Puget Sound Region Transit-Oriented Development Market Study

An overview of the potential for market-rate and affordable development around light rail transit in the Central Puget Sound Region

June 28th, 2012

prepared for:
Puget Sound Regional Council
Growing Transit Communities Program

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EXECUTIVE SUMMARY

Over the coming decades, the Puget Sound region's planned investment in rapid transit will have a considerable impact on urban form, mobility and access. As part of the Growing Transit Communities (GTC) partnership, the Puget Sound Regional Council (PSRC) retained Strategic Economics and Gardner Economics to assess the opportunity for affordable and market-rate transit-oriented development (TOD) along existing and potential light rail lines. Guided by Vision 2040 and funded by a grant from the federal Partnership for Sustainable Communities, the GTC consortium is working to shape equitable transit communities with the goal of providing social, economic, and environmental benefits to current and future residents and businesses.

This Executive Summary provides a summary of regional level finds from the report, including research around preferences for transit-oriented development and an overview of demographic, employment and market trends and conditions organized by the three regional light rail corridors and Downtown Seattle (**Figure E1)**: the South Corridor, which extends from South Seattle to Tacoma, the North Corridor from North Seattle to Everett, the East Corridor from East Seattle to Redmond and, finally, a distinct geography comprised of the Downtown Seattle study areas. Each of these areas is in different stages of system planning and development.

Additional study- and market-area level findings – too detailed for concise summary - are included in Section III of the report, which provides insight into TOD potential at the study and TOD market area level, including a set of market strength indices which provide a quantitative analysis of the potential for residential and commercial TOD in study areas; and a series of market area profiles, which provide an assessment of the TOD potential in each of the region's twelve TOD market areas. Please see **Section III of the full report** for these findings.

Preferences for Transit Oriented Development

Ongoing research over the past decade into the locational preferences and behavior of people and businesses suggests that certain subsets of each group have strong – and potentially unmet – demand for transit-oriented residential and commercial space. These findings, summarized below, are critical to the TOD market assessment included in this study:

- **Young singles and couples without children**[1] are most likely to live near transit and be interested in walkability, mixed-use neighborhoods and short commutes. [2]
- Research on changing household preferences suggests that the **Baby Boomer generation** may be interested in downsizing and moving to more amenity- and transit-rich neighborhoods.[3]
- **Proximity to employment centers and downtown districts** are among the most important factors in influencing the location of new development along transit.[4]
- **The Government, Knowledge-based and Entertainment industries** are more likely to locate near transit and benefit the most from transit-rich locations.[5]
- The University of Washington's decision to open an extension in Downtown Tacoma suggests that transit is emerging as a key factor when considering the location and expansion of **Educational and Medical** campuses throughout the region.

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[1] Center for Transit-Oriented Development, *Hidden in Plain Sight: Capturing the Demand for Housing Near Transit*, September 2004, http://www.reconnectingamerica.org/resource-center/books-and-reports/2004/hidden-in-plain-sight-capturing-the-demand-for-housing-near-transit/.

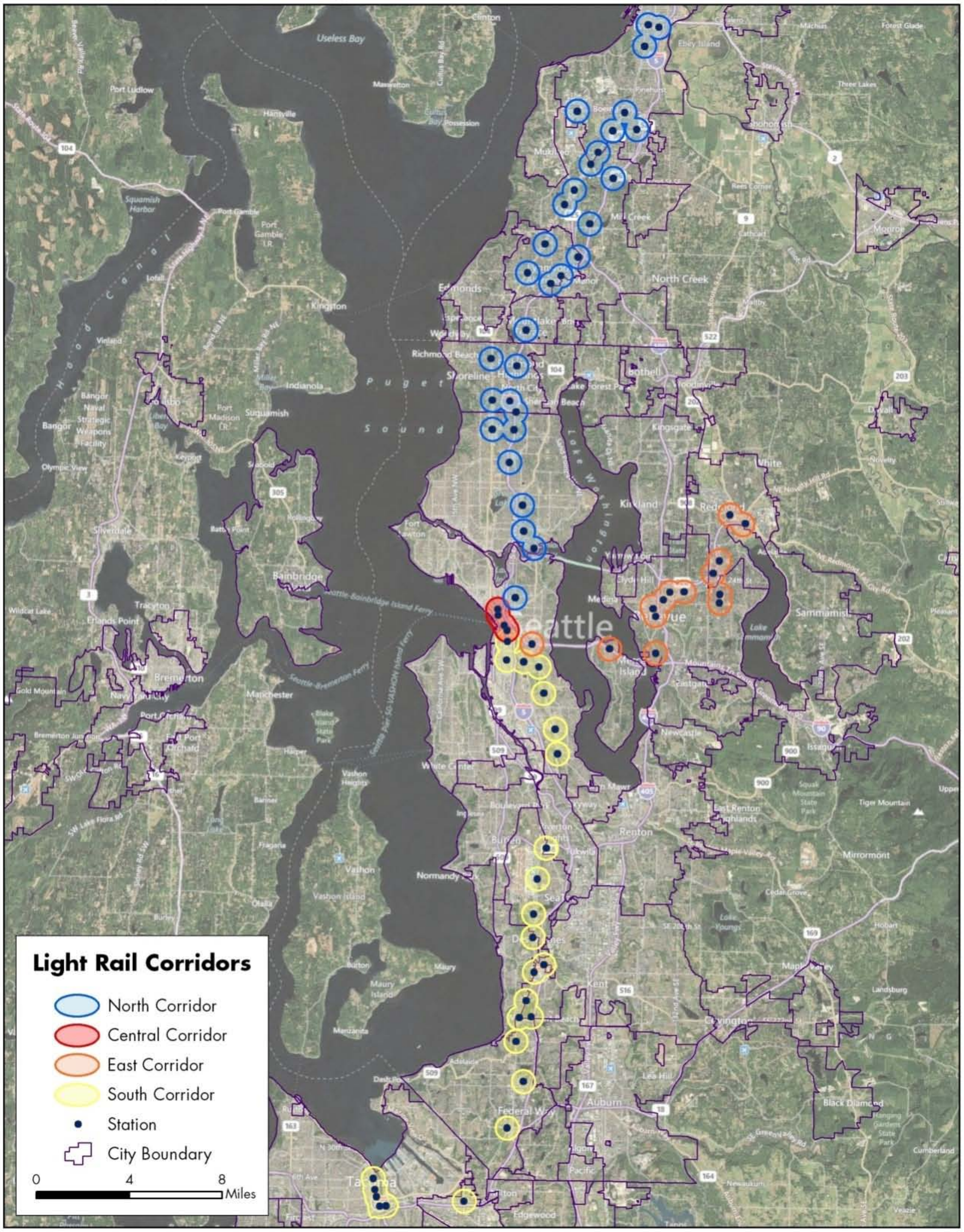
[2] Belden Russonello & Stewart, *The 2011 Community Preference Survey* (Washington D.C.: National Association of Realtors, March 2011), http://www.realtor.org/government_affairs/smart_growth/survey.

[3] Myers and Gearin, 2001; Belden Russonello & Steward, 2011.

[4] Center for Transit Oriented Development. *Rails to Real Estate: Development Patterns Along Three New Transit Lines*. 2011.

[5] Center for Transit Oriented Development. *Transit and Regional Economic Development. 2011.*

Figure E1: Puget Sound Region Study Areas



Sources: Strategic Economics, 2012; PSRC, 2012; US Census; ESRI

Regional Market Conditions

Although market conditions vary by corridor and market area, regional market conditions provide the context for local TOD potential. Regional conditions are summarized below.

The regional **apartment market** in the Tri-County area is currently broadly stable and gaining momentum as of early 2012, with vacancy rates below 5 percent and rental rates on the rise,[6] particularly in Seattle and east King County. New rental construction is underway and expected to continue in the short-to-mid term. Like much of the country, the Puget Sound Region **condominium market** was hard-hit by the collapse of the housing market and for the last five years a glut of inventory has kept prices low and inhibited new development. Although the number of sales in recent months has jumped,[7] factors such as stricter financing requirements and continued inventory overhang suggest that – outside of the strongest market locations - new condominium development will return in the mid-to-long term.

The Puget Sound region is leading the national **office market** recovery, fueled by growth in the technology industry and businesses such as Microsoft and Amazon. Despite the region's relative strength, the majority of new construction is still build-to-suit, with speculative construction occurring only in the strongest market locations. Outside of these locations, new office construction is more likely to occur in the mid-to-long term. Although the Puget Sound **retail market** is also on the road to recovery, brokers report the majority of recent development has been build-to-suit and driven by business expansion. Speculative development is expected to be a longer-term prospect.[8]

Corridor Market Conditions

This section contains an overview of key demographic, commercial, and market-rate and affordable housing trends and conditions at the corridor level.

North Corridor

Demographic factors suggest the potential for strong residential TOD demand along the North Corridor, particularly among young singles and families without children. The North Corridor is characterized by smaller household sizes and a relatively high share of non-family households and households in the 25 to 44 year age range. Given the high and growing share of rental households in the North Corridor, a significant portion of future TOD demand will likely be for rental housing.

Residential demand along the North Corridor varies by location, with a stronger apartment market to the south and condominium market to the north. The North Seattle market area has the strongest rental market along the North Corridor, driven by the presence of the University of Washington – a major regional destination for education, medical care and employment – and the area's proximity to Downtown Seattle. In contrast to the apartment market, the condominium market is stronger in northern study areas due to their proximity to the Boeing employment cluster in Everett. In the longer term, Downtown Everett's strong urban form has the potential to support TOD that meets demand for both rental and for-sale housing in proximity to the Boeing employment center, should the SR99 alignment be selected.

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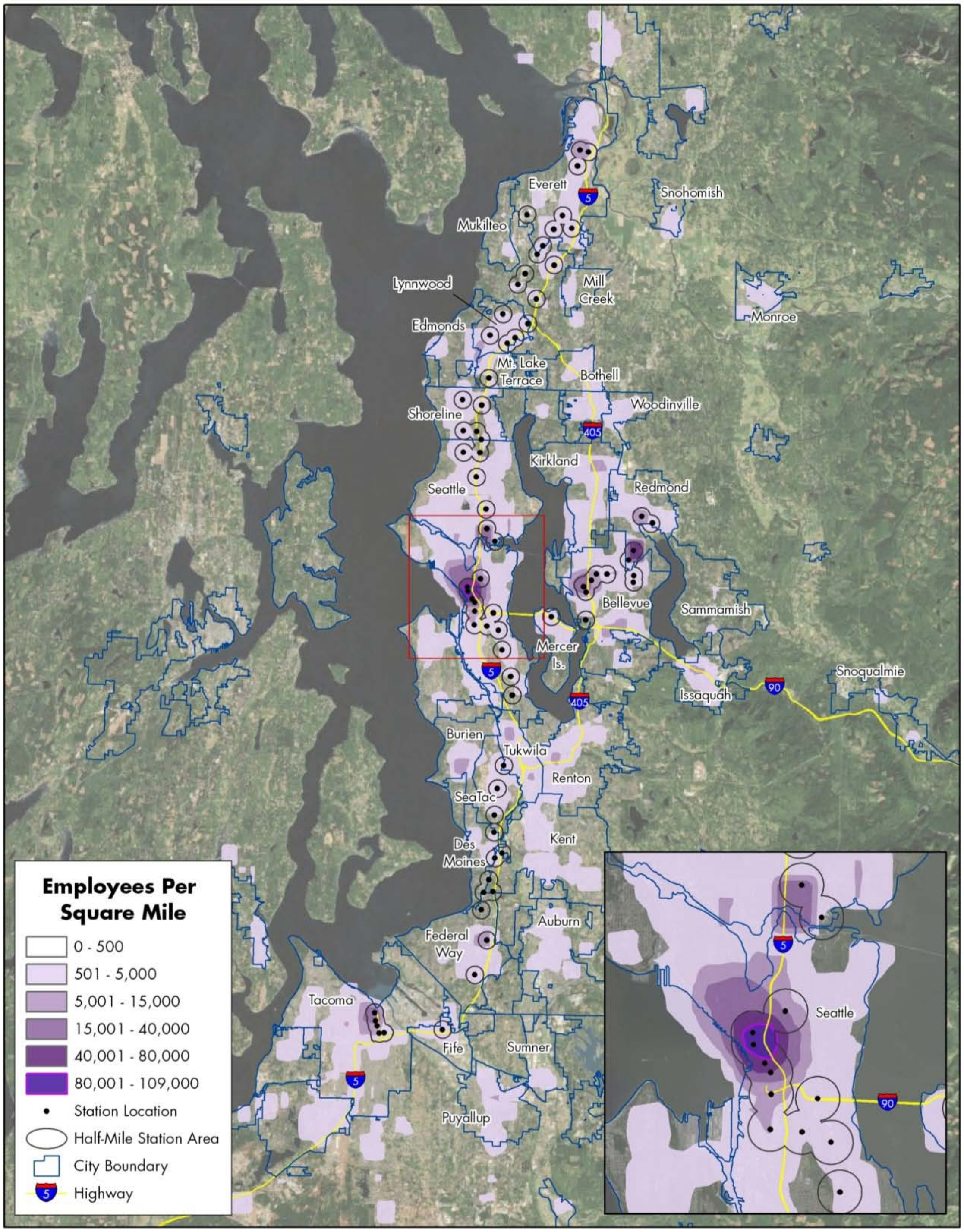
[6] Kidder Matthews, 3rd Quarter 2011 Real Estate Market Review; King, Pierce and Snohomish Counties.

[7] Kakimoto, B. (2012, April 4). *March 2012 Seattle Condo Market Update*. Retrieved from http://blog.seattlepi.com/seattlecondo/2012/04/08/march-2012-seattle-condo-market-update/

[8] Kidder Matthews, Real Estate Market Preview, 1st Quarter 2012.

Figure E2: Employment in Transit Supportive Industries

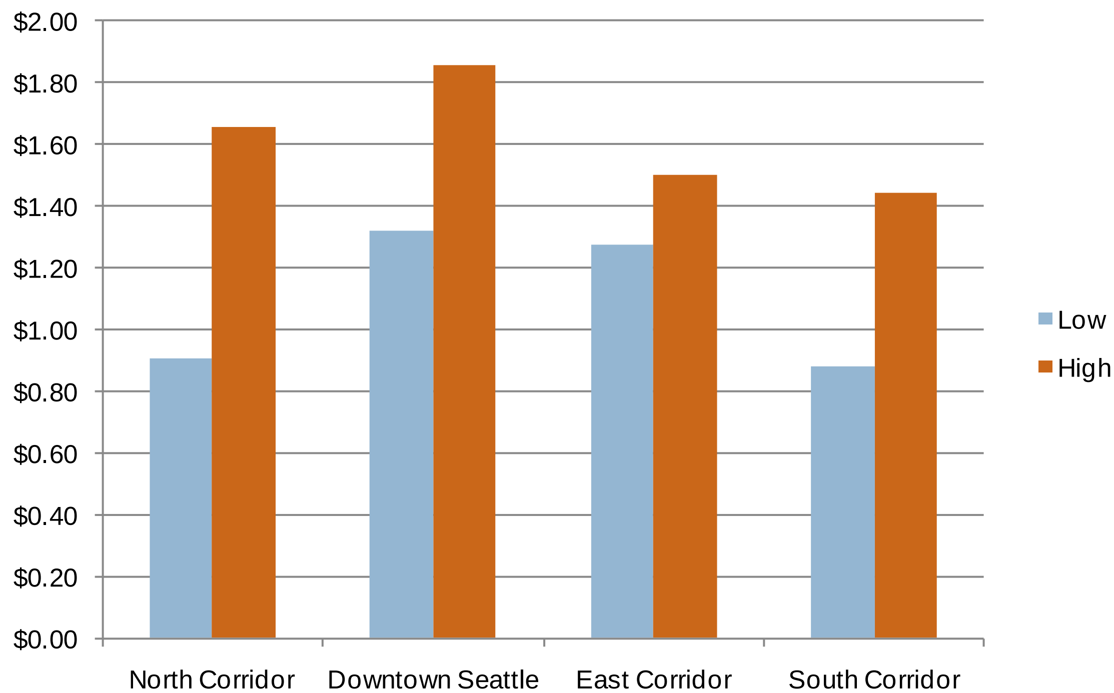


Sources: Strategic Economics, 2012; PSRC, 2012; US Census, LEHD Data, 2009; ESRI.

With the exception of the Boeing plant in Everett, current employment and commercial market conditions in North Corridor cities do not suggest significant future demand for commercial transit-oriented development. Outside of Boeing in Everett, the North Corridor is primarily residential in nature. Future commercial growth is likely to be neighborhood-serving, and therefore driven by demographic change rather than the presence of transit.

Limited funding resources and uneven distribution of existing affordable housing along the North Corridor present the potential for gentrification in the mid-to-long-term. Although the North Corridor housing market is not as strong as that of Downtown Seattle or the East Corridor as a whole, there is significant mid-term potential in North Seattle, and longer term potential in southern Snohomish County study areas, as well as study areas near Boeing Field, should the SR99 alignment be selected. This market demand has the potential to displace existing low-cost housing in the longer term, particularly if access to affordable housing funds in Snohomish County continues to be limited. In the mid-term, study areas in North Seattle have the strongest market potential, and are therefore most vulnerable to displacement of current low-cost market-based housing.

Figure E3: Range of Average Apartment Rental Rates by Transit Corridor, 2012



Source: Dupre and Scott; Gardner Economics; Strategic Economics 2012

Downtown Seattle

Downtown Seattle demographics indicate strong demand for residential TOD, with high existing residential densities, small household sizes and a concentration of non-family households. Downtown Seattle also experienced significant increases in household density from 2000 to 2010, indicating a strong real estate market over the last decade. In contrast with large portions of the North and South Corridors and the region, Downtown Seattle household incomes stabilized or increased from 2000 to 2010, which suggests that in addition to the existing very low income population on government support, there are a growing number of higher income households that are now seeking Downtown housing.

Downtown Seattle's residential market is characterized by strong short-to-mid-term demand for apartment development and slightly longer-term demand for condominium units; the condominium market is expected to trail the rental market until the excess inventory constructed during the housing bubble is absorbed and confidence in new product is restored. The residential market strength in Downtown Seattle reflects the area's status as a regional employment center, as well as the area's many amenities, including a walkable pedestrian environment, access to transit and proximity to retail, entertainment and service businesses.

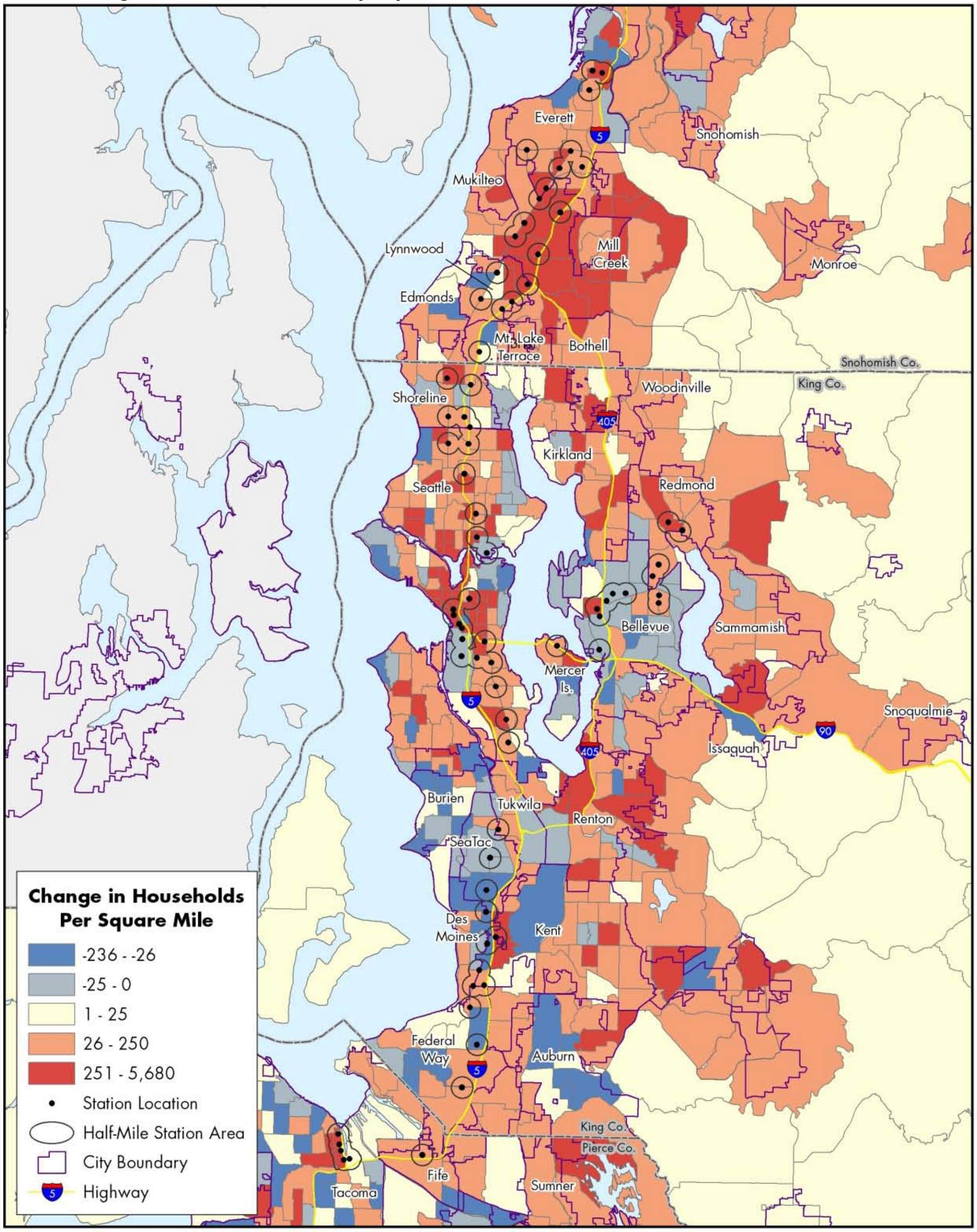
Given the existing cluster of transit-supportive employment and planned Amazon expansion, **Downtown Seattle has strong potential demand for new commercial TOD**. Downtown Seattle contains one of the region's strongest office markets – it is one of the few places in the country with speculative office space under construction. Future commercial growth will be driven by the high tech sector, including companies such as Amazon, which is currently planning to build an additional 3.3 million square feet of office space in the Westlake study area.

Affordability in Downtown Seattle is well-protected by the highest concentration of subsidized housing units – and particularly those serving the lowest income households - among the four geographies. Although Downtown Seattle has the strongest luxury multifamily housing market in the region, the corridor also has one of the lowest median incomes and contains more than 6,000 subsidized housing units over four study areas, 68 percent of which are aimed at households earning less than 30 percent of median income. If a more balanced mix of incomes is desired, developers and funders should focus on the provision of housing for low and moderate incomes in the Downtown.

East Corridor

The East Corridor has strong overall market indicators; potential for residential TOD is mixed. The East Corridor's high household income and household sizes suggests a strong residential market, particularly for large, single-family luxury homes, which are not typically oriented towards transit. At the same time, prior to the recession, Downtown Bellevue and Redmond were experiencing higher density residential development oriented toward employees of the growing high tech employment center in Redmond/Bellevue. These areas are likely to continue to attract young, high-income employees who are seeking a more walkable, transit-rich lifestyle as this job center recovers and adds jobs. This suggests some potential future demand for residential TOD in East Corridor study areas, particularly oriented towards young tech employees. The demand for multifamily housing – and particularly condominium development - is expected to increase with the completion of the East Corridor line and improved connectivity between Eastside employers and higher density residential growth areas, as well as much improved access to Downtown Seattle and the rest of the region. Potential to realize this demand is limited more by restrictions on future supply, given the extent of single family neighborhoods in the East Corridor.

Figure E4: Change in Household Density, by Census Tract, 2000-2010

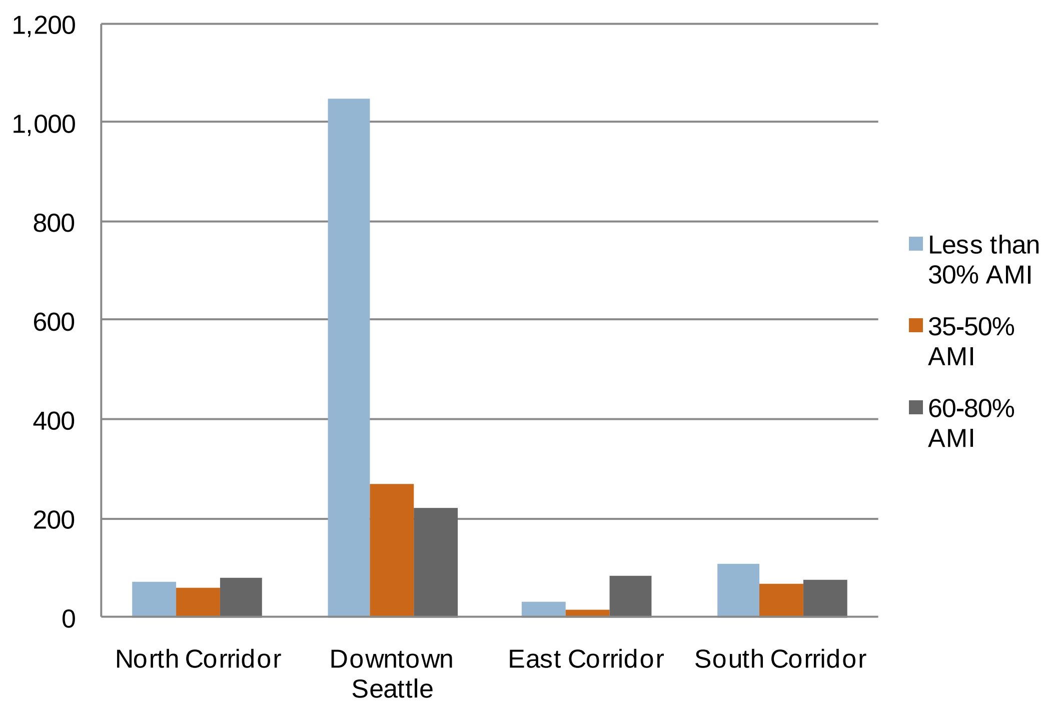


Sources: Strategic Economics, 2012; PSRC, 2012; US Decennial Census 2000 and 2010; ESRI.

Strong market conditions and a growing concentration of transit-supportive employment suggests that the East Corridor office market is currently poised for growth. The East Corridor is also characterized by a strong office market. Recent expansion has been driven by high tech companies such as Expedia, Hipcricket[9] and Citrix and this trend is likely to continue given the presence of Microsoft and the agglomerative nature of the high tech industry. Continued growth among Eastside employers – and particularly high tech firms seeking recent college graduates – will provide an additional boost to the multifamily housing market.

The East Corridor lags behind other study areas in King County in provision of very low and low income affordable housing. Although the East Corridor study areas do contain a higher share of lower income households compared to the rest of eastern King County, it has the fewest number of subsidized units among the four geographies, as well as the lowest average number of units per study area. Given the presence of a strong school system and growing access to employment, an East Corridor location has the potential to offer lower income residents significant benefits. Developers report, however, that public sentiment against the construction of affordable housing can be a difficult barrier to overcome.

Figure E5: Average Number of Subsidized Housing Units per Study Area, by Income Range and Transit Corridor, 2012



Source: PSRC; Strategic Economics 2012

[9] CB Richard Ellis, Puget Sound Office MarketView, 4th Quarter 2011.

South Corridor

Relative to the other transit corridors, **the South Corridor does not have strong demographic growth indicators for residential TOD**. Residential TOD indicators such as household size, share of family households and age of householder are consistent with a less compact form of development, and the South Corridor experienced household loss and decreases in income levels between 2000 to 2010. Two notable exceptions to this assessment are Rainier Valley and Downtown Tacoma. These areas have experienced a decrease in household sizes and increase in number of households from 2000 to 2010, which suggests growing demand for residential transit-oriented development.

Residential recovery along the South Corridor is trailing the region; mid-term apartment growth potential is focused around the Southeast Seattle stations. High vacancy rates and low rents and sales prices suggest that the markets for both condominium and apartment development around transit along the South Corridor have limited potential for growth in the short-to-mid term. The primary exception to this is the Southeast Seattle TOD market area, which includes study areas with near-, mid- and long-term potential. In the longer term, Downtown Tacoma also has significant potential for residential growth, due to the Downtown's strong urban form, historic buildings and recent investments such as the University of Washington extension.

The South Corridor commercial market is limited in the short-to-mid term. Current market conditions suggested limited potential for commercial TOD in the short-to-mid term throughout the Corridor. Past employment trends indicate that commercial employment patterns along the South Corridor may over the long-term evolve from industrial to more transit-supportive uses. In addition, the existing and growing transit-supportive employment cluster in Downtown Tacoma suggests moderate long-term potential for commercial TOD in the Downtown Tacoma market. The completion of the light rail line and continued economic development and investment in the Downtown will be critical to the realization of the area's TOD potential.

The South Corridor contains a significant concentration of both market-based and subsidized affordable housing, which will be well-served by the completion of the transit corridor. South Corridor city incomes are significantly lower than the regional average and many of the lowest income households are located on or around existing or planned transit corridors. These households are currently served by a mix of subsidized and market-based affordable housing. Given the weakness of the market and urban form throughout much of the Corridor, the distance of much of it from significant employment centers, as well as the length of time before completion of the line, the current mix of housing affordability is likely to remain into the long term. The exception to this is Southeast Seattle, where market acceleration is expected more quickly in certain study areas.

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I. INTRODUCTION

Over the coming decades, the Puget Sound region's planned investment in rapid transit will have a considerable impact on urban form, mobility and access. As part of the Growing Transit Communities (GTC) partnership, the Puget Sound Regional Council (PSRC) retained Strategic Economics and Gardner Economics to assess the opportunity for affordable and market-rate transit-oriented development (TOD) along existing and potential light rail lines. Guided by Vision 2040 and funded by a grant from the federal Partnership for Sustainable Communities, the GTC partnership is working to shape equitable transit communities with the goal of providing social, economic, and environmental benefits to current and future residents and businesses.

Grounded in research about the types of households and employers who value transit-rich locations, this study provides an in-depth analysis of demographic, employment and market trends and conditions in order to provide members of the GTC partnership with a clear perspective on the potential for residential and commercial growth around light rail stations and other transit nodes. This analysis will also provide insight into forthcoming work from Strategic Economics, including a quantitative forecast of demand for residential and commercial TOD and a set of policy recommendations designed to promote public and private investment at the study area level.

Study Geography
Throughout this report, data are discussed at different levels of geography, including the region, corridor, and study area. The *region* refers to the four-county central Puget Sound region, which includes King, Pierce, Snohomish, and Kitsap counties. The *corridors* refer to the collection of light rail and other transit node study areas that are located within the three primary corridors for light rail that radiate out from the City of Seattle, as illustrated in **Figure 1**. The South Corridor extends from South Seattle to Tacoma, the North Corridor from North Seattle to Everett, and the East Corridor from East Seattle to Redmond. Given the distinct characteristics of Downtown Seattle, it is not classified as a corridor but included in the analysis as a point of comparison at the corridor level. Downtown Seattle includes four existing light rail stations.

For the purposes of this analysis, the three corridors and Downtown Seattle include 74 *study areas* which comprise the half-mile radius around existing and potential transit facilities. Still in the planning process, these study areas represent current and *potential* future stations and other transit nodes, rather than a finalized plan for expansion, which has not yet been defined. The North Corridor, for example, includes two potential corridors – one along State Route 99 (SR99) and the other along the Interstate 5 (I-5) highway.

Downtown Seattle includes four study areas from Westlake to International District, which are part of the existing Central Link light rail line. The remaining Central Link light rail stations are contained in the South Corridor, which includes 25 study areas from the Stadium Station in Seattle to the Theatre District Station in Tacoma. The East Corridor includes 14 study areas from the Rainier study area in Seattle to Downtown Redmond. Finally, the North Corridor includes 31 study areas from the Capitol Hill study area in Seattle to the Everett study area.

Relationship to Growing Transit Communities Existing Conditions Report
The Puget Sound Regional Council recently completed a broader Existing Conditions report, which examines current demographic and economic conditions in the region, as well as issues around land use; housing affordability; transportation; and the policy and regulatory environment. The purpose of this report is to establish baseline conditions and inform future work, including a typology of study areas,

policy recommendations and implementation actions. In contrast, the TOD Market Study focuses on the market potential for development around transit, with a focus on the residents and businesses that are more likely to locate around transit and shape demand for future growth.

Although the Existing Conditions Report and this TOD Market Study contain some similar demographic and economic analyses, the reports use different geographies and data sources and therefore the quantitative results are not directly comparable.

Contents of the Report
The analysis contained in this report is organized by geographic level of analysis: System-wide (Section II) and Market Area (Section III). Analyses and key findings from these geographies account for the two primary sections of the report. Also included are the Introduction (Section I) and the preceding Executive Summary. The System-wide section contains four major subsections:

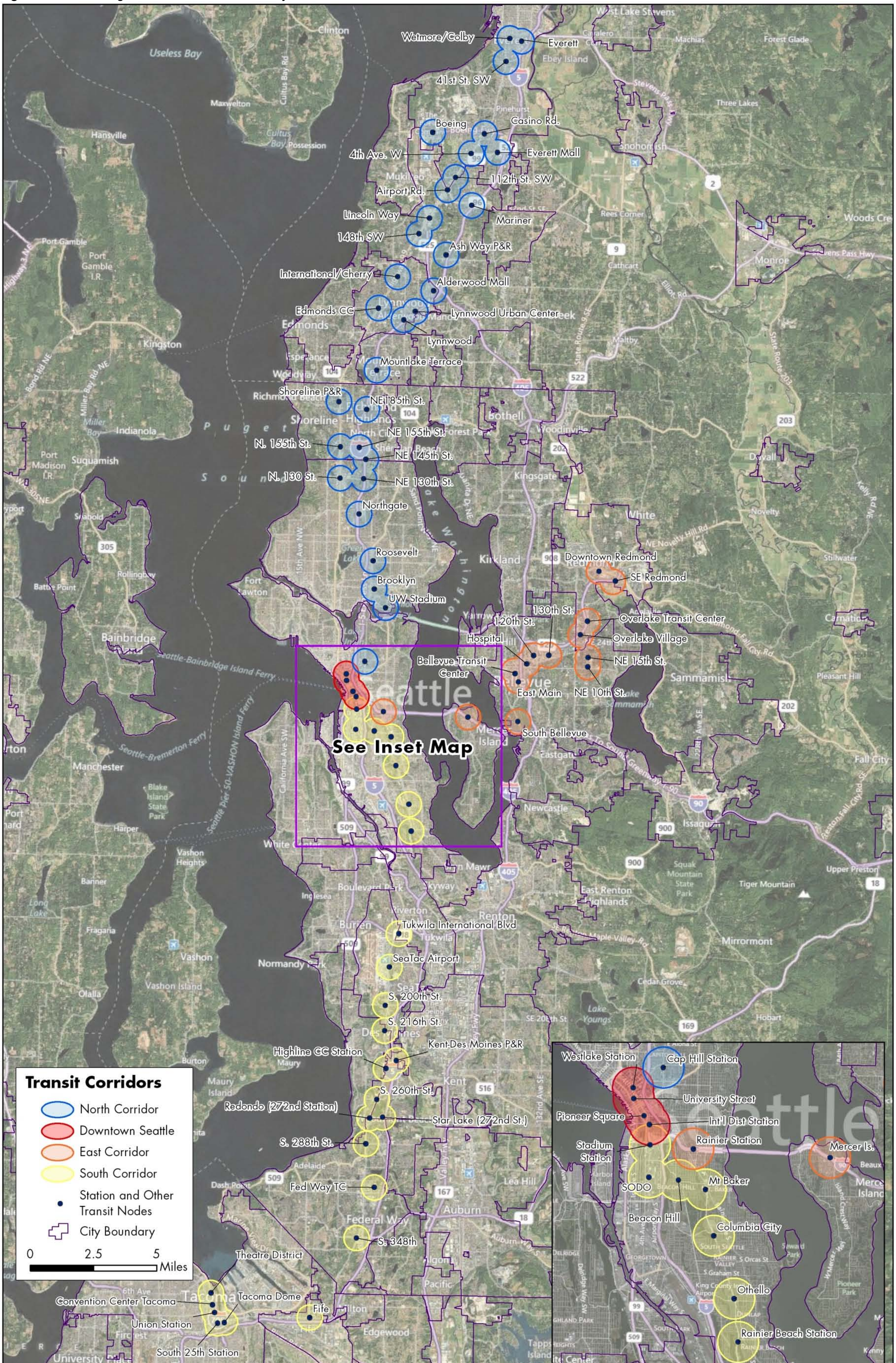
- The **Regional Context** section begins with a review of research on how household and employment patterns and preferences can impact demand for transit-oriented development. Next, demographic and employment trends across Puget Sound and in the corridors are analyzed in comparison with national trends, and key findings around the demand for transit-oriented development are identified.
- The **Market Rate Housing Real Estate Conditions and Trends** section contains an assessment of the market for transit-oriented residential development, including an analysis and key findings derived from developer interviews and regional, corridor and market area-level rental and for-sale housing data.
- The **Market Rate Commercial Real Estate Conditions and Trends** section evaluates current real estate conditions and the potential for commercial TOD and future growth in transit-supportive industries along the light rail lines.
- The **Demand and Supply of Affordable Housing near Light Rail** section contains an overview of key findings which shape the landscape for affordable housing around transit in the Puget Sound Region, including income distribution trends, an inventory of current affordable housing units around transit and key findings from interviews with local public and non-profit affordable housing developers.

The Market Area section includes two subsections:

- The **Market Strength Index** section contains the methodology and results associated with a set of quantitative, multi-variable indices developed by Strategic Economics to evaluate the potential for residential and commercial TOD around the 74 light rail stations and other transit nodes.
- The **TOD Market Area Profile** section includes a concise analysis of each of the twelve TOD market areas identified along the four transit corridors. These profiles include summaries of demographic, employment and market conditions, as well as an overall assessment of TOD potential in each area.

Additional forthcoming work from the Strategic Economics consulting team includes a set of TOD housing and commercial projections and a report summarizing barriers and actions for promoting TOD.

Figure 1: Seattle Light Rail Corridors and Study Area



Sources: Strategic Economics, 2012; PSRC, 2012; US Census; ESRI

I. SYSTEM-WIDE MARKET ANALYSIS

This chapter provides an overview of the key trends and conditions that will inform the future market for transit-oriented development near current and prospective light rail stations and other transit nodes in the Puget Sound region. It addresses both historical trends in employment and household growth that shape demand for development near transit, as well as conditions in the current supply of market-rate housing, affordable housing and commercial space in the study areas of the North, South and East Corridors of the Link light rail system.

The first section of this chapter introduces research to date regarding household and employer preferences for fixed rail locations and then describes historic trends in employment and household growth at the Puget Sound regional and corridor levels, in comparison with national trends. The next three sections analyze recent real estate trends and conditions in the corridors versus the region, based on both quantitative market indicators (rent, sales, vacancy, transactional activity, and development pipeline) and qualitative assessment drawn from interviews with market-rate and affordable developers active in the corridors.

A. REGIONAL CONTEXT

Demographic and employment trends provide valuable insight into the demand for residential and commercial transit-oriented development, as well as the potential for future growth around transit in the region. In order to better understand this relationship, this section starts with a review of the research on how household and employment patterns and preferences can impact demand for transit-oriented development. Next, demographic and employment trends across Puget Sound and in the corridors are analyzed in comparison with national trends and key findings around the demand for transit-oriented development are identified.

Preferences for Transit Oriented Development

Ongoing research over the past decade into the locational preferences and behavior of people and businesses suggests that certain subsets of each group have strong – and potentially unmet – demand for transit-oriented residential and commercial space. This section provides a summary of research on the types of households and employers that choose to live around transit, with the goal of aiding the interpretation of demographic and employment trends included later in the section. A more in-depth discussion of research regarding housing and firm location preferences will be included in the forthcoming report forecasting demand for TOD in Puget Sound in 2020, 2030, and 2040.

Young singles and couples without children are most likely to live around transit.
In the mid-2000s, the Center for Transit-Oriented Development (CTOD) created a national TOD database to determine how many and what kinds of households lived within a half-mile of an existing fixed-rail transit station. The national TOD database found that households composed of one or two people, non-family households, and households with householders age 15 to 34 were most likely to live near existing transit stations – in other words, young singles and couples with no children.[1] In addition, young singles are the group most interested in "walkability," mixed-use neighborhoods, and short commutes.[2] Recent

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[1] Center for Transit-Oriented Development, *Hidden in Plain Sight: Capturing the Demand for Housing Near Transit*, September 2004, http://www.reconnectingamerica.org/resource-center/books-and-reports/2004/hidden-in-plain-sight-capturing-the-demand-for-housing-near-transit/.

[2] Belden Russonello & Stewart, *The 2011 Community Preference Survey* (Washington D.C.: National Association of Realtors, March 2011), http://www.realtor.org/government_affairs/smart_growth/survey.

Department of Transportation statistics show that average daily vehicle miles travel (VMT) for people under 35 has declined steadily since 1995, while daily VMT for the population over 35 has continued to increase except for during the recession of the last few years.[3] Young families, on the other hand, and particularly those with children, are the most likely to choose single-family homes even if it means a longer commute and overwhelmingly prioritize high-quality schools in making location decisions.[4]

Research on changing household preferences suggests that the Baby Boomer generation may be interested in downsizing and moving to more amenity- and transit-rich neighborhoods. Although the CTOD found that householders age 65 and older were the least likely to live near transit in 2000, there is evidence to suggest that the preferences of older householders are changing, particularly as the Baby Boomer generation enters retirement age. Recent surveys found that people age 55 and over are more likely to prioritize public transportation, "walkability," and access to amenities, and are more receptive to townhouses and condos with smaller yards than are younger households.[5] Based on these findings, CTOD projected that the percent of households age 65 and older living near transit will increase 10 percent by 2030.[6]

Employment centers and downtown districts are among the most important factors in influencing the location of new development along transit. In a 2011 report documenting real estate development along three new transit lines[7], CTOD found that while there had been a significant amount of development along all three lines, development had occurred unevenly within the corridors. New development was most likely to locate near downtowns and other employment centers. City-led planning processes, infrastructure investments, and other public sector efforts were also found to play an important role in influencing the location of development.

The Government, Knowledge-based and Entertainment industries are more likely to locate near transit and benefit the most from transit-rich locations. A recent CTOD report suggests that although, on average, 23 percent of employment for all transit regions nationwide in 2008 was located within a ½ mile of transit zones, the "capture rate" of employment around transit varied considerably by industry. These findings are described in more detail below.

- **Government jobs**, which were shown to have the greatest affinity for transit, tend to cluster in central districts within capitals or other major cities, with a much smaller number of jobs in "branch" offices. Often these jobs will not only locate in areas with high employment densities, but will also be placed near transit as a matter of policy, to both support the transit system and facilitate access by employees and citizens.

- **Knowledge-based jobs,** which includes Information; Finance and Insurance; Real Estate; Professional, Scientific and Technical Services; and Management of Companies and Enterprises, were also more likely to be attracted to transit-rich locations. While low transportation costs and building space requirements allow these firms to cluster more

[3] U.S. Department of Transportation, "Table 33. Vehicle Miles of Travel (VMT) per day for Younger Population Groups by Urban and rural Household Location 2009 NHTS," Summary of Travel Trends: 2009 National Household Travel Survey, June 2011, http://nhts.ornl.gov/2009/pub/stt.pdf.

[4] Belden Russonello & Steward, 2011.; Myers, Dowell and Elizabeth Gearin. "Current Preferences and Future Demand for Denser Residential Environments." Housing Policy Debate 12, no. 4 (2001): 633-569.;

[5] Myers and Gearin, 2001; Belden Russonello & Steward, 2011.

[6] CTOD, 2004

[7] Center for Transit Oriented Development. *Rails to Real Estate: Development Patterns Along Three New Transit Lines*. 2011.

densely, their role within the regional economy often dictates whether they chose to do so. For instance, a financial services firm for which the rapid transmission of information may be critical to business may have a strong incentive to aggregate within a major financial services node. In contrast, local-serving firms (such as commercial banks) may locate closer to their customers, in smaller, peripheral, retail or general commercial nodes. In addition, there is evidence that high-tech,[8] bio-tech[9] and information technology[10] firms also gain significant benefits from agglomeration in industry nodes.

- **Entertainment jobs**, which include Arts, Entertainment, and Recreation; and Accommodation and Food Services sectors, showed a moderate propensity to locate near transit, and experienced job growth within transit zones at a faster rate than the region as a whole. There appears to be a positive effect of agglomeration for artistic and cultural services such as schools, dance studios, and art galleries. The literature suggests that the ability to share workers, technology, and marketing compels artistic and cultural enterprises to locate in areas with a high concentration of similar firms.[11] These agglomerations are most likely to be in cultural centers in central cities are near major educational institutions.

- **Education and Medical jobs** are a mix between those which serve residential populations, such as primary schools, secondary schools and community hospitals, and those which serve the region, such as large universities and research hospitals. While the first category is more likely to locate according to demographic factors, the second category – large universities and research hospitals – make strategic locational decisions which vary by institution and by region. Although the CTOD study did not show a direct relationship between “Eds and Meds” jobs and transit at the national level, University of Washington recent decision to locate in Downtown Tacoma suggests that transit is an important factor when considering the location and expansion of educational and medical campuses throughout the region.

Demographic Trends

This subsection contains key demographic findings for the Puget Sound region and the cities in each of the existing and planned transit corridors. These characteristics are analyzed because they tend to correlate with preference for locations near transit and higher density housing types, as described previously.

Data sources include the US Decennial Census 2000 and 2010 and the American Community Survey 2006 – 2010. All analyses were completed at the national, regional and city-corridor levels. In keeping with the PSRC regional geography, in this section the region includes Pierce, Kitsap, King and Snohomish Counties. The city-corridor geography includes all of the cities which contain study areas in a given corridor. For example, South Corridor cities include Tacoma, Fife, Federal Way, Kent, Des Moines, Tukwila, SeaTac and portions of southeast Seattle. The East Corridor includes the cities of Mercer Island, Beaux Arts Village, Bellevue and Redmond. North Corridor cities include portions of North Seattle, Shoreline, Mountlake Terrace, Lynnwood and Everett. Downtown Seattle is represented by Downtown Seattle census blocks. The North, East and South corridors and Downtown Seattle are illustrated in **Figure 1 on page 5.** All demographic mapping in this section is conducted at the block level. The second

[8] Rosenthal, Stuart, and William Strange. The Determinants of Agglomeration, *Journal of Urban Economics*, Vol. 50, 2001.

[9] Sambidi, Pramod R. *Spatial Econometric Analysis of Agglomeration Economies Associated with the Geographical Distribution of the Biotech Industry*. Diss. Louisiana State University, 2007.

[10] Ibid

[11] Gabe, Todd M. City-Industry Agglomeration and Changes in the Geographic Concentration of Industry. Rep. Morgantown: *Review of Regional Studies*, 2008.

half of this report, which addresses twelve identified sub-corridor market areas, provides additional assessment of demographic characteristics at these smaller geographies.

Household Density, Growth, Type and Size

The following findings address those demographic characteristics that, as described above, have been found to have significant correlation with demand for housing in locations near fixed-rail transit. Characteristics analyzed here include total number of households, household density, change in density, household type, average household size, and change in average household size.

Existing and planned PSRC light rail transit corridors serve 15 cities containing more than 600,000 households. This accounts for more than 40 percent of current households in the Puget Sound region (**Figure 2)**. The North and South corridors contain the majority (85 percent) of these households, due primarily to the length of the respective corridors.

Downtown Seattle has among the highest density of households in the region, and is densifying more quickly than any other part of the future system (Figure 2). Figure 4 suggests that the density of households in central Seattle increased significantly from 2000 to 2010, particularly in comparison with neighboring communities along the East and South Corridors (with the exception of Downtown Bellevue, which also saw significant growth). This increase in density reflects a national trend in the 2000s towards Downtown intensification and residential growth in regions with strong economies and centralized job growth. The significant amount of development activity in central Seattle neighborhoods and Downtown Bellevue over the last decade, notwithstanding the recession, indicates very strong on-going potential for residential TOD in these areas.

The North Corridor from Alderwood Mall to Everett experienced a significant increase in both number and density of households from 2000 to 2010 (Figure 3, 4 and 5). Although not as dense as Downtown Seattle, the portions of the North corridor in North Seattle and from the Ash Way P&R study to the Everett study area have seen incremental growth over the last decade. In comparison, the South Corridor from Tukwila to Des Moines and the majority of the East Corridor lost households in that time, while other portions of the corridors maintained or experienced only slight fluctuations in household growth.

Downtown Seattle and the North Corridor have a significantly larger share of non-family households compared to both the PSRC region and the nation as a whole. More than 80 percent of Downtown Seattle and 54 percent of North Corridor households are classified as non-family households, compared to 40.3 percent in South Corridor and 35.9 percent in East Corridor (**Figure 2)**. Given that non-family households are more likely locate around transit than larger family households with children, the presence of non-family households is an important indicator of market strength for TOD.

Smaller household sizes in Downtown Seattle and the North Corridor cities suggest stronger potential demand for transit-oriented development. With 1.39 persons per household, Downtown Seattle has among the smallest average household size in the region, with household size falling since 2000 **(Figure 2).** The North Corridor cities also have a smaller household size compared to the region (2.10 compared to 2.48 persons per household, respectively), with smaller households concentrated at the southern end of the corridor from North Seattle to Mountlake Terrace. Household sizes have fallen precipitously around Shoreline and Mountlake Terrace since 2000 and risen or remained stable throughout the remainder of the North Corridor.

Although East and South Corridor cities have household sizes closer to the regional average, household sizes have been on the rise since 2000. In 2010 the average household size along the East and

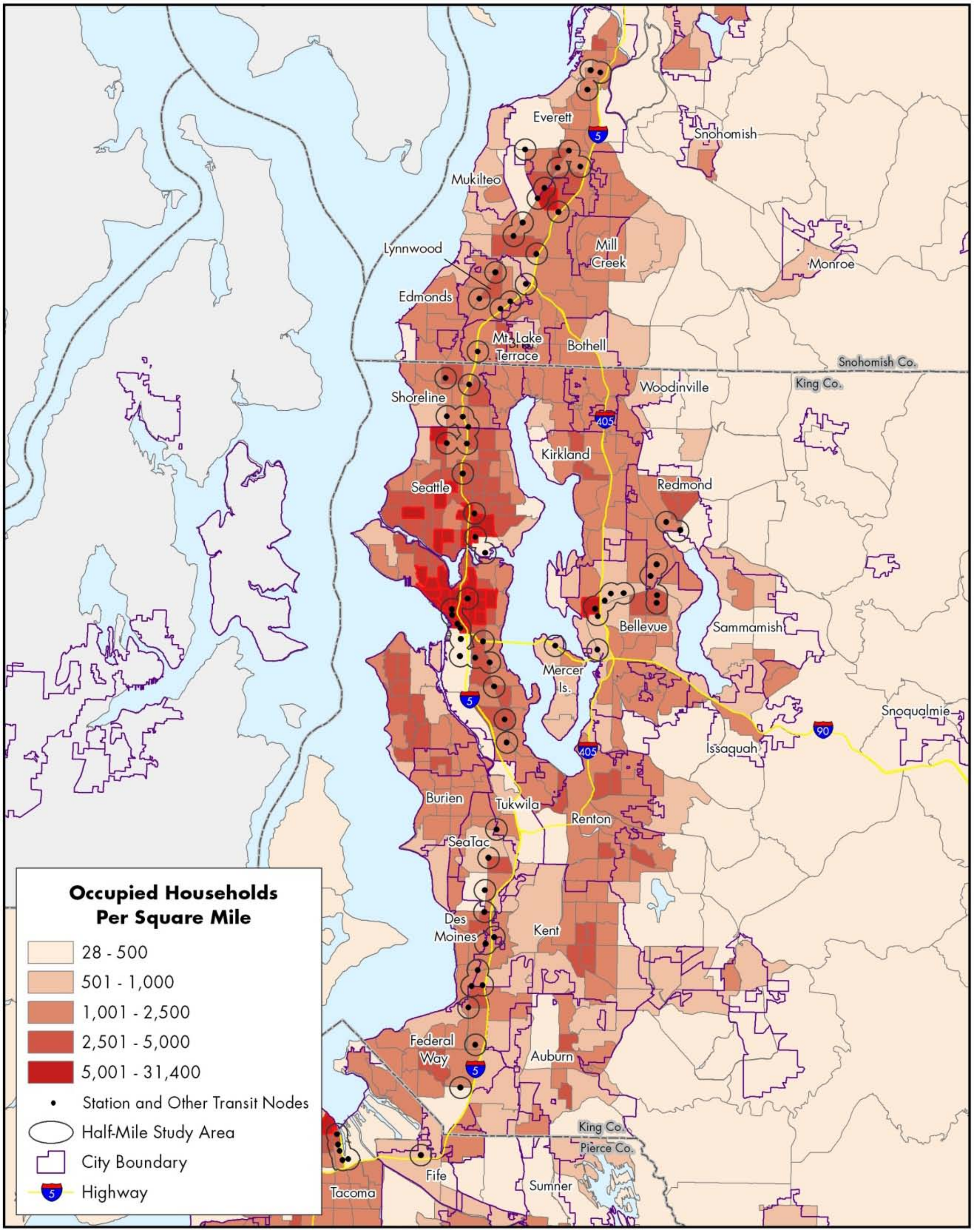
South Corridors was 2.41 and 2.51 persons respectively, compared to 2.48 region-wide. **Figure 6** indicates, however, that average household size in these corridors has been growing since 2000, particularly in the Overlake Village, Tukwila and Fife areas. Growing household size along the East and South Corridors suggests an increasing concentration of large and/or family households in the area, who tend to value locations near transit less highly than smaller households and choose housing unit types that are less dense. Two notable exceptions to this are Rainier Valley and Downtown Tacoma, where smaller household sizes compared to the South Corridor as a whole reflects these locations' more urban settings.

Figure 2: Household Number, Type and Size, 2010

Topic	National	Regional	PSRC Rail Corridors			
			North	Downtown Seattle	East	South
Total Households	116,716,292	1,454,695	281,191	13,319	82,127	251,887
% Family Households	66.4%	62.7%	45.3%	19.7%	64.1%	59.7%
% Non-Family Households	33.6%	37.3%	54.7%	80.3%	35.9%	40.3%
Average HH Size	2.58	2.48	2.10	1.39	2.41	2.51

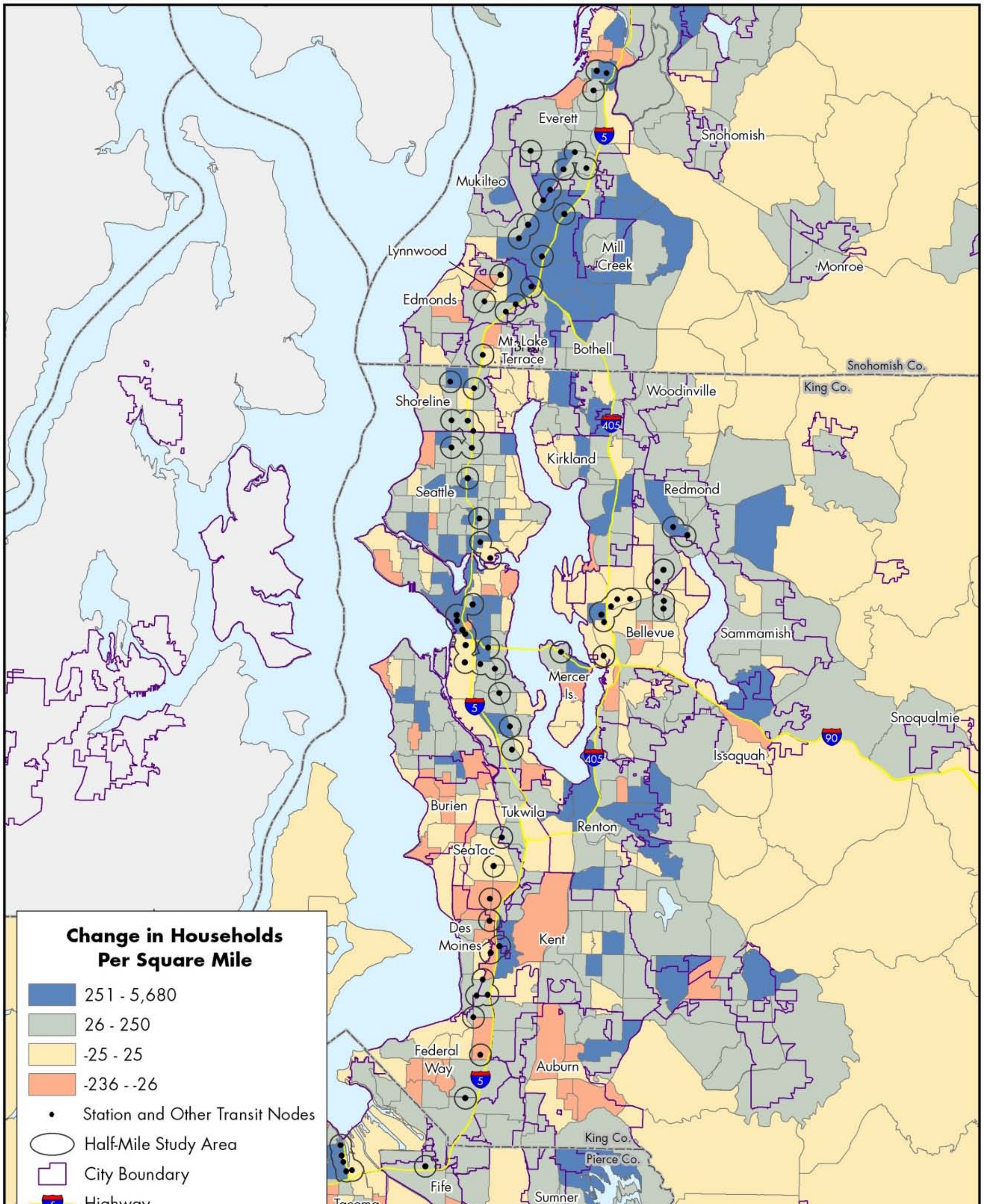
Source: Strategic Economics, 2012; US Decennial Census, 2010.

Figure 3: Household Density by Census Tract, 2010



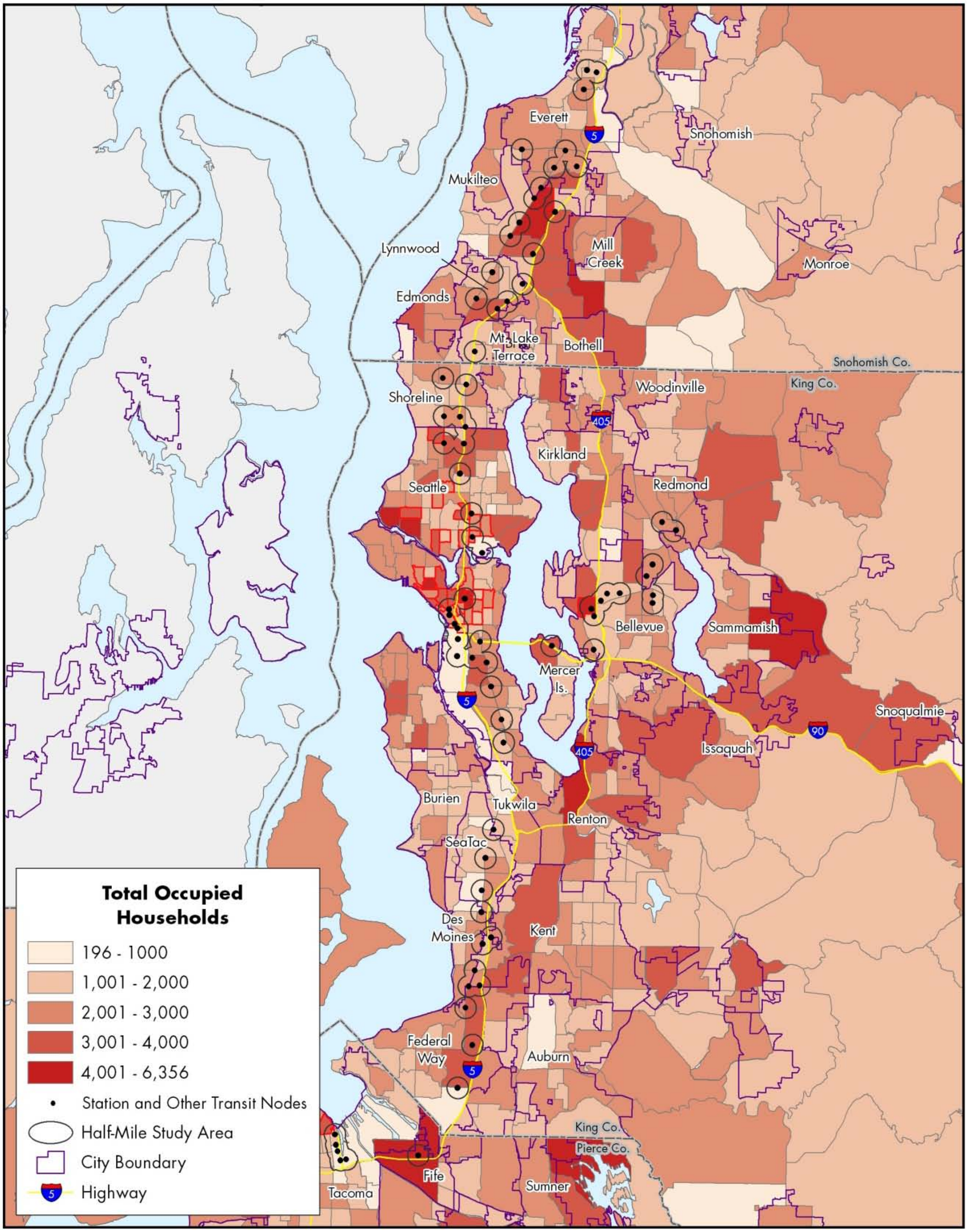
Sources: Strategic Economics, 2012; PSRC, 2012; US Decennial Census, 2010; ESRI.

Figure 4: Change in Household Density, by Census Tract, 2000-2010



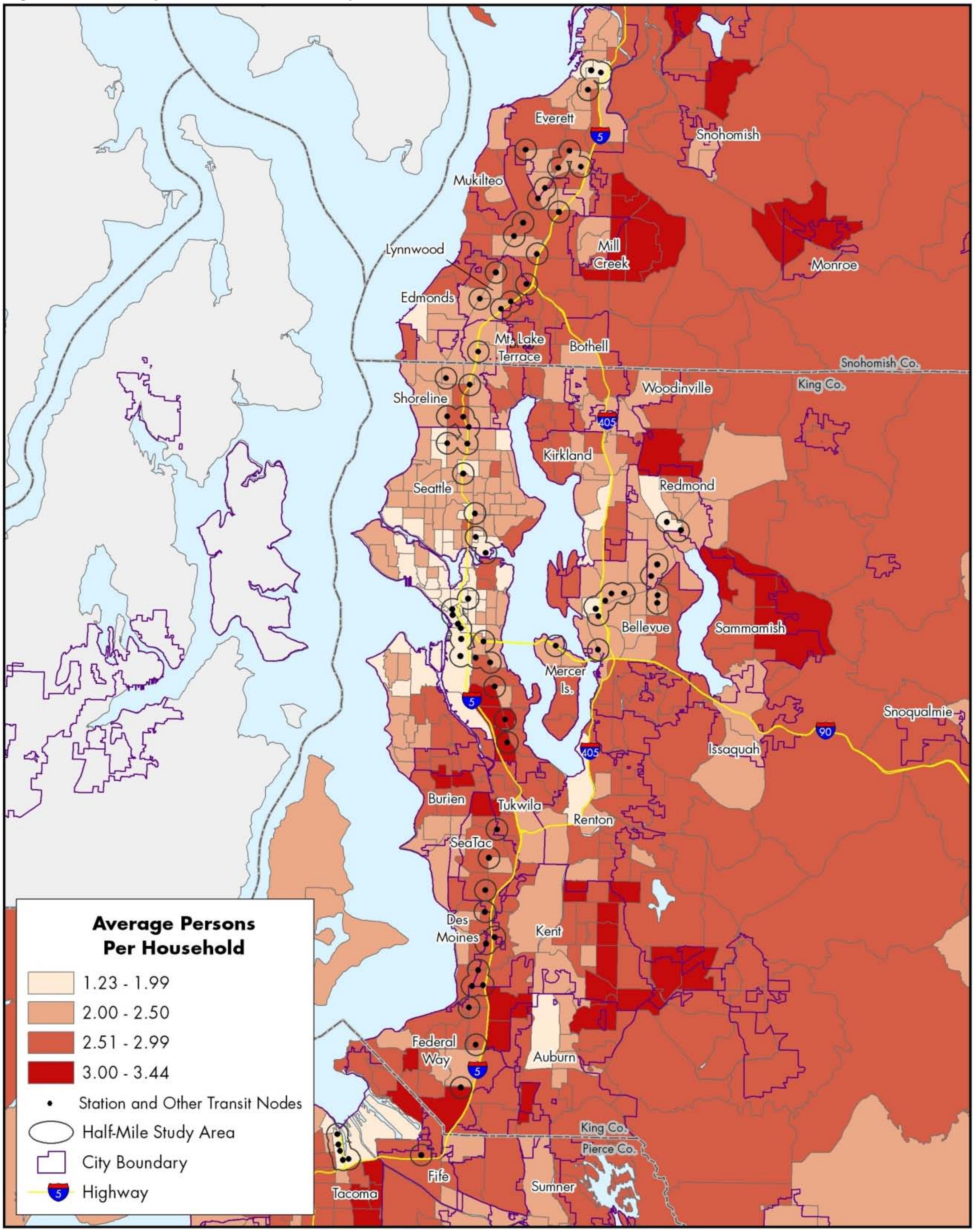
Sources: Strategic Economics, 2012; PSRC, 2012; US Decennial Census 2000 and 2010; ESRI.

Figure 5: Total Households by Census Tract, 2010



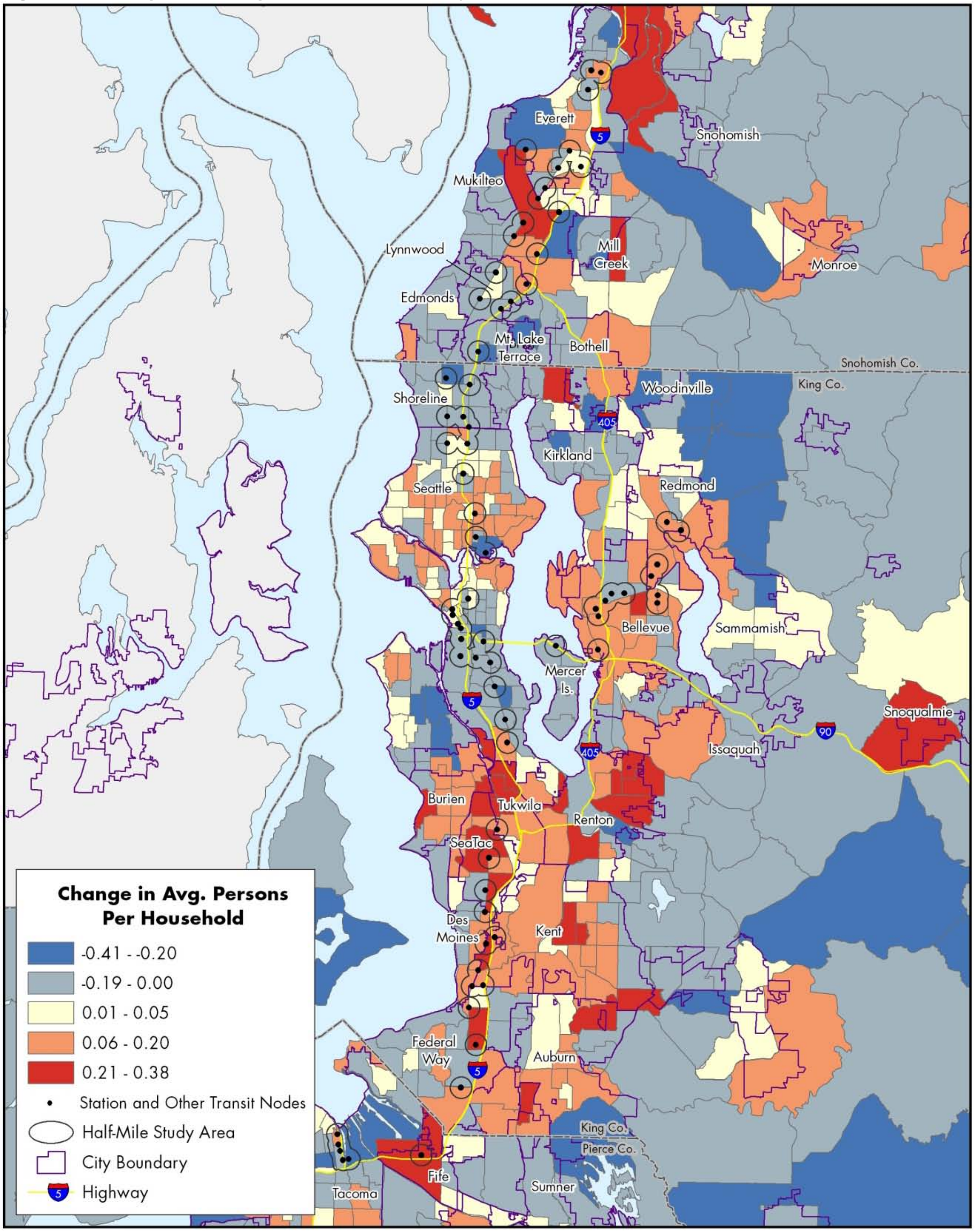
Sources: Strategic Economics, 2012; PSRC, 2012; US Decennial Census, 2010; ESRI.

Figure 6: Average Household Size by Census Tract, 2010



Sources: Strategic Economics, 2012; PSRC, 2012; US Decennial Census, 2010; ESRI.

Figure 7: Change in Average Household Size, by Census Tract, 2000-2010



Sources: Strategic Economics, 2012; PSRC, 2012; US Decennial Census, 2000 and 2010; ESRI.

Household Income, Age and Tenure

This sub-section addresses additional demographic characteristics that influence demand for TOD, and new development, in general. As described, age of householder is a key factor in demand for TOD. Household income and change in household income are demographic characteristics that correlate with new real estate investment and activity, *in general*. Areas with rising incomes present new opportunity for investors and market-rate developers because wealthier households have more income to spend on housing and because current housing stock may not meet the expectations of new households.[12] Housing tenure and change in housing tenure also indicate longer term distinctions in the nature of demand for rental versus ownership housing that influence new development trends.

The median household income in the Puget Sound Region is significantly higher than that of the nation as a whole. Household incomes in the Puget Sound Region are more than 25 percent higher than the national average ($65,068 and $51,914, respectively) (**Figure 8**). Developers report that the region has been protected from much of the impact of the recent recession by the strong and growing presence of technology sector, including firms such as Microsoft and Amazon.

Within the Puget Sound Region, the East Corridor cities have the highest median household income, while Downtown Seattle households have the lowest. With an average median income of $88,087, high incomes in the East Corridor cities indicate a strong housing market, particularly for high-end luxury homes. North and South Corridor median incomes are slightly below the regional level ($62,025 and $54,716 respectively). Downtown Seattle households have the lowest median income among those areas served by planned or existing transit ($31,178), which reflects the concentration of subsidized affordable housing in central Seattle (see **Section III**).

Residents of the North Corridor north of Mountlake Terrace and the South Corridor south of Seattle were affected most strongly by the recent recession, with real household incomes significantly lower in 2010 than in 2000 (Figure 10). **Figure 11** illustrates the regional changes in median household incomes from 2000 to 2010. The drop in median household income is consistent with national trends; real income in the United States fell by 5.9 percent in that time. The areas which were hit hardest by the recession also have the highest share of residents earning between 30 and 76 percent of area median income (**Figures 57 and 58 on pages 76-77)**, which suggests that loss of income was a particular problem for "working poor." In contrast, household incomes in Downtown and East Seattle were stable or experienced significant increased growth from 2000 to 2010. This suggests that the recession had an uneven impact on income levels throughout the region.

The North Corridor has a higher share of householders between the ages of 25 and 44 (Figure 9). Forty-three percent of North Corridor householders are between the ages of 24 and 44, compared to 33.6 percent at the regional level. Given that the North Corridor also has a higher share of non-family households and that young, non-family households have been shown to have the strongest preferences for living near transit, this suggests strong demand for TOD in the North Corridor cities. Downtown Seattle and the East Corridor cities also have higher shares of householders in this age range (39.5 and 39.9 percent, respectively).

Downtown Seattle has a higher share of householders over age 65 compared to the region as a whole. More than 22 percent of householders in Downtown Seattle are over the age of 65 compared to 17.8 percent in the region. Given that older households demonstrate stronger preferences for walkable, transit-rich communities, the higher share of older households in Downtown Seattle may be a factor of the

[12] As noted previously, many lower and moderate income households prefer housing locations near transit and represent significant demand for TOD. Demand for below-market housing near transit is discussed in detail in Section IC.

strong concentration of amenities and services located along the existing transit line. This corridor also contains a large share of affordable housing serving the lowest income populations, many of whom are seniors on assisted living.

PSRC corridor cities – Downtown Seattle and the North Corridor in particular - have a higher share of renters compared to the region and the nation as a whole (Figure 8). More than 85 percent of Downtown Seattle households are renters, compared to just 38.0 percent at the regional level and 34.9 percent at the national level. The North, South and East Corridor cities also have a higher share of renters (51.5 percent, 45.2 percent and 41 percent, respectively). The share of rental households in East Corridor cities has increased significantly since 2000 (3.1 percent compared to .5 percent regionally), suggesting a growing apartment market along the corridor. While tenure in the South and North Corridors has remained generally stable, the share of rental households in Downtown Seattle has declined since 2000 (-2.5 percent), likely due to the trend of condominium development and conversion during the housing bubble.

Figure 8: Household Income and Tenure

Topic	National	Regional	PSRC Rail Corridors			
			North	Downtown Seattle	East	South
Median Income (2006-2010 average)	$51,914	$65,068	$62,025	$31,783	$88,027	$54,716
Tenure (2010)						
% Owner Occupied Households	65.1%	62.0%	48.5%	14.8%	59.0%	54.8%
% Renter Occupied Households	34.9%	38.0%	51.5%	85.2%	41.0%	45.2%
Change in % Rental Occupied 2000 – 2010	1.1%	0.5%	0.4%	-2.5%	3.1%	0.4%

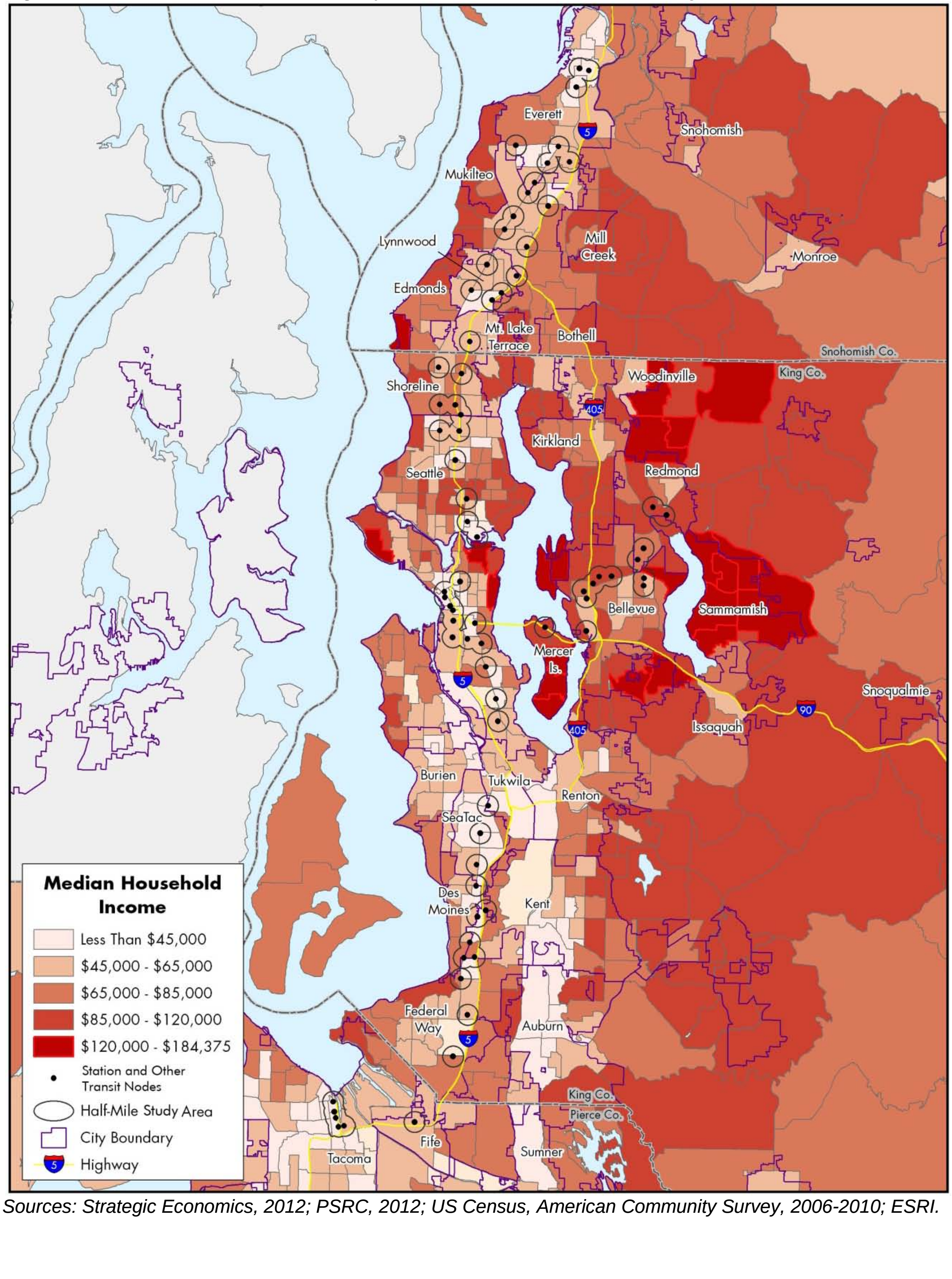
Source: US Decennial Census 2010; American Community Survey 2006-2010; Strategic Economics, 2012

Figure 9: Age of Householder

Topic	National	Regional	PSRC Rail Corridors			
			North	Downtown Seattle	East	South
Total Households	116,716,292	1,454,695	281,191	13,319	82,127	251,887
% Households - Householder Under 25	4.6%	4.7%	7.6%	8.4%	4.2%	4.8%
% Households - Householder 25 - 44	33.6%	37.6%	43.0%	39.5%	39.9%	38.6%
% Households - Householder 45 - 64	39.6%	39.9%	33.5%	29.5%	35.9%	38.8%
% Households - Householder 65 & Over	22.1%	17.8%	15.8%	22.6%	20.0%	17.9%

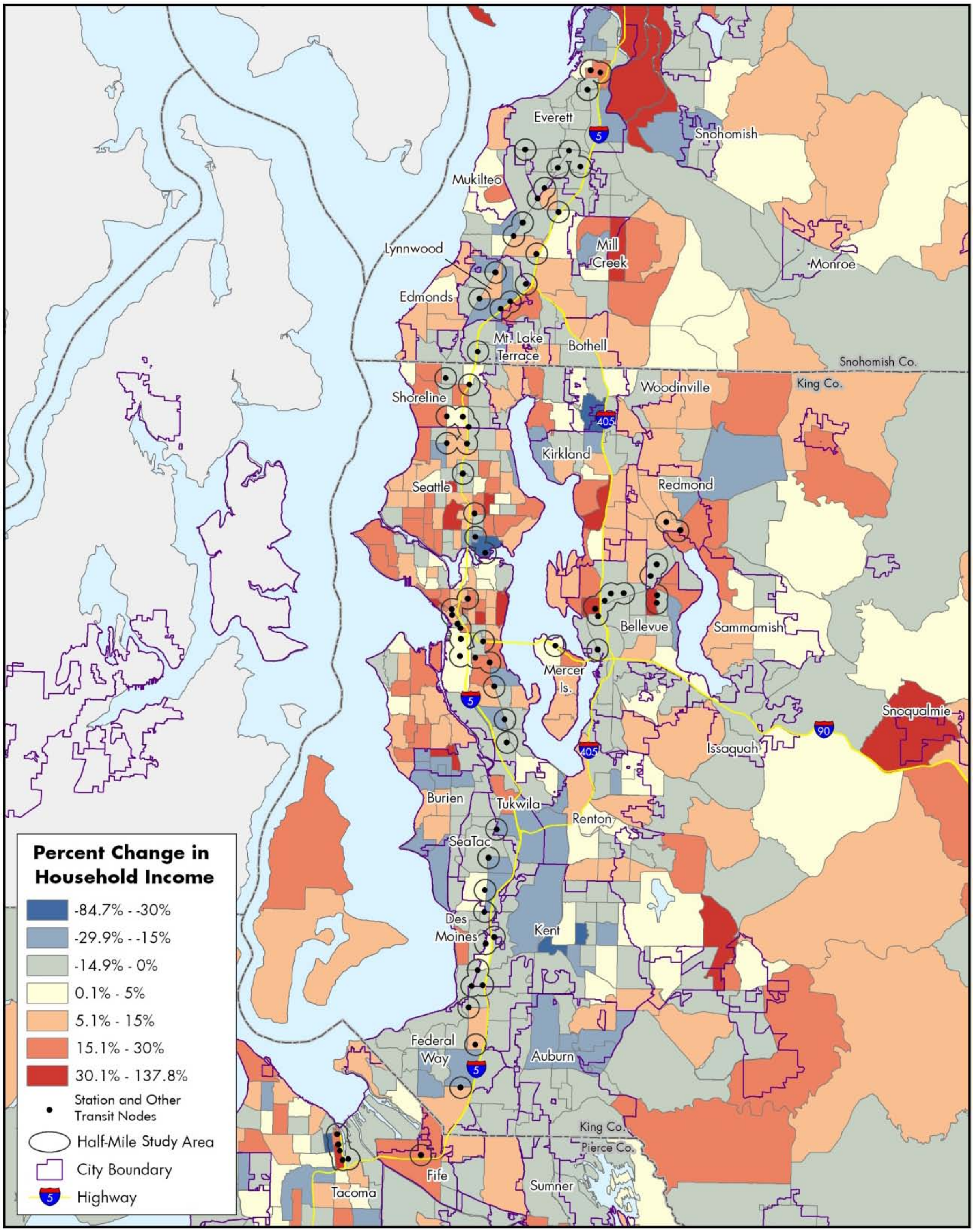
Source: US Decennial Census 2010; American Community Survey 2006-2010; Strategic Economics, 2012

Figure 10: Median Household Income by Census Tract, 2006-2010 Average



Sources: Strategic Economics, 2012; PSRC, 2012; US Census, American Community Survey, 2006-2010; ESRI.

Figure 11: Change in Median Household Income, by Census Tract, 2000 to 2006-2010



Sources: Strategic Economics, 2012; PSRC, 2012; US Decennial Census, 2000; American Community Survey, 2006-2010; ESRI.

Race/Ethnicity and Foreign Born Populations

Across the country, areas with existing fixed rail transit are consistently more racially and ethnically diverse than their regions as a whole. People of color are also less likely to own a motor vehicle and more likely to use transit.[13] Foreign-born populations may also have preferences regarding housing type and transportation mode that differ from the population at large. For example, research[14] into the cultural preferences of Latino immigrants suggests they may be more willing to live in compact or multifamily housing and utilize public transportation.

Downtown Seattle and South Corridor cities are among the most diverse in the region. In South Corridor cities only 57.3% of residents identify as White alone and significantly higher shares of residents identify as African American (12.3 percent), Asian (14.7 percent) or Latino (12.9 percent) compared to regional averages **(Figure 12)**. Residents of Downtown Seattle are more likely to identify as African-American (14 percent) or Asian (18.8 percent) compared to the region as a whole.

East Corridor cities have a high concentration of Asian residents. Over one-quarter of East Corridor residents identify as Asian, compared to 11 percent at the regional level.

Regionally, immigrant populations are concentrated in the light rail corridors (Figure 13). Study areas in the inner South Corridor and outer East Corridor overlap those census tracts with the highest proportion of foreign-born population in the region: 40 to 65 percent of the total population. Between 2000 and 2010, the majority of East and South Corridor study areas saw moderate to strong growth in immigrant populations, with the exception of Tacoma and some southeast Seattle study areas **Figure 14).** The majority of North Corridor study areas in Snohomish county also experienced growth in immigrant populations.

[13] Dukakis Center for Urban and Regional Policy, "Maintaining Diversity in America's Transit-rich Neighborhoods: Tools for Equitable Neighborhood Change." October 2010

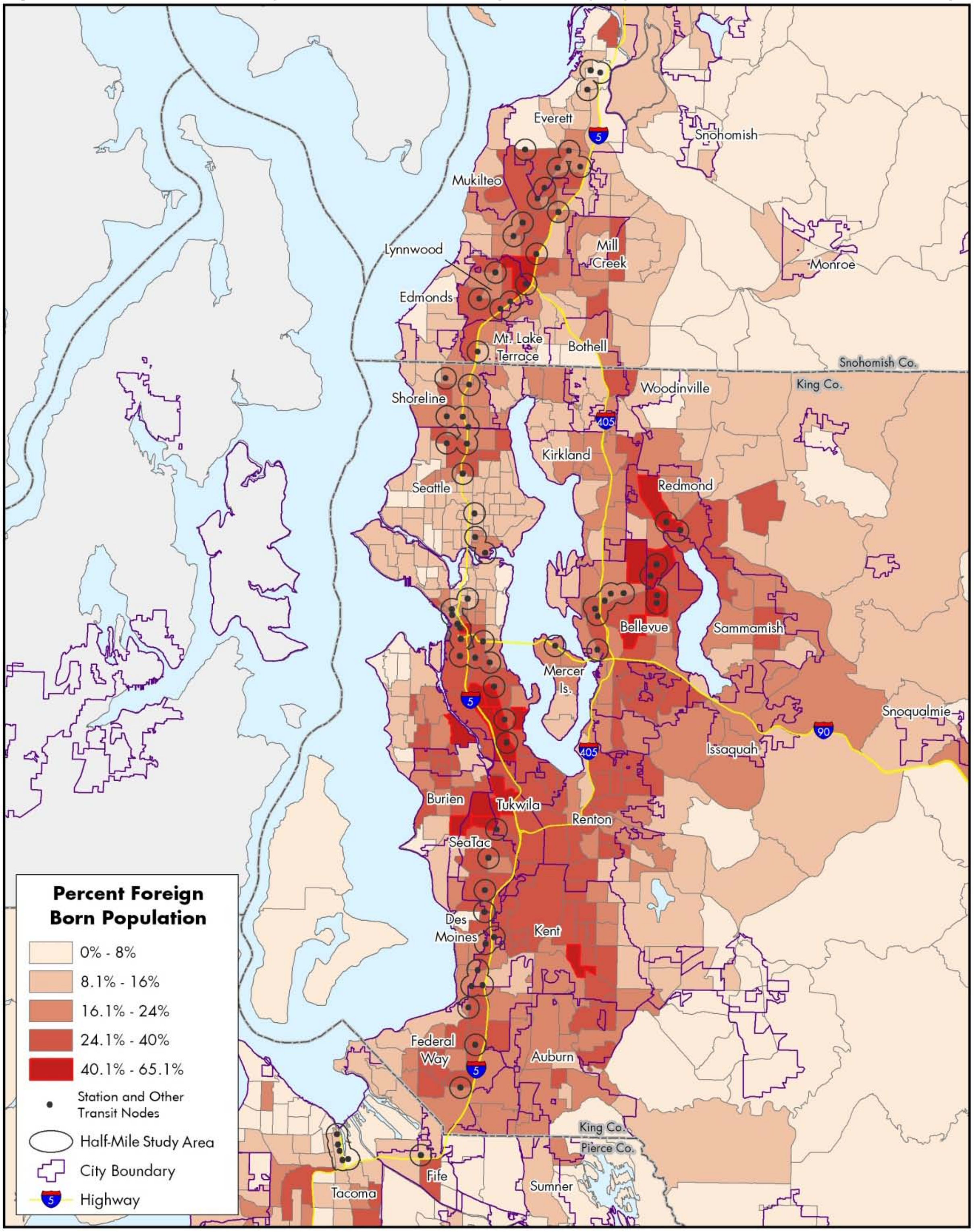
[14] Mendez, Michael. "Latino New Urbanism: Building on Cultural Preferences." *Opolis: An International Journal of* Suburban and Metropolitan Studies. 1.1 (2005)

Figure 12: Race/Ethnicity and Foreign-Born Populations, 2006-2010 & 2010

Topic	National	Regional	PSRC Rail Corridors			
			North	Downtown Seattle	East	South
Race Ethnicity (2010)						
Total Population	308,745,538	3,690,942	615,635	22,542	199,505	647,076
% White Alone	72.4%	72.7%	75.8%	58.7%	65.1%	57.3%
% Black or African American alone	12.6%	5.4%	4.5%	14.0%	2.0%	12.3%
% American Indian and Alaska Native alone	0.9%	1.1%	0.8%	1.8%	0.4%	1.3%
% Asian alone	4.8%	11.0%	10.5%	18.8%	25.6%	14.7%
% Native Hawaiian and Other Pacific Islander alone	0.2%	0.8%	0.4%	0.3%	0.2%	1.6%
% Some Other Race alone	6.2%	3.7%	2.9%	2.5%	2.8%	6.1%
% Two or More Races	2.9%	5.4%	5.1%	3.8%	4.0%	6.7%
% Hispanic or Latino	16.3%	8.8%	7.7%	6.7%	6.7%	12.9%
Foreign-Born (2006-2010 average)						
Total Population**	303,965,272	3,603,425	604,200	20,767	194,329	638,789
% Foreign-Born Population	12.7%	15.5%	15.8%	25.8%	29.1%	21.4%

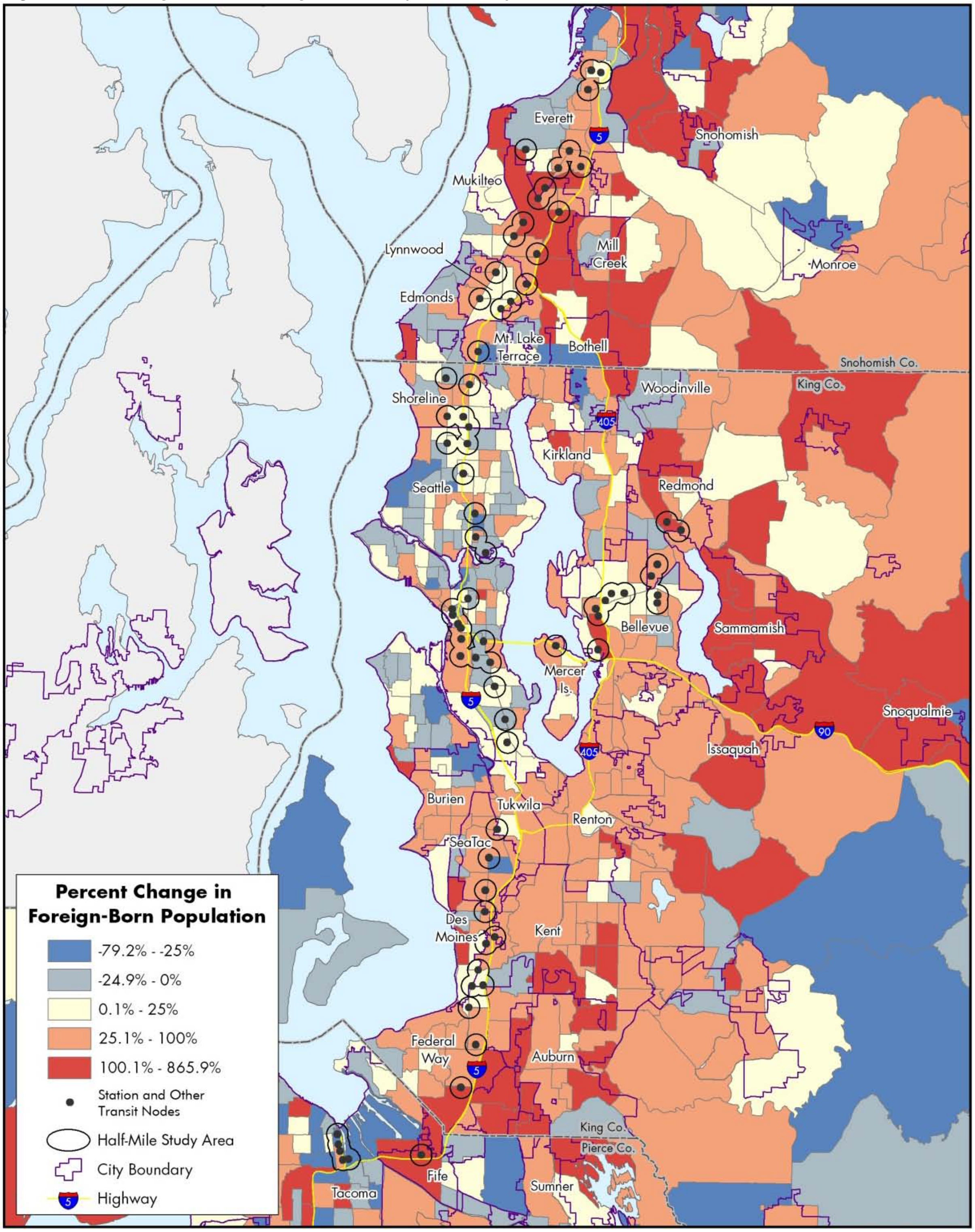
Source: US Decennial Census 2010; American Community Survey 2006-2010; Strategic Economics, 2012

Figure 13: Percent of the Population Born in a Foreign Country, by Census Tract, 2006-2010 Average



Sources: Strategic Economics, 2012; PSRC, 2012; US Census, American Community Survey, 2006-2010; ESRI.

Figure 14: Change in the Foreign-Born Population, by Census Tract, 2000-2010



Sources: Strategic Economics, 2012; PSRC, 2012; US Decennial Census, 2000; American Community Survey, 2006-2010; ESRI.

Employment

This section describes employment patterns and trends in the Puget Sound Region, with a focus on the "transit-supportive" industries that drive demand for transit-oriented commercial space. For the purposes of this report, jobs in the Knowledge-based, Entertainment, Government and Educational and Medical industry groups are classified as transit-supportive based on recent research into firm location preferences summarized previously. Data used for this regional employment analysis, as well as the following section regarding commute patterns, comes from the Longitudinal Employer-Household Dynamics Program at the US Census, which combines data from censuses, surveys and administrative records at the state and federal level, and allows comparison with national trends. The second half of this report, which includes analysis of employment trends within 13 sub-corridor market areas, as well as the forthcoming TOD forecasting report, uses firm, jobs and wage data obtained by Puget Sound Regional Council from the Washington State Employment Security Department.[15]

Methodology

For the employment analysis, Strategic Economics grouped the NAICS industries into the following industry groups: Knowledge-based, Retail, Education and Medical ("Eds and Meds"), Entertainment, Government, and Production, Distribution and Repair (PDR). The North American Industry Classification System (NAICS) codes corresponding to each of these groups is shown in **Figure 15**.

[15] All point-level employment data provided by the Washington State Employment Security Department and used in this report were aggregated and screened by Puget Sound Regional Council staff as necessary to protect the confidentiality of individual firm and employee information.

Figure 15: NAICS Codes Correspondence Table

Industry Group	NAICS Code	Industry
Production, Distribution and Repair (PDR)	23	Construction
	31-33	Manufacturing
	42	Wholesale Trade
	48-49	Transportation and Warehousing
Retail	44-45	Retail Trade
Knowledge-Based	51	Information
	52	Finance and Insurance
	53	Real Estate
	54	Professional, Scientific, and Technical Services
	55	Management of Companies and Enterprises
Education and Medical	61	Educational Services
	62	Health Care and Social Assistance
Entertainment	71	Arts, Entertainment, and Recreation
	72	Accommodation and Food Services
Government	92	Public Administration
Other	11	Agriculture
	21	Mining
	22	Utilities
	56	Administrative and Support and Waste Management and Remediation Services
	81	Other Services

Regional Employment Trends

The Puget Sound Region contains a strong concentration of employment in the Knowledge-based industry group. Knowledge-based industries provide 20.4 percent of employment in the region, compared to 16.1 percent nationally **(Figure 16)**. High tech firms account for much of this employment concentration, including industry leaders such as Microsoft and Amazon which are headquartered in the region.

Production, Distribution and Repair industries also have a strong presence in the Puget Sound Region. Nearly one-quarter (24.4 percent) of jobs in the Puget Sound Region are classified as PDR, compared to 22.5 percent nationally. The Aerospace industry – primarily Boeing – is responsible for a significant share of employment, although other manufacturing companies such as Paccar, which designs and manufactures heavy-duty trucks, and Weyerhaeuser, which is one of the world's largest pulp and paper companies, also contribute to PDR employment. The region also has two of the country's 10 largest container ports[16] integrated with strong rail and trucking networks, which account for a larger number of jobs in the Wholesale Trade, Transportation and Warehousing sectors and strengthen the Puget Sound as a manufacturing location.

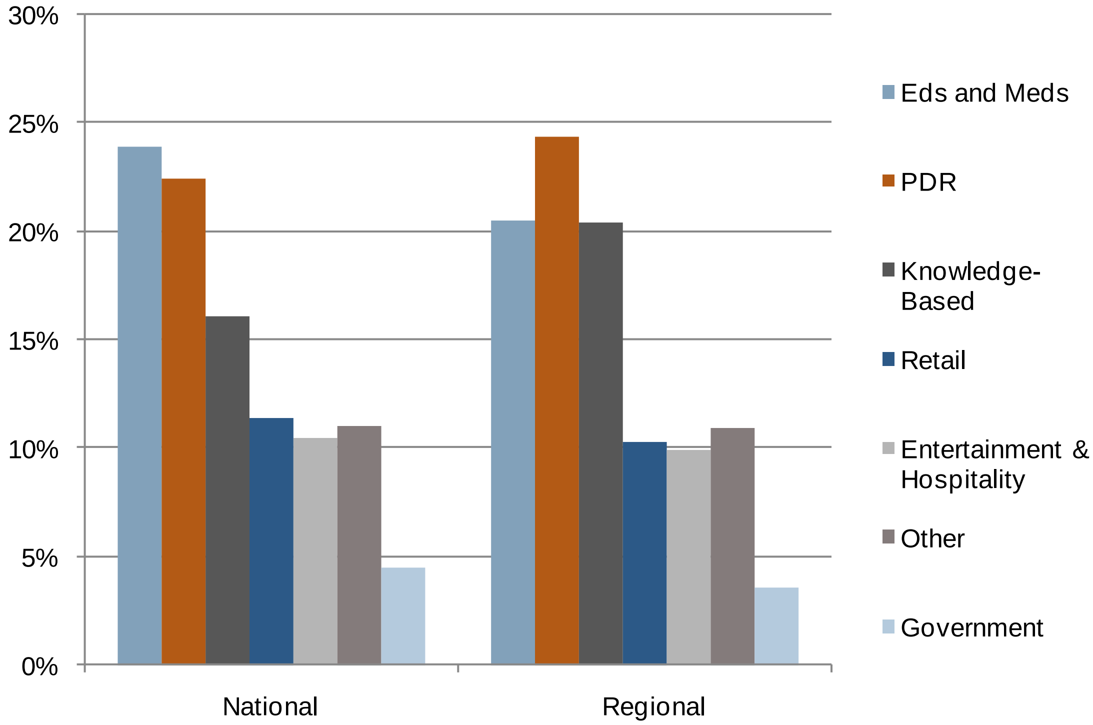
The Puget Sound Region is outpacing the nation in total employment growth, led primarily by the Knowledge-based and PDR industry groups. Employment in Knowledge-based industries in the Puget Sound Region grew 10.3 percent from 2002 to 2009, compared to 7.8 percent nationally **(Figure 17).** This stronger-than-average growth indicates that the region's high tech cluster continues to gain strength. In that same time period, the region's PDR industry group defied national trends to grow by 4.4 percent, compared to a loss of 7 percent at the national level. The gain in PDR employment is likely a reflection of the Aerospace industry, which has not experienced the same levels of automation and globalization which have diminished employment in other sectors of the PDR industry group.

Compared to the nation, the Puget Sound Region has a relatively low share of employment and employment growth in the Education and Medical industry group. Only 20.5 percent of Puget Sound employment is classified as "Eds and Meds," compared to 23.9 percent at the national level. This may relate more to the larger number of basic (i.e. export-oriented) firms in the Knowledge and Production industries affecting the statistical share of more non-basic (i.e. local-serving) jobs in educational and medical services, rather than a weakness in these sectors. However, although "Eds and Meds" experienced strong growth from 2002 to 2009 (15.4 percent), the region's level of growth was significantly less than the national average (21.0 percent).

The Puget Sound region also saw significant growth in the Other industry group from 2002 to 2009. The Puget Sound region gained more than 26,000 jobs in the Other industry group, with a growth rate of 15.5 percent compared to 5.2 percent nationally. The majority of this growth – more than 17,000 jobs - was in the "Other Services" subcategory, which is defined by the U.S. Census Bureau as establishments engaged in "activities such as equipment and machinery repairing, promoting or administering religious activities, grantmaking, advocacy, and providing drycleaning and laundry services, personal care services, death care services, pet care services, photofinishing services, temporary parking services, and dating services."

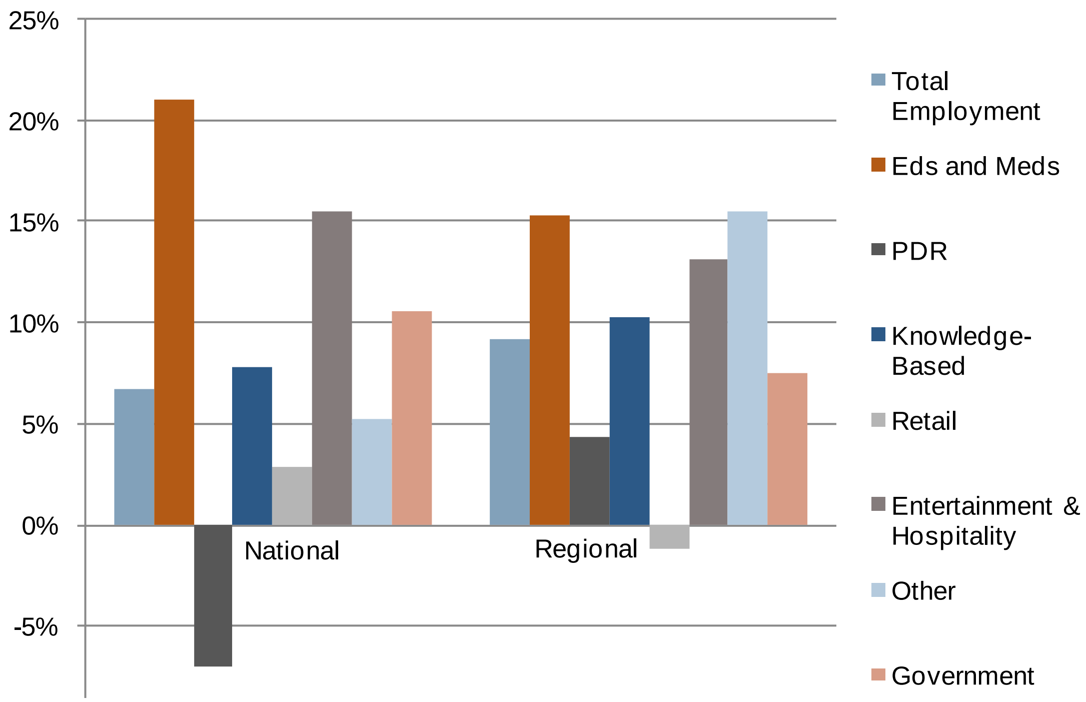
[16] US Dept of Transportation, Research and Innovative Technology Administration, Bureau of Transportation Statistics, *America's Container Ports: Linking Markets at Home and Abroad.* Washington, DC: 2011.

Figure 16: National and Regional Employment Distribution, 2009



Source: Longitudinal Employer Household Dynamics Data, US Census; Strategic Economics 2012.

Figure 17: Percent Change in National and Regional Employment, 2002 – 2009



Source: Longitudinal Employer Household Dynamics Data, US Census; Strategic Economics 2012

Corridor Level Employment Trends and Employment Centers

The East Corridor is home to one of the region's largest and fastest growing transit-supportive employment clusters, due to the presence of Knowledge-based firms such as Microsoft. The East Corridor contains more than 145,000 transit-supportive jobs, primarily in the Knowledge-based industry group (**Figures 18 and 21)**. The East Corridor also gained significant employment in this industry group from 2002 to 2009 **(Figure 19 and 22)**, accounting for more than two-thirds (69.4 percent or 22,069 jobs) of the region's Knowledge-based employment growth in that time. More than half of all Knowledge-based jobs (58.2 percent or 59,618 jobs) along the East Corridor are in the Information industry, which reflects the strong presence of Microsoft and other high tech firms in Redmond and Bellevue. Given that jobs in the Knowledge-based industry group are more likely to locate around transit and other firms in their industry, it is likely that this transit-supportive cluster will continue to attract Knowledge-based firms.

Downtown Seattle is the region's highest density and fastest growing transit-supportive employment center, with a strong concentration of Knowledge-based and Other industry group employment. Accounting for nearly one-third (32.6 percent) of jobs in Downtown Seattle, the Knowledge-based industry group is Downtown Seattle's most prominent employer. Most jobs (79.3 percent) are in more traditional office-based industries such as Finance and Insurance and Professional and Technical Services. As in the East Corridor, it is likely that this area will continue to attract transit-supportive, knowledge-based jobs, particularly once new light rail transit has arrived. The planned Amazon expansion, for example, will add another 3.3 million square feet of office space and a significant component of new transit-supportive jobs to the Westlake study area. The area's second largest employer - the Other industry group - accounts for the majority (65 percent) of employment growth in Downtown Seattle from 2002 to 2009. The majority of this growth (85.9 percent or 12,668 jobs) was in the Other Services industry.

With the exception of Downtown Tacoma, the South Corridor contains fewer transit-supportive jobs and is characterized by a higher concentration of PDR employment compared to the regional average. Over one-third (39.8 percent) of jobs located in South Corridor cities are classified as PDR, compared to 24.4 percent regionally. The majority of these jobs (67 percent) are in the Manufacturing or Transportation and Warehousing industries. PDR employment is typically located in large floorplate uses with a lower number of jobs per square foot than office uses, which translates into a less walkable environment. PDR jobs – and particularly those in the Transportation and Warehousing industry – are also more likely to require freeway access for truck transportation and shipping, and are therefore less likely to value transit-rich locations. The South Corridor's major employers, therefore, are less likely to choose to locate near transit. A notable exception to this is **Downtown Tacoma**, which shows a relatively high and growing share of transit-supportive employment (**Figures 24 and 25**), suggesting the potential for elevated demand for commercial development around transit in this area.

The University of Washington and the Boeing facility in Everett are the North Corridor's primary employment centers (Figure 23). The Education and Medical industry group is the North Corridor's largest employer, due to the presence of the University of Washington. More than one-quarter (27.2 percent) of jobs in the North Corridor are classified as Eds and Meds, with a slightly higher share in the Educational Services industry. The University of Washington educational and medical facilities are a major regional destination and provide significant trip generation potential. Although the Boeing Facility in Everett also qualifies as a major regional employment center, large floorplate manufacturing typically has too few employees per square foot to be characterized as transit-supportive, and is unlikely to generate demand for commercial transit oriented development upon build out of the line.

New transit-oriented development is more likely to occur close to regional employment clusters such as Downtown Seattle. In a 2011 report documenting real estate development along three new transit lines[17], CTOD found that new development was most likely to locate near downtowns and other employment centers. Using a threshold of 15,000 employees per square mile, Strategic Economics has identified six major employment clusters in the Puget Sound region: Downtown Seattle/South Lake Union, University of Washington, Redmond, Bellevue, Boeing/Everett and Downtown Tacoma (**Figure 20**). Based on previous patterns, it is likely that demand for new development will be strongest around these employment clusters. Transit-oriented development, however, is most likely to occur around the transit-supportive employment clusters, which include Downtown Seattle, Redmond, Bellevue and Downtown Tacoma.

Figure 18: Puget Sound Region Employment, 2009

		National	Regional	North	Downtown Seattle	East	South
Total Employment		121,826,012	1,674,443	353,395	167,711	214,791	200,479
Transit Supportive	Number	67,034,144	910,226	211,338	106,664	145,580	77,263
	Share	55.0%	54.4%	59.8%	63.6%	67.8%	38.5%
Knowledge-Based/ Office	Number	19,629,699	341,466	67,328	54,654	102,333	25,958
	Share	16.1%	20.4%	19.1%	32.6%	47.6%	12.9%
Educational and Medical	Number	29,155,041	342,915	95,977	24,303	26,568	29,441
	Share	23.9%	20.5%	27.2%	14.5%	12.4%	14.7%
Entertain-ment and Hospitality	Number	12,761,319	165,860	38,753	12,310	13,500	20,164
	Share	10.5%	9.9%	11.0%	7.3%	6.3%	10.1%
Gov't	Number	5,488,085	59,985	9,280	15,397	3,179	1,700
	Share	4.5%	3.6%	2.6%	9.2%	1.5%	0.8%
Retail	Number	13,914,077	171,942	35,838	7,411	16,172	23,384
	Share	11.4%	10.3%	10.1%	4.4%	7.5%	11.7%
Production, Distribution, & Repair	Number	27,379,849	408,992	76,624	15,117	35,003	79,850
	Share	22.5%	24.4%	21.7%	9.0%	16.3%	39.8%
Other	Number	13,497,942	183,283	29,595	38,519	18,036	19,982
	Share	11.1%	10.9%	8.4%	23.0%	8.4%	10.0%

Source: Longitudinal Employer Household Dynamics Data, US Census; Strategic Economics 2012

[17] CTOD, 2011

Figure 19: Change in Puget Sound Region Employment, 2002 - 2009

		National	Regional	North	Downtown Seattle	East	South
Total Additional Employment		7,710,603	140,388	9,732	22,632	30,547	127
Total Percent Change in Employment		6.8%	9.2%	2.8%	15.6%	16.6%	0.1%
Transit Supportive	Number	8,719,853	100,806	9,767	8,940	28,571	9,109
	% Change	113.1%	71.8%	100.4%	39.5%	93.5%	7172.4%
Knowledge-Based/Office	Number	1,415,116	31,769	617	2,351	22,069	1,340
	% Change	7.8%	10.3%	0.9%	4.5%	27.5%	5.4%
Educational and Medical	Number	5,069,620	45,648	4,445	6,809	4,528	6,261
	% Change	21.0%	15.4%	4.9%	38.9%	20.5%	27.0%
Entertainment and Hospitality	Number	1,710,948	19,220	4,190	205	1,626	1,294
	% Change	15.5%	4.9%	4.9%	38.9%	20.5%	27.0%
Government	Number	524,169	4,169	515	-425	348	214
	% Change	10.6%	7.5%	5.9%	-2.7%	12.3%	14.4%
Retail	Number	380,345	-2,082	293	-390	-410	-1,611
	% Change	2.8%	-1.2%	0.8%	-5.0%	-2.5%	-6.4%
Production, Distribution, & Repair	Number	-2,058,748	17,093	1,057	-660	2,256	-8,656
	% Change	-7.0%	4.4%	1.4%	-4.2%	6.9%	-9.8%
Other	Number	669,153	24,571	-1,385	14,742	130	1,285
	% Change	5.2%	15.5%	-4.5%	62.0%	0.7%	6.9%

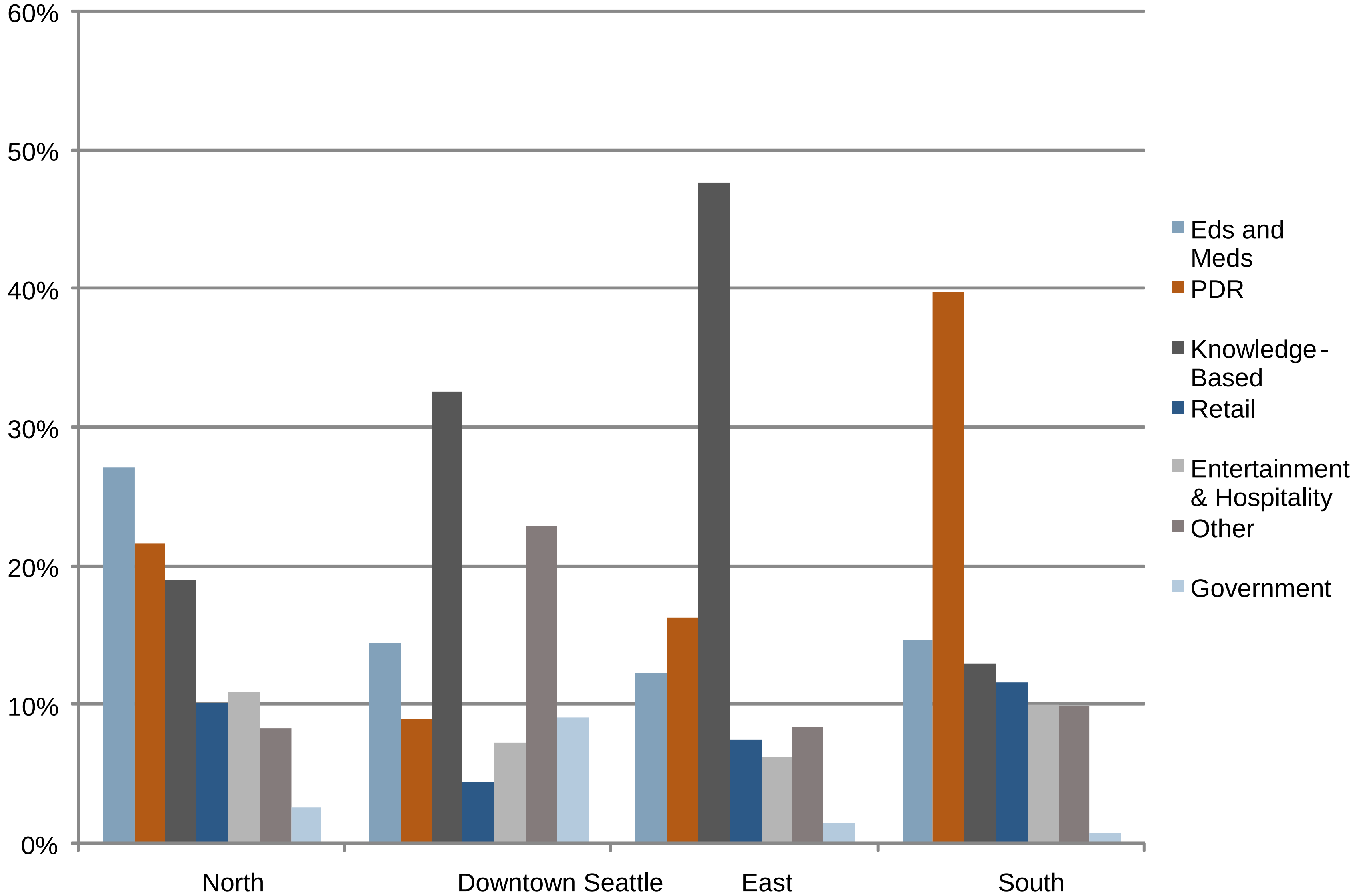
Source: Longitudinal Employer Household Dynamics Data, US Census; Strategic Economics 2012

Figure 20: Puget Sound Employment Center Employment

Employment Center	Employees Commuting
Downtown Seattle/South Lake Union	212,480
Overlake/Microsoft	54,005
Central Bellevue	36,563
Boeing	27,118
Downtown Tacoma	23,499
University of Washington	23,471

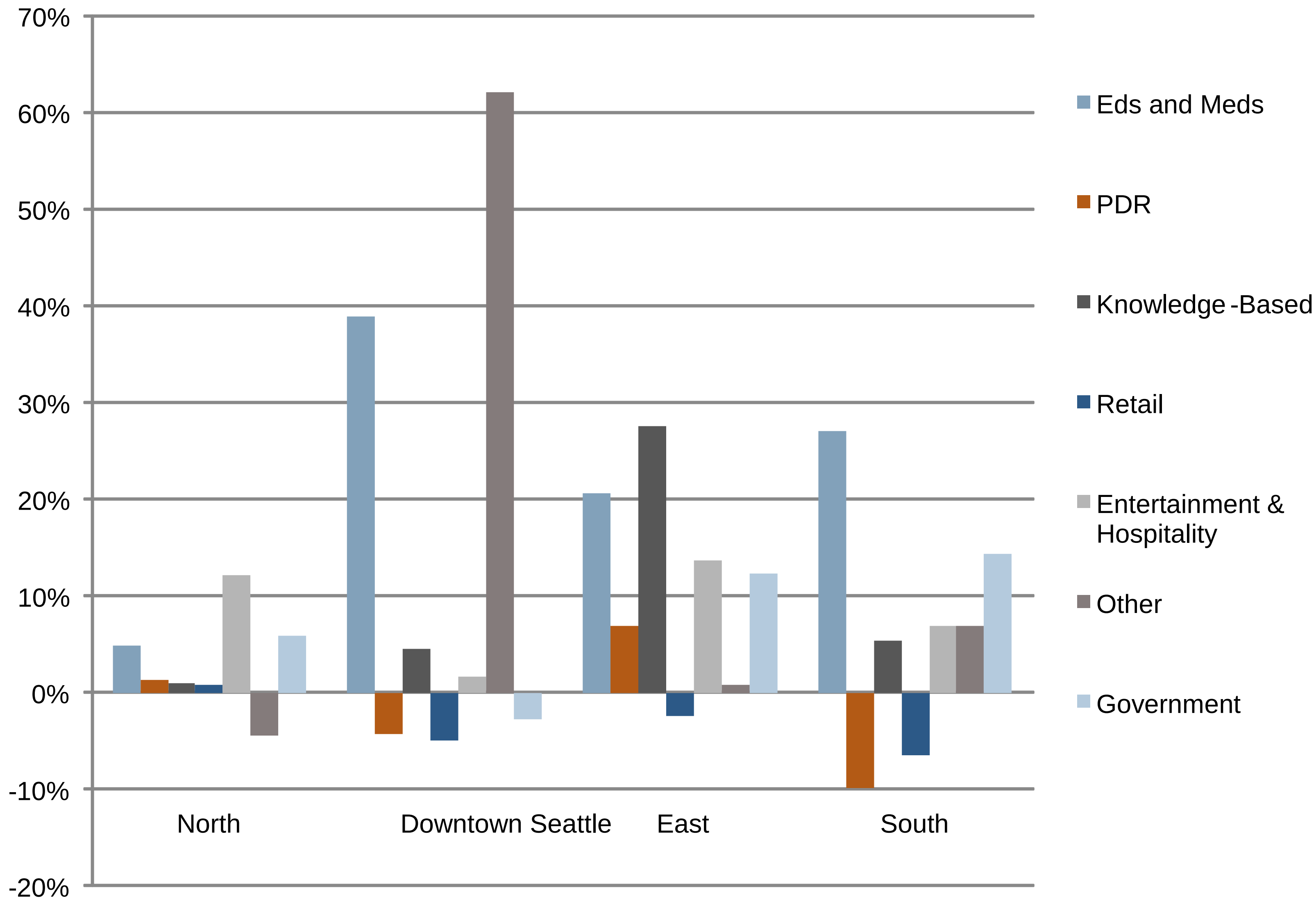
Source: Longitudinal Employer Household Dynamics Data, US Census; Strategic Economics 2012

Figure 21: Corridor Employment Distribution, 2009



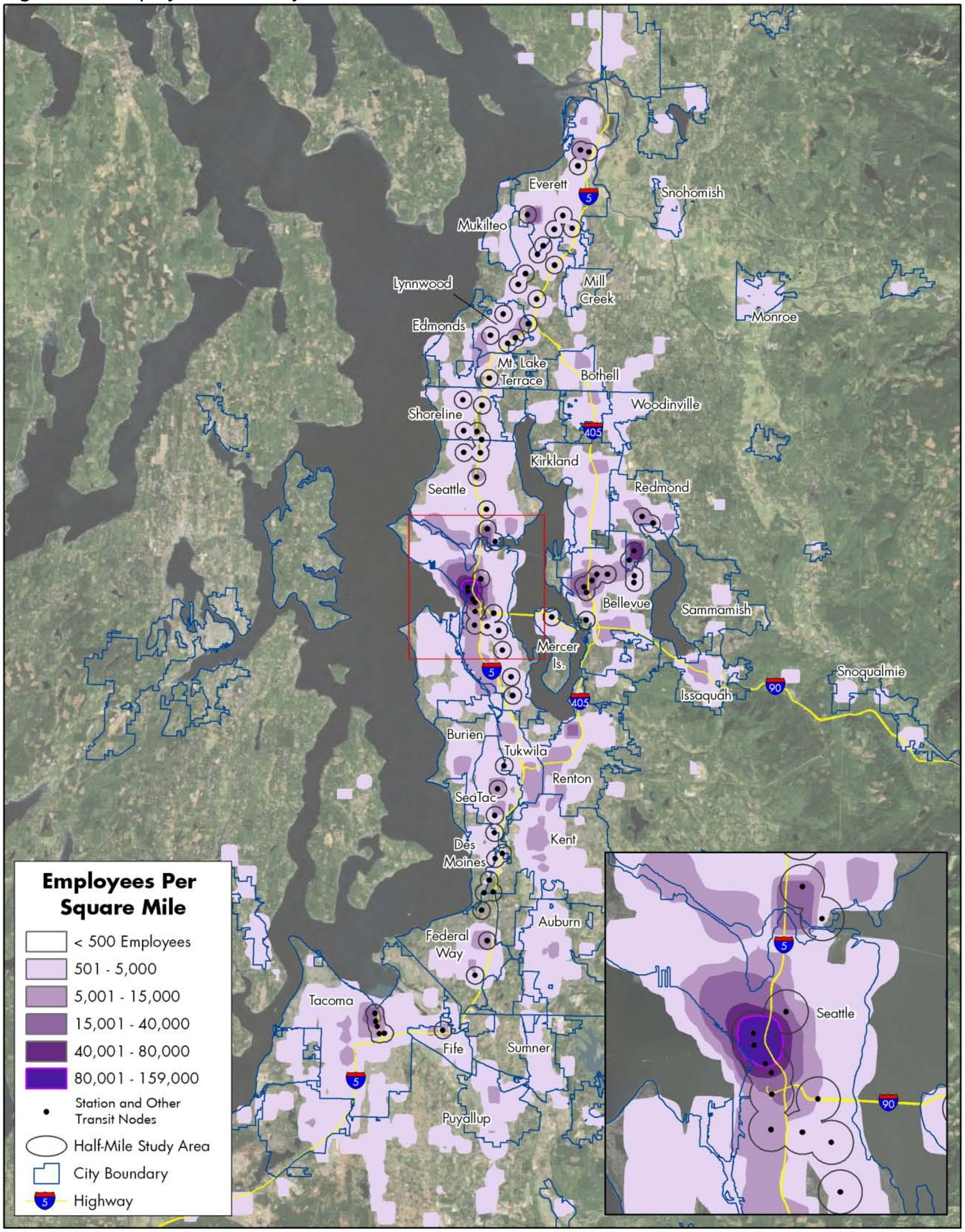
Source: Longitudinal Employer Household Dynamics Data, US Census; Strategic Economics 2012

Figure 22: Percent Change in Corridor Employment, 2002 - 2009



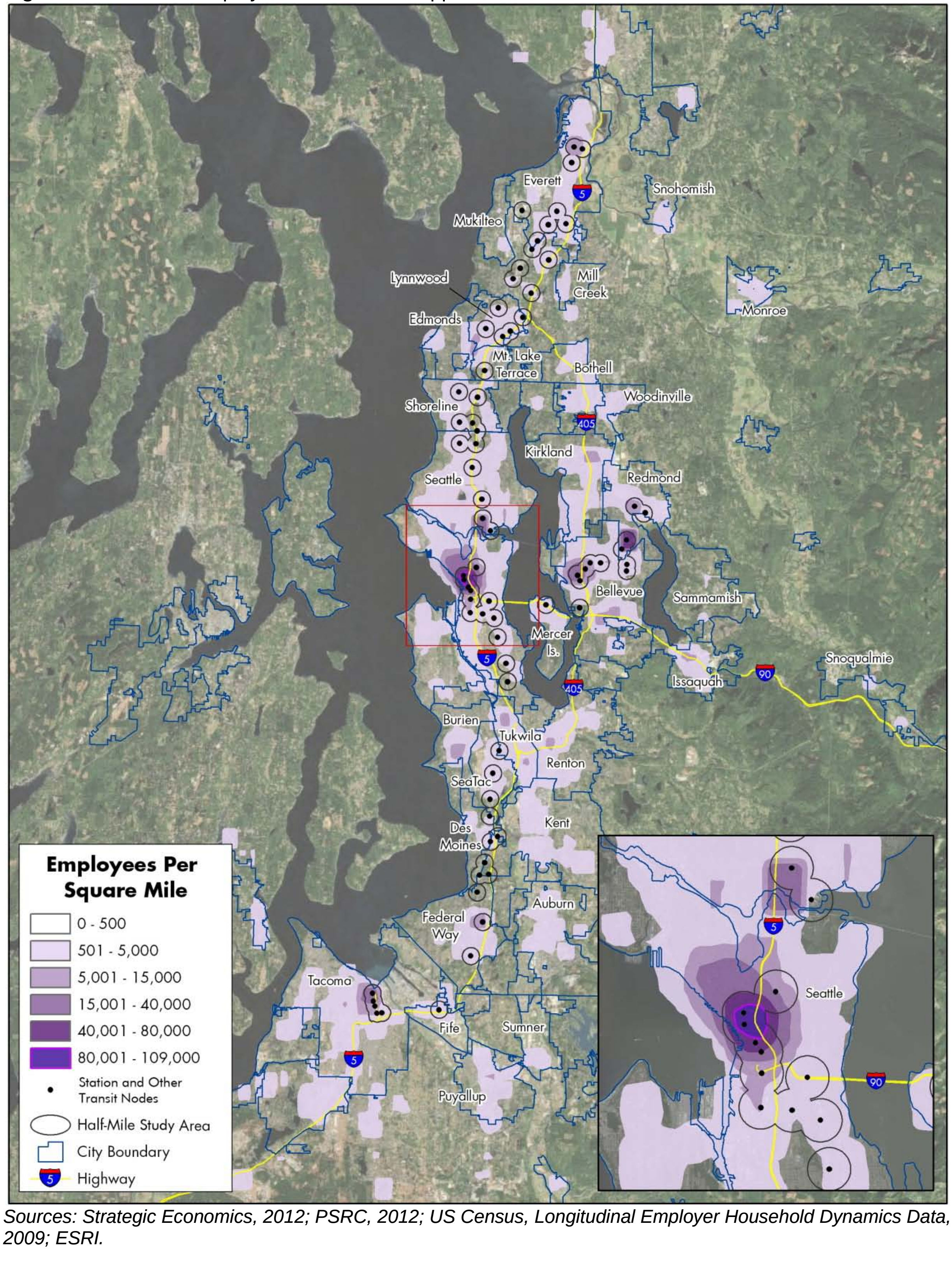
Source: Longitudinal Employer Household Dynamics Data, US Census; Strategic Economics 2012.

Figure 23: Employment Density, 2009



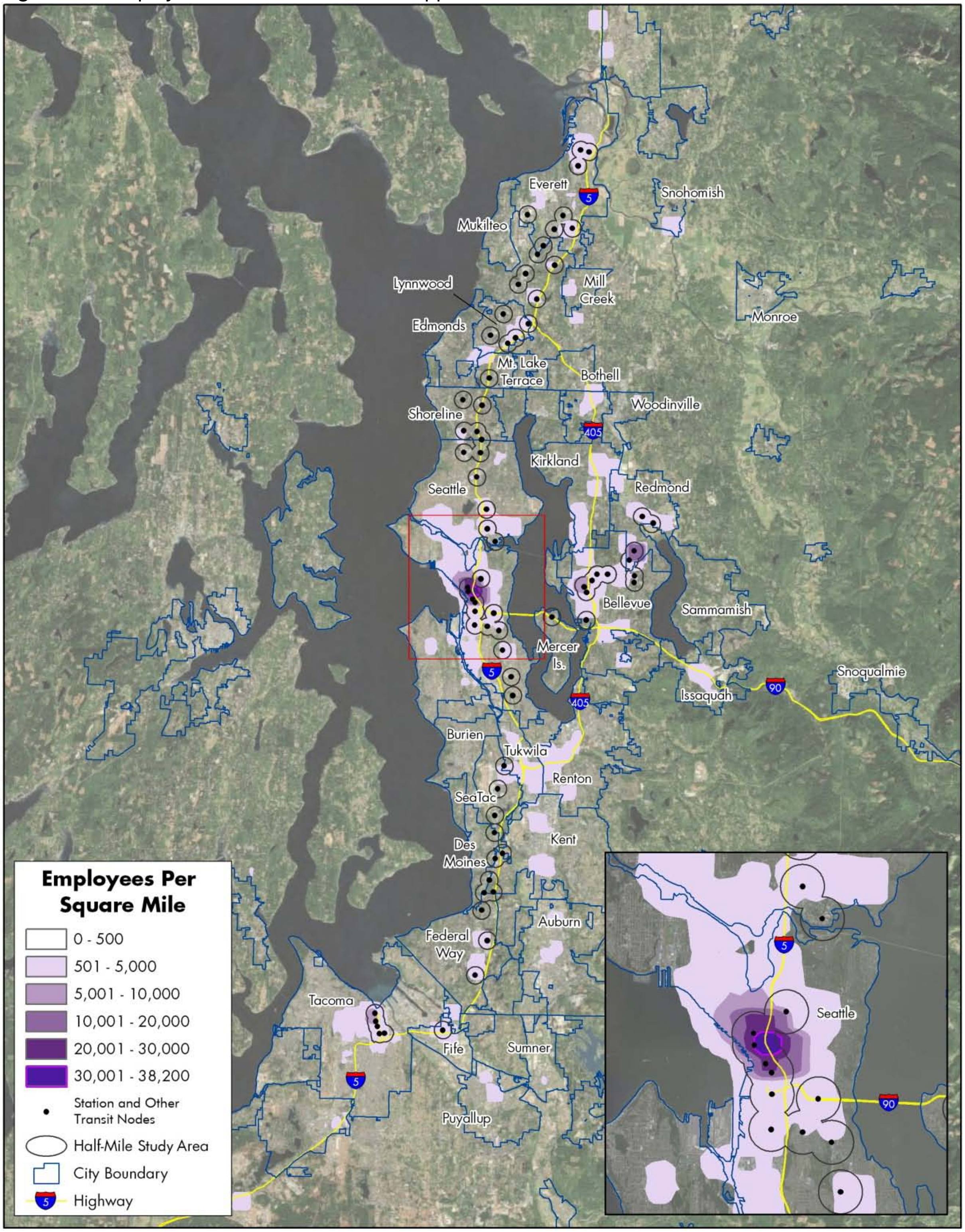
Sources: Strategic Economics, 2012; PSRC, 2012; US Census, Longitudinal Employer Household Dynamics Data, 2009; ESRI.

Figure 24: Workers Employment in Transit-Supportive Industries, 2009



Sources: Strategic Economics, 2012; PSRC, 2012; US Census, Longitudinal Employer Household Dynamics Data, 2009; ESRI.

Figure 25: Employment Growth in Transit-Supportive Industries, 2002-2009



Sources: Strategic Economics, 2012; PSRC, 2012; US Census, Longitudinal Employer Household Dynamics Data, 2002 and 2009; ESRI.

Commute Origins and Destinations

This section describes the commute patterns of employees who work in the region's six major employment destinations: Downtown Seattle/South Lake Union, University of Washington, Boeing/Everett, Downtown Tacoma, Redmond and Bellevue. Commute patterns are illustrated in **Figures 26 to 31.** Note that the scale of commuter concentration varies by map, in order to more clearly illustrate the commute shed.

Downtown Seattle and South Lake Union employees commute from a wide range of cities in the Puget Sound Region. The Downtown and South Lake Union employment center has the broadest commute pattern of all the regional employment centers, with employees commuting from as far north as Marysville and as far south as Tacoma. A higher concentration of employees commutes from within the City of Seattle, some of whom are already served by the existing transit line. The planned transit expansion will greatly strengthen connections for commuters travelling to Downtown, particularly the many Downtown workers that reside in North Seattle and Shoreline.

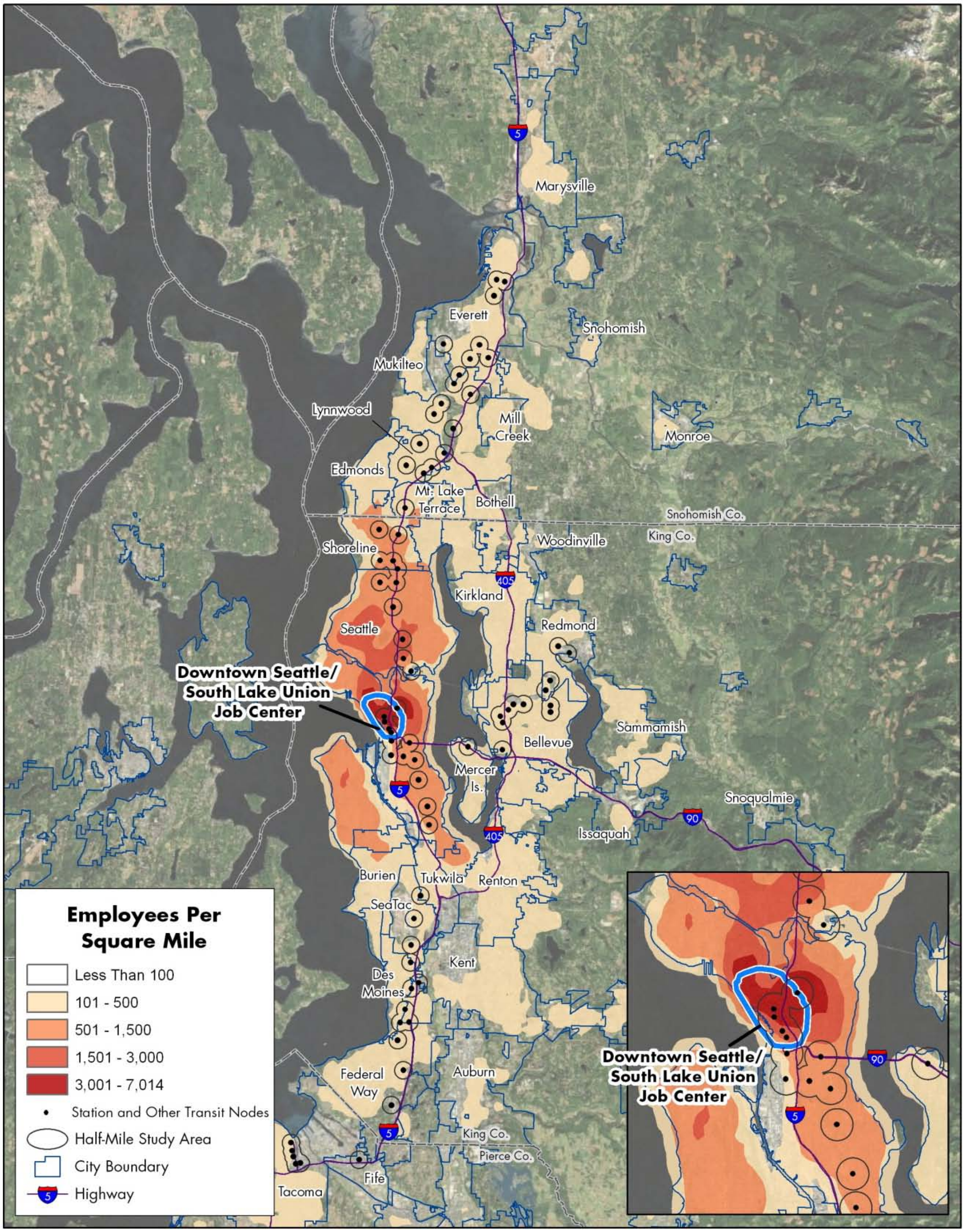
University of Washington employees primarily commute from within North Seattle. Many University of Washington employees live in close proximity to their work; those that live further away are more likely to live to the north of the University than the south. Although some study areas, such as Capitol Hill, Brooklyn and Roosevelt, contain high concentrations of University employees, many employees commute from areas which are relatively close to the University, but not served by light rail transit. It is likely that many of these employees walk, bike or utilize other forms of transit to reach their jobs.

Although most Redmond and Bellevue employees commute from within those cities, a significant share also come from Downtown Seattle. While Redmond employees are more likely to live in Redmond and Bellevue employees are more likely to live in Bellevue, both cities employ a high concentration of workers who live in Downtown Seattle, particularly around the Capitol Hill and Westlake transit nodes. When the Eastside transit line is complete, it will serve a range of employees living in Bellevue, Redmond and Downtown Seattle.

Downtown Tacoma employees primarily commute from within the City of Tacoma. Employees who work in Downtown Tacoma are most likely to live to the North and West of the Downtown, which suggests neither the existing Tacoma Link nor planned South Corridor transit line will serve to connect many existing Downtown Tacoma employees to their jobs.

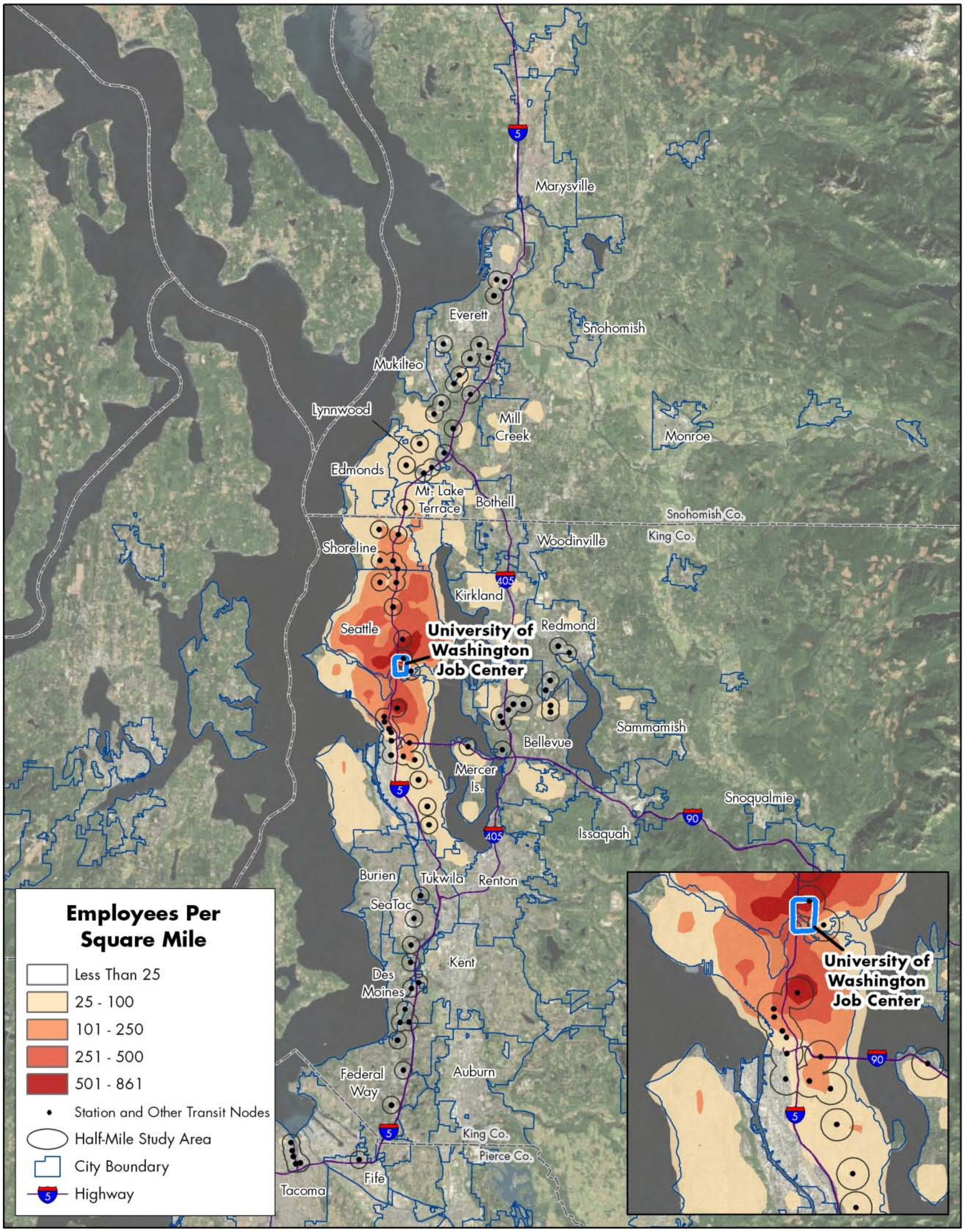
While the strongest concentrations of Boeing/ Everett job center employees live within the City of Everett, many also commute from the east or from cities to the north and the south. The Boeing study area on the 99 corridor would be accessible via light rail to a significant portion of current employees living in Downtown Everett or further south along the 99 corridor.

Figure 26: Residential Origin of Workers Employed in Downtown Seattle/South Lake Union Job Center, 2009



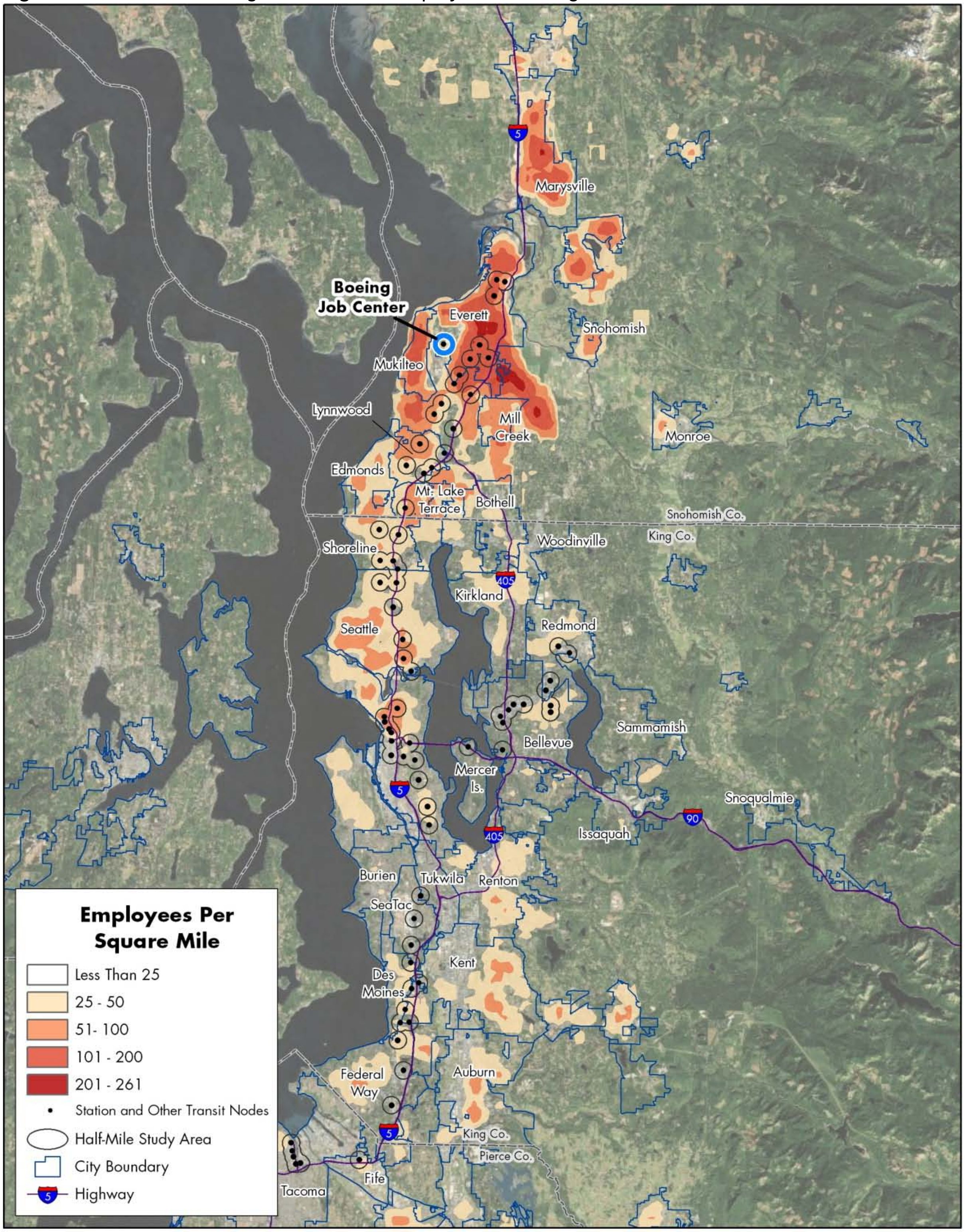
Sources: Strategic Economics, 2012; PSRC, 2012; US Census, Longitudinal Employer Household Dynamics Data, 2009; ESRI.

Figure 27: Residential Origin of Workers Employed at the University of Washington Job Center, 2009



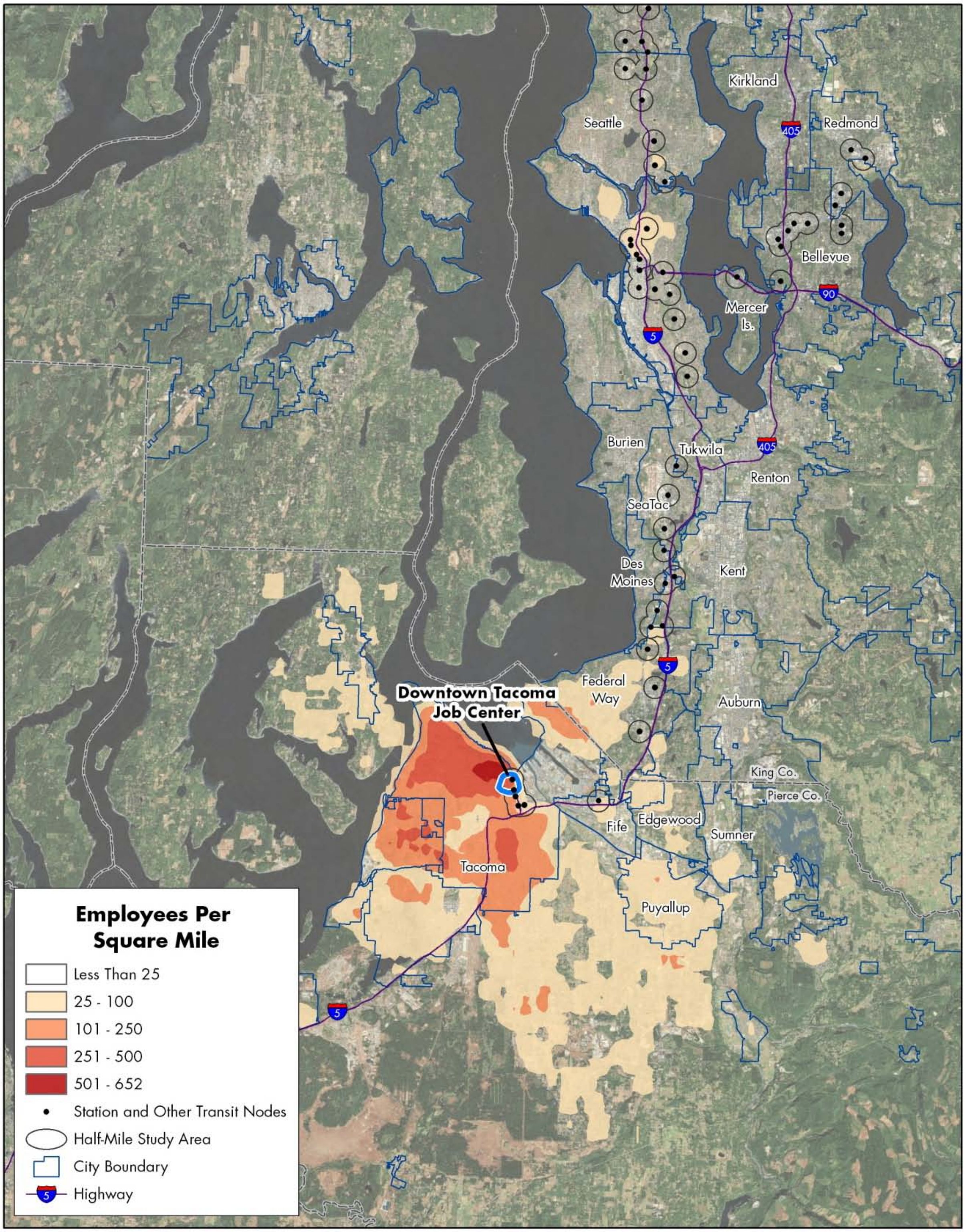
Sources: Strategic Economics, 2012; PSRC, 2012; US Census, Longitudinal Employer Household Dynamics Data, 2009; ESRI.

Figure 28: Residential Origin of Workers Employed at Boeing Job Center, 2009



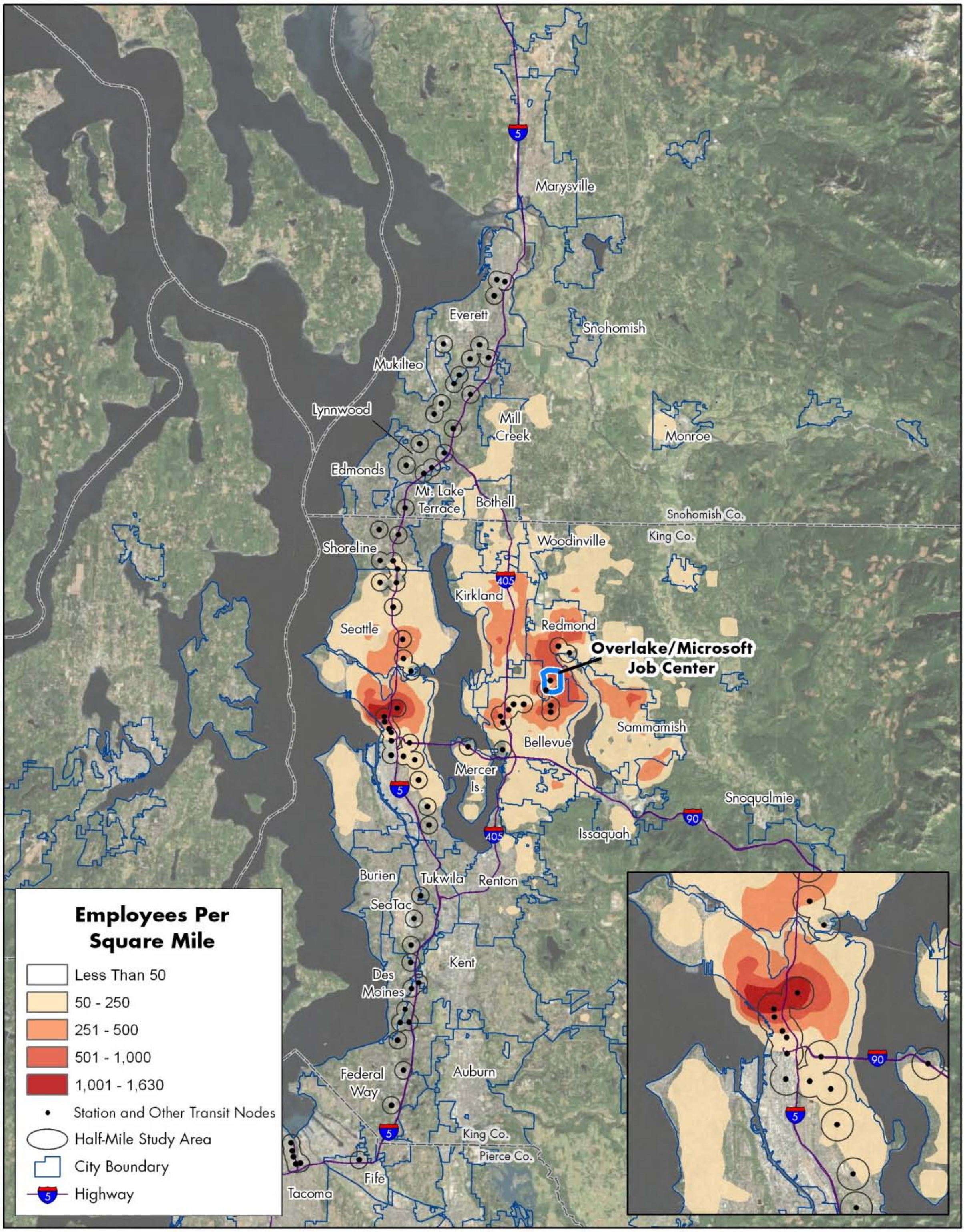
Sources: Strategic Economics, 2012; PSRC, 2012; US Census, Longitudinal Employer Household Dynamics Data, 2009; ESRI.

Figure 29: Residential Origin of Workers Employed in Downtown Tacoma Job Center, 2009



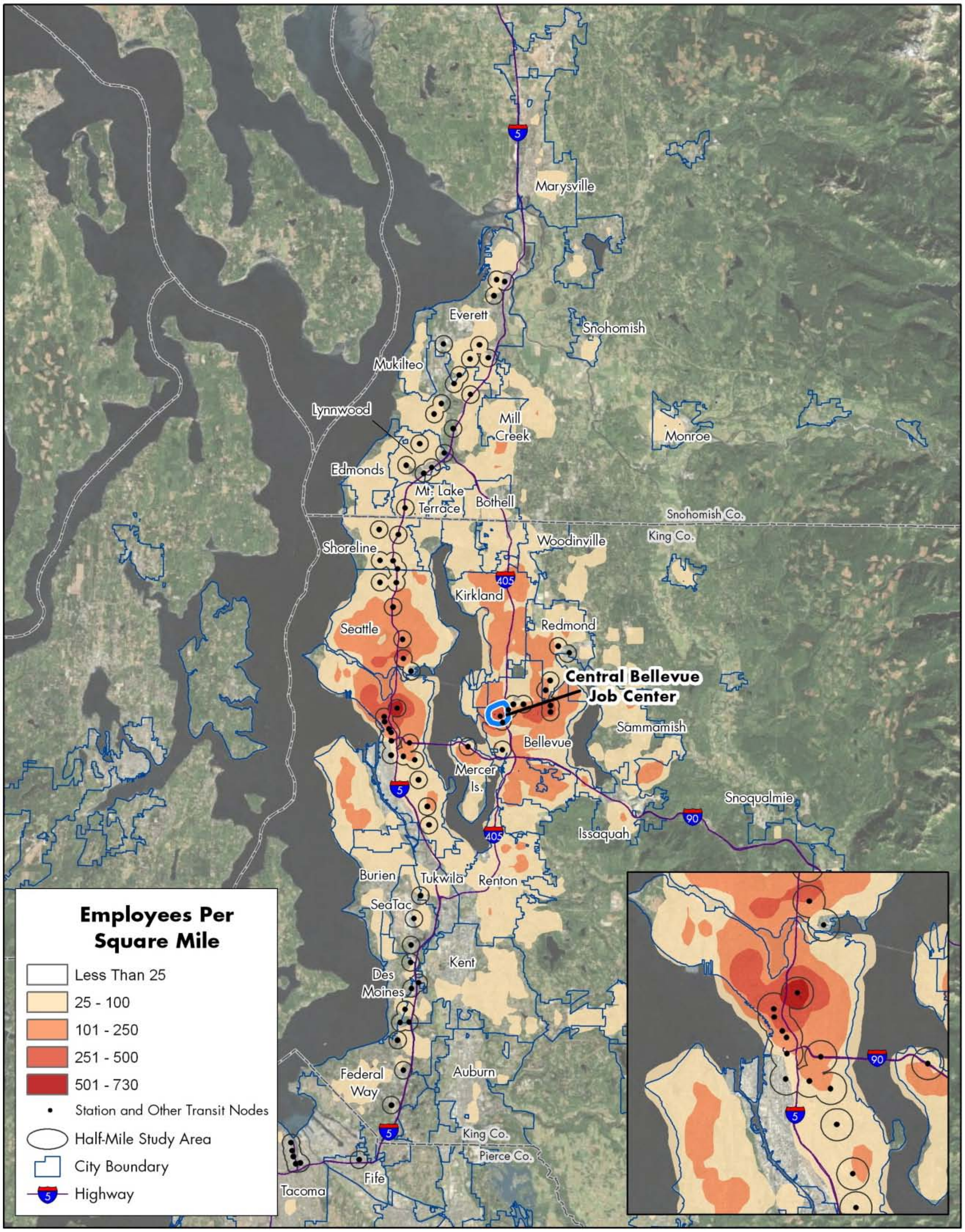
Sources: Strategic Economics, 2012; PSRC, 2012; US Census, Longitudinal Employer Household Dynamics Data, 2009; ESRI.

Figure 30: Residential Origin of Workers Employed in Overlake/Microsoft Job Center, 2009



Sources: Strategic Economics, 2012; PSRC, 2012; US Census, Longitudinal Employer Household Dynamics Data, 2009; ESRI.

Figure 31: Residential Origin of Workers Employed in Central Bellevue Job Center, 2009



Sources: Strategic Economics, 2012; PSRC, 2012; US Census, Longitudinal Employer Household Dynamics Data, 2009; ESRI.

Summary of Key Demographic and Employment Findings

North Corridor

Demographic factors such as small household sizes and a relatively high share of non-family households and households in the 25 to 44 year age range indicate **the potential for strong residential TOD demand along the North Corridor**, particularly among young singles and families without children**.** Growth in the number and density of households along the North Corridor from 2000 to 2010 suggests a moderately strong real estate market over the last decade, particularly along the northern portion of the Corridor from Mill Creek to Everett. At the same time, the new transit corridor will strengthen connections to Downtown Seattle from the north, especially from those study areas on the southern portion of the line which already have a large number of residents who commute to the Downtown Seattle employment center. This is likely to stimulate significant demand for new residential TOD in the north Seattle and Shoreline study areas. The potential for residential TOD further north in the corridor depends greatly on whether the Everett Boeing job center is included in the future alignment chosen for the corridor. Given the high and growing share of rental households in the North Corridor, a significant portion of future TOD demand will likely be for rental housing. **The current employment mix and densities in North Corridor cities do not suggest significant future demand for commercial transit-oriented development.**

Downtown Seattle

Unsurprisingly, Downtown Seattle **demographics indicate strong demand for residential TOD**, with high existing residential densities, small household sizes and a concentration of non-family households. Downtown Seattle also experienced significant increases in household density from 2000 to 2010, indicating a strong real estate market over the last decade. Although Downtown Seattle remains primarily a rental market, a slight increase in the share of ownership units indicates an expanding condominium market during the housing boom. In contrast with large portions of the North and South Corridors, Downtown Seattle household incomes stabilized or increased from 2000 to 2010, which suggests that in addition to the existing very low income population on government support, there are a growing number of higher income households that are now seeking Downtown housing. In addition, given the existing cluster of transit-supportive employment and planned Amazon expansion, **Downtown Seattle has strong potential demand for new commercial TOD**.

East Corridor

Although the **East Corridor has strong overall long-term market indicators, demand potential for residential TOD is mixed**. The East Corridor's high household income suggests a strong residential market, particularly for luxury homes. In addition, household sizes in East Corridor cities are large and household densities are low, which indicates demand for larger single-family homes. Although these indicators suggest a strong residential market, it is a market for less compact homes that are not typically oriented towards transit, with the notable exception of Downtown Bellevue. At the same time, the growing high tech employment center in Redmond/Bellevue is likely to attract young, high-income employees who are seeking a more walkable, transit-rich lifestyle. This suggests some potential future demand for residential TOD in East Corridor study areas, particularly oriented towards young tech employees. In addition, the strong and growing concentration of transit-supportive employment that already exists in and around the study areas suggests **strong potential for commercial TOD along the East Corridor.**

South Corridor

Relative to the other transit corridors, **the South Corridor does not have particularly strong demographic or industrial growth indicators for residential or commercial TOD**. Residential TOD indicators such as household size, share of family households and age of householder are consistent with regional averages, which are typically associated with a less compact form of development. In addition, the overall market along the South Corridor appears weak, having lost households and income levels from 2000 to 2010. **Two notable exceptions to this assessment are Rainier Valley and Downtown Tacoma**. These areas have experienced a decrease in household sizes and increase in number of households from 2000 to 2010, which suggests growing demand for residential transit-oriented development. In addition, the existing and growing transit-supportive employment cluster in Downtown Tacoma suggests **moderate long-term potential for commercial TOD in the Downtown Tacoma market.**

B. MARKET RATE HOUSING REAL ESTATE CONDITIONS

This section contains an assessment of the market for transit-oriented residential development around the existing and potential light rail corridors in the Puget Sound Region. It begins with a methodology describing the sources and geographies of the data used, followed by subsections which provide rental and for-sale market findings at a regional, corridor and market area scale.

Methodology

This section uses a range of data sources aggregated to various geographies, in order to render the market information intelligible from a regional perspective focused on the study areas. The main data sources are Dupre and Scott (rental data) and Home Trends (for-sale data). For-sale housing data represents activity from 2005 to the first quarter of 2012, capturing the peak of the housing bubble and the subsequent recession. Rental vacancy and lease rates are current, while recent construction activity is from 2009 to 2011. Planned and proposed data represents the rental units which are expected to come to market through 2014. All residential market data was furnished by Gardner Economics (see **Appendices A and B** for Gardner Economic Housing Market Memos).

This section uses three primary geographies to define market areas around existing and proposed transit lines:

- **Transit Region**: The regional market area in this section is defined as the tri-county area (Pierce, King and Snohomish Counties), or the transit region. The regional market definition varies from that used in the previous Regional Context section (which includes Kitsap County) in order to better represent the competitive market area for new development along the transit corridors.
- **Transit corridors:** The transit corridors are consistent with those used by PSRC staff and defined in the introduction of the report, in **Figure 1 on page 5.**
- **TOD market areas:** The 12 TOD market areas are groupings of the 74 study areas which had sufficiently similar market, demographic and employment characteristics to be considered a distinct market area from the prospective of transit-oriented development potential. These market areas are illustrated in **Figure 32, and described in greater individual detail in the TOD market area profiles included in the second half of this report.**

Due to issues around data availability, the corridors and TOD market areas described in the rental section are comprised of census tracts, while those in the for-sale section are comprised of study areas. As a result, the rental data captures conditions in a larger market area, while the for-sale data only reflects conditions in the study areas. The data used for each of the sections is described in more detail below.

- **Rental data:** In order to identify which study areas had sufficiently similar market conditions to allow them to be grouped and analyzed as succinct market areas, Gardner Economics analyzed rental data aggregated into 27 different geographic units, which were formed from local census tracts. Strategic Economics then aggregated these smaller geographies into larger TOD market areas and transit corridors, as described above. **Figure C1 in Appendix C** illustrates the relationship between Gardner Economics' smaller geographies and the transit corridors and TOD market area used in this section. Those smaller geographies that overlap between two or more TOD market areas or transit corridors are included in both areas. Detailed tables illustrating the aggregation of the smaller geographic units of market data into TOD market areas and transit corridors are also provided in **Appendix C**.

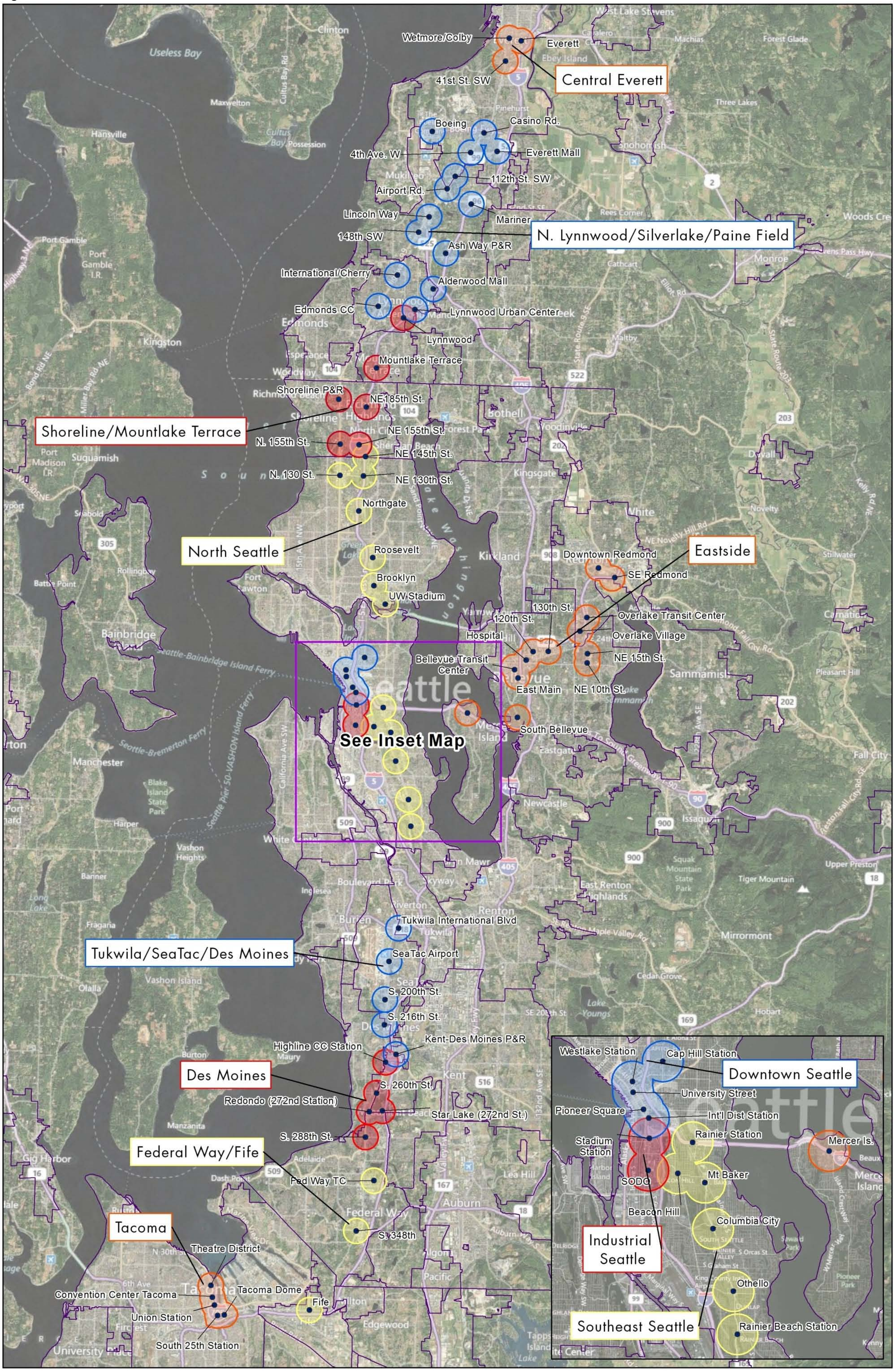
  Regional rental data is sourced from Dupre and Scott and includes the full tri-county area.

- **For-sale data:** Gardner Economics was able to obtain for-sale data at the study area level. The corridors and TOD market areas described in the for-sale section are therefore comprised of study area-level data, and do not include surrounding census tracts. These geographies are illustrated in **Figure 1 on page 5**.

The tables and charts in the following section include:

- **Range of Typical Rents:** the range of average asking rents among the smaller geographies within each TOD market area, as stated by the broker or property owner for marketing purposes. The range represents the lowest and highest rents among the smaller geographies that make-up each TOD market area or corridor. Rents are reported per square foot, per month from 2012.
- **Range of Typical Vacancy Rates**: the range of average vacant apartment units among the smaller geographies within each TOD market area, as a share of total apartment inventory in the market area or corridor. The range represents the lowest and highest rents among the smaller geographies that make-up each TOD market area or corridor. Vacancy rates are reported for 2012.
- **Average Recent Construction per Study Area:** The number of new units built in the smaller geographies which comprise each corridor or TOD market area from 2009 to 2011, divided by the number of study areas in each corridor or TOD market area in order to provide context for the scale of recent development.
- **Average Planned and Proposed per Study Area:** The number of units planned and proposed units in the smaller geographies which comprise each corridor or TOD market area through 2014, divided by the number of study areas in each corridor or TOD market area in order to provide context for the scale of proposed development.
- **Average Condo Sales Price:** the range of average condominium sales prices in the study areas which comprise each corridor and TOD market area.
- **Average Condo Sales per Study Area:** The average number of condo sales among the study areas which comprise each corridor and TOD market area. Data is from 2005 to the first quarter of 2012.
- **Average Single Family Home Sales per Study Area:** The average number of single family home sales among the study areas which comprise each corridor and TOD market area. Data is from 2005 to the first quarter of 2012.
- **Average Home Sales per Study Area:** The average number of total home sales among the study areas which comprise each corridor and TOD market area. Data is from 2005 to the first quarter of 2012.
- **Average Condo Sales per Study Area:** The average number of condo sales among the study areas which comprise each corridor and TOD market area, reported by year from 2005 to the first quarter of 2012.

Figure 32: TOD Market Areas



Sources: Strategic Economics, 2012; PSRC, 2012; US Census; ESRI.

Rental TOD Market

The regional apartment market in the Tri-County area is currently broadly stable and gaining momentum as of early 2012, with vacancy rates below 5 percent (**Figure 33)** and rental rates on the rise,[18] particularly in Seattle and east King County. Key findings are listed below.

Downtown Seattle has the strongest market for apartment development around transit in the transit region. Rents in Downtown Seattle (which is generally aligned with the Downtown Seattle TOD market area[19]) are in the $1.32 to $1.86 per square foot per month range (**Figures 33 and 35)** and significantly higher than typical rents along the other transit corridors or at the regional level. Similarly, vacancy rates range from 0.9 percent to 3.9 percent, lower than vacancy rates along the other transit corridors and throughout the transit region. The strong rental market in Downtown Seattle is further evidenced by the substantial recent construction in the area; from 2009 to 2011, 1,652 new rental units were built in an area containing just four study areas **(Figures 34 and 36)**. Despite its smaller size, Downtown Seattle accounts for more than half (52.9 percent) of all new planned and proposed units along existing and proposed transit corridors. The market strength in Downtown Seattle reflects Downtown Seattle's status as a regional employment center, as well as the area's many amenities, including a walkable pedestrian environment, access to transit and proximity to retail, entertainment and service businesses.

The rental TOD market along the North Corridor is varied, **with stronger demand for apartment development at the southern end of the corridor.** Rents along the North Corridor range widely, from $0.90 to $1.66 per square foot per month, and the corridor has the second highest level of recent construction (an average of 62 units per study area) and third highest amount of planned and proposed units (an average of 109 units per study area), after Downtown Seattle and the East Corridor. The North Corridor study area includes 31 light rail stations and other transit nodes, however, and the market indicators towards the southern end of the corridor are much stronger.

Within the North Corridor, **North Seattle is the strongest TOD market area**. In addition to the highest rents, the North Seattle market area accounts for 62.2 percent of recent apartment construction and 57.4 percent of planned and proposed units along the North Corridor **(Figure 38)**. The market area's proximity to Downtown Seattle and the presence of the University of Washington – a major regional destination for education, medical care and employment – are major factors impacting demand for rental housing. Potential for apartment TOD along the rest of the North Corridor is likely to be stronger in the mid-to-long term.

Market potential in Downtown Everett and in study areas along the northern portion of the North Corridor will be significantly higher if a transit connection to the Boeing employment cluster is established. Downtown Everett contains many of the amenities of a traditional downtown and is also in close proximity to the Boeing employment center. Although the area already has stronger TOD market potential than the more suburban locations along the potential light rail corridor, a transit connection to the Boeing employment center would greatly boost market demand for housing in the Downtown.

Although the East Corridor does not have a historically strong apartment market, there is potential for significant additional demand with the build-out of the transit system. The East Corridor (which is aligned with the Eastside TOD market) is an older and higher income community in comparison with the other transit corridors and has the highest rate of ownership housing (59.0 percent). Although the Corridor is home to two major employment centers (Redmond and Bellevue), the current market for

[18] Kidder Matthews, 3rd Quarter 2011 Real Estate Market Review; King, Pierce and Snohomish Counties.

multifamily rental housing is not as large as the market for traditional single family housing in part because growth in the supply of apartments is restricted by the extent of single family neighborhoods in the East Corridor. The East Corridor had the lowest share of apartment construction among the four corridors from 2009 to 2011. The existing pent-up demand for apartments will only increase with the completion of the East Corridor line and improved connectivity between Eastside employers and higher density residential growth areas, as well as much improved access to Downtown Seattle and the rest of the transit region. The continued growth among Eastside employers – and particularly high tech firms seeking recent college graduates – will provide an additional boost to the apartment market.

Demand for rental housing along the South Corridor is limited, with short-term demand focused around the Southeast Seattle transit nodes. Low rents and high vacancy rates suggest that much of the South Corridor apartment market will remain limited in the short-to-mid-term. The primary exception is the Southeast Seattle TOD market area, which includes Rainier Valley and commands the highest rents and has the lowest vacancy rates along the corridor **(Figure 37)**. In addition, South Seattle is home to the majority of recent and planned construction along the Corridor (69.1 and 80.7 percent, respectively). Southeast Seattle's proximity to Downtown Seattle and existing light rail access are major factors impacting the demand for rental housing in the area.

Although short-term demand in Downtown Tacoma is limited, the area has significant long-term potential for growth in the rental housing market. Although Downtown Tacoma has the lowest rents and highest vacancy rates throughout the transit system, the Downtown's strong urban form, historic buildings and recent investments such as the University of Washington extension suggest strong potential for TOD demand in the longer-term. The importance of the Downtown's urban structure to the rental market and the development community is evidenced by the moderate levels of recent and planned construction in the area despite lower rents and higher vacancy rates. The completion of the light rail line and continued economic development and investment in the Downtown will be critical to the realization of the area's TOD potential.

Developer Interview Findings

This section summarizes the key findings from developer interviews conducted by Gardner Economics. Developers interviewed include representatives from firms ranging from mid-sized private companies to the largest residential real estate investment trusts in the country. For a complete write-up of these findings see the Gardner Economics Market Rate Apartment Housing Memo in **Appendix A**.

Although proximity to transit is viewed as a benefit, transit alone does not create a market for new development. Although developers interviewed reported that they would seek new projects around transit, they also agreed that "all things had to be equal" i.e. the development would have to be financially feasible regardless of proximity to transit. Indicators such as substantial prevailing rents, low and stable vacancy rates and reasonable land availability and price were cited as the main factors driving new construction. Although developers interviewed for this study were of diverging opinions about the magnitude of the potential price premium associated with proximity to transit, one suggested that the premium may be as high as 10 percent.

New transit lines are unlikely to have a significant catalytic impact on the apartment market until the transit line is two to three years from opening. Renters signing a twelve month lease are unlikely to pay a premium to live near a transit line that is several years off. Developers of multifamily rental housing are therefore likely to time the construction of new units to come to market around or after the time that transit is complete. Most of the interviewees suggested that they would consider planning and executing a development project up to three years before the light rail was due to open. In general, greater certainty about the timing and alignment of transit corridors was viewed as critical to the stimulation of private investment.

Developers believe that younger "green thinkers" will lead the market for rental TOD. Consistent with national trends, the Puget Sound region developers interviewed agreed that young (20's and early 30's) singles and families without children are likely to have the greatest demand for rental housing near transit and to drive the market for new development.

Figure 33: Apartment Market Indicators by Transit Corridor

	Range of Typical Rents* (psf, per month 2012)		**Range of Typical Vacancy Rates*** (psf, per month 2012)		**Average Recent Construction per Study Area** (2009 - 2011)	**Average Planned and Proposed per Study Area** (2012-2014)
	Low	**High**	**Low**	**High**		
Transit Region	$1.22		4.5%			
North Corridor	$0.90	$1.66	1.5%	6.1%	62	109
Downtown Seattle	$1.32	$1.86	0.9%	3.9%	413	1,777
East Corridor	$1.28	$1.50	3.2%	11.1%	259	121
South Corridor	$0.88	$1.44	1.2%	21.1%	42	54

Source: Dupre and Scott; Gardner Economics; Strategic Economics 2012

**Typical rents and vacancy rates represent the average rents within the smaller market geographies which comprise the TOD market areas and Corridors. The low end of the range is the lowest average rent and vacancy rate among the smaller market areas, while the high end of the range represents the smaller market area with the highest average rent and vacancy.*

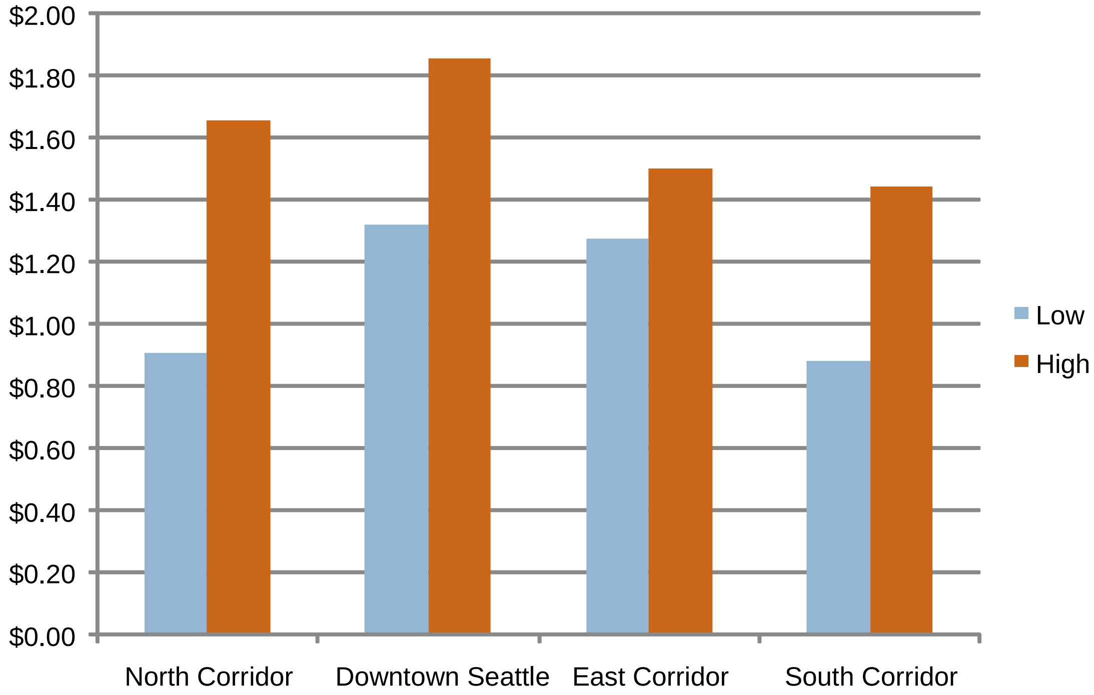
Figure 34: Apartment Market Indicators by TOD Market Area, 2012

	Range of Typical Rents* (psf, per month 2012)		**Range of Typical Vacancy Rates*** (psf, per month 2012)		**Average Recent Construction per Study Area** (2009 - 2011)	**Average Planned and Proposed Units per Study Area** (2012-2014)
	Low	**High**	**Low**	**High**		
Central Everett	$1.03	$1.03	6.1%	6.1%	43	60
N. Lynnwood/Silver Lake/Paine Field	$0.90	$1.13	1.5%	6.1%	25	30
Shoreline/Mountlake Terrace	$1.01	$1.04	2.1%	4.8%	23	89
North Seattle	$1.03	$1.66	2.1%	5.2%	143	219
Downtown Seattle	$1.32	$1.86	0.9%	3.9%	330	1,421
Industrial Seattle	$1.32	$1.32	3.9%	3.9%	0	86
Eastside	$1.28	$1.50	3.2%	11.1%	259	121
Southeast Seattle	$1.17	$1.44	1.2%	3.9%	133	194
Tukwila/SeaTac/Des Moines	$0.93	$1.03	3.6%	6.8%	34	0
Des Moines	$0.96	$0.96	6.8%	6.8%	0	0
Federal Way/Fife	$0.92	$0.92	4.8%	6.3%	0	0
Tacoma	$0.88	$1.11	4.7%	21.1%	26	46

Source: Dupre and Scott; Gardner Economics; Strategic Economics 2012

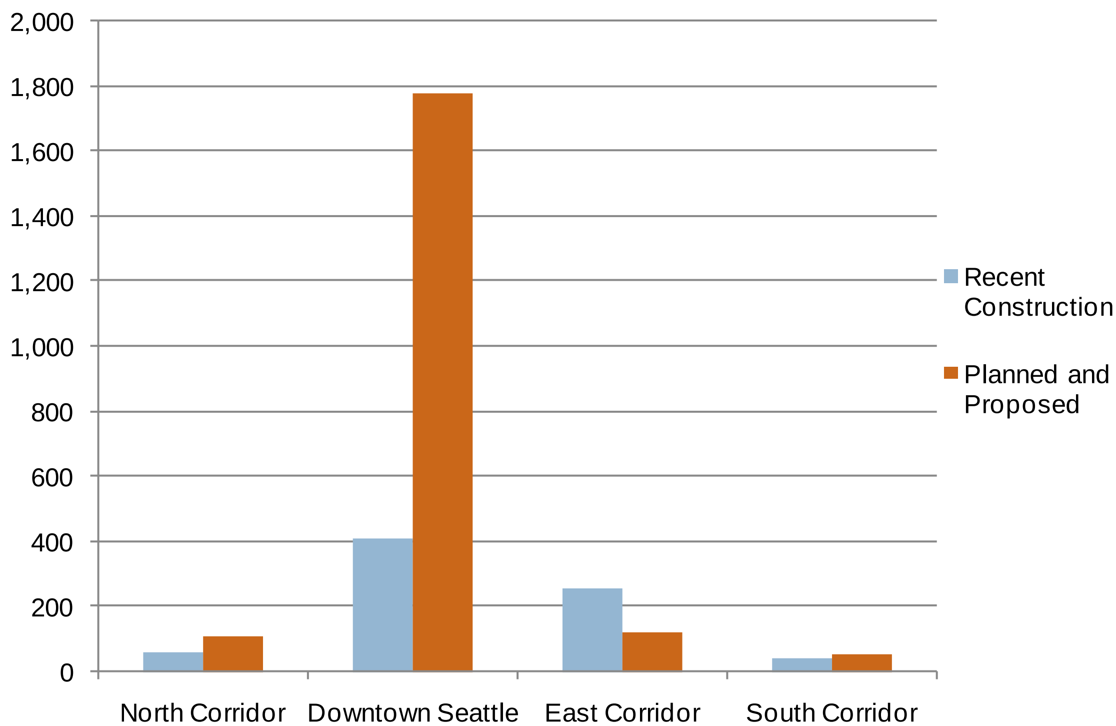
**Typical rents and vacancy rates represent the average rents within the traditional market areas which comprise the TOD market areas and Corridors. The low end of the range is the traditional market area with the lowest average rent and vacancy rate, while the high end of the range represents the traditional market area with the highest average rent and vacancy*

Figure 35: Range of Average Apartment Rental Rates by Transit Corridor, 2012



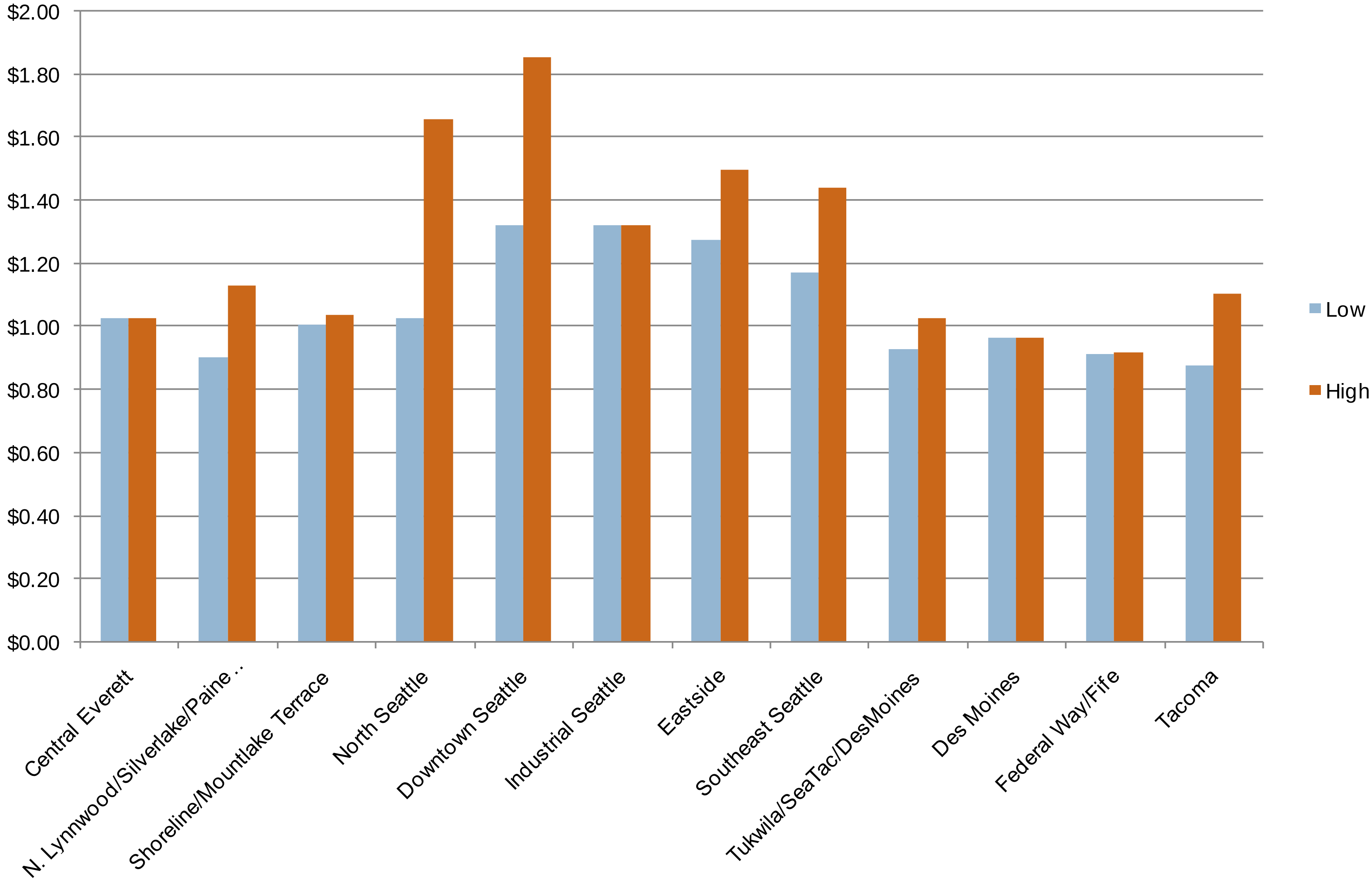
Source: Dupre and Scott; Gardner Economics; Strategic Economics 2012

Figure 36: Recent Average Construction (2009-2011) and Planned and Proposed Units (2012-2014) per Study Area by Transit Corridor



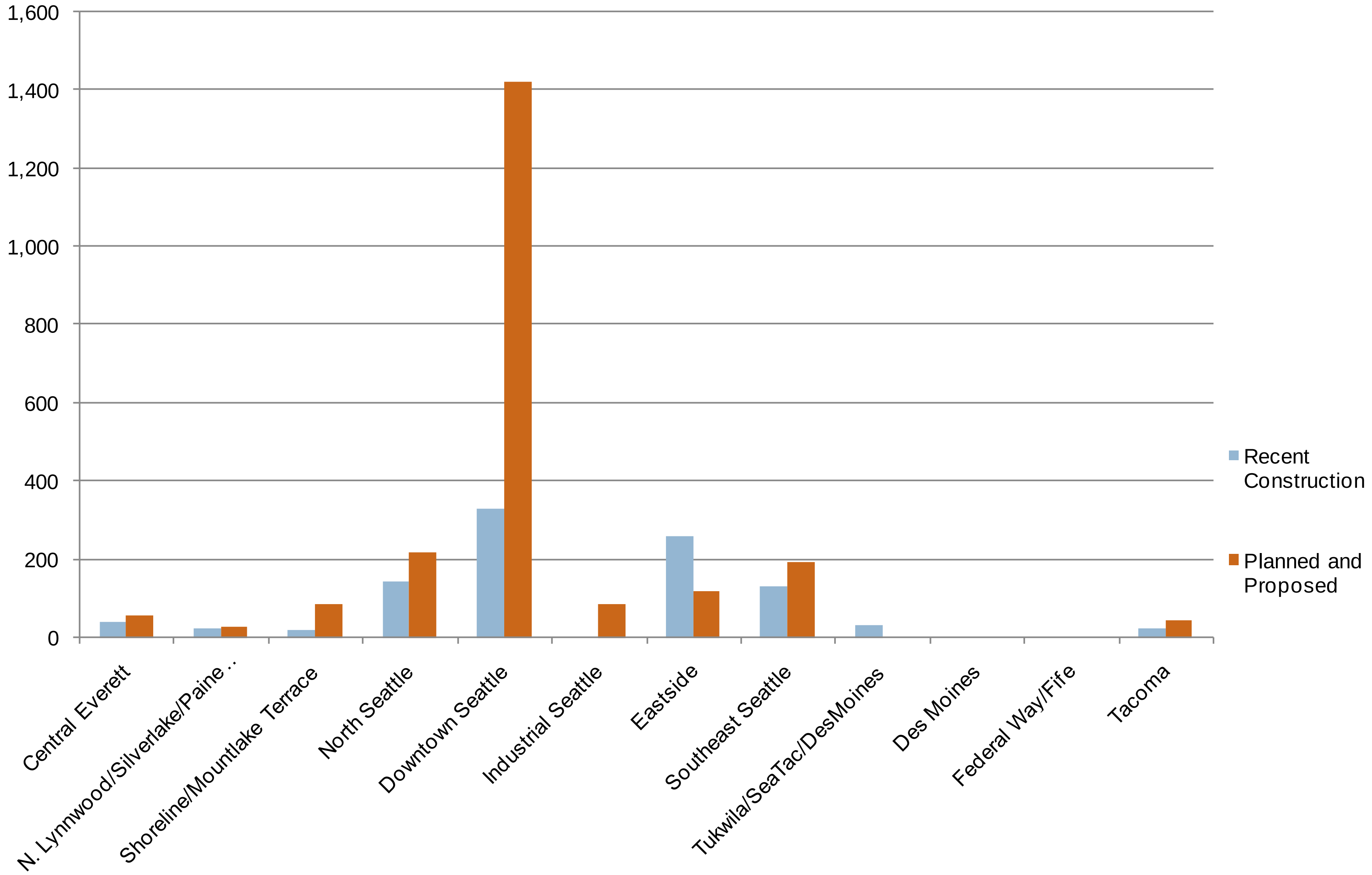
Source: Dupre and Scott; Gardner Economics; Strategic Economics 2012

Figure 37: Range of Average Apartment Rental Rates by TOD Market Area, 2012



Source: Dupre and Scott; Gardner Economics; Strategic Economics 2012

Figure 38: Recent Average Construction (2009-2011) and Planned and Proposed Units (2012-2014) per Study Area, by TOD Market Area



Source: Dupre and Scott; Gardner Economics; Strategic Economics 2012

For-Sale TOD Market

Like much of the country, the Puget Sound Region for-sale housing market was significantly impacted by the collapse of the housing market in 2007 and 2008. The condominium market in particular was hard-hit and for the last five years a glut of inventory has kept prices low and inhibited new development. Although prices remain depressed, the number of sales in recent months has jumped, indicating that the condominium market is starting to recover.[20] However, factors such as stricter financing requirements and continued inventory overhang suggest that – outside of the strongest market locations - new condominium development will return in the mid-to-long term. Key findings at the corridor and TOD market area are reported below.

When the condominium market returns, Downtown Seattle study areas are likely to experience the largest share of condo development around transit. Average sales prices and number of condos sold in Downtown Seattle were the highest throughout the 4 transit corridors from 2005 to 2011**(Figures 39, 43 and 45)**. Although Downtown Seattle contains only 5 percent of the system's light rail stations and other transit nodes, it accounted for 32 percent of condominium sales in that time period (**Figures 40, 44 and 46**). Like much of the nation, condo sales peaked in 2007 and dropped precipitously in 2008 with the collapse of the housing market **(Figure 41 and 42)**. Sales began to recover in 2010, and as of 2012 there are 3,491 condominium units currently approved or in the approval process around Downtown Seattle study areas.[21] Given the various challenges to the condo market, the actual timing of these units coming to market may be several years down the road. However, the historic strength of Downtown Seattle condo market, the Downtown location, access to transit and other amenities suggest that this area has strong potential for condominium development when the market returns. Given the density of this area, there is very little demand for single family housing.

The East Corridor has significant demand for condominium development and will likely experience additional growth when the market returns. After Downtown Seattle, East Corridor condos had the highest number of sales from 2005 to 2011, which suggests that demand will return to this area when the condominium market improves. Although historic demand varies by location along the corridor, most study areas experienced some sales activity from 2005 to 2011. The East Main and Downtown Redmond study areas had the highest share of sales in that time (30 percent). Factors such as the build-out of the transit line and continuing employment growth along the East Corridor will further stimulate demand for condominium development when the market returns. Sales activity around study areas in the single family home market has been limited and primarily concentrated around the Bellevue Transit Center study area.

The condominium market around the North Corridor is varied, with much of the demand focused along State Route 99 on the north end of the corridor. Although sales prices and number of condo sales along the North Corridor were moderate in general, the northernmost study areas had the highest levels of sales from 2005 to 2011. This was particularly true along SR 99, which provides a more development-friendly environment than the neighboring I-5 corridor. The strength of the condo market in north Snohomish County is likely a factor of the area's proximity to the Boeing employment cluster in Everett. In addition, Downtown Everett provides the added attraction of a walkable urban environment with proximity to entertainment, retail and service businesses. Despite the relative strength of these market areas, sales prices are significantly lower than those in Downtown Seattle and along the East Corridor. The North Corridor is unlikely to lead the return of the condominium market, and substantial new development is more likely to occur in the mid-to-long term. Historically, there has been significant demand for single family homes within a half mile of the future North Corridor study areas. However,

[20] Kakimoto, B. (2012, April 4). *March 2012 Seattle Condo Market Update*. Retrieved from http://blog.seattlepi.com/seattlecondo/2012/04/08/march-2012-seattle-condo-market-update/

[21] Gardner Economics, *Ownership Housing Markets within the Existing/Proposed Light Rail Corridors*; 2012

with the arrival of the transit line it is likely that the study areas will absorb much of the broader area demand for higher density development; any new development of single family homes will therefore likely be compact in nature.

The condominium market along the South Corridor is limited, with the majority of the Corridor's market demand concentrated in Downtown Tacoma. The South Corridor accounted for only 9.4 percent of condo sales activity along the four transit corridors from 2005 to 2012. The majority of this activity (62.9 percent) occurred in the Tacoma TOD market area, which also had the highest sales prices and features a walkable environment with more urban amenities than most other locations along the South Corridor. As with the rental market, Downtown Tacoma has significant mid-term potential for condo development, but the completion of the transit line and continued employment growth and investments in the Downtown area will be necessary before it can reach its potential. Outside of Downtown Tacoma, the market for condominium development along the South Corridor is very long-term.

Figure 39: For-Sale Market Indicators by Transit Corridor

	Average Condo Sales Price (2012)	Average Condo Sales per Study Area (2005-Q1 2012)	Average SF Home Sales per Study Area (2005-Q1 2012)	Average Home Sales per Study Area (2005-Q1 2012)
Transit Region	$231,070			
North Corridor	$225,881	124	39	163
Downtown Seattle	$568,605	802	3	805
East Corridor	$263,908	162	20	181
South Corridor	$270,986	37	23	59

Source: Home Trends; Northwest Multiple Listing Service; Gardner Economics; Strategic Economics 2012

Figure 40: For-Sale Market Indicators by TOD Market Area

	Average Condo Sales Price	Average Condo Sales per Study Area	Average SF Home Sales per Study Area	Average Total Home Sales per Study Area
Central Everett	$158,781	116	50	167
N. Lynnwood/Silver Lake/Paine Field	$172,064	104	31	134
Shoreline/Mountlake Terrace	$176,803	41	49	90
North Seattle	$207,549	54	41	95
Downtown Seattle	$489,005	927	13	940
Industrial Seattle	n/a	n/a	n/a	n/a
Eastside	$263,908	162	20	181
Southeast Seattle	$267,889	25	77	102
Tukwila/SeaTac/DesMoines	$94,066	18	3	21
Des Moines	$127,561	23	14	37
Federal Way/Fife	n/a	n/a	n/a	n/a
Tacoma	$325,961	120	8	127

Source: New Home Trends; Gardner Economics; Strategic Economics 2012

Figure 41: Average Condo Sales Per Study Area by Transit Corridor, 2005 - 2011

	2005	2007	2009	2010	2011
North Corridor	34	36	19	16	16
Downtown Seattle	181	246	79	117	138
East Corridor	46	51	17	17	25
South Corridor	9	9	4	6	5
Total	270	342	119	155	184

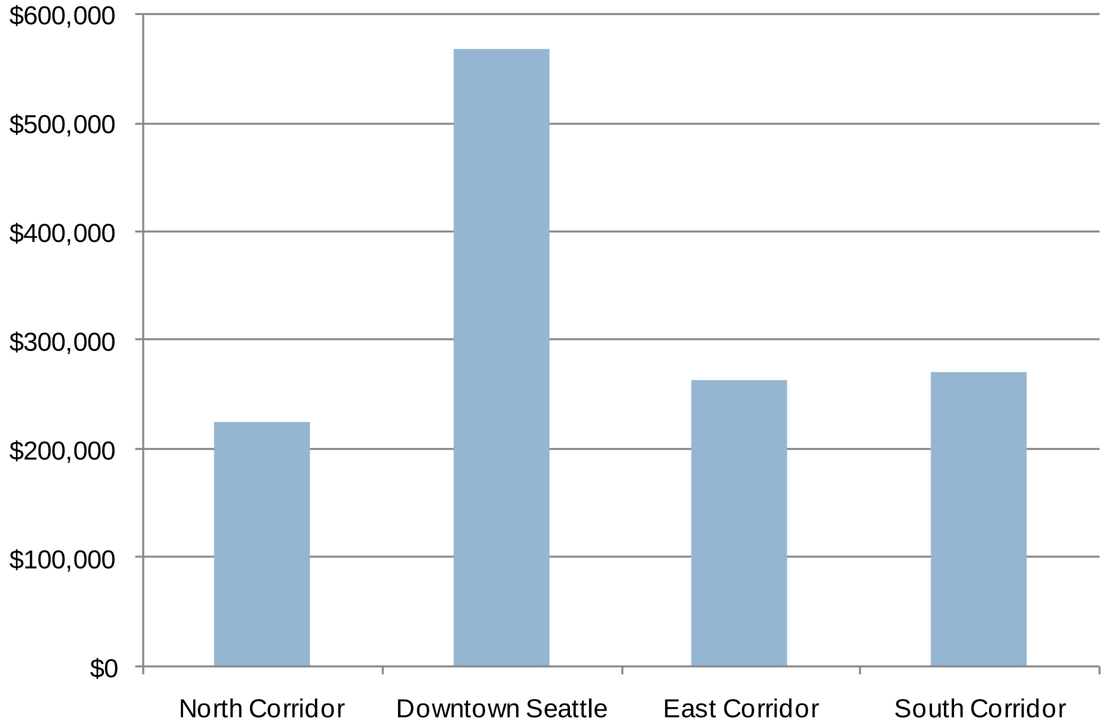
Source: New Home Trends; Gardner Economics; Strategic Economics 2012

Figure 42: Average Condo Sales Per Study Area by TOD Market Area 2005 - 2011

	2005	2007	2009	2010	2011
Central Everett	35	40	10	16	14
N. Lynnwood/Silver Lake/Paine Field	30	26	16	12	15
Shoreline/Mountlake Terrace	14	11	6	4	4
North Seattle	10	17	9	7	7
Downtown Seattle	217	283	109	132	145
Industrial Seattle	0	0	0	0	0
Eastside	46	51	17	17	25
Southeast Seattle	6	5	2	6	1
Tukwila/SeaTac/Des Moines	6	5	2	3	2
Des Moines	3	13	2	2	4
Federal Way/Fife	0	0	0	0	0
Tacoma	32	21	15	16	21

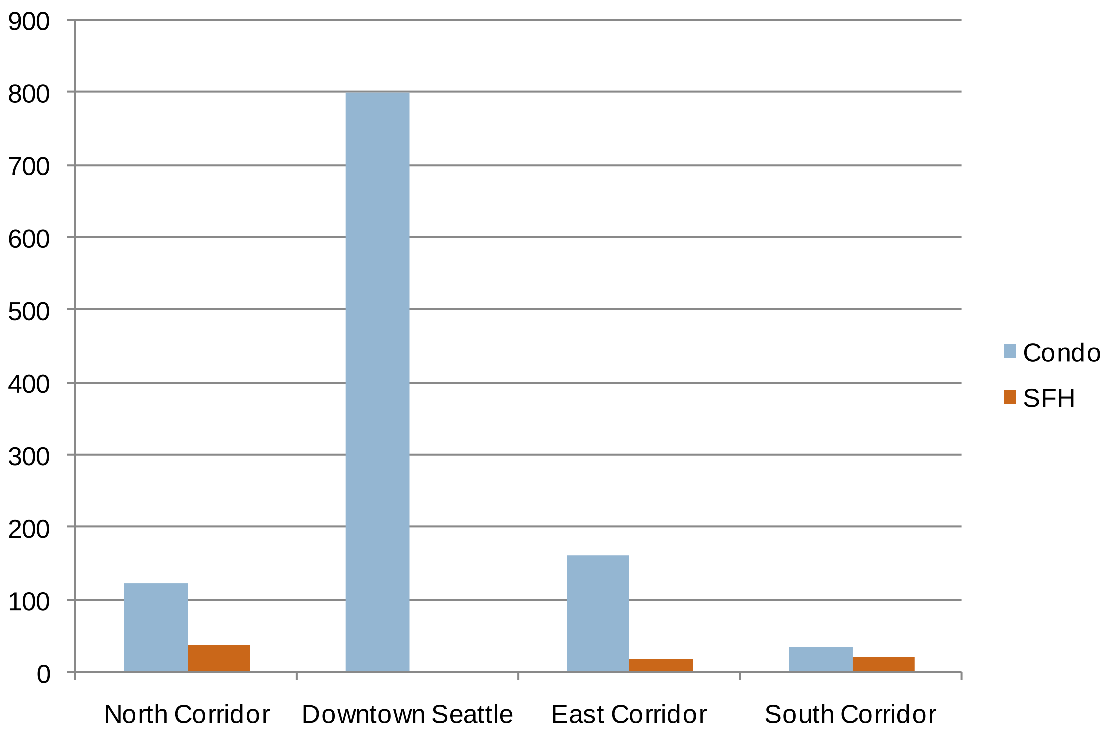
Source: New Home Trends; Gardner Economics; Strategic Economics 2012

Figure 43: Average Condominium Sales Prices by SE Corridors (2005-Q1 2012)



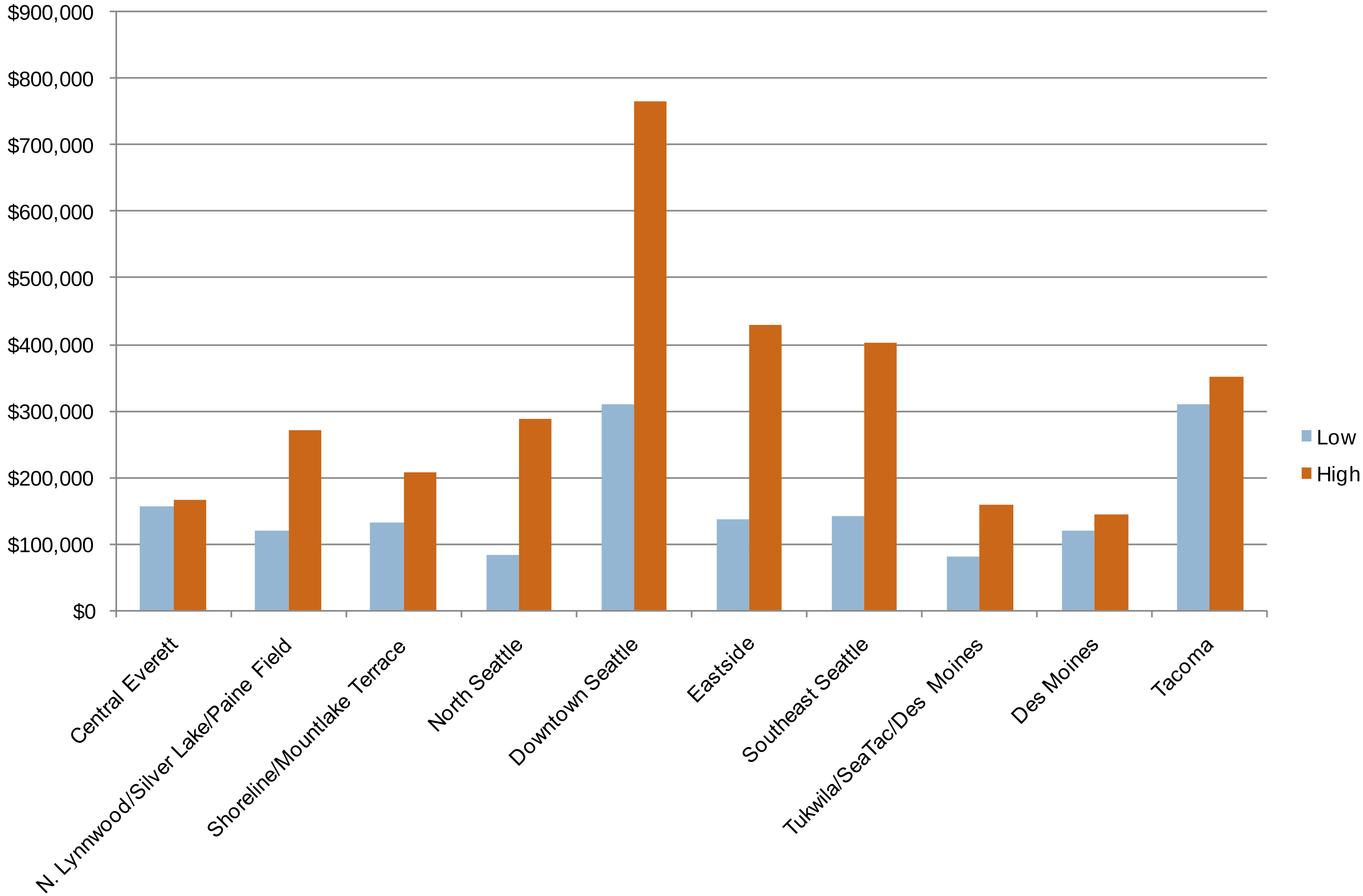
Source: New Home Trends; Gardner Economics; Strategic Economics 2012

Figure 44: Condominium and Single Family Homes Sales by SE Corridors (2005-Q1 2012)



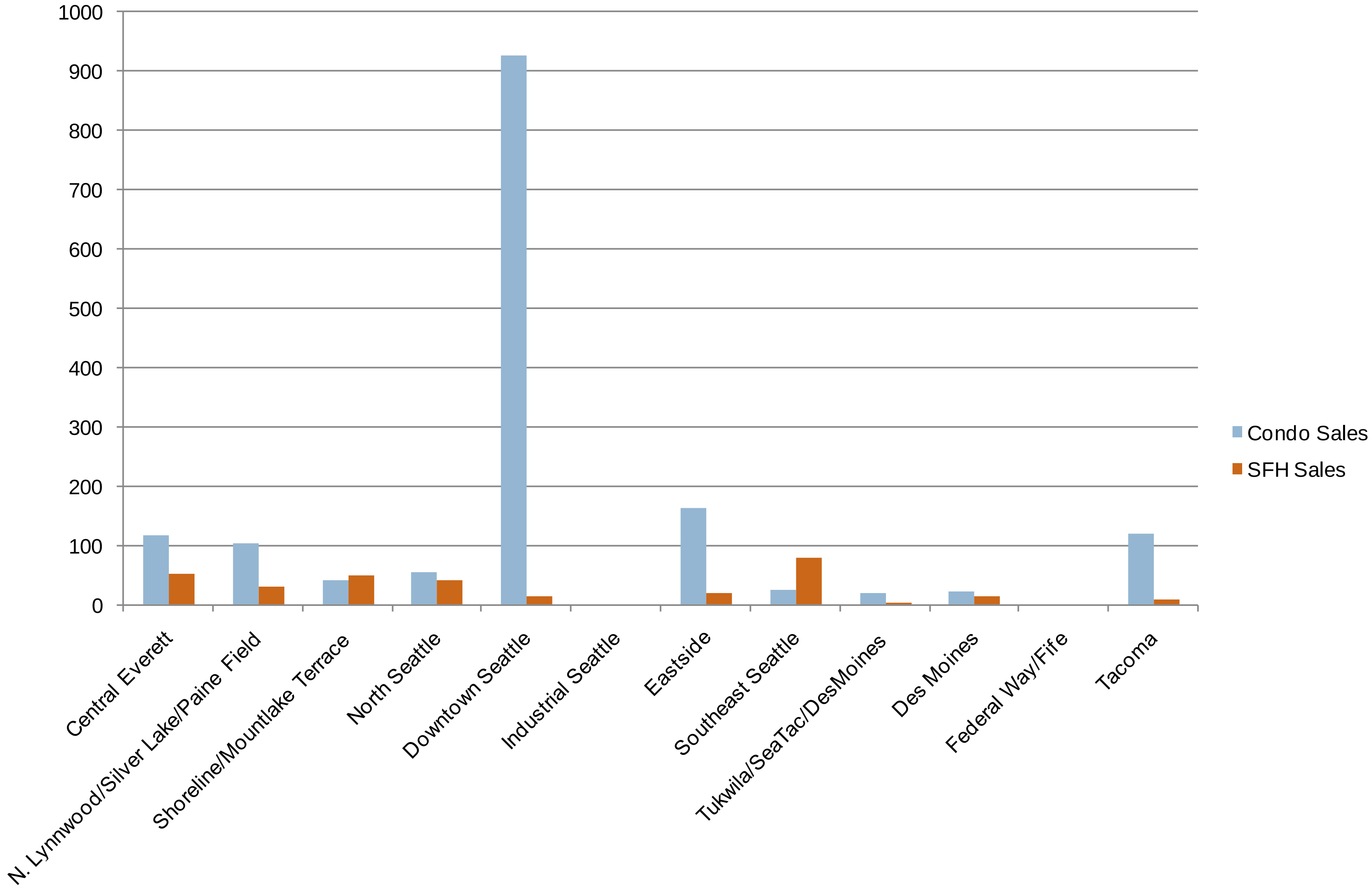
Source: New Home Trends; Gardner Economics; Strategic Economics 2012

Figure 45: Range of Condominium Sales Prices by TOD Market Area (2005-Q1 2012)



Source: New Home Trends; Gardner Economics; Strategic Economics 2012

Figure 46: Condominium and Single Family Homes Sales by TOD Market Area (2005-Q1 2012)



Source: New Home Trends; Gardner Economics; Strategic Economics 2012

C. MARKET RATE COMMERCIAL REAL ESTATE CONDITIONS AND TRENDS

This section contains an assessment of the market for commercial development around the existing and potential light rail corridors in the Puget Sound Region. It begins with a methodology describing the sources and geographies of the data used followed by key findings at the regional, corridor and market area scales.

Methodology

The main commercial data source for this section is CoStar, furnished and analyzed by Gardner Economics (see **Appendix D** for Gardner Economics Commercial Market Memo). The CoStar data represents market conditions as of the first quarter of 2012. Additional market information is provided by commercial brokerage reports and local news sources.

The primary geographies used in this section are consistent with those used in the Rental TOD Market analysis and described in more detail on **page 45**. All commercial data was originally analyzed at 27 smaller market geographies by Gardner Economics, which were then aggregated into 12 TOD market areas with sufficiently similar market, demographic and economic characteristics to be considered distinct market areas from the perspective of TOD development potential by Strategic Economics. TOD market area data was then aggregated into three transit corridors – North, East and South – and Downtown Seattle. Detailed tables illustrating the aggregation of the smaller market geographies into TOD market areas and transit corridors are provided in **Appendix C**.

The tables and charts below include:

- **Total Inventory:** the total square footage of office or retail space within a transit corridor or TOD market area.
- **Vacant Inventory:** the total square footage of unoccupied office or retail space within a transit corridor or TOD market area.
- **Average Inventory per Study Area:** the total square footage of office or retail space within a transit corridor or TOD market area divided by the number of study areas in the market area or corridor.
- **Average Vacant Inventory per Study Area:** the total square footage of unoccupied office or retail space within a transit corridor or TOD market area divided by the number of study areas in the market area or corridor.
- **Asking Lease Rate:** the weighted average lease rate stated by the broker or property owner for marketing purposes.
- **Vacancy rate:** the weighted average of the vacant retail or office space as a share of total inventory in the market area or transit corridor.

In addition to examining general commercial trends, this section also contains a focus on "transit-supportive" industries that drive demand for transit-oriented commercial space. For the purposes of this report, jobs in the Knowledge-based, Entertainment, Government and Educational and Medical industry groups are classified as transit-supportive based on recent research into firm location preferences, as well as having a sufficiently high density of jobs to support ridership of transit. A summary of research supporting this classification can be found in **Section IA on page 7** and the North American Industry Classification System codes corresponding to each of these groups is provided in **Section IA on page25**. Given that these industries traditionally locate in office buildings, a strong concentration of office space is also considered as transit-supportive.

Commercial Market Key Findings

This section provides a summary of commercial market conditions in the Puget Sound region, with a focus on local and regional office markets. Although retail market data is also provided, the majority of transit-supportive commercial uses are located in office buildings; the key findings listed below therefore primarily assess the current market strength and potential future growth in office markets around existing and planned study areas.

The Puget Sound region contains one of the strongest office markets in the country, fueled by growth in the technology industry and businesses such as Microsoft and Amazon. By the end of 2011, the transit region had experienced seven consecutive quarters of positive absorption and vacancy rates were on a steady decline.[22] Positive absorption and falling vacancy rates are forecast to continue, with the East Corridor and Downtown Seattle leading the recovery and other market areas recovering at a slower pace. The Puget Sound retail market is also on the road to recovery; although new construction activity has been minimal, the absorption of unoccupied space has been on the rise. Brokers report that the majority of recent development has been build-to-suit and that speculative development is a longer-term prospect.[23]

The key findings listed below include references to employment patterns and major employers along each corridor. See **page 28 in Section IA** for a more in-depth discussion of employment patterns in each of the corridors.

Downtown Seattle is one of the transit region's strongest office markets, with significant potential for future growth in transit-supportive industries. Downtown Seattle contains a significant share of the transit region's office inventory in just four study areas **(Figures 47, 49 and 51)**. Future growth is expected to be driven by the high tech sector, including companies such as Amazon, which is currently planning to build an additional 3.3 million square feet of office space in the Westlake study area. Facebook and HTC, a smart phone manufacturer, also announced expansion plans in downtown Seattle in 2012.[24] With vacancy rates below 9 percent in some areas, the office market in Downtown Seattle is expected to remain strong; Spear Street Capital recently announced the construction of 202 Westlake, a 130,000 square foot speculative office project in the South Lake Union area. Brokers also report that "traditional" office uses, such as finance and insurance companies, are starting to expand.[25] Downtown Seattle is also one of the transit region's densest commercial areas from a retail perspective, with the highest per-study-area retail inventory among the four transit corridors. Downtown Seattle's retail market is relatively strong, with high asking lease rates and vacancy rates in the 2 percent range **(Figure 53)**.

Although less dense than Downtown Seattle, the East Corridor has a strong office market and potential for continued growth in transit supportive industries. The East Corridor contains a significant share of the transit region's office space, distributed among thirteen study areas. Within the corridor, office space is concentrated in Downtown Redmond, Downtown Bellevue and the Microsoft Campus in Redmond. The East Corridor has among the lowest vacancy rates in the transit region and asking lease rates are the highest outside of Downtown Seattle (**Figures 50 and 52**). The majority of recent expansion has been from high tech companies such as Expedia, Hipcricket[26] and Citrix;[27] this trend is likely to continue given the presence of the Microsoft headquarters and campuses and the

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[22] CB Richard Ellis, Puget Sound Office MarketView, 4th Quarter 2011.

[23] Kidder Matthews, Real Estate Market Preview, 1st Quarter 2012.

[24] CB Richard Ellis, Puget Sound Office MarketView, 4th Quarter 2011.

[25] Pryne, Eric. "Seattle's office towers filling up, brokers report." *Seattle Times* [Seattle] 10 04 2012

[26] CB Richard Ellis, Puget Sound Office MarketView, 4th Quarter 2011.

[27] Colliers International, Puget Sound Region Forecast and Report, 4th Quarter 2011.

agglomerative nature of the high tech industry. Brokers note that the East Corridor market is characterized by multiple smaller spaces rather than large blocks of unoccupied space.[28] Any additional reduction in vacancy rates will therefore be a factor of steady leasing activity instead of the relocation of a few large tenants. Although not as dense as Downtown Seattle, the Eastside also has one of the strongest retail market among the four transit corridors, featuring high asking lease rates and relatively low vacancy rates.

Traditionally slower to recover compared to other locations, short-to-mid-term commercial office growth along the South Corridor will be limited. Although the South Corridor contains a significant portion of the transit region's office supply – particularly in the Tukwila/SeaTac/Des Moines and Tacoma TOD market areas **(Figure 48)** – the corridor has the highest vacancy rates and lowest asking lease rates among the four transit corridors. Brokers report that recent absorption along the corridor has been negative or flat and predict that new construction is unlikely in the short-to-mid-term.[29] However, past employment trends indicate that commercial employment patterns along South Corridor may be changing; although overall employment in corridor cities remained stable from 2002 to 2009, the South Corridor gained more than 7,600 transit-supportive jobs in that time, in large part due to the opening of the University of Washington Tacoma campus. The majority of the corridor's new jobs are office-oriented, while those lost were primarily housed in industrial space. If the University of Washington is able to act as an anchor and continue to attract office-based jobs to the area, the South Corridor – and downtown Tacoma in particular - has the potential to generate demand for new office space in the long-term. The South Corridor retail market is concentrated in the Tukwila/SeaTac/Des Moines market area, primarily due to the presence of the Westfield South Center mall. Although this retail market area is the strongest in the South Corridor, asking lease rates are significantly lower than those in Downtown Seattle or the East corridor market areas.

The North Corridor is unlikely to experience significant commercial office growth in the short-to-mid-term. The North Corridor accounts for the smallest share of office space among the four transit corridors. Although vacancy rates are low, there is little new construction planned for the corridor, which may be a function of low asking lease rates. The primary exception to this trend is the Boeing plant in Everett, which is planning to build a new 180,000 square foot plane delivery center. In order to capture this new growth and the existing job center at Boeing, the North Corridor would have to follow the SR99 corridor including the Boeing transit node. In contrast to its office market, the North Corridor contains the highest share of retail space among the four transit corridors. The amount of retail space along the North Corridor reflects the 30-mile length of the corridor, and number of study areas, as well as the presence of several shopping malls, including Northgate, Alderwood and Everett malls on the I-5 corridor. Within the North Corridor, retail space is concentrated in the North Lynnwood/Silver Lake/Paine Field market area **(Figure 54)** due to the presence of the 1.4 million square foot, regional-serving Alderwood Mall.

Proximity to transit is not a key factor in determining retail growth patterns. Unlike residential or office use, the relationship between transit and retail growth is not well-established. Local-serving retail growth is primarily a function of household growth and is likely to follow household growth patterns. Regional-serving retail is more likely to prioritize automobile access and therefore typically chooses locations around busy intersections or near highway off-ramps.

[28] CB Richard Ellis, Puget Sound Office MarketView, 4th Quarter 2011.

[29] Colliers International, Puget Sound Region Forecast and Report, 4th Quarter 2011.

Figure 47: Office Market Indicators by Transit Corridor

	Inventory (sq. ft.)		**Average Inventory per Study Area** (sq. ft.)		**Asking Lease Rate**	**Vacancy Rate**
	Total	**Vacant**	**Total**	**Vacant**		
Transit Region						17%
North Corridor	14,768,721	1,294,509	476,410	41,758	$21.93	9%
Downtown Seattle	50,906,009	6,337,459	12,726,502	1,584,365	$27.34	12%
East Corridor	31,453,499	2,788,698	2,419,500	214,515	$26.74	9%
South Corridor	23,919,155	3,627,254	919,968	139,510	$21.37	15%

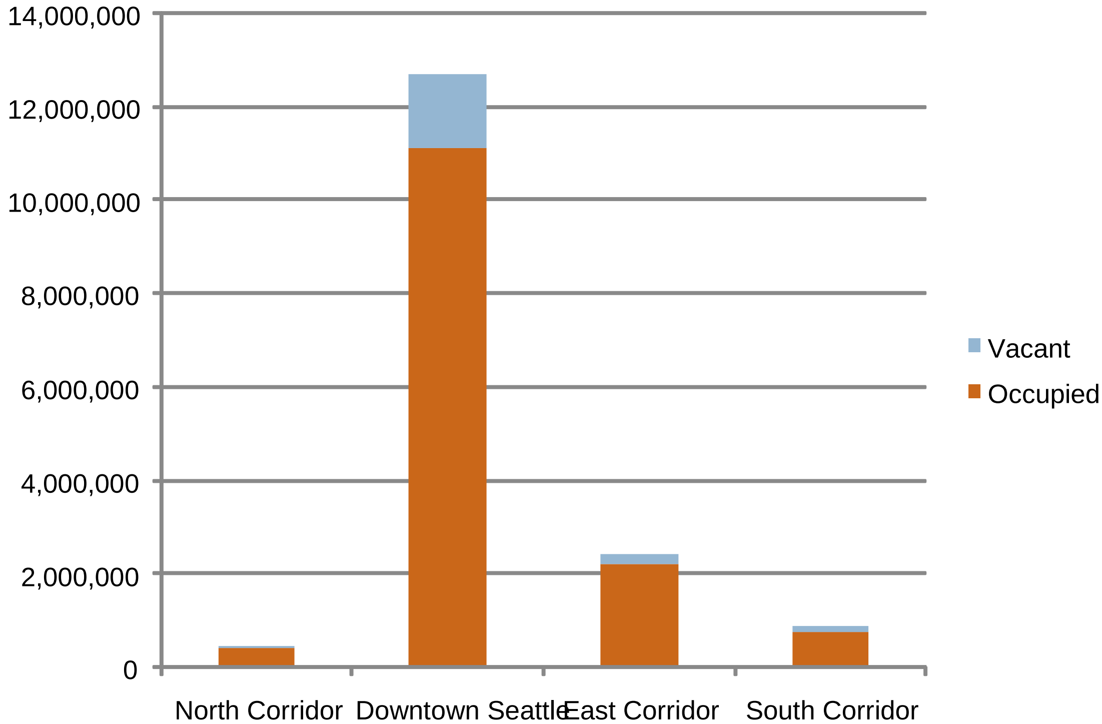
Source: Costar; CB Richard Ellis; Gardner Economics, LLC; Strategic Economics 2012.

Figure 48: Office Market Indicators by TOD Market Area

	Total Square Feet		**Average Square Feet per Study Area**		**Asking Lease Rate** (Weighted Average)	**Vacancy Rate** (Weighted Average)
	Total	**Vacant**	**Total**	**Vacant**		
Central Everett	3,033,927	220,251	1,011,309	73,417	$17.80	7%
N. Lynnwood/ Silverlake/Paine Field	8,590,114	1,002,666	613,580	71,619	$20.43	12%
Shoreline/Mountlake Terrace	3,765,322	608,093	627,554	101,349	$21.99	16%
North Seattle	4,808,643	228,053	686,949	32,579	$23.70	5%
Downtown Seattle	50,906,009	6,337,459	10,181,202	1,267,492	$27.34	12%
Industrial Seattle	2,227,660	440,954	1,113,830	220,477	$22.66	20%
Eastside	31,453,499	2,788,698	2,419,500	214,515	$26.74	9%
Southeast Seattle	4,750,652	539,556	791,775	89,926	$24.04	11%
Tukwila/SeaTac/Des Moines	9,773,527	1,626,961	1,954,705	325,392	$20.49	17%
Des Moines	350,252	36,439	70,050	7,288	$19.26	10%
Federal Way/Fife	3,090,412	543,198	1,030,137	181,066	$19.56	18%
Tacoma	6,304,564	917,539	1,260,913	183,508	$21.60	15%

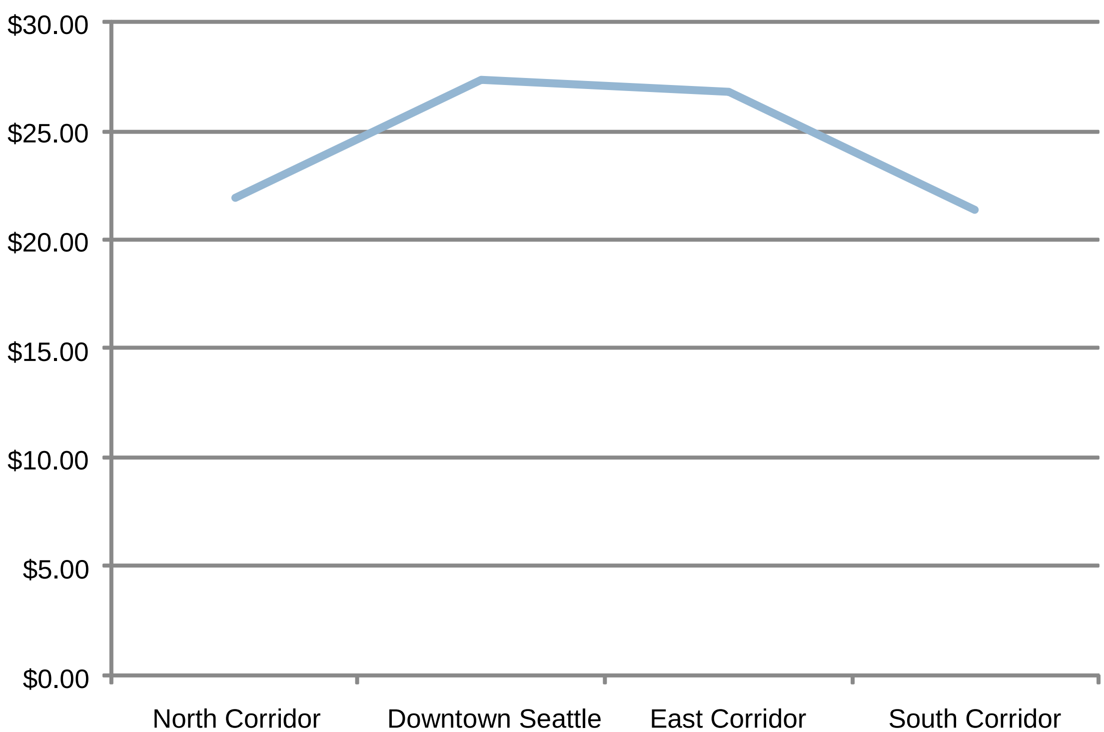
Source: Costar; CB Richard Ellis; Gardner Economics, LLC; Strategic Economics 2012.

Figure 49: Average Office Inventory by Corridor, 2012



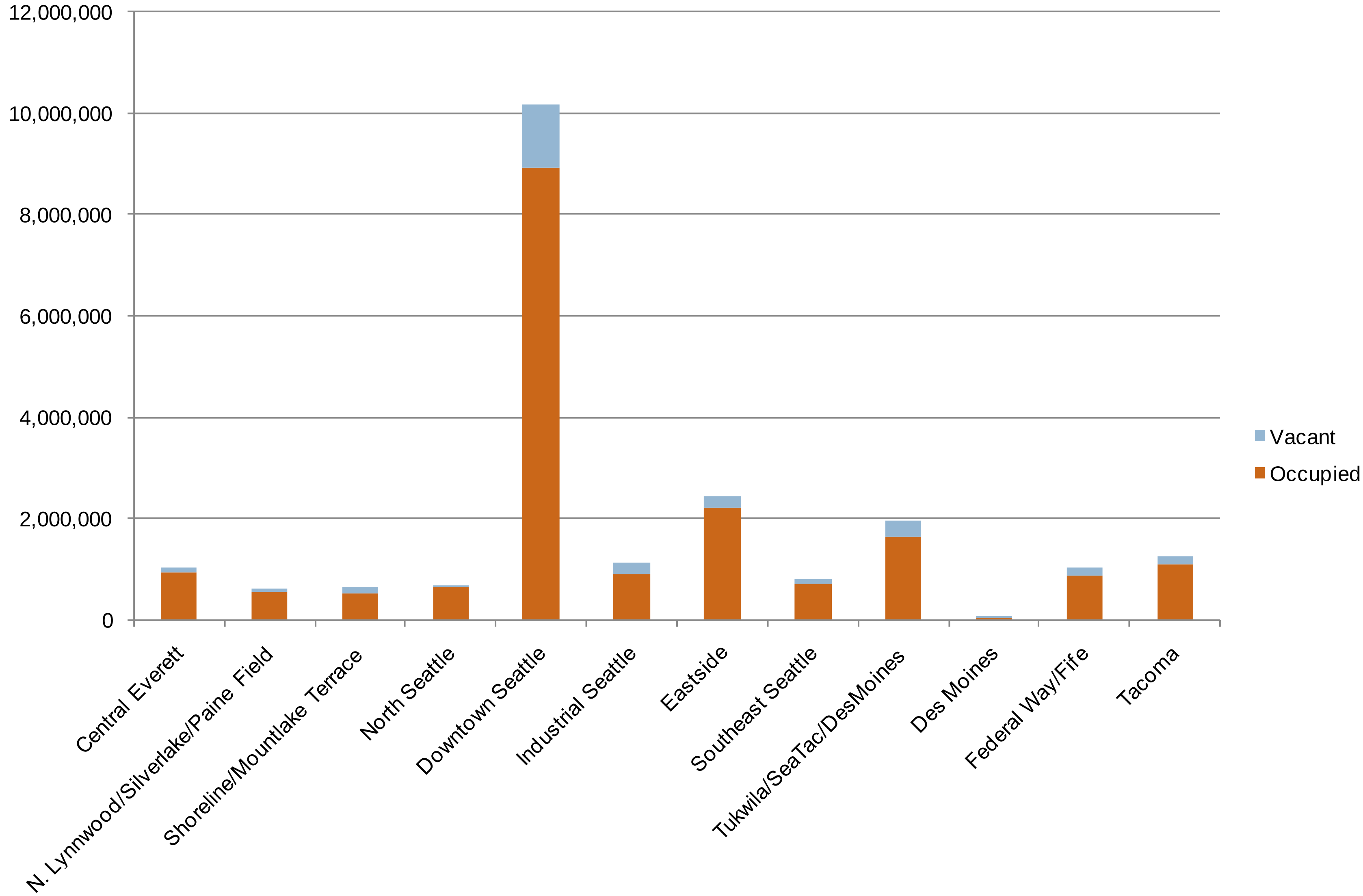
Source: Costar; CB Richard Ellis; Gardner Economics, LLC; Strategic Economics 2012.

Figure 50: Average Office Lease Rate by Corridor 2012



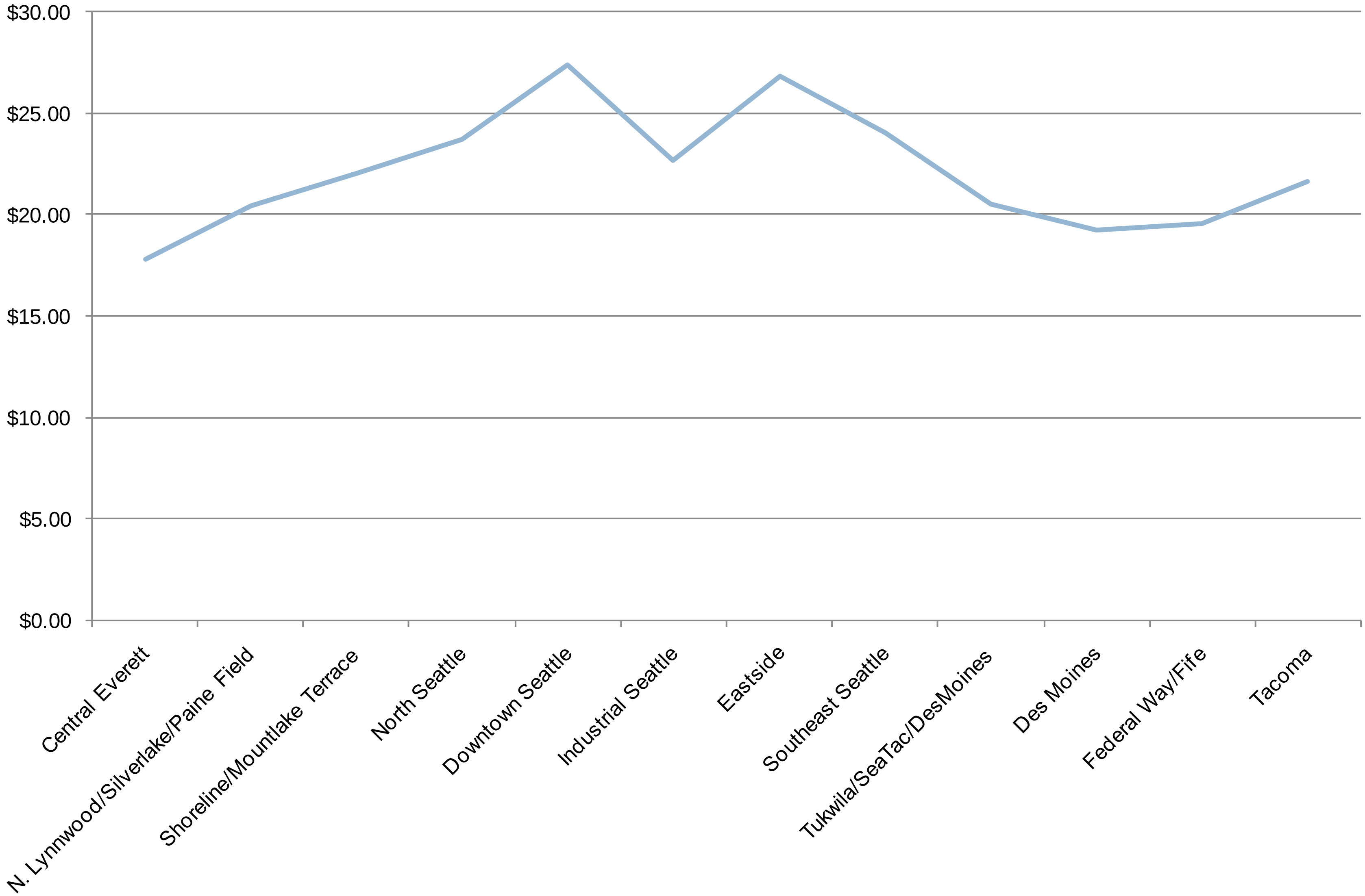
Source: Costar; CB Richard Ellis; Gardner Economics, LLC; Strategic Economics 2012

Figure 51: Average Office Inventory by TOD Market Area, 2012



Source: Costar; CB Richard Ellis; Gardner Economics, LLC; Strategic Economics 2012.

Figure 52: Average Office Lease Rate by TOD Market Area, 2012



Source: Costar; CB Richard Ellis; Gardner Economics, LLC; Strategic Economics 2012.

Figure 53: Retail Market Indicators by Transit Corridor

	Square Feet		Average Square Feet per Study Area		Asking Lease Rate	Vacancy Rate
	Total	Vacant	Total	Vacant		
Transit Region						
North Corridor	29,539,705	1,214,192	952,894	39,167	$19.38	4%
Downtown Seattle	15,128,700	324,176	3,782,175	81,044	$24.23	2%
East Corridor	13,296,112	565,568	1,022,778	43,505	$25.66	4%
South Corridor	24,971,791	1,699,789	960,454	65,377	$16.95	7%

Source: Costar; Gardner Economics, LLC; Strategic Economics 2012

Figure 54: Retail Market Indicators by TOD Market Area

	Total Square Feet		Average Square Feet per Study Area		Asking Lease Rate (Weighted Average)	Vacancy Rate (Weighted Average)
	Total	Vacant	Total	Vacant		
Central Everett	1,861,753	38,637	620,584	12,879	$22.42	2%
N. Lynnwood/Silverlake/ Paine Field	16,865,883	801,048	1,204,706	57,218	$19.56	5%
Shoreline/Mountlake Terrace	10,657,818	498,901	1,776,303	83,150	$18.10	5%
North Seattle	10,004,551	362,410	1,429,222	51,773	$18.31	4%
Downtown Seattle	15,128,700	324,176	3,025,740	64,835	$24.23	2%
Industrial Seattle	1,699,736	52,037	849,868	26,019	$16.58	3%
Eastside	13,296,112	565,568	1,022,778	43,505	$25.66	4%
Southeast Seattle	3,856,761	149,498	642,794	24,916	$15.97	4%
Tukwila/SeaTac/ Des Moines	11,018,232	595,640	2,203,646	119,128	$18.87	5%
Des Moines	1,717,334	115,546	343,467	23,109	$16.75	7%
Federal Way/Fife	7,197,060	718,755	2,399,020	239,585	$15.44	10%
Tacoma	2,899,738	235,896	579,948	47,179	$14.72	8%

Source: Costar; Gardner Economics, LLC; Strategic Economics 2012

Corridor TOD Market Summary

This section summarizes the market potential for transit-oriented development around existing and planned study areas.

With one of the strongest residential and commercial markets in the transit region, Downtown Seattle is likely to continue to attract significant growth around transit. Downtown Seattle's residential market is characterized by strong short-to-mid-term demand for apartment development and slightly longer-term demand for condominium units; the condominium market is expected to trail the rental market until the excess inventory constructed during the housing bubble is absorbed and confidence in new product is restored. The residential market strength in Downtown Seattle reflects its status as a regional employment center, as well as the area's many amenities, including a walkable pedestrian environment, access to transit and proximity to retail, entertainment and service businesses. Given the density of this area, there is very little demand for single family housing. Downtown Seattle also contains one of the transit region's strongest office markets – it is one of the few places in the country with speculative office space under construction. Future commercial growth will be driven by the high tech sector, including companies such as Amazon, which is currently planning to build an additional 3.3 million square feet of office space in the Westlake study area.

While the East Corridor office market is currently strong and poised for growth, the market for residential TOD is more likely to generate new construction in the mid-term. The East Corridor residential market is traditionally characterized by stronger demand for single family housing, in part because growth in the supply of multifamily housing is restricted by the extent of single family neighborhoods in the East Corridor. The demand for multifamily housing – and particularly condominium development - is expected to increase with the completion of the East Corridor line and improved connectivity between Eastside employers and higher density residential growth areas, as well as much improved access to Downtown Seattle and the rest of the transit region. The East Corridor is also characterized by a strong office market. Recent expansion has been driven by high tech companies such as Expedia, Hipcricket[30] and Citrix and this trend is likely to continue given the presence of Microsoft and the agglomerative nature of the high tech industry. Continued growth among Eastside employers – and particularly high tech firms seeking recent college graduates – will provide an additional boost to the multifamily housing market.

Primarily a residential corridor, TOD demand along the North Corridor varies by location, with a stronger apartment market to the south and condominium market to the north. The North Seattle market area has the strongest rental market along the North Corridor, driven by the presence of the University of Washington – a major regional destination for education, medical care and employment – and the area's proximity to Downtown Seattle. New apartment construction in North Seattle is currently in the development pipeline, with a longer timeline along the rest of the Corridor. In contrast to the apartment market, the condominium market is stronger in northern study areas due to their proximity to the Boeing employment cluster in Everett. In addition, Downtown Everett provides the added attraction of a walkable urban environment with proximity to entertainment, retail and service businesses. In the longer term, Everett's strong urban form has the potential to generate significant demand for both rental and for-sale housing, particularly if a transit connection to the Boeing employment center is established. As with the rest of the transit region, recovery in the condominium market will trail the apartment market. With the exception of the Boeing plant in Everett, the North Corridor is unlikely to experience significant commercial growth in the short-to-mid-term.

[30] CB Richard Ellis, Puget Sound Office MarketView, 4th Quarter 2011.

Residential and commercial recovery along the South Corridor is trailing the region; short-to-mid-term apartment growth potential is focused around the Southeast Seattle transit nodes. High vacancy rates and low rents and sales prices suggest that the markets for both condominium and apartment development around transit along the South Corridor have limited potential for growth in the short-to-mid term. The primary exception to this is the Southeast Seattle TOD market area, which commands the highest rents and has the lowest vacancy rates along the corridor, and includes Columbia City, where multiple apartment and mixed use projects are in the development pipeline. In the longer term, Downtown Tacoma also has significant potential for residential growth, due to the Downtown's strong urban form, historic buildings and recent investments such as the University of Washington extension. Like the residential market, the South Corridor commercial market is limited in the short-to-mid term. However, past employment trends indicate that commercial employment patterns along the South Corridor may be shifting from industrial to more transit-supportive uses. The completion of the light rail line and continued economic development and investment in the Downtown will be critical to the realization of the area's TOD potential.

D. DEMAND AND SUPPLY OF AFFORDABLE HOUSING AROUND LIGHT RAIL

Access to transportation is a critical component of housing affordability. While typical discussions of "affordability" only consider expenditures on housing, transportation costs are also tremendously important. This is especially true for lower-income households, for whom transportation costs are a heavier burden. Nationally, households earning less than $35,000 spend 67 percent or more of their income on housing and transportation combined.[31] The lower costs of transportation associated with TOD contribute to a more affordable location and offer significant additional benefits to lower-income households, such as access to a wider range of employment options. A recent University of Minnesota study found that the Minneapolis Hiawatha light rail line increased access to low wage jobs for residents of study areas by 50 percent, and by 25 percent in areas with bus routes connecting directly to light rail.[32] In addition, communities with transit-oriented development typically offer a higher level of livability, including the provision of safe, walkable neighborhoods; access to a variety of goods, services and entertainment options; educational and community institutions that support local residents; and the presence of other amenities including environmental, aesthetic and cultural resources.

This section contains an overview of key findings which shape the landscape for affordable housing around transit in the Puget Sound Region. First, a summary of income distribution and trends provides insight into the need for affordable housing and the current location of low-cost market-rate housing throughout the region. Next, an inventory of current affordable housing units illustrates the supply of subsidized affordable housing around light rail stations and other transit nodes. Finally, key findings from interviews with ten local affordable housing developers are summarized to highlight the opportunities and barriers around the development of new or rehabilitated affordable housing around transit.

Income Distribution and Trends

This subsection employs income and income distribution data to illustrate both the need for and the current location of low-cost housing along the four transit corridors. The subsection begins with a summary of findings related to income from the Regional Context section, followed by key findings around income distribution illustrated in **Figures 55, 56 and 57.** For the purposes of this section, the area median income (AMI) is defined by a weighted average of the AMIs in King, Pierce and Snohomish counties ($65,463). [33] This differs from the four-county area median income in the regional demographic section.

Due to restrictions in the household income distribution data available, this analysis defines extremely low-income as less than 30 percent of AMI, very low-income as between 30 and 60 percent of AMI and low-income as between 60 and 76 percent AMI.[34] These income levels reflect the income distribution

[31] Center for Neighborhood Technology Housing and Transportation Affordability Index, 2010

[32] Fan, Yingling, Guthrie, Andrew, & Levinson, David. (2010). *Impact of light rail implementation on labor market accessibility: a transportation equity perspective*. Informally published manuscript, Hubert H. Humphrey Institute of Public Affairs; Department of Civil Engineering, University of Minnesota, Minneapolis, Minnesota. Retrieved from http://nexus.umn.edu/Papers/Transit-Labor-Accessibility.pdf

[33] The AMI used in this analysis is not aligned with the AMIs used by HUD in the distribution of affordable housing subsidy due to an inconsistency in the geography of the study region and the HUD affordable housing regions. HUD provides two distinct AMIs for the PSRC region: one for Pierce County and one for King and Snohomish Counties. Given that this study is focused on the three-county region, Strategic Economics calculated a single weighted average AMI for the three counties, rather than using separate AMIs based on the HUD geographies.

[34] Please note that this definition of moderate-income (60 – 76 percent of AMI) minimizes the share of moderate-income households in the Puget Sound Region, as it includes a smaller income range compared to the definitions of

categories available at the census tract-level through the U.S. Census and are not consistent with the categories used by HUD and the Vision 2040 process, or the categories used for the affordable housing inventory analysis, which follows this section.[35]

Regional Context Summary of Findings[36]

- Downtown Seattle and South Corridor households have median incomes significantly below the regional average, which suggests an existing concentration of low-cost housing along these corridors **(Figure 8, page 15).**
- Median household incomes in North Corridor cities are slightly below the regional average, with lower income households concentrated north of Shoreline and around stations and other transit nodes.
- East Corridor cities have the highest median household income within the Puget Sound Region.
- Residents of the North Corridor north of Mountlake Terrace and the South Corridor south of Seattle were particularly hard hit by the recent recession, with real household incomes significantly lower in 2010 than in 2000.
- In contrast, household incomes in Downtown and East Seattle were stable or experienced significant increases in growth from 2000 to 2010 (**Figure 11, page 18)**. This suggests that the recession had an uneven impact on income levels throughout the region.

Income Distribution Findings

Existing and potential transit corridors are aligned with lower-income areas in the Downtown Seattle and the North and South Corridor cities, which suggests that existing lower-income communities will be well served by the new transit connections. **Figures 55, 56 and 57** illustrate the relationship between existing and planned transit corridors and households with extremely low, very low and low incomes throughout the region. Access to affordable transportation is particularly important for lower income households, which have less income available for transportation costs and are less likely to have access to an automobile.

East Corridor study areas contain a higher share of lower-income residents relative to the rest of eastern King County. Although the East Corridor study areas contain a smaller share of lower-income households relative to those in Downtown Seattle and the South and North corridors, the study areas' share of lower income households is generally higher than outlying areas of eastern King County. This reflects the more urban nature of the study areas, which include more lower-cost multi-family housing than outlying areas.

Within the Link light rail system, the distribution of very low income households is most strongly concentrated in North Corridor Snohomish County study areas and South Corridor study areas south of Mt. Baker. All study areas in those areas include census tracts with at least 20 to 35 percent of households at very low incomes. Extremely low income households are most concentrated in Downtown

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very low and low-income households. This income range is a result of the income levels available through the U.S. Census.

[35] HUD subsidized developments are required to serve specific income ranges, which are defined as a percentage of AMI: very low-income units with rents affordable to households with incomes below 30 percent of AMI, low income units for households with incomes between 30 and 50 percent of AMI, and moderate income units for households with incomes between 50 and 80 percent of AMI. HUD income limits also vary with household size.

[36] For more information, please see **pages 16 through 19** of the Regional Context Chapter.

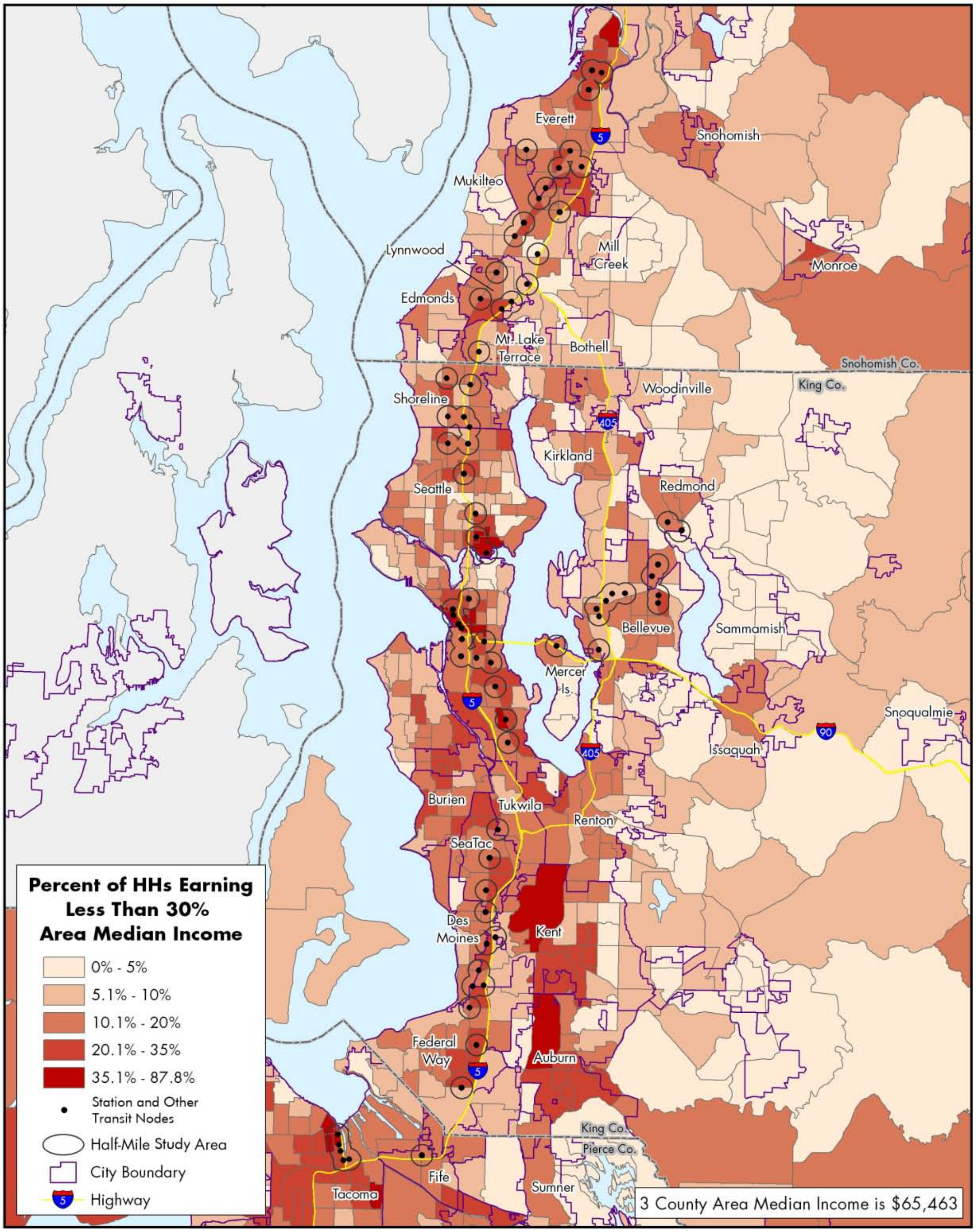
Seattle, the South Corridor and Everett study areas. With the exceptions Fife, Boeing and SODO, all study areas in these areas include census tracts with at 20 to 35 percent of households at extremely low incomes.

Downtown Seattle, Tacoma, and majority of East Corridor study areas have few low-income households. Given that Downtown Seattle has a strong luxury multifamily housing market, most of the lower-cost housing in this area is subsidized by the local, state and federal governments[37], rather than being delivered by the private market. Downtown Seattle is also a particularly attractive location for extremely low and very low-income households and affordable housing funding, due to the presence of supportive services, public transportation and employment in the Downtown.

Parts of the South and North Corridors contain a wide array of low-cost housing options. The South Corridor from Seattle to Des Moines and the North Corridor north of Shoreline contain housing that serves a variety of below median income levels, including extremely low, very low- and low-income households. In comparison, South Corridor from Des Moines to Tacoma and North Seattle in the North Corridor contain fewer low-income households.

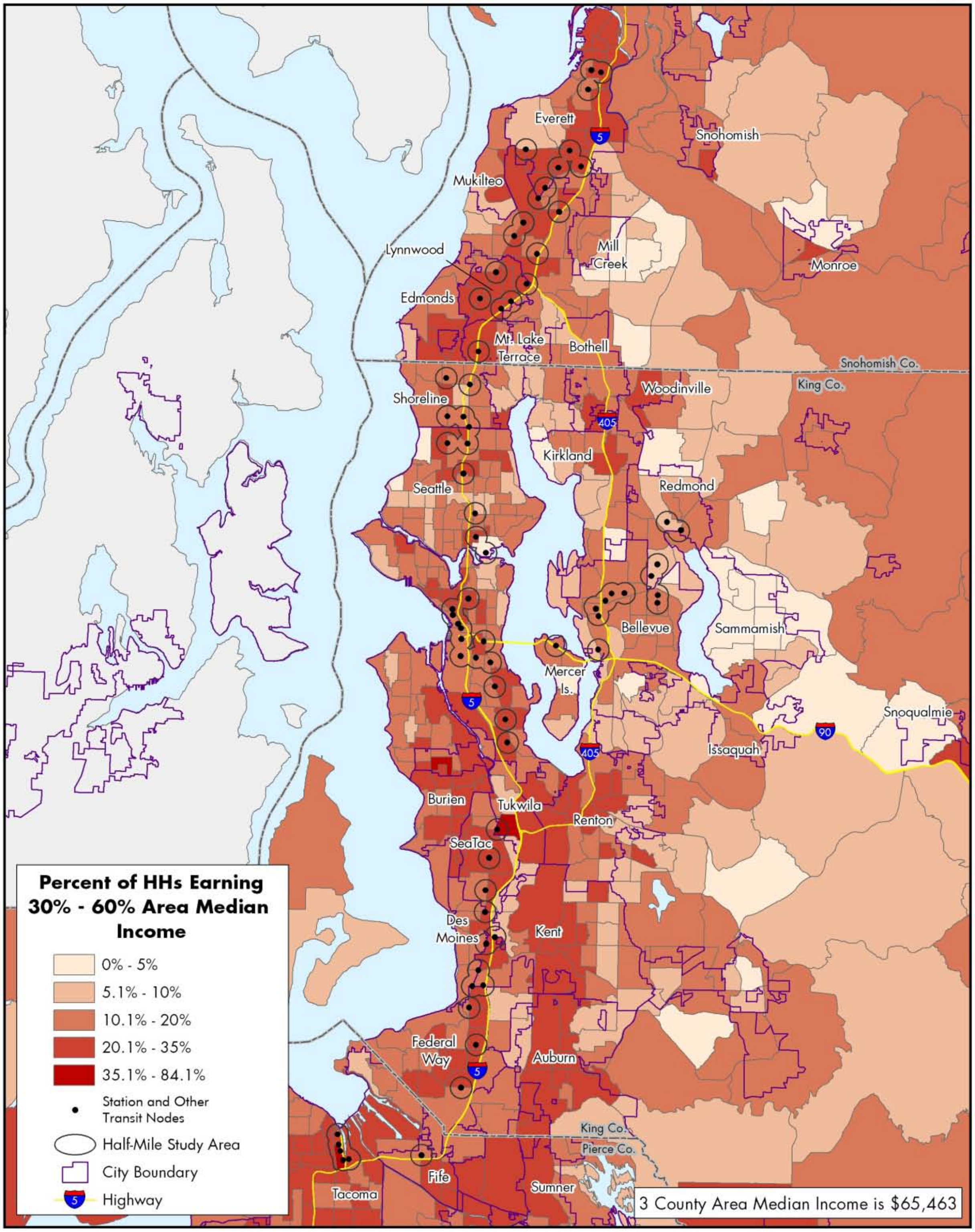
[37] The supply of subsidized affordable housing is explored further in the following subsection.

Figure 55: 2006 – 2010 Share of Extremely Low Income Households, by Census Tract



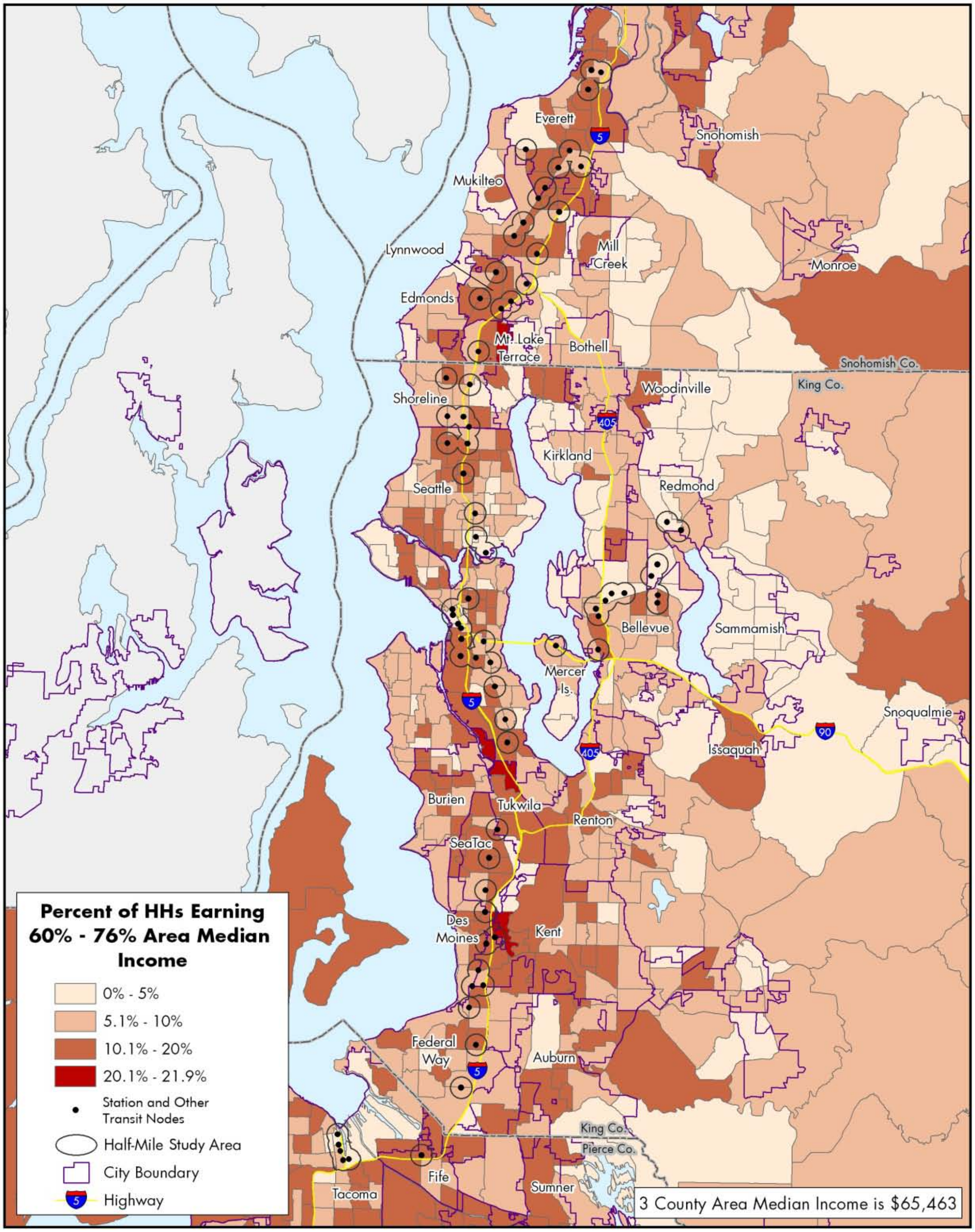
Source: American Community Survey, 2006 – 2010; PSRC, 2012; ESRI; Strategic Economics, 2012.

Figure 56: 2006 – 2010 Share of Very Low Income Households, by Census Tract



Source: American Community Survey, 2006 – 2010; PSRC, 2012; ESRI; Strategic Economics, 2012.

Figure 57: 2006 – 2010 Share of Low Income Households, by Census Tract



Source: American Community Survey, 2006 – 2010; PSRC, 2012; ESRI; Strategic Economics, 2012.

Affordable Housing Inventory

This section examines the location and level of affordability for existing subsidized affordable housing units in the Puget Sound region. As in the market-rate real estate conditions sections, this analysis is conducted at the regional, transit corridor and TOD market area level (**Figure 1 on page 3 and Figure 32 on page 45).** The affordable housing inventory data used here was assembled by PSRC staff from 11 different sources.[38] The income categories used here are in keeping with HUD- defined qualifying income limits: extremely low-income units with rents affordable to households with incomes up to 30 percent of AMI, very low income units for households with incomes up to between 35 and 50 percent of AMI, and low income units for households with incomes up to between 60 and 80 percent of AMI.[39]

There are a total of 21,269 existing subsidized affordable housing units in the potential study areas included in this study. This is an average of 287 units per study area, although units are distributed unevenly.

Affordable housing aimed at extremely low-income households accounts for the largest share of subsidized housing units in the station areas. More than 45 percent of subsidized housing units in the Link system station areas, or 9,741 units, are aimed at households earning up to 30 percent of the area median income (**Figures 58 and 61**). This fact reflects success in targeting subsidized housing to the most acute needs, most recently through the Ten Year Plan to End Homelessness which focuses on extremely low income households. Despite the ongoing success of the Ten Year Plan to End Homelessness, the regional supply of units affordable to extremely low income households falls well below the demonstrated need. While affordable housing developers interviewed for this report express support for this critical statewide program, they also report challenges in developing projects meeting other levels of housing need, given the constraints of limited financial resources.

Very low-income housing accounts for the lowest share of total subsidized housing, 23.3 percent, or 4,956 units, in the study areas. This is also true for the North, South and East Corridors individually, where very low income housing accounts for 28.3 percent, 26.4 percent and 12.7 percent, respectively **(Figure 59)**. Only in Downtown Seattle is a higher proportion of affordable units aimed at very low-income households, 17.5 percent, than low-income households, 14.5 percent.

Downtown Seattle has both a high total number of affordable units, 6,180 units and a very strong concentration of subsidized housing units, particularly those serving the lowest income households (Figures 63 and 64). Despite having only four study areas, Downtown Seattle accounts for 29 percent of all subsidized housing units and 43 percent of all extremely low-income units around stations and other transit nodes. Downtown Seattle may be chosen as a location for extremely low income housing due to the area's proximity to supportive services, employment and public transportation.

Outside of Downtown Seattle, the South Corridor has the highest average number of affordable housing units per study area, 255 units, followed by the North Corridor with 216 units per study area, and the East Corridor with 135 units per study area. Within the South Corridor, the more urban study areas – such as those in South Seattle and Tacoma – have the highest share of affordable housing

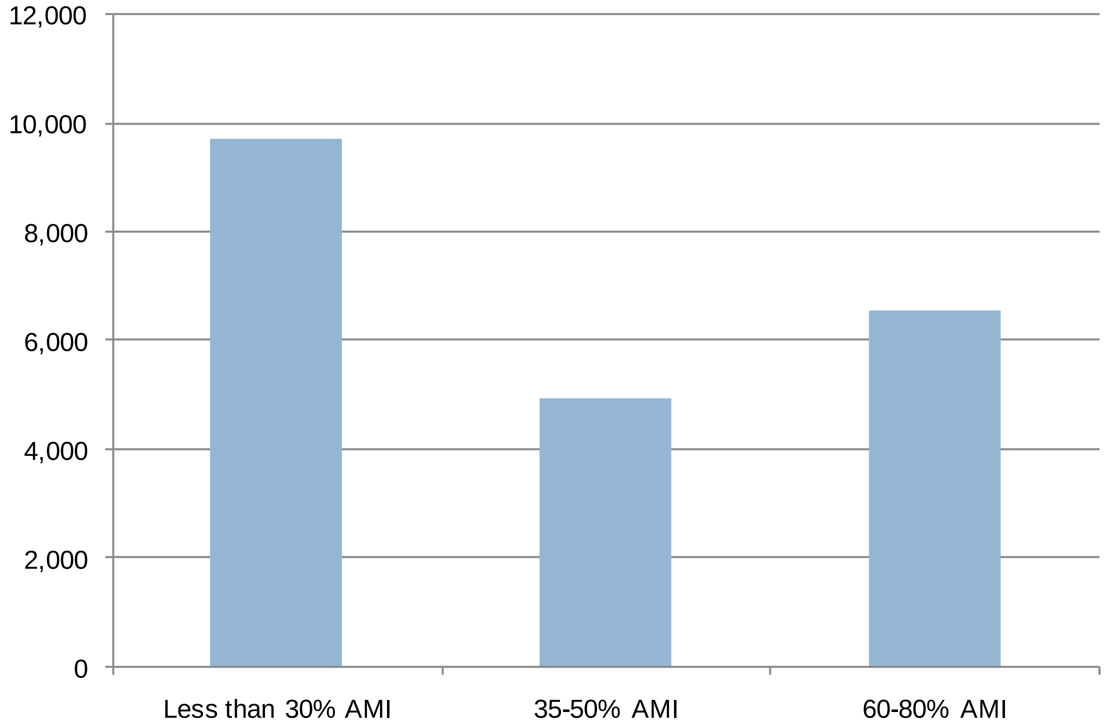
[38] U.S. Department of Housing and Urban Development, Washington State Department of Commerce, Washington State Housing Finance Commission, Snohomish County Office of Housing and Community Development, King County Housing Finance Program, Pierce County Department of Community Connections, City of Seattle Office of Housing, City of Tacoma Housing Division, A Regional Coalition for Housing, King County Housing Authority, Seattle Housing Authority.

[39] Income categories are also consistent with the data received from PSRC, which was provided in 5 and/or 10 percent increments.

units (**Figure 60)** and are more likely to have a higher share of units serving the lowest income levels **(Figure 66)**. While more suburban study areas such as SeaTac Airport, South 288th St. and Federal Way Transit Center also have a significant affordable housing presence, they are more likely to serve very low- or low-income households. As in Downtown Seattle, the clustering of extremely low-income housing units in more urban areas is likely a reflection of improved access to supportive services and public transportation in these areas.

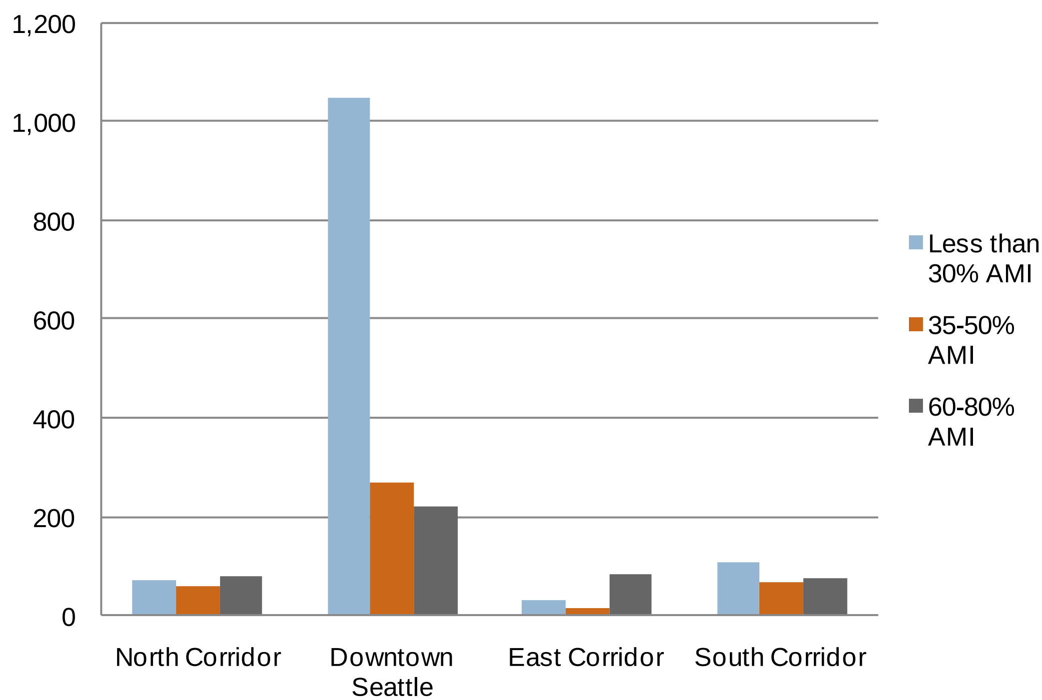
The majority of affordable housing units in the East Corridor serve low-income households. Although the East Corridor accounts for only 8 percent of affordable housing units among the four transit corridors, it contains 17 percent of the corridors' low-income subsidized housing units. Low-income units account for 64.7 percent of all subsidized affordable housing units in the planned East Corridor study areas (**Figure 62)**. Developers active in east King County report that the environment for affordable housing development can be challenging due to opposition from local residents.

Figure 58: Total Study Area Subsidized Housing Units by Income Range



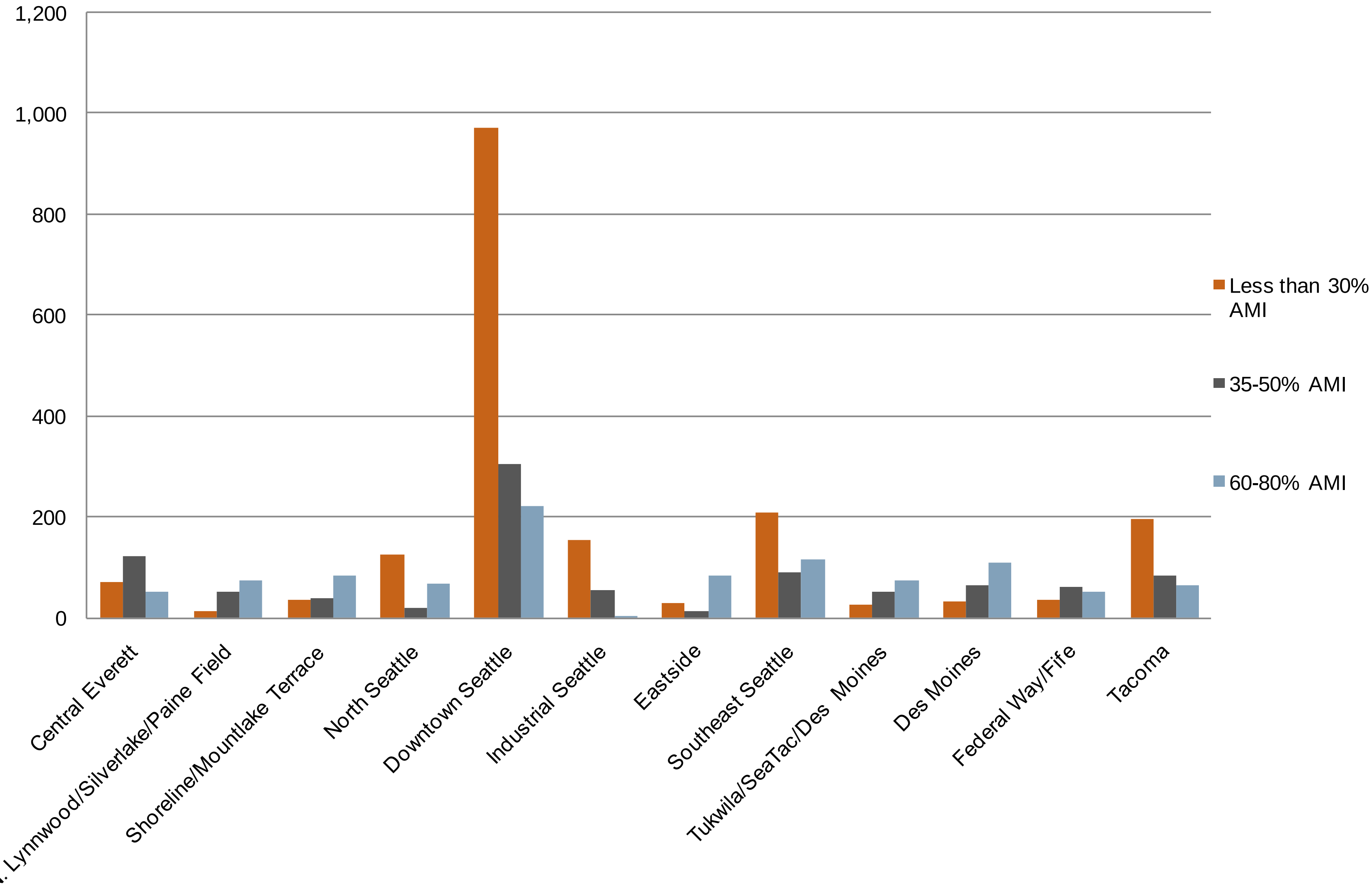
Source: PSRC; Strategic Economics 2012

Figure 59: Average Number of Subsidized Housing Units per Study Area, by Income Range and Transit Corridor, 2012



Source: PSRC; Strategic Economics 2012

Figure 60: Average Number of Subsidized Housing Units per Study Area, by Income Range and TOD Market Area, 2012



Source: PSRC; Strategic Economics, 2012.

Figure 61: Affordable Housing Inventory by Transit Corridor

TOD Market Area	Total Units	Average Units per Study	Less than 30% AMI		35 - 50 % AMI		60-80% AMI	
			Total Units	Percent of Total	Total Units	Percent of Total	Total Units	Percent of Total
North Corridor	6,710	216	2,288	34.1%	1,901	28.3%	2,521	37.6%
Downtown Seattle	6,180	1,545	4,204	68.0%	1,080	17.5%	896	14.5%
East Corridor	1,754	135	405	23.1%	223	12.7%	1,126	64.2%
South Corridor	6,625	255	2,844	42.9%	1,752	26.4%	2,029	30.6%
Total	21,269	n/a	9,741	45.8%	4,956	23.3%	6,572	30.9%

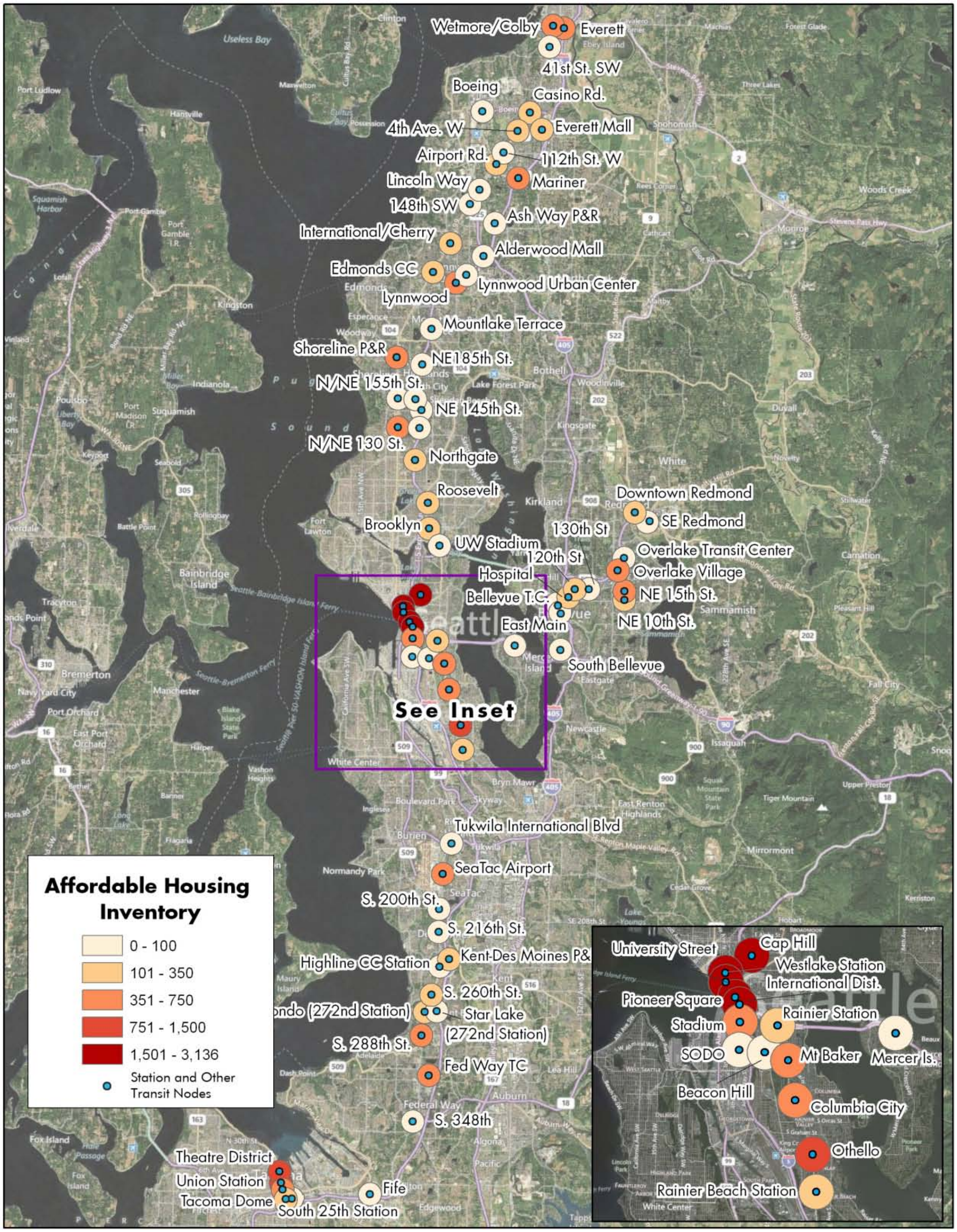
Source: PSRC; Strategic Economics 2012.

Figure 62: Affordable Housing Inventory by TOD Market Area

TOD Market Area	Total Units	Average Units per Study	Less than 30% AMI		35 - 50% AMI		60 - 80% AMI	
			Total Units	Percent of Total	Total Units	Percent of Total	Total Units	Percent of Total
Central Everett	727	242	207	28.5%	367	50.5%	153	21.0%
N. Lynnwood/ Silverlake/Paine Field	1,912	137	188	9.8%	701	36.7%	1,023	53.5%
Shoreline/Mountlake Terrace	937	156	205	21.9%	239	25.5%	493	52.6%
North Seattle	1,486	212	883	59.4%	144	9.7%	459	30.9%
Downtown Seattle	7,493	1,499	4,866	64.9%	1,518	20.3%	1,109	14.8%
Industrial Seattle	420	210	307	73.1%	108	25.7%	5	1.2%
Eastside	1,627	125	382	23.5%	158	9.7%	1,087	66.8%
Southeast Seattle	2,474	412	1,249	50.5%	545	22.0%	680	27.5%
Tukwila/SeaTac/Des Moines	750	150	135	18.0%	253	33.7%	362	48.3%
Des Moines	1,016	203	154	15.2%	314	30.9%	548	53.9%
Federal Way/Fife	435	145	104	23.9%	181	41.6%	150	34.5%
Tacoma	1,711	342	972	56.8%	416	24.3%	323	18.9%

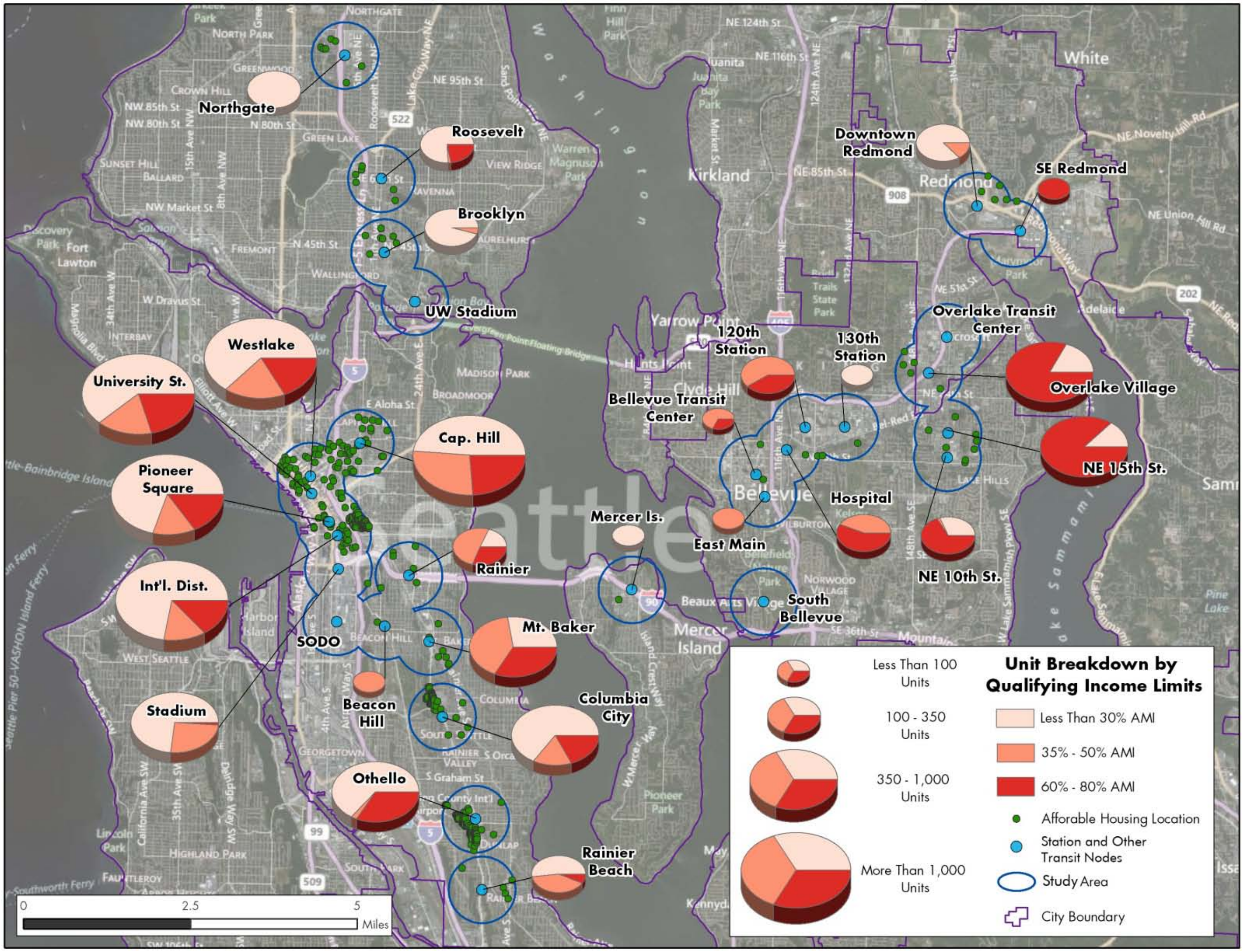
Source: PSRC; Strategic Economics 2012.

Figure 63: Study Area Affordable Housing Inventory



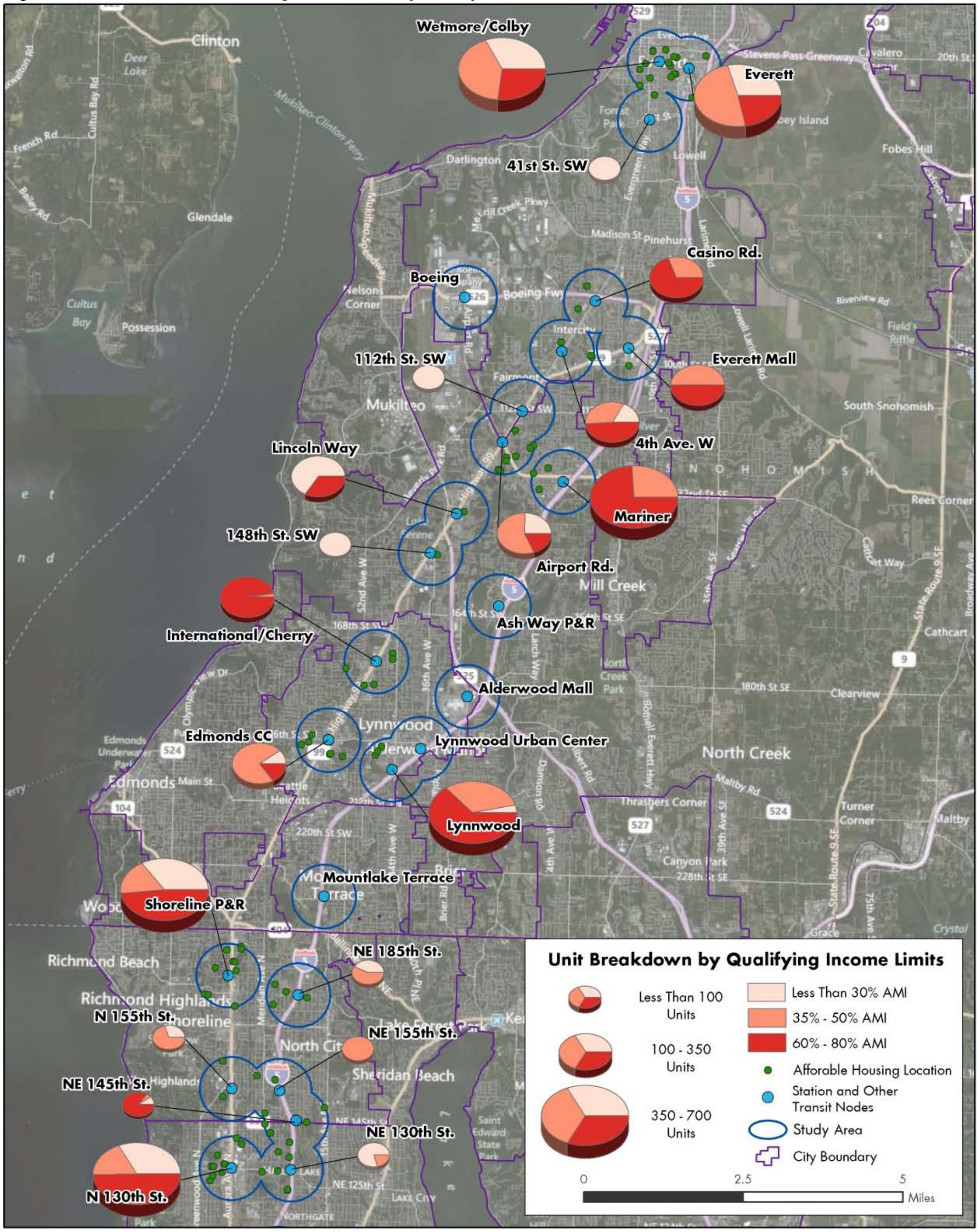
Source: PSRC, 2012; ESRI; U.S. Census; Strategic Economics, 2012.

Figure 64: Affordable Housing Allocation by Study Area – Central Seattle Metropolitan Area*



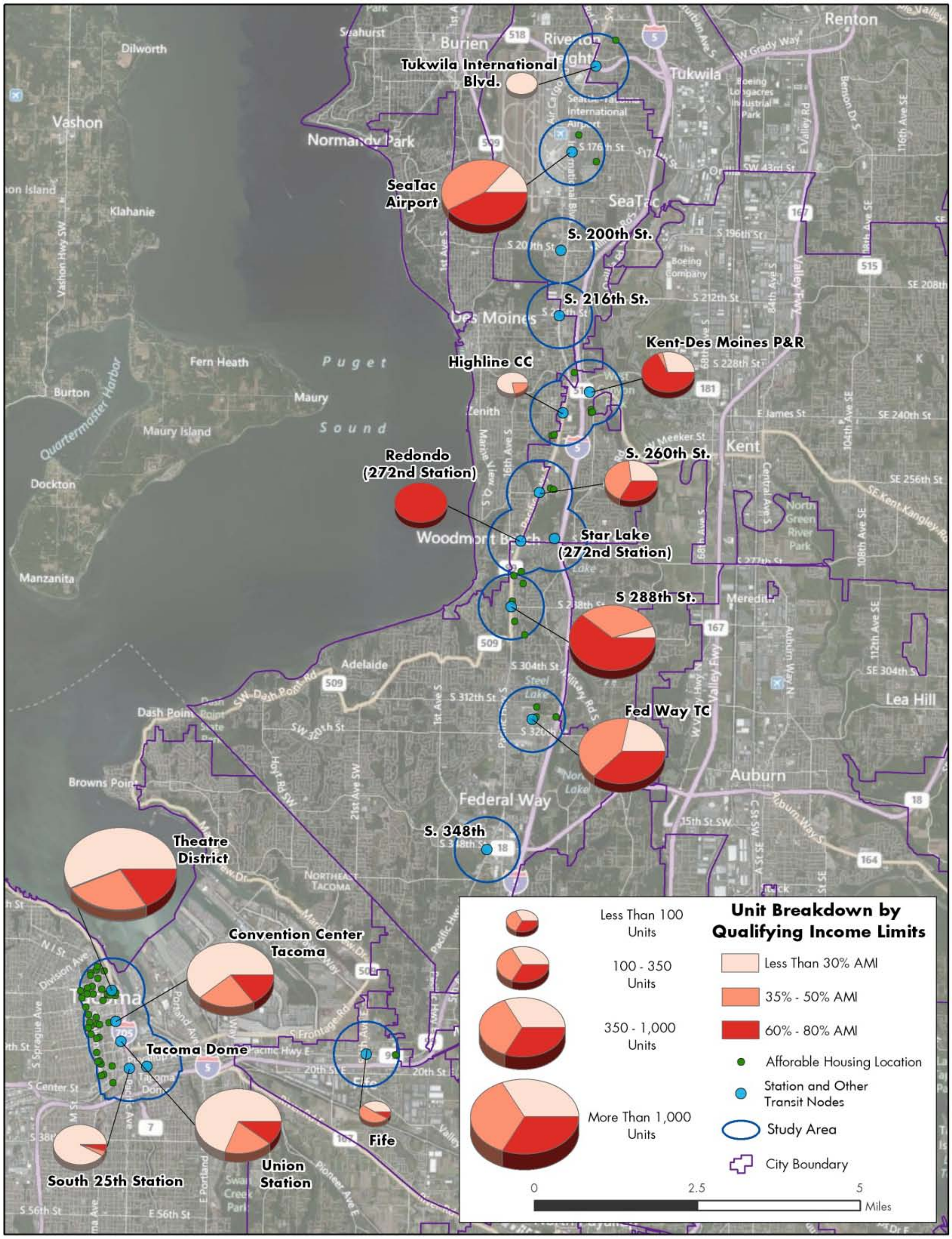
****Affordable housing units located in overlapping study area are counted in each study area for this analysis.*
Source: PSRC, 2012; ESRI; U.S. Census; Strategic Economics, 2012.

Figure 65: Affordable Housing Allocation by Study Area – North Seattle/Everett Metro Area*



Affordable housing units located in overlapping study area are counted in each study area for this analysis.
Source: PSRC, 2012; ESRI; U.S. Census; Strategic Economics, 2012.

Figure 66: Affordable Housing Allocation by Study Area – South Seattle/Tacoma Metro Area



***Affordable housing units located in overlapping study area are counted in each study area for this analysis.**
Source: PSRC, 2012; ESRI; U.S. Census; Strategic Economics, 2012.

Developer Interview Key Findings

In order to gain insight into the issues facing the local affordable housing community, Strategic Economics completed interviews with ten local non-profit or public affordable housing developers, including representatives of entities working in King, Pierce and Snohomish Counties. In addition to geographic diversity, the developers interviewed represent firms specializing in both rental and ownership housing, at a range of affordability levels. The key findings below reflect both the barriers and opportunities identified by these developers.

There is limited funding available for affordable housing development, particularly in Pierce and Snohomish counties. Affordable housing development typically requires public subsidy, which is procured from federal, state, city and local sources. Many of these sources – such as low income housing tax credits (LIHTC), which rely on investment from private firms - are tied to the health of the broader national and local economy; the recent recession therefore significantly reduced the availability of affordable housing funding in the Puget Sound Region. Developers report that Pierce and Snohomish counties have been particularly hard-hit by the loss of funding, as these counties have fewer local resources for affordable housing development compared to King County and its jurisdictions.

Developers report that the design of the low income housing tax credit program (LIHTC) in Washington State has made it difficult for projects in Pierce and Snohomish counties to compete successfully for 9% LIHTC funding, especially in non-rural areas. They note that current policies make it difficult to meet the significant need that exists throughout the region especially within these counties. Affordable housing developers cite several factors which reduce the competitive position of Pierce and Snohomish Counties:

- Per-unit cost limitations are lower in Pierce and Snohomish counties, despite similar construction costs throughout the region.
- Snohomish County developers report that although the County contains a high absolute number of low-income households, it ranks lower in terms of "proportional" need due to the overall size of the county.

It is important to note that Pierce and Snohomish counties currently provide a significant share of low-cost market rate housing to the region. In the long-term and with the arrival of new transit, rising rents may result in a greater need for subsidy to maintain affordable housing opportunities in Pierce and Snohomish counties.

Current funding sources do not prioritize transit-rich locations. Although many affordable housing developers do prefer to locate near transit in order to improve transportation options for their residents, most funding sources do not prioritize proximity to transit when allocating affordable housing funds. One notable exception to this is the City of Seattle's Commercial Bonus Program, in which developers can "purchase" additional density through the construction of affordable housing units in high-priority areas, which include transit zones. Developers report that they would be more likely to locate around transit if it improved their chances to receive funding.

Affordable housing developers face higher costs and longer development timelines compared to market-rate developers, which can limit their ability to compete for the most desirable locations around transit. Affordable housing developers are typically required to structure complicated funding and financing packages, generating higher administrative and legal costs compared to their market-rate counterparts. These packages can also take significantly longer to assemble than market rate financing due to the variable timing of awards from different sources. Given that most affordable housing developers do not have the equity resources necessary to buy and hold land while assembling financing, they are less likely to be able purchase land in a nimble or competitive manner. Developers interviewed report that a typical affordable housing project can take up to three years to finance and entitle, while market-rate developers can complete the same work in one year. Developers identified several possible solutions to this problem, including greater coordination among funders in order to fast-track financing and assistance with land acquisition and holding in the form of an acquisition fund or land bank. A land bank or acquisition fund would also have the ability to assist in the assembly of fragmented parcels, which is cited as a common barrier to development around transit.

A lack of coordination among the Seattle/King County affordable housing development community can result in operational inefficiencies and competition for resources and developable sites. As noted, the City of Seattle and King County have more funding resources than neighboring counties; local developers report that this has resulted in an abundance of small-to mid-sized affordable housing developers who lack a set of shared goals and compete for limited funding and available sites. These smaller developers are also unable to benefit from economies of scale: overhead and administrative expenses account for a larger proportional share of costs in smaller housing portfolios. One developer noted that a housing portfolio in the range of 2,500 to 3,000 units is needed for an organization to be self-sustaining; smaller portfolios require constant new development (and revenue from developer fees) to break even. While many developers report that the Housing Development Consortium provides a valuable role in advocating for affordable housing and sharing best practices, they say there is a need for the coordination of shared goals within the community and a greater emphasis on the creation of efficiencies between the many active local housing developers. **In contrast, developers in Pierce and Snohomish Counties report that the lack of city and county funding resources has driven smaller affordable housing developers out of business; only the largest and most stable organizations have survived.**

Developers report difficulty in working with transit authorities on the development of affordable housing around transit. Transit providers such as Sound Transit, which serves the Central Puget Sound region, often accumulate excess land during the construction of a new rail line. In cities such as Portland and Los Angeles, transit providers have used this land to provide mixed income housing around transit, working directly with market rate and affordable housing developers through joint development programs. In the Puget Sound region, however, developers report that transit providers are often reluctant to engage with affordable housing developers on the subject of joint development, citing Federal Transit Administration (FTA) requirements which seek to maximize revenues from the sale of excess land. There is a perception among Puget Sound developers that significant political capital is required to gain support from Sound Transit or other local transit providers. Developers also cite issues with the delivery of transit services for east and west connectivity to the existing Southeast Seattle stations. For example, much of the Holly Park Hope XI development in Southeast Seattle is just outside the half-mile Othello Station area. Feeder buses, which were originally proposed by Seattle Metro to provide Holly Park residents with better access to the transit system, were never implemented. These feeder buses have the potential to improve system ridership, in addition to providing a large mixed income community with improved access to employment opportunities, amenities and services through the regional transit network.

Certain zoning requirements – such as high parking ratios and a mix of uses – represent disproportionately high barriers to the development of affordable TOD. Developers report that the cost of parking is often the expense that can “make or break” an affordable housing project and that traditional parking ratios are often too high for affordable housing projects, given that lower income residents are less likely to own a car and more likely to ride public transportation. Allowing affordable housing projects to build fewer parking spaces improves project feasibility and could help to catalyze equitable growth around transit. Mixed use requirements – which are intended to create vibrant communities - were also frequently cited as a barrier to the development of affordable housing. Developers report that there is little funding available for commercial development through traditional affordable housing resources, and developers must turn to the private market, or unconventional sources such as historic preservation tax credits, to finance the commercial component of mixed-use projects.

Many funders are reluctant to invest in commercial space without pre-leasing agreements from future tenants, which are particularly difficult to procure given the overall weakness of the national and local retail markets. Affordable housing developers report that – as in the private market – mixed use projects are most likely to be successful in locations which already have a strong retail demand.

Many developers recommend a greater emphasis on the acquisition and rehabilitation of existing buildings as a strategy to promote affordable housing around transit. The developers interviewed by Strategic Economics report that the acquisition and rehabilitation of existing buildings is often more cost-effective than the construction of new buildings for affordable housing. For many projects, greater cost-effectiveness translates into a significant advantage in the competition for funding. Developers also report that the acquisition and rehabilitation of existing mixed-use projects – which already have commercial tenants in place – is a key strategy for achieving successful affordable, mixed-use TOD. Affordable housing for the lowest income levels, however, requires in-house supportive services and is therefore typically new construction. The prioritization of funding for very low income projects associated with the Plan to End Homelessness has resulted in a higher share of new construction than might otherwise have been completed.

Affordable Housing Corridor Assessment

This section contains a short assessment of existing subsidized and market-based affordable housing conditions along each of the region's four transit corridors and an evaluation of the potential for displacement associated with the construction of the light rail line and additional economic growth.

Limited funding resources and uneven distribution of existing affordable housing along the North Corridor present the potential for gentrification in the mid-to-long-term. Incomes in North Corridor cities are slightly below the regional average, with the lowest income households concentrated north of Shoreline and around stations and other transit nodes. These households are served both by market-based and subsidized low-cost housing. Although the North Corridor housing market is not as strong as that of Downtown Seattle or the East Corridor, there is significant mid-to-long term potential in North Seattle, as well as parts of Snohomish County and the City of Everett. This market demand has the potential to displace existing low-cost housing in the longer term, particularly if access to affordable housing funds in Snohomish County continues to be limited. Study areas in North Seattle, the City of Everett and along SR99 have the strongest long-term market potential, and are therefore most vulnerable to displacement of current low-cost market-based housing. While affordability in Everett and North Seattle is insulated by existing supplies of subsidized housing, many transit nodes in the Shoreline/MLT/Lynnwood/Silverlake areas have no such protection and are already beginning to see new market-rate projects. For study areas in Snohomish County this is further compounded by the relative lack of affordable housing financing sources in comparison with King County, and especially City of Seattle.

Affordability in Downtown Seattle is well-protected by the highest concentration of subsidized housing units – and particularly those serving the lowest income households - among the four transit corridors. Although Downtown Seattle has the strongest luxury multifamily housing market in the region, the corridor also has one of the lowest median incomes and contains more than 6,000 subsidized housing units over four study areas. Given that 68 percent of the subsidized units are aimed at households earning less than 30 percent of median income, this suggests that Downtown Seattle is evolving into a neighborhood of income extremes, serving the region's wealthiest and poorest residents, and very few in between. It is also important to note that, given the strong market conditions in Downtown Seattle, the permanent preservation of existing subsidized units will be critical to the protection of affordability in Downtown Seattle.

The South Corridor contains a significant concentration of both market-based and subsidized affordable housing, which will be well-served by the completion of the transit corridor. South Corridor city incomes are significantly lower than the regional average and many of the lowest income households are located on or around existing or planned transit corridors. These households are served by a mix of subsidized and market-based affordable housing. While South Seattle has the strongest potential for short-to-mid-term growth within the South Corridor, the only recent market-rate project in a Southeast Seattle study area has struggled with absorption and affordability in the area is protected by the presence of significant existing subsidized housing. Residents of downtown Tacoma, which has longer-term market potential due to the presence of the University of Washington and its walkable urban form, are also somewhat protected from displacement by the higher share of subsidized housing units in its study areas. As in Downtown Seattle, the permanent preservation of existing subsidized units – particularly in South Seattle – will be critical to maintaining the neighborhood affordability.

The East Corridor has the potential to accommodate significant additional affordable housing, particularly for the lowest-income households. Although the East Corridor does contain a higher share of lower income households compared to the rest of eastern King County, it has the fewest number of subsidized units among the four transit corridors, as well as the lowest average number of units per study area. In addition, the corridor's relatively small share of lower-income households suggests that the availability of market-based affordable housing is limited. Given the presence of a strong school system and growing access to employment, an East Corridor location has the potential to offer lower income residents significant benefits. Developers report, however, that public sentiment against the construction of affordable housing can be a difficult barrier to overcome.

III. TOD MARKET AREA ANALYSIS

This chapter examines the potential for new development within the Puget Sound Region's 12 TOD market areas and 74 stations and other transit nodes. It begins with an overview of the residential and commercial TOD market strength indices, a set of quantitative, multi-variable indices which evaluate the relative potential for transit-oriented development within each of the region's study areas. The second section contains a set of detailed TOD market area profiles, which integrate the market indices into a more comprehensive analysis of TOD potential in each market area, including an assessment of existing land use patterns and infrastructure, employment patterns, demographic trends and market conditions.

RESIDENTIAL AND COMMERCIAL TOD MARKET STRENGTH INDICES

In addition to the regional TOD market analysis summarized in the previous section, Strategic Economics developed a set of quantitative residential and commercial TOD market indices to provide further insight into the potential demand for new development around transit at the study area level. In contrast with the previous section which utilized both qualitative and quantitative findings to provide a nuanced perspective on potential demand for TOD, the residential and commercial market indices in this section provide a numeric assessment of demand potential based on a series of demographic, market and employment data inputs. The indices represent market strength in the near-to-mid term; longer term potential for TOD may vary based on public policy decisions and the level of investment directed towards the study areas. In addition to providing another, strictly quantitative tool for the evaluation of demand potential, these indices will be used as inputs in forthcoming work, including the forecast of demand for residential and commercial market demand forecast and the study area typology.

The market strength indices are a quantitative tool intended to evaluate *relative* market strength at the regional level and do not account for the full range of nuanced factors which impact market demand, such as quality of building stock, proximity to retail and service businesses or the presence of green space, among others. **For a more complete assessment of TOD potential, please refer to the TOD market area profiles in the following section**, which incorporate a wider range of both quantitative and qualitative factors.

This section begins with a series of regional level maps illustrating the relative market strength in the study areas and broad findings about relative market strength, followed by a description of the methodology and data used to create the residential and commercial market strength indices. Additional analysis of the market strength indices, as well as broader assessment of market potential for each of 12 sub-corridor TOD market areas, is contained in the TOD Market Area Profile Sheet section which follows.

Residential and Commercial Market Strength Indices

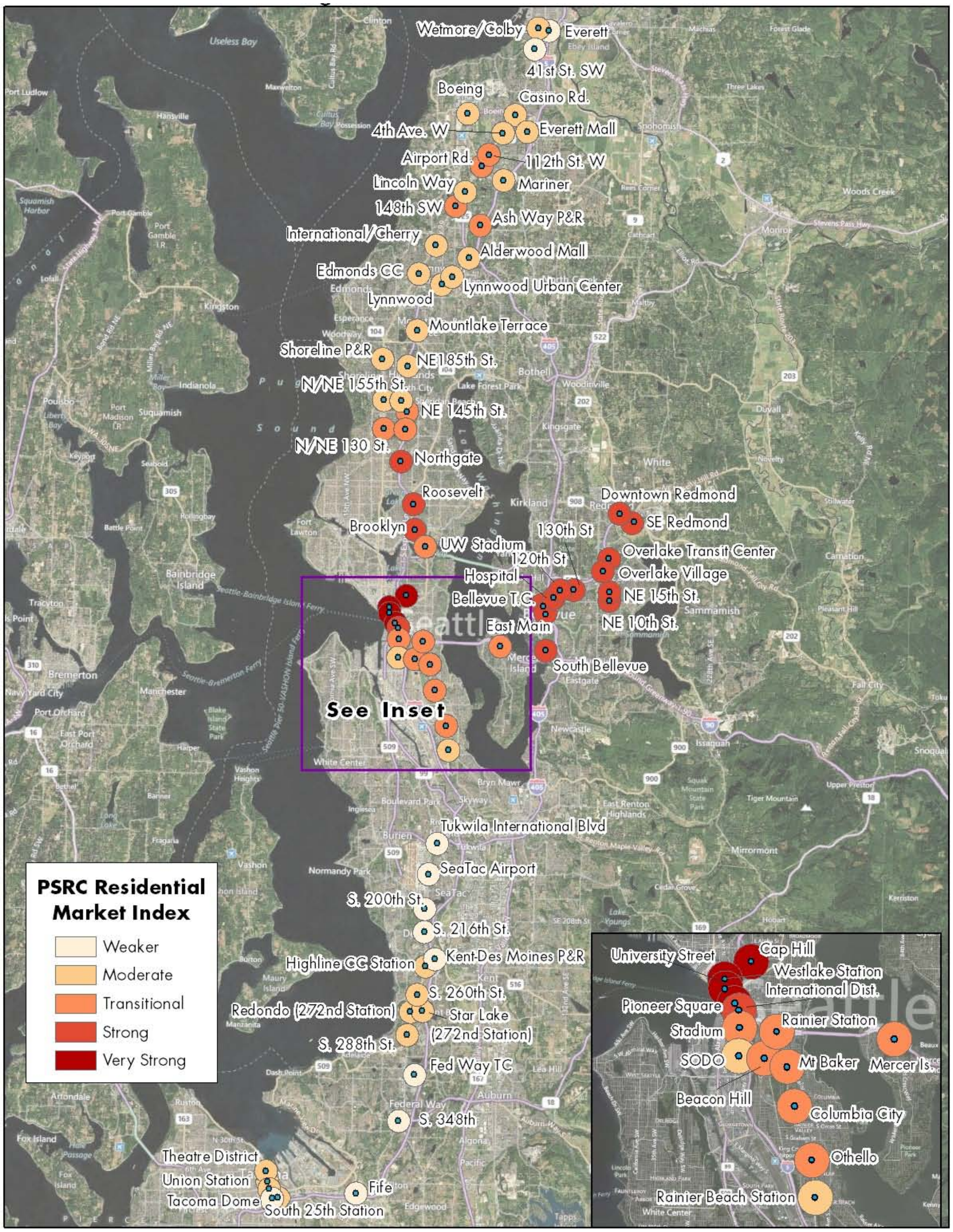
Figures 67 and 68 provide a regional perspective on the residential and commercial TOD market strength indices**.** Initial findings are described below and further analysis of these results is contained in the TOD Market Area Profile Sheet section which follows.

In the short-to-mid-term, demand for compact and multifamily residential growth is strongest in Downtown Seattle and the East Corridor. The categorization of these study areas as strong or very strong reflects their existing market strength, proximity to employment centers and higher residential densities. Study areas in Southeast Seattle on the South Corridor and parts of the North Corridor are classified as transitional, which reflects improving markets which have longer-term potential, and may require additional investment to stimulate near-to-mid-term growth. The market strength index indicates that demand for multifamily or compact residential growth is moderate or weaker in study areas along the

South Corridor outside of Seattle and in other parts of the North Corridor. Although these areas may have short-term demand for less-compact, auto-oriented development, they do have the potential to attract TOD in the longer-term, with appropriate policy support and public investment. In addition, the market strength index does not account for the full range of factors which impact residential demand. For example, the market strength index classifies both Downtown Tacoma and Downtown Everett as having weaker or moderate demand for residential TOD; in reality, both of these locations include walkable downtown environments with strong access to retail and service businesses, which can have a positive impact on the demand for compact and multifamily housing. Please see the TOD Market Area Profile Sheets in the following section for a more detailed evaluation of TOD market strength in these market areas, and the Regional Context section for a more nuanced analysis of residential market demand at the corridor level.

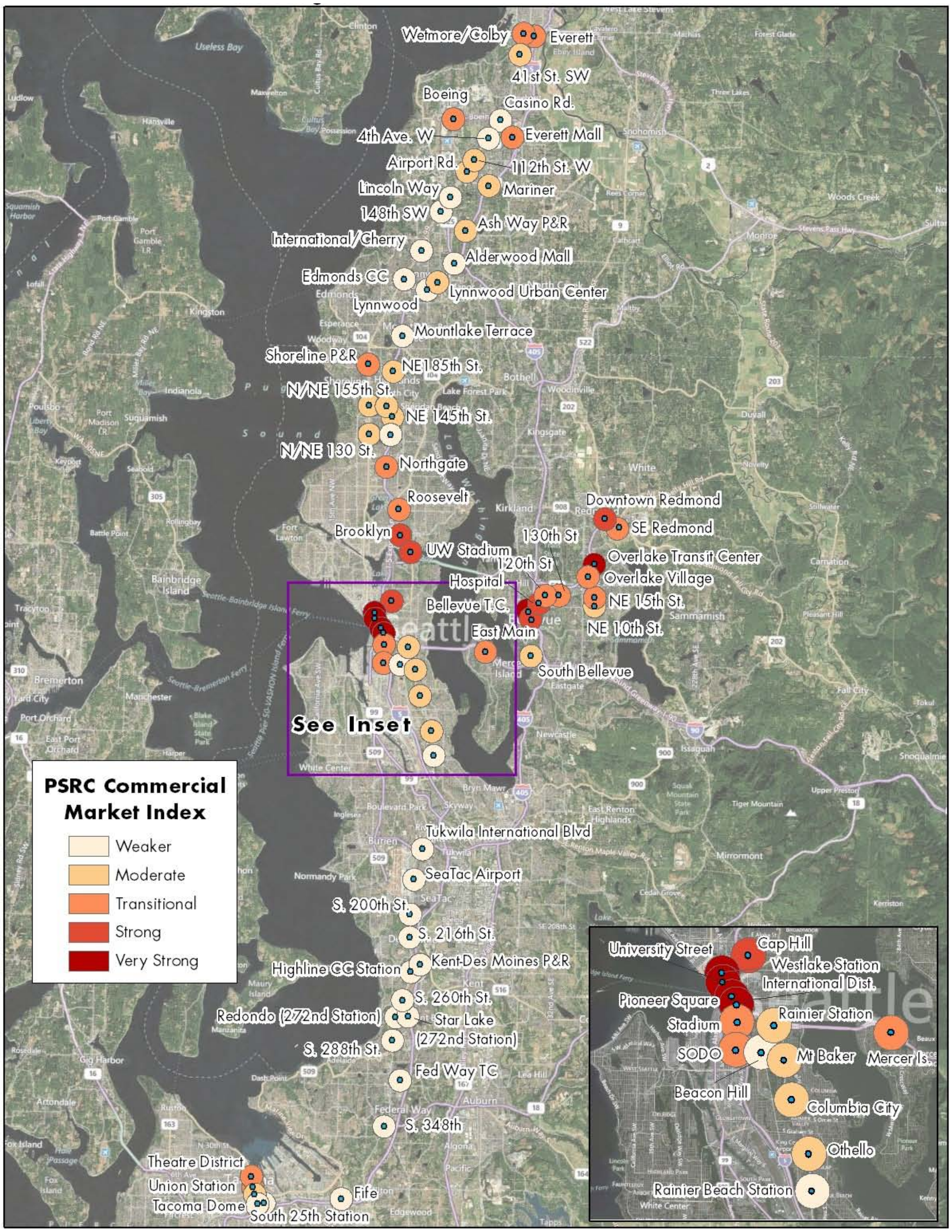
In the short-to-mid-term, the commercial market strength index indicates strong or very strong demand for commercial TOD in Downtown Seattle, inner North Seattle and parts of the East Corridor. The categorization of these study areas as strong reflects their existing market strength and high share of transit-supportive industries. Downtown Seattle's market strength is evident in the planned Amazon expansion, which will add another 3.3 million square feet of office space and a significant component of new transit-supportive jobs to the Westlake study area. The East Corridor has also seen significant commercial growth, and the market strength index suggests that the addition of new transit has the potential to further stimulate growth in transit-supportive industries, such as information technology and other office-based jobs. Many North Corridor study areas are classified as moderate or transitional; although these study areas are unlikely to attract transit-supportive commercial growth on the scale of Downtown Seattle or the East Corridor, they do have relatively healthy local commercial markets which will continue to attract neighborhood-serving office and retail development when the national commercial market recovers. Outside of Downtown Tacoma, South Corridor study areas are categorized as moderate or weaker, which reflects low existing commercial densities and weaker existing market areas. Most Downtown Tacoma study areas are categorized as transitional, reflecting recent reinvestment in the form of a new campus of the University of Washington. Please see the TOD Market Area Profile Sheets in the following section for a more detailed evaluation of TOD market strength in these market areas, and the Regional Context section for a more nuanced analysis of commercial market demand at the corridor level.

Figure 67: PSRC Study Area Residential Market Strength Index



Source: Strategic Economics 2012; Gardner Economics; PSRC; U.S. Census; ESRI

Figure 68: PSRC Study Area Commercial Market Strength Index



Source: Strategic Economics 2012; Gardner Economics; PSRC; U.S. Census; ESRI

Methodology

The residential and commercial market strength indices were created using the following steps:

1. Strategic Economics compiled detailed sets of demographic, market and employment data at the study area level. The data sets used in the residential and commercial market strength indices are described below.
2. Each set of data was adjusted to a scale of 0 to 1 with the highest data point set as one and all remaining data scaled accordingly. This step allows the indices to incorporate data from a variety of scales into a final market strength index with a scale of 0 to 1.
3. A set of weights was established to determine the relative impact of each piece of data on the final index score. The weights used in the residential and commercial market strength indices are described below.
4. For each study area, the adjusted, weighted data points from each set were added together to provide the market strength index score.

The data sets and weights used in the residential and market strength indices are described in more detail below.

Residential Market Strength Index

The residential market strength index is intended to evaluate potential demand for residential transit-oriented development, primarily multifamily or compact in nature. The data sets used in the residential market strength index were chosen based on the demographic and market factors which have the potential to impact or predict future growth around transit. Given that the relative impact of different data sets can vary, individual "weights" were applied to each data set. These weights represent the relative potential impact of each data set on the market strength in each area. The data categories, sets and weights used in the creation of the residential market strength index are described below and illustrated in **Figure 69.**

- **Real Estate Market**: Real estate market indicators, including historic sales data, current market conditions and future planned and proposed development, provide insight into the existing and future market strength in a given location and are given the highest combined weight among the four data categories. Data sets in this category include planned and proposed units through 2014, number of homes sales from 2005 to the first quarter of 2012, current average rent, vacancy rates and condominium sales prices. While the sales data used in this category is provided at the study area level, apartment data was available only at the traditional market area geography. In traditional market areas with multiple study areas, each study area is given the "score" of the overall market area.

- **Employment Patterns:** In a 2011 report documenting real estate development along three new transit lines[1], CTOD found that proximity to employment centers is one of the most important factors in influencing development around transit. After real estate indicators, employment patterns have the highest combined weight among the four data categories. Data sets in this category include employment density, change in employment density and the share of residents who commute to major employment centers, which is a proxy for the distance from each study area to a major employment center. All data is at the study area level.

- **Density**: Existing high household densities suggest current and/or historic market strength for multifamily or compact housing. Higher density places may also be more willing to accept additional density in comparison with lower-density, single family neighborhoods. Data sets in this category include current household density and current apartment inventory. Although household density data is provided at the study area level, current apartment inventory data was available only at the traditional market area geography.

[1] Center for Transit Oriented Development. *Rails to Real Estate: Development Patterns Along Three New Transit Lines*. 2011.

- **Household Income and Size**: In general, places with high household incomes are likely to have stronger demand for new development, while smaller household sizes are more likely to locate around transit. Both household income and household size data are from the 2005 – 2009 American Community Survey. All data is at the study area level.

Figure 69: Residential Market Index Data Sets, Weights and Sources

Data Category/Set	Weight	Percent Weight	Sources
Real Estate Market			
Planned and Proposed Units (2012 – 2014)	0.05	5%	2012 - 2014 Dupre and Scott; Gardner Economics
Number of Home Sales (2005 – 2012 Q1)	0.05	5%	2005 - 2012 Dupre and Scott; Gardner Economics
Average Apartment Rent	0.1	10%	2012 Dupre and Scott; Gardner Economics
Apartment Vacancy Rate	0.05	5%	
Condominium Sales Price	0.05	5%	
Subtotal	**0.3**	30%	
Employment Patterns			
Commute to Major Employment Centers	0.2	20%	U.S. Census Longitudinal Employer-Household Dynamics Data (2009)
Employment Density	0.05	5%	2000, 2010 State of Washington; PSRC
Change in Employment Density	0.05	5%	
Subtotal	**0.3**	30%	
Density			
Household Density	0.15	15%	2010 U.S. Census; PSRC 2012 Dupre and Scott; Gardner Economics
Current Inventory	0.1	10%	
Subtotal	**0.2**	25%	
Household Income & Size			
Household Income	0.075	7.5%	2005-2009 ACS Data; PSRC
Household Size	0.075	7.5%	
Subtotal	**0.1**	15%	
Total	**1**	100%	

Source: Strategic Economics, 2012

Commercial Market Strength Index

The commercial market strength index focuses on the demand for transit-oriented commercial space, which is primarily located in office buildings. As with the residential market strength index, the data sets used in the commercial market strength index were chosen based on the employment and market factors which have the potential to impact or predict future growth. The data categories, sets and weights used in the creation of the residential market strength index are described below and illustrated in **Figure 70.**

- **Office Market**: Given the density of employment in offices and the preference among some office users for transit locations, office market indicators are particularly important to commercial growth potential around transit and receive one of the highest combined weights. Data sets in this category include current lease and vacancy rates and all data is at the traditional market area geography.

- **Employment Patterns:** In addition to the important finding that new development is more likely to occur around employment centers, places with significant existing employment are also more likely to attract additional commercial development serving businesses interested in agglomeration, such as the high tech firms which are expected to drive growth in the Puget Sound region. Due to the importance of employment centers and the agglomeration effect, the employment patterns category is given equal weight with office market indicators. Data sets in this category include employment density, change in employment density and the share of residents who commute to major employment centers, which is a proxy for the distance from each study area to a major employment center. All data is at the study area level.

- **Retail Market:** Although some retail businesses are more likely to locate in transit-rich locations, retail growth patterns are primarily driven by demographic growth and automobile access. Retail market indicators are therefore weighted lower than office market indicators or employment patterns. Date sets in this category include current lease and vacancy rates and all data is at the traditional market area geography.

Figure 70: Commercial Market Index Data Sets, Weights and Sources

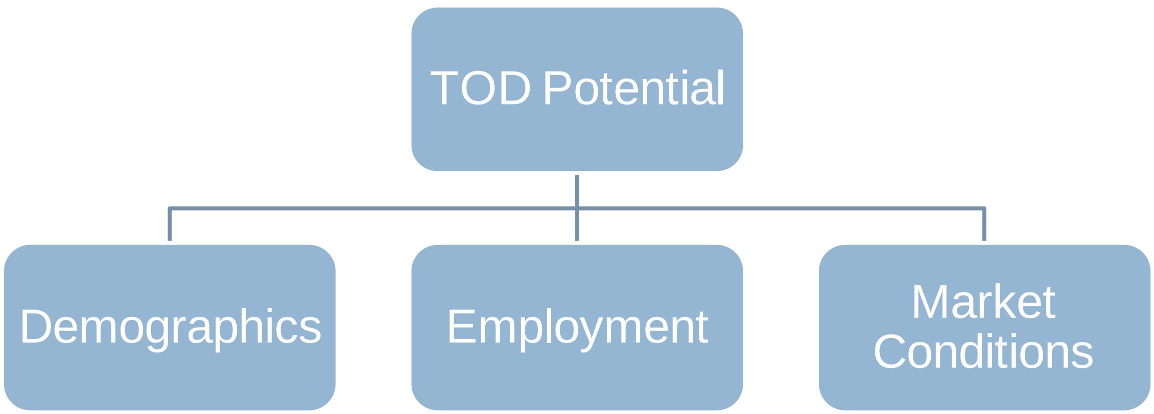
Data Category/Set	Weight	Percent Weight	Sources
Office			
Office Lease Rate	0.1	10%	2012 CoStar; Gardner Economics
Office Vacancy Rate	0.1	10%	
Subtotal	0.2	20%	
Employment			
Transit Supportive Employment	0.35	35%	2000, 2010 State of Washington; PSRC
Total Employment	0.3	30%	
Change in Employment	0.05	5%	
Subtotal	0.7	70%	
Retail			
Retail Lease Rate	0.05	5%	2000, 2010 State of Washington; PSRC
Retail Vacancy Rate	0.05	5%	
Subtotal	0.1	10%	
Grand Total	1	100%	

Source: Strategic Economics, 2012

TOD MARKET AREA PROFILE SHEETS

The Puget Sound Region's existing and potential transit corridors connect a diverse set of market areas at different stages of development, with unique geographic and economic conditions. The market area profile sheets included in this section provide a more detailed evaluation of the potential for transit-oriented development in each of the Puget Sound Region's TOD market areas. In order to determine TOD potential, Strategic Economics examined historic trends and current conditions for a combination of factors, including demographic, employment and market conditions. The relationship between TOD potential and these factors are illustrated in **Figure 71** and described in more detail below. For the purposes of this analysis, development timelines are described as short- (less than 5 years), mid- (5-15 years) and long-term (15+ years).

Figure 71: Factors Contributing to TOD Potential



Source: Strategic Economics, 2012

Demographics and Growth

Current demographic conditions and historic trends provide valuable insight into the potential short-, mid- and long-term demand for residential transit-oriented development. Demographic factors such as household size, density and share of renter-occupied households are analyzed because they tend to correlate with preference for locations near transit and higher density housing types, as described previously. Other factors, such as income and change in density, are associated with stronger market demand in general. Within the demographic profile, please note that factors recorded in blue are compared to the system-wide study area average, while factors in orange are compared to a regional average. Given that most existing or potential study areas are located in developed communities, the use of a system-wide average provides more realistic context for the household density and change in density figures compared to the regional average, which would include a significant amount of forested or agricultural land.

Employment

In addition to illuminating the places with existing demand for commercial space, current employment patterns and historic growth trends also provide insight into the potential for additional growth in the short-, mid- and long-term. Factors such as existing employment, change in employment and share of employment in largest industry are assessed within each TOD market area and compared with the system-wide average. In addition to assessing the overall growth potential within each study area, this section also identifies the market areas with a high share of "transit-supportive" employment. Transit-supportive industries are those which show a preference for locating around transit and which typically drive demand for transit-oriented commercial space. For the purposes of this report, jobs in the Knowledge-based, Entertainment, Government and Educational and Medical industry groups are classified as transit-supportive based on recent research into firm location preferences summarized previously.

Market Conditions

Commercial and residential market conditions, including lease rates, vacancy rates and historic sales, provide insight into the current market strength and short-term potential for development in each location. This section provides analysis of factors relating to the apartment, condominium, retail and office markets within each of the TOD market areas. As in the demographic section, factors recorded in blue are compared to the system-wide study area average, while factors in orange are compared to a regional average. This choice of comparison was based on the availability of relevant data.

TOD Potential

This section incorporates findings from the demographic, employment and market conditions section, as well as the market strength indices and broad assessment of existing land use patterns and infrastructure, to evaluate the potential for short-, mid- and long-term transit-oriented development within the TOD market areas. The market strength index chart illustrates the results of the quantitative analysis described in the previous section and provides insight into the relative short to mid-term commercial or residential market strength in each study area, within the context of their TOD market area and the broader transit system. The longer term potential (i.e. more than 15 years) for TOD may vary based on public policy decisions and the level of investment directed towards the study areas

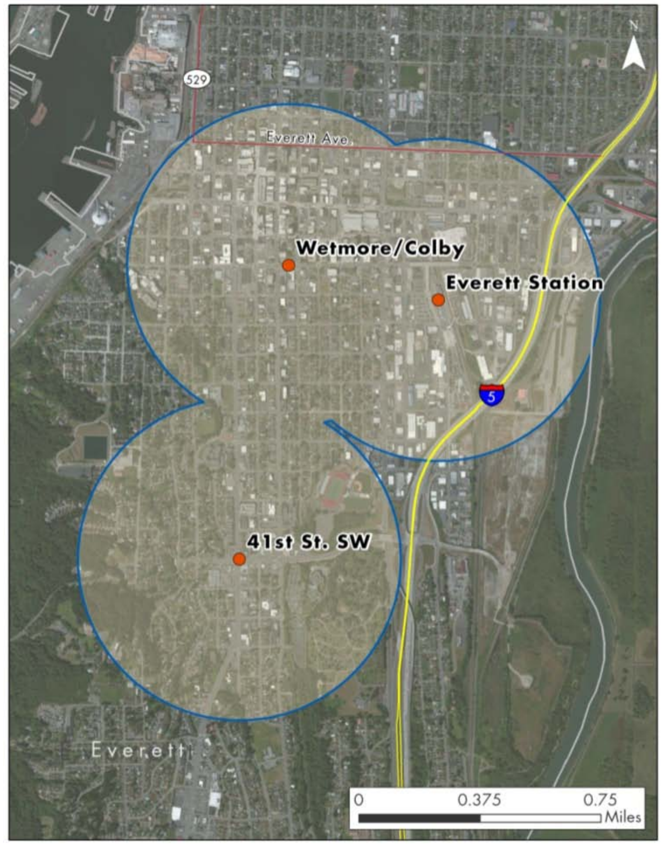
Please note that the indices provide strictly quantitative insight into TOD market area potential; the full assessment considers a wider range of more nuanced qualitative and quantitative factors. The market strength indices describe the overall relative short to mid-term strength of the market for TOD between study areas, based on quantitative factors that are both shorter-term (market indicators) and longer-term (demographic trends, proximity to employment etc.). However, the market strength descriptors associated with the indices (weaker, moderate, transitional, strong and very strong) do not translate directly into short-, mid- or long-term time frames for development. Rather, the profile sheets translate the market strength indices, along with the other components described in this section and the findings from developer interviews, into an assessment of development timing.

TOD Market Area Profile

Central Everett

The Central Everett TOD market area contains three study areas: Everett Station, 41st Street SW and Wetmore/Colby in Downtown Everett. In comparison with the majority of the North corridor, Downtown Everett is characterized by a walkable urban environment with proximity to retail, entertainment and service business. Downtown has also had new mixed use in-fill development in the past year. The Everett study area is more industrial in nature and 41st St. contains a mix of lower-density residential and commercial uses.

Central Everett Study Areas

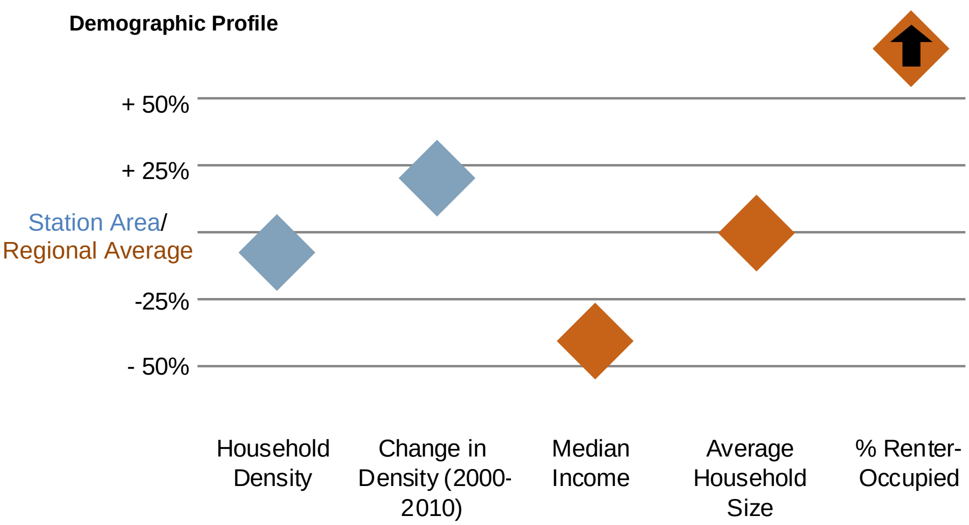


Source: U.S. Census ACS 2005-2010; ESRI; Strategic Economics 2012

Demographics and Growth

The Everett TOD market area is generally characterized by stable, relatively low-density housing, with significantly higher density in the Wetmore/Colby study area, which includes Downtown Everett. Although household incomes are lower than the regional average, the Everett and Wetmore/Colby study areas have experienced significant income growth in the last decade which suggests the potential emergence of a market for new, higher value housing in the area. The area also has a significantly higher proportion of renter occupation than the region. The combination of rising incomes and a significantly higher-than-average share of renter households suggests an emerging market for multifamily apartment development around the Wetmore/Colby transit station in Downtown Everett.

Demographic Profile



Source: U.S. Census; PSRC; Strategic Economics, 2012.

Employment Profile

Average Total Jobs (By Study Area)	5,394
Average Total Jobs (All Study Areas)	6,510
Growth 2000-2010 (TOD Market Area)	0.82%
Regional Growth 2000-2010	0.27%
Employment Share of Largest Industry	26.4% (Education and Medical)

Source: PSRC; Strategic Economics 2012

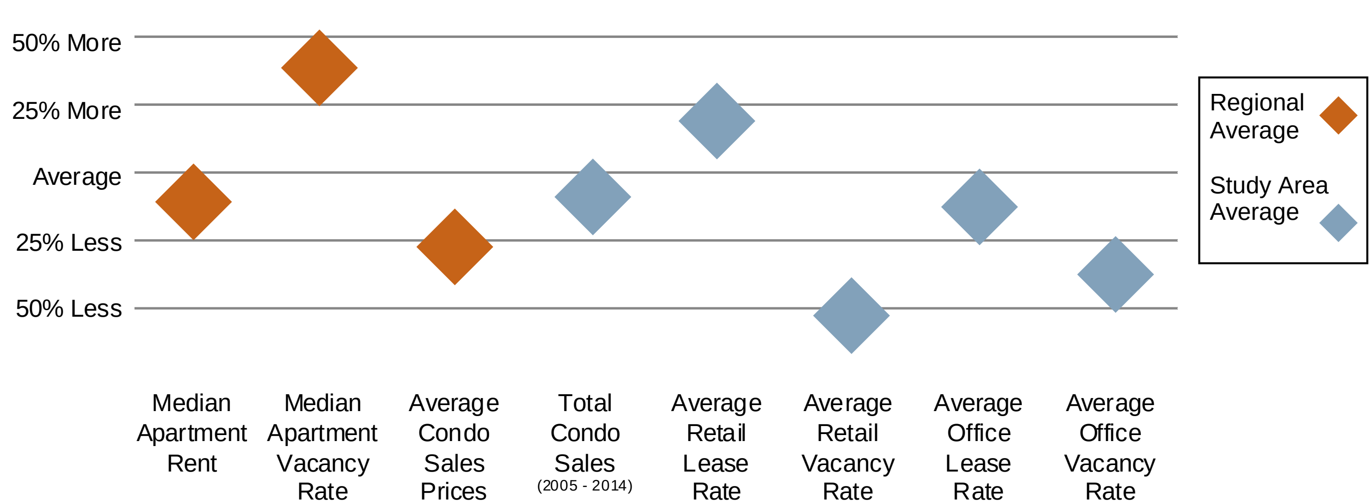
Employment

Although employment in the Central Everett TOD market area is somewhat lower than the study area average, it remained relatively stable from 2000 to 2010. The Education and Medical industry group accounts for the largest share of jobs within the market area, primarily located in Downtown Everett. Education and Medical employment – and particularly those jobs located in higher density areas such as Downtown Everett – is considered transit-supportive and would help to generate ridership along the North corridor light rail line. A significant share of Central Everett residents commute to the Boeing plant for work and the SR99 alignment has the potential to better connect these residents to their jobs.

Market Conditions

Low rents and high vacancy rates suggest that there is currently insufficient demand in the Everett TOD market area to support significant new apartment development in the short term. Recent mixed-use development and higher apartment rents in the Downtown, however, suggest an emerging market for Downtown living that may support additional projects in the mid-term. Low condominium sales prices and number of sales suggest demand for for-sale housing is also low, in keeping with the broader post-recession sales market. In contrast, the commercial market – and the retail market in particular – is stronger relative to other study areas, with low retail vacancy rates and retail lease rates outpacing the study area average. Office vacancy rates are also significantly lower than average, although lease rates are also depressed. Given that the national and regional commercial markets are still in recovery from the recession, these findings suggest that commercial development may return in the mid-term, while the residential demand – with the exception of Downtown Everett - is more likely to return in the mid-to-long term.

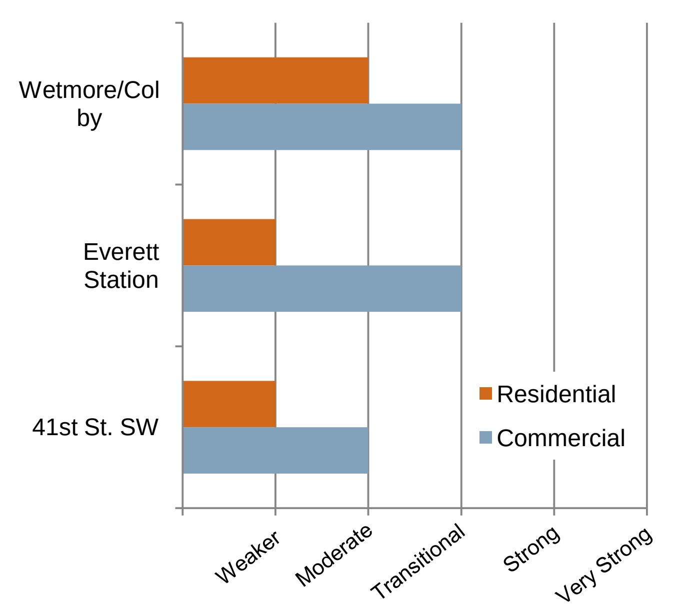
Market Profile



Source: Dupre & Scott; Gardner Economics; Northwest Multiple Listing Service; CBRE Puget Sound Region Marketview, 4Q 2011; CoStar.com; Strategic Economics, 2012.

TOD Potential

Residential and Commercial TOD Market Strength Indices



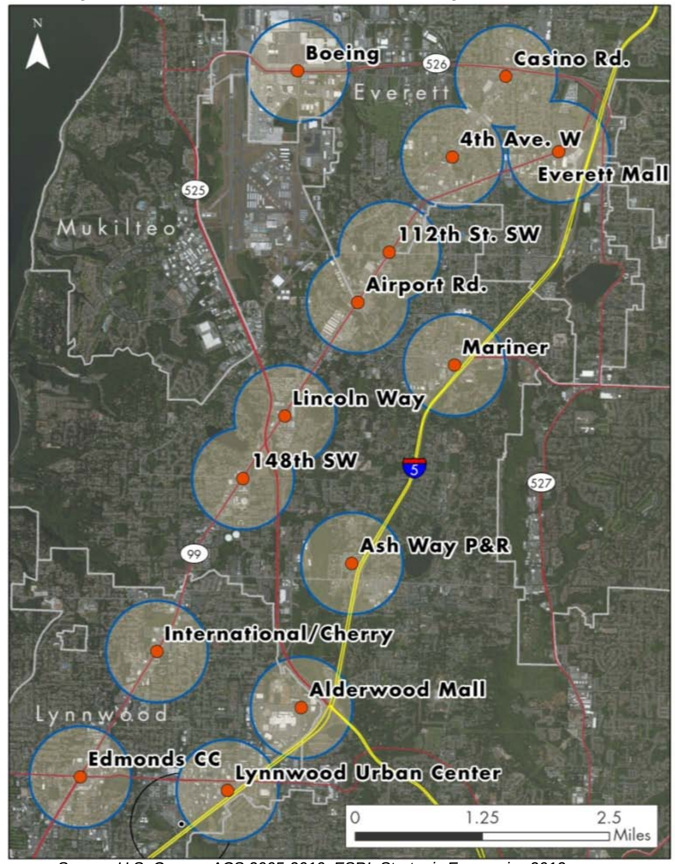
Sources: PSRC; State of Washington; Dupre & Scott; U.S. Census; Gardner Economics; Strategic Economics 2012

Although demographic factors such as rising income levels and a high proportion of renters suggest an emerging multifamily residential market in the Central Everett TOD market area, current market conditions indicate that new residential development is more likely to occur in the mid-term in Downtown Everett and longer term in the other study areas. When the market returns, factors such as Downtown Everett's walkable, urban nature, recent pioneering in-fill development and proximity to the Boeing Employment center will provide a boost to potential demand. Although the retail and office markets in the Central Everett TOD market area are moderately strong relative to the region as a whole and other study areas, the office market is just beginning to return to major employment centers (Downtown Seattle) post-recession, and it will be some time before locations outside of these centers see any activity. Any new commercial development is more likely to occur in the mid-to-long-term. The long-term potential for both residential and commercial TOD within this market area will be very strongly influenced by selection of either the I-5 or SR99 routes and connection to the Boeing employment center. Recent projects within the Wetmore/Colby study area that have already pioneered in-fill redevelopment in the Downtown suggest this area has the strongest potential demand for transit-oriented development.

TOD Market Area Profile *N. Lynnwood/Silverlake/Paine Field*

The North Lynnwood/Silverlake/Paine Field TOD market area is comprised of 14 study areas, from Casino Road in Everett to Edmonds Community College in Lynnwood. With the exception of the Boeing employment center, the market area is primarily characterized by lower-density residential and commercial uses. The market also includes several regional-serving retail centers, including Alderwood Mall in Lynnwood and Everett Mall in Everett.

North Lynnwood/Silverlake/Paine Field Study Areas

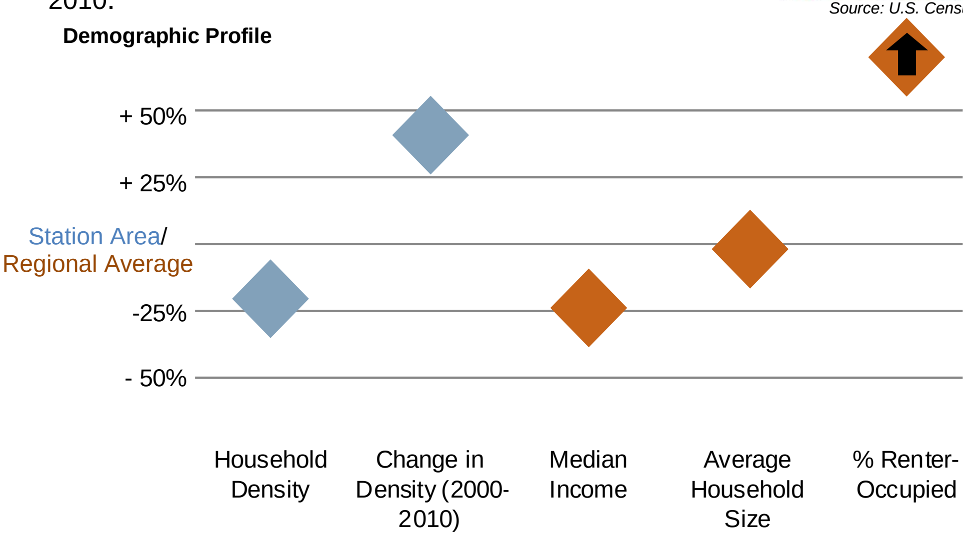


Source: U.S. Census ACS 2005-2010; ESRI; Strategic Economics 2012

Demographics and Growth

The N. Lynnwood/Silverlake/Paine Field TOD market area gained a significant number of new households from 2000 to 2010, relative to the region as a whole and the other TOD market areas. Median household incomes in the market area are lower and fell more since 2000, which suggests that the working class families who live in this market area were hit particularly hard by the recession. The N. Lynnwood/Silverlake/Paine Field market area is also characterized by large and growing household sizes in comparison with other TOD market areas, which may be a function of the area's significant foreign-born population. The share of foreign-born population more than doubled in many parts of this market area from 2000 to 2010. Although large household size traditionally suggests limited demand for multifamily housing, research indicates that immigrant communities are more likely to choose to live in compact housing, which is consistent with the large share of rental housing and the rise of household density from 2000 to 2010.

Demographic Profile



Source: U.S. Census; PSRC; Strategic Economics, 2012.

Employment Profile

Average Total Jobs (By Study Area)	3,343
Average Total Jobs (All Study Areas)	6,510
Growth 2000-2010 (TOD Market Area)	14.82%
Regional Growth 2000-2010	0.27%
Employment Share of Largest Industry	43.9% (PDR)

Source: PSRC; Strategic Economics 2012

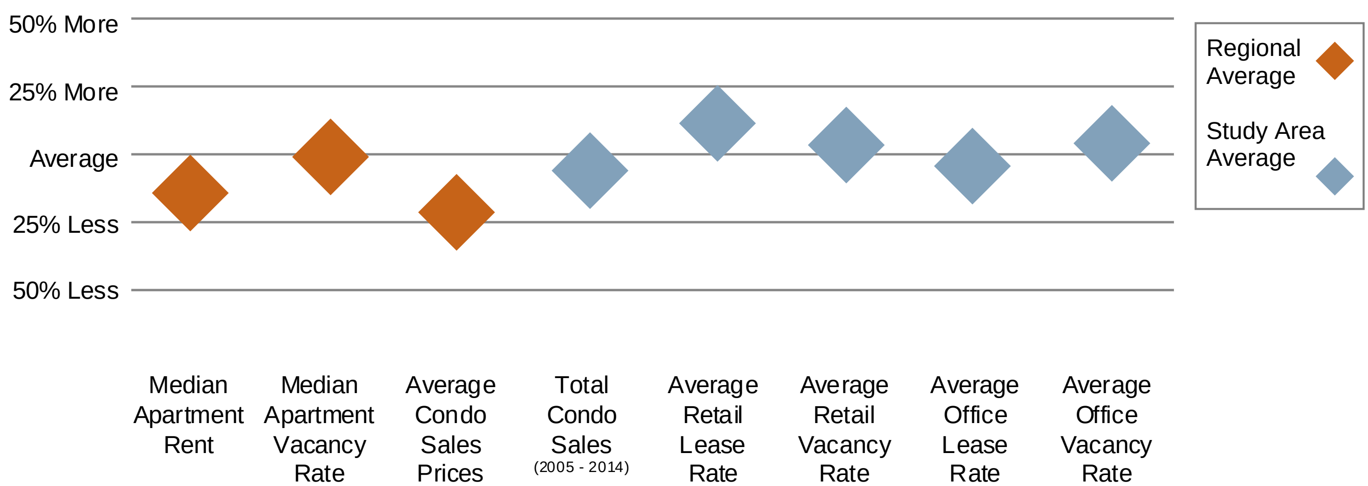
Employment

The N. Lynnwood/Silverlake/Paine Field TOD market area is primarily residential and low-density commercial in nature, with a lower number of average jobs per study area compared to study areas system-wide. Although the market area has experienced significant employment growth since 2000, given low local employment levels the higher percentage (14.82 percent) does not translate into a large increase in actual jobs. The Boeing employment center is a significant exception to this pattern, however, and jobs at Boeing (or in related production, distribution and repair work) account for more than 40 percent of employment in the market area. If the SR99 alignment – including the Boeing study area – is selected, the Boeing plant has the potential to generate commute ridership along the North corridor and stimulate residential and commercial demand in nearby study areas.

Market Conditions

Although residential rents, sales prices and historic sales in the N. Lynnwood/Silverlake/Paine Field TOD market area are lower than the regional average, average vacancy rates suggest that there is some residential demand for this lower-cost product. This is consistent with the increase in household density and decrease in median incomes which occurred in the market area from 2000 to 2010. Moderate commercial lease and vacancy rates suggest that the retail and office markets are consistent with regional averages. While the concentration of office space is low (613,580 square feet per study area compared to 1,635,775 system-wide), the N. Lynnwood/Silverlake/Paine Field TOD market area contains a relatively high share of retail space due to the presence of the Alderwood and Everett Malls, as well as local neighborhood serving retail businesses.

Market Profile

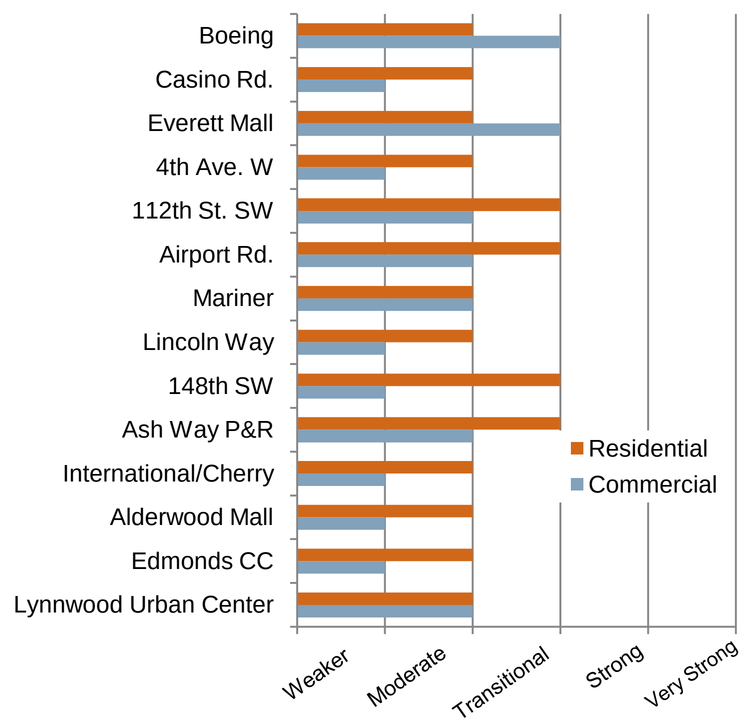


Source: Dupre & Scott; Gardner Economics; Northwest Multiple Listing Service; CBRE Puget Sound Region Marketview, 4Q 2011; CoStar.com; Strategic Economics, 2012.

TOD Potential

Significant residential and commercial development in the North Lynnwood/ Silverlake/Paine Field TOD market area is more likely to occur in the mid-to-long-term. While growth trends such as increasing household densities suggest some near-term demand for new housing, low and falling income levels indicate that this demand will be for lower-cost housing, which is challenging to build without subsidy. Should the SR99 route be selected and the Boeing employment center become accessible via light rail, demand for housing in study areas in this market could increase substantially. Given the distance from the employment centers located in Seattle, commute times via LINK may be too long to strongly affect demand for housing should the I-5 alignment be selected. The residential market index suggests market demand is moderately strong in most study areas. Aside from some components of the Boeing plant in Everett, existing commercial development patterns are not oriented towards industries that prefer transit-rich locations. Commercial TOD is unlikely in the short-to-mid-term.

Residential and Commercial TOD Market Strength Indices

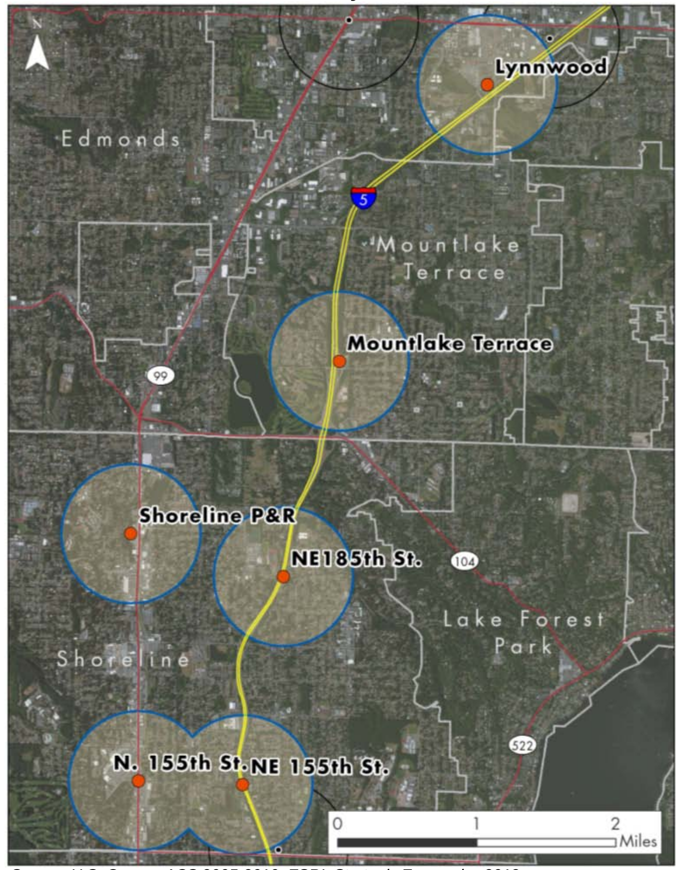


Sources: PSRC; State of Washington; Dupre & Scott; U.S. Census; Gardner Economics; Strategic Economics 2012

TOD Market Area Profile *Shoreline/Mountlake Terrace*

The Shoreline/Mountlake Terrace TOD market area includes six stations, from the Lynnwood study area in Lynnwood to the Northeast 155th study area in Shoreline, located along the proposed I-5 and SR99 alignments. Although housing and employment densities vary by study area, this TOD market area is primarily comprised of a mix of low-density housing and commercial uses.

Shoreline/Mountlake Terrace Study Areas

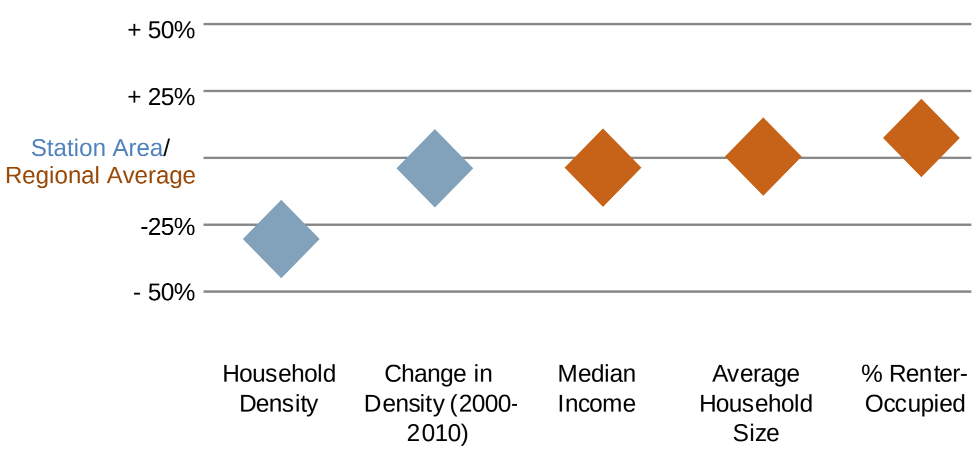


Source: U.S. Census ACS 2005-2010; ESRI; Strategic Economics 2012

Demographics and Growth

Household densities in the Shoreline/Mountlake Terrace TOD market area are lower than other study areas and have remained relatively stable over the last decade, consistent with regional trends outside of Seattle. Although household sizes and median incomes are both close to regional averages, they have fallen since 2000. The share of renter-occupied housing and foreign-born population are also on par with regional averages. Within the market area, the Shoreline Park and Ride study area has higher household densities and lower household sizes compared to the rest of the TOD market area, due to the presence of higher density, multifamily rental housing such as the Echo Lake apartments.

Demographic Profile



Source: U.S. Census; PSRC; Strategic Economics, 2012.

Employment Profile

Average Total Jobs (By Study Area)	1,530
Average Total Jobs (All Study Areas)	6,510
Growth 2000-2010 (TOD Market Area)	-16.20%
Regional Growth 2000 - 2010	0.27%
Employment Share of Largest Industry	18.9% (Government/ Education)

Source: PSRC; Strategic Economics 2012

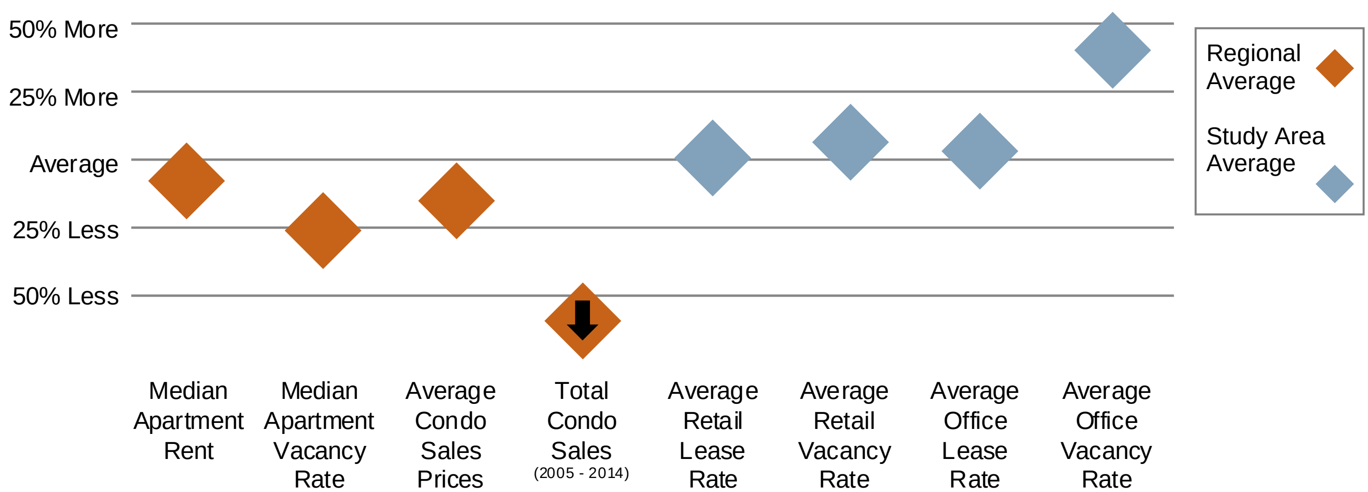
Employment

There are no major employment centers in the Shoreline/Mountlake Terrace TOD market area and although employment levels vary by study area (with higher levels of employment around the southern study areas), all are lower than the system-wide average. In addition, employment in the market area has declined significantly (-16.20%) from 2000 to 2010. Government, which generates 18 percent of study area jobs, is the area's largest single employer, followed by the Entertainment and Education and Medical Industries.

Market Conditions

Apartment rents and condo sales prices in the Shoreline/Mountlake Terrace TOD market are lower than the regional average. While low vacancy rates suggest a tight apartment market, very low levels of condominium sales indicate a weak market for multifamily homeownership housing. Although the average number of recently constructed rental units per study area is the lowest within the North corridor, the market area has the highest average number of planned and proposed apartments per study area outside of Seattle. There is also currently a 148 unit apartment building, Market Square Apartments, under construction on Aurora just north of the Shoreline P&R study area. This suggests some potential for the short-to-mid term rental market in Shoreline/Mountlake Terrace, a function of the market area's proximity to Downtown Seattle, the region's largest employment center. The office market in Shoreline/Mountlake Terrace varies by study area: relatively high employment concentrations and low vacancy rates around the Shoreline Park and Ride, North 185 St and North/Northeast 155th St stations suggest some potential for mid-term commercial development. Other study areas, which are primarily residential in nature, are less likely to experience significant commercial development even in the long-term. Retail lease and vacancy rates are consistent with regional averages.

Market Profile

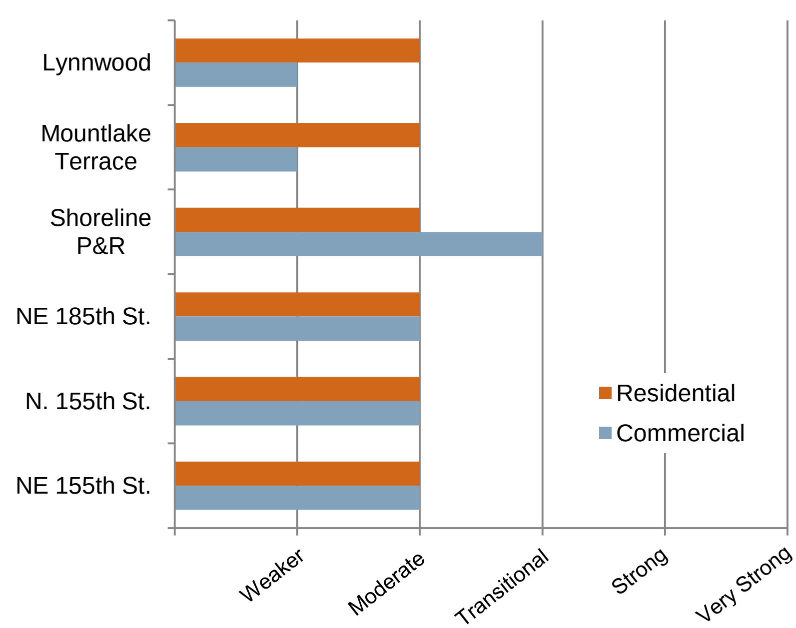


Source: Dupre & Scott; Gardner Economics; Northwest Multiple Listing Service; CBRE Puget Sound Region Marketview, 4Q 2011; CoStar.com; Strategic Economics, 2012.

TOD Potential

Although the Shoreline/Mountlake Terrace TOD market area is likely to experience some apartment development in the short-to-mid term, the demand for both rental and homeownership housing development will be stronger in the long term. After the construction of the North corridor, the market area will be much more accessible to the University of Washington and Downtown Seattle, where many of its residents already work. As with the region, the return of the condominium market will trail the apartment market. As indicated by the commercial market strength index, the potential for commercial TOD varies by study area, with the strongest potential around the Shoreline Park and Ride station. Even in the strongest study areas, however, new commercial development is a mid-to-long term prospect.

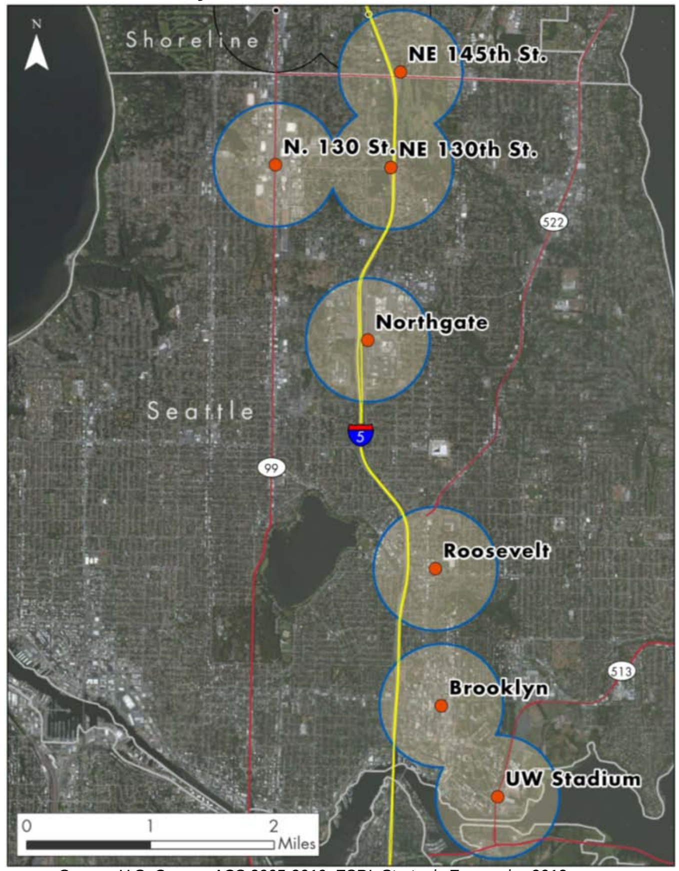
Residential and Commercial TOD Market Strength Indices



Sources: PSRC; State of Washington; Dupre & Scott; U.S. Census; Gardner Economics; Strategic Economics 2012

The North Seattle TOD market area contains seven study areas, from Northeast 145th St to University of Washington Stadium station. In addition to several compact residential neighborhoods, the TOD market area is home to the University of Washington, a major regional destination for employment, education and medical care.

North Seattle Study Areas

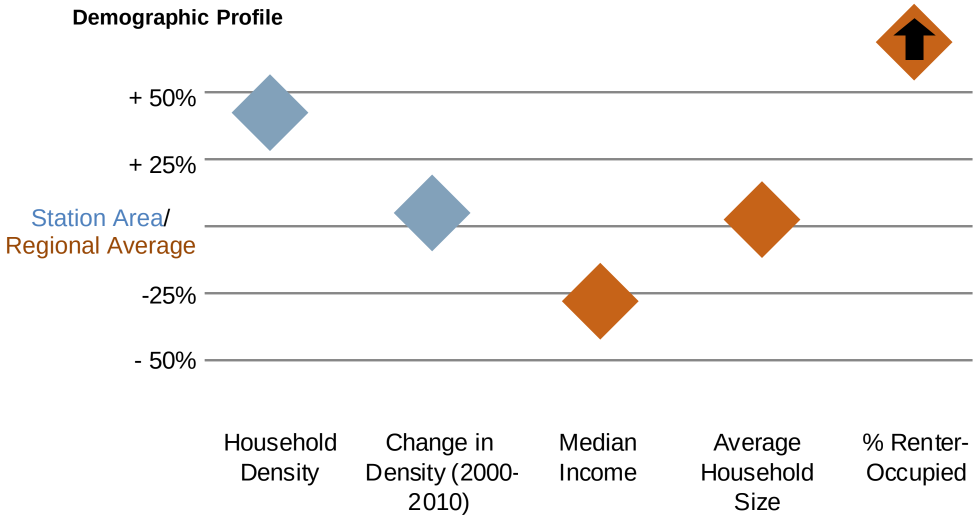


Source: U.S. Census ACS 2005-2010; ESRI; Strategic Economics 2012

Demographics and Growth

Household density in the North Seattle TOD market area is significantly higher than the region and relatively stable, particularly around the Brooklyn and Roosevelt stations. Although household sizes are in keeping with the regional average, they are on the rise in the southernmost residential study areas, including Roosevelt and Northgate. This may reflect the increasing presence of families in these study areas. The population of foreign-born residents varies by study areas, with relatively stable concentrations around the Northgate and North/Northeast stations. Although median household incomes are low due to the presence of the University and student housing, they have remained relatively stable since 2000. The presence of the student population, high household densities and higher share of renters in North Seattle suggests potential market demand for multifamily apartment development in the future.

Demographic Profile



Source: U.S. Census; PSRC; Strategic Economics, 2012.

Employment Profile

Average Total Jobs (By Study Area)	6,260
Average Total Jobs (All Study Areas)	6,510
Growth 2000-2010 (TOD Market Area)	-13.29%
Regional Growth 2000 - 2010	0.27%
Employment Share of Largest Industry	56.9% (Government/ Education)

Source: PSRC; Strategic Economics 2012

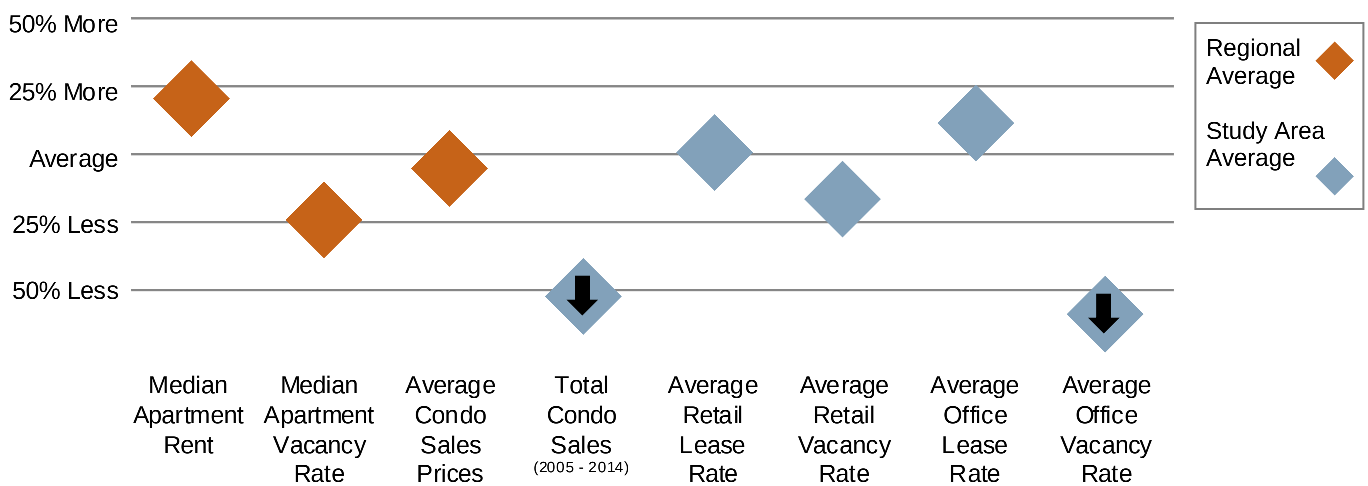
Employment

The University of Washington, which includes the Medical Center, is the largest employer in North Seattle, where more than half of all jobs are classified as Government/Education. The region's largest employment center outside of Downtown Seattle, the University draws students, employees and visitors from a variety of places, with most employees commuting from North Seattle, Downtown Seattle, or other parts of the North Corridor. Employment is primarily concentrated around the UW Stadium, Brooklyn and Northgate study areas, with others remaining primarily residential in natures. Lower employment around the UW Stadium study area reflects the presence of athletic facilities and water features in that study area.

Market Conditions

High rents and low vacancy rates suggest a strong residential rental market in North Seattle, driven by proximity to the Downtown Seattle employment center, and within the Roosevelt and Brooklyn study areas, by demand from students and employees at the University of Washington and access to nearby recreational amenities. In contrast, the condominium market is not established, with lower than average sales prices and number of condominium sales. While office lease rates are only slightly above average, very low vacancy rates suggest a tight office market with potential for growth when the market returns. Within the market area, office indicators are strongest around the Brooklyn, Roosevelt and UW Stadium stations, which suggests that future office development will concentrate in these study areas. Retail lease rates are consistent with other study areas, while lower than average retail vacancy rates suggest a slight stronger retail market in North Seattle.

Market Profile

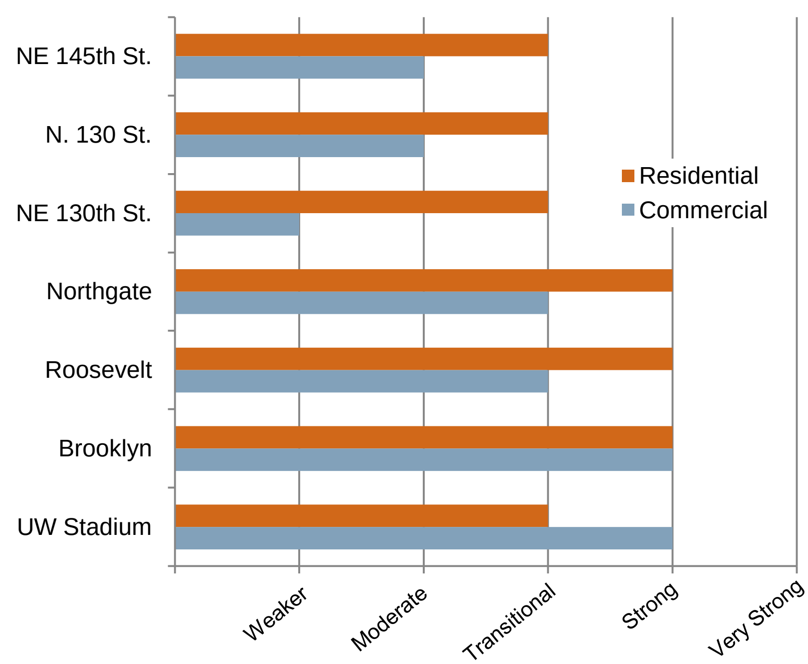


Source: Dupre & Scott; Gardner Economics; Northwest Multiple Listing Service; CBRE Puget Sound Region Marketview, 4Q 2011; CoStar.com; Strategic Economics, 2012.

TOD Potential

Residential and commercial TOD market potential in North Seattle is strong, due to the presence of the University of Washington and proximity to Downtown Seattle, and in inner North Seattle, strong urban form and walking environments. The construction and extension of the North corridor will serve to boost existing market demand by strengthening connections to Downtown Seattle and the region. In the short-to-mid term, the strongest market potential is for apartment development, particularly around the Brooklyn, Roosevelt and Northgate stations. Although North Seattle has a relatively strong office market – particularly around the Brooklyn study area– regional office trends suggest that new office development is more likely to occur in the mid-term, after the City of Seattle has completed a recently initiated planning effort for the University District. Similarly, although the retail market is driven by a strong base of residents, students and employees, significant new retail development is unlikely to occur in the short-term.

Residential and Commercial TOD Market Strength Indices



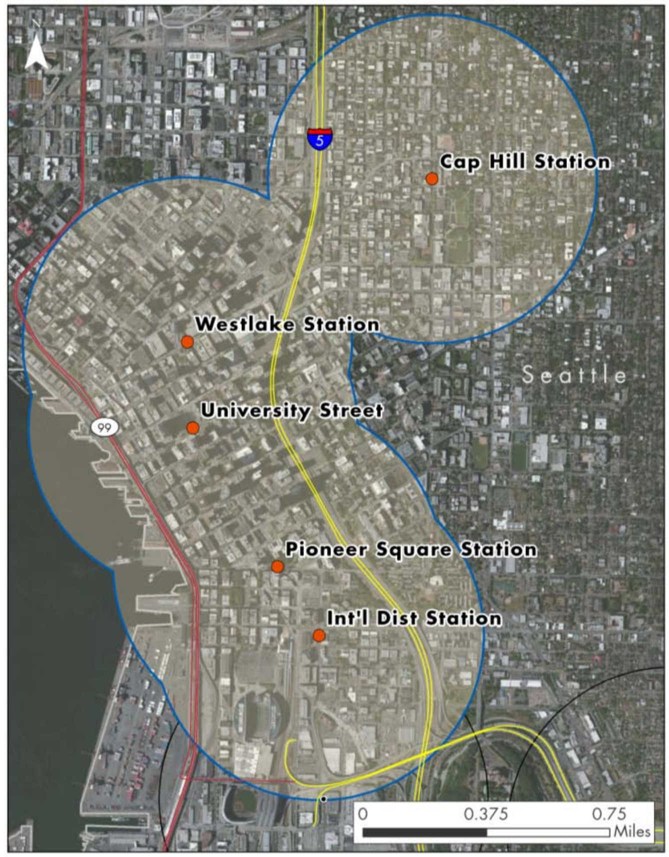
Sources: PSRC; State of Washington; Dupre & Scott; U.S. Census; Gardner Economics; Strategic Economics 2012

TOD Market Area Profile

Downtown Seattle

The Downtown Seattle TOD market area contains four existing and one planned transit station, from Capitol Hill to the International District study area. In addition to being the region's largest employment center, Downtown Seattle encompasses multiple dense, walkable residential districts where residents, employees and visitors enjoy easy access to public transportation, retail and service businesses and entertainment and cultural institutions.

Downtown Seattle Study Areas

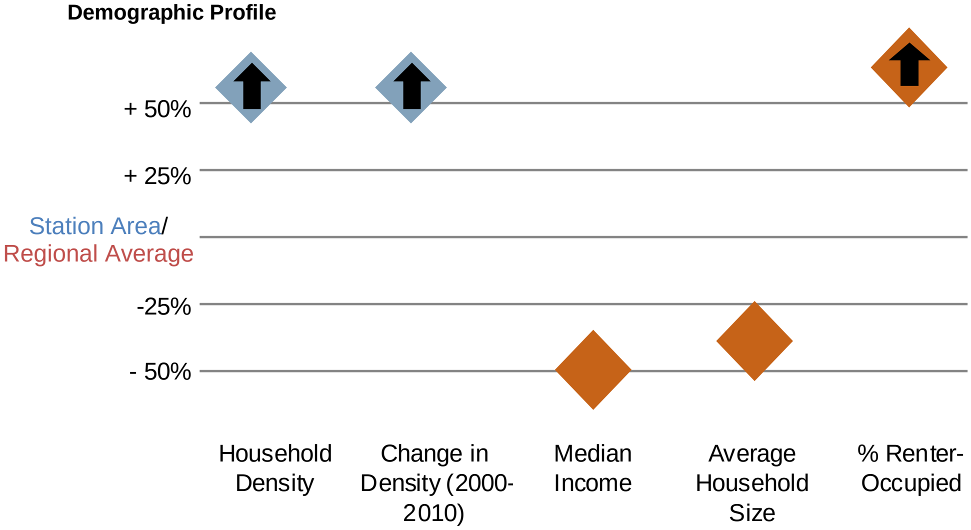


Source: U.S. Census ACS 2005-2010; ESRI; Strategic Economics 2012

Demographics and Growth

Downtown Seattle is the highest density residential area in the region and one of the only places that added significant residential density from 2000 to 2010. Household sizes, already among the lowest in the region, also fell during that time. While median household incomes are low due to a high concentration of subsidized housing serving the lowest income levels, rising incomes and the recent construction of higher cost, luxury housing suggest that Downtown Seattle is also home to a significant component of higher-income households. The majority (85 percent) of homes are renter-occupied. The combination of rising household density, small household size and growing incomes indicate a strong residential market, particularly for multifamily apartment development.

Demographic Profile



Source: U.S. Census; PSRC; Strategic Economics, 2012.

Employment Profile

Average Total Jobs (By Study Area)	31,161
Average Total Jobs (All Study Areas)	6,510
Growth 2000-2010 (TOD Market Area)	-14.86%
Regional Growth 2000 - 2010	0.27%
Employment Share of Largest Industry	38.4% (Knowledge-Based)

Source: PSRC; Strategic Economics 2012

Employment

Downtown Seattle is the region's largest employment center, with almost five times the number of jobs per study area than the system-wide average. Knowledge-based industries account for the largest share of the area's employment, followed by the Government and Entertainment industry groups. Employment in downtown Seattle declined significantly from 2000 to 2010, driven largely by the loss of Knowledge-based firms such as Washington Mutual during the recession. In the future, high tech companies are likely to have an increasing presence in downtown, as evidenced by the planned expansion of Amazon around the Westlake study area and ongoing office growth in South Lake Union. This will drive future employment growth in Downtown Seattle.

Market Conditions

High apartment rents and low vacancy rates indicate a strong market for multifamily rental development in the Downtown Seattle TOD market area. Similarly, high condominium sales prices and historic sales levels suggest that for-sale multifamily housing demand will be strong when the market returns. Given the various challenges to the condo market, including stricter financing requirements and continued inventory overhang, this return may be several years down the road. While high lease rates and moderate vacancy rates suggest a moderately strong office market, recent and planned development activity – including the 3.3 million square foot Amazon expansion and the construction of 202 Westlake, a 130,000 square foot speculative office project in the South Lake Union area, indicate that the office market in Downtown Seattle will support new development in the short term. The Downtown Seattle retail market is relatively strong, with high asking lease rates and vacancy rates in the 2 percent range.

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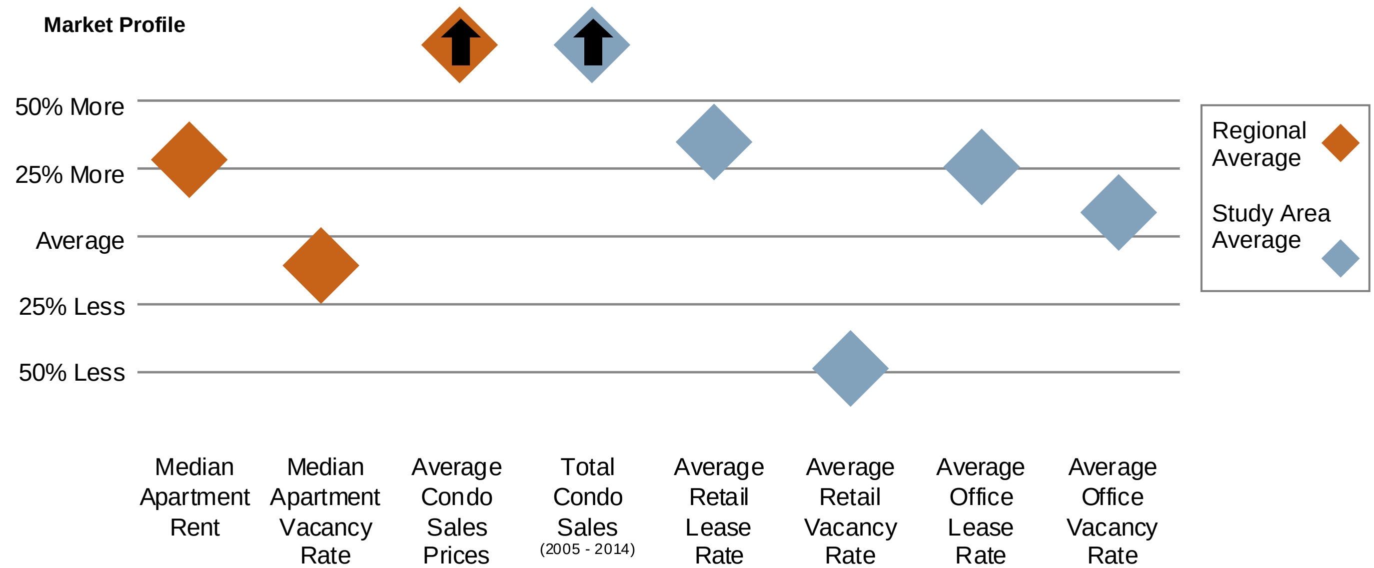
Market Profile

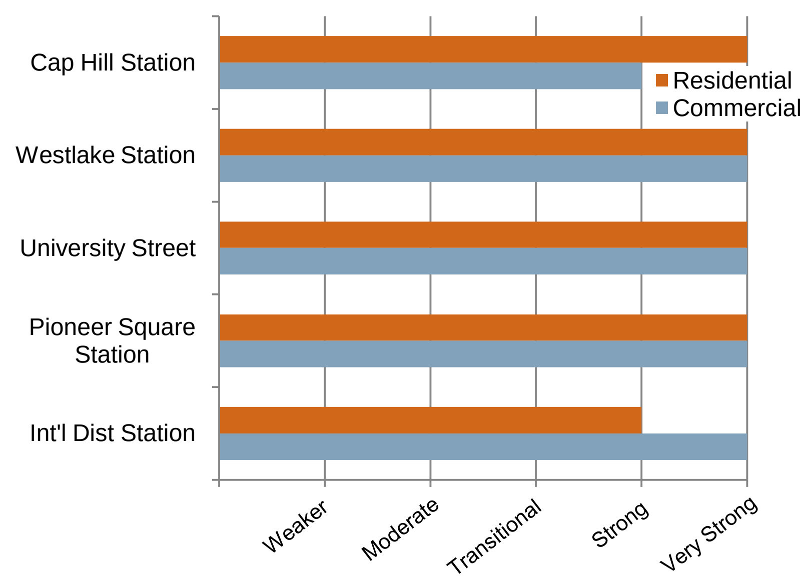


Source: Dupre & Scott; Gardner Economics; Northwest Multiple Listing Service; CBRE Puget Sound Region Marketview, 4Q 2011; CoStar.com; Strategic Economics, 2012.

TOD Potential

The Downtown Seattle TOD market area has the strongest potential for residential and commercial TOD in the region, limited only by the availability of appropriate sites for development. The apartment market is particularly strong, with more than 7,000 new units expected to come online by 2014. While condominium market indicators are also positive, significant new development is unlikely to return before the broader for-sale market completes recovery from the recent recession. The Downtown Seattle office market also has strong potential, driven by growth in the high tech sector. The presence of speculative office construction – which is only occurring in the strongest locations nationally – further illustrates the strength of the Downtown Seattle office market. There is also significant potential for short-to-mid term retail development in Downtown Seattle.

Residential and Commercial TOD Market Strength Indices

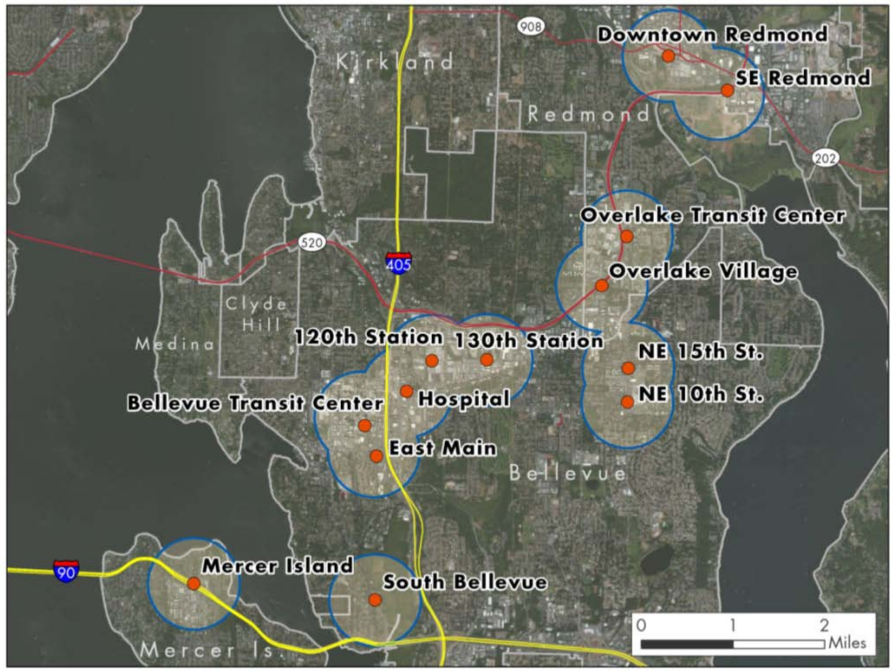


Sources: PSRC; State of Washington; Dupre & Scott; U.S. Census; Gardner Economics; Strategic Economics 2012

<u>TOD Market Area Profile</u> ***Eastside***

The Eastside TOD market area includes all 13 of the study areas along the East Corridor located in Bellevue, Redmond, and Mercer Island, including two RapidRide station areas. These study areas have some of the strongest markets for residential and commercial TOD in the LINK system, second only to the Downtown Seattle market area. Historic and future development is driven by the location of two of the fastest-growing major regional employment centers within Eastside study areas.

Eastside Study Areas

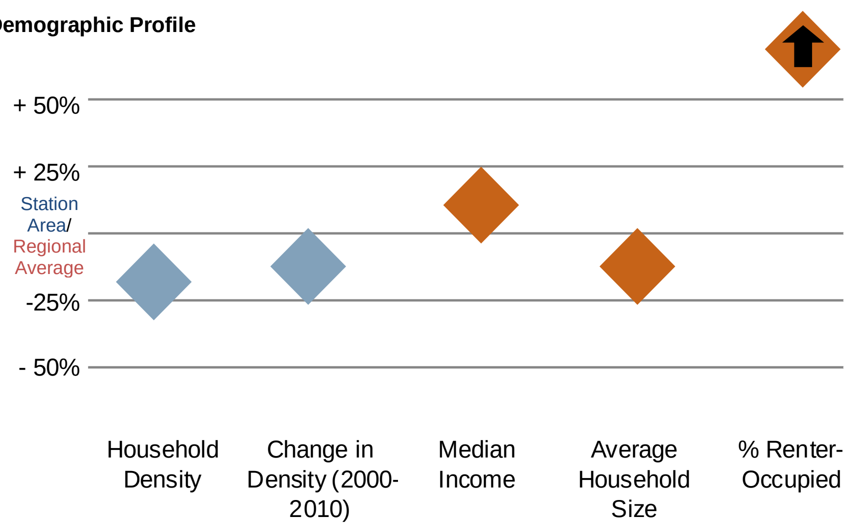


Source: U.S. Census ACS 2005-2010; ESRI; Strategic Economics 2012

Demographics and Growth

Eastside study areas have a lower average gross household density than the system average, given the number of single family neighborhoods and industrial areas within many study areas. There is considerable variation in land use among study areas, however, with Bellevue TC, NE 10th St. and NE 15th St. (the RapidRide study areas) having household densities well over average. Average growth across study areas, as measured by change in density, was also below the system average, but again, growth across the Eastside varied widely between 2000 and 2010. Redmond study areas experienced above-average to strong growth (Downtown Redmond). Most Bellevue stations experienced household loss, with the exception of Bellevue TC and the Rapid Ride stations.

Demographic Profile



Source: U.S. Census; PSRC; Strategic Economics, 2012.

Household and housing characteristics associated with preferences for transit locations and TOD housing types are generally strong in Eastside study areas. Average household size within the study areas is 2.01 persons per household, significantly lower than the regional average of 2.48. The percent of units that are occupied by renters is very high across study areas, with the exception of South Bellevue. Ten study areas have renter occupancies of 70 percent or greater, in comparison with a regional average of 38 percent renter occupancy.

Average median income in the Eastside study areas, $70,543, is above the regional median of $65,068. There is some range among the study areas, with East Main, Overlake Village and the Rapid Ride study areas having median incomes as much as 15 percent below the regional average. This market area also has some of the wealthiest study areas system-wide, with median incomes over 30 percent above the regional median in SE Redmond, Overlake Transit Center, 130th, and Southeast Main study areas. The Eastside study area population is also strongly Asian, with one third of the population identifying as being Asian. Half of the population of Eastside study areas identifies as being either of a race other than white, or ethnically Latino.

Employment

In 2010, Eastside study areas included 126,826 jobs, or an average of 9,757 jobs per study area, 50% above the system average. More than half of these jobs were in Knowledge-based industries, which include firms most likely to agglomerate and prefer transit locations. Employment growth in the Eastside TOD market area significantly outpaced the region, driven primarily by growth in Knowledge-based employment. These jobs are strongly concentrated at the Microsoft Campus within the Overlake Transit Center and Overlake Village study areas, as well as Downtown Bellevue (Bellevue Transit Center) and, to a lesser extent, Downtown Redmond.

At the same time, industrial employment within the study areas fell by 39% from 2000 to 2010, which further underscores the evolving nature of the Eastside economy.

Employment Profile

Average Total Jobs (By Study Area)	9,757
Average Total Jobs (All Study Areas)	6,510
Growth 2000-2010 (TOD Market Area)	4.05%
Regional Growth 2000 - 2010	0.27%
Employment Share of Largest Industry	54.4% (Knowledge-Based)

Source: PSRC; Strategic Economics 2012

Market Conditions

The Eastside TOD market area is one of the stronger residential and commercial real estate sub-markets for TOD in the region, second only to Downtown Seattle. On the residential side, the multifamily market is well-established in the Eastside. The West and East Bellevue and Redmond sub-markets have among the highest total apartment inventories in the region, each near 6,000 units. 2011 median apartment rent was above the regional average ($1.22 per square foot per month), both for the Eastside as a whole ($1.42 per square foot per month), and the individual local sub-markets of Mercer Island, West and East Bellevue and Redmond. However, the vacancy rate of 5.7 percent was above the regional average of 4.5 percent, and the average number of new apartment units built per study area between 2009 and 2011 was low: 19 new units in comparison with a system average of 62 per study area. The proposed apartment pipeline is also below the system average. While still in recovery from the 2008 to 2009 recession, the Eastside condominium market is also relatively strong, with a higher average number of transactions per study area and higher average sales price ($263,908) than the regional average ($231,070) in 2011.

On the commercial side, demand for and occupancy of office space in the Eastside TOD market area is relatively very strong. 2011 market indicators, $26.74 per square foot per year and nine percent vacancy, indicate the market is still in recovery from the recession. However, this lease rate is just 60 cents below the leading Downtown Seattle TOD market area rate, with a better vacancy rate.

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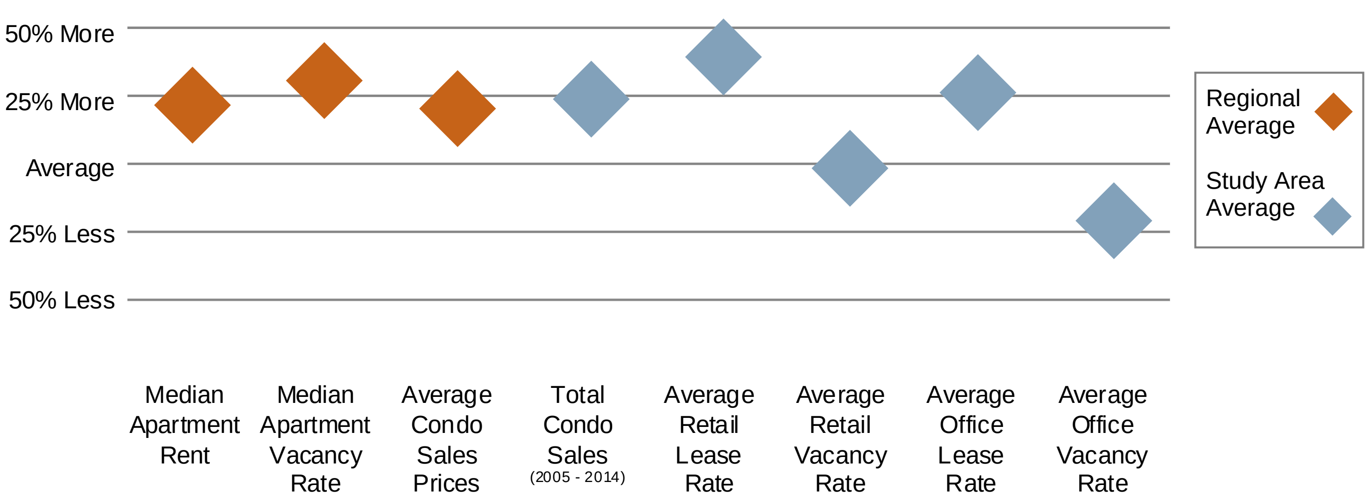
Market Profile



Source: Dupre & Scott; Gardner Economics; Northwest Multiple Listing Service; CBRE Puget Sound Region Marketview, 4Q 2011; CoStar.com; Strategic Economics, 2012.

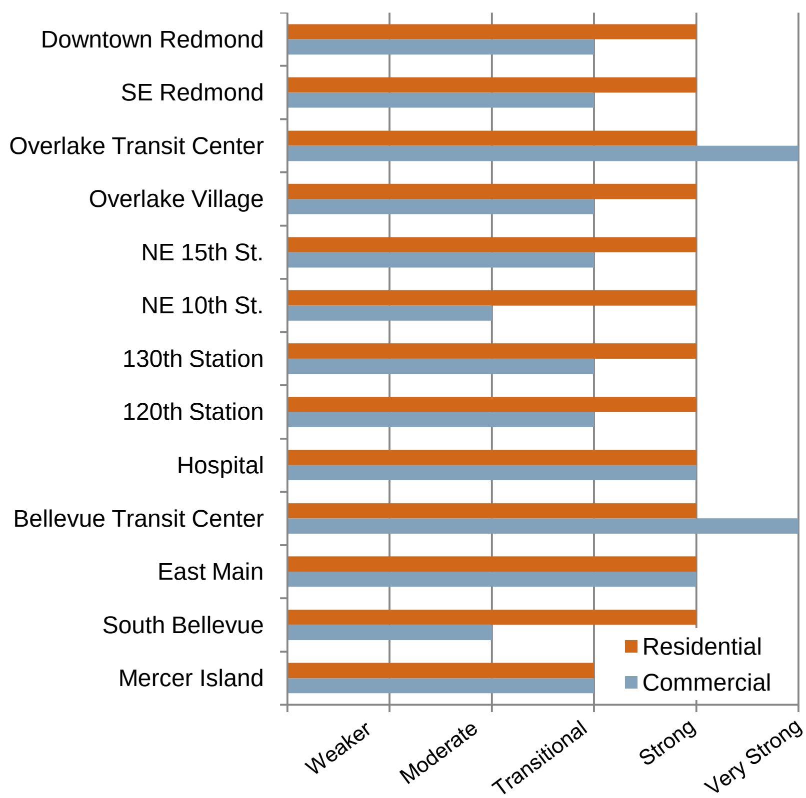
TOD Potential

The Eastside TOD market area has strong potential for both significant residential and commercial TOD growth. The commercial market is driven by the presence of Microsoft in Redmond and the concentration of high tech and other firms that favor agglomeration in Downtown Bellevue. As these industries continue to recover from the recession, these employment centers will resume attraction of firms that favor transit locations and higher density office space, and existing firms will add jobs. Within the market area, the concentrated job centers within the study areas at Bellevue Transit Center and Overlake Transit Center show the strongest over-all commercial TOD market strength, followed by East Main and Hospital. It should be noted that both the 120th and 130th study areas include many production, distribution and repair firms that provide a substantial number of industrial jobs. PDR industries are critical to the function and health of regional economies and also tend to include some of the highest quality, low skill jobs that support lower and moderate income households. Careful weighing of the value of these jobs and the TOD potential of these areas is needed to determine their best uses.

As demonstrated by both short-term market indicators and longer-term demographic trends, demand for residential TOD in the Eastside is strong, especially near the employment centers. East Bellevue, West Bellevue, and Redmond sub-markets, all have well established apartment markets, and the previous up-market cycle prior to the recession saw significant expansion in the condominium market in these areas as well. In the mid- to long-term, the TOD growth potential of the Eastside market area is limited more by the extent of supply allowed in the study areas that do not currently have higher density patterns than by demand for TOD housing types or Eastside locations.

The multiple regional job centers located in the Eastside, number of higher income households already in the area, and presence of factors that strongly affect the value of real estate (i.e. highly ranked school district, quality commercial services, etc.) make many of the Eastside study areas highly desirable places to live. The construction of the East Corridor light rail will only increase these locations' value. Given the very limited number of low income affordable housing units in these areas, it is likely to become even more difficult for lower income households that work in service and PDR industry jobs on the Eastside to reside in the study areas, or in more general proximity to their jobs. New tools and policies to support production of affordable units are needed to build residential TOD that is accessible to all local workers.

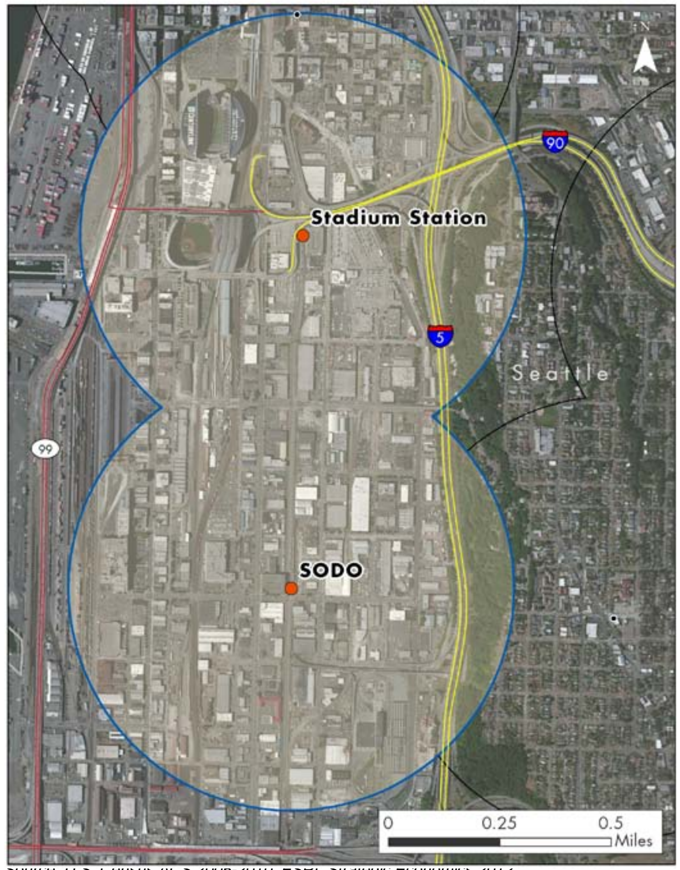
Residential and Commercial TOD Market Strength Indices



Sources: PSRC; State of Washington; Dupre & Scott; U.S. Census; Gardner Economics; Strategic Economics 2012

The Industrial Seattle TOD market area includes two stations areas around the Stadium and SODO stations. The area is characterized by larger format industrial buildings and is also home to the CenturyLink Field and Safeco Field, while host multiple local sports teams and are a major regional entertainment destination. The far north end of the market area, north of Stadium station, also includes the International District, which has a higher density, walkable urban firm and mixed land uses.

Industrial Seattle Study Areas

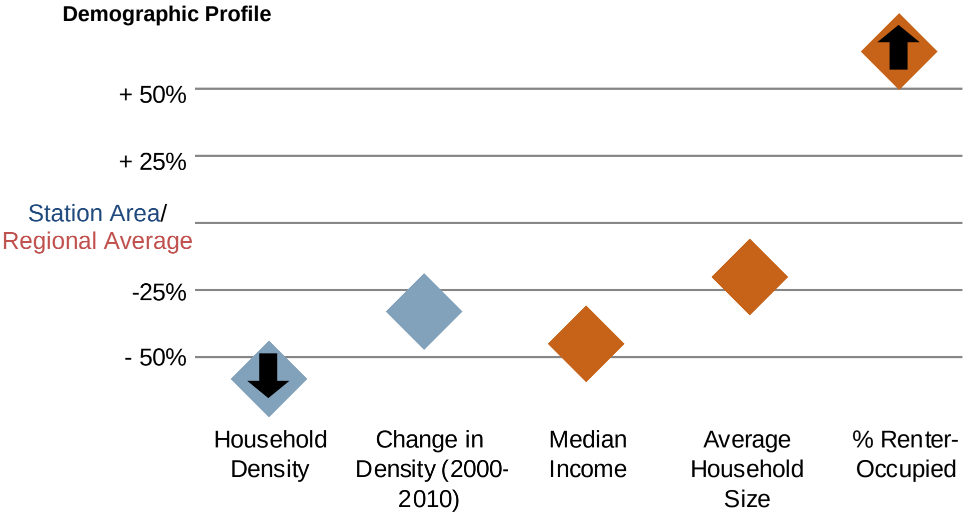


Source: U.S. Census ACS 2005-2010, ESRI, Strategic Economics 2012

Demographics and Growth

Due to its predominantly industrial nature, the Industrial Seattle TOD market area has one of the lowest residential densities in the region, particularly around the SODO station. The market area experienced a significant loss in households from 2000 to 2010. Average household sizes and median incomes are low, and more than half of the households in the Industrial Seattle TOD market area are renter occupied. Low income levels may be a function of more than 450 units of subsidized housing in the International District, the majority of which serve the lowest income levels.

Demographic Profile



Source: U.S. Census; PSRC; Strategic Economics, 2012.

Employment Profile

Average Total Jobs (By Study Area)	12,148
Average Total Jobs (All Study Areas)	6,510
Growth 2000-2010 (TOD Market Area)	-1.67%
Regional Growth 2000 - 2010	0.27%
Employment Share of Largest Industry	20.6% (PDR)

Source: PSRC; Strategic Economics 2012

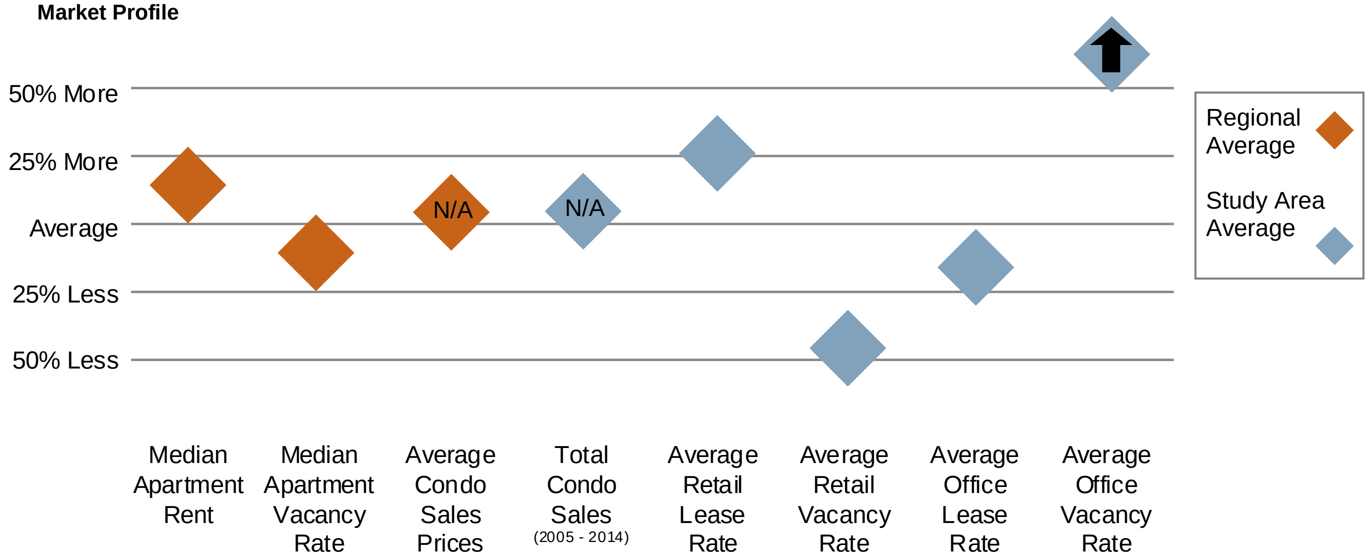
Employment

Employment levels in the Industrial Seattle study areas are nearly twice the system-wide average, due to the presence of the ballparks and the industrial nature of the market area. Employment fell slightly from 2000 to 2010, driven primarily by losses in the Production, Distribution and Repair (PDR) and Entertainment industry groups. In the same time period, market area employment in the Entertainment and Knowledge-based industry groups increased significantly, nearly offsetting PDR and Retail job losses.

Market Conditions

Residential market indicators for the Industrial Seattle TOD market area include slightly higher-than-average rents and slightly lower-than-average vacancy rates. These indicators represent demand for housing in the International District, currently the only residential area in these study areas, and reflect the unevenness of supply in this area coupled with its locational advantages. Low office lease rates and high vacancy rates also reflect limited demand for the existing large office buildings in the International District, which have not yet recovered from Amazon's relocation to South Lake Union in 2010 and early 2011. Although small, the retail market is relatively strong, with moderately high lease rates and very low vacancy rates, due to proximity to the ballparks and the unique allowance of large format commercial near the central business district. At the northern edge of the market area, the long anticipated development of CenturyLink Field's north parking lot is planned to include 517 apartments, 225 condominiums, 35,000 square feet of retail and 420,000 square feet of office space. This project reflects the strength of both the residential and commercial markets at the northern edge of the study area adjacent to Pioneer Square, in immediate proximity to King Street Sounder Study and the International District LINK station.

Market Profile

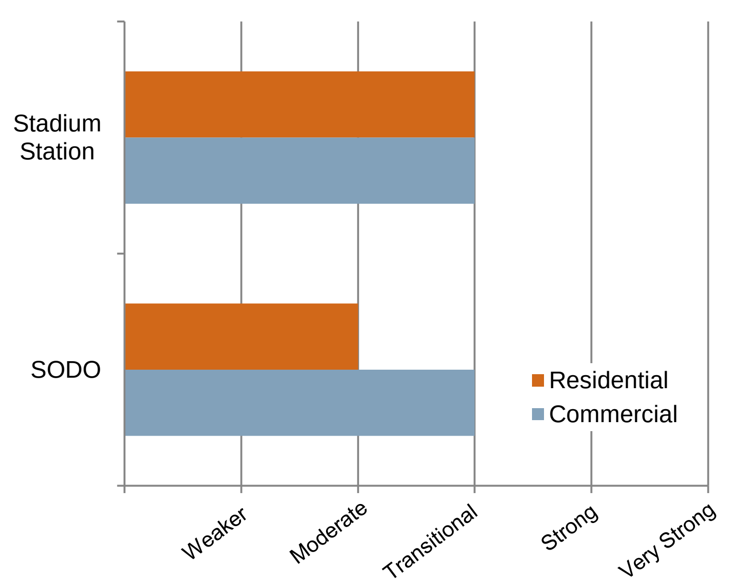


Source: Dupre & Scott; Gardner Economics; Northwest Multiple Listing Service; CBRE Puget Sound Region Marketview, 4Q 2011; CoStar.com; Strategic Economics, 2012.

TOD Potential

The TOD potential of the Industrial Seattle market area is exclusive to the north side of the Stadium Station, including the North parking lot TOD project and the International District, which are both better served by the International District station. While proximity to Downtown Seattle could make this area attractive to higher intensity employment uses, commercial TOD potential in the Industrial Seattle market area south of those locations is limited by the low-density nature of its industrial environment and City policies preserving industrial land. While the area's proximity to Downtown Seattle might generate demand for conversion to higher density commercial uses in the long-term, existing industrial land is unlikely to be rezoned due to the importance of industrial jobs and businesses to the regional economy. New residential development south of Stadium station will also be limited by the availability of suitable opportunity sites.

Residential and Commercial TOD Market Strength Indices



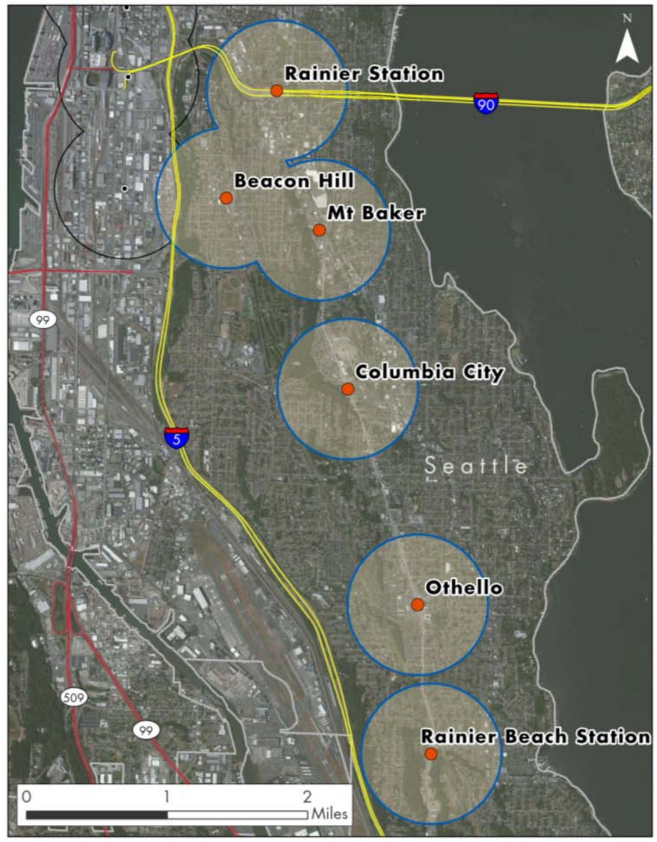
Sources: PSRC; State of Washington; Dupre & Scott; U.S. Census; Gardner Economics; Strategic Economics 2012

TOD Market Area Profile

Southeast Seattle

The Southeast Seattle TOD market area includes the five existing South Corridor Seattle stations located outside of Downtown or SODO, as well as the future East Corridor Rainier Station, to be located in the I-90 alignment. For the most part, these study areas include a mix of single family neighborhoods and large and smaller format strip commercial along the major arterials that bisect Southeast Seattle: Rainier Avenue S. and Martin Luther King, Jr., Way S. The walkability and urban form of the study areas varies from currently TOD-supportive (portions of the Columbia City and Beacon Hill study areas) to weak (Mt. Baker and Rainier Beach study areas). The chief in-fill opportunities in the market area lie with redevelopment of existing low intensity, one and two-story commercial uses that are typically one to two parcels deep along the arterials.

Southeast Seattle Study Areas



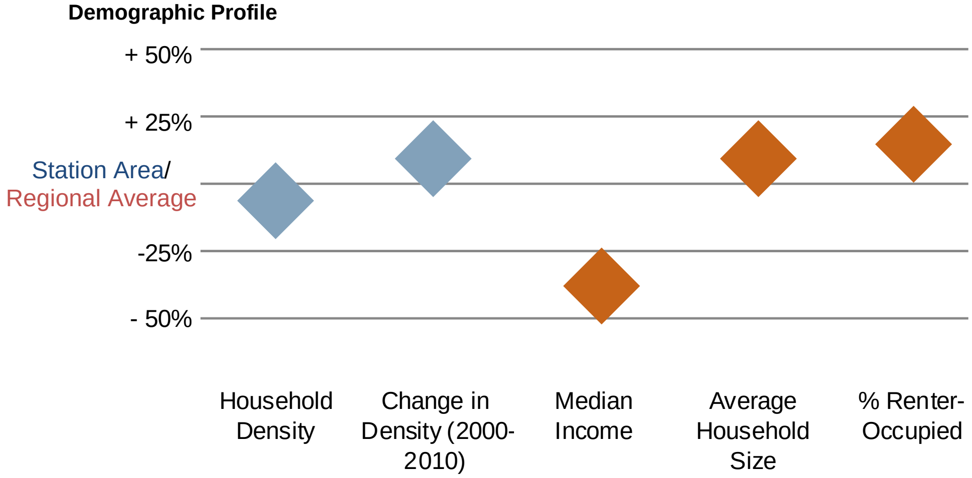
Source: U.S. Census ACS 2005-2010; ESRI; Strategic Economics 2012

Demographics and Growth

Existing gross household densities in the SE study areas are just above system average, in part because existing higher density in-fill multi-family is balanced by commercial development along the arterials, as well as a considerable amount of parklands and other non-developable green space. Household growth in the past decade was considerably stronger than the system average, and indicates the area's strong future neighborhood TOD potential. Southeast Seattle's median household income ($46,000) is lower than the regional median, reflecting the presence of two sizable HOPE IV mixed income housing projects, as well as lower cost, market-rate housing.

Rates of renter occupation (48 percent) are higher than the regional average, while the average household size (2.72) is higher than the region. A number of immigrant communities reside in Southeast Seattle, including those from Southeast Asia, Latin America and East Africa. The Columbia City, Othello and Rainier Beach Stations are home to one of the largest concentrations of foreign-born residents in the entire Seattle region. Historically, the Rainier Valley has attracted waves of immigrant settlers and currently serves as one of the region's main residential enclaves for immigrant communities.

Demographic Profile



Source: U.S. Census; PSRC; Strategic Economics, 2012

Employment

There are no major employment centers in the Southeast Seattle market area, and total employment is low and falling. The Education and Medical and Production, Distribution and Repair industry groups account for the largest share of employment. The Mt. Baker study area in particular has a number of larger PDR and retail businesses that provide a significant number of jobs for lower skill workers. The current employment profile suggests that Southeast Seattle's does not have short-term potential for commercial TOD, beyond small retail and service businesses in ground-floor mixed use configurations.

Employment Profile

Average Total Jobs (By Study Area)	1,117
Average Total Jobs (All Study Areas)	6,510
Growth 2000-2010 (TOD Market Area)	-15.71%
Regional Growth 2000 - 2010	0.27%
Employment Share of Largest Industry	20.8% (Education and Medical)

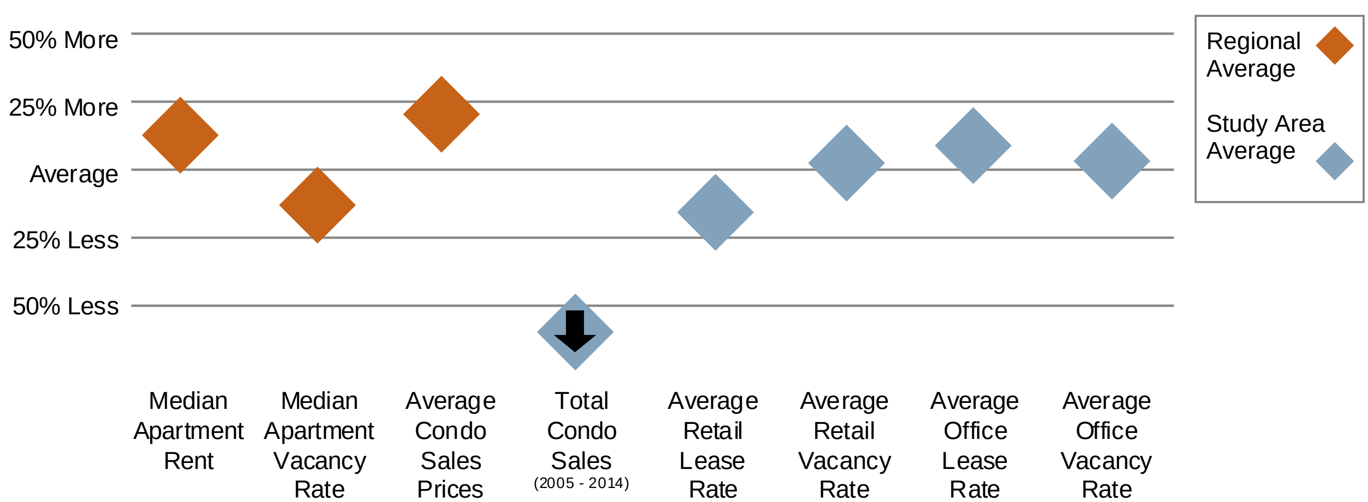
Source: PSRC; Strategic Economics 2012

Market Conditions

The Southeast Seattle TOD housing submarket is slightly stronger than the regional market, with significant potential for short or mid- to long term growth, depending on the study area. Median asking rents above regional norms and a significantly lower vacancy rate suggest demand for rental housing in keeping with the market area's proximity to Downtown Seattle. While average condominium sales price is also higher than the regional average, again due to location, the number of condominium sales is low and reflects the small size of the existing condo market in SE. New apartment units built between 2009 and 2011 are higher than the study area average, while the number of units scheduled for construction in the next two years generally aligns with the study area average. Office market indicators are in keeping with the study area average, while the retail market is weak relative to the other study areas.

Within the TOD market area, there is considerable variation between study areas. In 2010, a 350 unit, mixed-use TOD project was built adjacent to the Othello station, which has several other significant vacant or highly underutilized sites near the station. While the project has struggled with absorption given its size, Othello has strong potential for additional TOD in the mid-term. Columbia City currently has one apartment project under construction, one significant mixed use project in the entitlement pipeline and one very large mixed use, multi-phase project under conception; the area has obvious short-term potential. Beacon Hill also has a mixed use, mixed income project currently under conception; however, the limited availability of appropriate, sizable development sites restricts its over-all TOD potential.

Market Profile



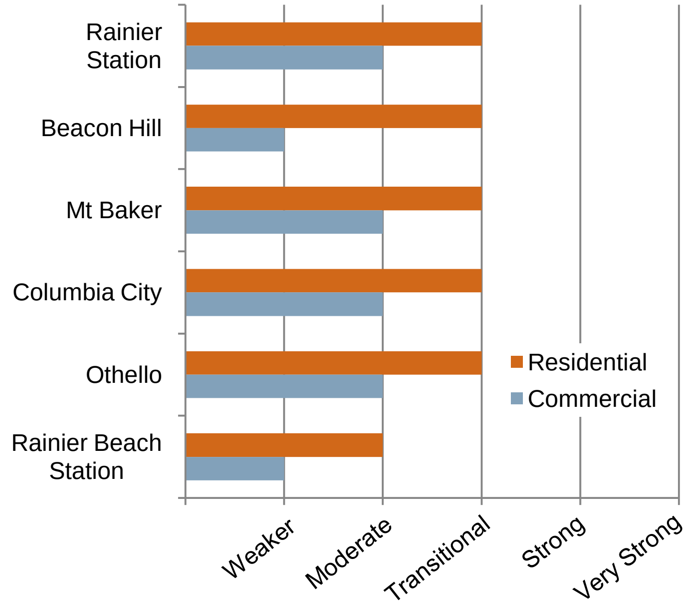
Source: Dupre & Scott; Gardner Economics; Northwest Multiple Listing Service; CBRE Puget Sound Region Marketview, 4Q 2011; CoStar.com; Strategic Economics, 2012.

TOD Potential

The residential market in Southeast Seattle TOD market area is currently in transition, and varies by study area. While Beacon Hill and Rainier Valley did not attract new, market-rate multi-family development for many years, select study areas are seeing recent and pipeline activity. The immediacy of the residential TOD potential largely depends on the urban form and connectivity of the study area, which varies greatly. Commercial TOD is more likely to occur in the mid-to-long term.

For example, the Columbia City study area encompasses the location of an historic streetcar station on the Rainier Trolley and inherits key remnants of the fine-grained urban form of its era. This area has a significant near-term development pipeline that may build from Rainier Avenue toward the station on MLK, Jr. over time. Mt Baker study area, on the other hand, has challenges regarding built form, connectivity and traffic impacts that will require transportation network and pedestrian realm improvements to attract market-rate, higher density development and has more mid- to long-term potential, depending on progress on these issues.

Residential and Commercial TOD Market Strength Indices



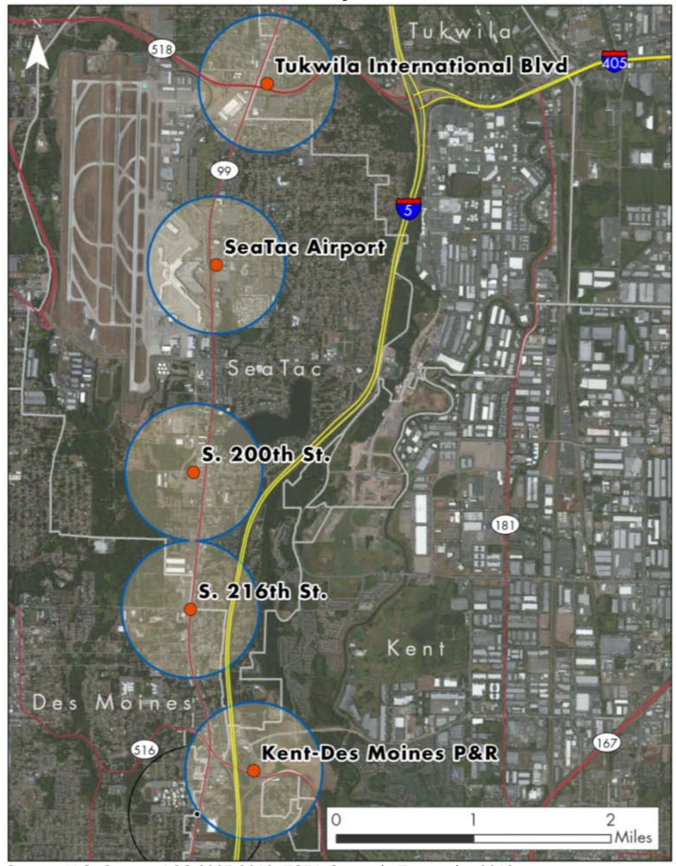
Sources: PSRC; State of Washington; Dupre & Scott; U.S. Census; Gardner Economics; Strategic Economics 2012

Given this market area's proximity to both the Downtown job center and SeaTac, it could have appeal for office TOD in the mid- to long-term, once the office market recovery moves beyond major existing job centers. Its current retail market is a challenge to the financial feasibility of new mixed use development, and reflects both the extent of existing storefront supply along the commercial corridors, as well as the diversity of the local neighborhoods. While the many different immigrant communities clustered in Southeast give it great cultural richness, it is challenging for local-serving businesses to expand beyond serving very small market niches.

TOD Market Area Profile — *Tukwila/SeaTac/Des Moines*

The Tukwila/SeaTac/Des Moines TOD market area contains two existing and three potential study areas, from Tukwila International Boulevard in the north to the Kent-Des Moines Park and Ride study area in the south. Tukwila/SeaTac/Des Moines is home to the Seattle-Tacoma International Airport (SeaTac), a major regional destination which generates significant transit ridership for the existing light rail line. Outside of the airport and its adjacent industrial areas, the market area is characterized by low density residential and commercial uses.

Tukwila/SeaTac/Des Moines Study Areas

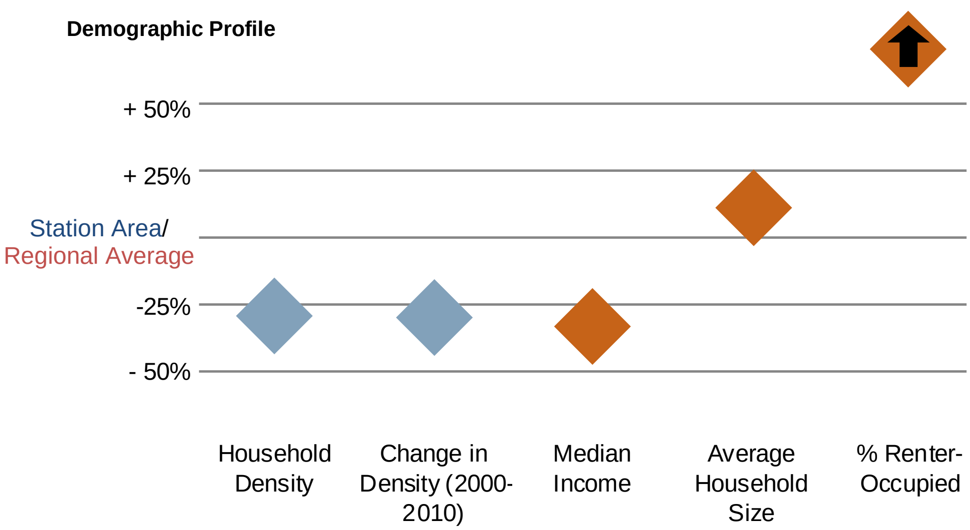


Source: U.S. Census ACS 2005-2010; ESRI; Strategic Economics 2012

Demographics and Growth

Residential density in the Tukwila/SeaTac/Des Moines TOD market area is among the lowest system-wide and experienced a significant decline from 2000 to 2010. Despite this loss in households, the area has one of the region's highest and fastest-growing shares of foreign-born population. The area is also characterized by large and growing household sizes and a higher-than-average share of renter households. The median household income is significantly lower than the regional average and falling. Although low residential densities do not suggest significant potential for TOD, the presence of a large, low-income immigrant community – populations which often ride public transportation and are sometimes transit-dependent – suggests that affordable, residential TOD has the potential to serve the local community well.

Demographic Profile



Source: U.S. Census; PSRC; Strategic Economics, 2012.

Employment Profile

Average Total Jobs (By Study Area)	3,910
Average Total Jobs (All Study Areas)	6,150
Growth 2000-2010 (TOD Market Area)	-21.22%
Regional Growth 2000 - 2010	0.27%
Employment Share of Largest Industry	55.6% (PDR)

Source: PSRC; Strategic Economics 2012

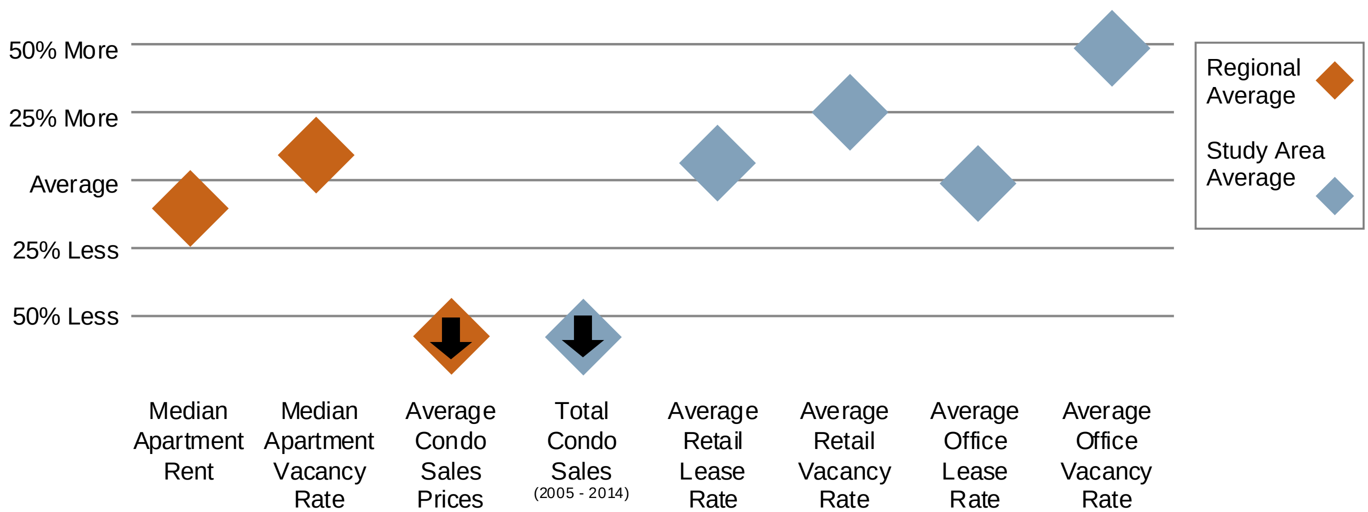
Employment

Employment in the Tukwila/SeaTac/Des Moines TOD market area is concentrated around SeaTac and primarily airport-related, as suggested by the Production, Distribution and Repair (PDR) classification of the majority of the market area's employment. In addition to the airport, the high share of PDR employment reflects the industrial nature of the surrounding area, particularly around the SeaTac and South 200th St. stations. Employment fell significantly from 2000 to 2010, reflecting regional and national trends in PDR employment.

Market Conditions

Current market conditions, including low apartment rents and condominium sales prices, suggest limited short-to-mid term demand for multifamily housing in the Tukwila/SeaTac/Des Moines market area. At present there are no apartment projects planned or proposed for development through 2014. The TOD market area's weak residential market is due in part to the presence of the airport and its associated industrial uses, which inhibit new residential development due to noise and safety concerns in the northern study areas. Although Tukwila/SeaTac/Des Moines contains a significant share of office space, low lease rates and high vacancies indicate that the office market is not performing well. Moderate lease rates and high vacancies also suggest limited demand for new retail space, particularly in the short-to-mid term.

Market Profile

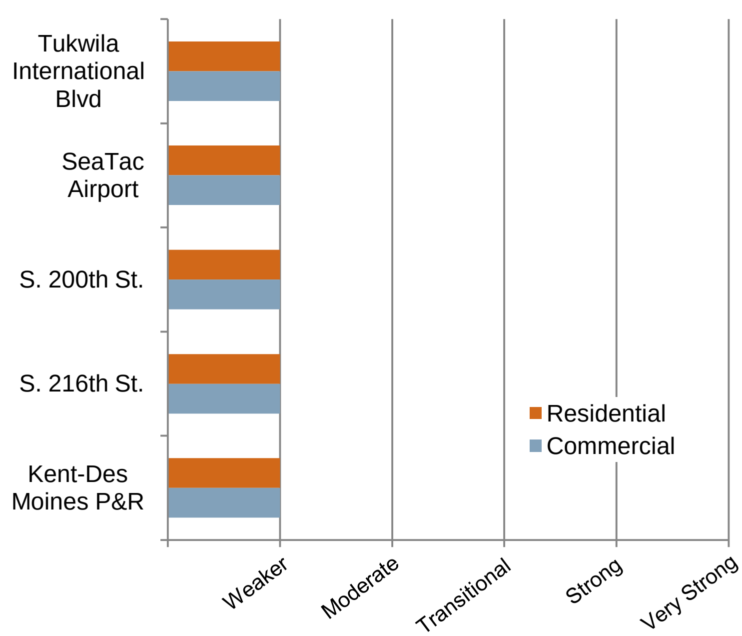


Source: Dupre & Scott; Gardner Economics; Northwest Multiple Listing Service; CBRE Puget Sound Region Marketview, 4Q 2011; CoStar.com; Strategic Economics, 2012.

TOD Potential

Low and falling household densities and income levels, large household sizes and weak market conditions suggest that residential TOD potential in the Tukwila/SeaTac/Des Moines TOD market area is weak in the short-to-mid-term. Even in the long-term, significant infrastructure investments to improve walkability, safety and connectivity within the study areas will be necessary to stimulate substantial market-rate or support subsidized housing development. Although the presence of SeaTac airport generates significant transit ridership for the existing LINK system and exposure for the surrounding area, commercial TOD potential is also limited in the short-to-mid term, in part due to the low-density industrial nature of the market area. High vacancy rates and low lease rates confirm the lack of short-to-mid term market potential. In the long-term, the Tukwila/SeaTac/Des Moines TOD market area is more likely to gain new industrial businesses, which are not typically considered transit-oriented due to their large-format building types and low employment density.

Residential and Commercial TOD Market Strength Indices

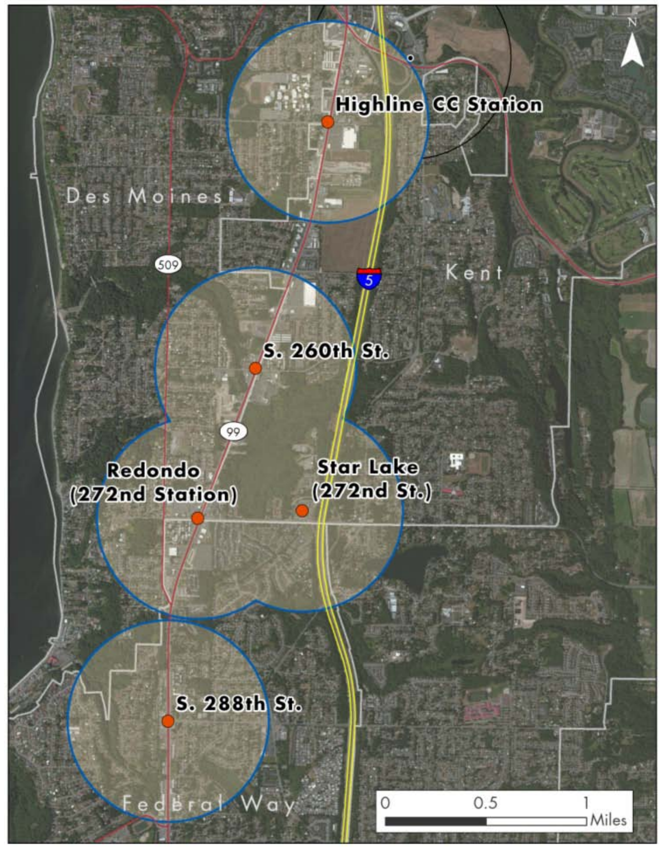


Sources: PSRC; State of Washington; Dupre & Scott; U.S. Census; Gardner Economics; Strategic Economics 2012

TOD Market Area Profile *Des Moines*

The Des Moines TOD market area includes five study areas, from Highline Community College in the north to South 288th Street in the south. Outside of Highline Community College, which is the market area's primary destination serving more than 17,000 students, the Des Moines TOD market area is characterized by auto-oriented commercial uses and a mix of residential uses ranging from low-density single family homes to outdated multifamily housing.

Des Moines Study Areas

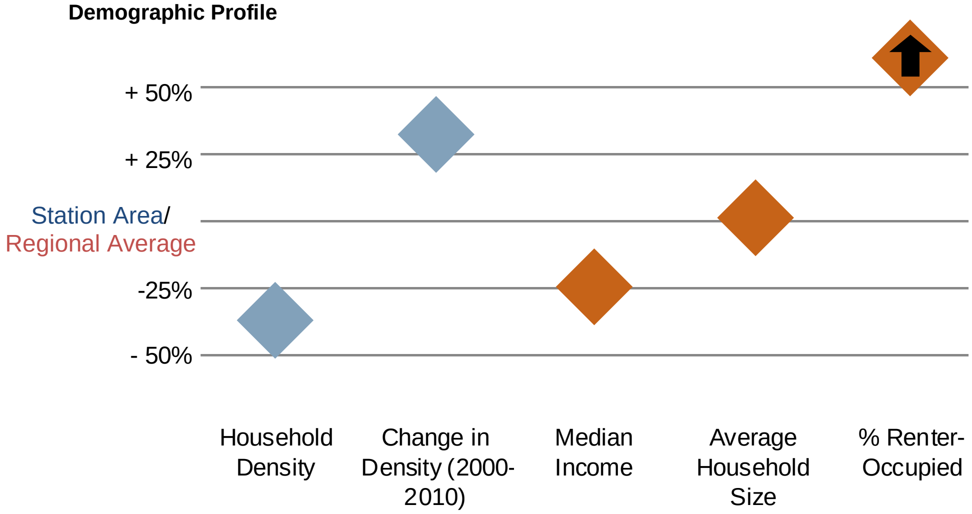


Source: U.S. Census ACS 2005-2010; ESRI; Strategic Economics 2012

Demographics and Growth

Although the Des Moines TOD market area is relatively low density, it has experienced moderate household growth since 2000. Household sizes are large and rising, despite a high share of rental households. Conversely, median incomes in the market area are low compared to the region and have declined since 2000. The market area has a relatively large foreign-born born population, which accounted for some of the household growth from 2000 to 2010. The combination of low household densities, low incomes and large household sizes suggests limited demand for TOD in the short-to-mid term, although rising household densities may indicate some demand in the longer-term.

Demographic Profile



Source: U.S. Census; PSRC; Strategic Economics, 2012.

Employment Profile

Average Total Jobs (By Study Area)	726
Average Total Jobs (All Study Areas)	6,510
Growth 2000-2010 (TOD Market Area)	3.92%
Regional Growth 2000 - 2010	0.27%
Employment Share of Largest Industry	33.1% (Government/ Education)

Source: PSRC; Strategic Economics 2012

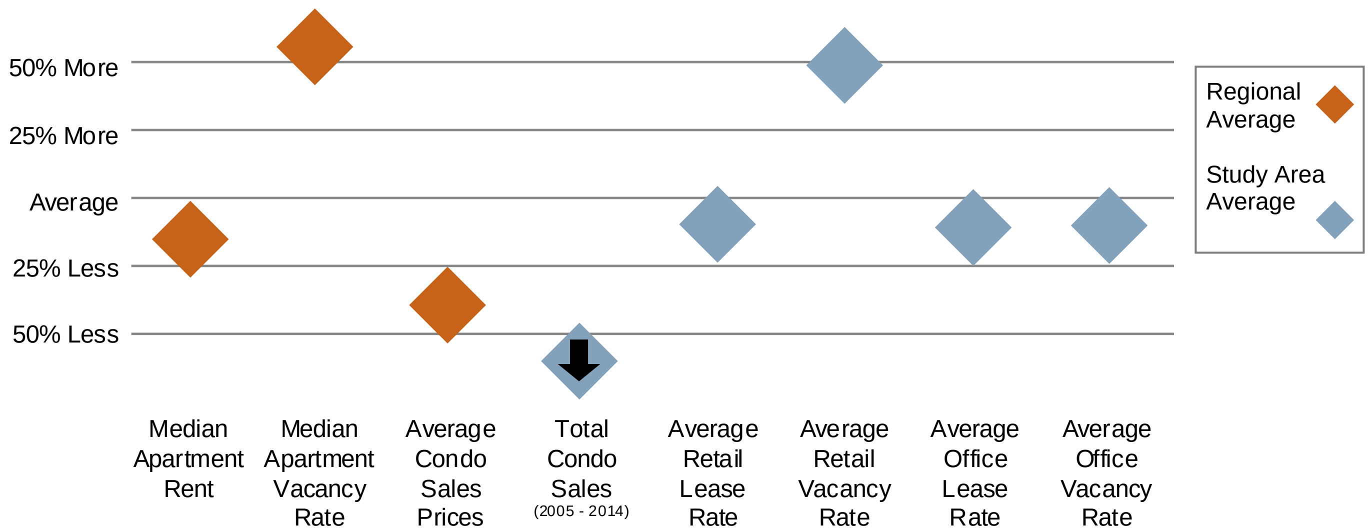
Employment

The Des Moines market area contains few jobs – just over one-tenth of the system-wide average. The Government/Education sectors account for the market area's largest share of employment and the majority of jobs are concentrated around the Highline Community College station, which suggests that the community college is the market area's largest employer. Although the market area has experienced some employment growth since 2000, given low local employment levels this percentage of employment growth (3.92 percent) does not translate into a large increase in actual jobs.

Market Conditions

Low rents and very high vacancy rates indicate that the Des Moines TOD market area has limited potential for apartment development in the short-to-mid term. Low condo sales prices and historic sales suggest that the for-sale market is similarly weak. Although office vacancy rates in the Des Moines TOD market area are low, the area also has the smallest average share of commercial office space in the system. The small amount of existing office space combined with low lease rates suggests a limited market for new office development in the short-to-mid term. Low retail lease rates and high retail vacancy rates indicate similarly low potential for new retail development.

Market Profile



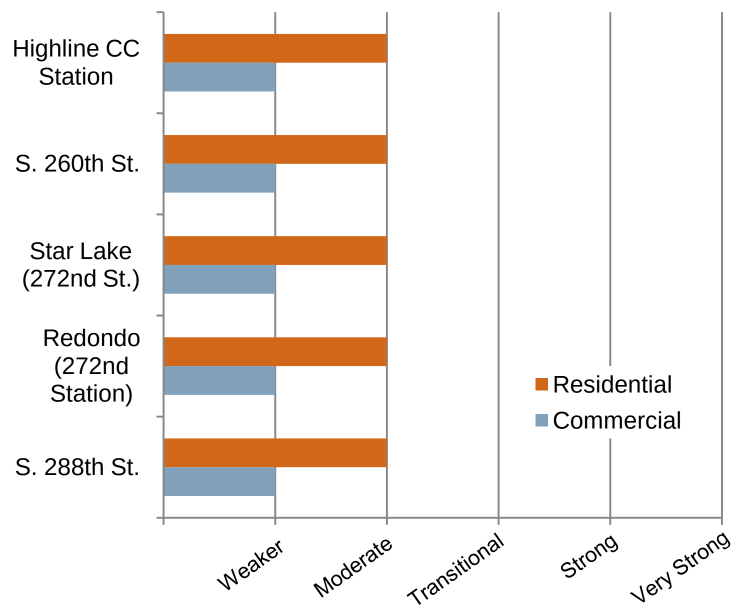
Source: Dupre & Scott; Gardner Economics; Northwest Multiple Listing Service; CBRE Puget Sound Region Marketview, 4Q 2011; CoStar.com; Strategic Economics, 2012.

TOD Potential

The Des Moines TOD market area has little potential for higher density residential development in the short-to-mid term, as evidenced by the current lack of planned and proposed apartment projects. The Highline Community College study area is most likely to attract student-oriented rental housing when the market returns, which will likely be in the mid-to-long-term. As with the region, the condominium market will trail the apartment market.

The lack of existing office space, combined with the residential and educational nature of the market area, suggests that the Des Moines TOD market area is unlikely to attract higher density office uses even in the long-term. New office and retail development will be limited to neighborhood-serving uses and limited in scale.

Residential and Commercial TOD Market Strength Indices



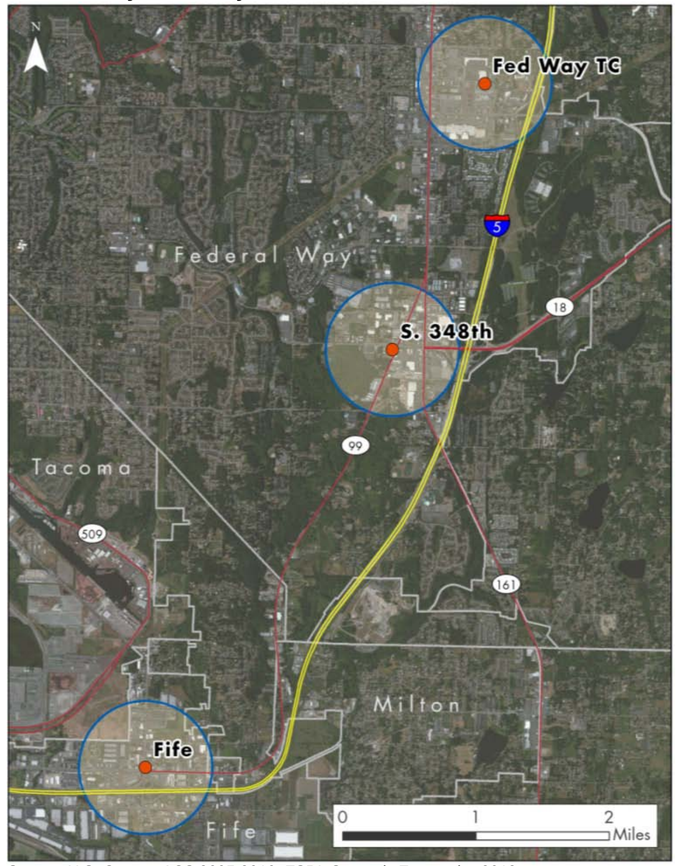
Sources: PSRC; State of Washington; Dupre & Scott; U.S. Census; Gardner Economics; Strategic Economics 2012

TOD Market Area Profile

Federal Way/Fife

The Federal Way/Fife TOD market area contains three potential stations: Federal Way Transit Center, South 348th Street and Fife. The study areas are primarily characterized by low-density, auto-oriented retail uses, such as the Wal-Mart at South 348th Street or Federal Commons at Federal Way Transit Center.

Federal Way/Fife Study Areas

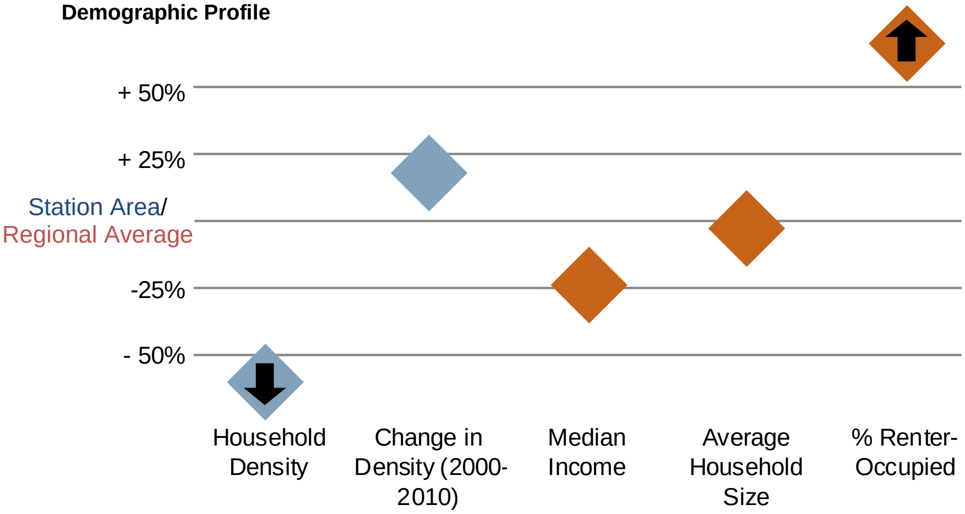


Source: U.S. Census ACS 2005-2010; ESRI; Strategic Economics 2012

Demographics and Growth

Although residential densities in the Federal Way/Fife TOD market area have grown since 2000, they remain extremely low compared to the system. The relatively low residential densities in this market area are largely a function of its land uses; most of the study areas are comprised of commercial uses, leaving little space for residential development. Although median incomes are moderately low, they have increased in most parts of the market area since 2000. Average household sizes are slightly lower than the regional average and increasing over time. The majority of Federal Way/Fife households are renter-occupied. Like much of the South corridor, the share of foreign-born population in the Federal Way/Fife TOD market area has increased since 2000.

Demographic Profile



Source: U.S. Census; PSRC; Strategic Economics, 2012.

Employment Profile

Average Total Jobs (By Study Area)	4,411
Average Total Jobs (All Study Areas)	6,510
Growth 2000-2010 (TOD Market Area)	-7.47%
Regional Growth 2000 - 2010	0.27%
Employment Share of Largest Industry	22.7% (Entertainment)

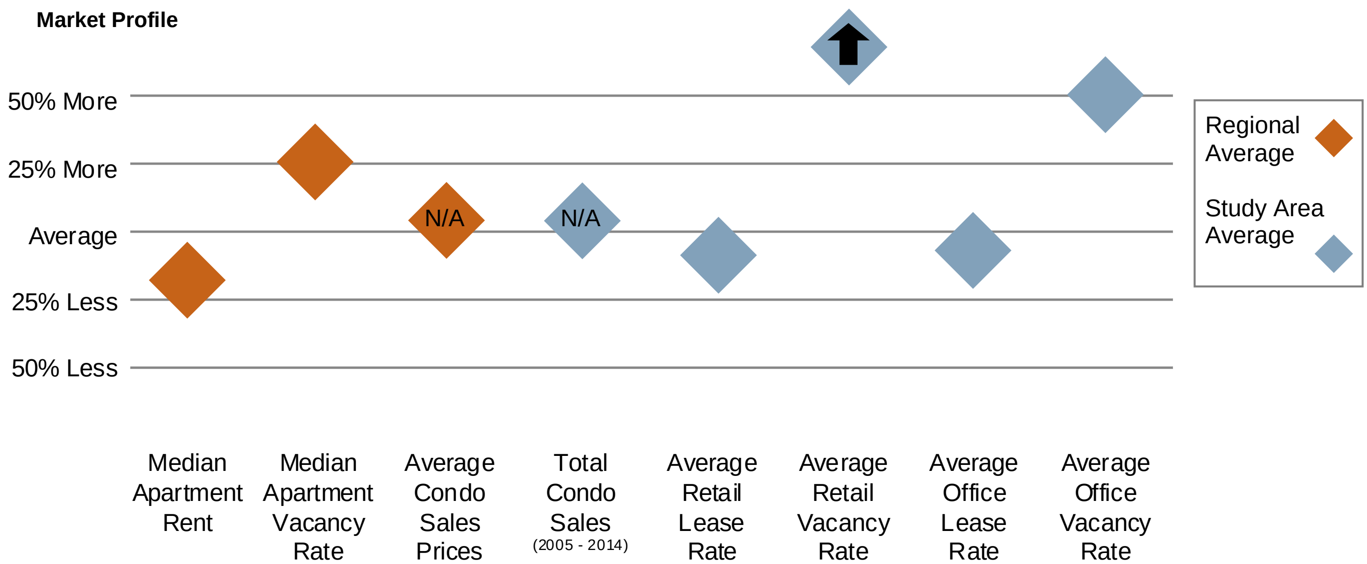
Source: PSRC; Strategic Economics 2012

Employment

The Federal Way/Fife TOD market area contains a moderate amount of employment (about two-thirds of the study area average), primarily in the Entertainment and Retail categories. Retail and Entertainment employment is consistent with the commercial, auto-oriented nature of the study areas. The Federal Way/Fife market area has experienced moderate employment loss –primarily in the retail and PDR sectors - since 2000. Employment is distributed evenly among the three proposed study areas, with Retail employment concentrated around Federal Way Transit Center and South 348th Street and PDR employment located around the Fife study area.

Market Conditions

Low apartment rents and high vacancy rates indicate that there is limited apartment demand in the Federal Way/Fife TOD market area. In addition, no new multifamily rental units were built from 2009 to 2011 and there are no planned and proposed units in the pipeline. Similarly, there were no condominium sales from 2005 through the first quarter of 2012, suggesting a very limited market for new condominium development. Average retail lease rates are low and vacancy rates are high, which suggests limited demand for new retail development in the mid-to-long term. When new development does occur, it will most likely be of the auto-oriented variety already located around the proposed study areas. Moderate office lease rates and extremely high vacancy rates indicate limited demand for new office development in the market area.

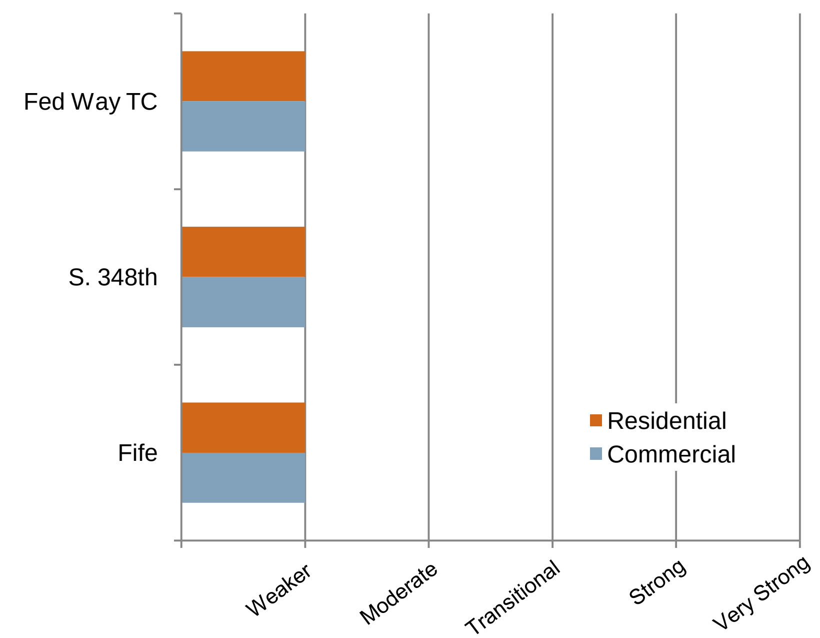


Source: Dupre & Scott; Gardner Economics; Northwest Multiple Listing Service; CBRE Puget Sound Region Marketview, 4Q 2011; CoStar.com; Strategic Economics, 2012.

TOD Potential

TOD potential in the Federal Way/Fife TOD market is currently weak. The study areas are characterized by low density, auto-oriented commercial businesses, which are unlikely to redevelop into a higher density mix of uses in the short-to-mid term. In the longer term, sizable infrastructure investments and economic development are necessary to stimulate new transit-oriented development in the study areas. TOD potential in this market area is intrinsically linked to Downtown Tacoma, the closest employment center. If Downtown Tacoma is able to attract significant new employment, it has the potential to generate new residential demand both in the Downtown and in the Federal Way/Fife TOD market area. Current market conditions and employment trends suggest this kind of market dynamic is a longer-term prospect. In the short-to-mid term, any new development is likely to be auto-oriented commercial in nature, and not supportive of transit.

Residential and Commercial TOD Market Strength Indices



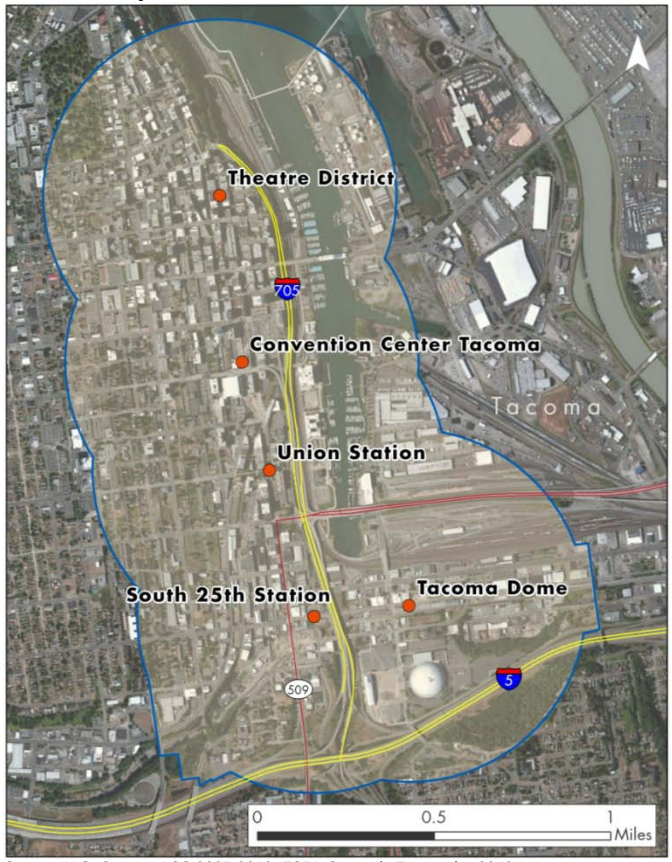
Sources: PSRC; State of Washington; Dupre & Scott; U.S. Census; Gardner Economics; Strategic Economics 2012

TOD Market Area Profile

Tacoma

The Downtown Tacoma TOD market area contains five study areas, from the Theatre District in the north to the Tacoma Dome in the south. Downtown Tacoma is characterized by an urban, walkable environment and historic building stock. It is also home to the Tacoma Campus of the University of Washington and several prominent museums, including the Museum of Glass, the Tacoma Art Museum and the Washington State History Museum.

Tacoma Study Areas

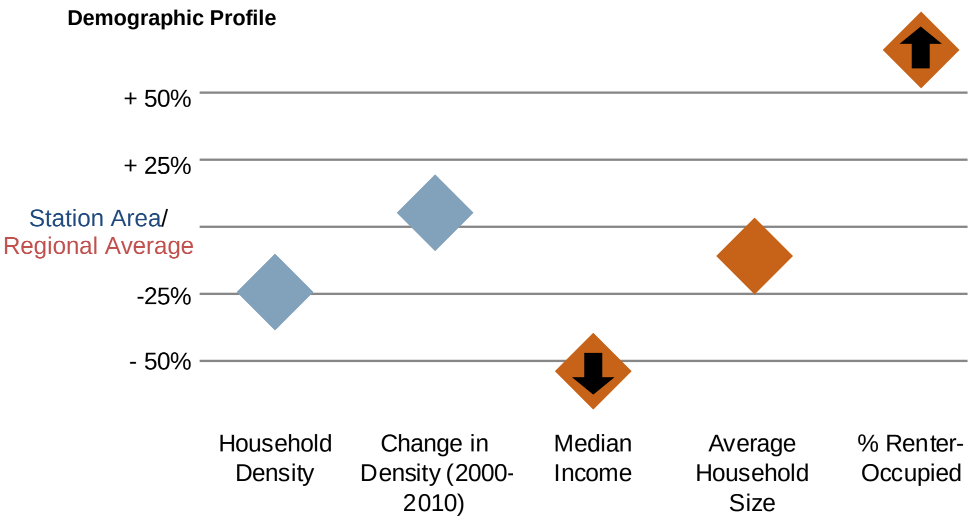


Source: U.S. Census ACS 2005-2010; ESRI; Strategic Economics 2012

Demographics and Growth

Household densities in the Downtown Tacoma TOD market area are moderately low, primarily due to the presence of the Foss Waterway and associated industrial uses in the east of several stations areas. Densities are higher to the west of the study areas and have grown significantly since 2000. Consistent with the high share of renter-occupied households, household sizes are low and falling. Although median incomes are quite low compared to the region, in part due to the amount of subsidized affordable housing in the area, they increased significantly from 2000 to 2010 in census tracts closest to the transit stations. The increase in densities and household incomes in the most urban parts of Downtown Tacoma reflect the addition of higher-cost rental and for-sale housing over the past two decades. The share of foreign-born residents in Downtown Tacoma is low compared to the region and has been on the decline since 2000.

Demographic Profile



Source: U.S. Census; PSRC; Strategic Economics, 2012.

Employment Profile

Average Total Jobs (By Study Area)	4,135
Average Total Jobs (All Study Areas)	6,510
Growth 2000-2010 (TOD Market Area)	-13.00%
Regional Growth 2000 - 2010	0.27%
Employment Share of Largest Industry	27.8% (Knowledge-based)

Source: PSRC; Strategic Economics 2012

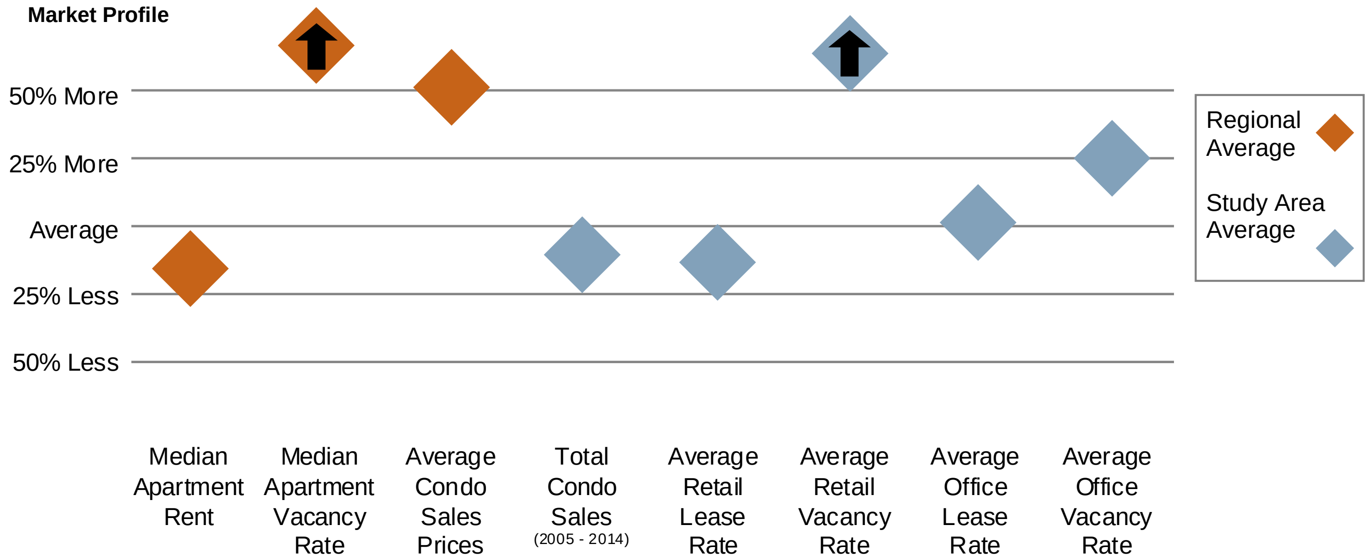
Employment

Like household density, employment density in Downtown Tacoma appears lower because of the Foss Waterway and its associated low-density industrial uses in the eastern portion of several study areas. Although Production, Distribution and Repair (PDR) uses do account for 19.2 percent of market area employment, Knowledge-based industries are the largest employer in Downtown Tacoma, primarily located in the higher density, western part of the study areas. Employment in Downtown Tacoma has declined since 2000, primarily in the area's largest employers, the Knowledge-based and PDR industry groups.

Market Conditions

Residential market conditions in the Downtown Tacoma TOD market area suggest limited demand for new development in the short term. Although historic condominium sales prices were high, condominium sales came to a halt when the housing bubble burst in 2007. Many multifamily for-sale units have since been converted to rental. Although some developers report that the apartment market in Downtown Tacoma is starting to show signs of life, low rents and high vacancy rates indicate that the market remains weak in the short-term. Commercial market conditions also indicate weak office and retail markets with higher than average vacancy rates and low lease rates.

Market Profile

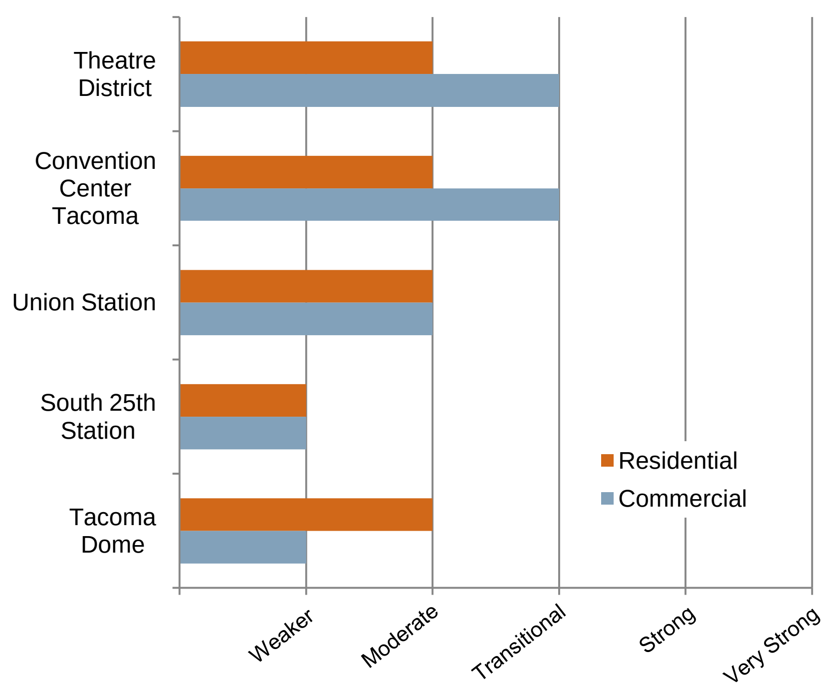


Source: Dupre & Scott; Gardner Economics; Northwest Multiple Listing Service; CBRE Puget Sound Region Marketview, 4Q 2011; CoStar.com; Strategic Economics, 2012.

TOD Potential

Although current market conditions in the Downtown Tacoma TOD market area are weak, Downtown Tacoma has potential for residential and commercial TOD in the mid-to-long term. Factors such as the Downtown's strong urban form, historic buildings and recent investments such as the University of Washington campus play an important role in attracting new investment, as evidenced by the moderate levels of recent and planned apartment construction in the area despite lower rents and higher vacancy rates. The existing and growing concentration of transit-supportive employment also suggests additional demand for commercial space in the mid-to-long term. Continued economic development and investment in the Downtown will be critical to the realization of the area's TOD potential.

Residential and Commercial TOD Market Strength Indices



Sources: PSRC; State of Washington; Dupre & Scott; U.S. Census; Gardner Economics; Strategic Economics 2012

IV. APPENDICES

APPENDIX A: GARDNER ECONOMICS MARKET RATE APARTMENT HOUSING MEMO

MEMORANDUM

DATE: Wednesday, March 28, 2012

TO: Ms. Shanti Breznau
Principal
STRATEGIC ECONOMICS

FROM: GARDNER ECONOMICS LLC

SUBJECT: MARKET RATE APARTMENT HOUSING WITHIN THE EXISTING/PROPOSED LIGHT RAIL CORRIDORS

GARDNER ECONOMICS has been retained by Strategic Economics to prepare a study of areas that surround current and proposed light rail stations within the Central Puget Sound region.

In order to undertake this study, Gardner Economics gathered data on market rate apartment projects within sub-markets that touched proposed, as well as existing, station areas. Specific geographies were as follows:

1. East Alignment – Mercer Island, Bellevue East, Bellevue West and Redmond;
2. North Alignment – Lynnwood, Shoreline (part), Mountlake Terrace, Paine Field, Mill Creek, Silver Creek and Central Everett;
3. South Alignment – Fife/Milton, Downtown Tacoma, Mid Tacoma and South Tacoma;
4. North Central Alignment – Downtown Seattle, Capitol Hill, Central District, First Hill, Greenlake/Wallingford, University District, North Seattle and Shoreline (part); and
5. South Central Alignment – Beacon Hill, Rainier Valley, SeaTac; Riverton/Tukwila, Federal Way, Kent, Des Moines and Auburn.

The following memorandum and exhibit package represents our findings relative to the task outlined above.

SUMMARY

The apartment market within the central Puget Sound market has exhibited improving fundamentals for the past several years. After a period of overbuilding earlier in the decade, construction slowed dramatically as developers' interests turned to building condominiums rather than income properties. Lack of development was exacerbated by the conversion of hundreds of existing apartment units to condominiums. Following the busting of the housing bubble, and a period of stagnant development activity as capital all but dried up, many proposed condominium projects are now being resurrected as apartment developments. As such, we now anticipate the delivery of an additional 2,358 units to market in 2012 and a further 5,987 units in 2013.

Vacancy rates in all the sub-markets analyzed are stable and are expected to stay that way through the end of 2012 with rents rising accordingly.

The following represents our findings relative to the various component alignments.

NORTH CENTRAL ALIGNMENT

Within this alignment, the survey comprised 26,084 units of market rate apartment housing within 402 buildings. Market vacancy rates were measured at 3.62 percent with gross vacancy rates of 3.88 percent. Average monthly rent was measured at $1,199 or $1.72 per net rentable square foot. Over the past 5-year period, 5,617 units within 81 projects have been added to the stock. Rents within all development have risen by 21% over the past 5-years.

The following is a breakdown of the unit distribution within the selected developments.

Studio Units – we identified 6,208 studio units within 265 developments. Average monthly rent was calculated at $910 and market vacancy rates were measured at 3.49%. Unsurprisingly, studio units within the Downtown/Belltown sub-market were achieving the highest rent at $1,025 per month. The cheapest rents were found at developments within the Shoreline station areas and were measured at $675 per month.

1-Bedroom Units – we identified 12,488 one bedroom units within the North Central Study area and rents were averaging $1,138 per month. Unsurprisingly, the Downtown/Belltown sub-market garnered by far the highest rents with an average monthly cost of $1,507. The cheapest area was Shoreline with rents averaging $761 per month.

2-Bedroom, 1-Bath Units – there were 3,296 units in the survey that were garnering an average rent of $1,234 per month and had a vacancy rate 3.42%. Again the Downtown/Belltown sub-market garnered the highest rents that averaged $1,783 per month. Shoreline was the cheapest at $900 per month.

2-Bedroom, 2-Bath Units – there were 3,140 units within our survey and rents averaged $1,778 per month. The Downtown/Belltown units were the most expensive averaging $2,467 while Shoreline averaged $972.

3-Bedroom, 2-Bath Units – there were just 435 units in our survey that averaged monthly rents of $1,831. Vacancy rates were measured at 4.46%. The Belltown/Downtown sub-market was again the most expensive averaging $3,320 per month while Shoreline garnered $1,298 per month.

In all, there were few surprises when analyzing the North Central corridor. That said, we were interested to note that, after the core Downtown sub-market, the next most expensive rents were found in station areas proximate to the Greenlake/Wallingford sub-market. One might have assumed that other sub-markets that were more proximate to downtown would have achieved higher rents but this was not the case.

From a development perspective, it is clear that the downtown/Belltown station areas have the greatest amount of new development. At the time of our survey we identified that 548 units are to be delivered in 2012, followed by 2,666 in 2013 and 1,532 in 2014.

The least amount of development activity was found in the North Seattle station areas where just 37 units are scheduled for delivery in 2014.

SOUTH CENTRAL ALIGNMENT

Within this alignment, the survey comprised 13,640 units of market rate apartment housing within 107 buildings. Market vacancy rates were measured at 5.4 percent with gross vacancy rates of 6.99 percent. Average monthly rent was measured at $844 or $1.02 per net rentable square foot. Over the past 5-year period, 1,873 units within 13 projects have been added to the stock. Rents within all development have risen by 14% over the past 5-years.

The following is a breakdown of the unit distribution within the selected developments.

Studio Units – we identified 874 studio units within 27 developments. Average monthly rent was calculated at $689 and market vacancy rates were measured at 4.9%. Studio units in the Rainier Valley station areas were achieving the highest rent at $1,001 per month. The cheapest rents were found at developments within the SeaTac station areas and were measured at $559 per month.

1-Bedroom Units – we identified 5,058 one bedroom units within the South Central alignment where rents averaged $717 per month. The Beacon Hill station areas garnered the highest rents with an average monthly cost of $853. The cheapest area was again within the SeaTac station areas where rents averaged $650 per month.

2-Bedroom, 1-Bath Units – there were 3,198 units in the survey that were averaging $860 per month and had a vacancy rate 5.89%. The Rainier Valley station garnered the highest rents averaging $1,038 but this was closely followed by the Auburn station areas where average rents were measured at $1,037 per month. The SeaTac station area was the cheapest, averaging $782 per month.

2-Bedroom, 2-Bath Units – there were 3,165 units within our survey and rents averaged $956 per month. The Rainier Valley station areas were the most expensive averaging $1,491 while SeaTac was the lowest averaged $859 per month.

3-Bedroom, 2-Bath Units – there were 1,257 units in our survey – we would note the higher number of three bedroom units here relative to the North Central alignment which might suggest that there is a higher propensity for families to rent in this alignment than in the North Central alignment. Rents here averaged $1,138 and vacancy rates were measured at 5.09%. The Riverton/Tukwila station areas were the most expensive averaging $1,298 per month while the cheapest were again found in SeaTac at $976 per month. There were no 3-bedroom units styles found in either the Beacon Hill or Rainier Valley station areas.

In aggregate, the highest rents were found in Auburn where monthly rents averaged $1,077. This was a little surprising but the market supply was fairly small at 784 units within just 4-projects.

Vacancy rates were somewhat elevated in the two bedroom unit types within South Central Corridor but, that said, all unit types were considered stabilized.

From a development perspective, there were just 168 units delivered in 2010 and 351 in 2011. Developments that are scheduled for upcoming completion comprise 172 in 2012, 123 in 2013 and none in 2014.

Development activity is most prevalent around the Beacon Hill station areas (171 units) and the Rainier Valley station areas where 124 units are scheduled for delivery in 2012.

EAST ALIGNMENT

Our survey of the East alignment comprised 19,161 units of market rate apartment housing within 118 buildings. Market vacancy rates were measured at 4.37%. Average monthly rent was measured at $1,329 or $1.49 per net rentable square foot. Over the past 5-year period, 3,695 units within 13 projects have been added to the stock. Rental rates within all development have risen by 20% over the past 5-years.

The following is a breakdown of the unit distribution within the selected developments.

Studio Units – we identified 1,631 studio units within 49 developments. Average monthly rent was calculated at $962 and market vacancy rates were measured at 3.94%. Studio units in the Mercer Island station area were achieving the highest rent at $1,082 per month. The cheapest rents were found at developments within the East Bellevue station areas and were measured at $772 per month.

1-Bedroom Units – we identified 7,469 one bedroom units within the East alignment where rents averaged $1,163 per month. Vacancy rates were measured at 3.92%. The West Bellevue station areas garnered the highest rents with an average monthly cost of $1,403. The cheapest area was again within the East Bellevue station areas where rents averaged $966 per month.

2-Bedroom, 1-Bath Units – there were 2,786 units in the survey that were averaging $1,228 per month and had a vacancy rate 4.4%. The West Bellevue station areas garnered the highest rents averaging $1,535 and this was followed by the Mercer Island station area where average rents were measured at $1,469 per month. The East Bellevue station areas were the cheapest, averaging $1,117 per month.

2-Bedroom, 2-Bath Units – there were 5,815 units within our survey and rents averaged $1,576 per month. Vacancy was measured at 5.08%. The Mercer Island station area was the most expensive averaging $2,037 while the cheapest rents were seen in East Bellevue where the average was $1,316 per month.

3-Bedroom, 2-Bath Units – there were 1,129 units in our survey within 44 developments. In this alignment, rents averaged $1,785 and vacancy rates were measured at 5.33%. The West Bellevue station areas were the most expensive averaging $2,769 per month and this was again followed by Mercer Island where rents averaged $2,617. The cheapest units were again found in the East Bellevue station areas at $1,498.

The highest aggregated rents were found in West Bellevue where monthly rents averaged $1,548 – much of this a function of failed condominium developments converting to apartments. This was closely followed by Mercer Island at an average monthly rent of $1,540. Vacancy rates were stabilized across all station areas with the Mercer Island station area exhibiting the highest vacancy but still at a respectable 5.6%.

From a development perspective, there were 1,679 units delivered in 2009, 1,608 in 2010 but just 74 in 2011. A vast majority of the new supply came around the West Bellevue station areas, again a function of condominiums converting to apartments. Going forward, we expect delivery of an additional 66 units in 2012, increasing to 1,088 in 2013 but dropping back to 422 in 2014. Again, the West Bellevue station areas will see the largest amount of new construction activity.

The least amount of new development scheduled to commence was found in the East Bellevue station areas where there are just 174 units set for delivery between now and 2014. This is generally due to the more suburban single-family orientation of the area.

NORTH ALIGNMENT

Our survey of the North alignment comprised 21,034 units of market rate apartment housing within 159 buildings. Market vacancy rates were measured at 5.18 percent with gross vacancy rates of 5.32 percent. Average monthly rent was measured at $905 or $1.03 per net rentable square foot. Over the past 5-year period, 1,831 units within 29 projects have been added to the stock. Rents within all development have risen by 13% over the past 5-years.

The following is a breakdown of the unit distribution within the selected developments.

Studio Units – we identified 341 studio units within 19 developments. Average monthly rent was calculated at $652 and market vacancy rates were measured at 3.63%. Studio units were not present in the station areas within Mill Creek or Mountlake Terrace. The highest rents were found around the Central Everett station areas and were measured at $847 per month. The cheapest rents were found at developments within the Paine Field station area and were measured at $604 per month.

1-Bedroom Units – we identified 7,382 one-bedroom units within the North alignment where rents averaged $782 per month. Vacancy rates were measured at 5.19%. The Mill Creek station areas garnered the highest rents with an average monthly cost of $999. The cheapest area was around Paine Field where rents averaged $732 per month.

2-Bedroom, 1-Bath Units – there were 5,259 units in the survey that were averaging $869 per month and had a vacancy rate 4.48%. The Shoreline station areas garnered the highest rents averaging $1,050 and this was followed by the Mill Creek station area where average rents were measured at $1,039 per month. The Everett station areas were the cheapest for 2-bedroom, 1 bath units which averaged $797 per month.

2-Bedroom, 2-Bath Units – there were 6,177 units within our survey and rents averaged $1,011 per month. Vacancy was measured at 5.45%. The Mill Creek station area was the most expensive averaging $1,254 while the cheapest rents were seen in the Paine Field sub-market where the average was $933 per month.

3-Bedroom, 2-Bath Units – there were 1,765 units in our survey within 63 developments. In this alignment, rents averaged $1,194 and vacancy rates were measured at 6.72%. The Shoreline station areas were the most expensive averaging $1,566 per month. The cheapest units were again found in the Paine Field station area at $1,114.

The highest aggregated rents were found in the Mill Creek Station area where monthly rents averaged $1,158. This was followed by the Shoreline station areas at an average monthly rent of $1,060. Vacancy rates were basically stabilized across all station areas but the Central Everett station areas showed a relatively high vacancy rate of 6.6%.

From a development standpoint, there were just 132 units delivered in 2009, 22 in 2010 and 211 in 2011. A vast majority of the new supply (36%) came around the Central Everett station areas. Looking forward, we expect delivery of an additional 327 units in 2012, dropping to 245 in 2013 and there are no scheduled new projects set to come on-line in 2014.

We would note that, during the 6-year period between 2009 and 2014, the Mountlake Terrace, Paine Field and Silver Lake station areas did not, and are not scheduled to, see any development activity at all.

South Alignment

Our survey of the South alignment comprised just 4,618 units of market rate apartment housing within 58 buildings – this represents the smallest number of units in any alignment. Market vacancy rates were measured at 6.2 percent with gross vacancy rates of 6.52 percent. Average monthly rent was measured at $838 or $1.14 per net rentable square foot. Over the past 5-year period, 969 units within 11 projects have been added to the stock. Rents within all development in the South Alignment have risen by 15% over the past 5-years.

The following is a breakdown of the unit distribution within the selected developments.

Studio Units – we identified 745 studio units within 33 developments. Average monthly rent was calculated at $639 and market vacancy rates were measured at 6.44%. The highest rents for this style of unit were found around the South Tacoma station area and were measured at $855 per month. The cheapest rents were found at developments within the Mid-Tacoma station area and were measured at $519 per month.

1-Bedroom Units – we identified 2,114 one-bedroom units within the South alignment where rents averaged $792 per month. Vacancy rates were measured at 5.19%. The Downtown Tacoma station area garnered the highest rents with an average monthly cost of $867. The cheapest area was again in the Mid-Tacoma station area where rents averaged $576 per month.

2-Bedroom, 1-Bath Units – there were 970 units in the survey that were averaging $853 per month and had a vacancy rate 6.43%. The Downtown Tacoma station area garnered the highest rents averaging $973 per month. The Mid-Tacoma station area was the cheapest for 2-bedroom, 1 bath units which averaged $635 per month.

2-Bedroom, 2-Bath Units – there were 607 units within our survey and rents averaged $1,110 per month. The Downtown Tacoma station area was the most expensive averaging $1,286 while the cheapest rents were seen in the Fife/Milton station area where the average was $943 per month.

3-Bedroom, 2-Bath Units – there were 163 units in our survey within 11 developments. In this alignment, rents averaged $1,194 and vacancy rates were measured at 5.52%. The Downtown Tacoma station area was the most expensive averaging $1,691 per month. The cheapest units were found in the Fife/Milton station area at $1,207. We would note that the Downtown Tacoma and Fife/Milton station areas were the only ones that had 3-bedroom units.

The highest aggregated rents were found in the South Tacoma station area where monthly rents averaged $946. This was followed by the Downtown Tacoma station areas at an average monthly rent of $881. Vacancy rates were stabilized across all station areas other than the Mid-Tacoma station are where occupancy was measured at 87.3%.

From a development standpoint, there were no units delivered in 2009, 78 in 2010 and 50 in 2011. All of the new supply came around the Downtown Tacoma station area. Looking forward, we expect delivery of an additional 163 units in 2012 (all in the mid-Tacoma station area), dropping to 69 in 2013 and there are no scheduled new projects set to come on-line in 2014.

We would note that, during the 6-year period between 2009 and 2014, the Fife/Milton station area did not, and is not scheduled to, see any development activity at all.

CONCLUSIONS

In aggregate, all of the station areas where development was found are performing well. They are all, essentially, stable relative to occupancy and rents have been rising over the mid-term. Some alignments, specifically the South, are not likely to see substantial development along the entire line and it can be inferred that this is due to market rents being at levels that do not support new construction. This is also basically true for the North alignment; however, the southernmost station areas (i.e. Lynwood and Shoreline) will likely see development occur earlier than station areas further to the North. This statement fits with the results of our developer interviews that are discussed below.

Developer Interviews

At the request of the Puget Sound Regional Council, Gardner Economics undertook several interviews with prominent residential developers to gauge their opinions as to the proposed lines as well as the feasibility of developing real estate assets in station areas. These developers ranged from mid-sized private companies to the largest residential real estate investment trusts in the country.

When quizzed on their knowledge of the proposed alignments several of them indicated that, although anecdotally aware of the proposed alignments, they were not particularly knowledgeable about specifics. This did not, however, apply to some of them who were either already under construction with projects within proposed station areas, or those that were in the planning stages of development at sites that were within station areas.

When asked whether their Firms would actively pursue sites within the proposed station areas, they general agreed that they would but "all things had to be equal" i.e. the development would have to make financial sense whether it was inside or outside of a proposed station area. This is particularly interesting as it tells us that station areas have to exhibit all the necessary attributes that would drive new construction – these generally being substantial prevailing rents, low and stable vacancy rates and reasonable land availability/price.

When questioned as to whether being proximate to a station could enhance rents, interviewees were of diverging opinions with some saying that they believed that there was a reasonable premium to be had (one mentioned a figure of up to 10 percent), but others were not so accepting of this hypothesis. One individual suggested that there would not be a premium attributable to a development until the lines were functionally complete. Intuitively this makes sense, as renters signing a 12-month lease will not pay a premium to live at a site where mass transit was not scheduled to appear for a number of years. This also tells us that apartment developers who do not intend to hold an asset after completion and lease up, will not attribute premiums to sites where light rail is several years away. Others, whose business model is to 'build and hold', are of a different mindset as they see value added when the line is complete and are prepared to be patient.

It was interesting to note that almost all of the interviewees said that they would *not* consider development immediately adjacent to a station but would prefer to be 2 or 3 blocks away. We were also informed that, generally speaking, developers were of the opinion that projects located within 10 blocks of a station would see tenants use a station.[2]

That said, some developers suggested that the proximity may change due to topographic constraints that may be in place i.e. that it would be more unlikely that people would walk any distance uphill to get to a station and that it would be important for any station to provide adequate parking and bicycle storage to offset this and entice commuters to still use that station.

The major concern amongst all the developers interviewed was noise. One interviewee stated that even when stations were underground "the jury is still out as to whether there will still be noise from trains during the night when ambient noise is at a minimum".

[2] Using an average Seattle city block there are 14.5 blocks per mile, therefore 10 blocks would represent a 0.68 mile radius. The average for a short city block is 20 blocks per mile, or one half mile radius.

Other concerns about development close to stations generally revolved around litter, safety noise and itinerant activity. One interviewee remains worried about construction impacts that are currently occurring close to their development and hopes that these will not continue into the future.

One interviewee countered the statement concerning itinerant activity with the view that more development leads to more street level activity and that this is likely to discourage adverse behavior.

One interviewee mentioned that the current development at Othello Station was “the canary in the coal mine” relative to success, or not, of TOD’s. This is not surprising as many developers are not “frontiersman” and look to see success by others before they are willing to commit substantively to developing an asset.

When asked about timing a proposed development to account for the emergence of light rail, most of the interviewees suggested that they would consider planning and executing a development up to 3-years before it was due to open. That said, there were concerns about the overall timing of some of the lines and whether there was adequate funding. One interviewee stated that uncertainty as to timing of station area development has a negative impact as it makes it difficult to get their finance committee to “buy off” on a proposed TOD when there was no confirmed date for the station to be developed.

When questioned on the assumed tenant demographic, all of the interviewees agreed that there would be a proclivity for younger “green thinkers” to lead the way and be more likely to rent. These would be individuals who more than likely would not own powered transportation themselves; rather they would rely solely on mass transit and rental vehicles when needed. They are generally seen as being younger (in their 20’s to early 30’s) and either single or cohabitating.

When discussing some of the suburban routes, however, the consensus was that the demographic would likely be somewhat older and more likely to still have their own vehicles. *(Editor’s Note: this is important as it will mean that jurisdictions will need to consider parking requirements at proposed suburban developments which will require more on-site parking than other more urban locations).*

Consideration of unit sizes within proposed developments varied, but was not surprising. In general, the further from the urban centers one travels, the larger the average unit size has to be. This is intuitively correct as there is a greater propensity for families to rent in more suburban areas where rents are still relatively affordable – certainly when compared to the urban centers.

It was generally believed that the more suburban the location the less likely that mass transit will drive residential development in the near-term. The reason for this is that the rental rates needed to spark new development in the more suburban station areas would be substantially higher than the prevailing market rents. As such, development along lines will likely start from the urban centers and work outward to the suburbs.

Generally speaking, there was the largest amount of interest by the development community in the two Central Alignments and the southern part of the North Alignment. Additionally, there was good interest in the East Alignment once it gets to Bellevue. One specific concern was that light rail is not scheduled to get to Everett, whereas it is scheduled to go as far south as Tacoma. The concern here is that there will be limited interest in the Everett station area as the current Sounder trains are not frequent enough to encourage renters to commute from any proposed downtown Everett residential development.

APPENDIX C: GARDNER ECONOMICS MARKET RATE OWNERSHIP HOUSING MEMO

MEMORANDUM

DATE: Friday, March 30, 2012

TO: Ms. Shanti Breznau
Principal
STRATEGIC ECONOMICS

FROM: GARDNER ECONOMICS LLC

SUBJECT: THE OWNERSHIP HOUSING MARKETS WITHIN THE EXISTING/PROPOSED LIGHT RAIL CORRIDORS

GARDNER ECONOMICS has been retained by Strategic Economics to prepare a study of areas that surround current and proposed light rail stations within the Central Puget Sound region.

In order to undertake this study, Gardner Economics gathered data on active new condominium developments as well as transactional activity for both single family and condominium units within the four alignments and 74 respective station areas. Historic data was gathered for the years 2005, 2007, 2009, 2010 and 2011 as well as current available inventory.

Specific geographies were as follows:

1. Central Alignment – representative of the downtown stations;
2. East Alignment – East Seattle, Mercer Island, Bellevue and Redmond;
3. North Alignment – North Seattle, Lynnwood, Mountlake Terrace and Everett; and the
4. South Alignment – South Seattle, Des Moines, Federal Way, Kent, and Tacoma.

The following memorandum and exhibit package represents our opinions relative to the task outlined above.

SUMMARY

Data was gathered from third party sources to identify trends in transactional velocities as well as price trends for single family as well as multifamily product in the 74 existing and proposed station areas.

The results were not surprising as the Seattle region suffered, along with the rest of the country, the busting of the housing bubble. In all areas analyzed, prices have contracted since 2007 but there are some areas that are starting to show some signs of stability which can be demonstrated by modestly improving list prices. That said, the number of units currently available was surprisingly low.

Data relative to planned and proposed development has been included within this study. We would caution the reader, however, that the market is some time away from accepting new development activity as the make-up of the capital stack has changed dramatically and funding for any new for sale development is speculative at best.

The following represents our findings relative to the various component alignments.

CENTRAL AREA

There are just 4 station areas identified in the downtown corridor making it by far the smallest of the market areas considered.

Single Family Analysis

Unsurprisingly, there were few data points when considering the single family housing market in the downtown market. In aggregate, we identified just 46 transactions between 2006 and 2011[3]. Prices of transacted units ranged from $245,000 to $4.48M with an average of $447,545.

At the time of the survey[4], there were no single family units available for purchase.

FIGURE 1: SINGLE FAMILY HOUSING MARKET – CENTRAL ALIGNMENT

Year	Transactions	Min $	Max $	Average $
2005	13	$260,000	$949,000	$354,833
2007	8	$0	$740,000	$268,036
2009	11	$0	$524,000	$357,540
2010	12	$245,000	$599,000	$367,861
2011	2	$0	$4,488,000	$1,337,000
Available Units	0	$0	$0	$0
TOTALS	**46**		**$4,488,000**	**$447,545**

[3] To provide context, we considered transactions that occurred in 2005/07/09/10 and 2011.

[4] End of February, 2012

Multifamily Analysis

As this is the densest residential area along any of the alignments it is not surprising to see that the number of transactions of condominium product far exceeded their single family counterparts. In all, we identified 3,207 sales within the Central area at prices that ranged from $84,000 to $9.75M.

It is clear that the urban condominium market suffered dramatically from the housing bubble. As can be seen from the data below, transactional velocities in the station areas peaked in 2007 at almost 1,000 units but this declines to just 317 by 2009. Transactional prices bottomed in 2010 and made a comeback in 2011. However, uncertainty remains as there are unseasonably few available units.

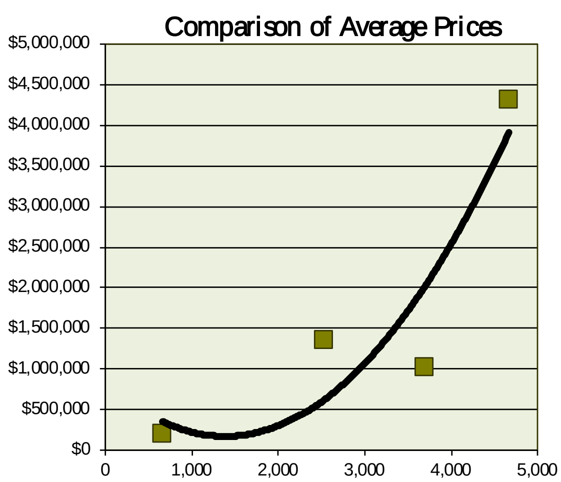
FIGURE 2: MULTI FAMILY HOUSING MARKET – CENTRAL ALIGNMENT

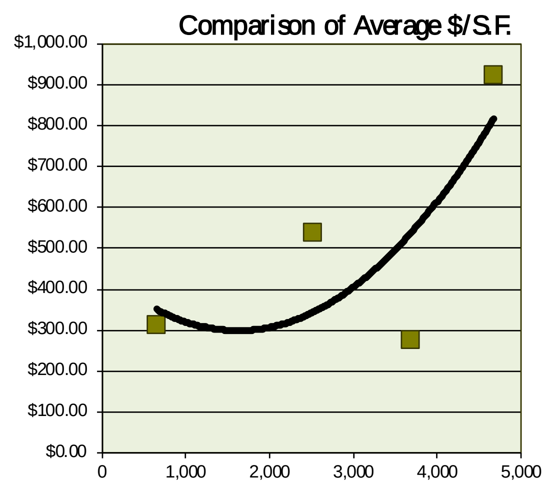
Year	Transactions	Min $	Max $	Average $
2005	723	$84,000	$3,600,000	$417,394
2007	985	$153,000	$4,712,500	$459,100
2009	317	$155,200	$9,750,000	$566,147
2010	468	$93,000	$7,198,100	$384,738
2011	550	$94,900	$3,167,440	$445,666
Available Units	164	$114,500	$15,600,000	$1,369,144
TOTALS	**3,207**	**$84,000**	**$15,600,000**	**$607,031**

Looking at the current new construction market, we note that there are four development currently selling units, details of which are found on the following page.

FIGURE 3: ACTIVE CONDOMINIUM DEVELOPMENT – CENTRAL ALIGNMENT

Developments	Total Units	Avg. Unit Size	Pricing (Current $) Min.		Max.	Avg.	Avg. $/Sq. Ft.
Decatur (Conversion)	146	660	$168,000	-	$241,800	$204,900	$310.45
Escala	269	3,687	$384,000	-	$1,649,000	$1,016,500	$275.70
Four Seasons (Hotel / Condo)	36	4,669	$1,475,000	-	$7,155,000	$4,315,000	$924.18
Olive 8 (Hotel / Condo)	229	2,525	$425,000	-	$2,295,000	$1,360,000	$538.61
Totals/Weighted Averages	**680**	**2,698**	**$168,000**	**-**	**$7,155,000**	**$1,132,550**	**$406.03**





Review of planned and proposed developments demonstrates that there are 3,419 units within 16 developments that either have preliminary approval for development or who are in the process of obtaining such approvals.

East Alignment

We identified 14 station areas in the East Alignment.

Single Family Analysis

Unlike the denser, more urban markets, we noted that some of the proposed station areas were proximate to single family housing units and this provided some interesting data with single family home prices proximate to the East alignment being the highest of all the alignments.

Figure 4: Single Family Housing Market – East Alignment

Year	Transactions	Min $	Max $	Average $
2005	352	$0	$3,462,500	$583,211
2007	292	$0	$6,999,999	$621,234
2009	231	$0	$5,950,000	$583,534
2010	220	$0	$2,030,000	$527,894
2011	260	$0	$4,450,000	$454,151
Available Units	60	$0	$26,880,000	$901,226
TOTALS	**1,415**		**$26,880,000**	**$611,875**

Multifamily Analysis

Transactional activity around stations on the East alignment averaged 660 unit sales per year in 2005 and 2007 but were dramatically hit by the recession as this figure dropped by 68% between 2007 and 2009. Velocities improved in 2011 but, similarly to the market in general, the limited stock of units for sale suggests that 2012 transactions may not reach the levels seen the previous year.

Figure 5: Multi Family Housing Market – East Alignment

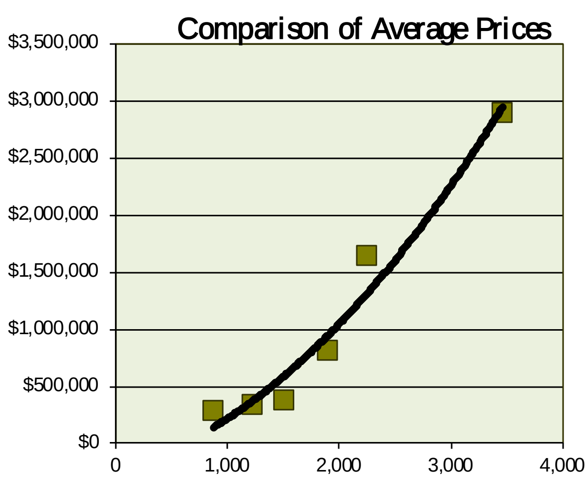
Year	Transactions	Min $	Max $	Average $
2005	636	$0	$799,980	$207,446
2007	683	$0	$2,700,000	$297,258
2009	220	$0	$1,582,700	$272,992
2010	236	$0	$650,000	$217,516
2011	333	$0	$2,062,000	$204,819
Available Units	95	$0	$869,000	$214,726
TOTALS	**2,203**	**$0**	**$2,700,000**	**$235,793**

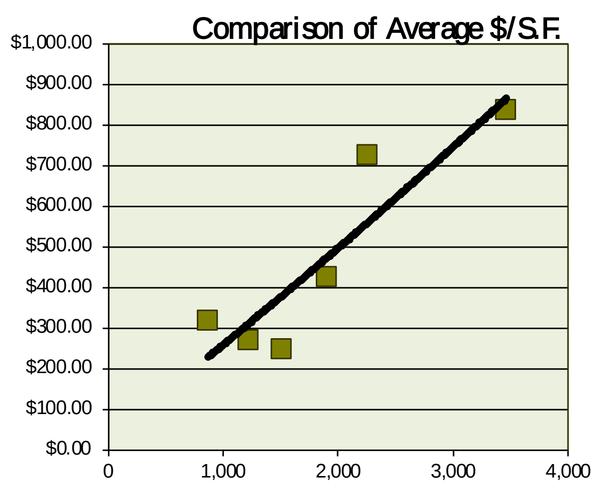
Price contraction has slowed and we feel that the east alignment will be one of the earliest to demonstrate modest price growth in 2013.

When we consider new condominium development, the majority of active developments were in the west Bellevue station area.

FIGURE 6: ACTIVE CONDOMINIUM DEVELOPMENT – EAST ALIGNMENT

Developments	Total Units	Avg. Unit Size	Pricing (Current $) Min.		Max.	Avg.	Avg. $/Sq. Ft.
939 M L King Jr Way S	6	1,513	$349,000	-	$399,000	$374,000	$247.19
Bellevue Towers	539	3,464	$289,000	-	$5,499,000	$2,894,000	$835.57
Pontedera	94	873	$174,900	-	$379,900	$277,400	$317.94
Washington Square Tower 1	188	1,898	$390,000	-	$1,220,000	$805,000	$424.24
Washington Square Tower 2	188	2,256	$411,000	-	$2,860,000	$1,635,500	$725.12
White Swan	38	1,221	$209,888	-	$449,888	$329,888	$270.18
Totals/Weighted Averages	**1,053**	**2,645**	**$174,900**	**-**	**$5,499,000**	**$1,955,874**	**$672.45**





We identified 10 developments in the East corridor that are planned as condominium developments. In aggregate, these developments would yield 1,732 units.

NORTH ALIGNMENT

Single Family Analysis

The single family market along the North alignment showed the highest number of single family transaction of all the alignments with 4,157 transactions recorded. This is not surprising as there were 31 station areas identified along this particular alignment.

FIGURE 7: SINGLE FAMILY HOUSING MARKET – NORTH ALIGNMENT

Year	Transactions	Min $	Max $	Average $
2005	1,213	$0	$1,995,000	$282,811
2007	868	$0	$1,900,000	$326,244
2009	718	$0	$889,000	$237,541
2010	653	$0	$1,550,000	$244,293
2011	705	$0	$1,448,000	$219,634
Available Units	147	$0	$1,500,000	$293,707
TOTALS	**4,304**		**$1,995,000**	**$267,372**

Multifamily Analysis

Transactional velocities declined dramatically along the North alignment following the housing bubble and transactional prices have not recovered.

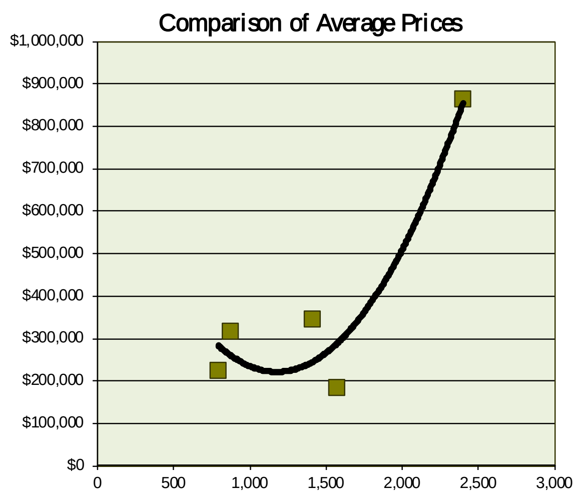
FIGURE 8: MULTI FAMILY HOUSING MARKET – NORTH ALIGNMENT

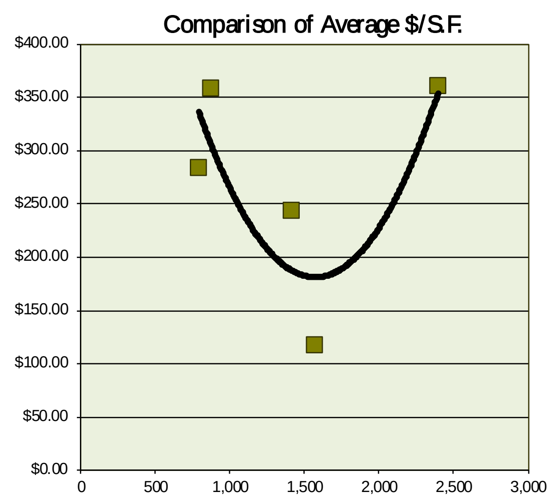
Year	Transactions	Min $	Max $	Average $
2005	1,040	$0	$1,140,000	$148,256
2007	1,109	$0	$1,145,000	$206,206
2009	578	$0	$2,025,000	$171,869
2010	484	$0	$929,000	$153,329
2011	500	$0	$822,500	$114,241
Available Units	140	$0	$999,950	$104,548
TOTALS	**3,851**	**$0**	**$2,025,000**	**$149,741**

There were 5 active condominium developments along the North alignment with just 40 units of inventory left to be sold. In the planning stages were 13 developments that would comprise 588 units of housing.

FIGURE 9: ACTIVE CONDOMINIUM DEVELOPMENT – NORTH ALIGNMENT

Comparable Developments	Total Units	Avg. Unit Size	Pricing (Current $) Min.		Max.	Avg.	Avg. $/Sq. Ft.
6th Ave Townhomes	6	1,574	$179,000	-	$189,999	$184,500	$117.25
Hoyt Avenue Condominium	9	1,414	$299,000	-	$389,900	$344,450	$243.60
1111 E Pike St	27	878	$314,950	-	$314,950	$314,950	$358.92
Duncan Place	63	792	$184,000	-	$265,000	$224,500	$283.46
Sanctuary at First Church Seattle (The) (Conversion)	12	2,397	$729,950	-	$999,950	$864,950	$360.92
Totals/Weighted Averages	117	1,064	$179,000	-	$999,950	$318,236	$297.23





SOUTH ALIGNMENT

Single Family Analysis

The South Alignment saw 1,719 transactions of single family units in the selling periods analyzed. Prices of single family homes appear to be stabilizing.

FIGURE 10: SINGLE FAMILY HOUSING MARKET – SOUTH ALIGNMENT

Year	Transactions	Min $	Max $	Average $
2005	498	$0	$2,400,000	$153,746
2007	405	$0	$3,195,000	$197,009
2009	277	$0	$1,200,000	$163,653
2010	250	$0	$1,404,000	$139,489
2011	289	$0	$1,575,000	$135,230
Available Units	111	$0	$1,248,000	$145,099
TOTALS	**1,830**		**$3,195,000**	**$155,704**

Multifamily Analysis

The South alignment was the least number of transactions relative to multifamily sales as this alignment had the largest number of station areas which were in commercial zones. Prices of multifamily housing continue to decline and it is a market that is still some time away from returning to stability relative to home prices.

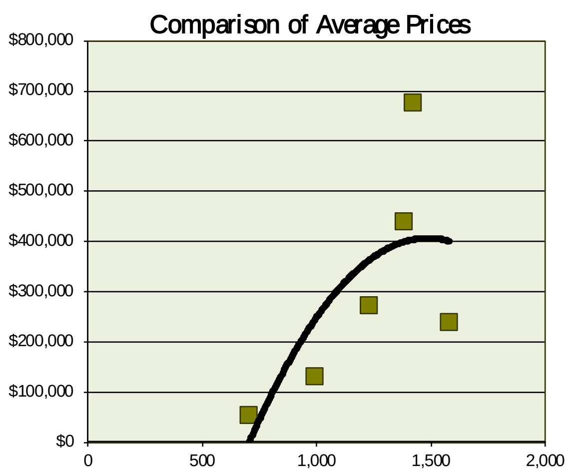
FIGURE 11: MULTI FAMILY HOUSING MARKET – SOUTH ALIGNMENT

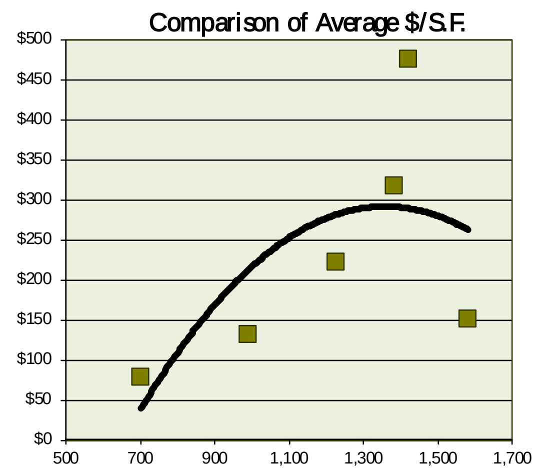
Year	Transactions	Min $	Max $	Average $
2005	209	$0	$510,007	$73,008
2007	204	$0	$732,250	$136,722
2009	102	$0	$946,000	$92,100
2010	123	$0	$650,000	$98,090
2011	136	$0	$612,850	$63,978
Available Units	74	$0	$999,900	$78,099
TOTALS	**848**	**$0**	**$999,900**	**$90,333**

There are currently 7 active condominium developments along the South alignment with 134 units of remaining inventory.

FIGURE 12: ACTIVE CONDOMINIUM DEVELOPMENT – SOUTH ALIGNMENT

Developments	Total Units	Avg. Unit Size	Pricing (Current $) Min.		Max.	Avg.	Avg. $/Sq. Ft.
Roberson (The)	47	1,422	$349,900	-	$999,900	$674,900	$474.61
Element 20	20	1,580	$237,000	-	$242,000	$239,500	$151.58
Thea Foss Waterway: Esplanade	162	1,384	$189,900		$689,900	$439,900	$317.85
Rainier Vista (Hope VI): Allegro at Columbia City	12	1,227	$229,800	-	$314,800	$272,300	$222.01
Village at Redondo (The) (Conversion)	225	990	$113,880	-	$146,880	$130,380	$131.70
Watermark Cove (Conversion)	26	703	$55,000	-	$55,000	$55,000	$78.29
Tahoma Townhomes	18	1,444				N/A	N/A
Totals/Weighted Averages	**492**	**1,176**	**$55,000**	**-**	**$999,900**	**$288,226**	**$225.94**





We identified 1,668 units of housing in the pipeline within 16 developments. We would add, however, that 1,098 of these proposed units would be within the Waterview Crossing development located in Des Moines. Excluding this project, there are limited plans to add to the residential for sale stock along this alignment.

APPENDIX C: TOD AND SMALLER MARKET AREA MAP & CORRESPONDANCE TABLES

Figure C1: TOD Market Areas and Smaller Market Analytic Geographies

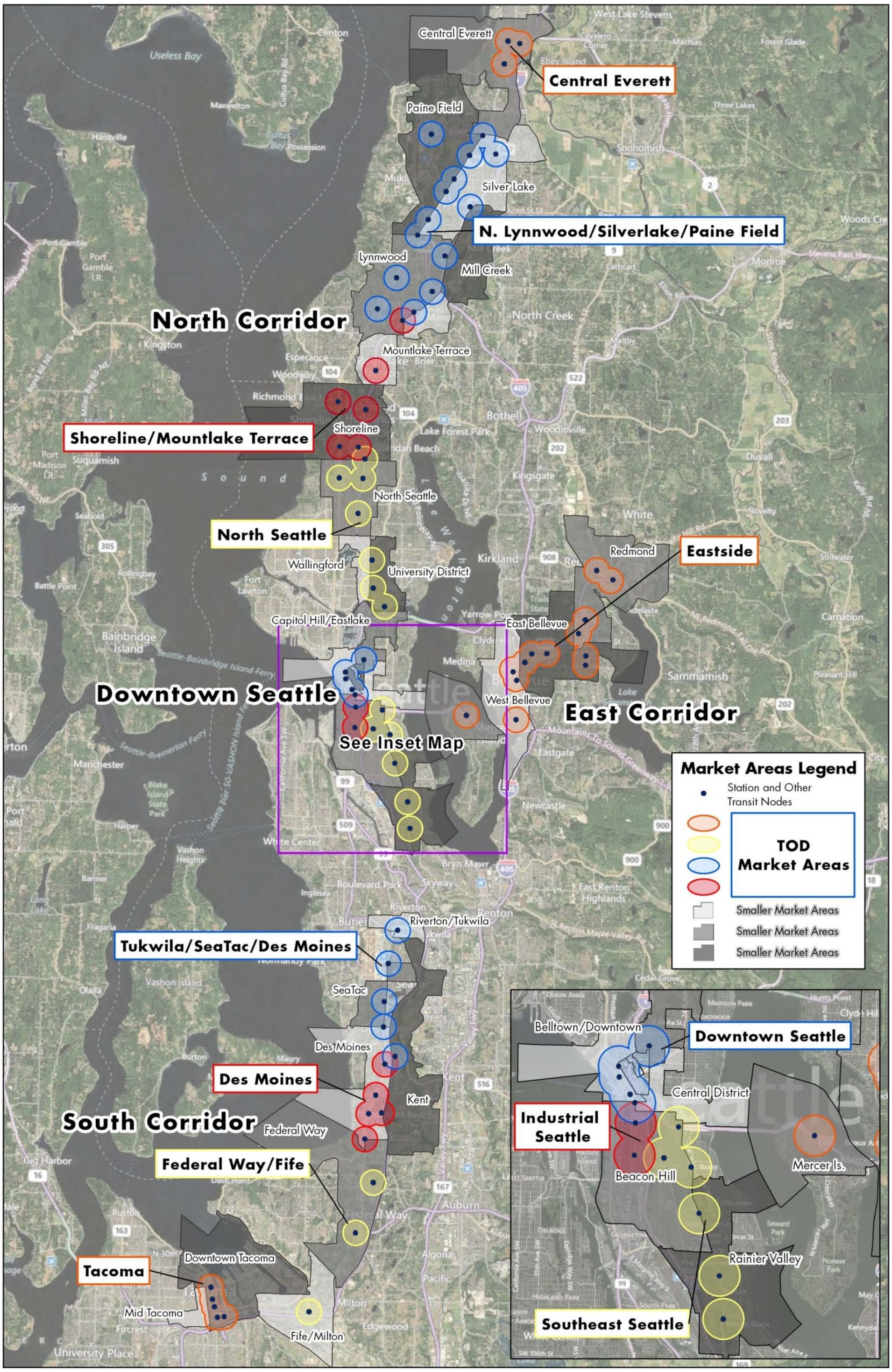


Figure C2: Corridor and Traditional Market Area Correspondence Table

Corridor	Traditional Market Area
North Corridor	*Central Everett*
	Paine Field
	Silver Lake
	Mill Creek
	Lynnwood
	Mountlake Terrace
	North Shoreline
	Central Shoreline
	North Seattle
	Greenlake/Wallingford
	U District
	Capitol Hill-Eastlake
Downtown Seattle	*Capitol Hill-Eastlake*
	Belltown-Downtown
	First Hill
	Beacon Hill
East Corridor	*Mercer Island*
	West Bellevue
	East Bellevue
	Redmond
South Corridor	*Beacon Hill*
	Central District
	Rainier Valley
	Des Moines
	Kent
	Riverton-Tukwila
	SeaTac
	Federal Way
	Fife/Milton
	Downtown Tacoma
	Mid Tacoma

Source: Gardner Economics; Strategic Economics, 2012.

Figure C3: TOD and Traditional Market Area Correspondence Table

TOD Market Area	Traditional Market Area
Central Everett	*Central Everett*
N. Lynnwood/Silverlake/Paine Field	*Central Everett*
	Paine Field
	Silver Lake
	Mill Creek
	Lynnwood
	Mountlake Terrace
Shoreline/Mountlake Terrace	*Lynnwood*
	Mountlake Terrace
	North Shoreline
	Central Shoreline
North Seattle	*Central Shoreline*
	North Seattle
	Wallingford
	U District
Downtown Seattle	*Capitol Hill-Eastlake*
	Belltown-Downtown
	First Hill
	Beacon Hill
Industrial Seattle	*Beacon Hill*
Eastside	*Mercer Island*
	West Bellevue
	East Bellevue
	Redmond
Southeast Seattle	*Central District*
	Beacon Hill
	Rainier Valley
Tukwila/SeaTac/Des Moines	*Riverton-Tukwila*
	SeaTac
	Kent
	Des Moines
Des Moines	*Des Moines*
Federal Way/Fife	*Federal Way*
	Fife/Milton
Tacoma	*Downtown Tacoma*
	Mid Tacoma

Source: Gardner Economics; Strategic Economics, 2012.

APPENDIX D: GARDNER ECONOMICS COMMERCIAL MARKET MEMO

MEMORANDUM

DATE: Tuesday, April 17, 2012

TO: Ms. Shanti Breznau
Principal
STRATEGIC ECONOMICS

FROM: GARDNER ECONOMICS LLC

SUBJECT: THE COMMERCIAL MARKETS WITHIN THE EXISTING/PROPOSED LIGHT RAIL CORRIDORS

GARDNER ECONOMICS has been retained by Strategic Economics to prepare a study of areas that surround current and proposed light rail stations within the Central Puget Sound region.

In order to undertake this study, Gardner Economics gathered data on the office and retail environments within sub-markets that touched proposed, as well as existing, station areas. Specific geographies were as follows:

1. East Alignment – Mercer Island, Bellevue East, Bellevue West and Redmond;
2. North Alignment – Lynnwood, Shoreline (North), Mountlake Terrace, Mill Creek, Silver Lake, Paine Field and Central Everett;
3. South Alignment – Fife/Milton, Downtown Tacoma, Mid Tacoma and South Tacoma;
4. North Central Alignment – Downtown Seattle, Capitol Hill, Central District, First Hill, Greenlake/Wallingford, University District, North Seattle and Shoreline (South); and
5. South Central Alignment – Beacon Hill, Rainier Valley, SeaTac; Riverton/Tukwila, Federal Way, Kent, Des Moines and Auburn.

The following memorandum and exhibit package represents our findings relative to the task outlined above.

SUMMARY

Following a prolonged period of decline the office and retail market in the region is starting to gain some traction with modestly improving vacancy rates in several of the markets surveyed.

Vacancy rates in all the sub-markets analyzed are basically stable year-over-year and are expected to stay that way through the end of 2012 with rents rising accordingly.

The following represents our findings relative to the various asset types within the component alignments.

EAST ALIGNMENT

Mercer Island Office Market

The Mercer Island market just over 650,000 square feet of space and has not seen any new additions to the stock in several years. As is typical of smaller markets – and especially those that are not traditional office using locations - absorption of space has been frenetic and this market has a higher vacancy rate not than seen 5-years previously.

As of the end of Q1 2012, the vacancy rate was measured at 10.2% with 67,253 square feet available. Even though the vacancy rate is at a point that can be considered stabilized, we note that owners have not increased rents for the past couple of years and the prevailing average rental rate is measured at $28.04 – 0.94% higher than the previous quarter but still 10% below the peak.

There are no developments currently scheduled for entry to the market.

Mercer Island Retail Market

The Islands retail supply has remained stable since 39,000 square feet was delivered in Q2 2006. Total net quarterly absorption is measured at just 949 square feet over the past 5 years but the prevailing vacancy rate is a slender 2.0%. With no construction activity in the area, one can hypothesize that the prevailing asking lease rates[5] of $24.24 are not sufficient enough to engender new construction activity.

In aggregate, the market comprises 385,438 square feet of retail space.

West Bellevue Office Market

Next to downtown Seattle, the West Bellevue office market is the largest within the alignments and comprises of 11.4M square feet of space. Quarterly absorption of space turned negative in the third quarter of 2009 and been bouncing up and down since that time. Q1 2012 absorption of space was measured at just less than 37,000 square feet. The vacancy rate has been steadily climbing since the end of 2008 but improving economic fundamentals has driven rates lower for the past two quarters and is currently measured at 12.2%.

Lease rates have been stable since the third quarter of 2010 but did see a very modest increase of 0.65% in the first quarter of this year and are now measured at $29.43 per square foot. Available space surveyed shows a weighted average asking rate of $30.09 per square foot.

There is no new construction activity in the marketplace at this time.

West Bellevue Retail Market

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[5] All lease rates shown are Triple Net where the lessee is solely responsible for all of the costs relating to the asset being leased in addition to the rent fee applied under the lease. The structure of this type of lease requires the lessee to pay for net real estate taxes on the leased asset, net building insurance and net common area maintenance.

The West Bellevue retail market measures approximately 3.99M square feet and is second only to downtown Seattle in terms of both size as well as stature. As is to be expected, after a period of low vacancy rates commencing in 2006, vacancy rates rose in 2009 to a high of 7.6% but have subsequently declines to 2.8% by the end of Q1 2012. With just 146,600 square feet of available space the market appears to be outperforming its Eastside peer group. Rental rates have declined very modestly over the past 4-quarters which is likely due to the quality of available space rather than any other factor. The current rental rate for occupied space is $27.46NNN while available space is asking $26.67NNN.

After delivery of 309,000 square feet in 2009 there are no developments under construction at this time.

East Bellevue Office Market

The East Bellevue office market proximate to the proposed light rail stations comprises 6.16M square feet and has a vacancy rate of 13%. After a prolonged period of rising vacancy rates from 2008 into 2010, the market appears to be recovering with just under 50,000 square feet of space absorbed in 2011.

Prevailing lease rates have been rising slowly since mid-2011 and are currently measured at $26.49NNN. Space currently in the market for lease ranges from $12 to $38 per square foot with a weighted average of $23.18.

There was 190,000 square feet of new space delivered to the market in 2011 but no further developments are currently under construction.

East Bellevue Retail Market

The East Bellevue retail market comprises 5.05M square feet and has a total vacancy rate of 4.0% with only 202,167 square feet of available space. Total vacancy has declined over the past 6 quarters with an impressive absorption of 149,000 square feet in the first quarter of 2012 when 15 leases were signed. Direct average rental rates are suggested to be $25.28 per square foot and have been rising since 2009.

Available space ranges from 800 to 21,000 square feet and asking rates range from $9 to $40 per square foot. There is on development under construction at this time but, at just 8,234 square feet its effect on the market will be minimal.

NORTH ALIGNMENT

Lynnwood Office Market

Comprising just 2.14M square feet, the Lynnwood market is reactively small with just 118 buildings. The current total vacancy rate is measured at 19.4% with 400,000 square feet of space available to lease. The market has been absorbing space over the past 7 quarters and there is 55,000 square feet of space under construction.

Vacant space ranges from 450 to 85,000 square feet and asking rents range from $9.22 to $35 per square foot with a weighted average of $16.17. Occupied space averages $21.82 per square foot.

Lynnwood Retail Market

At 7.1M square feet, the Lynnwood market is one of the larger along the North alignment. Akin to many of the other station areas, the retail market is faring relatively well with vacancy rates measured at 4.1% and 284,700 square feet of space available.

This is a market that has seen no new deliveries since 2009 and has not added substantively to its stock since before 2006. There are no new developments under construction at this time.

Average lease rates have been climbing modestly over the past several quarters but are still 16% below their cyclical peak seen back in 2008 and are measured at $18.58NNN.

Of the 376,000 square feet of space that was surveyed, asking rates range from $9NNN to $35NNN with a weighted average of $18.82NNN.

Shoreline (North) Office Market

The North Shoreline market is very small at just 119,095 square feet. Current occupancy rates are measured at 95%. Absorption of space was positive in 2011 and an additional 2,100 square feet of space was leased in Q1-2012.

Lease rates average $21.58 per square foot with the average list price of available space measured at $20.06.

There is no construction activity at this time.

Shoreline (North) Retail Market

At 813,000 square feet, the retail market is relatively modest. It is performing well with average total vacancy rates measured at 2.8%. The market gave back 6,400 square feet in 2011 but gained 2,000 square feet of that back in early 2012.
Average NNN lease rates were measured at $21.92 with asking rates higher at $24.04NNN.

There is no construction activity at this time.

Mountlake Terrace Office Market

Measuring 1.1M square feet, the Mountlake Terrace market area comprises 48 buildings. Current vacancy rates are measured at 15% and have been rising over the past year with negative net absorption in the second half or 2011.

Even with this decline in occupancy, rental rates have been holding in a tight range and are currently measured at $21.48. Following our survey of available space we found asking rates ranging from $7.30 to $30 per square foot with a weighted average of $15.97 for spaces that range from 220 to 77,700 square feet.

There have been no new deliveries of space in the past 5 years and no development currently under construction.

Mountlake Terrace Retail Market

Measuring just 1.06M square feet, this is another of the smaller retail markets in the North corridor. It was interesting to note that vacancy rates were elevated and were measured at 8.6% - higher than many of the other station areas along this alignment. Absorption of space has generally been negative for the past 3-years but turned positive in the first quarter of 2012 when 3 leases were written.

As is to be expected in areas with above average vacancy rates, the total average rate paid by tenants has been in decline through 2011 and is currently measured at $15.93NNN. This figure closely matches the average asking rate of spaces surveyed.

There have been no new deliveries of space since 2008 and there are no projects currently under construction.

Mill Creek Office Market

The market surrounding the Mill Creek stations measures just 454,600 square feet and mainly comprises smaller spaces befitting its suburban makeup. Vacancy rates are suggested to be 14.6% with total available space of 75,781 square feet.

Net absorption of space turned positive in Q1 2012 but increases in occupancy have been modest. That said, rental rates have remained fairly steady with a total average rate measured at $22.75 with a sub-lease rate of $17.17. Developments surveyed comprised 277,000 square feet with 70,500 square feet of space available. Rates ranged from $8 to $28 per square foot with a weighted average of $17.80.

There has been no new space delivered to the market since 2007 and no developments are currently under construction.

Mill Creek Retail Market

The Mill Creek retail market comprises 1.37M square feet and is dominated by the Town Center development. Vacancy rates are stable at 5.2% and there is currently 73,000 square feet of available space. Although vacancy rates have been stable, available space has not been absorbed to any degree since 2009 and this has led to modest declines in average lease rates since that time. at the end of Q1 2012, total average lease rates were estimated at $26.16NNN which is slightly higher than the previous quarter.

Of the 59,672 square feet of space that was surveyed, the weighted average asking rent was $27.16NNN.

There have been no new deliveries of space since 2009 and no new space currently under construction.

Silver Lake Office Market

At 289,397 square feet, the Silver Lake office market is the smallest along the North alignment. Total vacancy rates were measured at 8.4% with 27,500 square feet of available space. Overall absorption of space has been positive but the size of space leased has been very modest. Average rents of occupied space were measured at $26.90 with our survey suggesting that available space is cheaper, averaging $17.14 per square foot.

There have been no additions to the stock since mid-2009 and no construction activity identified.

Silver Lake Retail Market

The Silver Lake retail market comprises a little over 1M square feet with just 56,988 square feet of available space. This gives it a very respectable vacancy rate of 4.3%. It was interesting to note that, even with the low vacancy rates and limited square footage available, total average rental rates have not moved in over a year and currently stand at $19.06NNN. Of the 7,790 square foot of surveyed space asking rates ranged from $12NNN to $30NNN suggesting that tenants are still pushing back against higher rents.

There are no new developments under construction at this time.

Paine Field Office Market

The Paine Field office market comprises 1.54M square feet and has a total vacancy rate of 7.0% as of the end of Q1 2012. With total vacant available space measured at 248,000 square feet, the market remains is stasis and, accordingly, rental rates have remained static at a total average rate of $21.02. 229,748 square feet of available space was surveyed with rents ranging from $9 to $23.25 per square foot. Although there were some larger contiguous spaces available, most were smaller spaces. What surprised the author was that the asking rates averaged $15, substantially lower than the market in its entirety.

8,200 square feet of space was delivered in Q1 2012 and there is no additional construction activity at present.

Paine Field Retail Market

The Paine Field retail market comprises 4.29M square feet and has a total vacancy rate of 5.5% with 193,000 of available space. As with many of the smaller retail sub-markets, absorption over the past year has been varied but has improved marginally recently. With such improvements, the average triple net lease rate has risen from $18.12 to $18.87 per square foot. Of the 284,000 square feet of available space that we surveyed, asking lease rates are somewhat higher with a weighted average of $19.99NNN. Rates ranged from $11 to $31.87 for space along Highway 99.

There are no new developments under construction at this time.

Central Everett Office Market

Unsurprisingly, the Central Everett market is the largest office market in the North alignment comprising 3.03M square feet. Vacancy rates for space within the alignments sphere of influence were surprisingly low at 7.2% which represents 304,000 square feet of available inventory. That said, the total net absorption of space has been limited in recent years.

As a result of this perceived lack of demand for new space, rental rates have been compressing and were measured at $17.80 in the first quarter of 2012.

Of the 251,640 square feet of available space that was surveyed, weighted average asking rents were measured at $13.06 – a level that is far from that required to stimulate additional construction activity. Unsurprisingly, therefore, we did not identify any construction activity in the area.

Central Everett Retail Market

The retail market in Central Everett comprises 1.86M square feet. Relatively small compared to other locations along the North alignment. With a total vacancy rate of available space measured at 4.7% the market appears stabilized with just 39,677 square feet of available space. Even so, absorption has been negative for the past 4 quarters.

The market is currently paying an average NNN rate of $22.42 but available space has an average list price of $19.53NNN.

There is one 7,000 square foot project under construction at this time.

SOUTH ALIGNMENT

Fife/Milton Office Market

Comprising 623,000 square feet of space, the Fife/Milton market can best be described as suburban. Small markets suffer from wild swings relative to vacancy rates and at 15.1% the area cannot be considered stabilized. For context, the vacancy rate at the end of 2008 was measured at 5.9%.

There is little in the way of available inventory – total available space comprises just over 73,000 square feet. Total average rental rates being commanded are estimated at $19.82. Of the 99,000 square feet of available space that was surveyed, asking rates averaged $18.04 and ranged from $7.85 to $24.90.

There is no development activity at this time and has not been since 2003.

Fife/Milton Retail Market

The Fife/Milton market comprises 1.33M square feet and is demonstrating a vacancy rate of 8.4% with total available space of 142,900 square feet. Absorption of new apace has been generally negative for the past 2-years but there was some positive absorption in the first quarter of 2012.
Average lease rates are suggested to be $16.81NNN and have moved little in the last year. Of the 119,000 of available space that was surveyed, weighted asking rents were measured at $16.52NNN and ranged from $8 to $31NNN.

There is no retail construction activity at this time.

Downtown Tacoma Office Market

At 4.62M square feet, the downtown Tacoma market is the largest office market in the South alignment. Total vacancy rates are measured at 17.2% and rose dramatically when Russell Investments moved their corporate headquarters out of the area in 2010. The impact of this has been substantial and the market is struggling. There is currently 885,000 square feet of available space and the market gave back an additional 64,000 square feet in 2011.

Rental rates dropped in 2011 but rose slightly in early 2012 and are now calculated at $21.33. We surveyed 840,000 square feet of available space – including the Russell Center – and the weighted average asking rate was measured at $17.22 demonstrating the struggle that owners are having in filling their space.

There is no new construction activity at this time.

Downtown Tacoma Retail Market

The retail market in downtown Tacoma comprises 1.949M square feet and is currently 9.8% vacant. Total net absorption of space was negative 182,000 square feet in 2011 and has seen only marginal improvement in 2012.

Lease rates remain depressed with the average space commanding triple net rents of $13.57 per square foot and have declined by 3% since the first quarter of 2011. Of the 158,000 square feet of available space that was surveyed, weighted average asking lease rates were measured at $12.56 – again indicating that it remains a tenants market.

There is no new construction activity at this time.

Mid-Tacoma Office Market

The Mid-Tacoma office market comprises 1.67M square feet of space with a prevailing vacancy rate of a more than reasonable 5.7%. There is just 110,000 square feet of space available. The market absorbed 8,861 square feet in 2011 but gave back 10,000 square feet in the first quarter of 2012.

Rents in the area average $22.35 and the average list rent is $22.36 signifying a balanced market but not one where demand is exceeding supply at this time.

There is no construction activity at this time.

Mid-Tacoma Retail Market

At 950,000 square feet, the Mid-Tacoma market is not substantial. Vacancy rates are suggested to be 4.7% with 44,000 of space available. Absorption was negative by 15,343 square feet in 2011 but has recovered somewhat in the first quarter of 2012 with positive absorption of 7,850 square feet.

Average rental rates for occupied space were measured at $17.07NNN and the listing price for available space surveyed was just $8.94NNN. The difference can be attributed to the lower quality of much of the surveyed space.

South Tacoma Office Market

Comprising 788,388 square feet, the South Tacoma office market is the second smallest along the South alignment. Vacancy rates are suggested to be 15.1% with 119,331 square feet of space available to let. Absorption of space was negative by 23,013 in 2011 and a further 3,594 square feet was returned to the market in the first quarter of 2012.

Rental rates have moved little since mid-2010 and are currently measured at $18.71. Of the 135,580 square feet of available space that was surveyed, asking rents are $15.89 suggesting that owners are conceding to prospective tenants.

South Tacoma Retail Market

The South Tacoma market is a substantial one at 3.33M square feet. With a prevailing vacancy rate of 3.2% and just 186,000 square feet of available space, the market is performing well. Total net absorption in 2011 was measured at 13,156 square feet and an additional 12,214 square feet of space was absorbed in Q1 2012.

Occupied space averaged a NNN rental rate of $19.05 at the end of Q1 2012 and surveyed available space was asking a weighted average of $19.01NNN suggesting a balanced market.

NORTH CENTRAL ALIGNMENT

Downtown Seattle Office Market

Unsurprisingly, the Downtown Seattle office market is the largest of any alignment. At 43.1M square feet, the current vacancy rate is measured at 12.1% with 6.33M square feet of available space.

After a major decline in occupancy from mid-2008 through 2009, it is pleasing to see that absorption has been positive for the past 10 quarters with 3.5M square feet of space absorbed by the market.

Even with this improvement in leasing activity, the total average rental rate paid by tenants has still been falling – indicative of a market where owners are seeking occupancy over rent. Currently rates average $27.14 per square foot.

We surveyed 1.53M square feet of space and it was interesting to note that the average asking rent was a more modest $21.68 per foot.

There is currently 544,082 square feet of product under construction in the market.

Downtown Seattle Retail Market

The retail market proximate to the light rail stations comprises 9.439M square feet and, with a vacancy rate of 2.1% is the best performing market in the area. Although suffering from 42,717 square feet of space being returned to the market average lease rates have improved in Q1 2012 and are now suggested to be $25.18NNN. This fits with the data on available space where average asking rents are suggested to be $25.59NNN.

16,200 square feet of space was delivered the market in Q4 2011 and there is no additional development activity at this time.

Capitol Hill Office Market

The Capitol Hill office market comprises 1.25M square feet and has a current vacancy rate of 4.8%. With only 125,000 of available space, rental rates have been rising and are now measured at $25.38 per square foot. Of the 105,995 square feet of available space surveyed the weighted average asking rent was $24.49 but there are few large spaces available.

There is no construction activity at this time.

Capitol Hill Retail Market

The Capitol Hill retail market consists of 1.86M square feet with a total vacancy rate of 2.1%. That said, absorption of space was negative through 2011. Total average rental rates were measured at $22.42NNN in Q1-2012. Available space in the area has an average asking rate of $19.53NNN per square foot.

There was one 7,000 square foot development under construction at the time of our survey.

Central District Office Market

The Central District office market comprises 2.2M square feet of space in 91 buildings. The current vacancy rate is 3.2% and there is 129,000 square feet of available space. Total absorption of space was negative for 2011 but 6,735 square feet of office space was absorbed in Q1-2012. Even with the space that was given back to the market in 2011, total average rental rates have been rising and are now measured at $26.14. 122,000 square feet of available space was surveyed with a weighted average rental rate of $21.30.

There is no new construction activity at this time.

Central District Retail Market

The Central District retail market comprises 1.39M square feet of space and has a total vacancy rate of 4.4%. The stock is older and, as such, rental rates are depressed with the average rate being $16.41NNN per square foot. Of the 36,957 square feet that was surveyed, average asking rates were $15.64NNN.

There is no new construction activity at this time.

First Hill Office Market

The First Hill office market is fairly large measuring 4.3M square feet. The current vacancy rate is measured at 7.4% with 160,000 of space available. As there is a preponderance of medical facilities in the area, rents are high for a non-CBD market and are measured at $32.31 per square foot. In looking at the available space surveyed, the average list price is $26.88 per square foot but this lower rate is due to several older class C spaces that were within the survey.

There is no construction activity at the present time.

First Hill Retail Market

The First Hill market comprises 2.12M square feet with an average vacancy rate of 2%. With such a tight market, lease rates have been rising precipitously and are now measured at $27.73NNN an increase of 50% from the cyclical low of $18.53NNN seen at the start of 2011 but current rates are still well below the cyclical high of $31.41NNN seen in Q4 2008.

There are 2 developments currently under construction but the yield form these will be just 11,330 square feet.

Greenlake/Wallingford Office Market

The Greenlake/Wallingford office market comprises 1.757M square feet and has a total vacancy rate of 3.7%. Occupancy improved in 2011 but his came at a price with rents declining by 5% to an average of $20.51.

The 79,534 square feet of available space that was surveyed showed an average list price of $15.20 per foot but this is again a function lower quality product reducing the averages.

There is no construction activity at the present time.

Greenlake/Wallingford Retail Market

The Greenlake/Wallingford retail market comprises 2.32M square feet of space and has a total vacancy rate of 2.4%. There is just 55,000 square feet of space available. Rental rates have been rising modestly and are now measured at $17.25NNN. Our survey of available space comprised 38,800 square feet with a weighted average asking rent of $17.42NNN.

There is no construction activity at the present time.

University District Office Market

The University District comprises 1.08M square feet of space and has a total vacancy rate of just 0.7% with 7,200 square feet of available space. Rental rates remain static at $29.79 per square foot. We surveyed all of the available space in the market and asking rates were measured at $26.80 as all available space is either class B or class C quality.

There is no construction activity at the present time.

University District Retail Market

The retail market in the University District comprises 2.2M square feet and has a total vacancy rate of 2.6%. Absorption of space was positive in 2011 and currently the average rental rate is measured at $20.15NNN. Our survey comprised 42,197 square feet with an average asking rate of $18.78 and ranging from $12 to $34.50NNN

There is no construction activity at the present time.

North Seattle Office Market

The North Seattle market area comprises 1.59M square feet of space within 85 buildings. The current vacancy rate is suggested to be 9.6% with 154,000 of space available. Absorption of space was positive in 2011 and rental rates have reflected this with the average rate increasing from $21.86 in Q1-2011 to $22.88 in Q1 2012.

We surveyed all available space and the average asking rate was measured at $22.04.

There is no construction activity at the present time.

North Seattle Retail Market

The retail market in North Seattle was measured at 3.87M square feet with a total vacancy rate of 5.3%. There were marginal gains in occupancy in 2011 but absorption of 26,000 square feet in Q1 2012 bodes well for the future. Average rental rates were suggested to be $19.09NNN in Q1-2012.

Our survey comprised 143,000 square feet of space with an average list price of $16.72NNN. Rates were substantially higher in the area around Northgate Mall.

There is no construction activity at the present time.

Shoreline (part) Office Market

The South Shoreline market comprises 377,782 square feet of space with a total vacancy rate of 7.4%. Occupancy has been growing through 2011 and into 2012.
Average achievable lease rates are measured at $24.60 per square foot and are higher than they were a year ago. The average list price for office space surveyed was $23.02 in generally smaller spaces.

There is no construction activity at the present time.

Shoreline (part) Retail Market

The retail market comprises 1.62M square feet of space and has a current vacancy rate of 7.4%. The area has been returning space tot eh market since 2008 but did see modest increases in occupancy early in 2012. As the market has been suffering, so have achievable lease rates with the current achievable rate being $15.45NNN. Available space surveyed has an asking rate of $16.28NNN.

There is no construction activity at the present time.

South Central Alignment

Beacon Hill Office Market

Comprising 2.2M square feet, the Beacon Hill office market has higher than average vacancy rates which are measured at 21.4%. the market was hit hard in early 2011 with 188,025 square feet of space being returned to the market. Even with the high level of vacancy, effective rental rates have remained fairly static at $22.66 per square foot. We surveyed 257,000 square feet of available space and, unsurprisingly, asking rates were lower than market and averaged $18.11.

There is currently one 163,344 square foot development under construction and scheduled to come to market in Q2 2012.

Beacon Hill Retail Market

The Beacon Hill retail market comprises 1.7M square feet and has a vacancy rate of 2.3%. Rental rates are estimated at $16.58NNN and this matches our survey where the list price for available space was $16.14NNN.

There is no construction activity at the present time.

Rainier Valley Office Market

This is a small market at just 274,113 square feet. Current vacancy rates are measured at 9.6% with 26,319 square feet of available space. Total absorption of space was negative by 4,816 square feet in 2011 but saw an uptick in Q1 2012. Rental rates of occupied space are measured at $17.95 per square foot. We surveyed all available space and list prices are suggested to be $14.50 per foot for class B and C space.

There is no construction activity at the present time.

Rainier Valley Retail Market

The Rainier Valley retail market is equally spall comprising just 767,732 square feet. Total vacancy is suggested to be 5.1% and the market experienced positive absorption of 26,500 square feet in 2011. The existing stock is dated and this is reflected in the prevailing rental rate of $13.83NNN. Our survey of the area suggests an average asking rent of $15.24NNN.

There is no construction activity at the present time.

SeaTac Office Market

The SeaTac office market comprises 1.13M square feet of space and is one of the worst performing markets with a total vacancy rate of 34.7%. Rents have been declining over the past year and are now suggested to exhibit a total average rate of $21.18 per square foot.

Of the 159,000 available square foot surveyed, the average asking rate was $18.83.

There is no construction activity at the present time.

<u>SeaTac Retail Market</u>

The SeaTac retail market surrounding the station is fairly modest at 947,000 square feet. Current vacancy rates are suggested to be 3.4% with a total of 30,294 square foot of space available. Absorption of space was modestly positive in 2011 and an additional 5,000 square feet was absorbed in Q1-2012.

Total rental rates achieved ended 2011 higher than they began but saw some contraction in Q1-2012 and were measured at $21.12NNN. We surveyed all the available space and the weighted average asking rate was $20.97NNN.

8,500 square feet of space was delivered in Q4-2011 and there is no additional construction activity at this time.

<u>Riverton/Tukwila Office Market</u>

At 6.57M square feet, the Tukwila market is one of the largest along the alignment. Total vacancy is measured at 16.8% with 764,000 square feet of available space. Total absorption of space was positive in 2011 but over 91,000 square feet was returned to the market in Q1 2012.

Achievable rental rates rose through 2011 but contracted in early 2012 and are now measured at $20.46 per square foot.

The weighted average asking rent for available space was measured at $19.92 per square foot.

There is no construction activity at the present time.

<u>Riverton/Tukwila Retail Market</u>

The Tukwila retail market measured 6.47M square feet and has a vacancy rate of 7.8%. Absorption of space was positive in 2011 but 42,000 square feet was returned to the market in early 2012. Current rental achievable rates are measured at $19.82NNN and this is higher than at any time since mid-2010.

The average listing price of available space was measured at $19.44NNN,

There is no construction activity at the present time.

<u>Federal Way Office Market</u>

The Federal Way office market comprises 2.46M square feet and data suggests that the market has an overall vacancy rate of 21.1%. Total absorption of space was positive in 2011 and the vacancy rate has actually been declining since 2009 when it was measured at 28.7%.

Rental rates have been stable and the current average rate paid is $19.64, somewhat higher than the current asking rent of $18.20.

There is no construction activity at the present time.

<u>Federal Way Retail Market</u>

Federal Way comprises 5.87M square feet of space and has a total vacancy rate of 12.7%. Since 2009 substantially more space has been returned to the market than has been absorbed. In 2011, 125,000 square feet of space was vacated but this was offset with the leasing of 137,160 square feet in Q1-2012. Current lease rates are $15.13NNN and modestly higher at $18.46NNN for currently available space.

There is no construction activity at the present time.

Kent Office Market

The Kent office market measures 1.7M square feet and has a current vacancy rate of 23.6%. As much as the market saw positive absorption of space in 2011, it gave back 78,000 square feet in early 2012. As such, achievable lease rates have been compressed and now stand at $20.47. Of the 468,000 square feet surveyed, the averaging asking lease rate was $13.84 – a function of the lower quality of space available in the marketplace at this time.

There is no construction activity at the present time.

Kent Retail Market

The Kent retail market measures 1.86M square feet and has a total vacancy rate of 9.5%. After shedding 42,400 square feet in 2010 the market rebounded modestly with positive absorption of 2,240 square feet in 2011 and an additional 7,630 square feet was absorbed in Q1-2012.

With the high vacancy rate, achievable lease rates are depressed and currently measure $15.78NNN. The available space in the market has a slightly higher asking rate of $17.75NNN.

There is no construction activity at the present time.

Des Moines Office Market

The Des Moines office market is the smallest in this alignment at 350,000 square feet and is currently 15% vacant. The market was hit hard at the end of 2011 with the return of 54,916 square feet to the inventory. Lease rates achieved in the first quarter of 2012 were $19.26 but the inventory surveyed was generally older class B space that averaged $14.61 per square foot.

There is no construction activity at the present time.

Des Moines Retail Market

The Des Moines retail market measures 1.7M square feet and has a total vacancy rate of 11%. Absorption of space was negative 48,000 in 2011 but there was a small gain of 3,936 square feet in Q1-2012.

Lease rates were measured at $16.75NNN in the first quarter of 2012 and average asking rates were somewhat higher at $20.96NNN.

There is no construction activity at the present time.

Auburn Office Market

The Auburn office market measures 929,000 square feet with a total vacancy rate of 11.5%. The market saw positive absorption of 11,700 square feet in 2011 but gave back 21,669 square feet in the first quarter of 2012.

Total average lease rates were measured at $22.33 in Q1-2012 while average asking rates were lower at $16.62.

There is no construction activity at the present time.

Auburn Retail Market

The Auburn retail market measures 3.7M square feet – a function of the regional Mall that is in the area – vacancy rates were measured at 6.4%. The market absorbed 11,100 square feet in 2011 but gave back 16,475 square feet in the first quarter of 2012. Prevailing lease rates were calculated at $15.14NNN in Q1 with average asking rates for available space slightly higher at $18.72NNN

There is no construction activity at the present time.

CONCLUSIONS

The results of our survey were really not surprising in any way. The office markets in more urbanized areas appear to be showing signs of improvement but are still suffering in many of the more suburban markets. The retail market is doing better but it was interesting to note that in both the retail and office markets there was very little in the way of development activity. For both land uses we put this down to the prevailing rental rates that are insufficient to justify new development from occurring.