



Downtown Federal Way Retail Market Analysis

September 2019



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INTRODUCTION

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The overall purpose of the Downtown Federal Way Retail Market Analysis is to provide a clear picture of the retail marketplace and identify potential business opportunities that will contribute to the successful development of the central city, ultimately attracting more small business and bringing customers in the doors of existing local retailers. This project supports 2015 City of Federal Way Comprehensive Plan goals to promote prosperity and vibrancy in Federal Way’s downtown and leverage Sound Transit’s Tacoma Dome Link Extension.

Toward this goal, the City of Federal Way owns 17 acres in the downtown area and is in the process of developing a Town Center, including four parts:

1. Four acres associated with the Performing Arts and Events Center (PAEC) (Town Center I).
2. Four acres of Town Square Park (Town Center II).
3. Eight acres for a hotel and potential development opportunities for office, medical office, higher educational facilities, retail and restaurants, along with arts and entertainment venues. In addition, there is a smaller component for office or institutional space (Town Center III).
4. One acre for transit-oriented development (TOD) located west of the transit center and multi-story parking garage owned and operated by Sound Transit (Town Center IV).

The retail market study goals appear below together with selected Town Center development guidelines based on the City’s 2040 vision for downtown.

Goals

- Create an accurate and realistic picture of Federal Way’s retail potential within the marketplace, including existing retail supply, consumer buying patterns and opportunities for growth and development;
- Develop a target business mix based on existing market gaps and future development potential;
- Contribute to the creation of a unifying market position or identity for Downtown Federal Way;
- Enhance the vibrancy of public spaces, retail centers, and downtown.

Guiding Principles

- Create an identifiable downtown that is the social and economic focus of the City;
- Strengthen the City as a whole by providing for long-term growth in employment and housing;
- Promote shopping and entertainment opportunities close to employment, housing, and transit;
- Maximize the benefit of public investment in infrastructure and services;
- Provide a central gathering place for the community;
- Improve the quality of urban design for all developments.

Methodology

Preparation of this report involved extensive research (both primary and secondary) and analysis of Federal Way’s retail marketplace. Project activities included:

- Review of previously completed documents, reports, studies, presentations;

- Community tour: two consultants on site for three days;
- Interviews with local retail businesses, shopping center managers, hoteliers and visitor industry representatives;
- Demographic analysis of Federal Way market area;
- Visit and evaluation of retail centers;
- Interviews with retail store owners and/or managers;
- Statistical estimates of potential supportable retail space over the next five years.
- Analysis and synthesis of GIS data--*city center extent, retail locations, shopping centers, parcels, tax lots*

Downtown/Core Area Vision Statement

As stated in *Chapter VII: City Center* of the Comprehensive Plan, the principal purposes of the Federal Way City Center are to:

- Create an identifiable downtown that is the social and economic focus of the City;
- Strengthen the City as a whole by providing for long-term growth in employment and housing;
- Promote housing opportunities close to employment, shopping, and transit;
- Support development of an extensive regional/high-capacity transit system;
- Reduce dependency on automobiles;
- Consume less land with urban development;
- Maximize the benefit of public investment in infrastructure and services;
- Reduce costs of and time required for permitting;
- Provide a central gathering place for the community; and
- Improve the quality of urban design for all developments.

Summary:

“The concept is to redevelop the City Center and create a compact urban community and vibrant center of activity. The crux of the strategy is to promote a compact urban center with connections between where we live, work, and recreate, and to create an urban environment that is amenable to walking, bicycling, and transit.”

The report is organized into five key chapters and an appendix of extensive supplemental material:

- 1.0 Retail Market Supply
- 2.0 The Downtown Federal Way Customer Base
- 3.0 Retail Demand Analysis
- 4.0 Retail Trend Analysis/Overview
- 5.0 Downtown Federal Way Retail Opportunities

1.0 RETAIL MARKET SUPPLY

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This section includes an overview of the current regional retail market, profiles Federal Way’s retail market and provides a high-level assessment of the existing retail base.

The Region

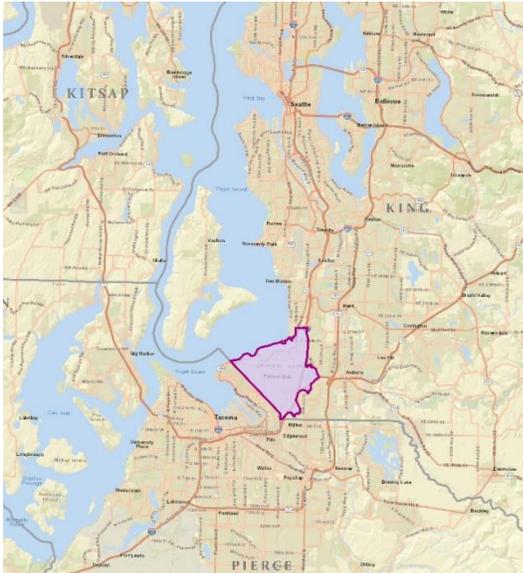


Figure 1: Overview of Seattle-Tacoma Region
(source: ESRI, Washington Geospatial Data Portal)

The City of Federal Way is located along the Puget Sound inlet, nestled between Tacoma and Seattle. An overview (Figure 1) of the region is provided for context. Federal Way is home to one regional shopping center—The Commons, a 780,000 square foot center in the heart of the town center at Highway 99 and S. 320th Street. To the north are two competitive super-regional malls: The Outlet Collection in Auburn and Westfield Southcenter in Tukwila, which boasts being the largest mall in the Pacific Northwest. To the south lies Tacoma Mall. Table 1 summarizes key features of the area’s regional malls; Figure 2 maps their locations.

Outlet Collection – 8 miles from Downtown Federal Way

The Outlet Collection is a 1M+ sf indoor mall for outlet and company stores located in Auburn, Washington, US, managed and leased by Washington Prime Group. The

mall includes a soft-play area for children. Key retailers include Nordstrom Rack, H&M, Bed Bath & Beyond and Gap Outlet. There are 140 stores and services in the mall.

Westfield Southcenter – 12 miles from Downtown Federal Way

Westfield Southcenter (formerly known as Southcenter Mall) is a shopping mall located in Tukwila, Washington, US, and owned by the Westfield Group. It is the largest shopping center in Washington and the Pacific Northwest. The mall is anchored by Macy's, JCPenney, Nordstrom, and Sears. The mall features nearly 220 stores.

Tacoma Mall – 4 miles from Downtown Federal Way

Tacoma Mall is owned by Simon Property Group. The mall features over 150 specialty stores and dining options, as well as a kids’ play area. Anchor tenants include JCPenney, Dick’s Sporting Goods, Macy’s and Nordstrom.

The Commons – in the Heart of Downtown Federal Way

The Commons at Federal Way is the only indoor shopping mall in the city. The property is owned and managed by Merlon E. Geier Partners. The mall features over 90 stores including Macy’s, Target, Kohl’s, Cinemark/Century Theater, and Dick’s Sporting Goods, as well as dining options like Buffalo Wild Wings, Panera and Red Robin.

Table 1: Regional Malls in the Federal Way Area, September 2019

Name & Address	Total SF	Selected Tenants	Target Market
The Outlet Collection 1101 Outlet Collection Way, Auburn WA 98001	922,286	Nordstrom Rack, H&M, Bed Bath & Beyond, Gap Outlet, Ulta Beauty, Ann Taylor	- South Seattle and Tacoma MSAs, drawing 3.5M+ people
Westfield Southcenter 2800 Southcenter Mall Seattle, WA 98188	1.7M	JCPenney, Macy's, Nordstrom, Sears, Sephora, Din Tai Fung, AMC Theaters	- Mid to upper-middle market target - Large market pull (>1M) from south Seattle and I-5 corridor
Tacoma Mall 4502 S Steele St Tacoma, WA 98409	1.3M	JCPenney, Dick's Sporting Goods, Macy's, Nordstrom, The Cheesecake Factory, Chipotle, Panera Bread	- 898K trade area population - 340K trade area households - Median age 38 - \$79K avg household income
The Commons South 320 th Street Federal Way, WA 98003	779,946	Macy's, Target, Kohl's, Cinemark/Century Theater, Buffalo Wild Wings, Dick's Sporting Goods, Panera, Red Robin	- Area market within 5-7 miles including local ethnic populations - Mid-market, family-oriented households

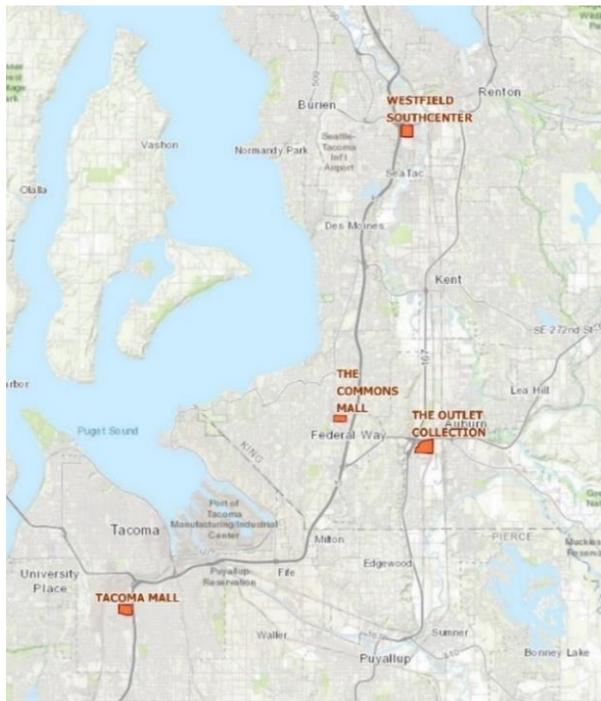


Figure 2: Shopping Centers in Region (source: ESRI, Washington Geospatial Data Portal)

Puget Sound Regional Trends

Second quarter retail research figures for the Puget Sound region indicate that:

- Average retail asking rates within the region are \$24.88/SF, up over \$1 over a year ago. Seattle proper is on the high end at \$28.13/SF and Southend where Federal Way lies is on the low side at \$20.57/SF.
- Current vacancy rates across the region average 3.2% with the Southend at 4.3%.
- Regionwide, 12-month net absorption (SF) is at 1.33M SF. Within Southend, for the same period, net absorption is a negative 78,566 SF indicating a higher vacancy and/or declining demand for available real estate product.
- A notable lease transaction on the southside was Old Navy at Canyon Ridge Plaza. (12,500 SF in Kent)

Source: NAI Puget Sound, CoStar

Federal Way Marketplace – Historical context

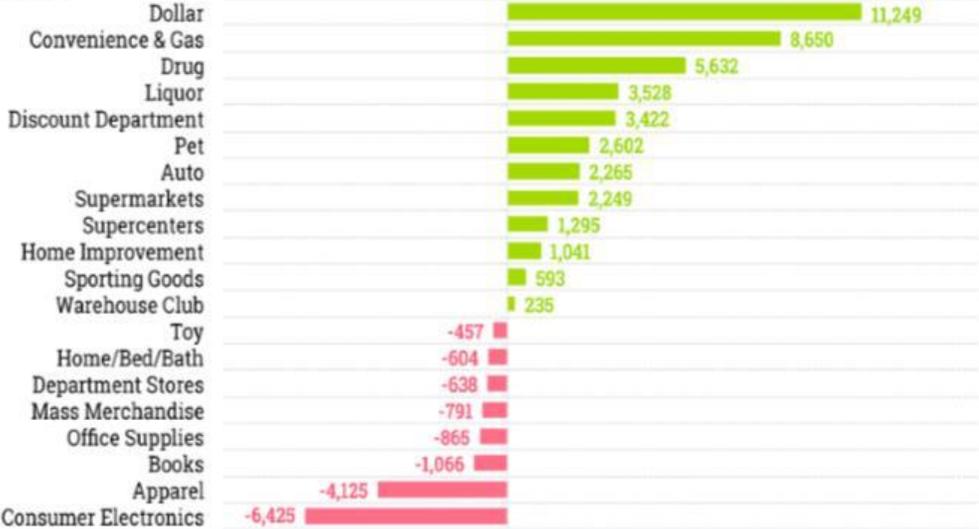
The City's Economic Development Department has documented changes in the City's taxable retail sales base by sector from 2007 to 2018. (See *A Growing Sector: Retailing* report, June 2019). Using 2007 as the pre-recession base year (\$786M in retail sales), the retail sector declined sharply to \$651M in sales (2011) before steadily regaining its strong position in 2018 at \$869M.

From beginning to end of that period (2007 – 2018), most retail categories held steady or increased modestly. Sales from four store categories increased dramatically during that time: Home Furnishings (120%), Drugstores (71%), Arts/Entertainment (137%) and Restaurants/Bars (55%). Alcohol and drugstore sales increases have been linked to economic declines and may be one explanation for the increased retail sales in these categories. Overall, as families worked multiple jobs to make ends meet, eating out (especially fast food) became a part of everyday American life over the last decade.

Compared to store openings and closings nationally (see following chart) during a similar timeframe, Federal Way has maintained a strong and healthy retail foundation with a well-balanced store mix largely serving the middle-market—a good place to be during any economic decline. Noticeably absent from the Downtown Federal Way landscape is an abundance of Dollar-type stores (topping the store opening chart). These stores have proliferated in many communities communicating 'cheap' both in quality of goods and consumers.

Also of note is that across the U.S., per capita retail spending declined over the last 15 years in virtually every retail category except grocery stores (+1.5%) and general merchandise (+0.38%). This fact reflects increased online shopping, cheaper offshore production, value-conscious American shoppers and stagnant wages among other contributors. E-commerce grew from 5.1% in 2007 to 14.3% in 2018. To Federal Way's credit and market strength in the south Puget Sound, store-based retail sales grew overall by 10.5%.

Changes in US Retail Open Store Counts, by Category 2007-2017



Published on MarketingCharts.com in April 2018 | Data Source: Nielsen

Based on Nielsen TDLinX, Historical Database, 2007-2017

Downtown Retail Supply

City of Federal Way Economic Development staff conducted a thorough inventory of restaurants and retailers in Downtown Federal Way and presented detailed findings in several documents including: *A Growing Sector- Retailing: Downtown Federal Way 2019* and *One Sizzling Sector- Restaurants: Downtown Federal Way 2019*. Table 2 below outlines the existing retail base within organized shopping centers in Downtown Federal Way; Figure 3 maps their locations. For a more detailed description and assessment of area shopping centers, see Appendix B.

Table 2: Downtown Federal Way Shopping Centers, September 2019

Name and Address	Total SF	Available SF	Vacancy Rate	Annual Lease Rate (\$/SF)	Selected Tenants
Gateway Plaza 2500 S 320th St Federal Way, WA 98003	151,874	7,819	5%	\$30.00- \$32.00	Marlene's Market & Deli, AMC Gateway 8, Pier 1 Imports, Cold Stone Creamery, Pacific Medical Center
NWCC City Center Plaza 320th St & Pete von Reichbauer Way South Federal Way, WA	~200,000				Emerald City Smoothies, Ezell's, Sound Credit Union, Hot Pot World, TacoTime, Starbucks, Red Lobster, MOD Pizza
Hillside Plaza 2000-2222 S. 314th Street Federal Way, WA 98003	113,925	25,627	22%	\$14.50 - \$19.50	Elev8 Hot Yoga, Gene Juarez Academy of Beauty, CSL Plasma, Nail & Beauty Salon, UW Satellite Classroom(s) (TI under construction)
SeaTac Village Shopping Center 1700-1916 South 320 th Federal Way, WA 98003	165,324	one drive thru ATM space	0%	\$30.00	Trader Joe's, Tuesday Morning, Homegoods, Old Country Buffet, DSW, Maurices, TJ Maxx, Big 5, plus other smaller retailers/ personal services
H-Plaza 31515 Pete Von Reichbauer Way S Federal Way, WA 98003	65,714	5,402	8%	\$16.00 - \$20.00	Home & Home, Moa Hair Studio, Jasmine Mongolian Grill
Nara Village (316th St Plaza) 1805 S 316th St Federal Way, WA 98003	16,071 Spa 9,738 Shops	n/a	n/a		Palace Spa, La Princesa Pupuseria, Sofia Beauty, Lotte Travel, Hair Bank Salon, Shin Sung Korean Cuisine

Pavilions Center Pacific Hwy S. & S. 312th St Federal Way, WA 98003	199,642	No Vacancies	0%	n/a	H Mart, Barnes & Noble, Petco, JoAnn Fabrics
Pavilions Center II 31601 S. Pacific Hwy Federal Way, WA 98003	132,281	32,015	24%	n/a	CityMD, PetSmart, OfficeMax, Best Buy, Chipotle
Celebration Center 1414 S. 324th Federal Way, WA 98003	223,928	29,420	13%	\$17.00 - 28.00	Total Wine, Ross Dress for Less, Rite Aid, Michaels, Bank of America, T-Mobile, Freedom Fitness, Iora Primary Care
West Campus Square 35100 Enchanted Pkwy S Federal Way, WA 98003	350,000	30,974	9%	\$28.00+	Costco, Home Depot, Hobby Lobby, LA Fitness, Lowe's, and others
Federal Way Crossings South 348th Street Federal Way, WA 98003	213,893	6,609	3%	\$35.00 - \$42.00	LA Fitness, Office Depot, Sportsman's Warehouse, McDonald's, Starbucks, Sleep Country USA, Jimmy Mac's Roadhouse, Quiznos, Taco Del Mar, SportClips, Auburn Regional Medical Center, Verizon Wireless, Jamba Juice

**See Table 1 for information about The Commons
Source: Marketek*



Figure 3: Commercial Centers within City Center (source: ESRI, Federal Way GIS)

Current Conditions

Downtown Federal Way's Retail Competitiveness

Successful, competitive business districts of any size have a healthy business/retail climate, key amenities, and characteristics that attract both customers and business prospects. With input from interviews, the site visit and the retail analysis, the Marketek team assessed Downtown Federal Way's strengths and challenges for retail development within the context of the community and market area overall. Presented here is a brief summary with more thorough discussions and data included in the remainder of this document and Appendices.

Federal Way's Top Advantages for Retail Expansion

- The City and greater market area have large and growing retail market demand stemming from healthy population growth in the retail market area, several large, successful visitor magnets and an employment base poised for growth.
- The Downtown/urban core is centrally located within the community and has easy and convenient access and visibility at the juncture of Interstate 5/Highway 99 and 320th Avenue, 15 miles south of SeaTac Airport.



- The opening of Sound Transit's light rail station (anticipated 2024) will improve Federal Way's access and connectivity to the Seattle-Tacoma region and bring 35-40,000 riders/day to the heart of Downtown Federal Way throughout the work week.
- The City's Comprehensive Plan and Zoning Code and the Countywide Planning Policies (CWPPs) and VISION 2040 objectives all support and envision a dense, urban city center, supported by a healthy mix of retail, office, residential, and civic uses. Based upon Urban-Scenarios Downtown Federal Way parcel analysis, the existing retail footprint may be expanded to support nearly double the existing building stock in the city center. As an illustration, a 200,000 SF (40,000 SF footprint, 5 floors) mixed-use building could provide 10,000 SF retail (5%) and 190,000 SF of residential and/or office (95%).
- VISION 2040 and the City's Comprehensive Plan have set housing and employment targets for the Federal Way urban center that are supported by demographic shifts showing a preference for higher-density housing near transit. To address this, the housing target for the urban center has been set at 2,521 units, which is 30% of the overall city target of 8,100 residential units. The total number of jobs for the year 2035 for the urban center has been set at 6,823, which is 28% of the overall city target of 12,300 jobs.
- Federal Way has a designated Opportunity Zone in the central city as a potential enticement to private developers. The tract has a variety of developable sites for housing and commercial development, including nearly 10 vacant acres as part of the Town Center development. Additionally, it is anticipated that light rail will catalyze redevelopment of six square blocks--specifically three blocks for private investment for transit-oriented development. Opportunities exist to redevelop on 10 large parcels.
- Five city-controlled sites, within the downtown city center, enabling the City to influence their development, scale and contribution to an active, pedestrian-oriented central city.





- More than 2.5 million square feet of retail space downtown, with significant large anchors (e.g. Target) adaptive to market changes and driving local customer traffic.
- One hundred (100) restaurants are concentrated in the downtown core. This cluster attracts all market segments: residents, visitors and employees.

- Downtown retail is supported by a preponderance of active, positive and hands-on shopping center managers working to ensure retail success.
- Federal Way's 2015 Town Center concept plan maps out four quadrants with unique anchors/attractions in place such as PAEC, Town Square Park, the transit center, the Town Center Steps and potential for private mixed-use development. This plan serves to guide current and future investment.
- The City of Federal Way is highly supportive of retail expansion as a key economic development strategy. Staff maintain strong relationships and are engaged with shopping center managers.



Federal Way's Top Challenges for Retail



- Many retail centers in and around the city center are transitioning to service, medical and other non-retail uses. This trend may affect the identity and marketability of these centers and also result in them being less of a destination shopping center and more of a center of destination businesses.
- The central city is sharply divided into north and south areas by 320th Avenue. Conceiving of Downtown as a single cohesive destination is problematic. More realistic is marketing and developing Downtown as two sub-districts with The Commons (Downtown south) continuing as a regional destination and the new, redeveloping

Downtown (to the north) emerging as the community's town center and social, cultural hub.

- The urban form of the downtown area is primarily single-story retail, with sites surrounded by off-street surface parking. A simple assessment shows that the existing floor to area ratio (FAR) for the downtown core and frame does not exceed 0.35 FAR. This accounts for low-density, less intensive development patterns that generally do not support a vibrant and activated city center.





- The local customer market is extremely diverse—numerous Asian cultures, Latino, Slavic communities. The Federal Way School District reports 111 languages spoken in the households of its students. This fact challenges retailers to serve multiple customer groups—a key underpinning to small business success.

- Downtown is presently dominated by auto-oriented destinations and lacks the features in high demand by nearly all demographics but



especially younger segments and that includes a critical mass of uses and ‘festival street’ public space that encourages walkability, connectivity and fun.

- Lack of an image or brand. Federal Way is not known for or considered a destination for anything in particular, which may impact its residential and retail development. Contrarily, it presents an opportunity to reimagine the future and create a strong definition of the downtown core.

- While retail vacancy is generally low throughout Federal Way (5 percent citywide), a few neighborhood retail centers have multiple vacant spaces, but it appears those may be tied to the space being too large or in need of rehabilitation.



- BPA transmission lines which cut through Downtown Federal Way are both a visual and development impediment. Development is limited one hundred fifty feet on either side of the towers/lines. Among the impact is the barrier to (re)development south of the existing Commons buildings.

Federal Way’s Top Opportunities for Retail

Report section 6.0 explores retail opportunities in detail though highlights appear below.

- Unmet and growing retail demand coupled with undeveloped acreage adjacent to transit in the central city together will enable Downtown to capitalize on retail market expansion with new, high-quality development and unique, local ventures.
- Downtown Federal Way is poised to serve as the community’s multi-generational cultural and entertainment center with the Park and PAEC as key activity hubs and additional anchors planned such as the E-gaming center and University of Washington satellite campus
- The new emerging Downtown district stimulated by transit ridership, the PAEC and future mixed-use development will boost the City’s competitive position and image as a vibrant commercial, residential and employment district.



2.0 THE DOWNTOWN FEDERAL WAY CUSTOMER BASE

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Downtown Federal Way’s primary target markets for shopping, dining, services and entertainment include local residents, visitors and area employees. As downtown continues develop as a destination, the consumer market will continue to expand and diversify. In the next five years, two additional customer markets will contribute to an economic impact downtown: University of Washington/Highline College students on the downtown satellite campus (The Hub) and transit riders estimated to be 35,000-40,000 people per day—many of whom will live beyond the market area.

Residents

To estimate existing and future retail demand in Federal Way from the local resident population, Marketek delineated a custom-drawn retail trade area from which the majority of the City’s shoppers are likely to emanate (see Figure 4). This Greater Retail Market Area is based on interviews with existing businesses, shopping center managers, natural and man-made boundaries, drive times, Federal Way’s competitive assets, its location within the region, the location of the competitive supply of retail centers and large general merchandisers. In addition, a Convenience Market Area was identified approximating an average 10-minute drive time from The Commons. Residents in this geography are prone to do their

daily convenience shopping (grocery, health, hardware, gas) at nearby businesses.

Greater Retail Market Area

The Greater Retail Market Area has a population of 242,795 in 2019, projected to add over 15,000 residents and 5,000 households by 2024. This average annual growth of 1.22% is slightly below the state’s average growth of 1.3%. The median household income is \$74,301, higher than Washington overall (\$73,627). Median age is 37.6 and lower than the state’s median at 38.6. The market area

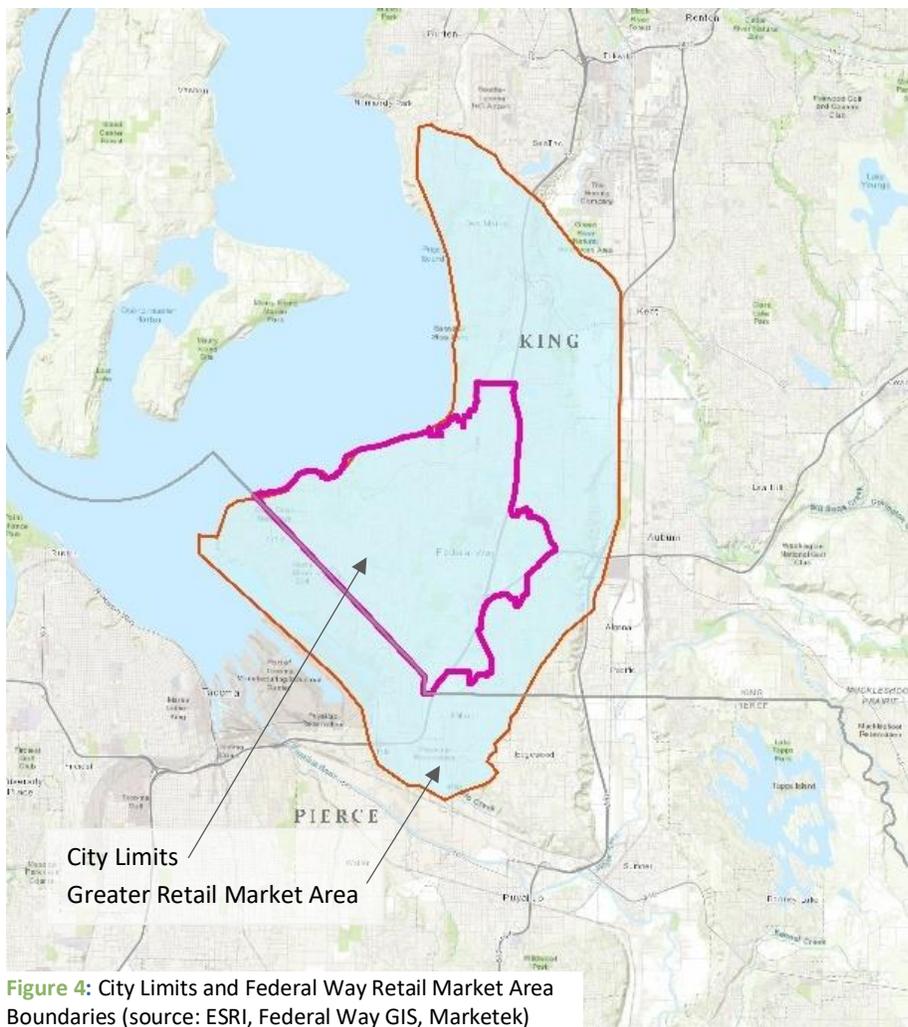


Figure 4: City Limits and Federal Way Retail Market Area Boundaries (source: ESRI, Federal Way GIS, Marketek)

	Greater Retail Market Area (67.55 Square Miles)		Convenience Trade Area (10 Min Drive Area)		State of Washington (Entire State)	
Summary	2019	2024	2019	2024	2019	2024
Population	242,795	257,978	110,637	117,237	7,608,571	8,120,093
2019-2024 Annual Rate	1.22%		1.17%		1.31%	
Households	89,543	94,578	40,354	42,474	2,945,108	3,140,137
Average Household Size	2.68	2.70	2.72	2.74	2.53	2.54
Owner Occupied Housing Units	56.90%	58.40%	54.70%	56.50%	58.30%	59.40%
Median Age	37.6	38.3	36.8	37.7	38.6	39.2
Median Household Income	\$74,301	\$86,919	\$69,218	\$82,084	\$73,627	\$84,987
Race and Ethnicity- Percentage of Population						
White Alone	56.0%	52.9%	52.8%	49.1%	73.1%	71.2%
Asian Alone	15.7%	17.5%	17.3%	19.5%	9.1%	10.0%
Hispanic Origin (Any Race)	16.6%	17.7%	17.8%	18.9%	13.2%	14.2%
2019 Percentage of Population 25+ by Educational Attainment						
Associate Degree	11.4%		11.7%		10.2%	
Bachelor's or Graduate/Professional Degree	28.9%		26.9%		36.0%	

Data Note: Income is expressed in current dollars.

Source: U.S. Census Bureau, Census 2010 Summary File 1. ESRI forecasts for 2019 and 2024.

Detailed market area demographics on population, age, income, race and educational attainment appear in Appendix C. The appendix also provides a summary of the retail market area's largest Community Tapestry segments. Tapestry data (developed by ESRI Business Information Solutions) categorizes neighborhoods throughout the nation into 65 consumer groups (or market segments) based on a variety of socioeconomic characteristics and other determinants of consumer behavior. The information adds dimension to the demographic data and dominant market segments in the Federal Way Greater Market Area. Over 20 Tapestry groups make up 95% of the households, further underscoring the diversity of the area's customer base. The top ten tapestry segments in the Federal Way Greater Market Area appear below in Table 4.

Table 4: Top 10 Tapestry Segments in Greater Retail Market Area, September 2019

Market Segment	Household Type	Median Age	Median Income	Socioeconomic Traits
1 Home Improvement (4B) 11.4%	Married couples	37.7	\$72,100	<i>Higher participation in the labor force and lower unemployment than US levels; most households have 2+ workers. Cautious consumers that do their research before buying, they protect their investments. Typically spend 4–7 hours per week commuting, and, therefore, spend significant amounts on car maintenance (performed at a department store or auto repair chain store). They are paying off student loans and home mortgages. They spend heavily on eating out, at both fast-food and family restaurants. They like to work from home, when possible.</i>
2 Pleasantville (2B) 9.3%	Older Married couples	42.6	\$92,900	<i>Education: 66% college educated, 37% with a bachelor's degree or higher. Low unemployment at 4.6%; higher labor force participation rate at 67% (Index 107); higher proportion of HHs with 2 or more workers (Index 118). Many professionals in finance, information/ technology, education, or management. Median household income denotes affluence, with income primarily from salaries and investments. Not cost-conscious, these consumers willing to spend more for quality and brands they like. Prefer fashion that is classic and timeless as opposed to trendy. Use all types of media equally (newspapers, magazines, radio, Internet, TV).</i>
3 Metro Fusion (11C) 7.9%	Single-parent & single-person	29.3	\$35,700	<i>They're a diverse market with 31% black, 34% Hispanic, and 20% foreign born. Younger residents are highly connected, while older residents do not have much use for the latest and greatest technology. They work hard to advance in their professions, including working weekends. They take pride in their appearance, consider their fashion trendy, and stick with the same few designer brands. They spend money readily on what's hot unless saving for something specific. Social status is very important; they look to impress with fashion and electronics.</i>
4 Bright Young Professionals (8C) 7.6%	Married couples without children	33.0	\$54,000	<i>Education completed: 35% with some college or an associate degree, 33% with a bachelor's degree or higher. Unemployment rate is lower at 4.7%, and labor force participation rate of 72% is higher than the US rate. These consumers are up on the latest technology. They get most of their information from the Internet. Concern about the environment impacts purchase decisions.</i>
5 Parks and Rec (5C) 6.2%	Married couples without children	40.9	\$60,000	<i>More than half of the population is college educated. Older residents draw Social Security and retirement income. The work force is diverse: professionals in health care, retail trade, and education, or skilled workers in manufacturing and construction. This is a financially shrewd market; consumers are careful to research their big-ticket purchases. When planning trips, they search for discounted airline fares and hotels and choose to vacation within the US. These practical residents tend to use their cell phones for calls and texting only.</i>

6 Soccer Moms (4A) 6.1%	Married couples	37.0	\$90,500	<i>Education: 40.5% college graduates; more than 72% with some college education. Low unemployment at 3.8%; high labor force participation rate at 71%; 2 out of 3 households include 2+ workers (Index 124). Connected, with a host of wireless devices from iPods to tablets—anything that enables convenience, like banking, paying bills, or even shopping online. Well insured and invested in a range of funds, from savings accounts or bonds to stocks. Carry a higher level of debt, including first (Index 149) and second mortgages (Index 154) and auto loans (Index 149).</i>
7 Retirement Communities (9E) 5.2%	Married couples/Live Alone	53.9	\$40,800	<i>Brand loyal, this segment will spend a little more for their favorite brands, but most likely they will have a coupon. Frugal, they pay close attention to finances. They prefer reading magazines over interacting with computers. They are health conscious and prefer name brand drugs.</i>
8 Enterprising Professionals (2D) 5.2%	Married Couples/Single Person HH	35.3	\$86,600	<i>Median household income one and a half times that of the US. Over half hold a bachelor's degree or higher. Early adopters of new technology in hopes of impressing peers with new gadgets. Enjoy talking about and giving advice on technology. Half have smartphones and use them for news, accessing search engines, and maps. Work long hours in front of a computer. Strive to stay youthful and healthy, eat organic and natural foods, run and do yoga. Buy name brands and trendy clothes online.</i>
9 Young and Restless (11B) 4.9%	Single Person	29.8	\$40,500	<i>Education completed: More than 2 out of 3 have some college, an associate's degree, or a bachelor's degree or higher. Almost 14% are still enrolled in college (Index 175). Labor force participation rate is exceptionally high at 75.0%; unemployment is low at 5.2%. These are careful shoppers, aware of prices, and demonstrate little brand loyalty. They like to be the first to try new products but prefer to do research before buying the latest electronics. Most of their information comes from the Internet and TV, rather than traditional media. Carry their cell phone everywhere they go.</i>
10 Savvy Suburbanites (1D) 4.6%	Married Couples w/ No Children or Older Children	45.1	\$108,700	<i>Education: 50.6% college graduates; 77.6% with some college education. Low unemployment at 3.5% (Index 65); higher labor force participation rate at 67.9% (Index 109) with proportionately more 2-worker households at 62.2%, (Index 120). Well-connected consumers that appreciate technology and make liberal use of it for everything from shopping and banking to staying current and communicating. Informed shoppers that do their research prior to purchasing and focus on quality.</i>
Total Household 68.4%				

Source: ESRI BIS, Marketek, Inc.

For a complete description of the tapestry segments: <https://doc.arcgis.com/en/esri-demographics/data/tapestry-segmentation.htm>

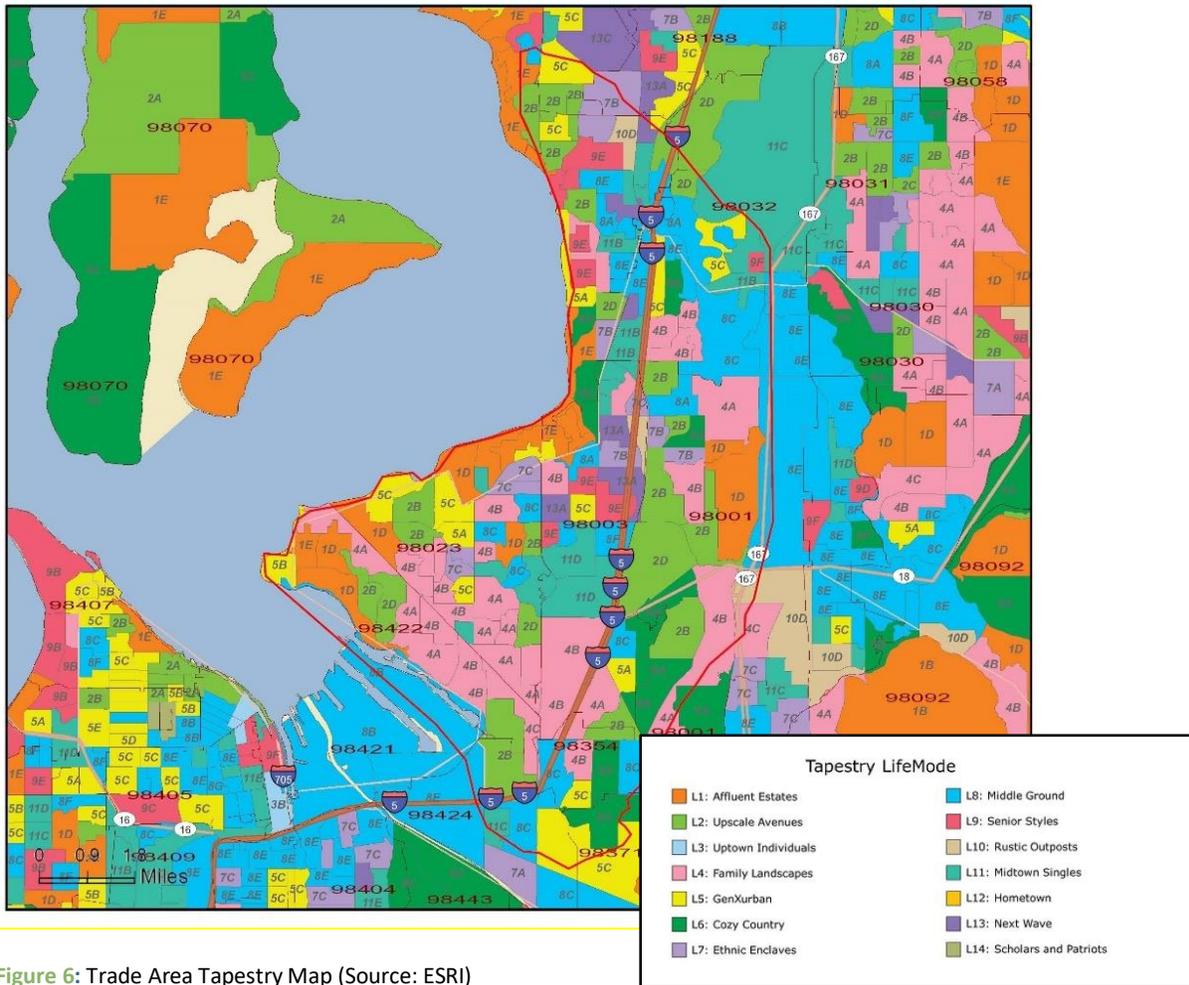


Figure 6: Trade Area Tapestry Map (Source: ESRI)

Area Employees

Employees working in or near Downtown Federal Way are an important captive market for a variety of retail, service and entertainment businesses and have been estimated to spend about 15% of their expendable income close to their work location. The International Council of Shopping Centers (ICSC) has completed extensive research on office/professional worker spending in urban and suburban settings. One key conclusion is the more ample the retail, restaurant and services offerings near places of employment, the higher the spending. Suburban workers will spend an estimated \$162¹/week near employment, not including transportation and online purchases. In Section 4.0 Retail Demand Analysis, these estimates are factored together with employment growth rates to estimate future potential demand from the area workforce.

¹ Adjusted to 2019 \$ based on CPI

The potential growth and impact of employee retail spending is directly linked to the City of Federal Way’s success in aggressively seeking to expand and diversify employment through the four key initiatives identified in its 2015 Economic Development Strategy. The Downtown Redevelopment/Town Center and Reuse of the former Weyerhaeuser Corporate Campus Initiatives intend to significantly expand the City’s employment base with higher wage jobs, particularly in the office, tech and medical professionals. Opportunities to diversify and enhance the shopping and dining base will accompany the community’s job growth.

Typically, workers will travel up to 10 minutes to eat, shop and run errands during lunch. At present, within the 10-minute, Convenience Market Area, there are 2,993 businesses employing about 37,141 people. They are included in the total daytime population of 99,652. Many of these employees reside outside the market area but have the potential to contribute to the sale of goods and services provided within the area. Area businesses generate overnight guests who spend on retail and restaurants and are a large share of the hotel customer base (more on that in the next section). Table 5 provides a breakdown of business and employees by type. The largest share of business type and employees are in the Services sector (44% of all businesses and employees in the area). The service category is defined as a wide range by SIC codes, including hotels/lodging, automotive, health, legal amusements, professional services and education.

Table 5: Top Business and Employees, 2019

Data for all businesses in Convenience Area (10 min drive time)				
Total Businesses:	2,993			
Total Employees:	37,141			
Total Residential Population:	110,637			
Employee/Residential Population Ratio (per 100 Residents)	34			
	Businesses		Employees	
By SIC Codes	Number	Percent	Number	Percent
Retail Trade	657	22.0%	9,544	25.7%
Finance, Insurance, Real Estate Summary	360	12.0%	4,545	12.2%
Services Summary	1,323	44.2%	16,204	43.6%
Construction	190	6.3%	1,331	3.6%
Unclassified Establishments	148	4.9%	80	0.2%

Source: ESRI BIS, Marketek, Inc.



Visitors

Visitors are another important source of retail demand for Downtown Federal Way. In the following section we examine key visitor attractions and trends in the Federal Way area.

Local Visitor Trends

The City of Federal Way reports that nearly 1 million tourists visit Federal Way every year. Hospitality and tourism play a significant role in the City, generating an estimated \$3M in state and local taxes in 2018 and 4,300 jobs. With well over 100 restaurants and six quality chain hotel facilities with 750 guest rooms, Downtown Federal Way is well positioned to host the visitor market. Local visitors include travelers for business, aquatic center events, recreation/other touring, and family visits. As Downtown continues to invest in high-quality urban amenities like Town Square Park and PAEC, private investment (hotels, entertainment and dining establishments) will be attracted and will expand, creating an attractive environment for visitor foot traffic and spending.

Regional Visitor Trends

Within King County, visitor spending grew by over 50% from \$8.1B in 2010 to \$12.5B 2017 (according to Dean Runyan data) or by an average of 7 percent per year (see Figure 7). Further, despite overnight visitors constituting only 4.3% of total visitor volume (in 2017), spending on accommodations also grew steadily since 2010, totalling about \$1.8M in 2017. In 2017, overnight visitors drove 85% of total

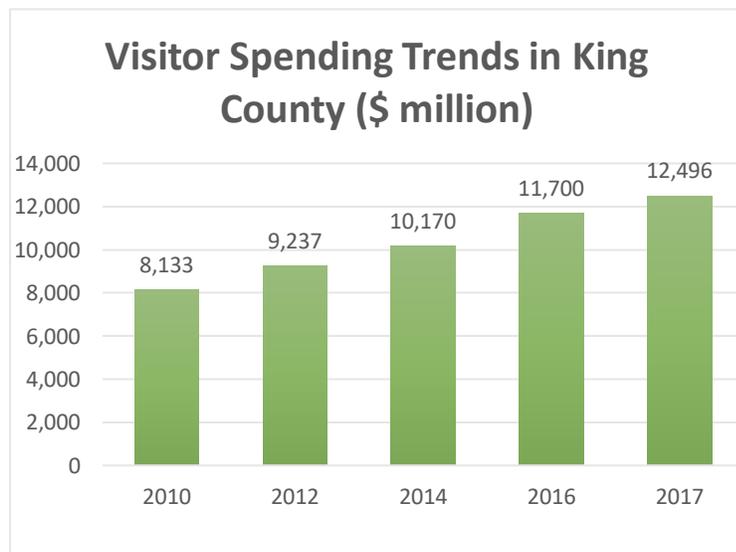


Figure 7: Visitor Spending Trends in King County (source: Dean Runyan & Associates, 2018)

destination spending. When it comes to where they stay, those who stay overnight in hotel/motel accommodations only lightly outpace those who stay in private homes in terms of total visitors. However, Dean Runyan data shows that those hotel/motel visitors tend to spend 4x more on their trip than private home or day visitors.

A key indicator of the impact of Federal Way's visitor market is overnight visitors as measured by the City's share of hotel rooms in King County. Currently, Federal Way's visitor market, as measured by number of hotel rooms, constitutes 2

percent of King County's total. If Federal Way were to capture 2 percent of potential visitor demand or spending countywide, that equates to roughly \$250M in visitor impact in 2017.

Top visitor spending categories are accommodations, food service, and local transportation and gas. For a more detailed breakdown of visitor spending by commodity, see Figure 8 below.

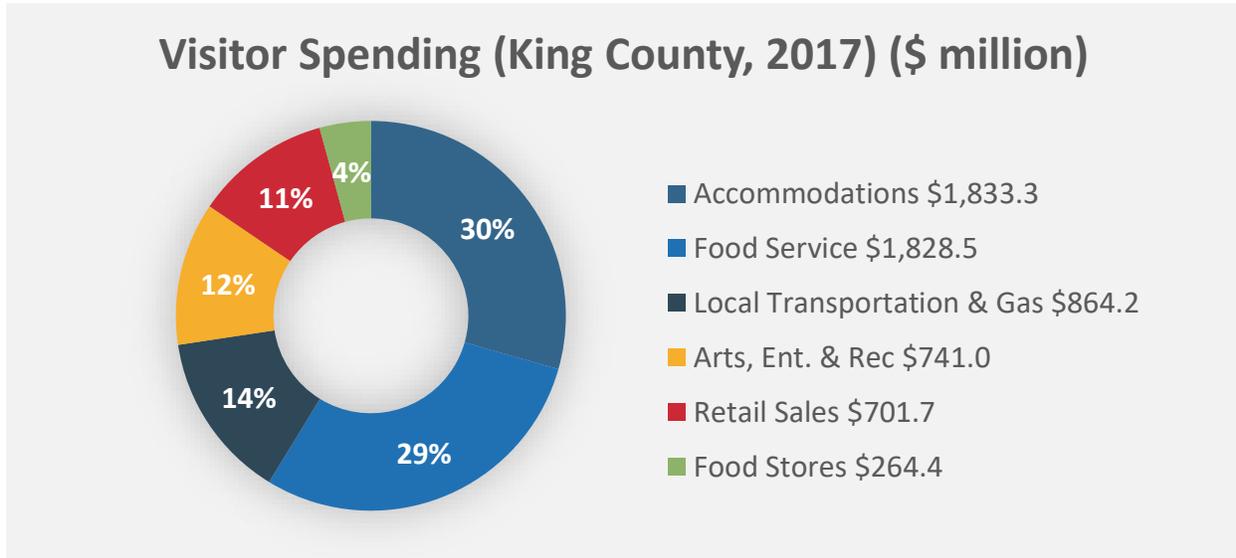


Figure 8: Visitor Spending by Category in King County (source: Dean Runyan and Associates, 2018)

Federal Way Key Attractions & Visitor Assets

The top visitor attractions in Federal Way are shown in Table 6 below.

Table 6: Federal Way Visitor Attractions

Attraction	Estimated Annual Traffic
Wild Waves and Enchanted Village (largest theme park in Washington)	500,000 to 700,000
King County Aquatic Center	400,000 to 500,000
Performing Arts and Event Center	300,000
Pacific Bonsai Museum	30,000
Rhododendron Species Botanical Garden	13,000
PowellsWood Garden (open April – October)	3,400
Dumas Bay Retreat Centre	8,600
Knutzen Family Theatre	5,800
Annual Traffic Volumes	Per year
Federal Way & I-5	59 million
320 th Street	10 million

Top Visitor Attractions



Figure 9: Wild Waves

Wild Waves and Enchanted Village - the largest theme park in Washington (500,000-700,000). The park offers 44 attractions including 4 roller coasters and 16 water rides. Operating season is May to November, though the summer months are peak attendance times.

King County Aquatic Center - Olympic training facility (400,000-500,000)

The Aquatic Center reports 66% of users come from outside of local area; 36% are from out of state. An economic impact report from 2002 reported spending per person averaged \$110 for an event at the center, with local users spending \$33; people outside of King and Pierce Counties an averaged \$73; and those from out of state spent \$214. These figures have escalated over time.



Figure 10: Weyerhaeuser King County Aquatic Center

- 40% of users are athletes, 50% are spectators, and 10% are coaches and officials.
- Most common group size is 2, but median group size was 4 persons.
- Slightly more than half of users need to stay overnight as a result of their visit.
- Most engage in other activities and extend their stay by one day.



Figure 11: Dumas Bay Retreat Center

Dumas Bay Retreat Centre (8,600)

Home to 67 guest rooms, accommodating up to 90 guests (44 single, 20 double, and 3 ADA accessible).; (3) three meeting and banquet rooms, each with views of Puget Sound and the Olympic Mountains, plus an interior meeting room for small groups. Offers catering. The grounds consist of a 12-acre park-like setting, sculpture garden, picnic tables and outdoor patio.

Visitor Services

Federal Way's hotel industry is robust, benefitting not only from local destinations and business but also close proximity to the City of Seattle and SeaTac Airport. King County has nearly 39,400 rooms, 14,400 of which are in Downtown Seattle. In Federal Way, there are approximately 1,100 existing hotel rooms and solid occupancies year-round except December; summer season is consistently at 80%. Additional hotels are in the planning phase.

Marketek interviewed four Federal Way hotel managers who shared the following:

- The balance of leisure vs. corporate guests varies by chain but on average is 50:50.
- The main leisure draws are Wild Waves, area events (e.g. Aquatics), and outdoor activities. Leisure guests are the mainstays of weekend business.
- Biggest retail gap or want reported by visitors is nightlife or bars in Federal Way
- Any new construction in the area is a win for hotels as worker crews will often stay locally.
- Hotel room supply is an issue, especially all summer long. Local hotels are frequently sold out and will have to send the guest to the other side of Seattle for a room, since there are not enough hotels.

3.0 RETAIL DEMAND ANALYSIS

3.0 RETAIL DEMAND ANALYSIS

The market demand analysis estimates the level of potential new retail space that can be supported in Downtown Federal Way now and over the next five years. As depicted in Section 3.0, key target markets for new retail development include *residents* of the City and the greater market area, *employees* working nearby (within a 10-minute drive) and *visitors* to the area. This section builds on the earlier overview of each market and provides a statistical demand analysis based on spending patterns and projected market growth.

Existing Retail Demand

Existing demand is found by comparing retail supply (i.e., actual retail sales) with retail demand (i.e., the expected amount spent by market area residents based on consumer expenditure patterns). When demand outweighs supply, a leakage occurs, indicating that consumers are spending outside of the market area for retail goods or services. While consumers will always do a certain amount of shopping away from home, this comparison provides a reasonable indication of the availability of goods in the local market. This data excludes online shopping. See Table 7 for the existing retail supply and demand balance by NAICS² categories for the Greater Federal Way Retail Market Area.

² North American Industrial Classification System (NAICS) – economic sector coding used by the census bureau
28 | Federal Way Retail Gap Analysis

Table 7: Existing Retail Supply and Demand Balance, Federal Way Greater Retail Market Area, 2019

Store Type	Demand/ Spending Potential	Supply/ Retail Sales	Leakage (or Surplus)	Target Sales (\$/SF) ¹	Potential Space
Shoppers Goods					
Home Furnishings (442)	\$106,265,064	\$89,650,436	\$16,614,628	\$340	48,867
Electronics & Appliances (443)	\$113,352,909	\$51,868,939	\$61,483,970	\$340	180,835
Bldg Materials & Gardening (444)	\$191,863,754	\$198,236,837	(\$6,373,083)	\$350	
Apparel & Accessories (448)	\$180,140,351	\$88,617,959	\$91,522,392	\$370	247,358
Sporting Goods, Hobby, Book & Music (451)	\$112,179,605	\$101,705,397	\$10,474,208	\$216	48,492
General Merchandise Stores (452)	\$593,173,042	\$686,829,986	(\$93,656,944)	\$300	
Miscellaneous Specialty Retailers (453) (florist, office supplies, gift stores, etc.)	\$132,647,902	\$98,536,740	\$34,111,162	\$216	157,922
Restaurants (722)	\$339,465,994	\$311,485,256	\$27,980,738	\$460	60,828
Convenience Goods					
Food & Beverage Stores (445)	\$519,726,662	\$497,291,329	\$22,435,333	\$390	57,526
Health & Personal Care (446)	\$213,167,571	\$152,514,735	\$60,652,836	\$365	166,172
Total Leakage			\$225,245,240		
Estimated Supportable Square Footage					968,000

(1) Target sales are based on Urban Land Institute, International Council of Shopping Centers, Marketek

Source: ESRI BIS; Marketek, Inc.

Projected Retail Demand

The second broad source of demand is “future demand” or potential spending based on projected growth in local resident households, visitors and employment, and spending patterns in the market area through 2024. Table 8 that follows is a synopsis of the 5-year estimated retail demand from the three primary target markets: Residents, Employees and Visitors. Details appear in Appendix D.

Table 8: Summary of **New Potential** Retail Supply and Demand Balance, Federal Way Greater Retail Market Area, 2019

Store Type	Existing Resident Demand	Future Resident Demand	Future Visitor Demand	Future Employee Demand	Total New Supportable Space
	Sq Ft	Sq Ft	Sq Ft	Sq Ft	
Shoppers Goods					
Furniture & Home Furnishings Stores (442)	48,867	24,358			73,225
Electronics & Appliance Stores (443)	180,835	25,983		6,574	213,392
Bldg Materials, Garden Equip. & Supply Stores (444)		42,722			42,722
Clothing & Clothing Accessories Stores (448)	247,358	37,944	8,824	7,837	301,963
Sporting Goods, Hobby, Book & Music Stores (451)	48,492	40,475	11,032	8,409	108,408
General Merchandise Stores (452)		154,096	5,515	17,813	177,424
Miscellaneous Store Retailers (453) (Florist, Office Supplies, Gift Stores, etc.)	157,922	47,861	9,927	21,685	237,395
Restaurants					
Services & Drinking Places (722)	60,828	57,514	68,780	15,704	202,826
Convenience Goods					
Food & Beverage Stores (445)	57,526	103,858	8,190	13,854	183,428
Health & Personal Care Stores (446)	166,172	45,516	3,000	9,166	223,854
Entertainment					
	N/A	125,958	93,514	8,974	228,446
Total	968,000	706,285	208,782	110,017	1,993,084
Estimated Supportable Square Footage	1,993,084				

Source: ESRI; Urban Land Institute; Marketek, Inc.

An overview of methodology and key assumptions summarized below.

Market Area Residents

- Local population growth is directly linked to the availability of housing and jobs as well as transportation infrastructure and quality of life factors like schools, shopping, green space and related. Resident demand in Table 8 is derived from household growth in the market area over the next five years.

Visitors

- Future expansion of hotel market, new visitor attractions and destinations and new retail/entertainment venues will also increase potential visitor spending in the City of Federal Way.
- Based on historical trends, visitor spending in King County is projected to reach \$5.2 billion in 2024. Using hotel rooms as a proxy for Federal Way's proportion of total visitor expenditures, the City makes up over 2% of total King County visitor spending.
- Using current rates of visitor spending by commodity and a trend line projection of overall growth in the King County market, Marketek projected increases in visitor spending by merchandise category. Restaurants make up the largest share of visitor spending at 24%. Retail sales, including apparel and specialty goods, make up 17%. Groceries and other convenience goods make up 3%.

Employees

- Federal Way's employment base has steadily grown between one and two percent annually, driven in part by retail, service and government jobs.
- The job base is expected to continue to expand in all sectors with added growth in traded sector jobs anticipated as the Woodbridge Corporate Park (former Weyerhaeuer Campus) redevelops with high wage employers like DaVita.
- The construction workforce will be sizable as the Sound Transit link is completed through Federal Way in the next few years. In a recent week Sound Transit counted 1,700 employees on construction projects to expand Link light rail lines throughout the region. The economic impact of even a few hundred construction workers will have a significant positive effect on Federal Way retail. Annual construction spending could reach over \$300 million in the region. Every \$1M in construction spending is estimated to generate 12 jobs. Revenue from local sales tax on construction accrues to local jurisdictions based on the location of the activity which is another gain for Federal Way
- In estimating retail demand from an expanding employment base in the 10-minute drive time Marketek began with a conservative annual growth rate of 1.5% in 2019, gradually trending up to 3.0% by 2024. With this assumption, total employment (in the 10-minute drive time market) will increase from 37,141 in 2019 to 41,693 by 2024.

Spending and Market Potential Indices

The Spending Potential Index (SPI) and Market Potential Index (MPI) information add another dimension to the retail demand potential and lifestyle analyses and is helpful in identifying an appropriate business and merchandise mix for Federal Way shopping centers. The SPI is a measure of market activity developed by ESRI Business Information Solutions that correlates to actual dollars spent on certain goods and services by residents within a given market area.

When the SPI is equal to 100 for a specific type of merchandise, consumers are spending at a rate equal to the national average. An SPI greater than 100 indicates that consumers are buying or spending above the national average. In other words, the SPI is an indicator of what prices consumers will pay and/or the level of discretionary income they are willing to devote to a particular good or service. These figures are derived in part through the U.S. Department of Commerce Consumer Expenditure Survey.

The spending indices for the Greater Retail Market Area residents appear in Appendix D for all 82 merchandise categories. Table 9 below shows the goods and services for which the Federal Way Convenience Retail Trade Area has the highest SPIs or ones in excess of 110, including electronics, entertainment, alcohol and selected home furnishings. Consistent with their above average incomes, Federal Way market area residents spend above the national average in virtually all of the 82 categories. In fact, only three of 82 categories are below 100, which is significant. One conclusion that may be drawn from this information is that Federal Way area shoppers would selectively support specialty retailers whose price points are above average, if they had a choice.

Table 9: Spending Potential of Selected Goods and Services, Convenience Area, 2019

Merchandise/Service Category	Greater Trade Area
Computer	
Computers and Hardware for Home Use	113
Computer Software	114
Entertainment & Recreation	
Tickets to Theatre/Operas/Concerts	114
Tickets to Movies	116
Fees for Recreational Lessons	114
Dating Services	126
VCRs, Video Cameras, and DVD Players	113
Video Game Hardware/Accessories	114
Video Game Software	114
Rental/Streaming/Downloaded Video	115
Photo Equipment and Supplies (7)	112

Catered Affairs (9)	115
Food	
Alcoholic Beverages	113
Household Furnishings and Equipment	
Luggage	113
Telephones and Accessories	114
Summary Demographics	
2019 Population	242,795
2019 Households	89,543
2024 Population	257,978
2024 Households	94,578
2019 Median Household Income	\$74,301
2024 Median Household Income	\$86,919

Source: ESRI BIS, Marketek, Inc

The **Market Potential Index (MPI)** measures the likely demand for a product or service in a geographic area. For Federal Way, the database includes the expected number of consumers (% of adults or households) within the greater market area and propensity to purchase each product or service. As with the Spending Potential Index, when the MPI exceeds 100 consumers are expected to purchase a given product or service at a rate above the national average. Data for more than 2,300 items are organized into 35 categories, representing goods, services, attitudes, and activities. See Appendix D for the complete list with the top categories listed below.

Table 10: Retail Market Potential of Selected Goods and Services, Convenience Area, 2019

Product/Consumer Behavior	Expected Number of Adults or HHs	Percent of Adults/HHs	MPI
Health (Adults)			
Exercise at club 2+ times per week	30,619	16.2%	113
Entertainment (Adults)			
Visited a theme park in last 12 months	39,996	21.2%	112
Went to live theater in last 12 months	22,216	11.8%	107
Went to a bar/night club in last 12 months	34,745	18.4%	107
Attended a movie in last 6 months	117,442	62.3%	106
Dined out in last 12 months	101,966	54.1%	104
Convenience Stores (Adults)			
Spent at convenience store in last 30 days: <\$1-19	14,018	7.4%	108
Spent at convenience store in last 30 days: \$20-\$39	18,784	10.0%	105

Spent at convenience store in last 30 days: \$40-\$50	16,010	8.5%	103
Grocery (Adults)			
Used organic food in last 6 months	23,163	25.9%	108
Restaurants (Adults)			
Fast food restaurant last 6 months: take-out/walk-in	42,323	22.5%	108
Fast food restaurant last 6 months: home delivery	17,485	9.3%	107
Went to family restaurant/steak house: 4+ times a month	52,633	27.9%	105
Went to family restaurant/steak house in last 6 months	145,884	77.4%	103
Home (Households)			
Purchased big ticket HH furnishings in last 12 months	21,337	23.8%	107
Purchased low ticket HH furnishings in last 12 months	15,820	17.7%	103
Bought any small kitchen appliance in last 12 months	20,618	23.0%	103
Reading (Adults)			
Bought hardcover book in last 12 months	40,071	21.3%	106
Automotive Aftermarket (Adults)			
Had tune-up in last 12 months	48,564	25.8%	104
Computers (Households)			
HH purchased most recent computer in a store	33,900	37.9%	104
Beverages (Adults)			
Drank beer/ale in last 6 months	81,929	43.5%	103

Source: ESRI BIS, Marketek, Inc

4.0 RETAIL TREND ANALYSIS & OVERVIEW

4.0 RETAIL TREND ANALYSIS & OVERVIEW

Marketek tracks emerging development and retail trends to aid clients in anticipating future innovation and with successful project development and customer attraction. Appendix E provides a summary of our recent trend review with selected highlights below.

Considerations for Retail Development Today

Real estate and demographic sources note three key development trends which bode well for Downtown Federal Way:

1. **Suburbs and Stability:** Millennials are heading for the suburbs. The US Census Bureau reported that over 2.6 million people a year have moved from principal cities within the metropolitan areas to the suburbs in 2016 & 2017. The key difference is that millennials are also looking for amenities, including access to mass transit, walkable neighborhoods and proximity to shopping and entertainment. Especially important are the areas around a transit node – developers should shift their attention to these areas. Suburban office/employment centers are being reshaped as 18-hour activity nodes with many incorporating residential and regeneration/repurposing of existing suburban offices in a more collaborative shared space, giving these office spaces a 2nd life.
2. **The New Vision for Suburbia:** Where People Want to Be is being coined as “Surban” Communities. These suburban neighborhoods will seek to offer the most desired features of urban *and* suburban living and will attract the most households in the US over the next ten years, according to ULI’s report, *Demographic Strategies for Real Estate*.

Despite the continued revival of urban downtowns, the suburbs will draw at least 80% of the coming new wave of households as younger families seek urban amenities combined with more kid-friendly housing and good schools typically associated with the suburbs.

3. **Multimodal transportation and pedestrian-oriented developments:** The design world has advocated for the integration of placemaking and transportation for a long time and it is finally taking off. Retailers have joined the movement. Unlike the previous generation, the millennials moving to the suburbs are looking for areas that are close to transport, that are walkable and *active*. Public space programming is a critical component of these placemaking elements which are essentially strategies to organize events and activities that encourage the community to use a park or open space. Think: disc golf, horseshoes, interactive water features, etc.

Critical Retail spending and trends include e-commerce and more:

1. **E-commerce is not one-dimensional.** True, e-commerce sales are growing and now account for 10.1% of total retail sales. However, not all retail is going online and many retailers are using storefronts as a necessary marketing tactic to connect shoppers to a broader online product range. Further, the ‘last-mile problem’ has begun to plague Amazon and other delivery services. Road congestion, high cost of free package delivery and poor transportation infrastructure may lead to increased transformation of retail space to distribution centers.

2. **Pop-up stores and markets and flexible spaces are here to stay.** They provide retail the ultimate chance to give fickle consumers what they want while retaining a cost-effective footprint to meet market demands. A shift is taking place from simply merchandizing goods to the addition of space for services and experiences. These services include; urgent care medical facilities, health and fitness, restaurants, financial services, and entertainment venues.
3. **Focusing on the *Experience*.** The evolution in retail involves using technology to build engagement, especially through *experiences*, as **time** is incredibly valued. According to *The Retail Trends Playbook 2020*, “Today’s shoppers prioritize an exceptional customer experience. They’re willing to provide their data to companies but expect a higher quality experience in return.” As such, 80% of customers say the **experience** a company provides **is as important as its products and services**. Consumers are willing to spend up to 16% more on products and services that offer a better experience. As consumers choose to invest in *experience rather than products*, retailers will need to respond to meet the needs of their customers. Customers don’t want to just walk into a shop, buy a product and leave – they can do this in the comfort of their own homes. By creating a more immersive retail experience, retailers can drive customers to their store and ensure they leave not just with products, but also *memories*.
4. **Retailtainment** – the fusion of *retail* and *entertainment* – is an effort on the part of retailers to provide customers with fun, unique experiences. This trend is growing and is expected to dominate the industry in the years ahead. The simplest example is one that permeates many small town and big city pubs and bars: Trivia Night—a simple, inexpensive way to build local loyalty, provide fun and build community.

Ikea brought a unique experience to life through an online contest where 100 fans won a Facebook challenge, letting them spend the night in an Ikea store. The winners were given massages and salon services, and were able to select their mattress, sheets and pillows, giving them a tailored experience to satisfy their needs. A sleep expert was also on-hand with tips for getting a good night’s rest – including how to find the perfect mattress for an individual sleeping style.

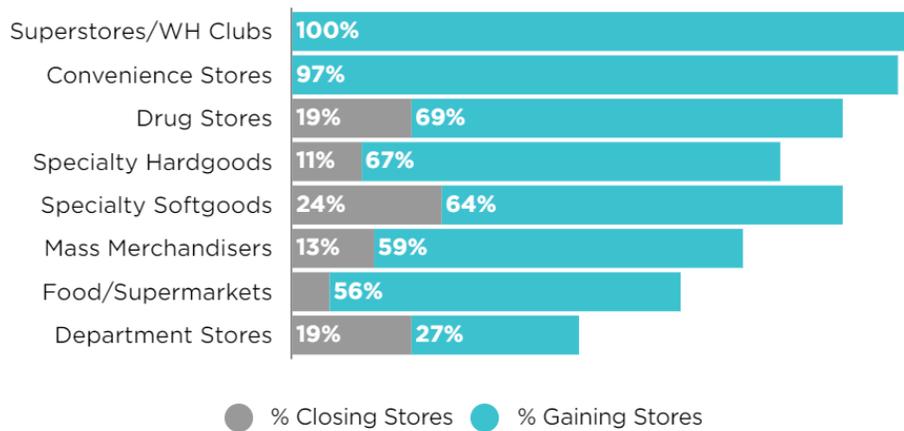
For more on national retail trends, see Appendix E.

Retail Trend Profiles by Sector

Marketek also explored key trends and innovations for each of the ten key retail NAICS categories with a particular focus on brick and mortar opportunities. This information is intended to augment City Economic Development staff’s research report, *Market Overview* (June 2019). Over 30 sources informed the brief trend write-up in this section including Retail Dive, Forbes, Digital Commerce, Moody's Analytics, McKinsey & Company, Smart Retailer and Shopify. The complete list appears in Appendix E.

The National Retail Federation recently released the “[Retail’s Renaissance — True Story of Store Openings/Closings](#)” report that notes for every segment of retail, there are more companies opening stores than closing stores. See summary chart below.

For every retail company closing stores, five are opening stores.



Source: IHL Group, Company Reports



Arts, Entertainment and Recreation (71)

Current Trends	Dog Friendly	Wellness	Outdoor Indoors
	With over 50% of households owning dogs, Dog Parks are one of the fastest growing public spaces.	From Goat Yoga to Meditation rooms, consumers are on the lookout for unique & convenient ways to keep healthy.	Many recreational experiences are being integrated indoors, including rock climbing & diving.
Changing Technology	A.I.	VR/AR	Personalized Ads
	Artificial Intelligence has become vital in the media & entertainment industry for marketing, production, & recreation.	In-home (such as Playstation's VR Headset) & mobile entertainment (such as Pokémon GO) has becoming a more affordable & readily available.	Retailers now use algorithms & A.I to personalize advertisements seen while streaming movies, music, reading digitally to consumers.
Retailtainment Leaders	The North Face	Under Armour	Disney Parks App

Furniture and Home Furnishings (442)

<i>Customer Demands</i>	Visual	Ready Made	Personalized
	For brick-and-mortar stores, consumers are seeking a visual experience showcasing offerings in unique ways. Ikea is modeling this with in-store experiences.	Modern consumers are interested less in built-to-order furniture & are looking for the ability to buy now, use now.	Despite the desire for instant gratification, consumers want options (fabric, colors, composition) with each piece or collection.
<i>eCommerce</i>	Statistics show that while nearly 90% of consumers begin shopping furniture online, 47% still prefer in-store experience/pickup options. Of importance to the online shopper is transparency in the supply chain & shipping of their items.		
<i>Technology</i>	Many major retailers have developed apps for mobile or at-home shopping that include augmented reality (AR) that allows consumers to see products "in room".		
<i>Leaders</i>	Walmart	Target	Amazon
	These three retail giants have become contenders in the Home Furnishing sectors by adding their own private labels, with Target & Walmart dedicating more square footage for in-store shopping.		

Electronics and Appliance (443)

<i>Trends Shaping the Industry</i>	Smart Appliances	Connected Home	In-Store
	Growing consumer demand for appliances that can be monitored or controlled from their mobile device	From lightbulbs to security systems, consumers are wanting the ability to remain aware & connected to home when away from home.	Most consumers still desire a brick-and-mortar location to shop for household appliances.
<i>Leader in Brick-and-Mortar Shopping</i>	Best Buy remains the leader in In-Store shopping for most home appliance and consumer electronics due to their competitive pricing and customer experience.		

Leading electronic stores are depicted below.

Company	2018 Retail Sales (Billions)	Sales Per Store (Millions)	Comp-Store Sales Change %	Stores
Apple Stores/ iTunes	\$47.27	\$174.4	NA	271
Best Buy	\$38.77	\$38.9	4.8%	996
Verizon Wireless	\$22.26	\$3.3	NA	6,839
At&T Wireless	\$16.41	\$8.2	NA	2,004
Avb Brandsource	\$5.70	\$1.9	NA	3,073
Electronics & Telecom Power Players Total	\$130.41	\$8.1	NA	13,183

**Includes Online Sales Related To Respective Retailers*
**Sales Per Store Metrics Excludes Sales Of Online Retailers That Do Not Have Stores*

Building Materials and Garden Equipment (444)

Trends	Small Spaces	Edible	DIYers
What's Important	With a majority of consumers living in urban environments, the demand for small green spaces is high.	The healthy eating shift has pushed many to start gardens, especially specialty items such as heirloom tomatoes.	Do It Yourself projects are everywhere on social media & blogs, giving consumers the "I can do that" attitude.
	Green Materials	Repurposed	Sustainability
	Environmentally friendly materials are in high demand, with materials such as bamboo & hemp making headway.	What's old is new again in the eye of many consumers, who utilize that DIY attitude to find new uses for existing structures & supplies.	The demand for natural alternatives to garden & yard chemicals is creating a new market for products.
Store models	Big box Home Depot & Lowe's still rule. Local neighborhood hardware, garden shops and small farm stores are increasing square footage for gardeners		

Food and Beverage Stores (445)

Trends	Healthier	Ready-Made	Online
What's Important	The importance of healthy eating & organic choices is reshaping what consumers purchase.	Pre-prepared meals, grab-and-go, & easy to prepare meal kits are on the rise as consumers get busier & cook at home less.	Mobile or online ordering options has increased in popularity as consumers live their on-the-go lifestyles.
	Sustainability	Value	Supply Chain
Technology	What's in the package is as important as what the package is made from. Consumers are more moving away from plastics & towards compostable & eco-friendly options.	Healthy living can be expensive, but as food choices expand & become more readily available, consumers look for the chance to save.	Consumers want to know where their ingredients are sourced & expect transparency.
Format	In-store & mobile ordering has become popular with consumers. Many retailers are adding self-checkout kiosks & pickup locations as consumers spend less & less time in stores.		
Leaders	Amazon	Whole Foods	Kroger
	Amazon is on the forefront of voice ordering, with their Alexa-enabled make creating & ordering from your shopping list a breeze.	Since being bought by Amazon, Whole Foods has become a leader in healthy, quick, & affordable meal prep.	One of the first to provide online purchase & easy pickup, Kroger continues to rethink their traditional model.

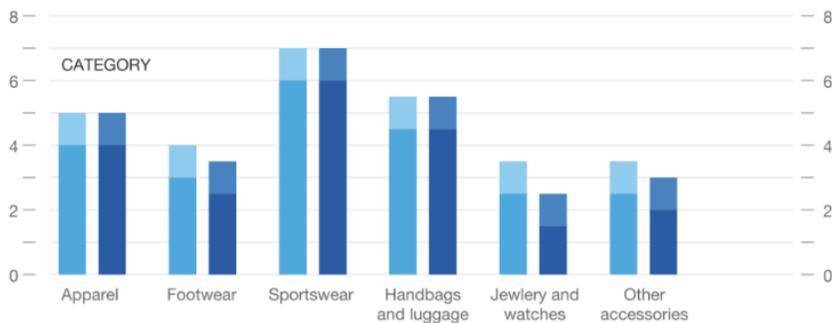
Health and Personal Care (446)

Current Trends	CBD/Cannabis	Natural & Sustainable	At-Home
	CBD & Hemp are the new cure-all in the industry, covering a broad spectrum on products, from skin care to supplements.	Retailers are committing to reducing plastic & water use, while consumers are demanding more natural alternatives & ingredient transparency.	Consumers are doing more at home than ever before - skincare routines, workouts, & fitness classes are available via the internet, streaming & social media.
Growing Trends	Customer Experience	Mental Health	Diversity/Inclusion
	Consumers still prefer shopping in-store for many beauty products but are looking for more one-on-one & exclusive experiences to make their choices. Augmented Reality is also on the rise, so consumers can test their new look before settling.	Mental Health awareness & self-care regimes are steadily becoming the new normal & retailers are adjusting by offering experiences & products to help maintain the modern mentally taxing lifestyle.	Beauty brands have expanded their product lines to reach those consumers who once struggled to find products to meet their specific needs, whether due to their skin tone or body type.
Leaders	Ulta	Sephora	Peloton
	Both Ulta & Sephora dominate the beauty industry by carrying a wide variety of products in-store & online. While Ulta's price point makes it more affordable for many, Sephora carries many big-name brands consumers are fiercely loyal to.		Peloton as begun revolutionizing fitness at home by creating a line of products (stationary bikes & treadmills) that connect virtually trainers & classes, giving users the gym experience with the convenience of home.

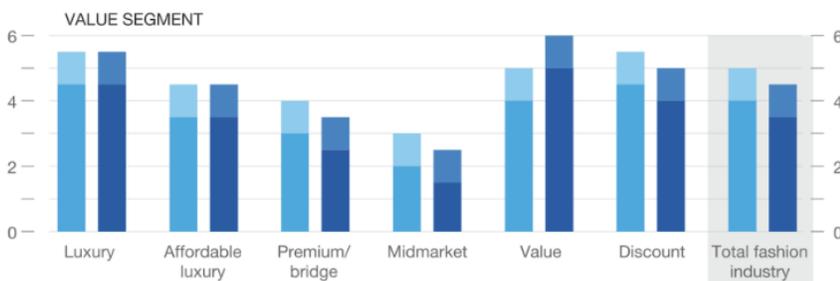
Clothing and Accessories (448)

What's Important	Mobile	Big Data	Better Value
	Today's consumer is more mobile than ever in terms of tech & expects their shopping to be so too.	Artificial Intelligence & data collecting personalizes ads & shopping for consumers online.	Apparel consumers now are more value-driven than ever, hunting for bargains & embracing the new-to-me secondhand clothing style.
Trends	Sportswear	Wearable Tech	Inclusion
	Consumers are obsessed with the wellness lifestyle wardrobes that look active & feel comfortable.	Apple is no longer the contender for wearable tech, with many competitors rolling out smart watches & other accessories to improve consumer mobility & activity tracking	Consumers are no longer accepting the status quo in sizing & style, with demand causing more retailers to create & offer expanded sizes & styles fitting all manner of interests & lifestyle.
Shopping Experience	With 62% of consumers still shopping for clothing & accessories in-store, retailers have begun creating new experiences. <i>Pop-ups, showrooms, & limited run</i> stores are the new wave in exclusivity & brick-and-mortar shopping.		
Innovators	The North Face has created an interactive online shopping experience that utilizes A.I. to measure & "fit" their clothing to the person shopping. Nordstrom has begun rolling out their Nordstrom Local locations, which allows the consumer to pick up their online purchase, try them on, & enjoy spa & relaxation services.		

Fastest growing category is Sportswear, with Jewelry/Watches in decline



Best growth is in the Value category



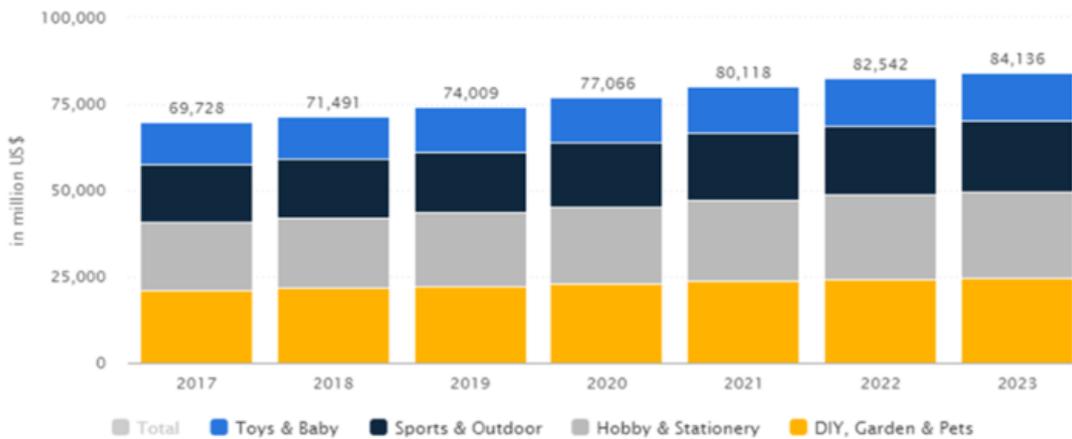
McKinsey&Company | Source: McKinsey Global Fashion Index

Sporting Goods, Hobby, Book and Music (451)

Growing Trends

Sporting Goods	Lifestyle	Athleisure	Sustainability
	Brands creating lines specifically for individual lifestyles & interests.	Athletic clothing & accessories designed for comfort.	Consumers focused on products made with environmentally friendly materials.
Toys & Hobbies	Learning/Active	Licensed	Surprise/Unboxing
	Demand for toys & games that teach real-world skills & promote activity. E-revenue forecast to reach >70% in next 5 yrs.	Toys specifically licensed with recognizable characters & of better quality.	Blind boxes & mystery boxes are of great popularity with kids & adults.
Books & Music	The book & music retail industries are fast-growing in the digital & ecommerce sectors, with eBooks & streaming apps replacing other media.		
Leaders	Amazon	GameStop	Target/Disney
	Amazon dominates book sales with 42% of overall sales, and 89% of eBook sales. Yet they are also expanding their brick-and-mortar footprint as key promotion fronts.	GameStop ranked no. 2 under Toys R Us before the toy store giant's closing & continues to grow its online inventory.	Target has vastly expanded its toy department across the board, & recently announced a partnership with Disney to open pop-up Disney stores in several of their locations.

Revenue in the Toys, Hobby & DIY amounts to \$74 B in 2019 with annual growth of 3.3% reaching \$84.1 B by 2023



General Merchandise (452)

What's Important

Reusability

Many retailers are selling food storage & organization tools that allow consumers to maintain a more sustainable lifestyle, with one-use plastics becoming faux pas.

Healthy

Even convenience stores are feeling the heat when it comes to the health-conscious consumer & are carrying more nutritional & CBD-laced brands.

Convenience

Battling the convenience of ecommerce, many retailers are reshaping their brick-and-mortar locations, attempting to enhance the consumer experience with additional in-store services (e.g., fashion/decorator coaches, etc.)

Loyalty

Rewards programs, mobile shopping apps & loyalty programs are the norm in the value driven market. Statistics show that 73% of consumers will shop more frequently at retailers where they are a loyalty member.

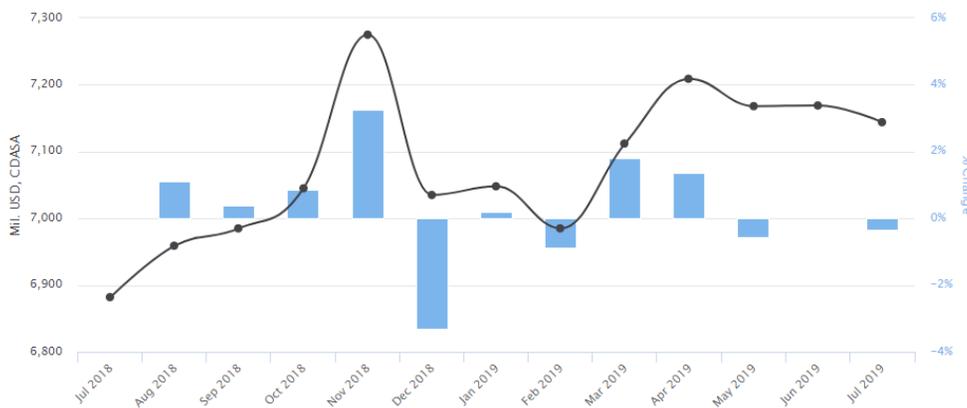
Technology

Retailers are implementing digital checkout, mobile ordering & combining ecommerce with in-store shopping to keep consumers interested. The utilization of consumer data collection is also huge in order stay in the know about what their shoppers are buying & provide incentives to keep them coming back.

Leading Trend

According to the National Retail Federation, there is a distinct lack of growth in big-box general merchandise retailers – no Walmart, no Target, no Costco, no department stores. There is an increase however in retailers that exhibit differentiation, offer innovative merchandising, and an appropriate value proposition.

United States - Retail: Sales - All other general merchandise stores

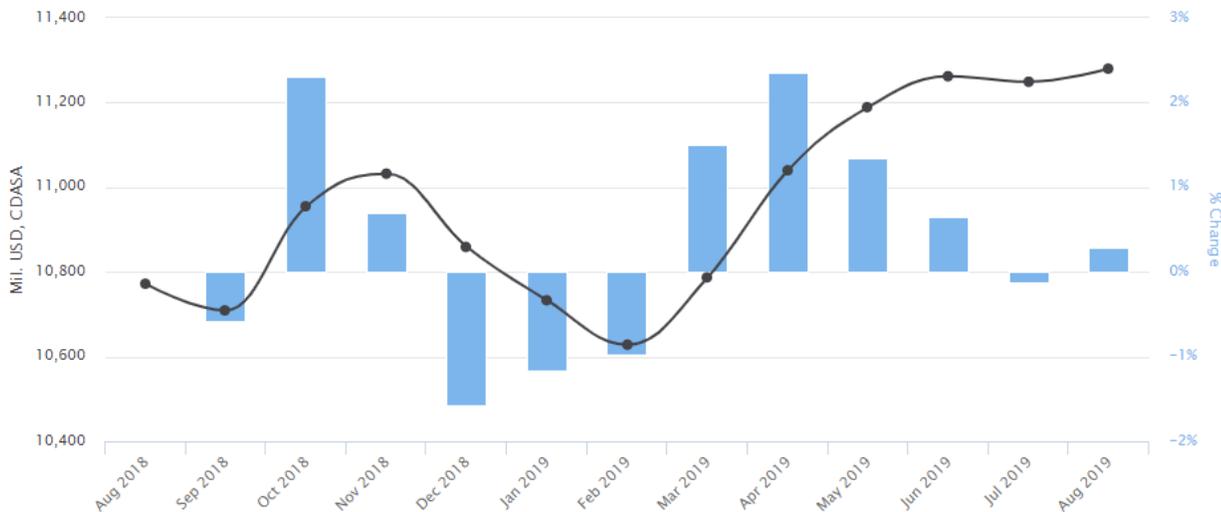


Miscellaneous Stores (453)

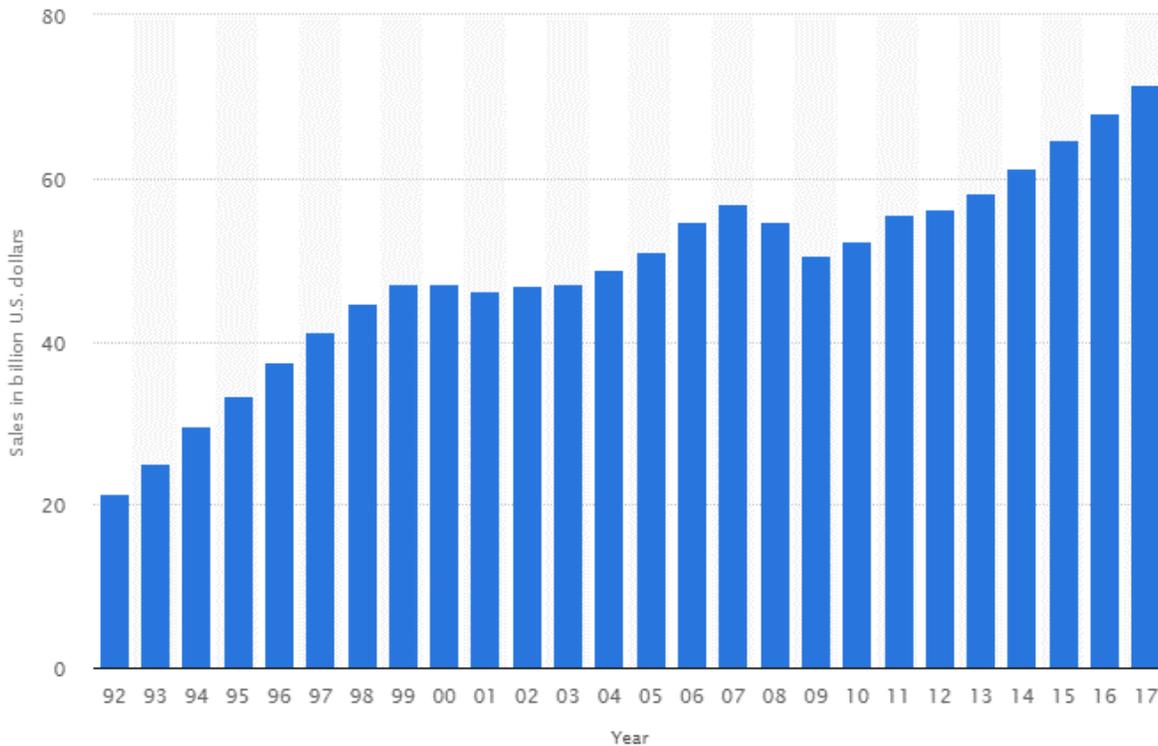
Trends by Market

Florists	In-Store Only 2% of consumers looking for floral arrangements shop online.	Self-Serve Shoppers prefer to choose their own bouquets or floral arrangements.	Ready Made Being able to grab-and-go is more important to those purchasing than building from scratch.
Gifts	Tourists A majority of gift shops are targeting tourists & carry a wide variety of items for their growing demands.	Pets Gift buying for pets or pet owners is on the rise, with more than 60% of household having some manner of pet.	Natural The popularity of eco-friendly, healthy lifestyles has reshaped the gift giving world, with all natural, "homemade" gifts in high demand.
Office Supplies	Home Office Non-traditional office spaces (co-working, shared) are on the rise, reshaping the tools & supplies needed by consumers.	Sustainable All products made or partially made from recycled materials are highly sought after.	Diversifying The face of office supplies has changed as footprint has shrunk; now including janitorial and craft supplies, offering in-store marketing and co-working space.

United States - Retail: Sales - Miscellaneous store retailers



Other miscellaneous store retailer sales in the United States from 1992 to 2017 (in billion U.S. dollars)

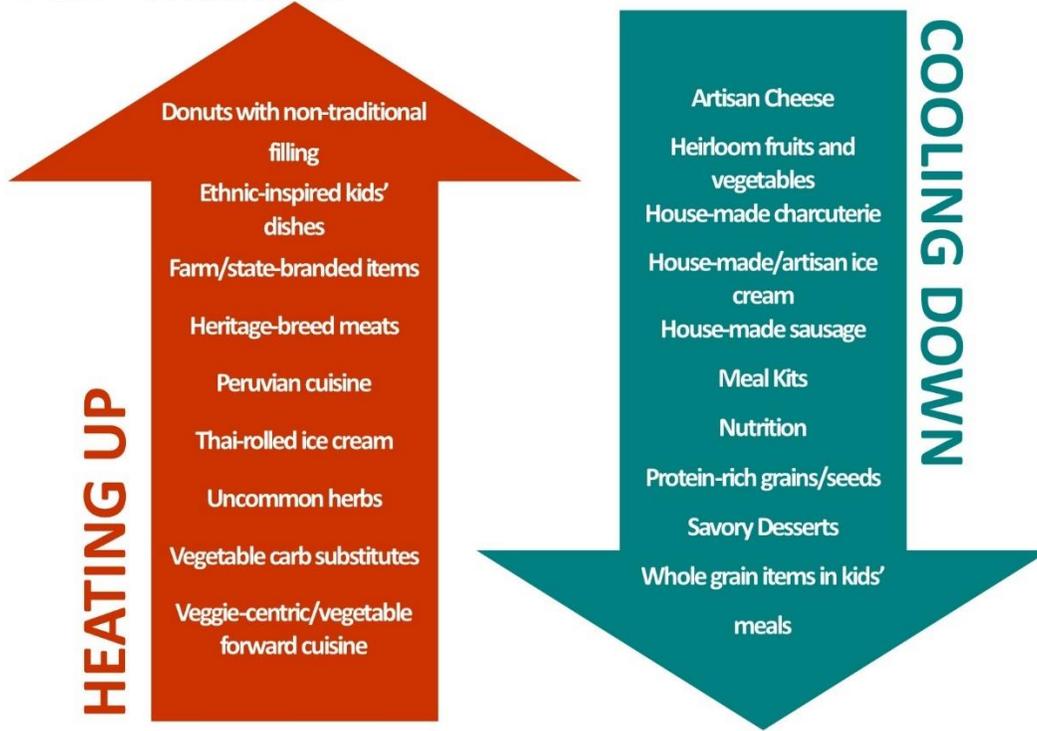


Source: US Census of Retail Trade

Restaurants, Food Service, Dining (722)			
Current Trends	Online Ordering	Healthy Living	Dining Experiences
	3-in-5 consumers order takeout once a week or more	99% increase in CBD products	Consumers seek a more memorable experience
	Delivery sales have risen in average more than 20%	Consumers want transparency in sourcing	Looking for experimental menus & exclusivity (Specialty Chef's night)
Future Trends	3rd-party ordering apps on the rise	Consumers more sustainability-focused	
	Workforce	Technology	Branding
	Historically low unemployment rates-critical challenge	Apps that allow on-the-go ordering, payment, & rewards	Maintaining a social media & online presence more important than ever
Leaders	Improving workplace culture to decrease turnover	Adding to consumer experience with digital menus	
	Fastest Growing:	Healthy Eating:	Ordering Apps:
	Mod Pizza	Sweetgreen	Uber Eats
First Watch	Lyfe Kitchen	Postmates	

Restaurant and food niches are fast-changing.

TOP TRENDS



Source: National Restaurant Association's What's Hot 2018 Culinary Forecast

5.0 DOWNTOWN FEDERAL WAY RETAIL OPPORTUNITIES

5.0 DOWNTOWN FEDERAL WAY RETAIL OPPORTUNITIES

As Downtown Federal Way develops as an entertainment, shopping and mixed-use destination within the south Puget Sound market, it will capture an ever-larger portion of this trade area's retail sales. The share of retail space that Downtown can support is inextricably linked to a wide range of factors. They include:

- A. Assembly and development of suitable sites
- B. Availability of quality commercial space
- C. Expansion and diversity of housing
- D. Expansion of employment opportunities, specifically office
- E. Aggressive business development efforts
- F. A unified vision and plan for creating high quality, mixed-use district with improved pedestrian orientation and reduced focus on vehicular movement

Conservatively, Downtown Federal Way should strive to capture 15% of market area retail demand or an estimated 285,000 square feet over the next decade. The capture rate will vary by retail category with an emphasis on restaurants, entertainment and services for both daytime and nighttime populations. Over time as Downtown increases density and adds housing and jobs, it should aspire to capture a much greater share of retail sales. This will occur by expanding the supply of retail space either through adding square footage or converting existing office/service square footage to retail. What's certainly true is that a passive approach to absorbing the retail opportunity identified through this market analysis will not lead to the desired results of a stronger retail base.

Downtown Federal Way retail development should:

- Encourage the support and success of existing retail businesses;
- Be attentive to the unique retail/service interests of transit commuters and other aspects of transit-oriented development (TOD);
- Develop and promote Downtown as the community's entertainment, shopping, dining and mixed-use hub; and
- Provide consumers unique and authentic experiences and shopping options unlike anywhere else.

Transit-Oriented Development (TOD): Keys to Retail Success

Jeff Pace, COO of the Unity Council, the Fruitvale Village TOD development's prime driver commented: "Creating a successful retail and service mix around transit has at least five factors that, if followed, can lead to successful retail anywhere, but in particular at a TOD." Pace has hands-on experience as his group successfully filled a transit-oriented development area that suffered from a 20% vacancy rate when they took it on.

Keys to success include:

1. **Location.** Retail needs to be where people are; including directly adjacent to connecting pathways between parking and the transit center.
2. **Density.** Retail needs to be supported by either dense housing or dense jobs (dense being relative to the amount of retail being installed), preferably both.
3. **Don't build too much retail too soon.** Like parking, build less retail space than you think is needed. Better to have too much demand than too much support.
4. **Mix retail and services.** Pace said, "We evolved from a pure retail strategy on the ground floor to one with a mix of traditional retail and community and professional services. For examples we have a State Farm Insurance office and a children's counseling clinic and a high school facility have both ground-floor and second floor facilities. Altogether, almost 25% of the ground-floor retail is being used for non-traditional uses."
5. **Recruit quality retailers.** Ensure that businesses that are signed up are ready to operate successful small business in a new mixed-use project. This helps to avoid the problem of underperforming tenants – which is hard to work through once they are in place.

Types of Businesses That Work in a Transit-Oriented District

According to the Commercial Real Estate Development Association, retailers and retail space brokers are viewing transit systems as attractive locations for *small size but high-volume outlets*. Rail transit stations, like airports, offer retailers access to as many as hundreds of thousands of customers every day. And transit stations, like airports, are places where potential customers are a "captive audience": once they arrive, they stay until it's time to go.

Since transit riders typically have shorter waits than those travelling through airports, the rail transit marketplace offers ideal opportunities for buy-and-go sales such as:

- Newspapers and magazines
- Coffee and packaged food items
- Cosmetics and drugs
- Neighborhood service outlets

TOD Business Success = One Step at a Time

From the Commercial Real Estate Development Association: Developers seeking to build out retail space within a transit system and retailers proposing to rent that space may find a willing partner — or a cautious landlord. A logical way to build and encourage strong retail and service offerings at a TOD is to implement a step-by-step process:

1. Start with contemporary vending machines in stations.
2. Food trucks and/or carts in lobbies, passageways and parking lots, especially for special events.
3. Building off that: ATMs and food, coffee, sundries and newsstand carts, kiosks and pop-up outlets in stations.
4. Established "grab and go" and neighborhood service outlets that thrive.

TOD and Placemaking

There are several transit-oriented developments and densified city centers found within the region and nationwide that can serve as inspiration for Federal Way. A brief summary of a few follows:

Lynnwood <https://northlinevillage.com/>

Merlone Geier, a firm focused on West Coast retail properties and owner of The Commons, is working with the City of Lynnwood to reimagine Lynnwood Square as Northline Village. The 17-acre site is currently occupied by Grocery Outlet, Best Buy and McDonald's. The site is directly adjacent to a new light rail station (2024 projected completion) that will bring more than 20,000 daily riders and frequent service to south Snohomish County, the University of Washington, downtown Seattle, the Eastside and SeaTac Airport. Merlone Geier is proposing a multi-phased development that could include a mix of Class A office, multifamily, retail and medical office at varying densities. There is also an existing Lynnwood Transit Center located less than ¼ mile to the southwest of the site, with 1,368 parking spaces. The transit center is operated by Sound Transit with frequent bus service across the region.

Belmar <https://www.belmarcolorado.com/>

Belmar, a 22-block downtown in Lakewood, Colorado, exemplifies the potential for transforming post-World War II bedroom suburbs into more diverse, compact, sustainable, pedestrian-oriented, and transit-oriented community. Belmar is a model for the redefinition of suburban communities that have been buffeted by inexorable growth over the past several decades. With over 80 shops and restaurants, entertainment and several live + work residential options, Belmar is a good example that could be applied to Downtown Federal Way.

Kent Station <https://www.kentstation.com/>

Located in Kent, Washington, Kent Station is an open-air village with shopping, dining, movies and a branch of Green River College, all near the Sound Transit light rail and bus station across a pedestrian overpass to the east of Kent Station.

Encore Tampa <https://encoretampa.com/>

Encore is a mixed-use, mixed-income redevelopment of what had been public housing just north of downtown Tampa, Florida, developed by a partnership between a housing authority and a bank-owned community development corporation. Encore currently comprises four apartment buildings with a total of 662 units of housing, 559 of which are affordable to seniors and family households with low incomes. At full buildout, the LEED for Neighborhood Development Gold-rated community will have up to 1,513 housing units, plus 180,000 square feet of office space, 200 hotel keys, and a 36,000-square-foot grocery on its 12 city blocks. Over eight years, the \$425 million investment will create 5,000 construction jobs and 1,000 permanent jobs on a site that previously supported only 18 jobs.

Envision Downtown's Future and Capacity for Compact, Dense Development

The Federal Way City Center is broken down into two separate zoning designated areas. The City Center Core is the central area shown in yellow in Figure 12, while the City Center Frame is the outlying area shown in orange. The City Center Core is the central node within the City that encompasses the existing transit station, the upcoming Sound Transit light rail station, The Commons shopping center, as well as several hotels, commercial centers, and the park and ride facility in the southeast corner of the center core. As summarized in Table 11, the core includes parcels totaling 7.25 million square feet, with buildings covering 1.58 million square feet for an aggregated floor-to-area ratio (FAR) of 0.22 or 22% of the overall area. The City Center Frame is similar, with 7.3 million square feet of parcel square footage and 2.17 million in building coverage for a FAR of 0.30 or 30% of the overall frame area. Traditionally, shopping centers have a 0.25 FAR to accommodate the shopping center and expansive off-street parking.

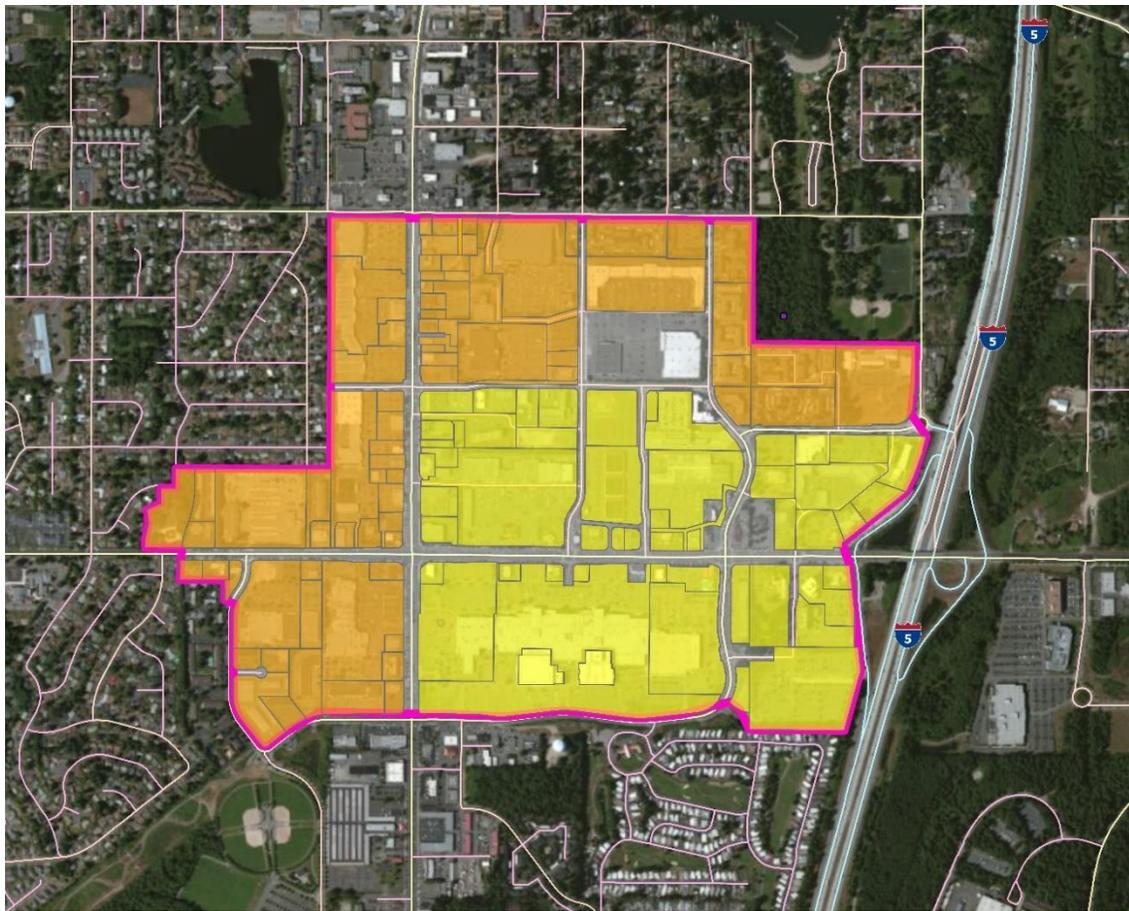


Figure 12: City Center Zoning Designations (Source: Federal Way GIS)

Table 11: City Center Building Coverage, 2019

	City Center Core	City Center Frame	Total
Existing Total SF	7,250,928	7,332,296	14,583,224
Total Building SF	1,575,852	2,173,519	3,749,371
Proposed Building SF	5,438,196	3,666,148	9,104,344
Net Building SF Increase	3,862,344	1,492,629	5,354,973
Existing FAR	0.22	0.30	0.26
Proposed FAR	0.75	0.5	0.62

(Source: Federal Way GIS, Urban-Scenarios)

The City Center encompasses 398 acres, which equates to 17.3 million square feet of area. The existing total square footage for the City Center shown above is 14.58 million square feet. The discrepancy between these two areas is due to the removal of undevelopable areas, mainly in the form of areas already dedicated to road right-of-way (ROW). Right now, the City Center has 16% of all area dedicated to ROW, which is relatively low. A typical development pattern will have 25-30% of land dedicated to road ROW. In this instance, the existing larger lot parcels that break up the standard road network and block grid lead to less land dedicated to the road network. As the City Center becomes more dense and developed, the area dedicated to ROW will trend toward the 25-30% range.

As noted in Chapter 7 of Federal Way’s Comprehensive Plan, the following vision statement defines the future urban form within the City Center.

“By the end of the comprehensive planning horizon in 2035, the Federal Way City Center has evolved into the cultural, social, and economic center of the City and fulfilled its role as one of Puget Sound’s regional network of urban centers. This role is reinforced by pedestrian-oriented streetscapes; an efficient multi-modal transportation system; livable and affordable housing; increased retail, service, civic, and office development in a compact area; a network of public spaces and parks; superior urban design; and a safe and vibrant street life.”

To achieve this vision, increased density is critical. As shown in Table 11 above, a slight FAR increase to 0.75 for the City Center Core and 0.5 for the City Center Frame would add more than 5.35 million square feet to the existing building supply within the City Center. Ideally, the increased density and added buildings would include a diverse mix of retail, office, residential, and civic uses.

Define Downtown Federal Way’s Point of Difference – Local Goods and Services

Retail trends and successful shopping districts point to consumers of all demographics seeking an authentic experience they cannot find online or at national chains. Based on the existing retail supply, significant potential demand and City-initiated projects (PAEC, Town Square Park, the Steps), Federal Way’s City Center has momentum to develop a downtown with unique, one-of-a-kind, locally curated

product choices and business enterprises. A key success factor will be focused on an activated downtown, where residents and visitors can come during all hours of the day to shop, dine, recreate, and be entertained. Due to the change in City Code, it is now legal to locate a brewery, distilled spirits or wine tasting enterprise within the City Center Core and Frame. A tasting room or gastropub could be a huge attractor for residents and visitors alike.

Another key theme for downtown could focus on the culinary farm-to-table movement. The commercial kitchen within the PAEC has already hosted culinary events focused on traditional Native American food systems and the kitchen could work as an incubator space to support a burgeoning food cart scene or a physical brick and mortar space akin to a food hall, with separate vendor stalls/areas. The diverse demographic of Federal Way residents and shoppers should be highlighted, with ethnic foods promoted.

As earlier described, experiential and retail entertainment (“retailtainment”) is a growing niche that downtown should embrace. Interviewees noted specific opportunities for bowling, ice-skating, and e-gaming could provide after-work and weekend options for families, millennials, swim teams visiting the Aquatic Center, etc.

With the Federal Way Transit Center and Sound Transit light rail extension project, TOD will be a driving force to jumpstart development and redevelopment within the city core. As shown on Figure 13, a ¼ mile radius from the proposed Sound Transit stop encompasses a large portion of the downtown core including The Commons, Gateway Plaza area, NWCC Center, Town Square Park and the site adjacent to the PAEC. High density development with a mix of uses (both vertically and horizontally) should be focused in this area. For those properties within the ½ mile radius, these areas should promote increased density in a walkable, pedestrian-friendly environment.

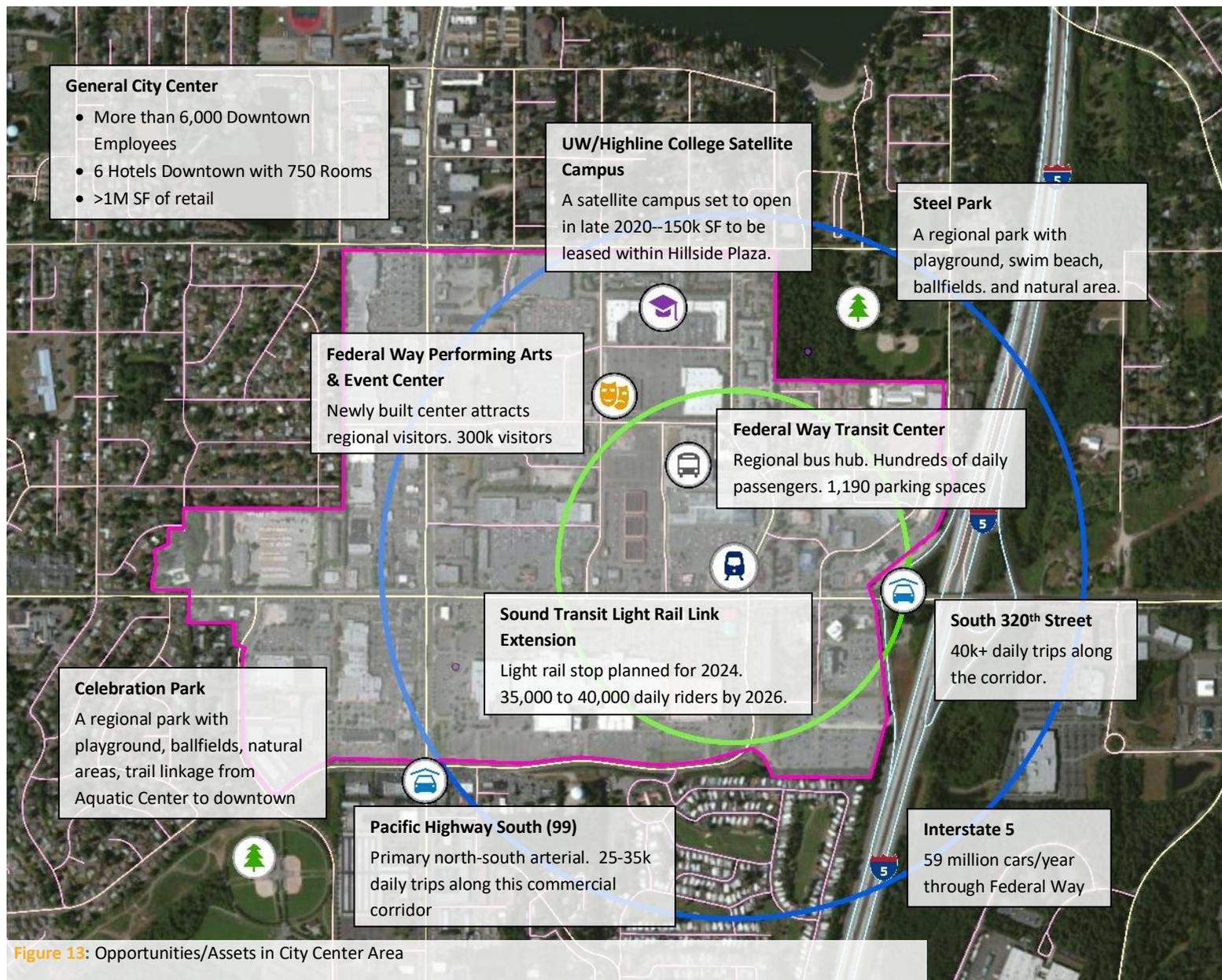


Figure 13: Opportunities/Assets in City Center Area

Target Business Mix

Nationwide, downtowns and neighborhoods are recognized and celebrated as the center of unique, specialty, one-of-a-kind merchandise and entrepreneurs. While often anchored with one or more large anchors, the most successful downtown streets are lined with a preponderance of independent, creative retailers. The key retail themes noted by many downtown professionals that Federal Way could leverage for an increased market share include:

- Lifestyle and wellness retail
- Community gathering places/social nodes
- Stores that entertain and educate
- Stores that celebrate local arts
- Food, drink and fun—all varieties
- Gifts and indulgences
- Neighborhood-serving retailers

Based on the existing supply, retail trends, market analysis results, successful transit mixed-use centers and Marketek's experience with facilitating retail development in communities and business districts nationwide, a preliminary list of Downtown Federal Way target business/merchandise opportunities was developed (see Table 12). Many niches listed will accommodate the transit commuter.

Table 12: Downtown Federal Way – Target Business/Merchandise Opportunities, 2019

Type	Examples
Merchandise	<ul style="list-style-type: none"> • Small specialty grocer (Green Zebra, Choice Market) w/ fresh take-out • Quality consignment shops (sporting goods/rec gear, children, high fashion apparel) • Small locally owned toy store w/ events
Restaurants/Food	<ul style="list-style-type: none"> • Healthy foods • Juice bar/Jamba Juice • Specialty bakery • Urban-type brunch options • Breakfast spot(s) • Grab n Go Deli-sandwich, bakery • Wine shop
Entertainment	<ul style="list-style-type: none"> • Arcade/pinball • Dance studios • Daily park programming • Indie movies/brewpub • Sci-fi/Game shop
Personal care/ Professional Services	<ul style="list-style-type: none"> • Wellness focused venues and goods (yoga, barre, vitamin) • Eye care/frames • Walk-in wellness care • Hair salon w/ adjacent kids' salon

Downtown Federal Way is poised to benefit from the continued economic uplift of the Puget Sound region, the City’s prime Interstate-5 location between Tacoma and Seattle and the opportunity to create a high-quality built environment with a mix of uses supported by market demand. The factors leading to retail/commercial success are ones that support a vibrant district as a whole and summarized below. Successful business districts of any size have a healthy business climate and a proactive marketing program with key amenities and characteristics that attract both customers and business prospects. These features are particularly critical for Downtown Federal Way seeking to compete for retail dollars being spent in other south Puget Sound shopping and dining districts. Table 13 below provides an

outline of key downtown district success factors, many of which Downtown Federal Way is actively working to improve.

Table 13: Downtown Federal Way – Retail Success Factors, 2019

Access & Linkages	Factors Affecting Retail Location
<ul style="list-style-type: none"> • Good visibility • Walkability – pedestrian friendly • Transportation/transit access • Stand-out, consistent signage • Parking availability 	<ul style="list-style-type: none"> • Compatible land use patterns • Property values (realistic) • Rent levels (realistic) • Organized promotions/significant foot traffic • Effective Downtown management • Business compatibility
Users & Activities	Image (clean, safe, green, attractive, etc.)
<ul style="list-style-type: none"> • Overall active use – daytime and evening ‘street life’ • Destination attraction(s) clustered in close proximity • Mix of stores/services – active business clusters • Frequent and varied events • Limited vacancies • Local entrepreneurship • Quality, unique goods and services • Stable/improving real estate values 	<ul style="list-style-type: none"> • Welcoming physical appearance – friendly, green, attractive streetscape • Safe • Clean, well maintained • Benches, garbage cans, bike racks • Unique atmosphere • Sense of pride and ownership

APPENDICES

APPENDICES

- A. Interview Acknowledgements**
- B. Retail Supply**
- C. Detailed Demographics**
- D. Retail Demand Charts**
- E. Retail Trends, Challenges and Opportunities**
- F. Retail Trends (Sources)**

Appendix A: Acknowledgments

Thank you to the Downtown stakeholders interviewed for this project.

Councilmember Mark Koppang, City of Federal Way

Councilmember Martin Moore, City of Federal Way

Deputy Mayor Susan Honda, City of Federal Way

Doc Hansen, City of Federal Way

Heidi Weston, Target, Federal Way

Jamas Gwilliams, Merlone Geier

Jason Van Ness, Super Walmart, Federal Way

Jeff, Site Manager, Marriott

Jessica Christiansen, Comfort Inn

Jim Ross, Billy McHale's

Jo Thomas, La Quinta

Julie Tennyson, Merlone Geier

Kaball Gill, East Indian Grill

Kristi Keene, Merlone Geier

Lindy Goodling, Harsch Investment Properties

Lisa LaManna, Development Consultant

Manager-on-Duty, Walmart, Federal Way

Mark McDonald, NWCC Plaza

Mayor Jim Ferrell, City of Federal Way

Mike Dunwiddie, King County Aquatics Center

Naomi Tilford, LaQuinta

Rhonda Hargraves, Umpqua Bank

Rob Ettinger, Dumas Bay Centre

Terri Mezgebu, Kimco Reality

Vince Mottala, Vince's

Yeh-Hee Hahn, CBRE

Appendix B: Existing Retail Supply, Federal Way, 2019

Name, Address, and Total SF/GLA	Key Tenants	Land Value/Building Value	Overall Condition/Appeal	Business Mix	Challenges/Opportunities
TOWN CENTER					
Gateway Plaza 2500 S 320th St Federal Way, WA 98003 (151,874 SF)	Marlene's Market & Deli, AMC Gateway 8, Pier 1 Imports, Cold Stone Creamery, Pacific Medical Center	Theater Land Value: \$1.23 M, Improved Value: \$1.55 M; Retail Land Value: \$3.84 M, Improved Value: \$10.35 M; Parking Lot Land Value: \$988,700	Plaza is a bit dated, with a weird vehicle and pedestrian circulation pattern. Theater is tucked behind retail with limited visibility from south.	Good mix with natural foods grocer, restaurants and medical center	Center is dated, tough circulation. Also, SoundTrans light rail Link Extension alignment will impact northern portion of theater property and adjacent parking lot to NE. 3 Parcels-- theatre pad, retail strip, and parking north of Marlene's. Owner is waiting for SoundTrans offer for portion or entirety of theatre and portion of parking lot.
NWCC City Center Plaza 320th St & Pete von Reichbauer Way South Federal Way, WA (200,000 SF)	Emerald City Smoothies, Ezell's, Sound Credit Union, Hot Pot World, TacoTime, Starbucks, Red Lobster, MOD Pizza,	Plaza Land Value: \$5.21 M, Improved Value: \$2.62 M; ModPizza LV: \$818,600, Imp Value: \$608,800	Plaza portion encompasses (3) 22,000 SF storefronts, with retail outbuildings along S 320th Street (MOD Pizza, Starbuck, Red Lobster, TacoTime)	Decent mix-- restaurants, comic bookstore, bank	Newer construction/renovation. Parking fronts S 320th Street and 21st Ave S, so creating pedestrian-friendly realm is limited. Located approx 500' from proposed light rail station.
Hillside Plaza 2000-2222 S. 314th Street Federal Way, WA 98003 (113,925 SF)	Elev8 Hot Yoga, Gene Juarez Academy of Beauty, CSL Plasma, Nail & Beauty Salon, UW Satellite Classroom(s) (TI under construction)	Plaza Land Value: \$7.72 M, Improved Value: \$5 M	Plaza is dated. Yoga and incoming UW Classrooms will add value, but majority of plaza is undervalued.		Plaza is within single parcel. Ripe opportunity for redevelopment. Plaza is within 600' of existing transit center garage.
SeaTac Village Shopping Center 1700-1916 South 320th, Federal Way, WA 98003 (165,352 SF)	Trader Joe's, Tuesday Morning, Homegoods, Old Country Buffet, DSW, Maurices, TJ Maxx, Big 5, plus other smaller retailers/ personal services	Village Center Land Value: \$14.46 M, Improved Value: \$12.9 M	Center is in good condition and well maintained. Retail facades are clean and maintained. Good visibility and signage along 320th. No signage on Von Reichbauer	A healthy business mix	Strong center with good mix of tenants

H-Plaza 31515 Pete Von Reichbauer Way S, Federal Way, WA 98003 (65,714 SF)	Home & Home, Moa Hair Studio, Jasmine Mongolian Grill	Plaza Land Value: \$6.1 M, Improved Value: \$3.65 M	Plaza is maintained and good signage.	Mix serving Asian demographic	Plaza appears to be underutilized. Jasmine is popular restaurant, but other spaces not well attended. Approx 250' west of PAEC
Nara Village 1805 S 316th St, Federal Way, WA 98003 (16,071 SF Spa; 9,738 SF Shops)	Palace Spa, La Princesa Pupuseria, Sofia Beauty, Lotte Travel, Hair Bank Salon, Shin Sung Korean Cuisine	Plaza Land Value: \$1.62 M, Improved Value: \$2.87 M	Palace Spa is well maintained with updated storefront. Remainder of retail spaces are simple stucco storefronts in decent condition.	Decent mix-- primarily focused on Korean shopping demographic	Internal plaza with signage only along S 316th Street. Palace Spa is well attended and likely a regional draw
Pavilions Center Pacific Hwy S. & S. 312th St Federal Way, WA 98003 (199,642 SF)	H Mart, Barnes & Noble, Petco, JoAnn Fabrics	H Mart Land Value: \$4.2 M, Improved Value: \$2.3 M; Interior Retail Land Value: \$5.95 M, Improved Value: \$6.29 M; Joann's Land Value: \$3.0 M, Improved Value: \$2.15 M;	Center is well kept and in good shape. No vacancies. Strong visibility and signage along Hwy 99.	Good mix of national retailers	Traditional retail plaza with parking adjacent to street. Lack of storefronts along Hwy 99. Ample parking.
Pavilions Center II 31601 S. Pacific Hwy Federal Way, WA 98003 (132,281 SF)	CityMD, PetSmart, OfficeMax, Best Buy, Chipotle	Main Retail Center Land Value: \$4.05 M, Improved Value: \$8.99 M	Center is well maintained. 23.5k vacant space slated for Old Navy. Strong retail spaces along Hwy 99 (Chipotle, CityMD) w/ good visibility and signage along Hwy 99.	Good variety of tenants, both anchors, junior anchors & smaller retail	
Celebration Center 1414 S. 324th Federal Way, WA 98003 (223,928 SF)	Total Wine, Ross Dress for Less, Rite Aid, Michaels, Bank of America, T-Mobile, Freedom Fitness, Iora Primary Care	Main Retail Center Land Value: \$9.74 M, Improved Value: \$8.11 M	Center renovated in 2012. Main retail strip to north is well maintained. Buildings to south and west (Billy McHales) are dated.	Main retail strip to north has good tenant mix. Buildings to south and west (Billy McHales) are dated with tertiary tenants.	Wayfinding and circulation from south to north is a little tricky. Older buildings and tertiary tenants may provide opportunity to upgrade and/or reconfigure center.

<p>The Commons at Federal Way 1928 South Commons South 320th Street Federal Way, WA 98003 (779,946 SF)</p>	<p>Macy's, Target, Kohl's, Cinemark/Century Theater, Buffalo Wild Wings, Dick's Sporting Goods, Panera, Red Robin</p>	<p>Main Mall (not incl vacant Sears, Macy's or Theater) Land Value: \$27.51 M, Improved Value: \$4.9 M; Target Land Value: \$9.08 M, Improved Value: \$715,400</p>	<p>Exterior is in good condition, although vacant Sears area creates a void for western portion of mall. Interior is maintained, but a lot of vacancies.</p>	<p>Mall tenants are primarily local and regional stores. Good mix, but many vacancies.</p>	<p>Mall is dated and tired. Interior mall lacks any vitality. Need more tenants or to restructure the layout of the mall. Made difficult with leases from Macy's and parking commitments made to retailers. Merlone Geier may look to retail-tainment (bowling, ice rink, etc.) to invigorate mall and tie into city center improvements.</p>
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RETAIL CENTERS ELSEWHERE IN FEDERAL WAY

<p>West Campus Square 35100 Enchanted Pkwy S, Federal Way, WA 98003 (350,000 SF)</p>	<p>Costco, Home Depot, Hobby Lobby, LA Fitness, Lowes, and others</p>	<p>Costco Land Value: \$10.86 M, Improved Value: \$1.16 M; Campus Square Center Land Value: \$8.49 M, Improved Value: \$7.72 M</p>			
<p>Federal Way Crossings South 348th Street Federal Way, WA 98003 (213,893 SF)</p>	<p>LA Fitness, Office Depot, Sportsman's Warehouse, McDonald's, Starbucks, Sleep Country USA, Jimmy Mac's Roadhouse, Quiznos, Taco Del Mar, Sports Clips, Auburn Regional Medical Center, Verizon Wireless, Jamba Juice</p>				

Appendix C: Detailed Demographics

Table 12: Population and Household Growth, Greater Retail Market Area, 2019-2024

Geographic Area	2019	2024 (Est)	Avg. Ann. Change 2019-2024	
			Number	Percent
Greater Retail Market Area				
Population	242,795	257,978	1,687	0.69%
Households	89,543	94,578	559	0.62%
Avg. Household Size	2.68	2.70	0.002	
Convenience Area				
Population	106,302	112,694	710	0.67%
Households	38,885	40,948	229	0.59%
Avg. Household Size	2.71	2.73	0.002	
Washington State				
Population	7,608,571	8,120,033	56,829	0.75%
Households	2,945,108	3,140,137	21,670	0.74%
Avg. Household Size	2.53	2.54	0.001	

Source: ESRI BIS; Marketek, Inc.

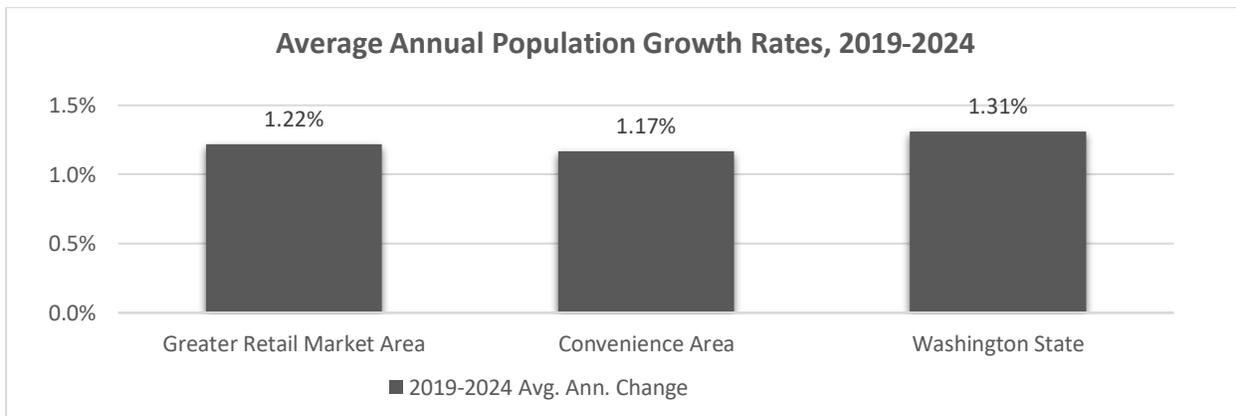


Figure 14 Average Annual Population Growth Rates, 2000-2014

Table 13: Household Income, 2019

Income	Greater Retail Market Area	Convenience Area	Washington State
Less than \$15,000	6.8%	7.7%	8.4%
\$15,000 - \$24,999	6.3%	6.4%	6.8%
\$25,000 - \$34,999	7.0%	7.6%	7.0%
\$35,000 - \$49,999	11.1%	11.6%	11.1%
\$50,000 - \$74,999	19.2%	19.9%	17.4%
\$75,000 - \$99,999	14.7%	15.3%	13.8%
\$100,000 - \$149,999	18.8%	17.6%	18.0%
\$150,000 - \$199,999	8.5%	7.1%	8.2%
\$200,000 or More	7.6%	6.8%	9.3%
Total	242,795	106,302	7,608,571
Median Household Income	\$74,301	\$69,512	\$73,627

Source: ESRI BIS; Marketek, Inc.

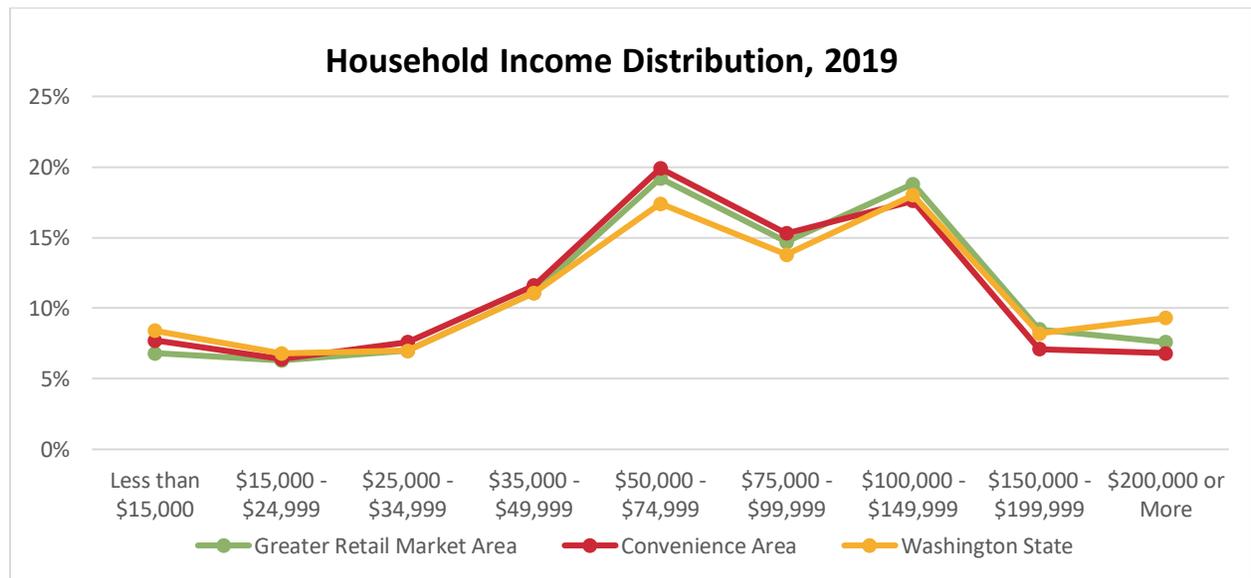


Figure 15 Age Distribution of the Population, 2019

Table 14: Population by Age, 2019

Age Category	Greater Retail Market Area	Convenience Area	Washington State
Under 5	6.2%	6.4%	6.0%
5-14	6.2%	6.2%	6.0%
15-19	6.3%	6.3%	6.2%
20-24	5.9%	6.1%	6.0%
25-34	6.6%	6.9%	6.6%
35-44	15.2%	15.5%	14.3%
45-54	12.9%	12.7%	12.9%
55-64	12.7%	12.4%	12.5%
65-74	13.2%	13.0%	13.3%
75-84	8.9%	8.8%	9.8%
85+	4.0%	4.0%	4.4%
Total	242,795	106,302	7,608,571
Median Age	37.6	36.9	38.6

Source: ESRI BIS; Marketek, Inc.

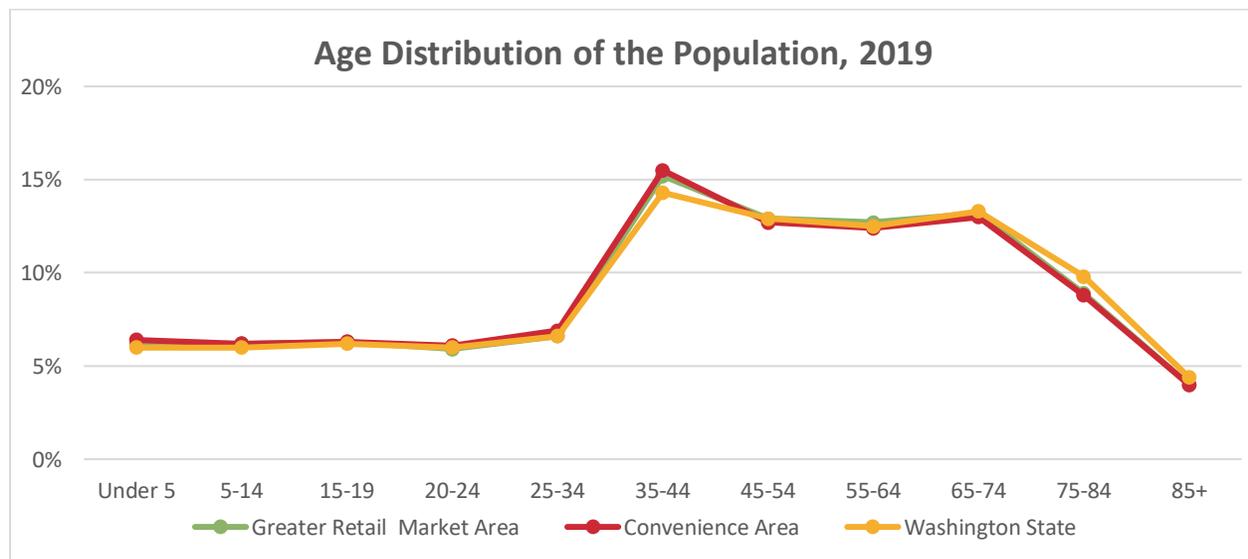


Figure 16: Age Distribution of the Population, 2019

Table 15: Racial and Ethnic Composition, 2019

Race/Ethnicity	Greater Retail Market Area	Convenience Area	Washington State
White Alone	56.0%	52.9%	73.1%
Black Alone	9.4%	9.8%	4.1%
American Indian Alone	1.0%	0.8%	1.5%
Asian/Pacific Islander	18.3%	20.4%	9.8%
Some Other Race Alone	8.4%	9.0%	6.0%
Two or More Races	6.9%	7.0%	5.5%
Hispanic Origin (any race)	16.6%	17.1%	13.2%
Total	242,795	106,302	7,608,571

Source: ESRI BIS; Marketek, Inc.

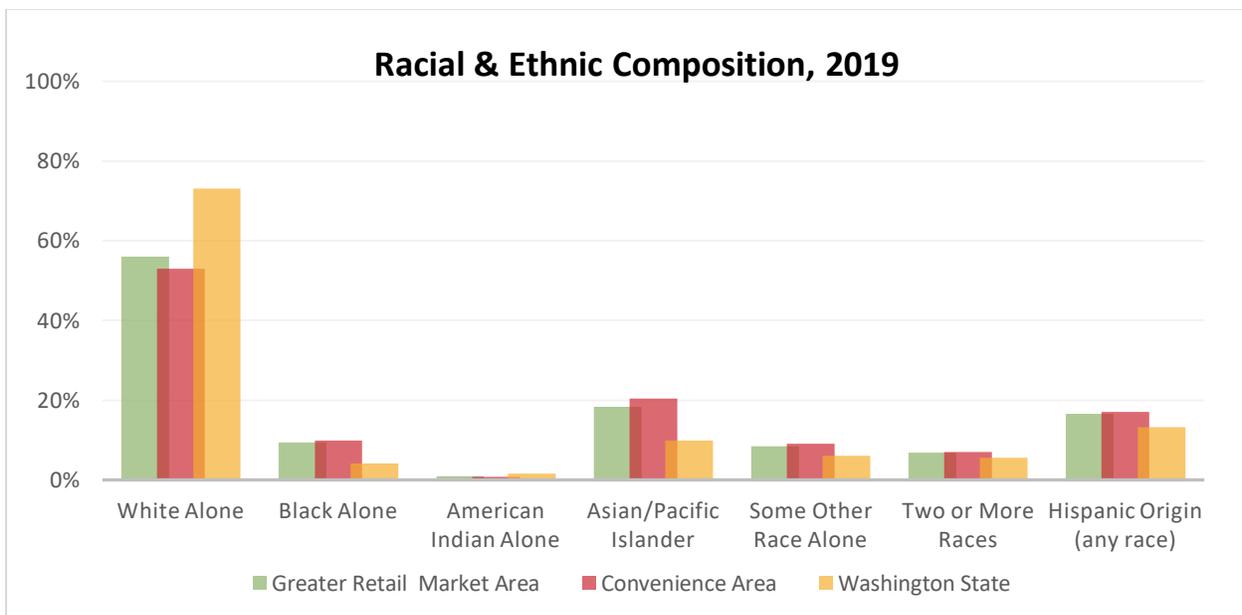


Figure 17: Racial and Ethnic Composition, 2019

Table 16: Federal Way Business and Employment – 10-minute radius, 2019

Industry	Businesses		Employees	
	#	%	#	%
Agriculture & Mining	44	1.5%	219	0.6
Construction	190	6.3%	1,331	3.6%
Manufacturing	60	2.0%	1,844	5.0%
Transportation	67	2.2%	1,137	3.1%
Communication	35	1.2%	193	0.5%
Electric/Gas/Water/Sanitary Services	8	0.3%	275	0.7%
Wholesale Trade	67	2.2%	586	1.6%
Retail Trade	657	22.0%	9,544	25.7%
Finance/Insurance/Real Estate	360	12.0%	4,545	12.2%
Services	1,323	44.2%	16,204	43.6%
Government	34	1.1%	1,184	3.2%
Other	148	4.9%	80	0.2%
Total Employment	2,993	100.0%	37,141	100.0%

Source: ESRI BIS, Marketek, Inc.

Table 17: Top 20 Tapestry Market Segments – Greater Retail Market Area, 2019

Market Segment, Percent of HHs	Hhold Type	Median Age	Median Income	Segment Overview
1 Home Improvement 11.4%	Married couple families	38	\$72,100	These families spend a lot of time on the go and therefore tend to eat out regularly. When at home, weekends are consumed with home improvement and remodeling projects.
2 Pleasantville 9.3%	Married couples	42	\$92,900	Prosperous domesticity best describes the settled denizens of Pleasantville. These slightly older couples move less than any other market, and have higher incomes and home values and much higher net worth.
3 Metro Fusion 7.9%	Married couples/Singles	29	\$35,700	Metro Fusion is a young, diverse market of hard-working residents that are dedicated to climbing the ladders of their professional and social lives. This is particularly difficult for the single parents due to median incomes that are 36% lower than the US level.
4 Bright Young Professionals 7.6%	Married couples/Singles	33	\$54,000	These communities are home to young, educated, working professionals. Labor force participation is high, generally white-collar work, with a mix of food service and part-time jobs (among the college students). Median household income, median home value, and average rent are close to the US values.
5 Parks and Rec 6.2%	Married couples	41	\$60,000	Many of these families are two-income married couples approaching retirement age; they are comfortable in their jobs and their homes, budget wisely, but do not plan on retiring anytime soon or moving. Neighborhoods are well established, as are the amenities and programs that supported their now independent children through school and college.
6 Soccer Moms 6.1%	Married couples	37	\$90,500	An affluent, family-oriented market with a country flavor. Residents are partial to new housing away from the bustle of the city but close enough to commute to professional job centers. Life in this suburban wilderness offsets the hectic pace of two working parents with growing children.
7 Retirement Communities 5.2%	Married couples	54	\$40,800	This group enjoys watching cable TV and stays up to date with newspapers and magazines. Residents take pride in fiscal responsibility and keep a close eye on their finances. Although income and net worth are well below national averages, residents enjoy going to the movies, fishing, and taking vacations.

8 Enterprising Professionals 5.2%	Married couples	35	\$86,600	Enterprising Professionals residents are well educated and climbing the ladder in STEM (science, technology, engineering, and mathematics) occupations. This young market makes over one and a half times more income than the US median, supplementing their income with high-risk investments. At home, they enjoy the Internet and TV on high-speed connections with premier channels and services.
9 Young and Restless 4.9%	Singles	30	\$40,500	Gen Y comes of age: Well-educated young workers, some of whom are still completing their education, are employed in professional/technical occupations, as well as sales and office/administrative support roles. These residents are not established yet but striving to get ahead and improve themselves. Young and Restless consumers are diverse, favoring densely populated neighborhoods in large metropolitan areas.
10 Savvy Suburbanites 4.1%	Married couples	45	\$108,700	Savvy Suburbanites residents are well educated, well read, and well capitalized. Located in older neighborhoods outside the urban core, their suburban lifestyle includes home remodeling and gardening plus the active pursuit of sports and exercise. They enjoy good food and wine, plus the amenities of the city's cultural events.
11 Green Acres 3.7%	Married couples	44	\$76,800	The Green Acres lifestyle features country living and self-reliance. They are avid do-it-yourselfers, maintaining and remodeling their homes, with all the necessary power tools to accomplish the jobs. Self-described conservatives, residents of Green Acres remain pessimistic about the near future yet are heavily invested in it.
12 City Lights 3.5%	Married couples/Singles	39	\$69,200	City Lights, a densely populated urban market, is the epitome of equality. The wide-ranging demographic characteristics of residents mirror their passion for social welfare and equal opportunity. Willing to commute to their jobs, they work hard and budget well to support their urban lifestyles, laying the foundation for stable financial futures
13 Exurbanites 2.9%	Married couples/Singles	51	\$103,400	Ten years later, Exurbanites residents are now approaching retirement but showing few signs of slowing down. They are active in their communities, generous in their donations, and seasoned travelers. They take advantage of their proximity to large metropolitan centers to support the arts but prefer a more expansive home style in less crowded neighborhoods.
14 International Marketplace 2.8%	Married couples/Singles	33	\$46,500	International Marketplace neighborhoods are a rich blend of cultures, found in densely populated urban and suburban areas. Almost 40% of residents are foreign-born; nearly 1 in 4 households are linguistically isolated. Workers are mainly employed in white collar and service occupations (especially food service and building maintenance). Median household income is lower, but home values are higher, reflecting the metropolitan areas in which they live.

15 Urban Villages 2.7%	Married couples/Singles	34	\$62,300	Urban Villages residents are multicultural, multigenerational, and multilingual. Trendy and fashion conscious, they are risk takers. However, these consumers focus on their children and maintain gardens.
16 Front Porches 2.7%	Married couples/Singles	35	\$43,700	Front Porches blends household types, with more young families with children or single households than average. This group is also more diverse than the US. Friends and family are central to Front Porches residents and help to influence household buying decisions. Income and net worth of these residents are well below the US average.
17 Set to Impress 2.3%	Singles	34	\$32,800	Although many residents live alone, they preserve close connections with their family. Income levels are low; many work in food service while they are attending college. This group is always looking for a deal. They are very conscious of their image and seek to bolster their status with the latest fashion.
18 American Dreamers 2.1%	Married couples with children	33	\$50,900	Median household income is slightly below average. Hard work and sacrifice have improved their economic circumstance as they pursue a better life for themselves and their family. Spending is focused more on the members of the household than the home. Entertainment includes multiple televisions, movie rentals, and video games at home or visits to theme parks and zoos.
19 Comfortable Empty Nesters 2.1%	Married couples	48	\$75,000	Residents in this large, growing segment are older, with nearly half of all householders aged 55 or older; many still live in the suburbs where they grew up. These Baby Boomers are earning a comfortable living and benefitting from years of prudent investing and saving. Their net worth is well above average. Many are enjoying the transition from child rearing to retirement.
20 NeWest Residents 1.5%	Married couples with children/Singles with children	27	\$30,200	They are new to America and new to their careers, with new, young families. Many are new to the English language; nearly one-third of households are linguistically isolated. NeWest Residents are ambitious and dream of a better life. They aren't ready to fully adopt the American way of life but are willing to take risks for the benefit of their families. As the breadwinners, the men of the house work long hours in blue collar jobs, primarily in the service industry.
Total Households 94.2%				

Source: ESRI BIS, Marketek, Inc.

A description of the tapestry segments: <https://doc.arcgis.com/en/esri-demographics/data/tapestry-segmentation.htm>

Appendix D: Retail Demand

Table 18: New, Projected Potential Supportable Area – Federal Way **Residents**, 2019-2024

Store Type	Per Household Expenditure ¹	Target Sales (\$/SF) ²	2019 Retail Potential Sales (in mill \$) ³	2024 Retail Potential Sales (in mill \$) ³	2019-2024 Growth (SF) ⁴
Shoppers Goods					
Furniture & Home Furnishings Stores (442)	\$1,211	\$340	\$106,265,064	\$114,546,811	24,358
Electronics & Appliance Stores (443)	\$1,292	\$340	\$113,352,909	\$122,187,046	25,983
Bldg Materials, Garden Equip. & Supply Stores (444)	\$2,187	\$350	\$191,863,754	\$206,816,619	42,722
Clothing & Clothing Accessories Stores (448)	\$2,053	\$370	\$180,140,351	\$194,179,555	37,944
Sporting Goods, Hobby, Book & Music Stores (451)	\$1,279	\$216	\$112,179,605	\$120,922,301	40,475
General Merchandise Stores (452)	\$6,761	\$300	\$593,173,042	\$639,401,869	154,096
Miscellaneous Store Retailers (453) (Florist, Office Supplies, Gift Stores, etc.)	\$1,512	\$216	\$132,647,902	\$142,985,791	47,861
Restaurants					
Food Services & Drinking Places (722)	\$3,869	\$460	\$339,465,994	\$365,922,211	57,514
Convenience Goods					
Food & Beverage Stores (445)	\$5,923	\$390	\$519,726,662	\$560,231,459	103,858
Health & Personal Care Stores (446)	\$2,430	\$365	\$213,167,571	\$229,780,745	45,516
Entertainment⁵	\$3,502	\$140	\$313,607,738	\$331,241,891	125,958
TOTAL			\$2,815,590,592	\$3,028,216,297	
5-YEAR NET GAIN				\$212,625,705	706,285
2018 Households (est'd)					87,740
2019 Households					89,543
2024 Households					94,578

1. ESRI, Marketek

2. ICSC, Urban Land Institute's "Dollars and Cents of Shopping Centers," Marketek

3. Based on per HH spending by total market area HHs

4. 5-year net gain for overall demand potential in square feet (SF)

5. ESRI Retail Demand Outlook 2019, Marketek

Table 19: Retail Expenditure Potential – Federal Way **Visitors**, 2019-2024

Retail Category	Percent of Visitor Spending ¹	2019 -est'd Spending (in millions)	2024 Spending (in millions)	5 yr net inc Spending (in millions)	Target Sales (\$/SF)	Space (SF)
Shoppers Goods	11%	\$32.3	\$44.3	\$12.0	\$340.0	35,297
Restaurants	29%	\$85.1	\$116.8	\$31.6	\$460.0	68,780
Grocery	4%	\$11.7	\$16.1	\$4.4	\$390.0	11,190
Entertainment, Rec	12%	\$35.2	\$48.3	\$13.1	\$140.0	93,514
Sub-total		\$164.4	\$225.5	\$48.0		208,782
Total Visitor Spending (M)		\$293.5	\$402.6			
Five Year Net Gain						208,782

(1) From "Visitor Spending by Commodity Purchased."

Source: Dean Runyan Associates, Marketek, Inc.

Table 20: Retail Expenditure Potential – Federal Way **Employees**, 2019-2024

Store Type	Average Annual Spending ¹	2019-2024 Potential Spending ²	Target Sales (\$/SF) ³	Potential Space Sq Ft
Shoppers Goods				
Home Furnishings (442)			\$340	
Electronics & Appliances (443)	\$491	\$2,235,032	\$340	6,574
Bldg Materials & Gardening (444)			\$350	
Apparel & Accessories (448)	\$637	\$2,899,624	\$370	7,837
Sporting Goods, Hobby, Book & Music (451)	\$399	\$1,816,248	\$216	8,409
General Merchandise Stores (452)	\$1,174	\$5,344,048	\$300	17,813
Miscellaneous Specialty Retailers (453) (florist, office supplies, gift stores, etc.)	\$1,029	\$4,684,008	\$216	21,685
Entertainment & Recreation	\$276	\$1,256,352	\$140	8,974
Restaurants (722)	\$1,587	\$7,224,024	\$460	15,704
Convenience Goods				
Food & Beverage Stores (445)	\$1,187	\$5,403,224	\$390	13,854
Health & Personal Care (446)	\$735	\$3,345,720	\$365	9,166
Personal Services	\$550	\$2,503,600	N/A	
Estimated Supportable Square Footage				110,017

1. International Council of Shopping Centers

2. Based on 1.5% av annual employment growth gradually increasing to 3.0% by 2024 or a total increase of 4,552 by 2024

3. Based on ULI Dollars & Cents of Shopping Centers, ICSC, Marketek

Sources: ICSC; ESRI; Puget Sound Regional Council; City of Federal Way; Marketek

Appendix E: Retail Trends, Challenges and Opportunities

Marketek Overview, September 2019

The National Economic Picture: A Mixed Bag

Having a crystal ball would be most welcome for any existing or potential retailer. There is cause for both caution and optimism. Much of what is roiling markets and spawning concern is a feeling of general uncertainty related to international trade wars, the threat of recession and a growing national debt.

The US economy, which has now broken the record for the longest expansion in history (previously at 120 months from March 1991 - 2001), is now beginning to show signs of slowing with a recent jobs report showing 20,000 fewer new jobs than expected; and 25,000 of these jobs related to temporary hiring by the US Census Bureau.

The mixed economic signals include the most recent jobs report that unemployment is at 3.7% (or full employment) and that hourly wages for the year have increased by 3.2%, beating estimates.

Overall Consumer Spending

[Consumer spending](#) was at a rate of \$14.24 trillion as of the first quarter of 2019; making up 68% of the U.S. economy. Two-thirds of consumer spending is on services, such as housing and health care. Almost one-quarter is spent on non-durable goods, such as clothing and groceries. The rest is spent on durable goods, such as automobiles and appliances.

In Q1 2019, consumer spending increased by 0.9%. Strong consumer spending is the main reason the [GDP growth rate](#) has been within the [2% to 3% healthy range](#) since the [Great Recession](#) of 2009. However, [U.S. retail sales](#) were soft; with total holiday sales only rising by 2.3% which is lower than the 10-average of 3.5% annual increase before the recession.

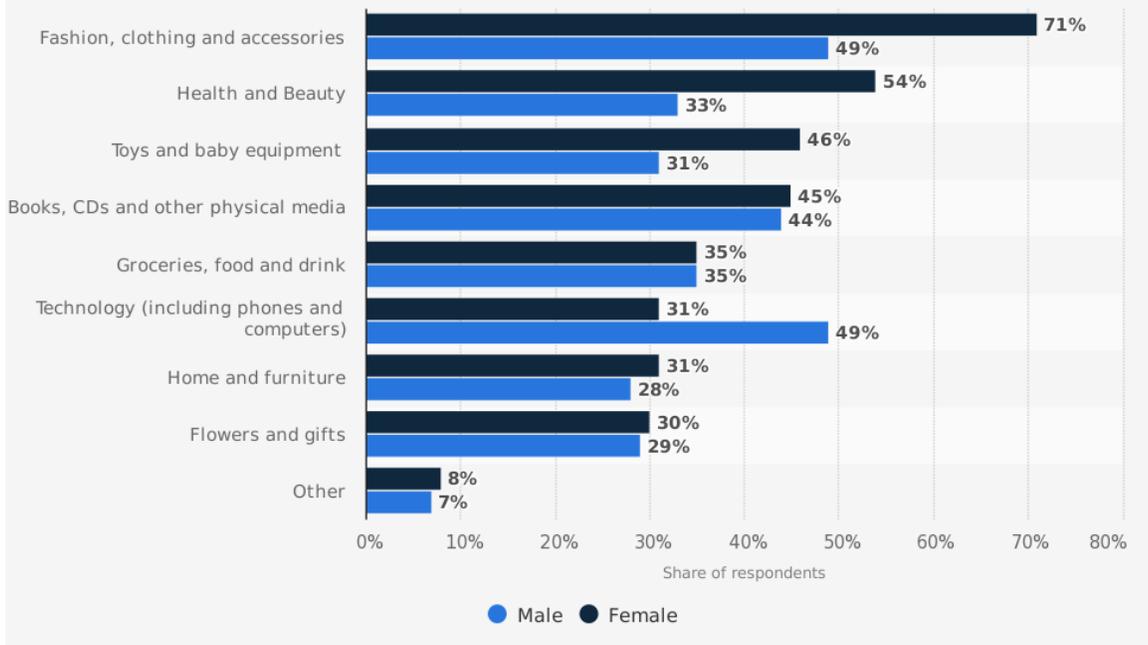
The Bureau of Labor Statistics reported that the average American spent \$60,060 in 2017, the most recent figures available.

Focusing In: National Retail Spending & Trends

Like the general economy, national retail trends are also a mixed bag right now with retail spending at an all-time high. The estimate for 2019 is \$5.53T in retail sales; with forecast increases to 6.02T by 2022 (an 8% increase over the next three years).

Although this is great news, in February 2019, according to a report from the Commerce Department, on-line retail sales were higher than off-line shopping for the first time ever for general merchandise, including department stores. According to CoreSight Research, store closings are up 23% over last year; with Credit Suisse forecasting 20-25% of malls to close over the next five years.

Leading product categories bought online among internet users in the United States as of November 2017, by gender



Consumer spending trends show a definite move toward online shopping vs. brick and mortar shopping. Last year, department stores sales fell by 3.3% while online retailers saw a 3.7% increase over the same time period. Statistics for 2017 reveal that 78% of US internet have purchased products online that year; with 32% purchasing items online at least 1x/month and 29% shopping online once or twice *per week*.

That said, not all retail is going online. JLL Resources report that over 100 online stores are moving back to brick and mortar, announcing plans to open over 850 storefronts over the next five years. The online aspect of shopping provides efficiency while the off-line aspect provides engagement.

A recent survey found that only 49% of a retail sale was about the transaction; while 51% was related to engagement (10% inspiration, 7% entertainment, 19% discovery and 15% social).

One key that will continue to drive successful growth in the retail sector is the integration of data and technology to better serve the customer in a tailored, seamless way.

Trends in Retail Expansion & Contraction

- Direct-to-consumer brands such as Warby Parker, Casper and Untuckit are moving from strictly online to brick and mortar locations; with Casper planning on opening 200 retail outlets by 2021
- Established national brands with storefront locations are now looking to offer experience-only services through pop-ups that include styling services, makeovers and sampling services (i.e. Sephora and Nordstrom)
- Overall, traditional brick and mortar clothing- and accessory-related retail is continuing to decline as noted by most recent consumer spending report for August 2019 – and the chart, above, showing how on-line retail sales for this sector are strong for both men and women.

The New Normal: Consumer-Controlled Retail

While retail is intricately connected to factors that affect the larger economy, within the sector other types of disruption and transformation are also taking place. Today's consumers are becoming more powerful, with expectations of "having it all". Welcome to the world of *consumer-controlled retail* where retailers will have to embrace bold moves in order to set themselves up for success where a new normal is emerging.

"Companies with highly engaged employees outperform their competitors by 147%."

--The Engaged Workplace
Gallup 2018

For innovative retailers this means focusing on three key initiatives:

1. **Know your customers.** Today's retailers struggle to deliver tangible personalization due to poor data collection capability. By developing a 360-degree view of what customers need across channels (from the initial discovery stage and product recommendation to post-purchase support), retailers can eventually provide anticipatory support before its needed.
2. **Empower employees.** Despite their attraction to digital modes of shopping, customers largely prefer interacting with human associates for immediate support and guidance. Retailers need to ensure their workforce is equipped to respond to customer needs and preference by having data available to them.
3. **Reimagine retail.** Often the retail experience customers receive isn't tailored to their specific needs or preferences. Retailers need to reinvent their business models by focusing on creating services, products and experience their customers crave.

Focusing on the Experience

This evolution in retail involves more efficiency through technology and more engagement-focus, especially through *experiences*. The biggest idea driving the newest and most successful retail strategies is wrapped around how we value things—especially **time**. According to *The Retail Trends Playbook 2020*, "Today's shoppers prioritize an exceptional customer experience. They're willing to provide their data to companies but expect a higher quality experience in return. For retailers and their brands, this means delivering on the promise of personalization, expert service, always-available inventory and seamless cross-channel shopping."

To reinforce this point, 80% of customers say the **experience** a company provides **is as important as its products and services**. In addition, consumers are willing to spend up to 16% more on products and services that offer a better experience. As consumers choose to invest in experience rather than products, retailers will need to respond to meet the needs of their customers. Customers just don't want to walk into a shop, buy a product and leave – because they can do this in the comfort of their own homes. But by creating a more immersive retail experience, retailers can drive customers toward their store and ensure they leave not just with products, but also *memories*.

Retailtainment – the fusion of *retail* and *entertainment* – is an effort on the part of retailers to provide customers with fun, unique experience that elevate shopping above anything it's previously been. This trend is growing and is expected to dominate the industry.

Following are a few great examples of retailtainment in action.

- Beerwolf Books (Falmouth, UK) While integrated bookshops and coffee shops are the norm, the concept

of a pub in a bookshop is far more novel. By day, Beerwolf Books acts as a cozy coffee shop as a great place to stop and reflect, catch up with friends or buy something unique. By night, it's the perfect pub to pick up a pint and browse the book selection before heading home. This business is a great example of a destination people want to visit and will keep revisiting due to its unique charm.

- Ikea brought to life a unique experience through an online contest where 100 fans won a Facebook challenge, letting them spend the night in an Ikea store. The winners were provided with massages, salon services and were able to select the mattress, sheets and pillows to fully give them a tailored experience to satisfy their needs. A sleep expert was also on-hand with tips for getting a good night's rest – including how to find the perfect mattress for an individual sleeping style.
- Swedish rucksack and outdoor equipment retailer Fjällräven hosts events that reflect the brand, such as environmental discussions, which are hosted in Q&A format with trekking experts. The objective is to ensure consumers develop and maintain an interest in outdoor life, and it is all brought to bear in stores to give the business an opportunity to promote its products and give consumers crucial insights into their hobby. The brand launched [Fjällräven Classic](#) in Sweden in 2005' a hiking program to encourage more people to trek in the Swedish mountains. Since then, it has expanded into more accessible walks encouraging newcomers to the hobby of hiking in Denmark and the US, among other destinations.

Five consistent elements that successful retailers use to create high quality in-store experiences include:

1. Interactiveness: ensuring that the senses are connected. Memories of what we feel, hear, see, smell and touch may last a lifetime.
2. Originality: successful retailtainment concepts are authentic and natural, making the customer feel as if they have entered a different world.
3. Connectedness: customers must feel that the experience has been created for them. This can be done through the utilization of elements from previous visits, or by the design of products targeted to customers' niche tastes.
4. Unexpectedness: these unique experiences are critical to ensuring the business or brand is remembered.
5. Reliability: the experience is executive through tested methods to achieve consistency and excellence. This is to ensure that the in-store experience excels and is properly executed.

A New Vision for Suburbia: Where People Want to Be = "Surban" Communities

"Surban" communities – suburban neighborhoods offering the most desired features of urban *and* suburban living – will attract the most households in the US over the next ten years, according to ULI's report, *Demographic Strategies for Real Estate*.

Despite the continued revival of urban downtowns, the suburbs will draw at least **80%** of the coming new wave of households as younger families seek urban amenities combined with more kid-friendly housing and good schools typically associated with the suburbs.

Following are trends affecting traditional suburban areas who successfully transition:

- "Surban" developments will replace shopping centers. More large retail stores will be transformed into places that sell experiences rather than goods, and more development will combine housing and retail to satisfy consumer demand for places that offer convenient, car-free shopping. This transition includes breaking up superblocks where connectivity can be optimized and creating human-scaled, pedestrian friendly places

- Demand for suburban office space will return. If located near a transit hub, research of the office market has shown that a significant percentage of office tenants will pay a rental premium for transit-linked offices a factor that will become increasingly important as employers are forced to compete for a reduced labor supply that demands more transportation choices.
- Housing rental rates will surge over the long term. The sharing economy's de-emphasis on ownership will be reflected in soaring demand for rental units. (The sharing economy is an economic model defined as a peer-to-peer (P2P) based activity of acquiring, providing, or sharing access to goods and services that is often facilitated by a community-based on-line platform.) Well over half of the 12.5 million net new households created over the next decade will rent.
- Municipalities will take a more active role in encouraging successful growth, including creation of public/private partnerships and funding tools to help transition traditional suburban areas into "suburbs" that will thrive for years to come.

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