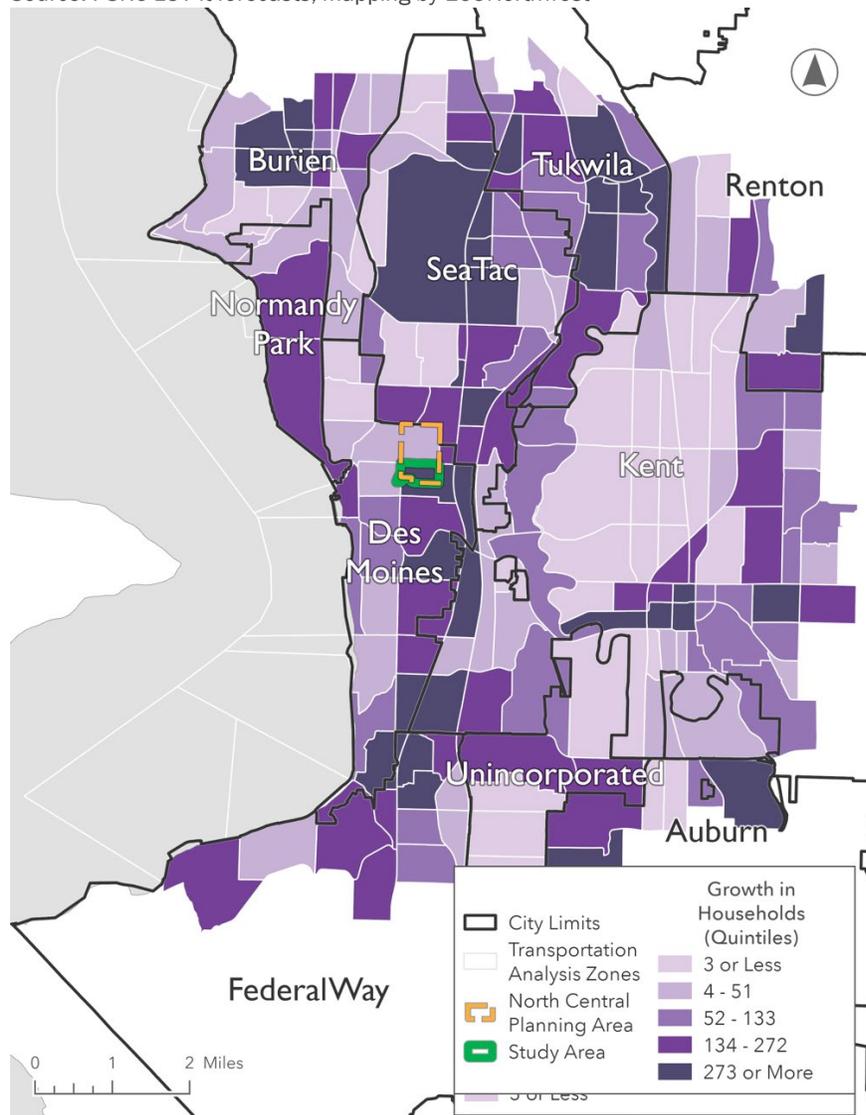


Exhibit 28 shows new employment forecast between 2018 and 2044 for TAZs in the regional study area and Des Moines. The data are presented in quintiles.

Exhibit 28. New Employment, Study Area TAZs, 2018-2044

Source: PSRC LUV-it forecasts; mapping by ECONorthwest

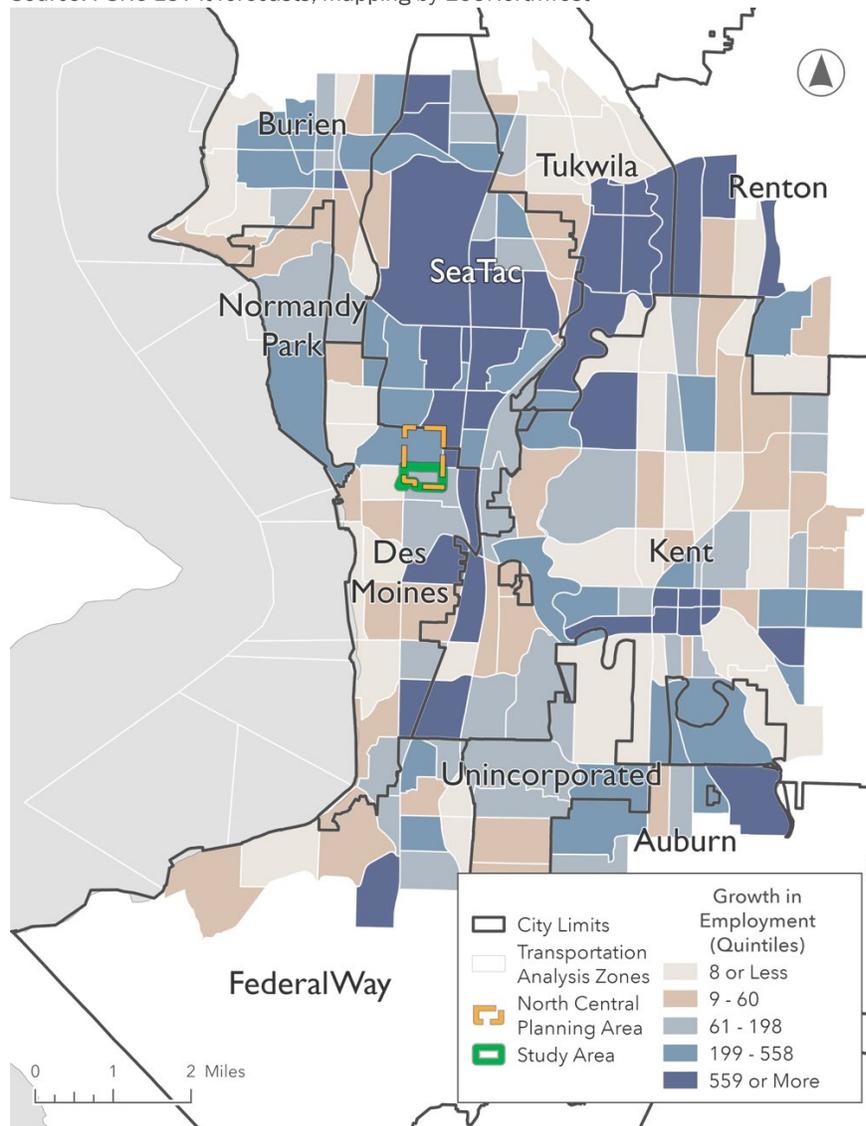


Exhibit 29 shows built space and land demand for the City of Des Moines. The model output shows that Des Moines will need between 2.5 million and 5.3 million square feet of new built space between 2018 and 2044. As with the regional study area output, the higher need estimate from Model 1 is a result of higher SF/Emp assumptions. The models estimate that Des Moines will need between 443 and 460 acres to accommodate new employment. Note that the acreage estimates do not distinguish between greenfield development and redevelopment. The land demand estimates show less variability as a result of less different in the EPA assumptions.

Exhibit 29. Built Space and Land Demand, Des Moines TAZs, 2018-2044

Source: PSRC LUV-it City Forecasts and TAZ allocations; Analysis by ECONorthwest

(Con_Res signifies Residential Construction, Manuf_WTU signifies Manufacturing [Wholesale, Transportation, and Utilities], FIRES signifies Finance, Insurance, Real Estate, and Services, Gov signifies Government, and Edu signifies Education)

Sector	Model 1: KCGC Assumptions		Model 2: Sector Assumptions	
	Built Space (SF)	Acres	Built Space (SF)	Acres
Con_Res	228,850	18	318,400	66
Manuf_WTU	1,063,800	107	496,440	99
Retail	1,300,075	103	37,204	103
FIRES	2,010,200	159	1,223,600	117
Gov	96,025	8	50,100	5
Edu	615,250	49	321,000	71
Total	5,314,200	443	2,446,744	460

4. Development Feasibility Analysis

A key objective of this study was to understand what types of development are supported by current market conditions. To meet this objective, ECONorthwest analyzed financial feasibility of various development types that are allowed to develop within the study area or might be desirable if the city adopts a different land use vision for the area. We modeled prototypical development types, or *prototypes*, that represent a range of developments that have been observed within the Business Park, surrounding area, and prototypes the city might want to see in the study area.

Development Prototypes and Summary of Assumptions

Most of the prototypes tested were selected to represent the range of development types recently observed within a 5-mile radius of the study area. This 5-mile radius represents our market area. The prototypes tested included industrial, office, retail/commercial, and residential uses. The table in Exhibit 30 outlines these development prototypes tested as well as key assumptions including site size, building coverage, number of stories, and lot coverage.

Exhibit 30. Summary of Development Prototypes

Source: ECONorthwest

	Industrial (Distribution & Warehouse)	Industrial (Manufacturing)	Office (Medical & Professional)	Office (strip mall)	Retail / Commercial Mix	Self-Storage	Townhomes (8 unit)	Multifamily (Sixplex)
Site Size	150,000	130,000	50,000	25,000	150,000	150,000	11,000	7,500
Building Coverage	75,000	65,000	25,000	15,000	60,000	30,000	5,000	2,000
Number of Stories	1	1	2	1	2	1	3	3
Lot Coverage Ratio	50%	50%	50%	60%	40%	20%	45%	27%

Proforma Analysis

ECONorthwest completed an economic analysis that models a developer's decision-making process and cash flow equation. More specifically, we used a pro forma model to assess the feasibility of each of the prototypes given current market conditions. The pro forma calculates the residual land value (RLV), which is an estimate of what a developer would be able to pay for land given the property's income from rental or sales revenue, the cost to build as well as to operate the building, and the investment returns needed to attract capital for the project. In other words, it is the budget that developers have remaining for land after all the other development constraints have been analyzed.

An advantage of the RLV approach is that it does not rely on land prices as an input. Rather, observed land prices can be compared with the model outputs to help calibrate the model and ensure it reflects reality. We used the King County assessor data as a proxy for land prices and compared the residual land value (RLV) to

Residual Land Value (RLV)-This term is used throughout this memo and is defined as the price (or price per square foot) of land that a site would need to sell for in order to make a development feasible. RLV can be thought of as a land budget. The land budget is what a developer can afford to pay for land and still maintain a financially feasible development project.

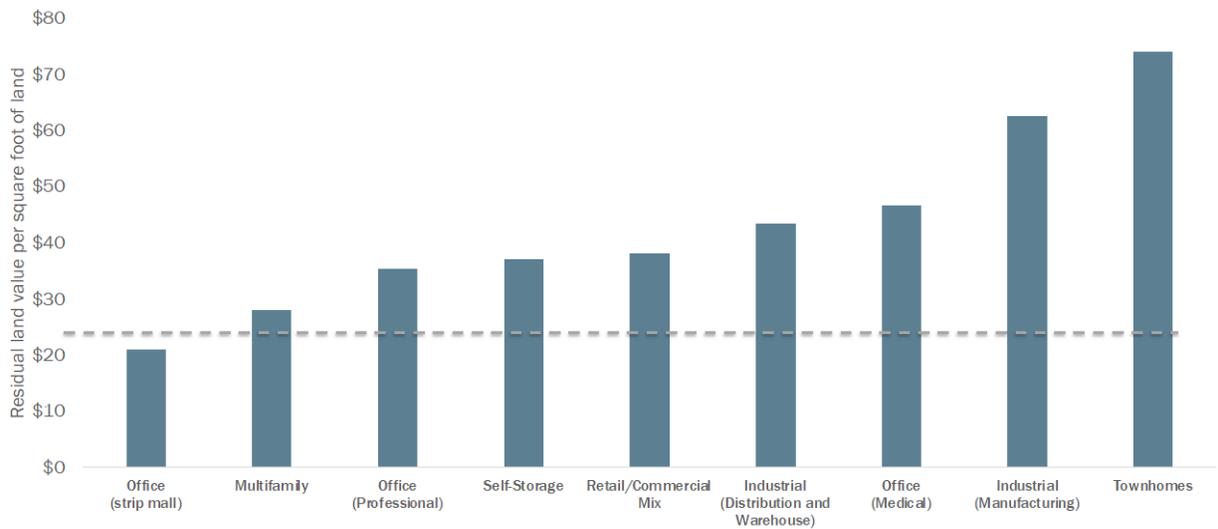
the average value for both improved and vacant land in these zones. If the RLV is greater than, or close to, the current land price for the property, the project is likely feasible. If the RLV is less than the land price, new development is unlikely to be able to afford the land needed for the project. Lastly, if the RLV is negative, the project does not generate enough income to turn a profit and is not feasible. RLV analyses should be thought of as a strong indicator of the relative likelihood of development, not an absolute determinate of project feasibility. The results from this method describe a general analysis of prototypes and do not consider the many potential unique conditions that could be a factor in development feasibility (e.g., increased predevelopment costs, low land basis from longtime land ownership, proximity to preferred shipping sites, etc.). The findings from this analysis are intended to inform discussion regarding desired outcomes in the study area (short- and long-term) and the types of development more likely to occur within the allowed zoning uses given market conditions.

Results

Exhibit 31 shows the results and findings from the financial feasibility analysis.

Exhibit 31: Financial Feasibility Results

Source: ECONorthwest



Most prototypes tested are feasible relative to land values in the study area. Lower land values in the study area, per the assessor data, play an important role in enhancing the viability of these prototypes. However, it's important to note that the feasibility of these prototypes and the relationship between them can be highly sensitive to fluctuations in rent and other financial factors. Despite this sensitivity, the positive results shown in Exhibit 31 demonstrate a broad spectrum of potential policy options the city can consider for the study area.

Townhomes are the most feasible development prototype tested. ECONorthwest has consistently found townhomes to be a very competitive development type throughout the

Average Land Value

Puget Sound Region. Townhomes generally offer an efficient layout, can be easy to scale, and can be sold at a premium price given market demand, making them an attractive product for developers to build. However, the city should consider whether zoning for townhome development is the appropriate policy option to help meet local housing and employment needs.

Des Moines lacks new multifamily comparables,¹⁸ but there is and will likely continue to be demand for this development type in Des Moines and the region overall. Des Moines currently lacks comparable market-rate multifamily development, indicating that the market for multifamily housing in the city has yet to be proven. However, considering both regional and local trends, there is likely unmet demand for more dense and diverse housing options in Des Moines and the region overall. Given the lack of comparable properties (comparables), our analysis relied on assumptions about achievable rents gathered from the larger market area. Despite the lack of specific comparables, the overall market demand for housing suggests a relatively positive outlook for multifamily development in Des Moines as more “middle housing” comes online in Washington. It should be noted that the form of multifamily development tested in this analysis (sixplex) is still considered lower density and much of the housing that is targeted for Des Moines is high density multifamily given its designation as a High Capacity Transit Community. Higher density multifamily development feasibility could be explored but was not a part of this report’s development prototype analysis.

Results for both office types are likely overstating feasibility given the ongoing volatility in the office market. While the positive results can be attributed to the cheaper construction type observed in office comparables in Des Moines, and the potential to command high rental rates (standard for office relative to other commercial types), it is important to consider the current state of the office market. High office vacancy levels suggest that investment capital is hesitant to venture into new developments or commit to long-term leases at reduced rates. Given these circumstances, it is unlikely that the market is receptive to new office projects or willing to make long-term financial commitments at this time. Therefore, the positive feasibility results for the office types need to be interpreted with caution. The Seattle office market has seen a rise in vacancy rates in 12 of the last 14 quarters and is currently near 12%, while vacancy rates pre-pandemic were closer to 6%.¹⁹ While medical office may still be in slightly higher demand, the study area currently lacks the existing medical facilities and context for supporting medical office.

Achievable retail rents are surprisingly high, likely due to recent comparable developments. Achievable retail rents in the market area are relatively high, likely attributed to recent comparables (comparable developments) near the study area, such as the new Outdoor Research facility just north of the study area. However, it is uncertain whether there would be a substantial increase in the number of investments in this particular type of commercial space in

¹⁸ Comparables are developments that are similar and can be used to develop assumptions or validate results from financial modeling.

¹⁹ Kidder Matthews, [Seattle Office Market Report](#). 2nd Quarter, 2023.

the area. Therefore, while the achievable retail rents currently appear to be high, the long-term sustainability and growth of this market segment in the area warrant further consideration.

Other findings include:

- Industrial and Manufacturing uses are likely feasible in the study area, but the amount of buildable land and parcel assemblage required to build those uses in the study area will likely decrease the physical feasibility of new projects. Parcel assemblage is often complicated and expensive which is likely to deter this use in the study area, even if allowed by zoning.
- Self-storage tends to be more expensive to build relative to the other prototypes and only provides low employment density, but in turn it offers low operating costs and can command fairly high rental rates. With the increase of more dense housing development in Des Moines, there could be additional demand for self-storage, thereby increasing the feasibility of this development type relative to the other uses.

5. Potential Policy Options and Study Area Opportunities and Constraints

This section outlines potential policy and the opportunities and constraints within the Moratorium study area. It's important to note that the opportunities and constraints discussed here do not serve as a formal evaluation of potential options. Instead, they aim to provide context for how existing conditions could present opportunities or challenges across the entire Business Park area. The analysis does not consider existing policies, plan designations and zoning as fixed and some of the outcomes would result in significant changes to the future land use vision for the area. The opportunities and constraints are not intended as recommendations; rather they are an exploration of possibilities for the study area.

Regulatory Options

By most measures, the Des Moines Business Park has been an unqualified success. The amount and rate of development are remarkable with the city adding approximately 2.5 million square feet of commercial and warehouse space in a four-year period between 2015 and 2018. Moreover, data from the 2021 King County Growth Capacity Report show that non-residential development during the 2006 through 2018 analysis period has averaged floor area ratios of 0.5. The city will need to achieve higher FARs to reach the 2044 employment growth target.

The moratorium study area has transportation limitations that make additional warehousing or truck-intensive uses undesirable. Thus, land-intensive, low employment density uses are undesirable for the remaining land. Table 18.52.010B of the Des Moines Municipal Code documents permitted uses in the Business Park zone. Several uses that are outright permitted in the zone are low employment density uses. These include:

- Food, frozen or cold storage lockers
- Parcel service delivery
- Self-storage/mini-warehouse leasing
- Warehouse distribution centers, home deliveries
- Wholesale business

While not every development of these uses may be undesirable give the variability in employment densities that exist within many industries, these are generally lower employment density uses. Several options exist for addressing low density uses:

- **Amend the list of allowable uses in the B-P zone.** This approach would delete uses the city deems undesirable. A key issue with this approach is to ensure the amendments do not make existing uses in the B-P zone nonconforming uses. A simple approach would be to list uses prohibited south of 216th Avenue.

- **Create an overlay zone.** This could be applied to the south subarea and potentially the west subarea within the North Central neighborhood area or could apply to areas south of 216th Street. The key provision of the overlay would be to prohibit undesirable uses.
- **Amend the Plan Designation and/or Zoning.** This option may be desirable if the city proposes a different land use option for the study area. For example, if the city wanted to encourage housing in the undeveloped areas of the study area, amending the plan and zone maps would be necessary. We note that some plan/zone conflicts exist in the study area where, for example, lands designated business park have a residential zone.

Which outcomes would be most effective in achieving the city’s goals will be contingent on how the city chooses to move forward with the moratorium study area.

Opportunities and Constraints within the Moratorium Study Area

In early conversations with city staff about this project, staff indicated a desire for ECO to think broadly about policy and land use. Given that the city is initiating the required review and update of the Des Moines Comprehensive Plan, the analysis presented in this report can serve as a foundation for a dialog with city decision-makers and the community about their perspectives regarding future development in the study area.

ECO developed overall opportunities and constraints that apply to the Moratorium Study Area. Next steps could include a conceptual plan that would be more detailed and include maps and analysis of factors other than just market readiness (e.g., transportation, infrastructure capacity, preserving critical areas or areas with other environmental amenities, etc.).

Opportunities within the Moratorium Study Area

- **Achieving Employment Targets.** PSRC allocated modest employment growth for the study area, but leaning into an employment focus for the study area could help further the city’s efforts in meeting the 2044 employment growth targets. To meet employment growth targets, the city needs to incentivize denser commercial development more akin to that of the building that houses Riot Games.
- **Regional and Local Housing Need.** Both regionally and locally, there is a need for more housing supply. Moreover, PSRC forecasts considerable housing and population growth in the TAZ that covers the study area. To achieve the housing targets allocated to Des Moines by 2044, the city will need to add about 3,800 housing units. The study area is already home to and zoned for diverse housing types, including low-density apartment and single-family homes dispersed throughout the study area. This indicates that even though the site is near the airport, the noise from air traffic does not seem to deter people from living in the area. Changes to the zoning to certain portions of the study area that support more residential development could help the city make progress towards meeting housing targets and also to meeting the local housing needs documented in the recently adopted Housing Action Plan.

- **WSDOT SR 509 Right of Way.** The SR 509 right of way will no longer be used as it was originally intended, potentially opening up the land for some level of development.²⁰ Trail systems and other recreational facilities that neighbor residential and commercial uses offer residents recreational access as well as commuter and programming opportunities. A recent example is the development and programming along the Cross Kirkland Corridor Trail. The area features a mix of commercial uses such as medical offices, breweries, manufacturing, self-storage and the Kirkland Google Campus. A constraint is that WSDOT owns the property and their future plans for the property are unclear.
- **High-Capacity Transit.** Des Moines will soon be home to a new light rail station, south of the study area near Highline College. The increase in transit options will benefit residents and reduce dependence on personal vehicles throughout the city, not just those adjacent to the station.
- **Existing Residential and Commercial Land (Mixed) Uses.** The study area is already home to a variety of existing commercial and residential development, and the feasibility analysis indicates that both are viable options for the area. These mixed-use types of development help to serve and meet denser housing and employment targets as a more “complete neighborhood.” The city has already completed significant pedestrian and bike improvements to improve access to the area including the South 216th Street Transportation Gateway Project (intersection upgrades, additional lanes, bike lanes, widened sidewalks), the METRO Connect shuttle (frequent shuttle service to the Angle Lake Link light rail station in Sea Tac), and the Connecting 28th/24th Avenues South project (connected the transportation gap between South 28th Avenue with the southern limits of SeaTac with both freight access and shared-use paths).
- **Des Moines Innovation Hub.** The central location of the site in a major employment center creates an opportunity to foster the regional innovation ecosystem through development of an innovation hub. MIT defines innovation ecosystems as “places that engage five stakeholder types—research institutions, entrepreneurs, corporations, investors, and governments—linked by a strong social fabric of mutual interest, complementary needs and resources, and trust.”²¹ Moreover, McKinsey described the value proposition of innovation *hubs* by looking at the economic impacts of innovation, finding that innovation-based industries:
 - (1) Have productivity growth is nearly double the rate of other sectors;
 - (2) Are responsible for 60 percent of US exports
 - (3) Account for 80 percent of engineers and patents; and

²⁰ It is assumed the ROW contains critical areas. However, the extent to which they exist in the area was not explored as part of this work.

²¹ <https://sloanreview.mit.edu/article/strategically-engaging-with-innovation-ecosystems/>

(4) Pay above average wages.²²

They conclude “innovation hubs open new avenues for healthier, more diverse, and more connected communities.” Des Moines has an opportunity to partner with businesses, business support organizations, and economic development organizations to create an innovation hub to link, leverage, and align assets with the intent of fostering innovation-based entrepreneurship.

Constraints within the Moratorium Study Area

- **Existing Recreational Uses.** The recreational facilities present a development constraint in the sense that the city has already invested in recreational facilities and developed a ballfield complex honoring a fallen officer. We see those uses as fixed and unchangeable. Recreational facilities create an opportunity in the sense that the existing public amenities contribute to the goal of a “complete neighborhood”, and can be leveraged as amenities for future uses. Existing recreational features in the study area include the Steven J. Underwood Memorial Park, the Des Moines Senior Center, and existing trail systems. The Steven J. Underwood Memorial Park offers over 20 acres of ball fields and activities with ample parking. Since the city owns some of the land within the study area, there is an opportunity to reevaluate the uses to increase public use and access of the existing park facilities. A recreation focus for the study area could capitalize on and enhance Trail systems that neighbor commercial or even industrial uses offer commuting and programming opportunities. A recent example of this is the development and programming along the Cross Kirkland Corridor Trail. The area features a mix of commercial uses such as medical offices, breweries, manufacturing, self-storage and the Kirkland Google Campus. Decisions about recreational site plans would require further analysis and engagement with the community.
- **Lack of Buildable Industrial Land in the Moratorium Study Area.** The 2021 King County Growth Capacity Report identified no buildable industrial land in Des Moines. Moreover, the study found that the rate of employment growth between 2006 and 2018 was below the rate needed to meet the employment targets. Given the Des Moines employment targets and land constraints, employment density is important to consider. Lower density industrial uses such as warehousing, manufacturing, and distribution appear to be feasible in our analysis, but these uses require a great deal of land, their feasibility is extremely sensitive to revenue and cost factors (including rent and the cost of land), and they yield fewer jobs per acre, which limits the City’s ability to meet its projected job growth targets. Most parcels in the study area are small and there are only a few that are large enough to support these prototypes. Parcel configuration and internal access to them will also be a challenge for siting those uses in the study area. Parcel assemblage would likely be required, greatly increasing the cost of land and making the project infeasible. Because the future viability of office development is so

²² <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/building-innovation-ecosystems-accelerating-tech-hub-growth>

unclear point in time and because the city is not necessarily interested in seeing more lower density industrial development within the study area, the viability of a strong employment focus in the study area is unclear.

- **Future Office Market Trends are an Unknown.** While both professional and medical office development appear to be feasible for the area, given the volatility in vacancy rates for office in the region (due to the ongoing effects of the COVID-19 pandemic), it is unlikely at this time that new office development would occur within the study area without recent comparables to test the market.
- **Airport Approach.** The study area is near Seattle-Tacoma International Airport, meaning plane traffic in the airspace above is likely frequent. While sound mitigation may be a part of some residential development and entail an increased cost, given the presence of existing residential development and the general demand/need for housing in the region, this won't likely be a significant barrier, but will benefit from an awareness of flight path approaches.

Conclusion

Which option forward best suits the city is contingent on what outcomes the city wants. ECONorthwest has not assessed the desirability of any particular outcome, in part because some of the potential outcomes would be inconsistent with the vision and targets articulated in the current comprehensive plan. Consistent with our work program, we did not identify alternative visions or policies for the site. What we did identify was an opportunity to create a more cohesive land use pattern in the study area that can address the city's housing and employment objectives while prohibiting development that is unsuitable for the transportation infrastructure in the study area. That work requires input from decision-makers and community members. In moving forward, we suggest the city start with some foundational questions:

- What is the community's vision for the study area?
- What objectives and outcomes does the community want to see?
- How do these potential land use outcomes align with city objectives?
- What are the benefits and challenges that accompany those outcomes?
- What risks are presented in implementing the desired vision?

These questions are typical of long-range planning processes and can be addressed as the city updates the Des Moines Comprehensive Plan. In the interim, the city should consider taking steps to ensure that undesirable uses do not occur in the study area by pursuing one of the options outlined in the regulatory options section.

Appendix A: Parcel Inventory in Study Area

Parcel number	Address	Lot area (sq ft)	Appraised land value	Appraised improvement value	Use
922049405		68389	\$205,100	\$0	Vacant
922049122	1906 S 220TH ST	60112	\$272,000	\$458,000	Single-Family
922049077	2003 S 216TH ST	116305	\$2,093,400	\$0	Post Office
922049341	2217 S 216TH ST	23147	\$190,000	\$315,000	Single-Family
922049221	2231 S 216TH ST	23166	\$190,000	\$255,000	Single-Family
922049174	21611 24TH AVE S	8174	\$154,000	\$381,000	Single-Family
922049165	2245 S 216TH ST	14525	\$161,000	\$333,000	Single-Family
922049123		227383	\$1,023,200	\$75,000	Park/City Owned
922049038	1855 S 216TH ST	87555	\$1,575,900	\$3,906,500	Warehouse
922049386	2127 S 216TH ST	13759	\$168,000	\$467,000	Single-Family
922049194		15000	\$134,000	\$0	Storage/Vacant
922049154		227818	\$425,000	\$0	Park/City Owned
922049131	21800 20TH AVE S	207781	\$413,000	\$0	Park/City Owned
922049017	1911 S 218TH ST	293158	\$5,276,800	\$5,220,600	Light Industrial/New site of Riot Games
922049016	1835 S 216TH ST	129373	\$1,002,600	\$12,943,400	Apartments
922049015	2207 S 216TH ST	23670	\$190,000	\$429,000	Single-Family
922049175	2249 S 216TH ST	14429	\$161,000	\$328,000	Single-Family
922049075	21815 24TH AVE S	202118	\$407,000	\$327,000	Single-Family
922049208	1836 S 220TH ST	15000	\$168,000	\$338,000	Single-Family
922049207	2259 S 216TH ST	7288	\$132,000	\$288,000	Single-Family
922049305		12000	\$17,000	\$0	Vacant
922049183		87991	\$681,900	\$0	Vacant
922049081	2161 S 216TH ST	13412	\$161,000	\$404,000	Single-Family
922049349	2045 S 216TH ST	180144	\$540,400	\$430,500	Community Building/City Owned
922049252	2215 S 216TH ST	23018	\$190,000	\$376,000	Single-Family
922049199		18000	\$12,000	\$0	Vacant
922049092	21645 24TH AVE S	207345	\$1,866,100	\$1,838,300	Church

Parcel number	Address	Lot area (sq ft)	Appraised land value	Appraised improvement value	Use
922049358	21625 24TH AVE S	14751	\$168,000	\$301,000	Single-Family
922049166		32546	\$162,700	\$0	Vacant
No parcel #	Greenway/critical areas	871200			
	Total (Acres)	74			