

Proposed Smyth Landing Apartment Development 2000 Block of West Bay Drive NW Olympia, WA 98502

# **Prepared By:**

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> Brian O'Connor, MAI, CRE Scott A. Wilson, Associate

# **Prepared For:**

Sarah Smyth McIntosh Delta Illahee LP I 1801 West Bay Drive NW #202 Olympia, WA 98502

> Date of Report: May 18, 2017

Effective Date: January 27, 2017



O'CONNOR CONSULTING GROUP, LLC

Commercial Real Estate Appraisers and Consultants

WWW.OCGP.COM

OCG # 16-262



May 18, 2017 OCG Ref. No. 16-262

Sarah Smyth McIntosh Delta Illahee LP I 1801 West Bay Drive NW #202 Olympia, WA 98502

RE: Market and Feasibility Study of:

The Proposed Smyth Landing Apartment Development

2000 Block of West Bay Drive NW

Olympia, WA 98225

Dear Ms. McIntosh:

In accordance with your request, we have prepared a Market and Feasibility Study of the above-referenced property, presented in the following report. This report addresses the fundamental conditions within the local economy and the forces that determine demand for new apartment housing. Further details are presented that identify the nature of such demand, providing demographic evidence of the typical age and income of new renter households. Current and expected future conditions within the Thurston County and Olympia apartment market are evaluated with a detailed analysis of anticipated new supply.

The proposed development site considered in this analysis is comprised of the two northern-most waterfront parcels (denoted "G" and "H/J") within the larger Smyth Landing Development plan. Parcels D, E, and F, which lie to the south, are not included in the analysis. The subject parcels have a total surveyed land area of 5.29 acres, of which 3.59 acres are buildable uplands and the remaining 1.7 acres are identified as tidelands. These parcels are further divided by West Bay Drive NW, with 2.88 buildable acres lying adjacent to the shoreline and east of the road, with 0.71 acres lying to the west.

Three development scenarios have been evaluated for financial feasibility. Each of these is based on the development scheme crafted by White Stone Group (aka Cascadia Development) in early 2015. As a potential buyer of the site, Cascadia developed what is believed to represent a likely maximum building envelope for the property under current zoning requirements. While there may be opportunities to improve the principal elements of that plan, significant alteration would require more qualified architectural input due to the character of the site and complexities of the Olympia zoning code.

The Cascadia plan included three separate three-story, wood-framed, elevator-serviced, "double-loaded" buildings over a single-level of structured parking, providing a total of 182 apartment units with an average size of 935 SF, plus 12 townhouse condominiums on the smaller strip of land lying west of West Bay Drive NW.

The total proposed building envelope was reported to be 231,464 SF, inclusive of lobby areas, of which the net rentable apartment area plus net building area was 198,886 SF. It is uncertain whether these figures account for interior corridors. The indicated project density was 63.2 units per acre on the waterfront portion and 16.9 units per acre for the townhomes, with a blended density of 54.0 units per acre.

The three feasibility scenarios presented in this report begin with Cascadia's original assessment (Scenario A), which has been reformatted for comparability to the subsequent analyses. Scenario B updates Cascadia's original income and cost estimates to reflect current market conditions, as supported by the analyses presented in this report. This scenario also assumes a conversion of the original condominium element to an increased number of smaller rental townhomes. Finally, Scenario C further modifies the apartment unit mix in order to optimize project performance characteristics within the Cascadia envelope.

Several key assumptions within the original Cascadia evaluation required fairly significant adjustment. The most important of these would be the subsequent rise in anticipated rental income, originally estimated at \$1.64 per SF, which has been increased (for similar units) to \$2.12 per SF. While this is a significant increase, the updated analyses also reflects appropriate adjustments to building costs, capitalization rates, and less favorable financing assumptions, which are likely to increase the required equity for the project.

On balance, however, these adjustments improve the overall performance of the project sufficiently to support higher land acquisition costs than originally estimated by Cascadia (aka White Stone). Based on the analyses presented herein, it has been determined that a land acquisition expense of up to \$3,800,000 or approximately \$18,000 per unit would be supported within typical investment constraints, as summarized in the table below.

	Scenario A - Cascadia (Original)			Scenario B -Cascadia (OCG Mod.)			Scenario C - OCG Alternative		
Financial Performance	Per SF	Per Unit	Total	Per SF	Per Unit	Total	Per SF	Per Unit	Total
Supported Land Basis (\$ Per SF of Site Area)	\$11.19	\$9,021	\$1,750,000	\$19.18	\$14,706	\$3,000,000	\$24.30	\$17,925	\$3,800,000
Developer's Yield (NOI / Cost)	0.88%	Above OAR	6.31%	1.97%	Above OAR	8.47%	2.13%	Above OAR	8.63%
Net Profit / Cost			26.09%			22.28%			24.70%
Debt Yield (NOI/Debt)			7.37%			14.11%			14.39%
Net Profit/Value			20.23%			17.10%			18.62%
Net Profit/Equity (ROE)			181.78%			55.70%			61.69%

These estimates come with a number of caveats. First, the unique character of the subject site and the complexity of the City of Olympia zoning code warrant appropriate care in the development of an optimum and cost effective design. In addition, the scale of the project may warrant a phasing strategy, which has not been reflected in these analyses. Finally, a number of potential improvements to the project's design have been suggested in this report, notably increasing the ratio of view oriented units in the project. Such improvements are expected to further optimize the project, but would require additional architectural work.

We hope that these analyses are helpful in your decision-making. Thank you for the opportunity to work with you on this assignment.

Sincerely,

O'CONNOR CONSULTING GROUP, LLC

Brian R. O'Connor, MAI, CRE

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#### Overview

In this report, a series of analyses is presented, beginning with a thorough evaluation of relevant economic, demographic, and pertinent housing market trends. These lead to and support a forecast of the conditions under which the proposed development of the subject property would be expected to compete. Finally, a selection of proposed development scenarios has been evaluated on the basis of their likely financial feasibility, which provides a basis for the estimation of the value of the underlying land which would be supported by such development. Brief summaries of these findings are presented below.

### **Site Description**

The proposed development site considered in this analysis is comprised of the two northern-most waterfront parcels (denoted "G" and "H/J") within the larger Smyth Landing Development plan. Parcels D, E, and F, which lie to the south, are not included in the analysis. The subject parcels have a total surveyed land area of 5.29 acres, of which 3.59 acres are buildable uplands and the remaining 1.7 acres are identified as tidelands. These parcels are further divided by West Bay Drive NW, with 2.88 buildable acres lying adjacent to the shoreline and east of the road, with 0.71 acres lying to the west.

#### **Project Description**

For the purposes of this assignment, three development scenarios have been evaluated for financial feasibility. Each of these is based on the original development scheme crafted by White Stone Group (aka Cascadia Development) in early 2015.

As a potential buyer of the site, Cascadia developed what is believed to represent a likely maximum building envelope for the property under current zoning requirements. While there may be opportunities to improve the principal elements of that plan, as discussed in the body of the report, significant alteration would require more qualified architectural input due to the character of the site and complexities of the Olympia zoning code.

The Cascadia plan included three separate three-story, wood-framed, elevator-serviced, "double-loaded" buildings over a single-level of structured parking, providing a total of 182 apartment units with an average size of 935 SF, plus 12 townhouse condominiums on the smaller strip of land lying west of West Bay Drive NW. This double loaded design is oriented in parallel to the shoreline, with roughly have of the units oriented towards the water.

The total proposed building envelope was reported to be 231,464 SF, inclusive of lobby areas, of which the net rentable apartment area plus net building area was 198,886 SF. It is uncertain whether these figures account for interior corridors. The indicated project density was 63.2 units per acre on the waterfront portion and 16.9 units per acre for the townhomes, with a blended density of 54.0 units per acre.



The three development scenarios are evaluated in the analyses presented in this report. These begin with Scenario A, the original Cascadia Development analysis, reformatted for comparability. Scenario B updates those original estimates to reflect current market conditions and converts the original condominium element to rental use. Scenario C further modifies the unit mix to better reflect anticipated demand and improve overall financial performance.

A unit mix summary for each of the scenarios evaluated in this report is presented below.

## Scenario A (Cascadia Original) - Unit Mix

# of	% of	·	Unit			% of
Units	Total	Intended Use	Туре	Size (SF)	Total SF	Total SF
56	28.9%	Apartment	1/1	875	49,000	24.6%
70	36.1%	Apartment	1/1+Den	925	64,750	32.6%
56	28.9%	Apartment	2/2	1,006	56,336	28.3%
182	93.8%	Apartment		935	170,086	85.5%
12	6.2%	Condominium	TH	2,400	28,800	14.5%
194	100.0%			1,025	198,886	100.0%

# Scenario B (Cascadia Updated) - Unit Mix

# of	% of					% of
Units	Total	Use	Use Type Size		Total	Total
56	27.5%	Apartment	1/1	875	49,000	24.7%
70	34.3%	Apartment	1/1+Den	925	64,750	32.7%
56	27.5%	Apartment	2/2	1,006	56,336	28.4%
22	10.8%	Apartment	TH	1,280	28,160	14.2%
204	96.2%			972	198,246	100.0%

#### Scenario C (OCG Alternative) - Unit Mix

Section & (See Atternative) Sint Mix												
# of	% of					% of						
Units	Total	Use	Туре	Size	Total	Total						
56	26.4%	Apartment	1/1	775	43,400	21.9%						
70	33.0%	Apartment	1/1 D	850	59,500	30.0%						
64	30.2%	Apartment	2/2	1,050	67,200	33.9%						
22	10.4%	Apartment	TH	1,280	28,160	14.2%						
212	100.0%			935	198,260	100.0%						

#### **General Market Conditions**

Thurston County employment is expected to generate growth at a rate of approximately 1.6% or 2,000 new jobs per year over the near term. Corresponding population growth is expected to run as high as 3,350 persons per year, equivalent to a rate of 1.2%. Household growth is expected to average near 1,900 households per year for the near term, reflecting a growth rate of roughly 1.7%.

Due to the sub-prime housing crisis and subsequent "Great Recession", housing tenure trends have been in flux over the past decade. At present, however, there is increasing evidence that more traditional patterns are beginning to re-emerge. These trends necessarily reflect on-going changes to the underlying demographic composition of the population, notably the advancing age of baby-boomers, and various structural imbalances in the housing market that remain.

As strength appears to be returning to the owner housing market, there has been a corresponding reduction in the supply of single-family rental properties, which had functioned as a necessary "shock absorber" over the past decade. This has pushed an increasing number of renters back into the apartment market, which is presently exhibiting a vacancy rate of 2.6%, which is low enough to signal pent-up demand of at least 800 units and corresponding Net Implied Demand of 1,459 units in 2016.

Over the near-term, structural or direct apartment demand – that which results from overall household growth – is expected to be in the range of 480 to 560 units per year. Current supply data indicate that approximately 880 market rate units were to be completed in 2016, followed by 146 units and 402 units in 2017 and 2018, respectively. All told, this represents an expansion of market rate supply by a total of 1,428 units over these three years, a figure that is not expected to significantly alter the already low vacancy rate for the market.

On the margin, demographic analysis indicates that a significant majority of household growth between 2009 and 2014 has been comprised of older, 55+ aged, households with incomes above \$75,000. Whereas this population would, in the past, have been expected to produce a relatively high (80% or more) rate of home ownership, these appear to have fallen dramatically into the range of 50% or so. Thus, while such households have represented the vast majority of owner housing demand, they have also comprised a larger share of net rental demand.

Within this growth segment, it may be supposed that an increased number of older migrants, most of which would have sold a home prior to the move, have been reluctant to re-enter the owner market. Prior to the housing crisis, such "empty nesters", as they were then being called, were often eager to downsize and many found condominiums to be an attractive alternative to their larger suburban family homes. Post-crisis, with steady improvement in the owner sector overall, but a continuing and notable absence of new condominiums, it is believed that higher quality apartments may provide an appealing alternative for many households.

# **Feasibility Analyses**

The three feasibility scenarios, as identified earlier, begin with Cascadia's original assessment (Scenario A), which has been reformatted for comparability to the subsequent analyses. Scenario B updates Cascadia's original income and cost estimates to better reflect current market conditions, as supported by the market analyses presented in this report. This scenario also assumes a conversion of the condominium element to smaller rental townhomes.



Finally, Scenario C further modifies the apartment unit mix to optimize project performance characteristics, by reducing the average size of the one bedroom units and slightly increasing the number of two bedroom units.

The conclusions for each analysis are summarized in the following table.

		Feasibi	lity Calculations	Summai	rv					
			th Landing - Olyn		,					
Development Scenario	Scen	ario A - Cascad	dia (Original)	Scenar	io B -Cascadia	a (OCG Mod.)	Scenar	io C - OCG Alt	ernative	
Project Components	Units	Avg. SF	Total SF	Units	Avg. SF	Total SF	Units	Avg. SF	Total SF	
Parcels "G/H/J West" - Site Are 30,928	0.71	acres							0	
Apartment - TH	0	0	0	22	1,280	28,160	22	1,280	28,160	
Condominium - TH (Cascadia Plan Only)	12	2,400	28,800	0	0	0	0	0	0	
Density (DU/AC)	16.9			31.0			31.0			
Parcel "G/H/J East" - Site Area ( 125,453	2.9	acres								
Apartment - Flats	182	935	170,086	182	935	170,086	190	895	170,100	
Density (DU/AC)	63.2			63.2			66.0			
Total Project - Site Area (SF) = 156,380	3.6	acres								
Apartment - Flats	182	935	170,086	182	935	170,086	190	895	170,100	
Apartment - TH	0	0	0	22	1,280	28,160	22	1,280	28,160	
Condominium - TH	12	2,400	28,800	0	0	0	0	0	0	
Project Total	194	1,025	198,886	204	972	198,246	212	935	198,260	
Density (DU/AC)	54.0			56.8			59.1			
	Scenario A - Cascadia (Original)		Scenario B -Cascadia (OCG Mod.)			Scenar	io C - OCG Alt	ernative		
Valuation & Investment Metrics	Per SF	Per Unit	Total	Per SF	Per Unit	Total	Per SF	Per Unit	Total	
Total Net Operating Income	\$13.33	\$13,662	\$2,650,417	\$19.76	\$19,203	\$3,917,438	\$20.54	\$19,207	\$4,071,793	
OAR (Project Capitalization Rate)			5.43%			6.50%			6.50%	
Total Project Income Value	\$245	\$251,572	\$48,805,000	\$304	\$295,441	\$60,270,000	\$316	\$295,495	\$62,645,000	
Add: Condominium Net Sales (Scenario A)			\$5,327,790			\$0			\$0	
Total Project Value	\$272	\$279,035	\$54,132,790	\$304	\$295,441	\$60,270,000	\$316	\$295,495	\$62,645,000	
Less: Project Costs	\$211	\$216,372	\$41,976,201	\$233	\$226,782	\$46,263,579	\$238	\$222,655	\$47,202,945	
Project Gross Profit	\$61	\$62,663	\$12,156,589	\$71	\$68,659	\$14,006,421	\$78	\$75,696	\$15,442,055	
Gross Margin %			22.5%			23.2%			24.7%	
Loan Amount (DCR / LTC)	N/A	85.6%	\$35,951,581	1.25	60.0%	\$27,760,000	1.25	60.0%	\$28,300,000	
Required Equity (% of Costs)		14.4%	\$6,024,620		40.0%	\$18,503,579		40.0%	\$18,902,945	
Less: Equity Costs			\$1,204,924			\$3,700,716		i	\$3,780,589	
Less: Sales Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Project Net Profit	\$55	\$56,452	\$10,951,665	\$52	\$50,518	\$10,305,705	\$59	\$55,007	\$11,661,466	
•										
	Scen	ario A - Cascao	dia (Original)	Scenar	io B -Cascadia	(OCG Mod.)	Scenar	io C - OCG Alt	ernative	
Financial Performance	Per SF	Per Unit	Total	Per SF	Per Unit	Total	PerSF	Per Unit	Total	
Supported Land Basis (\$ Per SF of Site Area)	\$11.19	\$9,021	\$1,750,000	\$19.18	\$14,706	\$3,000,000	\$24.30	\$17,925	\$3,800,000	
Developer's Yield (NOI / Cost)	0.88%	Above OAR	6.31%	1.97%	Above OAR	8.47%	2.13%	Above OAR	8.63%	
Net Profit / Cost			26.09%			22.28%			24.70%	
Debt Yield (NOI/Debt)			7.37%			14.11%			14.39%	
Net Profit/Value			20.23%			17.10%			18.62%	
Net Profit/Equity (ROE)			181.78%			55.70%			61.69%	

Several key assumptions within the original Cascadia evaluation required fairly significant adjustment, which are reflected in the analyses for Scenario B and C. The most important of these would be the subsequent rise in expected rental income, originally estimated at \$1.64 per SF in early 2015, which has been increased (for similar units) to \$2.12per SF. While this represents a significant increase, the updated analyses also reflect appropriate adjustments to building costs, capitalization rates, and less favorable financing assumptions, which are expected to increase the required equity for the project.

These adjustments improve the overall performance of the project sufficiently to support higher land acquisition costs than originally estimated by Cascadia (aka White Stone). While the original Cascadia assessment was quite positive, it is believed that it reflected atypical, if not unrealistic, financing assumptions, especially under current market conditions. The Scenario B and C analyses reflect an appropriate calibration of projected financial performance to reflect more typical investment requirements and, thus, provide appropriate support for the highest underlying residual land value.

With Scenario C, which reflects optimized unit sizing within the original building envelope, it has been determined that a land acquisition expense of up to \$3,800,000 or approximately \$18,000 per unit would be supported within typical investment constraints. This value would be supported for a project that would generate overall net profit estimated at \$11,660,000 against an equity investment of \$18,900,000, providing a return on investment (ROE) of 61.7% and a developer's yield (NOI/Cost) of 8.63%.

# PREMISES OF THE MARKET & FEASIBILITY STUDY

**Subject Property:** Proposed Smyth Landing Apartments

2000 Block of West Bay Drive NW

Olympia, WA 98502

Client: Sarah Smyth McIntosh

Delta Illahee LP I

1801 West Bay Drive NW #202

Olympia, WA 98502

**Appraisers:** Brian R. O'Connor, MAI

O'Connor Consulting Group, LLC 500 Union Street, Suite 650 Seattle, Washington 98101

## **Purpose of the Report**

The purpose of this report is to develop a Market Study and Feasibility Study for a proposed apartment development on the above referenced property.

Market Value is defined by the federal financial institutions regulatory agencies as follows:

# Appraisals shall be based on the definition of market value as set forth below;

Market Value means the most probable price, which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- 1) buyer and seller are typically motivated;
- 2) both parties are well informed or well advised, and acting in what they consider their own best interests;
- 3) a reasonable time is allowed for exposure in the open market;
- 4) payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- 5) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.



Market Value Definition Source:

(12 C.F.R. Part 34.42(g); 55 Federal Register 34696, August 24, 1990 as amended at 57 Federal Register 12202, April 9, 1992, 59 Federal Register 29499, June 7, 1994).

This definition is applicable to specific ownership rights to an identified parcel of real estate as of the effective date of the appraisal relates to what physically exists and is legally permissible and excludes all assumptions concerning hypothetical assumptions or conditions.

Appraisals shall be performed by a State-licensed or certified appraiser.

Brian R. O'Connor, MAI, CRE is a certified General Appraiser in the State of Washington. Certification No. 270-11 1100 529 (expires June 15, 2017).

As of the date of this report Brian R. O'Connor, MAI, CRE has completed the requirements under the continuing education program for designated members of the Appraisal Institute.

# **USPAP Compliance**

Members or affiliates of the Appraisal Institute, as well as state certified appraisers, are required to adhere to professional standards set forth by the Appraisal Standards Board of the Appraisal Foundation. Selected standards are noted below; additional standards are noted in the Premises of the Market Study.

# **Prohibited Influence (Ethics Provision)**

This market study is prepared without pressure from anyone desiring a specific outcome.

# **Disclosure of Competency (Competency Provision)**

The appraisers have performed market studies and appraised office properties throughout the Puget Sound, therefore, have the knowledge and experience to complete the market study assignment in accordance with the Competency Provision of the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation.

#### Certification

The appraisers' Certification is found in the addenda of the report.



# **Property Identification**

Based on survey information provided by the property owner, the proposed development site will be a 5.29 acre aggregation of seven legal parcels within a larger 9.59 acre assemblage of nine parcels. The applicable parcel numbers and abbreviated legal description, as provided by the Thurston County Assessor's Office, for those considered in this assignment are summarized in the following table.

Development		
Parcel ID	Assessor Parcel #	Abbreviated Legal Description
G East	91015001000	FCT B 383 / PT VAC ST COM SE COR N 22-58-27 W 306.34F W T O M&L
	09510006002	HURD DC BEG SE COR TR CYD TO HARTSON 60/545 S 89- 54-15 W
G West	09510006000	HURD DC THAT PT LY N OF FILE #663655 & ELY OF W LN 6 01545 L
H/J East	91015002000	FCT B 384 / PT B 385 / VAC ST ADJ LY SLY OF NLY LN 0951-000 -6 EXTN
H/J West	09750018001	PLUMB DC THAT PT BOUNDED ON W / N BY LN BEG AT PT ON S LN DCN

#### **Real Estate Assessment and Taxes**

The following summarizes the current (2016) assessments and real estate taxes for the subject property.

# **Smyth Landing Development Site - Assessed Value and Taxes**

Project	2016 Assessed Value				2016 Taxes	
Parcel						Eff. Tax
ID	APN	Land	Improv.	Total	Tax	Rate
G East	91015001000	\$255,800	\$0	\$255,800	\$3,105	\$0.012140
	09510006002	\$185,150	\$9,400	\$194,550	\$2,228	\$0.011450
	subtotal	\$440,950	\$9,400	\$450,350	\$5,333	\$0.011842
G West	09510006000	\$5,250	<b>\$0</b>	\$5,250	\$73	\$0.013916
H/J East	91015002000	\$223,750	<b>\$0</b>	\$223,750	\$2,718	\$0.012147
H/J						
West	09750018001	\$5,400	<b>\$0</b>	\$5,400	\$75	\$0.013870
Total		\$675,350	\$9,400	\$684,750	\$8,199	\$0.011973

#### **Owner of Record**

Delta Illahee Limited Partnership I 1801 West Bay DR NW, Suite 202 Olympia, WA 98520

# **Use of the Market Study**

The intended use of the market study is for pre-development analysis of a proposed apartment development on the subject property.

# User(s) of the Market & Feasibility Study

The intended user(s) of the market study include principals of the Delta Illahee Limited Partnership I, including Ms. Sarah Smyth McIntosh, and/or their assigns.

## **Effective Dates of Appraisal/Date of Inspection**

The effective date of the report is January 27, 2017. The date of last inspection of the subject property was October 19, 2016.

# Scope of the Market & Feasibility Study

The scope of the assignment is limited to the development of an evaluation of the market conditions in which the proposed apartment development would be expected to compete and to formulate a feasibility analyses for such development. As such, factors such as local economic conditions, population and household growth, housing demand, housing supply, and comparable rental rates form the principal concern for this analysis.

Brian R. O'Connor, MAI, CRE a State certified appraiser and the principal of O'Connor Consulting Group, oversaw and supervised all data collection and analysis. Scott Wilson, an associate at O'Connor Consulting Group collected and organized the market data, performed the analyses presented in the report. Brian R. O'Connor, MAI, CRE reviewed and critiqued the analysis and determined the conclusion communicated herein.

# **Highest and Best Use**

The Highest and Best Use of the subject property, "As Is" is for residential a development.

# **Assumptions and Limiting Conditions**

A complete set of standard Assumptions and Limiting Conditions is found in the Certification section of this report.



#### **Hypothetical Conditions**

Hypothetical conditions are conditions that are known to be contrary to fact but are taken to be true for the purpose of the analysis. Hypothetical conditions are conditions presumed true on the effective date of the analysis, must be appropriate given the client's intended use of the assignment results, must be conspicuously disclosed, and should not be so outlandish that it leads to non-credible results.

This Market & Feasibility Study relies upon the following hypothetical conditions:

 The proposed development plans on which the analyses presented in this report have been evaluated "as if" they were already completed. As such, the estimation of market rents, operating expenses, project component values, construction costs, and financing criteria reflect current market conditions and not future conditions that might apply if and when the project would be actually developed.

# **Extraordinary Assumptions**

USPAP defines "Extraordinary Assumption" as "an assumption, directly related to a specific assignment, as of the effective date of the assignment results, which if found to be false, could alter the appraiser's opinion or conclusions." The Appraisal Institute's Standard of Valuation Practice (SVP) defines "Special Assumption" as "an assumption, directly applicable to a specific service, which if found to be false, could alter the opinions or conclusions in an appraisal or review."

This Market & Feasibility Study employs the following extraordinary assumptions:

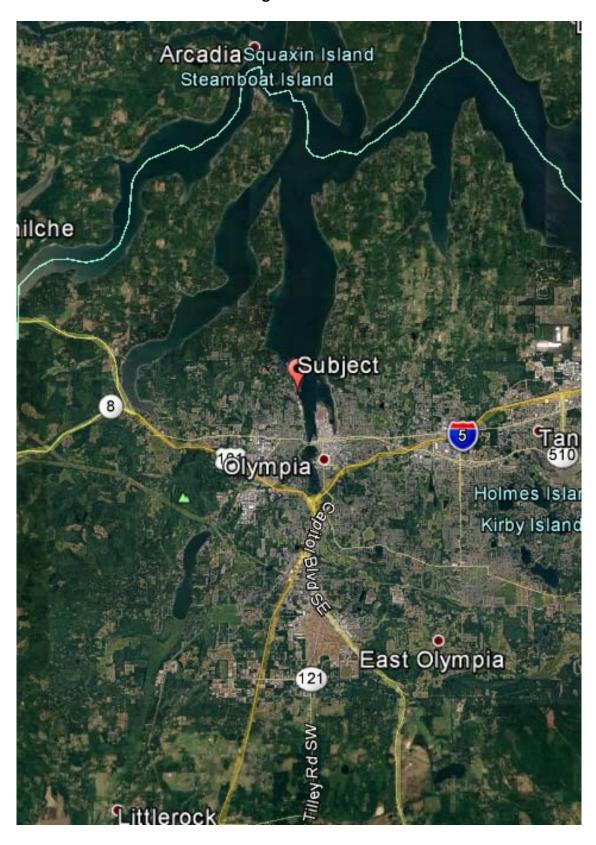
 The proposed development plans on which the analyses presented in this report are based were created by and for White Stone Group, a subsidiary of Cascadia Development LLC, in early 2015. Based on confirmation with Mr. David C. Copenhaver, the President and Partner of Cascadia Development LLC, it is believed that these plans reflect a reasonable degree of the due diligence typically required for the contemplated purchase of a development property.

It should be understood, however, that the unique character of the subject property itself, along with the complexities of the City of Olympia zoning code, tend to complicate and limit the degree of confidence in any pre-development planning without direct and competent architectural assistance and pre-development consulting with the City of Olympia Planning Department.

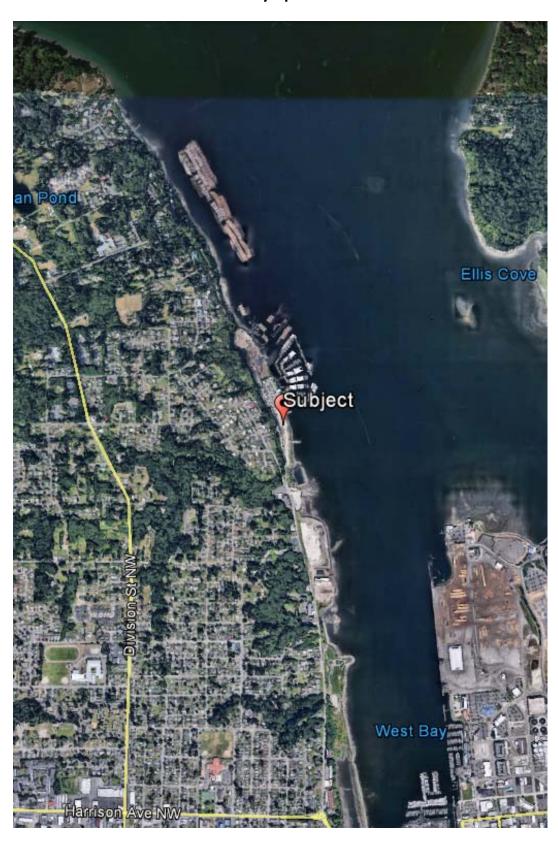
Thus, while it is believed that the Cascadia Plan reflects such efforts, unknown errors in the Cascadia plan and/or subsequent changes in city requirements could invalidate a number of key assumptions employed in the analyses presented in this report. Should it be found, through future study or disclosure, that such errors or changes exist, O'Connor Consulting Group, LLC reserves the right to modify the conclusions set forth herein.



# **Regional Aerial**



# **Local Olympia Aerial**



# **Thurston County Aerial Assessor Parcel Map**





Sample interior view of subject, looking north from southern border.



Southeasterly view, towards downtown Olympia, from subject's southern border.



Additional southeasterly view from subject's southern border, Smyth Landing Office and Condominium project visible at right.



Northeasterly view towards adjacent West Bay Marina, from subject northern border.



Looking north on West Bay Drive NW, subject on right.



Looking south on West Bay Drive NW, from south end of subject, Smyth Landing Office and Condominium project at center.

## **Site Description**

#### Location

The subject property is located approximately 1.5 miles north of downtown Olympia on West Bay Drive NW.

#### **Land Area**

The proposed development site considered in this analysis is comprised of the two northern-most waterfront parcels (denoted "G" and "H/J") within the larger Smyth Landing Development plan. Parcels D, E, and F, which lie to the south, are not included in the analysis. The subject parcels have a total surveyed land area of 5.29 acres, of which 3.59 acres are buildable uplands and the remaining 1.7 acres are identified as tidelands. These parcels are further divided by West Bay Drive NW, with 2.88 buildable acres lying adjacent to the shoreline and east of the road, with 0.71 acres lying to the west.

#### Density

The proposed development scenarios considered in this report reflect a blended density of 54.0 to 59.1 units per acre of buildable site area. These blended rates reflect higher densities of 63.2 to 66.0 units per acre on the eastern, waterfront areas and lower densities of 16.9 to 31.0 units per acre on the western portions of the site.

#### **Adjacent Uses**

The subject site is a waterfront parcel near to downtown Olympia. As such, historical uses along the waterfront have tended to be industrial in nature, often related to the timber or maritime activities. Currently, adjacent property uses along the waterfront include several marinas to the north of the subject and mostly vacant properties to the south, with the exception of the Smyth Landing Office and Condominium project, an earlier component within the Smyth Landing development plan. Typical residential uses are found on the elevated uplands to the west of the subject.

#### **Proximity to Local Amenities**

The subject is quite close to downtown Olympia and would be within a reasonable walking or biking distance for many. While there is no bike lane along West Bay Drive NW, a sidewalk is provided.

# **Zoning**

The subject site is zoned Urban Waterfront (UW), excerpts of which are provided in the Addenda of this report. As per the code, this zoning district is intended to:



- a. Integrate multiple land uses in the waterfront area of downtown and the West Bay in a way that improves the City's appeal and identity as the Capital City on Budd Inlet.
- b. Encourage high-amenity recreation, tourist-oriented, and commercial development which will enhance public access and use of the shoreline.
- c. Encourage development that protects views of Budd Inlet, the Olympics, Mt. Rainier, and the Capitol, and preserves a sense of openness on the waterfront.
- d. Encourage water-dependent and water-related development (as defined in the Shoreline Master Program for the Thurston Region) on shoreline properties and permit light manufacturing uses which support nearby industrial and marine related uses.
- e. Provide shoreline public access to significant numbers of the population, which is a major goal of the Shoreline Master Program for the Thurston Region. It is also the intent of this district to integrate the policies of the Shoreline Master Program for the Thurston Region into zoning designations applicable to waterfront properties. It is not the intent of this district, however, to make the restrictions of the Shoreline Master Program legally applicable outside the shoreline management zone.

Residential development, either as a principal use or as part of a mixed-use development is permitted within the UW zone.

## Topography

The subject's topography is mostly level to the east of West Bay Drive NW to the waterfront, and moderately steep on the uplands to the west of West Bay Drive NW.

#### Access

Direct from West Bay Drive NW.

#### Streets

Local streets within the subject's immediate neighborhood are asphalt-paved, 2-lane city streets with sidewalks and street lighting extending south from the intersection with Raft Avenue NW, immediately south of the subject site.

#### **Utilities**

All available.

## **Soil Conditions**

Based on our observations of the subject site, it appears that the soils are stable and should be able to support the proposed improvements adequately. However, waterfront properties often require shoring and/or pilings and we make no professional judgment regarding soil conditions or site drainage, and do not warrant our conclusion.

#### **Hazardous Waste**

A Phase I Environmental Site Assessment has not been provided for review.



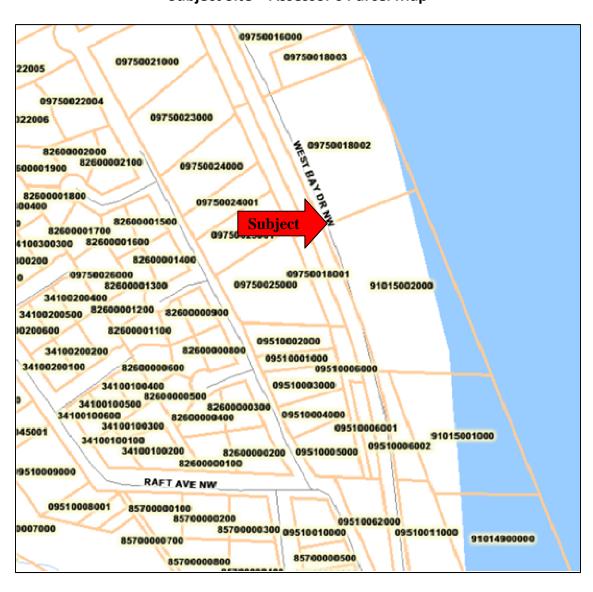
# Floodplain

According to FEMA Panel Number 53067C0166E, dated October 16, 2002 the subject is found in Zone X, areas outside the 100-year floodplain. However, the site fronts along Budd Inlet, identified as Zone AE, representing the base floodplain in the area.

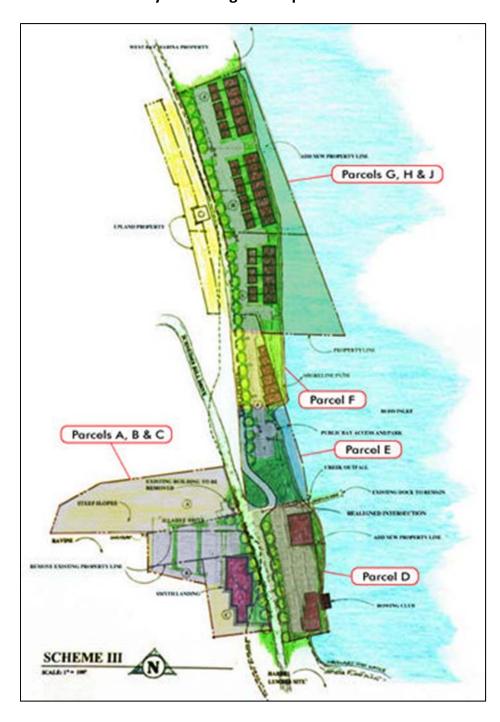
# LID/Easements

A title report has not been provided for review. It is unknown whether any LID or easements exist that might adversely affect the use of the property.

# Subject Site - Assessor's Parcel Map



# **Smyth Landing Development Plan**



# **Smyth Landing Development Plan**



## **Proposed Improvements Description**

#### Overview

The analyses presented in this report are based on a development plan conceived in early 2015 by White Stone Group, a subsidiary of Cascadia Development. The Cascadia plan included three separate three-story, wood-framed, elevator-serviced, "double-loaded" buildings over a single-level of structured parking, providing a total of 182 apartment units with an average size of 935 SF, plus 12 townhouse condominiums on the smaller strip of land lying west of West Bay Drive NW.

# **Component Description**

Detailed plans and specifications were not provided for the original development plan. The following represent basic assumptions for the proposed development.

Year Built: Proposed, 2017

No. of Units: 194 to 212, depending on scenario.

Density: 54.0 to 59.1 units per acre, depending on scenario.

Buildings / Stories: Three, three-story, wood-framed, elevator-serviced buildings over a single

story of structured parking, plus two or more, two-story, wood-framed

townhouse structures.

Exterior Finish: Better than average for local market. Due to shoreline location, decks

should be larger than average.

Interior Finish: Better than average for local market. Such elements as additional quartz

countertops, solid wood cabinetry, additional storage, vinyl plank flooring,

upscale fixtures, and stainless appliances would be appropriate.

Project Amenities: Community amenities commensurate with project scale and target market,

inclusive of clubhouse, fitness center, business center, and outdoor recreation facilities, such as picnic areas along the shoreline, bike racks, and

controlled access courtyards.

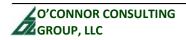
Unit Mix/Design: See detail below.

Average Unit Size: 925 SF to 1,025 SF, depending on scenario.

Parking: 109 secure structured parking stalls, plus ample on-site parking sufficient to

produce a parking ratio of 1.5 stalls per unit.

Quality & Condition: Very Good.



## **Target Market**

Due to the waterfront location of the property, it is expected that the proposed development would support higher than average rents in the local market and appeal to more affluent renter households. Demographic analysis for the local market suggests that such renters would tend to be, but not exclusively, comprised of older "empty nester" households. Accordingly, the architectural design, unit sizes, and finishes should be better than average in the local market.

#### **Unit Mix**

The three development scenarios are evaluated in the analyses presented in this report. These begin with Scenario A, the original Cascadia Development analysis referred to above. Scenario B uses the identical unit mix but converts the condominium element to rental use, adjusting the number and size of the townhome units. Scenario C further modifies the unit mix to better reflect anticipated demand and improve overall financial performance. A unit mix summary for each of the scenarios evaluated in this report is presented below.

Scenario A (Cascadia Original) - Unit Mix

Scenario A (cascada Original) One Mix											
# of	% of		Unit			% of					
Units	Total	Intended Use	Туре	Size (SF)	Total SF	Total SF					
56	28.9%	Apartment	1/1	875	49,000	24.6%					
70	36.1%	Apartment	1/1+Den	925	64,750	32.6%					
56	28.9%	Apartment	2/2	1,006	56,336	28.3%					
182	93.8%	Apartment		935	170,086	85.5%					
12	6.2%	Condominium	TH	2,400	28,800	14.5%					
194	100.0%			1,025	198,886	100.0%					

Scenario B (Cascadia Updated) - Unit Mix

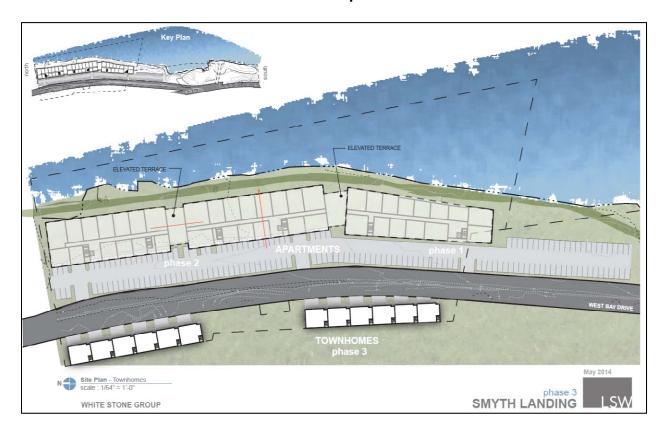
Scenario B (cascadia opuatea) Oniciviix											
# of	% of					% of					
Units	Total	Use	Туре	Size	Total	Total					
56	27.5%	Apartment	1/1	875	49,000	24.7%					
70	34.3%	Apartment	1/1+Den	925	64,750	32.7%					
56	27.5%	Apartment	2/2	1,006	56,336	28.4%					
22	10.8%	Apartment	TH	1,280	28,160	14.2%					
204	96.2%			972	198,246	100.0%					

Scenario C (OCG Alternative) - Unit Mix

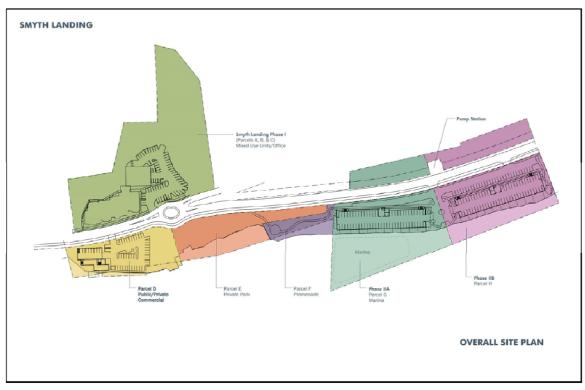
# of	% of					% of
Units	Total	Use	Type	Size	Total	Total
56	26.4%	Apartment	1/1	775	43,400	21.9%
70	33.0%	Apartment	1/1 D	850	59,500	30.0%
64	30.2%	Apartment	2/2	1,050	67,200	33.9%
22	10.4%	Apartment	TH	1,280	28,160	14.2%
212	100.0%			935	198,260	100.0%

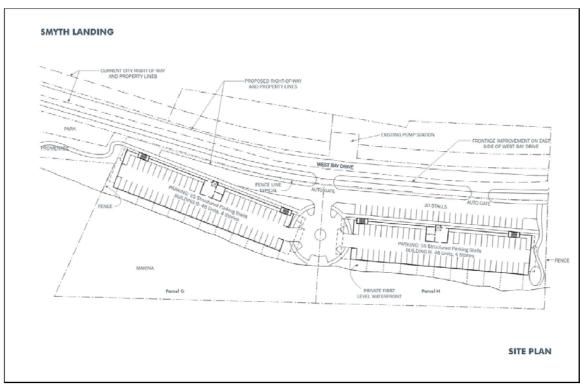


# **Cascadia Development Plan**

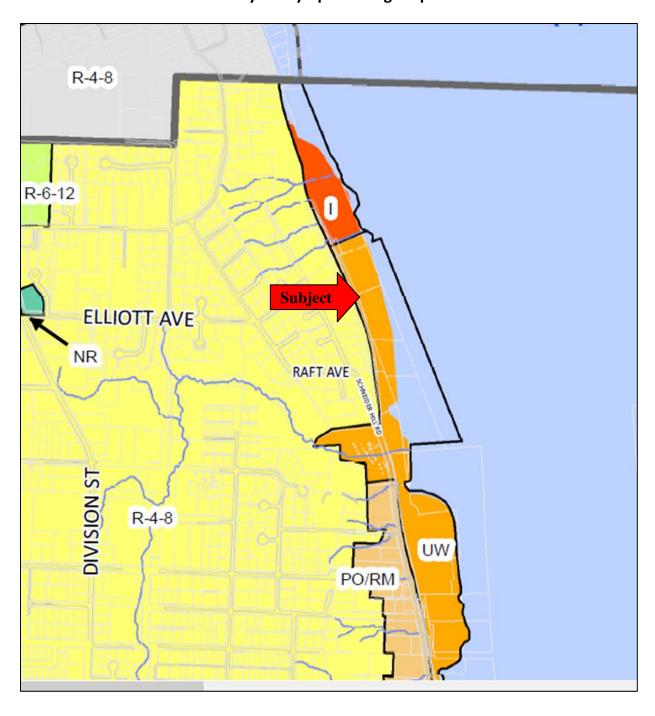


# **Smyth Landing Development Plans**





# **City of Olympia Zoning Map**



#### Overview

Thurston County is the sixth largest county in Washington State with approximately 272,690 residents. Thurston County's primary population centers include the four largest cities of Olympia, Lacey, Tumwater, and Yelm. Together, these comprise a population of 130,660 or 48% of the county. The City of Olympia, with a population of 51,600 is both the county seat and state capital.

The following discussion details the significant economic and demographic trends that affect the real estate market of the Thurston County area.

#### **Economic Trends**

Economic trends are among the most critical determinants of real estate values because they have a direct impact on population and household growth, the wealth of households and businesses, as well as the general economic well-being of the region. This analysis of the local economy includes a review of the economic base of the region as well as the employment growth trends indicated during the recent past.

#### **Economic Base**

Like much of the Puget Sound region, the early economy of Thurston County was primarily based on the mining and production of natural recourses, fostering growth in lumber production, shipping, ship building, and agriculture. First established as the provisional capital of the Washington Territory in 1855, Olympia's role as the seat of state government has a long history.

In time, the county experienced population growth due to increases in both state government and economic stimulus of World War I. Olympia became a lumber processing center and residential areas were being developed to the south and west. The legislative building was complete in 1927. Due to a major earthquake in 1949, many of the original historic buildings have been damaged and rebuilt. As such, Olympia is a mix of historic and modern construction.

The military has long played an important role in Thurston County. Fort Lewis was originally constructed in 1917 and is today the third largest U.S. military installation in terms of total land area. Fort Lewis consists of 87,000 acres of prairie land and is the premier military installation in the Northwest. As of the 2010 census, Fort Lewis has 11,046 people residing on base. Currently, Fort Lewis is home to the 9th Infantry Division, which is due to be decommissioned and replaced with the 7th Infantry Division.

McChord Air Force Base began as Tacoma Field and became the largest B-25 bomber-training base in the nation during World War II. After the war, McChord AFB became home to the 62nd Military Airlift Wing which flies C-130 and C-140 transports (McChord also has the reserve 446th Military Airlift Wing). In 1950, McChord AFB also became home to the North American Air Defense Command's 25th Air Division and the Tactical Air Command's 318th Fighter Interceptor Squadron (the latter has since been deactivated).

In the 1990's and post-2000 era, Thurston County began to attract more population and economic activity as a result or side-effect of outward expansion of the Seattle Metropolitan Area. With cheaper development opportunities and a stable economic base, the area provides affordable housing for those commuting to Pierce and South King Counties to the north. The strategic location, adjacent to

## **Sector Employment**

The following tables show the pattern of sector employment in Thurston County over the past ten years.

		N	lon-Far	m Emp	loyme	nt By S	ector					
			Thu	rston Co	ounty, 2	006-201	6					
Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	5-Yr Avg.
Total Private	64.4	66.9	65.9	63.1	63.8	64.2	66.7	68.8	71.7	73.1	75.2	71.1
Goods Producing	9.2	9.1	8.5	7.1	6.8	6.7	6.9	7.2	8.1	8.3	9.0	7.9
Nat. Res., Mining & Constr.	5.9	5.7	5.1	4	3.8	3.6	3.8	4.1	4.7	4.9	5.5	4.6
Manufacturing	3.3	3.4	3.4	3.1	3	3.1	3.1	3.1	3.4	3.4	3.5	3.3
Services Producing	92.1	95.4	95.4	93.1	93.1	92.9	95.1	97.4	100.2	101.9	102.8	99.5
Private Services	55.2	57.8	57.4	56	57	57.5	59.8	61.6	63.6	64.8	66.2	63.2
Trade, Trans., Wrhs., & Util.	16.7	17.6	16.9	16.3	16.8	17	17.7	18.1	18.4	18.7	18.2	18.2
Retail Trade	11.9	12.7	12	11.6	12	12	12.1	12.5	12.7	12.8	12.4	12.5
Prof. & Bus. Services	7.7	8.1	8.2	7.8	7.9	8.7	9.5	10	10.4	10.8	11.4	10.4
Liesure & Hospitality	8	8.8	8.9	8.7	8.6	8.4	8.7	8.9	9.3	9.7	10.7	9.5
Government	36.9	37.6	38	37.1	36.1	35.4	35.3	35.8	36.6	37.1	36.6	36.3
Federal	1	1	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.8	8.0	0.9
State	24.3	25	25.4	24.6	23.8	23.2	23.1	23.4	23.9	24.3	24.3	23.8
State Education	2.4	2.2	2.4	2.2	2.1	2.1	2	2.2	2.2	2.2	1.8	2.1
Local	11.6	11.6	11.7	11.6	11.4	11.3	11.3	11.5	11.8	12.0	11.5	11.6
Local Education	6.6	6.5	6.5	6.5	6.6	6.4	6.5	6.6	6.7	6.7	5.9	6.5
Total Non-Farm	101.3	104.5	103.9	100.2	99.9	99.6	102.0	104.6	108.3	110.2	111.8	107.4

Source: WA ESD, Year-End (or YTD), Employment in 1,000s

As detailed above, Thurston County non-farm employment was estimated to be 111,800 jobs as of August 2016. This represents gains of 10,500 jobs over the prior ten year period, or slightly more than 1,000 jobs per year. Of course, this includes the declining employment and general recession that began in 2009.

As indicated in the tables on the following page, annual growth over the past five years had improved to 2,440 jobs per year, equivalent to 2.3% per year, largely attributed to more significant gains between 2011 and 2013. More recently, the trajectory appears to have slowed somewhat, with annual growth 1,900 in 2015 and 1,600 through August 2016, equivalent to annual rates of 1.8% and 1.5%, respectively.

Annual Change in Non-Farm Employment By Sector												
Thurston County, 2006-2016												
Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	5-Yr Avg.
Total Private	1,900	2,500	(1,000)	(2,800)	700	400	2,500	2,100	2,900	1,400	2,100	2,200
Goods Producing	600	(100)	(600)	(1,400)	(300)	(100)	200	300	900	200	700	460
Nat. Res., Mining & Constr.	400	(200)	(600)	(1,100)	(200)	(200)	200	300	600	200	600	380
Manufacturing	200	100	0	(300)	(100)	100	0	0	300	0	100	80
Services Producing	1,600	3,300	0	(2,300)	0	(200)	2,200	2,300	2,800	1,700	900	1,980
Private Services	1,300	2,600	(400)	(1,400)	1,000	500	2,300	1,800	2,000	1,200	1,400	1,740
Trade, Trans., Wrhs., & Util.	600	900	(700)	(600)	500	200	700	400	300	300	(500)	240
Retail Trade	600	800	(700)	(400)	400	0	100	400	200	100	(400)	80
Prof. & Bus. Services	200	400	100	(400)	100	800	800	500	400	400	600	540
Liesure & Hospitality	(100)	800	100	(200)	(100)	(200)	300	200	400	400	1,000	460
Government	300	700	400	(900)	(1,000)	(700)	(100)	500	800	500	(500)	240
Federal	0	0	(100)	0	0	0	0	0	0	(100)	0	(20)
State	100	700	400	(800)	(800)	(600)	(100)	300	500	400	0	220
State Education	100	(200)	200	(200)	(100)	0	(100)	200	0	0	(400)	(60)
Local	200	0	100	(100)	(200)	(100)	0	200	300	200	(500)	40
Local Education	0	(100)	0	0	100	(200)	100	100	100	0	(800)	(100)
Total Non-Farm	2,200	3,200	(600)	(3,700)	(300)	(300)	2,400	2,600	3,700	1,900	1,600	2,440

Source: WA ESD, Year-End (or YTD), Employment in 1,000s

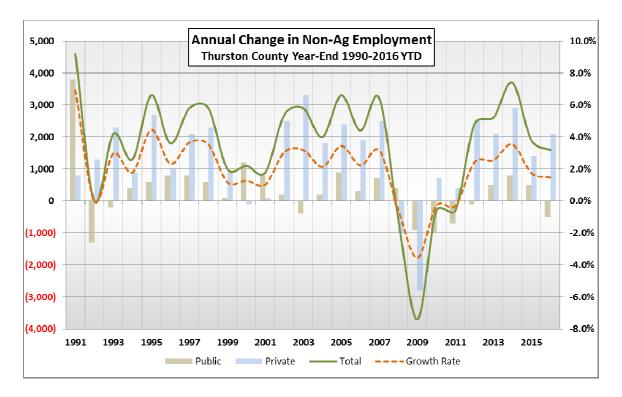
Annual Growth in Non-Farm Employment By Sector												
Thurston County, 2006-2016												
Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	5-Yr Avg.
Total Private	3.0%	3.9%	-1.5%	-4.2%	1.1%	0.6%	3.9%	3.1%	4.2%	2.0%	2.9%	3.2%
Goods Producing	7.0%	-1.1%	-6.6%	-16.5%	-4.2%	-1.5%	3.0%	4.3%	12.5%	2.5%	8.4%	6.1%
Nat. Res., Mining & Constr.	7.3%	-3.4%	-10.5%	-21.6%	-5.0%	-5.3%	5.6%	7.9%	14.6%	4.3%	12.2%	8.9%
Manufacturing	6.5%	3.0%	0.0%	-8.8%	-3.2%	3.3%	0.0%	0.0%	9.7%	0.0%	2.9%	2.5%
Services Producing	1.8%	3.6%	0.0%	-2.4%	0.0%	-0.2%	2.4%	2.4%	2.9%	1.7%	0.9%	2.0%
Private Services	2.4%	4.7%	-0.7%	-2.4%	1.8%	0.9%	4.0%	3.0%	3.2%	1.9%	2.2%	2.9%
Trade, Trans., Wrhs., & Util.	3.7%	5.4%	-4.0%	-3.6%	3.1%	1.2%	4.1%	2.3%	1.7%	1.6%	-2.7%	1.4%
Retail Trade	5.3%	6.7%	-5.5%	-3.3%	3.4%	0.0%	0.8%	3.3%	1.6%	0.8%	-3.1%	0.7%
Prof. & Bus. Services	2.7%	5.2%	1.2%	-4.9%	1.3%	10.1%	9.2%	5.3%	4.0%	3.8%	5.6%	5.6%
Liesure & Hospitality	-1.2%	10.0%	1.1%	-2.2%	-1.1%	-2.3%	3.6%	2.3%	4.5%	4.3%	10.3%	5.0%
Government	0.8%	1.9%	1.1%	-2.4%	-2.7%	-1.9%	-0.3%	1.4%	2.2%	1.4%	-1.3%	0.7%
Federal	0.0%	0.0%	-10.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-11.1%	0.0%	-2.2%
State	0.4%	2.9%	1.6%	-3.1%	-3.3%	-2.5%	-0.4%	1.3%	2.1%	1.7%	0.0%	0.9%
State Education	4.3%	-8.3%	9.1%	-8.3%	-4.5%	0.0%	-4.8%	10.0%	0.0%	0.0%	-18.2%	-2.6%
Local	1.8%	0.0%	0.9%	-0.9%	-1.7%	-0.9%	0.0%	1.8%	2.6%	1.7%	-4.2%	0.4%
Local Education	0.0%	-1.5%	0.0%	0.0%	1.5%	-3.0%	1.6%	1.5%	1.5%	0.0%	-11.9%	-1.5%
Total Non-Farm	2.2%	3.2%	-0.6%	-3.6%	-0.3%	-0.3%	2.4%	2.5%	3.5%	1.8%	1.5%	2.3%

Source: WA ESD, OCG

Share of Non-Farm Employment By Sector												
Thurston County, 2006-2016												
Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	5-Yr Avg.
Total Private	64%	64%	63%	63%	64%	64%	65%	66%	66%	66%	67%	66%
Goods Producing	9%	9%	8%	7%	7%	7%	7%	7%	7%	8%	8%	7%
Nat. Res., Mining & Constr.	6%	5%	5%	4%	4%	4%	4%	4%	4%	4%	5%	4%
Manufacturing	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Services Producing	91%	91%	92%	93%	93%	93%	93%	93%	93%	92%	92%	93%
Private Services	54%	55%	55%	56%	57%	58%	59%	59%	59%	59%	59%	59%
Trade, Trans., Wrhs., & Util.	16%	17%	16%	16%	17%	17%	17%	17%	17%	17%	16%	17%
Retail Trade	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	11%	12%
Prof. & Bus. Services	8%	8%	8%	8%	8%	9%	9%	10%	10%	10%	10%	10%
Liesure & Hospitality	8%	8%	9%	9%	9%	8%	9%	9%	9%	9%	10%	9%
Government	36%	36%	37%	37%	36%	36%	35%	34%	34%	34%	33%	34%
Federal	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
State	24%	24%	24%	25%	24%	23%	23%	22%	22%	22%	22%	22%
State Education	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Local	11%	11%	11%	12%	11%	11%	11%	11%	11%	11%	10%	11%
Local Education	7%	6%	6%	6%	7%	6%	6%	6%	6%	6%	5%	6%
Total Non-Farm	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: WA ESD, OCG





As may be noted above, Thurston County's large public sector, presently accounting for 33% of all employment, has tended to protect it from dramatic economic swings. As often as not, however, declining revenues during recessionary periods will also slow public sector growth and, as in the latest recession, lead to declines just as occur in the private sector. Notably, this trend has persevered in the latest post-recession period, with subpar public sector growth of just 0.7% per year since 2012, which includes more significant losses in 2016.

Naturally, most of the post-recession growth has taken place in various private service sectors, with standouts being Leisure & Hospitality and Professional and Business Services. Retail employment has remained subdued, continuing in what many believe are structural changes in personal retail buying patterns. In the Goods Producing sectors, Construction employment has recently shown a significant uptick, accounting for 44% of employment gains achieved in 2016.

#### **Employment Forecast**

For the near-term, Washington State's Employment Security Dept. is currently projecting 1.58% annual growth through the 2nd quarter of 2017 for the "Pacific Mountain" region, which includes Thurston County, along with Grays Harbor, Lewis, Pacific, and Mason Counties. Over the longer-term, through 2019, the official forecast (dated May 2016) is relatively unchanged at 1.61%, which reflects average growth since 2014. As such, it tends indicates a significant decline from the 3.5% rate achieved in 2014 and a continued reduction from the 1.8% rate achieved in 2015. Moreover, for the next five year period, 2019 to 2024, the state further extends this slowing pattern with a rate of 1.21%.

Arguably, Thurston County should outperform its more rural neighbors within the Pacific Mountain consortium. As such, a near-term employment forecast of around 1.8% through 2018 is believed to be a reasonable expectation, perhaps declining to 1.5% thereafter. This would generate near-term annual gains of slightly more than 2,000 jobs per year.

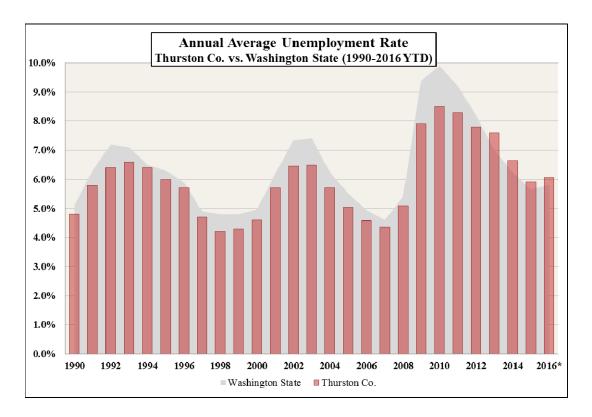


# Unemployment

The degree of protection offered by a large public sector is somewhat more evident in the data presented below. Since 1990, on average Thurston County has tended to enjoy a small (0.4%) advantage in unemployment rates. Since 2013, however, this pattern has reversed, with Thurston County unemployment exceeding that of the state by an average of 0.4%. This suggests that Thurston County employment has not shared equally in the post-recession recovery gains.

			erage Annua		- *			
		Thurston	County vs. Wa	shingto	n State, 1990-2	2016 YTD*		
		Thurston (				Washingto		
Year	Labor Force	Employed	Unemployed	Rate	Labor Force	Employed	Unemployed	Rate
1990	81,300	77,420	3,890	4.8%	2,537,040	2,406,440	130,590	5.1%
1991	82,420	77,650	4,770	5.8%	2,543,900	2,383,590	160,310	6.3%
1992	85,310	79,850	5,460	6.4%	2,634,580	2,445,870	188,720	7.2%
1993	87,780	81,990	5,790	6.6%	2,691,870	2,500,780	191,090	7.1%
1994	90,130	84,390	5,740	6.4%	2,744,840	2,566,660	178,180	6.5%
1995	94,300	88,660	5,640	6.0%	2,812,610	2,636,010	176,600	6.3%
1996	97,450	91,920	5,530	5.7%	2,882,430	2,711,960	170,470	5.9%
1997	100,410	95,670	4,740	4.7%	2,966,650	2,822,220	144,430	4.9%
1998	104,200	99,810	4,400	4.2%	3,032,020	2,886,870	145,150	4.8%
1999	106,210	101,690	4,520	4.3%	3,066,170	2,917,580	148,590	4.8%
2000	108,260	103,320	4,940	4.6%	3,050,020	2,898,680	151,340	5.0%
2001	107,620	101,450	6,180	5.7%	3,052,720	2,863,710	189,010	6.2%
2002	112,220	104,970	7,250	6.5%	3,104,700	2,877,020	227,680	7.3%
2003	116,070	108,550	7,530	6.5%	3,146,160	2,913,230	232,930	7.4%
2004	119,070	112,230	6,850	5.7%	3,199,240	2,999,530	199,710	6.2%
2005	121,380	115,260	6,120	5.0%	3,255,530	3,075,970	179,560	5.5%
2006	123,150	117,510	5,640	4.6%	3,319,250	3,155,380	163,870	4.9%
2007	126,890	121,310	5,580	4.4%	3,386,770	3,232,650	154,120	4.6%
2008	131,180	124,530	6,650	5.1%	3,473,010	3,284,840	188,170	5.4%
2009	130,820	120,510	10,300	7.9%	3,523,740	3,194,250	329,490	9.4%
2010	130,090	119,080	11,000	8.5%	3,516,010	3,166,880	349,130	9.9%
2011	127,640	117,020	10,610	8.3%	3,482,240	3,161,820	320,420	9.2%
2012	126,670	116,800	9,870	7.8%	3,481,460	3,197,290	284,170	8.2%
2013	122,518	113,173	9,345	7.6%	3,460,038	3,216,966	243,072	7.0%
2014	123,176	114,921	8,255	6.6%	3,488,183	3,270,362	217,821	6.2%
2015	125,603	118,178	7,425	5.9%	3,544,242	3,343,992	200,250	5.7%
2016*	129,127	121,296	7,831	6.1%	3,622,130	3,411,620	210,510	5.8%
Average				6.0%		•		6.4%

Source: BLS, \*Average through August



# **Population Trends**

Demographic trends pertain to changes in population size, as well as changes in the characteristics of a population. We will review the recent population growth for Thurston County since this trend influences the demand for nearly every type of real estate.

## **Population Trends**

As noted in the previous economic analysis, Thurston County has enjoyed certain benefits as the seat of state government. This has tended to produce more consistent employment gains, which is necessary to attract migrants to the area. Through most of the long period between 1970 and 2010, the Thurston County population typically grew by roughly 4,000 or more persons per year. In the 1970's and 1980's annual growth averaged 4.3% and 3.0%, respectively, more than double the statewide average. During the 1990s and 2000's, Thurston County population growth slowed to 2.7% and 2.1%, respectively, still well above the statewide average.

At present, Thurston County has a population of 272,600 persons, which represents a modest 3.8% of Washington States 7,183,700 persons. However, since 1960 Thurston County has maintained average annual growth of 2.9%, which is 75% greater than the statewide rate of 1.7%. As such, Thurston County has experienced nearly twice the rate of net in-migration and nearly doubled its share of statewide growth.



Components of Population Change Thurston County vs. Washington State (1990-2016)

				Thurs	ton Cou	nty							Washi	ngton Sta	ite			
						Net		Net.							Net		Net.	
Year	Pop.	Chg.	%	Births	Deaths	Nat.	%	Mig.	%	Pop.	Chg.	%	Births	Deaths	Nat.	%	Mig.	%
1990	161,238	5,182	3.3%	2,327	1,090	1,237	0.8%	3,945	2.5%	4,866,663	138,587	2.9%	76,657	36,333	40,324	0.9%	98,263	2.1%
1991	167,663	6,425	4.0%	2,346	1,154	1,192	0.7%	5,233	3.2%	5,000,353	133,690	2.7%	79,325	36,709	42,616	0.9%	91,074	1.9%
1992	172,425	4,762	2.8%	2,449	1,174	1,275	0.8%	3,487	2.1%	5,091,138	90,785	1.8%	80,573	37,240	43,333	0.9%	47,452	0.9%
1993	177,058	4,633	2.7%	2,471	1,262	1,209	0.7%	3,424	2.0%	5,188,009	96,871	1.9%	79,530	39,382	40,148	0.8%	56,723	1.1%
1994	181,715	4,657	2.6%	2,488	1,264	1,224	0.7%	3,433	1.9%	5,291,577	103,568	2.0%	78,325	39,611	38,714	0.7%	64,854	1.3%
1995	186,419	4,704	2.6%	2,445	1,356	1,089	0.6%	3,615	2.0%	5,396,569	104,992	2.0%	77,453	39,957	37,496	0.7%	67,496	1.3%
1996	190,409	3,990	2.1%	2,398	1,384	1,014	0.5%	2,976	1.6%	5,483,103	86,534	1.6%	77,008	41,152	35,856	0.7%	50,678	0.9%
1997	194,440	4,031	2.1%	2,486	1,489	997	0.5%	3,034	1.6%	5,579,140	96,037	1.8%	78,035	42,632		0.6%	60,634	1.1%
1998	198,435	3,995	2.1%	2,413	1,404	1,009	0.5%	2,986	1.5%	5,685,459	106,319	1.9%	78,828	41,564	37,264	0.7%	69,055	1.2%
1999	203,167	4,732	2.4%	2,516	1,608	908	0.5%	3,824	1.9%	5,792,214	106,755	1.9%	79,758	43,145	36,613	0.6%	70,142	1.2%
2000	207,355	4,188	2.1%	2,495	1,496	999	0.5%	3,189	1.6%	5,894,143	101,929	1.8%	79,853	43,743	36,110	0.6%	65,819	1.1%
2001	210,102	2,747	1.3%	2,632	1,554	1,078	0.5%	1,669	0.8%	5,970,452	76,309	1.3%	80,732	43,923	36,809	0.6%	39,500	0.7%
2002	214,139	4,037	1.9%	2,450	1,641	809	0.4%	3,228	1.5%	6,059,698	89,246	1.5%	79,291	44,900	34,391	0.6%	54,855	0.9%
2003	218,264	4,125	1.9%	2,500	1,633	867	0.4%	3,258	1.5%	6,126,917	67,219	1.1%	79,069	44,731	34,338	0.6%	32,881	0.5%
2004	223,065	4,801	2.2%	2,671	1,704	967	0.4%	3,834	1.8%	6,208,532	81,615	1.3%	80,957	46,025	34,932	0.6%	46,683	0.8%
2005	229,286	6,221	2.8%	2,574	1,638	936	0.4%	5,285	2.4%	6,298,797	90,265	1.5%	81,845	45,609	36,236	0.6%	54,029	0.9%
2006	234,083	4,797	2.1%	2,628	1,730	898	0.4%	3,899	1.7%	6,420,219	121,422	1.9%	83,170	45,282	37,888	0.6%	83,534	1.3%
2007	239,570	5,487	2.3%	2,867	1,833	1,034	0.4%	4,453	1.9%	6,525,121	104,902	1.6%	87,752	46,161	41,591	0.6%	63,311	1.0%
2008	244,853	5,283	2.2%	2,934	1,887	1,047	0.4%	4,236	1.8%	6,608,234	83,113	1.3%	89,568	47,947	41,621	0.6%	41,492	0.6%
2009	249,336	4,483	1.8%	3,152	1,813	1,339	0.5%	3,144	1.3%	6,672,263	64,029	1.0%	89,838	48,116	41,722	0.6%	22,307	0.3%
2010	252,264	2,928	1.2%	3,094	1,816	1,278	0.5%	1,650	0.7%	6,724,540	52,277	0.8%	88,408	47,672	40,736	0.6%	11,541	0.2%
2011	254,100	1,836	0.7%	2,950	1,872	1,078	0.4%	758	0.3%	6,767,900	43,360	0.6%	86,383	48,786	37,597	0.6%	5,763	0.1%
2012	256,800	2,700	1.1%	3,159	1,955	1,204	0.5%	1,496	0.6%	6,817,770	49,870	0.7%	87,134	49,231	37,903	0.6%	11,967	0.2%
2013	260,100	3,300	1.3%	3,094	2,011	1,083	0.4%	2,217	0.9%	6,882,400	64,630	0.9%	87,250	51,109	36,141	0.5%	28,489	0.4%
2014	264,000	3,900	1.5%	3,103	1,957	1,146	0.4%	2,754	1.1%	6,968,170	85,770	1.2%	87,026	50,711	36,315	0.5%	49,455	0.7%
2015	267,410	3,410	1.3%	3,154	2,111	1,043	0.4%	2,367	0.9%	7,061,410	93,240	1.3%	88,475	52,846	35,629	0.5%	57,611	0.8%
2016	272,690	5,280	2.0%	3,219	2,268	951	0.4%	4,329	1.6%	7,183,700	122,290	1.7%	90,082	. ,	35,193	0.5%	87,097	1.2%
Avg. 60's	***************************************	2,383	3.7%	1,239	564	675	1.1%	1,708	2.6%		60,421	2.0%	58,727	28,111	30,615	1.0%	29,805	0.9%
Avg. 70's		3,920	4.3%	1,437	725	712	0.8%	3,208	3.4%		58,220	1.6%	54,213		24,142		34,078	0.9%
Avg. 80's		4,036	3.0%	2,158	995	1,163	0.9%	2,873	2.2%		74,888	1.7%			36,003	0.8%	38,884	0.9%
Avg. 90's		4,711	2.7%	2,434	1,319	1,115	0.6%	3,596	2.0%		106,414	2.1%	78,549	39,773 45,644	38,777	0.7%	67,637	1.3%
Avg. 00's		4,617	2.1%	2,690		997	0.4%	3,620	1.6%		88,005	1.4%	83,208		37,564	0.6%	50,441	0.8%
Avg. 10's	0514 000	3,336	1.3%	3,110	1,999	1,112	0.4%	2,224	0.9%		73,062	1.1%	87,823	50,749	37,073	0.5%	35,989	0.5%

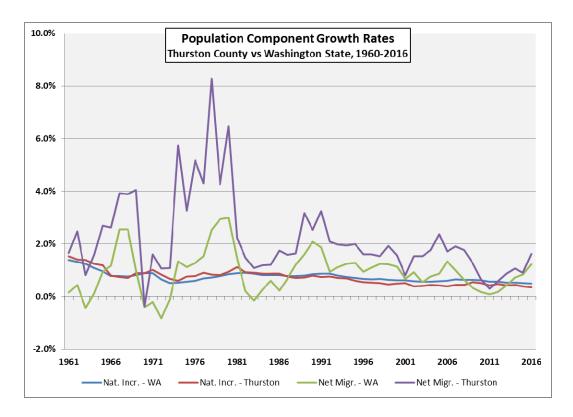
Source: WA OFM, OCG

Within Thurston County, the City of Olympia is the largest municipality, with a current (2016) population of 51,600, equivalent to 18.9% of the county total. The City of Lacey is the second largest municipality with a current population of 47,540 or 17.4% of the county total. Thurston County remains largely rural, with 137,800 persons or 50.5% living in unincorporated areas of the county.

Despite this, since passage of the state's Growth Management Act in 1990, an increasing share of population growth has shifted to urban areas. Over the 1990's, urban areas captured 57.3% of annual population growth, slipping slightly to 51.7% during the owner housing boom of the 2000's. Since then, urban growth has made significantly higher gains, with a capture rate rising to 84.9%. The bulk of this urban growth was shared somewhat equally between the Cities of Olympia, Lacey, and Tumwater.

# **Population Forecast**

In most cases, there tends to be a reasonably close correspondence between employment growth and population growth within a region. Largely this is attributable to the rate at which economic opportunities attract in-migration, growth from natural increase being relatively stable, as shown below. As may be noted, in-migration can be widely variable.

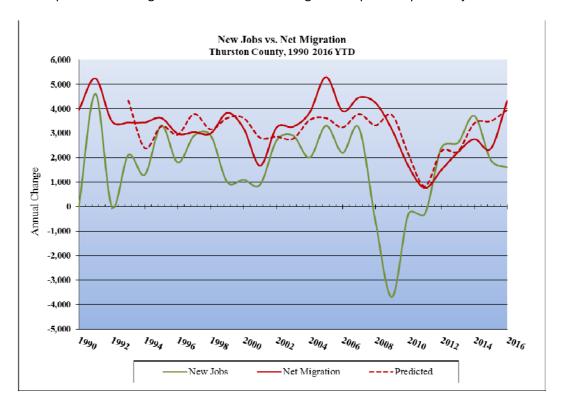


It was previously noted that Thurston County has captured a disproportionate share of statewide population growth. As may be noted above, this factor is evident, especially during the 1970's, when net in-migration to Thurston County was well above that of Washington State and corresponded to a rapid increases in state government employment at that time.

The relative stability of and declining rate of natural increases (births minus deaths) is also evident in the above chart. This serves to amplify the effect and variability of net migration as a primary source of growth. As noted above, it is commonly understood that net migration functions, to a certain extent, in relation to employment growth.

Regression analysis indicates that, in Thurston County, the "predictive" reliability of job growth as a driver for net migration is only 52%, when a two-year lag is incorporated. The following chart presents a predicted rate of net migration based on these calculations, which can vary, year-over-year, from actual population gains by as much as 68%, as it did in 2001. Surprisingly, this analysis was more accurate in the aftermath of the 2010 recession, which was uncharacteristically dramatic, as compared to prior downturns.

Of course, this indicates that greater variability occurs during both recessionary and higher-growth periods. The depth and duration of an economic downturn, along with the relative or comparative economic health of the regions from which migrants flow will also matter a great deal. However, during periods of relatively stable growth, the relationship appears to be fairly stable, and – over the long-term has tended to produce net-migration at a rate in the range of 1.5 persons per new job.



Using this method for predictive modeling purposes and allowing for a two year lag effect is expected to generate in-migration of between roughly 3,000 to 3,250 over the near term (through 2020). Annual natural increases are expected to remain in the range of 0.4% per year, averaging roughly 1,100 per year. This would support a total population growth of approximately 3,100 to 3,350 persons per year, at a rate of roughly 1.2%.

# **Household Formation**

A number of factors influence the rate at which the local population forms households, including: the age, marital status, and relative wealth of that population. As noted previously, average household sizes have been steadily decreasing throughout most of the country, coincident with declining birth rates and death rates. Urban areas, notably, have tended to exhibit a more rapid decline in the average household size since they tend to attract younger, single, migrant households.

With some regional and/or ethnic exceptions, households increasingly tend to be both more urbancentric and older, both factor contributing towards smaller households. Thurston County, as previously described, is not heavily urbanized, although a rising share of its growth, especially over the past decade, has been attracted to incorporated areas of the county.

In the latest census (2010), the average household size in Thurston County was 2.46. This represents a slight decline from 2.50 in 2000. After small deductions for population in group quarters (i.e. dormitories, incarceration, etc.), the county's population is estimated as shown in the following table.

					Growth			
			Thurston			.6		
	Total	Less:	Household	New	Est.	Avg.	New	Marg.
Year		Grp, Qtrs.		HHP	Hhold	HH Size	Hholds	HH Size
2000	207,355	3,398	203,957	4,105	81,625	2.499	-	-
2001	210,102	3,505	206,597	2,640	82,781	2.496	1,156	2.284
2002	214,139	3,593	210,546	3,949	84,446	2.493	1,665	2.372
2003	218,264	3,691	214,573	4,027	86,134	2.491	1,688	2.386
2004	223,065	3,749	219,316	4,743	88,115	2.489	1,981	2.394
2005	229,286	3,712	225,574	6,258	90,709	2.487	2,594	2.412
2006	234,083	3,907	230,176	4,602	92,685	2.483	1,976	2.329
2007	239,570	3,903	235,667	5,491	95,063	2.479	2,378	2.309
2008	244,853	3,940	240,913	5,246	97,349	2.475	2,286	2.295
2009	249,336	4,132	245,204	4,291	99,362	2.468	2,013	2.132
2010	252,264	4,222	248,042	2,838	100,650	2.464	1,288	2.203
2011	254,100	4,257	249,843	1,801	101,401	2.464	751	2.396
2012	256,800	4,313	252,487	2,644	102,614	2.461	1,213	2.180
2013	260,100	4,379	255,721	3,234	104,070	2.457	1,456	2.221
2014	264,000	4,455	259,545	3,824	105,771	2.454	1,700	2.249
2015	267,410	4,524	262,886	3,342	107,279	2.450	1,508	2.216
2016	272,690	4,624	268,066	5,180	109,542	2.447	2,263	2.288
Avg. 00s				4,535		2.486	1,971	2.324
Avg. 10s				3,266		2.457	1,454	2.251

Source: Washington OFM, US Census, OCG

The above table reflects official estimates from the US Census for 2000 and 2010, Washington State OFM estimates for the intercensal years of 2001-2009, and extrapolated thereafter, as OFM no longer publishes these estimates.

It should be noted that household estimation is notoriously difficult, being dependent on and influenced by (often) wildly fluctuating rates of net-migration along with the underlying demographic characteristics of migrant populations. While these households tend to be smaller, migration patterns during periods of economic upheaval, such as occurred during the past decade, will tend to disrupt normal patterns. During times of economic duress, for instance, household sizes will tend to become somewhat larger, as the means necessary to form new households are constrained.

#### **Household Growth Forecast**

The structural demand for new housing in the local market directly results from growth in the local number of households. Similar to population growth, household formation rates are largely driven by growth in the employment base, the rate at which job growth draws in-migration to the region, and the manner in which new people form households. Other factors, such as the character of new employment, wage growth, and housing affordability can influence the relationship between these factors, however for the short term, it can be expected that the recent past would provide a reasonable basis for predicting growth.

			Household	l Grow	th Foreca	st									
	Thurston, 2017-2020														
Total Less: Household New Est. Avg. New Marg.															
Year	Pop. Grp, Qtrs. Pop. HHP H-Holds HH Size Households HH Size														
2017	7 7)														
2018	281,143	4,761	276,383	4,172	113,251	2.440	1,832	2.277							
2019	285,506	4,835	280,671	4,363	115,166	2.437	1,915	2.278							
2020	289,902	4,909	284,993	4,395	117,100	2.434	1,934	2.273							

Source: Washington OFM, US Census, OCG

As indicated above, the applied extrapolation of recent trends in marginal household size appear to indicate that household growth should be maintained at levels near to 1,900 per year, based on expected employment and population growth estimates.

# HOUSEHOLD DEMOGRAPHICS & HOUSING TENURE TRENDS

#### Overview

The following analyses present a review of pertinent household demographic characteristics and, ultimately, their influence on housing demand. These include consideration of such factors as the distribution of age and income among local households and noted changes to these patterns over time.

As noted previously in the Regional Analysis section of this report, household formation rates are typically evaluated on the basis of the average household size in the population. But, the average household size is, itself, a function of (and/or reflection of) underlying demographic patterns within the population. Significantly, it is these same demographic characteristics that influence the manner in which households address their basic housing needs.

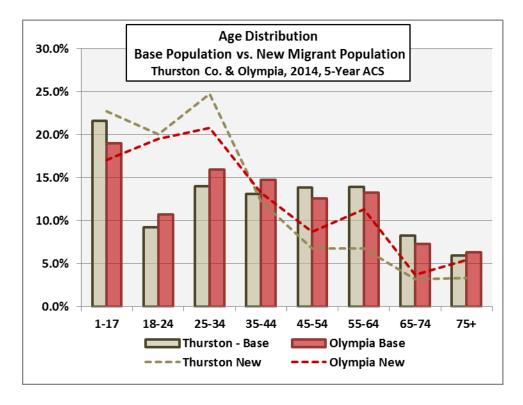
While the Regional Analysis concludes with a "structural household growth" forecast, the analyses presented in this section of the report are intended to examine the underlying composition of the "net" demand for new housing in the market. The following analyses largely utilize data from the US Census' American Community Survey (ACS) 5-year series. As such, these reflect survey results taken over a 5 year period, culminating in the year of publication and, therefore, do not reflect results from that year alone. Having a correspondingly larger sample size, the 5-year data series produces estimates with a lower standard error than single year estimates.

### **Migrant Households**

Household characteristics evolve over time, in part as a natural process of aging in the base population. They also change as new migrant households are introduced into the mix. As such, high rates of inmigration can strongly influence the magnitude and the rate of these changes. *Of course, their influence is often mitigated by corresponding out-migration flows, but more on that topic later in this analysis.* 

Migrant populations are generally understood to be comprised of younger (and, thus, more mobile) persons or households. Coincidentally, they also tend to be renters, rather than owners, a status that would facilitate mobility. To the extent that these suppositions hold true, higher rates of net-in-migration will likely generate a more rapid decline in the average household size and a corresponding rise in rental tenure.

The following chart compares the overall age distribution of the population in Thurston County and City of Olympia with that of recent migrants. These data reflect the base population as of the 2014 ACS 5-Year survey and the average of the most recent three 5-year surveys for the migrant population.



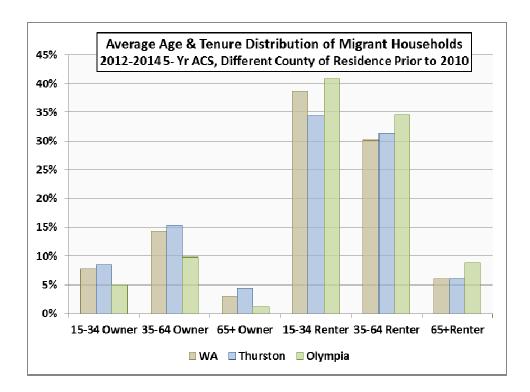
Prior study in other markets suggests that the "youthful migrant" phenomenon is more exaggerated in urban markets (such as the City of Seattle). Suburban markets, such as Thurston County, tend to attract more families, which often include a substantial number of children below the age of 18, as the data above reveals.

In Thurston County, adult migrants aged 18-34 represent a combined share of 44.8% and a slightly lower 40.4% share in the City of Olympia. These are 92.5% and 51.1% higher than the base population, respectively. The relative share of children under the age of 18, interestingly, is approximately the same as found in the base population. As such, more families with children are represented in the county overall than in the City of Olympia.

The table presented on the following page depicts the average tenure rate for migrant households in three age cohorts for Washington State, Thurston County and the City of Olympia. These data reflect surveys results reported for the past three 5-Year ACS survey periods. These include annual surveys taken over the 2009 to 2014 period. For the purposes of this analysis, migrant households are defined as those that had prior residence in another county prior to 2010.

As might be expected, migrant households tend, by a fairly wide margin, to be renters, regardless of age. While the single largest migrant cohort is comprised of younger (aged 15-34) renters, middle-aged renters are also well represented.





The general propensity of migrant households to rent their housing is, of course, quite evident, with a statewide rental tenure rate above 75% over the past three 5-year ACS survey periods (2012-2014). Naturally, this pattern is amplified with younger households, who exhibit a rental tenure rate of 83%. Smaller in overall numbers, the oldest (65+) households exhibit a slightly lower rental tenure rate of 67% in the statewide data, but also a surprising 89% within the City of Olympia.

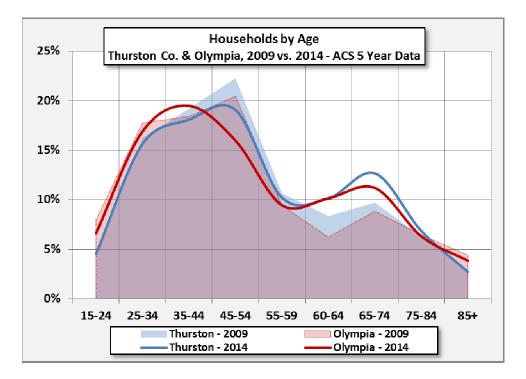
# **Age Distribution Trends**

Householder age is one of the market's strongest determinants of household consumption patterns, including choices regarding housing. In large part, this is because there is a strong correlation between age with both income and household composition. While the pattern of age distribution is, of course, directly affected by natural increases (births minus deaths) in the base population, migration – as noted above - can have an even more significant impact.

In Thurston County, for instance, natural increases since 2000 have averaged 1,055 persons per year, while average net migration was more than double this rate, at 2,224 persons per year. In terms of overall housing demand, of course, it is the net growth in households, along with their age, income, and composition that is determinant. As noted, however, whereas the previous demographic analysis of recent in-migrants in Thurston County is illuminating, the data excludes details regarding the out-migrating population. Accordingly, it is the net effect of both migration and natural aging that is of key interest.



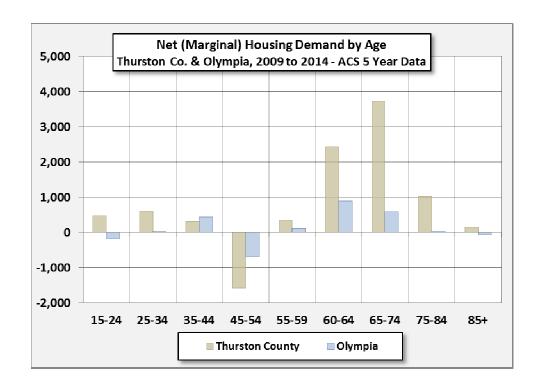
The following chart compares the relative (percentage) distribution of households by householder age for Thurston County and the City of Olympia in 2009 and 2014, as per the 5-year ACS survey data.



As may be noted, there is a significant and curious uptick in the share of households aged between 55 and 84, which is largely offset by a declining share of households aged 35 to 54 years. In absolute numbers, this five year period reflects an overall gain of roughly 7,500 households, equivalent to 1,250 per year. The noted gains in 55+ aged households, in practical effect, account for 100.7% of the net overall growth.

More significantly, the relatively modest increase in the share (and numbers) of the youngest households (below the age of 45) are wholly offset by a nearly equivalent loss of those aged 45-54 years. To the extent that these data conflict with the migrant demographics presented earlier, it may be surmised that higher in-flows of younger households are being largely offset by corresponding outflows.

The net effect in household growth over the 2009-2014 survey period is charted on the next page. These data may be construed to reflect one measure of net housing demand according to householder age. As indicated, the net gains in households aged 60 to 84 years clearly dwarf the lesser gains and/or losses in all other age groups.



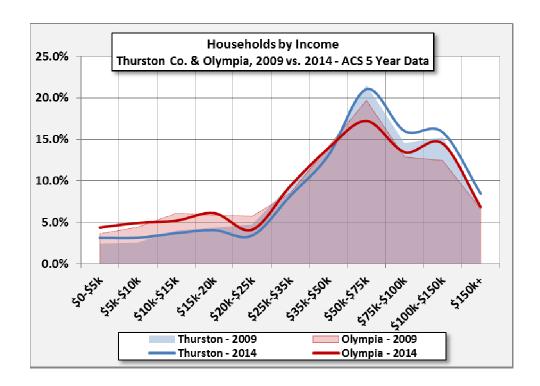
#### **Household Income Distribution Trends**

As noted previously, income distribution patterns tend to be highly correlated with age. The chart on the following page examines income distribution patterns in Thurston County and the City of Olympia as reported in the 2009 and 2014 5-year ACS surveys. As indicated, Thurston County has slightly greater share of households with incomes above \$50,000. And, as might be expected, Olympia tends to attract a somewhat larger share of lower income households, in part due to the improved availability of associated low-income services.

Given the disproportionate rise in the share and number of older, 55+ aged households, it would be reasonable to expect a corresponding shift in the distribution of household income. As shown, the distribution shares of lower and middle income households are virtually unchanged, both in Olympia and the wider Thurston County market. There has been a modest level of increase in the share of upper income \$ households in both markets.

As may be noted, the largest gains are found in households with income above \$75,000. Collectively, of the roughly 7,500 new households noted over the five-year survey period, 95% had incomes above \$50,000, 81% above \$75,000, and 47% above \$100,000. Year-over-year, these figures correspond to annual gains of approximately 1,200 households, 600 households, and 350 households, respectively.





# **Housing Tenure Trends**

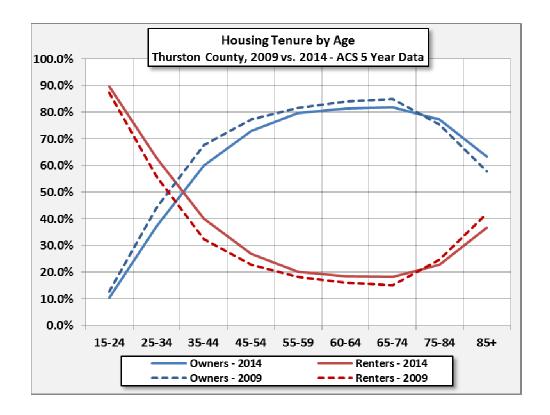
Having explored basic demographic patterns in the Thurston County market, a foundation has been laid to evaluate housing tenure patterns. Understandably, these have been in flux over the past decade due to the housing crisis and subsequent recession. In most markets across the country, these factors contributed to a sharp decline in owner tenure rates and a corresponding shift to rental tenure for many households.

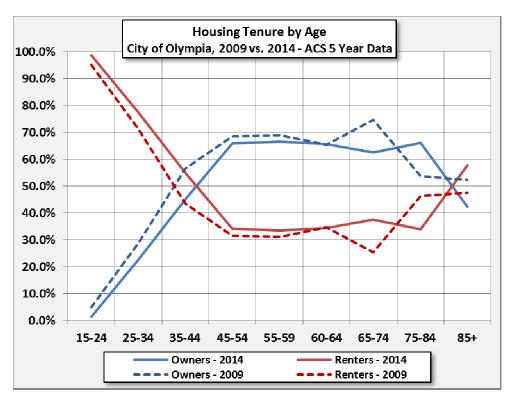
The following discussions examine the historical relationship between age and income with housing tenure rates.

## **Tenure by Age**

To the extent that home ownership is considered to be and remains desirable, older and more affluent households tend to exhibit have higher owner tenure rates. In many places, owner tenure rates will rise to 90% (or even higher) as householders age beyond 55 or 60 years. In Thurston County, maximal owner tenure rates have traditionally been nearer to 80%, while 70% is more typical in the City of Olympia. Subsequently, this pattern begins to reverse itself as household's age beyond 75 years and owner tenure rates begin to decline by some 20 points or so.



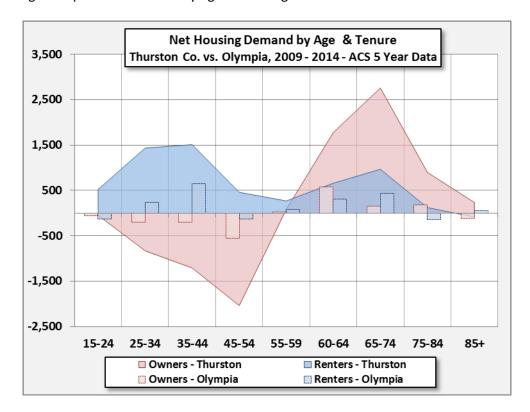




The two charts presented on the previous page depict changes in tenure patterns according to household age in both Thurston County and the City of Olympia. As before, these estimates are based on 2009 and 2014 5-year ACS data and, thus, reflect changes in the tenure pattern between the two surveys.

To begin, the general relationship between age and tenure is clearly evident and would appear to be fairly reliable predictor for housing demand. Understandably, owner rates are higher for the county as a whole than in the more urban Olympia market. As expected, home ownership rates have declined over the course of the housing crisis, which effectively began in this market in late 2009 and 2010. As indicated, this effect appears to have been spread over most age cohorts, with some minor variation for households above the age of 75 years or so where increasing owner rates are evident.





As indicated, when considered on the basis of the actual number of households in each age cohort, a more dramatic shift becomes readily apparent. Of course, these figures reflect the net gains and losses of households, regardless of tenure, in each age cohort, along with the marginal tenure shift.

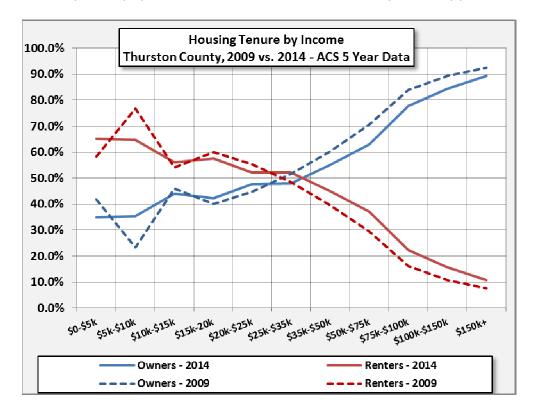
Accordingly, given the previously noted lack of growth in the number of younger (sub-55) households, the tenure shift manifests itself as a fairly direct transfer of owners into the rental market. In raw numbers, these reflect the transfer of roughly 4,100 households in Thurston County, of which approximately 1,000 were located in the City of Olympia.

Above the age of 55, the traditional preference for owner tenure was preserved, albeit at modestly lower rates than evident before the housing crisis. Here, there was no net loss of owners, except for the oldest (85+) households. Rather, the owner sector increased by 5,755 households in the county as a whole, of which 844 or 15% were located in Olympia. At the same time, the rental sector gained 1,933 older households, of which 724 or 37% were found in Olympia.

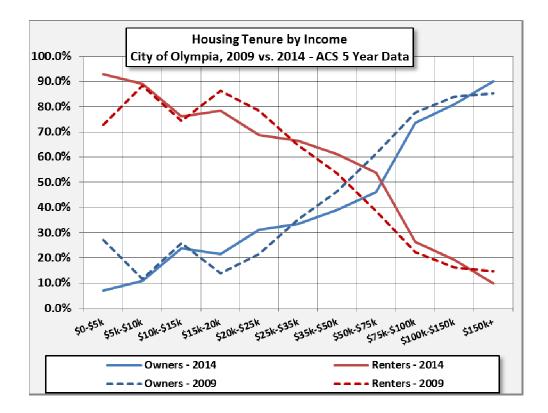
# Tenure by Income

Above all else, home ownership represents a financial commitment. Accordingly, tenure rates are strongly influenced by household income. Lower income households typically exhibit owner rates well below 50%, whereas peak owner rates near 90% are evident in the highest income cohorts.

The following charts depict the relationship between household income and these tenure patterns for the Thurston County and Olympia markets over the 2009 to 2014 ACS 5-year survey periods.







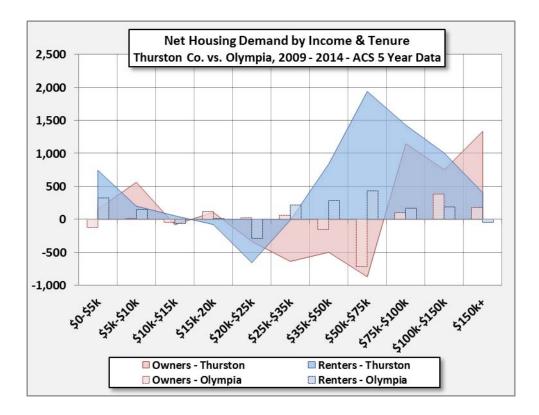
Interestingly, the previously noted declines in owner tenure rates appear to be (more-or-less) broadly shared in all income brackets. Although the most of the immediate effects of the housing crisis appeared to be localized to households burdened by excess debt and/or reduced income, it would appear that at least some measure of the *appeal* of ownership, more generally, has declined, even – perhaps especially – among higher income households.

In this regard, it may be suggested that the perceived "benefits" of home ownership are often contingent upon both personal and external considerations. Families with children, notably, are often motivated by the desire for larger homes in suburban school districts. Financial considerations will, of course, typically include long-term investment goals, with home equity being a primary asset. And, naturally, the housing crisis tended to undermine confidence in the investment value of ownership for many.

The following chart presents the underlying net housing demand reflected in the above patterns. As depicted, it is really no surprise that the bulk of the net decline in ownership is found at incomes below \$75,000. It is rather more surprising that the growth of rental households extends well into the upper income cohorts.

In raw numbers, upper income (\$75,000+) home owners grew by 3,234 households, of which 660 or 20% were located in Olympia. In the same income brackets, the rental sector grew by 2,837 households, of which 307 or 11% were located in Olympia. For such households, the marginal rental tenure rate was roughly 47%, which is *nearly three times* the underlying "base" rate of 17% for this group as a whole.





Of course, fairly substantial shares of new renters are also found in the middle income cohorts. For Thurston County households with incomes lying between \$35,000 and \$75,000, net gains of new renters was 2,781 households, or approximately 47% of total rental demand. Over the course of the recession, it would appear that this increase was augmented by a corresponding reduction in (or transfer from) the owner sector by roughly 1,300 households.

### Marginal Housing Demand by Age & Tenure

Thus far, the relationship between age and income on the propensity for owner or rental tenure in Thurston County and the City of Olympia has been evaluated. As discussed, there is a natural correspondence between higher rates of home ownership and both older and more affluent households. This general pattern certainly holds true in these local markets.

Within this general context, however, the "shock" of the housing crisis, in combination with shifting migration patterns, lingering constraints on income growth, and the aging wave of "baby boomers", many of whom are deferring retirement, has added some interesting and significant shifts in the marginal demand for housing. Broadly speaking, these shifts may be characterized as a general rise in the preference for rental tenure. <u>More significantly, however, is the uncharacteristic and surprising increase in rental preferences by older and more affluent households.</u>

Thurston County has a long tradition of attracting family households, for whom the desire for owner housing would be relatively high. As of 2015, the ACS data indicates an estimated overall owner tenure rate of 64%, which is nominally consistent with the state as a whole. Relatively affordable owner housing and a stable economy have certainly favored this particular family demographic. Over the past decade, however, and given the economic stresses and lack of state government employment growth, younger and middle-aged households have not shown any significant growth.

In contrast, it is not altogether surprising that the youngest households in the market would tend to be drawn to the more central and urban employment centers of the greater Seattle Metropolitan Area. Whether the housing crisis and subsequent recession might have accelerated this general pattern remains an open question. Regardless, the net or marginal effect has been very little net growth of younger households, many of whom would typically prefer rental tenure.

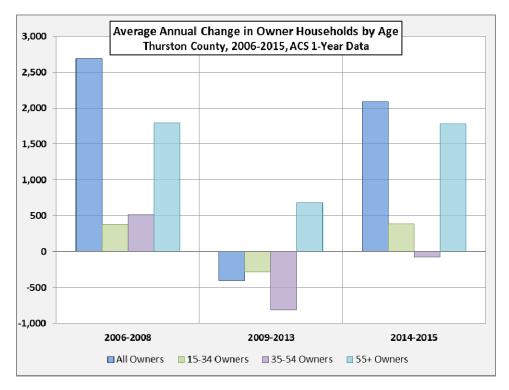
Accordingly, the vast majority of marginal growth has, thus far, been demonstrated to be comprised of older households with fairly high income levels. Whereas this combination of demographics would, in the past, have been expected to produce a relatively high (80% or more) rate of home ownership, these appear to have fallen dramatically into the range of 50% or so.

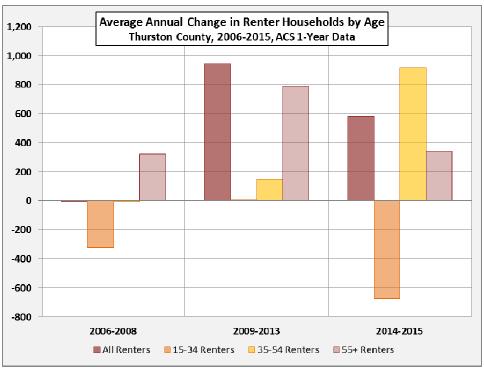
Within this marginal growth segment, it may be supposed that an increased number of older migrants, most of which would have sold a home prior to the move, have been reluctant or unwilling to re-enter the owner market. Prior to the housing crisis, such "empty nesters", as they were then being called, were often eager to downsize and many found condominiums to be an attractive alternative to their larger suburban family homes. Post-crisis, with declining confidence in the investment value of such alternatives, rental housing may well represent a more attractive option.

It must, again, be noted that the 5-year ACS survey data presented in the above analyses tend to "blur" the timing and magnitude of these shifts. Even the most recent such survey (2014), includes some degree of influence from 2010 and later data, which would reflect more extreme effects of the housing crisis. Similarly, the earlier 2009 and 2010 surveys reflect the influences of growth accrued during the prior "housing boom".

Accordingly, the analyses presented thus far have been tabulated to show the overall net change between the oldest and most recent surveys, without attempting to associate specific shifts occurring in any particular intervening year. It may also be noted that the publication of shorter duration 1-year and 3-year surveys was partially suspended last year (in 2015). The 1-year data has, once again in 2016, been made available and warrants some consideration here. As noted previously, such data remains compromised by higher rates of sampling error and, at present, is only available for Thurston County as a whole.

Despite these issues, the following charts have been prepared using the 1-year series data. In the hope of minimizing the sampling error and providing clarity to this analysis, average annual changes in households have been aggregated for three primary age groups (15-34,35-54, and 55+) and over three distinct time spans (2006-2008, 209-2013, and 2014-2015)





As may be noted in the above charts, average annual owner sector growth was approximately 2,700 households per year prior to the housing crisis, subsequently declining to roughly -400 households per year over the duration of the crisis and subsequent recession. In the two most recent surveys, the sector appears to have recovered to an average growth of approximately 2,100 households per year.

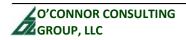
Older (55+) households represented a hefty 67% majority share of pre-crisis gains in the owner sector. Recently, during the recovery, their market share has increased to 85%. During the crash, older households represented the *only (positive) gains* in the owner sector with average annual increases of roughly 700 households per year, against which losses of -1,500 households were accruing in all other age groups.

In the rental sector, virtually zero net demand was evident during the pre-crisis owner boom. During the crisis, households – many of them prior owners – flooded into the market at more than 900 households per year. This indicated an average marginal rental tenure rate for those six years of 175%. Over the two most recent surveys, annual demand has declined to roughly 600 units per year. With returning strength in the owner sector, this indicates a marginal rental tenure rate of approximately 21%.

These figures reflect averages over the noted date range, which can (and does) mask some fairly wide swings occurring in individual years. Due to the nature of the smaller sample sizes in the 1-year series, these swings may be largely attributed to sampling error. However, it is worth noting that in the two most recent 1-year surveys (2014 and 2015), a fairly sharp demand shift is indicated, indicating a fairly strong movement from the rental sector to the owner sector.

It may be too early to tell whether this is meaningful evidence of a significant shift back towards ownership. Recent apartment vacancy data appears to indicate continued strength in the apartment market, so any significant shift in demand would, necessarily, require a reduction in demand for, or perhaps supply of, available single family rentals. As detailed later, there is fairly clear evidence that a significant share of the surge in rental housing demand during the housing crisis was absorbed within the single-family rental market. Returning strength in owner housing demand could, theoretically, reverse these flows and may even explain the apparent strength in the apartment market.

As a minor point of interest, it may be noted that these most recent household growth estimates (drawn from the 1-year ACS surveys) exceed the "structural" household growth estimates – and forecast – as were presented earlier in the Regional Analysis. As noted in that analysis, however, it can be fairly difficult to measure, let alone predict, the marginal household size for individual years, especially during periods in which external economic factors are exerting significant influence.



Nonetheless, over the whole of the ten year ACS survey range (2005 to 2015), the net variance between the two methods is approximately 2.9%, amounting to some 472 households overall (or only 47 per year). This error, as it happens, favors the trended estimates and is well within the standard error range reported by the ACS. Accordingly, the ACS data appears to reflect a slightly lower (2.252) average household size, as compared with the blended (2.318) figure calculated in the trended estimates through the same period.

Going forward, however, it is useful to understand the degree to which the age composition of marginal household growth will influence the average household size. As demonstrated above, the ACS data clearly indicates the surprising predominance of older households within Thurston County's growth. Logically, it is the absence of younger – and, in particular, families – that is the most striking and the single factor to which a lower marginal household size may be attributed.

In the most recent (2014-2015) data, a modest resurgence of middle-aged households is indicated. As these, presumably, would include a higher number of families (with children), a corresponding rise in the marginal household size may well be in the offing. For the purposes of projection, however, the trended estimates, as presented, are considered to reflect the most reasonable basis for the forecast.

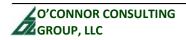
These observations simply underscore the complex nature of the market and the range of interactions that influence human behavior. In any given year, of course, this will lead to potential errors in the overall magnitude of estimated demand. However, it is rather more important that these analyses identify the trends that are likely to have a significant degree of influence on the nature of that demand.

For the purposes of mitigating future housing development risk, it is rather safe to say that the single most "significant trend" in Thurston County has been the predominant role played by older (55+) households. Only during periods of economic expansion do the historically more variable flows of middle-aged family household into the market have a secondary influence.

As indicated in the ACS data, the marginal rental tenure rate for older households was only 15% during the pre-crisis boom. Over the 2009-2013 period, they — along with most other age groups — shifted more heavily into the rental sector, with the marginal rental tenure rate rising to 54%. In the most recent surveys, it would appear that this has returned more-or-less to pre-crisis levels of 16%.

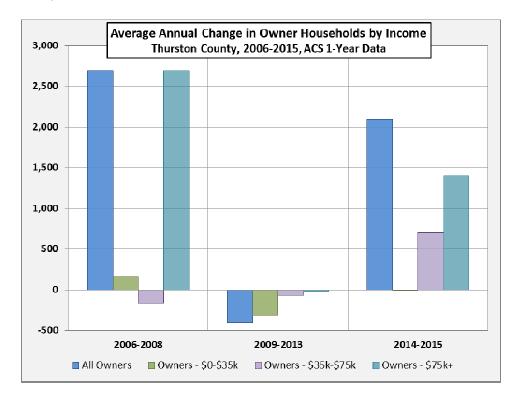
Increased hiring, either by Washington State or the US military at Joint Base Lewis McChord, would, naturally, tend to draw an increased number of younger migrants, including a higher proportion of middle-aged families. Similarly, it may be assumed that attrition due to retirement of seniors would also tend to generate younger in-migrant flows for their replacement.

To a certain extent, this process may well be starting. Prior to the recession, the 35-54 age group grew at roughly 500 households per year and, in the most recent surveys, has risen to more than 800 per year. At present, the middle-age cohort does not appear to have returned to the owner sector, with slightly more than 100% showing up in the data as renters. Assuming this process continues, it would be reasonable to assume that these households would become increasingly likely home buyers as they age.



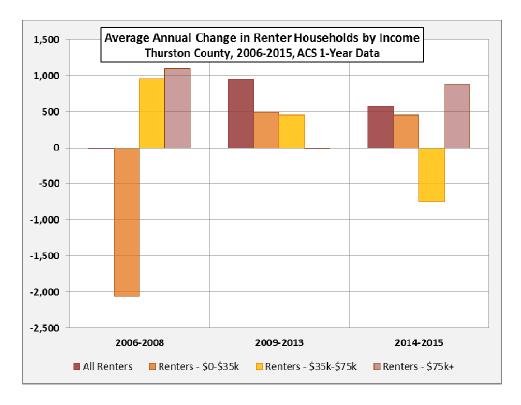
# **Marginal Housing Demand by Income & Tenure**

As discussed, income is a primary determinant for housing tenure preferences. In keeping with the above analysis of the ACS 1-year data, the following charts present a similar aggregation of average annual household growth in both the owner and rental sector into three broad income categories over same three time periods.



As indicated above, growth in the owner housing sector – when it occurs – has been dominated by households with income above \$75,000 per year. This was particularly true in the waning years of the pre-crisis housing boom, when critical affordability limits were reached. During the crisis, it is also clear that lower income households disproportionately suffered the consequences. During the most recent two survey years, in which owner demand has largely recovered, middle-income households have benefitted from improved affordability. Still, higher income households, at present, appear to capture roughly 2/3 of the growth in ownership.

As may be noted in the following chart, the situation in the rental sector is a bit more complicated.



Since the onset of the housing crisis and recession, a common topic of discussion and speculation has been the degree to which lower income households were both drawn into the owner sector and, later, disproportionately suffered the consequences of the crash. On initial review of the above chart, it would be easy to assume that the indicated decline of lower income renters in the earliest 2006-2008 period was evidence of significant movement into the owner sector. While there is some evidence to support this argument, most of the reduction is, simply, the net result of rising incomes during the boom.

As to the repercussions of the recession, there is evidence of a "reversal of fortune", although it is also clear that upper income households were largely spared from the pressure to return to the rental sector. The subsequent increase in the number of upper income renters in the latest surveys, on the other hand, does suggest that an interesting shift in renter demand may be occurring. Also, there is evidence that middle-income households may now be leaving the rental sector to purchase a home.

As a result, it is highly likely that the Thurston County rental sector may now be moving towards greater bifurcation, being increasingly comprised – on the margin - of both upper and lower income classes. As indicated above, the upper income class represents an average of nearly 900 households per year, which more than offsets the declines noted in the middle income class. The previously noted shift towards ownership in the latest (2015) data is present here, but to is found to be more significant in the middle-income class.

## **Tenure Patterns by Sector**

The following tables present the underlying 5-year ACS data that was presented earlier in chart form, including details relative to the apartment and single family rental sector.



Marginal Tenure Rate Calculations - Thurston County - 5 Year ACS Data											
Year	2009	2010	2011	2012	2013	2014	Average	2-Yr Avg.			
Total Households*	93,680	98,157	99,849	100,492	100,521	101,248					
New Households		4,477	1,692	643	29	727	1,514	378			
Total Owner Households	63,923	66,051	67,193	67,828	67,193	65,682					
Overall Owner Share	68.2%	67.3%	67.3%	67.5%	66.8%	64.9%	66.8%	65.9%			
New Owner Households		2,128	1,142	635	-635	-1,511	352	-1,073			
Owner Marginal Share		47.5%	67.5%	98.8%	-2189.7%	-207.8%	-436.7%	-1198.7%			
Total Renter Households	29,757	32,106	32,656	32,664	33,328	35,566					
Overall Renter Share	31.8%	32.7%	32.7%	32.5%	33.2%	35.1%	33.2%	34.1%			
New Renter Households		2,349	550	8	664	2,238	1,162	1,451			
Marginal Renter Share		52.5%	32.5%	1.2%	2289.7%	307.8%	536.7%	1298.7%			
Apartment Renter Households	13,229	15,192	15,036	14,753	14,510	14,799					
Apt. Share of Renter HHs	44.5%	47.3%	46.0%	45.2%	43.5%	41.6%	44.7%	42.6%			
New Apartment HHs		1,963	-156	-283	-243	289	314	23			
% of New Renters		84%	-28%	-3538%	-37%	13%	<b>-701</b> %	-12%			
SF Renter Households	9,671	10,301	11,037	11,307	12,401	13,995					
SF Share of Renter HHs	32.5%	32.1%	33.8%	34.6%	37.2%	39.3%	35.4%	38.3%			
New SF Renter HHs		630	736	270	1,094	1,594	865	1,344			
% of New Renters		27%	134%	3375%	165%	<b>71</b> %	<b>754</b> %	118%			

\*Less: Boats, RV, etc. Souce: ACS 5-Year Data, OCGP

Margin	al Tenure	Rate Calcul	ations - Cit	y of Olympi	ia - 5 Year <i>A</i>	CS Data		
Year	2009	2010	2011	2012	2013	2014	Average	2-Yr Avg.
Total Households*	19,381	20,514	20,403	20,528	20,386	20,611		
New Households		1,133	-111	125	-142	225	246	42
Total Owner Households	10,196	10,443	10,370	10,641	10,338	10,123		
Overall Owner Share	52.6%	50.9%	50.8%	51.8%	50.7%	49.1%	50.7%	49.9%
New Owner Households		247	-73	271	-303	-215	-15	-259
Owner Marginal Share		21.8%	65.8%	216.8%	213.4%	-95.6%	84.4%	58.9%
Total Renter Households	9,185	10,071	10,033	9,887	10,048	10,488		
Overall Renter Share	47.4%	49.1%	49.2%	48.2%	49.3%	50.9%	49.3%	50.1%
New Renter Households		886	-38	-146	161	440	261	301
Marginal Renter Share		78.2%	34.2%	-116.8%	-113.4%	195.6%	15.6%	41.1%
Apartment Renter Households	5,520	6,236	6,289	5,976	5,941	6,054		
Apt. Share of Renter HHs	60.1%	61.9%	62.7%	60.4%	59.1%	57.7%	60.4%	58.4%
New Apartment HHs		716	53	-313	-35	113	107	39
% of New Renters		81%	-139%	214%	-22%	26%	32%	2%
SF Renter Households	2,282	2,421	2,236	2,386	2,668	2,996		
SF Share of Renter HHs	24.8%	24.0%	22.3%	24.1%	26.6%	28.6%	25.1%	27.6%
New SF Renter HHs		139	-185	150	282	328	143	305
% of New Renters		16%	487%	-103%	175%	<b>75</b> %	130%	125%

\*Less: Boats, RV, etc. Souce: ACS 5-Year Data, OCGP

The above data is presented, in large part, in order to evaluate the role that the single-family rental sector played in absorbing the shocks of the housing crisis. A central factor of the crisis was, of course, the apparent excess supply of owner housing created during the housing boom.



Despite the variability inherent to these surveys, it is clear that single family rentals have played a fairly significant role in the rental market, with average absorption that has been nearly three times greater than that in the apartment sector. It is, again, worth noting that the 5-year series data masks the specific timing and, to an extent, the magnitude of these trends. However, it is clear that over the course of what must be characterized as an atypical decade, there has been an uncharacteristic absence of significant apartment development.

As the data indicates, the Thurston County market has supported a modest share of single-family rentals, serving roughly 25% of all rental households. Apartments, on the other hand, have served a 60% majority of the market. Due to both the lack of significant apartment development, in combination with the dramatic shifts occurring both before and during the owner housing crisis, the excess supply of single family homes was the only recourse for resurgent rental demand.

To the extent that it would appear that owner housing may be on the rise, the supply of these same single-family rental properties may begin to shrink. As detailed in the accompanying Apartment Market analyses, this may account for recent declines in apartment vacancies. The degree to which single-family rentals were, as stated above, "the only recourse", may also signify a significant pent-up demand for new apartment housing.

The (60%) dominance of apartments in this market reflects the suitability of such housing to most renters needs. Whether driven by factors such as convenience, location, or affordability, single family rentals are not typically the best fit. The above data would suggest that, over the past decade, the apartment sector has absorbed approximately 1,900 fewer households than would be "typical". Of these, approximately 1,500 ended up in the single-family rental sector.

# THURSTON COUNTY APARTMENT MARKET ANALYSIS

In this section of this report, the Thurston County apartment is evaluated in order to develop forecasts of demand and supply as well as future market balance.

# **Vacancy Rate-Historical and Current**

The following table summarizes the vacancy rates for Thurston County and the Olympia market areas from 2002 to 2014.

	Apartment Vacancy Rates														
Thurston County Area Markets, 2002-2016															
Area/ Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Thurston County	4.4%	4.7%	6.1%	4.4%	4.5%	3.0%	3.4%	8.6%	3.3%	7.4%	6.2%	4.3%	3.6%	3.4%	2.6%
Olympia	5.4%	4.4%	6.7%	4.6%	4.0%	1.8%	2.5%	7.6%	3.9%	7.2%	6.1%	4.3%	3.6%	3.6%	2.4%
Tumwater	3.0%	4.8%	6.3%	6.0%	6.2%	4.9%	5.5%	5.1%	3.3%	8.0%	5.2%	4.3%	3.6%	N/A	N/A
Lacey	3.7%	5.2%	5.0%	2.7%	4.3%	3.4%	3.3%	10.4%	2.4%	7.4%	6.9%	4.2%	3.6%	3.0%	2.2%

Source: WCRER, Dupre & Scott, Vacancy rates as of September of the indicated year.

As may be noted above, prior to the housing crash, apartment vacancies typically ranged between 4.0% and 6.0%. As the owner sector became increasingly unaffordable, beginning in 2007 or so, vacancies began to decline to levels below 4%. At this time, the more central, urban Olympia market experienced the tightest conditions, with vacancies well below 3%.

Somewhat counterintuitively, the initial effects of the housing crash pushed vacancies sharply higher to 8.6% in 2009. While the market appeared to recover throughout 2010, this was only temporary, and higher than normal rates lingered into 2012. Since then, the market has steadily improved with rates presently below 3%.

As detailed previously, the single-family rental sector played a disproportionate role in absorbing the severe shocks of the housing crisis and subsequent recession. It has been estimated that over the course of the past decade, the apartment sector absorbed roughly 1,900 units fewer than would have been typical, due, in part, to the lack of supply. The bulk of these households ended up in the single-family rental sector.

The extent to which this transference of demand to the single-family rental sector may have contributed to pent-up apartment demand will be evaluated later in this analysis. For now, it should be sufficient to observe that protracted vacancy rates well below 5% - indicating ostensible balance in the market – would be an indication of such pent-up demand.

## **Historical Apartment Demand Analysis**

Historical demand for apartment housing can be evaluated on the basis of three separate indicators: a) new unit absorption, b) incremental change in occupied units (or direct demand), and c) through the estimation of demand implied indirectly through market balance (i.e. vacancy.) The following discussion details each of these metrics.

## **New Unit Absorption**

The new unit absorption metric of demand reflects historical absorption data for newly built apartments in the market. This method generally provides a reliable indication of the market's capacity to absorb new supply. However, new unit absorption is inherently limited by the scale of new construction activity. Accordingly, it only measures the market's absorption capacity when that capacity is exceeded. As a result, such a measure can lead to an under-estimation of demand during periods with little or no new construction activity and periods when the market's vacancy rate lies below nominal balance at 5%.

To begin, the following tables summarize new unit absorption in Thurston County and its three primary submarkets.

				Ma	arket S	hare by	New U	Init Abs	orption	1						
Market	Year A												Avg.			
Area	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	02-'16
Olympia	174	34	275	28	0	64	0	126	80	79	280	72	170	155	284	121
Lacey	0	15	73	0	0	346	103	0	59	0	0	0	0	0	0	40
Tumwater	0	0	0	22	22	0	222	0	0	0	0	0	90	101	75	35
Thurston County	174	49	348	50	22	410	325	126	139	79	280	72	260	256	359	197

<sup>\*</sup>Source: OCG & Dupre+Scott

Manda 4		Market Share by New Unit Absorption														
Market Year Avg																Avg.
Area	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	02-'16
Olympia	100%	69%	79%	56%	0%	16%	0%	100%	58%	100%	100%	100%	65%	61%	79%	62%
Lacey	0%	31%	21%	0%	0%	84%	32%	0%	42%	0%	0%	0%	0%	0%	0%	20%
Tumwater	0%	0%	0%	44%	100%	0%	68%	0%	0%	0%	0%	0%	35%	39%	21%	18%
Thurston County 1	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

\*Source: OCG & Dupre+Scott

As indicated above, since 2002, historical development has averaged 197 apartment units per year. This has moved upward to 292 units per year in the latest three years, with the Olympia share rising to 70%. The following table takes this new unit absorption data and calculates the market's overall net absorption, with allowances for shifts in market occupancy.

	Thurston County Apartment Market															
								Year								Avg.
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	02-'16
Vacancy Rate	4.4%	4.7%	6.1%	4.4%	4.5%	3.0%	3.4%	8.6%	3.3%	7.4%	6.2%	4.3%	3.6%	3.4%	2.6%	4.7%
Year End Market Size	32,251													-		
Occupied Units	30,832	30,782	30,656	31,259	31,248	32,136	32,318	30,693	32,607	31,298	31,966	32,683	33,172	33,488	34,115	-
Total Net Absorption		-50	-125	603	-12	889	181	-1,624	1,914	-1,309	668	716	490	316	627	235
New Units	174	49	348	50	22	410	325	126	139	79	280	72	260	256	359	197
Existing Units		-224	-174	255	-62	867	-229	-1,949	1,788	-1,448	589	436	418	56	371	50

Note: Market Size includes New Units Absorbed, therefore Total Demand is based upon the change in Occupied Units.

Net absorption has ranged widely between -1,624 units in 2009 at the onset of the housing crisis to 1,914 units in the following year. The bulk of this variability, of course, is the result of rapid changes in vacancy, most of which occurred during the recession. Despite this variability, total net absorption has averaged only 235 units per year, only slightly higher than the 197 new unit absorption average. Over this longer term, the market has maintained a 4.7% average vacancy, with annual absorption of 50 existing units per year, on average, making up the needed shortfall.

More recently, of course, the picture has been much more complicated, with larger flows out of and back into the market in response to the housing crisis. Through much of this time, the single-family rental market has functioned as a much needed "shock absorber", adding rental supply where the apartment sector was unable to do so. This behavior appears to be reaching the end of its cycle, with rising owner demand, home values, and new apartment construction.

Direct & Implied Demand (Thurston): The second and third methods of demand estimation provide a theoretical perspective on the market's changing need for rental housing. These methods are useful in that they tend to ignore the short-term influence that new construction activity has on absorption patterns and estimates the market's requirements on the basis of: a) changes in overall occupancy (Direct Demand) and b) as necessary to produce "balanced" market conditions of 5% vacancy (Implied Demand.)

The following table summarizes the calculations for these indications of apartment demand in the Thurston County apartment market for years 2002 to 2016.

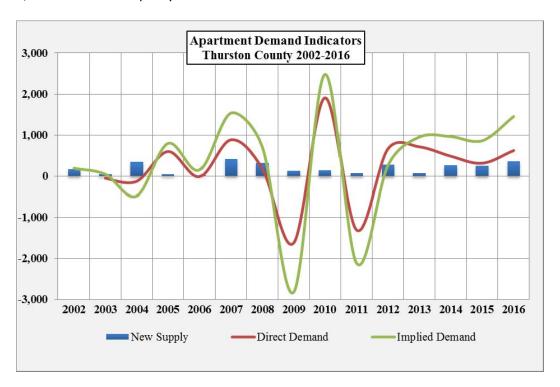
Dire	ct & I	mplie	d Den	nand (	Calcul	lations	s - Ap	artme	nt Ma	rket -	Thur	ston (	Count	y		
								Year								Avg.
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	02-'16
Beginning Market Size	32,077	32,251	32,300	32,648	32,698	32,720	33,130	33,455	33,581	33,720	33,799	34,079	34,151	34,411	34,667	-
New Units Supply	174	49	348	50	22	410	325	126	139	79	280	72	260	256	359	197
Year End Market Size 32,251 32,300 32,648 32,698 32,720 33,130 33,455 33,581 33,720 33,799 34,079 34,151 34,411 34,667 35,026 -											-					
Vacancy Rate	4.4%	4.7%	6.1%	4.4%	4.5%	3.0%	3.4%	8.6%	3.3%	7.4%	6.2%	4.3%	3.6%	3.4%	2.6%	4.7%
Occupied Units	30,832	30,782	30,656	31,259	31,248	32,136	32,318	30,693	32,607	31,298	31,966	32,683	33,172	33,488	34,115	
Indicated Direct Demand		-50	-125	603	-12	889	181	-1,624	1,914	-1,309	668	716	490	316	627	235
Excess Vacancy -0.6% -0.3% 1.1% -0.6% -0.5% -2.0% -1.6% 3.6% -1.7% 2.4% 1.2% -0.7% -1.4% -1.6% -2.4% -0.3%						-0.3%										
Equilibrium Adjustment	192	97	-355	196	163	654	530	-1,204	571	-809	-406	239	478	551	832	115
Net Implied Demand*	192	47	-481	799	152	1,543	712	-2,829	2,485	-2,119	263	955	968	867	1,459	334

Source: OCGP, US Census data, and Dupre+Scott

\* Net implied demand assumes 5% equilibrium

The market size is a combination of U.S. Census data (based on the U.S. Census data as of 2000 and 2010 and our in-house bi-annual market survey. From this census, we tracked new construction completions (by absorption) as they come on the market and add them to the respective years.

As indicated in the above table, during the years 2002 to 2016, indicated Direct Demand (or net absorption) has ranged widely from a low of -1,624 to as high as 1,914 units per year, averaging 235 units per year. As noted, vacancy rates were below 5% in ten of the last fifteen years. With adjustments to reflect "excess vacancy" in those years, Implied Demand is improved to an average of 334 units per year. Most strikingly, is the steady rise in the market equilibrium adjustment (implied by market vacancy) since 2013. During this time, Net Implied Demand has averaged 1,062 units per year and has risen to 1,459 units over the past year.



#### **Historical Demand Conclusion & Forecast**

Admittedly, the past fifteen years provide a fairly poor basis for demand analysis. Prior to 2009, the market was engaged in a full-blown owner housing boom that attracted an excess number of households into the owner market and a corresponding focus on single-family housing development. Over the course of the housing crash and ensuing recession, rental housing demand surged. However, very little apartment development occurred due to complications in the financing and capital markets. In addition and, perhaps, fortuitously, the excess supply of single-family homes in the market served as an interim supply of rental housing.

Accordingly, the historical record is complicated by rather atypical market conditions. Today, the market may be heading towards some degree of "normalization". There are signs that the supply of single-family rentals may be contracting, which are pushing some number of those renters back into the apartment market. This, of course, is counterbalanced by the improved demand for owner housing, which in theory would reduce the demand for rental housing of all types.

A balanced consideration of these various factors is necessary to support a reasonable demand forecast. As presented earlier, the Thurston County rental market represents a 35% of overall housing demand.



Of this, the apartment market has traditionally captured a 60% share of all rental demand. On this basis, a "static" basis for a marginal apartment capture rate would be in the range of 21% of overall household growth.

To this, the issue of pent-up demand warrants some additional consideration. At present, rising owner demand and a corresponding reduction to the supply of single-family homes available to renters appears to be augmenting apartment demand. Also, the first significant increase to the supply of apartments will, finally, be hitting the market in late 2016 and early 2017. This boost of supply may be expected to draw further from latent pent-up demand in the single-family rental market.

In addition to the above, the demographics analysis presented earlier in this report indicates that there is a significant degree of influence on Thurston County housing demand generated by older (55+) households. Such households traditionally exhibit a high preference for owner housing, a pattern that was disrupted radically during the 2009-2013 period.

While more recent data would hint that these older households may now be returning "to form", e.g. buying homes, it is believed that their advancing age and retirement prospects would lead many of them to seek alternatives to traditional owner housing. Prior to the housing crash, this pattern generated significant demand for condominiums as such "empty nester" households "downsized". At present, there are very few new condominium projects available to attract such buyers. In the absence of such an alternative, new higher quality apartments may be expected to find acceptance with a larger share of these older households.

In consideration of the above, given some allowance for the temporary effects of pent-up demand and a longer growth vector of senior demand, near-term apartment demand is calculated as shown below.

	Thurston Apai	tment Demand	Forecast Sun	nmary - 2017-2	2020
Year	Thurston Co. Population Growth Forecast	Thurston Co. Marginal Avg. HH Size	Thurston Household Forecast	Marg. Rental Tenure Rate	Thurston Co. New Renter Households
2017	4,219	2.248	1,877	30.0%	563
2018	4,172	2.277	1,832	28.0%	513
2019	4,363	2.278	1,915	25.0%	479
2020	4,395	2.273	1,934	25.0%	484

Source: OCG & Washington State OFM

#### **Apartment Market Balance Forecast**

The following analysis incorporates and compares identified sources of new supply over the forecast period (2017-2018) with anticipated demand, as forecasted. The potential impact of this supply and demand on future market balance may be estimated on the basis of the likely effect on market vacancy rates.

## **Anticipated Supply**

A complete list of identified new apartment projects is provided following this analysis. These include projects that were recently completed, those under construction, and those which have not yet begun construction.

The OCG market forecasting model adjusts each year's market size estimate according to and at the rate of accrued new unit <u>absorption</u>, rather than new unit <u>completions</u>. This is done to avoid distortion of the estimated vacancy rate in the market that might result from newly completed projects during their lease-up. Un-leased units at newly built projects are carried over to subsequent periods as competitive supply and are only added to the standing inventory (or market size) as they are eventually leased.

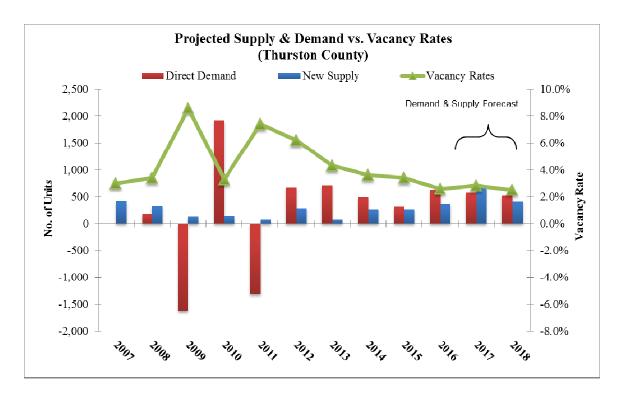
The "modification" adjustment applied to the supply data is what may be understood to be a "probability of completion" factor. While, practically speaking, proposed projects are (almost always) either 100% completed or 0% completed, there is generally some degree of uncertainty associated with either the project moving forward at all or, at least, the assumed date of completion.

The supply lists a number of projects with anticipated completion dates beyond 2018. These are included for reference only, as the list may be incomplete and likelihood of completion uncertain.

Market Balance Forecast (Thurston County): Based on the supply and demand forecasts presented, the following table and accompanying chart depict expected market balance over the 2017-2018) forecast period for the Thurston County apartment market.

Apartment Market Balance Forecast - Thurston County												
Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Beginning Market Size	32,720	33,130	33,455	33,581	33,720	33,799	34,079	34,151	34,411	34,667	35,026	35,693
Add: New Unit Supply	410	325	126	139	79	280	72	260	256	359	667	402
Ending Market Size	33,130	33,455	33,581	33,720	33,799	34,079	34,151	34,411	34,667	35,026	35,693	36,095
% Change		1.0%	0.4%	0.4%	0.2%	0.8%	0.2%	0.8%	0.7%	1.0%	1.9%	1.1%
Direct Demand Forecast		181	-1,624	1,914	-1,309	668	716	490	316	627	563	513
Market Vacancy	3.0%	3.4%	8.6%	3.3%	7.4%	6.2%	4.3%	3.6%	3.4%	2.6%	2.8%	2.5%
Occupied Units	32,136	32,318	30,693	32,607	31,298	31,966	32,683	33,172	33,488	34,115	34,678	35,191

Source: OCG & Dupre+Scott



As indicated above, these tabulations suggest that vacancy rates will remain below 3% over the next several years. The supply estimates for 2017 include a large number of 2016 completions that are currently in lease-up. At present, despite the burst of new construction activity in 2016, there does not appear to be a significant continuation of this trend. With some early augmentation to "normalized" demand, to account for some degree of pent-up demand, it is expected that the market will remain fairly tight.

			New Multifamil Market	ly Supply ir t Rate & Sen			ınty							
							Est.		Modified					
	Project Name	Type	Address	City	Apts	Status	Completion	Probability	Count	2015		2017	2018	2019 202
1	Silver Leaf Estates	Senior	4520 Henderson Blvd SE	Olympia	200	Completed	2015	100%	200	120	80			
2	Larc	LI-Sen.	1000 Blk Yauger Way SW	Olympia	141	Completed	2016	100%	141		141			
3	Bayan Trails PH 1-6	Senior	607 Sleater Kinney Way NE	Lacey	237	Proposed	2017	50%	119			60	60	
4	Copper Wood Apartments	Low Inc.	10244 Martin Way E	Olympia	228	Proposed	2017	100%	228				228	
5	Billy Frank Jr. Apartments	Low Inc.	318 State Ave. NE	Olympia	43	Proposed	2017	100%	43			43		
6	Devoe II Veteran's Housing	LI-Vet.	604 Devoe St. SE	Olympia	50	Proposed	2017	100%	50			50		
7	Reserve at Tumwater	Senior	710 & 712 Trosper Rd	Tumwater	210	Proposed	Post 2017	25%	53				53	
8	Reserve at Lacey	Senior	Pacific Ave E	Lacey	300	Proposed	Post 2017	50%	150				75	75
9	Urban Evolution - PH 1 & II	Senior	8501 Martin Way E	Lacey	178	Proposed	Post 2017	50%	89				45	45
			Total Senior & Low	Income Units	1,757	-			1,243	120	221	153	460	120
					,		Est. Completion	1	Modified					
	Project Name	Market/Senio	or Address	City	Apts	Status	Date	Probability	Count	2015	2016	2017	2018	2019 20
1	8 Hundred West	Market	800 Alta St SW	Olympia	100	Completed	2015	100%	100	100				
2	123 4th Avenue	Market	123 4th Ave W	Olympia	138	Completed	2016	100%	138		138			
3	Copper Trail Apts.	Market	3500 Block Capital Mall Dr SW	Olympia	252	Completed	2016	100%	252		252			
4	Britton Place Apartments	Market	6655 Britton Pkwy NE	Lacey	192	Completed	2016	100%	192		192			
5	Campus Lofts	Market	512 12th Ave SE	Olympia	36	Completed	2016	100%	36		36			
6	321 Lofts	Market	321 Legion Way SE	Olympia	36	Completed	2016	100%	36		36			
7	Stonebrook Apartments	Market	4820 Rural Road	Tumwater	226	Completed	2016	100%	226		226			
8	Bedrock Apartments	Market	3006 Banks Lane SW	Tumwater	15	Proposed	2017	75%	11			11		
9	Fern Street Apts.	Market	1000 Blk Fern St SW	Olympia	135	UC	2017	100%	135			135		
10	Martin Way Apartments	Market	3333 Martin Way E	Olympia	65	Proposed	2018	25%	16				16	
11	Views on Fifth Avenue	Market	410 5th Ave	Olympia	136	Proposed	2018	50%	68				68	
12	Woodland Park	Market	Woodland Square Loop	Lacey	145	Proposed	2018	25%	36				36	
13	Silver Leaf Estates	Market	4410 Henderson Blvd SE	Olympia	86	Proposed	Post 2017	25%	22				22	
14	Olympia Green Apts.	Market	3901 Martin Way East	Olympia	120	Proposed	Post 2017	25%	30				30	
15	Polo Club Phase II	Market	5600 Dunham Dr SE	Olympia	62	Proposed	Post 2017	0%	0					
16	Polo Club Phase III	Market	3533/3532 Landview Dr SE	Olympia	128	Proposed	Post 2017	0%	0					
17	Columbia Place	Market	520 Columbia St NW	Olympia	10	Proposed	Post 2017	0%	0					
18	Briggs Multifamily North	Market	4255 Maple St SE	Olympia	72	Proposed	Post 2017	0%	0					
19	Doelman Urban Village	Market	Little Rock Rd SW & 81st Ave SW	Tumwater	280	Review	Post 2017	25%	70				70	
20	Capitol Boulevard Multi-Family	Market	6501 Capitol Boulevard	Tumwater	40	Review	Post 2017	25%	10				10	
21	Henderson Blvd.	Market	6541 & 6545 Henderson Boulevard	Tumwater	140	Review	Post 2017	25%	35				35	
22	80-Unit MF Site	Market	3003 Crosby Blvd. SW	Tumwater	80	Proposed	Post 2017	0%	0				4	
23	Urban Evolution Ph I & II	Market	8501 Martin Way E	Lacey	442	Proposed	Post-2017	50%	221				111	111
24	Griswold's Redevelopment	Market	308 4th Ave E.	Olympia	0	Proposed	Post-2017	0%	0					
	•			et Rate Units	2,936	•			1,634	100	880	146	402	111
				otal All Units	4,693				2,877		1,101	299	862	

#### Overview

The purpose of this assignment is to evaluate the potential feasibility of a proposed apartment development on the subject site. At its core, a feasibility analysis simply compares the costs and benefits associated with the development plan. Feasibility may be measured either by: a) the projected return on investment for the development at an assumed land acquisition cost, or b) the highest supported land acquisition cost within targeted investment returns. In this case, both methods are evaluated.

#### **Development Scenarios**

As described earlier in this report, two development plans have been conceived over the past eight years. The first of these was created for the property owner by the Helix Design Group and represents a higher-quality 42-unit condominium project sited on the eastern portions of Parcels G, H, and J. From a purely aesthetic perspective, this is considered to be a very attractive plan, but given the low overall density of 14.6 units per acre and an average unit size of 2,057 SF, is believed to be suboptimal for adaptation to rental apartment use. As such, an evaluation of this plan has not been included in the following analyses.

The second plan was conceived in mid-2015 by White Stone Group (a subsidiary of Cascadia Development), a potential buyer of the subject property. This plan was intended to reflect maximal use of the property and included a total of 182 apartment units in three double-loaded, elevator-serviced, buildings, with an average size of 935 SF and an overall density of 63.2 units per acre. The plan also intended to utilize the smaller 0.71-acre area of the subject parcels located to the west of West Bay Drive NW, by placing 12 townhome condominium units there, with an average size of 2,400 SF per unit.

To establish a reasonable frame of reference, the analyses presented on the following pages begin with an evaluation of the original Cascadia development plan, referred to herein as "Scenario A". As noted above, it is believed that this plan represents a reasonably likely maximum development envelope for the subject property. It may also be noted here that, due to the subject's waterfront status, irregular shape and topography, and the complexities of the City of Olympia zoning code, it would be more-than-usually difficult to establish, with confidence, a higher-density alternative design without extensive architectural assistance.

At the time of the purchase negotiation, Cascadia (aka White Stone Group) provided its own internal feasibility assessment. With a few notable exceptions, this assessment is believed to reflect a credible and reliable estimation of the probable project costs for the development at the maximum development envelope in early 2015. The noted exceptions include several assumptions related to project financing, many of which reflect changing market conditions.

The unit mix for Scenario A is presented below.

Scenario A (Cascadia Original) - Unit Mix

# of	% of		Unit			% of
Units	Total	Intended Use	Туре	Size (SF)	Total SF	Total SF
56	28.9%	Apartment	1/1	875	49,000	24.6%
70	36.1%	Apartment	1/1+Den	925	64,750	32.6%
56	28.9%	Apartment	2/2	1,006	56,336	28.3%
182	93.8%	Apartment		935	170,086	85.5%
12	6.2%	Condominium	TH	2,400	28,800	14.5%
194	100.0%			1,025	198,886	100.0%

For the purposes of comparison, Scenario B reflects a similar unit mix, albeit with the (for sale) condominium townhome component converted to an increased number of smaller rental townhomes. This effectively enlarges the project by 10 units and reduced the average unit size to 972 SF. The unit mix for Scenario B is presented below.

Scenario B (Cascadia Updated) - Unit Mix

# of	% of					% of
Units	Total	Use	Туре	Size	Total	Total
56	27.5%	Apartment	1/1	875	49,000	24.7%
70	34.3%	Apartment	1/1+Den	925	64,750	32.7%
56	27.5%	Apartment	2/2	1,006	56,336	28.4%
22	10.8%	Apartment	TH	1,280	28,160	14.2%
204	96.2%			972	198,246	100.0%

The feasibility analysis for Scenario A reflects the original Cascadia unit mix, as well as their rental, operating expense, cost, capitalization, and financing assumptions. This establishes a baseline, against which separate analyses of slightly modified development plans, as presented in Scenarios B & C, may be appropriately compared.

These modified development plans are intended to reflect current market conditions and, in the case of Scenario C, further optimize the project in regard to unit sizing. No attempt has been made to significantly redesign the project. While it is believed that there are other opportunities to fine-tune the design, as will be noted in the following discussions, such efforts would require significant architectural assistance.

In addition to the modifications to the townhouse element, Scenario C utilizes slightly smaller one-bedroom and one-bed with den units. The space saved with these smaller units has been converted to an increased number of two-bedroom units, which are believed to be under-represented in the project for the intended target market. The unit mix for Scenario C is summarized below.

#### Scenario C (OCG Alternative) - Unit Mix

# of	% of					% of
Units	Total	Use	Type	Size	Total	Total
56	26.4%	Apartment	1/1	775	43,400	21.9%
70	33.0%	Apartment	1/1 D	850	59,500	30.0%
64	30.2%	Apartment	2/2	1,050	67,200	33.9%
22	10.4%	Apartment	TH	1,280	28,160	14.2%
212	100.0%			935	198,260	100.0%

#### **Miscellaneous Design Notes**

As noted above, it is believed that the original Cascadia development plan, which utilizes a "double-loaded", building configuration, reflects what is likely to be a *maximum* building envelope for the site. Such a configuration, unfortunately, results in a nearly 50-50 split or 1:1 ratio of eastern facing view-oriented units (toward the waterfront) to western-facing, non-view units. In addition, the longitudinal, north-south orientation of the three, larger buildings, parallel to the shoreline, requires the use of longer, internal corridors, which would also tend to reduce the overall efficiency of the building.

Such a design has the off-setting benefits of: a) maximizing the income-producing building area relative to that of the site and to the exterior building shell, and b) reducing typical unit depths within the building envelope. Alternative development plans might attempt to increase the ratio of view orientated units, perhaps by utilizing smaller buildings with oblique view exposure on northern and southern walls. Using smaller buildings would, in all likelihood, result in a lower overall density, but would facilitate project phasing, as may be required.

#### **Project Valuation**

The following analyses are presented in order to estimate the value of the development upon completion. For the rental components in each development scenario, this requires the estimation of market rents and miscellaneous income and deductions for vacancy and standard operating expenses, leading to an estimate of net income, which is capitalized to represent the market value of future income that would be generated by the property. These analyses are described on the following pages.

#### **Market Rent Analysis**

In order to determine the appropriate market rents for the subject units in Scenario B and C, five comparable apartment properties were surveyed. These include two newly completed urban-style apartments and one that is nearing completion in downtown Olympia, as well as two recently completed properties from downtown Tacoma.

The proposed subject development is unlike any that might be found in the greater Puget Sound market area. First, the subject site benefits from both waterfrontage and close proximity to downtown Olympia. Understandably, such properties are quite rare with the only reasonably close analogues to be found in nearby Tacoma.

The few available comparable properties in the regional market are universally "urban-style" developments in more urban locations. While the subject would exhibit moderately high density, its configuration and location would be considered to be somewhat suburban in character. Of particular concern is the fact that most such properties tend to exhibit rather small unit sizes and mixes that are heavily weighted to studio and smaller one-bedroom units.

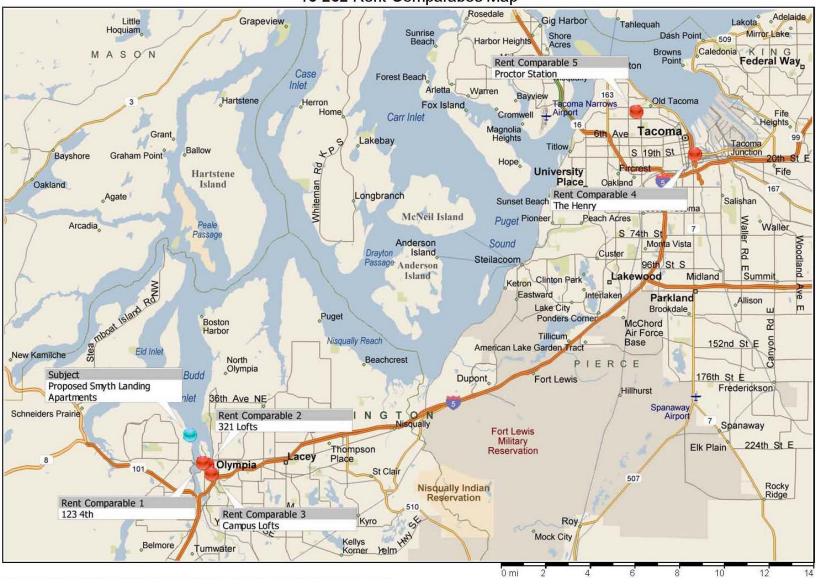
Due to the expected target market for the subject and various other constraints, the subject's unit mix (as represented in the development scenarios evaluated in this report) is somewhat more traditional, certainly in regard to having more two bedroom units. This factor would require careful consideration in regard to appropriate unit size adjustments. Nonetheless, given the subject's expected provision of secured access, structured parking, and elevators, the qualitative differences are not considered to be significant.

For the purposes of comparison, the Olympia comparable properties are intended to reflect the latest and most proximate developments within the local Olympia apartment market, without consideration of the subject's waterfront location and view amenities. The two Tacoma comparable properties are intended, largely, to evaluate the likely premium that would be accorded to newer waterfront properties.

The following page presents a summary of the rental data provided by these comparable properties.

		Apartment l	Rent (	Compai	ables Sun	mary				
No.	Property ID	Yr. Built Style	No. of Units	Unit Type	Unit Size (SF)	Avg.	Monthly Rent	Avg.	Rent/SF	Avg.
1	123 4th	2016	44	Studio	394 - 722	529	\$709 - \$1,995	\$1,310	\$1.80 - \$2.76	\$2.48
	123 4th Ave. W.	Urban	75	1/1	520 - 691	603	\$986 - \$1,914	\$1,394	\$1.90 - \$2.77	\$2.31
	Olympia, WA 98501 (360) 754-123	4 New Con.	5	2/1	1,022 - 1,022	1,022	\$1,955 - \$2,075	\$2,015	\$1.91 - \$2.03	\$1.97
	Contact: Justin		13	2/2	927 - 1,109	986	\$1,774 - \$2,691	\$2,181	\$1.91 - \$2.43	\$2.21
	Utilities: RUBS - WSG \$60-\$6	80	1	TH	1,377 - 1,377	1,377	\$2,569 - \$2,569	\$2,569	\$1.87 \$1.87	\$1.87
	Parking: \$100/95 stalls									
	Storage: N/A									
	Pet Fees: Cats \$500 NR, Dog	s \$800 NR								
	Concessions: 1 month on 12 mon	•								
	Vacancy: 36 units, or 20	6.1% (Still in Lease-up)		120		(2)	#1 010 #2 024	<b>#1 450</b>	φ1 05     φ2 50	<b>#2.21</b>
2	321 Lofts Pro Forma Rents	Total / Average	138 12	138 Studio	476 - 478	<b>636</b> 477	<b>\$1,018 \$2,024</b> \$1,000 - \$1,150	<b>\$1,472</b> \$1,075	<b>\$1.87 \$2.70</b> \$2.10 - \$2.41	<b>\$2.31</b> \$2.25
-	321 Legion Way SE	Urban	21	1/1	671 - 708	690	\$1,225 - \$1,350	\$1,288	\$1.83 - \$1.91	\$1.87
	Olympia, WA 98501 (360) 943-8060	Conversion		2/2	1,054 - 1,054	1,054	\$1,575 - \$1,575	\$1,575	\$1.49 - \$1.49	\$1.49
	Contact: Teri Haglund	Conversion	. 5	22	1,054 1,054	1,054	ψ1,575 ψ1,575	ψ1,575	ψ1.49 ψ1.49	ψ1.42
	Utilities: \$50-\$75 Flat Rate	e								
	Parking: \$65									
	Storage: No Charge Yet									
	Pet Fees: Cats \$500 NR, Dog	s \$800 NR								
	Concessions: N/A	. ,								
		0.0% (Not yet Pre-leasii	ng)							
		Total / Average	36			649	\$1,179 \$1,302	\$1,241	\$1.89 \$2.04	\$1.91
3	Campus Lofts	2016	16	Studio	462 - 462	462	\$1,130 - \$1,275	\$1,203	\$2.45 - \$2.76	\$2.60
	510 12th Ave SE	Urban	21	1/1	670 - 710	690	\$1,180 - \$1,375	\$1,278	\$1.76 - \$1.94	\$1.85
	Olympia, WA 98501 (360) 943-8060	New Con.	1	2/2.5	847 - 847	847	\$1,375 - \$1,375	\$1,375	\$1.62 - \$1.62	\$1.62
	Contact: Teri Haglund		7	TH	1,060 - 1,060	1,060	\$1,525 - \$1,600	\$1,563	\$1.44 - \$1.51	\$1.47
	Utilities: \$50 Flat Rate									
	Parking: \$65									
	Storage: No Charge Yet									
	Pet Fees: Cats \$500 NR, Dog	s \$800 NR								
	Concessions: N/A									
	Vacancy: 30 units, or 6	6.7% (Still in Lease-up)								
		Total / Average	45			670		\$1,297	\$1.95 \$2.16	_
4	The Henry	2015	13	Studio	600 - 600	600	\$1,350 - \$1,450		\$2.25 - \$2.42	\$2.33
	1933 Dock St.	Urban	32	1/1	611 - 653	632	\$1,550 - \$1,835	\$1,693	\$2.54 - \$2.81	\$2.68
	Tacoma, WA 98402 (253) 237-772.	5	80	1/1 Den	673 - 673	673	\$1,575 - \$1,775	\$1,675	\$2.34 - \$2.64	\$2.49
	Contact: Ashley		10	2/1	760 - 773	767	\$1,815 - \$2,020	\$1,918	\$2.39 - \$2.61	\$2.50
	Utilities: RUBS		20	2/2	1,002 - 1,004	1,003	\$2,165 - \$2,410		\$2.16 - \$2.40	\$2.28
	Parking: \$85 garage		6	2/2 Den	1,138 - 1,194	1,166	\$2,860 - \$3,055	\$2,958	\$2.51 - \$2.56	\$2.54
	Storage: \$65									
	Pet Fees: \$400 / \$200 NR Concessions: \$99 move-in									
		7.0%								7000
	racancy. 0 unus, 01 3	Total / Average	161			724	\$1,688 \$1,902	\$1,795	\$2.36 \$2.62	\$2.48
5	Proctor Station	2016	26	Studio	489 - 632	561	\$1,088 \$1,902 \$1,195 - \$1,405	1		\$2.32
	3910 N 28th ST	Urban	101	1/1	566 - 695	631	\$1,380 - \$1,740		\$2.44 - \$2.50	\$2.47
	Tacoma, WA 98402 (253) 761-200		19	2/2	1,047 - 1,165	1,106	\$1,960 - \$2,865		\$1.87 - \$2.46	\$2.18
	Contact: Jamie		5	2/2 Den	1,278 - 1,278	1,278	\$2,640 - \$2,840		\$2.07 - \$2.22	\$2.14
		)								
	Utilities: Flat rate \$59-\$79				l		I		1	
	Utilities: Flat rate \$59-\$79 Parking: 2 levels \$65-\$85									
	Parking: 2 levels \$65-\$85									
	Parking:         2 levels \$65-\$85           Storage:         \$45-\$85									
	Parking:         2 levels \$65-\$85           Storage:         \$45-\$85           Pet Fees:         \$700 NR+\$45/mo           Concessions:         None									

#### 16-262 Rent Comparabes Map



### **Comparable Rental Photographs**



#1 – 123 4<sup>th</sup> Avenue – Olympia



#2 – 321 Lofts – Olympia

### **Comparable Rental Photographs**



#3 – Campus Lofts – Olympia



#4 – The Henry – Tacoma

### **Comparable Rental Photographs**



#5 - Proctor Station - Tacoma

#### **Comparable Rental Analysis**

**Comparable Rental Data** – The following discussion details pertinent information for each of the comparable rental properties utilized in this analysis. Following these descriptive data, appropriate market rents for the subject property will be determined.

Rent Comparable #1 – 123 4<sup>th</sup> Avenue Apartments: This property was completed in May 2016 and is the first of the modern, urban style apartment made available in the Olympia market. With pre-leasing of 30 units (22%), occupancy stood at 102 units (or 74%) by the end of 2016. Due to slower (seasonal) traffic, the management was offering one month free rent on a 12 month lease if signed by year's end. Thus far, management reports a mixture of tenant profiles, with older retirees occupying the project's premium units.

Like many other urban-style apartments, this project's unit mix is weighted heavily to smaller studio and one-bedrooms under 700 SF. Overall, the project has an average unit size of 636 SF. Rents range from \$709 to \$2,691 or \$1.80 to \$2.76 per SF. Overall, the project has an average rent of \$1,472 or \$2.31 per SF. The project includes 95 structured parking stalls for a parking ratio of 0.69, which carry a monthly charge of \$100. Water, sewer, and garbage charges are passed through to the tenants on a flat rate schedule of \$60-\$80, depending on unit type and occupancy.

**Rent Comparable #2 – 321 Lofts:** A conversion of an older, existing office building, this property is currently under construction, with an anticipated completion in May 2017. Although management is marketing the property, has posted rental details, and is maintaining a contact list, official pre-leasing has not begun. The property manager expects that, by completion, the published rent schedule could be escalated, depending on better seasonal traffic and the performance of nearby Campus Lofts, also under the same management.

This is a fairly small development and, as stated above, is a conversion of an existing office building. The developer has been seeking such re-development opportunities in downtown Olympia, which has a number of surplus office buildings left vacant with the transfer of state government personnel to a newer administrative campus in Tumwater.

The urban-style project will include 36 units, the majority of which are studio and one-bedroom units, with an average unit size of 649 SF. Pro forma rents range from \$1,000 to \$1,575, ranging from \$1.49 to \$2.41 per SF. Overall, the average rent is scheduled to be \$1,241 or \$1.91 per SF. The manager described their preliminary leasing strategy as "cautiously optimistic", reflecting upon the seasonal effects at the Campus Lofts project. Water, sewer, and garbage charges will be passed through on a flat rate schedule of \$50 to \$75 and indoor parking will be available for \$65.

**Rent Comparable #3 – Campus Lofts:** This new, 45-unit urban-style apartment was completed in November 2016 and is still in lease-up. A total of 9 units (20%) were pre-leased, and by late December, occupancy stood at 15 (33%). Although the manager indicates that most of the tenants appear to be younger professionals, none of the studio units have been leased as yet.

Although the project, like other urban-style apartments, has a unit mix that is heavily weighted with smaller studio and one-bedroom units, the, the project includes 7 larger townhome style units, five of which have been leased. The units range in size between 462 SF and 1,060 SF, with rents ranging between \$1,130 and \$1,600, or \$1.44 and \$2.76. Overall, the project has an average unit size of 670 SF, with an average rent of \$1,297 or \$1.94 per SF. Utilities are passed through at a flat rate of \$50 and parking is available for \$65 per month. Parking is provided at one stall per unit.

**Rent Comparable #4 – The Henry Apartments:** This property is a larger, 161-unit urban-style waterfront apartment located in downtown Tacoma. This property is included in this survey in order to help determine both the upper limit for rents likely to be achieved at the subject and appropriate premiums for waterfront units in a comparable market.

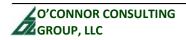
This project was completed in 2015 and exhibits good quality architectural appeal, project amenities, and unit finishes. Management reports 5% vacancy, but is also currently offering a \$99 move-in special, perhaps in response to lower seasonal traffic. The scale of the project allows for such community amenities as a clubhouse with a fitness center and concierge services.

In this case, the unit mix is greatly weighted to one-bedroom units, with 80 (or half) being one-bedrooms with dens. The units range in size between 600 SF and 1,194 SF with an average of 724 SF. Rents range between \$1,350 and \$3,055 per month, with rates between \$2.16 and \$2.81 per SF. Overall, the average rent is \$1,795 per month or \$2.48 per SF. Within each unit type, superior view units on upper floors command premiums of \$100 to \$200 per month. Utility charges are passed through using a RUBS system. Garage parking is available for \$85 per month.

**Rent Comparable #5 – Proctor Station:** This property is a new, non-waterfront, urban-style project located fairly close to downtown Tacoma. This property is included to better evaluate (by comparison to The Henry, above) this market's premiums for waterfront units in this market. Located at a fairly high elevation, however, many of the units enjoy good territorial and water views.

The property was completed in January of 2016 and had achieved 70% occupancy by April and 100% occupancy by August, exhibiting an overall absorption rate of approximately 19 units per month. Management reports that roughly half of the tenants come from the local market, while the balance is new to the Tacoma area.

As with each of the other urban-style projects surveyed, Proctor Station's unit mix is largely weighted to smaller studio and one-bedroom units, with an overall average unit size of 700 SF. The project does include a small selection of larger two-bedroom units sized between 1,047 SF and 1,278 SF. Presently, rents range between \$1,195 and \$2,840 per month at rates of \$1.87 to \$2.50 per SF. Overall, the project has an average rent of \$1,662, equivalent to \$2.37 per SF.



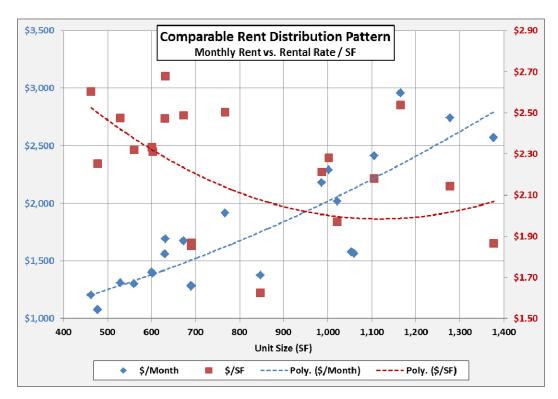
**Other Comparable Properties:** Two additional properties were reviewed in course of this survey; both located within the large, waterfront, mixed-use Point Ruston development. This large scale project is, well north of downtown Tacoma. This is an unusual, very large-scale project located on the site of the old ASARCO smelter, which has required substantial reclamation. The residential components have, thus far, included both apartments and condominiums, the first phase of which was completed in 2012. There are also major retail and office components, including a variety of restaurants, a hotel, and movie theater complex.

The latest apartment component was completed in 2016. This phase has a total of 173 units, sized between 645 SF for the smallest one-bedroom and 1,491 SF for the largest three-bedroom units. Early rents at the project were reported to range between \$1,350 to \$2,000 for the one-bedroom units sized between 645 SF and 882 SF, \$1,400 to \$2,450 for two bedroom units sized between 910 SF and 1,350 SF, and \$3,175 for three bedroom units sized between 1,368 and 1,491 SF.

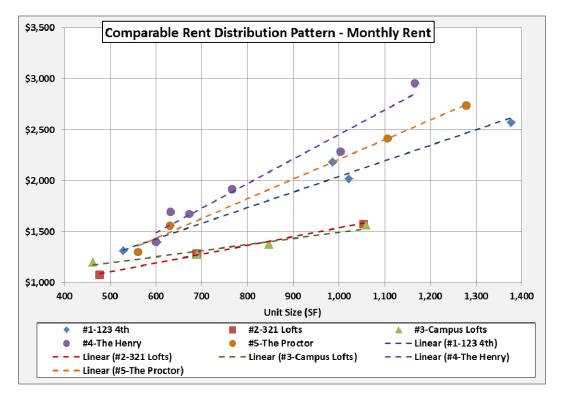
Management was unwilling to provide current rental data or a detailed unit mix, but did confirm that rents had been raised over the past year. At present, it is believed that this project may be achieving average rents in the range of \$2,400 or roughly \$2.05 per SF at an approximate average unit size of 1,100 SF.

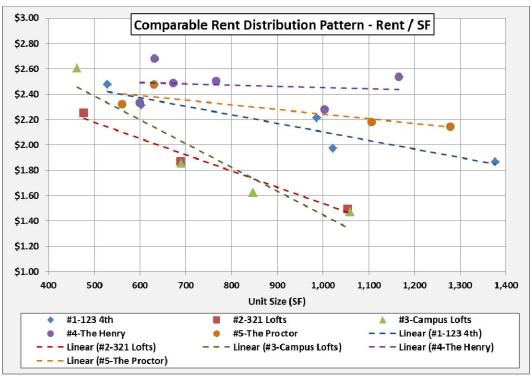
#### **Rental Rate Distribution Pattern**

The following series of charts help to visualize the distribution of rents reported at the five comparable properties utilized in this analysis. Due to the somewhat limited range of unit sizes available at these urban-style comparables, trend lines have been provided, which effectively reflect the calculated slope exhibited in the rental rates within each property in accordance with unit size.









As may be noted in the above charts, the highest rents are being achieved – as would be expected - at Comparable No. 4, The Henry Apartments, which is located on the waterfront in downtown Tacoma. This is followed closely by the other, new (non-waterfront) Tacoma project, Comparable No. 5, Proctor Station. Of the three Olympia projects, Comparable No. 3, 123 4<sup>th</sup> Avenue, is the best performing project, being most qualitatively similar, in this instance, to Proctor Station. The remaining two Olympia comparables are both smaller projects in less central locations and under the same management.

Upon cursory review of these data, it would appear reasonable to assume that the subject's market rents would tend to lie near to that of Comparable No. 5, Proctor Station. This judgement reflects the observation that an appropriate location adjustment (Tacoma vs. Olympia) – as indicated by comparing Proctor Station to Comparable No. 1, 123 4<sup>th</sup> Avenue - would appear to have a similar magnitude as the appropriate waterfront adjustment – as indicated by Proctor Station to Comparable No. 4, The Henry.

More precisely, the comparison between Proctor Station and 123 4<sup>th</sup> avenue would appear to indicate an appropriate downward location adjustment ranging between approximately \$160 for smaller units and \$230 for larger units. The comparison between Proctor Station and The Henry appears to support an upward waterfront adjustment that ranges between \$130 for smaller units to \$220 for larger units.

As such, the appropriate upward adjustment for the subject units relative to the best local Olympia comparable, 123 4<sup>th</sup> Avenue or downward from the best waterfront Tacoma property, The Henry, would tend to lie roughly in the middle of the range, or approximately where Proctor Station lies.

Proctor Station exhibits an average rent of \$1,662 per unit per month, equivalent to \$2.37 per SF for an average unit size of 700 SF. In Scenario B, the subject's average size would be significantly larger, at 972 SF. This would tend to both increase the average unit rent and decrease the average per square foot rental rate. The trend line exhibited at Proctor Station would suggest an average rent near to \$2,200 or \$2.25 per SF at this average size.

One additional consideration would be the subject's double-loaded configuration which reduces the number of view-oriented units at the project. The Henry, it may be noted, is also double-loaded, but is oriented perpendicular to the water. Moreover, its non-water oriented views would include some city skyline vantages. Nonetheless, within The Henry, rents range by an average of \$245 depending on view quality and/or floor location.

On the basis of these considerations, it is believed that it would be appropriate for the subject units to exhibit slightly lower average rents by a factor of roughly \$125 per unit per month. Working within the subject's proposed unit mix for both Scenario B and C, this manner of adjustment leads to the following market rent estimates.

### Estimated Market Rent Scenario B (Cascadia Updated)

# of	Unit	Size	Rent	Rate
Units	Туре	(SF)	\$/Mo.	\$/SF/Mo.
56	1/1	875	\$1,925	\$2.20
70	1/1+Den	925	\$2,035	\$2.20
56	2/2	1,006	\$2,113	\$2.10
22	TH	1,280	\$2,368	\$1.85
204		972	\$2,062	\$2.12

## Estimated Market Rent Scenario C (OCG Alternative)

# of	Unit	Size	Rent	Rate
Units	Туре	(SF)	\$/Mo.	\$/SF/Mo.
56	1/1	775	\$1,860	\$2.40
70	1/1 D	850	\$1,955	\$2.30
64	2/2	1,050	\$2,205	\$2.10
22	TH	1,280	\$2,368	\$1.85
212		935	\$2,048	\$2.19

**Other Income:** Other income sources typically include resident parking, storage rental, utility recapture, retained pet fees, and miscellaneous income and forfeitures. The comparable properties surveyed in this assignment indicate a fairly consistent range for such charges, supporting nominal fees of assigned, secure garage parking at \$100 per stall per month, storage at \$60 per month, pet fees of \$400 year for 50% of the units, and utility reimbursement charges of \$80 per unit per month. Miscellaneous income of \$50 per unit per month is supported by other comparable data reviewed.

**Vacancy and Credit Loss:** Under present market conditions, it would be reasonable to assume that a relatively low allowance for vacancy would be warranted. However, over a longer typical holding period (10 years) vacancies will vary and should tend to average nearer to 5.0%. Accordingly, a 5% vacancy allowance is utilized.

**Operating Expenses:** Operating expenses can vary widely depending on the location, style, and scale of the project. Generally, operating expenses for newly developed suburban properties tend to range from \$6,000 to \$9,000 per unit and represent 25% to 35% of the Effective Gross Income. Fixed expense for real estate taxes are extremely location dependent, with more expensive properties in expensive tax districts having commensurately higher tax expenses. Smaller scale properties are typically less efficient and will tend to exhibit higher per unit labor and management expenses.

The subject exhibits typical "investment grade" scale, which provides an expectation for reasonably good operating efficiencies. The applicable tax rate for the subject is relatively modest; however, the subject should expect a higher assessment due to its waterfront location, leading to a relatively high \$3,100 to \$3,200 per unit charge based on a 75% assessment ratio. Line-item estimation of other remaining variable expenses support, inclusive of elevator maintenance, a relatively aggressive budget for utilities (most of which are reimbursed by the tenants), and other items lead to an overall expense approaching \$8,500 per unit or roughly 27% to 28% of the EGI.



**Capitalization Rate:** Capitalization is the process of converting a series of future anticipated periodic installments of net income into a present value. There are different methods of capitalization that are appropriate under different circumstances. For apartment properties, *direct capitalization* is the most common method used. Relatively low (historically) financing rates have tended to push such overall rates (OAR) lower in recent years, frequently extending below 5% for premier investment properties in the most central locations.

However, these rates (both mortgage and OAR) have recently crept slightly higher. Outer lying markets, such as Tacoma, Bremerton, and Olympia will often require higher rates to attract investment. A review of recent apartment sales in such markets suggests that rates in the range of 6% to 7% would be applicable and a 6.50% rate has been utilized.

#### **Development Costs**

For apartment projects, development costs are typically estimated on the basis of the net rentable area and would, therefore, reflect the additive influences of parking structures, atypical on-site costs, such as the need for fill or pilings, and building inefficiencies, such extensive common areas and interior corridors.

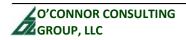
The subject development plans evaluated in this study reflect a mixture of such influences. The proposed plans include lower cost elements, such as conventional, wood-framed buildings, and some parking requirements met with open on-site stalls. However, the plan utilizes a single level of abovegrade structured parking, and may require pilings.

The original Cascadia plan reflected blended base hard costs, provided by an independent general contractor, of \$165 per SF in early 2015, inclusive of a 5% contingency and taxes. Total soft costs were estimated at roughly \$37 per SF, representing 22% of the hard costs. These soft costs, however, reflected financing expenses that are considered to be atypically low, especially under current market conditions.

Review of relevant cost data would, today, support costs in the range of \$120 to \$180 per SF, depending on the presence of atypical on-site costs. Nominal escalation of Cascadia's original hard cost estimates would probably support costs in the middle of this range or \$160 per SF for the larger apartment flats buildings and, perhaps, \$130 per SF for the townhomes, exclusive of contingencies. Soft costs, inclusive of contingencies and more realistic financing expenses would be increased to \$42 to \$43 per SF, equivalent to 24% to 25% of hard costs. Together, these influences would boost total project costs from \$211 per SF, as indicated in the original Cascadia estimates, to \$233 per SF, exclusive of land.

#### **Feasibility Analysis**

The feasibility calculations applied to each development scenario attempts to model the financial performance of the project. In essence, project costs, including land acquisition costs, are deducted from project value upon completion, leaving a gross profit estimate. Financing components are evaluated, leading to an estimate of required equity. Project values are established on the basis of estimated income and operating expenses, leading to an estimate of net operating income, which is capitalized by an overall rate.



In many such analyses, the land acquisition cost is a "known" assumption. In this particular case, however, a primary purpose of the feasibility assessment is to evaluate, prospectively, the range of land values that would be supported under typical feasibility constraints. This is known as a "Land Residual Technique", whereby the financial feasibility constraints are held constant – at a fixed minimum level of performance – subject to the variable land basis imputed in the calculations. Appropriately, each development scenario may be compared on an equal footing and the maximally productive solution identified.

#### **Investment Criteria**

Several financial performance metrics are evaluated, including: a) the "developer's cap rate" (NOI to cost), b) net profit to cost, c) NOI to debt, d) net profit to value (gross margin), e) net profit to equity (ROE), f) and the estimated annual ROE, taking into account time necessary for predevelopment, construction, lease-up, and subsequent marketing and sale of the stabilized property.

Of these, the so-called "developer's cap rate" is given the most weight, as it reflects the single metric most commonly used by developers in the local market. The metric is NOI/cost. The minimum rates have tended to maintain a gap of 100 to 150 basis points above the overall capitalization rate for the project. However, recent increases in equity requirements have put corresponding downward pressure on the ROE performance. As such, the analyses presented are targeting minimum ROE of 50%, allowing the developer's cap rate to climb slightly toward a 200 basis point margin over the cap rate.

#### **Scenario Performance**

As noted previously, three scenarios have been evaluated. Each of these is discussed below.

Scenario A: This is a recap of the original Cascadia plan and internal feasibility analysis for the proposed acquisition of the subject site at a price of \$1,750,000 in early 2015. This price would be equivalent to approximately \$9,000 per unit or \$13 per SF of useable site area. This scenario included 12 larger (2,400 SF) townhouse condominiums along with 182 rental apartment flats with an average size of 935 SF. The "for sale" condominium elements necessarily distort the income-based performance metrics, such as the developers cap rate. However, the calculated ROE is a useful metric and, in this instance, appears to be unrealistically high at 182%, largely due to the atypical financing assumptions employed. Total net profit was estimated at nearly \$11,000,000 on an equity investment of only \$1,200,000.

**Scenario B:** This updates the original Cascadia plan, utilizing higher current estimates for market rent, operating expenses, capitalization rate, and all associated development costs. The basic plan for the apartment flats is unchanged; however, the gross building area allocated to the 12 large condominium townhomes has been converted to 22 smaller, 1,280 SF rental townhomes. Based on the investment criteria noted above, a land acquisition basis of \$3,000,000, equivalent to \$14,700 per unit or nearly \$19 per SF of useable site area. This scenario would be expected to generate net profit of \$10,300,000 and require an equity investment of \$18,500,000, with an overall ROE of 55.7% and a developer's yield of 8.47%.

Scenario C: This plan further refines the apartment flats unit mix with a marginal decrease in the size of the one-bedroom and one-bedroom with den units and transferring the space savings into an increased number of two bedroom units, who's sizes have been marginally increased. This scenario improves the overall performance of the project to support a higher land acquisition basis to \$3,800,000, equivalent to roughly \$17,925 per unit or \$24 per SF of useable site area. In this instance, the land basis has been constrained slightly to reflect nominal market limits on per unit costs for apartment land, allowing project performance to be further enhanced. This scenario would be expected to generate net profit of \$11,660,000 against an equity investment of \$18,900,000, generating an overall ROE of 61.7% and a developer's yield of 8.63%

The following table summarizes the key findings of these analyses. More detailed calculations are presented for each scenario on the following pages.

		Feasibil	ity Calculation:	Summa	ry				
		Smy	th Landing - Olyn	npia, WA					
Development Scenario	Scen	ario A - Cascac	lia (Original)	Scenario B -Cascadia (OCG Mod.)			Scenar	ternative	
Project Components	Units	Avg. SF	Total SF	Units	Avg. SF	Total SF	Units	Avg. SF	Total SF
Parcels "G/H/J West" - Site Are 30,928	0.71	acres							0
Apartment - TH	0	0	0	22	1,280	28,160	22	1,280	28,160
Condominium - TH (Cascadia Plan Only)	12	2,400	28,800	0	0	0	0	0	0
Density (DU/AC)	16.9			31.0			31.0		
Parcel "G/H/J East" - Site Area ( 125,453	2.9	acres							
Apartment - Flats	182	935	170,086	182	935	170,086	190	895	170,100
Density (DU/AC)	63.2			63.2		İ	66.0		
Total Project - Site Area (SF) = 156,380	3.6	acres							
Apartment - Flats	182	935	170,086	182	935	170,086	190	895	170,100
Apartment - TH	0	0	0	22	1,280	28,160	22	1,280	28,160
Condominium - TH	12	2,400	28,800	0	0	0	0	0	0
Project Total	194	1,025	198,886	204	972	198,246	212	935	198,260
Density (DU/AC)	54.0			56.8		į	59.1		
	Scen	Scenario A - Cascadia (Original)		Scenar	io B -Cascadi	a (OCG Mod.)	Scenar	io C - OCG Alt	ternative
Valuation & Investment Metrics	Per SF	Per Unit	Total	Per SF	Per Unit	Total	Per SF	Per Unit	Total
Total Net Operating Income	\$13.33	\$13,662	\$2,650,417	\$19.76	\$19,203	\$3,917,438	\$20.54	\$19,207	\$4,071,793
OAR (Project Capitalization Rate)			5.43%			6.50%			6.50%
Total Project Income Value	\$245	\$251,572	\$48,805,000	\$304	\$295,441	\$60,270,000	\$316	\$295,495	\$62,645,000
Add: Condominium Net Sales (Scenario A)			\$5,327,790			\$0			\$0
Total Project Value	\$272	\$279,035	\$54,132,790	\$304	\$295,441	\$60,270,000	\$316	\$295,495	\$62,645,000
Less: Project Costs	\$211	\$216,372	\$41,976,201	\$233	\$226,782	\$46,263,579	\$238	\$222,655	\$47,202,945
Project Gross Profit	\$61	\$62,663	\$12,156,589	\$71	\$68,659	\$14,006,421	\$78	\$75,696	\$15,442,055
Gross Margin %			22.5%			23.2%			24.7%
Loan Amount (DCR / LTC)	N/A	85.6%	\$35,951,581	1.25	60.0%	\$27,760,000	1.25	60.0%	\$28,300,000
Required Equity (% of Costs)		14.4%	\$6,024,620		40.0%	\$18,503,579		40.0%	\$18,902,945
Less: Equity Costs			\$1,204,924			\$3,700,716			\$3,780,589
Less: Sales Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Project Net Profit	\$55	\$56,452	\$10,951,665	\$52	\$50,518	\$10,305,705	\$59	\$55,007	\$11,661,466
	Scenario A - Cascadia (Original)		Scenar	io B -Cascadi	a (OCG Mod.)	Scenar	io C - OCG Alt	ternative	
Financial Performance	Per SF	Per Unit	Total	Per SF	Per Unit	Total	Per SF	Per Unit	Total
Supported Land Basis (\$ Per SF of Site Area)	\$11.19	\$9,021	\$1,750,000	\$19.18	\$14,706	\$3,000,000	\$24.30	\$17,925	\$3,800,000
Developer's Yield (NOI / Cost)	0.88%	Above OAR	6.31%	1.97%	Above OAR	8.47%	2.13%	Above OAR	
Net Profit / Cost			26.09%			22.28%			24.70%
Debt Yield (NOI/Debt)			7.37%			14.11%			14.39%
Net Profit/Value			20.23%			17.10%			18.62%
Net Profit/Equity (ROE)			181.78%			55.70%	]	1	61.69%

Note: For the following calculation tables, red text typically denotes the imputed assumptions employed.



		•	ımmary - Tota	· ·			
	Smytl	h Landing -Sc	enario A - Cas	cadia (Origin	al)		
Scenario A - Project Components	Units	Share	Subtotal	SF	Share	<b>-</b>	
Apartments - Flats	182	93.8%	182	170,086	85.5%		
Apartments - Townhomes	0	0.0%		0	0.0%		
Condominium - Flats	0	0.0%	12	0	0.0%		
Condominium - Townhomes	12	6.2%		28,800	14.5%		
Commercial	0	0.0%		0	0.0%	<u> </u>	
Total	194	100.0%		198,886	100.0%		
Feasibility Analysis				%	\$/SF	\$/Unit	Total
Apartment Components							
Effective Gross Income				100.0%	\$1.75	\$18,442	\$3,577,707
Less: Total Operating Expense	!S			25.9%	\$4.66	\$4,780	\$927,290
Net Operating Income				74.1%	\$13.33	\$13,662	\$2,650,417
Total Apartment Value - Capital	ized @	5.43%			\$245.39	\$251,572	\$48,805,000
Total / parametric range capital		0.1070			Ψ_10.00	<del>+</del>	<del>+ 10,000,000</del>
Condominium Components							
Net Sale Proceeds					\$184.99	\$443.983	\$5,327,790
						1 2,222	,-,- ,
Commercial Office/Retail Comp	onents						
Effective Gross Income							\$0
Less: Total Operating Expens	ses						\$0
Net Operating Income							\$0
Total Commercial Value - Capi	talized @						\$0
•							
Total Project Value							\$54,132,790
Less: Sales Costs				0.0%	\$0.00	\$0	\$0
Less: Total Development Cost	(Including L	_and)			\$211.06	\$216,372	\$41,976,201
Gross Profit	· · · ·			22.5%	\$61.12	\$62,663	\$12,156,589.13
Estimated Loan Amount (% LTC	C)			85.6%		, , ,	\$35,951,581
Required Equity	•			14.4%			\$6,024,620
Project Performance Metrics				,,			<del>+0,01.,010</del>
Equity Cost			8.0%	@	30	months =	\$1,204,924
Project Net Profit			2.070				\$10,951,665
Supported land Residual (Imput	ted Land Bas	sis)	\$9,021	Per Unit	\$11.19	Per SF =	\$1,750,000
Developer's Yield (NOI/Cost )		,	6.31%	0.88%	above cap	_	<del>+=,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,</del>
Net Profit/Cost			26.09%	5.5570	1 ===		
Debt Yield (NOI/Debt)			7.37%				
Net Profit/Value			22.44%				
Net Profit/Equity (ROE)*			181.78%	equal to	40.4%	/Yr	
*with allowance for predevelo	pment. stah	ilization & mi			54	months	

		Apartment A	Analysis - Tot	al Project			
	Smvtl			scadia (Origina	al)		
	No. of		Avg. Size	Total Area			
Unit Mix	Units	Туре	(SF)	(SF)	\$/SF	\$/Unit	Annual Total
	56	1/1	875	49,000	\$1.71	\$1,494	\$1,003,848
	70	1/1+Den	925	64,750	\$1.65	\$1,530	\$1,285,320
	56	2/2	1,006	56,336	\$1.58	\$1,589	\$1,067,898
	0	TH	1,500	0	\$0.00	\$0	\$0
Total Apartments	182		935	170,086	\$1.64	\$1,537	\$3,357,066
				_	\$/S.F.	\$/Unit	Annual Total
<b>Gross Potential Rental Income</b>					\$19.74	\$18,445	\$3,357,066
Add: Storage Income	90	Units @	\$57.96	/unit/mo.	\$0.37	\$344	\$62,600
Add: Parking	0	Units @	\$100	/unit/mo.	\$0.00	\$0	\$0
Total Gross Income					\$20.11	\$18,789	\$3,419,666
Less: Vacancy & Credit Loss			-3.8%		-\$0.76	-\$713	(\$129,772)
Add: Misc. Income	0	Units @	\$50	/unit/mo.	\$0.00	\$0	\$0
Add: Retained Pet Fees	74	Units @	\$427	/unit/mo.	\$0.16	\$155	\$31,613
Add: Misc. Income (RUBS)	\$117.31	/unit/mo.			\$1.51	\$1,408	\$256,200
Effective Gross Income (EGI)					\$21.03	\$19,658	\$3,577,707
Less: Expenses							
Fixed Expenses							
Real Estate Taxes					\$2.14	\$2,000	\$364,000
Insurance				<u>-</u>	\$0.14	\$130	\$23,660
				Subtotal	\$2.28	\$2,130	\$387,660
Variable Expenses							
Prof. Management @			3.31%	of EGI	\$0.70	\$650	\$118,300
Advertising/Promotion					\$0.27	\$250	\$45,500
Payroll					\$0.00	\$0	\$0
Administrative/Misc.					\$0.00	\$0	\$0
Utilities					\$1.28	\$1,200	\$218,400
Electricity/Gas					\$0.00	\$0	\$0
Water/Sewer					\$0.00	\$0 \$0	\$0
Garbage					\$0.00	\$0 \$0	\$0
Repair & Maintenance					\$0.37	\$350	\$63,700
Landscaping					\$0.11	\$100	\$18,200
Turnover Maintenance					\$0.27	\$250	\$45,500
Elevator					\$0.04	\$35	\$6,370
				Subtotal	\$3.03	\$2,835	\$515,970
Reserves for Replacement					\$0.14	\$130	\$23,660
Total Operating Expense			25.92%	of EGI	\$5.45	\$5,095	\$927,290
Net Operating Income					\$15.58	\$14,563	\$2,650,417
Capitalized @			5.43%				\$48,806,000
Indicated Value (rounded)					\$286.94	\$268,159	\$48,805,000

	Optio	nal Condo	minium Valu	ation Analysis			
			Avg. Size	Total Area			
	No. of Units	Туре	(SF)	(SF)	\$/SF	\$/Unit	Annual Total
Sales Revenue							
Condominium - Flats	0	All	0	0	\$0.00	\$0	\$0
Condominium - Townhome	12	All	2,400	28,800	\$197.92	\$475,000	\$5,700,000
<b>Gross Potential Sales Revenue</b>	12		2,400	28,800	\$197.92	\$475,000	\$5,700,000
Less: Sales Costs							
<b>Broker Commissions</b>				3.50%	\$6.93	\$16,625	\$199,500
Excise Tax				1.78%	\$3.52	\$8,455	\$101,460
Closing Costs				1.00%	\$1.98	\$4,750	\$57,000
Misc.				0.25%	\$0.49	\$1,188	\$14,250
Net Sales Proceeds				6.53%	\$184.99	\$443,983	\$5,327,790

Project Cost Analysis											
Smyth	Landing -Sc	enario A - Ca	scadia (Origin	al)							
				\$/S.F.	\$/Unit	Total Costs					
Total Land Cost (or Assumed Basis)				\$8.80	\$9,021	\$1,750,000					
			. ()								
Direct Costs		Units	Area (SF)	Ć1F0 22	Ć1.40.400	¢25 500 070					
Direct Costs - Apartment Flats		182	170,086	\$150.33	\$140,489	\$25,568,978					
Direct Costs - Apartment Townhomes		0	0	\$0.00	N/A	\$0					
Direct Costs - Condomimium Flats		0	0	\$0.00	N/A	\$0					
Direct Costs - Condomimium Townhomes		12	28,800	\$123.13	\$295,500	\$3,546,000					
Hard Construction Cost - Commercial (base)		0	0	\$110.00	N/A	\$0					
Hard Construction Cost - Commercial TI's		0	0	\$30.00	N/A	\$0					
Subtotal		194 1	198,886	\$146.39	\$150,077	\$29,114,978					
Add: Contingency @	5.00%			\$7.32	\$7,504	\$1,455,749					
Add: Sales Taxes @	8.80%			\$13.53	\$13,867	\$2,690,224					
Less: Energy Credits	-1.21%			(\$1.77)	(\$1,814)	(\$352,000)					
Total Direct Costs				\$165.47	\$169,634	\$32,908,951					
Indirect Costs		1		40.00	4- 0- 4	4. 000 =00					
Architect & Engineering	4.16%			\$6.88	\$7,054	\$1,368,500					
Legal/Accounting				\$0.41	\$423	\$82,000					
Permits & Fees/Utility Hook-ups				\$14.50	\$14,862	\$2,883,250					
Marketing/Advertising				\$0.25	\$400	\$50,000					
Property Taxes		1		\$0.20 I	\$206	\$40,000					
Commercial Leasing Fees	0	years @	3.0%	\$0.00	\$0	\$0					
Predevelopment Fees		1		\$0.00	\$0	\$0					
Interim Loan Fees	1.00%			\$2.24	\$2,296	\$445,500					
Permanent Loan Fees	1.00%	]		\$0.00	\$0	\$0					
Interest Reserve (See separate schedule)		,		\$5.43	\$5,567	\$1,080,000					
Developers Admin	3.00%			\$5.68	\$5,825	\$1,130,000					
Contingency	3.36%			\$1.20	\$1,227	\$238,000					
Total Indirect Costs	22%			\$36.79	\$37,718	\$7,317,250					
Total Project Costs				\$211.06	\$216,372	\$41,976,201					
Less: Loan Amount (See Detail Below)				\$180.76	\$185,317	\$35,951,581					
Total Required Equity				\$30.29	\$31,055	\$6,024,620					



			ary - Total Pro				
	•	_	B -Cascadia	-			
Project Components	Units	Share	Subtotal	SF	Share	1	
Apartments - Flats	182	89.2%	204	170,086	85.8%		
Apartments - Townhomes	22	10.8%		28,160	14.2%	ļ	
Condominium - Flats	0	0.0%	0	0	0.0%		
Condominium - Townhomes	0	0.0%		0	0.0%	ļ	
Commercial	0	0.0%	0	0	0.0%		
Total	204	100.0%		198,246	100.0%		
Feasibility Analysis				%	\$/SF	\$/Unit	Total
4							
Apartment Components Effective Gross Income				100.0%	\$2.28	\$26,646	\$5,435,739
Less: Total Operating Expenses				27.9%	\$0.64	\$7,443	\$1,518,301
Net Operating Income				72.1%	\$1.65	\$19,203	\$3,917,438
Total Apartment Value - Capitalized @	Ð	6.50%			\$304.02	\$295,441	\$60,270,000
					,	,,	, , ,
Condominium Components							
Gross Sale Proceeds							\$0
Commercial Office/Retail Component	ts						
Effective Gross Income							\$0
Less: Total Operating Expenses							\$0
Net Operating Income							\$0
Total Commercial Value - Capitalize	d @						\$0
Total Project Value							\$60,270,000
Less: Sales Costs				0.0%	\$0.00	\$0	\$0
Less: Total Development Cost (Inclu	iding Land)				\$233.36	\$226,782	\$46,263,579
Total Gross Profit	,				\$70.65	\$68,659	\$14,006,421
Estimated Loan Amount				60.0%	,	,	\$27,760,000
Required Equity				40.0%			\$18,503,579
Project Performance Metrics				10.070			<del>+10,000,010</del>
Equity Cost			8.0%	@	30	months =	\$3,700,716
Project Net Profit							\$10,305,705
Supported land Residual (Imputed La	nd Basis)		\$14,706	Per Unit	\$19.18	Per SF =	\$3,000,000
Developer's Yield (NOI/Cost )	,		8.47%	1.97%	above cap	=' =	, -,,
Net Profit/Cost			22.28%				
Debt Yield (NOI/Debt)			14.11%	1			
Net Profit/Value			17.10%	1			
Net Profit/Equity (ROE)*			55.70%	equal to	12.4%	/Yr	
*with allowance for predevelopment	t, stabilizatio	n & marketin			54	months	

	Apa	rtment Analy	rsis - Total Pı	roiect			
	•	ling -Scenario					
	No. of		Avg. Size	Total Area			
Project Phase or Component	Units	Туре	(SF)	(SF)	\$/SF	\$/Unit	Annual Total
,	56	1/1	875	49,000	\$2.20	\$1,925	\$1,293,600
	70	1/1+Den	925	64,750	\$2.20	\$2,035	\$1,709,400
	56	2/2	1,006	56,336	\$2.10	\$2,113	\$1,419,667
	22	TH	1,280	28,160	\$1.85	\$2,368	\$625,152
Total Apartments	204		972	198,246	\$2.12	\$2,062	\$5,047,819
				_	\$/S.F.	\$/Unit	Annual Total
Gross Potential Rental Income	•				\$29.68	\$27,735	\$5,047,819
Add: Storage Income	109	Units @	\$60	/unit/mo.	\$0.40	\$385	\$78,480
Add: Parking	182	Units @	\$100	/unit/mo.	\$1.10	\$1,071	\$218,400
Total Gross Income					\$26.96	\$29,366	\$5,344,699
Less: Vacancy & Credit Loss			-5.0%		(\$1.35)	(\$1,468)	(\$267,235)
Add: Misc. Income	204	Units @	\$50	/unit/mo.	\$0.62	\$600	\$122,400
Add: Retained Pet Fees	102	Units @	\$400	/unit/mo.	\$0.21	\$200	\$40,800
Add: Utility Reimbursement (RUBS)	\$80	/unit/mo.	85%	recapture	\$0.98	\$956	\$195,075
Effective Gross Income (EGI)					\$27.42	\$29,867	\$5,435,739
Less: Expenses							
Fixed Expenses					40.00	40.404	4=== 000
Real Estate Taxes					\$3.32	\$3,104	\$565,000
Insurance					\$0.35	\$340	\$69,386
				Subtotal	\$3.73	\$3,486	\$634,386
Variable Expenses							
Prof. Management @			2.00%	of EGI	\$0.55	\$533	\$108,715
Advertising/Promotion					\$0.15	\$150	\$30,600
Payroll					\$1.54	\$1,500	\$306,000
Administrative/Misc.	_				\$0.13	\$125	\$25,500
Utilities	•						
Electricity/Gas					\$0.21	\$175	\$35,700
Water/Sewer					\$0.90	\$750	\$153,000
Garbage					\$0.24	\$200	\$40,800
Repair & Maintenance					\$0.42	\$350	\$71,400
Landscaping					\$0.06	\$50	\$10,200
Turnover Maintenance					\$0.18	\$150	\$30,600
Elevator					\$0.12	\$100	\$20,400
Licvator				Subtotal	\$4.90	\$4,576	\$832,915
Reserves for Replacement				Jubillui	\$ <b>0.</b> 30	\$ <b>4,376</b> \$250	\$51,000
Total Operating Expense			27.93%	of EGI	\$8.93	\$8,342	\$1,518,301
			21.33/0	OI LUI			
Net Operating Income			C F00/		\$23.03	\$21,524	\$3,917,438
Capitalized @			6.50%		ć204 C2	Ć205 444	\$60,268,282
Indicated Value (rounded)					\$304.02	\$295,441	\$60,270,000

Smyth La	Project Co nding -Scenario	st Analysis B -Cascadia	a (OCG Mod.)			
·	<u> </u>			\$/S.F.	\$/Unit	Total Costs
Total Land Cost (or Assumed Basis)				\$15.13	\$14,706	\$3,000,000
Direct Costs		Units	Area (SF)			
Direct Costs - Apartment Flats		182	170,086	\$160.00	\$149,526	\$27,213,760
Direct Costs - Apartment Townhomes		22	28,160	\$130.00	\$166,400	\$3,660,800
Direct Costs - Condominium Flats		0	0	\$0.00	N/A	\$0
Direct Costs - Condomimium Townhomes		0	0	\$0.00	N/A	\$0
Hard Construction Cost - Commercial (base)		0	0	\$0.00	N/A	\$0
Hard Construction Cost - Commercial TI's		0	0	\$0.00	N/A	\$0
Subtotal		204	198,246	\$155.74	\$151,346	\$30,874,560
Add: Contingency @	5.00%	]		\$7.76	\$7,957	\$1,543,728
Add: Sales Taxes @	8.80%	1		\$14.34	\$14,705	\$2,852,809
Less: Energy Credits	-1.21%			(\$1.85)	(\$1,800)	(\$367,200
Total Direct Costs	•			\$175.50	\$179,917	\$34,903,897
Indirect Costs Architect & Engineering	4.00%			\$7.04	\$6,844	\$1,396,156
Legal/Accounting		J		\$0.25	\$243	\$49,562
Permits & Fees/Utility Hook-ups				\$20.58	\$20,000	\$4,080,000
Marketing/Advertising				\$0.41	\$400	\$81,600
Property Taxes				\$1.52	\$1,477	\$301,350
Commercial Leasing Fees	4	years @	3.0%	\$0.00	\$0	\$0
Predevelopment Fees		•		\$0.76	\$735	\$150,000
Interim Loan Fees	1.00%			\$1.40	\$1,361	\$277,600
Permanent Loan Fees	1.00%			\$1.40	\$1,361	\$277,600
Interest Reserve (See separate schedule)		-		\$1.52	\$1,474	\$300,617
Developers Admin	3.00%			\$5.28	\$5,133	\$1,047,117
Contingency	5.00%			\$2.01	\$1,951	\$398,080
Total Indirect Costs	24%			\$42.17	\$40,979	\$8,359,681
				4000.00	4000 000	410.000
Total Project Costs  Less: Loan Amount (See Detail Below)				<b>\$233.36</b> \$140.03	<b>\$226,782</b> \$136,078	\$46,263,57
Less. Loan Amount (See Detail below)				φ14U.U3	\$130,078	\$27,760,00

Loan & Interest Reserve Calculation - Total Project				
Smyth Landing -Scenario  Loan Amount Calculation	B - Cascadia (OCG Mod.)			
Net Operating Income		\$3,917,438		
Debt Coverage Ratio		1.25		
Debt Service Limit via DCR		\$3,133,951		
Cost of Funds - (Underwriting Rate)		6.50%		
Amortization Period (years)		25		
Maximum Loan @ DCR		\$38,675,000		
Maximum Loan @ Max. Loan-to-Cost Ratio (LTC) @	60%	\$27,758,147		
Selected Loan Amount		\$27,760,000		
Indictated Loan-to-Cost Ratio		60.0%		
Indicated Loan-to-Value Ratio		46.1%		
Debt Service Payment		(\$2,397,967)		
Construction Interest Calculation				
Loan Amount		\$27,760,000		
Average Balance		60%		
Average Loan Amount		\$16,656,000		
Monthly Interest Rate - Construction Loan	4.5%	0.3750%		
Monthly Interest Expense		\$62,460		
Construction Period (Mo.)		18		
Total Interest		\$1,124,280		
Absorption Interest Calculation				
Average Loan post Construction		\$27,760,000		
Absorption Period (Mo.)	18 DU/Mo.	12.0		
Interest Rate		5.50%		
Absorption Interest		\$1,526,800		
NOI Available During Const./Absorption				
Annual NOI		\$3,917,438		
Monthly NOI		\$326,453		
Avg. Percent of NOI Capture		60%		
Avg. Monthly NOI Capture		\$195,872		
Total Months NOI		12.0		
NOI During Absorption		\$2,350,463		
Recap				
Construction Interest		\$1,124,280		
Absorption Interest		\$1,526,800		
NOI During Absorption		-\$2,350,463		
Required Interest Reserve		\$300,617		

Feaibility Summary - Total Project							
Smyth Landing -Scenario C - OCG Alternative							
Project Components	Units	Share	Subtotal	SF 470.400	Share	1	
Apartments - Flats	190	97.9%	212	170,100	85.5%		
Apartments - Townhomes	22	11.3%	_	28,160	14.2%		
Condominium - Flats	0	0.0%	0	0	0.0%		
Condominium - Townhomes	0	0.0%		0	0.0%		
Commercial	0	0.0%	0	0	0.0%	]	
Total	212	109.3%		198,260	99.7%		
Feasibility Analysis				%	\$/SF	\$/Unit	Total
<b></b>							
Apartment Components Effective Gross Income				100.0%	\$2.36	\$26,480	\$5,613,657
Less: Total Operating Expenses				27.5%	\$0.65	\$7,273	\$1,541,864
Net Operating Income				72.5%	\$1.71	\$19,207	\$4,071,793
Total Apartment Value - Capitalized @	)	6.50%			\$315.97	\$295,495	\$62,645,000
Condominium Components							
Gross Sale Proceeds							\$0
Commercial Office/Retail Component	S						
Effective Gross Income							\$0
Less: Total Operating Expenses							\$0
Net Operating Income							\$0
Total Commercial Value - Capitalized	d @						\$0
Total Project Value							\$62,645,000
Less: Sales Costs				0.0%	\$0.00	\$0	\$0
Less: Total Development Cost (Inclu	ding Land Ba	ısis)			\$238.09	\$222,655	\$47,202,945
Total Gross Profit					\$77.89	\$72,840	\$15,442,055
Estimated Loan Amount				60.0%			\$28,300,000
Required Equity				40.0%			\$18,902,945
Project Performance Metrics							
Equity Cost			8.0%	@	30	months =	\$3,780,589
Project Net Profit							\$11,661,466
Supported land Residual (Imputed Lai	nd Basis)		\$17,925	Per Unit	\$24.30	Per SF =	\$3,800,000
Developer's Yield (NOI/Cost )			8.63%	2.13%	above cap	rate	
Net Profit/Cost			24.70%		=		
Debt Yield (NOI/Debt)			14.39%				
Net Profit/Value			18.62%			_	
Net Profit/Equity (ROE)*			61.69%	equal to	13.7%	/Yr	
*with allowance for predevelopment	, stabilizatio	n & marketin	g time	-	54	months	

Apartment Analysis - Total Project							
Smyth Landing -Scenario C - OCG Alternative							
	No. of		Avg. Size	Total Area			
Project Phase or Component	Units	Туре	(SF)	(SF)	\$/SF	\$/Unit	Annual Total
	56	1/1	775	43,400	\$2.40	\$1,860	\$1,249,920
	70	1/1+Den	850	59,500	\$2.30	\$1,955	\$1,642,200
	64	2/2	1,050	67,200	\$2.10	\$2,205	\$1,693,440
	22	TH	1,280	28,160	\$1.85	\$2,368	\$625,152
Total Apartments	212		935	198,260	\$2.19	\$2,048	\$5,210,712
				_	\$/S.F.	\$/Unit	Annual Total
Gross Potential Rental Income					\$30.64	\$28,630	\$5,210,712
Add: Storage Income	109	Units @	\$60	/unit/mo.	\$0.40	\$385	\$78,480
Add: Parking	190	Units @	\$100	/unit/mo	\$1.15	\$1,118	\$228,000
Total Gross Income					\$27.83	\$30,314	\$5,517,192
Less: Vacancy & Credit Loss			-5.0%		(\$1.39)	(\$1,516)	(\$275,860)
Add: Misc. Income	212	Units @	\$50	/unit/mo.	\$0.64	\$624	\$127,200
Add: Retained Pet Fees	106	Units @	\$400	/unit/mo.	\$0.21	\$208	\$42,400
Add: Utility Reimbursement (RUBS)	\$80	/unit/mo.	85%	recapture	\$1.02	\$956	\$202,725
Effective Gross Income (EGI)					\$28.32	\$30,844	\$5,613,657
Less: Expenses							
Fixed Expenses					4		
Real Estate Taxes					\$3.44	\$3,214	\$585,000
Insurance				-	\$0.35	\$327	\$69,391
				Subtotal	\$3.85	\$3,596	\$654,391
Variable Expenses							
Prof. Management @			2.00%	of EGI	\$0.57	\$550	\$112,273
Advertising/Promotion					\$0.15	\$150	\$30,600
Payroll					\$1.54	\$1,500	\$306,000
Administrative/Misc.					\$0.13	\$125	\$25,500
Utilities							
Electricity/Gas					\$0.21	\$175	\$35,700
Water/Sewer					\$0.90	\$750	\$153,000
Garbage					\$0.24	\$200	\$40,800
Repair & Maintenance					\$0.42	\$350	\$71,400
Landscaping					\$0.06	\$50	\$10,200
Turnover Maintenance					\$0.18	\$150	\$30,600
Elevator					\$0.18	\$130 \$100	\$20,400
Elevator				Cubtotal			<del>,</del>
Danamusa fan Danlasamant				Subtotal	\$4.92	\$4,596	\$836,473
Reserves for Replacement			27.47%	of EGI	\$0.30 \$9.07	\$250 \$8.472	\$51,000 \$1 541 864
Total Operating Expense			21.4/%	UI EGI	\$9.07	\$8,472	\$1,541,864
Net Operating Income			C 2001		\$23.94	\$22,372	\$4,071,793
Capitalized @			6.50%		4045.55	4005 ::-	\$62,642,973
Indicated Value (rounded)					\$315.97	\$295,495	\$62,645,000

Smyth	Project Co Landing -Scena	st Analysis rio C - OCG	Alternative			
·				\$/S.F.	\$/Unit	Total Costs
Total Land Cost (or Assumed Basis)				\$19.17	\$17,925	\$3,800,000
Direct Costs		Units	Area (SF)			
Direct Costs - Apartment Flats		190	170,100	\$160.00	\$143,242	\$27,216,000
Direct Costs - Apartment Townhomes		22	28,160	\$130.00	\$166,400	\$3,660,800
Direct Costs - Condominium Flats		0	0	\$0.00	N/A	\$0
Direct Costs - Condomimium Townhomes		0	0	\$0.00	N/A	\$0
Hard Construction Cost - Commercial (base)		0	0	\$100.00	N/A	\$0
Hard Construction Cost - Commercial TI's		0	0	\$30.00	N/A	\$0
Subtotal		212	198,260	\$155.74	\$145,645	\$30,876,800
Add: Contingency @	5.00%	]	•	\$7.76	\$7,958	\$1,543,840
Add: Sales Taxes @	8.80%			\$14.34	\$14,706	\$2,853,016
Less: Energy Credits	-1.21%	1		(\$1.92)	(\$1,800)	(\$381,600
Total Direct Costs	<u> </u>			\$175.44	\$179,856	\$34,892,056
Indirect Costs Architect & Engineering	4.00%			\$7.04	\$6,583	\$1,395,682
	4.00%			, -	. ,	. , ,
Legal/Accounting				\$0.25 \$21.39	\$234 \$20,000	\$49,565 \$4,240,000
Permits & Fees/Utility Hook-ups				\$21.39	\$20,000 \$400	\$4,240,000
Marketing/Advertising Property Taxes				\$0.45 \$1.58	\$400 \$1,477	\$313,225
Commercial Leasing Fees	4	years @	3.0%	\$0.00	\$1,477 \$0	\$313,223 \$0
Predevelopment Fees	4	years w	3.070	\$0.76	\$708	\$150,000
Interim Loan Fees	1.00%	1		\$1.43	\$1,335	\$283,000
Permanent Loan Fees	1.00%			\$1.43	\$1,335	\$283,000
Interest Reserve (See separate schedule)	1.00%	J		\$1.43	\$1,333	\$259,574
Developers Admin	3.00%	]		\$5.28	\$4,938	\$1,046,762
Contingency	5.00%			\$2.04	\$1,912	\$405,280
Total Indirect Costs	24%			\$42.93	\$40,146	\$8,510,889
Total Project Costs				\$238.09	\$222,655	\$47,202,94
Less: Loan Amount (See Detail Below)				\$142.74	\$133,491	\$28,300,000
Total Required Equity				\$95.34	\$89,165	\$18,902,94

Loan & Interest Reserve Calculation - Total Project				
Smyth Landing -Scenario  Loan Amount Calculation	C - OCG Alternative			
Net Operating Income		\$4,071,793		
Debt Coverage Ratio		1.25		
Debt Service Limit via DCR		\$3,257,435		
Cost of Funds - (Underwriting Rate)		6.50%		
Amortization Period (years)		25		
Maximum Loan @ DCR		\$40,200,000		
Maximum Loan @ Max. Loan-to-Cost Ratio (LTC) @	60%	\$28,321,767		
Selected Loan Amount		\$28,300,000		
Indictated Loan-to-Cost Ratio		60.0%		
Indicated Loan-to-Value Ratio		45.2%		
Debt Service Payment		(\$2,397,967)		
Construction Interest Calculation				
Loan Amount		\$28,300,000		
Average Balance		60%		
Average Loan Amount		\$16,980,000		
Monthly Interest Rate - Construction Loan	4.5%	0.3750%		
Monthly Interest Expense		\$63,675		
Construction Period (Mo.)		18		
Total Interest		\$1,146,150		
Absorption Interest Calculation				
Average Loan post Construction		\$28,300,000		
Absorption Period (Mo.)	18 /Mo.	12.0		
Interest Rate		5.50%		
Absorption Interest		\$1,556,500		
NOI Available During Const./Absorption				
Annual NOI		\$4,071,793		
Monthly NOI		\$339,316		
Avg. Percent of NOI Capture		60%		
Avg. Monthly NOI Capture		\$203,590		
Total Months NOI		12.0		
NOI During Absorption		\$2,443,076		
Recap				
Construction Interest		\$1,146,150		
Absorption Interest		\$1,556,500		
NOI During Absorption		-\$2,443,076		
Required Interest Reserve		\$259,574		

# **ADDENDA**



August 22, 2016

Sarah Smyth McIntosh Delta Illahee LP I A Professional Law Corporation 1801 West Bay Drive NW #202 Olympia, WA 98502 360-791-0624

RE: Apartment Market Study for:

Smyth Landing Phase I - 59 units, Phase II - 123 Units, Phase III - 12 Townhouse Units and 10,000 SF of Office Space West Bay Drive on Budd Inlet

Olympia, WA

Dear Ms. McIntosh,

This is our proposal to furnish appraisal/consulting services involving the above mentioned property. It is our understanding that we are to perform an apartment market/feasibility study concerning the subject property. The purposed of this study is to illustrate market conditions and the feasibility of the proposed development. The items to be researched and evaluated will be as follows:

- Evaluate the local economic conditions that determine Olympia apartment demand.
- Provide a demographic profile which includes a market segmentation analysis known as tapestry which illustrates population lifestyle segments based on socio-economic variables.
- Evaluate the competitive supply (current & future) of the Olympia market.
- Provide an estimate of apartment demand for Olympia.
- Provide an analysis of the supply and demand figures in order to forecast future market conditions.
- Provide a product recommendation or critique for the unit sizes, mix and amenities.
- Research and determine market rent and expense levels (in detail) for today and when the project is completed.
- Determine probable absorption levels.
- Determine if there is sufficient demand at the required rent levels to enable the subject building to be feasible.
- Discuss the underlying nature of the investment including capitalization rate evaluation at time of completion and at stabilization.
- Conclude with a feasibility/investment analysis that takes into account the findings noted above. All pertinent financial metrics, as well as estimates of value upon stabilization will be provided.

The report will contain descriptions, analyses, conclusions, and exhibits generally considered essential for a complete market study report.

The report will be completed within four weeks of authorization to proceed. When all fieldwork is completed, and preliminary conclusions reached, you will be contacted. This will provide an opportunity to review the progress to date and refine the scope of the assignment if deemed appropriate through mutual agreement.

The fee for this project will be \$8,500. It is our custom to obtain a 50% (\$4,250) retainer before we begin work on the assignment. This fee does not include shipping or courier charges. The assignment is considered to be a complete report. If the assignment is discontinued, the fee will be proportionate to the amount of work completed.

At the stated fee, you will receive one high-quality, color electronic PDF report. Hard copies of the report are available upon request at an additional cost. The cost of hard copies of this size of a report usually ranges from \$100 per copy to \$125 per copy, depending on the number of pages and photographs.

If the above general terms are satisfactory, you may so indicate by signing and dating your acceptance on the enclosed copy of this letter. Our ability to provide good service is greatly enhanced if all necessary data is available when work commences.

We are looking forward to providing assistance in this matter. If you have any questions, please feel free to call.

Sincerely,

O'CONNOR CONSULTING GROUP, LLC

Brian R. O'Connor, MAI, CRE

Principal

Delta Illahee LP I

Accepted by: Name: Sarah Smyth McIntosh Title: Limited Partner

Date: 8/22/16

#### Subject Zoning

The following extracts taken from City of Olympia Municipal Code, Section 18.06.060

#### 4. Urban Waterfront (UW) District.

This district is intended to:

- Integrate multiple land uses in the waterfront area of downtown and the West Bay in a way that improves the City's appeal and identity as the Capital City on Budd Inlet.
- Encourage high-amenity recreation, tourist-oriented, and commercial development which will enhance public access and use of the shoreline.
- Encourage development that protects views of Budd Inlet, the Olympics, Mt. Rainier, and the Capitol, and preserves a sense of openness on the waterfront.
- Encourage water-dependent and water-related development (as defined in the Shoreline Master Program for the Thurston Region) on shoreline properties and permit light manufacturing uses which support nearby industrial and marine related uses.
- Provide shoreline public access to significant numbers of the population, which is a major j. goal of the Shoreline Master Program for the Thurston Region. It is also the intent of this district to integrate the policies of the Shoreline Master Program for the Thurston Region into zoning designations applicable to waterfront properties. It is not the intent of this district, however, to make the restrictions of the Shoreline Master Program legally applicable outside the shoreline management zone.

MINIMUM LOT AREA	No minimum.					
FRONT YARD SETBACK	No minimum; however, see Chapter 18.100 for design					
	guidelines for pedestrian access and view corridors.					
REAR YARD SETBACK	No minimum; however, see Chapter 18.100 for design					
	guidelines for pedestrian access and view corridors.					
SIDE YARD SETBACK	No minimum; however, see Chapter 18.100 for design					
	guidelines for pedestrian access and view corridors.					
MAXIMUM BUILDING HEIGHT	See Figure 6-2, Urban Waterfront District Height Limits					
	Exceptions:					
	1) In the portion of the area Downtown with a height limit of					
	65', two additional residential stories may be built. See					
	18.06.100(A)(2)(b). 2) In the portion of the area on West Bay Drive with a height					
	limit of 42' to 65', the taller height limit is conditioned upon the					
	provision of certain waterfront amenities. See					
	18.06.100(A)(2)(c).					
MAX. BUILDING COVERAGE	60% for properties between the shoreline and the nearest					
	upland street. 100% for properties not between the shoreline					
	and the nearest upland street.					
	See also Chapter 18.100 for design guidelines for pedestrian					
	access and view corridors.					

#### ADDITIONAL DISTRICT-WIDE DEVELOPMENT STANDARDS

MAX. DEVELOPMENT COVERAGE

 Street ends abutting the water shall be preserved to provide views of and public access to the water, pursuant to Section 12.16.050(D) OMC.

100% development coverage.

• See also Chapter 18.100 for Downtown design guidelines for Pedestrian Access and View Corridors and Waterfront Public Access; Chapter 18.100 for Port Peninsula design guidelines for Pedestrian Connections and View Corridors; Section 18.06.100(A)(2)(c) for West Bay Drive building height and view blockage limits; and Chapter 18.100 for West Bay Drive view corridors. See also Chapter 18.100 for Downtown design guidelines for Pedestrian Access and View Corridors and Waterfront Public Access; Chapter 18.100 for Port Peninsula design guidelines for Pedestrian Connections and View Corridors; Section 18.06.100(A)(2)(c) for West Bay Drive building height and view blockage limits; and Chapter 18.100 for West Bay Drive view corridors.

#### 2. Urban Waterfront (UW) District.

- a. Allowed building heights in the Urban Waterfront (UW) District are specified in Figure 6-2.
- b. Bonus for residential development.
  - i. In the area labeled sixty-five (65) feet on Figure 6-2, up to two additional stories may be built, if the project is located in the downtown, if the added stories are stepped back from the street wall at least eight (8) feet, and if floor area equal to the amount from the added stories is provided for residences:
    - (a) In the same building--i.e., it is a residential or a mixed use building; or
    - (b) With commercial and residential uses in separate buildings on the same site; or
    - (c) With commercial and residential uses on separate sites within the Urban Waterfront (UW) district.
  - ii. Occupancy. Housing provided under this bonus provision as part of a mixed use project must receive an occupancy permit at the same time as, or in advance of, issuance of an occupancy permit for non-residential portions of the project.
  - iii. Conversion. Housing provided under this bonus provision shall not be converted to commercial use.
  - iv. Source of housing units. Housing provided under this bonus provision may be:
  - v. New construction,
  - vi. (b) Adaptive reuse of a formerly non-residential structure, or
  - vii. (c) Rehabilitation of existing housing.
- c. West Bay Drive building height and view blockage limits.
  - i. In order to retain public and private view access to Budd Inlet from hillside sites above West Bay Drive, the maximum building height in the West Bay Drive portion of the Urban Waterfront (UW) District labeled "42'-65' " on Figure 6-2 shall be up to a maximum of 42 feet, except as provided in subsections (iii) and (iv) below.
  - ii. In order to retain public view access of Budd Inlet from street level in the West Bay Drive portion of the Urban Waterfront (UW) District labeled " 42'-65' " on Figure 6-2, view blockage shall be limited as follows:
    - (a) Views of the water will be defined as area without obstruction by buildings or major structures measured between 45 and 90 degrees to West Bay Drive, as illustrated in Figure 6-2A.

- (b) Said view blockage shall be limited to 45 percent of the views of the water from West Bay Drive by buildings or major structures located between West Bay Drive and the mean high water line.
- (c) Exceptions are provided in subsections (iii) and (iv) below.
- iii. Development shall be subject to the alternate standards for building height and view blockage, if alternate waterfront view access is provided through public amenities as follows:

viii. Amenity Provided Limits on Horizontal View Blockage and Height

ix. Waterfront Trail 70% up to 42 ft., OR

x. 45% up to 65 ft.

xi. Expanded Waterfront Trail Corridor Facility (or small waterfront park area).

50% up to 42 ft., OR

xii. 45% up to 50 ft.

xiii. Both 70% up to 65 ft.

Any development over 42 feet shall be required to include a minimum of 20% of the usable building area for residential purposes.

## O'Connor Consulting Group, LLC Company Profile

The firm O'Connor Consulting Group, LLC was originally established in May 1994 as Pacific Real Estate Advisors. Originally founded as a Partnership, the firm became a Limited Liability Company in July 1997 when Brian O'Connor, MAI, CRE became the sole principal and managing member of the firm.

While O'Connor Consulting Group, LLC is generally considered to be an appraisal firm, much of our business consists of providing market and feasibility studies for our clients. Over the last ten years, the portion of consulting services vis-à-vis appraisal services has become approximately 50% of our work product. Although we believe appraisal services are the foundation of our firm, we are striving to provide our clients with a higher level of market research, analyses and insight.

In order to provide our clients with sophisticated market analyses and valuations, O'Connor Consulting Group, LLC has assembled a team of senior analysts, consisting of eleven appraisers, five of whom have between 10 to 20 years of experience. Their expertise ranges from complex property valuations to complicated economic modeling of investment properties. Our areas of expertise range from urban mixed-use and feasibility modeling to commercial, subdivision, retail, industrial/office, condominium and apartment appraising. We have developed a specialty of appraising or performing feasibility studies on downtown high-rise developments. We have performed major market studies in King, Pierce and Snohomish counties as well as Lewis and Kitsap counties, and the Tri-Cities area. Outside of Washington State we have performed appraisal and consulting work in the states of Oregon, Idaho, Alaska and Arizona.

#### **Services Provided**

Αı	DI	or	ai	sa	IS

Valuation estimates provided for various property types including apartments, condominiums, subdivisions, office/retail, industrial, and specialty properties such as independent and assisted living facilities, senior housing, hotels, motels, gas stations and marinas. Services also include appraisal reviews.

HUD/US Department of Housing and Urban Development O'Connor Consulting Group, LLC has worked on over 75 HUD projects since 2008 throughout Washington, Oregon, Idaho, and Alaska, making them recognized as one of the leading firms performing HUD 221(d)(4) market studies/appraisals and HUD 223(f) appraisals.

Market & Feasibility Studies

Studies concentrate on evaluating the local economic conditions and forecasting future supply/demand equilibrium for multifamily housing and commercial space. Feasibility studies focus on analyzing probable profit margins and various measures of return on investment.

We have performed numerous market and feasibility studies on special use properties. These include age-restricted housing, assisted living, inpatient treatment centers, memory care, and private schools.

Insurance Appraisals O'Connor Consulting Group is the leading firm within the Puget Sound

area providing Insurance Appraisals to home owner associations and

insurance companies.

Consultation Consultation services include participation with development teams,

individual product evaluations, feasibility reviews, and general discussion

of current market conditions as well as possible development

opportunities.

Court Testimonies Mr. O'Connor is qualified as an expert witness concerning a diversity of

property types in King, Pierce, and Thurston Counties. He also provides his

expertise for mediation and arbitration cases.

#### O'Connor Consulting Group, LLC Client List

#### Lenders

**AEA Bank** First Horizon Construction **Pyatt Broadmark** AmeriSphere Lending Management LLC Bank of America First Interstate Bank Company

**Bank of Everett** First Mutual Bank Plaza Bank **PNC Bank** Bank One Berkshire First Republic Bank Seattle Bank

Mortgage First Savings Bank of Banner Bank Silvergate Thrift and Loan Washington **BBCN** First Savings Bank Northwest St. Paul Federal Bank

Berkadia Commercial First Security Bank of Sterling Bank

Mortgage Washington Taiwan Cooperative Bank

California Bank and Trust **GE Capital Corporation** Umpqua Bank UniBank Cascade Bank Home Street Bank Cathay Bank JP Morgan Chase **US Bancorp** Charter bank Key Bank Wachovia

Commerce Bank M & T Bank Walker & Dunlop Common Ground National Bank of Canada Washington Trust Bank

**Continental Savings** National Cooperative Bank Wells Fargo Bank

Corporation North American Savings Washington First International

Eastside Commercial Bank Pacific Bank Bank

The Farmers Bank of China Pacific Continental Bank Weyerhaeuser Realty First Boston Bank Pacific Coast Investment Whidbey Island Bank

#### **Investors/Development Companies**

Alamo Manhattan Genoa Pacific Corporation Laconia Development Allegra Properties Lear Capital, LLC Geonerco, Inc **Balfour Company** GID Development Group Lennar Homes **Beckes Homes** Goodman Real Estate Lincoln Investments **Bentall Kennedy** Greystar Lindstrom Development **Bosa Properties Grosvenor Associates Lorax Partners** 

**Burkheimer Management** Guardian Real Estate MacFarlane Partners Holland Partner Group Mack Urban Company

**CBRE Capital Markets** Hydra LLC Macquire Real Estate

ConAm Development Interpac Development Martin Selig Citigroup Corporation Martin Smith

Mitsui Fudosan America Create World America Intracorp **Construction Company** Investco Properties Mosaic Homes

**Crossbeam Properties** JC Mueller Murray Franklin **Continental Properties** John Stone Development Oliver McMillan Pacific West Hotel ConocoPhillips Kahne Corporation

**Daniels Real Estate** Kauri Investments Parkstone Investments FR McAbee Kemper Freeman Pinnacle Development Prometheus
Pryde-Johnson
Robertson Capital Consultants
The Rush Companies
Schnitzer Northwest
Seattle Properties
SECO Development
Security Properties
Shea Homes

Sierra Construction Company Simpson Housing Corporation Sound Investments Starwood Capital SU Development The Stratford Company T. Jones, Inc

UDR
Vance Corporation
Vance Properties
Vulcan Real Estate
Wathen and Associates
Westward Real Estate
Wells & Company

Tyee International, LLC

Unico Properties

#### **Government Agencies**

City of Bellevue
City of Kirkland
City of Redmond
City of Seattle
King County
King County Library System
Puget Sound Regional Council
Port of Everett

#### **Attorneys**

Tarragon

**Trigny Corporation** 

Adolph Law Group Bo Barket Clausen Law Firm Floyd and Pfleuger GordonDerr Joseph Pucket Karr Tuttle Campbell Levin and Stein Scheer and Zehnder Schwabe, Williamson and Wyatt Short, Cressman, & Burgess Steichen and Martin Stein, Flanagan, Sudweeks & Hauser Stokes Lawrence Ryan Swanson Keesal, Young & Logan

## Property Management Companies

CWD Group, Inc AAMC
CDC Management Services,
Inc AAMC
Greystar
Kappes Miller Management
The Copeland Group, LLC
Lorig Management
EMB Management, Inc AAMC
Pacific Rim Investments &
Management
Phillips Real Estate Services,
LLC
Yates Wood

#### **REITS**

Bay Apartment Communities
BRE properties
Equity Residential
Security Capital
United Dominion Realty Trust
MacFarlane Partners
Greystar

#### **Insurance Companies**

The Unity Group
Signature Insurance Group

#### References for O'Connor Consulting Group, LLC

Charles P. Wathen Wathen and Associates 3401 E. Kentucky Avenue Denver, CO 80209 (303) 810-4599

Pete DeLeuw Murray Franklin Family of Companies 14410 Bel-Red Road Bellevue, WA 98007 (425) 644-2323

Jay Nelson Vice President, Commercial Appraisal Dept M&T Bank 4949 SW Meadows Road, Suite 500 Lake Oswego, OR 97035 (503) 534-4690

Martha Barkman
Development Manager
Mack Urban
1411 Fourth Avenue, Suite 500
Seattle, WA 98101-2296
(206) 753-2414

Kevin Daniels Daniels Real Estate 2401 Utah Avenue South, Suite 305 Seattle, WA 98134 (206) 382-4600

Monte Badziong First Savings Bank Northwest 201 Wells Avenue S. Renton, WA 98057 (425) 687-4255

Claudio Guincher Continental Properties 600 108<sup>th</sup> Avenue NE, Suite 1010 Bellevue, WA 98004 (425) 462-0700

John Kalina Plaza Bank 520 Pike Street, Suite 2750 Seattle, WA 98101 (206) 436-7613 Lisa Pugh Kitsap Bank Appraisal Review Analyst 619 Bay Street, P.O Box 9 Port Orchard, WA 98366 (360) 876-7834

Dean Emanuels
Vice President/Chief Appraiser
Washington Trust Bank
717 West Sprague Avenue, 7th Floor
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(509) 353-2284

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Philip Pinkstaff U.S. H.U.D Economic and Market Analysis Division 909 1st Avenue, Suite 200 Seattle, WA 98104 (206) 220-5112

Bryan Graf Pyatt Broadmark Management 600 University Street, Suite 1800 Seattle, WA 98101 (206) 971-8699

Dave Junghyun Oh Credit Officer UniBank 19315 Highway 99 Lynnwood, WA 98036 (425) 275-9713

Larry Costich Attorney Schwabe, Williamson & Wyatt 1420 5<sup>th</sup> Avenue, Suite 3400 Seattle, WA 98101-4010 (206) 407-1541

## O'Connor Consulting Group LLC HUD work since Nov. 2008

#### **HUD 221 PROGRAMS:**

Seneca Tower, Seattle, WA 2008 Market Study and Pre-Application

2<sup>nd</sup> and Bell, Seattle, WA 2009
Market Study and Firm Commitment
6<sup>th</sup> Avenue Apartments, Seattle, WA 2009
Market Study and Firm Commitment
Bally's Apartments, Federal Way, WA 2009
Market Study and Pre-Application
Barrett Park, Seattle, WA 2009
Market Study and Firm Commitment
Point Ruston Apartments, Tacoma, WA 2009
Pre-Application
Stone Way Village Apartments, Seattle, WA 2009, Market Study

Azure Ridge, Renton, WA, 2010 Market Study and Pre-Application Ballard Apartments, Seattle, WA 2010 Market Study and Pre-Application Beardslee Apartments, Bothell, WA 2010 Market Study and Pre-Application Coleman Tower, Seattle, WA 2010 Market Study and Pre-Application Elks on Broadway, Tacoma, WA 2010 **Pre-Application** Good Pasture Island Apartments, Eugene, OR 2010, Market Study Ivanhoe Apartments, Portland, OR 2010 Market Study Packard Building, Seattle, WA 2010 Market Study Pine and Belmont, Seattle, WA 2010 Market Study Regency Park, Richland, WA 2010 Market Study and Pre-Application River Club, Richland, WA, 2010, Market Study and Pre-Application Seneca Tower, Seattle, WA 2010

Market Study and Pre-Application

Smith Tower, Seattle, WA 2010 Market Study

Salpare Bay, Portland, OR 2011 Market Study Totem Station, Kirkland, WA 2011 Appraisal

25th & McClellan St Apartments, Seattle, WA 2012, Market Study The Baylor Apartments, Seattle, WA 2012 Market Study Carnegie Square Apartments, Spokane, WA 2012, Market Study Cathedral Apartments, Portland, OR 2012 Market Study Michael Apartments, Spokane, WA 2012 Market Study Ridpath Apartments, Spokane, WA 2012 Market Study Spyglass Hill, Bremerton, WA 2012 Market Study NW 17th and Front St., Portland, OR 2012 Market Study

Oasis Village Apartments, Caldwell, ID 2013
Market Study
Junction Flats, Seattle, WA 2013
Market Study
Asheville Apartments, Boise, ID 2013
Market Study
Cantabria Apartments, Boise, ID 2013
Market Study
Ridgecrest Commons, Nampa, ID 2013
Market Study
Silver Oakes Apartments, Meridian, ID 2013
Market Study
Cordillera Apartments, Boise, ID 2013
Market Study
Cordillera Apartments, Boise, ID 2013
Market Study

725 Broadway, Tacoma, WA 2014
Market Study
Boise MSA Apartment Market, ID 2014
Market Study
Central Park Apartments, Moses Lake, WA 2014,
Market Study
Ridpath Club Apartments, Spokane, WA 2014,
Market Study

Sullivan's Gulch, Portland, OR 2014
Market Study
Old City Hall Apartments, Tacoma, WA 2014
Market Study
Chapel Hill, Pimlico Drive, Pasco, WA 2014
Market Study
Post Falls Apartments, Post Falls, ID 2014
Market Study

725 Broadway, Tacoma, WA 2015 Market Study 219 1st Avenue North, Seattle, WA 2015 Market Study Sullivan's Gulch, Portland, WA 2015 Market Study Proposed 2912 Beacon Ave. South Apartments, Seattle, WA 2015 Preliminary Market Study The Alexis Apartments, Portland, OR 2015 Market Study Central Park Apartments, Moses Lake, WA 2015 Market Study 402 NW 5th Avenue, Portland, OR 2015 Preliminary Market Study 5<sup>th</sup> & Idaho Apartments, Boise, ID 2015 Market Study Ridgecrest Commons, Nampa, ID 2015 Market Study Chapel Hill, Pimlico Drive, Pasco, WA 2015 Market Study Post Falls Apartments, Post Falls, ID 2015 Market Study Sonata East, Seattle, WA 2015 Market Study Silver Oakes, Phase II, Meridian, ID 2015 Market Study Proposed 25th & McClellan Apartments, Seattle, WA 2015 Market Study

Avalon Apartments, Seattle, WA 2016
Market Study
Mt. Baker Station Apartments, Seattle, WA 2016
Market Study
Marysville Senior Apartments, Marysville, WA 2016
Brief Market Study

Park Place Apartments, Bellingham, WA 2016 Market Study Chapel Hill, Pimlico Drive, Pasco, WA 2016 Market Study Evergreen Pointe Apartments, Bremerton, WA 2016 Market Study Sonata East, Seattle, WA 2016 Market Study

#### **HUD 223 PROGRAMS:**

Highlander Apartments, Portland, OR 2009 Shangri La Apartments, Klamath Falls, OR 2009 Tahoma Terrace Apartments, Tacoma, WA 2009

Glenridge Place Apartments, Klamath Falls, OR 2010

Heatherwood/Ladera Apartments, Tukwila, WA 2010

Kently Pointe Apartments, Kent, WA 2010
Packard Building, Seattle, WA 2010
Plaza 44 Apartments, Lynnwood, WA 2010
Pyramid Pointe Apartments, Tukwila, WA 2010
Rainier Pointe Apartments, Fife, WA 2010
Veranda Green, Seattle, WA 2010

Kawabe House, Seattle, WA 2011 Lake City Senior Apartments, Seattle, WA 2011 Mable Swan Manor, Yakima, WA 2011 The Parker Apartments, Portland, OR 2011 Stillaguamish Apartments, Seattle, WA 2011

Brittany Lane Apartments, Lacey, WA 2012
Creekside Apartments, Clackamas, OR 2012
College Glen Apartments, Lacey, WA 2012
Davis Pointe Apartments, Boise, ID 2012
Executive Estates, Fairbanks, AK 2012
Four Freedoms Apartments, Seattle, WA 2012
Greentree Apartments, Seattle, WA 2012
Heritage Woods Apartments, Seattle, WA 2012
Hill Crest Apartments, Seattle, WA 2012
Lake City Senior Apartments, Seattle, WA 2012
Marion Court Apartments, Bremerton, WA 2012
Northwest Pointe Apartments, Boise, ID 2012
Rivergreen Apartments, Gladstone, OR 2012

Swiss Gable Apartments, Kent, WA 2012 Westridge Apartments, Bellevue, WA 2012 Willows Court Apartments, Seattle, WA 2012

Abbey Rowe Apartments, Olympia, WA 2013
Arabella Apartments, Shoreline, WA 2013
Balfour Place, Seattle, WA 2013
Illumina Apartments, Seattle, WA 2013
Loyal Heights Manor, Seattle, WA 2013
Marion Court Apartments, Bremerton, WA 2013
True Vine Senior Center, Tacoma, WA 2013
Ventana Apartments, Seattle, WA 2013
Zachary Park Apartments, Portland, OR 2013
Burke-Gilman Place, Seattle, WA 2013
Rent Comparability Study
Lake City Senior Apartments, Seattle, WA 2013
Pre-Application Section 231
Lowman Building Apartments, Seattle, WA 2013

Kenyon House Apartments, Buckley, WA 2014
Rent Comparability Study
Willina Ranch Apartments, Bothell, WA 2014
Appraisal
English Village, Coeur d'Alene, ID 2014
Rent Comparability Study
Stonebrook Apartments, Renton, WA 2014
Appraisal

Village Green Apartments, Port Orchard, WA 2015 Rent Comparability Study

Mountain View Apartments, Bozeman, ID 2015 Appraisal

Minerva Plaza Apartments, Portland, OR 2015 Rent Comparability Study

McKinley Apartments, Portland, OR 2015

Rent Comparability Study

Hutchison House, Issaquah, WA 2016
Appraisal
Heritage Apartments, Bremerton, WA 2016
Rent Comparability Study
Homestead Apartments, Kent, WA 2016
Rent Comparability Study
Benson East Duplexes, Kent, WA 2016
Rent Comparability Study
Tahoma Vista Village, Tacoma, WA 2016
Appraisal

#### **HUD 231 PROGRAMS:**

Lake City Senior Apartments, Seattle, WA 2015 Appraisal Marysville Senior Apartments, Marysville, WA 2015, Market Study

#### **HUD 241 PROGRAMS:**

Westridge Apartments, Bellevue, WA 2015 Market Study Westridge Apartments, Bellevue, WA 2016 Market Study

### Brian R. O'Connor, MAI, CRE

O'Connor Consulting Group, LLC 500 Union St, Suite 650 Seattle, WA 98101 Phone: 206.622.5100

#### **Professional Designation**

Brian R. O'Connor received his MAI designation in May 1996 and is certified as a General Real Estate Appraiser for the State of Washington, License No. 270-11 1100 529. He is also a State Certified General Appraiser for the State of Oregon (License No. C001024) and a Certified General Appraiser for the State of Idaho (License No. CGA-3315).

Brian R. O'Connor has been inducted into the membership of The Counselors of Real Estate and has been awarded the CRE designation as of November 2014.

#### **Experience**

Twenty-nine years experience as Market Analyst and Fee Appraiser. Market study experience is concentrated in evaluating local economic conditions and forecasting future demand for multifamily housing and commercial space. Principal author of the Seattle Metropolitan Area Apartment Market Report. Since 1985, the majority of his appraisal experience has been concerned with commercial mixed use and urban residential buildings in Seattle, Bellevue, and Everett, Washington.

Mr. O'Connor, with support from his associates, has provided a wide variety of development feasibility analysis that was intended to solve for equity requirements, financial returns and land residual values. Mr. O'Connor has also developed an extensive expertise in performing complex feasibility and investment analysis for multiple types of commercial properties.

Examples of the more complex properties analyzed are mixed-use rental housing, high rise condominiums, marinas, retail, and office properties, as well as historical preservation easements.

Mr. O'Connor is the only MAI Appraiser in Washington State that is listed in the National Certificate Registry by the Appraisal Institute for "Appraising Historic Preservation Easements." Since 2008, Mr. O'Connor has appraised four historic preservation properties within the tri-county region.

Mr. O'Connor has been qualified as an expert witness concerning various commercial property developments in King, Pierce, and Thurston counties.

#### Education

University of Washington, Seattle; Two Years Graduate Studies, Economic Geography, 1984-85.

University of Washington, Seattle; Bachelor of Arts in Economic Geography. Graduated 1983 with distinction, Cum Laude and Phi Beta Kappa.

#### **Continuing Education Courses**

Course, Appraisal Institute, National USPAP Update Course, 2016

**Seminar**, Appraisal Institute, The Emerging Marijuana Industry and its Impact on Real Estate, 2015 **Course**, Appraisal Institute, Supervisory Appraiser/Trainee Appraiser Course, 2015

Seminar, Appraisal Institute, 'Perspectives on Tax Appeals' with Chapter Receptions, 2014 Seminar, Appraisal Institute, Fall Real Estate Conference, 2014

Seminar, Appraisal Institute, Going Concerns and Multidisciplinary Appraisals, 2014

Seminar, Appraisal Institute, Extreme Appraising, 2014

Course, Appraisal Institute, National USPAP Update Course, 2014

Seminar, Appraisal Institute, Hotel Valuation Topics and Real World Analysis Case Studies, 2013
Course, Appraisal Institute, Washington Real Estate Law for Appraisers, 2013
Seminar, Appraisal Institute, Business Practices and Ethics, 2013
Course, Appraisal Institute, National USPAP Update Course, 2013

Fall Real Estate Conference, Appraisal Institute, 2012
Seminar, Appraisal Institute, Appraising for Lenders in the New Economy, 2012
Course, Appraisal Institute, National USPAP Update Course, 2012

**Seminar**, Appraisal Institute, Fundamentals of Separating Real Property, Personal Property, 2011 **Seminar**, Appraisal Institute, Business Practices and Ethics, 2011

Seminar, Appraisal Institute, Regulatory Takings: Legislative & Judicial Overview, 2010
Seminar, American Bankers Association, Distressed and Depressed Values, 2010
Seminar, Appraisal Institute, Fall RE Conference 2010
Seminar, Appraisal Institute, Lending World in Crisis-What Clients Need, 2010
Seminar, Appraisal Institute, Multi-Family & Single Family Update, 2010
Seminar, Appraisal Institute, Regulatory Takings: Legislative & Judicial Overview, 2010
Course, Appraisal Institute, National USPAP Update, 2010

Seminar, Appraisal Institute, Appraising Distressed Properties, 2009
Seminar, Am. Bankers Assoc, Appraisals of Real Property in Distressed Markets, 2009
Course, Appraisal Institute, Appraising Historical Preservation Easements, 2009

Seminar, Appraisal Institute, Construction Seminar, 2008

Seminar, Appraisal Institute, USPAP Update Course, 2006

Seminar, Appraisal Institute, Mathematical Modeling, 2005
Seminar, Appraisal Institute, The Role of Technology in Commercial Real Estate, 2005
Seminar, Appraisal Institute, 7-Hour National USPAP Update course, 2005
Seminar, Appraisal Institute, Current and Emerging Trend in the PS Office Market, 2005
Seminar, Appraisal Institute, Mortgage Fraud Case Studies, 2005

Seminar, Appraisal Institute, Current and Emerging Trends in the PS Ind. Market, 2004

Seminar, Appraisal Institute, Security and Confidentiality for Appraisers, 2003Seminar, Appraisal Institute, USPAP part B, 2003Seminar, Appraisal Institute, Appraisal Consulting, 2003

**Seminar**, Appraisal Institute, Appraising the Tough Ones, 2002

Seminar, Appraisal Institute, Attacking & Defending an Appraisal in Litigation, 2001 Seminar, Appraisal Institute, Partial Interest, Divided and Undivided, 2001 SSP-A, Appraisal Institute, Standards of Professional Practice, Part A, 2001

Seminar, Appraisal Institute, Land Use and Planning, 2000

Seminar, Appraisal Institute, Washington Landlord-Tenant Act Overview, 1999
Seminar, Appraisal Institute, Commercial Lease Fundamentals and Applications, 1999
Course 430, Standards of Professional Practice, Part C, 1999
Course 720, Appraisal Institute, (Condemnation Advanced Principles), 1999
Course 710, Appraisal Institute, (Condemnation Basic Principles), 1999

Rockwell Institute, Real Estate Law, 1997

Seminar, Appraisal Institute, (Appraising Retail Properties), 1996 Seminar, Appraisal Institute, (Understanding Limited Appraisals), 1996

**Course 11**, Appraisal Institute, (Report Writing and Valuation Analysis), 1993 **SSP-B**, Appraisal Institute (Standards of Professional Practice, Part B), 1993

SSP-A, Appraisal Institute, (Standards of Professional Practice, Part A), 1991

Course 10, Appraisal Institute, (Market Analysis of Real Estate), 1989 Course 2-1, Appraisal Institute, (Case Studies in Real Estate Valuation), 1989

**Course IB-B**, Appraisal Institute, (Capitalization Theory and Techniques, Part B), 1988 **Course IB-A**, Appraisal Institute, (Capitalization Theory and Techniques, Part A), 1988

Course IA-2, Appraisal Institute, (Basic Appraisal Principles and Techniques), 1986 Course IA-1, Appraisal Institute, (Real Estate Appraisal Principles), 1986

#### Volunteer Associations

Second Vice President of the North Seattle Baseball Association Our Lady of the Lake School Finance Committee Member Four years as CYO youth soccer coach Five years as CYO youth basketball coach

#### ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal report has been made with the following general assumptions:

- 1. No responsibility is assumed for the legal description or for matters including legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
- 2. The property is appraised free and clear of any or all liens or encumbrances unless otherwise stated.
- 3. Responsible ownership and competent property management are assumed.
- 4. The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.
- 5. All engineering is assumed to be correct. The plot plans and illustrative material in this report are included only to assist the reader in visualizing the property.
- 6. It is assumed that there are no hidden or unapparent conditions of the property subsoil or structures that render it more or less valuable. No responsibility is assumed for such conditions, or for arranging for engineering studies that may be required to discover them. In this appraisal assignment, the existence of potentially hazardous material used in the construction or maintenance of the building, which may or may not be present on the property, has not been considered except as noted. The appraisers are not qualified to detect such substances. We urge the client to retain an expert in this field if desired.
- 7. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless noncompliance is stated, defined, and considered in the appraisal report.
- 8. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless a nonconformity has been stated, defined, and considered in the appraisal report.
- 9. It is assumed that all required licenses, certificated of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.
- 10. It is assumed that the use of the land and improvements is within the boundaries of the property lines of the property described and that there is not encroachment or trespass unless noted in the report.

- 11. The distribution, if any, of the total valuation in this report between land and improvements applies only under the state program of use. The separate allocations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.
- 12. Possession of this report, or a copy thereof, does not carry with it the right of publication.
- 13. The appraisers, by reason of this appraisal, are not required to give further consultation or testimony, or be in attendance in court with reference to the property in question, unless arrangements have been previously made.
- 14. Neither all nor any part of the contents of this report (especially the conclusions as to value, the identity of the appraisers, or the firm with which the appraisers are connected) shall be disseminated to the public through advertising, public relations, news, sales or other media without the prior written consent and approval of the appraiser.
- 15. Disclosure of the contents of this report is governed by the By-Laws and Regulations of the Appraisal Institute.
- 16. All dimensions and legal descriptions are assumed to be correct as found in public records, surveys, or other sources furnished to the appraisers.
- 17. Except as noted, this appraisal assumes the site to be free of adverse soil conditions which would prohibit development of the property to its Highest and Best Use, using typical construction methods, or result in premature deterioration of the improvements.
- 18. Except as noted, this appraisal assumes the improvements to be fee of dry rot and insect and/or rodent infestation and mechanical and/or electrical dysfunction.
- 19. While various approaches to value and various mathematical calculations have been used in estimating value, there are but aids to the formulation of the opinion of value expressed by the appraiser in this report. In these calculations, certain arithmetical figures are rounded to the nearest significant amount.
- 20. The data inclusions embodied in this appraisal are part of the whole valuation. No part of this appraisal is to be used out of context and by itself alone. No part of this appraisal is necessarily independently correct, being only part of the evidence on which the final judgment regarding the value is based.
- 21. This appraisal pertains to surface rights only, and no analysis has been made regarding the value of subsurface rights, if any, or whether the property is subject to surface entry for the exploration or removal of such materials.
- 22. The appraisal is made in accordance with the standards of the Appraisal Institute.

- 23. This report shall be used only in its entirety, and no part shall be used in conjunction with any other study and is invalid if so used.
- 24. This report, in whole or in part, may not be used for the sale of shares or similar units or ownership or any form of securities without specific prior approval of Brian R. O'Connor, MAI. No part of this appraisal may be reproduced without permission of Brian R. O'Connor, MAI.
- 25. This report is prepared based on the assumption that the property is not, nor will it be, in violation of the National Environmental Policy Act, State Environmental Policy Act, Shoreline Management Act, or any and all similar government regulations or laws.
- 26. The value premises cited above are considered foundational and basic to the values reported herein, and the right is reserved to revise and/or rescind the appraisal opinions in the event that factual information as presented is modified to any extent.
- 27. These are standard assumptions and limiting conditions. Occasionally, a property has unique attributes which require one or more assumptions unique to that property and/or appraisal. If required, they are found in the "Definitions" section near the front of the report under the heading "Assumptions."
- 28. Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraiser. We have not knowledge of the existence of such material s on or in the property. Further, we are not qualified to detect such substances. The presence of substances such as asbestos, ureaformaldehyde foam insulation or other potentially hazardous materials may affect the value of the property. The value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.