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Tacoma works to recover from economic blows

TACOMA — Since Russell Investments left its gleaming Tacoma headquarters last fall, the ripple effects have rumbled through downtown: fewer lunch customers at nearby restaurants, fewer corporate events at the Washington State History Museum and fewer bookings at nationally recognized Hotel Murano.

The loss of downtown's biggest private employer — some 900 well-paid jobs — was bad enough for the city, but the hits have kept coming: A biometric technology company recently announced it will move its 120-employee engineering office to Federal Way. And Gov. Chris Gregoire has proposed a deficit-cutting package that could shutter the history museum.

Tacoma leaders say the city will bounce back, but others wonder if the developments threaten to undo a couple decades of economic progress for the state's third-largest city.

Janice Heistand, longtime office manager at the downtown Winthrop Apartments, said downtown was busy during the day 20 years ago, but "at night time it was like someone flipping a switch."

Now, "we've got nightlife going on, beautiful storefronts, but huge empty office buildings," she said. "They're just sitting there decaying on the inside."

Things are less glum in the nearby district anchored by UW Tacoma and several museums, which now seems like downtown's center of gravity.

"It's not a high-rise downtown. It's a sequence of urban villages," said Ryan Petty, Tacoma's director of economic development.



Tacoma is used to economic turmoil.

The city in the late 1880s was poised to be the state's dominant city as the western terminus of the Northern Pacific Railroad. But the Panic of 1893 pushed that railroad into receivership, while the Great Northern Railroad line connected the nation with Seattle. Then came word of gold in the Yukon.

"Seattle has been the predominant commercial center in the Pacific Northwest ever since," said David Nicandri, director of the Washington State History Museum.

Tacoma took a big hit eight decades later when Weyerhaeuser, the only Fortune 100 company based there, moved from downtown to Federal Way. Tacoma seemed to be sliding backward. But the city began revitalizing the area around its railroad station in the 1990s.

The state history museum opened there in 1996, then the Museum of Glass in 2002. The Tacoma Art Museum moved into the district in 2003.

During the dot-com boom, the city utility invested \$100 million laying 700 miles of fiber-optic cable and declared itself "America's #1 Wired City." It even bought billboard space in Seattle touting the network's benefits to businesses.

Arguably the most powerful engine behind the renaissance has been UW Tacoma, which has spent \$200 million on a 46-acre campus in the museum district, converting historic warehouses into campus buildings.

Some indicators show Tacoma's economy did well. Before the recession, retail taxable sales increased at a faster annual rate than in Seattle. The value of construction activity jumped 38 percent last year, with groundbreaking on a new vintage-automobile museum, renovation of Cheney Stadium and expansion of a wharf at the Port of Tacoma.

Pierce County also has logged more consistent growth over the past 30 years than economically volatile King County, said William Fruth, a Palm City, Fla., economic-development consultant who last year ranked the Seattle-Tacoma-Bellevue area as the strongest in the nation among 366 metro-area economies.

"Overall, there's nothing to be ashamed about" in Tacoma's performance, Fruth said.

What's next?

The departures of Russell and biometric company MorphoTrak are rekindling questions about the best direction for Tacoma's economy, including the role of blue-collar jobs.

Everyone has an opinion.

Under a 2008 plan, Tacoma has sought to attract global financial and insurance headquarters, law and accounting firms, software companies, import/export consultants and design firms.

While downtown certainly has some, Tacoma's economy remains dependent on heavy industry, such as the Port of Tacoma, food processors and distributors of goods, as well as Joint Base Lewis-McChord.

"Many Tacoma residents may not be well-positioned to compete for high-end technological and professional-services jobs," said Mark Pendras, a UW Tacoma assistant professor of urban studies who wants the city to embrace high-tech manufacturing.

About one-quarter of Tacoma's residents older than 25 have at least a bachelor's degree. In Seattle, more than half do. In Portland and Salt Lake City, about 40 percent.

UW Tacoma, which became a four-year university in 2006, will help close that gap. The branch is focused on increasing access to college degrees and fueling economic development downtown.

Those missions sometimes intersect: The Center for Urban Waters, a \$38 million water-testing and research laboratory, opened in July with federal research funding.

The center — one cornerstone of Tacoma's current strategy — will help municipalities improve stormwater treatment. The city and Port of Tacoma will serve as test beds for businesses developing such technologies, said Joel Baker, the center's director and a UW Tacoma faculty member.

With the nation's 11th-largest port, Tacoma also is well-positioned to attract "wealth generating" industries such as manufacturing, consultant Fruth said. The Port has a rare 21 acres on its waterfront targeted for redevelopment.

Meanwhile, city leaders are supporting another initiative: a grow-our-own strategy under a campaign, called "Shift Happens," that focuses on nurturing local small businesses rather than recruiting big ones.

"Tacoma is littered with the husks of large companies that once composed the foundation of our economy," according to the campaign, which cites the departures since the 1970s of corporate headquarters such as Weyerhaeuser and Russell as well as large employers such as Expedia and Nalley's.

"We are now focusing on small businesses and startups, doing what we can to help the businesses that are already here to grow and thrive," Tacoma Mayor Marilyn Strickland said at the campaign's kickoff in January.

Some commercial-office brokers and hotel owners say downtown ought to recruit a big corporate headquarters or a cluster of companies in the same industry.

"There's no question Tacoma is a depressed market," said David Butler, an investment broker with Grubb & Ellis in Seattle.

The Class A vacancy rate downtown hovers around 30 percent, according to commercial brokerage Colliers International. Before Russell Investments moved out, the rate was 7 percent.

Filling the former Russell space will be a "good first test" of downtown Tacoma's ability to attract more employers, said Pat Callahan, CEO of Urban Renaissance Group, which has real-estate projects in Seattle, Bellevue and Portland.

"Having available space is important if you're going to attract new people."

The city needs a corporate anchor with a global presence to bring in money, said Bashar Wali, president of Portland-based Provenance Hotels, owner of Hotel Murano.

"At the end of the day," he said, "the only thing that's going to move the needle is really replacing Russell, attracting someone of that caliber, people who would be patrons of the arts and the museums."

Competition fierce

Bringing conventions and events to the city can help the local economy, he said, but Tacoma has stiff competition.

"It's hard to compete with Vegas," Wali said. "Tacoma's as much fun as Sacramento, as much fun as Boise."

Downtown needs more guest rooms if the city is to bring in trade groups that now hold their events in cities such as Bellevue, say officials at the Greater Tacoma Convention and Trade Center.

To spur its economy, Tacoma over the past two years has reduced its local business-and-occupation tax to the lowest in the Puget Sound region; approved plans for a Residence Inn and 150-room Hilton on the Foss Waterway; and supported redevelopment of a McMenamins hotel, restaurants, brewery, movie theater and parking garage on the north side of downtown.

The Myers Group in September plans to open the first major downtown grocery in decades.

"Having a grocery store entering downtown Tacoma really helps legitimize it as a place where people can live without having to get in their car," said Tyler Myers, whose company also runs a Kress IGA supermarket in downtown Seattle.

Tacoma also expects to draw more tourists with two more museums. The Children's Museum of Tacoma plans to break ground in April on a building that essentially will double its space. A donation from KeyBank will allow it to offer free admission.

And the LeMay Museum, opening in spring 2012 next to the Tacoma Dome, touts itself as the world's largest privately owned vintage-automobile museum. The 165,000-square-foot, \$60 million building will have about 150 vehicles on display and 350 in storage, spokesman Scot Keller said.

The museum expects to attract about 425,000 visitors in its first year and will employ 95 people, Keller said.

Keith Flowers, owner of A Renaissance Cafe in the museum district, is optimistic the LeMay Museum will put fears about Russell's departure to rest. "This will be the biggest thing to ever happen to downtown," he said.

Others aren't so sure.

"I like Tacoma, and I spend a lot of time there," said Brandon Grisham, a Pierce County resident who sells affordable-housing projects. "There's a difference between liking it and investing millions of dollars there."

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