

## MEMORANDUM

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To: Tom Beckwith – Beckwith Consulting Group  
From: Eric Hovee  
Subject: Poulsbo Commercial Land Market Analysis  
Date: November 12, 2021

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As a rapidly growing community of 11,660 residents (as of 2021), Poulsbo is presented with opportunities for further commercial land and potential mixed-use development to serve area residents, employees and visitors – all in a period of unprecedented economic change. On behalf of the City of Poulsbo, the economic and economic development consulting firm E. D. Hovee & Company, LLC has prepared this commercial land market analysis – focused on background information and scenario specification.<sup>1</sup>

When completed, results of this analysis are expected to inform the anticipated update of Poulsbo’s Comprehensive Plan including related topics as with the city’s housing needs assessment. Key elements of this commercial land market analysis are to:

- **Review demographic and commercial market trends** – for Poulsbo and its four primary commercial districts.
- **Address future commercial employment potentials** – with reference both to regional economic projections and to assessment of changes due to the current pandemic, associated economic downturn and subsequent recovery.
- **Identify and evaluate alternative scenarios of prospective commercial space demand** – covering the period of Poulsbo’s anticipated 20-year Comprehensive Plan update and to address the Puget Sound Regional Council (PSRC) time horizon extending to 2050.

The remainder of this report is organized to cover the following topics:

- A. Executive Summary
- B. Market Demand
- C. Land Supply
- D. Findings & Recommendations

An appendix provides supplemental data tables.

## A. EXECUTIVE SUMMARY

A summary of major findings and recommendations resulting from this market analysis follows.

### Market Demand

Market demand for commercial district development is reviewed from several perspectives.

**Demographics.** With 11,660 residents as of 2021, Poulsbo commercial businesses benefit from serving a northern Kitsap and Bainbridge population that is more than four times the population of Poulsbo alone. This greater trade area population also comprises affluent, homeowner and well-educated residents lending added market heft and diversity for Poulsbo commercial activity that would not be as readily achievable based on in-town population alone.

**Employment.** As of 2019, there were an estimated 7,050 people working in Poulsbo – an increase of 14% since 2010. Service businesses account for almost half of in-town jobs, with retail having the second highest job count. PSRC estimates that the SR-305 commercial district accounts for 41% of Poulsbo’s employment, followed by College MarketPlace, Downtown/Front Street and Viking Avenue – with 19% reporting to workplace addresses elsewhere in the City.

**Retail.** For the trade area, retail sales volumes equate to 76% of resident generated consumer spending potential – with the remaining 24% accounted for by outshopping not offset by local tourism expenditures. Pandemic effects and retail mix analysis indicate long-term (post-pandemic) potential to shore up opportunities for discretionary resident and visitor spending as for dining and apparel with continued and more sustained economic recovery.

**Real Estate.** Contacts with real estate brokerage firms indicate that retail has been more challenged recently than office space demand (even with many employees working at home). Those interviewed also are more bullish on prospects for multi-family residential than commercial development. Vertical mixed-use is viewed as desired but financial feasibility is more difficult to achieve, particularly for the commercial components of a mixed-use project.

**Regional Projections.** The Puget Sound Regional Council (PSRC) has set a planning target that four High Capacity Transit (HCT) communities should accommodate 18,000 net added jobs from 2017-50. Assuming that Poulsbo maintains its 2017/19 share of existing HCT employment, the City should plan for added employment of 5,400 over this 33-year period (or 3,270 added in-city jobs if pro-rated to the 2024-44 time frame of Poulsbo’s Comprehensive Plan update).

**Commercial District Employment Scenarios.** Recognizing the increased uncertainty associated with the COVID pandemic, economic downturn and now recovery, three employment scenarios have been prepared to illustrate a potential range of economic outcomes. The **base case** is for 2,650 added jobs requiring commercial district space from 2024-44. A **moderate growth** scenario predicated on continued out-of-district employment coupled with further incursions of e-commerce and work-at-home reduces the 20-year forecast to 2,030

added jobs needing commercial district space. Conversely, a **high growth** scenario could materialize if Poulsbo’s population growth accelerates to about 3% per year assuming less continued e-commerce local business loss coupled with reduced long-term work-at-home activity – resulting in a net added 3,330 jobs requiring commercially zoned space from 2024-44.

## Land Supply

Consistent with current zoning, an employment land capacity analysis (LCA) separately prepared and submitted to Kitsap County indicates potential capacity for Poulsbo to accommodate 3,012 added jobs on both currently vacant and potential redevelopment sites within the city and unincorporated UGA. This is the capacity target to be considered with the anticipated 20-year update of the Comprehensive Plan (from 2024-44).

Existing land inventory would be adequate to accommodate base case and moderate scenario job growth but likely would not fully address land needs with the high growth scenario – based on current assumptions of the LCA process and 20-year employment scenarios considered.

## Findings & Recommendations

Findings and preliminary recommendations from this market study are summarized as follows.

**Findings.** Four overall findings are suggested with this commercial market analysis:

1. While changing demographics, lifestyle preferences, technology and competition have been driving economic change, the pace of change has accelerated with the COVID pandemic and is currently coupled with greater uncertainty as to the shape of a *new, new normal* in the years ahead.
2. In Poulsbo, commercial development opportunities may correspondingly vary considerably for retail, service and office uses in the years immediately ahead.
3. Mixed-use development represents both an opportunity and a challenge to assure that residential development does not come at the expense of employment land uses.
4. Jurisdictions that can respond both to planned and unanticipated change will be best positioned to meet challenges of growth in a manner that fits both with community values and market expectations.

**Preliminary Recommendations.** In the event of a forecast **land shortfall as with a high growth scenario**, implementation measures considered might involve actions to:

- Encourage higher densities of development than currently assumed through the LCA process
- Relax minimum off-street parking requirements where alternative arrangements can be demonstrated
- Limit residential incursion into commercial zones or require development plans assuring no net loss of employment opportunity

- Encourage more at-home work and/or e-commerce
- Further relax parking requirements or increase density expectations in high value districts later in the planning cycle when changed mode share with High Capacity Transit (HCT) can be demonstrated
- Consider providing financial incentives in selected commercial districts for mixed-use residential with ground floor commercial development
- Provide local funding to incentivize small business retention, expansion and job creation

More tools and resources may be required in the event of a high growth scenario than with the moderate growth or base case scenarios (where the capacity gap is less formidable).

In the event that the City of Poulsbo either selects or finds itself in a **base case or moderate growth scenario** (with job growth below forecast capacity), there would be flexibility to defer consideration of the above noted measures to address capacity deficiencies. The City could also consider steps to reduce the current employment capacity target, as with measures to:

- Rezone some land currently designated or planned for commercial or industrial employment use to residential or other alternate uses
- Allow mixed-use in selected employment districts without application of no net job loss provisions
- Take steps to actively encourage employment offsets with more flexible and accommodating home occupation and accessory business uses in residentially zoned districts

Perhaps the most difficult challenge with a base case or moderate growth scenario could be the timing as to when higher growth employment opportunity becomes largely foreclosed. This might involve determination of a triggering mechanism or gradual phase-in of implementation measures as demand is demonstrated over time to be coming in well below current capacity.

On a preliminary basis, the moderate growth scenario is recommended for consideration as a **preferred alternative**. Of the three scenarios, it is associated with the lowest rate of job growth for Poulsbo's commercial districts. A primary reason for this recommendation is the likelihood that conditions supporting more e-commerce and continued at-home work can be expected to persist at least near-term and possibly over much if not all of the 20-year planning cycle.

Recognizing that job growth has been and will remain primarily market-driven, it is also recommended that employment change be closely monitored at least over the next 2-5 years, allowing for re-calibration of commercial land needs if employment within the City's commercial districts proves to accelerate beyond what is expected with moderate growth. Further refinements could occur as part of the City's 8-year Comprehensive Plan update cycle.

## **B. MARKET DEMAND**

The focus of this commercial land analysis is to address market demand for commercial uses and associated potential future space needs. This portion of the commercial lands report covers topics of analysis approach, market geographies, demographic trends, economic trends, real estate perspectives, Puget Sound Regional Council (PSRC) employment projections, pre- and post-COVID considerations, and preparation of three alternative job forecast scenarios.

### **Analysis Approach**

The approach taken with this analysis involves both quantitative (data-driven) and qualitative (judgement-based) considerations.

### **Quantitative Data Sources**

Background data for this analysis comes from sources including the City of Poulsbo, the Puget Sound Regional Council (PSRC), State of Washington Office of Financial Management (OFM), U.S. Census, and proprietary sources including the nationally recognized data firm Claritas (benchmarked to the U.S. Census). To the extent possible, the most current geographically pertinent information available is applied – including 2021 data estimates as available.

Of added importance has been the need to disaggregate some data – especially regarding employment – to the sub-city level specific to the City's four primary commercial districts. These are the College MarketPlace, Viking Avenue, Downtown/Front Street, and SR 305 districts – as well as consideration of employment locations elsewhere across the city. Assuring reliability of district-specific data can be challenging due to issues associated with appropriate geo-coding for places of work and potential variability in job counts from one year to the next.

Data sources and methodologies utilized are as noted throughout this report. Where possible, multiple data sources are considered as are generally reasonably consistent. Where there are substantial differences or other data limitations, these are also noted.

### **Qualitative Information**

The combination of rapidly changing technical innovation, consumer preferences, marketplace competition and the COVID-19 pandemic together with economic downturn currently engender more uncertainty regarding potential future economic changes and their local impacts than has been the case over the last 50+ years. Consequently, this report also draws on input from local real estate and development firms knowledgeable and active in the Poulsbo area market. A summary of interview-related observations is provided with this report.

Rather than utilize a single-point forecast of commercial space needs, this report provides three alternative scenarios of potential employment change – reflecting variable outcomes for key factors such as continued e-commerce growth and long-term shift to more work-at-home.

## Market Geographies

For purposes of comparison and analysis, four separate market geographies are considered with this market report:

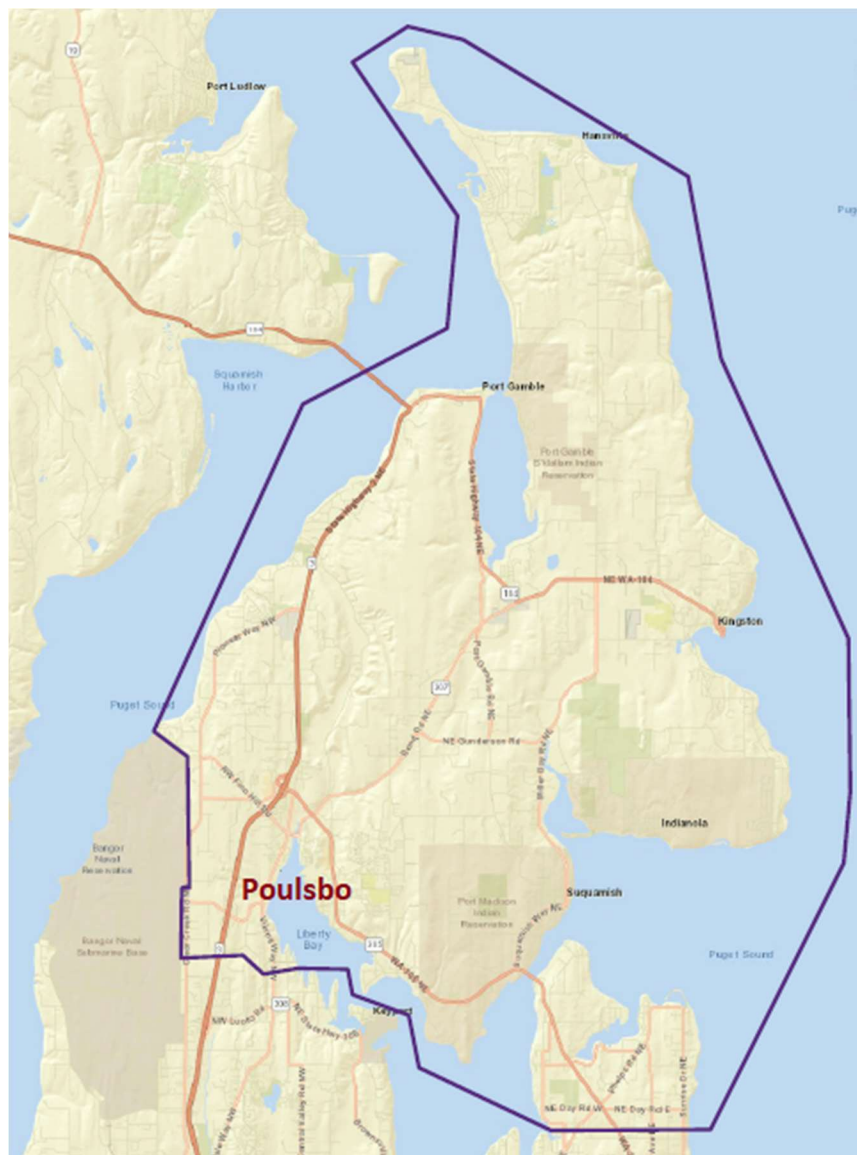
- **Poulsbo** – with a population preliminarily estimated by OFM at 11,660 as of 2021
- **Poulsbo Residential Trade Area** – an expanded market area of about 50,600 residents
- **The PSRC Region** – comprising 4.3+ million residents across the counties of Kitsap, King, Pierce and Snohomish (for which regional population and job forecasts are made)
- **Washington State** – with a 2021 population approaching 7.8 million

Depicted by the map to the right is the geography of Poulsbo's residential trade area – the area for which Poulsbo is the most convenient and accessible location to shop for everyday goods and services.

This trade area extends north to the northern tip of Kitsap County, east to encompass the northern portion of Bainbridge Island, then southwest to about Scandia but excluding the Naval Submarine Base (the main point of entry being closer to major Silverdale shopping).

This is the geography for which much of the retail sales and leakage analysis is conducted, as further described later in this report.

### Poulsbo Residential Trade Area



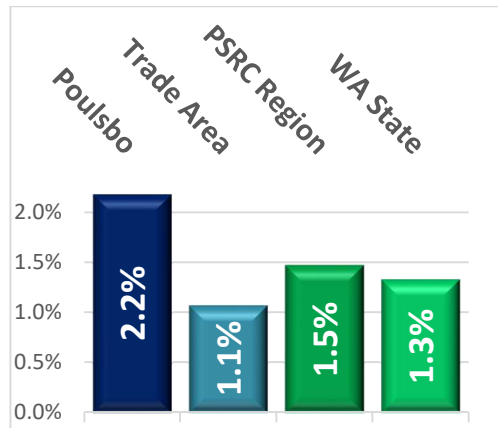
Source: ESRI, Claritas and E. D. Hovee.

## Demographic Trends

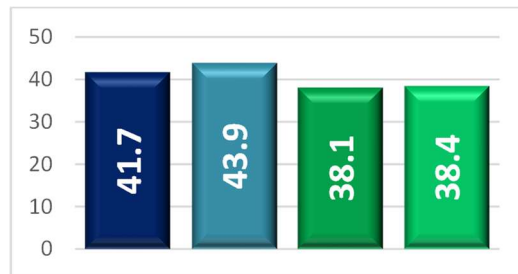
Key demographic trends for the geographies considered are summarized as follows:

- Of the four geographies, Poulsbo has experienced the most rapid **population growth** since 2010 – up by an average of 2.2% per year. Slowest growth is noted for the greater Poulsbo trade area including large areas of rural geography.
- At 41.7 years, **median age** of Poulsbo residents is somewhat below the age level of all trade area residents but older than is the case region- and state-wide. Average household size is also somewhat smaller than for the comparison geographies.
- At \$86,000, **median income** of Poulsbo’s households is above the statewide median, but 10-12% below the PSRC region and trade area, respectively. A similar pattern is noted for housing values, except that the PSRC region experiences housing values that are 9% above those of the Poulsbo trade area – even though trade area incomes exceed those of the 4-county PSRC region.
- At just under two-thirds of occupied housing, **home-ownership rates** in Poulsbo are comparable to those of the PSRC region and state. Home-ownership is considerably higher at 77% of occupied units for the greater Poulsbo trade area. Of added note is that 81% of trade area homes are single-family detached as compared with 66% for Poulsbo and 59% for the full PSRC region. Poulsbo’s multi-family share of 23% is below both PSRC region and state-wide proportions.

## Annual Population Growth (2010-21)



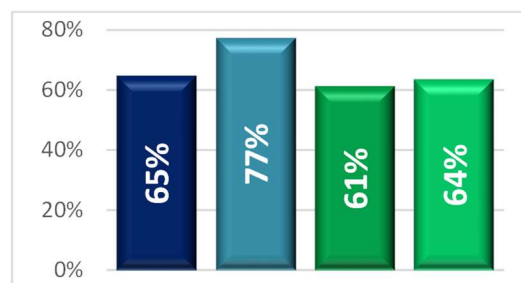
## Median Age of Population (2021)



## Median Household Income



## % Home Owners



Sources: WA-OFM, Claritas and E. D. Hovee.

Additional observations of note include the following:

- Residential construction locally has occurred at a somewhat slower pace since 2010 than for the PSRC region or state. Overall, the typical home in Poulsbo is newer than is the case for the region or state. In effect, these larger geographies have more construction that is both older and newer than in Poulsbo which experienced its most rapid rates of construction from about 1990-2010.
- With 40% of adults (age 25+) having a bachelor's degree or better, educational attainment is above that of the state but somewhat below education levels attained by comparable trade area and PSRC region populations.
- Labor force participation rates for Poulsbo and the region are comparable but about 7-8% points below that of the PSRC region – consistent with an older median age profile locally including a higher proportion of retirees.
- Poulsbo has a higher share of its resident work force employed in occupations of art/design/entertainment, building/grounds maintenance, community/social service, food preparation/service, health care, legal and personal care/service occupations than the other three comparison geographies. Taken together, these occupations account for over one-third (34%) of Poulsbo's workforce – as compared with one-quarter (25%) for the PSRC region and state.
- Of final note is that the average Poulsbo commuter travels 30 minutes to work – less travel time than for the other geographies. However, at 79% of all workers, Poulsbo also has the highest proportion that drive alone to work (and at 5% the smallest proportion working at home pre-pandemic).

The data indicates that **Poulsbo** has a rapidly growing population of smaller households with healthy incomes, residential construction somewhat lagging the full PSRC region (but highest of all Kitsap communities), with employment in diverse creative, professional and service occupations. The community is oriented to single-family homeownership and with greater propensity to drive alone to work than for commuters living throughout the PSRC region.<sup>2</sup>

While slower growing, the greater **Poulsbo trade area** has more than four times the population of Poulsbo alone. The trade area population also comprises highly affluent, homeowner and well-educated residents lending added market heft and diversity for Poulsbo commercial activity that would not be as achievable based on in-town population alone.

With an affluent and well-educated population of 4.3 million, **the PSRC region as well as the rest of the state of Washington** offer yet added retail spending power to the extent that these residents visit Poulsbo. A later section of this report provides a review of retail sales patterns.

## Economic Trends

Discussion of economic trends starts with Poulsbo's employment profile and retail sales analysis, followed by local real estate perspectives and review of PSRC regional job forecasts.



## Poulsbo Employment Profile

As of 2019, the most recent year for which PSRC data is available, establishments in Poulsbo accounted for a total of an estimated 7,050 employees.<sup>3</sup>

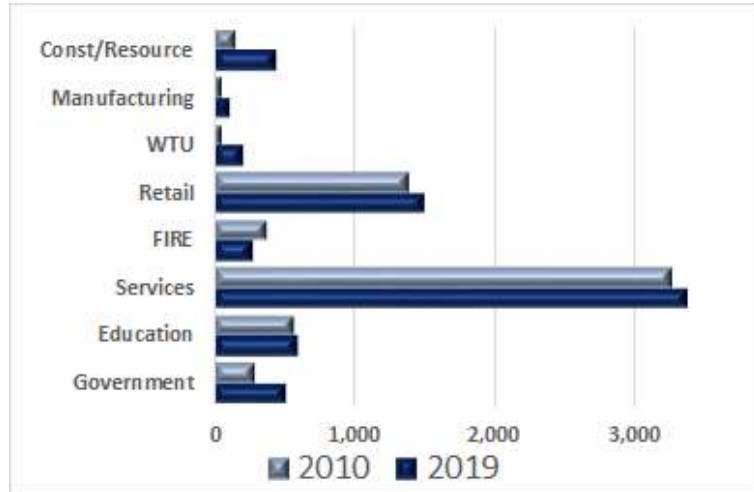
### Employment Growth.

Between 2010 and 2019, in-town employment increased by 875 – averaging to just under 100 net new jobs per year. In percentage terms, employment increased by 14% over this period, or at a compound annual growth rate (CAGR) averaging 1.5% per year.

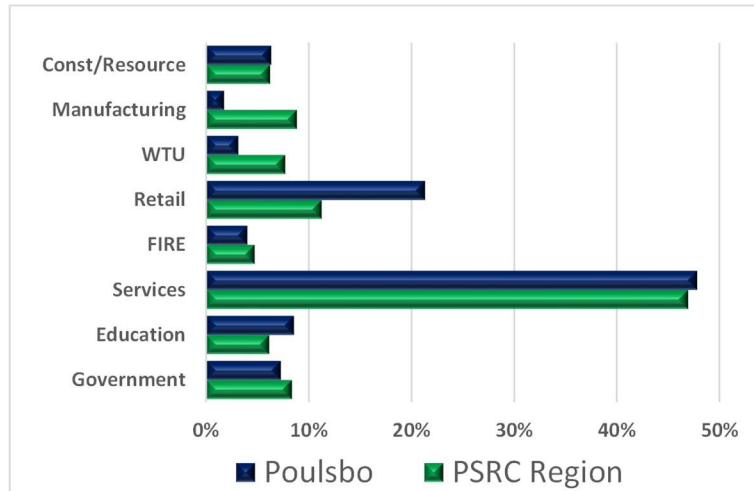
As illustrated by the first graph to the right, the single largest job sector is found with services, accounting for an estimated 3,365 jobs (or 48% of in-town employment). Retail is associated with the second highest job count, followed by education, government and then construction/resource related employment.<sup>4</sup>

The greatest job growth has been with the construction/resource sector (up by close to 300 jobs), then government and wholesale, transportation and utility (WTU), albeit off of a low 2010 base level. Finance, insurance and real estate (FIRE) is the only sector for which job loss is noted.

**Poulsbo Employment by Sector (2010-19)**



**Comparative Employment Distributions (2019)**



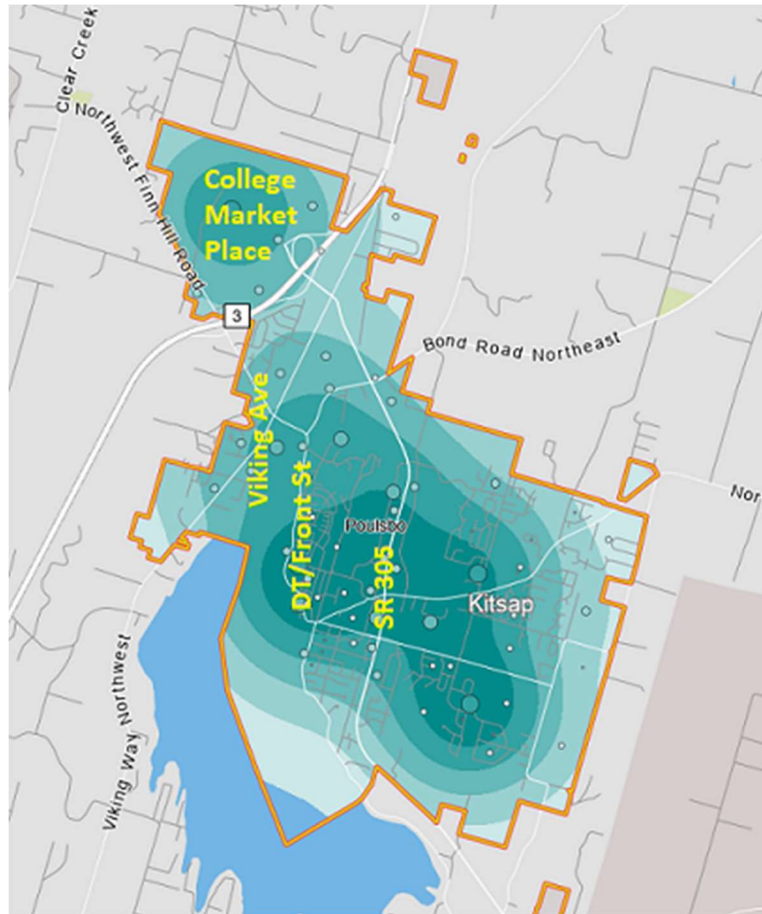
Source: PSRC and E. D. Hovee.

**Comparative Employment Mix.** As depicted by the second graph (above), Poulsbo and the 4-county region have a similar mix of employment – except that Poulsbo has a much higher proportion of retail employment while being under-represented in the more industrially oriented manufacturing and WTU (wholesale/transportation/utility) job sectors. Whether and how these differences persist will be an important component of employment scenarios to be prepared based on scenario specifications as described later in this market analysis report.

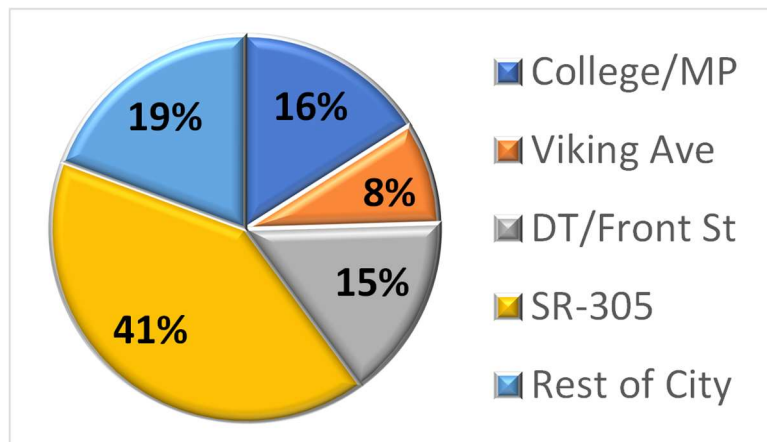
**Commercial District Employment.** The City of Poulsbo has identified four primary commercial districts, as depicted by the following map:

- **College MarketPlace** – experiencing the most rapid employment growth over the last decade – as with large format anchor stores.<sup>5</sup>
- **Viking Avenue** – with a strong service sector but overall lowest job count of the four districts.
- **Downtown/Front Street** – as the location of the most service and government jobs in Poulsbo.
- **SR 305** – with the most employment of any of the four commercial districts and (potentially) second in job growth over the last decade.
- **Rest of City** – covering the rest of Poulsbo with substantial employment, much of which is education related and may include home-based employment.<sup>6</sup>

**Poulsbo Commercial Districts & Job Intensity**



**Distribution of Poulsbo Employment (2019)**



As illustrated by the pie chart to the right, other areas throughout the city outside of the City’s identified commercial districts comprise a PSRC estimated 19% share of in-town employment – including educational, service, retail and construction jobs.

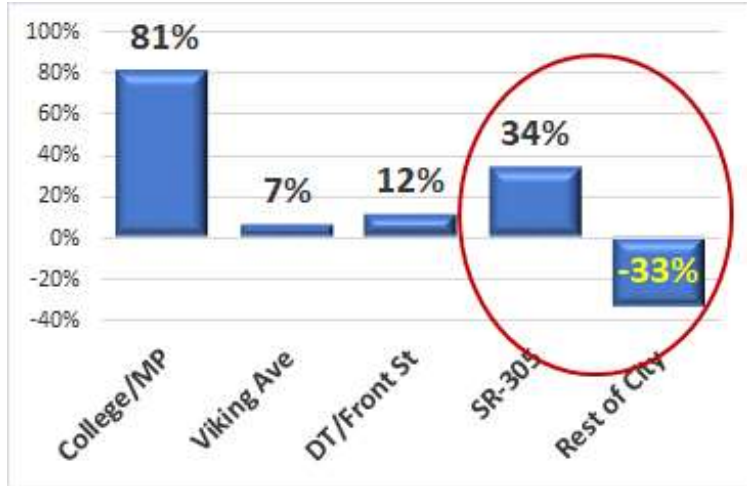
Sources: PSRC, OTM and E. D. Hovee.  
Map shading indicates intensity of employment.

**Job Change by District.** Comparable district-specific data for years prior to 2019 is not available from PSRC. However, an alternative U.S. Census *On-The-Map (OTM)* data source is available for which employment has been disaggregated by district for 2010 and 2018 (the latest year currently available). Albeit with a one-year time difference, OTM data closely parallels that of PSRC with regard to aggregate totals. OTM data indicates a total of 6,880 jobs as of 2018 – a figure that is within 2% of the PSRC 2019 total count of 7,050. Similar comparability of data is indicated for three commercial districts but with data for the SR-305 district and the rest of city being less comparable.

Using OTM data as a reasonable proxy for at least three districts, the data suggests that the College MarketPlace district has accounted for 81% of the U.S. Census net job growth in Poulsbo over the 2010-18 time period.

The Front Street and Viking Avenue districts have accounted for an estimated 12% and 7% of net city-wide job change, respectively. OTM jobs within the SR-305 district are indicated accounting for an estimated 34% share of city-wide job growth while employment across the rest of the city represents an offsetting 33% reduction to city-wide job change. In effect, the job changes identified for SR-305 and rest of city essentially cancel each other out, possibly due to job relocation or incorrect geographic allocation of employers with either of the above noted data sets.

**District Shares of Poulsbo Job Change (2010-18)**



Sources: U.S. Census *On-the-Map (OTM)* and E. D. Hovee. 2018 is the most recent year for which OTM is available. Data circled in red is questioned due to conflicting OTM and PSRC source data. PSRC data by commercial district is available for 2019 but not 2010.

### **Trade Area Resident Buying Power & Retail Sales**

Analysis of retail trade begins with a review of the primary (residential) trade area serviced by businesses in Poulsbo. This is followed by a more focused assessment of retail sales mix for businesses located in Poulsbo’s incorporated limits, as compared with the PSRC region. As with much of the demographic information utilized with this market report, the primary source of data for this retail sales evaluation is Claritas.

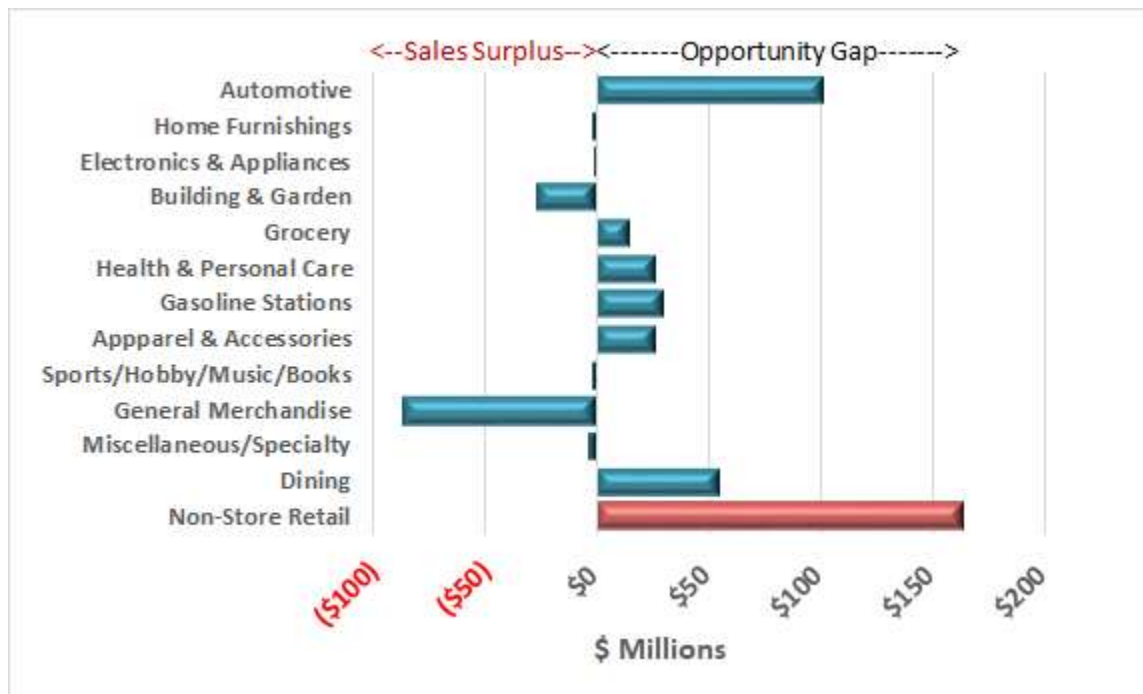
**Trade Area Sales Performance.** Northern Kitsap County including northern Bainbridge is the trade area for which Poulsbo is the largest and most convenient retail center for day-to-day retail goods and services. The 50,600 residents of this trade area comprise four times the population of Poulsbo residents alone – with the higher per capita incomes of non-city residents supporting even greater and more upscale sales potential.

As of 2021, the consumer spending power for retail goods and services with this greater trade area is estimated \$1.2 billion. By comparison, close to \$920 million is spent at establishments located within the trade area – resulting in net annual sales leakage approaching \$295 million.

Local retailers capture no more than 76% of resident spending potential – equating to net leakage of an estimated 24%. Actual leakage of resident purchasing power is even greater than these estimates, as resident leakage is at least partially offset by non-local/visitor spending.

The following chart illustrates the extent to which actual sales exceed local spending capacity (noted as sales surplus) versus coming in below what resident spending alone would support.

### Poulsbo Trade Area Retail Sales Surplus vs. Opportunity Gap (2021)



Source: Claritas and E. D. Hovee.

As shown, there are two primary categories for which sales performance substantially **exceeds resident spending capacity** – building and garden stores and general merchandise (including large format discount retail). This excess spending suggests a regional draw that extends beyond the trade area as defined – reaching further south potentially in Bainbridge or Silverdale or north into Jefferson County coupled with spending by visitors coming from further away.

The category for which the greatest sales leakage is noted is automotive – estimated at over \$100 million per year as residents make a significant proportion of their auto-related purchases from establishments outside the greater Poulsbo trade area. Other categories for which **net sales leakage** is noted include dining (at \$55 million per year) followed by service stations, health/personal care (including pharmacy), apparel, and grocery.

There are several categories for which sales performance of stores within the trade area are **roughly in balance** with resident spending potentials. These include home furnishings, electronics/appliances, and a range of miscellaneous/specialty retail store types.

As is increasingly the case throughout the U.S., **non-store retail** today represents the *elephant in the room* – comprised of internet and mail order retail. As of 2021, Claritas estimates that over 14% of trade area resident expenditures are now made through retail that does not require a local *brick and mortar* presence but are made largely via the internet.<sup>7</sup>

Between 2020 and 2021, Claritas indicates that overall trade area retail demand remained essentially flat. Yet in this past year of pandemic and downturn, resident e-commerce transaction demand increased by an estimated 11%.

**A Deeper Dive View.** To this point, the trade area analysis has involved a high-level review based on overall store types. It is useful to also consider opportunities at the subcategory level:

- For some underserved categories, **sales leakage spreads across virtually all subcategories**. Examples are apparel (especially family clothing) and dining (with the highest lost opportunity represented at least currently by full-service restaurants).
- There are other underserved categories – albeit with **strong performers at the subcategory level**. For example, while there is considerable sales leakage with motor vehicle and parts dealers, a strong performer drawing sales regionally is noted for RV dealers and boat dealers. And while food and beverage stores underperform overall, convenience stores represent a subcategory with more sales than resident trade area demand alone would typically support.
- Some store types appear to have good market penetration overall – but predicated on a **single subcategory**. An example is provided by the sporting goods/hobby/music/book category – whose strongest performer at the subcategory appears to consist of sewing, needlework and piece goods stores.
- Conversely, other **miscellaneous/specialty stores** do well across most subcategories, especially used merchandise and related stores.

Going forward, the best opportunities could rest on two prongs – capitalizing further on retail categories with demonstrated strong trade area performance coupled with filling gaps for store types that may be underperforming but fit well with complementary high performer activity.

## ***In-Town Retail Sales Profile***

This analysis now shifts from consideration of the trade area in which Poulsbo retailers operate to the more specific dynamics of in-town business activity. Comparisons are made, first, for in-town retail (including dining) as a share of retail business activity across the full trade area. Comparisons then shift to address similarities and differences between the mix of retail in Poulsbo relative to the 4-county PSRC region.

**In-Town Capture of Trade Area Retail.** As of 2021, Claritas estimates that retail (including dining) will account for an estimated \$392 million in retail sales volume for establishments located within the incorporated limits of Pouslbo. By comparison, the total retail sales volume for stores throughout the greater Pouslbo trade area is estimated at \$919 million.

In effect, in-town retailers account for 43% of trade area sales volume, close to double the city’s 23% share of trade area population. The highest rate of market capture is noted for home furnishings (at 64% of all trade area sales), followed by apparel, electronics, specialty retail, personal care and dining – all categories of lower sales volume but high Pouslbo capture rates.

**Year-Over-Year Trend Comparison with PSRC Region.** Sales volume data for 2020 reflects pre-pandemic conditions with Claritas estimates released ahead of the economic downturn starting in March of 2020. Similarly, 2021 data was released as of January 2021 providing forecast estimates for the current year.

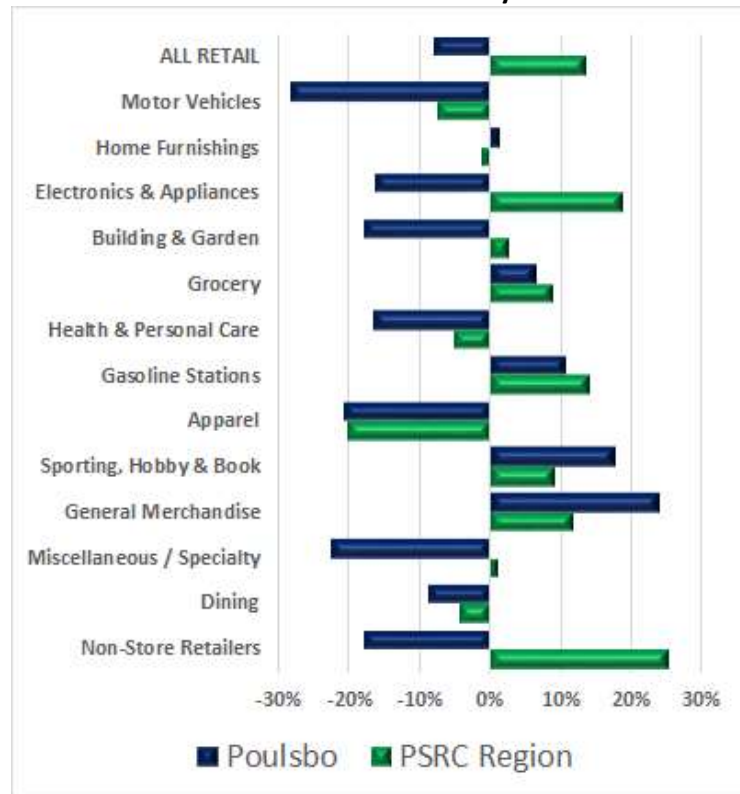
In early 2020, pre-pandemic Pouslbo retail including dining was experiencing total sales volume at an annualized pace of over \$426 million. One year later, the sales volume as of early 2021 is now estimated at \$392 million – a year-over-year decline of 8%. By comparison, estimated retail sales volume for the PSRC region increased by 13-14%.

As illustrated by the chart on the right, Pouslbo **retail declines** (in percentage terms) were most pronounced with motor vehicle related sales (down by 28%), followed by specialty, apparel, building/garden and electronics/appliance retail stores.

By comparison, general merchandise (including discount) **sales were up** by 24% – outpacing the percentage sales growth experienced region-wide. Strong sales performances relative to the full PSRC region are also noted for sporting/hobby/book and to a lesser degree for home furnishings retailing.

Non-store (e-commerce and mail order sales) were up by a remarkable 25% for the full PSRC region – now accounting for an estimated \$89 billion annually – or fully 58% of estimated retail

**Annualized % Change in Retail Sales**  
Pre-Pandemic 2020 to Early 2021



Source: Claritas and E. D. Hovee.

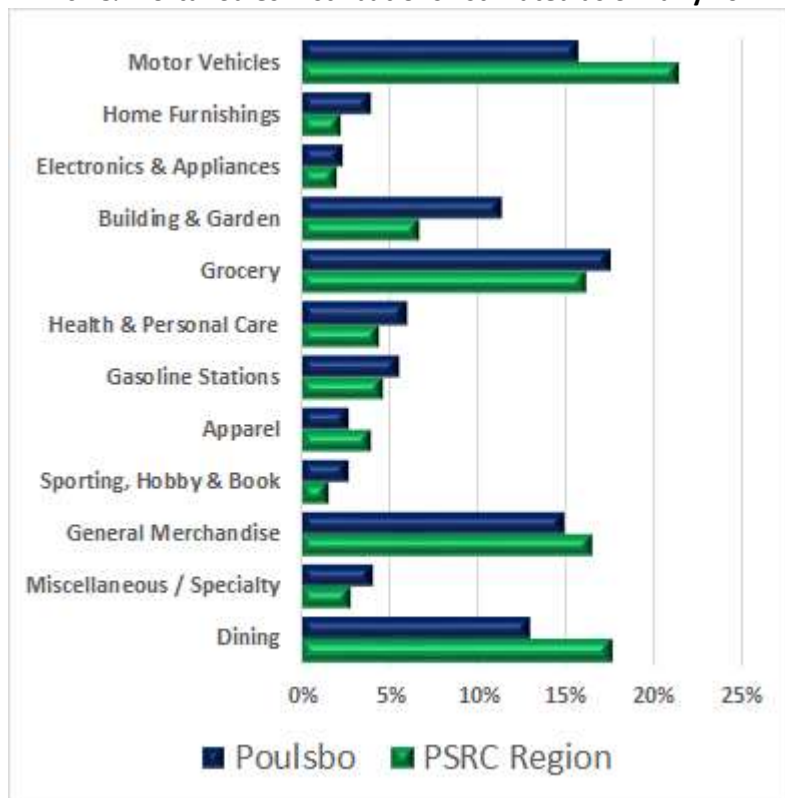
sales volume region-wide. For the PSRC region, this illustrates the extent of the *Amazon effect* – also experienced by a range of other internet retailers.

Locally, sales data reflects purchases made both by Poulsbo residents and those made by visitors. It appears that residents were either cutting back purchases locally or making more of their purchases out of town than previously in several basic categories. Reduced visitor spending affected categories including apparel, specialty and dining expenditures.

**Retail Mix.** It is also useful to look at the % distribution of retail sales activity in-town as compared with sales patterns region-wide. As shown by this next graph:

- Categories accounting for the **largest shares of retail spending** in Poulsbo are grocery (capturing 17-18% of in-town consumer purchases), followed by motor vehicles, general merchandise, and dining.
- When **compared to the entire PSRC region**, Poulsbo businesses have particularly strong sales performance in building/garden activity as well as home furnishings, electronics and appliances, grocery, health/personal care, service stations and specialty retail (as for sporting/hobby/book sales). Sales performance is not as strong for motor vehicles, apparel, general merchandise, and dining – when compared to the full 4-county PSRC region.

**Annual Retail Sales by Category as % of Total  
Brick & Mortar Sales Distributions Estimated as of Early 2021**



Note: Due to the out-size significance of non-store retailing for the State of Washington, this non-brick and mortar sales activity is excluded from the analysis.

Source: Claritas and E. D. Hovee.

### Reconciling Multiple Retail Perspectives

Depending on one’s perspective, different and potentially conflicting messages emerge from this retail analysis. However, several summary observations pose potentially important implications for Poulsbo’s Comprehensive Plan update:

- The pandemic and ensuing economic downturn affected retail business more severely in Poulsbo than for the full PSRC region. While reasons are not entirely clear, contributing factors appear to include less visitor traffic (affecting dining and specialty retail) as well as either greater local consumer cutbacks or shift to more shopping outside Poulsbo (as for automotive, electrical/appliance, building/garden and health/personal care) – all suggesting vulnerability affecting some traditional Poulsbo retail strengths.
- The combination of sales leakage, Poulsbo trade area market share, pandemic effects and retail mix analysis indicate long-term (post-pandemic) potential to shore up discretionary local business patronage coupled with visitor spending as for dining and apparel with continued and sustained economic recovery. Home furnishings, electronics/appliances, health/personal care and specialty retail benefit from strong trade area market share as a basis for further expansion.
- Grocery along with sports/hobby/books and general merchandise retailers all experienced increased sales volumes over the past year and may benefit further if consumers remain value-focused for a significant share of their purchases. Along with general merchandise, building and garden benefits from strong market presence as a sign of significant draw from beyond the residential trade area.
- Local presence of four distinct commercial districts reinforces the potential opportunity to differentiate retail product to different segments of the local and visitor market. For example, College/MarketPlace can build from its retail anchors to incorporate side-by-side mixed-use with residential and office product while Downtown/Front Street builds a more walkable urban scale mixed-use live/work/shop environment. Viking Way and SR-305 offer continued potential to serve automotive drive-by traffic and nearby employment base.
- Important to monitor will be the continuing incursion of e-commerce, potentially displacing more *brick-and-mortar* retail. Retailers that survive and thrive will be those that provide the right mix of convenience, value, customized/localized personal experience, and protection of customer health.

## Real Estate Perspectives

As part of this land market analysis, contacts have been made with real estate brokerage firms active in Poulsbo and Kitsap County. Information received from those interviewed has proven useful – especially regarding short-term development prospects.

Observations noted include general broker perspectives together with information regarding market rents and valuations. Also covered are comments regarding the potential viability of commercial/residential mixed-use in Poulsbo.

## General Perspectives

Not surprisingly, commercial market prospects were viewed as highly uncertain as of Spring 2021. However, Poulsbo’s short- and long-term residential opportunities have been viewed more positively. Comments from those interviewed include the following:



- Poulsbo’s primary customer market can encompass areas within a 5-20 minute drive (depending on the direction, type of retail and competition). Poulsbo’s market area clearly reaches onto Bainbridge Island and is perhaps at its greatest for large format retailers such as Home Depot and Walmart.
- The pandemic and economic downturn of 2020 was described by one broker as a “fluke of a year” with consumer and experientially driven businesses such as restaurants, bars and salons most affected, at least partially offset by other retailers who have looked to “weather the storm.”
- A number of retail tenants have “walked away” from their leases with the properties not yet back on the market (partly because landlords have been less inclined to spend for improvements when tenant demand is so uncertain).
- Regionally, retail properties that reportedly have been struggling the most are multi-tenant centers and malls in markets with multiple mall competitors. Large format stand-alone retailers will do better but negotiate for lower rent. Top end retail – as in Silverdale – also has been challenged. Smaller neighborhood centers with a good mix of credit tenants (e.g., Starbucks) have fared best with occupancies holding firm.
- One party notes a key difference between residential and commercial space is that with “residential there is always a buyer (at some market price), but that’s not true for retail” where tenant demand can simply disappear.
- So far, the office market experience through the pandemic has been different than for retail. Even though office space utilization is down with many workers working from home, more tenants have been honoring existing lease commitments and continuing to pay rents.
- Reduced space demand and/or reduced rental rates from existing office tenants can be expected , especially as leases come up for renewal. However, there is the potentially offsetting prospect of increased office space demand coming to Poulsbo due to anticipated business and employee relocations from Seattle.
- Those interviewed have been generally much more bullish on prospects for multi-family residential than commercial development, citing Poulsbo’s “great location with killer rents.”
- One broker ranked the current real estate market as most active for multi-family residential, then business park uses, least active for office and retail commercial.
- There is considerable commercial space that has become available. Due to lack of demand, some commercial property is being sold off or re-positioned for multi-family development where possible.

## **Rents & Values**

For commercial and multi-family uses, achievable rent levels with new development are pivotal to project feasibility. Rental rates are weakest for commercial uses but with good prospects for multi-family as the stronger driver for in-town development at least near-term. Specific comments are noted as follows:

- Retail rents are very low “with no upward pressure” along traditional street corridors. One source indicates that rents may need to be as much as 3-4 times current levels or in the range of \$30-\$35 per square foot annually – triple net (nnn) where the tenant separately pays expenses – for market feasibility to support new development (especially with higher cost mixed-use projects). Another indicates a current wide range of about \$12-\$24 (base or nnn) for existing Kitsap space, even lower from some older street-front retail. The triple net and/or common area charges can vary widely – adding anywhere from \$4-\$10 per square foot annually.
- Office lease rates also vary from about \$12-\$25 per square foot annually (nnn), with the top end equating to about \$30 on a full-service basis.
- Multi-family rents for newer projects range from about \$1.75-\$2.25 per square foot monthly – depending on such factors as unit size and amenities. One contact ranked Kitsap market rents as highest for Bainbridge, followed by Poulsbo, then Silverdale and Bremerton.
- Land values reportedly have been in the range of \$8-\$16 per square foot for commercial land, \$4-\$6 for business park uses, and in the range of \$40-\$50 for residential.

### ***Commercial/Residential Mixed-Use***

Of those interviewed, there is general support for the concept of mixed-use but uncertainty as to its current market viability in Poulsbo:

- As one broker notes, “density is important to support a vibrant commercial market” but the same party cautions that it may be a while before Poulsbo’s rents for commercial and residential go high enough to support market feasibility – with commercial seen as the greater weakness. In addition, rents need to be at the top end of the market (\$2.25 per square foot monthly or better) for the residential component of mixed-use to pencil out.
- Another party with substantial multi-family and mixed-use experience notes that “cities always want mixed-use but try to force it in bad retail locations.”
- Sites indicated as potentially viable for mixed-use include properties on but not off of Front Street and as-yet undeveloped portions of the College MarketPlace district – with Front having potential for more of an urban, fine grained development character.
- Despite its appeal, from a development perspective vertical mixed-use is described as “harder, more complicated.” A negative specifically cited for Poulsbo is that impact fees together with utility fees are viewed as comparatively high even relative to the Seattle market – working out to about \$20,000 per unit (in part due to need to pay both City and County fees for sewer).

A summary comment is that the community vision for mixed-use does not always match what developers see – which may delay development and property tax growth. What works is what’s attractive to the market, meets community expectations and proves financially feasible.

## Regional PSRC Projections

An important part of this market analysis involves review and application of regional employment projections of the Puget Sound Regional Council (PSRC). The most recent projections are to the year 2050 (as part of PSRC's *Vision 2050* planning process).

The plan includes allocations of employment to the four counties of the PSRC region – including Kitsap. Within Kitsap County, four areas are designated as High Capacity Transit (HCT) Communities—the cities of Poulsbo, Bainbridge Island, and Port Orchard together with the unincorporated Kingston urban growth area (UGA).

Taken together, these four communities are currently allocated a PSRC planning target to accommodate an additional 18,000 jobs over the 33-year period of 2017-2050. The question of how much of this growth is allocated to each HCT community is intended for mutual determination by the communities involved.

The determination of an appropriate allocation is important for Poulsbo and this market analysis for several reasons:

- Serving as a benchmark for assessing Poulsbo employment needs and associated commercial land requirements.
- Affecting strategies that may be instrumental to achieving the target selected.
- Incorporation into the update of Poulsbo's Comprehensive Plan – addressing a 2044 target consistent with the 2024-44 plan update process as well as PSRC's 2017-50 planning horizon.

## ***Alternative Allocation Methodologies***

To assist in the preliminary discussion of a suitable HCT job allocation, this report considers **four alternative scenarios**. Each scenario is based on a review of employment change for the four HCT Communities over the 2010-19 time frame, reflecting varied assumptions as to the share of the 18,000 job growth target that might be considered for allocation to Poulsbo vis-a-vis the other three HCT communities, as follows:

- **2010 Share** – based on maintaining each community's share of employment at the tail end of the Great Recession of 2007-09 – as a potential *fair share* maintenance objective going forward. This results in the highest allocation to Poulsbo of an added 6,000+/- jobs by 2050 – as the City's share of the 4-community employment total was higher in 2010 than in subsequent years of this past decade.
- **2017 Share** – assumes holding to the share for the year that serves as the starting point for the PSRC 2017-50 forecast – resulting in about 5,300-5,400 added jobs for Poulsbo.
- **2019 Share** – involves application of an added two years worth of experience reflecting the most recent employment data available from PSRC, also a peak employment year

just prior to the pandemic and economic downturn of 2020 – resulting in forecast 33-year employment growth of about 5,500 jobs allocated to Poulsbo.

- **Linear Trend Share** – assuming that Poulsbo’s recent history of declining job share continues forward to 2050 – for an allocation of about 3,600 added Poulsbo jobs from 2017-50.

These results are summarized by the following table. A more detailed tabular review of recent 4-community employment trends, shares and resulting scenario applications is provided by the appendix to this market analysis report.

### Added Jobs with HCT Communities Allocation Scenarios (2017-50)

HCT Communities	2017-50 Job Growth Allocation Options			
	2010%	2017%	2019%	Linear%
Bainbridge Island	6,150	6,249	6,077	5,827
Kingston CDP	376	431	490	884
Port Orchard	5,447	5,979	5,949	7,678
Poulsbo	6,027	5,341	5,483	3,611
<b>Total HCT Communities</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>

Note: Because Kingston is unincorporated, data is compiled for the boundaries of the Census Designated Place (CDP) as defined by the U.S. Census Bureau for unincorporated areas (albeit with no defined legal status).

Source: PSRC, U.S. Census OTM, and E. D. Hovee. See Appendix for added detail.

As is apparent from this initial analysis, substantial variation in potential outcomes is noted for Poulsbo. If Poulsbo’s recent trend toward a declining share of 4-community employment is extrapolated forward, the outcome is as much as 40% fewer net new jobs allocated to Poulsbo than if a policy objective of returning to a 2010 share metric were to be adopted.

Essentially, the trade-off appears to be between Poulsbo and Kingston/Port Orchard which have experienced increasing shares of 4-community employment since 2010. Relatively little difference between the scenarios is noted for Bainbridge Island which has maintained a fairly stable share of the 4-community job base over the last decade.

### **Poulsbo City-Wide Employment Allocation**

For purposes of discussion and preparation of Poulsbo commercial land scenarios, this analysis recommends a jobs target with approximately **5,400 additional jobs** allocated to Poulsbo over the 2017-50 time period. This assumes maintenance of the 2017-19 Poulsbo employment shares of HCT employment. This recommendation also represents a mid-course trajectory between the high growth alternative of returning to Poulsbo’s 2010 HCT job share or the low growth alternative of an extrapolated linear trend in Poulsbo’s share of HCT-wide employment.

With this recommended scenario, Poulsbo would need to accommodate about 30% of the 18,000 net added jobs allocated by PSRC to the four HCT communities. Over 33 years, this 5,400 Poulsbo added jobs target equates to an average of 164 net added jobs per year in Poulsbo. If applied to the 2024-44 time period of Poulsbo's planned Comprehensive Plan update, this calculates to 3,273 in-city jobs added over 20 years.

## **Pre- and Post-COVID Implications**

As the U.S. economy emerges from the COVID pandemic and associated 2020 economic downturn, there remains considerable uncertainty as to whether or to what degree future employment and commercial space needs will return to pre-pandemic conditions or to some other form of a *new, new normal*. This is apparent both from review of national forecasts and locally as with Poulsbo area commercial real estate contacts.

For this commercial land market analysis, three related factors are of potential importance – continued incursion of e-commerce at the expense of traditional retail, shift away from work at the office to work-at-home, and changing design configuration of commercial spaces going forward. Each of these factors is briefly considered, in turn.

### ***Shift to E-Commerce***

Even before COVID, conventional retail has been under increasing pressure from e-commerce. This is exemplified by the widening array of *brick-and-mortar* retail store types affected by internet sales and home delivery. By most accounts, this e-commerce trend accelerated during the pandemic, with other business models also organized around home delivery of everything from groceries to home furnishings.

For the Poulsbo trade area, Claritas estimates that non-store retail has increased from an estimated 12.9% to 14.4% of retail and dining demand in the first year of the pandemic (or from 14.8% to 16.4% if dining demand is excluded). Some sources project that e-commerce could more than double its share of all U.S. retail sales by as early as 2025.<sup>8</sup>

A key and not yet readily answered question is the extent to which this would come at the expense of existing retail versus dampening future demand for net new additional space. In most markets, it is likely that results will be mixed – affecting some weaker existing retailers and creating more caution with willingness to undertake new construction.

### ***Office-At-Home***

A second change occurring as a direct consequence of the pandemic and resulting business lockdowns has been the shift of office workers from an employer-provided office workplace to work-at-home. With re-opening, it is clear that a substantial proportion of the workforce (especially younger workers) would prefer to either work at home or shift to a hybrid model as with 2-3 days per week at work and the other days working at home. Employers are more divided in their approach – ranging from tech firms that appear willing to let most or all

employees work at home permanently to more traditional firms seeking to mandate a return to the office – with many delaying now full return to early 2022 or later.

Much of the evidence is anecdotal and as yet premature – as changes will become more clear in the next couple of years. Empirical research indicates that some significant level of work-from-home (WFH) is here to stay. One well-documented analysis conducted by University of Chicago and Stanford University researchers concludes that “much of the COVID-induced shift to WFH will stick long after the pandemic ends.” This research projects that about 20% of full workdays for all workers will be from home during the post-pandemic economy. If realized, this would be about four times the proportion of at-home work activity occurring pre-COVID.<sup>9</sup> The at-home potential for non-retail workers is even higher as retail work is generally on-site.

As with the question of shrinkage of retail *brick and mortar* retail space, there is a question of the extent to which the transition to work-at-home will affect existing workplaces versus new space with newer and potentially less traditional employers. Interviews with Poulso area real estate brokers suggest that existing small office firms locally are more likely to retain existing space even if the on-site head-count declines. This initial market response may change as leases come up for renewal and/or as tenants seek new or smaller spaces in the future.

## **Commercial Space Design**

A final factor potentially affecting space needs is the manner and extent to which commercial spaces may be re-arranged in the future – especially to the extent that this affects building square footage when measured on a per employee basis. For this factor, the long-term implications are much less clear as there are considerations that may be pushing in opposite directions, especially with office space.

Desires for social distancing and/or more common open space (emphasizing meeting and training areas) may lead to fewer employees packed into the same building space. If concerns with potential spread of COVID persist, buildings with elevators may also be less favored.

Pushing in the opposite direction may be co-working and hoteling arrangements where multiple workers are sharing the same space – for increased space efficiency coupled with more flexible on-site work arrangements. Higher costs of new construction requiring more rent may also provide impetus in this direction.

## **Commercial District Employment Scenarios**

The next step in this market analysis involves preparation of alternate scenarios of commercial employment growth Poulso. While the focus of PSRC and prior City planning analyses typically has involved preparation of single-point forecasts, discussion related to real estate input and COVID-recession considerations clearly point to the need to consider a range of plausible though not definitive employment outcomes over a multi-year time horizon. As a result, this forecast process involves preparation of three scenarios – a forecast base case together with alternate moderate and high growth employment scenarios.

Prior to working through the mechanics of any individual scenario, at this point it is useful to delineate an overall demand methodology as well as potential data variables and assumptions to be considered. The methodology used has been reviewed with Poulsbo planning personnel and also aimed for consistency with the employment land capacity analysis (LCA) separately prepared for the City of Poulsbo.

## **Scenario Parameters**

Key parameters that serve to drive the preparation of alternative scenarios relate to forecast time frame, employment focus, allocation to Poulsbo's existing commercial districts versus the rest of the city, and added assumptions associated with each of three scenario concepts.

**Forecast Time Frame.** Forecast horizon is proposed to cover the two timeframes important both for Poulsbo's plan update and for consistency with the PSRC *Vision 2050 Plan* process:

- The time frame for Poulsbo's Comprehensive Plan update is currently understood to be 2024-44.
- The time frame utilized with the PSRC *Vision 2050* population and employment forecasts is 2017-50.

With this analysis, one set of linear annual growth factors is consistently applied across both time frames. In other words, the forecast will assume a constant annual job increment applied independent of the specific time horizon considered.

**Employment Growth Focus.** A focus of the forecast scenarios is on the change in employment over both the City 2024-44 and PSRC 2017-50 planning time frames. Employment scenarios are provided on a city-wide basis, with commercial allocations made based on separate LCA calculations as summarized by the next section of this report addressing land supply.

The proposed PSRC planning target of 5,400 jobs added from 2017-50 serves as the base case scenario, adjusted for employment outside of commercial districts. Moderate and high scenario alternatives are determined based upon potential variations from this base case projection:

- To the extent that added office-related employment occurs at a home location requiring less commercial space and that e-commerce increases above what has traditionally been the case, the commercial allocation is accordingly reduced, most notably with a **moderate** growth projection.
- Conversely, demographic and preference factors that conceivably could support job growth above the recommended PSRC target are factored into a **high growth** scenario.

**Commercial District Allocation.** Based on PSRC employment data as of 2019, Poulsbo's existing four commercial districts – College MarketPlace, Viking Avenue, Downtown/Front Street, and SR 305 account for 81% of city-wide employment. The remaining 19% of jobs are located throughout the rest of the city outside of commercially zoned areas.

Jobs located outside Poulsbo’s commercial districts comprise a range of activity, most notably existing education related and home-based employment. With all three employment scenarios, this 81% allocation is assumed to continue over a 20-year forecast horizon.

**Scenario Concepts.** Additional parameters and resulting job forecast allocations associated with the three alternative commercial land need scenarios are detailed as follows:

- **Base case employment scenario** – assumes realization of the recommended PSRC allocation of 5,400 added in-city jobs from 2017-50 including 4,374 allocated to existing commercial districts. This is pro-rated to **2,650 net new jobs** allocated to Poulsbo’s existing zoned commercial districts over the 20-year City planning horizon of 2024-44.
- **Moderate growth employment scenario** – reflects the potential for a long-term doubling of e-commerce – equating to another 16% reduction in *brick-and-mortar* retail growth – also for a long-term transition to 25% of added non-retail employment days to a work-at-home setting (including similar reduction in hospitality workforce). This results in net job growth for commercial and industrial areas of an **added 2,030 jobs** allocated to Poulsbo’s existing commercial districts from 2024-44.
- **High growth employment scenario** – assumes a 3% per year forecast population growth rate driving a need for added retail/hospitality and office-related employment including co-working space options, with work-at-home eventually reduced to 10% of net new office-related employment. This scenario indicates potential for up to an **added 3,330 jobs** from 2024-44 allocated to commercial and industrial zoned areas of the city.

Detailed worksheets for the moderate and high growth employment scenarios are provided by the Appendix to this market report.

As indicated by the above summary, there is considerable difference between outcomes for employment requiring commercial and industrial space based on the scenarios considered. The moderate growth allocation indicates 23% fewer jobs requiring commercial and industrially zoned space than with the base case scenario. The high growth employment outcome is 26% above the base case (and 64% above the moderate growth scenario).

With the moderate and high growth scenarios, it is noted that adjustments to the base case are applied only to the recommended PSRC 2017-50 net employment changes and not to underlying in-city employment as of 2019. The reality is that either the moderate or high scenario may well involve changes to needs for current workspace need, whether or not these shifts are realized with commercial space lease or ownership adjustments in the near term.

Over the longer term, reducing commercial space allocations for existing at-work employment may serve as at least a partial offset to needs for added space with forecast population and employment growth. What this suggests is some fungibility of timing – making actual up or down space adjustments less predictable in the near term. This potential range in outcomes suggests a corresponding need for more flexibility in land use planning and adaptation for as yet unforeseen conditions than has previously been the case.



## C. LAND SUPPLY

The employment land capacity analysis (LCA) conducted for the City of Poulsbo and submitted to Kitsap County covers both the incorporated city and as yet unincorporated urban growth area (UGA).<sup>10</sup> This section of the commercial land market analysis compares employment capacities as estimated for the LCA with the employment scenarios described in the preceding market demand section of this report.

### Poulsbo Employment LCA

The employment LCA estimates potential capacity to accommodate 3,012 added jobs on both currently vacant and potential redevelopment sites. As part of the LCA methodology, current pipeline projects have been deducted from the capacity estimates.

Approximately 69% of this net job change could be accommodated by the current four commercial districts. The remaining 31% would rely on development of properties currently designated for Office Commercial Industrial, Business Park and Light Industrial uses together with industrial vacant capacity.

Of particular importance to the LCA are density assumptions of the LCA related to building square footages typically required on a per employee basis and assumed floor area ratios (FARs) used to translate building space demand to required land area.

- **Employment density assumptions** applied with the LCA are 375 square feet (sf) per employee in the C-1 Downtown/Front Street district, 969 sf per job with light industrial and 500 sf with all other commercial and industrial-related zoning districts – averaging 527 sf per employee across all LCA employment districts.
- **Floor area ratios (FARs)** are assumed at 1.50 for the C-1 district, 0.20 for light industrial, and 0.30 for all other commercial and industrial-related zoning districts – averaging 0.29 across all LCA employment districts.

These LCA factors may be of potential importance in reconciling employment capacity with forecast growth – as discussed with the final section of this report regarding findings and recommendations.

### Comparing Employment Scenarios with LCA Capacity

As an overview summary, the chart on the next page compares employment scenario outcomes with LCA capacity – focused on the upcoming 20-year Comprehensive Plan update covering the 2024-44 time frame. Scenario results are focused on determining the extent to which city-wide employment growth is expected to be accommodated within Poulsbo's existing commercial districts.

## 20-Year Summary Comparison of Employment Scenarios & LCA Capacity

Employment Demand-Supply Planning Factor	Job Growth Scenario		
	Base Case	Moderate Growth	High Growth
<b>Employment District Job Growth</b>			
20-Year Forecast (2024-44)	2,650	2,030	3,330
<b>Employment District Capacity/Supply</b>			
Job Capacity (2024-44)	3,012		
<b>Job Capacity Excess/(Shorfall)</b>			
20-Year Plan Update (2024-44)	362	982	(318)
<b>Summary Notes</b>	81% allocation of job growth to commercial districts @ pre-pandemic ratios	Reductions for out-of-district, e-commerce & 25% of new non-retail jobs work-at-home	@ 3%/yr pop gain for more retail & office, less work-at-home & more co-work space

Source: PSRC, U.S. Census OTM, and E. D. Hovee. See Appendix for added detail.

As depicted by the chart, over a 20-year planning horizon LCA land capacity within Poulsbo’s existing commercial and related employment districts with these three employment scenarios can be expected to:

- Exceed **base case** (pro-rated) employment demand by an estimated 362 jobs (or 14% of anticipated employment need).
- Also exceed 20-year demand by as many as 982 jobs (48%) with a **moderate growth** scenario.
- Fall short of **high growth** employment demand by an estimated 318 jobs (or 10% of anticipated demand).

In effect, the current employment district land supply would prove to be adequate to meet anticipated employment-generated demand with two of three job scenarios, falling short only with the high growth employment scenario.

## D. FINDINGS & RECOMMENDATIONS

This final section of the commercial land market analysis summarizes key findings followed by preliminary recommendations for consideration with the upcoming update of Poulsbo's Comprehensive Plan.

### Findings

Four overall findings are suggested with this commercial market analysis:

- 1. While changing demographics, lifestyle preferences, technology and competition have been driving economic change, the pace of change has accelerated with the COVID pandemic and is currently coupled with greater uncertainty as to the shape of a *new, new normal* in the years ahead.**

Primary forces driving this change include:

- Incursion of e-commerce occurring pre-pandemic coupled with pandemic-related business restrictions and **retail** consolidation favoring well-capitalized large format uses have greatly clouded the extent and pace of the recovery for smaller, independent firms as in traditional downtown retail districts.
- **Hospitality** businesses, especially lodging and dining have greatly benefitted Poulsbo's commercial districts historically but were the most adversely affected through the pandemic. The extent of recovery is not yet certain due to challenges ranging from lessened workforce availability and impetus for automation to greater exposure to future health or other events limiting public gatherings.
- **Office** uses not requiring direct face-to-face customer contact most readily adapted to pandemic related restrictions. The extent of a return to the office remains highly uncertain pending business-by-business negotiation of widely varying employee and employer preferences – leading to potentially significant downsizing of office space demand short- and/or long-term.
- As a possible offset, major **corporate** (including tech) office users may be looking to decentralize to smaller office clusters closer to where employees want to live and work – a trend that will receive further impetus to the extent that workers shift residential preferences away from urban centers to smaller high amenity communities.

These trends are, in some cases, countervailing. From an economic development and local employment perspective, the upside effects are reflected in the high employment growth scenario; the downside effects prevail with the moderate-growth scenario.

While the economic crystal ball is relatively cloudy at present as to which conditions prevail, it is possible that greater clarity as to longer term implications could emerge by

in the next one to two years. This would allow for scenario refinement or narrowing of scenarios considered in advance of the 2024 Comprehensive Plan update taking effect.

**2. In Poulsbo, commercial development opportunities may correspondingly vary considerably for retail, service and office uses in the years immediately ahead.**

Near term, prospects for retail development appear most challenging due to demand consolidation and relatively low rents, especially in Poulsbo's more established and long-standing commercial districts.

Service and office uses may be somewhat more stable near-term, but begin shifting more substantially once the extent of return to office-at-work versus work-from-home becomes more apparent. Long-term prospects for added space demand are most optimistic if residential in-migration proves to be robust, accompanied by corporate/tech deployment of satellite work campuses. This transition can be facilitated by development of co-working spaces attractive to telecommuters and/or satellite tech facilities.

**3. Mixed-use development represents both an opportunity and a challenge to assure that residential development does not come at the expense of employment land uses.**

At least near-term, the challenge is that multi-family development can pay more for commercial land, especially as compared to retail uses. To the extent that residential use in commercial zones is accommodated, long-term opportunities for re-energized employment growth may be compromised.

Vertical mixed-use may become more viable in the future at locations of strong demand for both residential and commercial use components. However, near-term financial feasibility remains uncertain. In cases where vertical mixed-use is ahead of its time, a more viable option near-term may be horizontal (side-by-side) mixed-use.

In locations where commercial rents and values can be outbid by residential uses but for which business retention is viewed as an important policy objective, the best options may be for either continuation of commercial-only zoning or granting residential approvals conditioned on no net loss of current or prospective commercial opportunity.

**4. Jurisdictions that can respond both to planned and unanticipated change will be best positioned to meet challenges of growth in a manner that fits both with community values and market expectations.**

For high amenity communities like Poulsbo, it is important for the Comprehensive Plan to articulate values and goals for both residential and employment development. As Poulsbo emphasizes its residential and livability qualities, also reinforce local suitability for added employment as a convenient and accessible place to work and shop – better assuring that neither the residential or employment goal gets too far ahead of the other.

Going full out for high end residential may be accompanied by an older and ultimately more dependent population with challenges to attract diverse work force. Conversely, placing employment growth as the first priority may compromise community livability for which Poulsbo is known.

## Preliminary Recommendations

Whether with residential or employment development, important objectives to reinforce through the Comprehensive Plan process are quality together with market and financial feasibility of development. The following recommendations, while focused on the employment side of the livability/prosperity equation, are intended as potential means to assure quality commercial and other job-related development over a 20-year planning horizon and beyond.

**Land Deficiency Scenarios.** Recognizing that there is an employment land shortfall in one of the three employment scenarios considered (high growth), it will be important to address this shortfall if this scenario were to be accepted as a preferred approach with the Comprehensive Plan update. Remedial provisions might also be considered if the City were to choose a lower growth scenario but find that job demand substantially exceeds expectations.

Securing more land can most readily be accomplished by expanding the city's urban growth area (UGA). However, this approach is discouraged through the GMA process, with emphasis placed on first looking for other ways to accommodate growth more efficiently within existing UGA boundaries. Options to consider include the following:

- **Encourage higher densities of development than currently assumed through the LCA process.** This could occur by attracting more employment-intensive uses (reducing space required per employee) and/or targeting higher FAR development. This approach is viable only to the extent that resulting densities are market supportive and financially feasible. For Poulsbo, there may be some upward density opportunity given that target FARs average 0.29 across all employment uses with building space assumed to average 527 square feet per employee across all uses.  
  
This combination of assumptions may in some cases overstate the parking need. More employees per square foot should be achievable, for example, with office uses while still staying at about 0.30 FAR allowing for at-grade parking (as structured parking is generally assumed to be not financially feasible for most commercial uses in Poulsbo currently). In effect, while development densities may be primarily market-driven, they nonetheless may be influenced at the margin by public regulatory policy and incentives.
- **Relax minimum off-street parking requirements where alternative arrangements can be demonstrated.** This might occur, for example, in conjunction with demonstration of shared or off-site parking facilities or where a portion of parking need can be met with available nearby on-street parking.
- **Limit residential incursion into commercial zones or require development plans assuring no net loss of employment opportunity.** This is more easily accomplished for large master planned sites, although potentially viable with smaller sites for which

phased development is possible as with horizontal mixed-use. In some high demand locations now or in the future, this objective may be more readily addressed with vertical mixed-use where financially feasible.

Residential development also might be more readily accomplished without net loss to employment opportunity on environmentally constrained sites that are more feasibly developed for residential than commercial uses. Perhaps the least-risk approach would be to allow residential as a component of site development to the extent that employment can also be achieved on-site consistent with targeted job densities.

- **Encourage more at-home work and/or e-commerce.** More at-home work could involve both permanent at-home employment and hybrid scenarios where a portion of the week is spent at the place of work, a portion at-home and/or a portion in local co-working space. This is an approach that may also be viewed as more environmentally friendly, reducing carbon footprint. Implementation might need to be accompanied by review and refinement of home occupation and related ordinances.
- **Further relax parking requirements or increase density expectations in high value districts later in the planning cycle when changed mode share with High Capacity Transit (HCT) can be demonstrated.** The potential of such a mechanism could be pursued in consultation with PSRC and appropriate transportation agencies (including Washington State Ferries). How quickly TOD catches on outside of major metro locations post-pandemic remains somewhat uncertain at present. Development can flex to higher density product when demonstrated to be supported by changed market conditions.
- **Consider providing financial incentives in selected commercial districts for mixed-use residential with ground floor commercial development.** A good example of an incentive tool is the statutory 8/12 year property tax exemption available at local discretion in target areas for multi-family housing. While currently limited to cities of 15,000+ residents, the City of Poulsbo could conceivably be in a position of eligibility in less than 10 years if high population growth (in the range of 3% per year) is realized. Other state or federal programs (and possibly local initiatives) might also be considered as a source of incentive funding to facilitate earlier implementation.
- **Provide local funding to incentivize small business retention, expansion and job creation.** The Washington State Main Street program is an example of a resource providing organizational and technical assistance for downtown revitalization in established commercial districts. Main Street communities have also been involved in programs to support funding of storefront improvements and business recruitment.

The question of which tools to apply will be influenced not only by those deemed as most acceptable and implementable, but also based on the extent to which projected growth is anticipated to exceed current capacity. More tools and resources may be required in the event of a high growth scenario resulting in a land supply or capacity gap than with the base or moderate case employment scenarios.

**Surplus Land Scenarios.** In the event that the City of Poulsbo either selects or finds itself in a base case or moderate growth scenario (with job growth well below anticipated LCA capacity), there would be flexibility to defer consideration of the above noted measures aimed to address land capacity deficiencies. The City could also consider steps to reduce the current employment capacity target, as with measures to:

- **Rezone some land currently designated or planned for commercial or industrial employment use to residential or alternative uses.** Rezoning would be most appropriate at locations for which there is weak commercial demand counterbalanced by good residential opportunity (as with some environmentally constrained sites). Assessment also could be made of whether and to what extent the demand or market feasibility of existing or prospective employment uses would be compromised by the resulting adjacency to potential residential development.
- **Allow mixed-use in selected employment districts without application of no net job loss provisions.** Criteria similar to those noted above might be applied in these cases.
- **Take steps to actively encourage employment offsets with more flexible and accommodating home occupation and accessory business uses in residential districts.** To the extent that more *at-home* work can be facilitated, the need for *at-work* space in a commercial or industrial district may be correspondingly reduced. While potentially innovative, this type of approach likely will depend on careful assessment of potential detrimental effects to adjoining residential uses including options for mitigation.

Perhaps the most difficult challenge with a base case or moderate growth scenario could be the timing as to when and how higher growth opportunity becomes largely foreclosed. This might involve determination of a triggering mechanism or gradual phase-in of implementation measures as demand is demonstrated over time to be coming in well below current capacity.

**Toward a Preferred Growth Scenario.** To summarize, the three employment growth scenarios provided with this market analysis are intended to be illustrative rather than definitive. While a case might be made for any of the three scenarios considered, it is recognized that the City of Poulsbo is in the position of selecting a preferred or planned approach with the anticipated update of its 20-year Comprehensive Plan.

On a preliminary basis, the **moderate growth scenario** is recommended for consideration as a preferred alternative. Of the three scenarios, it is associated with the lowest rate of job growth for Poulsbo's commercial districts. A primary reason for this recommendation is the likelihood that conditions supporting more e-commerce and continued at-home work can be expected to persist at least near-term and possibly over much if not all of the 20-year planning cycle.

Recognizing that job growth has been and will remain primarily market-driven, it is also recommended that employment change be closely monitored at least over the next 2-5 years, allowing for re-calibration of commercial land needs if employment within the City's commercial districts proves to accelerate beyond what is expected with moderate growth. Further refinements could occur as part of the City's 8-year Comprehensive Plan update cycle.

## APPENDIX. SUPPLEMENTAL DATA TABLES

### Added Employment with HCT Communities Job Allocation Scenarios (2017-50)

HCT Communities	HCT Employment				% Distribution of HCT Jobs				Linear 2050	2017-50 Job Growth Allocation Options			
	2010	2017	2018	2019	2010	2017	2018	2019	Forecast	2010%	2017%	2019%	Linear%
Bainbridge Island	6,296	7,568	7,870	7,809	34.2%	34.7%	34.8%	33.8%	32.4%	6,150	6,249	6,077	5,827
Kingston CDP	385	522	595	630	2.1%	2.4%	2.6%	2.7%	4.9%	376	431	490	884
Port Orchard	5,577	7,241	7,518	7,645	30.3%	33.2%	33.2%	33.1%	42.7%	5,447	5,979	5,949	7,678
Poulsbo	6,170	6,468	6,650	7,046	33.5%	29.7%	29.4%	30.5%	20.1%	6,027	5,341	5,483	3,611
<b>Total HCT Communities</b>	<b>18,428</b>	<b>21,799</b>	<b>22,633</b>	<b>23,130</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>

Notes: Employment data from 2010-19 is derived from PSRC for all HCT communities except unincorporated Kingston.

Data used for the Kingston Census Designated Place (CDP) is from U.S. Census on the Map (OTM) data for 2010, 2017 and 2018 with results extrapolated to 2019.

Sources: PSRC, Census OTM and E. D. Hovee.

### Moderate Growth Employment Scenario (2017-50)

Forecast Variable	Retail	Non-Retail	Comments
<b>Added Employment (2017-50)</b>			
Proposed HCT Poulsbo Share		5,400	Assumes maintenance of 2017-19 share of HCT jobs
Employment District % Share		81%	Assumes continued 19% of jobs allocated to rest of city outside of designated commercial districts
Added Employment District Jobs		4,374	Gross job addition before post-pandemic offsets
Use Allocation	20%	80%	Based on PSRC data
% Reduction Post-Pandemic	(16%)	(25%)	Retail assumes doubling of e-commerce, 20% work from home per national estimates (or 25% for non-retail share of workers)
Added District Job Allocation	730	2,620	With use allocation & post-pandemic reductions
Total Employment District Job Growth		<b>3,350</b>	
<b>Pro-Rated 20-Year Job Growth (2024-44)</b>		<b>2,030</b>	

Sources: E. D. Hovee together with sources noted as comments.



### High Growth Employment Scenario (2017-50)

Forecast Variable	Retail & Hospitality	Office-Related	Comments
<b>Added Employment (2017-50)</b>			
Proposed HCT Pousbo City-Wide Growth	5,400		Assumes maintenance of 2017-19 share of HCT jobs
Employment District % Share	81%		Assumes continued 19% of jobs allocated to rest of city outside of designated commercial districts
Added Employment District Jobs	4,374		Gross job addition before post-pandemic offsets
Use Allocation	40%	60%	Approximation based on PSRC data
% Reduction Post-Pandemic	--	(10%)	Retail assumes no more e-commerce incursion, office @ 10% work from home allocated to future job growth, no appreciable hospitality workforce impact
HCT District Job Allocation (before HTC Adjustment)	1,750	2,360	Consistent with HTC forecast allocation but not inclusive of added high in-town residential demand
Telcommute & Residential Growth Support Bump-Up	410	975	Retail/hospitality with residential growth outpacing jobs, office as share of existing/future telecommuters (see separate worksheet calculations provided below)
Job Equivalent Growth	2,160	3,335	
Total In-District Job Growth	<b>5,495</b>		
<b>Pro-Rated 20-Year Job Growth (2024-44)</b>	<b>3,330</b>		

Note: Hospitality includes dining and lodging.  
Sources: E. D. Hovee together with sources noted as comments.

## High Growth Jobs Scenario – Supplemental Calculations to Support Added Population Growth

Forecast Variable	Retail & Hospitality	Office & Related	Comments
<b>Current Commuter Telecommute Opportunity</b>			
Poulsbo Resident Labor Force		5,050	Claritas estimate as of 2021
% 30+ Minute Commute		36%	Claritas estimate as of 2021
Estimated Commuters		1,800	Rounded estimate
% Allocation		50%	% of commuters w/office jobs (Claritas)
Max Telecommute Potential		<b>900</b>	Commuters w/potential work-at-home preference
<b>Office &amp; Related Job Undercount with Population Growth (2017-50)</b>			
Population Growth		17,366	Estimated @ 3% annual growth 2017-50
Ratio of Jobs to Population		0.43	Claritas per Poulsbo resident workers
Future Resident Job Growth		7,500	Associated with in-town residential growth
<i>less</i> PSRC HCT Target		-5,400	Per recommended Poulsbo HCT share
<i>equals</i> Job Deficit		2,100	Amount by which job need exceeds HCT growth
x % Office Workers		50%	Per Claritas occupational counts
Max Telecommute Potential		<b>1,050</b>	Add jobs to address local office worker growth
<b>Retail/Hospitality Undercount with Population Growth (2017-50)</b>			
Job Growth Forecast	5,400		Per recommended HCT Poulsbo Share to 2050
% Retail/Hospitality Jobs	40%		With continuation of C-District job mix per OTM
Base Case Retail/Hosp Job Chg	2,160		Per high scenario calc w/o high pop growth
Population/Job Growth	82%		% difference between pop & job forecasts
Poulsbo % of TA Residents	23%		Current share per Claritas
Added Retail/Hospitality Jobs	<b>410</b>		To serve higher rate of pop vs job forecast
<b>Total Added Employment</b>			
Total Added Job-Equivalents	410	1,950	
% Added C-District Jobs	100%	50%	Assume max 50% using co-work or office space
Total Added C-District Jobs	<b>410</b>	<b>975</b>	

Sources: E. D. Hovee together with sources as noted with comments.

# END NOTES

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- <sup>1</sup> Information for this report has been obtained from sources generally deemed to be reliable. However, the accuracy of information is not guaranteed and is subject to change without notice. The observations and findings provided with this market analysis report are those of the author and should not be construed as representing the opinion of any other party prior to approval – whether in whole or part.
- <sup>2</sup> Per buildable lands data, Poulsbo is the most rapidly growing of all Kitsap communities in the last three years.
- <sup>3</sup> PSRC estimation of total employment starts with QCEW covered employment data as documented by the Washington State Employment Security Department (ESD). Covered employment data typically excludes sole proprietors who are not incorporated, such as gig employees and self-employed – many of whom work from home. Adjustments to QCEW data are made by PSRC to account for proprietors, corporate and elected officers, church and railroad jobs, stationed and afloat military.
- <sup>4</sup> Aggregations of employment by 2-digit NAICS to PSRC categories are as follows:
  - Construction and Resources (Const/Res): 11, 21, 23
  - Finance, Insurance and Real Estate (FIRE): 52, 53
  - Manufacturing: 31-33
  - Retail: 44, 45
  - Services: 51, 54-56, 61 (private-sector portion), 62, 71, 72, 81
  - Wholesale Trade, Transportation, and Utilities (WTU): 22, 42, 48, 49
  - Government: Public-sector employment, excluding education
  - Education: 61 (public-sector portion)
- <sup>5</sup> Included with the College MarketPlace area is the Viking North Industrial Area (on the east side of SR 3) including some unincorporated UGA area but with relatively minimal employment to date.
- <sup>6</sup> PSRC and OTM data both indicate substantial levels of employment in the rest of the city area, not included within a designated commercial district. As of 2019, PSRC estimates that the rest of city had a total of 1,365 jobs. Of these, just over 600 were associated with public education (including a high school). There are another 544 private sector service jobs with 94 separate employers (which can include single employee workplaces). Another 130+ jobs are associated with construction and resource-related firms. There are less than an added 100 employees associated with firms involved in finance, insurance and real estate, retail, wholesale trade/transportation/utilities and non-education related governmental services. In some cases, it is possible that there is one single employer covering payroll of employees physically located at multiple work sites.
- <sup>7</sup> The non-store retail share is 14.4% of demand (with dining), 16.4% of retail expenditure (with dining excluded).
- <sup>8</sup> As an example, one recent forecast is that e-commerce will increase from 11.0% to 23.6% of total U.S. retail sales from 2019-25. Source is Suzy Davidkhanian, *Insider Intelligence: US Economic Forecast 2021*, July 8, 2021. See link: <https://www.emarketer.com/content/us-ecommerce-forecast-2021>  
Another source indicates that the surge in non-store retail may be greater than what is estimated by Claritas, at least near-term. The national real estate advisory firm Marcus & Millichap per its Midyear 2021 *publication The Outlook: Retail* estimates that from February 2020 to March 2021, non-store retail increased nationally by 35% before dropping off by about 1% in the two months following business re-opening. If the non-retail share from 1993-2019/20 is extrapolated forward, the non-store share would approximately double by 2050.
- <sup>9</sup> Per Jose M. Barrero, N. Bloom and S.J Davis, “Why Working From Home Will Stick,” April 2021, web link: <https://www.nber.org/papers/w28731>. If 20% of jobs with retail in Poulsbo are excluded, the at-home work estimate for non-retail workers with at-home work potential increases to 25% of the non-retail work force.
- <sup>10</sup> Documentation of LCA methodology is provided by the report *Kitsap County Land Capacity Analysis: Technical Methodology Guidance*, as revised June 25, 2021.