
RESIDENTIAL POTENTIAL
AND
NEEDS ANALYSIS

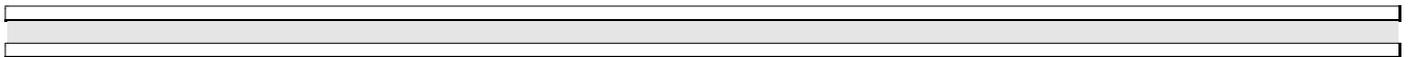
The University District

City of Spokane
Spokane County, Washington

August, 2009

Conducted by
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Research & Strategic Analysis

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Research & Strategic Analysis

RESIDENTIAL POTENTIAL AND NEEDS ANALYSIS

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INTRODUCTION

The purpose of this analysis is to determine the appropriate housing types, unit mix, configurations and sizes, and base rents and prices for new residential units to be constructed within the University District in the City of Spokane, Washington. The boundaries of the University District extend to Sharp Avenue to the north; Columbus Street, the Spokane River, and Hamilton Street to the east; Interstate 90 to the south; and Division Street north of Spokane Falls Boulevard and Browne Street south of Spokane Falls Boulevard to the west.

The University District encompasses the campus of Gonzaga University, north of the Spokane River; the Riverpoint Campus, south of the Spokane River and the location of the Spokane campuses of Washington State University and Eastern Washington University, as well as the administrative offices of the Community Colleges of Spokane and the headquarters of SIRTI, formerly known as the Spokane Intercollegiate Research and Technology Institute; and a predominantly commercial area between the Burlington-Northern/Santa Fe railroad tracks to the north and I-90 to the south, and Hamilton and Browne Streets to the east and west, respectively.

Although Gonzaga University is the largest single stakeholder north of the railroad tracks, most of the private, rather than institutional, development opportunities lie south of the tracks. The proposed pedestrian bridge will provide the physical connection between the northern and southern portions of the District. Federal funds have been allocated to the City of Spokane for a 12- to 18-month RFQ process commencing this autumn to determine the size, type, and location of the bridge. Establishment of the new TIF (or Lift) and development of the Gateway to Spokane will also be critical to the success of the southern portion of the District.

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Existing plans for the District include the University District Strategic Master Plan, undertaken in 2004 and the Downtown Master Plan Update, completed in 2008; an update to the Campus Master Plan will be completed for publication in 2009. All of these plans include housing as a key component of the University District Study Area.

The new units developed within the University District should accommodate a wide range of university affiliates—graduate student and family households, faculty and staff—as well as non-university-related households. The goal is to provide both market-rate and affordable housing within walkable, mixed-use neighborhoods.

For the purposes of this analysis, market-rate is defined as affordable to households with incomes above 80 percent for new rental units and 110 percent for new for-sale units of the Spokane Area Median Family Income (AMFI), which, in 2009, is \$60,200 for a family of four. Based on household size, the income limits to qualify for affordable rental housing would be \$33,700 for a one-person household; \$38,500 for a two-person household; \$43,350 for a three-person household; \$48,150 for a four-person household; and so on. The income limits to qualify for affordable for-sale housing would be \$46,300 for a one-person household; \$53,000 for a two-person household; \$59,600 for a three-person household; \$66,250 for a four-person household; and so on.

The current constrained market—characterized throughout most of the United States by weak or falling housing prices; significantly reduced housing values; high levels of unsold units, both builder inventory units as well as foreclosed and/or abandoned houses; and high levels of mortgage delinquencies by speculators and investors as well as homeowners—has resulted in very restrictive development financing and mortgage underwriting, taking a significant percentage of potential homebuyers out of the market and preventing numerous for-sale developments from going forward. These market constraints do not reduce the size of the potential market; however, depending on the timing of market entry, they could reduce the initial percentage of the potential market able to overcome those constraints.

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DRAW AREAS

The depth and breadth of the potential market for new market-rate and affordable rental and for-sale multi-family dwelling units to be constructed within the University District have been derived from the housing preferences and financial capacities of the draw area households, identified through Zimmerman/Volk Associates' proprietary target market methodology, in addition to analysis of the graduate student, faculty, and staff populations of the three universities located within the University District.

Based on Zimmerman/Volk Associates' field investigation, interviews with key stakeholders in the University District, analysis of migration and mobility data, including data provided by the universities to the City of Spokane concerning the current commute starting locations of their students, the draw areas for new residential construction within the District have been delineated. Based on the migration data—as derived from the most recent taxpayer records compiled by the Internal Revenue Service—the principle draw areas for the University District are defined as households currently living within the City of Spokane and the balance of Spokane County (the local draw area), the Seattle draw area (King, Snohomish, and Pierce Counties), and the regional draw area (Kootenai County, Idaho, and Stevens and Whitman Counties, Washington). This analysis also factors in those households moving from all other counties represented in Spokane County migration.

The commute starting locations of the overwhelming majority of students attending the three universities are located within the City of Spokane, with the preponderance of the remainder located within the balance of Spokane County, and a very small number located outside the county in Kootenai County, Idaho or adjoining counties in Washington State. (*See Maps 1 through 3.*)

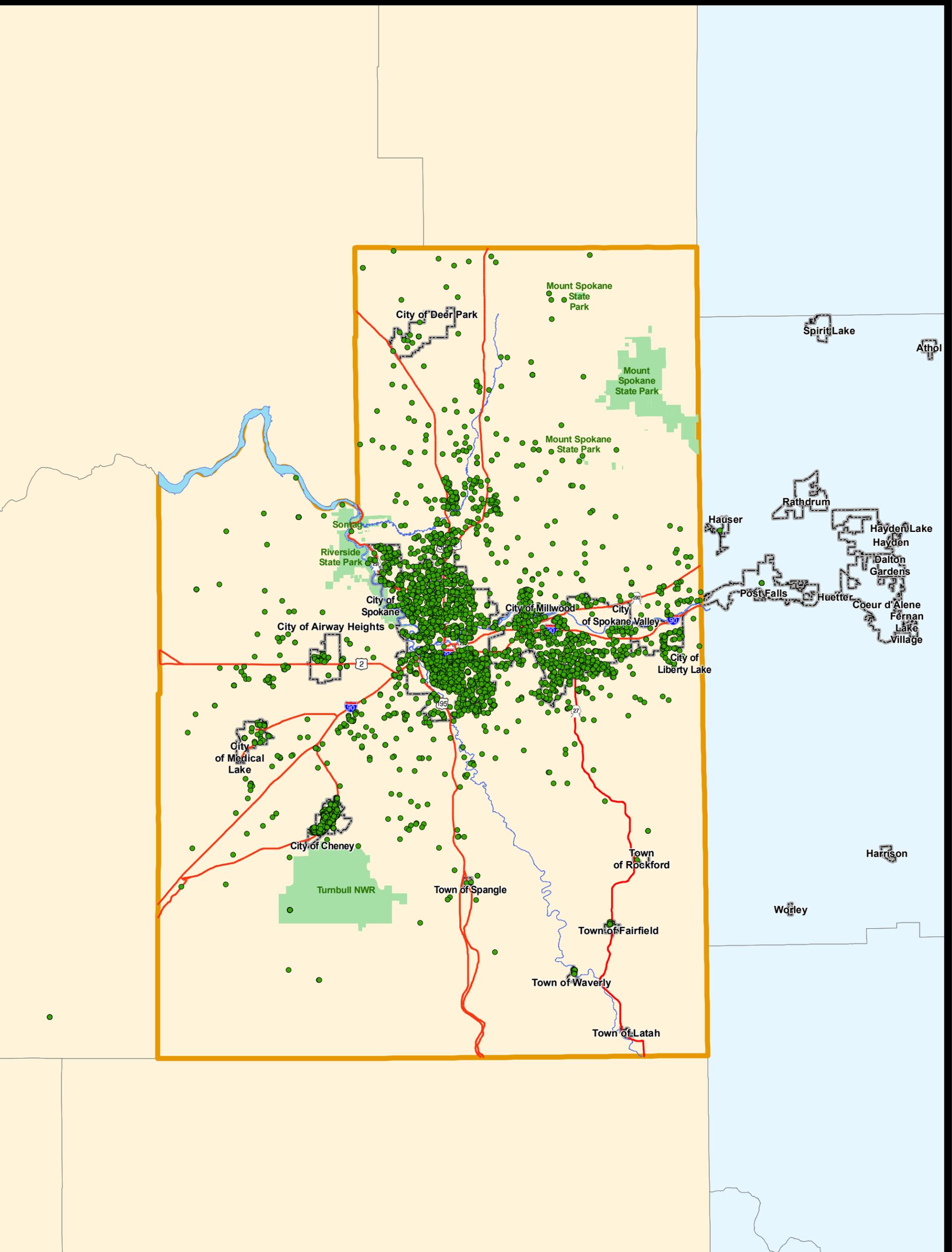
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Although the location data for university affiliates beyond the commuting locations of students are not particularly robust, those studies that are available correlate very strongly with the findings of the migration and mobility analysis, as does anecdotal information derived from interviews with university officials and other knowledgeable sources. The distribution of the draw areas as a percentage of the potential market for the University District is therefore determined as follows (*see also* Map 4):

Market Potential By Draw Area
UNIVERSITY DISTRICT
City of Spokane, Spokane County, Washington

City of Spokane (Local Draw Area):	48 percent
Balance of Spokane County (Local Draw Area):	25 percent
Seattle Draw Area:	3 percent
Regional Draw Area:	1 percent
Balance of US (National Draw Area):	<u>23</u> percent
Total:	100 percent

SOURCE: Zimmerman/Volk Associates, Inc., 2009.



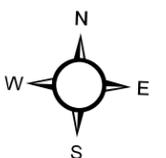
EWU Riverpoint & Cheney Campus Commute Starting Locations

DATE: July, 2009

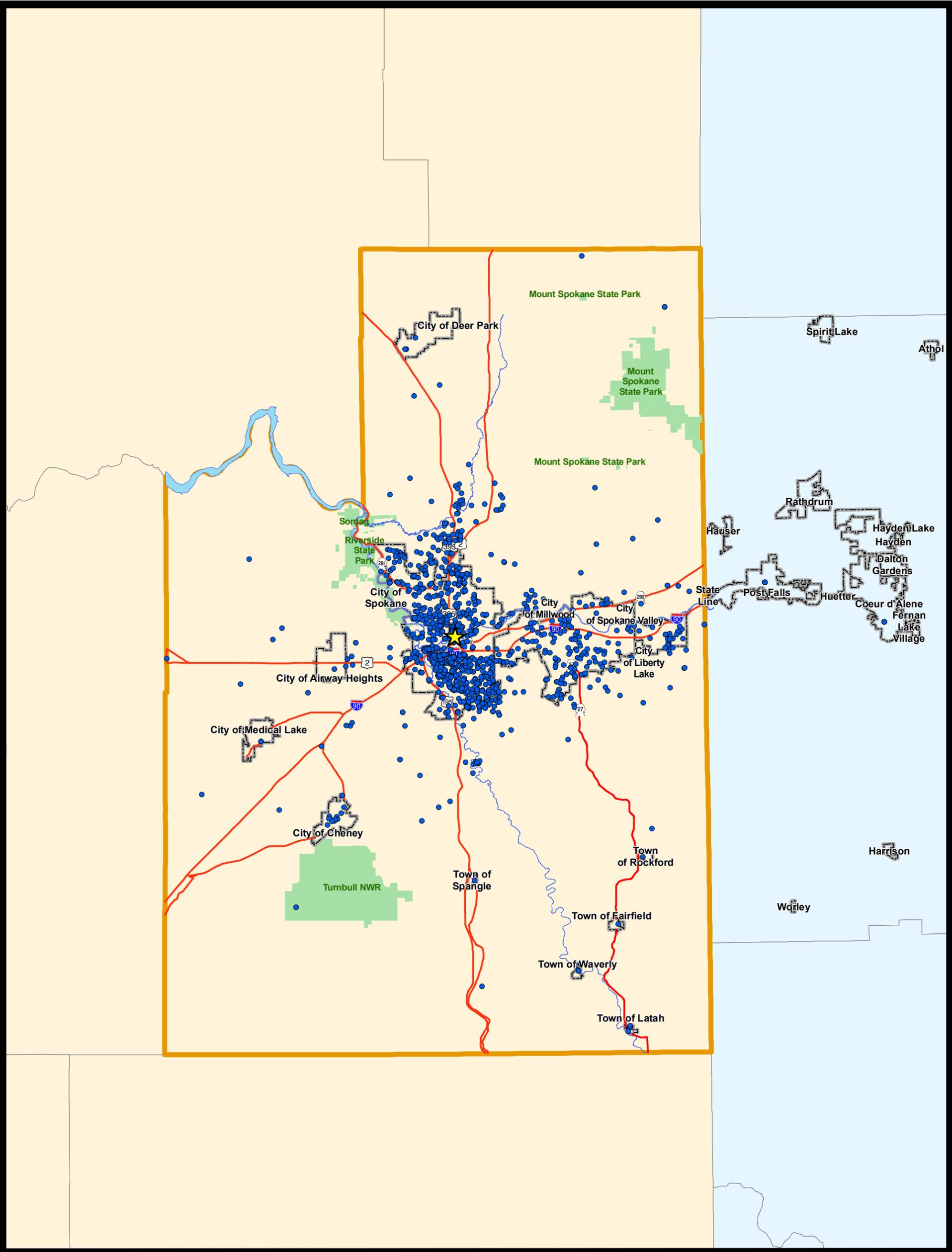
USER: Planning Services

Legend

- EWU Student Commute Starting Points
- Highway
- Municipal Boundary
- Spokane County Line
- Stream or River
- Idaho
- Washington
- Washington State Park



*THIS IS NOT A LEGAL DOCUMENT:
The information shown on this map is compiled from various sources and is subject to constant revision. Information shown on this map should not be used to determine the location of facilities in relationship to property lines, section lines, streets, etc.*

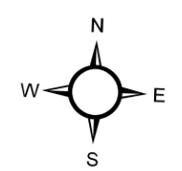


Gonzaga University Campus Commute Starting Locations

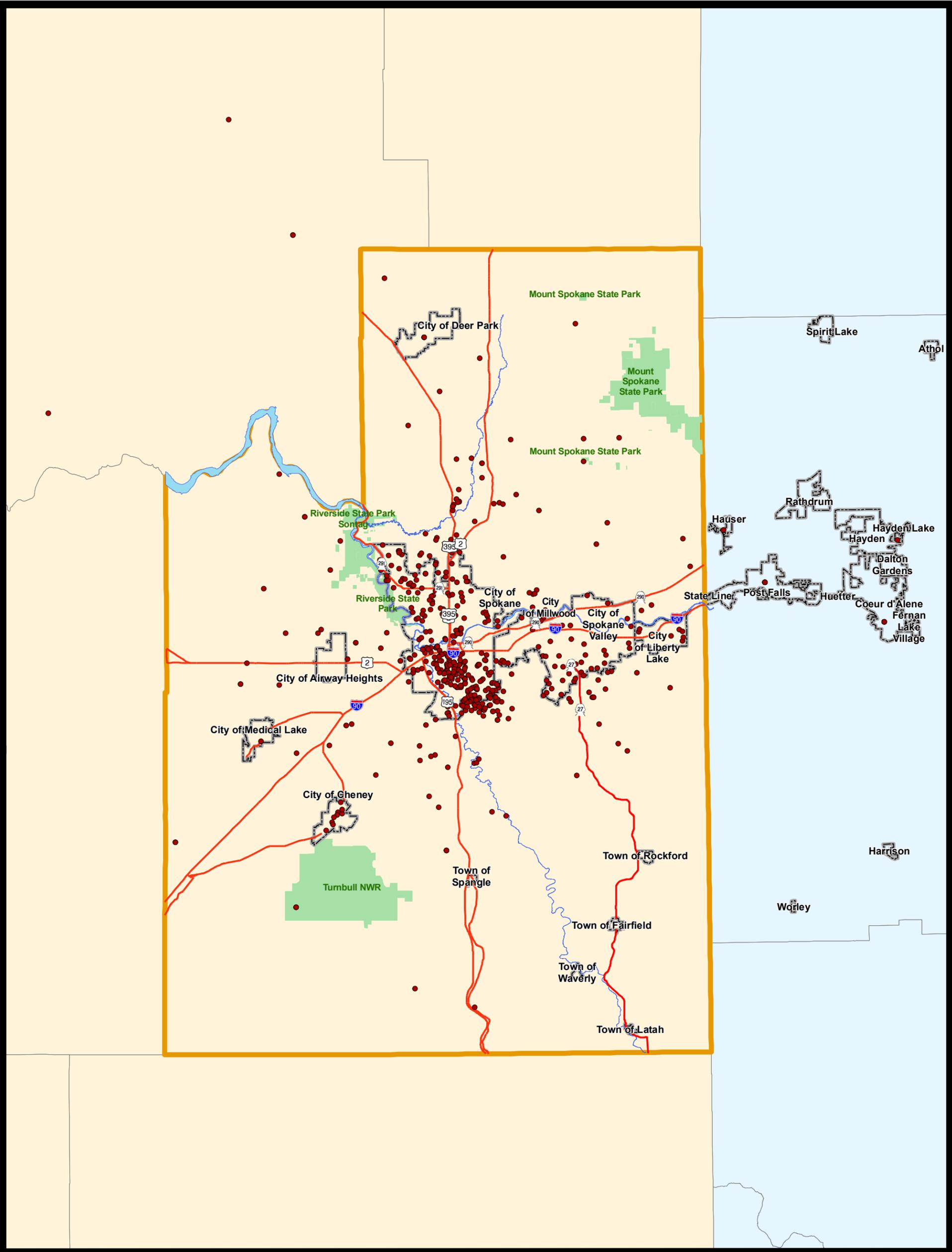
DATE: July, 2009
USER: Planning Services

Legend

-  GU Students Located on Campus (4029)
-  GU Student Starting Points
-  Highway
-  Municipal Boundary
-  Spokane County Line
-  Stream or River
-  Idaho
-  Washington
-  Washington State Park



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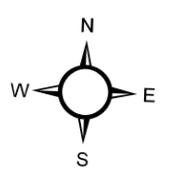


WSU Riverpoint Campus Commute Starting Locations

DATE: May, 2009
USER: Planning Services

Legend

- WSU Student Commute Starting Points
- Highway
- Municipal Boundary
- Spokane County Line
- Stream or River
- Idaho
- Washington
- Washington State Park



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The Primary Draw Areas



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POTENTIAL HOUSING MARKET

—UNIVERSITY DISTRICT ASSUMPTIONS—

Available information on university affiliates (undergraduate and graduate students, faculty, and non-faculty employees) associated with the three universities located in the University District is as follows:

Base Assumptions		
UNIVERSITY DISTRICT		
<i>City of Spokane, Spokane County, Washington</i>		
UNIVERSITY	AFFILIATE GROUP	NUMBER
Gonzaga University		<u>8,425</u>
	Undergraduate Students	4,500
	Graduate Students Masters' Programs	2,100
	Doctoral Program	100
	Law School	550
	Faculty	475
	Non-Faculty Employees	700
Washington State University		<u>2,160</u>
	Undergraduate Students	450
	Graduate Students/Professional Studies	1,285
	Faculty	225
	Non-Faculty Employees	200
Eastern Washington University		<u>2,450</u>
	Enrolled Students	2,450

SOURCE: Spokane University District; Downtown Spokane;
 Zimmerman/Volk Associates, Inc., 2009.

Gonzaga University is the only university of the three located within the District to provide on-campus housing, and requires nearly all freshmen and most sophomores to live on campus. As of 2009, on-campus housing is provided for more than 2,900 students, with recently completed additional residential facilities. On-campus housing is in short supply for graduate students, both single and married. No on-campus housing is provided by Washington State University or Eastern Washington University, although, as noted above, the majority of students live within the City of Spokane or the county.

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The optimum mix of new residential units within the University District—based on the housing preferences of the potential housing market, including students, faculty and staff—has therefore been determined using Zimmerman/Volk Associates’ target market methodology, in the context of housing affordability issues in the Spokane market area and the challenges facing faculty, staff and students alike in finding suitable and affordable housing.

The target market methodology accounts for the mobility patterns of all households (including university affiliates, as well as non-university households) currently living within the City of Spokane and the balance of Spokane County, as well as the migration and mobility patterns of households currently living in all other cities and counties. As determined by the methodology, then, in the year 2009, nearly 2,300 households currently living in the draw areas comprise the potential market for new residential construction within the University District. (*See METHODOLOGY at the end of this document.*)

Detailed analysis of the housing and lifestyle preferences and financial capabilities of those households shows that approximately 1,740 of those 2,300 households represent the pool of potential renters and buyers of new higher-density housing units (multi-family rental and for-sale, and single-family attached for-sale units) within the University District. Based on the target market characteristics of these 1,740 households, the distribution of higher-density housing types would be as shown on the following page (*see also* Table 1):

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City of Spokane, Spokane County, Washington
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Target Residential Mix—Higher-Density Housing Units
UNIVERSITY DISTRICT
City of Spokane, Spokane County, Washington

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT
Multi-Family Rental Units	1,090	62.7%
Below Market-Rate*	320	18.4%
Market-Rate*	770	44.3%
Multi-Family Ownership Units	390	22.4%
Below Market-Rate*	80	4.6%
Market-Rate*	310	17.8%
Single-Family Attached Ownership Units	260	14.9%
Below-Market-Rate*	60	3.4%
Market-Rate*	<u>200</u>	<u>11.5%</u>
Total:	1,740	100.0%

- Market rate is defined as affordable to households with incomes above 80 percent (for rental) and 110 percent (for for-sale) of the Area Median Family Income (AMFI) of \$60,200 for a family of four.

SOURCE: Zimmerman/Volk Associates, Inc., 2009.

Table 1

Potential Market For New Housing Units
 Distribution Of Draw Area Households With The Potential
 To Move To The University District In 2009
 Based On Housing Preferences And Income Levels
City of Spokane, Spokane County, Washington

*City of Spokane; Balance of Spokane County; King, Snohomish, and Pierce Counties, Washington;
 Kootenai County, Idaho; Stevens and Whitman Counties, Washington; All Other U.S. Counties
 Draw Areas*

Total Target Market Households
 With Potential To Rent/Purchase Within The
 City of Spokane, Spokane County, Washington 16,460

Total Target Market Households
 With Potential To Rent/Purchase Within
 The University District 1,740

Target Residential Mix

	<i>..... Multi-Family</i>				<i>..... Single-Family</i>		
	<i>..... For-Rent</i>		<i>..... For-Sale</i>				
	<i>Below</i>		<i>Below</i>		<i>Below</i>		
	<i>Market-Rate†</i>	<i>Market-Rate†</i>	<i>Market-Rate†</i>	<i>Market-Rate†</i>	<i>Market-Rate†</i>	<i>Market-Rate†</i>	
	<i>Apts.</i>	<i>Apts.</i>	<i>Apts.</i>	<i>Apts.</i>	<i>Attached</i>	<i>Attached</i>	<i>Total</i>
Total Households:	320	770	80	310	60	200	1,740
{Percent}:	18.4%	44.3%	4.6%	17.8%	3.4%	11.5%	100.0%

† Market rate is defined as affordable to households with incomes above 80 percent (for rental) and 110 percent (for for-sale) of the Spokane MSA AMFI (Area Median Family Income), which is \$60,200 for a family of four as of March, 2009.

NOTE: Reference Appendix One, Tables 1 through 13.

SOURCE: Claritas, Inc.;
 Zimmerman/Volk Associates, Inc.

TARGET MARKETS

The significant transformation of American households (particularly shrinking household size and the predominance of one- and two-person households) over the past several years, combined with steadily increasing traffic congestion and rising gasoline prices, has resulted in significant changes in neighborhood and housing preferences, with major shifts from predominantly single-family detached houses in lower-density suburbs to higher-density apartments, townhouses, and detached houses in urban and mixed-use neighborhoods. This fundamental transformation of American households is likely to continue for at least the next decade, representing an unprecedented demographic foundation on which cities can re-build their downtowns and in-town neighborhoods.

This transformation has been spurred by the convergence of the two largest generations in the history of America: the 78 million Baby Boomers born between 1946 and 1964, and the 76 million Millennials, who were born from 1977 to 1996.

Boomer households have been moving from the full-nest to the empty-nest life stage at an accelerating pace that will peak sometime in the next decade and continue beyond 2020. Since the first Boomer turned 50 in 1996, significant numbers of empty-nesters have been choosing to move to new condominiums, apartments, or townhouses in downtown or in-town neighborhoods after their children have left home.

At the same time, the Millennials—the children of the Baby Boom—are forming their own households. The Millennials are the first generation to have been largely raised in the suburbs; in far greater numbers than predecessor generations, Millennials are choosing to live in urban neighborhoods. They are not just moving to New York, Chicago, San Francisco and the other large American cities; often priced out of these larger cities, Millennials are discovering second, third and fourth tier urban centers.

The convergence of two generations of this size—simultaneously reaching a point when urban housing matches their life stage—is unprecedented. This year, there are nearly 43 million

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Americans between the ages of 20 and 29, forecast to grow to over 44 million by 2015. In that same year, the population aged 50 to 59 will have also reached 44 million, from 41 million today

Based on the target market analysis, which includes university affiliates, the potential market for new rental and for-sale multi-family and for-sale single-family attached housing units to be constructed within the University District consists of predominantly one- and two-person households—mostly younger singles and couples—as well as a small number of family households. The target markets for the District, grouped according to lifestage and housing preferences, are shown as follows (*see also* Tables 2 through 5):

Target Residential Mix by Household and Unit Types
UNIVERSITY DISTRICT
City of Spokane, Spokane County, Washington

HOUSEHOLD TYPE	PERCENT OF TOTAL	... RENTAL FOR-SALE			
		BMR* APTS	MARKET† APTS	BMR* APTS	MARKET† APTS	BMR* SF ATT	MARKET† SF ATT
Empty-Nesters & Retirees	17%	19%	13%	25%	16%	33%	20%
Traditional & Non-Traditional Families	13%	19%	10%	13%	10%	17%	20%
Younger Singles & Couples	<u>70%</u>	<u>62%</u>	<u>77%</u>	<u>62%</u>	<u>74%</u>	<u>50%</u>	<u>60%</u>
Total	100%	100%	100%	100%	100%	100%	100%

* BMR: Below Market-Rate.

† Market rate is defined as affordable to households with incomes above 80 percent (for rental) and 110 percent (for for-sale) of the Area Median Family Income (AMFI) of \$60,200 for a family of four.

SOURCE: Zimmerman/Volk Associates, Inc., 2009.

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At 70 percent, younger singles and couples represent the largest market for new housing units located within the University District. The target groups in this segment typically choose to live in neighborhoods that contain a diverse mix of people, housing types, and uses. For the most part, younger households tend to be “risk-tolerant,” and will move into areas or neighborhoods that would not be considered acceptable for most families or older couples.

The majority of the graduate and undergraduate student market is found within several of the target groups in this segment: *New Bohemians*, *Twentysomethings*, *Suburban Achievers* and *Small-City Singles*. Of the remaining target households, nearly a quarter are career-oriented, middle-management singles and couples working in business, technology and medicine: *The Entrepreneurs*, *e-Types*, *The VIPs*, *Fast-Track Professionals*, *Upscale Suburban Couples* and *No-Nest Suburbanites*. The housing propensities of these younger households are biased towards higher-density units—partly because of cost, but also for lifestyle reasons. For the most part, younger singles and couples are renters; those who are not students rent because they have not yet accumulated sufficient down payments, do not have high enough incomes, or have poor credit records, particularly given the more stringent credit requirements in today’s mortgage market.

Depending on housing type, younger singles and couples represent between 50 and 77 percent of the market for new housing units located within the University District. Just under half would be moving from one unit to another within Spokane, nearly a quarter would be moving to the District from elsewhere in Spokane County, another five percent would be moving from the Seattle area; and the remaining 22 percent would be moving from elsewhere in Washington State and the U.S.

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The next largest market segment, representing just 17 percent of all target households, is comprised of older, mostly empty-nest and retired singles and couples. *Affluent Empty Nesters* and *Middle-Class Move-Downs*, empty-nest couples at the upper end of the socio-economic scale, comprise approximately 15 percent of the older households that are a market for the University District; two of the other older groups are retirees—*Mainstream Retirees* and *Middle-American Retirees*—with similar socio-economic profiles. Most of these households would be moving for the most part because of lifestyle changes, from full nest to empty nest, rather than due to necessity.

More than 35 percent of the empty nesters and retirees in this market segment cannot afford market-rate rental or ownership units, from residents in low-income housing—*Second-City Seniors*—to older single persons struggling on limited incomes, mostly from social security—*Suburban Retirees*, *Suburban Singles*, *Hometown Retirees* and *Blue-Collar Retirees*, nearly all of whom are already living in Spokane, many in substandard housing.

More than half of the target market empty nesters and retirees are currently living in Spokane, 27 percent would be moving from elsewhere in Spokane County, and the remaining 21 percent from the Seattle area or from elsewhere in Washington State or the U.S.

Family-oriented households (traditional and non-traditional families) make up the smallest market (just 13 percent) for new units within the University District. An increasing percentage of family-oriented households are non-traditional families, notably single parents with one or two children. In the 1980s, when the majority of the Baby Boomers were in the full-nest lifestage, the “traditional family household” (married couple with one or more children) comprised more than 45 percent of all American households. That market segment has now shrunk to less than 25 percent of all American households, and the subset of the one wage-earner traditional family has fallen to less than 15 percent of all American households. This significant transformation reflects the increasing diversity of households with children, as well as the aging of the Baby Boomers into the empty-nest lifestage.

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The largest family market groups for the University District are *Full-Nest Suburbanites*, *Blue-Collar Button-Downs* and *Multi-Cultural Families*: a rapidly growing percentage of these households are non-traditional families— a single parent with one or more children, an adult taking care of younger siblings, a grandparent responsible for grandchildren, to an unrelated couple of the same sex with children.

Depending on housing type, the family market segment represents between 10 and 20 percent of the market for new housing units located within the District. More than 43 percent would be moving from one unit to another within the city, 28 percent would be moving from elsewhere in Spokane County; and the remaining 28 percent would be moving from elsewhere in Washington State or the U.S.

Table 2

Target Residential Mix By Household Type
 Distribution Of Draw Area Households With The Potential
 To Move To The University District In 2009
 Based On Housing Preferences And Income Levels
City of Spokane, Spokane County, Washington

 Multi-Family Single-Family		
 For-Rent For-Sale				
	<i>Below</i>		<i>Below</i>		<i>Below</i>		
	<i>Market-Rate*</i>	<i>Market-Rate*</i>	<i>Market-Rate*</i>	<i>Market-Rate*</i>	<i>Market-Rate*</i>	<i>Market-Rate*</i>	
	<i>Total</i>	<i>Apts.</i>	<i>Apts.</i>	<i>Apts.</i>	<i>Attached</i>	<i>Attached</i>	
Number of Households:	1,740	320	770	80	310	60	200
Empty Nesters & Retirees	17%	19%	13%	25%	16%	33%	20%
Traditional & Non-Traditional Families	13%	19%	10%	13%	10%	17%	20%
Younger Singles & Couples	70%	62%	77%	62%	74%	50%	60%
	100%	100%	100%	100%	100%	100%	100%

* Market rate is defined as affordable to households with incomes above 80 percent (for rental) and 110 percent (for for-sale) of the Spokane MSA AMFI (Area Median Family Income), which is \$60,200 for a family of four as of March, 2009.

NOTE: Reference Appendix One, Tables 1 through 13.

SOURCE: Claritas, Inc.;
 Zimmerman/Volk Associates, Inc.

Potential Market For New Multi-Family For Rent
The University District
City of Spokane, Spokane County, Washington

Empty Nesters & Retirees	<i>Below Market-Rate† Apts.</i>	<i>Market-Rate† Apts.</i>	<i>Total</i>	<i>Percent of Total</i>
Mainstream Retirees	0	10	10	0.9%
Middle-Class Move-Downs	0	20	20	1.9%
Middle-American Retirees	0	10	10	0.9%
Blue-Collar Retirees	0	10	10	0.9%
Suburban Retirees	0	10	10	0.9%
Suburban Seniors	20	20	40	3.7%
Second City Seniors	40	20	60	5.6%
Subtotal:	60	90	150	13.9%
Traditional & Non-Traditional Families				
Full-Nest Suburbanites	0	10	10	0.9%
Multi-Ethnic Families	0	20	20	1.9%
Blue-Collar Button-Downs	0	30	30	2.8%
Working-Class Families	10	0	10	0.9%
Inner-City Families	10	0	10	0.9%
In-Town Families	30	20	50	4.6%
Single-Parent Families	10	0	10	0.9%
Subtotal:	60	80	140	13.0%

† Market rate is defined as affordable to households with incomes above 80 percent (for rental) and 110 percent (for for-sale) of the Spokane MSA AMFI (Area Median Family Income), which is \$60,200 for a family of four as of March, 2009.

SOURCE: Claritas, Inc.;
 Zimmerman/Volk Associates, Inc.

Potential Market For New Multi-Family For Rent
The University District

City of Spokane, Spokane County, Washington

Younger Singles & Couples	<i>Below Market-Rate† Apts.</i>	<i>Market-Rate† Apts.</i>	<i>Total</i>	<i>Percent of Total</i>
The Entrepreneurs	0	10	10	0.9%
e-Types	0	10	10	0.9%
The VIPs	0	20	20	1.9%
Fast-Track Professionals	0	10	10	0.9%
Upscale Suburban Couples	0	20	20	1.9%
New Bohemians	0	20	20	1.9%
Twentysomethings	0	80	80	7.4%
No-Nest Suburbanites	0	50	50	4.6%
Urban Achievers	0	30	30	2.8%
Suburban Achievers	0	60	60	5.6%
Small-City Singles	0	150	150	13.9%
Working-Class Singles	100	80	180	16.7%
Blue-Collar Singles	30	20	50	4.6%
Soul City Singles	70	30	100	9.3%
Subtotal:	200	590	790	72.2%
Total Households:	320	760	1,080	99.1%
Percent of Total:	29.6%	70.4%	100.0%	

† Market rate is defined as affordable to households with incomes above 80 percent (for rental) and 110 percent (for for-sale) of the Spokane MSA AMFI (Area Median Family Income), which is \$60,200 for a family of four as of March, 2009.

SOURCE: Claritas, Inc.;
 Zimmerman/Volk Associates, Inc.

Table 4

Potential Market For New Multi-Family For Sale
The University District

City of Spokane, Spokane County, Washington

	<i>Below Market-Rate† Apts.</i>	<i>Market-Rate† Apts.</i>	<i>Total</i>	<i>Percent</i>
Empty Nesters & Retirees				
Affluent Empty Nesters	0	10	10	2.6%
Mainstream Retirees	0	10	10	2.6%
Middle-Class Move-Downs	0	10	10	2.6%
Middle-American Retirees	0	20	20	5.1%
Suburban Seniors	10	0	10	2.6%
Second City Seniors	10	0	10	2.6%
Subtotal:	20	50	70	17.9%
Traditional & Non-Traditional Families				
Full-Nest Suburbanites	0	10	10	2.6%
Multi-Ethnic Families	0	10	10	2.6%
Blue-Collar Button-Downs	0	10	10	2.6%
In-Town Families	10	0	10	2.6%
Subtotal:	10	30	40	10.3%
Younger Singles & Couples				
e-Types	0	10	10	2.6%
The VIPs	0	10	10	2.6%
Fast-Track Professionals	0	10	10	2.6%
Upscale Suburban Couples	0	20	20	5.1%
New Bohemians	0	10	10	2.6%
Twentysomethings	0	30	30	7.7%
Urban Achievers	0	10	10	2.6%
Suburban Achievers	0	90	90	23.1%
Small-City Singles	0	40	40	10.3%
Working-Class Singles	30	0	30	7.7%
Blue-Collar Singles	10	0	10	2.6%
Soul City Singles	10	0	10	2.6%
Subtotal:	50	230	280	71.8%
Total Households:	80	310	390	100.0%
Percent of Total:	20.5%	79.5%	100.0%	

† Market rate is defined as affordable to households with incomes above 80 percent (for rental) and 110 percent (for for-sale) of the Spokane MSA AMFI (Area Median Family Income), which is \$60,200 for a family of four as of March, 2009.

SOURCE: Claritas, Inc.;
 Zimmerman/Volk Associates, Inc.

Table 5

Potential Market For New Single-Family Attached For Sale
The University District

City of Spokane, Spokane County, Washington

Empty Nesters & Retirees	<i>Below Market-Rate† Apts.</i>	<i>Market-Rate† Apts.</i>	<i>Total</i>	<i>Percent</i>
Affluent Empty Nesters	0	10	10	3.8%
Mainstream Retirees	0	10	10	3.8%
Middle-Class Move-Downs	0	10	10	3.8%
Middle-American Retirees	0	10	10	3.8%
Suburban Seniors	10	0	10	3.8%
Hometown Retirees	10	0	10	3.8%
Subtotal:	20	40	60	23.1%
Traditional & Non-Traditional Families				
Full-Nest Suburbanites	0	10	10	3.8%
Multi-Ethnic Families	0	10	10	3.8%
Blue-Collar Button-Downs	0	10	10	3.8%
Multi-Cultural Families	0	10	10	3.8%
Working-Class Families	10	0	10	3.8%
Subtotal:	10	40	50	19.2%
Younger Singles & Couples				
The VIPs	0	10	10	3.8%
Fast-Track Professionals	0	10	10	3.8%
Upscale Suburban Couples	0	10	10	3.8%
Twentysomethings	0	20	20	7.7%
Suburban Achievers	0	40	40	15.4%
Small-City Singles	0	30	30	11.5%
Working-Class Singles	10	0	10	3.8%
Blue-Collar Singles	10	0	10	3.8%
Soul City Singles	10	0	10	3.8%
Subtotal:	30	120	150	57.7%
Total Households:	60	200	260	100.0%
Percent of Total:	23.1%	76.9%	100.0%	

† Market rate is defined as affordable to households with incomes above 80 percent (for rental) and 110 percent (for for-sale) of the Spokane MSA AMFI (Area Median Family Income), which is \$60,200 for a family of four as of March, 2009.

SOURCE: Claritas, Inc.;
 Zimmerman/Volk Associates, Inc.

THE SUPPLY-SIDE CONTEXT

—MULTI-FAMILY RENTAL—

Downtown Spokane is the location of a variety of rental properties—predominantly older construction including adaptive re-use of existing buildings. (See Table 6.) Unit configurations range from small studios (or efficiencies) to three-bedroom apartments. Of the Downtown properties included in the survey, rents for studio apartments generally start at just under \$300 to as much as \$525 a month for units of approximately 200 to 500 square feet (with rents per square foot generally ranging between \$0.83 to \$1.48). One-bedroom apartments generally start at around \$400 per month and go up to nearly \$1,000 a month, for approximately 250 to more than 900 square feet of living space (generally \$0.65 to \$1.90 per square foot, although most fall in the \$1.00 per-square-foot range).

Rents for two-bedroom apartments typically start at around \$575 per month and can exceed \$1,500 a month (an upper-floor unit at Riverfalls Tower Apartments), for units ranging in size from 700 to approximately 1,200 square feet (generally, \$0.58 to \$1.30 per square foot). Three-bedroom units, which are not generally available, start at \$925 per month (for 1,400 square feet, or \$0.66 per square foot at San Marco) and reach \$2,850 per month for a 2,280-square-foot penthouse at Riverfalls Tower Apartments (\$1.16 per square foot).

The newest rental development in the core Downtown is the 50-unit Cornerstone Courtyard on South Adams Street. The property has income restrictions because it was financed with Low Income Housing Tax Credits; leases for 550-square-foot one-bedroom/one-bath units are \$392 per month (\$0.71 per square foot), 713-square-foot two-bedroom/one-bath units are \$469 per month (\$0.66 per square foot), and 1,035-square-foot three-bedroom/two-bath units are \$540 per month (\$0.52 per square foot).

Kensington Court on Pine Street is one of the few rental properties located in the South University District. The property, which is on the National Historic Register, was renovated in 2001, and the units are restricted to households with incomes below 80 percent of the Spokane

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AMI. At the time of the field investigation, seven of the 33 units were available; rents range from \$470 per month for a studio to \$650 per month for a two-bedroom apartment.

Bel Franklin is located on the western edge of the University District at 225 North Division Street. The property was being renovated at the time of the field investigation, but will contain 36 studios and one-bedroom apartments, restricted to households with incomes no greater than 30, 40 and 60 percent of the Spokane AMI. The 250-square-foot studio leases for \$280 per month and the 350-square-foot one-bedroom rents for \$635 per month (\$1.12 to \$1.81 per square foot).

Although most of these properties are at or above functional full occupancy (95 percent occupancy), two of the projects have occupancies at or around 92 percent, and a third is having some difficulties with lease-up.

Summary Of Selected Rental Properties
Downtown Spokane and Vicinity, City of Spokane, Spokane County, Washington
May, 2009

<u>Property Address</u>	<u>Number of Units</u>	<u>Unit Type</u>	<u>Base Rent</u>	<u>Unit Sizes</u>	<u>Rents per Sq. Ft.</u>	<u>Occupancy/ Other Information</u>
<i>..... Downtown and Vicinity</i>						
Bel Franklin (Renovated 2009) 225 N. Division Spokane Housing Ventures	36	Studio 1br/1ba	\$280 \$635	250 350	\$1.12 \$1.81	In lease-up Income restrictions.
Grand Coulee 106 S. Cedar Wells & Company	49	Studio 1br/1ba	\$295 to \$395 \$475	200 to 300 250 to 300	\$1.32 to \$1.48 \$1.58 to \$1.90	94% Retail on ground floor.
The Metropolitan 908 W. 1st Avenue	31	Studio 1br/1ba 2br/1ba	\$325 to \$375 \$415 to \$475 \$575	350 to 450 575 to 650 750	\$0.83 to \$0.93 \$0.72 to \$0.73 \$0.77	97%
Buena Vista 11 South Cedar Wells & Company	40	Studio 1br/1ba 2br/1ba	\$325 to \$395 \$435 to \$495 \$585 to \$675	292 to 340 450 to 550 700 to 800	\$1.11 to \$1.16 \$0.90 to \$0.97 \$0.84 to \$0.84	98%
Cornerstone Courtyard 151 S. Adams	50	1br/1ba 2br/1ba 3br/2ba	\$392 \$469 \$540	550 713 1,035	\$0.71 \$0.66 \$0.52	96% Computer center, courtyard, fitness center. Income restrictions.

Summary Of Selected Rental Properties
Downtown Spokane and Vicinity, City of Spokane, Spokane County, Washington
May, 2009

<u>Property Address</u>	<u>Number of Units</u>	<u>Unit Type</u>	<u>Base Rent</u>	<u>Unit Sizes</u>	<u>Rents per Sq. Ft.</u>	<u>Occupancy/ Other Information</u>
<i>..... Downtown and Vicinity {continued}</i>						
Edwidge 1227 W. Riverside Wells & Company	15	Studio	\$425 to \$525	500	\$0.85 to \$1.05	100%
		1br/1ba	\$550 to \$625	600	\$0.92 to \$1.04	
		2br/1ba	\$575 to \$650	1,000	\$0.58 to \$0.65	
The Myrtle 1214 W. Sprague Wells & Company	20	1br/1ba	\$450 to \$495	480	\$0.94 to \$1.03	95%
		2br/1ba	\$595 to \$675	800	\$0.74 to \$0.84	
Kensington Court (Renovated 2001) 156 South Pine Spokane Housing Ventures	33	Studio	\$470			7 available Income restrictions.
		1br/1ba	\$590			
		2br/1ba	\$650			
San Marco 1231 W. Sprague & 1229 W. Riverside Wells & Company	40	1br/1ba	\$495	450 to 470	\$1.05 to \$1.10	90%
		1br/1ba - w/ Dining	\$675 to \$735	792 to 900	\$0.82 to \$0.85	
		2br/2ba - w/ Dining	\$695 to \$845	1,100 to 1,200	\$0.63 to \$0.70	
		3br/2ba - w/ Dining	\$925	1,400	\$0.66	
The Metropole (2007) 178 1/2 S. Howard ConoverBond	14	Studio	\$500 to \$525			71% Retail on ground floor.
		1br/1ba	\$550 to \$650			

Summary Of Selected Rental Properties
Downtown Spokane and Vicinity, City of Spokane, Spokane County, Washington
May, 2009

<u>Property Address</u>	<u>Number of Units</u>	<u>Unit Type</u>	<u>Base Rent</u>	<u>Unit Sizes</u>	<u>Rents per Sq. Ft.</u>	<u>Occupancy/ Other Information</u>
<i>..... Downtown and Vicinity (continued)</i>						
The Chateaux (1972) 930 N. Washington	84	1br/1ba	\$600 to \$700	642 to 675	\$0.93 to \$1.04	92% Swimming Pool.
		2br/1ba	\$720 to \$820	952 to 1,015	\$0.76 to \$0.81	
Riverfalls Tower Apts. 1224 W. Riverside	98	1br/1ba	\$735	565	\$1.30	92% Garage; pool;
		1br/1.5ba	\$965	770	\$1.25	library;
		2br/1.5ba	\$1,375 to \$1,520	1,100 to 1,170	\$1.25 to \$1.30	fitness room; community room.
		3br/2ba - Penthouse	\$2,650 to \$2,850	2,280	\$1.16 to \$1.25	
<i>..... Browne's Addition</i>						
The Broadmoor (1969: 2003) 2136 W. Riverside	128	Studio	\$400	380	\$1.05	95% Courtyard;
		1br/1ba	\$475	485	\$0.98	recreation room.
		2br/1ba	\$595	640	\$0.93	
Sunset House 1812 W. Riverside	31	Studio	\$450 to \$470	450	\$1.00 to \$1.04	95% Carports;
		1br/1ba	\$570 to \$635	550	\$1.04 to \$1.15	garage; swimming pool.
		2br/1ba	\$725 to \$770	850	\$0.85 to \$0.91	
<i>..... South Hill</i>						
Stonecrest (1991) 803 S. Cowley	84	1br/1ba	\$645	730 to 746	\$0.86 to \$0.88	100% Garage.
		2br/2ba	\$765 to \$785	960 to 976	\$0.80 to \$0.80	

—MULTI-FAMILY FOR-SALE—

A number of condominium properties have been developed in and around Downtown Spokane since 2003. At the time of the field investigation, several new projects had been introduced in the past two or three years, and still had new units to sell when the national housing market collapsed in 2008. (See Table 7.) Two of the properties, The Edge and Iron Bridge Condominiums, are located in or adjacent to the University District. The Edge, at the corner of East Sprague and the railroad tracks, has sold six of the 19 units, and six of the remainder are being rented, at monthly rents ranging between \$1.06 and \$1.10 per square foot. (Three of the units are rented by faculty teaching at the Riverpoint Campus. The remaining condominiums range in size from 942 to 1,241 square feet, and are priced between \$209,000 and \$349,000 (\$222 to \$281 per square foot).

The Iron Bridge Condominiums are located on the eastern edge of the District, and have views of the Spokane River and the Iron Bridge. The 12 units are being sold as shells, and five have been reserved as of May. Base prices range between \$341,874 for a 953-square-foot unit to \$496,218 for 1,299 square feet (\$359 to \$382 per square foot); the built-out 1,700-square-foot model is priced at \$798,500.

Wells & Company, which has, over past several years, developed a majority of the Downtown rental properties, is also developing several condominium projects: the Lofts at Joel, Morgan Lofts, Lofts at Riverpark Square, and Carnegie Square Townhouses. Condominiums range in price from \$221,000 for an 811-square-foot unit at Lofts at Joel to \$1.25 million for a 4,600-square-foot apartment at the Lofts at Riverpark Square. Wells & Company is also proposing the Carnegie Square Townhouses, up to 10 townhouses ranging in size from 2,270 to 3,252 square feet with base prices from \$567,400 to \$815,000 (approximately \$250 per square foot).

Rencorp., another leading Downtown developer, is marketing Railside Condominiums, at base prices ranging from \$255,700 for 980 square feet to \$550,000 for 1,736 square feet. River Run Ventures has one 2,206-square-foot unit remaining, priced at \$675,000 (\$306 per square foot),

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of the 28 units that comprise the Upper Falls Condominiums. Twenty-three of the units were sold in 2007 prior to the housing and financial collapse of 2008.

Four condominium units—the Lina Marta Condominiums—are being marketed in Peaceful Valley, with base prices ranging from \$535,000 to \$845,000 in two configurations, one containing 1,900 and the other 2,470 square feet (\$281 to \$342 per square foot). At the time of the field investigation, none of the units had been sold.

A number of large single-family detached houses are being subdivided into condominiums in Browne's Addition. An example is located at 1630 West Riverside, where four units are priced between \$342,200 and \$754,800 for 1,053 to 2,094 square feet of living space (\$325 to \$360 per square foot).

**Summary Of Selected For-Sale
Multi-Family Developments**
Greater Downtown Spokane, Spokane County, Washington
May, 2009

<u>Development</u> <u>Developer/Address</u>	<u>Unit</u> <u>Type</u>	<u>Unit Price</u> <u>Range</u>	<u>Unit Size</u> <u>Range</u>	<u>Price Per</u> <u>Sq. Ft.</u>	<u>Total</u> <u>Units</u>	<u>Sold to</u> <u>Date</u>
. University District Area						
The Edge (2008) 103 East Sprague The Edge Development Group, LLC	CO	\$209,000 to \$349,000	942 to 1,241	\$222 to \$281	19	6 (0.4) 6 units are rented.
Iron Bridge Cos. (2008) 629 N. Erie Iron Bridge, LLC	CO	<i>Shell units.</i>		\$341,874 to \$496,218 \$798,500	953 to 1,299 1,700	\$359 to \$382 \$470
	(Model)				12	5 (0.6) reservations
. Downtown/Riverfront						
Lofts at Joel (2008) 165 South Post Wells & Company	CO	\$221,000 to \$317,000	811 to 1,318	\$241 to \$273	8	3 (0.5)
Railside Condominiums 1016 West Railroad Avenue Rencorp.	CO	\$255,700 to \$550,000	980 to 1,736	\$261 to \$317	14	8
Morgan Lofts (2007) 315 West Riverside Wells & Company	CO	<i>Remaining units.</i>		\$359,000 to \$595,000	1,342 to 2,030	\$268 to \$293
Lofts at Riverpark Square (2006) 809 West Main Wells & Company	CO	\$555,990 to \$1,250,000	1,215 to 4,620	\$271 to \$458	29	20 (0.7)

**Summary Of Selected For-Sale
Multi-Family Developments**
Greater Downtown Spokane, Spokane County, Washington
May, 2009

<u>Development</u> <u>Developer/Address</u>	<u>Unit Type</u>	<u>Unit Price Range</u>	<u>Unit Size Range</u>	<u>Price Per Sq. Ft.</u>	<u>Total Units</u>	<u>Sold to Date</u>
<i>..... Downtown/Riverfront {continued}</i>						
Carnegie Square TH <i>Adams between Sprague & 1st Street</i> <i>Wells & Company</i>	TH	\$567,400 to \$815,000	2,270 to 3,252	\$250 to \$251	10	5
Upper Falls Cos. (2007) <i>820 North Post Street</i> <i>River Run Ventures, LLC</i>	CO	\$675,000	2,206	\$306	28	27 (1.2) 23 sold in 2007
<i>..... Peaceful Valley</i>						
Lina Marta Cos. (2008) <i>1405 West Water Avenue</i> <i>George Doran Construction</i>	CO	\$535,000 to \$640,000 \$695,000 to \$845,000	1,900 2,470	\$282 to \$337 \$281 to \$342	4	0
<i>..... Browne's Addition</i>						
1630 West Riverside	CO	\$342,200 to \$754,800	1,053 to 2,094	\$325 to \$360	4	n/a

OVERVIEW OF THE UNIVERSITY DISTRICT

As noted in the INTRODUCTION, the University District encompasses the campus of Gonzaga University, north of the Spokane River; the Riverpoint Campus, home of the Spokane campuses of Washington State University and Eastern Washington University, as well as the administrative offices of the Community Colleges of Spokane and the headquarters of SIRTI (formerly known as the Spokane Intercollegiate Research and Technology Institute); and a predominantly commercial area between the railroad tracks and I-90 to the north and south, and Hamilton Street and Browne Street to the east and west.

Although Gonzaga University is the largest single stakeholder north of the railroad tracks, most of the private, rather than institutional, development opportunities lie south of the tracks. A cluster of hotels, including the Red Lion River Inn, the Holiday Inn, and an Oxford Suites, as well as the Ripples Riverside Grill, are located north of the Spokane River on the western edge of Gonzaga's campus. The Riverpoint Campus encompasses most of the land south of the Spokane River and north of the railroad tracks; the new Nursing Building, located at the corner of Spokane Falls and Riverpoint Boulevards, was dedicated at the time of the field investigation. Non-campus uses are also located south of the river, including the Riverpoint Village Condominiums, which were built in 1995. Some of the units are being leased by their owners, often to faculty or graduate students at one of the universities. At the time of writing, an 836-square-foot two-bedroom/one-bath condominium was on the market for \$319,900 (\$383 per square foot). Located on the western edge of the Riverpoint Campus are a Marriott's Courtyard, a Fairfield Inn and a Perkins restaurant.

A variety of retail establishments have emerged in the past several years along Main and Division Streets. In addition to the Midas Shop at the southeast corner of North Division Street and Spokane Falls Boulevard, North Division is the location of a bicycle shop, a fitness center, a hair salon, the Globe Bar & Grille, and the Red Lion Pub, among others. Main Street also hosts a number of small retailers, ranging from a lighting store to antique shops.

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College-oriented retail is also clustered at the intersection of Hamilton and Sharp, with Jack and Dan's Bar & Grill, Wolff's Hamburgers, Starbucks, Pete's Pizza, and the Ultimate Bagel. The nearest grocery store to the University District, a Safeway, is located at the intersection of Hamilton and Mission.

Between Spokane Falls Boulevard and the railroad tracks, a collaboration of Washington State University, the Nexcore Group, and Arthritis Northwest is proposing the Riverpoint Medical and Health Sciences Institute on the site of the Jensen-Byrd property. Phase I is envisioned to include the Musculoskeletal Center of Excellence.

South of the railroad tracks, the University District contains primarily small one- or two-story commercial operations, many of them auto-oriented, a few residential buildings, a Comfort Inn on 2nd Avenue, and, adjacent to I-90, an electric substation and a vacant former Costco. There are several other vacant parcels scattered throughout the southern part of the District, but most are comparatively small, and many are used for parking.

The area south of Downtown and the University District encompasses the expanding Medical District, which includes the Rockwood Clinic, St. Luke's Rehabilitation Institute, the Sacred Heart Medical Center and Children's Hospital, the Deaconess Medical Center, and the Shriners Hospitals for Children.

From a market perspective, the challenges to new residential development within the University District are related to location. There are few disadvantages for new residential development located north of the railroad tracks. However, for new residential development within the South University District, the challenges would include the perception that the area is not very safe, the current lack of a direct connection across the railroad tracks, and the predominance of commercial and industrial uses in this part of the District. In general, the University District itself lacks the retailers that provide the necessities of day-to-day living, such as dry cleaners, drugstore, grocery store, among others.

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However, from the market perspective, the considerable assets of the University District far outweigh the challenges, and include:

- The location of the three universities and SIRTI within the District itself;
- Close proximity to Downtown Spokane, and the significant employment opportunities, dining establishments, and cultural institutions located there;
- Close proximity to the Medical District, and the significant employment opportunities those institutions provide;
- Walking distance to the Spokane River, which crosses the District, and access to the Spokane River Centennial Trail;
- Close proximity to Riverfront Park in Downtown; and
- Convenient access to Interstate 90, west to the airport, and east to the Spokane Valley and Idaho.

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OPTIMUM MARKET POSITION FOR THE UNIVERSITY DISTRICT _____

The optimum market position for new rental and for-sale market-rate and affordable multi-family and single-family attached dwelling units that could potentially be constructed within the University District has been developed predicated on a variety of factors, including:

- The District's assets and challenges (*see the OVERVIEW above*);
- The new unit rental and purchase propensities of the target draw area households; and
- Current residential market dynamics in the District and Downtown Spokane.

Based on the socio-economic and lifestyle characteristics of the target households, the market-entry base rents and prices for newly-constructed market-rate and affordable residential units that could currently be sustained by the market is as follows (*see also* Table 8):

Optimum Market Position
UNIVERSITY DISTRICT
City of Spokane, Spokane County, Washington

HOUSING TYPE	UNIT RENT/PRICE RANGE	UNIT SIZE RANGE	BASE RENT/PRICE PER SQ. FT.
MULTI-FAMILY FOR-RENT			
Lofts/Apts. <i>(Income-restricted)</i>	\$425 to \$750/mo.	400 to 1,000 sf	\$0.75 to \$1.06
Lofts/Apts. <i>(Market-rate)</i>	\$625 to \$1,275/mo.	500 to 1,150 sf	\$1.11 to \$1.25
MULTI-FAMILY FOR-SALE			
Lofts/Apts. <i>(Income-restricted)</i>	\$120,000 to \$135,000	600 to 700 sf	\$193 to \$200
Lofts/Apts <i>(Market-rate)</i>	\$185,000 to \$400,000	700 to 1,500 sf	\$246 to \$267
SINGLE-FAMILY ATTACHED FOR-SALE			
Rowhouses/Live-work units <i>(Income-restricted)</i>	\$165,000	1,000	\$165
Rowhouses/Live-work units <i>(Market-rate)</i>	\$250,000 to \$345,000	1,000 to 1,450 sf	\$238 to \$250

SOURCE: Zimmerman/Volk Associates, Inc., 2009.

Optimum Market Position
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City of Spokane, Spokane County, Washington
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<i>Percent of Units Number</i>	<i>Housing Type</i>	<i>Unit Configuration</i>	<i>Unit Mix</i>	<i>Base Rent/Price Range</i>	<i>Unit Size Range</i>	<i>Base Rent/Price Per Sq. Ft.</i>	<i>Average Annual Absorption</i>
<u>62.7%</u>	Multi-Family For-Rent						<u>60</u>
	Lofts/ Apts.	Studio	6%	\$425 *	400	\$1.06	
		1br/1ba	9%	\$575 *	550	\$1.05	
		2br/1ba	9%	\$675 *	750	\$0.90	
		3br/1ba	5%	\$750 *	1,000	\$0.75	
		Studio	10%	\$625	500	\$1.25	
		1br/1ba	15%	\$775	650	\$1.19	
		2br/1ba	11%	\$975	850	\$1.15	
		2br/2ba	17%	\$1,125	1,000	\$1.13	
		2br/2ba (dual masters)	18%	\$1,275	1,150	\$1.11	
	Weighted Averages (All Units):			\$880	806	\$1.09	
	Weighted Averages (Market-Rate Only):			\$996	871	\$1.14	
<u>22.4%</u>	Multi-Family For-Sale						<u>18</u>
	Lofts/ Apts.	1br/1ba	10%	\$120,000 *	600	\$200	
		2br/1ba	10%	\$135,000 *	700	\$193	
		1br/1ba	18%	\$185,000	700	\$264	
		1br/1ba/den	15%	\$220,000	850	\$259	
		1br/1ba/office	27%	\$240,000	950	\$253	
		2br/2ba	15%	\$295,000	1,200	\$246	
		3br/2ba PH	5%	\$400,000	1,500	\$267	
	Weighted Averages (All Units):			\$220,641	895	\$247	
	Weighted Averages (Market-Rate Only):			\$244,677	958	\$255	

* Affordable unit.

NOTE: Base rents/prices are in year 2009 dollars and do not include premiums, or consumer options or upgrades.

SOURCE: Zimmerman/Volk Associates, Inc.

Optimum Market Position
The University District
City of Spokane, Spokane County, Washington
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<i>Percent of Units Number</i>	<i>Housing Type</i>	<i>Unit Configuration</i>	<i>Unit Mix</i>	<i>Base Rent/Price Range</i>	<i>Unit Size Range</i>	<i>Base Rent/Price Per Sq. Ft.</i>	<i>Average Annual Absorption</i>
14.9%	Single-Family Attached For-Sale						12
	Rowhouses/ Live-Work	2br/1.5ba	23%	\$165,000 *	1,000	\$165	
		2br/1.5ba	31%	\$250,000	1,000	\$250	
		2br/2.5ba	27%	\$325,000	1,350	\$241	
		3br/2.5ba	19%	\$345,000	1,450	\$238	
	Weighted Averages (All Units):			\$268,846	1,181	\$228	
	Weighted Averages (Market-Rate Only):			\$300,000	1,235	\$243	
100.0%							90 including rentals 30 excluding rentals

* Affordable unit.

NOTE: Base rents/prices are in year 2009 dollars and do not include premiums, or consumer options or upgrades.

SOURCE: Zimmerman/Volk Associates, Inc.

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The proposed initial rents and prices are in year 2009 dollars and are exclusive of consumer-added options or upgrades. The recommended rent/price points place the units within the current financial capabilities of the target market households, including university affiliates, and within the context of the Spokane housing market. The proposed market position encompasses a range of rents and prices to accommodate both market-rate and affordable units, based on the economic capacities of potential residents, household compatibility, and current residential alternatives available in the city and county.

Based on unit types, sizes, and mix outlined in the optimum market position above, the weighted average base values and unit sizes are as follows:

Weighted Average Rents/Prices
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HOUSING TYPE	WEIGHTED AVERAGE BASE RENT/PRICE	WEIGHTED AVERAGE UNIT SIZE	WEIGHTED AVERAGE BASE RENT/PRICE PER SQ. FT.
Soft Loft/Apartment Rentals (<u>all</u>)	\$880 per month	806	\$1.09
Soft Loft/Apartment Rentals (<u>market</u>)	\$996 per month	871	\$1.14
Soft Loft/Apartment Condos (<u>all</u>)	\$220,641	895	\$247
Soft Loft/Apartment Condos (<u>market</u>)	\$244,677	958	\$255
Rowhouses/Live-Work (<u>all</u>)	\$268,846	1,181	\$228
Rowhouses/Live-Work (<u>market</u>)	\$300,000	1,235	\$243

SOURCE: Zimmerman/Volk Associates, Inc., 2009.

These rents and prices may be very difficult to achieve without specific incentives or some form of public-private partnership to facilitate the development. Spokane already has some noteworthy incentives in place, of which the most important for new residential development is the Multi-Family Tax Exemption program. Because of multiple land ownerships, the City will need to take a more aggressive role in the acquisition of land in the southern part of the University District. To do this efficiently, it is likely a Public Development Authority will be required.

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In Spokane, the market for workforce/affordable rental housing units would encompass units affordable to households with incomes between 50 and 80 percent of the Area Median Family Income (AMFI) for the Spokane MSA, which is \$60,200 for a family of four. Based on household size, the income limits to qualify for workforce rental housing, between 50 and 80 percent of the AMI, would be between \$21,050 and \$33,700 for a one-person household; between \$24,100 and \$38,500 for a two-person household; between \$27,100 and \$43,350 for a three-person household; between \$30,100 and \$48,150 for a four-person household.

The optimum market position details base rents that would be considered affordable for single- and two-person households (approximately 85 percent of the market for the District) with annual incomes between 50 and 80 percent AMI. For example, a single-person household with an income between \$21,050 and \$33,700 per year, paying no more than 30 percent of gross income for rent and utilities—the national standard for affordability—would qualify for rents between \$425 and \$575 per month, the proposed market-entry lease rates for the “affordable” studio lofts and one-bedroom apartments. A two-person household, with an income between \$24,100 and \$38,500 per year, paying no more than 30 percent of gross income for rent and utilities, could qualify for rents between \$575 and \$675 per month for a one- or two-bedroom apartment. As outlined in the target market analysis and detailed in the optimum market position, to correspond to the housing preferences of all target renter households—70 percent of whom are younger singles and couples—the rental lofts and apartments have been configured in a mix of studio, one-bedroom, and two-bedroom units, with a very small percentage of three-bedroom units.

The optimum market position details base prices that would be considered affordable for households with annual incomes between 80 and 110 percent AMI. This analysis does not calculate affordability based on the use of non-standard mortgage instruments, but rather 30-year mortgages, with at least a 10 percent down payment, at six percent interest. A single-person household with an annual income of between \$33,700 and \$46,300 per year, with a 10 percent down payment, paying no more than 30 percent of gross income for housing costs, including mortgage principal, interest, taxes, insurance and utilities, could qualify for a mortgage of

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\$103,500 at six percent interest, and could therefore purchase the 600-square-foot studio priced at \$115,000.

A two-person household with an income of between \$38,500 and \$53,000 per year, with a 10 percent down payment, paying no more than 30 percent of gross income for housing costs, including mortgage principal, interest, taxes, insurance and utilities, could qualify for a mortgage of \$117,000 at six percent interest, and could therefore purchase the 700-square-foot one-bedroom apartment priced at \$130,000. Again, as outlined in the target market analysis and detailed in the optimum market position, to correspond to the housing preferences of the target households who represent the purchasers of lofts/condominiums—over 70 percent of whom are younger singles and couples—the for-sale lofts/condominiums have been configured in a variety of studio, one- and two-bedroom units, with a small proportion of the more expensive three-bedroom units.

—ABSORPTION FORECASTS—

As noted in the INTRODUCTION, the current constrained market has resulted in restrictive development financing and mortgage underwriting, taking a significant percentage of potential homebuyers out of the market and preventing numerous for-sale developments from going forward. Householders can no longer finance both the mortgage and the down payment, shutting out those younger households that have not accumulated a sufficient down payment. In addition, the inability of older homeowners to sell their current single-family units has curtailed the market for more expensive condominiums.

Based on this analysis, and barring a long-term continuation of the downturn in the national, regional and local economies, it is likely that between five and six percent of the potential market for new dwelling units within the District could be absorbed per year over the near term, including 60 rental lofts and apartments per year, of which 17 would need to be affordable to households with annual incomes between \$21,050 and \$38,500; up to 18 condominiums per year, of which four would be affordable to households with annual incomes between \$33,700

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and \$53,000; and up to 12 rowhouses/live-work units, of which three should be affordable to households with annual incomes between \$38,500 to \$59,600.

These average absorption paces require specific capture rates of those households that, in the year 2009, represent the potential market for each housing type within the District, and are as follows:

REQUIRED CAPTURE RATES
Based on Annualized Average Absorption
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HOUSING TYPE	ANNUAL MARKET POTENTIAL (HHS)	ANNUALIZED AVERAGE ABSORPTION (UNITS)	REQUIRED CAPTURE RATE
Multi-family for-rent	1,090	60	5.5%
Multi-family for-sale	390	18	4.6%
Single-family attached for-sale	260	12	4.6%

SOURCE: Zimmerman/Volk Associates, Inc., 2009.

From the market perspective, these housing type-specific capture rates of the market for units at the indicated rents and sales prices are reasonable assumptions during recessionary conditions. As the economic environment improves over the next five years, it is likely new developments could begin to capture higher percentages of the annual market potential; with a strong economy, it should be possible to capture up to 10 percent of the market for each housing type, which would double the annual forecast absorption.

The target market capture rates of the potential purchaser or renter pool are a unique and highly-refined measure of feasibility. Target market capture rates are not equivalent to—and should not be confused with—penetration rates or traffic conversion rates.

The **target market capture rate** is derived by dividing the annual forecast absorption by the number of households that have the potential to move to the site in a given year.

The **penetration rate** is derived by dividing the total number of dwelling units planned for a property by the total number of draw area households, sometimes qualified by income.

The **traffic conversion rate** is derived by dividing the total number of buyers or renters by the total number of prospects that have visited a site.

Because the prospective market for a property is more precisely defined using target market methodology, a substantially smaller number of households are qualified; as a result, target market capture rates are higher than the more grossly-derived penetration rates. The resulting higher capture rates remain within the range of market feasibility at the indicated rents and sales prices.

—BUILDING AND UNIT TYPES—

It is assumed that there will be both walk-up and elevator-served multi-family buildings, most with double-loaded corridors. Non-elevator buildings would have from two or three stories; buildings with four or more stories would require elevators. Many of the multi-family buildings could have retail spaces on the ground floor, depending on the feasibility of retail. It is also assumed that loft units could serve to “line” parking decks once rental rates reach levels high enough to support the construction of parking decks. The proposed unit types include hard and soft lofts, apartments, and rowhouses and live-work units.

—MULTI-FAMILY—

- Courtyard Apartment Building: In new construction, an urban, pedestrian-oriented equivalent to conventional garden apartments. An urban courtyard building is three or more stories, often combined with non-residential uses on the ground floor. The building should be built to the sidewalk edge and, to provide privacy and a sense of security, the first floor should be elevated significantly above grade. Parking, provided at one parking space per unit, is either below grade, at grade behind or interior to the building, or in an integral structure.

The building’s apartments can be leased, as in a conventional income property, or sold to individual buyers, under condominium or cooperative ownership, in which the owner pays a monthly maintenance fee in addition to the purchase price.

- Mansion Apartment Building: A two- to three-story flexible-use structure with a street façade resembling a large detached house (hence, “mansion”). The building can

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accommodate a variety of uses—from rental or for-sale apartments, professional offices, any of these uses over ground-floor retail, a bed and breakfast inn, or a large single-family detached house—and its physical structure complements other buildings within a neighborhood.

Parking, again provided at one space per unit and located behind the mansion buildings can be either alley-loaded, or front-loaded served by shared drives. The form of the parking can be in open lots, in garages with units above, or integral to the building.

NOTE: Development flexibility of use is somewhat constrained by the handicapped accessibility regulations in both the 1988 Fair Housing Amendments Act and the Americans with Disabilities Act. Smaller mansion buildings can be exempt from all but the public accommodations regulations of the ADA. Buildings with three or fewer dwelling units are exempt from the Fair Housing handicapped accessibility regulations, and upper-floor commercial uses of less than 3,000 feet fall below the threshold of the imposition of handicapped accessibility under the ADA.

–MULTI-FAMILY UNIT TYPES–

- **Hard Lofts:** Unit interiors typically have high ceilings and commercial windows and are minimally finished (with limited architectural elements such as columns and fin walls), or unfinished (with no interior partitions except those for bathrooms). The raw space version of a hard loft, is adaptable for a wide range of non-residential uses, from an art or music studio to a small office, as well as residential living areas. The loft is not dependent upon building form, other than that it is almost always within a multi-unit building
- **Soft Loft:** Unit interiors typically have open floorplans, high ceilings and large commercial-style windows, but are fully finished and, where appropriate, have sleeping areas partitioned from the main living area. A soft loft may also contain

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architectural elements reminiscent of “hard lofts,” *e.g.*—exposed ductwork, scored and polished concrete floors, and concrete counters.

- Apartment: A unit on a single level in a multi-family building, with partial- or completely-partitioned rooms..

—SINGLE-FAMILY ATTACHED—

- Townhouse: Similar in form to a conventional suburban townhouse except that the garages—either attached or detached—are located to the rear of the units and accessed from an alley or auto court. Unlike conventional townhouses, urban townhouses conform to the pattern of streets, typically with shallow front-yard setbacks. To provide privacy and a sense of security, the first floor should be elevated significantly above the sidewalk.
- Live-work is a unit or building type that accommodates non-residential uses in addition to, or combined with living quarters. The typical live-work unit is a building, either attached or detached, with a principal dwelling unit that includes flexible space that can be used as office, retail, or studio space, or as an accessory dwelling unit.

Regardless of the form they take, live-work units should be flexible in order to respond to economic, social and technological changes over time and to accommodate as wide as possible a range of potential uses. The unit configuration must also be flexible in order to comply with the requirements of the Fair Housing Amendments Act and the Americans with Disabilities Act.

—IN-UNIT AMENITIES—

To meet the expectations of potential residents, all units should be wired for cable television and high-speed internet or, if practical, be served by a building-wide Wi-Fi system. Lofts can be designed without interior walls, with the exception of the bathroom; however, as much closet

and storage space as possible should be provided. (Storage will be equally important in apartments as well.)

In the kitchens, although, until recently, granite countertops have been the norm for urban development and redevelopment, it is highly recommended that less-expensive, and/or more environmentally-sensitive alternatives be selected for the lofts—such as Fireslate in the rental units, and Richlite and PaperStone, which are composed of recycled materials, in the for-sale units. For the more expensive condominiums, countertops could be CaesarStone and Silestone—quartz composite materials—or new terrazzo products such as Vetrazzo or IceStone. All kitchens should include integral or undermount sinks, and either matching backsplashes or finished in stainless steel; renters will expect contemporary, durable finishes appropriate to urban living, as opposed to the carpeted “beige” interiors of suburban multi-family housing. Cabinets in the lofts should have flush fronts with integral or contemporary pulls, offered in a variety of finishes, ranging from bamboo to frosted glass. Appliances should be mid-grade with stainless fronts.

Suburban condominium finishes should be avoided. The apartments should have bedrooms separated by walls or, in cases of interior rooms, partitions that run only partially to the ceiling. In the lofts, HVAC could be designed with exposed spiral ductwork. Lighting fixtures should have clean and minimalist designs, capable of accommodating compact fluorescent bulbs. Walls should be drywall finished with simple contemporary baseboards. Doors should be flush, matched-grain wood with stainless handles and hardware.

Bathrooms should have a standard contemporary finish package, including vessel-style sinks, and countertops of materials similar to the grade used in the kitchens. All fixtures, faucets and lighting should be clean, minimalist and contemporary. Again, lighting should accommodate compact fluorescent bulbs.

Some, but not all, of the condominiums targeted to older households should feature more conventional finishes, such as crown molding, chair rails, carpeted bedroom floors, with carpet

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or hardwood in living and dining areas and tile in the kitchens and baths. Kitchen countertops should be Corian or granite, with integral or undermount ceramic sinks and stainless steel appliances, and a choice of European or traditional cabinets. Bathrooms should have ceramic tile floors and high-style, traditional fixtures.

—COMMUNITY AMENITIES—

New multi-family rental buildings developed within the District should provide the amenities that have become the norm for investment-grade assets: business center, clubroom with catering kitchen, and some level of exercise facility.

For condominium buildings, community amenities could include concierge services, accommodating a wide range of personal services, from dry cleaning pick-up/delivery to theater reservations. However, if these kinds of services generate high condominium fees, there is likely to be buyer resistance.

Other community amenities (for both renters and owners) that are not very expensive to provide include storage units, bicycle racks, and recycling bins.

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METHODOLOGY

The technical analysis of market potential for the University District included delineation of the draw areas and physical evaluation of the District and the surrounding context.

The delineation of the draw areas for housing within the District was based on historic settlement patterns, migration and mobility trends, interviews with key stakeholders in the University District, and other market dynamics.

The evaluation of market potential for the University District was derived from the housing preferences and financial capacities of the draw area households, identified through Zimmerman/Volk Associates' proprietary target market methodology, in addition to analysis of the graduate student, faculty, and staff populations of the three universities located within the University District, and yielded:

- The depth and breadth of the potential housing market by tenure (rental and ownership) and by type (lofts/apartments, rowhouses/live-work units); and
- The composition of the potential housing market (empty-nesters/retirees, younger singles/couples, traditional and non-traditional families).

NOTE: The Appendix Tables are provided in a separate document.

Delineation of the Draw Areas (Migration and Mobility Analyses)—

Based on Zimmerman/Volk Associates' field investigation, interviews with key stakeholders in the University District, analysis of migration and mobility data, including data provided by the universities to the City of Spokane concerning the current commute starting locations of their students, the draw areas for new residential construction within the District have been delineated. Taxpayer migration data are maintained at the county and "county equivalent" level by the Internal Revenue Service and provide a clear representation of mobility patterns.

Appendix One, Table 1.

Migration Trends

Between 2002 through 2006—the latest data available from the Internal Revenue Service—the annual number of households moving into Spokane County climbed steadily from just over 8,900 households in 2002 up to 10,275 households in 2006. (*Reference* Appendix One, Table 1.)

The number of households moving out of Spokane County rose to a peak of more than 9,100 households in 2005, then fell to 8,625 in 2006. As a result, the county experienced net household migration gains increasing from 385 households in 2002 to over 1,600 households in 2006.

For Spokane County, between 12 and 14 percent of in-migration is from the Seattle area counties of King, Snohomish, and Pierce; another 12 to 15 percent is from neighboring Kootenai County, Idaho, and Stevens and Whitman Counties, Washington; and the remaining 70 to 75 is from counties from elsewhere in Washington State as well as the rest of the United States.

NOTE: Although net migration provides insights into the county's historic ability to attract or retain households compared to other locations, it is those households likely to move into the county (gross in-migration) that represent the county's external market potential.

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As noted in the section on DRAW AREAS, the commute starting locations of the overwhelming majority of students attending the three universities are located within the City of Spokane, with the preponderance of the remainder located within the balance of Spokane County, and a very small number located outside the county in Kootenai County, Idaho or adjoining counties in Washington State.

Although the location data for university affiliates beyond the commuting locations of students are not particularly robust, those studies that are available correlate very strongly with the findings of the migration and mobility analysis, as does anecdotal information derived from interviews with university officials and other knowledgeable sources.

Based on the migration data, augmented by Zimmerman/Volk Associates' field investigation, student commute starting locations, and stakeholder interviews, the draw areas for the University District have been delineated as follows:

- The primary (or internal) draw area, covering households currently living within the City of Spokane.
- The local (external) draw area, covering households currently living within the balance of Spokane County.
- The Seattle (external) draw area, covering households with the potential to move to the District from King, Snohomish, and Pierce Counties.
- The regional (external) draw area, covering households with the potential to move to the University District from Kootenai County, Idaho, and Stevens and Whitman Counties, Washington.
- The national (external) draw area, covering households with the potential to move to the University District from all other U.S. counties.

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The distribution of the draw areas as a percentage of the potential market for the University District is therefore as follows (*see also* Map 4):

Market Potential By Draw Area
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City of Spokane (Local Draw Area):	48 percent
Balance of Spokane County (Local Draw Area):	25 percent
Seattle Draw Area:	3 percent
Regional Draw Area:	1 percent
Balance of US (National Draw Area):	<u>23</u> percent
Total:	100 percent

SOURCE: Zimmerman/Volk Associates, Inc., 2009.

Migration Methodology:

County-to-county migration is based on the year-to-year changes in the addresses shown on the population of returns from the Internal Revenue Service Individual Master File system. Data on migration patterns by county, or county equivalent, for the entire United States, include inflows and outflows. The data include the number of returns (which can be used to approximate the number of households), and the median and average incomes reported on the returns.

TARGET MARKET CLASSIFICATION OF CITY OF SPOKANE AND SPOKANE COUNTY HOUSEHOLDS—

Household cluster data obtained from Claritas, Inc. provide the framework for the categorization of households, not only by demographic characteristics, but also by lifestyle preferences and socio-economic factors. An appendix containing detailed descriptions of each of these target market groups is provided along with the study.

Appendix One, Tables 2A and 2B and 3A and 3B.

Target Market Classification—

Just over 49 percent, or 41,160 households, of the estimated 83,560 households living in the City of Spokane in 2009 have the capacity to rent or buy market-rate housing. Median income within the county is estimated at \$40,500, 21 percent lower than the 2009 national median of

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\$51,400. Median home value is estimated at \$153,200, more than 11 percent lower than the national median of \$172,400. Nearly 45 percent of the city's "market-rate" households are classified as younger singles and couples, another 33.2 percent are empty nesters and retirees, and the remaining 22.2 percent are traditional and non-traditional families. (See Appendix One, Table 2A.)

The remaining 42,400 households living in Spokane in 2009 are in target market groups in which a considerably smaller percentage of households are able to qualify for market-rate housing. Of these households, nearly 44 percent can be characterized as empty nesters and retirees, 32.4 percent are younger singles and couples, and 23.9 percent are as traditional and non-traditional families. (See Appendix One, Table 2B.)

Of the estimated 181,870 households living in Spokane County in 2009, just under 55 percent, or 99,450 households, have the capacity to rent or buy market-rate housing. Median income within the county is estimated at \$46,800, 16 percent higher than the 2009 city median. Median home value is estimated at \$178,300, again 16 percent higher than the city median. Thirty-four percent of Spokane County's "market-rate" households can be classified as younger singles and couples, with 33.8 percent empty nesters and retirees, and 32.2 percent traditional and non-traditional families. (See Appendix One, Table 3A.)

The remaining 82,420 households living in the county in 2009 are in target market groups in which a considerably smaller percentage of households are able to qualify for market-rate housing. Of these households, 43.3 percent can be characterized as empty nesters and retirees, another 31.8 percent are younger singles and couples, and 24.9 percent are traditional and non-traditional families. (See Appendix One, Table 3B.)

Target Market Methodology:

The proprietary target market methodology developed by Zimmerman/Volk Associates is an analytical technique, using the PRIZM NE household clustering system, that establishes the optimum market position for residential development of any property—from a specific site to an

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entire political jurisdiction—through cluster analysis of households living within designated draw areas. In contrast to classical supply/demand analysis—which is based on supply-side dynamics and baseline demographic projections—target market analysis establishes the optimum market position derived from the housing and lifestyle preferences of households in the draw area and within the framework of the local housing market context, even in locations where no close comparables exist.

In the target market methodology, clusters of households (usually between 10 and 15) are grouped according to a variety of significant factors, ranging from basic demographic characteristics, such as income qualification and age, to less-frequently considered attributes such as mobility rates, lifestyle patterns and compatibility issues. Zimmerman/Volk Associates has refined the analysis of these household clusters through the correlation of more than 500 data points related to housing preferences and consumer and lifestyle characteristics.

As a result of this process, Zimmerman/Volk Associates has identified 41 target market groups with median incomes that enable most of the households within each group to qualify for market-rate housing. The most affluent of the 41 groups can afford the most expensive new ownership units; the least prosperous are candidates for the least expensive existing rental apartments. Another 25 groups have median incomes such that most of the households require housing finance assistance.

Once the draw areas for a property have been defined, then—through field investigation, analysis of historic migration and development trends, and employment and commutation patterns—the households within those areas are quantified using the target market methodology. The potential market for new market-rate units is then determined by the correlation of a number of factors—including, but not limited to: household mobility rates; median incomes; lifestyle characteristics and housing preferences; the location of the site; and the competitive environment.

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The end result of this series of filters is the optimum market position—by tenure, building configuration and household type, including specific recommendations for unit sizes, rents and/or prices—and projections of absorption within the local housing context.

DETERMINATION OF THE POTENTIAL MARKET FOR THE CITY OF SPOKANE (MOBILITY ANALYSIS)—

The mobility tables, individually and in summaries, indicate the number and type of households that have the potential to rent or purchase new and existing dwelling units in the City of Spokane in the year 2009. The total number from each county is derived from historic migration trends; the number of households from each group is based on each group's mobility rate.

Appendix One, Tables 4A and 4B.

Internal Mobility (Households Moving Within the City of Spokane)—

Zimmerman/Volk Associates uses U.S. Bureau of the Census data, combined with Claritas data, to determine the number of households in each target market group that will move from one residence to another within a specific municipality in a given year (internal mobility).

Using these data, Zimmerman/Volk Associates has determined that up to 7,050 households (4,650 households in groups with median incomes above \$45,000 and 2,400 households in groups with median incomes below \$45,000) living in the City of Spokane have the potential to move from one residence to another in 2009.

Appendix One, Tables 5A and 5B.

External Mobility (Households Moving To the City of Spokane from the Balance of Spokane County)—

The same sources of data are used to determine the number of households in each target market group that will move from one area to another within the same county. Using these data, up to 4,550 households (2,300 households in groups with median incomes above \$45,000 and 2,250 households in groups with median incomes below \$45,000), currently living in the balance of

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Spokane County, have the potential to move from a residence in the balance of the county to a residence in the City of Spokane.

Appendix One, Tables 6A and 6B through 7A and 7B; Appendix Two, Tables 1A and 1B through 6A and 6B.

External Mobility (Households Moving To the City of Spokane from Outside Spokane County)—

These tables determine the number of households in each target market group living in the Seattle draw area of King, Snohomish, and Pierce Counties, the regional draw area of Kootenai County, Idaho, and Stevens and Whitman Counties, Washington, and the national draw area that are likely to move to the City of Spokane in 2009 (through a correlation of Claritas data, U.S. Bureau of the Census data, and the Internal Revenue Service migration data).

Appendix One, Tables 9A and 9B.

Market Potential for the City of Spokane—

Appendix One, Tables 9A and 9B summarize Appendix One, Tables 4A and 4B through 8A and 8B. The numbers in the Total column on page one of this table indicate the depth and breadth of the potential market for new and existing dwelling units in the City of Spokane in the year 2009 originating from households currently living in the draw areas. Approximately 16,460 households in the draw areas with the potential to rent or purchase new and existing housing units have the potential to move within or to the City of Spokane this year.

Of the 16,460 households that represent the market for new and existing market-rate and affordable primary housing units in the City of Spokane, 10,180 households are in groups with median incomes above \$45,000, giving most of them the capacity to rent or buy market-rate housing. More than 63 percent of these households can be classified as younger singles and couples (as characterized within 14 of Zimmerman/Volk Associates' target market groups), 25.6 percent are traditional and non-traditional families (in 13 groups), and 10.8 percent are empty nesters and retirees (in 14 groups). (See Appendix One, Table 9A.)

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The remaining 6,280 households are in groups with median incomes below \$45,000, with most of these households requiring housing finance assistance. Approximately 58 percent can be classified as younger singles and couples (in five target market groups), 26.4 percent are traditional and non-traditional families (in six groups), and another 15.4 percent are empty nesters and retirees (in 10 groups). (See Appendix One, Table 9B.)

DETERMINATION OF THE POTENTIAL MARKET FOR THE UNIVERSITY DISTRICT—

Appendix One, Tables 10A and 10B through Table 13.

Market Potential for the University District—

As derived by the target market methodology, nearly 2,300 of the 16,460 households that represent the market for new and existing housing units in the City of Spokane are a market for new market-rate and affordable housing units within the University District. (See Appendix One, Tables 10A *and* 10B.)

Within household groups with median incomes above \$45,000, up to 1,480 households have the potential to move to the District this year. (See Appendix One, Table 10A.) Approximately 64 percent of these households are likely to be younger singles and couples (in 11 target market groups), 18.9 percent are likely to be empty nesters and retirees (in seven groups), and 17.6 percent are likely to be traditional and non-traditional families (in eight groups).

Within household groups with median incomes below \$45,000, up to 800 households have the potential to move to the District this year. (See Appendix One, Table 10B.) Up to 55 percent can be classified as younger singles and couples (in three target market groups), 28.8 percent are empty nesters and retirees (in five groups), and the remaining 16.3 percent are traditional and non-traditional families (in four groups).

The 2,280 draw area households that have the potential to move to the University District have been categorized by tenure propensities to determine renter/owner ratios. (See Appendix One, Tables 11A *through* 13.)

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Approximately 38 percent (560 households) of 1,480 households in groups with median incomes above \$45,000 comprise the potential market for new market-rate rental housing units. (See Appendix One, Table 11A.) Up to 920 households comprise the market for new ownership housing units on the sites.

Of the 920 households in groups with median incomes above \$45,000 that represent the market for new market-rate ownership housing, 31.5 percent (290 households) comprise the market for new multi-family ownership (condominium or cooperative) units. Another 22.8 percent (210 households) comprise the market for new attached single-family (rowhouse or live-work) units. The remaining 45.7 percent, or 420 households, comprise the market for new single-family detached for-sale units. (See Appendix One, Table 11B.)

Of the 800 households in groups with median incomes below \$45,000, nearly two-thirds, or 530 households, comprise the potential market for new rental units. Of these, 320 households lack the financial capacity to lease units at the rent levels required to support market-rate housing. Ten percent of the 800 households (or 80 households) comprise the market for new multi-family ownership (condominium or cooperative) units. Another 7.5 percent (60 households) comprise the market for new attached single-family (rowhouse or live-work) units. Over 16 percent (130 households) would require financial assistance to purchase market-rate single-family detached houses. (See Appendix One, Table 12.)

In aggregate, the housing preferences of the 2,280 draw area households with the potential to lease or purchase new housing units in the University District this year—based on tenure (rental/ownership) choices and financial capacity—are as shown on the following page: (See also Appendix One, Table 13.)

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 City of Spokane, Spokane County, Washington
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Annual Potential Housing Market
Based on Draw Area Household Tenure Propensities and Income Levels
UNIVERSITY DISTRICT
City of Spokane, Spokane County, Washington

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT
Multi-Family Rental Units	1,090	47.8%
Below 80% AMI*	320	14.0%
Market-Rate *	770	33.8%
Multi-Family Ownership Units (All Price Ranges)	390	17.1%
Single-Family Attached Units (All Price Ranges)	260	11.4%
Single-Family Detached Units	540	23.7%
Below 80% AMI*	190	8.3%
Market-Rate *	<u>350</u>	<u>15.4%</u>
Total:	2,280	100.0%

† Market rate is defined as affordable to households with incomes above 80 percent (for rental) and 110 percent (for for-sale) of the Area Median Family Income (AMFI) of \$60,200 for a family of four.

SOURCE: Zimmerman/Volk Associates, Inc., 2009.

—Target Market Data—

Target market data are based on the Claritas PRIZM NE household clustering system, modified and augmented by Zimmerman/Volk Associates as the basis for its proprietary target market methodology. Target market data provides number of households by cluster aggregated into the three main demographic categories—empty nesters and retirees; traditional and non-traditional families; and younger singles and couples.

Zimmerman/Volk Associates' target market classifications are updated periodically to reflect the slow, but relentless change in the composition of American households. Because of the nature of geo-demographic segmentation, a change in household classification is directly correlated with a change in geography, *i.e.*—a move from one neighborhood condition to another. However, these changes of classification can also reflect an alteration in one of three additional basic characteristics:

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- Age;
- Household composition; or
- Economic status.

Age, of course, is the most predictable, and easily-defined of these changes. Household composition has also been relatively easy to define; recently, with the growth of non-traditional households, however, definitions of a family have had to be expanded and parsed into more highly-refined segments. Economic status remains clearly defined through measures of annual income and household wealth.

A change in classification is rarely induced by a change in just one of the four basic characteristics. This is one reason that the target household categories are so highly refined: they take in multiple characteristics. Even so, there are some rough equivalents in household types as they move from one neighborhood condition to another. There is, for example, a strong correlation between the *Suburban Achievers* and the *Urban Achievers*; a move by the *Suburban Achievers* to the urban core can make them *Urban Achievers*, if the move is accompanied by an upward move in socio-economic status. In contrast, *Suburban Achievers* who move up socio-economically, but remain within the metropolitan suburbs may become *Upscale Suburban Couples* or *Fast-Track Professionals*.

Household Classification Methodology:

Household classifications were originally based on the Claritas PRIZM geo-demographic segmentation system that was established in 1974 and then replaced by PRIZM NE in 2005. The revised household classifications are based on PRIZM NE which was developed through unique classification and regression trees delineating 66 specific clusters of American households. The system is now accurate to the individual household level, adding self-reported and list-based household data to geo-demographic information. The process applies hundreds of demographic variables to nearly 10,000 “behaviors.”

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Over the past 21 years, Zimmerman/Volk Associates has augmented the PRIZM cluster system for use within the company's proprietary target market methodology specific to housing and neighborhood preferences, with additional algorithms, correlation with geo-coded consumer data, aggregation of clusters by broad household definition, and unique cluster names.



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ASSUMPTIONS AND LIMITATIONS—

Every effort has been made to insure the accuracy of the data contained within this analysis. Demographic and economic estimates and projections have been obtained from government agencies at the national, state, and county levels. Market information has been obtained from sources presumed to be reliable, including developers, owners, and/or sales agents. However, this information cannot be warranted by Zimmerman/Volk Associates, Inc. While the methodology employed in this analysis allows for a margin of error in base data, it is assumed that the market data and government estimates and projections are substantially accurate.

Absorption scenarios are based upon the assumption that a normal economic environment will prevail in a relatively steady state during development of the subject property. Absorption paces are likely to be slower during recessionary periods and faster during periods of recovery and high growth. Absorption scenarios are also predicated on the assumption that the product recommendations will be implemented generally as outlined in this report and that the developer will apply high-caliber design, construction, marketing, and management techniques to the development of the property.

Recommendations are subject to compliance with all applicable regulations. Relevant accounting, tax, and legal matters should be substantiated by appropriate counsel.



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Research & Strategic Analysis

RIGHTS AND STUDY OWNERSHIP—

Zimmerman/Volk Associates, Inc. retains all rights, title and interest in the methodology and target market descriptions contained within this study. The specific findings of the analysis are the property of the client and can be distributed at the client's discretion.

