

CITY COUNCIL STUDY SESSION ITEM

SUBJECT:

Update on Bellevue's Auto Retail Sector.

STAFF CONTACTS:

Chris Salomone, Director, 452-6191
Dan Stroh, Planning Director, 452-5255
Emil King AICP, Strategic Planning Manager, 452-7223
Department of Planning & Community Development

POLICY ISSUES:

Auto retail is a significant component of Bellevue's sales tax base. While many auto dealerships in the City are in stable and well performing locations, several dealerships are likely to be displaced in the next several years, by public infrastructure projects or market factors. At the same time, it is challenging to find appropriately zoned, available replacement sites of a size and cost that meets dealerships' search criteria. Although further discussion is planned and tonight's study session is informational, the City is faced with developing strategies to try to retain the full magnitude of the existing auto dealership sector, or find alternative ways to replace lost sales tax revenues.

Relevant Comprehensive Plan policies support the City's focus on maintaining a strong economic base:

- Economic Development Policy 1: Maintain a business climate that supports the retention and expansion of the city's economic base.
- Land Use Policy 31: Encourage and foster economic development in areas designated for commercial uses.

Policies also support a careful balance between economic development and other community goals, which may become increasingly challenging for more land-consumptive uses as the City becomes more urbanized, with fewer large sites available.

- Economic Development Policy ED-3: Develop and maintain regulations that allow for continued economic growth while respecting the environment and quality of life of city neighborhoods.

DIRECTION NEEDED FROM COUNCIL:

Action
 Discussion
 Information

Tonight's Study Session is intended to be informational, no Council action is required.

Staff from PCD will provide an overview of the work done to date, and highlight recommended next steps to occur in 2013. The overarching goal is to develop a plan to accommodate existing and new auto dealers in the City in a well-thought, comprehensive manner both now and into the future.

BACKGROUND/ANALYSIS:

This memo provides an update on Bellevue's auto retail sector, including a draft *Auto Opportunity Study* completed by the consultant firm Jones Lang LaSalle. The auto retail sector is a significant component of Bellevue's current sales tax base, and their long-term viability is important to the City. In 2012, new car dealerships (including sales of new and used vehicles, parts and service) generated about 14% of total sales tax for the City.

Over the past nine months, the Department of Planning & Community Development (PCD) has been assessing a number of ongoing issues relating to auto sales in the City. These include threats of displacement from City and Sound Transit infrastructure projects, potential real estate market decisions that might impact auto dealers, and the evolving locational needs and characteristics of auto dealerships.

Auto retail locations in Bellevue

There are currently 19 new car auto dealers in the City. The new car dealerships listed below include 30 brands and have been traditionally clustered in 5 general areas as follows.

New car dealerships (June 2013) (see Attachment 1 – Map of existing auto dealerships in Bellevue).

Northup/NE 20th

Acura of Bellevue
Bentley, Lamborghini, Rolls Royce
BMW of Bellevue
Land Rover / Jaguar of Bellevue
Park Place (Aston Martin, Lotus, Saab, Spyker)

NE 8th/120th Ave/116th (south of Main)

Barrier Audi
Barrier Mercedes
Barrier Porsche
Eastside Nissan (planned move to Eastgate)
Lexus of Bellevue

Historical “Auto Row”

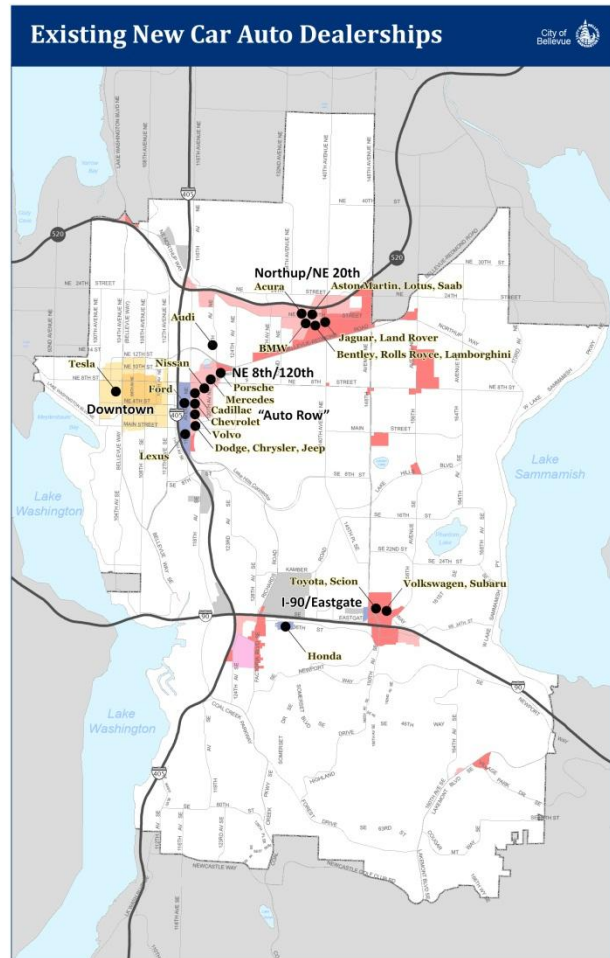
Barrier Volvo
Cadillac
Chevrolet
Chrysler, Jeep, Dodge
Ford / Lincoln

Downtown

Tesla

I-90/Eastgate

Chaplin’s VW/Subaru
Michael’s Toyota / Scion of Bellevue
Honda Auto Center



Some of the significant moves in recent years have been the Cadillac and Lexus dealerships moving out of Downtown, Toyota relocating to Eastgate, Audi developing on 120th Avenue NE, and the general decline of the historical “auto row” on 116th Avenue NE between Main and NE 8th Streets.

Where are dealerships allowed?

The City has numerous zoning districts that allow auto sales (see Attachment 2 – Map of districts where auto retail is permitted). While there is a supply of land available for auto sales, in some instances the cost of land and lack of vacant sites have added to the difficulties of relocating or establishing new dealerships. The specific land use code provisions that govern auto sales are as follows:

- Permitted outright in the General Commercial (GC) zone on Auto Row, NE 8th Street, and portions of Eastgate.
- Permitted outright in the Bel-Red General Commercial (BR-GC) zone.
- Permitted outright in the Office and Limited Business (OLB) zone, on 116th Avenue/Auto Row and areas in Eastgate.
- Administrative Conditional Use in Light Industrial (LI) zone and Bel-Red Commercial-Residential (BR-CR) zone.

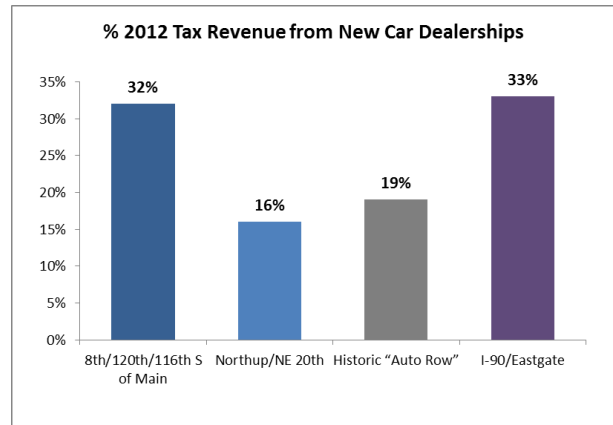
- Conditional Use in Community Business (CB) and Factoria 1 (F-1) zones.
- Allowed in a number of Downtown districts (O-1, O-2, and MU zones), but no outdoor displays allowed in O-1 and O-2.

Contribution of auto sales to City’s tax base

The auto retail sector is a major contributor to Bellevue’s tax base, and the long-term viability of this sector is important to the City. In 2012, new car dealerships contributed over \$6.4 million in Bellevue sales tax revenue. (Used car dealerships contributed an additional \$200,000.) Together, these represent 14% of Bellevue’s total City sales tax from all sources (retail and non-retail). At its peak, from a percentage standpoint, auto dealership sales represented 15.8% of total sales tax revenue in 2003.

In 2012, the breakdown of the \$6.4 million in revenue from new car dealers by geographic area was as follows:

<u>Auto Dealer Grouping</u>	<u>% 2012 Tax Revenue</u>
NE 8th/120th Ave/116th S of Main	32%
Northup/NE 20th	16%
Historical “Auto Row”	19%
I-90/Eastgate	33%



Threats to new car auto dealerships

Several existing auto dealers will be impacted by City or Sound Transit infrastructure projects (see Attachment 3 – Map of displacement threats). The City projects include the 120th Avenue NE realignment, NE 4th Street extension, and planned NE 6th Street extension.

Full Parcel Acquisition for 120th Avenue NE realignment
Barrier Porsche, 12000 NE Bel-Red Road

Full Parcel Acquisition for NE 6th Extension
Cadillac (former Hummer), 600 116th Avenue NE

Sound Transit’s East Link alignment and the potential for an operations and maintenance facility located in Bellevue would have the following impacts:

Full Parcel Acquisition for Sound Transit East Link alignment and construction staging
Park Place (Aston Martin, Lotus, Saab, Spyker), 13710 NE 20th Street

Potential Full Parcel Acquisition for Sound Transit Operations and Maintenance Facility, Alt. 4
Acura of Bellevue, 13424 NE 20th Street

In addition, market forces have caused a significant change in Bellevue’s auto dealer landscape. There has been a shift over the past decade of auto retail moving away from the historical “auto row” on 116th Avenue NE between Main and NE 8th. Currently there are a number of vacant sites on auto row, with a variety of potential redevelopment scenarios, being discussed. Development pressures in the coming years may displace additional dealerships in this area.

Market Study

The City recently worked with Jones Lang LaSalle (JLL) to assist in analyzing opportunities and constraints for the auto dealer sector in Bellevue. The primary goal of this work was to provide an assessment of auto dealer opportunities based on future trends, local land economics, and locational criteria as vetted through stakeholder interviews.

Going into the study, it was thought that overall intensification of development in Bellevue's commercial areas will continue to affect auto dealers, who historically have favored single story buildings, with inventory stored in adjoining surface parking lots. It is anticipated that in the future, development of vertical dealerships (and potentially some co-locations) may be driven by an increasingly limited land supply and higher land prices. There are a few current examples of multi-level dealerships in the City that include a combination of structured parking and reduced front parking area (e.g., Lexus, Toyota/Scion, Audi, Honda and Nissan). Nonetheless, dealer interviews suggest that a small lot, urban model should not be seen as a panacea. For some dealerships the costs of a fully "urban auto dealer model" remain too high in this market.

JLL's study of market trends included a review of data collected from public company reports, industry publications and interviews with stakeholders. It explores trends in the domestic and foreign car market; provides a brief summary of the major manufacturers in the market; and addresses selected aspects of dealership operations such as co-location, inventory management, and operations.

Based on the stakeholder interviews, most dealerships in Bellevue would like to continue to do business in the City. Ideally, dealers would prefer to be located next to competitors that share similar types of product lines. There were a number of stakeholders concerned about the availability of land zoned for automobile dealership use, and interested in a long-term plan that addresses the changing needs of the auto retail sector in Bellevue.

The physical layout and onsite amenities for auto dealerships have shifted in recent years based on a number of factors. While the Internet has significantly changed the way that people research cars (with close to 90% of customers having done some level of online research prior to visiting a dealership), they still want to buy a car they have actually seen and driven. As a result, significant showroom space and onsite inventory is still considered essential for new car dealers. Close proximity to major freeways is important, but less critical than it has been in the past. The main focus for today's dealers is to improve "the customer experience", which includes providing a much higher level of customer amenities in both showrooms and service department waiting areas. Success in today's market is tied to meeting customer expectations in both purchasing and the ongoing relationship for servicing vehicles.

Conclusions and next steps

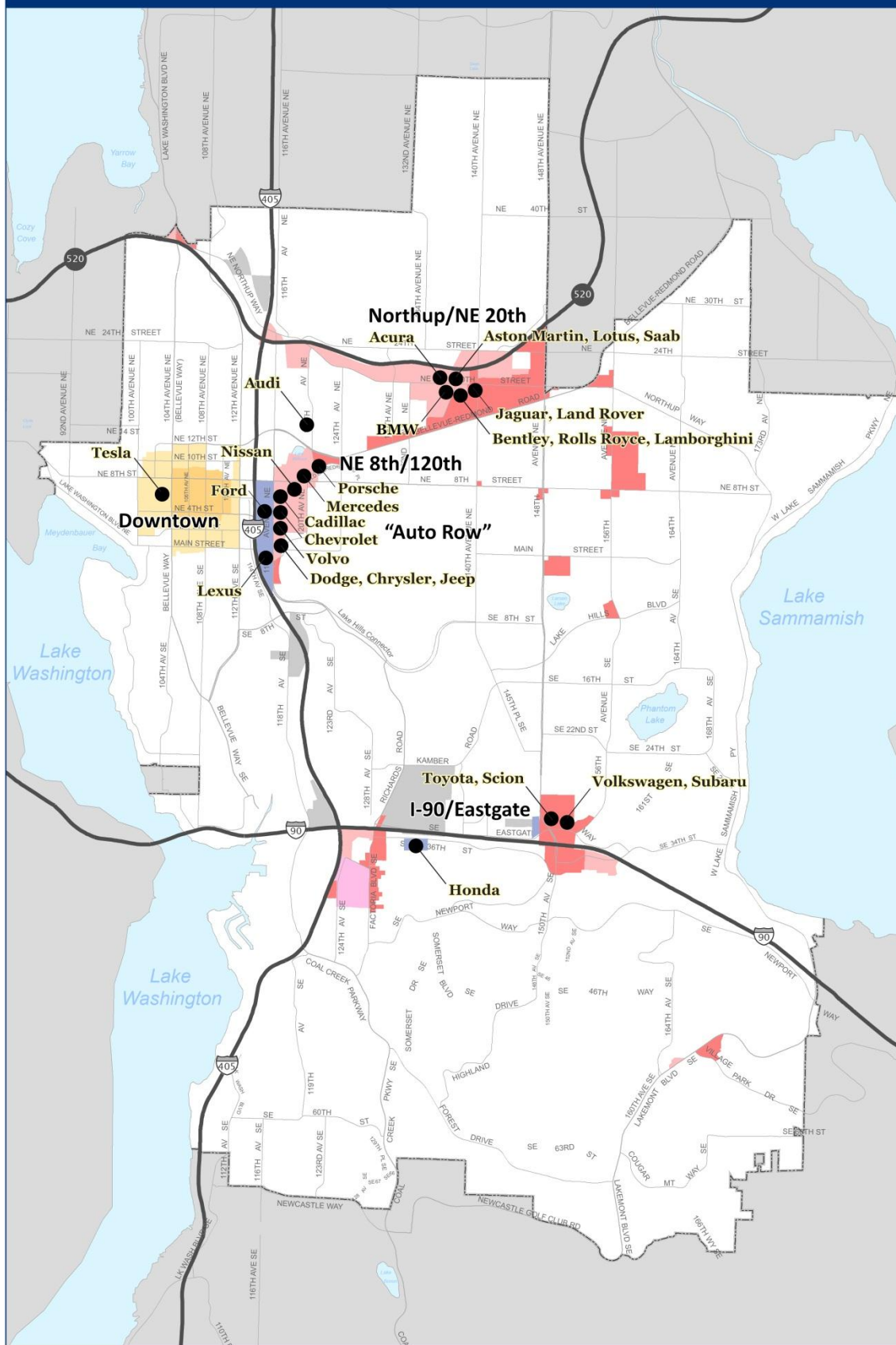
- This auto dealer work is an integral part of the ongoing Economic Development Strategy. As PCD and other City departments continue this effort, there will be a focus on how to respond to the needs of existing dealers and provide opportunities for new dealerships as part of the overall Economic Development Strategy.
- The prototype model for new dealerships is evolving. A shift to new models that include a heightened set of amenities, expanded service departments, less surface parking fronting the street, as well as substantial investment in structured parking garages is becoming more common. While this does not work for all dealers, there is a clear shift to this development type by a number of the new dealerships.

- Staff will continue to work one-on-one with stakeholders affected by City and Sound Transit infrastructure projects as well as others affected by the risk of displacement. The goal will be to retain them in the City in a location where they can succeed.
- While most dealers are happy in their current location, Council's review of the recent change to OLB zoning in Eastgate is a precursor to additional interest in dealer expansion or relocation in the City. Staff will continue to explore the suitability of the existing supply of land zoned for auto sales. A future policy question may be whether the Council wishes to expand the supply of land zoned for auto dealerships, including whether this can be accommodated within the City's broader land use and community development vision.

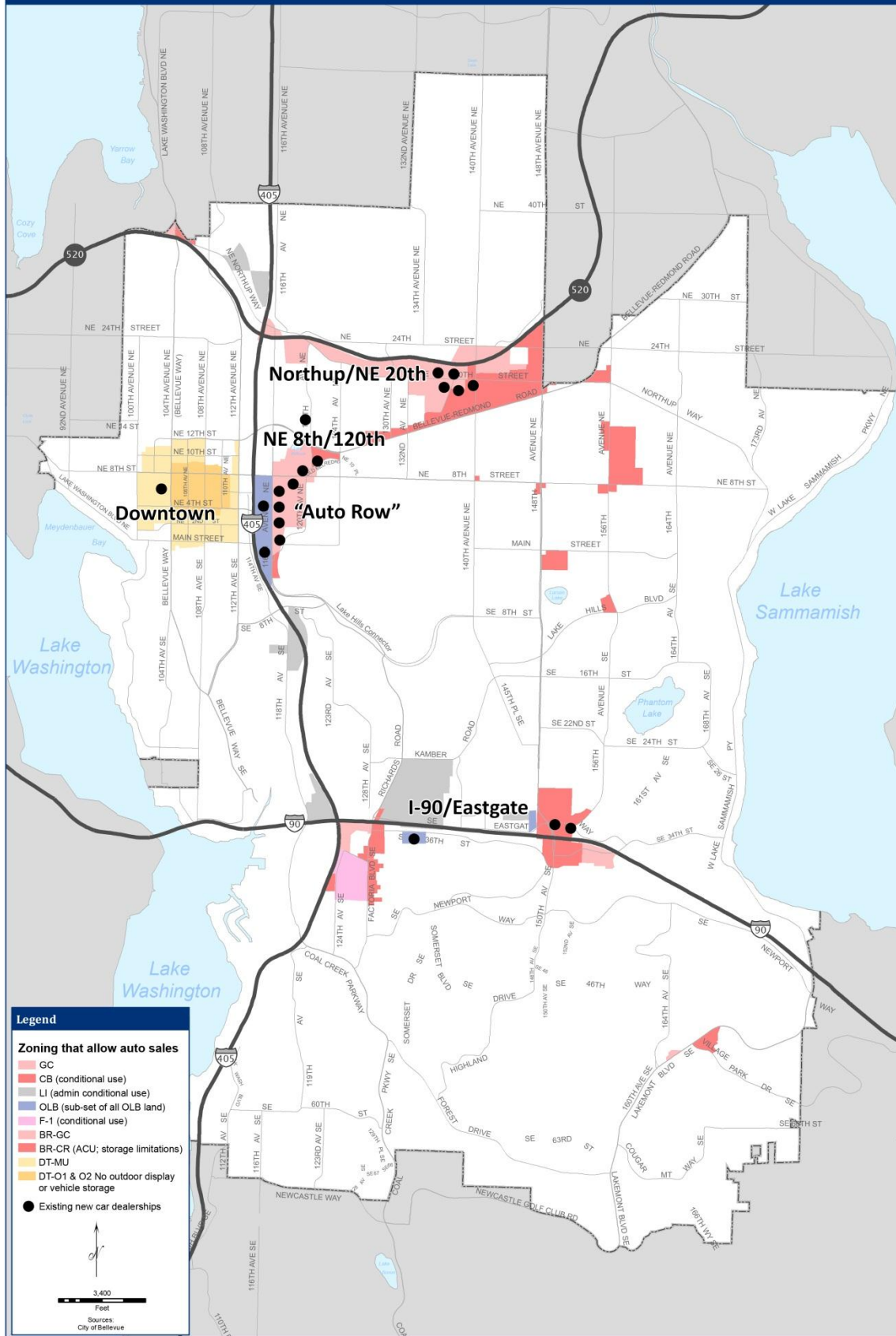
ATTACHMENTS:

1. Map of existing auto dealerships in Bellevue
2. Map of districts where auto retail is permitted
3. Map of displacement threats
4. Jones Lang LaSalle Report (separate cover)

Existing New Car Auto Dealerships



Districts Where Auto Retail Permitted



Displacement Threats

