RESIDENTIAL MARKET POTENTIAL

Downtown Spokane

City of Spokane
Spokane County, Washington

February 26, 2003

Conducted by
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Research & Strategic Analysis

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Research & Strategic Analysis

MARKET ANALYSIS

Residential Market Potential
Downtown Spokane

City of Spokane, Spokane County, Washington
February 26, 2003

EXECUTIVE SUMMARY

The purpose of this study, sponsored by the Downtown Spokane Partnership, Fannie Mae, the Washington Trust Bank, U.S. Bank Corporation, and the City of Spokane Office of Economic Development, is to identify the market potential for newly-introduced market-rate housing units to be leased or sold in Downtown Spokane.

A core premise underlying an overall housing strategy for the City of Spokane should be that, to retain existing households, or attract new ones, appropriate new housing units must be provided in the Downtown. The creation or strengthening of Downtown residential neighborhoods need not be a "zero-sum" exercise; rather than succeeding at the expense of other city neighborhoods, new housing opportunities within the Downtown, when properly targeted, should expand the number of households moving into the city as well as provide an attractive alternative to households that would otherwise move out of the city.

This study therefore determined:

- Where the potential renters and buyers for new housing units in Downtown Spokane are likely to move from (the draw areas);
- Who currently lives in the draw areas and what they are like (the target markets);
- How many are likely to move to Downtown Spokane if appropriate housing units were to be made available (depth and breadth of the market);
- What their housing preferences are in aggregate (rental or ownership, multi-family or single-family);
- What their alternatives are (new construction or existing housing stock, both in Downtown Spokane and in other areas of the city or county); and
- What they will pay to live in Downtown Spokane (market-rate rents and prices).

MARKET POTENTIAL

From a market perspective, considerable pent-up demand exists for Downtown housing, both new construction and adaptive re-use of existing buildings. As determined by this analysis, the market potential for new market-rate housing units to be leased or sold within Downtown Spokane consists of nearly 4,100 households with an affinity for city living. Just under half of these households are currently living in the City of Spokane or Spokane County; the majority of the potential market will be moving from elsewhere in the region (two percent), from Seattle/Tacoma (11 percent), from Southern California (four percent) or from elsewhere in the nation (35 percent).

The household groups that comprise the potential market are:

- Younger singles and childless couples—including, among others, affluent professionals, small business owners, middle- to upper-management, artists and university affiliates (53 percent);
- Well-to-do empty nesters and retirees (41 percent); and
- A range of urban families (six percent).

With a variety of housing initiatives, Downtown Spokane should become a magnet for households moving into the city. The appropriate urban housing types and general rent/price ranges and unit sizes that will attract the potential market are:

HOUSING TYPE	RENT/PRICE RANGE	SIZE RANGE	RENT/PRICE PER SQ. FT.
Rental—			
Hard Lofts *	$475-$1,400/month	450-1,500 sf	$0.93-$1.05 psf
Soft Lofts †	$500-$2,000/month	450-2,000 sf	$1.00-$1.11 psf
For-Sale—			
Hard Lofts *	$75,000-$175,000	550-1,500 sf	$117-$136 psf
Soft Lofts †	$85,000-$325,000	650-2,000 sf	$130-$163 psf
Townhouses	$135,000-$375,000	1,000-2,200 sf	$135-$170 psf

* Unit interiors of "hard lofts" typically have high ceilings and commercial windows and are either minimally finished, limited to architectural elements such as columns and fin walls, or unfinished, with no interior partitions except those for bathrooms.

† Unit interiors of "soft lofts" may or may not have high ceilings and are fully finished, with the interiors partitioned into separate rooms.

Based on a 15 percent capture of the potential market for multi-family units, and a 10 percent capture of for-sale single-family attached units, Downtown Spokane should be able to support nearly 300 new units per year, or up to 1,500 new dwelling units over the next five years.

DOWNTOWN HOUSING STRATEGY

From the perspective of draw area target market propensities and compatibility, a broad range of new construction as well as adaptive re-use of existing buildings will be required to support and sustain residential diversity in Downtown Spokane. An effective housing strategy to attract the target households should include:

- The creation of a variety of housing types, both rental and for-sale, including higher-value market-rate as well as affordable housing units, throughout Downtown;
- The establishment of general neighborhood guidelines to assure the compatibility of every scale and type of housing; and
- The development of programs and policies that will encourage the creation of Downtown housing.

In general, areas or buildings slated for new development or redevelopment should be evaluated relative to the following criteria for successful urban housing initiatives:

1. Advantageous adjacency: New housing initiatives should "build on strength," to maximize the potential synergy with existing or proposed adjacent uses (commercial, retail, or residential).

2. Building and/or land availability: From the City's perspective, poorly-located or under-used surface parking lots are better utilized as sites for new infill mixed-use development.

3. Potential for expansion: Each housing initiative should be viewed as a potential catalyst for additional residential development in surrounding areas.

4. Anchors/linkage: Each housing initiative must be seen as part of an overall urban strategy to build a critical mass of both housing and related non-residential uses.

OVERCOMING IMPEDIMENTS TO DOWNTOWN DEVELOPMENT/REDEVELOPMENT

- Create a special code for adaptive re-use of non-residential buildings into housing;
- Create an adaptive re-use handbook to facilitate code compliance;
- Create loft overlay zoning to allow loft development as a right;
- Identify an adaptive re-use ombudsman to facilitate code compliance;
- Require that residential uses be included in development of City-owned properties;
- Enhance property tax exemptions and abatement programs;
- Investigate special sales and income tax incentives to encourage resident artists;
- Create a gap financing funding pool;
- Use Low Income Tax Credits to foster artist living in the Davenport District; and
- Market and monitor Downtown Housing activity to the community.

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MARKET ANALYSIS

INTRODUCTION

This study has been sponsored by the Downtown Spokane Partnership, Fannie Mae, the Washington Trust Bank, U.S. Bank Corporation, and the City of Spokane. The purpose of this study is to identify the market potential for newly-introduced market-rate housing units—created both through the adaptive re-use of existing non-residential buildings as well as through new construction—to be leased or sold in Downtown Spokane. For the purposes of this study, the boundaries of Downtown have been delineated as the Spokane River to the north; Division Street to the east, Interstate 90 to the south; and Maple/Monroe Streets to the west, encompassing the Downtown core, the East End, the West End, and Southside. With the exception of the northern boundary, these boundaries are consistent with those of the Spokane Downtown Plan. Not included in this analysis is the North Bank; with the exception of three blocks of Monroe Street north and south of Broadway, the physical form of the North Bank is suburban, including the Spokane Arena and the large floor-plate office and hospitality uses flanking North River Drive.

The extent and characteristics of the potential market for Downtown housing units were identified using Zimmerman/Volk Associates' proprietary target market methodology. This methodology was developed in response to the challenges that are inherent in the application of conventional supply/demand analysis to urban development and redevelopment. Supply/demand analysis ignores the potential impact of newly-introduced housing supply on settlement patterns, which can be substantial when that supply is specifically targeted to match the housing preferences and economic capabilities of the draw area households.

In contrast to conventional supply/demand analysis, then—which is based on supply-side dynamics and baseline demographic projections—target market analysis determines the depth and breadth of the potential market derived from the housing preferences and socio-economic characteristics of households in the defined draw area. Because it considers not only basic demographic characteristics, such as income qualification and age, but also less-frequently analyzed attributes such as mobility rates, lifestyle patterns and household compatibility issues, the target market methodology is particularly effective in defining a realistic housing potential for urban development and redevelopment.

In brief, using the target market methodology, Zimmerman/Volk Associates determined:

- Where the potential renters and buyers for new housing units in Downtown Spokane are likely to move from (the draw areas);
- Who currently lives in the draw areas and what they are like (the target markets);
- How many are likely to move to Downtown Spokane if appropriate housing units were to be made available (depth and breadth of the market);
- What their housing preferences are in aggregate (rental or ownership, multi-family or single-family);
- What their alternatives are (new construction or existing housing stock, both in Downtown Spokane and in other areas of the city or county); and
- What they will pay to live in Downtown Spokane (market-rate rents and prices).

The target market methodology is described in detail in the METHODOLOGY section at the end of this study.

> NOTE: Tables 1 through 5, included in this document, contain summaries of the market potential for new market-rate housing units created through adaptive re-use of existing buildings and/or new construction within Downtown Spokane, City of Spokane, Spokane County, Washington. Tables 6 and 7, also included in this document, outline the relevant supply-side context. The appendix tables contain migration and target market data covering the appropriate draw area(s) for the Downtown Spokane study area. The appendix tables have been published in a separate volume and is available through the Downtown Spokane Partnership website: www.downtown.spokane.net <http://www.downtown.spokane.net/> under Business Development, Residential Market Potential Appendix One.

MARKET POTENTIAL

American households, perhaps more than any other nation's, have always demonstrated extraordinary mobility. Last year, depending on region, between 15 and 20 percent of American households moved from one dwelling unit to another. Household mobility is higher in urban areas; a higher percentage of renters move than owners; and a higher percentage of younger households move than older households.

Analysis of migration, mobility and geo-demographic characteristics of households currently living within defined draw areas is therefore integral to the determination of the depth and breadth of the potential market for market-rate housing units within Downtown Spokane.

Analysis of Spokane County migration and mobility patterns from 1996 through 2000—the latest data available from the Internal Revenue Service—shows that the number of households moving into the county—and by interpolation* , the City of Spokane—has increased from approximately 8,200 households in 1996 to just over 10,600 households in 2000. Over the same period, the number of households moving out of the county ranged from more than 8,800 households in 1996 to 10,155 households in 2000. Until the year 2000, Spokane County had lost between 600 households (1996) and 100 households (1999) to net out-migration. However, in 2000, there was a net gain exceeding 450 households—in part due to the stability of the Spokane economy, compared to the more volatile economies of dot-com dependent regions such as Seattle and the Bay Area.

This study therefore identifies the depth and breadth of the potential market for market-rate housing units within both the City of Spokane and Downtown Spokane, including those households already living in the city and those households that are likely to move into the city if appropriate housing options were available.

* A mathematical term relating to number series, which in this case consists of IRS migration data. Interpolation is the determination of numbers within the series, whereas extrapolation is the determination of numbers outside the series.

Where will the potential market for housing in Downtown Spokane move from?

—*The Draw Areas*—

The depth and breadth of the potential market for market-rate housing units in the City of Spokane was determined through migration, mobility and target market analyses of households currently living within defined draw areas. The draw areas for the City of Spokane have been delineated as follows:

- The local (internal) draw area, covering households currently living within the Spokane city limits, as well as those currently living in the balance of Spokane County. Between 10 and 15 percent of the households living in the city move to another residence within the city each year. Between five and six percent of the households living in the balance of Spokane County move to a residence within the city each year.

- The regional draw area, covering households with the potential to move to the City of Spokane from surrounding counties (Kootenai County, Idaho and Stevens, Pend Oreille, Whitman and Lincoln Counties, Washington). Households moving to Spokane County from this region comprise just over 15 percent of total in-migration

- The Seattle/Tacoma draw area, covering households with the potential to move to the City of Spokane from King, Snohomish and Pierce Counties, Washington. Households moving to Spokane County from this region represent more than 13.5 percent of total in-migration.

- The Southern California draw area, covering households with the potential to move to the City of Spokane from three counties located in southern California (Los Angeles, San Diego and Orange Counties). Households moving to Spokane County from this region comprise between three and five percent of total in-migration.

- The national draw area, covering households with the potential to move to the City of Spokane from all other U.S. counties. Approximately two-thirds of all households moving into Spokane County are moving from all other counties in the United States not included in the regional, Seattle/Tacoma or Southern California draw areas, of which a small percentage are foreign households.

As derived from migration, mobility and target market analysis, then, the draw area distribution of market potential (those households with the potential to move within or to the City of Spokane if appropriate housing options were available) would be as follows:

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

City of Spokane/Spokane County(Local Draw Area):	51.7 percent
Adjacent Counties (Regional Draw Area):	6.9 percent
Seattle/Tacoma Draw Area:	8.0 percent
Southern California Draw Area:	2.2 percent
Balance of US (National Draw Area):	31.2 percent
Total:	100.0 percent

SOURCE: Zimmerman/Volk Associates, Inc., 2003.

The target market methodology also identifies those households with a preference for Downtown living. After discounting for those segments of the potential market with preferences for suburban and/or rural locations, the distribution of draw area market potential for new housing units in Downtown Spokane would be as follows:

Market Potential By Draw Area
DOWNTOWN SPOKANE
City of Spokane, Spokane County, Washington

City of Spokane/Spokane County(Local Draw Area):	47.3 percent
Adjacent Counties (Regional Draw Area):	2.2 percent
Seattle/Tacoma Draw Area:	11.2 percent
Southern California Draw Area:	4.1 percent
Balance of US (National Draw Area):	35.2 percent
Total:	100.0 percent

SOURCE: Zimmerman/Volk Associates, Inc., 2003.

The regional draw area (adjacent counties) represents a significantly smaller proportion of market potential for new housing in Downtown than for the city as a whole. Conversely, the Seattle/Tacoma and Southern California draw areas represent significantly larger segments of market potential for Downtown than for the city.

How many households are likely to move to Downtown Spokane?

Based on the target market analysis, in the year 2003, nearly 4,100 empty nesters and retirees, younger singles and couples, and family-oriented households represent the potential market for new market-rate housing units within Downtown Spokane. The housing preferences of these draw area households—according to tenure (rental or for-sale) and broad financial capacity—can be arrayed as follows (*see also* Table 1):

Potential Market For New Housing Units
DOWNTOWN SPOKANE
City of Spokane, Spokane County, Washington

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL
Multi-family for-rent	1,220	29.8%
Multi-family for-sale	460	11.2%
Single-family attached for-sale	420	10.3%
Low-range single-family detached	830	20.3%
Mid-range single-family detached	720	17.6%
High-range single-family detached	440	10.8%
Total	4,090	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2003.

These 4,100 households comprise approximately 30 percent of the more than 13,300 households that represent the potential market for all of the City of Spokane, a share of the total market that is consistent with Zimmerman/Volk Associates' experience in other cities. For example, in recent analyses, the downtown market was found to represent approximately 26 percent of the city's total potential market in Norfolk, Virginia and Redding, California, 30 percent in Detroit and Baltimore, and 36 percent and 38 percent in Louisville, Kentucky and New Haven, Connecticut, respectively.

As in Spokane, many of these cities are in low-growth or slow-growth regions, where the majority of any increase in the number of households has typically occurred outside the city limits. In most cases, the introduction of newly-created, appropriately-positioned housing units within the

Table 1

Potential Housing Market

Derived From New Unit Purchase And Rental Propensities Of Draw Area Households
With The Potential To Move To The Area In 2003

Downtown Spokane

City of Spokane, Spokane County, Washington

Local Draw Area; Seattle/Tacoma Draw Area;
Southern California Draw Area; Balance Of U.S.

Total Target Market Households With Potential To Rent/Purchase In City of Spokane, Spokane County, Washington	13,320
Total Target Market Households With Potential To Rent/Purchase In Downtown Spokane	4,090

Potential Housing Market

	Multi- Family		*Single- Family*				
			Attached	*Detached*			
	For-Rent	*For-Sale*	*All Ranges*	*Low-Range*	*Mid-Range*	*High-Range*	Total
Total Households:	1,220	460	420	830	720	440	4,090
{Percent Distribution}:	29.8%	11.2%	10.3%	20.3%	17.6%	10.8%	100.0%

Target Residential Mix

	Multi- Family		*Single- Family*	
			Attached	
	For-Rent	*For-Sale*	*All Ranges*	Total
Total Households:	1,220	460	420	2,100
{Percent Distribution}:	58.1%	21.9%	20.0%	100.0%

NOTE: Reference Appendix Tables 1 through 25.

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

city limits, particularly in the downtown, has had an impact on settlement patterns by providing appropriate new housing options for households that previously had none.

The market potential numbers therefore indicate the depth of the <u>potential</u> market for new housing units within Downtown Spokane, not housing <u>need</u> and not <u>projections</u> of household change. These are the households that are likely to move within or to Downtown <u>if appropriate housing options were to be made available</u>.

From the perspective of draw area target market propensities and compatibility, and within the context of the new housing marketplace in the Spokane market area, the potential market for new housing units within the Downtown could include the full range of housing types, from rental multi-family to for-sale single-family detached. However, new construction should concentrate on higher-density housing types, which support urban development and redevelopment most efficiently and include:

- Rental lofts and apartments (multi-family for-rent);
- For-sale lofts and apartments (multi-family for-sale); and
- Townhouses, rowhouses, live-work or flex units (single-family attached for-sale).

The creation of "loft" dwelling units through adaptive re-use of existing buildings has been instrumental in the establishment of successful residential neighborhoods in or near the downtowns of numerous American cities, from Louisville, Kentucky, where the first loft apartment building was successfully introduced and leased in 2002, to Saint Louis, Missouri, where, over the past three years, more than 900 loft apartments in the Washington Avenue Loft District, have been created and are occupied, or are under construction, or are in development. In addition to the major cities of New York, Boston, San Francisco and Chicago, other cities where intensive loft development has occurred or is underway include Albuquerque, Baltimore, Charlotte, Dallas, Denver, Detroit, Richmond, New Orleans, Portland, Roanoke, and Saint Paul, to name only some of the cities where Zimmerman/Volk Associates has had direct involvement.

"Live-work" is a building type that accommodates non-residential uses in addition to, or combined with living quarters. The growing number of home-based businesses in the United States (reported in 1997 as four million) is often cited as a justification for live-work. However, there is an important distinction between a "home-based business" and a "business-based home."

Most home-based businesses can be accommodated in almost any kind of dwelling unit. In contrast, the business-based home is a true live-work unit: a dwelling unit with a configuration that is influenced or even dictated by the non-residential activities.

There are two basic live-work unit types: the flexhouse and the loft. Both could be developed in Spokane's downtown neighborhoods, either through new construction or adaptive re-use of non-residential structures.

The raw space version of a loft, or "hard" loft, is adaptable for a wide range of non-residential uses, from an art or music studio to a small office, as well as residential living areas. The loft is not dependent upon building form, other than that it is a unit within a multi-unit building.

The flexhouse is a building, either attached or detached, with only one principle dwelling unit that includes flexible space that can be used as office, retail, or studio space, or as an accessory dwelling unit. Flexhouses could be developed through adaptation of a rowhouse or even the combination of two adjacent rowhouses. The non-residential ground-floor uses could be helpful in establishing a daytime presence in neighborhoods that are largely residential, thereby adding an element of security.

The flexhouse can be an important tool for revitalization, representing an opportunity for the small investor: a resident investor can lease the flex space for residential, retail or office use; a non-resident investor can lease both the main residential space or the flex space.

This analysis has determined, then, that in the year 2003 up to 2,100 households currently living in the defined draw areas represent the pool of potential renters/buyers of new market-rate housing units (new construction and/or adaptive re-use of formerly non-residential structures), <u>excluding</u> single-family detached units, within Downtown Spokane (*see again* Table 1). As derived from the tenure and housing preferences of those draw area households, the distribution of rental and for-sale multi-family and for-sale single-family attached housing types would be as follows:

Potential Housing Market
Market-Rate Higher-Density Housing Units
DOWNTOWN SPOKANE
City of Spokane, Spokane County, Washington

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL
Rental Multi-Family (lofts/apartments, leaseholder)	1,220	58.1%
For-Sale Multi-Family (lofts/apartments, condo/co-op ownership)	460	21.9%
For-Sale Single-Family Attached (townhouses/rowhouses, fee-simple ownership)	420	20.0%
Total	2,100	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2003.

Again, these numbers indicate the depth of the potential market for market-rate housing units within Downtown Spokane if appropriate housing options were available. These households represent a "lost" opportunity for the city. Without an appropriate range of available housing options in Downtown Spokane, these households have either moved elsewhere or have moved less frequently than their typical mobility rates would indicate.

The residential re-use of existing non-residential structures is one of the most beneficial downtown redevelopment types because it creates and enhances a pedestrian-oriented street environment at a familiar, and often historic, urban scale. In downtown locations, buildings that contain more potential adaptive re-use square footage than can be absorbed for housing within a feasible time frame can be redeveloped with a mix of uses, including retail and office.

How fast will the units lease or sell?

—*Absorption*—

After more than a decade's experience in various cities across the country, and in the context of the target market methodology, Zimmerman/Volk Associates has determined that an annual capture of between 10 and 15 percent of the potential market, depending on housing type, is achievable. Based on a 15 percent capture of the potential market for multi-family units, and a 10 percent capture of for-sale single-family attached units, Downtown Spokane should be able to support nearly 300 new units per year, as follows:

Annual Capture of Market Potential
DOWNTOWN SPOKANE
City of Spokane, Spokane County, Washington

HOUSING TYPE	NUMBER OF HOUSEHOLDS	CAPTURE RATE	NUMBER OF NEW UNITS
Rental Multi-Family (lofts/apartments, leaseholder)	1,220	15%	183
For-Sale Multi-Family (lofts/apartments, condo/co-op ownership)	460	15%	69
For-Sale Single-Family Attached (townhouses/rowhouses, fee-simple ownership)	420	10%	42
Total	2,100		294

SOURCE: Zimmerman/Volk Associates, Inc., 2003.

Based on the migration and mobility analyses, and dependent on the creation of appropriate new housing units, more than half of the annual market potential of 294 new dwelling units in Downtown Spokane, or approximately 150 units per year, could be from households moving from <u>outside</u> Spokane County. Over five years, the realization of that market potential could lead to an increase of more than 700 households living in Downtown Spokane that moved from elsewhere.

This analysis examines market potential over the next five years. Because of the dramatic changes in the composition of American households that occurred during the 1990s (see THE TARGET MARKETS below), and the likelihood that significant changes are likely to continue, both the depth and breadth of the potential market for downtown living is likely to increase. The experience of other American cities has been that, once the downtown residential alternative has been established, the percentage of households that will consider downtown housing typically increases.

NOTE: Target market capture rates are a unique and highly-refined measure of feasibility. Target market capture rates are *not* equivalent to—and should not be confused with—penetration rates or traffic conversion rates.

The target market capture rate is derived by dividing the *annual* forecast absorption—in aggregate and by housing type—by the number of households that have the potential to purchase or rent new housing within a specified area *in a given year*.

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

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

Because the prospective market for a location is more precisely defined, target market capture rates are higher than the more grossly-derived penetration rates. However, the resulting higher capture rates are well within the range of prudent feasibility.

TARGET MARKET ANALYSIS

Who is the potential market?

—*The Target Markets*—

As determined by this analysis, the potential market for new market-rate housing units in the Downtown can be characterized by general household type as follows (*see also* Table 2):

Potential Market
By Household and Unit Types
DOWNTOWN SPOKANE
City of Spokane, Spokane County, Washington

HOUSEHOLD TYPE	PERCENT OF TOTAL	RENTAL MULTI-FAM.	FOR-SALE MULTI-FAM.	FOR-SALE ROWHOUSES
Empty-Nesters & Retirees	41%	39%	41%	48%
Traditional & Non-Traditional Families	6%	6%	7%	7%
Younger Singles & Couples	53%	55%	52%	45%
Total	100%	100%	100%	100%

SOURCE: Zimmerman/Volk Associates, Inc., 2003.

- The largest general market segment is composed of younger, mostly childless households (younger singles and couples). These households typically choose to live in neighborhoods that contain a diverse mix of people, housing types, and uses.

  The largest potential markets for Downtown Spokane in this segment are *New Bohemians*, *The VIPs*, *Fast-Track Professionals*, and *University/College Affiliates*—young professionals, office workers, small business owners, artists or artisans, and graduate students, teachers, or other higher-education affiliates. These households are true urbanites who prefer to live downtown for its diversity, as well as the availability of a variety of activities, cultural opportunities, restaurants and clubs.

  Younger singles and couples currently represent between 45 and 55 percent of the market for housing units in Downtown Spokane. However, the "Millennials"—also known as

Table 2

Potential Housing Market By Household Type

Derived From New Unit Purchase And Rental Propensities Of Draw Area Households
With The Potential To Move To The Area In 2003

Downtown Spokane

City of Spokane, Spokane County, Washington

Potential Housing Market

		Multi- Family		*Single- Family*			
				Attached	*Detached*		
	Total	*For-Rent*	*For-Sale*	*All Ranges*	*Low-Range*	*Mid-Range*	*High-Range*
Number of Households:	4,090	1,220	460	420	830	720	440
Empty Nesters & Retirees	55%	39%	41%	48%	72%	69%	64%
Traditional & Non-Traditional Families	9%	6%	7%	7%	11%	11%	11%
Younger Singles & Couples	36%	55%	52%	45%	17%	20%	25%
	100%	100%	100%	100%	100%	100%	100%

Target Residential Mix

		Multi- Family		*Single- Family*
				Attached
	Total	*For-Rent*	*For-Sale*	*All Ranges*
Number of Households:	2,100	1,220	460	420
Empty Nesters & Retirees	41%	39%	41%	48%
Traditional & Non-Traditional Families	6%	6%	7%	7%
Younger Singles & Couples	53%	55%	52%	45%
	100%	100%	100%	100%

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

"Generation Y," those persons born between 1977 and 1996 and the second largest generation after the "Baby Boomers"—could have a growing impact. If the preference for urban housing demonstrated by the leading edge of this group is representative of the entire generation, the market potential from this segment is likely to increase significantly over the next decade.

- The next largest market segment is comprised of older households (empty nesters and retirees). A significant number of these households have children who have grown up and moved away; another large percentage are retirees, with incomes from pensions, savings and investments, and social security.

  These older households are quite dissimilar in their attitudes from either younger or family-oriented households. They have different expectations, and paramount among them is the perceived ease and convenience of single-level living, meaning a master suite on the same floor as the living area, and few stairs in the unit. They want their dwelling units to accommodate, to the fullest extent possible, their ability to age in place.

  The largest potential markets for Downtown Spokane in this segment are *Affluent Empty Nesters* and *Middle-Class Move-Downs*, predominantly empty-nest couples (many of whom lived in downtown locations in their youth) who could potentially be attracted to appropriate housing in a vibrant downtown.

  Empty-nest and retiree households represent between 39 percent and 48 percent of the market for housing units in Downtown Spokane, depending on housing type. However, as with the Millennial Generation, over the next several years this market segment should comprise a significantly larger proportion of the market for downtown housing because increasing numbers of the "Baby Boom" generation—the huge population cohort born between 1946 and 1964—will be entering the empty-nest life stage. In 2003, the leading edge members of the Baby Boom will celebrate their 57th birthdays.

- The third, and smallest, general market segment is comprised of family-oriented households (traditional and non-traditional families). Non-traditional families, which during the 1990s became an increasingly larger proportion of all U.S. households, encompass a wide range of family households, from a single parent with one or more children, an adult caring for younger siblings, a grandparent with grown children and grandchildren, to an unrelated couple of the same sex with children. Traditional families contain a married man and woman with an average of two or more children. These can also include "blended" families, in which each parent was previously married to another individual and each has children from that marriage.

Households with school-age children have historically been among the first to leave a city when one or all of three significant neighborhood elements—good schools, safe and secure streets, and sufficient green space—are perceived to be at risk. Although this is the smallest market segment, the three target family groups for Downtown Spokane—*Multi-Cultural Families*, *Full-Nest Urbanites*, and *Cosmopolitan Families*—are households that have a preference for urban living. Most of the adults in these households were raised in or near an urban center and have rejected the suburban alternative; most will already have made appropriate school accommodations—public, charter, parochial or private.

Depending on housing type, family-oriented households comprise between six and seven percent of the market for housing units in Downtown Spokane.

The primary target groups, their median and range of incomes, and median home values, are as follows:

Primary Target Groups
(In Order of Median Income)
DOWNTOWN SPOKANE
City of Spokane, Spokane County, Washington

HOUSEHOLD TYPE	MEDIAN INCOME	BROAD INCOME RANGE	MEDIAN HOME VALUE (IF OWNED)
Empty Nesters & Retirees			
Nouveau Money	$112,000	$50,000–$300,000	$327,900
Post-War Suburban Pioneers	$67,900	$40,000–$150,000	$234,000
Affluent Empty Nesters	$50,700	$30,000–$80,000	$154,600
Blue-Collar Button-Downs	$43,100	$40,000–$150,000	$105,200
Middle-Class Move-Downs	$38,100	$25,000–$75,000	$100,500

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HOUSEHOLD TYPE	MEDIAN INCOME	BROAD INCOME RANGE	MEDIAN HOME VALUE (IF OWNED)
Traditional & Non-Traditional Families			
Cosmopolitan Families	$89,200	$45,000–$125,000	$241,500
Full-Nest Urbanites	$53,600	$30,000–$100,000	$201,300
Multi-Cultural Families	$36,100	$20,000–$80,000	$127,200
Younger Singles & Couples			
Urban Elite	$86,700	$40,000–$200,000	$440,600
The VIPs	$69,200	$35,000–$125,000	$230,500
e-Types	$57,600	$30,000–$100,000	$314,700
Fast-Track Professionals	$50,900	$30,000–$90,000	$170,200
University/College Affiliates	$37,600	$20,000–$100,000	$104,300
Urban Achievers	$36,300	$25,000–$75,000	$166,700
New Bohemians	$35,000	$20,000–$85,000	$230,700
Twentysomethings	$34,900	$20,000–$85,000	$97,100

NOTE: The names and descriptions of the market groups summarize each group's tendencies—as determined through geo-demographic cluster analysis—rather than their absolute composition. Hence, every group could contain "anomalous" households, such as empty-nester households within a "full-nest" category.

SOURCE: Zimmerman/Volk Associates, Inc., 2003.

(*Reference* APPENDIX TWO, TARGET MARKET DESCRIPTIONS, *for greater detail on each target group*. This appendix is available through the Downtown Spokane Partnership website: www.downtown.spokane.net <http://www.downtown.spokane.net/>under Business Development, Residential Market Potential Appendix Two.)

The mix of general household types often progresses during the establishment of Downtown living. In city after American city, the successful establishment of new market-rate housing options in previously non-residential areas has often been initially dependent upon "risk-oblivious" households. "Risk-oblivious" households are mostly young singles and couples, often with a large contingent of gays and a high percentage of artists and artisans seeking inexpensive space. These pioneers will typically begin neighborhood transformation by living illegally in commercial space. Eventually, once the area becomes populated, restaurants, bars, clubs and off-beat retail establishments begin to define the neighborhood character. At this point, these neighborhoods become sought after by "risk-tolerant" households. "Risk-tolerant" households are also usually young and almost always childless. The "risk-tolerant" includes those willing to make investments in ownership housing—sometimes they are the former "risk oblivious" seeking to recoup years of sweat equity.

In every case, however, the neighborhood established by these households has grown to encompass more than simply housing; its flavor and tone has been reinforced by the non-residential uses—*avant garde* shops, cutting-edge galleries, trendy clubs, and stylish eating and drinking establishments—that follow the risk-oblivious and risk-tolerant households, make the neighborhood acceptable for the "risk-aware" households that follow and contribute to the area's residential rent/price escalation.

The target market analysis indicates that there is a growing number of risk-oblivious and risk-tolerant households who already live within the city limits, and a significant market with the potential to move from the Seattle/Tacoma and Southern California draw areas.

DOWNTOWN MARKET-RATE RENT AND PRICE RANGES

What is the market currently able to pay?

—Rent and Price Ranges—

Based on the tenure preferences of draw area households and their income and equity levels, the general range of rents and prices for newly-developed market-rate residential units that could currently be sustained by the market is as follows:

Rent, Price and Size Range
Newly-Created Housing
DOWNTOWN SPOKANE
City of Spokane, Spokane County, Washington

HOUSING TYPE	RENT/PRICE RANGE	SIZE RANGE	RENT/PRICE PER SQ. FT.
Rental—			
Hard Lofts*	$475-$1,400/month	450-1,500 sf	$0.93-$1.05 psf
Soft Lofts†	$500-$2,000/month	450-2,000 sf	$1.00-$1.11 psf
For-Sale—			
Hard Lofts*	$75,000-$175,000	550-1,500 sf	$117-$136 psf
Soft Lofts†	$85,000-$325,000	650-2,000 sf	$130-$163 psf
Townhouses	$135,000-$375,000	1,000-2,200 sf	$135-$170 psf

* Unit interiors of "hard lofts" typically have high ceilings and commercial windows and are either minimally finished, limited to architectural elements such as columns and fin walls, or unfinished, with no interior partitions except those for bathrooms.

† Unit interiors of "soft lofts" may or may not have high ceilings and are fully finished, with the interiors partitioned into separate rooms.

SOURCE: Zimmerman/Volk Associates, Inc., 2003.

The above rents and prices are in year 2003 dollars and are exclusive of consumer options and upgrades, or floor or location premiums. Significant premiums are typically achievable on units that face parks or greens, or are located on high floors with view potential.

—Rental Distribution—

The market-rate rent range covers leases by households with annual incomes ranging between $25,000 and $80,000 or more. A one-person household with an income of $25,000 per year, paying no more than 30 percent of gross income for rent (the national standard for affordability) is qualified for a rent of $475 per month. A two- or three-person household, with an income of $80,000 or more per year, paying no more than 30 percent of gross income for rent, is qualified for a rent of $2,000 per month.

Based on the incomes of the target households, the distribution by rent range of the 183 market-rate rental units that could be absorbed each year over the next five years in Downtown Spokane is as follows (*see* Table 3):

Loft/Apartment Distribution By Rent Range
DOWNTOWN SPOKANE
City of Spokane, Spokane County, Washington

MONTHLY RENT RANGE	NUMBER OF UNITS	PERCENTAGE
$250–$500	19	10.4%
$500–$750	38	20.7%
$750–$1,000	64	35.0%
$1,000–$1,250	39	21.3%
$1,250 and up	23	12.6%
Total:	183	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2003.

—For-Sale Distribution—

The market-rate price range covers purchases by households with annual incomes ranging between $30,000 and $150,000. A one-person household with an income of $30,000 per year, paying no more than 25 percent of gross income for housing costs, including mortgage principal, interest, taxes, insurance and utilities, is qualified for a mortgage of $65,000. A two- or three-person household with an income of $150,000 per year, paying no more than 25 percent of gross income

Table 3

Target Groups For Rental Lofts/Apartments
Downtown Spokane
City of Spokane, Spokane County, Washington

Empty Nesters & Retirees	*Number of Households*	*At 15 Percent Capture*
Nouveau Money	30	5
Post-War Suburban Pioneers	60	9
Affluent Empty Nesters	150	23
Blue-Collar Button-Downs	40	6
Middle-Class Move-Downs	200	29
Subtotal:	480	72
Traditional & Non-Traditional Families		
Cosmopolitan Families	20	3
Full-Nest Urbanites	20	3
Multi-Cultural Families	30	5
Subtotal:	70	11
Younger Singles & Couples		
Urban Elite	30	5
The VIPs	100	15
e-Types	50	8
Fast-Track Professionals	90	14
Urban Achievers	60	9
New Bohemians	110	17
Twentysomethings	30	5
University/College Affiliates	200	27
Subtotal:	670	100
Total Households:	**1,220**	183

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

for housing costs, including mortgage principal, interest, taxes, insurance and utilities, is qualified for a mortgage of $400,000.

Based on the incomes of the target households, the distribution by price range of the 69 market-rate for-sale apartments that could be absorbed each year over the next five years in Downtown Spokane is as follows (*see* Table 4):

Loft/Apartment Distribution By Price Range
DOWNTOWN SPOKANE
City of Spokane, Spokane County, Washington

PRICE RANGE	NUMBER OF UNITS	PERCENTAGE
$50,000–$100,000	16	23.2%
$100,000–$200,000	25	36.2%
$200,000–$300,000	21	30.4%
$300,000 and up	7	10.1%
Total:	69	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2003.

Based on the incomes of the target groups, the distribution by price range of the 42 market-rate townhouses/rowhouse/live-work units that could be absorbed each year over the next five years in Downtown Spokane is as follows (*see* Table 5):

Townhouse/Rowhouse/Live-Work Distribution By Price Range
DOWNTOWN SPOKANE
City of Spokane, Spokane County, Washington

PRICE RANGE	NUMBER OF UNITS	PERCENTAGE
$75,000–$150,000	15	35.7%
$150,000–$250,000	18	42.9%
$250,000 and up	9	21.4%
Total:	42	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2003.

Table 4

Target Groups For For-Sale Apartments
Downtown Spokane
City of Spokane, Spokane County, Washington

Empty Nesters & Retirees	*Number of Households*	*At 10 Percent Capture*
Nouveau Money	10	2
Post-War Suburban Pioneers	20	3
Affluent Empty Nesters	70	9
Blue-Collar Button-Downs	10	2
Middle-Class Move-Downs	80	10
Subtotal:	190	26
Traditional & Non-Traditional Families		
Cosmopolitan Families	10	2
Full-Nest Urbanites	10	2
Multi-Cultural Families	10	2
Subtotal:	30	6
Younger Singles & Couples		
Urban Elite	10	2
The VIPs	50	8
e-Types	20	3
Fast-Track Professionals	30	5
Urban Achievers	20	3
New Bohemians	30	5
Twentysomethings	10	2
University/College Affiliates	70	9
Subtotal:	240	37
Total Households:	**460**	69

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

Table 5

Target Groups For For-Sale Townhouses/ Rowhouses/Live-Work

Downtown Spokane

City of Spokane, Spokane County, Washington

Empty Nesters & Retirees	*Number of Households*	*At 10 Percent Capture*
Nouveau Money	10	1
Post-War Suburban Pioneers	20	2
Affluent Empty Nesters	60	6
Blue-Collar Button-Downs	20	2
Middle-Class Move-Downs	90	9
Subtotal:	200	20
Traditional & Non-Traditional Families		
Cosmopolitan Families	10	1
Full-Nest Urbanites	10	1
Multi-Cultural Families	10	1
Subtotal:	30	3
Younger Singles & Couples		
The VIPs	40	4
e-Types	20	2
Fast-Track Professionals	20	2
Urban Achievers	20	2
New Bohemians	20	2
Twentysomethings	10	1
University/College Affiliates	60	6
Subtotal:	190	19
Total Households:	**420**	42

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

DOWNTOWN HOUSING STRATEGY

From the perspective of draw area target market propensities and compatibility, a broad range of new construction as well as adaptive re-use of existing buildings will be required to support and sustain residential diversity in Downtown Spokane.

An effective housing strategy to attract the target households should include:

- The creation of a variety of housing types, both rental and for-sale, including higher-value market-rate as well as affordable housing units, throughout Downtown;
- The establishment of general neighborhood guidelines to assure the compatibility of every scale and type of housing; and
- The development of programs and policies that will encourage the creation of Downtown housing.

In general, areas or buildings slated for new development or redevelopment should be evaluated relative to the following criteria for successful urban housing initiatives:

1. Advantageous adjacency: It is critical to "build on strength," not only to provide maximum support for any proposed housing initiatives, but also, conversely, so that housing initiatives will reinforce existing or proposed adjacent developments (commercial, retail, or residential).

2. Building and/or land availability: At present, several buildings or parcels within the Downtown are underutilized or vacant. From the City's perspective, poorly-located or under-used surface parking lots are better utilized as sites for new infill mixed-use development.

3. Potential for expansion: Each housing initiative should be located in an area where, at the successful completion of the initial project, adjacent or nearby buildings and/or land appropriate for the continuation or extension of the neighborhood, either through new construction or adaptive re-use would potentially be available. Each housing initiative

should be viewed not as a "stand-alone" project, but rather as a potential catalyst for additional residential development in surrounding areas.

4. Anchors/linkage: Each housing initiative must be seen as part of an overall urban strategy to build a critical mass of both housing and related non-residential uses. "Anchor" locations establish the potential for economic activity in an underutilized area; "linkage" locations build on the strength of two or more established, but isolated assets.

Because Downtown Spokane is relatively large in size and varied in character, ultimately several distinct residential neighborhoods, each with its own identity, could emerge within the Downtown core, the East End, the West End, and Southside. A neighborhood is established when enough "mass" is created—both in number of people and in number of residential buildings. Rental apartments in particular can be instrumental in the rapid establishment of "mass." Rentals allow households to experiment with living in a particular location without the commitment of home ownership; and Downtown renters will form a pool of potential purchasers of ownership units that may be developed at a later date.

A neighborhood is the sum of a variety of elements: the configuration of the street and block network, the arrangement of lots on those blocks, and the manner in which buildings are disposed on their lots and address the street. In each of the potential Downtown neighborhoods, success will depend upon the preservation, enhancement, and restoration of the area's urban character. A Downtown residential neighborhood succeeds when its physical characteristics consistently emphasize urbanity and the qualities of city life; conversely, attempts to introduce suburban scale and housing types into urban areas have invariably yielded disappointing results. Therefore, appropriate <u>urban</u> design—which places as much emphasis on creating quality streets and public places as on creating or redeveloping quality buildings—will be essential to success. The important elements can be summarized in several practical inter-related guidelines:

- Preservation or restoration of the urban fabric. Emphasis should be on adaptive re-use, with new construction used as infill among rehabilitated structures.

- Respect for the urban context. Major renovation and new infill construction should maintain the building lot disposition and "build-to" line. When building heights are increased, the new floors should be set back from the historic cornice line. Pedestrian entrances should always be from the sidewalk; automobile entrances should always be minimized. Buildings should never present a blank wall to the street.

- Streets designed for pedestrian comfort. Automobiles are accommodated on great urban streets; however, they are not given precedence over ease of pedestrian movement. The emphasis on streets can have significant, long-term impact on both street safety (providing "eyes on the street") and usable parks and squares.

- Continuing improvement of the streetscape. Local artists can create a unique physical environment which could be extended to the Downtown's "street furniture"—the trash receptacles, seating areas, public sculptures, and other small street amenities that make the difference between an "automobile-oriented road" and a "neighborhood street."

- Parallel parking should be encouraged wherever possible not only to enhance pedestrian safety but also to help meet residents' parking needs. Resident parking on designated streets should be ensured through a permit system; permits should be issued at the cost of administering the program, including the added cost of enforcement.

Neighborhood identity can be created through the delineation of separate "addresses" within the Downtown. Four general areas in Downtown south of the Spokane River—the Downtown Core, the East End, the West End, Southside—are commonly recognized, *e.g.*—in the City of Spokane PLAN FOR A NEW DOWNTOWN and the DAVENPORT DISTRICT STRATEGIC ACTION PLAN. But within those areas, the establishment of recognizable neighborhoods would be beneficial, both for the marketing effort (see below, *Marketing and Monitoring the Downtown*) and to enhance neighborhood identity for residents. An outstanding example is the Carnegie Square neighborhood in the West End, which has acquired its identity from the beautiful Carnegie Library building which occupies a prominent location between Riverside Drive and First Avenue.

—Urban Amenities—

Since the diversity, and social and cultural amenities of the city are one of the attractions of urban living, successful downtown housing is not necessarily dependent upon the creation of extensive (and expensive) recreational amenities.

However, locations that are within walking distance of parks and greenways, and entertainment venues—such as theaters, clubs and restaurants, as well as provide convenient access to a variety of retailers, including a grocery store—hold a significant market advantage.

Although Downtown Spokane is directly south of and adjacent to Riverfront Park, there are few green spaces within the Downtown that provide public gathering places. Because of the high value placed by the potential market on urban green spaces, it is in the City's interest to undertake or encourage the development of small "pocket parks" or green spaces wherever possible throughout the Downtown.

OVERCOMING IMPEDIMENTS TO DOWNTOWN DEVELOPMENT/REDEVELOPMENT

The City of Spokane should encourage residential redevelopment of existing buildings, particularly those of architectural merit, because of the demonstrated positive impact historic rehabilitation has had on housing and neighborhood values nationally.

Impediments to Downtown residential development and redevelopment that could discourage the private sector include regulatory obstacles (zoning and code requirements), onerous utility connection fees, high asking prices for existing, underutilized buildings and vacant land, and potentially high production cost relative to the initial value of completed units. The cost problem may actually be worse in adaptive re-use, since the existing structure often complicates the design effort while costing nearly as much as or, under some circumstances, more than new construction.

—Special Code for Adaptive Re-Use—

Regulatory relief for adaptive re-use would best come in the form of a new regulatory approach. Rather than applying new construction code standards, life and safety issues relating to existing buildings undergoing substantial rehabilitation should be evaluated pragmatically—or in the context of the code that was in effect when the building was constructed.

New Jersey was the first state to adopt a separate construction code for existing buildings. One important element of the code is that it is responsive to scale, easing compliance for small projects; code requirements increase with the scope of the rehabilitation project. This is of primary importance, since most neighborhoods will derive maximum benefits from residential and, indeed, non-residential initiatives that occur on a variety of scales. In cities across the country, it has become clear that neighborhoods with significant historic rehabilitation efforts have fared best in the maintenance and building of housing value. These historic rehabilitations have ranged in scale from the professional renovation and rehabilitation of large, multi-unit buildings to sweat-equity efforts of individual owner occupants.

Since the New Jersey code's adoption in 1998, the amount of rehabilitation in the state's largest cities has increased by 60 percent. Spokane could adopt a similar code, following the example of Wilmington, Delaware, which was the first of many cities to adopt a code modeled on the New

Jersey statute. [New Jersey Department of Community Affairs, Division of Codes and Standards: Rehab Subcode of the Uniform Construction Code (NJAC 5:23-6).]

—Adaptive Re-Use Handbook—

Once the code for existing buildings has been adopted, a handbook for developers and building professionals should be produced that summarizes the code and, if applicable, typical trade-offs and variances required. Qualification for regulatory relief should be presented clearly and unambiguously to assist in the evaluation of building suitability.

—Loft Overlay Zoning—

If raw-space, live-work lofts are to be practical, a zoning overlay for a specified area should be established to provide specific, as-of-right variances to make the entitlement process more predictable. A specific study of code compliance issues should be undertaken to identify appropriate standard variances.

—Adaptive Re-Use "Ombudsman"—

Even with an appropriate and clearly-presented code for existing structures, given the wide variety of conditions represented by existing buildings, it should be anticipated that an equally wide variety of solutions to code compliance of adaptive re-use will be required. The coordination of the regulatory process can be overwhelming. The City can smooth the process by appointing a single code officer—an adaptive re-use "ombudsman"—to provide technical assistance to owners and developers. The ombudsman's oversight of all adaptive re-use would also assure an informed and even-handed treatment of all cases.

—City-Owned Land—

City-owned land in key locations should be used to leverage residential development. To ensure maximum beneficial impact, the city could require that each appropriately-located parcel include residential uses.

—Tax Incentives—

—Property Tax Exemption and Abatement—

Concerning the imbalance of rehabilitation or construction cost and initial value, a proven mechanism for encouraging the creation of new housing—either through adaptive re-use or new construction—is a highly-specific and predictable program that combines tax abatement with tax exemption.

The program was pioneered in New York City, where it drove the development of SoHo. In New York the program was limited to the improvement of existing structures; but, the same approach could be used for new construction. The program loads significant benefits into the early years of a residential building's operation. The benefits, in the form of reduced property taxes, apply equally to rental or for-sale, since the effective carrying cost of the building is reduced for both.

The tax program used in New York City since 1955 has two main components:

- Exemption, for 12 years, from increases in property taxes resulting from property improvements; and
- Abatement of 90 percent of the City-certified "reasonable cost" of improvements at a maximum of 8.33 percent a year for up to 20 years.

Applied to the adaptive re-use of a 22,500-square-foot building into 15 residential units, under a New York City tax rate of 0.1773, the program would provide a tax savings of $1,088,280 over the first 12 years, or an average of $504 per unit each month. Using the same building example under Spokane's property tax rate of 0.1511, the same program would provide a monthly tax savings of an average of $460 per unit. If the exemption and abatement were to apply to only the 0.0646 combined city and county tax rate, it would still yield a monthly tax savings of an average of $272 per unit.

Tax Exemption/Tax Abatement Program
For Residential Adaptive Re-Use

Year	Base Tax	After Exemption	Abatement	Tax Due
1	$141,840	$88,650	$41,650	$47,000
2	$141,840	$88,650	$41,650	$47,000
3	$141,840	$88,650	$41,650	$47,000
4	$141,840	$88,650	$41,650	$47,000
5	$141,840	$88,650	$41,650	$47,000
6	$141,840	$88,650	$41,650	$47,000
7	$141,840	$88,650	$41,650	$47,000
8	$141,840	$88,650	$41,650	$47,000
9	$141,840	$88,650	$41,650	$47,000
10	$141,840	$88,650	$41,650	$47,000
11	$141,840	$88,650	$33,500	$55,150
12	$141,840	$88,650		$88,650
13	$141,840	$141,840		$141,840
14	$141,840	$141,840		$141,840
15	$141,840	$141,840		$141,840
16	$141,840	$141,840		$141,840
17	$141,840	$141,840		$141,840
18	$141,840	$141,840		$141,840
19	$141,840	$141,840		$141,840
20	$141,840	$141,840		$141,840
Total	$2,836,800	$2,198,520	$450,000	$1,748,520

Assumptions:	
Pre-improvement assessed valuation	$500,000
Post-improvement assessed valuation	$800,000
Property tax rate (New York City example)	0.1773
Certified "reasonable cost" of improvement	$500,000
Pre-improvement taxes	$88,650
Post-improvement taxes (without program benefits)	$141,840
Program components:	
Maximum annual tax abatement ($500,000 x 0.0833)	$41,650
Maximum total tax abatement ($500,000 x 0.9)	$450,000

Format: Alexander Garvin

From the City's perspective, the exemption foregoes, for 12 years, tax revenues that would not have been realized without the building improvement. By spreading the abatement over 12 to 20 years, the City's tax revenue loss is minimal in any given year. Ultimately, the revenue loss is likely to be recovered through non-exempt development activity stimulated by the program and through non-property tax revenues generated by economic activity in the revitalized neighborhood.

The more aggressive tax exemption/tax abatement program could potentially replace Spokane's existing 10-year tax-abatement program, effectively expanding and extending those benefits.

—Sales and Income Tax Incentives—

Revitalization of urban neighborhoods across the country has often been initiated by the arts community. Since resident artists are critical to the establishment of a recognizable urban arts district, they can be encouraged through targeted tax relief. As noted in the DAVENPORT DISTRICT STRATEGIC ACTION PLAN, Providence, Rhode Island has populated its DownCity Arts and Entertainment District by sales and income tax exemptions. Artists and artisans in DownCity are exempt from state and local sales taxes; and resident artists are exempt from personal state income tax. The program has been deemed so successful that the Rhode Island General Assembly recently passed legislation to establish similar districts in two other Rhode Island cities, Westerly and Pawtucket.

—Gap Financing Pool—

With some exceptions, infill development opportunities within Downtown Spokane are likely to be small scale—in most cases, fewer than 50 units and usually fewer than 25. These small properties lack development efficiency; since fixed costs are spread over fewer units, the cost per unit is higher without any corresponding increase in market value. Small properties have historically had difficulties attracting public capital assistance in any form; because of their small size, they are generally not considered to have the potential for catalytic impact. (This is one of the long-standing ironies of American urban initiatives: the properties that are large enough to have gained government support are often self-contained and have significantly less impact on surrounding uses than the same number of units in smaller, pedestrian-oriented properties.)

A revolving loan pool for subordinated, low-interest gap funding should be established to put the financial feasibility of smaller Downtown properties on an equal footing with larger suburban properties.

Like the proposed tax exemption/tax abatement program, gap funding should be available to both adaptive re-use and to new construction. However, unlike the tax program's very specific and predictable structure, the gap fund should be very flexible in order to respond to the special needs of each small, highly-individual property. Gap funding is typically structured as low-interest debt in a second or third position, but can incorporate interest accrual or other features designed to address the short-term financing impediments to residential developments that are essentially sound when viewed over the long term.

—"Arts District" Housing—

A proven approach (see below) to maintaining a stock of affordable housing and live-work space for artists is the use of dedicated Low-Income Housing Tax Credits (LIHTC). In addition to household-size income qualification, prospective residents are also subject to a portfolio review to assure that at least one member of the household is a working artist. This program can be augmented with federal and state historic tax credits to redevelop existing buildings within an historic district.

Artspace Projects, Inc., based in Minneapolis, Minnesota, has redeveloped several buildings for artists in St. Paul, Minneapolis and Duluth using this strategy and has provided consultation services for equivalent redevelopments in St. Louis, Missouri; Salt Lake City, Utah; Detroit, Michigan; and Philadelphia, Pennsylvania, among others.

—Marketing and Monitoring the Downtown—

A high-profile marketing program should be undertaken to establish the Downtown as a viable and exciting housing option. An effective marketing program will require advertising and public relations, merchandising and promotion.

— Advertising and public relations should include an "image" campaign that not only keeps the Downtown within the public consciousness, but also reinforces the positive aspects of urban living.
— Merchandising includes consistent street amenities, such as lighting and trash receptacles with unique designs (*see above*); a Downtown rental/sales center, preferably located in a newly-renovated building, with knowledgeable personnel

and illustrated brochures describing the characteristics, size, and rents/prices of available units; and an adjacent design center demonstrating the various approaches to the design and decoration of unit interiors. The design center has the potential to develop into a stand-alone commercial enterprise.

— Promotion should include a series of special events that attract large numbers of households to the Downtown.

Marketing efforts are most effective when they are constantly fine-tuned based on results, which requires some means of monitoring marketing impact. In the City of Baltimore, Maryland, the Downtown Partnership maintains a database of all existing residential properties located within the Downtown. The Partnership updates, on a quarterly basis, the monthly rents, vacancy and turnover rates at each rental building; the values and sales of newly-developed units in new construction or adaptive re-use of existing buildings; and the values and frequency of resale activity within older condominium buildings, to determine escalation, if any. In addition, the partnership monitors the status of all new development proposals. This information is readily available to potential developers via the Partnership's website.

Downtown, and most of Baltimore's adjacent neighborhoods, are actively marketed through another website, linked to the Downtown Partnership website. This site describes in detail each neighborhood's assets, from cultural institutions to architectural characteristics, and also provides comprehensive listings of available rental apartments (with location, asking rent and photograph) and for-sale units on the market (also accompanied by information on location, asking price, unit size, and a photograph).

THE CURRENT CONTEXT

The Spokane area has experienced moderate new residential development during the 1990s, primarily in the Central Valley to the east of the city, and along Division Street in the north. Few new construction projects have been developed within the existing neighborhoods surrounding Downtown. To date, new residential construction in the Spokane region has been dominated by local builders and developers; no national homebuilders or rental developers have entered the market. Base sales prices are typically below $110 per square foot and market-rate rents outside of Downtown rarely exceed $0.90 per square foot.

A wide range of rental properties—predominantly older construction including adaptive re-use of existing buildings—are located in Downtown and in the nearby neighborhoods of Browne's Addition and South Hill. Nearly all are leasing one- and two-bedroom apartments; studio/efficiency and three-bedroom apartments are less frequently found. (*See* Table 6.) Of the properties included in the survey, monthly rents for one-bedroom units generally range from approximately $400 to $600 a month for apartments of approximately 450 to 750 square feet ($0.80 to $0.88 per square foot, although many individual units fall below this rent-per-square-foot range). Rents for two-bedroom apartments generally start at just over $500 per month and go up to $700 a month, for approximately 700 square feet to 1,000 or more square feet of living space ($0.70 to $0.80 per square foot). Three-bedroom units, which are relatively rare, generally start at more than $800 per month (for 1,300 square feet or more) to as much as $2,000 per month (2,280 square feet), or $0.62 to $0.88 per square foot. Occupancy rates generally range between 90 and 100 percent; however, the majority of the rental properties are at functional full occupancy (more than 95 percent occupied).

At the present time, there is very limited development of for-sale housing in the Downtown. (*See* Table 7.) However, the success of the Blue Chip Lofts, pre-selling all 12 units before construction has even begun, is a clear indication of an untapped market for Downtown ownership housing. Base prices ranged from $125,000 to $190,000 for 750- to 1,500-square foot units ($127 to $167 per square foot), although a 2,200-square-foot unit (combining two smaller units) sold for $240,000 ($109 per square foot).

Summary Of Selected Rental Properties

Downtown Spokane and Vicinity, City of Spokane, Spokane County, Washington

January, 2003

Property/ Address	*Number of Units*	*Unit Type*	*Base Rent*	*Unit Sizes*	*Rents per Sq. Ft.*	*Occupancy*	*Other Information*
			. . . . Downtown				
Grand Coulee	**49**					**94%**	
106 S. Cedar		Studio *	$195 to $245	200 to 300	$0.82 to $0.98		All utilities included.
		1BR/1BA	$295	250 to 300	$0.98 to $1.18		
Buena Vista	**40**					**92%**	
5 & 11 S. Cedar		Studio	$295 to $355	292 to 340	$1.01 to $1.04		
		1BR/1BA	$395 to $415	450 to 550	$0.75 to $0.88		
		2BR/1BA	$410 to $565	700 to 800	$0.59 to $0.71		
The Metropolita	**31**					**100%**	
		Studio	$325 to $375	350 to 450	$0.83 to $0.93		
		1BR/1BA	$400 to $475	575 to 650	$0.70 to $0.73		
		2BR/1BA	$575	750	$0.77		
San Marco	**40**					**100%**	
1231 W. Sprague & 1229 W. Riverside		1BR/1BA	$395	450 to 470	$0.84 to $0.88		
		1BR/1BA - w/ Dining	$495 to $525	730	$0.68 to $0.72		
		2BR/2BA - w/ Dining	$535 to $825	900 to 1,000	$0.59 to $0.83		
		3BR/2BA - w/ Dining	$825	1,300	$0.63		
The Myrtle	**20**					**95%**	
1214 W. Sprague		1BR/1BA	$395	480	$0.82		
		2BR/1BA	$465	800	$0.58		
Edwidge	**15**					**93%**	
1227 W. Riverside		Studio	$395	500	$0.79		
		1BR/1BA	$415	600	$0.69		
		2BR/2BA	$525	1,000	$0.53		

SOURCE: Zimmerman/Volk Associates, Inc.

Summary Of Selected Rental Properties

Downtown Spokane and Vicinity, City of Spokane, Spokane County, Washington

January, 2003

Property/ Address	*Number of Units*	*Unit Type*	*Base Rent*	*Unit Sizes*	*Rents per Sq. Ft.*	*Occupancy*	*Other Information*
. . . . Downtown {continued}							
The Chateaux	**84**					**100%**	
930 N. Washington		1BR/1BA	$415	642 to 675	$0.65		Swimming Pool.
		2BR/2BA	$520	952 to 1,015	$0.55		
River Falls Towers	**98**					**100%**	
1224 W. Riverside		1BR/1BA	$455	565	$0.81		Garage; pool;
		2BR/2BA	$695	935	$0.74		library; fitness room;
		3BR/2BA Penthouse	$2,000	2,280	$0.88		community room.
. . . . Browne's Addition							
The Broadmoor	**128**					**na**	
2136 W. Riverside		Efficiency	$350	400	$0.88		Courtyard;
		1BR/1BA	$425	530	$0.80		recreation room.
		2BR/1BA	$525	700	$0.75		
Sunset House	**na**					**93%**	
1812 W. Riverside		1BR/1BA	$540	800	$0.68		Carports; garage;
		2BR/1BA	$615	1,200	$0.51		swimming pool.
The Ridge	**136**					**97%**	
178 S. Coeur d'Alene		1BR/1BA	$575 to $625	960	$0.60 to $0.65		Clubhouse; Swimming Pool;
		2BR/2BA	$695 to $775	1,240	$0.56 to $0.63		Covered parking.
		3BR/2BA	$875 to $925	1,400	$0.63 to $0.66		
. . . . South Hill/South							
Bishop Terrace	**30**					**100%**	
1204 W. 6th Avenue		1BR/1BA	$350-360	**na**	**na**		Covered parking.
		1BR/1BA/den	$450-460				
		2BR/2BA	$475				

SOURCE: Zimmerman/Volk Associates, Inc.

Summary Of Selected Rental Properties

Downtown Spokane and Vicinity, City of Spokane, Spokane County, Washington

January, 2003

Property/ Address	*Number of Units*	*Unit Type*	*Base Rent*	*Unit Sizes*	*Rents per Sq. Ft.*	*Occupancy*	*Other Information*
			. . . . South Hill/South {continued}				
Colony Park	**30**					**100%**	
1310 W. 6th Avenue		Studio	$350	400	$0.88		Carports.
		1BR/1BA	$425	660	$0.64		
		2BR/1BA	$475	880	$0.54		
		3BR/2BA	$700	1,500	$0.47		
Stonecrest	**84**					**100%**	
803 S. Cowley		1BR/1BA	$530	730	$0.73		Garage.
		1BR/1BA	$575	746	$0.77		
		2BR/2BA	$625	960	$0.65		
		2BR/2BA	$665	976	$0.68		
Beverly Plaza	**30**					**93%**	
918 S. Cannon		1BR/1BA	$400	710	$0.56		Pool; Sauna.
		2BR/2BA	$450	810	$0.56		
Greenview	**34**					**88%**	
612 S. Lincoln		1BR/1BA	$425	736	$0.58		Pool.
		2BR/1BA	$525	904	$0.58		
Walnut Court	**28**					**96%**	
909 S. Walnut		1BR/1BA	$415	520	$0.80		
		2BR/1BA	$510	738	$0.69		
Parc Grand	**37**					**100%**	
3406 S. Grand		2BR/2BA	$535 to $625	1,000	$0.54 to $0.63		Covered Parking.
Hilby Station	**117**					**97%**	
5317 S. Palouse		1BR/1BA	$580 to $615	800	$0.73 to $0.77		Pool; Fitness Center; Garages.
		2BR/2BA	$695 to $715	1,000	$0.70 to $0.72		

SOURCE: Zimmerman/Volk Associates, Inc.

Table 7

Summary Of Selected For-Sale Multi-Family Developments

City of Spokane, Spokane County, Washington

January, 2003

Development Address	*Unit Type*	*Unit Price Range*		*Unit Size Range*		*Price Per Sq. Ft.*		*Total Units*	*Sold to Date*
		. . . . . Downtown							
Blue Chip Lofts								**12**	12
1220 W. Railroad	Lofts	$125,000	to	750	to	$127	to		
		$190,000		1,500		$167			
		$240,000		2,200		$109			
Condominiums								**12**	6
2226-2230 W. Riverside	Unfinished interior flats	$235,000	to	1,950		$121	to		
		$300,000				$154			
Townhouse								**4**	3
W. Riverside	2br/2ba townhouse	$325,000		2,300		$141			

SOURCE: Zimmerman/Volk Associates, Inc.

HOUSING TYPES

Adaptive re-use of existing, non-residential buildings can yield either lofts or fully-finished apartments. The lofts, whether for-rent or for-sale, new construction or adaptive re-use, should include work space as a permitted use.

Building and unit types most successfully used in residential redevelopment or new residential construction in other downtowns comparable in size and scale to Downtown Spokane, include:

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

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

- Loft Apartment Building: Either adaptive re-use of older warehouse and manufacturing buildings or a new-construction building type inspired by those buildings. The new-construction version is usually elevator-served with double-loaded corridors.

  Hard Lofts: Unit interiors typically have high ceilings and commercial windows and are minimally finished (with limited architectural elements such as columns and fin walls), or unfinished (with no interior partitions except those for bathrooms).

  Soft Lofts: Unit interiors typically have high ceilings, are fully finished and partitioned into individual rooms. Units may also contain architectural elements reminiscent of "hard lofts," such as brick walls and iron railings, particularly if the building is an adaptive re-use of an existing industrial structure.

  The building's loft apartments can be leased, as in a conventional income property, or sold to individual buyers, under condominium or cooperative ownership, in which the owner pays a monthly maintenance fee in addition to the purchase price. (Loft apartments can also be incorporated into multifamily buildings along with conventionally-finished apartment units.)

- Townhouse/Rowhouse/Live-Work: Similar in form to a conventional suburban townhouse except that the garage—either attached or detached—is located to the rear of the unit and accessed from an alley or auto court. Unlike conventional townhouses, urban townhouses conform to the pattern of streets, typically with shallow front-yard setbacks. To provide privacy and a sense of security, the first floor should be elevated at least three feet above grade. Live-work units are rowhouses or townhouses where a portion of the unit, typically the ground floor, is allocated to a small office or retail space.

METHODOLOGY

The technical analysis of city-wide and Downtown market potential included delineation of the draw area(s) and evaluation of Downtown Spokane's market potential.

The delineation of the draw area(s) for housing within the City of Spokane was based on historic settlement patterns, migration trends for Spokane County, and other market dynamics.

The evaluation of Spokane's market potential was derived from target market analysis of households in the draw area(s), and yielded:

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

Target Market Methodology:

The proprietary target market methodology developed by Zimmerman/Volk Associates is an analytical technique, using the PRIZM geo-demographic system* , that establishes the optimum market position for residential development of any property—from a specific site to an entire political jurisdiction—through cluster analysis of households living within designated draw areas. In contrast to classical supply/demand analysis—which is based on supply-side dynamics and baseline demographic projections—target market analysis establishes the optimum market position derived from the housing and lifestyle preferences of households in the draw area and within the framework of the local housing market context, even in locations where no close comparables exist.

In geo-demographic segmentation, clusters of households (usually between 10 and 15) are grouped according to a variety of significant factors, ranging from basic demographic characteristics, such as income qualification and age, to less-frequently considered attributes such as mobility rates, lifestyle patterns and compatibility issues. Zimmerman/Volk Associates has

* PRIZM is the copyrighted name of Claritas' geo-demographic segmentation system, established in 1974. (*See* Household Classification Methodology *below*.)

refined the analysis of these household clusters through the correlation of more than 500 data points related to housing preferences and consumer and lifestyle characteristics.

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

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

Delineation of the Draw Areas (Migration Analysis)—

Taxpayer migration data provide the framework for the delineation of the draw areas—the principal counties of origin for households that are likely to move to Spokane County. These data are maintained at the county and "county equivalent" level by the Internal Revenue Service and provide a clear representation of mobility patterns.

—Migration Trends—

Analysis of Spokane County migration and mobility patterns from 1996 through 2000—the latest data available from the Internal Revenue Service—shows that the number of households moving into the county—and by interpolation, the City of Spokane—has increased from approximately 8,200 households in 1996 to just over 10,600 households in 2000. (*Reference* Appendix Table 1.) Over the same period, the number of households moving out of the county ranged from more than 8,800 households in 1996 to 10,155 households in 2000. Until the year 2000, Spokane County had lost between 600 households (1996) and 100 households (1999) to out-migration. However, in 2000, the net gain exceeded 450 households—in part due to the stability of the Spokane economy, compared to the more volatile economies of dot-com dependent regions such as Seattle and the Bay Area.

More than 20 percent of Spokane's in-migration is from counties in the Inland Northwest. An additional 15 percent of all households who move to Spokane County move from the Seattle/Tacoma region.

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

Based on the migration data, the draw areas for the City of Spokane have been delineated as follows:

- The local (or internal) draw area, covering households currently living within the Spokane city limits, as well as those currently living in the balance of Spokane County.
- The regional draw area, covering households with the potential to move to the City of Spokane from five adjacent counties in the Inland Northwest.
- The Seattle/Tacoma draw area, covering households with the potential to move to the City of Spokane from three counties in the Seattle region.
- The Southern California draw area, covering households with the potential to move to the City of Spokane from three counties in southern California.
- The national draw area, covering households with the potential to move to the City of Spokane from all other U.S. counties.

As noted above, the regional draw area consists Kootenai County, Idaho and Stevens, Pend Oreille, Whitman and Lincoln Counties, Washington (*reference* Appendix Table 1). The Seattle/Tacoma draw area includes King, Snohomish and Pierce Counties, Washington. The Southern California draw area includes Los Angeles, San Diego and Orange Counties, California. The national draw area includes the balance of the country taken in aggregate.

Determination of the Potential Market for the City of Spokane (Mobility Analysis)—

The mobility tables, individually and in summaries, indicate the number and type of households that have the potential to move to the City of Spokane in the year 2003. The total number from each county is derived from historic migration trends; the number of households from each group is based on each group's mobility rate.

Internal Mobility (Households Moving Within The City Of Spokane)

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

Using these data, Zimmerman/Volk Associates has determined that more than 3,500 households currently living in the City of Spokane have the potential to move from one residence to another in the city this year. (*Reference* Appendix Table 4.) More than 65 percent of these households are likely to be empty nesters and retirees (as characterized within eight Zimmerman/Volk Associates target market groups); just over 20 percent are likely to be traditional and non-traditional families (in five groups); and the remaining 14.4 percent are likely to be younger singles and couples (in three groups).

External Mobility (Households Moving To The City Of Spokane)

The same sources of data are used to determine the number of households in each target market group that will move from one area to another within the same county. Using these data, up to 3,360 households currently living in the balance of Spokane County have the potential to move from a residence in the county to a residence in the City of Spokane this year. (*Reference* Appendix Table 5.) Nearly 54 percent of these households are likely to be traditional and non-traditional families (in seven market groups); 32.4 percent are likely to be empty nesters and retirees (in six groups); and the remaining 14 percent are likely to be younger singles and couples (in three groups).

The tables that follow determine the number of households in each target market group living in each draw area county that are likely to move to the City of Spokane this year (through a correlation of Claritas data, U.S. Bureau of the Census data, and the Internal Revenue Service migration data). (*Reference* Appendix Tables 6 *through* 21.)

The total potential market for the City of Spokane includes the local, regional, Seattle/Tacoma, Southern California, and national draw areas. (*Reference* Appendix Table 22.) More than 13,300 households have the potential to move within or to the City of Spokane this year. Traditional and non-traditional families are likely to account for 41 percent of these households (in 17 market groups); nearly 36 percent are likely to be empty nester and retiree households (in 10 groups); and just over 23 percent are likely to be younger singles and couples (in 11 groups).

The distribution of the draw areas as a percentage of the potential market for the City of Spokane is as follows:

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

City of Spokane/Spokane County(Local Draw Area):	51.7 percent
Adjacent Counties (Regional Draw Area):	6.9 percent
Seattle/Tacoma Draw Area:	8.0 percent
Southern California Draw Area:	2.2 percent
Balance of US (National Draw Area):	31.2 percent
Total:	100.0 percent

SOURCE: Zimmerman/Volk Associates, Inc., 2003.

Determination of the Potential Market for Downtown Spokane–

The total potential market for Downtown Spokane includes the same draw areas. Zimmerman/Volk Associates uses U.S. Bureau of the Census data, combined with Claritas data, to determine which target market groups, as well as how many households within each group, are likely to move to a downtown location in a given year.

Using these data, Zimmerman/Volk Associates has determined that more than 4,900 households have the potential to move to Downtown Spokane this year. (*Reference* Appendix Table 23.) Approximately half of these households are likely to be empty-nester and retiree households (in five market groups); another 43 percent are likely to be younger singles and couples (in eight groups); and the remaining eight percent are likely to be traditional and non-traditional family households (in three groups).

The distribution of the draw areas as a percentage of the potential market for Downtown Spokane is as follows:

Market Potential By Draw Area
DOWNTOWN SPOKANE
City of Spokane, Spokane County, Washington

City of Spokane/Spokane County(Local Draw Area):	47.3 percent
Adjacent Counties (Regional Draw Area):	2.2 percent
Seattle/Tacoma Draw Area:	11.2 percent
Southern California Draw Area:	4.1 percent
Balance of US (National Draw Area):	35.2 percent
Total:	100.0 percent

SOURCE: Zimmerman/Volk Associates, Inc., 2003.

The 4,910 draw area households that have the potential to move to Downtown Spokane this year have also been categorized by tenure propensities to determine the appropriate renter/owner ratio. Just under 42 percent of these households (or 2,040 households) comprise the potential market for rental units, of which 1,220 households comprise the potential market for rental units at the rent levels required to support newly-constructed market-rate housing. The remaining 58 percent (or 2,870 households) comprise the market for market-rate for-sale housing units. (*Reference* Appendix Table 24.)

Of these 2,870 households, 16.0 percent (or 460 households) comprise the market for multi-family for-sale units (condominium/cooperative lofts/apartments); another 14.6 percent (420 households) comprise the market for attached single-family (townhouse/rowhouse/live-work) units; and the remaining 69.3 percent (1,990 households) comprise a market for all ranges of single-family detached houses. (*Reference* Appendix Table 25.)

—Target Markets—

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

- Age;
- Household composition; or

- Economic status.

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

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

Migration Methodology:

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

Target Market Data—

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

Household Classification Methodology:

Household classifications are based on the Claritas PRIZM geo-demographic segmentation system, which was established in 1974 and is the most widely-used neighborhood target marketing system in the United States. Claritas uses 15 unique clustering algorithms to define various domains of affluence and settlement density. These algorithms isolate the key factors in each density-affluence domain that accounted for the most statistical difference among neighborhoods within that group.

Over the past 15 years, Zimmerman/Volk Associates has augmented the PRIZM cluster system for use within the company's proprietary target market methodology specific to housing and neighborhood preferences, with additional algorithms, correlation with geo-coded consumer data, aggregation of clusters by broad household definition, and unique cluster names. (*See* TARGET MARKET METHODOLOGY *above*.) For purposes of this study, only those household groups with median incomes that enable most of the households within each group to qualify for market-rate housing are included in the tables. (An appendix containing detailed descriptions of each of these target market groups is available through the Downtown Spokane Partnership website: www.downtown.spokane.net <http://www.downtown.spokane.net/>under Business Development, Residential Market Potential Appendix Two.)

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Research & Strategic Analysis

ASSUMPTIONS AND LIMITATIONS—

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

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

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

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Research & Strategic Analysis