

# **City of Federal Way Market Analysis**

Prepared for

City of Federal Way

by

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# Summary

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## BACKGROUND

This report contains a general market analysis for the City of Federal Way. Its main purpose is to describe how markets for real estate products (for example, office space, single family residential) are likely to evolve over the next 20 years, how market forces are likely to respond to City land use policy (for example, zoning), and how well a market-based forecast of development activity matches with the City's long-run development plans. City staff will use the information in this report:

- To meet requirements of the Growth Management Act. This information will assist in determining whether the City of Federal Way presently has a 20-year supply of adequately zoned land to meet anticipated need. Additionally, this information will help shape recommendations by City staff on requests for changes to the comprehensive plan designations and zoning, or the expansion of allowable uses in a zoning district.
- As a basis for the EMME/2 Travel Demand Model that will be used to help decide the location of future transportation improvements.
- To update the Economic Development Chapter of the City's Comprehensive Plan and the City Center Chapter.

This market analysis covers the City limits and the Federal Way Transportation Analysis Zones (TAZs) located outside of the City limits. For that area it describes:

- The kind of growth to be anticipated in the next 20 years (2000 – 2020), broken down in five-year increments.
- The areas, by City Transportation Analysis Zone (TAZ) and City zoning district, that will receive this growth by 2020.
- Future land and redevelopment space needs.

## SUMMARY OF FINDINGS

- **Long-run forecasts of growth made by the Puget Sound Regional Council (PSRC) are the starting point for any evaluation of long-run development activity for at least two reasons.** First, increases in population and employment drive demand for real estate development. If, for example, the PSRC population forecast were to show very little population growth, then one should not expect to

see a lot of housing development. Second, the PSRC forecasts have some official status for planning in King County and its cities, especially for the purposes of transportation planning. If Federal Way is to diverge from these forecasts, it will have to make a case for why such divergence is reasonable.

- **PSRC forecasts that population will increase by 27,397 persons in the Federal Way city limits between 2000 and 2020, and that employment will increase by 8,177 jobs.** The PSRC population forecast within the Federal Way city limits was 81,150 as of early 2000; population is forecast to increase to 108,547 in 2020. This report estimates that employment within the Federal Way city limits was 29,055 as of early 2000. PSRC forecasts total employment in the Federal Way city limit at 37,232 in 2020.
- **The PSRC population forecast for Federal Way is too high as a "most likely" forecast for the city limits. The PSRC population forecast for the TAZ Study Area (TAZs outside of the City) and the employment forecasts for both the City Limits and TAZ Study Area are reasonable.** The PSRC population forecast implies that Federal Way will increase population by about 1,370 persons per year. Applying the PSRC's estimate of average household size (2.35 persons per household) for new households created between 2000 and 2020 yields a dwelling unit need of about 580 dwelling units annually. But between 1990 and 1999, Federal Way issued about 406 permits annually, 70% of the PSRC forecast. In other words, the PSRC forecasts implies that Federal Way will increase the number of permits issued by 175 per year over the average of 406 per year, an increase of approximately 43% over its production in the 1990s, and that it will sustain that increase for 20 years. The analysis presented in this report (including an evaluation of the supply of buildable, residential land by zoning type) leads to the conclusion that population growth within the Federal Way city limits is more likely to be about 20,000 persons between 2000 and 2020.
- **City staff estimate a total residential capacity of 12,168 dwelling units.** Staff estimates that about 4,839 dwelling units can be accommodated on lands designated out-right for residential uses and another 7,329 dwelling units can be accommodated on lands designated for mixed-use development. These estimates imply a housing mix of 32% single-family and 68% multiple family for future development. The average percent of multiple-family units for incorporated areas of King County in 1998 was about 44%, a figure relatively close to Federal Way's 1998 percentage of multiple-family. Tukwila had the highest percentage of multiple-family dwelling units at 57%; Kent had about 55%, and Redmond had about 54%.

- **It will be a challenge for Federal Way to achieve the percentage of multiple-family units between 2000 and 2020 that the PSRC growth forecast and buildable land supply single-family dwellings imply.** The market has not historically developed at that mix. The anticipated multi-family residential development would have to derive from either development in mixed-use zones, or rezoning and redevelopment of residential land that is primarily built but underutilized. Between 1990 and 1999 the City's capacity database indicates that 450 multi-family dwelling units were constructed in its mixed-use zones, but that all of them were traditional multi-family products (i.e., without the ground-floor retail that the mixed-use zones require).

Federal Way's growth over the last 10 years is consistent with growth trends in the larger market of Southwest King County. Through most of the 1990s, housing demand in Southwest King County has been soft relative to other areas of King County. In absolute terms, unincorporated areas like the Sammamish Plateau and the Soos Creek area absorbed large portions of the County's new single-family development, and cities like Seattle, Bellevue, Kirkland, and Kent absorbed large numbers of both new single-family and new multi-family housing. On the whole, residential demand in South King County has been weaker than other areas of the Puget Sound Region.

- **There are, however, some reasons to believe that Southwest King County in general, and Federal Way specifically, will begin to receive more attention from developers.** With housing prices in places like Seattle and Kirkland rising rapidly due to a combination of strong demand and diminishing supply, and with the recent incorporation of the Sammamish Plateau (which was at least partially driven by resident's desire to curtail development), one would expect Federal Way's supply of relatively inexpensive land to attract new development.

The strength of that effect, however, may be limited by Federal Way's supply of buildable land zoned for single-purpose, residential development.

- **While higher housing prices and constrained capacity in other parts of the region may lead to some increase in residential growth pressures in Federal Way, they are not likely to be of a magnitude necessary to meet the population projections identified by the PSRC.** The evaluation of residential supply and demand forecasts suggests a mismatch between residential demand forecasted by PSRC and the capacity of residential land in residentially zoned districts to accommodate new housing units. The majority of Federal Way's residential land capacity is located within the mixed-use zones. The City's previous planning has

assumed that the mixed-use zones will absorb the additional housing demand. But such absorption requires aggressive assumptions about both housing mix and the amount of residential development that will occur in mixed-use zones. Even considering how the market might respond to City incentives (both investments and policies), this market analysis concludes that the likelihood of Federal Way achieving a housing mix that is more than two-thirds multiple-family in the next 20 years is small.<sup>1</sup> At a minimum, the PSRC population forecast, in light of recent and expected market demand and supply conditions for residential development in Federal Way, do not meet any common definition of a "base case" or "most likely" forecast. It is unlikely that the PSRC population forecast will be achieved if the vacant land in the City retains its current zoning and requirements.

- **On the commercial side, however, Federal Way will continue to experience office, retail, and industrial employment growth at a rate slightly below that of the region as a whole. The employment forecasts of the PSRC are consistent with this assessment and reflective of longer-term market conditions.** The City has enough capacity designated for different uses to accommodate the 20-year employment forecast.
- **There are several implications of the market analysis for City land-use policy.** If the City is to achieve the residential growth implied by the PSRC forecast for 2020, it will have to take additional steps to make that forecast more likely. Given its supply of buildable land in single-purpose residential zones, policies will have to address residential development in mixed-use zones [e.g., City Center Core (CC), City Center Frame (CF), Community Business (BC)]. The City may decide that its existing mixed-use development policies are necessary to get the kind of development it wants in its city center, and that slower development is a reasonable price to pay to get it. Or, it may offer incentives, change the requirements for ground-floor retail, or rezone some of the mixed-use to single-purpose residential (which can be thought of as a shift from vertical mixed-use to horizontal mixed use). Second, while there is adequate land for employment growth in the aggregate, several districts achieve more than 50% buildout [Neighborhood Business (BN), City Center Frame (CF), Corporate Park (CP-1), and Professional Office (PO)]. The City should monitor zone change requests in the BN zone (this district provides the majority of the City's land base for neighborhood business uses) and in the CF zone (which is crucial for achieving the City's vision of a mixed-use city center).

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<sup>1</sup> While it is theoretically possible, the historical data show that no community in the region has achieved that mix of housing.