CITY OF OLYMPIA

Housing Study

March 2010

HEARTLAND

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CITY OF OLYMPIA HOUSING STUDY – SECTION I

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ENGAGEMENT

Heartland was engaged by the City of Olympia (City) to assist with refining and implementing a revitalization and redevelopment strategy for downtown Olympia. One of the City's core objectives for this strategy is to expand the availability of market rate and workforce multi-family housing in downtown by encouraging development of new mixed- or single-use stacked-flat housing projects.

There is currently a very limited supply of existing apartment and condominium product in the downtown area. The City hopes to create a more vibrant, attractive downtown area by increasing the number of units and diversity of housing options. Adding residents to the downtown is seen by the City to be key to achieving its other goals for downtown, which include: strengthening the existing business core; promoting a vibrant arts and cultural environment; and fostering an 18-hour downtown. This housing study is broken into two sections:

- Section I:
    - Discussion of the Competitive Market Area from which Downtown Olympia can draw;
    - Review of Regional Economic Trends influencing demand for housing in the Competitive Market Area;
    - Characterization of the existing inventory of for-rent and for-sale product in the competitive market area, including comparison of market-rate rental product to affordable rental product;
    - Review of planned supply pipeline;
    - Determination of the demand for both for-rent and for-sale residential product in downtown Olympia over the next five to ten years; and
    - Determination of supportable rents/sale prices for desired stacked-flat product type.
- Section II:
    - Comparison of demand to inventory of land in the downtown with propensity to redevelop; and
    - Analysis of economic performance of select opportunity sites under various redevelopment scenarios to determine if redevelopment is economically competitive with other land use alternatives; if not, determining what adjustments can/need to be made so that market metrics will support new housing development; and, if adjustments cannot bridge the gap, determining what alternative development prototypes might prove feasible in the downtown.

Section I is encompassed by this report. This information will help to inform the City's goals and expectations for redevelopment and will be used to help create market-based strategies to encourage this type of development, which will be taken up in Section II.

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EXECUTIVE SUMMARY

MARKET AREA DELINEATION

The City of Olympia proper is home to over 45,000 people, while the broader Olympia metropolitan area – comprised of the cities of Olympia, Lacey, and Tumwater – has a population of approximately 98,000 people and contains the area's retail and employment base.

The Competitive Market Area (CMA) for this analysis is considered to be the three-city Olympia metropolitan area while the Study Area is considered to be downtown Olympia. Demand for housing in downtown Olympia is largely dependent on the economic and demographic conditions and trends of this larger CMA.

ECONOMIC OVERVIEW

According to the United States Department of Commerce, the severe US economic recession that began in December 2007 is technically over as measured by positive GDP growth. Many challenges loom ahead, however, as record high unemployment rates, low consumer spending, and increasing uncertainty in commercial real estate markets hamper strong growth. Companies are likely to show restraint in hiring until there is palpable evidence of economic improvement, portending a recovery without job growth for at least the majority of 2010.

Regionally, this slow job growth means it may take until 2013 to recover all of the 74,000 jobs lost during this recession. Nonetheless, the Puget Sound region has managed to maintain generally strong fundamental economic growth indicators in the face of this recession, such as the above average employment and income figures and below average unemployment. The region has consistently been viewed by out of state and international investors as a favorable location to make capital investments, including in commercial and multi-family residential real estate, and retains a position as one of the top 10 investment markets for 2010 due largely to the region's strong technology and manufacturing industry employment base, location on the Pacific Rim, trade through the region's ports, and the area's outstanding quality of life.

Thurston County's economic health largely mirrors that of the broader Puget Sound region but enjoys more stability thanks to the influence of state government. Total state government employment accounts for about 22 percent of total metropolitan workforce. This stability has helped to keep Thurston County's unemployment between 1.5 and 2.0 percent lower than that of the region overall.

APARTMENTS

Recent years witnessed increased demand for apartment product in the Puget Sound region, which, coupled with decreasing supply, translated to substantial upward pressure on rents through the end of 2007 while driving vacancy rates to historic lows. Times have changed, however, as negative regional job growth and increasing supply from both new apartment construction and a shadow condominium rental market have served to flatten rent growth and drive vacancy rates above historic averages. Despite these near-term trends, over the next five to ten years, apartments should receive a larger than average share of housing consumers because of the impact of Generation Y - individuals born between 1981 and 1999 - on the housing market.

Approximately 48 percent of households in the CMA rent and the majority live in multi-family homes. Approximately 59 percent of the rental pool consists of multi-family apartment product. This translates to 13,381 apartment units in the CMA. The competitive market's multifamily housing stock is made up largely of older wood-framed low-rise, surface parked buildings often referred to as 'garden style' or 'woody walk-up' apartments. The current vacancy rate for apartments is 8.6 percent.

Downtown housing stock is characterized by low-rise product type on the fringe, with product in downtown proper consisting mostly of income-restricted buildings or rehabbed units located on the upper floors of older historic buildings. Rents are slightly higher in downtown than in the CMA, averaging $1.14 per square foot (PSF), compared to just $1.00 PSF in the CMA.

Interestingly, the rents at both Boardwalk Apartments and Stuart Place – two income restricted properties –are generally in the range of the asking rents for most of the market rate projects. This suggests that current "market" rents in downtown are just 50 to 60 percent of AMI. This "de-facto" affordable status of most of the downtown housing stock is largely attributable to the age of the buildings. This also suggests that from an ability to pay perspective, product catering to median income wage earners could command higher rents than current downtown averages.

There are seven apartment projects in the pipeline for the CMA, but only one of these – Colpitt's 4th Avenue Mixed Use Building - is targeted for downtown Olympia. It is endemic of the type of mid-rise, stacked-flat, mixed-use development that the City wishes to encourage in its downtown, and its completion would represent the first new mid-rise residential product built in downtown in over 10 years.

The fact that almost all of the product in the CMA is either older, income restricted, or of garden-style variety means that current rental rates in the CMA and downtown set a minimum floor for new product but are not a very useful indicator of maximum achievable rents for desired product type for the downtown core. While fairly abundant in first-tier regional cities, this type of stacked flat product does not currently exist in the CMA. Review of product comparables from other geographies suggests an achievable rental range in the neighborhood of $1.70 PSF, roughly a 47 percent increase over the average rent of $1.14 per square foot for the eight projects sampled in or near downtown Olympia. It is also consistent with what median income wage earners in the CMA could afford to pay and spend no more than 35 percent of their income on rent.

CONDOMINIUMS

The multi-family for-sale market both in the Puget Sound region and nationally has been hampered by the contraction of credit, the expansion of which in previous years had fueled rapid price escalations and heavy construction activity, as developers flooded the market with new condominium projects and condo conversions. This has resulted in a reduced pool of buyers, which, coupled with increased inventory, has exerted downward pressure on prices and reduced sales volumes. Somewhat ironically, price depreciation and historically low interest rates have served to drive the home affordability index below the 40-year average for the region, making it one of the best times in the past three decades to buy a home for those who can meet more stringent mortgage underwriting requirements.

Condominium sales have historically made up a small percentage of residential sales in Thurston County. Approximately 52 percent of units in the CMA are owner-occupied, with multi-family product accounting for just 18 percent of owner-occupied units. Sales volumes for all residential product (single-family and multi-family) in the CMA have been roughly the same in 2009 compared to 2008, while prices are down roughly nine percent year over year. Lower prices are helping to move product and fewer listings are helping keep inventories in check. There is currently a 5.9-month inventory of homes, down from a 6.7-month supply a year ago.

For condominium product, however, the picture is less positive. Sales volumes for all condo product in 2009 are down 69 percent from what they were a year ago. Based on the current pace of sales, there is almost 16 months of existing condo inventory in the CMA, up from about five (5) months a year ago. These trends are exacerbated for new condo construction, with sales volumes down over 80 percent from last year, and a year and a half's worth of inventory, up significantly from just 3.5 months of inventory at this same time last year.

Nearly all of the existing condominium product exists as either two to three story low-rise buildings that are virtually identical to those that make up the bulk of the apartment market, or as ground-related townhome-type product. The price per square foot ranges from about $140 - $170 PSF.

There are, however, two recently completed condominium projects that represent the level of density the City hopes to encourage downtown: Smyth Landing and Union Heights. Both of these projects have experienced very slow sale volumes, selling less than one unit per month. This weak absorption suggests product misalignment with target market demand and may indicate a larger problem of lack of adequate fundamentals to support construction of additional stacked-flat condominium product downtown.

As with apartment buildings, there are few examples of successful new mid-rise condominium product in the CMA. Review of product comparables from other geographies suggests an achievable weighted average sales value of $323 PSF, which is approximately 22 percent less PSF than the prices for the two projects in Olympia.

DEMAND ANALYSIS FOR STACKED-FLAT PRODUCT

Heartland created a model that determines demand for both for-sale and for-rent residential product in the CMA using industry-standard methodology designed to illustrate how many households are likely to rent an apartment or buy a condominium in downtown Olympia over the next ten years.

Childless singles and married couples between the ages of 24 and 74 are the main population cohorts of the target market. This broad category of renters and buyers fit the profile of people who are likely to seek out an urban, downtown location to live, primarily because of the social and cultural amenities offered, proximity to the State Capitol complex and other employment centers and the ability to enjoy a 'lock and go' maintenance free lifestyle that is provided by living in a professionally managed building or condominium.

Our findings indicate that there is demand for between 59 and 93 new apartments per year and between 24 and 37 new condominium units per year in downtown Olympia over the next ten years. These figures reflect a capture rate of between 25 to 50 percent of structural growth of the identified target market and a five percent capture rate of annual turnover and relocation demand.

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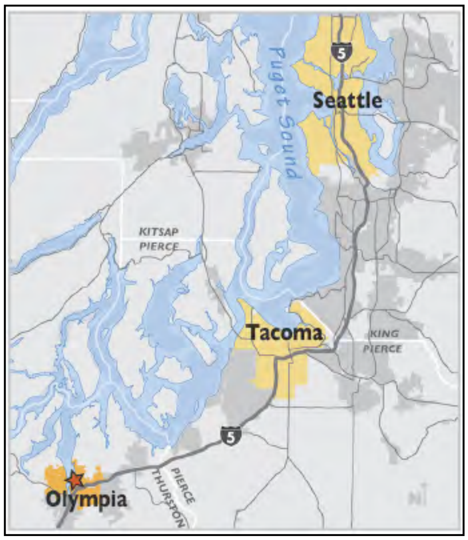
MARKET AREA DELINEATION

COMPETITIVE MARKET AREA

Olympia is the state capital of Washington and both the county seat and largest city in Thurston County, which is home to over 245,000 people. Regionally, Olympia is located 60 miles south of Seattle and 110 miles north of Portland. The City of Olympia proper is home to over 45,000 people, while the broader Olympia metropolitan area – comprised of the cities of Olympia, Lacey, and Tumwater – has a population of approximately 98,000 people. While Olympia is the largest of these three cities, Lacey has been growing the most rapidly over the past 20 years and is projected to surpass Olympia in size by 2019 as the County continues to grow eastward toward Pierce County.



The Competitive Market Area (CMA) for this analysis is considered to be the three-city Olympia metropolitan area while the Study Area is considered to be downtown Olympia. The CMA contains the area's retail and employment base. Demand for housing in downtown Olympia is largely dependent on the economic and demographic conditions and trends of this larger CMA. These trends are examined in detail in the demand analysis section of this report.

STUDY AREA

Downtown Olympia is the commercial, cultural, entertainment, and recreation center for the South Puget Sound region, serving towns along the I-5 corridor between Tacoma and Vancouver as well as Grays Harbor and the Olympia Peninsula. Characterized by small blocks and a pedestrian-friendly urban form, it marks a notable departure from the land use patterns of the rest of the CMA. Downtown contains over 500,000 square feet of ground floor retail space featuring fashion boutiques, art galleries showcasing the works of local painters and sculptors, coffee houses, and nightclubs. A number of theatrical experiences are available with companies such as Capital Playhouse, Olympia Family Theater, Theater Artists Olympia (TAO), Olympia Little Theater, and Harlequin Productions at the historic State Theater calling downtown home. The Olympia Symphony Orchestra performs five regular season concerts at the Washington Center and two pop concerts.

Downtown is home to five parks totaling approximately 31 acres of recreation and open space, along with 5.8 miles of continuous, grade-separated jogging and biking paths.[1] The Port of Olympia's Market District features the extremely popular Olympia Farmer's Market, home to 120 vendors and the second largest outdoor market in the state. Within a quarter mile of the retail

[1] Percival Landing (3.38 acres), Heritage Fountain Park (1.11 acres), Heritage Park (24 acres) Sylvester Park (1.43 acres), and Port Plaza (1.0 acre). Heritage Park trails total 4.7 miles, and the East Bay Promenade and Percival Landing Boardwalk provide an additional 1.1 miles of trails.

core there are four marinas providing over 400 boat slips, with an additional 700 slips located within a mile of downtown at Swantown Marina.[2] The State Capitol campus is adjacent to downtown and attracts 500,000 visitors annually.

Intercity Transit's downtown transit center services 21 routes, connecting downtown to the rest of the metropolitan area, including the CMA's three major institutions of higher learning: St Martin's University (1,334 students), The Evergreen State College (4,696 students), and South Puget Sound Community College (6,800 students). Each of these colleges is located within a four-mile radius of downtown.

The Port of Olympia's Port Peninsula borders downtown Olympia to the north, and is divided into five districts:

- Swantown Marina and Boatworks features more than 700 permanent moorage slips, guest moorage, a public launch ramp, and a 77-ton Travelift to haul boats in and out of the water.

- The Market District is a vibrant commercial waterfront development that is the home of the aforementioned Olympia Farmer's Market.

- At 60 acres, the Marine Terminal is the largest among the districts and consists of three deepwater berths, a U.S. Customs bonded warehouse, and a complete cargo yard. It specializes in handling unique, "break-bulk" cargoes, such as forest products, wind energy, heavy equipment and military equipment.

- North Point is located at the northern tip of Port Peninsula and is currently home to Anthony's Hearthfire Grill and KGY radio. An additional 2.4 acres in this district was recently made available through an RFP in October 2009; MJR Development of Kirkland was the selected respondent. MJR's response included concepts for an approximately 5,500-square foot restaurant and either a 50,000-square foot office building with ground floor retail uses, or a 92-room hotel.

- The East Bay District consists of 13.3 acres of redevelopable property bordering the East Bay of Budd Inlet. With significant frontage on State Avenue, it is the closest of the five districts to downtown. Development in this district is being catalyzed by the Port's construction of over $8 million of public infrastructure and site remediation, a new $18 million Hands On Children's Museum (HOCM), a 30,000-square foot public plaza, and a new water quality laboratory and administrative-education center for the LOTT Alliance.[3] Through an RFQ/P process, the Port selected Tarragon as the preferred developer for redevelopment of the remaining 6.83 acres of land. Tarragon's June 2009 RFP response anticipated 115 apartments, a 100-room hotel, approximately 160,000 square feet of office space, and 17,000 square feet of standalone retail use. The first closing of property by Tarragon is scheduled to occur by December 2012.

[2] Fiddlehead Marina, One Tree Marina, Martin Marina, and the Olympia Yacht Club are all clustered around Percival Landing, while the Port of Olympia's 700-slip Swantown Marina is located on the East Bay of Budd Inlet. Swantown Marina is currently undergoing a $1.4 million renovation.

[3] The new HOCM facility is being constructed through a Public Facilities District, with the City of Olympia serving as the sponsoring entity. As such, the City is the contracting party for the purchase of land from the Port.

ATTRACTIONS

- **A** Olympia Farmers' Market
- **B** Warehouse Rock Gym
- **C** Olympia Transit Center
- **D** Olympia Center
- **E** McMenamin's Spar Cafe
- **F** Harlequin Productions/State Theater
- **G** Capitol Theater
- **H** Capitol Playhouse
- **I** Washington Center for Performing Arts

GREENSPACE

- **J** Percival Landing Park
- **K** Heritage Park
- **L** Sylvester Park

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ECONOMIC OVERVIEW

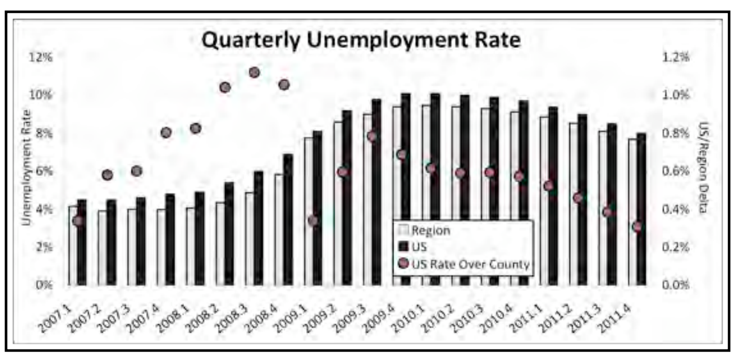
NATIONAL ECONOMIC CONDITIONS

According to the United States Department of Commerce, the severe US economic recession that began in December 2007 is technically over, as GDP grew at a 2.8 percent annualized rate in the third quarter of 2009, up from a negative 0.7 percent rate the previous quarter. This recovery has been aided by the actions of the Federal government, which, following the crash of the mortgage market and ensuing collapse of many of the financial pillars of the banking industry in late 2008 and early 2009, worked quickly to restore confidence and provide relief through programs including the $700 billion Troubled Assets Relief Program (TARP) and $787 billion American Recovery and Reinvestment Act (ARRA).

Many challenges loom ahead, however, as record high unemployment rates, low consumer spending, and increasing uncertainty in commercial real estate markets hamper strong growth. Some observers have described the trajectory for recovery from this recession as having a "U" shape, as opposed to the "V"-shaped recoveries characteristic of other recent but shorter recessions of the past several decades, and predict that it will take several years for the economy to return to pre-2008 levels. Given that the unemployment rate is a trailing indicator of economic performance, concerns about a mostly jobless economic recovery seem warranted at least through the middle of 2010, as companies will show restraint in hiring until there is palpable evidence of economic improvement. Thus even as the economy improves, there is likely to be a lag in any significant decrease in the unemployment rate.

REGIONAL ECONOMIC CONDITIONS

As evidenced by regional employment data, it appears the Puget Sound region is lagging in the national recovery cycle by roughly a quarter, due in part to the fact that this region was later to enter the downturn than the nation as a whole. The release of second quarter 2009 employment numbers revealed that the decline in regional employment was only slightly less negative than the national rate, about a tenth of one percent, with the current unemployment rate statewide sitting at 9.2 percent and regionally at 8.6 percent. This places regional unemployment significantly lower than the current national average of 10 percent, a trend that is consistent with historic patterns.



The Puget Sound Economic Forecaster, published by Conway Pedersen Economics, projects that the region's economic recovery will trail that of the nation's by one or two quarters, thus beginning in the Spring of 2010. It will be characterized by slow job growth, such that it will take until the first quarter of 2013 to recover all of the 74,100 jobs that are projected to be lost regionally by the time this recession subsides. The continuation of a weak dollar, however, could portend a quicker regional economic recovery by fueling increased demand for US exports, given that the State of Washington is the most trade-dependent in the nation.[4]

In the face of this recent recession, the Puget Sound region has managed to maintain generally strong fundamental economic growth indicators, such as the above average employment and income figures and below average unemployment. The region has consistently been viewed by out of state and international investors as a favorable location to make capital investments, including in commercial and multi-family residential real estate, and retains a position as one

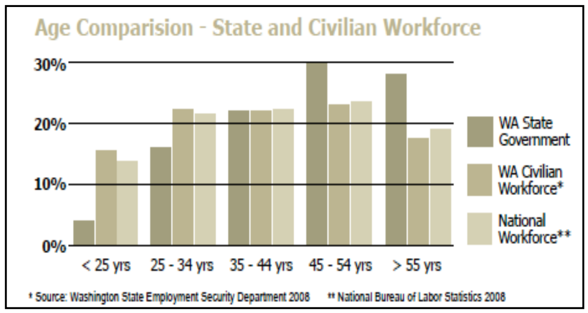
[4] Washington Council on International Trade

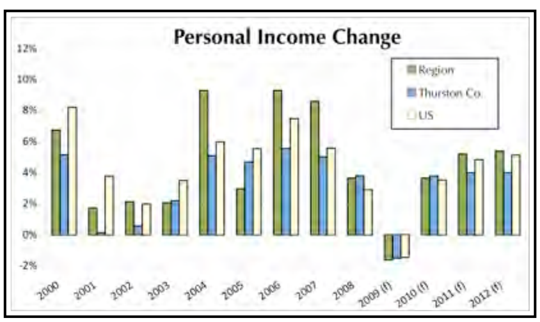
of the top 10 investment markets for 2010 due largely to the region's strong technology and manufacturing industry employment base, location on the Pacific Rim, trade through the region's ports, and the area's outstanding quality of life.[5]

THURSTON COUNTY ECONOMIC CONDITIONS

Economic conditions in the three-city Olympia metropolitan area have largely mirrored those of the Puget Sound region. Personal income growth has trailed that of the region, however the County has had slightly lower average unemployment rates and slightly stronger employment growth over the last two years. The County's more resilient employment market is due to the fact that the State Capitol is located in Olympia, resulting in an economic base of government jobs that are generally less sensitive to recessionary trends. This characteristic can positively affect investor perceptions of capital city markets, especially among foreign investors who are comforted by the security and stability of government-based economies.

The depth and breadth of this recent economic recession, however, has challenged even the stability of government employment. The State collected $2.6 billion less tax revenue than anticipated in 2008, which combined with spending increases from rising caseloads and enrollments, has resulted in a projected $5.7 billion budget shortfall for 2009–11 biennium. In light of then-forecasted shortfalls, Governor Gregoire instituted a hiring freeze for all state agencies in August 2008, which has resulted in about a four percent reduction in the size of the State workforce. Total government employment accounts for more than one-third of total nonagricultural employment in the County, with state government employment accounting for 75 percent of all government jobs.





According to the Washington State Department of Personnel's 2009 State Workforce Report, as of June 2009 state government employment accounted for 21,495 jobs, or about 22 percent of the Olympia metropolitan region's workforce. State employees enjoy an average salary of $53,858, which is consistent with the average for the City of Olympia of $50,843.[6] State workers tend to stay in their jobs for long periods of time. In 2009, the average length of service among all state workers was 12 years. As a fallout of this, the State workforce also tends to be older than that of the County, with 70 percent of state workers over age 40 and 44 percent of state workers over age 50. New hire salaries are closer to the median wage for the County, sitting at $39,228 in 2008.[7] As a result of these trends, personal income growth has dropped consistently since 2007. However, positive personal income growth of four to five percent annually is expected between 2010 and 2012.

[5] *ULI Emerging Trends in Real Estate 2010 Economic Forecast*. Seattle was ranked 6th overall.

[6] US Census Bureau American Fact Finder.

[7] The median wage in Thurston County in 2008 was $40,718 as reported in the Thurston Regional Planning Council's *Profile 2009*.

REGIONAL AND CMA RESIDENTIAL REAL ESTATE OVERVIEW

APARTMENTS

Recent years witnessed increased demand for apartment product in the Puget Sound region, which, coupled with decreasing supply, translated to substantial upward pressure on rents through the end of 2007 while driving vacancy rates to historic lows. Times have changed, however, as negative regional job growth and increasing supply from both new apartment construction and a shadow condominium rental market have served to flatten rent growth and drive vacancy rates above historic averages.

Some parts of the region have seen delivery of newly completed projects in 2009 as projects financed during better economic times came to completion, and this trend will continue into 2010. However, the significant defaults some banks have incurred on maturing construction loans has resulted in a much more conservative underwriting environment for new loans, requiring higher debt service cover ratios and lower loan-to-value ratios. This, in turn, has resulted in greater equity requirements of developers, which has served to damper the appetite of many developers to take on new projects. The federal government has offered some relief from these more stringent construction loan terms through loans backed by the quasi-governmental entities Fannie Mae and Freddie Mac, but with strings attached such as prevailing wage requirements and extensive documentation paperwork. The unfamiliarity many developers have with these programs and their conformance requirements have caused them discomfort and thus far have failed to result in new lending in any significant quantity.

Despite these near-term trends, over the next five to ten years, apartments should receive a larger than average share of housing consumers because of the impact of Generation Y - individuals born between 1981 and 1999 - on the housing market. With a population of 80 million, Gen Y is actually larger than the Baby Boomer Generation and comprises 27 percent of the United States population. Their age gives them a proclivity to rent, which bodes well for the nation's apartment market. Furthermore, individuals belonging to Gen Y tend to prefer urban areas with creative energy, pedestrian-accessibility, and transit connectivity. This generation also has a proclivity for smaller units that enable them to live alone affordably versus living communally in non-family households. This will fuel a trend toward smaller, but more efficient units while also driving household sizes down and total unit delivery requirements up.

CONDOMINIUMS

The multi-family for-sale market both in the Puget Sound region and nationally has been hampered by the contraction of credit, the expansion of which in previous years had fueled rapid price escalations and heavy construction activity, as developers flooded the market with new condominium projects and condo conversions. This has resulted in a reduced pool of buyers, which, coupled with increased inventory, has exerted downward pressure on prices and reduced sales volumes. Adding to this, concerns about overexposure have caused both the FHA and Fannie Mae to institute minimum pre-sell requirements before buying mortgages secured by multi-family product, while also limiting the number of FHA-backed loans to 50 percent of the units in any one project.[8] With the absence of a healthy alternative secondary mortgage market, these requirements have severely impacted the sales volumes for new multi-family projects, and many potential buyers that made presale commitments have chosen to walk and forfeit their modest presale deposits versus risk closing on a unit in a building that could end up with a number of its units becoming renter-occupied. Somewhat ironically, price depreciation and historically low interest rates have served to drive the home affordability index below the 40-year average for the region, making it one of the best times in the past three decades to buy a home for those who can meet more stringent mortgage underwriting requirements.[9]

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[8] The FHA requires at least 30 percent of units in new buildings be presold before the agency insures any loans. That number will rise to 50 percent in 2011. For Fannie Mae, the requirement is a 70 percent presell. The FHA's rule limiting its backing of loans to 50 percent of the mortgages in any single project drops to 30 percent in 2011.

[9] Conway Pedersen, *Puget Sound Housing Market Index Report*, March 31, 2009.

COMPETITIVE MARKET AREA RESIDENTIAL REAL ESTATE OVERVIEW

Existing housing in the CMA is characterized by single-family homes (63 percent of the total) in suburban settings or neighborhoods, followed by low-rise multi-family residential apartment and condominium buildings (37 percent of the total) in more densely developed suburban fringe and urban settings. The competitive market's multi-family housing stock is made up largely of older wood-framed low-rise, surface parked buildings often referred to as 'garden style' or 'woody walk-up' apartments. These were commonly developed as individual multi-building complexes featuring resident amenities such as a pools, gyms, and community/recreation centers. This product type is characteristic of cities with predominately suburban land use patterns, where land is cheap and abundant, thus making it more cost effective for developers to build wood frame buildings that are surface parked instead of more expensive stacked-flat mid-rise buildings with tucked or structured parking garages like those found in the urban villages and neighborhoods of first-tier regional cities such as Seattle and Tacoma.[10] Much of the housing stock in the CMA is older, having been built in 1960's – 1980's, although there has been a modest amount of new construction as well, albeit of the low-rise, garden style variety.

The table below illustrates the breakdown of dwelling units in the CMA and within each city by type (single or multi-family) and tenure (own or rent). Overall, approximately 52 percent of dwelling units are owner-occupied and 48 percent are rented. Of the rental product, 41 percent consists of rented single-family homes (20 percent of total units) while 59 percent (28 percent of total units) are rented apartments.

CMA Dwelling Units: Type & Ownership

		Single Family				Multi-Family			
Location	Total	Own		Rent		Own		Rent	
Market Area Total	47,210	20,056	42.5%	9,484	20.1%	4,289	9.1%	13,381	28.3%
Olympia	21,290	8,286	38.9%	4,334	20.4%	2,359	11.1%	6,311	29.6%
Lacey	17,980	8,272	46.0%	3,799	21.1%	1,618	9.0%	4,293	23.9%
Tumwater	7,940	3,499	44.1%	1,351	17.0%	313	3.9%	2,778	35.0%

Source: Thurston County Regional Council; US Census; Heartland

Meanwhile, the vast majority – 82 percent - of owner-occupied units consist of detached single-family homes, with attached product accounting for just 18 percent of all owner-occupied units in the CMA. Olympia proper accounts for 45 percent of all units in the CMA, and its representative share of single-family units is in line with that ratio. However, Olympia contains a disproportionately larger share of attached product, accounting for 55 percent of all owner-occupied multi-family product in the CMA and 47 percent of all for-rent product in the CMA.

[10] For the purposes of this analysis, mid-rise stacked-flat construction is considered to be 4-7 stories (3-5 stories of wood-frame construction atop a 1-2 story concrete podium). Taller residential building heights generally require a switch in construction type to either light-gauge metal framing with thin concrete decks, or steel-reinforced concrete post-tension slab, either of which usually sinks project economics in fledgling residential markets. International Building Code (IBC) requirements for fireproofing limit wood frame construction to 4 stories (either standalone, or on top of either one or two floors of concrete). Some cities (Seattle, Tacoma, Bellevue) have modified the IBC to allow 5 stories of wood frame construction based on approval from the fire marshal, and typically with some other fireproofing requirements.

APARTMENTS

OLYMPIA METROPOLITAN AREA (COMPETITIVE MARKET AREA)

There are approximately 13,381 apartment units in the CMA and 6,311 in Olympia. Approximately 10,705 of these apartments are located in 20+ unit buildings in the CMA. [11] The tables below summarize key rental market statistics for the CMA and compares the Olympia area's conditions with other cities in the region to provide context to the market area. The two tables below show current apartment market conditions for the CMA in total and by unit type, and compare the CMA conditions with those of other metropolitan areas in the region. Two of the most important figures to note in the tables are Olympia's current vacancy rate and average rental rate per square foot. The area's vacancy rate of 8.6 percent is considered to be generally healthy but it is also higher than all of the other regional areas noted. Seattle's vacancy rate of 5.6 percent is considered low and indicative of fairly strong demand for rental units. Rates approaching 10 percent are considered a sign of oversupply in a market so Olympia's current rate is not of great concern but does suggest some oversupply and/or weakened demand for rental product.

CMA Apartments

Location	Units	Percent
Market Area Total	13,381	20%
Olympia	6,311	24%
Lacey	4,293	14%
Tumwater	2,778	26%

Source: TCRC; US Census; Heartland

Competitive Market Area Apartment Market Conditions - October 2009, All Building Ages

	All	Studio	1 BR	2 BR / 1 BA	2 BR / 2 BA	3 BR
Vacancy	8.60%	6.30%	7.30%	9.80%	9.10%	10.4%
Average Rent	$813	$613	$701	$793	$938	$1,073
Av g.Unit Size (SF	815	435	655	826	1,020	1,192
Avg. Rent PSF	$1.00	$1.41	$1.07	$0.96	$0.92	$0.90

Source: Dupre+Scott

The CMA's average rental rate of $1.00 per square foot is closest to that of Everett, another second-tier city, and is substantially lower than the average rates for Seattle, Bellevue and Tacoma. This differential in rents between first- and second-tier regional cities is not surprising given that building types in first-tier downtown areas and urban villages mainly consist of stacked-flat mid- and high-rise buildings with structured parking that provide proximity to urban cultural and social amenities and proximity to job centers. This proximity drives up land costs, making it too valuable to squander on surface parking, leads to denser, higher cost methods of construction, and justifies the high rents/sales prices needed to support such construction.

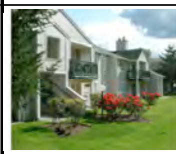
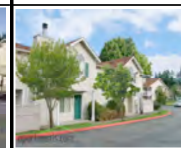
Regional Apartment Market Conditions - October 2009, All Building Ages

	Olympia Area	Tacoma (1)	Seattle (2)	Bellevue (3)	Everett (4)
Vacancy	8.60%	6.60%	5.60%	5.80%	6.70%
Average Rent	$813	$905	$1,177	$1,395	$757
Av Unit Size (SF)	815	736	709	918	772
Av Rent PSF	$1.00	$1.23	$1.66	$1.52	$0.98

1 - Downtown, Stadium; 2 - Downtown, Belltown, Queen Anne, First Hill, Capitol Hill; 3 - Downtown; 4 - Central Everett
Source: Dupre+Scott

Examples of typical existing multi-family apartment buildings that are characteristic of the Olympia area CMA are shown in the table on the following page. Note that the average rents are consistent with those of the CMA as a whole, while all offer similar amenities. The most recently built product – Hearthstone – is commanding a $0.15 - $0.20 per square foot premium to the other comps shown.

[11] Dupre and Scott Apartment Vacancy Report, October 2009.

Competitive Market Area Apartments						
	Property	**Bellweather Apts**	**Emerald Pointe Apts**	**Capitol Heights**	**Hearthstone**	**Cambridge Court Apts**
	Address	1400 Fones Road SE Olympia	1405 Clearbrook SE Lacey	1221 Mottman Rd SW Tumwater	215 Pinehurst Dr. SW Tumwater	2323 9th Ave. SW Olympia
	Units	215	100	115	126	320
	Year Built	1988	1990	1990	2007	1990
	Stories	3	2	3	3	2
	Parking Type	Surface	Surface	Surface	Surface	Surface
	Picture					
1 BR	**SF**	700	737	800	730	862
	Rental Rate	$705	$750	$715	$810	$800
	$/SF	$1.01	$1.02	$0.89	$1.11	$0.93
2 BR	**SF**	920	955	998.5	1010	1087
	Rental Rate	$800	$850	$815	$975	$930
	$/SF	$0.87	$0.89	$0.82	$0.97	$0.86
3BR	**SF**	1151	1275	1221	1090	1292
	Rental Rate	$965	$1,080	$930	$1,130	$1,150
	$/SF	$0.84	$0.85	$0.76	$1.04	$0.89
	Avg. Rent	**$0.91**	**$0.92**	**$0.82**	**$1.04**	**$0.89**
	Wght. Avg. Rent			**$0.91**		

DOWNTOWN OLYMPIA

Downtown housing stock is characterized by low-rise product type on the fringe, with product in downtown proper consisting mostly of income-restricted buildings or rehabbed units located on the upper floors of older historic buildings. Eight projects located in the vicinity of downtown account for over 700 rental units, over a third of which are income restricted. The tables on the following page illustrate examples of the types of market-rate and income-restricted apartment stock in the downtown today.

Of these, the Capitol Steps building is most endemic of the type of housing density the City is hoping to further attract to the downtown. This building is located about a half-mile from the downtown core in a transition area between single-family residential and institutional office uses. It features ground-related units with two levels of stacked flat apartments above and one level of below-grade parking made possible by the grade of the site and, unlike much of downtown, a location not impacted by a high water table.[12] With average rents of $1.35 per square foot and per unit (absolute) rents of almost $1,000, this project currently represents the top end of the rental market.

The weighted average rent across all eight projects is $1.14 per square foot, somewhat higher than the average rate of $1.00 per square foot for the larger CMA. Interestingly, the Boardwalk Apartments and Stuart Place – both income restricted properties – command a higher rent per square foot than any of the market rate properties, save for Capitol Steps. This is due to the small unit sizes in these complexes, which allow per square foot rents to be higher than average while keeping absolute rents in line with income restrictions limiting tenants to those with incomes at or below 60 percent of area median income (AMI).[13]

[12] High water tables make subsurface parking infeasible and often requires a pilings-supported foundation, which adds to construction costs.

[13] Boardwalk is a low-income housing tax credit project owned and managed by Senior Housing Assistance Group. 100 of the 284 units are restricted to those earning less than 50% AMI. The remainder is restricted to those earning less than 60% AMI. Stuart Place is an IRS Section 42 property, with income restricted to 60% AMI.

Downtown Area Apartments - Market Rate						
	Property	**Capitol Steps**	**Capitol Terrace**	**Capitol House**	**Capitol Crossing**	**Chestnut Ridge**
	Address	621 Eastside St SE	1517 Capitol Way S.	420 Sherman	1112 Chestnut St SE	715 11th Ave SE
	Units	26	82	113	78	28
	Year Built	2004	1951	Unk	1988	2005
	Stories	3	8	4	3	2
	Parking Type	Structured	Structured & Surface	Surface	Surface	Surface
	Picture					
Studio	**SF**	558 - 627	360	N/App	N/App	N/App
	Rental Rate	$850	$560			
	$/SF	$1.36 - $1.52	$1.56			
1 BR	**SF**	689 - 781	614	500 - 700	710	850
	Rental Rate	920	660	$655 - $700	$695	815
	$/SF	$1.18 - $1.34	$1.07	$1.09 - $1.17	$0.98	$0.96
2 BR	**SF**	N/App	777	900	880	1100
	Rental Rate		$775	$770 - $900	$820	$915
	$/SF		$1.00	$0.86 - $1.00	$0.93	$0.83
	Avg. Rent	**$1.35**	**$1.21**	**$1.11**	**$1.03**	**$0.90**
	Wght. Avg. Rent			**$1.11**		

Additionally, the absolute rents at both the Boardwalk Apartments and Stuart Place apartments are generally in the range of the asking rents for most of the market rate projects, save for Capitol Steps. This suggests that current "market" rents in downtown are just 50 to 60 percent of AMI. This "de-facto" affordable status of most of the downtown housing stock is largely attributable to the age of the buildings. This also suggests that from an ability to pay perspective, most tenants downtown could afford to pay more in rent than they do currently. To be specific, if $700 represents the rent affordable to someone earning 60 percent AMI, then an individual earning the median income could afford to pay $1170 in rent, which for a 700-square foot one bedroom apartment would equate to $1.67 per square foot in rent. This represents a 67 percent increase over the average rent in the CMA and a 46 percent increase over the average rents across the eight main projects in or near downtown. As will be discussed below under the "Supported Rents for Desired Prototypes" section, such rents are also in the range of what is needed to support development of denser, stacked-flat product.

Downtown Area Apartments - Income Restricted				
	Property	**Boardwalk Apts**	**Stuart Place Apts**	**Horizons West**
	Address	410/510 Capitol Way	110 Legion Way	507 E 10th Ave
	Units	284	32	61
	Year Built	1999	1995	Unk
	Stories	4	5	3
	Parking Type	Surface		Surface
	Picture			
Studio	**SF**	N/App	468	500
	Rental Rate		$600	$410
	$/SF		$1.28	$0.82
1 BR	**SF**	431 - 555	550	700
	Rental Rate	$600 - $690	$700	455
	$/SF	$1.22 - $1.40	$1.27	$0.65
2 BR	**SF**	618	675	900
	Rental Rate	$700	$850	$535
	$/SF	$1.13	$1.26	$0.59
	Avg. Rent	**$1.25**	**$1.27**	**$0.69**
	Wght. Avg. Rent		**$1.16**	

PLANNED PROJECTS

There are seven apartment projects in the pipeline for the CMA. Collectively, these proposed projects have the potential of adding an additional 559 units to the metro area. All but one project is outside of downtown Olympia and two fall into the mid-rise category with heights of seven stories (4th Avenue Mixed Use) and six stories (Evergreen Apartments). However, given the size of the market and foreseeable challenges in project financing, it is unlikely that all of these projects will start construction in the next two to three years.

Of the seven, the Woodland Apartments is the only one currently under construction. Projected to be completed in the spring of 2010, it will bring 224 new units into the CMA rental market. The Olympia Crest II project will be developed by the Housing Authority of Thurston County for low income senior citizens and the Evergreen Apartments developer is reportedly considering a change of use from market rate rentals to an assisted living facility.

Planned Apartment Projects			
Name	**Address**	**Type/Units**	**Current Project Status**
Woodland Apts	3600 Capital Mall Dr SW	Lowrise/224 Units	Under construction; anticipated completion by May 2010
Olympia Crest II	206 Lilly Rd NE	Lowrise/48 Units	Permitted; start date anticipated as March 2010
Hearthstone Apts	800 Alta St SW	Lowrise/101 Units	In review; start date anticipated as March 2010
18th Avenue Estates	3236 18th Ave SE	Lowrise/80 Units	Land use application in appeal
4th Ave Mixed Use	123 4th Ave W	Midrise/126 Units	In review
Briggs Multifamily	4255 Maple St SE	Lowrise/72 Units	In review
Evergreen Apts	301 Bing St NW	Midrise/132 Units	Expired permit; potential change to assisted living

The only planned project located in the Study Area is the 4th Avenue Mixed Use Building. Its completion would represent the first new mid-rise residential product built in downtown in over 10 years. It is exactly the type of mid-rise, stacked-flat, mixed-use development that the City wishes to encourage in its downtown. Colpitts Development Company was selected by the City as the preferred developer for redevelopment of this city-owned surface parking lot into five stories of stacked flats atop a two-level parking podium that is wrapped by ground floor retail and some ground related units. In total, the building will be seven stories in height, and contain approximately 5,500 square feet of ground floor retail, 127 structured parking stalls, 125 market rate apartment units, and an average unit size of 753 square feet. The developer bought the land for this project from the City and received an environmental credit from the City for up to 50 percent of the $540,000 purchase price. The City is also providing financial assistance in relocating utilities. Having secured all necessary entitlements, the developer is currently working to obtain construction financing for the project consistent with original investor underwriting.

There is one additional for-rent project on the horizon for downtown, in the Port of Olympia's East Bay District. The Port's selected developer for the remaining 6.83 acres of property – Tarragon - anticipates 115 apartments along State Avenue in the site plan included in their RFP response. However, the LOI between the parties allows the first takedown of property to occur as late as December 2012, so it is unclear what the timing is for the residential portion of Tarragon's project.

SUPPORTED RENTS FOR DESIRED PROTOTYPES

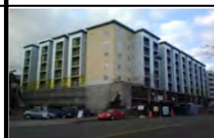
The fact that almost all of the product in the CMA - save for Capitol Steps - is either older, income restricted, or of garden-style variety means that current rental rates in the CMA and downtown set a minimum floor for new product but are not a very useful indicator of maximum achievable rents for desired product type for the downtown core. While fairly abundant in first-tier regional cities, this type of stacked flat product does not currently exist in either the CMA or the Study Area, and is only approximated by the Capitol Steps project.[14]

Thus, to determine supportable rents for desired stacked-flat prototypes in the Study Area, we looked at rental rates for comparable stacked-flat product in Tacoma. Tacoma is the closest

[14] While the Colpitts project embodies exactly the type of development the City is striving for, since it only exists on paper it offers little insight into achievable rents for this product type.

geographic location that features this product type while having a median household income comparable to Olympia's.[15] Additionally, military bases comprise much of the land uses that separate the two jurisdictions, which serve to influence the economies of each metropolitan area.[16]

Tacoma: Rents for Desired Apartment Types

	Property	Villagio	Hanna Heights	Court 17	Albers Mill Lofts
	Address	1328 Market Street Tacoma	415 6th Ave Tacoma	1717 Market St Tacoma	1821 Dock St Tacoma
	Yr. Built	2008	2007	2005	1904/2003
	Stories	5 + 2	6 + 2	5 + 2	5
	Picture				
Studio	**Unit Mix** **SF** **Rental Rate** **$/SF**	80 422 - 512 $760 - $975 $1.63 - $2.09	N/App	50 517 - 570 $875 - $975 $1.61 - $1.79	3 475 $900 - $950 $1.89 - $2.00
1 BR	**Unit Mix** **SF** **Rental Rate** **$/SF**	35 663 - 710 $950 - $1300 $1.38 - $1.89	24 854 - 1039 $1100 - $1750 $1.16 - $1.85	39 586 - 676 $895 - $1250 $1.42 - $1.98	27 610 - 1261 $1050 - $2150 $1.16 - $2.30
2 BR/1 BA	**Unit Mix** **SF** **Rental Rate** **$/SF**	N/App	N/App	N/App	6 1085 - 1292 $2150 - $2495 $1.81- $2.10
2BR/2BA	**Unit Mix** **SF** **Rental Rate** **$/SF**	10 934 $1295 - $1525 $1.38 - $1.63	10 1078 - 1291 $1550 - $2250 $1.31 - $1.90	39 923 - 1016 $1195 - $1625 $1.23 - $1.68	N/App
3BR/2BA	**Unit Mix** **SF** **Rental Rate** **$/SF**	N/App	1 1429 $2,350 $1.64	N/App	N/App
	Units **Avg. Rent** **Avg. Unit Size**	125 $1.77 566	35 $1.54 1028	128 $1.63 700	36 $1.79 939
	Wght. Avg. Rent **Wght. Avg. Unit Size**	**$1.68** **710**			

Source: Apartments.com; Rent.com; Heartland

The table above shows the rents for four representative stacked-flat projects in Tacoma:

- Villagio is located southwest of the Downtown Tacoma's Financial District, near the Greater Tacoma Convention and Trade Center. They charge $70 a month for parking.

- Hanna Heights is located just north of Downtown Tacoma's Theater District and two blocks from the 27-acre Wright Park, which is the only major open space in proximity to downtown. Hanna Heights was planned as a condo project but was converted to apartments before completion.

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[15] Based on the US Census Bureau's American Fact Finder information for each city, Tacoma's median household income is $47,207 compared to $50,843 for Olympia.

[16] McChord Air Force Base is located entirely in Pierce County, is home to a C-17 transport fleet, and contains a population of just over 4,000. Fort Lewis Army Post covers 86,000 acres, straddles Pierce and Thurston Counties, has more than 25,000 soldiers and civilian workers, and supports over 120,000 retirees and more than 29,000 family members living both on and off post.

- Court 17 was constructed by Lorig in a public/private partnership with the University of Washington Tacoma, with Lorig building the residential element and UW Tacoma building the garage upon which the project sits. Court 17 is located adjacent to the college and is largely occupied by students. Since the developer did not have to construct the parking, the required rents should not be as high as for a typical project that would carry this burden. However, the rents appear to be in-line with those of the other projects.

- Albers Mill Lofts is located along the Thea Foss Waterway in Tacoma's museum district. Developed on a former Superfund site, adaptive reuse of this former cereal mill was made possible through $10 million in tax credits. The developers created an additional 40,000 square feet of space through a steel addition.

The average rent across all four projects is $1.68 per square foot, while the average unit size is 710 square feet. Generally, the projects with a greater percentage of smaller units feature a higher rent per square foot; 64 percent of the units in the Villagio are studios, whereas none of the units in Hanna Heights are studios. As a result, there is a $0.22 swing in rent per square foot between the two projects.[17]

This weighted average rent equates to a 37 percent increase over the average rent across all apartments in Tacoma of $1.23 per square foot and roughly a 47 percent increase over the average rent of $1.14 per square foot for the eight projects sampled in or near downtown Olympia. It is also consistent with what median income wage earners in the CMA could afford to pay and spend no more than 35 percent of their income on rent.[18]

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[17] Smaller units almost always rent for more on a per square foot basis owing to the fact that since a greater percentage of the living space contains plumbing and electrical, they cost more to build on a per square foot basis than do one or two bedroom units.

[18] $1.68 PSF x 710 SF = $1193 monthly rent. For someone to spend no more than 35% of their income on rent, they would have to have a gross monthly income of about $3,400, or an annual income of roughly $41,000. This is consistent with the median wage in the County for 2008 of $40,718 as reported in the Thurston Regional Planning Council's *Profile 2009*.

CONDOMINIUMS

CMA OVERVIEW

Condominium sales have historically made up a small percentage of residential sales in Thurston County. Approximately 82 percent of all residential product sold in the County consists of single-family homes, with units held in condominium ownership making up the remaining 18 percent. Single-family homes are clearly the preferred choice of for-sale housing for residents in the County.

CMA Condominiums		
Location	Units	Percent
Market Area Total	4,289	9%
Olympia	2,359	11%
Lacey	1,618	9%
Tumwater	313	4%

Source: TCRC, US Census, Heartland

SALES TRENDS[19]

Sales volumes for all residential product (single-family and multi-family) in the CMA have been roughly the same in 2009 compared to 2008, with about 2,000 residential units sold, while prices are down roughly nine (9) percent year over year. The average sale price in 2009 in the CMA has been about $270,000 compared to 2008's average of roughly $300,000, and there is currently a 5.9-month inventory of homes.[20] This is down from a 6.7-month supply a year ago, so inventory is trending in the direction of a smaller supply of homes, which favors sellers. If this holds, it suggests the market has bottomed out, and we should continue to see positive upward pressure on sale prices. Comparatively, inventories for new residential product are even tighter, at 5.4 months, and sales volumes are up six percent compared to a year ago, however prices are much lower than in 2008, down 16 percent. Based on year-to-date figures, new residential construction is charging only a $16,000 premium to existing product, and is likely at least partially due to the fact that homebuilders are more motivated to sell than existing homeowners due to concerns about defaulting on maturing construction loans.

CMA	2009				2008				2009 vs. 2008	
	Active Listings	Closed Sales (Thru Nov)	Mos. Inventory	Avg. Sale Price	Active Listings	Closed Sales (Thru Nov)	Mos. Inventory	Avg. Sale Price	Sales Volume Increase	Sales Price Increase
All Residential	1050	1959	5.9	$272,663	1229	2004	6.7	$298,784	-2%	-9%
New Construction Only	295	605	5.4	$288,245	407	570	7.9	$341,334	6%	-16%
Condos Only	68	47	15.9	$207,799	72	151	5.2	$202,775	-69%	2%
New Condos Only	20	12	18.3	$218,662	23	73	3.5	$202,201	-84%	8%

For condominium product, however, the picture is less positive. Sales volumes for all condo product in 2009 are down 69 percent from what they were a year ago, with only 47 sales so far this year compared to 151 at this same time in 2008. Based on the current pace of sales, there is almost 16 months of existing condo inventory in the CMA, up from about five (5) months a year ago. These trends are exacerbated for new condo construction, with sales volumes down over 80 percent from last year, and a year and a half's worth of inventory, up significantly from just 3.5 months of inventory at this same time last year. On the bright side, sales prices have

[19] Accurate statistics on condominium sales in Thurston County are difficult to quantify because of the way that townhome and condominium sales are tracked. Townhomes indicate a style of product, one that is ground related (meaning that the main entrance is from the ground floor) and usually has a private outdoor yard, but that shares one or more common walls with other units. It is often sold fee-simple, since the configuration permits each unit to be situated on a unique parcel of land, however such units must be sold as condominiumized ownership if entitlement is secured through a binding site plan instead of a preliminary plat. The fact that townhomes serve as affordable alternatives for buyers who cannot afford a completely detached single family home causes some data sources to consider them single-family units, while the fact they have common walls and sometimes are not owned fee-simple causes other data sources to consider them multi-family units. Most real estate professionals and demographic analysts, including the US Census Bureau, consider townhomes to be in the same category as single-family homes. The two largest sources of home sale data in the region however, the Northwest Multiple Listing Service (MLS) and New Home Trends, each consider townhomes to be attached housing product and therefore track sales in the same category as that of condominiums. The sales trend information reported here is derived from the MLS and thus includes townhomes in condo counts, thus the data reported is not necessarily indicative of sales trends for stacked-flat product types.

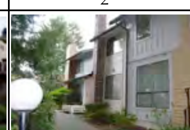
[20] Figures are based on NWMLS subareas #443 – 452 for sales trends through November of each respective year. A market is considered to be in equilibrium when there is a six-month supply of inventory. Inventory is calculated by determining how long it would take the number of active listings to sell given pace of closed sales for that product type year-to-date.

generally held steady for condo product of all ages, at around $200,000 per unit, while prices have climbed eight percent for new condo construction.

EXISTING CONDOMINIUM STOCK

Nearly all of the existing condominium product exists as either two to three story low-rise buildings that are virtually identical to those that make up the bulk of the apartment market, or as ground-related townhome-type product. Most of the existing stock dates from the 1970's and 1980's, however there have been several recently completed projects. Examples of typical condo stock characteristic of what can found throughout the CMA are shown in the table below.

Note that the price per square foot ranges from about $140 per square foot for product that is older or in an inferior location to about $170 per square foot for product that is newer or that has a more central location or views. Meanwhile, the unit sizes range from 938 square feet to almost 1,500 square feet, which would be considered large relative to stacked-flat condo product in more urbanized and amenity rich locations. The only mid- or high-rise project among these representative projects and indeed, across the entire CMA, is the Capitol Lake Towers, a 10-story concrete and steel building constructed in the 1970's that sits atop a one-level podium of at-grade, covered parking. Sitting prominently on a bluff above Capitol Lake, the units offer views that take in the Capitol, downtown, and Mt. Rainier. Perhaps owing to the building's age and suburban location, however, recent sales in this building have failed to garner any premium to the other, low-rise examples endemic of the existing condo stock in the CMA.

Representative Existing CMA Condo Stock					
Property	**Citi-Life**	**East Bay Harbor**	**Evergreen Square**	**Indian Creek Condos**	**Capitol Lake Towers**
Address	14xx Evgrn. Pk Dr SW Tumwater	9xx East Bay Dr NE Olympia	1801 Evgrn. Pk Ct SW Olympia	220 Israel Rd SW Tumwater	1910 Evgrn. Dr SW Olympia
Units	100	110	24	92	46
Year Built	2007	1979	1971	1988	1973
Stories	2 and 3	3	2	2	10
Picture					
Avg. SF	1,026	1,488	1,336	938	1,427
Avg. Price	$176,645	$255,900	$189,800	$129,650	$218,346
Avg. $/SF	$172	$173	$142	$139	$156
# Sales	42	23	5	32	9
Sale Years	2007-2009	2005-2008	2005-2008	2005-2009	2005-2008
Wght. Avg. $/SF			**$160**		
Wght. Avg. Unit Size			**1,143**		

Source: NWMLS; Heartland

DESIRED PROTOTYPES

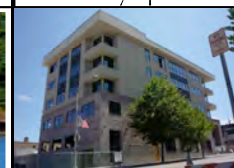
In an encouraging sign, there are two recently completed condominium projects that share characteristics of buildings that the City hopes to encourage, one of which is located in the Study Area and the other of which is located in close proximity, on West Bay Drive:

- Smyth Landing is a four-level mixed-use building that overlooks the West Bay of Budd Inlet. Completed in 2006, it features 12 condominiums atop two stories of office space totaling 20,000 square feet. An adjacent structure provides enclosed parking. The project was a pioneer for Olympia and experienced very slow sales, taking 18 months to sell out.

- Union Heights was completed in 2009 and features 10 condos atop 12,000 square feet of office space and structured parking. Each unit has 10-foot ceilings and offers water and mountain views. The project is located very close to the Capitol Campus and about five blocks uphill from the retail core of downtown.

Both of these projects have experienced very slow sale volumes, selling less than one unit per month. Taken alone, sales trends for Union Heights could be chalked up to the larger, systemic issues impacting sales of condo product region-wide. However, Smyth Landing also sold poorly and yet it came on the market during a prime exposure time for condominium product. It is possible that a condo project priced more competitively relative to similarly sized and amenitized single-family product would have fared better, as Smyth Landing's average sales price was almost $700,000 per unit. Both projects have been priced in the range of $400 per square foot. Overall, the performance of these two projects, coupled with the fact they are the only two representative examples in the CMA and collectively account for less than two dozen units, indicates a lack of adequate fundamentals to support construction of additional stacked-flat condominium product in the Study Area. This will be discussed further in the following section dealing with demand.

Olympia: Sales Prices for Desired Condo Types

Property	Smyth Landing	Union Heights
Address	1801 West Bay Dr NW Olympia	1018 Capitol Way S Olympia
Picture		
Year Blt	2006	2009
Stories	4	5
# Units	12	10
SF Range	1324 - 3170	752 - 1238
INITIAL SALES		
Units Sold	12	2
Absorption/Mo	0.67	0.24
Average SF (Closed	1757	1138
Average Price (Closed	$672,375	$466,475
Average $/SF	**$383**	**$410**
LISTING ACTIVITY IN 2009		
Units Available	2	8
Average SF	1,707	1,036
Average Asking Price	$647,000	$413,329
Average $/SF	**$379**	**$399**
DOM	134	250

Source: NWMLS; Heartland

PLANNED PROJECTS

There are three condominium projects planned within the CMA that would further the existence of desired stacked-flat product types, all of which are being proposed by Triway Enterprises:

- Larida Passage would be a two-building, 141-unit condominium complex located on the isthmus of land between Capitol Lake and the West Bay of Budd Inlet, adjacent to the nine-story Viewpoint Tower. The project also includes approximately 25,000 square feet of office space and over 42,000 square feet of retail space. The City Council approved the Urban Waterfront Comprehensive Plan and re-zone in December 2008, thus raising building heights permitted in the zone from 35 feet up to as high as 90 feet. The project has proven contentious within the community, owing to its appeal for taller building heights and its desire to qualify for the multi-family property tax exemption, and was considered to be a seminal issue in the recent Council elections. The City is currently reviewing the binding site plan application and shoreline substantial development permit application submitted in October 2009.

- Bellatorre is a 42-acre master planned project located in Tumwater on a linear parcel on the banks of Deschutes River and sandwiched between I-5 and the Tumwater Valley Municipal Golf Course. The proposal calls for 10 buildings consisting of 335 condos, two restaurants and more than 200,000 square feet of office and retail space.

- The Town Center at Lacey Gateway is a 400-acre master planned community begun in 2007 and currently anchored by Cabela's. Upon completion, the project will contain two million square feet of retail and leisure space, one million square feet of office space, and over 7,000 residential units. All units are anticipated to be for-sale product, with an unknown component likely to be of the stacked-flat product type. The timetable for the residential portions of the project is unclear.

Given the projection for continuation of an anemic condo financing market and the slow sales pace both Union Heights and Smyth Landing have experienced, it is hard to fathom an underwriting scenario that would support greenlighting any of the projects in the near future. Additional hurdles that must be overcome before any product can be delivered include: the entitlements remaining to be secured, the contentious nature of some of these projects, and the sheer size of the Tumwater and Lacey projects.

SALES VALUES FOR DESIRED PROTOTYPES

As with apartment buildings, there are few examples of new mid-rise condominium product in the CMA so it is necessary to also look to the nearby Tacoma market for comparable projects so that a market-supported average price per square foot figure can be determined. The Smyth Landing and Union Heights projects are the only examples of new mid-rise condominium product in the CMA and each had average sale values of approximately $400 per square foot for finished units ($383 for Smyth Landing and $410 for Union Heights). Both of these projects have had very slow absorption however, suggesting the units were overpriced for the market area and that they are not representative of comparable, successful projects. As a result, four projects in Tacoma were examined and are shown in the following table. All of these projects are located in the downtown Tacoma area and generally, the projects with superior views and amenities realized higher sale prices. Each of these projects was built and largely sold out over the last five years, with the exception of Thea's Landing, which was constructed in 2002

Representative Existing Tacoma Condo Product

Property	The Roberson	Thea's Landing	Overlook On Broadway	505 Broadway
Address	708 Market St. Tacoma	1705 Dock St. Tacoma	1 Broadway Tacoma	505 Broadway Tacoma
Units	47	46	41	
Year Built	2007	2002	2005	2008
Stories	8	5	7	9
Picture				
Avg. SF Avg. Price Avg. $/SF	1,124 $433,000 $385	897 $332,000 $370	1,068 $334,000 $313	1,408 $386,000 $274
# Sales Sale Years	12 2007-2009	14 2005-2009	30 2005-2009	22
Wght. Avg. $/SF Wght. Avg. Unit Size	**$323** **1,142**			

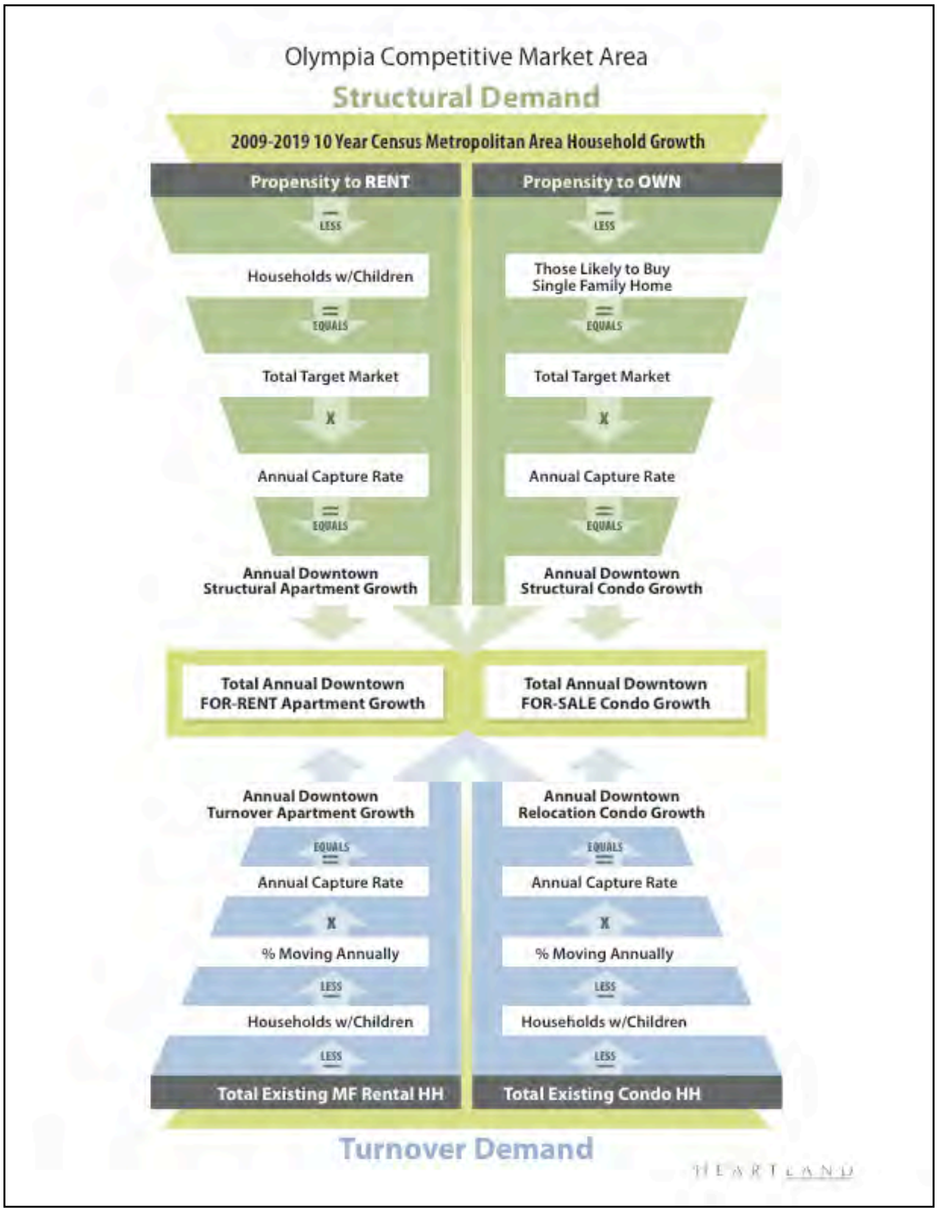
Source: NWMLS; Heartland

These projects have sale values ranging from $274 to $385 per square foot with a weighted average of $323 per square foot, which is approximately 22 percent less per square foot than the prices for the two projects in Olympia, even though the average unit size between the Tacoma and Olympia projects is comparable, at 1,142 square feet and 1,170 square feet, respectively. Additionally, the average absolute price across all these Tacoma sales was $363,000, significantly lower than the $410,000 to $650,000 range encompassed by the two Olympia projects.

DEMAND ANALYSIS FOR STACKED-FLAT PRODUCT - OVERVIEW

METHODOLOGY

Heartland created a model that determines demand for residential product in the CMA using industry-standard methodology designed to illustrate how many households are likely to rent an apartment or buy a condominium in downtown Olympia over the next ten years. Demand for housing product consists of two types of demand: structural demand and turnover demand. Structural demand is a function of population growth and household size. The total population divided by the average number of persons per household represents the number of households. The annual change in households is a proxy for new unit demand. Turnover demand is an estimate of the percent of the existing population in the Competitive Market Area that will relocate annually. The process undertaken varies somewhat between the two types of demand, which is explained below and embodied in the adjacent graphic.



For structural demand, the first step is to identify target market renters and buyers, which are groups of households that meet specific age, income, size and type characteristics. We then determine how many of these households there are and how fast or slow the number of these households will grow over the next ten years by analyzing household and income growth projections for the target market renters and buyers. From here, we subtract the number of households with children, as we assume they are unlikely to be early adopters of a downtown lifestyle.[21] The resulting figure gives us our target market for downtown residential

[21] A survey on market trends for infill development conducted by Tashman Associates for the Portland Development Commission found that 88% of those under age 30 who had never been married were renters and 60% of married couples under age 30 without children were renters.

product, to which we then apply a capture rate to estimate what percentage of the target market we could reasonably expect to live downtown (versus competing alternatives) if there were available product offerings.

For turnover demand, we first start with the existing household population of renter-occupied and owner-occupied units in the competitive market area, and exclude from that the number of households with children. We then apply a percentage of those households moving annually.[22] The resulting figure gives us our target market for downtown residential product, to which we then apply a capture rate to estimate what percentage of the target market we could reasonably expect to live downtown (versus competing alternatives) if there were available product offerings. The sum of structural demand and turnover demand equals total demand.

TARGET MARKET DEFINITION

The target market for downtown Olympia apartments and condominiums are distinguished by a combination of specific demographic and economic characteristics. Each is discussed below followed by a final summary of the rental and buyer target markets.

Demographic Characteristics

Childless singles and married couples between the ages of 24 and 74 are the main population cohorts of the target market. This broad category of renters and buyers fit the profile of people who are likely to seek out an urban, downtown location to live, primarily because of the social and cultural amenities offered, proximity to the State Capitol complex and other employment centers and the ability to enjoy a 'lock and go' maintenance free lifestyle that is provided by living in a professionally managed building or condominium.

Young and middle-aged singles and couples without children, empty nesters and childless retired households often do not need or want the large living space of a single family home and often have the disposable income that allows them to spend money on the cultural, social, dining, shopping, entertainment and other amenities found in denser urban areas. These demographic cohorts are often the prime target market for apartment and condominium developers around the country because they often share these lifestyle choices and tend to have higher than average disposable incomes.

The younger cohorts have a proclivity to rent. Still in the formative stages of their careers, they tend not to have accumulated a great deal of assets, often have limited savings available for a downpayment, and have less commitments to tie them to a given region and thus make home ownership a sensible option. An additional, smaller, rental pool consists of empty-nesters who are downsizing and want to try out a new market area on a relatively risk-free basis before purchasing a condominium. For essentially the same reasons, the older age cohorts have a proclivity to own, with the caveat they rarely jump immediately from a single-family home into an urban condo product, instead typically testing the waters through renting before committing to homeownership.

Economic Characteristics

The higher costs to develop mid-rise buildings and subsequent higher rent or price means that the target market must meet minimum income requirements to be able to afford to live in these newly constructed buildings as well. Based on our analysis for stacked-flat for-rent comps in downtown Tacoma, developers must achieve rents in the neighborhood of $1.70 per square foot to make this denser product type financially feasible. The minimum

Rent Affordability		
Avge. Unit Size (SF):	700	
	Month	Year
Minimum Rent/SF:	$1.67	$20.04
Min Rent Total:	$1,169	$14,028
Req. Income @ 40% For Rent:	**$2,923**	**$35,070**

[22] This number is usually assumed to range from 5% to 7%, however according to the US Census Bureau, one out of every six Americans moves annually, a figure equal to 17% of the population. Sixty-six percent of those who move every year stay in the same county. Unsurprisingly, tenants in renter-occupied housing move much more frequently than tenants in owner-occupied housing, with one out of every three renters moving annually compared to one out of ten homeowners.

household income needed to be able to afford to rent in a building with these rents is $35,000, which is calculated by assuming that a renter would not spend more than 40 percent of their monthly income on rent. Note however this is the minimum rent needed for the average sized unit, and that most projects will have a mix of smaller units and larger units. As a result, households with incomes below $35,000 will also be able to afford some units in most buildings (studios or small one bedrooms).

As will be shown, however, a great deal of potential renters in our target market would need to devote significantly less than 40 percent of their income to rent. In fact, if we assumed that households would spend no more than 30 percent of their income on housing, our target market pool of renters would only shrink by 10 percent.

For condominiums, our analysis of Tacoma comps indicates that sale prices of at least $323 per square foot must be achieved for a developer to be able to develop a financially feasible project. The minimum household income that is needed to be able to afford to purchase a unit in a building with these average prices is slightly over $50,000. This is calculated using current market rate loan assumptions of a 20 percent down payment on a 30-year fixed mortgage at 6.0 percent interest and underwriting standards limiting mortgage payments to 35 percent of gross monthly income. As with apartments, this method is used to calculate the minimum income needed to buy the average sized unit, however most new projects are likely to have a mix of smaller and larger units, some of which could be affordable to households earning less than $50,000 per year. At the same time, our target market excludes any households making less than $50,000 per year, thus the mortgage payment on the average size unit is likely to represent a smaller share of total gross income than 35 percent for the majority of the target market. The income range for the target market was capped at $150,000 because households making over this amount are much less likely to seek a rental apartment or condominium in downtown Olympia unless it is very high quality. This product type is unlikely to be built in this location.

Mortgage Affordability Calculations	
Avge. Unit Size (SF):	1,000
Minimum Avg. Price/SF:	$323
Minimum Avg. Total Price:	$323,000
Down Payment:	20%
Loan Amount:	$258,400
Loan Term (Years:	30
Interest Rate:	6%
Monthly Payment	($1,549)
Max. Debt Service Per Lender:	35%
Minimum Annual Income:	**$53,117**

Target Markets

The combination of these characteristics identifies the two target markets:

- Apartment Renters: Young and middle-aged singles and couples without children, empty nesters and childless retired households with an annual income of between $35,000 and $150,000; and,

- Condominium Buyers: Young and middle-aged singles and couples without children, empty nesters and childless retired households with an annual income of between $50,000 and $150,000.

TOTAL HOUSEHOLD GROWTH PROJECTIONS

The table on the following page illustrates the growth projections for all new households in the CMA over the next ten years. This includes all ages, income categories, tenure (renters and owners) and family types (those with children and those without children). Total household growth is projected to be 7,128, with strongest growth occurring in the middle and older aged households (aged 34 to 74) and those earning $50,000 per year or more. This base growth data provides the foundation for the next sections that specifically look at growth of households that meet our target market characteristics and that are likely to rent versus likely to own their home.

Olympia CMA Household Projections: 2009 - 2019

2009 CMA Households By Age & Income

			15 - 24	25 - 34	35 - 44	45 - 54	55 - 64	65 - 74	75+
Income Less than $15,000	7,898	18.7%	1,361	1,679	903	793	880	796	1,487
Income $15,000 - $24,999	9,110	21.5%	1,074	2,095	1,535	1,135	1,101	967	1,203
Income $25,000 - $34,999	7,661	18.1%	292	1,844	1,712	1,334	1,120	670	687
Income $35,000 - $49,999	5,008	11.8%	59	1,073	1,280	1,061	845	359	331
Income $50,000 - $74,999	5,177	12.2%	54	858	1,212	1,328	1,027	372	326
Income $75,000 - $99,999	3,205	7.6%	111	375	685	1,000	658	193	183
Income $100,000 - $149,999	1,909	4.5%	18	181	432	554	457	155	112
Income $150,000 +	2,382	5.6%	14	201	451	667	765	142	143
Total	42,350	100%	2,982	8,306	8,210	7,872	6,853	3,654	4,473
Percent Of Total			7.0%	19.6%	19.4%	18.6%	16.2%	8.6%	10.6%

2019 CMA Households By Age & Income

			15 - 24	25 - 34	35 - 44	45 - 54	55 - 64	65 - 74	75+
Income Less than $15,000	7,540	15.2%	1,301	1,441	812	676	865	1,028	1,418
Income $15,000 - $24,999	8,682	17.5%	1,122	1,771	1,376	913	1,061	1,260	1,179
Income $25,000 - $34,999	8,414	17.0%	396	1,914	1,866	1,281	1,201	993	764
Income $35,000 - $49,999	5,454	11.0%	85	1,142	1,437	1,002	894	516	379
Income $50,000 - $74,999	6,730	13.6%	52	1,092	1,626	1,527	1,354	661	417
Income $75,000 - $99,999	4,432	9.0%	184	503	964	1,319	871	328	263
Income $100,000 - $149,999	3,991	8.1%	48	355	921	1,048	976	432	211
Income $150,000 +	4,235	8.6%	42	349	812	1,080	1,364	333	255
Total	49,478	100%	3,230	8,568	9,814	8,846	8,585	5,550	4,885
Percent Of Total			6.5%	17.3%	19.8%	17.9%	17.4%	11.2%	9.9%

CMA Net Change

			15 - 24	25 - 34	35 - 44	45 - 54	55 - 64	65 - 74	75+
Income Less than $15,000	-358	-5.0%	-59	-237	-92	-118	-15	232	-70
Income $15,000 - $24,999	-429	-6.0%	48	-324	-159	-222	-41	293	-25
Income $25,000 - $34,999	754	10.6%	104	70	154	-53	81	322	76
Income $35,000 - $49,999	446	6.3%	26	69	158	-59	48	157	47
Income $50,000 - $74,999	1,553	21.8%	-1	234	414	198	327	289	92
Income $75,000 - $99,999	1,227	17.2%	73	129	278	320	213	134	80
Income $100,000 - $149,999	2,082	29.2%	30	173	489	495	519	278	98
Income $150,000 +	1,853	26.0%	28	148	361	413	599	192	112
Total	7,128	100%	248	262	1,604	974	1,732	1,896	412
Percent Of Total			3.5%	3.7%	22.5%	13.7%	24.3%	26.6%	5.8%

Source: Claritas, Demographics Now, US Census, Heartland.

APARTMENT DEMAND ANALYSIS

APARTMENT STRUCTURAL DEMAND ANALYSIS

The next set of tables below filter the general growth data from the previous section to identify those households that meet the renter target market characteristics. The first table illustrates household propensity to rent versus buy, with the target market age and income range for renters highlighted in gray.

Propensity to Rent

As previously discussed, young households and households with lower incomes have a higher propensity to rent versus buy. This maxim appears to hold true in the CMA population. Note that high percentages of the younger and less affluent households rent, and that the propensity to rent decreases with age and with higher income. This percentage is applied to the general growth data to reveal that there is projected growth of 2,524 households with a propensity to rent, with 2,267 of those households meeting the target market age and income requirements.

Propensity To Rent									
			15 - 24	25 - 34	35 - 44	45 - 54	55 - 64	65 - 74	75+
Income Less than $15,000	not appl.	not appl.	97%	87%	67%	56%	45%	45%	43%
Income $15,000 - $24,999	not appl.	not appl.	96%	85%	66%	55%	44%	44%	42%
Income $25,000 - $34,999	not appl.	not appl.	94%	84%	64%	54%	43%	43%	41%
Income $35,000 - $49,999	not appl.	not appl.	92%	82%	63%	52%	42%	42%	39%
Income $50,000 - $74,999	not appl.	not appl.	88%	78%	60%	50%	39%	39%	37%
Income $75,000 - $99,999	not appl.	not appl.	79%	69%	53%	44%	35%	35%	32%
Income $100,000 - $149,999	not appl.	not appl.	63%	55%	42%	35%	28%	28%	26%
Income $150,000 +	not appl.	not appl.	38%	32%	25%	22%	18%	18%	17%
Rental Demand: 2010 - 2019									
	Total	%	15 - 24	25 - 34	35 - 44	45 - 54	55 - 64	65 - 74	75+
Income Less than $15,000	-322	-13%	-58	-205	-61	-66	-7	105	-30
Income $15,000 - $24,999	-354	-14%	46	-275	-104	-122	-18	129	-10
Income $25,000 - $34,999	430	17%	97	58	99	-28	35	139	31
Income $35,000 - $49,999	253	10%	24	56	99	-31	20	66	19
Income $50,000 - $74,999	803	32%	-1	183	246	98	129	114	34
Income $75,000 - $99,999	579	23%	57	89	147	140	74	46	26
Income $100,000 - $149,999	737	29%	19	95	205	172	144	77	26
Income $150,000 +	399	16%	11	48	91	89	107	34	19
Total	2,524	100%	196	48	722	252	483	709	114

Households Without Children

One additional filter that needs to be applied to these rental demand figures is the removal of households that have children. Approximately 39 percent of households that rent have children. Removal of these households results in the final demand table below, which projects growth of 1,532 new households without children, of which 1,376 meet the full demographic and economic characteristics of the renter target market.

This means that there are an estimated 138 renters per year over the next 10 years in our target market, as qualified by age, income, and household type, that could support new rental projects in downtown Olympia.

LESS HOUSEHOLDS WITH CHILDREN (39 PERCENT OF RENTERS) =	992

Rental Demand: 2010 - 2019									
	Total	%	15 - 24	25 - 34	35 - 44	45 - 54	55 - 64	65 - 74	75+
Income Less than $15,000	-195	-13%	-35	-125	-37	-40	-4	64	-18
Income $15,000 - $24,999	-215	-14%	28	-167	-63	-74	-11	78	-6
Income $25,000 - $34,999	261	17%	59	35	60	-17	21	84	19
Income $35,000 - $49,999	154	10%	15	34	60	-19	12	40	11
Income $50,000 - $74,999	487	32%	-1	111	150	60	78	69	21
Income $75,000 - $99,999	351	23%	35	54	89	85	45	28	16
Income $100,000 - $149,999	447	29%	11	58	124	104	87	47	15
Income $150,000 +	242	16%	6	29	55	54	65	21	12
Total	1,532	100%	119	29	438	153	293	430	69
Total In Rental Target Market	1,376	100%	60	257	423	230	222	184	
Percent Of Total Target Market		100%	4.4%	18.7%	30.7%	16.7%	16.1%	13.3%	

Review of the distribution of households in the table reveals that by far the largest population cohort are 33-44 year olds, which make up 30.7 percent of the total target market, followed by a fairly even distribution of population between the 25-34, 45-54 and 55-64 year old cohorts. The youngest cohort, 15-24 year olds, is the smallest followed by those 75 years of age or older. Income distributions are fairly even also with about 30 percent of each cohort earning in the higher income brackets and only 10 percent of each cohort in the lowest income bracket of those earning $35,000 to $50,000. These are desirable distributions because they are likely to produce demand for a variety of unit types ranging from lower cost studios for younger and less affluent households to one and two bedroom units for larger or more affluent households. This is important because it allows developers to build projects with a diverse mix of units and range of prices that will appeal to a broad market segment.

Downtown Capture Rate

The final step in estimating structural rental demand is to estimate how much of this total growth new projects in downtown Olympia are likely to capture. Despite meeting the age, income and other demographic characteristics of the target market, some of these households will choose to live in other existing or new buildings in the CMA and not downtown because of their job location, lifestyle preferences, desire for space, a lack of regard for downtown amenities, or a wide variety of other reasons.

We think it is reasonable new residential development in downtown Olympia could capture between 25 and 50 percent of target market renters. This would equal demand for 34 to 69 new apartment units per year downtown. We developed this capture rate range for apartment product based a variety of factors. For one, we have already segmented out our target market by age, income, and household size from the broader rental pool. Secondly, in the past 13 years, attached product has accounted for only 13.5 percent of all housing permit activity in Thurston County; given the dearth of new supply of attached product during this timeframe, it has not been unusual for a single project to account for all new attached housing supply in any given year.[23] Additionally, in more mature multi-family housing markets, it is not unusual for a single project to capture 10 to 15 percent of annual demand in that product's competitive market area; meanwhile we are not just assessing demand for a single

Total Target Age, Income Qualitifed Potential Renters		
Total		1,376
Annual Demand For Market Area:		138
Annual Downtown Capture Rate:	**25%**	**34**
	50%	**69**

[23] Since 1997, 3,161 of the 23,331 housing permits issued in Thurston County have been for attached product. During that time, permits for attached product in Thurston County have ranged from a low of 40 in 2005 to a high of 711 in 2006, resulting in an average of 263 units per year.

project, but rather, for a 150+ acre district. Lastly, to the extent that downtown residential product deliveries fail to keep up with demand, pent-up demand will develop, allowing a single project to not only benefit from demand based on population growth in the current year, but also to capture unmet demand from previous years. Given the forecasted continued strain in the ability of developers to get projects financed on terms acceptable to underwriters, such a trend seems highly likely over the next couple years.

It is important to emphasize the potential capture rate as a range given the variables involved and the fact that capture rates for projects - and thus by extension, the districts within which those projects are located - tend to take on a bell-shaped curve of absorption; lease-ups are initially slow in an unproven market, but pick up steam as early-adopters spread word of project desirability, and capture rates plateau as a critical mass is reached. As a market for the project becomes proven, additional projects enter the market to compete, thus drawing market share away from the initial catalyst project.

APARTMENT TURNOVER DEMAND ANALYSIS

In addition to structural demand, new projects in downtown Olympia are likely to capture some percentage of existing tenants who relocate to another building in the CMA. Turnover demand is not always utilized in market analyses, but we feel it is warranted in this instance given the lack of any comparable product type within the CMA. While the US Census Bureau reports that 17 percent of Americans move annually, and two-thirds of those who move stay within the same county, we have assumed a conservative annual tenant relocation rate of six percent. Applying this relocation rate to the 8,122 multi-family rental households in the CMA without children yields a result of 488 households moving annually. Assuming downtown could capture five percent of those existing target market renters moving annually, turnover demand could support the addition of 24 units every year over the 10-year period.

Existing Tenant Relocation Capture Rate		
Total Multi-Family		13,381
Households Without Children:	61%	8,122
Annual % Change (Est.):	6%	487
Downtown Capture Rate:	5%	24

TOTAL DOWNTOWN FOR-RENT RESIDENTIAL DEMAND

Combining structural for-rent residential demand and turnover for-rent residential demand results in a total demand for new apartment product in the Study Area of between 59 and 93 units annually over the next 10 years. Assuming typical mid-rise stacked-flat densities of 200 to 250 land square feet consumed per unit, the typical downtown half block of 28,800 square feet could support 115 – 150 units, thus the results of our for-rent demand analysis would support development of between one quarter-block and one half-block development annually over the 10-year period, if such development were configured to maximize the zoning envelope.

Total Target Age, Income Qualitifed Apartment Renters		Apartments Structural	Apartments Turnover*	Apartments Total
Total		1,376	4,873	6,249
Annual Demand For Market Area:		138	487	625
Annual Downtown Olympia Capture Rate:	25%	34	24	**59**
	50%	69	24	**93**

* - Assumes 5% capture of apt turnover

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CONDOMINIUM DEMAND ANALYSIS

CONDOMINIUM STRUCTURAL DEMAND ANALYSIS

As with the rental demand analysis, the first step in determining condominium structural demand is to identify how many of the new growth households have a propensity to buy versus rent their home. This analysis indicates that there are an estimated 4,604 households that are likely to buy their home instead of rent, and 2,559 that fit into the age and income characteristics of the condominium owner target market.

Condominium Versus Single-Family Home Buyers & Households without Children

One additional filter needs to be applied to this data set, which is removal of households that are likely to buy a single-family home instead of a condominium. An estimated 82 percent of households in the CMA that own their home own single-family homes and 18 percent own condominiums. Households with children are not subtracted from this data set because it is assumed that a very large percentage of condominium buyers already do not have children.

Propensity To Buy									
			15 - 24	25 - 34	35 - 44	45 - 54	55 - 64	65 - 74	75+
Income Less than $15,000	not appl.	not appl.	3%	13%	33%	44%	55%	55%	57%
Income $15,000 - $24,999	not appl.	not appl.	4%	15%	35%	45%	56%	56%	58%
Income $25,000 - $34,999	not appl.	not appl.	6%	17%	36%	46%	57%	57%	60%
Income $35,000 - $49,999	not appl.	not appl.	8%	18%	37%	48%	58%	58%	61%
Income $50,000 - $74,999	not appl.	not appl.	12%	22%	41%	50%	61%	61%	63%
Income $75,000 - $99,999	not appl.	not appl.	21%	31%	47%	56%	66%	66%	68%
Income $100,000 - $149,999	not appl.	not appl.	37%	45%	58%	65%	72%	72%	74%
Income $150,000 +	not appl.	not appl.	62%	68%	75%	78%	82%	82%	83%
Ownership Demand: 2009 - 2019									
	Total	%	15 - 24	25 - 34	35 - 44	45 - 54	55 - 64	65 - 74	75+
Income Less than $15,000	-36	-1%	-2	-32	-30	-52	-8	127	-40
Income $15,000 - $24,999	-75	-2%	2	-48	-55	-100	-23	164	-14
Income $25,000 - $34,999	323	7%	6	12	55	-24	46	184	45
Income $35,000 - $49,999	193	4%	2	12	59	-28	28	91	29
Income $50,000 - $74,999	751	16%	0	52	168	100	198	175	58
Income $75,000 - $99,999	649	14%	15	39	132	180	140	88	54
Income $100,000 - $149,999	1,345	29%	11	78	284	322	376	201	73
Income $150,000 +	1,455	32%	18	100	270	324	493	158	93
Total	4,604	100%	53	213	882	722	1,249	1,187	298

Application of this filter significantly reduces the total number of potential condominium buyers in the CMA to only an estimated 461 over the next ten year period or about 46 per year. The distribution of these buyers indicates that there will be strongest demand from potential buyers in the middle-aged range (34-64) with high incomes. Seventy four percent of the households fall within this age bracket and 50 percent fall in the $100,000 to $149,000 per year household income category.

There is projected to be weak demand from households aged 34 and younger (only 7.6 percent), although the fairly consistent demand from households in the $50,000 to $74,999 and $75,000 to $99,999 income brackets.

LESS HOUSEHOLDS BUYING SINGLE FAMILY HOMES (82 PERCENT OF BUYERS) =	3,775

Condo Demand: 2010 - 2019	Total	%	15 - 24	25 - 34	35 - 44	45 - 54	55 - 64	65 - 74	75+
Income Less than $15,000	-7	-1%	0	-6	-5	-9	-1	23	-7
Income $15,000 - $24,999	-13	-2%	0	-9	-10	-18	-4	30	-3
Income $25,000 - $34,999	58	7%	1	2	10	-4	8	33	8
Income $35,000 - $49,999	35	4%	0	2	11	-5	5	16	5
Income $50,000 - $74,999	135	16%	0	9	30	18	36	32	10
Income $75,000 - $99,999	117	14%	3	7	24	32	25	16	10
Income $100,000 - $149,999	242	29%	2	14	51	58	68	36	13
Income $150,000 +	262	32%	3	18	49	58	89	28	17
Total	829	100%	9	38	159	130	225	214	54
Total In Condo Target Market	461	100%	5	30	105	108	128	84	
Percent Of Total Target Market		100%	1.0%	6.6%	22.8%	23.5%	27.9%	18.1%	

Capture Rate

As with apartment demand, projects in downtown Olympia would likely only capture some of this total market demand. Again assuming a 25 percent to 50 percent capture rate, structural demand projections would support construction of 14 to 28 new condo units per year downtown. Unto itself, this suggests development of fairly small, boutique projects, not unlike the two representative projects referenced previously.

Total Target Age, Income Qualitifed Potential Condo Buyers		
Total		461
Annual Demand For Market Area:		46
Annual Downtown Olympia Capture Rate:	**25%**	**12**
	50%	**24**

CONDOMINIUM TURNOVER DEMAND ANALYSIS

Turnover demand for condominiums is calculated using essentially the same approach as it was for apartments, although we do not subtract for households without children since all condo owners are assumed to be childless in our analysis. Again, while turnover demand is not always utilized in market analyses, we feel it is warranted in this instance given the lack of any comparable product type within the CMA. As with apartments, we again assume that six percent of all owner-occupied attached-product households currently living in the CMA will move annually. Assuming downtown could capture five percent of those existing target market renters moving annually, turnover demand could support the addition of 13 units every year over the 10-year period.

Existing Condo Relocation Capture Rate		
Total Condominiums		4,289
Annual % Change (Est.):	6%	257
Downtown Capture Rate:	5%	13

TOTAL DOWNTOWN FOR-SALE RESIDENTIAL DEMAND

Combining structural for-sale residential demand and turnover for-sale residential demand results in a total demand for new condominium product in the Study Area of between 24 and 37 units annually over the next 10 years. However, we do not see this demand being actualized for several years, owing to a few factors. For one, the majority of the target market consists of empty-nesters that would be downsizing from their single-family homes. These potential buyers may not be able to sell their current homes at desired price points due the depressed housing market. Secondly, there is currently a lack of available credit for new condominium construction, which is not likely to change anytime soon given the intensely risk-averse mood of most multi-family lenders.

Total Target Age, Income Qualitifed Condominium Buyers		Condos Structural	Condos Turnover*	Condos Total
Total		461	2,573	3,034
Annual Demand For Market Area:		46	257	303
Annual Downtown Olympia Capture Rate:	25%	12	13	**24**
	50%	24	13	**37**

* - Assumes 5% capture of condo relocation

Most significantly, downtown Olympia is not a proven market for housing right now. This dilutes the potential resale value of condominiums and is a concern to potential buyers needing an exit strategy in the event they find themselves unsuited to urban living. Heartland's experience is that successful catalyst projects in fledgling markets are almost always for rent, which allows potential buyers to test out the market before making a significant commitment to the area.