LELAND CONSULTING GROUP

US 195/I-90 Study

Date	March 22, 2020
To	Ryan Stewart, SRTC
From	Sam Brookham, Leland Consulting Group
CC	Kara Hall, Fehr & Peers
Subject	Market Analysis & Development Forecast FINAL

INTRODUCTION

About the Study

Today, the US 195 merge with Interstate 90 (I-90) experiences both operational and safety issues. As the Spokane area grows, challenges facing the local and regional transportation system will also increase. Major residential and employment growth is expected in the West Plains area, and it will increase the number of people and goods traveling east-west between new growth centers in the west and existing centers in the east. With only four options for crossing Latah Creek, pressure on these routes (most notably the I-90 crossing) will intensify.

To address both existing and future challenges related to safety, operations, access, and infrastructure along the US 195 from Hatch Road to the merge with I-90, the Spokane Regional Transportation Council (SRTC) is leading a multi-jurisdictional study. This study is a collaborative effort between SRTC, the Washington State Department of Transportation (WSDOT), the City of Spokane, Spokane County, and Spokane Transit Authority (STA).

Potential strategies for the study will range from coordinated land use planning to access management. The needs of all users will be considered throughout the study, including local trips, regional trips, bicyclists, pedestrians, transit, and freight. Strategies recommend as part of this study will be feasible and able to be implemented within a reasonable timeframe.

About this Market Analysis

This document summarizes Leland Consulting Group's market analysis and development forecast to support the Study. The work ensures that the plan is based on realistic assumptions and forecasts regarding land use and economic development opportunities. Through stakeholder outreach to area agencies, meetings with practitioners from the local development community, a compilation of development projects, and an analysis of demographic and economic data, the resulting forecasts provide market-driven land use projections to identify needed transportation and safety improvements.

The following document includes the methodology, background data, development forecasts, and other information pertaining to these market analysis findings.

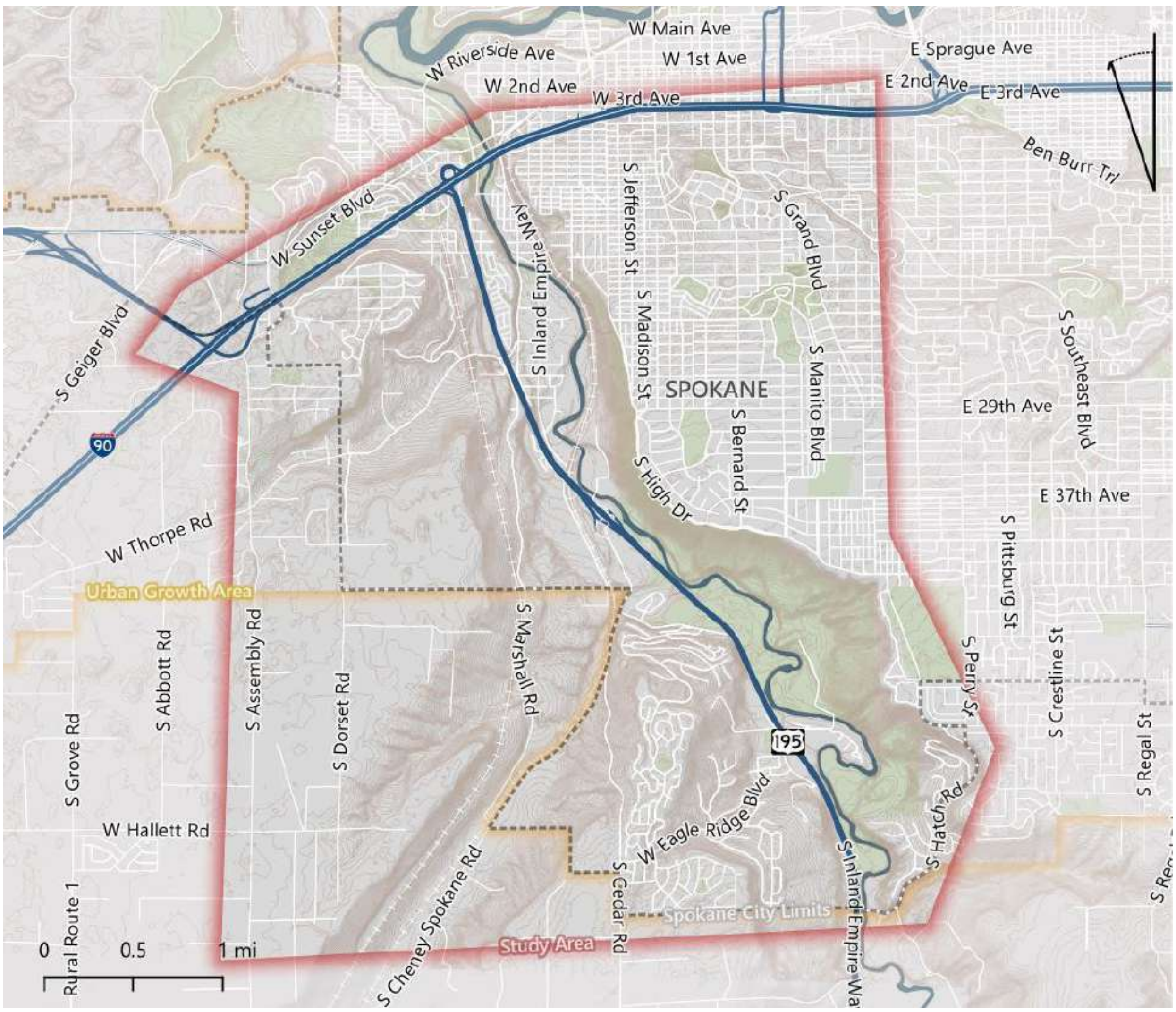
EXECUTIVE SUMMARY

The Study Area

While the study focuses largely on US 195 and I-90, the surrounding areas heavily impact transportation needs along these major transportation routes. The study area, therefore, includes a substantially greater area mostly encompassing the southwest portion of the City of Spokane and a smaller portion of unincorporated Spokane County.

The following map shows the approximate area on which this study centers. Recognizing that topography is one of, if not the defining feature of the study area, the map includes 10-foot contour lines to demonstrate the extent of the slope. Hangman Creek dissects the study area and runs parallel to US 195. Most of the flat land to the west of US 195 is located outside the Urban Growth Area (indicated in yellow).

Figure ES-1. Study Area



Source: TIGER (US Census Bureau), Spokane County, City of Spokane, LCG

The creek and highway separate the east from the west side of the study area, creating two distinct focus areas with unique features and characteristics. These are described below.

West of the Creek

- Limited transportation connectivity
- Significant topographical and railroad challenges
- Highly underutilized; large tracts of vacant land
- Approximately half within Spokane City Limits; significant portion within unincorporated Spokane County land but outside the UGB

East of the Creek

- Largely built out with existing residential neighborhoods
- Fewer topographical and physical challenges
- More established transportation grid
- Majority of the population in the study area
- Entirely within Spokane City limits
- Little access from west of the creek, except in the south and north

The majority of new development in the study area is expected to occur on the west side of the creek, purely because of the sheer amount of vacant land compared to the relatively built-out east-side "South Hill" neighborhood. Opportunities for new development are contingent on utility availability (not covered beyond anecdotal information obtained during stakeholder interviews) and transportation improvements. Given the anticipated growth on the westside versus the relatively limited opportunities for growth on the eastside, this market analysis, and development forecast naturally focuses on conditions and growth opportunities on the west side of the creek.

Key Findings

The Study Area, as shown in the previous map, is largely built out to the east and has largely vacant or underutilized areas to the west. Prior to 2000, new development had predominantly been limited to the east in the South Hill neighborhood—a highly desirable area of Spokane. More recently, and as the Spokane market began to attract national investment interest, larger single-family subdivisions and—to a lesser extent—apartment buildings have been constructed to the west, giving rise to significant household growth.

Demographic, economic, and market indicators, coupled with our knowledge of planned new development projects, indicate that continued residential growth and moderate-to-strong residential market demand is likely. Non-residential uses are likely to continue to be secondary to residential uses. Specific findings and considerations that are described in more detail throughout this memorandum are summarized below.

- **Population Growth.** Recent and projected growth rates provide positive indicators for the real estate market going forward. Growth rates in the study area, however, differ significantly for the east and west. Driven by the dwindling supply of vacant land elsewhere in the Spokane market and the continued build-out of several long-established residential subdivisions, growth rates to the west of US 195 are significantly higher than those to the east. Projected growth rates are particularly high among seniors (triple the average annual rate), with significant housing demand implications.
- **Employment.** Some employment diversification can be expected, especially as household growth ramps up and generates demand for services such as grocery stores, restaurants, medical clinics. Recent study area growth and countywide projections also suggest the study area could see moderate growth in office-using industries, including professional services, management of companies, and real estate, rental, and leasing. With this said, employment is generally limited in most industries aside from healthcare and social assistance, so while projected annual growth rates are moderate, the total numbers will remain low within the timeframe of this study.

- **General Development Trends.** Single-family homes and vacant land account for most of the land in the study area. Vacant land is far more prevalent on the west side of the study area (i.e. west of the creek and US 195). For these and other reasons, the vast majority of new residential development is expected to occur to the west of US 195, in keeping with the recent population trends. Non-residential uses, on the other hand, are likely to continue clustering primarily in the northeastern portion of the study area, closest to downtown and the highest densities of jobs and households.
- **Residential Market Dynamics.** Supply continues to lag behind demand in the Spokane single-family market, with just a 1.1-month supply of single-family homes on the market. Generally, there is a highly constrained supply of for-sale residential products in the study area with only 0.3 months of inventory on the market, and LCG is bullish about demand going forward. The apartment market is also tight, albeit secondary to single-family, and is projected to deliver a significant number of units to the market in the coming years.
- **Residential Development.** A significant number of single-family subdivisions, multifamily developments, and other residential projects are proposed or planned for the study area. While most of these proposed developments are expected to deliver within the next 20 years, many projects—especially larger—may deliver over multiple phases, with latter phases occurring beyond the 20-year planning horizon. The development forecast presented in the following section reflects these assumptions and is based on a combination of known development trends and a regional-oriented supply and demand analysis.
- **Retail.** Ultimately, rent, vacancy, construction, and absorption data for the past decade give little cause for optimism regarding retail prospects in the study area. Larger scale retail development prospects, particularly along interchanges, may improve as employment growth opportunities are realized in West Plains. Long-term prospects appear more positive given the existing sales leakage from the area, but probably only after substantial residential development.
- **Office and Industrial.** While there is an unprecedented regional and national interest in the Spokane market, it remains vulnerable to significant market disruptions and a potential incoming downturn. Office development in the study area, however, is limited and the area remains more a bedroom community office market consisting of smaller local tenants. Medical office space is the exception and may ramp up in the coming years as a result of the aging population and existing development clusters. Significant industrial employment growth is unlikely, hampering industrial development prospects, but limited light industrial development may occur.

Demand/Development Forecast

The following table shows the summary of the location-specific housing and employment projections for the next 20 years. These projections reflect a market-based approach to forecasting housing units and employment and consider market cycles, construction and absorption trends, the availability of developable land and utility provisions and other physical conditions, regulatory constraints (such as zoning), and high-level financial feasibility. This forecast should, therefore, be considered a reflection of estimated absorption rather than full build-out.

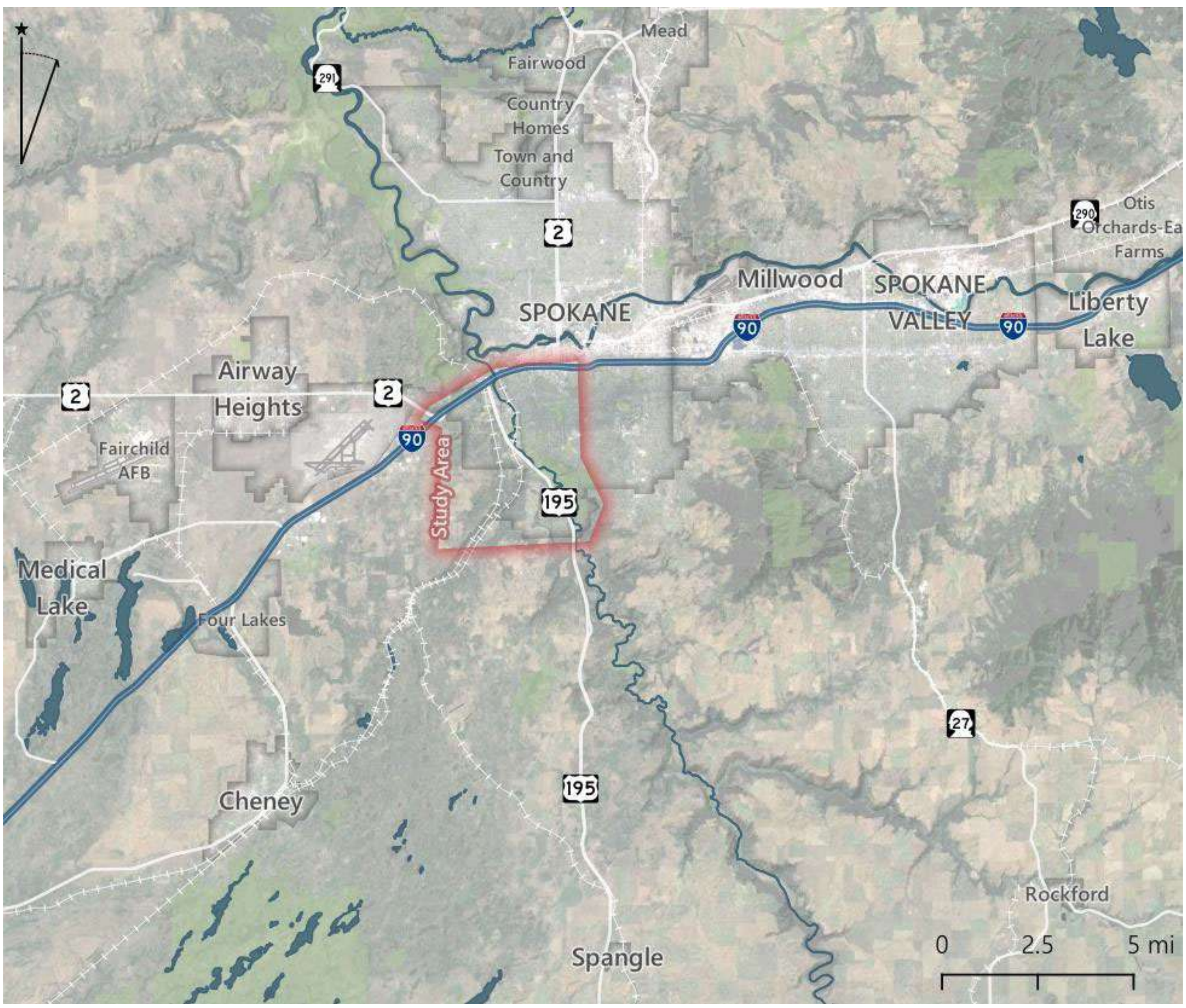
Table ES-1. Study Area Market-Based Growth Projections, 2020-2040

	DWELLING UNITS		EMPLOYMENT (BLDG. SQUARE FEET)					
	Single family	Multi family	Retail	FIRES*	Hotel	Industry	Medical	Office
Units/Sq. Ft.	2,548	1,418	129,500	49,240	270,000	40,000	41,000	68,600
Emps/SF			300	180	600	400	250	160
Est. Jobs			432	271	493	100	164	423
Totals	**3,966 units**							**1,883 jobs**

*Source: LCG; *Denotes Finance, Information, Real Estate Services*

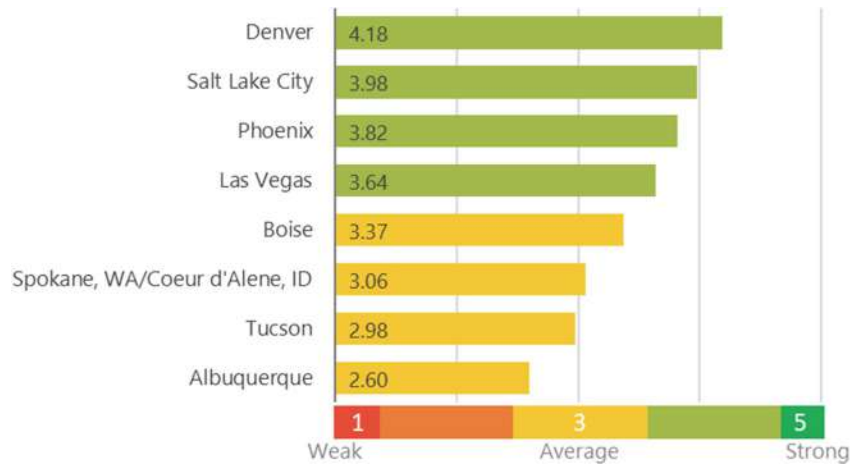
NATIONAL AND REGIONAL CONTEXT

Figure 1. Regional Context



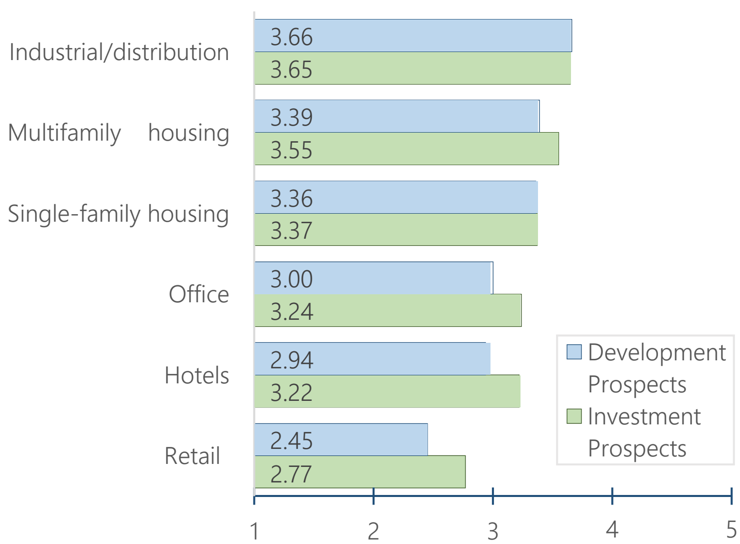
Source: TIGER (US Census Bureau), Spokane County, City of Spokane, LCG

Spokane is a well-positioned inland northwest city in the northeast of Washington. While the Spokane market has not been traditionally considered a hotbed of national investment,[1] Spokane is now attracting interest from national investors and is poised to capitalize on investors from larger cities seeking out higher yields found in tertiary markets, such as Spokane.



Indeed, the Urban Land Institute (ULI)—in its "Emerging Trends in Real Estate" 2019 publication—maintains that the Mountain region will "continue to exhibit strong demographic and economic growth," and the "comparatively low cost of living and [cost] of doing business is considered attractive to new residents and conducive to employment growth." Indeed, the Spokane metro region has added population and jobs faster than the USA average, although income growth is expected to grow at a slower rate. In more recent years, Spokane has been transitioning from a natural resource-based economy to a more high-tech and services orientation. Emerging Trends also advises on the types of development that are likely to be most desirable in the coming years from both a developer and investor perspective. While this is a national outlook, the guidance is relevant for most local markets.

Figure 2. Prospects for Major Property Types, 2020



The figure at left shows ULI's high-level summary of national investment and development prospects for 2020. Industrial and housing top the list, with significantly weaker development prospects for office, hotels, and retail. Industrial and distribution uses have become increasingly popular investments in recent years, largely due to the rapid rise of e-commerce.

Focus groups conducted by ULI for the Spokane/Coeur d'Alene region report that their metro could benefit from

[1] According the Urban Land Institute (ULI) in its annual "Emerging Trends in Real Estate" 2020 publication, survey respondents ranked Spokane in only 61st in overall prospects, with a similar lassitude among investors, in 79th place. This score is based on participants' opinions on the strength of the local economy, investor demand, capital availability, development and redevelopment opportunities, public/private investments, and the local development community.

increased infrastructure investment and that they continue to see rising interest from national and regional investors.

However, like most cities across the nation, Spokane is experiencing significant issues with a shortage of construction labor and higher construction costs, which is amplified locally by stagnant rent growth.

EXISTING CONDITIONS

This section presents demographic and employment conditions for the study area and surrounding region, as well as a high-level assessment of land supply conditions in the study area.

Demographics

As the table below shows, the study area contains almost six percent of Spokane County's total population and almost 14 percent of the City of Spokane's total population. Over the past two decades, the study area has seen modest population growth, closely following trends for the City of Spokane but slightly lower than Spokane County.

As noted previously, the characteristics of the east and west parts of the study area are distinctly different. This also extends to population trends. While the east side of the study area (east of the creek) contains approximately three-fifths of the total study area population, it has seen limited growth over the past two decades—albeit a higher rate of growth since 2010. Meanwhile, the west of the study area increased by more than three percent annually between 2000 and 2010 and almost two percent since 2010—growth rates among the fastest in the county.

Table 1. Population Summary, 2000-2019

Population Summary	Study Area*	Spokane	Medical Lake	Cheney	Airway Heights	Spokane County
2000 Pop	26,789	198,140	4,060	9,226	5,259	417,939
2010 Pop	28,220	209,770	5,060	10,590	7,251	471,221
2019 Pop	30,921	227,620	5,368	11,443	9,338	528,652
2000-2010 CAGR**	0.5%	0.6%	2.2%	1.4%	3.3%	1.2%
2010-2019 CAGR	1.0%	0.9%	0.7%	0.9%	2.9%	1.3%
2000-2019 CAGR	0.8%	0.7%	1.5%	1.1%	3.1%	1.2%

Source: ESRI

**The Study Area dissects many block group boundaries, thus the numbers in the table do not total the sum of the west and east block groups.*

*** CAGR = Compound Annual Growth Rate*

The following table shows per capita income, median age, and educational attainment (percent of the population above 25 years old). On average, as of 2019, residents in the study area were among the highest earners, oldest, and most educated in the region.

With a median age of 42.7, the population of the study area is considerably older, on average, than any of these comparison geographies, which are generally between 35.4 to 39.2 years old. Cheney, the location of Eastern Washington University, is the exception at 23.9 years old.

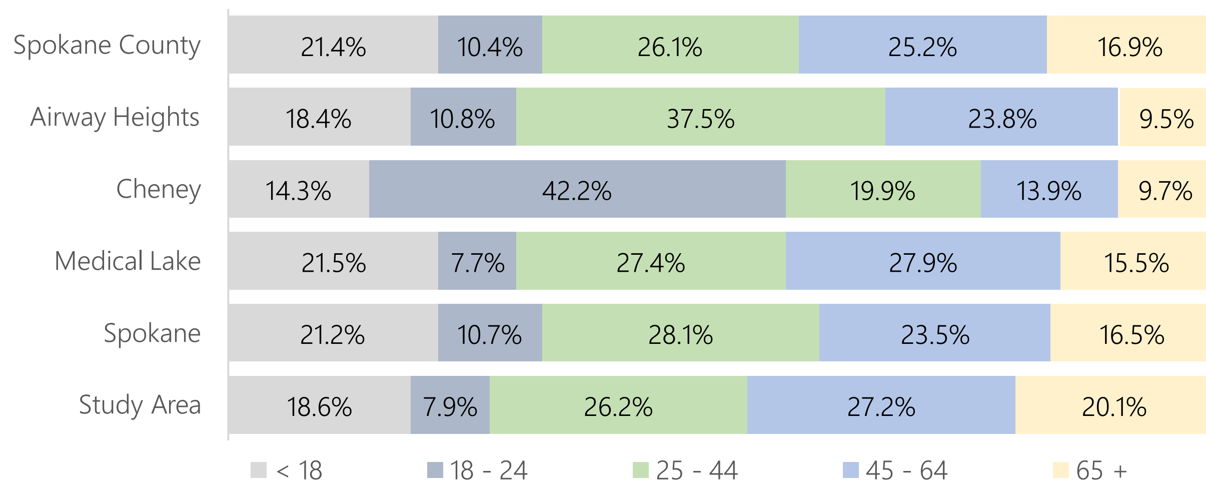
Table 2. Population Characteristics

	Study Area	Spokane	Medical Lake	Cheney	Airway Heights	Spokane County
Per Capita Income	$43,307	$28,749	$28,086	$21,941	$18,014	$30,841
Median Age	42.7	37.0	39.2	23.9	35.4	38.4
% Bachelor's Degree	49.3%	31.0%	28.3%	42.4%	10.4%	31.0%

Source: ESRI

The following chart shows the age distribution of the study area compared to surrounding cities in the region, as well as to Spokane County. As the previous table indicates, residents in the study area tend to be older, on average, than the surrounding region, with almost half aged 45 or over. Similarly, there is a lower proportion of the population aged 24 and younger.

Figure 3. Population Age Distribution, 2019



Source: ESRI

The following table shows select household characteristics for the study area and the surrounding region.

- The higher rate of homeownership coincides with the higher proportion of older, higher-income residents in the study area.
- Combined with the study area's older age profile, the lower proportion of households with children and higher proportion of one- and two-person households indicates a high proportion of households either without children or with older children that no longer live with their parents.
- Home values and median household incomes are also among the highest in the region, reflecting not only the newer construction (particularly on the west) but also the desirability of the South Hill neighborhood.

Table 3. Household Summary, 2019

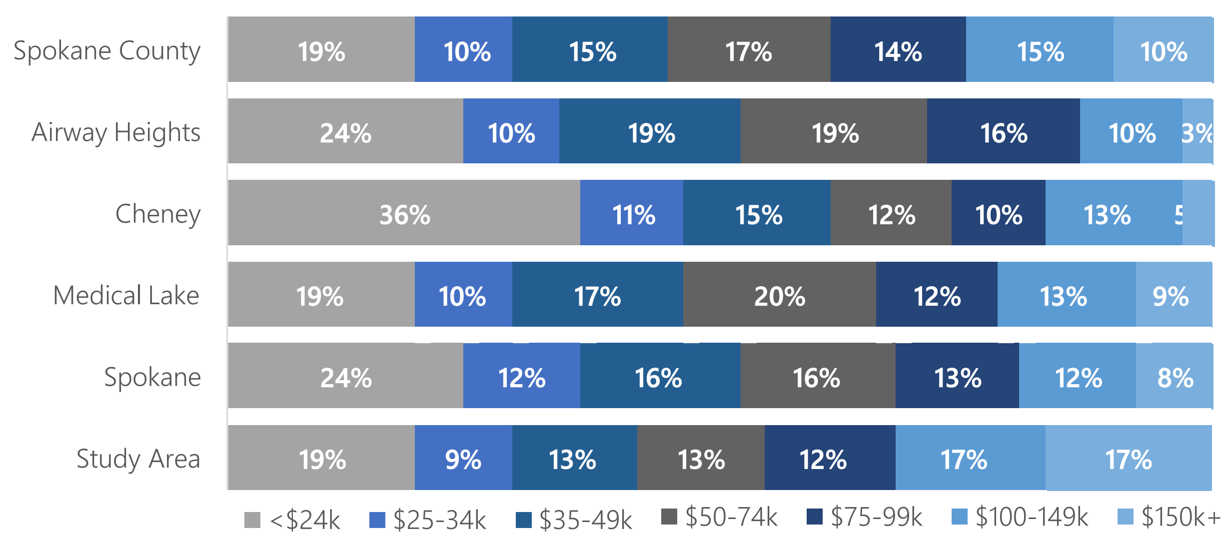
	Study Area	Spokane	Medical Lake	Cheney	Airway Heights	Spokane County
Total Households (2019)	14,221	94,642	1,885	4,254	2,950	208,981
Renter-Occ. Households	40.5%	43.3%	33.3%	65.6%	48.2%	36.3%
% Family Households*	52.4%	56.3%	68.5%	42.8%	59.4%	63.2%
% Households w/ Children*	23.4%	28.9%	37.7%	21.7%	32.2%	30.9%
% 1/2-person Households*	73.6%	66.8%	59.4%	65.5%	63.8%	63.5%
Avg. Household Size	2.13	2.33	2.76	2.31	2.37	2.46
Med. Household Income	$64,124	$47,943	$53,297	$37,688	$47,381	$56,227
Med. Home Value	$339,681	$210,170	$277,638	$212,529	$191,709	$253,278

Source: ESRI
** 2010 data (from US Census)*

As the following figure shows, more than one-third of households in the study earn $100,000 or more annually, a significantly greater proportion than any other comparison area. On the lower end, the study area is consistent with Spokane County (and Medical Lake) for the proportion of households earning less than $24,000 annually and has the least percentage of households earning between $25,000 and $49,999 annually.

While these numbers reflect *current* trends, they do not reflect future housing *needs*. In fact, there may be a greater need for housing units that accommodate the needs of lower-income residents and/or renters. While this market analysis and development forecast will present housing demand based on current trends, it will not describe specific needs.

Figure 4. Household Income Distribution, 2019

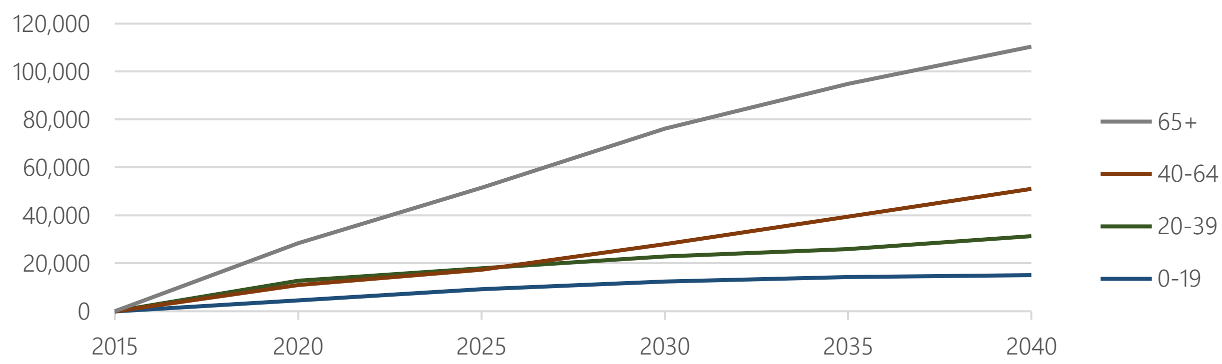


Source: ESRI

Population and Age Projections

The following chart demonstrates that the overwhelming majority of population growth is projected to occur in the senior age groups (65+) over the next 20 years.

Figure 5. Spokane County Net Population Growth Projections by Age Group (Cumulative), 2015-2040

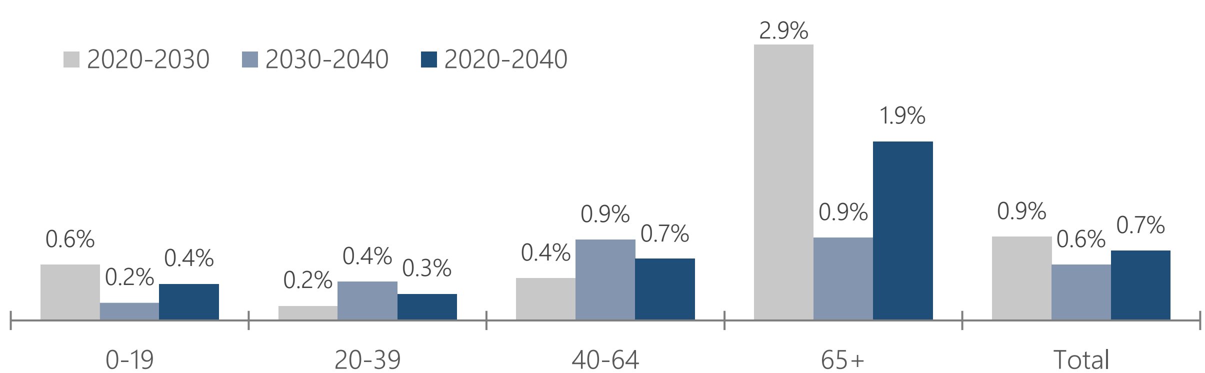


Source: WAOFM, 2017 GMA Projections of the Total Resident Population for Growth Management

Generally, Spokane County is projected to experience a slightly higher rate of annual growth between 2020 and 2030 at 0.9 percent than between 2030 and 2040 at 0.6 percent. The annual rate of growth among seniors is projected to be triple the average annual rate over the next decade.

Housing implications potentially include a greater need for "move-down" single-family residential as empty-nesters no longer require as much space after their children leave home, as well as senior multifamily housing (assisted living facilities and market-rate/age-restricted apartments).

Figure 6. Spokane County Projected Population Growth Rates by Age, 2020-2040



Source: WAOFM, 2017 GMA Projections of the Total Resident Population for Growth Management

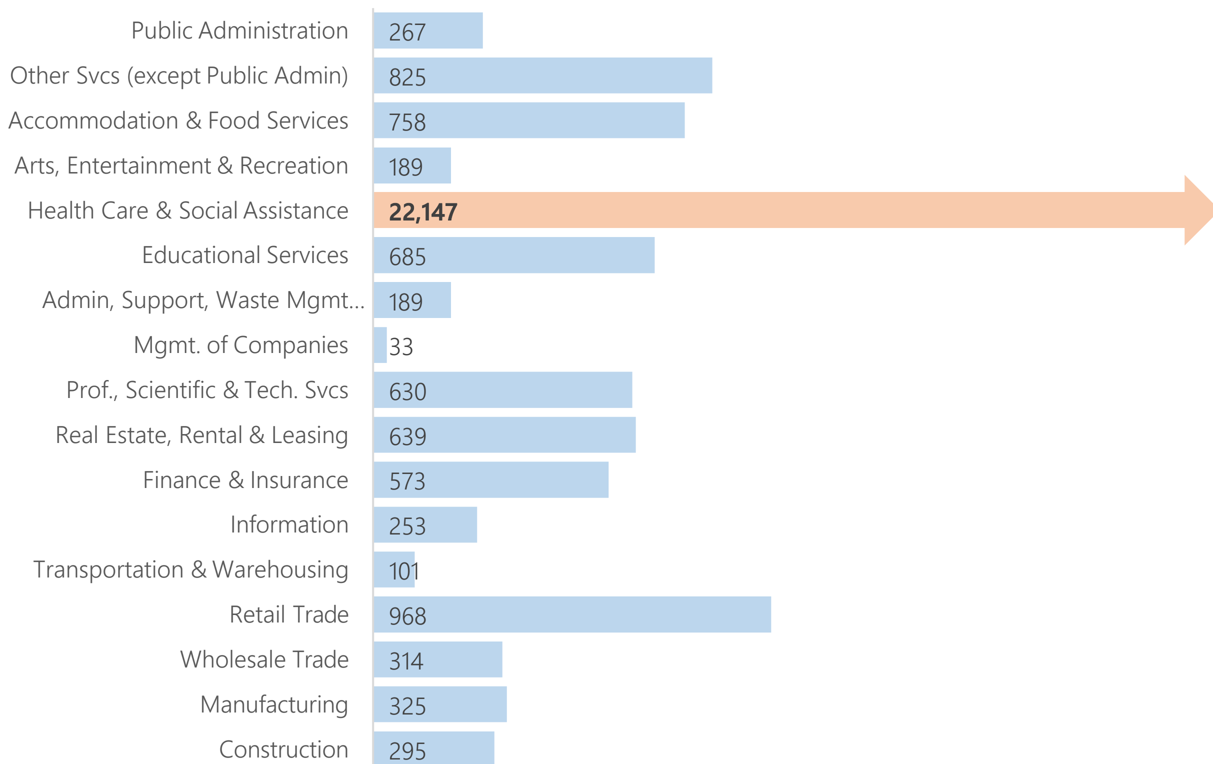
Employment

This section provides an overview of employment and commute patterns in the study area.

As the following chart shows, healthcare is the dominant industry, comprising approximately three-quarters of all jobs. Typically, this high concentration of jobs in one area reflects one or more major employers or institutions. In this case, almost all of Spokane's major healthcare providers are located in the northeast of the study area.

Outside of the healthcare industry, office-using industries (primarily information, finance and insurance, and professional services), account for about 7.3 percent of jobs, while industrial industries (primarily manufacturing, wholesale, transportation and warehousing, and utilities) account for about 4.2 percent. Retail jobs, including arts, recreation, entertainment, accommodation, and food services, account for about 6.6 percent.

Figure 7. Study Area Employment Profile, 2019 (est.)



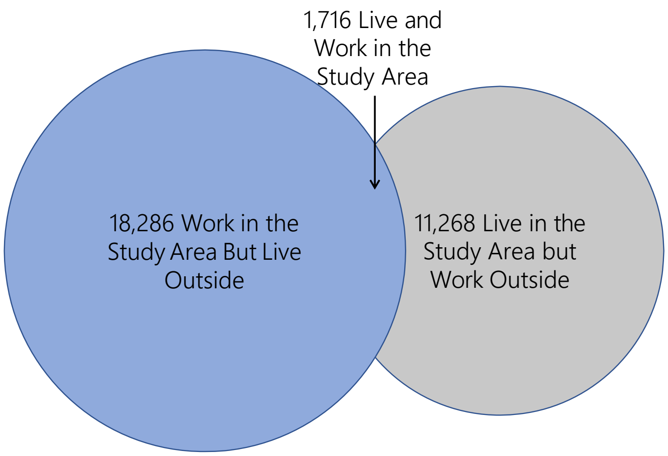
Source: ESRI

Commute Patterns

The figure below shows the number of employees that worked, lived, or both worked and lived in the study area, as of 2017.

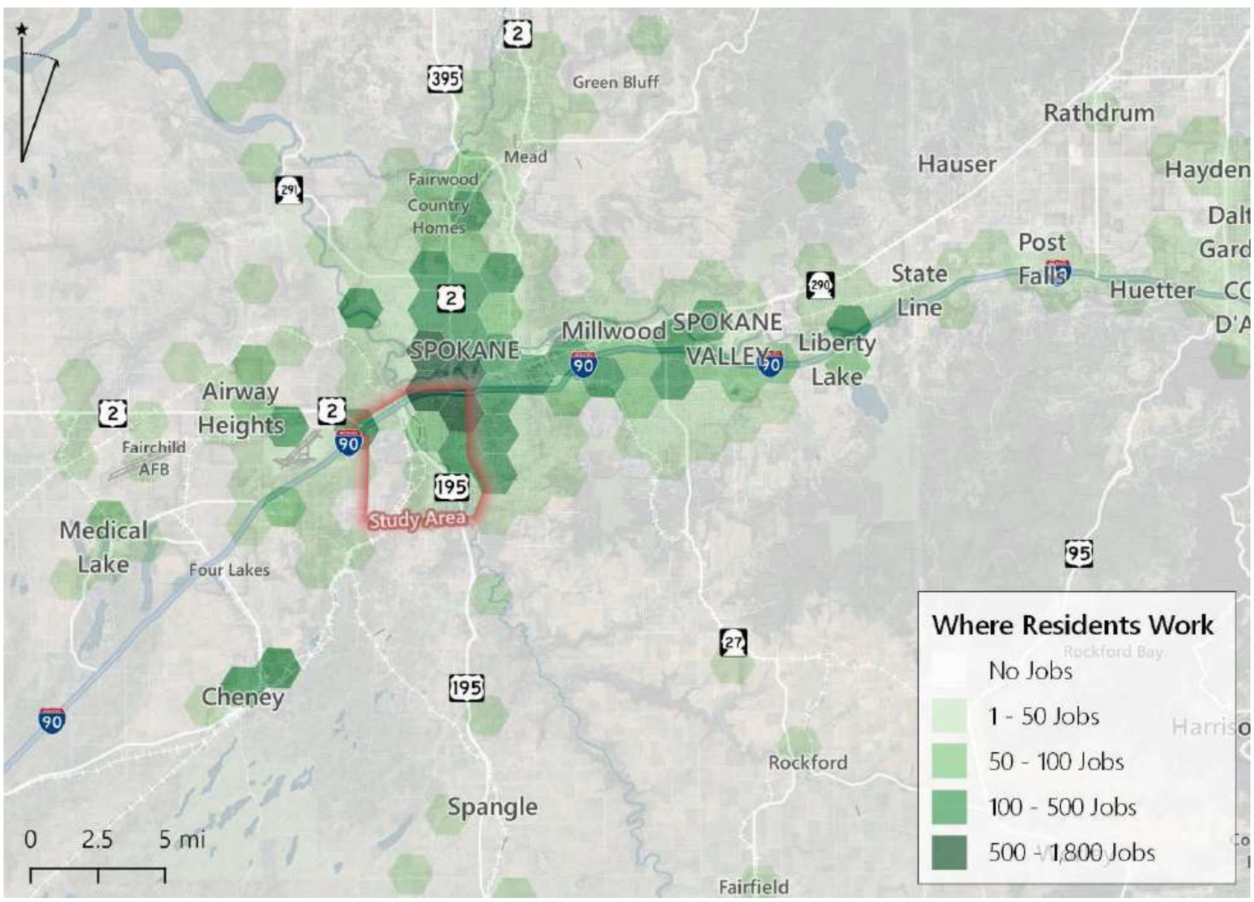
While there is a balanced distribution of jobs outside of the healthcare industry, the vast majority of the people that live in the study area do not also work in the study area. In fact, just 1,716 people both live and work in the study area—about 13 percent of employed residents.

Figure 8. Employment Inflow/Outflow, 2017



As demonstrated in the map at left, study area residents work throughout the region and typically travel in all directions for work. Downtown Spokane is the employment epicenter for study area residents. To the south, there is a small concentration of residents employed in Cheney, likely education-related. To the west, Airway Heights, Medical Lake, and Fairchild Air Force Base are employment hubs, the majority of which is likely industrial-related. Elsewhere, the jobs are more sparsely populated, but generally following major transportation corridors.

Figure 9. Where Study Area Residents Work, 2015



Source: LEHD, LCG

Employment Projections

Spokane County is projected to experience 1.3 percent annual employment growth through 2027. The healthcare industry is projected to account for more than one-quarter of new Spokane County jobs between 2017 and 2027 as the population ages and demand for healthcare facilities increases.

Recent employment growth trends for the study area between 2012 and 2017 have largely followed those projected for Spokane County between 2017 and 2027. In the study area, almost all new employment growth between 2012 and 2017 were in the healthcare and social assistance industry, a trend which is expected to largely continue going forwards.

Some employment diversification can be expected, especially as household growth ramps up and generates demand for services such as grocery stores, restaurants, medical clinics. Recent study area growth and countywide projections also suggest the study area could see moderate growth in office-using industries, including professional services, management of companies, and real estate, rental, and leasing. With this said, employment is generally limited in most industries aside from healthcare and social assistance, so while projected annual growth rates are moderate, the total numbers will remain low within the timeframe of this study.

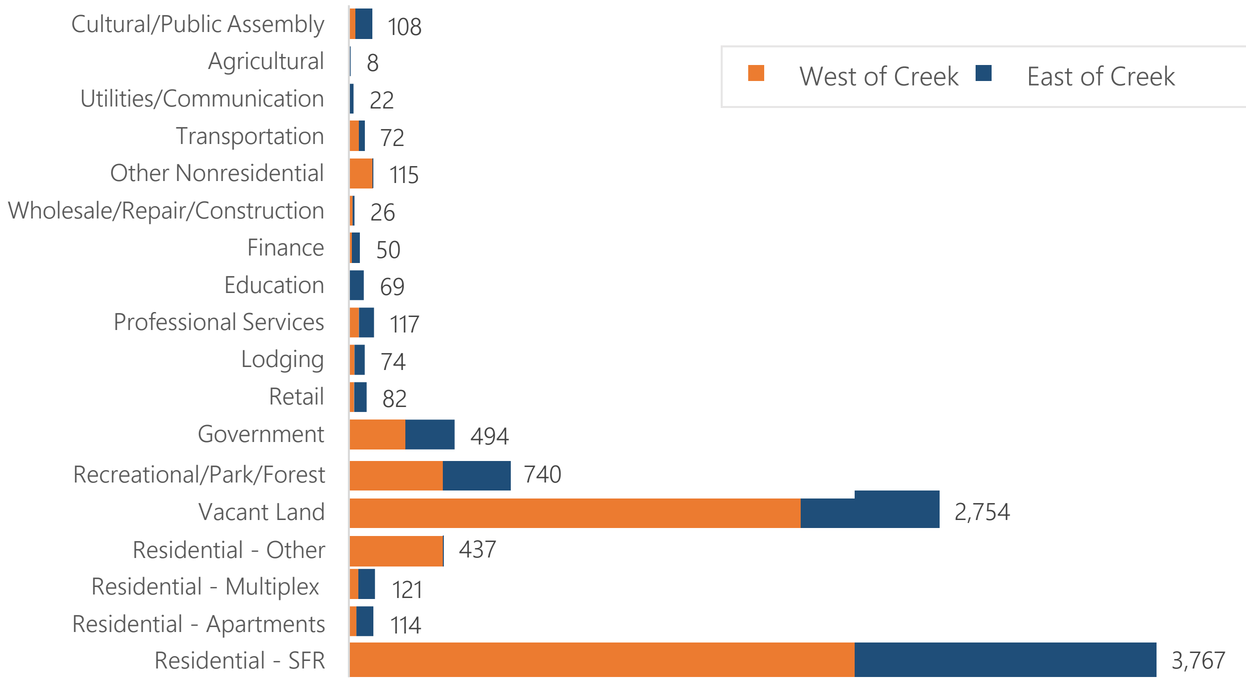
REAL ESTATE MARKET

This section provides information about the regional real estate market and the implications for the prospects of various land uses in the study area.

Market Summary

Land Development Trends. Single-family uses account for 72 percent of all parcels in the study area. Vacant land—largely zoned for residential uses—accounts for a further 14 percent. In terms of acreage, as the following figure shows, single-family uses account for 41 percent of all land, while vacant land accounts for 30 percent. Vacant land is far more prevalent on the west side of the study area (i.e. west of the creek and US 195).

Figure 10. Study Area Land Use by Acreage (March 2020)



Source: Spokane County Assessor (taxlot code)

For these and other reasons, the vast majority of new residential development is expected to occur to the west of US 195, in keeping with the recent population trends (described in the prior section) that have seen significantly faster growth on the west side versus the east side over the past two decades.

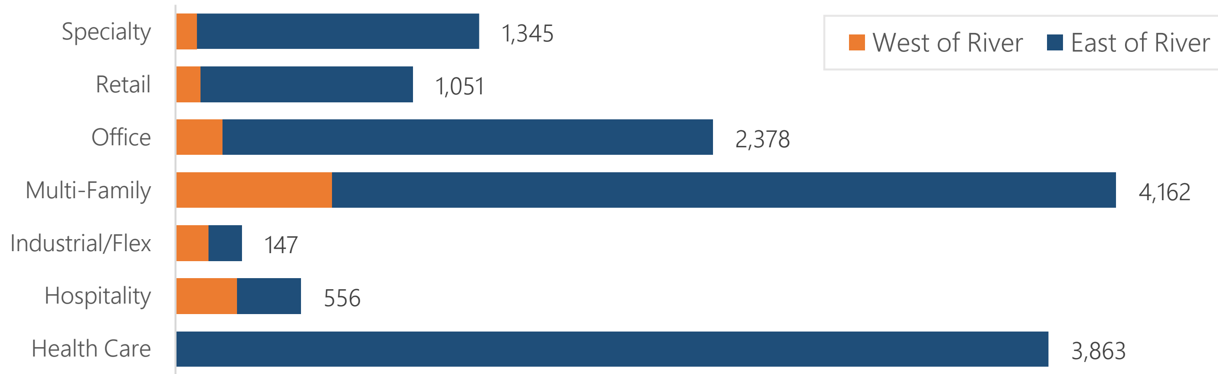
Non-residential uses, on the other hand, are likely to continue clustering primarily in the northeastern portion of the study area, closest to downtown and the highest densities of jobs and households.

On the west, very little non-residential development is expected for many reasons, including the current lack of residential density, the presence of existing retailers adequately serving the needs of current households, and the access and transportation challenges of the area. With that said, as residential growth ramps up, commercial uses tend to follow.

Building Area. As the following figure shows, most of the built building square footage in the study area is on the east side, reflecting the established neighborhoods and higher-density land uses.

This figure, however, excludes single-family residential uses, which would otherwise be the dominant land use (as demonstrated above). Indeed, at a conservative estimate of 1,200 square feet of building space per single-family dwelling unit, single-family residential would account for 11 million square feet, easily eclipsing any other land use.

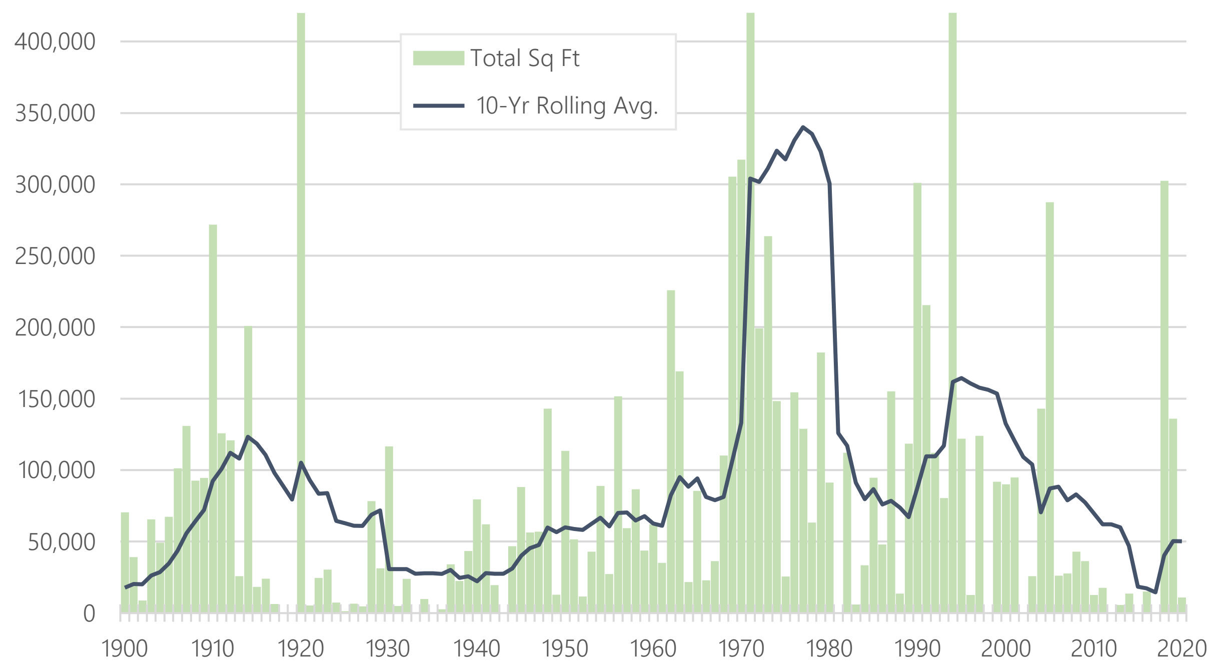
Figure 11. Study Area Development by Total Square Feet and Location*



Source: Costar
** Not including single-family residential or institutional/governmental uses*

Development Over Time. The following figure shows this same information by square feet, land use, and year built (since 1990). Since the 1970s, average annual construction (in total square feet) has generally on the decline. The late 1980s and early 1990s saw a slight increase, only for construction starts to flatline in the late 2000s and early 2010s—reflecting the far-reaching impact of the Great Recession on real estate.

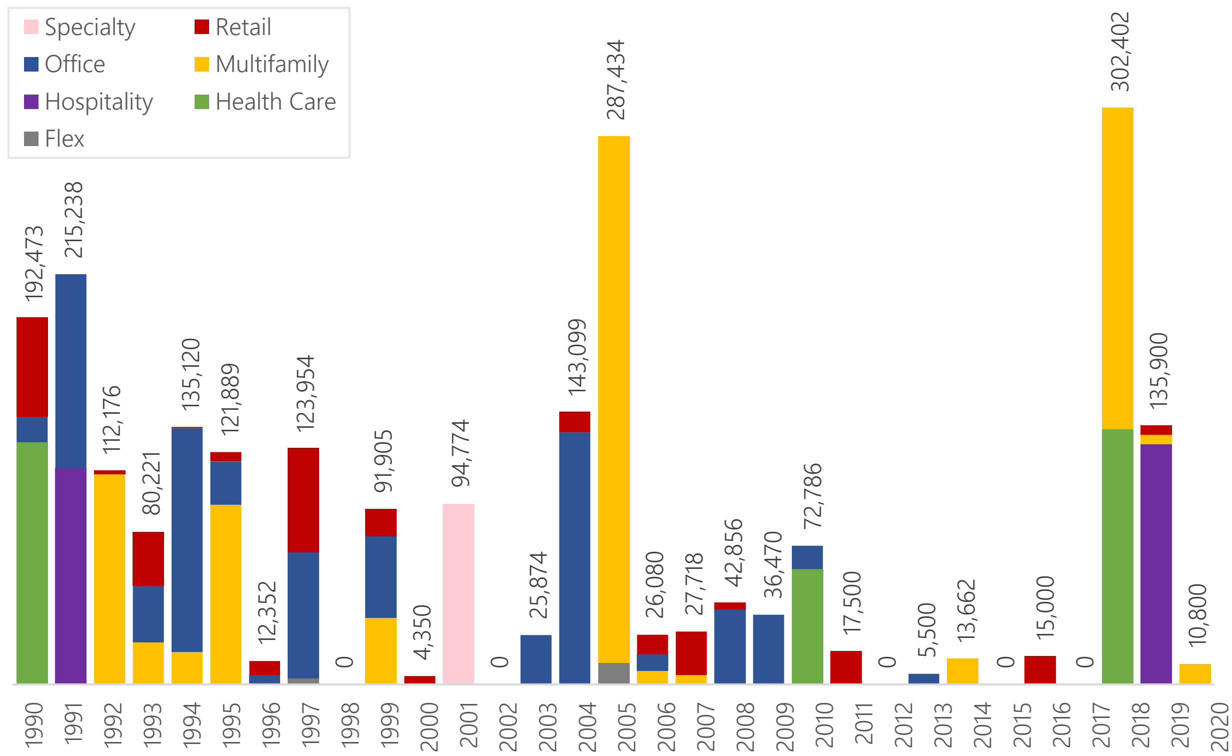
Figure 12. Study Area Development by Total Square Feet and Year Built*



Source: Costar
** Not including single-family residential or institutional/governmental uses*

Development Over Time by Land Use. Similarly, the following figure shows this same information by land use since 1990. The 1990s saw relatively consistent but gradually declining development across a variety of land uses. Generally, the study area has seen relatively little new development since this time. Over the past decade, only recently in 2018 and 2019 have construction trends picked back up, largely driven by significant multifamily residential and lodging construction.

Figure 13. Study Area Development by Total Square Feet, Land Use, and Year Built*



Source: Costar
** Not including single-family residential or institutional/governmental uses*

Market Sectors

Single-Family Residential

Spokane Regional Market. The Spokane housing market is viewed as affordable when compared to Seattle and Portland.

It was also ranked fourth out of 300 cities in a national Realtor.com survey of the hottest markets, trailing Midland, Texas; Chico, California; and Colorado Springs, Colorado. The survey, released in March, measures listing views per property and the average amount of time a home is on the market. With such a hot market, it is not uncommon for sellers to receive multiple offers on homes, especially in the $300,000-or-less price range.

Redfin, a comprehensive real estate brokerage that tracks national home listings and sales, similarly considers the Spokane Housing Market among the "most competitive" with a Redfin Compete Score[2] of 92 out of 100.

[2] The Redfin Compete Score rates how competitive an area is on a scale of 0 to 100, where 100 is the most competitive.

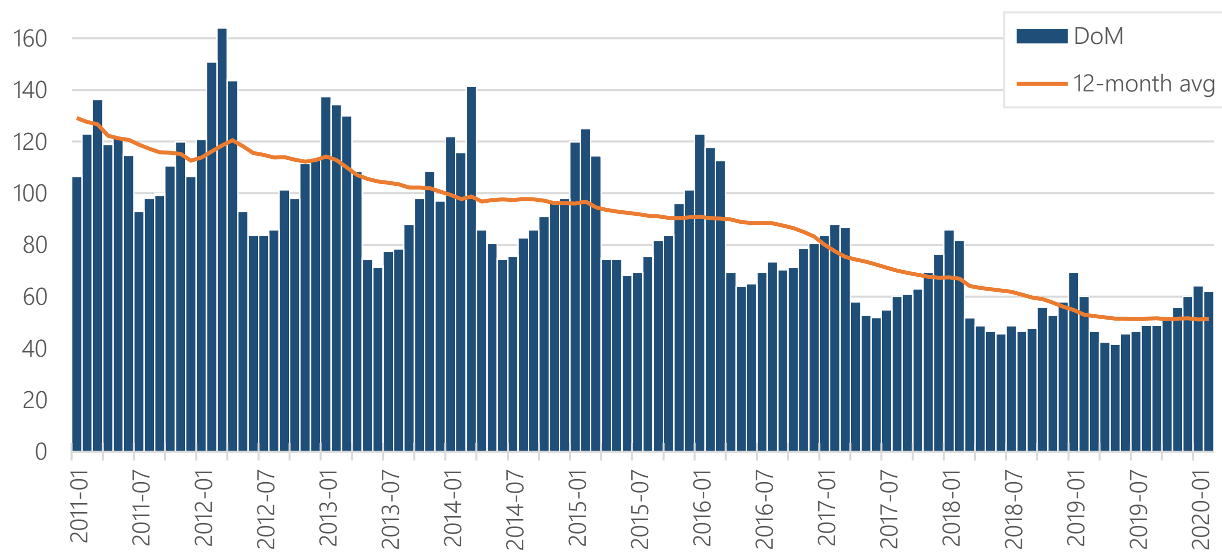
Specifically, Redfin data shows that most homes get multiple offers, often with waived contingencies; homes sell for around list price and go pending in around seven days; and "Hot Homes"[3] can sell for about three percent above list price and go pending in around four days.

In terms of data, there are two key indicators of market strength in the for-sale housing market:

1. The ratio of the sale price to list price and
2. Days on market.

For the **sale-to-list price ratio**, a ratio of 1.0 indicates that homes are being sold for the original list price, on average. If this ratio is anywhere near or even above 1.0, the housing market is considered very tight and a seller's market. At 1.0, this rings true for Spokane County. The average number of **days on the market** from list date to sale (closing) date has been gradually decreasing over the past decade and is currently at a 10-year low.

Figure 14. Study Area Single-family Sales Trends,



Source: Redfin

With the sale-to-list price ratio increasing and the days on market decreasing, there is strong demand for new for-sale housing. Such high demand will usually drive up home prices, however, threatening the affordability of the market. Through March 2020, sales on single-family homes, including condos, were up 19.4 percent while the median price was up 18.1 percent to $290,000 according to the Spokane Association of Realtor's market snapshot.

Supply continues to lag behind demand in the Spokane Market, with just a 1.1-month supply of homes on the market. A healthy market generally ranges between four and six months of supply. Below four months is considered a sellers' market, and above six is considered a buyers' market. As a result of these supply and demand pressures, the average cost of a house is expected to increase by about five to six percent in 2020

[3] A home that is expected to be among the most competitive homes on the market, according to a proprietary Redfin algorithm.

compared with 2019. Similarly, affordability of single-family homes for low-income families will continue to be a challenge in 2020.

Local market. Single-family homes in the study area are mostly in the "South Hill" neighborhood, an established neighborhood in the east of the study area. As the area is largely built out, opportunities for large-scale single-family development have diminished and larger subdivisions, such as Eagle Ridge, have more recently begun to take shape in the west.

New homes and current listings are both significantly higher than the median sale price over the past year, as demonstrated below.

- The median sale price over the past year was $339,250
- Among new homes only, the median sale price was $642,500
- The median listing price was $514,900

Single-family sale activity has generally concentrated in the more affordable price ranges between $200,000 and $500,000, although the average days on the market has lagged the Spokane market. The fastest-selling homes, on average, have been in the $500,000 to $700,000 range, most of which were newly constructed.

In fact, new homes sales, which totaled 79 over the past year and accounted for approximately 13 percent of all sales, provide a useful indication of construction trends and demand for single-family products. The fastest-selling homes, per Redfin data in the table below, over the past year, were priced between $500,000 and $600,000. Home listings in this price range also account for 41 percent of all current listings, with seven active listings (equating to 1.3 months of inventory).

Table 4. Study Area Single Family Sales Trends, Past 12 Months

	ALL SALES		NEW HOME SALES		ACTIVE LISTINGS	
Price Range (000s)	Avg DoM	# Sales	Avg DoM	# Sales	# Listings	Months of Inventory
<$200	211	38		0	0	0.0
$200 - $300	214	122		0	1	0.1
$300 - $400	213	212		0	1	0.1
$400 - $500	212	112		0	5	0.5
$500 - $600	189	63	168	29	7	1.3
$600 - $700	193	31	193	31	2	0.8
$700+	229	18	229	18	1	0.7
Average/Total	210	596	193	79	17	0.3

Source: Redfin, LCG

Generally, there is a highly constrained supply of for-sale residential products in the study area with only 0.3 months of inventory on the market, and LCG is bullish about demand going forward.

Multifamily Residential

Spokane Regional Market. The multifamily market in the Greater Spokane area is now considered robust after a slow start following the Great Recession. The multifamily market has picked up steam in recent years, with an overall average apartment vacancy rate at historic low levels. Though investment activity slowed in 2019, buyers are taking increasing notice of the Spokane multifamily sector's strength. Price appreciation is robust and cap rates have remained fairly steady due to equally strong rent growth.

Despite these positive indicators, however, a looming downturn could prove difficult. The tight residential market—and more apparent housing shortages in some submarkets, such as West Plains[4]—will likely help the Spokane market maintain a reasonable level of resiliency. Investment from both public and private parties is also necessary to increase the amount of shovel-ready land to allow developers to respond to housing needs and catalyze further residential development.

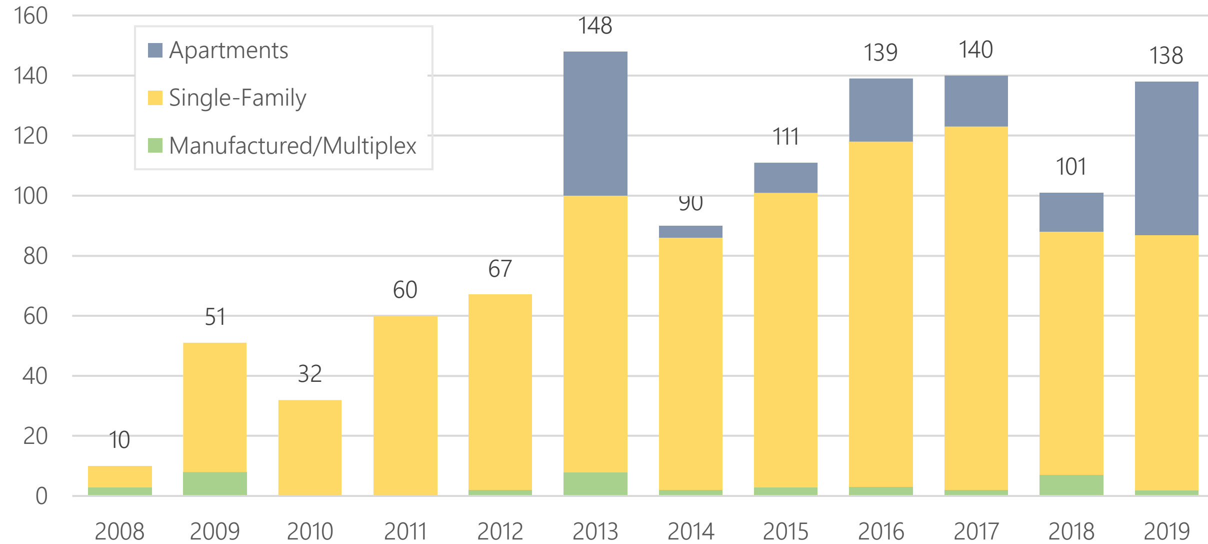
Other key information pertaining to the multifamily market is provided below.

- Despite nearly 1,000 new units coming online in 2018, there was a significant slowdown in deliveries 2019, resulting in a tight market.
- Average rental rates have been climbing as occupancy rates increase. The overall average apartment vacancy rate has sustained historic low levels throughout the past few years. In submarkets where the rate increased, this was largely because they were the most affected by new construction being absorbed into those areas.
- The Cheney submarket has seen the most rapid increase of new apartment units in the Spokane region.
- The multifamily market is expected to remain strong through the next real estate cycle, even in the event of an economic downturn. Lower-than-average vacancy rates will continue to drive rental rates upwards.
- Apartment trends likely to influence both new construction and acquisition/rehab projects in the future include continued development of mixed-use properties, a reduction in average unit size, an increase in available tenant services, additional affordable housing units, and offerings of tenant customization within individual apartment units.
- **Senior Housing.** The Urban Land Institute (ULI) is bullish about senior housing prospects, with strong investor returns, portfolio diversification, and rising liquidity continuing to drive demand. Challenges include recent supply growth (which puts downward pressure on demand) and ongoing labor shortages.

Local Market. While multifamily apartments have accounted for almost one-quarter of all residential building permits in the study over the past five years, this equates to an average of just 22 units per year. Generally, however, building permit activity in the area has been increasing year-over-year since the Great Recession of 2008-2010.

[4] With rapidly increasing employment opportunities over the next two years, a housing shortage on the West Plains is predicted. Specifically, the completion of the Amazon fulfillment center and Fairchild Air Force Base’s employment increase of about 1,000 new jobs by 2020.

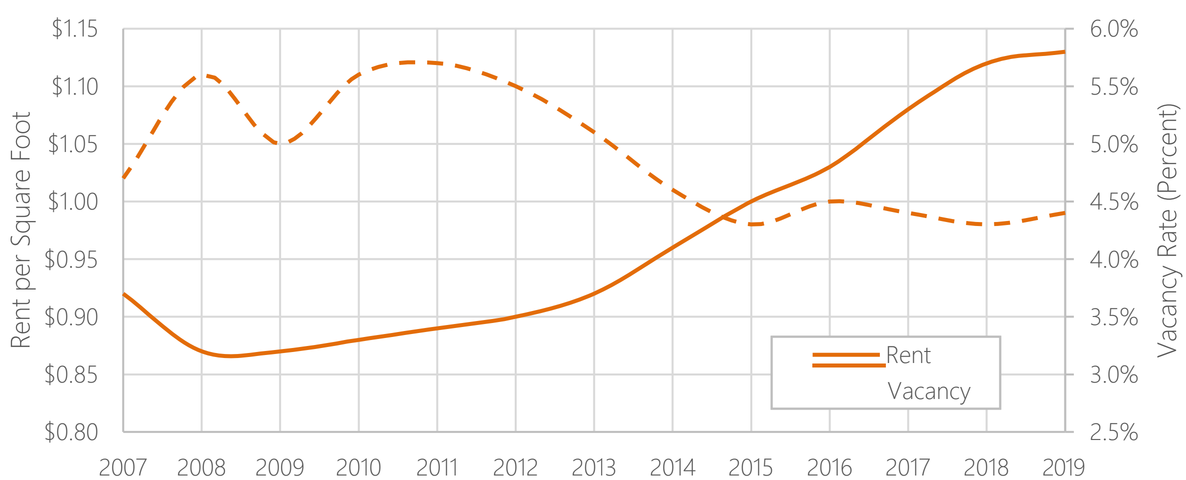
Figure 15. Residential Building Permit Trends, Study Area, 2008-2019



Source: City of Spokane

Vacancy rates in the study area have remained relatively steady over the five years, settling around 4.5 percent. Typically, a vacancy rate under 5.0 percent indicates a tight market with demand eclipses supply. Meanwhile, rental rates have climbed 30 percent since 2009, reflecting both the pent-up demand for multifamily products and the increasing number of new apartments constructed in the area.

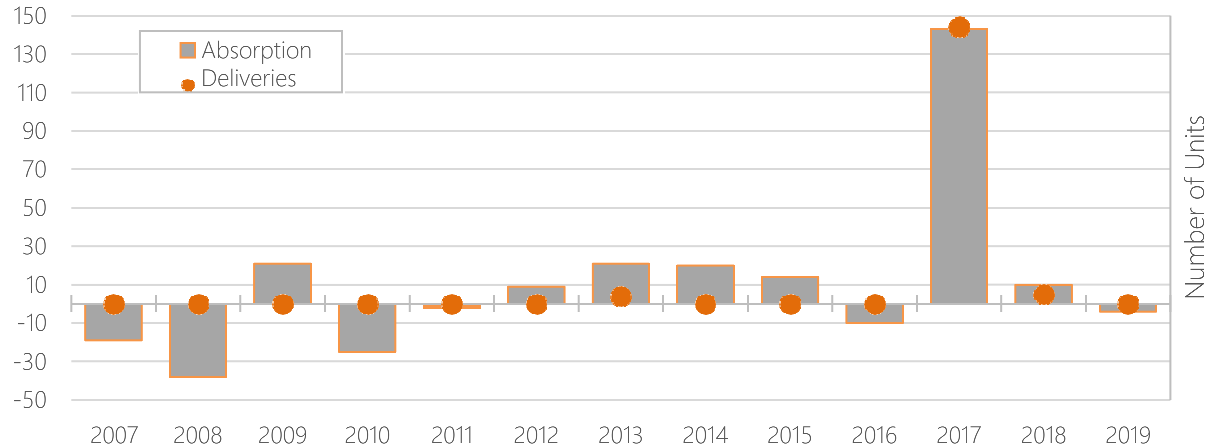
Figure 16. Multifamily Rent and Vacancy Trends, Study Area



Source: Costar

Indeed, deliveries of new apartment units in the study area have been highly limited, except for 2017 that saw 143 units delivered to the market. High demand for multifamily products is demonstrated by the fact that 2017 also saw 144 units absorbed.

Figure 17. Multifamily Absorption and Delivery Trends, Study Area



Source: Costar

Office

Spokane Regional Market. The Spokane office market shows signs of improving demand, albeit with mixed indicators. Deliveries during the current cycle have largely been build-to-suit development (in other words, development for a specific, predetermined user or landowner), without much speculative construction. Though pipeline activity remains limited, the vacancy has fluctuated. Moderate rent growth is well above the historical average, with the highest-end spaces seeing the strongest performance.

Investment in Spokane has increased substantially, and price appreciation has been moderate over the past few years. Sales volume in 2019 finished well above the historical average, with several sizable deals moving the needle earlier in the year.

There is optimism surrounding the future of Spokane's office market, with the only barrier being a lack of large space. Many options are available for companies needing 4,000 square feet and less, but large floor plates (more than 15,000 square feet) are limited, likely because of a lack of construction.

While there is unprecedented regional and national interest in the Spokane market, it remains vulnerable to significant market disruptions and a potential incoming downturn.

Spokane's rent growth has been driven mostly by tenants filling up high-end office space, according to CoStar's Spokane market report. New construction has been limited, which has helped drive up office rents. Most new office buildings have been built specifically for the companies filling space.

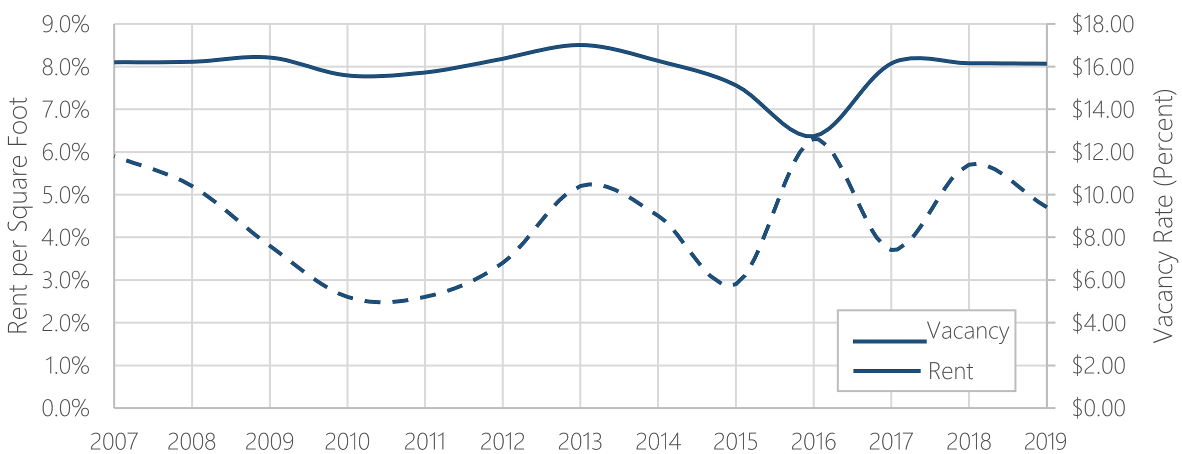
Medical-related office space is set to continue growing, however. Nationally, healthcare innovation is spurring medical office transformation while investment demand is bolstered by the demographic outlook. The aging population, an increased number of people with medical insurance, and cost-reduction strategies by insurance companies that favor outpatient care have converged to bolster medical office space demand. In conjunction with a limited development pipeline, these factors point to continued momentum for purpose-built medical office space. Further, in comparison to other, more volatile sectors, the moderating pace of development sustains compressed vacancy rates, and low-interest rates power investor appetite.

Ultimately, even with the small pullback in 2018, Spokane's medical office market is and will continue to be very healthy.

Local Market. Office development in the study area is largely confined to the South Hill office market—one of the smallest submarkets in Spokane—to the east of US 195. With that said, South Hill remains more a bedroom community office market consisting of smaller local tenants. While medical office space does well on the South Hill, the office market has always seemed to lag.

Indeed, as the following chart shows, office rents in the area have remained flat, likely due to the lack of new construction in the area and the fact that healthcare, as the dominant industry, does not usually conform to typical market dynamics (such as rent). Vacancy rate trends, which have fluctuated in recent years, also provide little reason to believe that the area will become a hotbed for future office development.

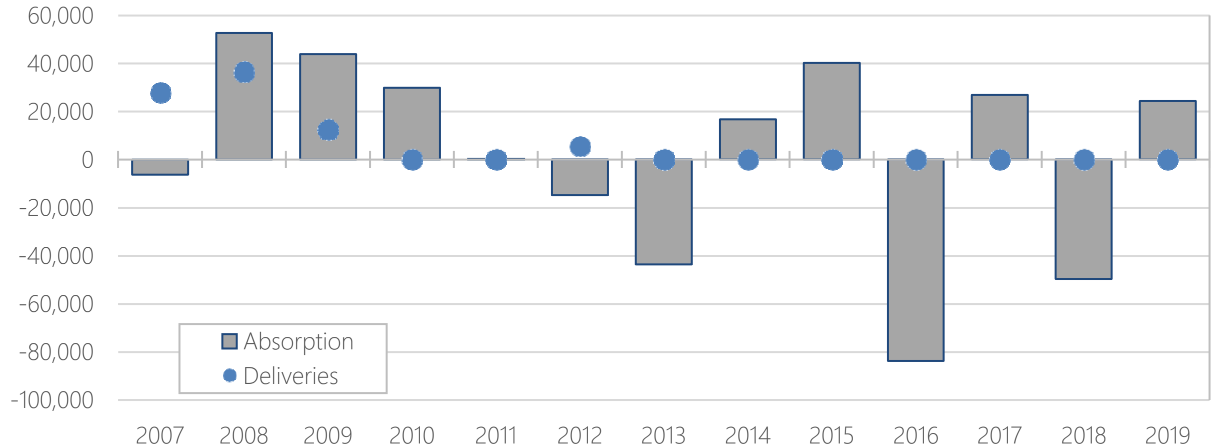
Figure 18. Office Rent and Vacancy Trends, Study Area



Source: Costar

In keeping with the statement above, office deliveries in the study area have been low or non-existent. Absorption has fluctuated from negative to positive each year for the past five years, demonstrating the area's propensity to easily feel the effects of a couple of larger offices' leases or vacancies.

Figure 19. Office Absorption and Delivery Trends, Study Area



Source: Costar

Local Medical Office. With several regionally significant healthcare organizations in the study area, medical-oriented office space is likely to continue to grow in both demand and building space.

On the west, specifically, new office space is also likely to take the form of dentists, clinics, veterinary offices, and banks, albeit to a limited extent. This westside development is likely to cluster around existing centers.

Retail

Spokane Regional Market. Real estate indicators show mixed support for the Spokane retail sector. Recent store closures had led to an uptick in the vacancy rate, but positive net absorption in recent quarters has allowed vacancies to tighten.

Local retailers in Spokane (compared to retailers in other large Northwest markets) continue to enjoy a stable economic environment and a growing population, although the pandemic and a looming economic downtown threaten the strength of the retail market.

Spokane is attractive to national retailers seeking to get an early foothold in an emerging but vibrant retail market. Duluth Trading Company, Nike, Dick's Sporting Goods, and others entered the market during 2018. A limited pipeline, with less than one percent of total inventory underway, should help limit the impacts of an economic downturn.

Rental rates remain below the prerecession peak, and rent growth is consistently lower than the national average. Despite low rent growth, investors continue to pour money into the Spokane retail market. Sales volume in 2019 finished at nearly double the historical annual average. Price growth is moderate and cap rates are well above the national index.

Retail is currently undergoing a seismic transition in the age of e-commerce, which has been well-documented in recent years. Beyond ecommerce, a new class of tenants has gone from strength-to-strength in brick-and-mortar retail. These tenants include online brands ("clicks-to-bricks"), experiential and entertainment uses, food and beverage, fitness, health, and wellness, coworking and shared office space.

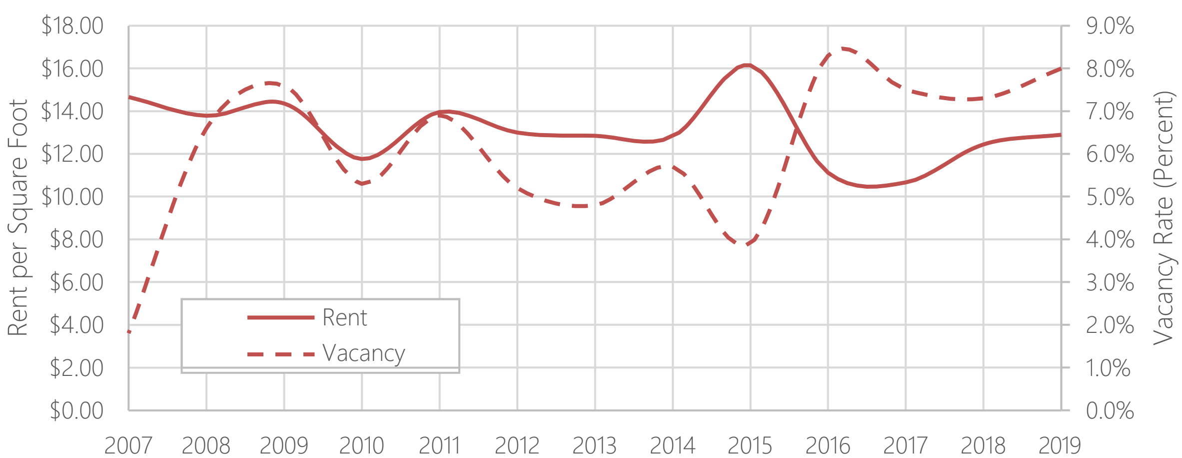
Local Market. The South Hill retail market continues to represent the lowest retail vacancy rate in the market, although this does not reflect strong retail prospects. The vacant Hastings Records and upcoming Shopko spaces present an opportunity for large new box tenants to enter the South Hill market.

West of US 195, standing retail inventory is limited and growth opportunities are not expected in the near-term until there is significant household growth. At such time that rooftop density supports new retail development, it is likely to be limited to neighborhood and/or community-supportive retail, such as:

- Foodservice (restaurants, cafes, bars)
- Grocery stores
- Landscaping
- Convenience stores
- Fitness, health, and wellness
- Finance and banks

Rent growth has been flat or negative in recent years as vacancy rates have been relatively high, which is problematic for new retail prospects.

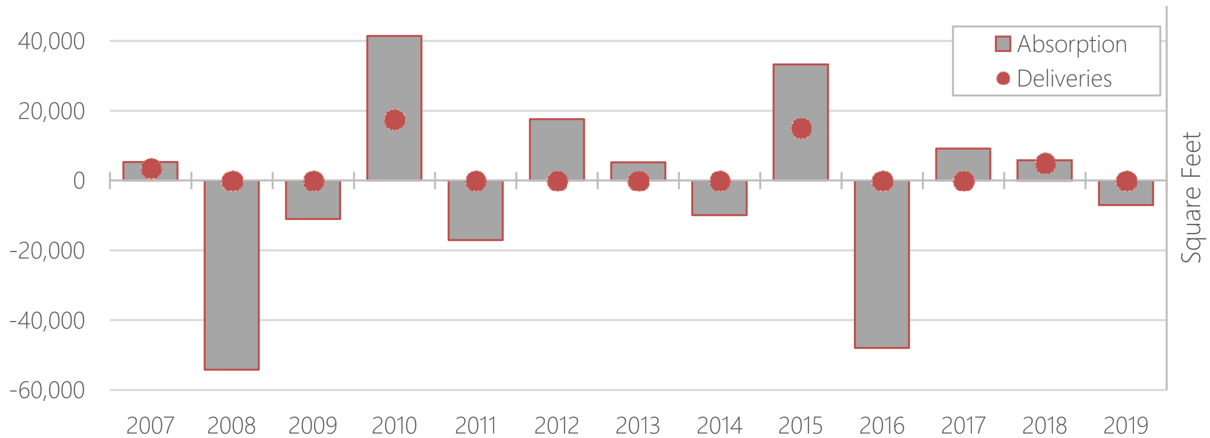
Figure 20. Retail Rent and Vacancy Trends, Study Area



Source: Costar

Retail deliveries are highly limited, recently topping out at 15,000 square feet in 2015. Retail Absorption, as with the office sector, has been limited and fluctuating year-over-year.

Figure 21. Retail Absorption and Delivery Trends, Study Area



Source: Costar

Ultimately, rent, vacancy, construction, and absorption data for the past decade give little cause for optimism regarding retail prospects in the study area. Larger scale retail development prospects, particularly along interchanges, may improve as employment growth opportunities are realized in West Plains. Long-term prospects appear more positive given the existing sales leakage from the area, but probably only after substantial residential development.

Other Uses

Industrial. Spokane's industrial market remains locally dominated, aside from the recently built Amazon distribution facility. Despite a relatively busy delivery schedule, vacancies are well below the historical average, which has allowed landlords to maintain leverage. Rent growth is well above the historical average, but it has slowed from banner years recorded earlier in the cycle.

Sales volume is in line with the historical average and most deals involve small or middle-market players. Prices have increased substantially this cycle and cap rates have compressed too, with notable moderation in recent quarters.

Given the residential land use designations in the City's comprehensive plan, industrial development is likely going to be highly limited. Some users, such as landscaping or construction companies, may find the westside of the study area attractive because of cheaper land—especially in the County—and proximity to major transportation routes and the West Plains submarket.

Lodging. Lodging in the Spokane Market is generating cautious optimism among investors, both from a return-on-investment and a development perspective. That said, the impact of slowing economic growth and operational performance suggests that the industry is at an inflection point. In the very near-term, the implications from the Covid-19 pandemic are clearly bad for hotel prospects and has caused uncertainty about the near- and mid-term future. Aside from these immediate issues, a deceleration in top-line revenue growth, trade implications, rising labor costs, and political uncertainty further contribute to concerns among hotel investors.

Investors are likely to benefit from seeking opportunities that capitalize on shifting customer preferences and technological innovations and allow for differentiation in an increasingly challenging operating environment. These include brand proliferation as brands move closer to boutique offerings and present alternative models to the traditional hotel landscape and embracing digital transformation, both of which appear ever more important given the current situation.

DEVELOPMENT FORECAST

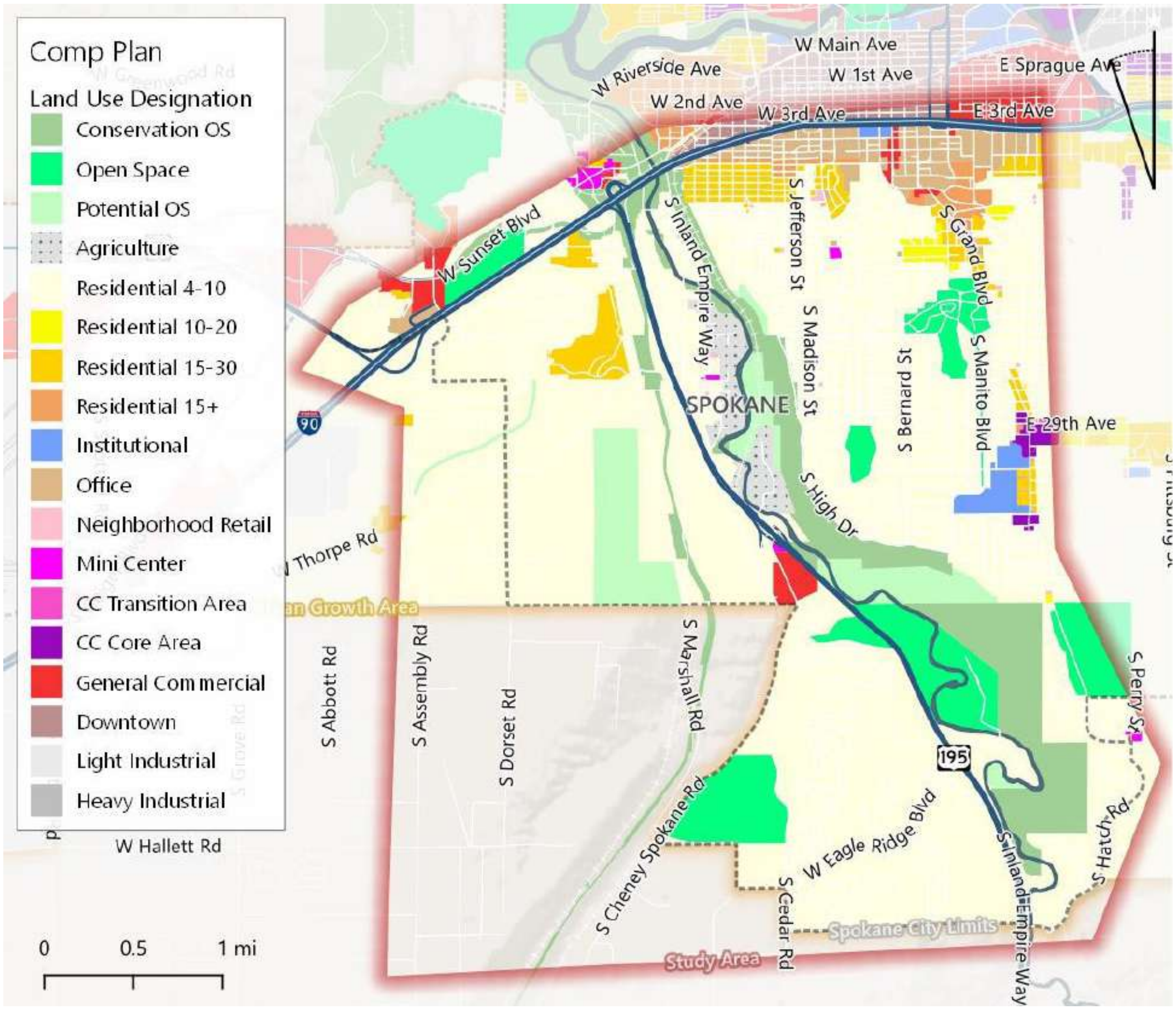
This section summarizes LCG's development forecast, which is an estimate of net new development by land use in the study area. The development forecast is based on the known development projects, land supply analysis, and general development trends in the area, among other elements. The forecast applies the findings from the market analysis to the study area at the parcel level, highlighting potential development opportunities on a site-by-site basis.

Regulatory Context

The City of Spokane's current Comprehensive Plan serves as the guiding regulatory framework upon which our development forecast is founded. The land use designations have been established through extensive processes that, while not permanent, should be considered the desired land uses in the area.

As the following map shows, most of the land use designations in the study area are residential. Most of the higher density residential designations in the study area surround downtown in the northeast, but approximately 100 acres of Residential 15-30 land is in the northwest of the study area (where there are significant tracts of undeveloped land). Large swaths of land—mostly following the creek to the east of US 195—are designated recreation or open space which is not likely to develop.

Figure 22. Comprehensive Plan Designations



Source: City of Spokane, LCG

Land Supply Analysis

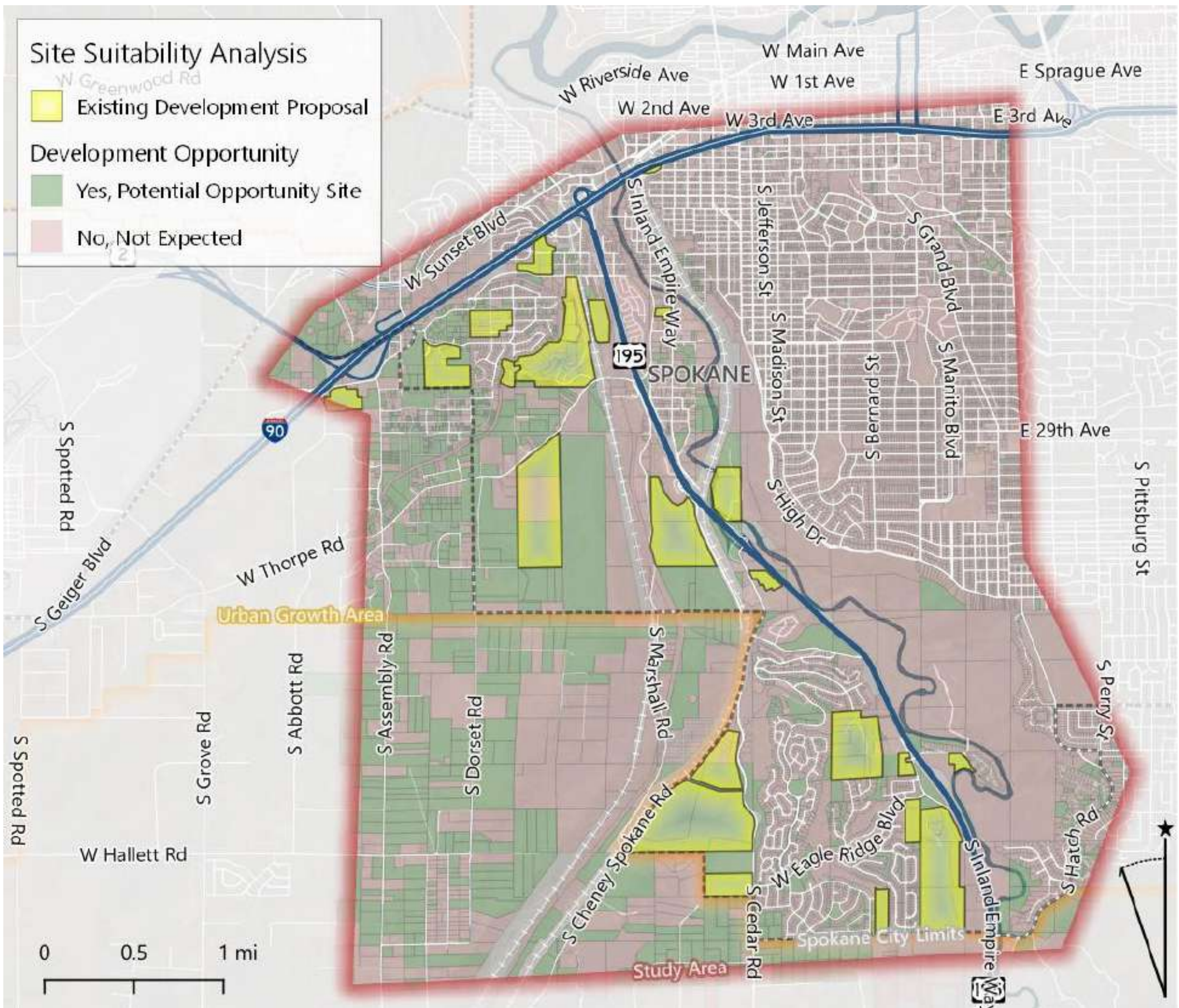
While this market analysis mostly focuses on demand, calculating a development program for the next two decades requires an understanding of how much land is currently available to develop.

Developable land includes land free of development impediments, such as steep slopes, wetlands, easements, right-of-way, and existing development. While parcels containing existing development may, in theory, be redeveloped, this market is unlikely to support or warrant the higher cost of redevelopment. As such, the land supply analysis summarized below focuses only on vacant or highly underutilized land.

The following map shows the "developable" parcels in the study area. This is an approximation and should not be considered a 100 percent accurate depiction of the study area.[5]

Existing development proposals are also shown, based on information provided by public agencies and private property owners and developers. These proposals are at varying stages of planning, from preliminary efforts to acquire and consolidate sell for sale or development, to fully permitted projects. The planning stage, site and access conditions, market feasibility, phasing (especially for larger projects), and market cycles were all considered for assessing each development proposal's prospects and construction and absorption timeline.

Figure 23. Development Opportunities and Existing Development Proposals



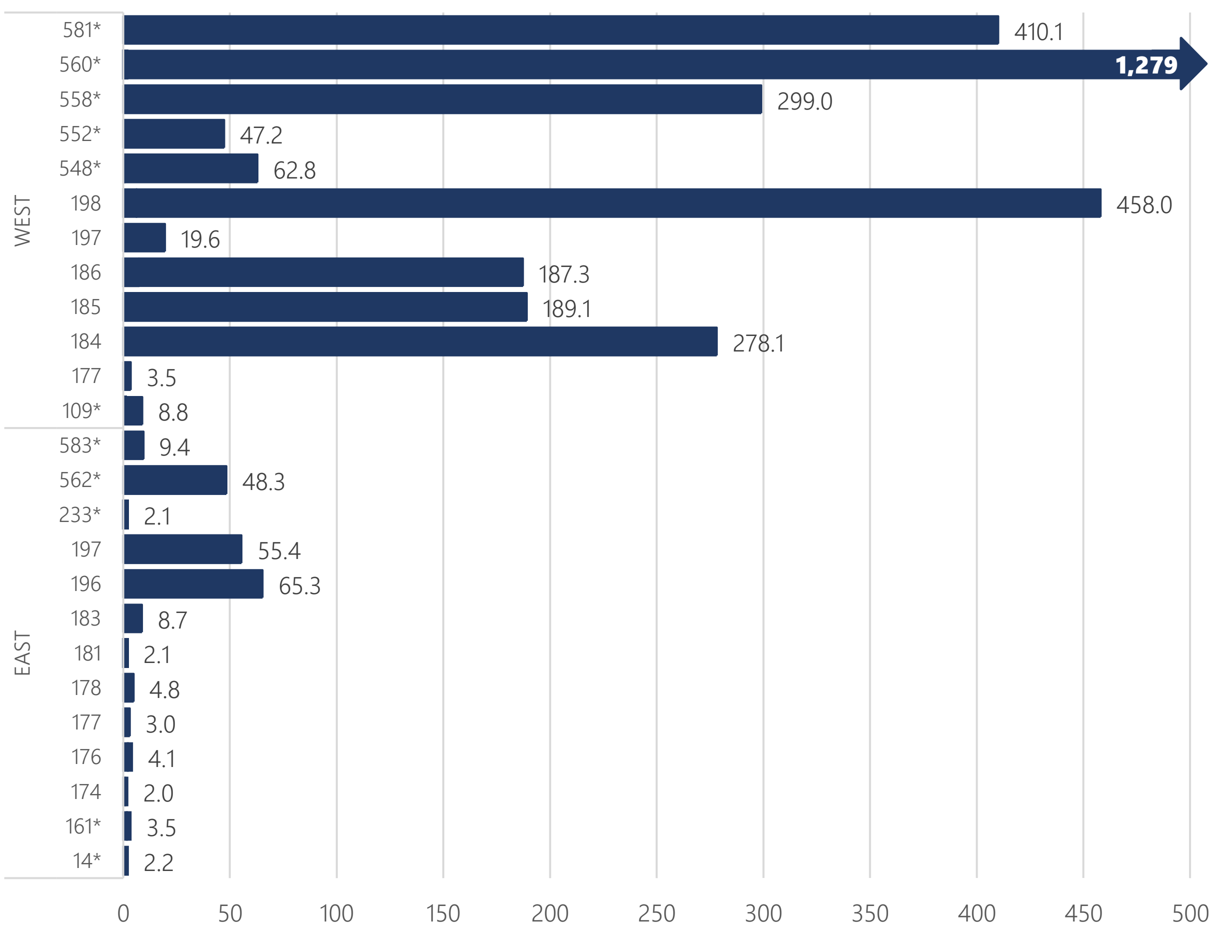
Source: City of Spokane, LCG

[5] Some parcels with certain impediments, such as steep slope or existing buildings, for example, may see new development if financially feasible. Given the existing market, however, this is unlikely.

The following chart presents these "opportunity sites" (including those sites for which there are existing development proposals) in total acreage by TAZ. Opportunities were considered either residential or non-residential uses (i.e. employment uses, such as commercial, retail, office, industrial). Any TAZ number with an asterisk (*) indicates *partial* inclusion in the study area. This is an important distinction for the development forecast that follows, as it includes only the development that is likely to get built in the portion of each TAZ within the study area.

The majority of development opportunity sites are located west of US 195 and are largely residential (based on both the existing comprehensive plan land use designations and likely future development as described in the previous section).

Figure 24. Development Opportunities



Source: LCG
Notes: TAZs with estimated opportunity sites that total less than 2.0 acres are omitted from the chart; an asterisk (*) indicates a TAZ boundary that partially falls outside of the project study area.

Market Demand

This subsection describes residential, retail, and office and industrial demand. Demand is considered market-based and can fluctuate based on a wide variety of factors, especially over a 20-year timeframe. It is therefore important to consider market demand from an *absorption* perspective.

Residential Demand

The following chart shows estimated new demand in the residential market area for multifamily and single-family residential units by maximum monthly rent and home price brackets. These brackets are simply estimates based on projected household growth by income. The market area comprises the main study area and the area to the south and southwest, generally defined by US 195 and I-90, but not including Spangle or Cheney. Generally, this extended area is undeveloped Spokane County land.

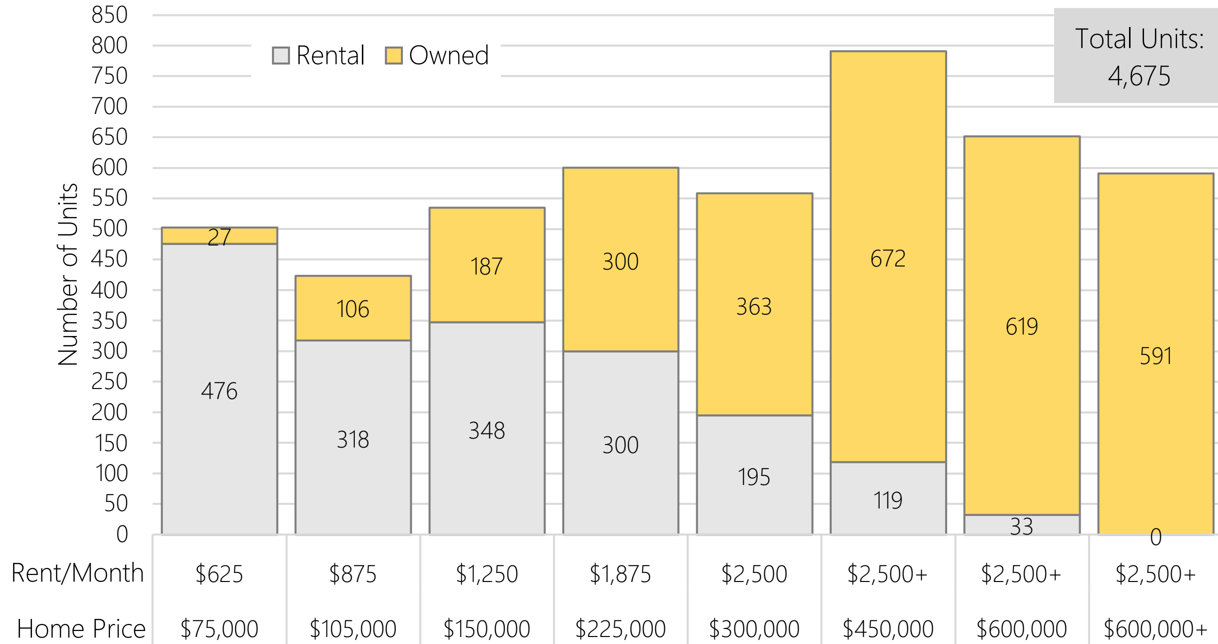
Given LCG's knowledge of development projects, opportunity sites, growth areas, and the market in general, new household growth is anticipated to be approximately 38 percent rental, largely made up of apartments and multiplexes. We expect rental housing to account for only a small proportion of single-family development, and vice versa.

At 1.1 percent average annual growth over 20 years, we project market-area demand for about 4,675 new households between 2020 and 2040, of which approximately 3,700, or 80 percent—in keeping with current trends—are expected within the study area. This is potentially aggressive, given that 2010 to 2020 saw only growth of about 1,300 households (single-family and multifamily combined total). This projection, therefore, assumes a significant uptick in residential construction activity.

LCG believes this is a reasonable assumption, given Spokane's increasing interest from national investors, the rapidly dwindling alternatives for large-scale residential development elsewhere in the Spokane market, and positive socioeconomic trends.

It is important to note, however, that this projection does not reflect full build-out in the study area. Instead, it is a reflection of LCG's expectations for construction and absorption between 2020 and 2040. Some areas are expected to see significant concentrations of new growth, while other areas are not expected to see growth until beyond the 2040 planning horizon. These details are shown in the Development Forecast Summary that follows.

Figure 25. 20-year Projected New Residential Demand Summary, Market Area



Source: LCG

Retail Demand

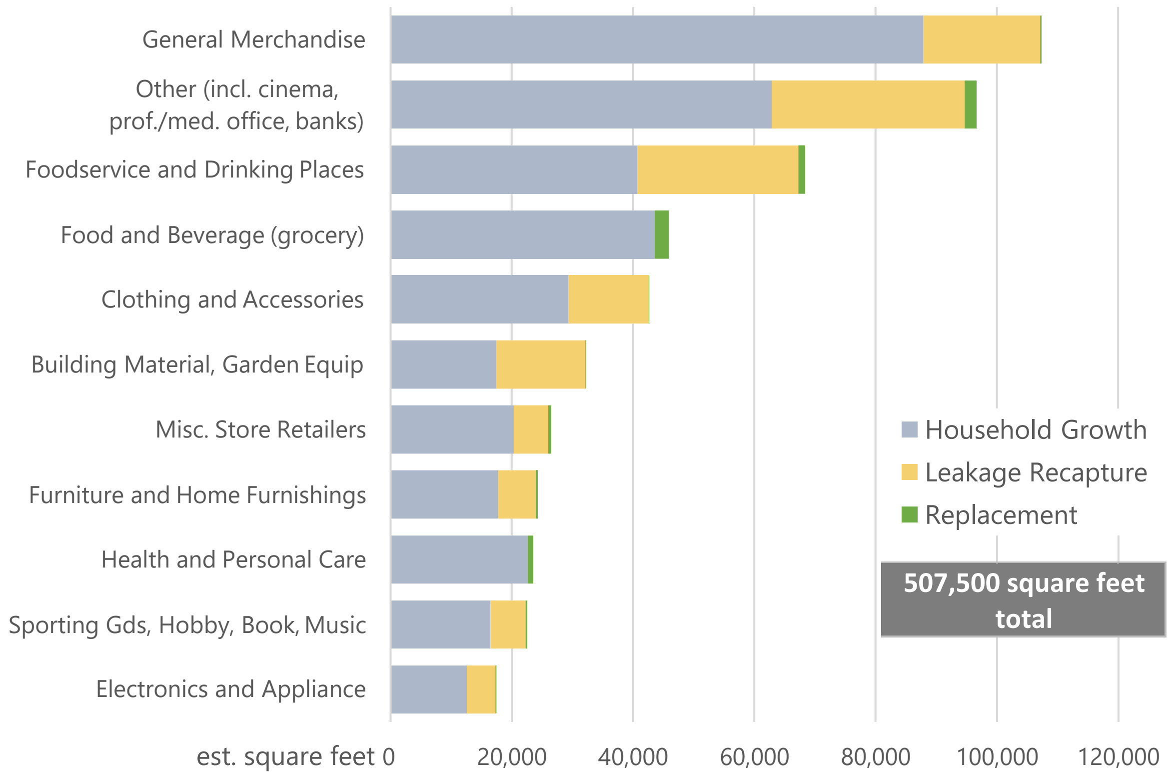
The following chart shows the projected demand for new retail development for the retail trade area. The retail trade area is defined as those households that would comprise about 75 percent of the customers. Because of the study area's location on the edge of the metro, the market area captures many of the communities to the south that would be expected to travel north to shop for goods and services.

We project demand for approximately 507,500 square feet of new retail space (including medical clinics, banks, etc.). We expect the study area to capture no more than 130,000 square feet of the total (25%), with the remaining consumer demand continuing to come in the form of leakage outside the study area (such as downtown and larger commercial centers, like those planned along US 2 near Airway Heights). Despite the lower capture rate, 130,000 square feet remains an aggressive target given that just 37,400 square feet of new retail delivered to market in the study area in the past decade. That said, the projection is likely reasonable given that retail typically follows significant household growth. Non-retail commercial spaces, such as medical, finance, and real estate-related spaces, will be subject to similar market forces as retail.

Retailers likely to locate within the study area boundaries include grocery stores, 'other' stores, foodservice and drinking places (although limited), building material and garden equipment stores, and health and personal care. Attractive retail locations remain limited to high trafficked, visible, accessible areas where there is a nearby critical mass of households (existing or expected in the near future), such as near interchanges and major routes.

Last, it is important to remember that typical store sizes differ for each retail category. For example, general merchandisers are typically 40,000 to 100,000+ square feet, while restaurants are usually no more than 10,000 square feet. Job densities also vary drastically depending on the tenant.

Figure 26. 20-year Projected New Retail Trade Area Demand



Source: LCG

Office and Industrial Demand

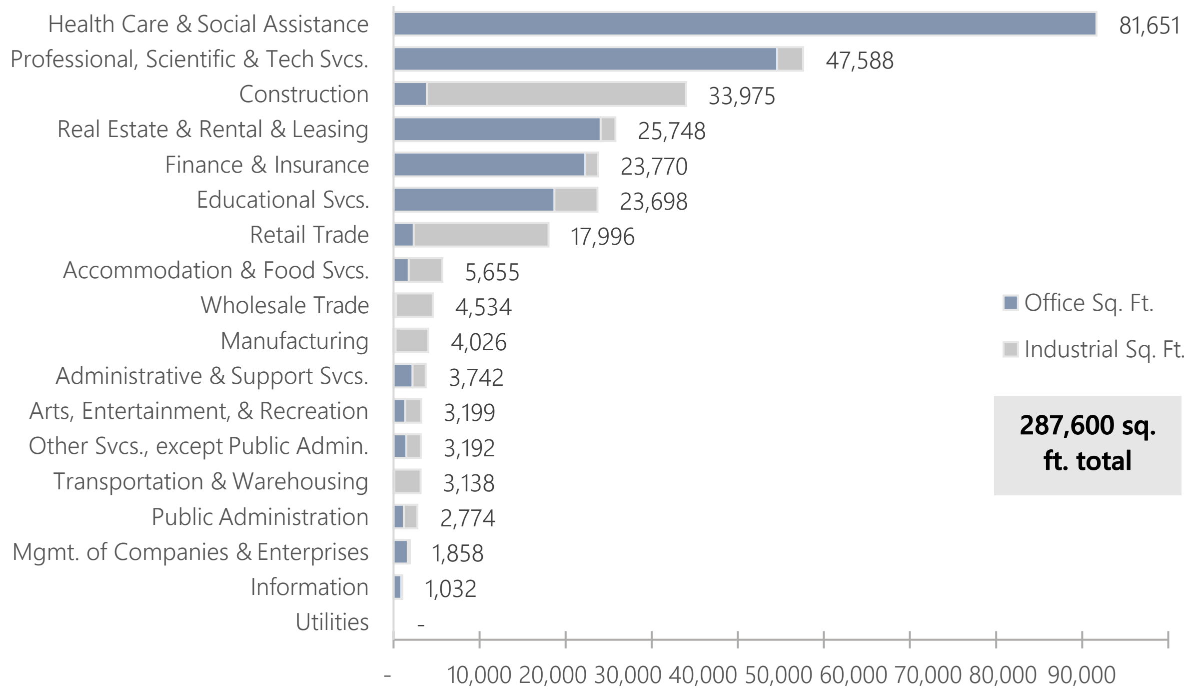
Projected employment growth in the study area is unlikely to drive demand for significant new office or industrial development. However, limited opportunities may arise in commercial centers adjacent to community-serving retailers or as part of mixed-use residential or mid-rise office buildings closer to downtown.

For office, the existing healthcare cluster (the dominant industry) is unlikely to see large expansions—which has driven employment growth in the area in the recent past—but instead see modest job gains. Elsewhere, office development will likely be driven by job gains in the business services, financial, and information-oriented industries.

Industrial opportunities are likely limited, yet the space needs for industrial users are significantly higher than office users, and therefore projected demand is typically similar or higher. Users are likely to locate in areas where cheaper land can be found, concentrate near existing industrial users and away from non-compatible uses (like residential), and/or along major transportation routes.

With this said, these projections represent LCG's approximation of new *speculative* construction. This is an important distinction because of the challenge in forecasting new build-to-suit construction. Speculative construction typically aligns with market trends, while owner-occupiers or build-to-suit users may choose to construct a new building regardless of market forces. In short, employment projections should be considered a loose approximation of future growth and may be conservative for the reasons listed above.

Figure 27. 20-year Projected New Employment Market Area Demand



Source: LCG

Other Uses

Hospitality will probably be a significant driver of employment growth, with a select few locations likely to see new development as regional job growth accelerates and the market improves. These locations are typically downtown, near interchanges, or places with easy access to the airport. Hotel market dynamics are unique to other uses, and new construction is therefore challenging to forecast. With this said, a conservative projection of new hotel construction is included in the following development forecast, based on regional trends and prospects.

Development Forecast Summary

The following table shows a summary of the location-specific employment projections for the next 20 years. These projections reflect a market-based approach to forecasting housing units and employment and consider market cycles, construction and absorption trends, the availability of developable land and utility provisions and other physical conditions, regulatory constraints (such as zoning), and financial feasibility. This forecast should, therefore, be considered a reflection of estimated absorption rather than full build-out.

Figure 28. Study Area Market Based Growth Projections, 2020-2040

	DWELLING UNITS		EMPLOYMENT (BLDG. SQUARE FEET)					
	Single family	Multi family	Retail	FIRES*	Hotel	Industry	Medical	Office
Units/Sq. Ft.	2,548	1,418	129,500	49,240	270,000	40,000	41,000	68,600
Emps/SF			300	180	600	400	250	160
Est. Jobs			432	271	493	100	164	423
Totals	**3,966 units**		**1,883 jobs**					

Source: LCG
**Finance, Information, Real Estate Services*

A full breakdown of units and square feet of development is provided in the table below.

Figure 29. Study Area Market Based Growth Projections, 2020-2040

	DWELLING UNITS		EMPLOYMENT (BLDG. SQUARE FEET)					
TAZ No	Single family	Multi family	Retail	FIRES	Hotel	Industry	Medical	Office
*14				4,400				11,000
*15				2,000				6,000
*16				2,000				6,000
*17				3,440				8,600
*19		80		4,000				10,000
*105								
*106		20						
*107				8,000		10,000		10,000
*108			15,000					
*109	20		10,000		150,000	5,000		
*161		25	3,000	5,000		5,000		5,000
*162								
171		70		5,000				
172			10,000	5,000				
173		80					4,000	
174		50	5,000		90,000		10,000	
175			2,000					
176	20		2,500				20,000	
177	20							
178	20							
179	5		5,000					
181	4	4						
182		30						
183		100						
184	250	800						
185	579							

TAZ No	DWELLING UNITS		EMPLOYMENT (BLDG. SQUARE FEET)					
	Single family	Multi family	Retail	FIRES	Hotel	Industry	Medical	Office
186	213		60,000	5,000		20,000	5,000	
187	1							
188	2							
189	3							
190								
192		4						
193	7							
194	2		1,000					4,000
195	3							
196	62	32						
197	20	40						
198	925							
199		15		2,000			2,000	4,000
*200	2							
*206	7							
*212	3							
*213	1							
*214								
*221	1			2,000				3,000
*227	5							
*233		8						
*236								
*548	25	15	15,000		60,000			
*552								
*558	200	45						
*560	50		1,000	1,000				
*562								
*581	10							
*583								

Source: LCG

*Notes: (1) * Denotes a TAZ with partial inclusion in the study area; (2) Grey cells denote a TAZ with an insignificant portion within the study area, and therefore no development potential. These are presented simply to represent the full dataset.*