Spokane Centers & Corridors Update Study

Market Analysis & Development Feasibility Report

Date December 2023

To City of Spokane, MAKERS architecture and urban design, and SCJ Alliance

From Brian Vanneman and David Fiske, Leland Consulting Group

Introduction

The City of Spokane has engaged a consultant team to undertake an analysis of Spokane's Centers & Corridors, which are a focused growth land use policy and zoning approach in the City of Spokane. The consultant team is led by MAKERS architecture and urban design and includes Leland Consulting Group (LCG) and SCJ Alliance. In the interest of brevity, the term "Centers" is used in this report in most cases to refer to both Centers and Corridors.

This market analysis is one component of the Spokane Centers & Corridors Update Study. The purpose of this market analysis is to document:

- Conditions that are likely to affect development in Spokane's Centers.
- The history of development in Spokane's Centers, in order to provide a baseline for understanding likely outcomes in the future.
- The types of development that are called for by City policies (e.g., higher-density, compact, mixed-use development) and likely to be feasible in Centers in the future.
- Which Centers are most likely to be able to meet the City's development goals.
- Some of the that the City could take in order to encourage additional compact, higher-density, mixed-use development in the future.

Contents

Executive Summary

- The goals in the City's existing Comprehensive Plan provide a context against which past and future development in Centers can be assessed. The goals call for development in Centers that is higher density; efficient, cost-effective, and compact; mixed-use (i.e., including residential, office/employment, retail, and other uses); and pedestrian-oriented, among other goals.
- Nationwide, industrial, multifamily, and single-family development are expected to be the development types that developers see as most feasible to build, followed by hotels. The development prospects for office and retail development are poor in most cases. In the next few years, however, high interest rates are likely to limit development of all types.
- The amount of development in Centers is in part determined by the amount of development regionwide and citywide. Spokane has desirable attributes—as a midsize, growing, western, and comparatively affordable metro area—but it also has a less robust economy and growth outlook compared to some other western metros.
- Most development in Centers is built within a series of prototypes. A key input that influences developers' decision about what to build is driven is the amount of the amount of rent they can earn for residential or commercial space. The prototypes that are most likely to be built going forward in Centers are 1) commercial renovation/adaptive reuse; 2) wood frame or garden apartments; and 3) mid-rise, mixed-use, or podium apartment development. Types 1 and 2 have been feasible in Centers and will continue to be feasible under certain conditions. Mid-rise projects have been feasible in and near downtown Spokane, but rents in Centers do not yet support mid-rise development.
- Despite current challenges (e.g. high interest rates and construction costs) LCG anticipates that over the medium and long term, demand for development in Spokane's most desirable and walkable Centers will return.
- Most development completed during the past two decades in Spokane has not been in Centers. Of the 29.5 million square feet of commercial and multifamily space built during this time, 14% has taken place in Centers and Corridors, while Centers and Corridors occupy about 4.6% of the city's land. While the amount of development in Centers appears to be less than what was envisioned in the Comprehensive Plan, LCG is not aware of specific targets for the amount of higher density or mixed-use development that are expected.
- Consistent with national trends, most development (59% of building area) built in Spokane's Centers over the past two decades has been multifamily housing. While the amount of office and retail development in Centers has been decreasing since the early 2000s, the amount of multifamily has been stable or increasing since 2010.
- The Centers that have seen the most development are those on the edges of the city, where vacant land has been more plentiful and less expensive. Examples include 57th & Regal, Indian Trail, and Southgate.
- Centers can be categorized by the era when most of the development within them occurred: historic (such as Monroe and South Perry), mid-century (such as Manito and Lincoln Heights), and recent (such as 57th & Regal and Indian Trail). In most historic and many mid-century Centers, relatively little new, ground-up development has occurred.
- The supply (availability) and cost of land is a critical determinant of whether development happens and can have little to do with the amount of demand (whether or not the location is desirable to residents and tenants). Over the past two decades, there has been much more low-cost land (e.g., valued at less than \$20 per square foot) in recent-era centers than historic or mid-century Centers, and this continues to be the case. For example, there is more than 60 acres of land valued at less than \$20 per square foot at Lincoln & Nevada, and about 80 acres at North Nevada. This represents a significant supply of lower-cost land, which can be built out in coming years or even decades.
- Recent Centers, where most development has taken place, tend not to be the type of highly connected, walkable places envisioned by the Comprehensive Plan. Walkability can be measured in multiple ways, including the amount of streets and sidewalks near a Center, and Walk Score, which measures how many amenities (parks, schools, grocery stores, coffee shops, and other amenities) can be accessed via a short walk from nearby housing.
- Over the past two decades, dense, tall buildings (such as mid-rise and high-rise buildings) have predominantly been built in and near Downtown Spokane, including Downtown, East Downtown, the University District, and South

Hill/Medical District. This is because certain demographic and area attributes are present in these locations and drive urban development, particularly market-rate apartments and mixed-use development. Households most likely to live in urban housing have a higher propensity to be employed in professional services, healthcare, finance, STEM, and various other jobs concentrated in urban locations; be students; earn middle to higher incomes; be aged 25 to 34; and/or be part of 1 or 2 person households. The presence of nearby employers and amenities (e.g., retail services) also drive multifamily and mixed-use development demand. Lower-income households also live in central locations at a higher rate and tend to live in older apartments or subsidized affordable housing.

- LCG recommends that the City's code allow building heights of approximately 90 feet in Centers, which should allow seven-story, mixed-use, mid-rise building to be built. While these buildings are not feasible in most Centers today, they likely will be feasible at some time in the next two decades and are consistent with Comprehensive Plan goals.
- The report provides examples of the 3 development prototypes listed above. There are abundant examples of adaptive reuse projects, both in historic Centers such as East Sprague and Monroe and other locations such as Manito Shopping Center. The Millennium Apartments and Millennium Monroe projects are leading examples of the type of wood frame apartment projects that have been built in Centers in recent years, and which LCG believes are consistent with Comprehensive Plan goals. The Warren Apartments in Downtown is an example of a mid-rise project and is unlikely to be feasible in Centers today due primarily to the fact that rents have historically been higher in and near Downtown.
- The cost of land in Centers will continue to be a challenge for developers. The average commercial property in Centers sells for between $40 and $70 per square foot, while the "greenfield" (vacant, undeveloped) properties closer to the edge of town reviewed by LCG has sold for $13 per square foot. Many wood frame apartment projects can afford to purchase greenfield land but not commercial land. Certain wood frame projects that achieve higher densities (e.g., +/- 100 units/acre), and have lower parking ratios (e.g., less than 0.5 spaces per unit) have a greater capacity to purchase commercial land, and therefore regulations that enable higher density and lower parking requirements are critical to enabling higher-density housing in Centers.
- Developers interviewed for this project made certain recommendations regarding current and future regulations and policy, including: the interim Building Opportunity and Choices for All (BOCA) code should be made permanent; Design Standards for Centers delay projects and create uncertainty and should be streamlined as much as possible; permitting authority is divided between two major silos (Planning, Zoning, and Economic Development; Engineering and Public Works), and the public works process in particular hinders infill development in Centers; Urban forestry requirements create uncertainty; the statewide energy code is increasing the cost of development; and a simplified mixed-use zone(s) would probably be superior to the current Centers and Corridors designations. Detailed developed feedback is described in the appendices.
- Looking ahead over the next 20 years, LCG forecasts that development in many recent-era Centers will slow as the supply of lower-cost land is exhausted. Consistent with the pattern seen in other cities nationwide, development in historic-era Centers will increase because the high levels of connectivity and services will continue to be desirable, in-migration continues, and achievable rents increase. Development in mid-century Centers will increase somewhat but will continue to be difficult because properties are expensive to acquire.
- The report evaluates each of the 23 centers across a series of key attributes including Walk Score/connectivity, demographics, per capita income, historic and recent/projected development, and low-cost land. Centers vary widely across these attributes.
- There are a range of actions that the City could take to encourage mixed-use, higher density development in Centers. These include making BOCA permanent, addressing the regulatory issues mentioned above, as well as investing in streetscape/transportation and utility improvements, partnering with other agencies such as STA, expanding the City's storefront improvement grant program, reducing Transportation Impact Fees in Centers, acquiring land in key locations, and staying abreast of best practices in infill and mixed-use development.

City Goals: Comprehensive Plan Policies

The City of Spokane adopted an updated Comprehensive Plan in 2001 and has revised the Comp Plan numerous times over the past two-plus decades.

The goals in the Comp Plan provide a context against which past and future development in Centers can be assessed. The Comp Plan goals that appear to be most applicable to this analysis of Centers are shown below. The goals call for development in Centers that is higher density; efficient, cost-effective, and compact; mixed-use (i.e., including residential, office/employment, retail, and other uses); and pedestrian-oriented, among other goals.

LU 1. CITYWIDE LAND USE

Offer a harmonious blend of opportunities for living, working, recreation, education, shopping, and cultural activities by protecting natural amenities, providing coordinated, efficient, and cost-effective public facilities and utility services, carefully managing both residential and non-residential development and design, and proactively reinforcing downtown Spokane's role as a vibrant urban center.

LU1.4. Higher Density Residential Uses. Direct new higher-density residential uses to Centers and Corridors designated on the Land Use Plan Map.

LU-1.5. Office Uses. Direct new office uses to Centers and Corridors designated on the Land Use Plan Map.

LU-1.6. Neighborhood Retail Use. Direct new neighborhood retail uses to Neighborhood Centers designated on the Land Use Plan Map.

LU 1.7. Neighborhood Mini-Centers. Create a Neighborhood Mini-Center wherever an existing neighborhood retail area is larger than two acres.

LU 3: EFFICIENT LAND USE

Promote the efficient use of land by the use of incentives, density and mixed-use development in proximity to retail businesses, public services, places of work, and transportation systems.

LU 3.1 Coordinated and Efficient Land Use. Encourage coordinated and efficient growth and development through infrastructure financing and construction programs, tax and regulatory incentives, and by focusing growth in areas where adequate services and facilities exist or can be economically extended.

LU-3.5. Mix of Uses in Centers. Achieve a proportion of uses in Centers that will stimulate pedestrian activity and create mutually reinforcing land uses.

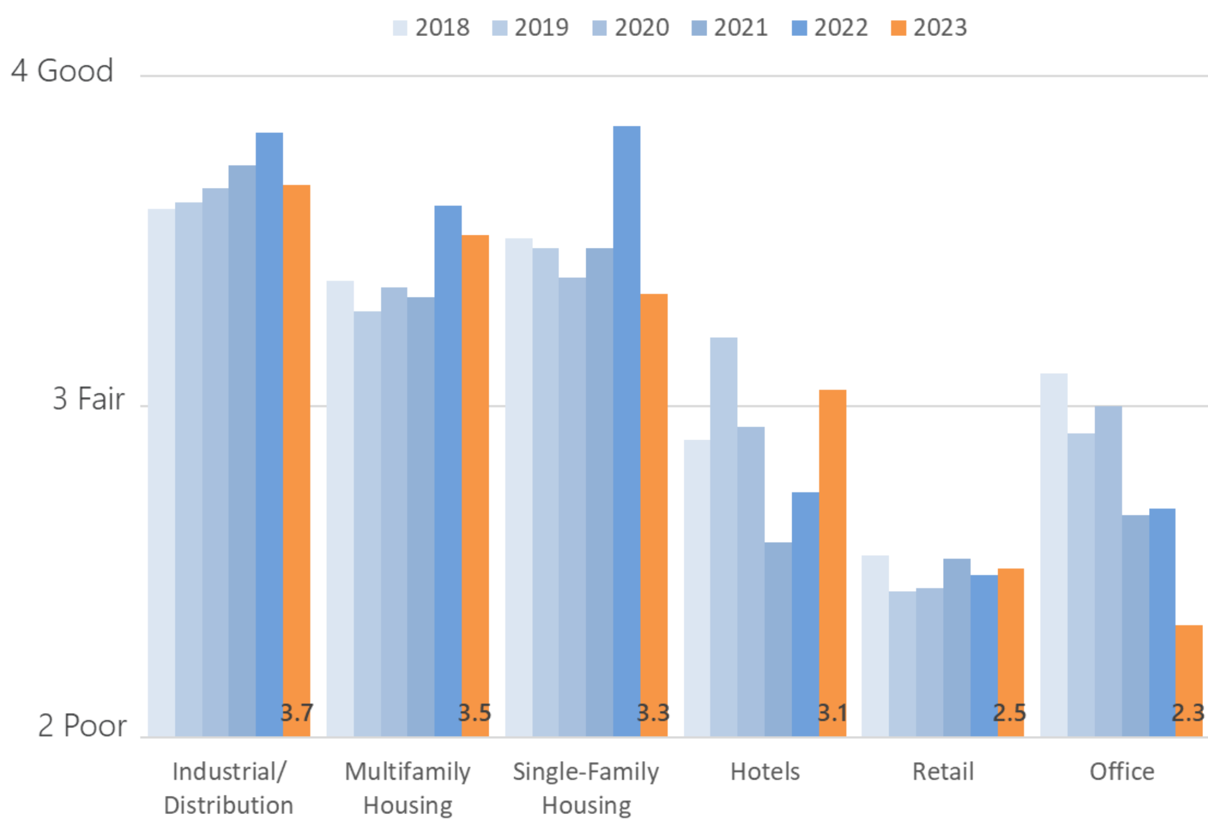
Source: Comprehensive Plan for the City of Spokane, Adopted 2017, including amendments through 2023, Pages 87 to 88.

National and Western U.S. Development Context

National Development Prospects

The figure below shows the results of annual surveys conducted as part of the Urban Land Institute's (ULI) Emerging Trends in Real Estate reports, published between 2018 and 2023. This report captures the sentiment of real estate developers and investors nationwide, including their level of interest in developing various types of properties, including industrial, residential, hotel, retail, and office properties. While the report reflects a nationwide perspective, and individual real estate development decisions are local, LCG finds that these national sentiments have a powerful impact on local development outcomes.

Figure 1. Development Prospects, 2018 – 2023



Source: Emerging Trends in Real Estate, 2023, Urban Land Institute.

Some of the key takeaways of ULI's Emerging Trends reports are as follows. Industrial and multifamily (rental) housing are the types of development that developers see as the best investments for the near future. Industrial development is desirable because of increasing demand for "last mile" delivery hubs for online shopping, low vacancy levels, "reshoring" of logistics and manufacturing because of stressed global supply chains, and other factors. Multifamily continues to be desirable because household growth has outpaced residential development for many decades. Single family development continues to be in demand, but fell significantly in desirability between 2022 and 2023 due to rapidly increasing mortgage rates and interest rates for development construction loans. Interest in developing hotels has rebounded considerably since the most intense periods of the COVID pandemic, when travel slowed significantly. Retail and office development are the least desirable development opportunities. In many communities, there is an adequate supply of retail space; rent growth has been limited for many years; and the growth in online shopping dampens demand for new and existing retail space. Demand for new office space is very limited, primarily because working from home has increased significantly in most office employment industries (typically from below 5% before the pandemic to 20% to 30%+ in 2023) and hybrid work has increased, such that overall office occupancy is much lower than it has been historically. Developers are therefore very hesitant to invest in major new office projects. LCG believes that the desirability of development types nationally will be similar to their level of desirability in Spokane's Centers, with the likely exception of industrial development. Most parcels in Spokane's Centers will be too small and too expensive to be well suited to industrial development.

Interest Rates

As mentioned above, borrowing costs for developers and homebuyers have increased significantly in recent years. Rates were at historic lows in parts of 2020 and 2021. Since that time, rates have increased significantly, and in many cases more than doubled. Average 30-year mortgage rates for homebuyers were at about 3% in 2020 and 2021, and can now be around 8%. Borrowing rates (e.g., permanent and construction financing) for developers have also risen dramatically. For developers, higher rates have a significant negative impact on development feasibility, and are forcing developers to put many projects that would have been feasible in 2021 on hold. This national trend is consistent with recent presentations made to the City by the developers, who had planned to renovate the Payton Building downtown into apartments but said that the project is on hold due to interest rates.

Higher rates make construction more expensive, reduce overall returns, and reduce key metrics that lenders review, particularly debt service coverage ratio. Therefore, interest rates have a significant impact on the pace of development in Centers. While it is important to acknowledge this reality, LCG expects that development financing costs will decrease in the coming years, and that development feasibility will improve over today's conditions, but probably not return to the very favorable conditions seen in the midst of the pandemic.

The amount of development in Centers is in part determined by the amount of development regionwide and citywide. Spokane has desirable attributes—as a midsize, growing, western, and comparatively affordable metro area—but it also has a less robust economy and growth outlook compared to some other western metros.

The amount of residential, commercial, and mixed-use development in Spokane's Centers will be significantly impacted by the amount of growth and economic vitality regionally. If population and job growth are high regionally in the coming decades, then population and job growth will tend to be higher in Centers, since households and employers will need space to occupy. The *perceptions* of developers and the general public are also important. The figure at right shows how the ULI categorized metropolitan areas across the country for 2023. The ULI identifies the Spokane/Coeur d'Alene metro area as part of "The Affordable West." This is a group of moderate-growth metro areas that are somewhat more affordable than their peer cities. By contrast, the ULI puts the Boise metro area in the "Supernova" category because of this region's rapid population and employment growth, and diversification of the region's economy, for example, into more high-tech employment. LCG believes that comparing the Spokane and Boise regions is useful because the regions are both located in the Mountain West/ Pacific Northwest, are similar in overall size, and are both candidates when companies and households are considering new locations. If the Spokane region were to grow as fast as Boise, there would be more demand for development in Centers.

Figure 2. Emerging Trends in Real Estate Market Categories, 2023

Major group	Subgroup	Markets
Magnets	Super Sun Belt	**Atlanta** **Dallas/Fort Worth** **Houston** **Miami**
	18-Hour Cities	**Charlotte** **Denver** Fort Lauderdale Minneapolis
	Supernovas	**Austin** Boise Jacksonville
The Establishment	Multitalented Producers	Chicago **Los Angeles**
	Knowledge and Innovation Centers	**Boston** New York–Manhattan
	Major Market Adjacent	Inland Empire Jersey City Long Island New York–Brooklyn New York–other boroughs **Northern New Jersey**
Niche	Boutique Markets	Chattanooga Des Moines Greenville, SC Knoxville
	Eds and Meds	Baltimore Columbus Gainesville Madison
	Visitor and Convention Centers	Cape Coral/Fort Myers/Naples Charleston Deltona/Daytona Honolulu
Backbone	The Affordable West	Albuquerque Sacramento Spokane, WA/Coeur d'Alene, ID
	Determined Competitors	Birmingham Indianapolis Kansas City, MO
	Reinventing	Buffalo Cincinnati Cleveland Detroit

Source: *Emerging Trends in Real Estate* surveys; compiled by Nelson Economics.
Note: **Bold** type indicates the 20 highest-rated markets in *Emerging Trends in Real Estate 2023* survey for overall real estate pros

Source: Emerging Trends in Real Estate, 2023, Urban Land Institute.

Figure 3 below compares demographic and economic attributes of the Spokane and Boise metro areas, and the United States. While Spokane and Boise are similar in terms of current (2022) population, households and population in Boise are expected to grow considerably faster over the next five years. Both areas will grow more rapidly than the national average. Real per capita income in Boise was slightly higher than Spokane in 2022 and is expected to grow faster. The cost of doing business in Boise is estimated to be lower than in Spokane.

Figure 3. Demographic and Economic Metrics for Spokane and Boise Metros, and United States

Metric	Spokane, WA/ Couer d'Alene, ID Metro Area (MSA)	Boise Metro Area (MSA)	United States
Population, 2022	790,000	820,000	333,150,000
Market Category	Affordable West	Supernovas	
Household Growth: 5-year projected annual % change	1.5%	2.2%	1.1%
Population Growth: 5-year projected change	42,200	78,700	
Real per capita income, 2022*	$47,609	$48,316	$53,515
Real per capita income, projected 5-year change	1.0%	1.7%	2.0%
Cost of doing business**	99.5	93	100
Employment Growth: 5-year annual projected change	0.9%	1.7%	1.0%
Science, technology, engineering, and math (STEM) Employment Location Quotient	0.7	1.1	1.0
Office-Using Employment Location Quotient	0.8	1.0	1.0
Permits per 100 Households added	101	111	90
Affordability. Percent of all homes likely affordable to 4-person family earning 120% of AMI	43.5%	45.5%	53.0%
Transit Quality (AllTransit Score)	2.5	1.8	4.0

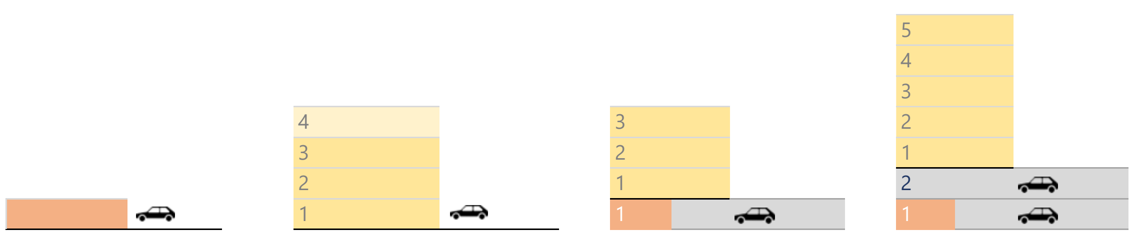
Source: Emerging Trends in Real Estate, 2022, Urban Land Institute.

The concentration (location quotient) of science, technology, engineering, and math (STEM) and office-using employment is higher in Boise than Spokane. Both of these employment categories have tended to drive further regional economic growth, and are frequent occupants of higher density/center locations. Unfortunately, housing in both Spokane and Boise is significantly less affordable to four-person households at 120% of area median income than housing nationwide. Spokane's transit service is superior to Boise's. Again, these data are provided in order to underscore the point that, today and in the decades to come, development within Spokane's Centers will be significantly impacted by the regional economic and demographic context. A fast-growing region that is generating high levels of employment in white-collar, professional service, and STEM jobs is highly likely to drive more demand for higher-density, residential and commercial infill development.

Most development in Centers is built within a series of prototypes. Developers' determination about what to build is driven in large part by achievable rent.

The figure below shows the development prototypes that are most often built in Centers and other infill locations nationwide. While every development project is different in its particulars, developers tend to build variations on these prototypes: commercial renovation/adaptive reuse; garden apartments; and mid-rise, mixed-use, or podium apartment development. The prototypes can be defined by the type of use (commercial, residential, or a mix of both); parking (surface or structure); structure (wood frame; wood frame over concrete podium); floors; and density.

	Commercial	**Housing**	
Name	**Renovation Adaptive Reuse**	**Garden Apartments**	**Mid-Rise / Mixed-Use / Podium**



Parking	Surface	Surface	Structured
Structure		Wood frame	Wood frame apts Over concrete podium
Floors	1	3 to 4	4 to 8
Typical Density	.3 FAR	30 du/acre	135 du/acre

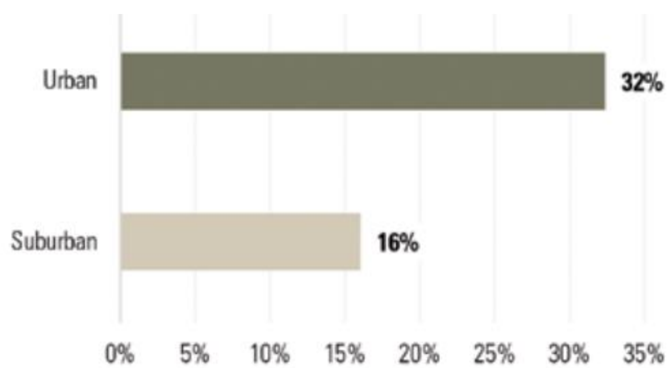
Source: Leland Consulting Group.

Developers—particularly multifamily developers—determine what prototypes to build in large part by the amount of rent they can charge on a per-square-foot or per-unit basis. In locations where residential demand is very high, developers can afford to pay the higher costs associated with podium-style development, including higher costs for structured parking, structural elements (e.g., post-tensioned slab), elevators, interior conditioned space, and finishes. In other locations where demand and rents are somewhat lower, developers can build lower-cost garden apartments. In yet other locations, rents are sufficiently low that no multifamily development "pencils." Specific examples of projects that fit within these prototypes and are located in Spokane are explored later in this analysis.

Following the great recession, more infill development has taken place in walkable, historic neighborhoods than in suburban locations.

Analysis of development patterns in large metro areas nationwide between 2010 and 2017 shows that while multifamily apartment development took place in all types of locations, more development took place in urban compared to suburban locations, "reflecting ongoing consumer demand—particularly among younger households—for living environments that are convenient to jobs, transit, and urban amenities, and which are highly walkable."

Figure 4. Growth in Rental Apartment Units, 2010-2017; Top 50 Metro Areas



Source: The New Geography of Urban Neighborhoods, Urban Land Institute.

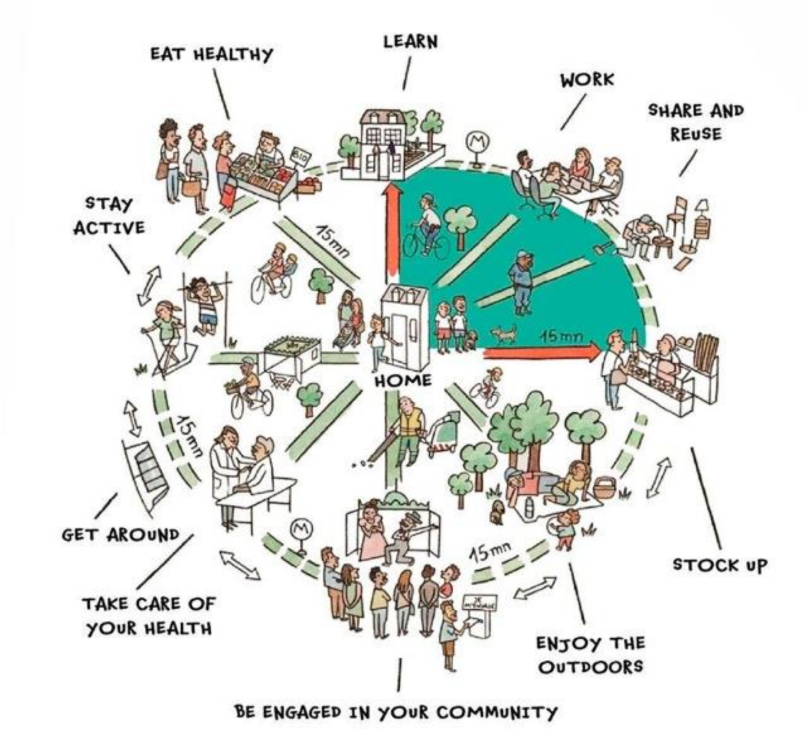
While the Covid pandemic has fundamentally changed certain aspects of living and working patterns, LCG believes that this fundamental demand—by younger and smaller households, for housing in walkable, well-connected, mixed-use communities—will remain in coming decades, and that most historic urban locations are better positioned to provide such environments compared to suburban locations. A recent report by Smart Growth America reaches similar conclusions:

> "In spite of the changes to urban areas brought on by the Covid-19 pandemic, the 2023 edition of Foot Traffic Ahead's research findings demonstrate continued real estate market and consumer preference for walkable urbanism through premiums in commercial rents, multifamily rental rates, and for sale home prices, compared to drivable alternatives. To illustrate these preferences, Foot Traffic Ahead 2023 benchmarks the range of walkability in the 35 largest metropolitan regions in the U.S. and shows that the market is continuing to seek more well-connected, walkable neighborhoods. This report shows that the demand for walkable, well-connected real estate far exceeds supply; and this imbalance underscores the urgency of policy reform to deliver more mixed-use, mixed-income housing near transit, especially in the midst of today's housing access crisis." *(Source: Foot Traffic Ahead - Ranking Walkable Urbanism in America's Largest Metro Areas, 2023.)*

Most research on this topic has been conducted for the largest metro areas in the U.S., and therefore we cannot conclusively demonstrate that preferences exhibited in large metro areas are the same as those in Spokane. However, LCG has found that walkable, mixed-use environments are very popular in Western metro areas, even in those with populations below 100,000, such as Bend, Missoula, and Bozeman.

One concept that has proven to be popular with developers, residents, tenants, and planners is the "15-Minute City." According to the ULI, "Whatever the headwinds, there is little doubt that cities retain their appeal to broad swaths of people and businesses. Younger people, as always, are especially attracted to city life, but the attraction is not limited to generation Z. As one developer summarized, 'People want that 15-minute lifestyle if they can get it. They want walkable, amenitized, real places that allow them to live fuller lives without having to get into a car and transition from one segment of their life to another." *(Source: Emerging Trends in Real Estate, 2022, Urban Land Institute; page 17).*

Figure 5. The 15-Minute City



Spokane Development Context

In Spokane, most development completed during the past two decades has not been in Centers.

In this section, we transition from discussing the development context of the nation and western U.S., to conditions in Spokane's 23 designated Centers (including 20 Centers and 3 Corridors).[1]

Figure 6. All Multifamily and Commercial Real Estate Development, Built 2001 to 2023

Center/	Rentable Bldg. Area (RBA)	
Corridor Name	**SF**	**%**
57th & Regal	906,940	3%
Five Mile	141,343	0%
Lincoln Heights	42,307	0%
Manito Shopping Center	20,151	0%
North Town	71,534	0%
Shadle	475	0%
Southgate	511,947	2%
Cannon & Maxwell	5,585	0%
East Sprague	71,187	0%
Holy Family	259,721	1%
North Foothills	35,520	0%
North Nevada	206,672	1%
Trent & Hamilton	60,662	0%
Hamilton	498,446	2%
Hillyard	67,789	0%
Monroe	96,480	0%
14th & Grand	8,754	0%
Garland	-	0%
SFCC	169,000	1%
Indian Trail	607,208	2%
Lincoln & Nevada	170,236	1%
South Perry	14,286	0%
West Broadway	253,480	1%
Centers/Corridors Total	4,219,723	14%
Other Areas	25,261,548	86%
City of Spokane Total	29,481,271	100%

[1] In most cases, the area included in Centers is the area within ¼ mile of the placemark provided for the that center (i.e., from "the center of the center"), however, there are several exceptions. For Corridors, a 1/8-mile distance from a line has been used, since the assumption is that most past and future development will take place along one primary street. The demographic information (e.g., household sizes and per capita incomes) provided later in this report are for a ½ mile distance from Centers and Corridors, in order to represent the demographics in a larger "market area."

Source: CoStar; Leland Consulting Group.

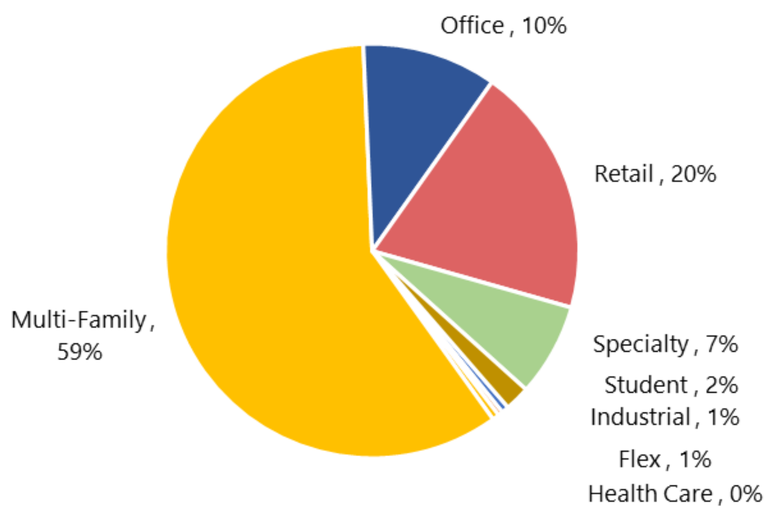
Figure 6 shows all of the rentable building area (RBA; similar to but somewhat less than the gross building area) of all of the known multifamily (apartment) and commercial real estate development built in Spokane between 2001 and 2023. "Commercial" includes retail, office, hotel/hospitality, industrial, flex, storage, and specialty space. Figure 6 does not include owner-occupied single family or residential condominium space, or many publicly owned buildings such as libraries. 2001 was selected as the beginning point for this analysis, since a new Comprehensive Plan was adopted in that year. The data source for the above data, as well as much of the other information about multifamily and commercial real estate in Spokane, is CoStar, the nation's most extensive source of commercial real estate information, analytics and news. LCG has also supplemented CoStar data via interviews with Spokane-based developers, our research, and other sources cited in this report.

Of the 29.48 million square feet of commercial and multifamily space built during this time, 14% has taken place in Centers and Corridors, while Centers and Corridors occupy about 4.6% of the city's land. LCG is not aware of goals that call for a specific proportion of growth to take place in Centers; however, the Comp Plan does call for new, higher density, mixed-use development to take place in Centers, and it does not seem that this goal is consistent with development patterns over the past two-plus decades in most Centers. Most Centers absorbed close to 0% of the total amount of citywide development. However, some Centers could be considered successful in terms of the amount of development they have attracted. The most successful Centers (in terms of attracting development) have been places like 57th & Regal and Indian Trail, which absorbed about 3 and 2% of all citywide development, respectively. The zoning in place in Centers does not seem to be a primary driver of the amount of development that has taken place; as shown in the appendices, there is no clear relationship between the number of acres that are within a CC or mixed-use zone and the amount of development that has taken place in a center.

Consistent with national trends, most development in Spokane's Centers has been multifamily housing.

As shown in Figure 7 below, 59% of all building area in Centers has been multifamily housing. 20% has been retail, 10% has been office, and smaller shares are specialty, student (generally student housing), industrial, flex, and healthcare. Specialty development is a mix of self-storage, utility sub stations, schools, and parking garages.

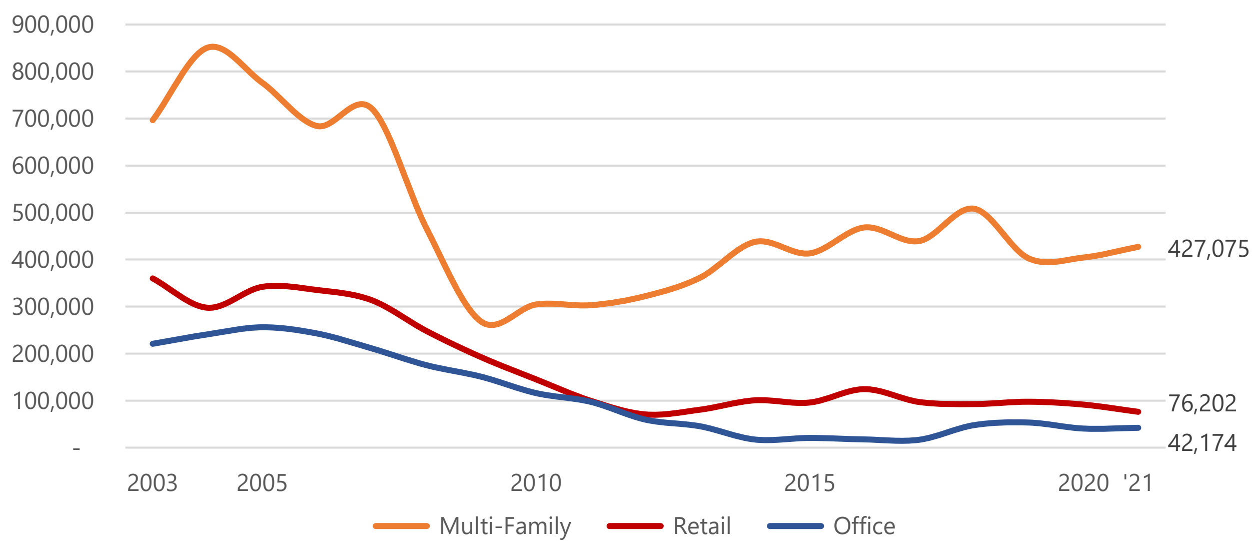
Figure 7. Building Area in Centers by Development Type, 2001 to 2023



Source: CoStar, Leland Consulting Group. For the remainder of the report, "Building Area" is RBA.

As Figure 8 shows, multifamily housing has been the dominant development type in Centers since the early 2000s, and after experiencing a sharp downturn that coincides with the onset of the great recession in 2007-2008, multifamily development has gradually increased. The five-year average for multifamily space in 2021 (i.e., between 2019 and 2023) was over 427,000 square feet of RBA per year, or 568 units per year. By contrast, the amount of retail and office space constructed in Centers has been on a consistent downward trend since the early 2000s. As of 2021, about 76,000 square feet of retail and 42,000 square feet of office space have been built annually in Centers, and most of this development has taken place in a few Centers located furthest from downtown Spokane. For the foreseeable future, LCG expects the dominance of multifamily development to continue, and for new, ground-up construction of retail and office space to slow.

Figure 8. Building Area in Centers by Development Type, Five Year Rolling Average, 2003 to 2021



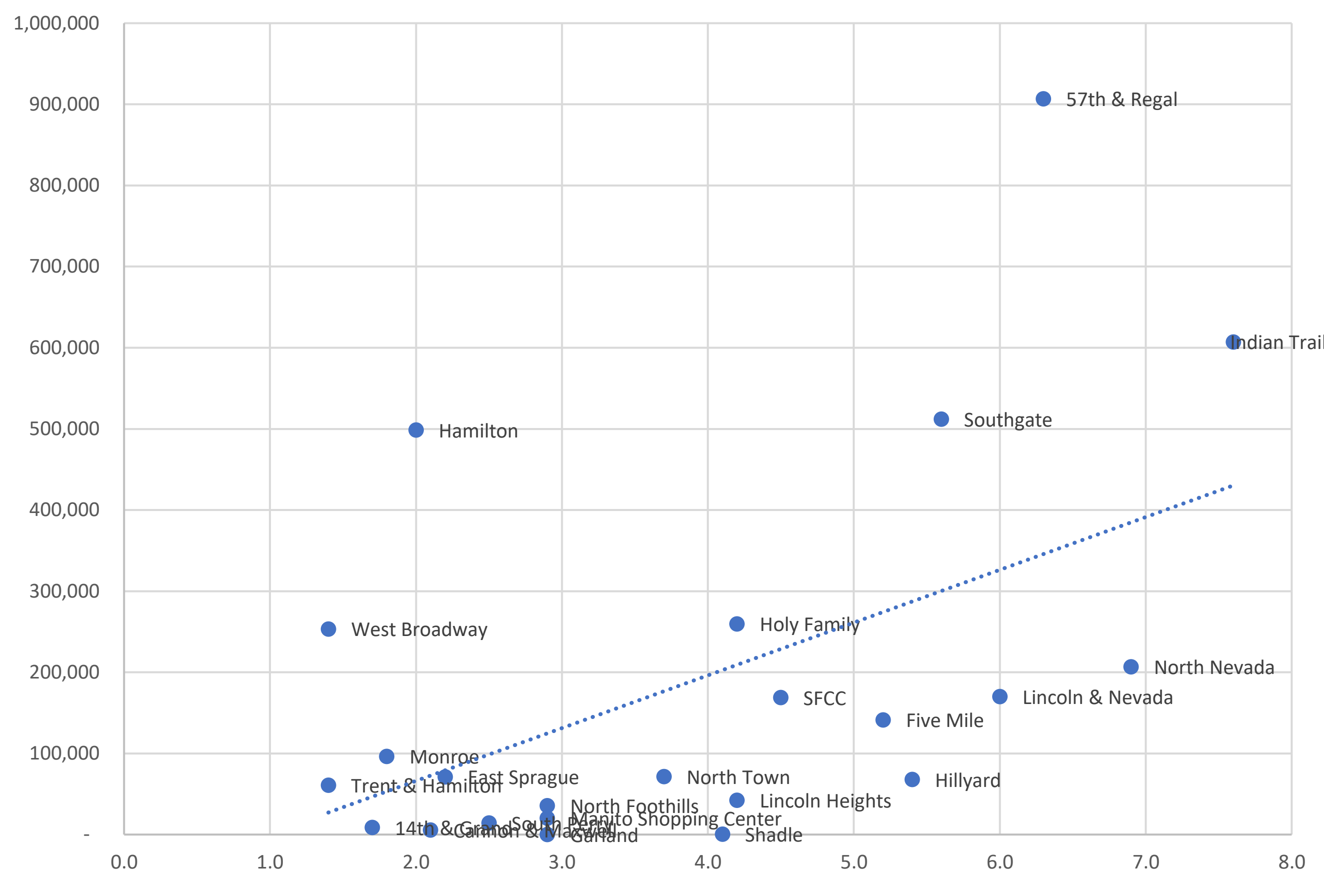
Source: CoStar, Leland Consulting Group.

The Centers that have seen the most development are those on the edges of the city, where vacant land has been more plentiful and less expensive.

As Figure 9 shows, there is a strong correlation between a Center's distance from downtown Spokane (City Hall), and the amount of development that has occurred there. In general, the further a Center is from downtown, the more development has occurred there. Centers such as 57th & Regal and Indian Trail, which are 6.3 and 7.6 miles from City Hall, respectively, have seen the greatest amount of development amongst all Centers—about 900,000 and 600,000 square feet of development. Most closer-in (and older) Centers like Monroe and Trent & Hamilton captured less than 100,000 square feet of new, ground-up development during this time period, and many close-in Centers have seen almost no new development.

LCG believes that one of the major drivers of this development pattern is the fact that vacant, undeveloped "greenfield" sites near the fringes of the City tend to cost much less for developers to acquire than sites that are already built-out near the center of the city. Edge sites also tend to be larger, have fewer environmental contamination issues, and may be owned by more willing sellers.

Figure 9. Distance from Downtown Spokane (Miles) and Square Feet of Development, 2001-2023

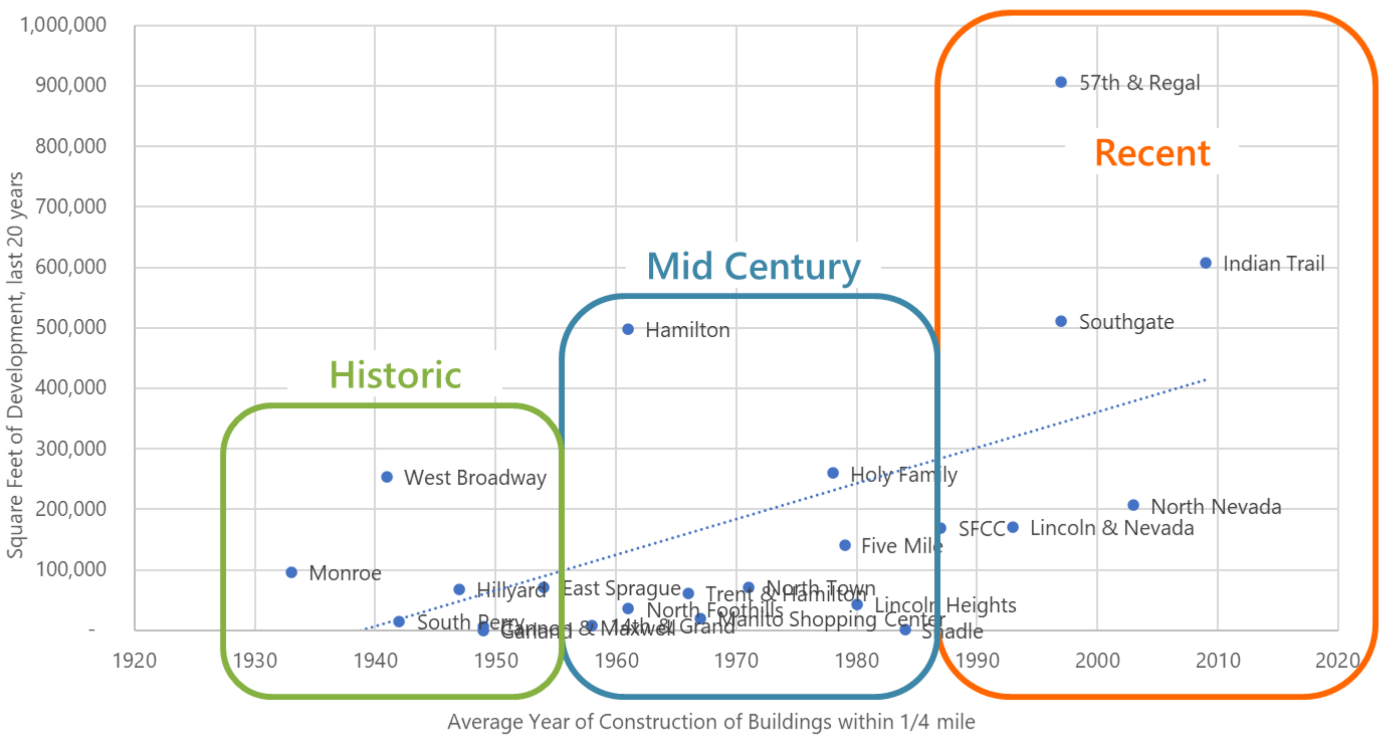


Source: Spokane County GIS; CoStar; Google Maps; Leland Consulting Group.

Centers can be categorized by the era when most of the development within them occurred: historic, mid-century, and recent. In most historic and many mid-century Centers, relatively little new, ground-up development has occurred.

The figures below build on the analysis above that compares the amount of development to the distance from downtown. Figure 10 compares the amount of development to the average year of construction of buildings located within the center, and shows a similar relationship between these variables: More recently built Centers (which tend to be further from the center of the city) have seen more development than historic or mid-century Centers.

Figure 10. Development Era and Square Feet of Development, 2021-2023



Source: Spokane County GIS; CoStar; Leland Consulting Group.

Figure 11 shows some of the key metrics for historic, mid-century, and recent Centers. We define these categories based on the average year of construction for buildings in the CoStar database that are within ¼ mile of the Center location. which is before 1955, 1985, and 2023, for the three Centers types. It is likely that CoStar does not include some older buildings (e.g., 1920 and before) and therefore the actual age of all buildings in some Centers may be older. The average year of construction for buildings is also shown below, as is the year when most of the buildings in the Centers will be "old" (more than 50 years old) and therefore very much in need of major capital investments (see [RDH Building Science]).

The average distance to downtown is 2.6, 3.2, and 6.2 miles, respectively. It is notable that while the age of construction differs significantly between historic and mid-century Centers, the distance to downtown does not. There are 7 historic, 10 mid-century, and 6 recent Centers. The average RBA of development per year between 2001 and 2023 is much higher for recent Centers (19,500 square feet) compared to 3,300 and 5,200. Recent Centers have seen almost 6 times as much development as historic Centers, and almost 4 times as much development as mid-century Centers.

The era of construction is correlated to a number of other Centers attributes, particularly to the amount of development over the past two-plus decades.

Figure 11. Key Metrics for Historic, Mid-Century, and Recent Centers

Era	Av. Year of Construction Before	Av. Year of Construction	"Old Age" Buildings	Average Distance to Downtown	Number of CCs	Average RBA of Development 2001-2023	/Year
Historic	1955	1945	1995	2.6	7	73,000	3,300
Mid Century	1985	1971	2021	3.2	10	85,000	3,900
Recent	2023	1998	2048	6.2	6	429,000	19,500
Total					**23**		

Source: Spokane County GIS; CoStar; RDH Building Science; Leland Consulting Group.

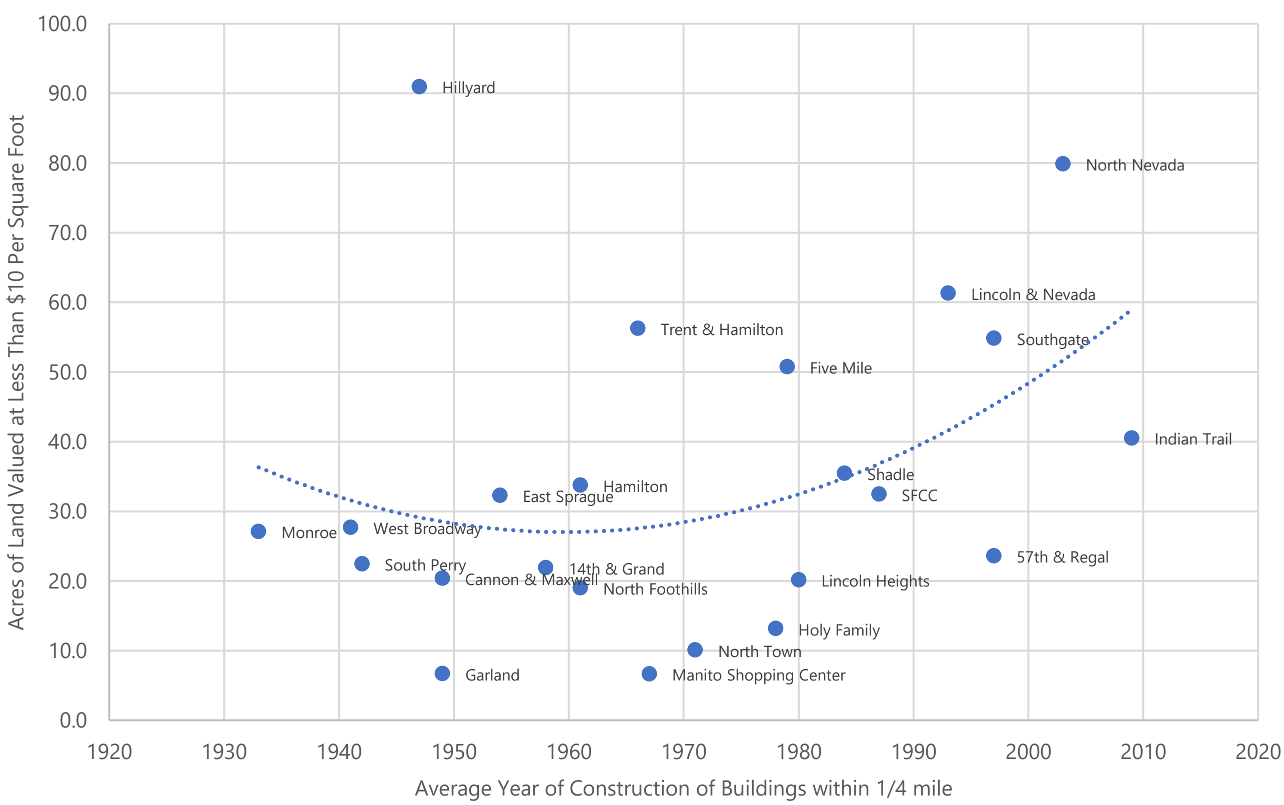
The *supply* (availability) and cost of land is a critical determinant of whether development happens and can have little to do with the amount of *demand* (whether or not the location is desirable to residents and tenants).

As mentioned above, the supply of lower-value land is a major reason that more development has taken place in recent Centers that are near the edge of the city—there has historically been more low-cost land within and near these Centers.

Figure 12 compares the Centers era or average year of construction and the acres of land that are currently valued at less than $20 per square foot of land area (or less than $871,200 per acre). The acreage shown in Figure 12 does not include land owned by schools or government agencies. As will be discussed in greater depth later in this report, based on LCG's developer interviews and data collected regarding land transactions, LCG believes that transactions between multifamily and commercial developers and land owners will take place at between $10 and $20 per square foot. The average of the seven land transactions reviewed by LCG is $13.40 per square foot. When "raw" land (large tracts that do not yet include on-site roads and infrastructure) is priced at more than $20 per square foot, it is likely to become infeasible for most developers to acquire the land and then develop the land as multifamily housing, commercial space, or other development types.

Figure 12 shows that there is more low-cost land at Centers that developed more recently, which tend to be more distant from downtown. For example, there is more than 60 acres of land valued at less than $20 per square foot at Lincoln & Nevada, and about 80 acres at North Nevada. This represents a significant supply of lower-cost land, which can be built out in coming years or even decades.

Figure 12. Average Year of Construction and Acres of Land Valued at < $20 per square foot



Source: Spokane County GIS; CoStar; Leland Consulting Group.

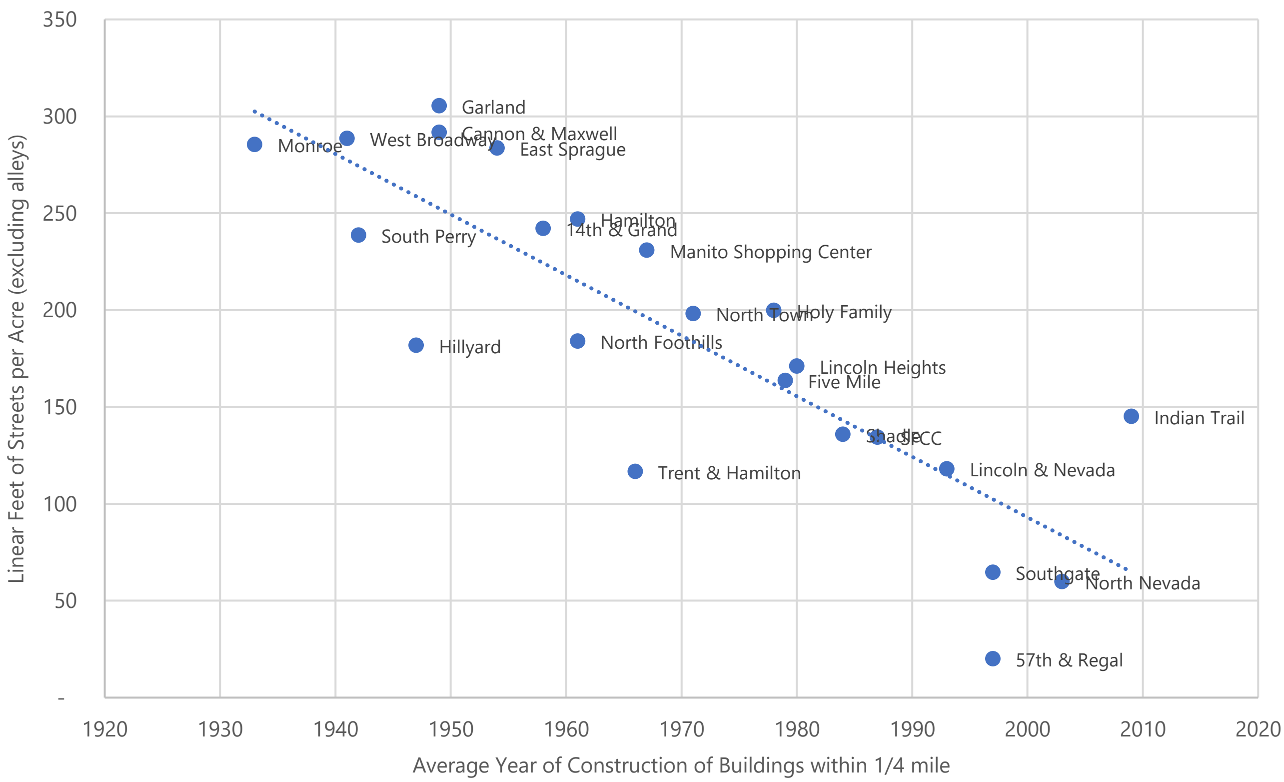
Figure 12 shows the amount of relatively low-cost land that remains available in Centers today, not the amount of low-cost land that was available historically (e.g., 20 years ago). Nonetheless, LCG believes it is safe to assume that, over the past two decades, there has been more low-cost land available at edge Centers compared to historic or mid-century Centers.

Note that estimating the amount of readily *developable* land is difficult and would require a careful, center-by-center or even property-by-property evaluation. This is because—even if land is low-cost—it may be difficult to develop because of steep slopes; wetlands, habitat, trees, or other environmentally sensitive condition; environmental contamination; easements; zoning; access challenges; ownership, or other conditions.

Recent Centers, where most development has taken place, tend not to be highly connected, walkable places.

Figure 13 compares the average year of development of Centers with their connectivity (the linear feet of streets per acre, excluding alleys). Centers that developed more recently tend to be less well-connected, pedestrian- and bicycle-oriented. Therefore, most of the development that has occurred in Spokane's Centers in the last two-plus decades has taken place in relatively poorly connected environments.

Figure 13. Average Year of Construction and Connectivity



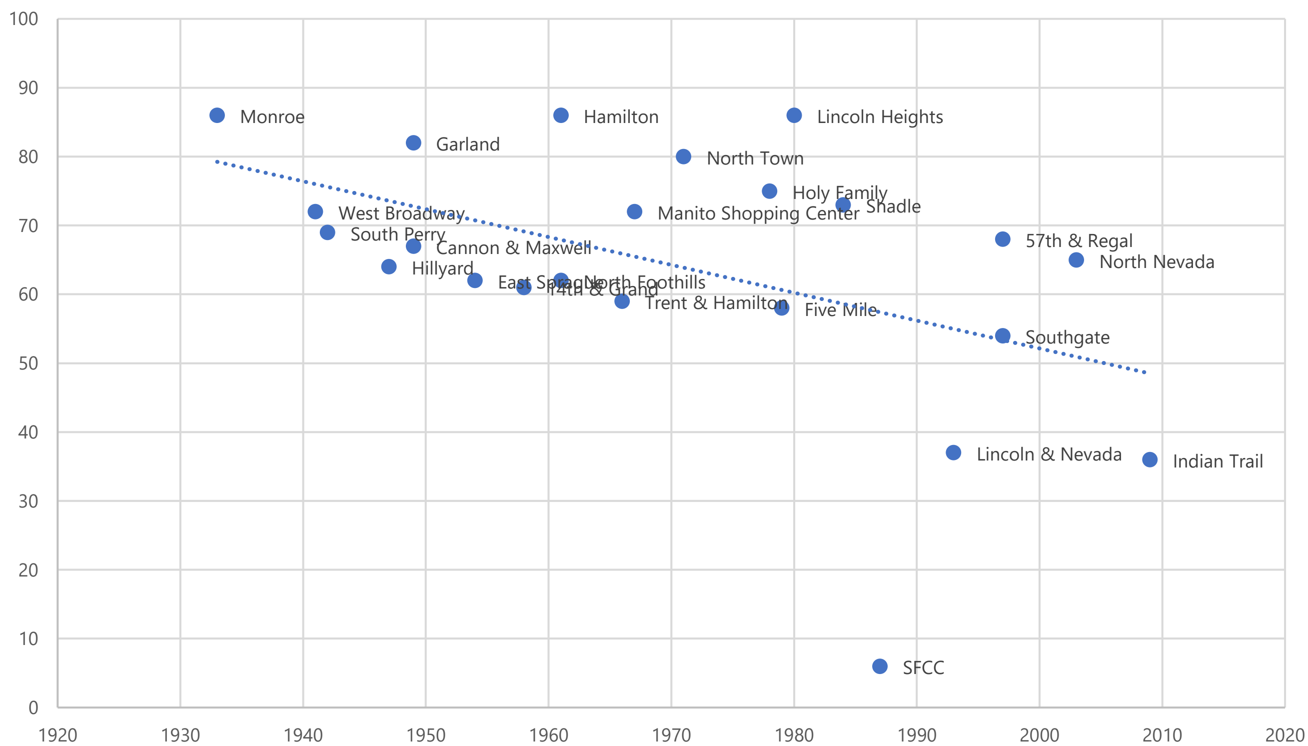
Source: Spokane County GIS; MAKERS; Leland Consulting Group.

Figure 14 below shows another way to measure the quality of connections, commercial destinations, and other destinations and amenities within Centers: via Walk Score. Walk Score is a free, web-based service that "measures the walkability of any address using a patented system. For each address, Walk Score analyzes hundreds of walking routes to nearby amenities. Points are awarded based on the distance to amenities in each category. Amenities within a 5-minute walk (.25 miles) are given maximum points. A decay function is used to give points to more distant amenities, with no points given after a 30-minute walk." Walk Score measures proximity to restaurants, groceries, coffee shops, pubs, parks, schools, shopping, entertainment, and errands. Walk Score also generates Bike Score and Transit Score metrics.

Figure 14 shows that, in general, Centers that were developed more recently have a lower walk score than historic and mid-century Centers. Indian Trail, which has seen the second-greatest amount of development, has one of the lowest walk scores. Therefore, where development in Centers is occurring, it generally is not taking place in the most walkable places. The new multifamily and commercial development is also often not creating walkable places.

Similar to other data sets, however, there is a significant amount of variation and "noise" in this data. For example, Lincoln Heights, which largely developed in the late 20th century, has one of the highest Walk Scores, due in part to the many services that can be accessed in and near the center. South Perry, one of the most historic Centers with good street connectivity, has a lower walk score, perhaps because there is no full-service grocery store nearby. Thus, the year of construction predicts less about a center's Walk Score than it does about its connectivity (above) and other metrics.

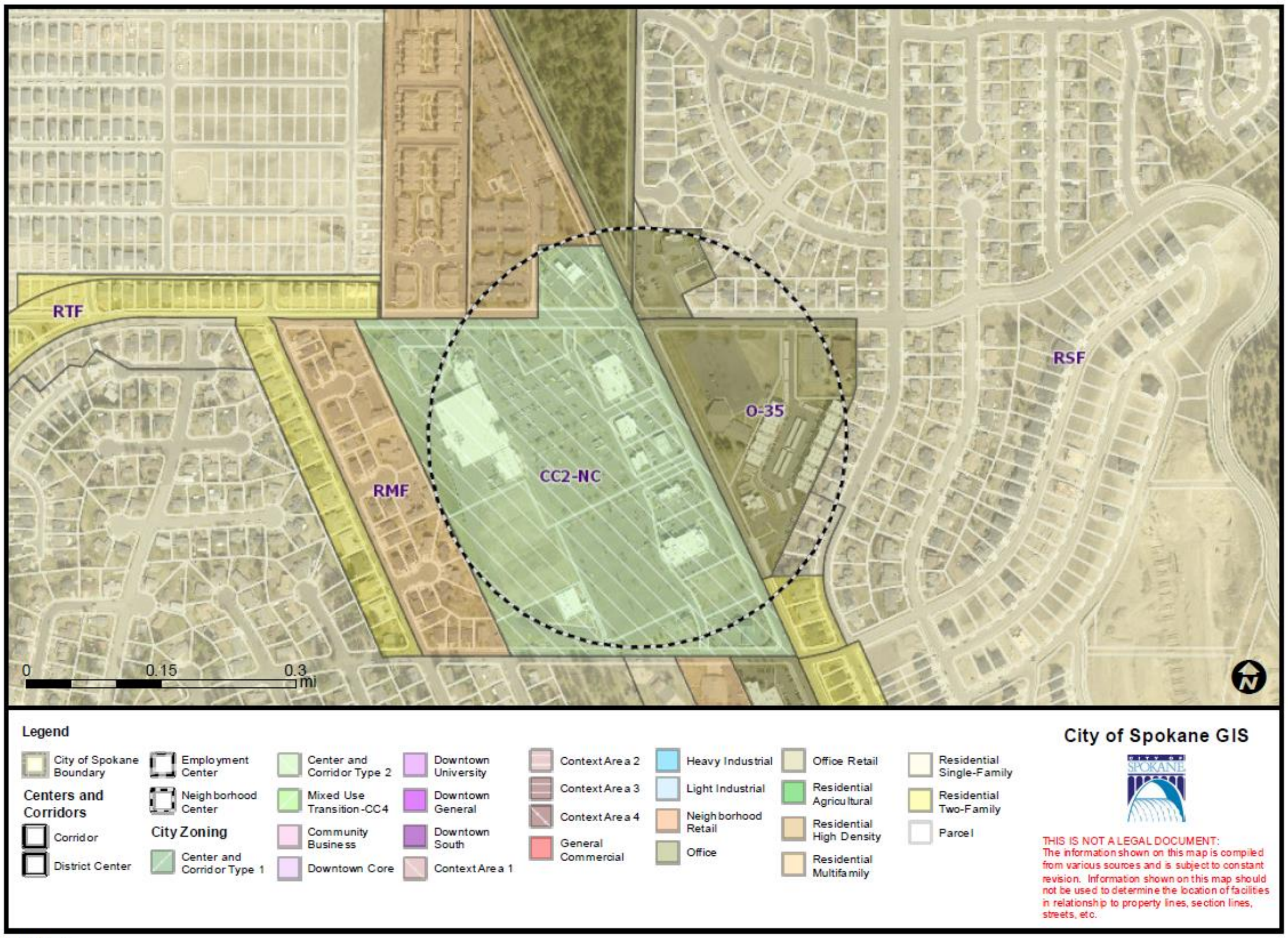
Figure 14. Average Year of Construction and Walk Score



Source: Spokane County GIS; Walk Score; Leland Consulting Group.

The maps of the Indian Trail Center below illustrate several of the challenges that face developers and planners when trying to create walkable or mixed-use development in recent, edge Centers. Figure 15 shows that a majority of the properties included within the ¼ mile center, particularly those west of Indian Trail Road, are single-use, large-format retail properties, with large surface parking lots. There are some apartments located east of Indian Trail Road (Zoned O 35), but not enough to make this a truly mixed-use center.

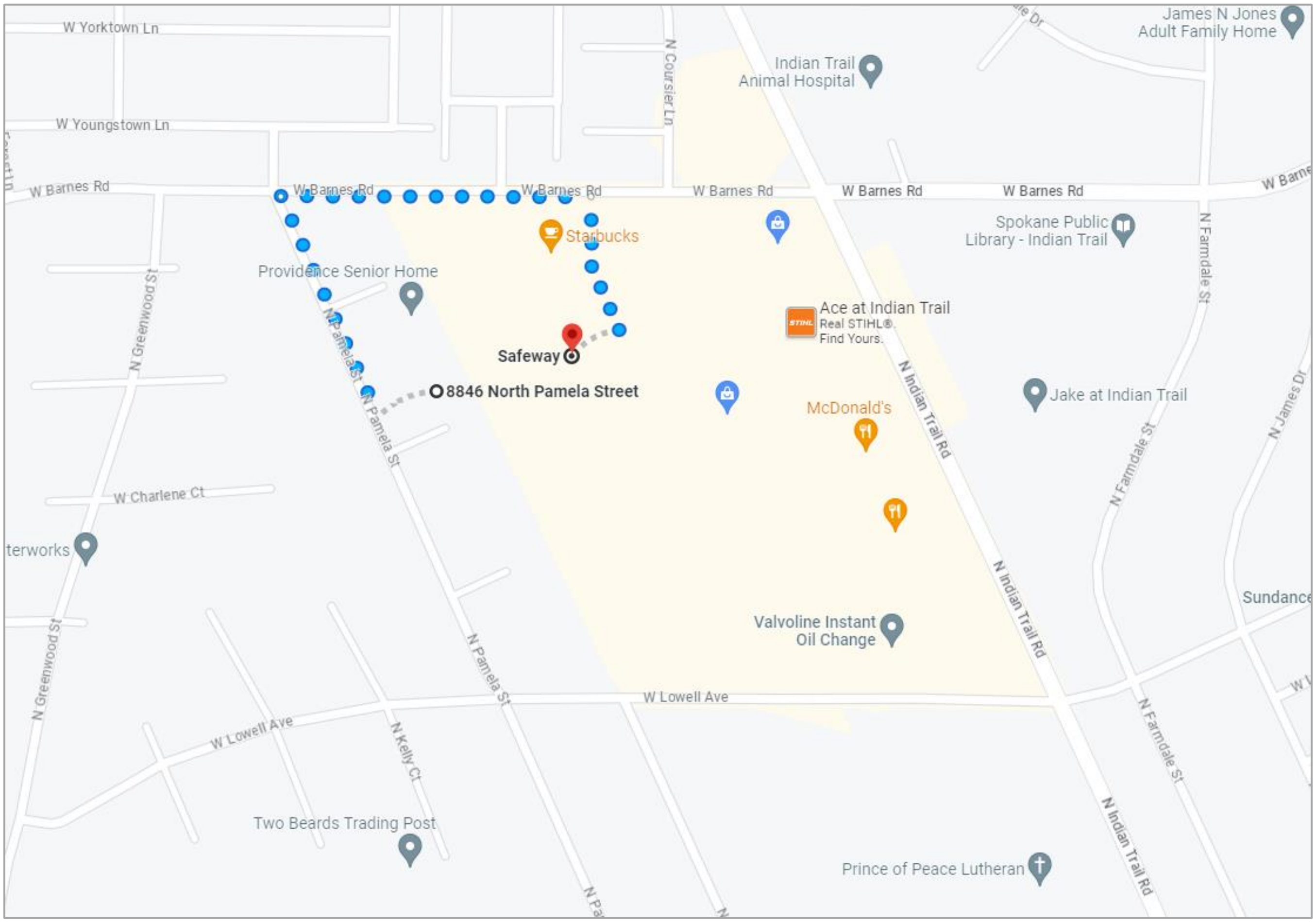
Figure 15. Indian Trail Center with Current Zoning



Source: City of Spokane; Spokane County GIS.

Figure 16 below shows the location of one home located adjacent to the Indian Trail center, on N Pamela St. This house is about 200 feet from the Safeway Grocery Store. However, the distance that a resident of the home would actually need to walk from the home to the grocery store is about 2,100 feet (or 0.4 miles)—ten times as long as the distance as the crow flies. Long paths and lower levels of connectivity are typical for Centers that developed more recently.

Figure 16. Route from Home to Grocery Store, Indian Trail Center

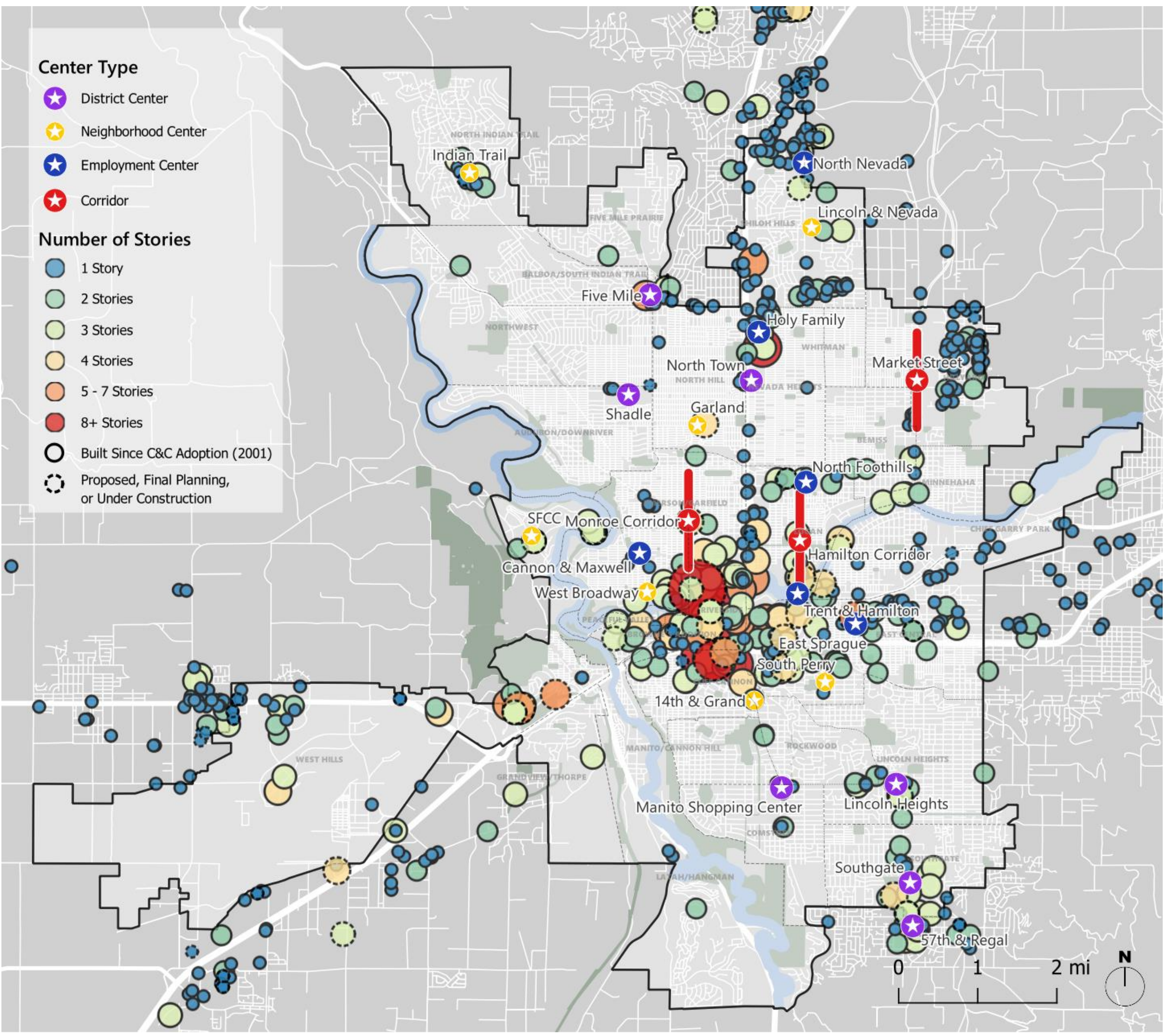


Source: Google Maps; Leland Consulting Group.

Dense, tall, and expensive buildings have predominantly been built in and near downtown Spokane.

Figure 17 below shows all multifamily and commercial development completed since 2001, color coded by the project's height/number of stories. This figure shows that taller buildings (shown in red, orange, and yellow) have tended to be built in and near downtown Spokane. Most of the buildings built more than a mile from downtown have been one, two, or three stories high, though some mid-rise buildings have been built outside of downtown. As discussed earlier, taller buildings tend to be more significantly more expensive on a per-square-foot basis, because construction materials such as concrete and steel tend to be more expensive than wood; structured parking is often required; high-rise building codes are more stringent; and for other reasons. Therefore, in order for the buildings to be financially feasible, the rents and demand for higher density space must also be higher.

Figure 17. All development since 2001, including planned, proposed and under construction, based on number of stories.

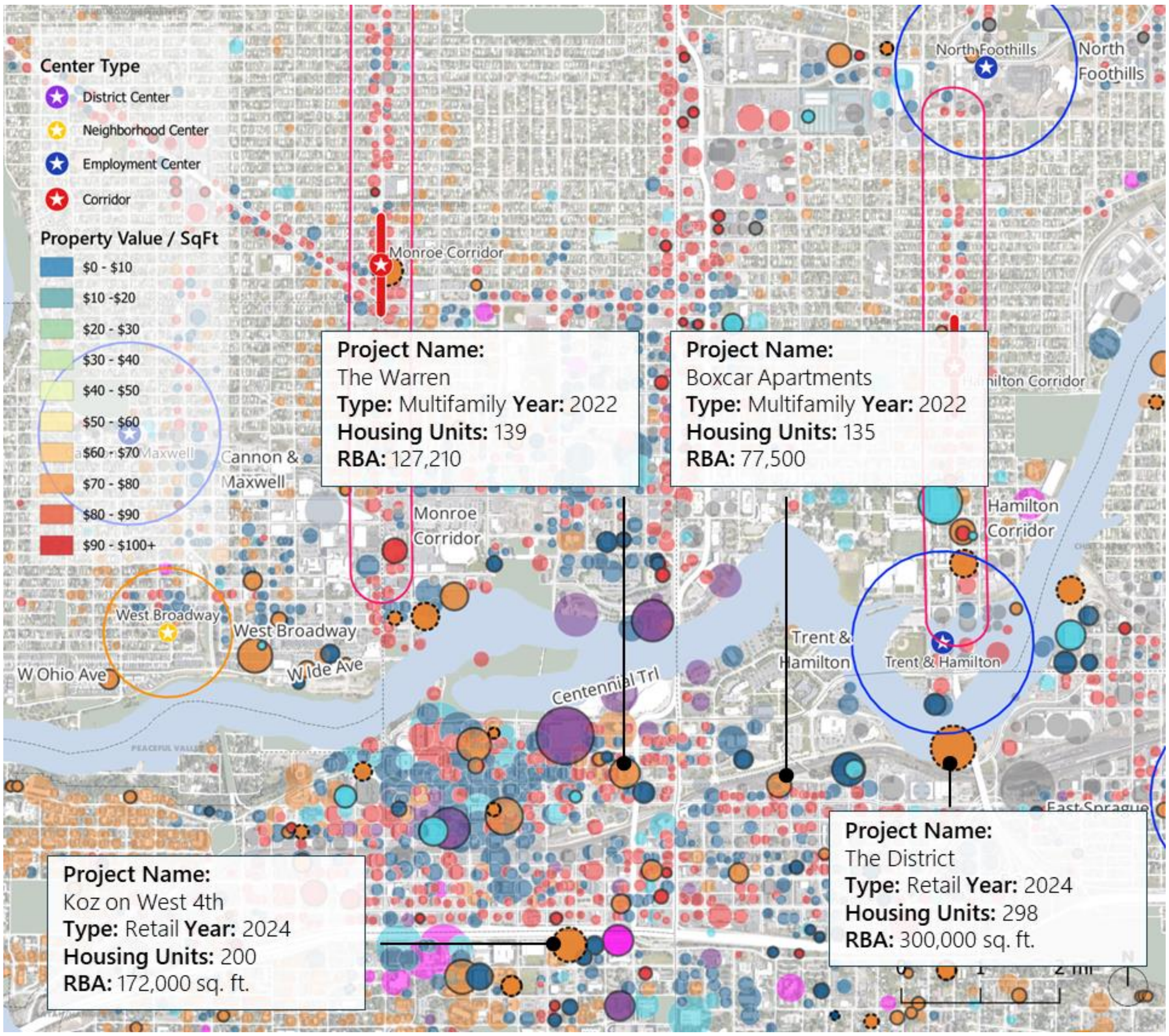


Source: CoStar; Spokane County GIS; Leland Consulting Group.

Development is currently being built and proposed in areas outside of Centers, including Downtown, East Downtown, the University District, and South Hill/Medical District.

Figure 18 below shows the location of new development projects that were completed in 2022 or are planned for completion within the next year. All four are higher density projects that are either multifamily or mixed-use, with multifamily over ground floor commercial space. (Note that Downtown is not analyzed in this study, but it is considered a Regional Center within the Centers and Corridors framework.)

Figure 18. Recently Completed and Proposed Development Projects



Source: CoStar; Spokane County GIS; Leland Consulting Group.

Certain demographics and area attributes drive urban development, particularly market-rate apartments and mixed-use development.

LCG and studies by the Brookings Institution and other groups have found that certain demographics characteristics tend to drive demand for multifamily apartment units in cities, and secondarily for ground floor commercial space. Some of these demographic indicators are shown below. They are likely to be driving demand for apartment units in close-in parts of Spokane, and are more likely to be more prevalent in these close-in areas when compared to most Centers. Many, but certainly not all, apartment residents have these attributes.

- Employed in professional services, healthcare, finance, STEM, and various other office occupying, white collar jobs
- Middle to higher income
- Aged 25 to 34
- 1 and 2 person households
- Students

In addition to the demographic attributes listed above, higher-density housing and mixed-use projects benefit from proximity to jobs and a variety of amenities, which can be measured by Walk Score or other metrics.

Source: Who Lives Downtown, Brookings Institution; Leland Consulting Group.

Going forward, development in Centers is most likely to be one of three types.

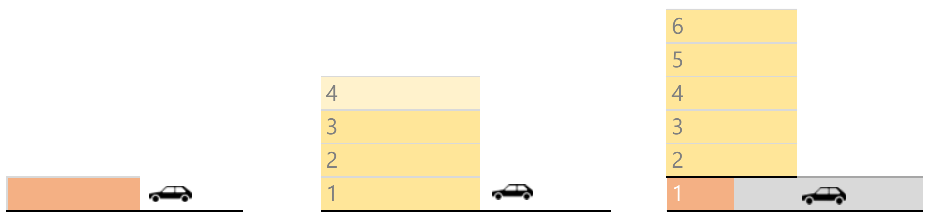
Figure 19 shows the development typologies that LCG believes are most likely to take place in Spokane's Centers in the future.

The first is the renovation or adaptive reuse of existing commercial buildings. These have historically served as commercial buildings. Developers buy them, renovate them—for example, by improving exterior aesthetics, creating new internal divisions, and/or improving building systems such as roofing, heating, cooling, electrical, plumbing, etc.—and then release these buildings to new commercial tenants. Such renovations will be in demand as some types of commercial space fall out of favor (e.g., movie rental, office supply) and others become more popular (e.g., restaurants, coffee shops, small commercial and makers spaces).

The second is wood frame apartments, which are being built in some but not all Centers today. Ongoing population growth, the high cost of owner-occupied housing, and low apartment vacancy rates will drive demand for multifamily housing. There will be challenges for wood frame apartments, including finding appropriately priced and adequately sized site sizes, and financing and construction costs; some of these challenges are covered in more detail later in this analysis. The cost structure of wood frame apartments—with wood frame construction, surface parking, fewer core elements (elevators, stairs), and less common area (interior conditioned hallways)—often makes them more feasible than mid-rise projects. LCG anticipates that for the next five to ten years, wood frame apartments will be the dominant development type in most Centers.

Figure 19. Most Likely Building Typologies for Spokane Centers, 2023 to 2043

	Commercial	Housing	
	1	**2**	**3**
Name	Renovation Adaptive Reuse	Wood Frame Apartments	Mid-Rise / Mixed-Use / Podium



The third is mid-rise, mixed-use, podium projects, which feature wood frame apartment construction, generally over a one- or two-floor concrete parking podium, usually above-ground. Ground floor commercial spaces tend to be easier to incorporate into lower-floor podiums, but not all mid-rise buildings have ground-floor commercial space. Mid-rise projects are being completed in and near downtown today due in part to the higher achievable rents in those locations, but are not feasible in Centers, because rents and demand drivers are lower in Centers. However, when apartment rents and demand are higher, mid-rise buildings are able to offer much higher prices for land compared to lower-scale wood frame apartments, because mid-rise buildings have far more units. As the Spokane region's population continues to grow over the coming decades, rents for close-in locations continue to increase, and the supply of high-quality, walkable sites decreases, mid-rise buildings are likely to become feasible in more Centers, particularly historic Centers and some mid-century Centers.

Therefore zoning, regulation, and incentives in Centers should allow and encourage mid-rise, mixed-use buildings in Centers. LCG recommends that the City's code allow building heights of approximately 90 feet in Centers. Approximate building sections are shown below, including ground floors of 15 to 20 feet and residential/upper floors of 10½, 11, or 12 feet. While 15 to 20 feet is not absolutely necessary for ground floors, this height is highly desirable for the best ground floor retail experience and best ground floor tenants, including restaurants, who seek high ceilings. LCG's recent conversations with architects and review of plans indicate that floor-to-floor heights can be between 10 and 11 feet; one architect cited 10½ feet as typical or ideal. Therefore, a seven story building could easily be 86 feet high, before considering design details such as whether the site is sloped and therefore whether the ground level is measured at the high, middle, or low point, and the design of the rooftop, which may include peaks, ridges, rooftop decks, and rooftop appurtenances such as air conditioning units. In addition, MAKERS' research indicates that changes to the statewide energy code and increasing interest in mass timber buildings could increase floor heights to 12 feet, taller than in the past. Seven story, "five-over-two," mid-rise buildings have been typical in major Pacific Northwest markets for many years; however, recent changes to building codes now allow eight story (e.g., six over two) buildings. For all these reasons, even though mid-rise development does not appear to be feasible in Centers today, 90 feet of building height should be allowed in order to allow these buildings to be built when feasible in the medium to long term. Setbacks, particularly from the "rear" of the site that abuts residential neighborhoods, must also be carefully considered in order to ensure that mid-rise projects are possible.

Figure 20. Typical Mid-Rise Building Height

		+ rooftop	
		+ 8th Floor	
7	10.5	11	12
6	10.5	11	12
5	10.5	11	12
4	10.5	11	12
3	10.5	11	12
2	10.5	11	12
1	15	20	20
		+ slope	
Total Building Height (ft)	**78**	**86**	**92**

Source: Architect interviews; recent development plans; Leland Consulting Group.

Examples of the Development Prototypes

Adaptive Reuse of Commercial Buildings

Many commercial buildings in Spokane's Centers have been adaptively reused, and this process can go by many names including renovation, upgrade, refresh, repositioning, and tenant improvement. As shown below, numerous historic commercial buildings along several blocks of East Sprague have been renovated and now serve as restaurants, pubs, furniture stores, boutiques, offices, and providers of various services, among other uses.

Figure 21. East Sprague (From 1909 E Sprague Ave, Spokane, WA 99202)

The images below show the building at 2823 North Monroe Street before and after renovation, as well as a 2023 interior photo. As described above, commercial adaptive reuse projects typically follow a particular template: Developers purchase a building that is vacant or significantly underutilized, make a series of exterior/aesthetic and interior, building systems, and/or tenant improvements, and then lease the building out at a higher rental rate, measured on a rent per square foot basis. The higher rents cover the building improvement costs, which are often in the $100 to $200 per square foot range but vary widely depending on the scope of work, cost of acquisition, and other costs.

In 2008, the 2823 North Monroe building appears to have been vacant. Today, the building is a highly active coffee shop. The interior photo below illustrates why such renovations are important to Centers: they tend to be more intensive uses and bring people together in Centers. Housing developers often consider active commercial properties like this to be an important amenity, that can influence their decisions about where to build housing. High intensity uses in Centers creates opportunities for people to cross shop at other commercial storefronts. Renovations can be highly effective, even if the exterior building design does not change dramatically, as is the case at 2823 North Monroe. Unfortunately, LCG does not have a high-quality data set with which to determine where most adaptive reuse projects have occurred.

Adaptive reuse projects are relevant to this analysis not only for the benefits they provide to Centers, but because they compete with other project types, particularly multifamily projects, for the buildings and land that are available in Centers. As we will explain further below, when adaptive reuse projects are more profitable than multifamily projects, they can take place instead of multifamily projects.

Figure 22. 2823 N Monroe Street

Before renovation, 2008

After Renovation, 2022: Ladder Coffee Roasters

Ladder Coffee Roasters Interior, 2023.

Adaptive reuse projects are not just completed within historic buildings. Renovations take place all the time at commercial Centers built after the mid-20th century. Commercial buildings exist in a continual state of adaptation, in response to tenants that move or out, expand or contract—even though this is difficult to notice on a day-to-day basis. Figure 23 shows one example of the adaptive reuse of the Manito Shopping Center, built in 1969. Gottschalks, a department store chain that was founded in 1904 occupied the space until about 2009, when the company declared bankruptcy. The space is now occupied by at least two different businesses—Manito Tap House and Ross clothing store.

Commercial buildings in mid-century and recent Centers can be adaptively reused, or demolished and then redeveloped. Both approaches can create new opportunities for Centers that are more mixed-use, higher-density, and walkable, but they can also create keep exiting land use patterns essentially in place, even when building exteriors and interiors change.

Figure 23. Manito Shopping Center

Photo Source: KHQ.

Photo Source: Spokane Journal.

Wood Frame Apartments

Two examples of wood frame apartments are shown below. The Millennium Apartments, located near the West Broadway center and Kendall Yards, is a three story, surface parked building completed in 2019. Millennium Monroe is a two-phase project that will include two four story, surface parked buildings in the North Monroe corridor. The latter is now under construction and is expected to be complete in late 2023 or 2024. Neither project includes ground floor retail within the multifamily buildings, but Millennium Monroe will have an adjacent commercial component (also under construction). Both of these projects represent some of the more ambitious multifamily projects to be recently undertaken in or near Spokane's Centers.

While they appear to be about the same scale, the earlier Millennium Apartments is much less dense (40 units per acre) than the Millennium Monroe will be upon completion of both phases (103 units per acre). This higher density is achievable because of a much lower on-site parking ratio (0.4 spaces per unit for Millennium Monroe compared to 0.9 per unit for the earlier project), and the fact that the developers of the Millennium Monroe will be able to add 20 parallel spaces on the street surrounding the site. These parallel spaces will not be dedicated solely to residents of the project but will probably be highly utilized by them. Parking is a critical determinant of residential density, and low parking ratios and creative approaches to parking can enable more residents to live in Centers.

Figure 24. Wood Frame Apartments: Example Projects

Millennium Apartments

Millennium Monroe

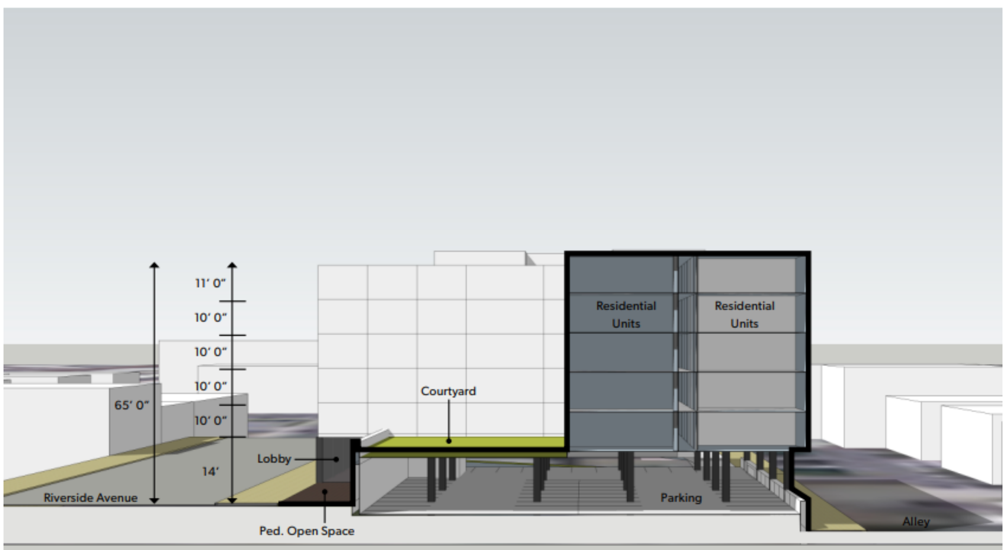
Mid-Rise Apartments

Figure 25 below shows the site of the Warren Apartments, before and after redevelopment. Prior to redevelopment, the site was highly underutilized: a small 1,500 square foot drive-through bank building on a 0.65-acre site, or a 0.05 floor-area ratio (FAR), in the East Downtown area. Unlike the projects featured above, the Warren is not located in one of Spokane's Centers. Today, following its completion in 2022, the Warren is a 139-unit (214 units/acre) mixed-use, mid-rise, podium building, with 1,900 square feet of ground floor commercial space and 60 structured parking spaces. The ground floor also features a lobby, a small plaza, and a dog park for residents. Some of the exterior facing is brick/masonry. In many regards, the Warren embodies the type of project that Spokane's Comprehensive Plan envisions for Centers: It is higher-density, mixed-use, with high quality design features.

Figure 25. The Warren Apartments, before and after redevelopment

206 W Riverside Avenue, before redevelopment, circa 2020

The Warren Apartments, 206 W Riverside Avenue, Spokane



Source: CoStar; Design Review Board submittal by GGLO Architects.

Comparison of Multifamily and Mixed-Use Projects

Figure 26 below compares the three multifamily and/or mixed-use projects described above. The lowest density project (Millennium Apartments) is at left and the highest density project (The Warren) is at right. As discussed above, these projects have some things in common (i.e., they are largely multifamily rental apartment projects), and many differences (including location, year built, number of stories, prototype, type of parking, number of units, density, parking ratios, and rent).

Asking rents per square foot (the amount of rent that the property managers are asking for via fall 2023 marketing) and effective rents per square foot (the amount of rent that residents are actually paying, which reflects leases that have been signed over many months, and accounts for concessions such as months of free rent) are shown below. As discussed above, rent is of critical importance to developers' decisions about whether to build or not build a project and to what prototype to build. Developers must achieve higher rents per square foot in order to build the more-expensive mid-rise podium prototype.

Figure 26. Comparison of Multifamily and Mixed-Use Projects

	Millennium Apartments	**Millennium Monroe** (Phases 1 and 2)	**The Warren Apartments**
Location	Near West Broadway	In Monroe Corridor	In Downtown East
Year Built	May-19	2023 or Early '24	Oct-22
Stories	3	4	6
Prototype	Wood Frame Apts.	Wood Frame Apts.	Mid-Rise Podium
Parking	Surface	Surface	Structured
Land Area (Acres)	0.67	0.93	0.65
Dwelling Units (du)	27	96	139
Density (du/acres)	40	103	214
Retail Area (SF)	-	-	1,900
Parking Spaces	25	37	60
	0.9	0.4	0.4
Asking Rent/SF/Month, All Units	$1.77	$2.00	$2.50
Effective Rent/SF/Month, All Units	$1.77	$2.00	$2.29

Source: CoStar, Apartments.com, Leland Consulting Group.

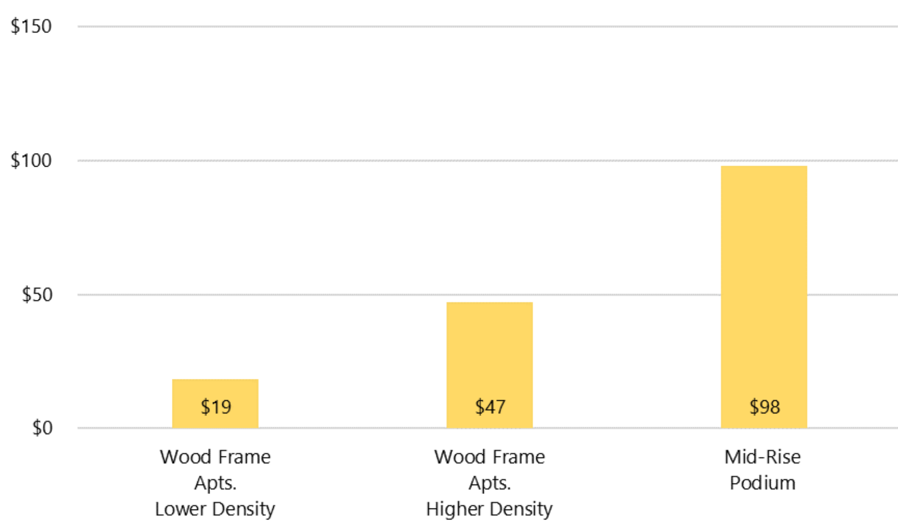
At $2.00 per square foot per month, a 700 square foot one bedroom unit would be $1,400. Developers interviewed suggested that this reflects the high-end rents that are currently achievable in Spokane's Centers. (Note that, because the Millennium Monroe project is not built or operating yet, the rents shown above are estimates based on market data and LCG's interviews. The rents shown for the Millennium Apartments are via CoStar and Apartments.com).

Market-leading rents, of between $2.29 to $2.50 per square foot per month are only being achieved in Downtown Spokane, and perhaps some adjacent areas such as the University District and South Hill/Medical District. This number is notable for several reasons. First, it suggests that, until data emerges that demonstrates that per square foot apartment rents are comparable in Centers or other locations, most or all developers will not be able to build mid-rise podium projects in Centers. Second, Spokane's downtown rents are significantly lower than rents reported in large metro areas, such as many parts of the Puget Sound region. Analysis conducted by LCG suggests that developers in Puget Sound are building new mid-rise podium projects only in locations where they believe they can achieve rents of $3.50 to $4.00+ per square foot. While some development inputs differ between the Puget Sound and Spokane markets (such as land costs and permitting fees), many costs are generally the same or similar (construction costs, particularly materials). Unfortunately, this means that major real estate investors and developers who can decide where they allocate their time and capital will continue to find that investments in podium projects west of the Cascades continue to offer better returns.

Financial Feasibility of Redevelopment

Figure 27 shows the maximum amount (or residual land value) that LCG estimates a developer in Spokane could afford to pay in 2023 for a potential development site (including the cost to acquire both the land and any buildings on the site). As shown below, this property value varies significantly depending on the density of the project since developers essentially have a per-unit maximum that they can pay for property. Based on LCG's analysis of recent land transactions and interviews with developers and brokers, LCG estimates that developers of multifamily projects can afford to pay $20,000 per apartment unit that they plan to build. Assuming the development is feasible, all other things equal, developers will be able to pay significantly more for a project whose density is 200+ units per acre compared to one that is 40 units per acre. The projects shown below reflect the basic attributes of the specific projects discussed above but do not necessarily share all of the same details.

Figure 27. Maximum Land Purchase Price per Square Foot for Wood Frame and Mid-Rise Apartment Projects



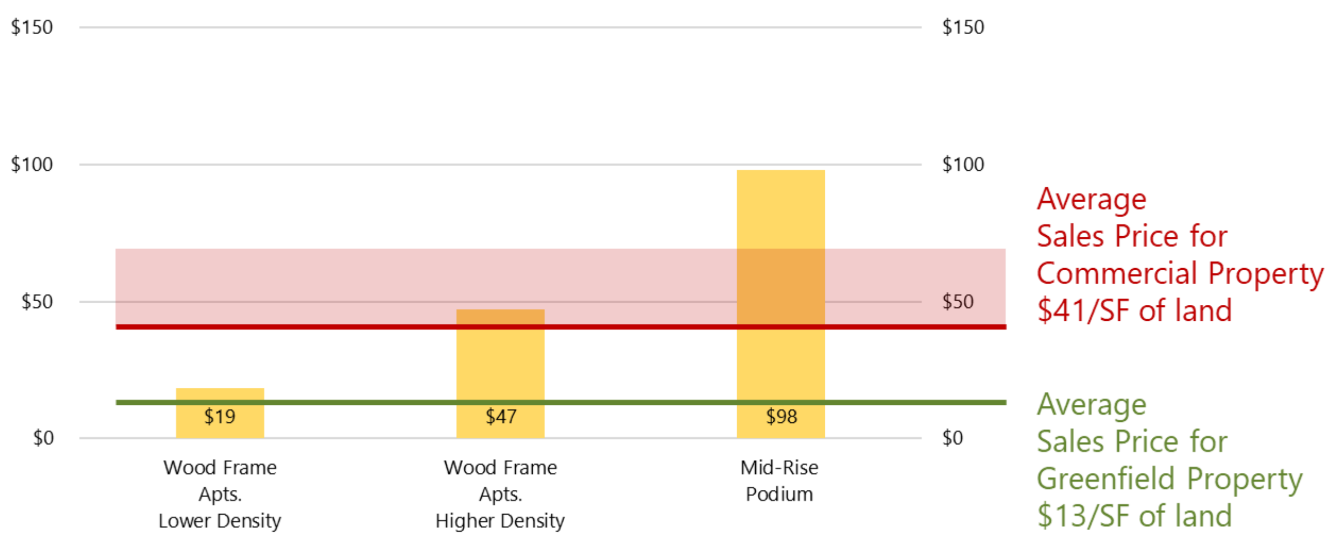
Source: CoStar, developer interviews, Leland Consulting Group.

Figure 28 shows the maximum purchase price for wood frame and mid-rise podium projects, along with the average sales price for commercial property in the City of Spokane, and the average sales price for greenfield properties (vacant, undeveloped properties near the edge of the city) reviewed by LCG.

According to CoStar, for sales of commercial properties that took place between May 2022 and May 2023, the average sale price of commercial properties in Spokane (shown as a red line below) is $145 per square foot of rentable building area (RBA), or about $41 per square foot of land (site) area. However, LCG estimates that typical commercial properties in Centers can sell from about $40 to $70 per square foot of land (shown as a shared red area below; $70 per square foot of land equates to $250 per square foot of building area). Commercial properties that are in very good condition, are well located, generate high rents, or are smaller can certainly command higher prices than those shown below. Commercial properties that are dilapidated can sell for less, however, these may also come along with development challenges such as perceived or actual environmental contamination, expensive demolitions or sitework (e.g., grading or retaining walls), steep slopes, etc. The average sales price of greenfield properties reviewed by LCG is $13 per square foot of land area; naturally most of these properties are located near the edge of the city.

This figure illustrates some of the key challenges for development in Centers. While lower-density wood frame apartment projects should be able to acquire greenfield properties, it is unlikely that they will be able to pay for most commercial properties, and most of the developable lots in Centers are in existing commercial use. Developers of lower-density apartment projects are competing with commercial adaptive reuse developers and commercial investors with no intention to adaptively reuse commercial buildings for land and buildings, and these commercial developers are able to outbid them.

Figure 28. Maximum Land Purchase Price per Square Foot for Apartment Projects Compared to Price of Commercial and Greenfield Sites



Source: CoStar, developer interviews, Leland Consulting Group.

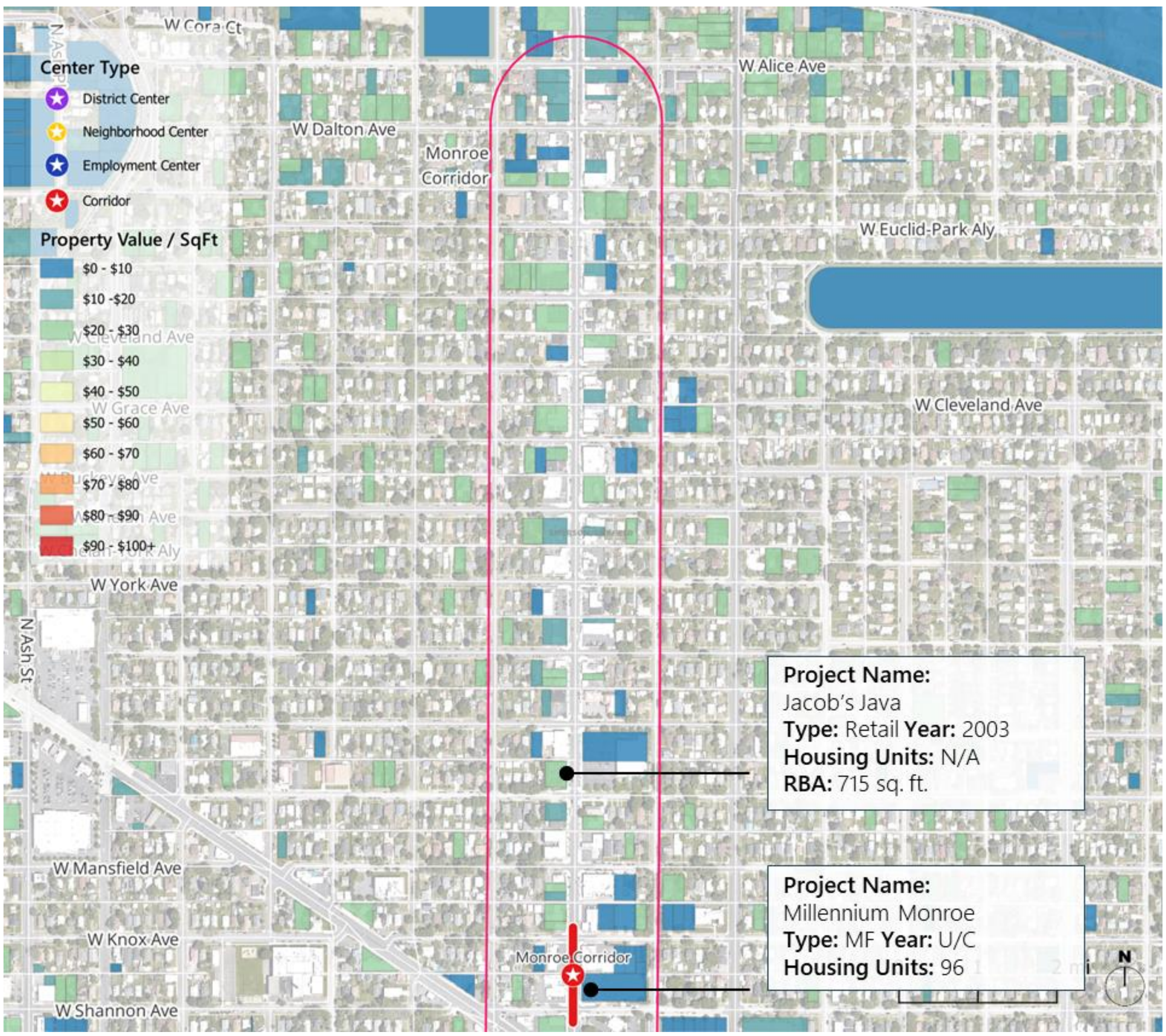
The picture is somewhat different for developers of higher density wood frame apartment projects such as Millennium Monroe. Projects like Millennium Monroe should be able to outbid commercial adaptive reuse developers and commercial investors for the average commercial property, but not commercial properties that are somewhat above average. LCG's developer interviews underscore this point: While developers of the Millennium Monroe and comparable projects have been able to find properties on which to build their projects, it is not easy. There are not many properties that are of adequate size, in good locations, that are selling at a price that these developers can pay.

This analysis indicates that developers of mid-rise podium projects will have a much easier time finding land that they can afford. Because they are able to pay nearly $100 per square foot for land, they should be able to outbid other buyers of commercial land, particularly those seeking to complete adaptive reuse projects or investors seeking to continue to manage commercial properties as-is. However, as discussed above, mid-rise projects do not appear to be feasible in Centers, and will be challenging even in downtown locations.

Land Value in the Monroe Corridor

Figure 29 shows the parcels in the northern part of the Monroe Corridor that are valued by the Spokane County Assessor at or below $30 per square foot, and therefore some of the challenges facing developers of wood frame apartments in this and other Centers. Figure 29 also shows the two new ground-up development projects that have been initiated in this area since 2001 (multiple adaptive reuse projects have been completed).

Figure 29. Land in the Monroe Corridor Valued at Less than $30 Per Square Foot



Source: Spokane County Assessor, LCG.

As shown above, LCG projects that lower-density wood frame apartment projects can pay a maximum of $20 per square foot for land. There are not many properties that are valued at $30 per square foot or below. Many of the properties in this category are small, residentially zoned, and/or not located on Monroe. While small properties can be developed, they generally depress multifamily developers' financial returns since developers' revenues decrease along with unit count, while many fixed costs and professional fees (for construction management, design, transportation analysis, legal, etc.) do not decrease the same amount.

Figure 29 also shows the Millennium Monroe project, which is leading to the redevelopment of one of the larger low-value sites on the Monroe Corridor. (Its value will increase once redevelopment is complete and a new tax assessment is completed.) This reflects the fact that redevelopment is more likely to occur on large, low-value sites.

Developers report that a range of regulation is limiting their ability to build infill development.

As a part of this market analysis, LCG interviewed developers active in Spokane, who identified the following zoning and regulatory challenges to building infill projects in the city:

- **Zoning is not perfect, but it's not *the* problem.** Developers generally do not view the zoning code and development standards under BOCA as a big obstacle to development in the Centers and Corridors; BOCA is an improvement (See Section 17C.400.040 Pilot Center and Corridors Development Standards - https://my.spokanecity.org/smc/?Chapter=17C.400). Nonetheless, some issues with current zoning include:
    - The parking regulations in BOCA are good but in the base code are too high.
    - Existing (non-BOCA) **height maximums** in most Centers prevent a 5-over-1 podium project.
    - There is lack of clarity about whether maximum heights include parapets, rooftop structures such as elevators and mechanical; rooftop decks are often prevented by the fire department.
- **BOCA or similar standards should be made permanent.** Developers were concerned about building to the "interim" BOCA standards because development projects take years from concept to completion and these standards could be rescinded or changed. Therefore, developers feel more comfortable building to the "permanent" standards—even if they are less favorable, they will be around for years.
- **The City's Design Standards deter development in Centers.**
    - Design Standards require developers to undertake a lengthy and unpredictable design review process for most development within Centers. The process can take months or years to complete, and requires more time and budget to be allocated to land holding costs and interest payments, architects, engineers, consultants, etc. In most cases, particular requirements seem reasonable—the time and unpredictability are the issues. In some cases, developers felt that requirements do seem unreasonable, such as the reported requirement that all sidewalks must be 12 feet wide and paved; one developer interviewed felt that wide sidewalks with wide (unpaved) planter strips are more appropriate in some Center locations.
    - The Design Review Board (DRB) is often too stringent with design review and process of being granted a variance is onerous and long.
    - The City should consider reforms to the design review process, for example, enabling the planning director or hearing officer to make decisions on design standards.
    - **Developers with experience in other metro regions** felt that Spokane's design review process was *not* more onerous.
- **City Silos.**
    - Developers pointed out that there are at least two major permitting "silos" within the City:
        - Planning, Zoning, and Economic Development
        - Engineering and Public Works in another.
    - This creates a few major problems:

        - The two silos work on different timelines. One department may be ready to approve a project, while the other may be months away. There is no staff person who can align the two silos.
        - The Engineering and Public Works process can be very onerous and can require developers to study stormwater, water, sewer, etc. issues early on in the development process—which is an expensive deterrent—and Engineering and Public Works may require developers of small sites to solve district-wide stormwater, water, sewer, etc. issues. "Someone building 1 or 2 lots should not be required to build out 300' of sewer and water pipes."
        - Engineering and Public Works issues on infill lots should be easier than greenfield lots since everyone knows the existing conditions of infrastructure surrounding the site.
        - The Engineering and Public Works process deters infill development.
- **Urban Forestry.**
    - Developers stated that, "we want trees in our city as much as our neighbors."
    - They stated that the Urban Forestry process needs to be better defined. There are too few clear and objective standards such as the species and size/diameter of trees that must be retained. This makes the process feel arbitrary and can cause projects to be redesigned late in the development process, creating significant expense and/or reducing the value of the final project.
- **Energy Code.** A new 2021 Washington State Energy Code (WSEC)-R has been adopted and is adding to the cost of construction.
- **Other.** Several regulatory issues were not mentioned during our conversations, but in our experience, are significant obstacles in other markets, particularly for infill projects:
    - Surprisingly, **SEPA** did not come up as a significant regulatory obstacle in our conversations.
    - **Stormwater**. Often, when developers are redeveloping commercial or industrial properties into housing or mixed-use projects, they must complete extensive stormwater improvements in order to retain stormwater on site and minimize pollution. This can be a strong incentive to retain properties in their existing use.
- **The issue is not one challenging regulation, but many.**
    - This is an issue that seems to be challenging development in many cities. According to the New York Times, "Piles of regulations, or "kludge," and a culture of "no" are limiting" development in large metro areas.
- **Streamlining.**
    - The City should consider consolidating permits under a single entity, empowering certain staff to make decisions within both the Planning and Engineering, or taking other actions that streamline the process. [This is currently under discussion in Portland (1, 2) and other cities.]
- **A simplified Mixed-Use zone** would simplify understanding of CCs within broader citywide zoning context; many developers are currently "scared" of working in the CCs. The term "mixed-use" sends a clearer message to developers about what the City wants and allows in the area. CCs have a bad reputation.
- **Allowing rezoning to Mixed-Use.** The existing framework constrains the possibility of new Centers being formed. A standardized set of MU zones would simplify this process and allow property owners to go through the process of making a zoning change.

Market Forecast and Conclusions

Centers Categories, Attributes, and Implementation Frameworks

Figure 30 summarizes some of the issues discussed above through the framework of the Centers era or category. Centers in these categories have different assets and face different challenges. It is important to recognize that Spokane's Centers are also very diverse, and despite the generalizations made below, vary widely within era categories.

In general, historic and mid-century Centers have seen relatively low amounts of development over the past two decades, in part because there has been and continues to be a limited supply of low-cost land in these Centers. Recent Centers have seen significant amounts of development, in large part because they have been built out on vacant, low-cost land.

However, historic Centers have certain advantages: They are generally well connected, with higher walk scores and therefore a range of desirable amenities in close proximity to homes and potential homes. They tend to have better transit service. By contrast mid-century Centers vary in terms of connectivity, walk score, and transit; recent Centers have low levels of connectivity, walk score, and transit.

The buildings in historic Centers are old, which presents both challenges (many require costly repairs) and opportunities (lower costs of acquisition due to age and condition; adaptive reuse and redevelopment opportunities). Buildings in mid-century Centers are also near the end or past their economic lifespan (we assume that buildings that are 50 years or older are "old" and need major capital investments). Buildings in recent Centers are by definition new. They tend to have fewer issues, and also be better suited to their existing tenants, who tend to have signed long-term leases. Owners of buildings in this condition are less motivated to consider adaptive reuse and/or redevelopment—there is less of a reason to fix something that they do not see as broken.

Centers of different eras also differ in some ways that are not entirely advantages or disadvantages. Historic Centers have "thick" markets—many properties with diverse property ownership and many potential buyers, whereas mid-century and recent Centers have much thinner markets, with a smaller pool of property owners. A thicker market creates more opportunities for smaller-scale, incremental development, but it also means that it is difficult for any party to make big, quick changes to the built environment. Mid-century Centers have much thinner markets, with more institutional owners of larger properties. This makes incremental development harder, and means each property owner is more important to the success of the Center. Depending on the outlook and preferences of the small number of property owners, it can create the opportunity for large-scale redevelopment (at the right time) or block such changes.

These attributes suggest some key takeaways. Historic Centers are desirable today and should become more so in the future due to their connectedness and amenities, but will also remain difficult locations for development, given the fact that they feature small properties and high land and building costs. In mid-century Centers, developers will consider redevelopment at Centers with strong demographics, though redevelopment in other Centers will be challenging to due higher land costs. In most recent Centers, low-cost land will remain available and will continue to develop, but after the supply of low-cost land is exhausted, redevelopment will be difficult since the buildings will be new.

In historic and mid-century Centers, LCG believes the first policy priority should be to attract development and redevelopment (since little development has taken place, and there should be opportunities to attract development), followed by focusing on improvements to connectivity and walkability (e.g., improved street crossings and right of way improvements, as on East Sprague). In recent Centers, the focus should be to better connect commercial and residential developments that are already in place.

Figure 30. Centers Categories, Attributes, and Policy Approaches

Key:	Factor that suggests **more** development in the future.	Factor that suggests **less** development in the future.

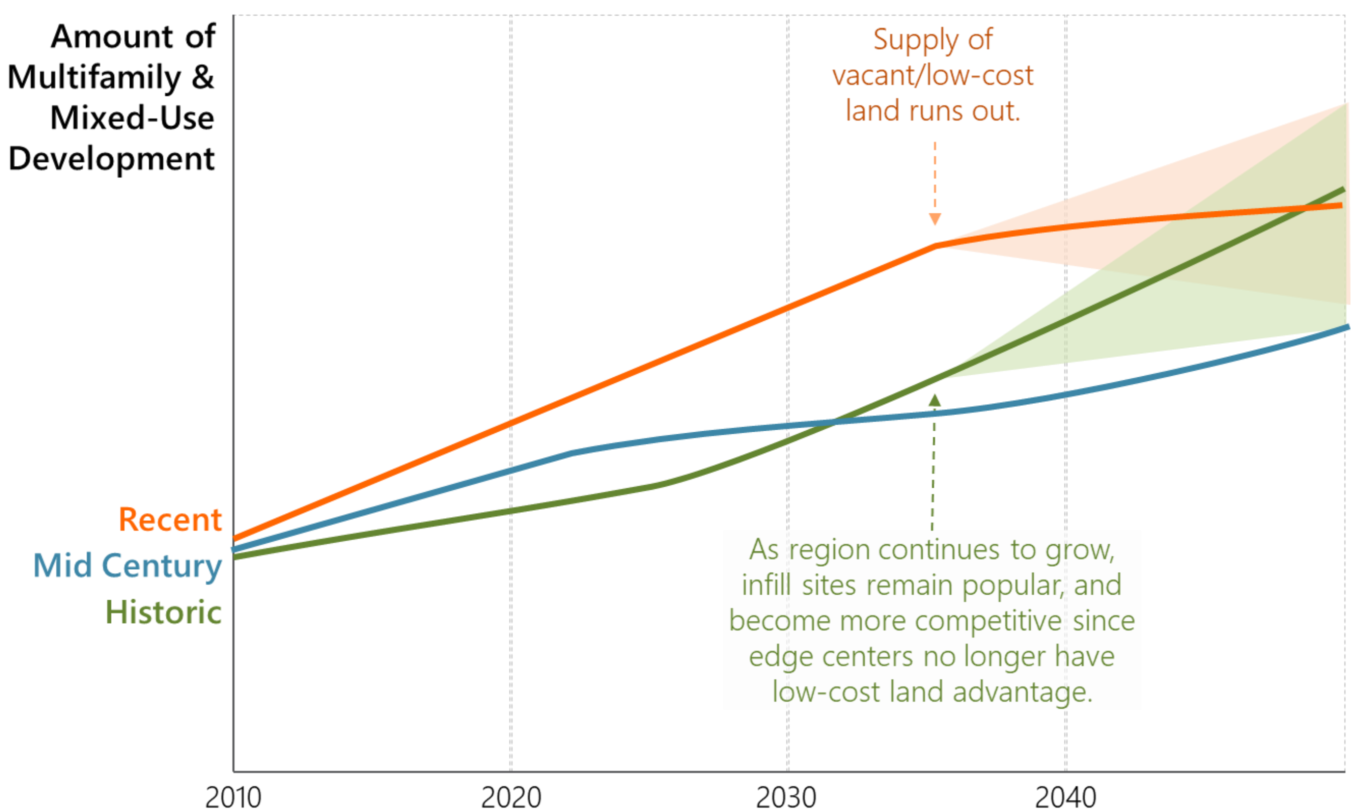
Center Era	Historic	Mid-Century	Recent
Recent Development. Significant development in last 20 years?	Minimal	Minimal	Significant
Low Value Land. Large amount of vacant land available for development?	Minimal	Minimal	Yes
Well Connected, High Walk Scores, Close to Downtown	Yes	Varies	Generally, No
Transit	Moderate to good service	Moderate to low service	Low service levels
Buildings near the end or past their economic lifespan?	Yes	Yes	No. Property owners will tend to allow existing businesses to remain and thrive.
Market Size: Number of property owners	Thick market: Many property owners and tenants.	Thin market: Fewer property owners.	Thin market: Fewer property owners.
Takeaways	Desirable today and will become more so in the future but will remain difficult locations for development.	Developers will consider redevelopment at Centers with strong demographics; others will be challenging.	Low cost/vacant land is likely to continue to develop; after this develops, redevelopment will be difficult since buildings are new.
Policy Priorities	1. Attract Development/ Redevelopment. 2. Improve Connectivity & Walkability	1. Attract Development/ Redevelopment. 2. Improve Connectivity & Walkability	1. Improve Connectivity & Walkability 2. Attract Development/ Redevelopment;
Implementation Frameworks	Main Street Approach Incremental Development Build Small	Retrofitting Suburbia Public Private Partnerships, ULI	Retrofitting Suburbia Public Private Partnerships, ULI
Potential Center Models	Proctor, Tacoma; Ballard, Seattle; Alberta, Portland.	Downtown Kenmore and Bothell; Belmar, CO.	Mill Creek Town Center, WA; Orenco Station, OR. Belmar, CO.

Source: Leland Consulting Group.

Figure 30 also shows some "implementation frameworks" and potential Center models. Historic Centers can use frameworks such as the Main Street Approach and Incremental Development, while the Retrofitting Suburbia and PPP approaches are better suited for mid-century and recent Centers.

Figure 31 shows another way to conceptualize LCG's forecast for various types of Centers. The lightly shaded areas at right show that there can be significant variation along a general trend line. For example, while we project that historic Centers will attract more development over the next 20 years, the increase could be large or modest, depending on factors described in this report, such as the strength of the regional and city economy, interest rates, city zoning/regulation, incentives, and other factors.

Figure 31. Forecast for Historic, Mid Century, and Recent Centers



Source: Leland Consulting Group.

Evaluation of Key Centers Attributes

Figure 32 shows a series of key attributes for all 23 of Spokane's Centers and Corridors. In most cases, this figure shows "metrics" that have been assembled from several other data inputs. For example, the first metric shows a combination of the Center's walk score, age of construction, connectivity (linear feet of streets within the Center), and distance to downtown, because these attributes combine to suggest the Center's overall appeal for residents, tenants, and developers interested in mixed-use walkable communities. This metric allows us to combine inputs that are measured in different units (e.g., walk score number and linear feet).

The figure is organized to reflect the three Center eras: historic, mid-century, and recent. Within these categories, the Centers with the strongest metrics and the most promising prospects for higher-density, mixed-use development are shown first.

The second metric shows the concentration of small (1 and 2 person) households and white-collar employment. Both demographic attributes are correlated to demand for higher-density infill housing (see page 25). The third metric shows the Center's per capita income as a share of the Center with the highest per capita income (Manito). Developers will generally seek to invest in residential and commercial real estate in areas where higher income households live. Per-capita income was chosen rather than household income, since smaller (urban) households often have lower household incomes but higher per capita incomes.

Figure 32. Evaluation of Key Centers Attributes

Name	Era	Type	Metric: Walk Score, Age of Construction, Connectivity, Distance to Downtown	Metric: Small Households, White Collar Employment	Metric: Per Capita Income	Metric: Development, 2001-2023	Metric: Recent Development, 2018-2026	Low Cost Land (Acres)
Monroe	**Historic**	Corridor	85	59	51	11	42	27
Garland	Historic	NC	73	54	55	0	24	7
West Broadway	Historic	NC	80	71	63	28	0	28
South Perry	Historic	NC	68	66	60	2	0	22
East Sprague	Historic	EC	66	52	46	8	0	32
Cannon & Maxwell	Historic	EC	70	55	50	1	0	20
Hillyard	Historic	Corridor	55	37	38	7	0	91
Manito Shopping Center	**Mid Century**	DC	59	79	100	2	3	7
14th & Grand	Mid Century	NC	64	98	88	1	0	22
Lincoln Heights	Mid Century	DC	54	80	61	5	9	20
Hamilton	Mid Century	Corridor	69	59	33	23	42	34
Trent & Hamilton	Mid Century	EC	54	76	27	7	0	56
Shadle	Mid Century	DC	47	61	69	0	0	35
Five Mile	Mid Century	DC	45	54	63	16	25	51
North Town	Mid Century	DC	57	54	46	8	0	10
Holy Family	Mid Century	EC	54	56	48	29	6	13
North Foothills	Mid Century	EC	54	49	48	4	10	19
Indian Trail	**Recent**	NC	33	66	96	67	100	41
57th & Regal	Recent	DC	33	89	81	100	82	24
Southgate	Recent	DC	33	84	72	56	0	55
Lincoln & Nevada	Recent	NC	33	56	65	19	0	61
SFCC	Recent	NC	27	68	73	19	12	32
North Nevada	Recent	EC	35	56	49	23	4	80

Source: Leland Consulting Group.

The two development metrics show the amount of development that has taken place over the past two+ decades (2001 to 2023), and the recent past and near-future development pipeline (2018 to 2026). Both of these can indicate development momentum. The final column shows the acres of low-cost land valued at $20 per square foot or less.

Some notes on individual Centers are:

Historic Centers

- Monroe: Highly walkable and connected; highly accessible to downtown. Reasonably good demographics; recent development momentum.
- Garland: Well-connected; household size and employment not as favorable as Monroe but incomes higher; planned development is very encouraging. Minimal land available.
- West Broadway: Well-connected and close to downtown/central Spokane and Kendall Yards. Strong demographics and incomes. Significant development over the past two decades suggests future demand. No development in the pipeline. LCG projects some continued development and adaptive reuse projects here in coming decades.
- South Perry: Well-connected; reasonably good demographics, particularly incomes. One modest size for-sale townhome housing project has been completed but is not reflected in the development data. Multiple adaptive reuse projects. One small retail development completed over past two decades, and no known development projects in the pipeline. Absence of projects in the pipeline likely reflects minimal low-cost land and small lots, which will continue to present a challenge.
- East Sprague: This Center has seen numerous adaptive reuse projects and is successful from that point of view, but minimal new residential or commercial projects. Development to the north and west are likely to generate some more demand for new development, but no known development is in the pipeline. Designated as an Employment Center, but future development is still more likely to be commercial adaptive reuse and multifamily, rather than general employment; zoning should allow these development types.
- Cannon & Maxwell: Well-connected and reasonably close to central Spokane; Walk score suggests presence of neighborhood amenities. Very small amount of historic development and none in the pipeline. Designated as an Employment Center, but future development is still more likely to be commercial adaptive reuse and multifamily, rather than general employment; zoning should allow these development types.
- Hillyard: This Center has a charming historic main street; however, it is far from downtown and has a relatively low walk score, likely reflecting the large number of regional serving antique stores and small number of neighborhood-serving businesses; current employment, household, and income demographics are relatively weak. The large amount of low-cost land is likely reflecting industrial land, and potentially some publicly owned land associated with WSDOT's North Spokane Corridor project, and therefore probably does not offer significant opportunities for higher-density, mixed use development. Higher density development is possible here given the historic fabric, but it is likely to lag most or all of the historic Centers above.

Mid Century Centers

- Manito Shopping Center. The highest incomes of all Centers; small households and high levels of white-collar employment. This should be a desirable location for developers to continue to complete commercial adaptive reuse projects and add housing if possible. However, the small amount of low-cost land and existing large format retailers will present challenges.
- 14th & Grand. Very high prevalence of small households and high levels of white-collar employment; high incomes. A high connectivity metric reflects the area's well connected street network and proximity to downtown, but fails to accurately reflect challenges such as high traffic speed and narrow/incomplete sidewalks. Similar to Manito, we would expect developers to show interest in adaptive reuse and/or development here, but nearly no development has taken place. The City should consider a four-to-three lane "road diet"/roadway improvement for several blocks on Grand, particularly if it can be paired with some adaptive reuse/storefront improvement grants for a few of the historic commercial buildings.

- Lincoln Heights. Similar to Manito and 14th and Grand, above, though incomes and connectivity are lower.
- Hamilton. While incomes are relatively low, proximity to universities could make this a desirable development location.
- Trent & Hamilton. Similar to Hamilton above.
- Shadle. Most land in this Center is controlled either by large-format commercial uses or large-format public property owners (middle school, high school, library, parks, surface parking). The large-format commercial uses are unlikely to change in the near term. Redevelopment or reuse of the public properties is possible but seems unlikely based on the input LCG has received. Highly imaginative planning, along with shared or structured parking, could enable higher-density mixed use development on public properties. This center is not very well connected. Demographic indicators are reasonably good.
- Five Mile. This Center has more in common with many recent Centers. While there has been significant development over the past 20 years, it has been disconnected, surface parked commercial and multifamily. Connectivity is low and demographics are moderate. Several large, undeveloped sites remain east of Ash Street and appear to be developable, likely as multifamily. The remaining development sites are small or highly sloped. Following development of the existing undeveloped sites, additional development will be challenging due to high acquisition costs.
- North Town. The NorthTown Mall is located here. Malls represent a unique redevelopment/reuse opportunity that is much different from neighborhood-serving, grocery anchored retail Centers. While grocery-anchored retail has been resilient and appears unlikely to change in the near to medium term, many malls are in a state of dramatic change as anchors such as Sears, JC Penny, and others face existential challenges from online shopping, and consumer shopping preferences shift away from malls. Many malls are being redeveloped as mixed-use destinations and adding significant amounts of housing, sometimes along with other uses. The south side of the mall, particularly the former Sears space, presents a significant adaptive reuse or redevelopment opportunity. The abundant structured and surface parking could probably support more housing. However, redevelopment and reuse will be challenging since most property is already utilized in some way, and because the incomes and household demographics in the surrounding area are modest. A public private partnership employing tax increment financing or other tools may be possible.
- Holy Family. Not well connected with modest household and income demographics. Designated as an Employment Center due to the presence of the Providence Holy Family Hospital and many related healthcare services here. Healthcare uses present an opportunity to add housing, medical offices, and other uses. This is the location of the largest amount of employment development in all of the Centers over the past two decades, a series of medical offices and clinics. It is not clear whether this trend can continue as the area appears reasonably built-out. Higher-density housing has been built in proximity to medical campuses (e.g., South Waterfront, Portland), but should be strongly supported by medical institutions and carefully planned.
- North Foothills. Employment Center. Weaker demographics than most other mid-century Centers. A campus of historic buildings is occupied by the City of Spokane's Water Department. Most land appears built out. A modest amount of multifamily and industrial development has taken place.

Recent Centers

- Indian Trail. Very strong development momentum over past two decades. Several large undeveloped properties remain within the Safeway-anchored commercial center. These could be developed as commercial or multifamily; commercial is more likely. Following development of these sites, development is likely to slow significantly, since a modest amount of low-cost land remains. Single family development, outside of the Center, is likely to continue for many years. There are a significant number of commercial uses and housing here, so city transportation investments to enhance road crossings, connectivity, and aesthetics are possible.
- 57th & Regal. A major assisted living project is underway. Some vacant/buildable sites remain, both within and near the center, which should build out during the coming years. Household demographics and incomes are reasonably

strong. Following development of the readily vacant/available sites, development is likely to slow significantly. There are a significant number of commercial uses and housing here, so city transportation investments to enhance road crossings, connectivity, and aesthetics are possible.

- Southgate. Similar to 57th and Regal.
- Lincoln & Nevada. Not well connected, low walk score. Moderate demographics. A large amount of vacant, commercially zoned land is located at the main intersection and will probably be built out as surface parked commercial in the coming years. A large amount of vacant light industrial land is located in the northeast part of the Center and beyond; the zoning for some or all of this property should be reconsidered, and potentially rezoned to allows commercial, middle housing, multifamily and other uses.
- Spokane Falls Community College (SFCC) is a unique center. The dominant use is the community college, which is complemented by wood frame apartments and some other uses. It has the lowest metric for walk score and connectivity of all the Centers, since it has very few commercial uses and low connectivity. Household demographics and incomes are reasonably strong. Some low-cost and vacant land remains, both within and near the center, though some of this land is owned by the community college. Some opportunities for commercial and additional multifamily development remain, and LCG expects development on these properties. The primary question is whether a significant commercial component will be added at Whistalks Way and River Ridge; this is unclear as developers may continue multifamily development on this site.
- North Nevada. Not well connected. Designated as an employment center, but no major employers are apparent. Modest household demographics and relatively low per capita incomes. A large amount of vacant/low-cost land is within the ¼ mile center radius, but is located outside the city and therefore future development is uncertain. The location of the center "placemark," between East Jay and Holland Avenues, is not at a major intersection. Spokane International Academy appears to control a large and underutilized property; we assume, however, that this site will continue to be used for education in the future and therefore will not be available for development. The very low population density to the east, and high levels of retail competition to west, will make commercial development difficult here. Unless annexations and/or rezonings are completed at this Center, it is not clear that it merits focus as a Center location for future mixed-use development.

Implementation and Incentives

The City's ability to encourage more development in Centers goes far beyond its zoning code. In order to catalyze more success in the City's Centers, it will be critical to make the City's interim Building Opportunity and Choices for All "BOCA" zoning standards permanent, and in some cases modify BOCA interim housing code standards (as covered in companion analysis by MAKERS urban design). However, the City can and should do more. A series of implementation actions are listed below, with the "low hanging fruit" (most likely to be achieved) at the top. City efforts should be focused on the Centers that have the most potential to accommodate higher-density mixed-use development, either based on this analysis, other parts of the Centers and Corridors update study, or other City initiatives.

- Zoning modifications
- Design Review modifications
- Simplify, streamline, and shorten the development review process in Centers.
- MFTE program – retain and refine if necessary.
- Continue to partner with other public agencies, such as the STA TOD program. Explore partnerships with other parties, such as affordable housing developers.
- Make streetscape improvements, such as those completed on North Monroe and East Sprague, crossing improvements, and other multimodal transportation improvements.
- Market and promote the concept of walkable, higher density, mixed-use development in Centers to development groups such as the Urban Land Institute (ULI), even if it evolves over time into a mixed-use zone or other regulatory framework.

- Continue to stay abreast of implementation frameworks such as the Incremental Development Alliance, Retrofitting Suburbia, and public-private partnerships via the ULI.
- Invest in district-wide utility and public works improvements and assurances of capacity (e.g., to water, sewer, stormwater, and/or other systems), which can give developers assurance regarding the condition of existing systems and the amount of utility improvements they will be required to make. If necessary, establish area-specific impact fees that distribute the cost of these improvements across all new development within a defined area.
- Expand the city's storefront improvement grant program, which has largely been applied to Centers areas during major roadway construction projects.
- Establish Business Improvement Areas (BIAs or BIDs, such as the one in East Sprague) in Centers locations where there is an organized business community. Help to organize the business community where momentum appears possible, particularly in historic Centers.
- Seek to implement reduced Transportation Impact Fees in Centers locations that have with existing transportation infrastructure, and reduced fees for projects that create fewer automobile trips via smaller unit sizes, bike parking, and other transportation demand management (TDM) measures.
- Consider completing SEPA planned action ordinances or similar, if SEPA compliance becomes an issue for developers.
- Consider public sector (e.g., City or STA) acquisitions of land in key locations, which could advance key city priorities such as affordable housing or mixed-income housing. Engage a broker to provide the City with information about properties that are for sale.
- Ensure that developers and investors have access to information about the location of HUD-designated Opportunity Zones, as investors receive tax benefits from investing in these areas.
- Explore the creation of Tax Increment Financing Areas (TIA). Washington cities are now able to create up to two TIAs within their boundaries; Counties and Ports are also able to create up to two TIAs. Because a very limited number of TIAs can be created, they may be located in the most intensely developed parts of the city, such as downtown.
- Participants in this process have also mentioned other implementation actions that are "long shots." For example, one developer mentioned that the Washington State Sales Tax may be waived in certain circumstances where cities are seeking to encourage redevelopment. LCG is not aware of any such programs. A land value tax is a modified form of property taxation whose proponents argue that it would encourage higher-density development and discourage the underutilization of land. Such a tax would probably require significant changes to statewide tax law.

Appendices

Developer Interviews: Key Takeaways

During summer 2023, Leland Consulting Group (LCG) interviewed four developers who have recently built commercial, residential, and mixed-use projects in Spokane, in order to inform the Centers & Corridors Update Study. All have been involved in infill projects that could be well-suited to the City's Centers and Corridors areas. The developers' names, firms, headquarters locations, roles (e.g., developer, broker, and/or owner), and notable projects are shown below. The purpose of the interviews was to get the developers' feedback about the types of zoning, design review, and other public agency policies that could encourage pedestrian oriented, mixed-use development in Centers, as well as to understand other issues that are currently affecting development in Spokane's Centers. This document summarizes the developers' feedback, which will also be incorporated and refined in LCG's forthcoming Market Analysis report. (For the sake of brevity, we use the term "Centers" in the remainder of this document to refer to both Centers and Corridors.)

Name and Firm	HQ Location	Developer?	Broker?	Owner of numerous developable properties in Spokane?	Notable Project(s)
Jim Frank, Greenstone Development	Spokane	Yes	No	Unknown	Kendall Yards
James Gallina, Millennium Northwest	Spokane	Yes	No	No	**Centers: Millenium Monroe; North Hill, Garland;** Millenium by Kendall Yards
Dean Papé, deChase Miksis	**Boise**	Yes	No	No	The Warren Apartments, Downtown Spokane
Jim Orcutt, NAI Black	Spokane	Yes	**Yes**	**Yes** (Monroe, Garland, other)	**In Center: 1013 West Garland (Adaptive reuse)**

These interviews with developers were very valuable, as they provided historic and current local perspectives on a wide variety of issues. Their different perspectives—local vs. regional, focus on large-scale, downtown projects vs. small adaptive reuse projects—shed light on different issues. However, it should be noted that no survey of four individuals can completely reflect the complex dynamics affecting development in Spokane—there are other developers active in Spokane who have different perspectives and are making different development decisions than these four, as well as the perspectives of a wide range of community members. Therefore, these interviews are both incredibly useful and incomplete.

Readers may also notice that in some cases, the developers interviewed have different opinions regarding the same topic. For example, some developers saw the design review process as extremely onerous, while at least one other did not. Not all developers are the same.

While we believe that most of what is documented below is accurate, some developer feedback may reflect perception (or misperception) rather than reality. LCG cannot guarantee the accuracy of all claims made by interviewees. In some cases, we are reporting what we heard. We have attempted to independently evaluate most, but not all, claims. More verification will take place in our Market Analysis report.

All developers indicated that they would be willing to participate in follow-up questions or interviews; the three developers based in Spokane seemed to be the most open to future participation.

Rents and Market Conditions

- **Rents** downtown (about $2.40 per square foot per month at the Warren) are not high enough to support most mid-rise development. (We consider "mid-rise" development to have structured parking and generally be four to seven stories.)
    - Rents downtown do not seem to be significantly higher than in other parts of the region (e.g., Liberty Lake), so why build in urban sites where costs will be higher? Development in suburban jurisdictions is easier. "People are very comfortable driving to the valley" and rents are comparable there.
    - Due to achievable rents, many landowners are opting to hold on to their land rather than sell.
    - (In most regions, the highest apartment rents are downtown, and downtown has a "rent premium" over other locations that are further from downtown's base of jobs and amenities.)
- Rents in Centers of $1,300-$1,500/month for a one-bedroom apartment in Centers make it very difficult for projects to pencil.
- **Absorption** downtown has been slower than we had hoped. (The Warren has taken more than 1 year to lease up, and studios have been particularly slow to lease.)
- **Demographic categories downtown.**
    - Our downtown project has been successful in attracting **younger renters**.
    - We have not been successful in attracting several other key demographic categories that we have seen in other projects: **seniors/retirees**, and **middle-aged one and two person households**.
- Concerns about **homelessness and safety** downtown.
- **Boise.** We plan to invest again in mid-rise development in Boise again, but don't anticipate investing in Downtown Spokane again in the near future.
- **Development Types.** Most development in Centers is likely to be one of two types for the foreseeable future:
    - Adaptive reuse of commercial buildings.
    - Multifamily housing development, potentially with ground floor commercial space.

Land Availability

- **Existing land uses.**
    - Most properties in historic Centers are already "built out" / developed. Some "greenfield" land is still available in further-out Centers.
    - **ROI.** In many/most cases, maintaining the existing land uses (such as low-density commercial buildings or surface parking) generates a higher return on investment than redeveloping into housing or mixed-use projects.
    - **Current economics** allow multifamily/mixed-use developers to offer about $20,000 per door for land in most center and suburban locations; this likely translates into offering prices of about **$20 per square foot** for land in Centers.
- There is still a lot of developable land downtown. Some developers will continue to build there before building in Centers.
- **Parcel Size.** Many parcels in Centers are small and shallow, which makes it very difficult to build projects of adequate scale and density.
- It is difficult to consolidate/assemble parcels within many parts of the city.
- **Large land holders** in "wait and hold" mode that remove properties from development potential. Specific properties owners mentioned include Douglass Properties, Cowles Company, Orcutt, and Diamond Parking.

Cost of Development

- **National Issues.** Several development cost issues are of great concern to developers, but are issues that are affecting all development nationwide, and therefore may not put development in Spokane at a disadvantage compared to other locations:
    - **Construction costs** have increased rapidly in recent years, due to a hot economy, inflation, additional regulations, interrupted supply chains, and other issues. Developers cited current hard costs of construction at about $220 to $240 per square foot, with total project costs (including land, hard cost, soft costs, and financing) being significantly higher.
    - **Energy Code.** The state recently updated its energy code to the 2021 Washington State Energy Code (WSEC)-R. While these updates will reduce residents' energy costs, they increase the cost of residential development.
    - **Interest rates** are much higher—sometimes twice as high—in 2023 than they were as recently as 2022, which increases the cost of construction, ongoing debt service costs (i.e., mortgage payments), and potentially other costs. This could be an obstacle to development for the just the short-term or maybe the long-term.
    - The combination of higher construction costs and interest rates, and moderate rents in Spokane create an environment in which some projects that would have been feasible in 2021 or 2022 are not in 2023.
- **Versus Idaho.** The following taxes and fees increase the cost of development in Spokane when compared to comparable developments in Idaho:
    - **Washington State sales tax** (WSST) increases the cost of development by **9%**.
    - **The Real Estate Excise Tax** (REET), which is approximately **3%**, is a cost to developers if/when they look to sell their finished property.
    - Other

Regulatory Environment: Zoning, Design Standards, and Other Regulations

- **Zoning is not perfect, but it's not *the* problem.** Developers generally do not view the zoning code and development standards under BOCA as a big obstacle to development in the Centers and Corridors; BOCA is an improvement (Section 17C.400.040 Pilot Center and Corridors Development Standards - https://my.spokanecity.org/smc/?Chapter=17C.400)

- Existing (non-BOCA) **height maximums** in most Centers prevent a 5-over-1 podium project.
- There is lack of clarity about whether maximum heights include parapets, rooftop structures such as elevators and mechanical; rooftop decks are often prevented by the fire department.
- Floor heights in buildings have been increasing in recent years. The ideal height for restaurants and other desirable ground floor commercial spaces is 15 to 20 feet; residential upper floors are 11 feet floor to floor. That it is easy for a 5 over 2 building to get to 85 or 90 feet, depending on how the ground level and rooftop appurtenances are measured.
- The parking regulations in BOCA are good but in the base code are too high.

- **BOCA or similar standards should be made permanent.** Developers were concerned about building to the "interim" BOCA standards because development projects take years from concept to completion and these standards could be rescinded or changed. Therefore, developers feel more comfortable building to the "permanent" standards—even if they are less favorable, they will be around for years.
- **The City's Design Standards deter development in Centers.**
    - Design Standards require developers to undertake a lengthy and unpredictable design review process for most development within Centers. The process can take months or years to complete, and requires more time and budget to be allocated to land holding costs and interest payments, architects, engineers, consultants, etc. In most cases, particular requirements seem reasonable—the time and unpredictability are the issues. In some cases, developers felt that requirements do seem unreasonable, such as the reported requirement that all sidewalks must be 12 feet wide and paved; one developer interviewed felt that wide sidewalks with wide (unpaved) planter strips are more appropriate in some center locations.
    - The Design Review Board (DRB) is often too stringent with design review and process of being granted a variance is onerous and long.
    - The City should consider reforms to the design review process, for example, enabling the planning director or hearing officer to make decisions on design standards.
    - **Developers with experience in other metro regions** felt that Spokane's design review process was *not* more onerous.
- **City Silos.**
    - Developers pointed out that there are at least two major permitting "silos" within the City:
        - Planning, Zoning, and Economic Development
        - Engineering and Public Works in another.
    - This creates a few major problems:
        - The two silos work on different timelines. One department may be ready to approve a project, while the other may be months away. There is no staff person who can align the two silos.
        - The Engineering and PW process can be very onerous and can require developers to study stormwater, water, sewer, etc. issues early on in the development process—which is an expensive deterrent—and Eng and PW may require developers of small sites to solve district-wide stormwater, water, sewer, etc. issues. "Someone building 1 or 2 lots should not be required to build out 300' of sewer and water pipes."
        - Engineering and PW issues on infill lots should be easier than greenfield lots since everyone knows the existing conditions of infrastructure surrounding the site.
        - The Eng and PW process deters infill development.
- **Urban Forestry.**
    - "We want trees in our city as much as our neighbors."
    - The Urban Forestry process needs to be better defined. There are too few clear and objective standards such as the species and size/diameter of trees that must be retained. This makes the process feel

arbitrary and can cause projects to be redesigned late in the development process, creating significant expense and/or reducing the value of the final project.

- **Energy Code.** See discussion of the new 2021 Washington State Energy Code (WSEC)-R in the cost section above.
- **Other.** Several regulatory issues were not mentioned during our conversations, but in our experience, are significant obstacles in other markets, particularly for infill projects:
  - Surprisingly, **SEPA** did not come up as a significant regulatory obstacle in our conversations.
  - **Stormwater**. Often, when developers are redeveloping commercial or industrial properties into housing or mixed-use projects, they must complete extensive stormwater improvements in order to retain stormwater on site and minimize pollution. This can be a strong incentive to retain properties in their existing use.
- **The issue is not one challenging regulation, but many.**
  - This is an issue that seems to be challenging development in many cities. According to the New York Times, "Piles of regulations, or "kludge," and a culture of "no" are limiting" development in New York and many other metro areas.
- **Streamlining.**
  - The City should consider consolidating permits under a single entity, empowering certain staff to make decisions within both the Planning and Engineering, or taking other actions that streamline the process. [This is currently under discussion in Portland (1, 2) and other cities.]
- **A simplified Mixed-Use zone** would simplify understanding of CCs within broader citywide zoning context; many developers are currently "scared" of working in the CCs. The term "mixed-use" sends a clearer message to developers about what the City wants and allows in the area. CCs have a bad reputation.
- **Allowing rezoning to Mixed-Use.** The existing framework constrains the possibility of new Centers being formed. A standardized set of MU zones would simplify this process and allow property owners to go through the process of making a zoning change.

City Investment and Incentives

- **Public investment in streetscape improvements can have a major impact on revitalizing Centers.** East Sprague is a good example. The City should align their resources in areas with active business owners and other development incentives.
- **Some incentives are not well aligned.**
  - For example, the City offers the MFTE and GFC waiver programs, but the locations where they are available are not the same.
- **Multiple-Family Housing Property Tax Exemption (MFTE)**
  - **This is a very important incentive.** "We would not have been able to build the Garland project without the tax exemption program."
  - However, there are issues with the program. The 12-year exemption requires ongoing monitoring of tenant incomes, and the details of the income collection process are not completely clear. This monitoring may increase property management from 8% to 10% of total operating income. In addition, the application process is more difficult to navigate than it should be. This prevents other developers from taking advantage of this important financial incentive.
- **General Facilities Charge and GFC Waiver.**
  - The GFC Waiver, which can be secured for projects that include some affordable housing, is also an important incentive.
  - As mentioned above, this incentive may not be available in all Centers locations, or all locations where MFTE is available. In addition, developers indicated that they cannot be certain that they will receive the GFC waiver until late in the development process, making early-stage financial feasibility analysis

difficult. [However, LCG's review of the City code indicates that all developers who build certain types of affordable housing should be able to secure the GFC waiver.]

Perceptions of the Spokane Market

- **The Spokane region** is still stuck in an auto-oriented culture of development–the City will need to make infill development much easier if it wants to promote the kind of walkable, pedestrian friendly neighborhoods that are promoted in policy. Spokane is many years or even decades behind other western metro areas. The market has not matured to the point where demand for dense, walkable neighborhoods and mixed-use development has expanded beyond the downtown and Kendall Yards (even there, mindset is more auto oriented than many cities).
- **The City of Spokane is missing out on growth** that is coming to the region and suburban communities, because infill development is harder because of market, logistical, and regulatory reasons. Many developers will prefer to go to suburban jurisdictions where development is easier.
- By missing out on development, **the City is also missing the opportunity to add new middle- and higher-income households,** and on the **opportunity to capture much more public revenue**—sales tax, property tax, impact fees, and other revenue.

Additional Charts

Figure 33. Acres of CC and Mixed-Use Zoned Land versus Amount of Development

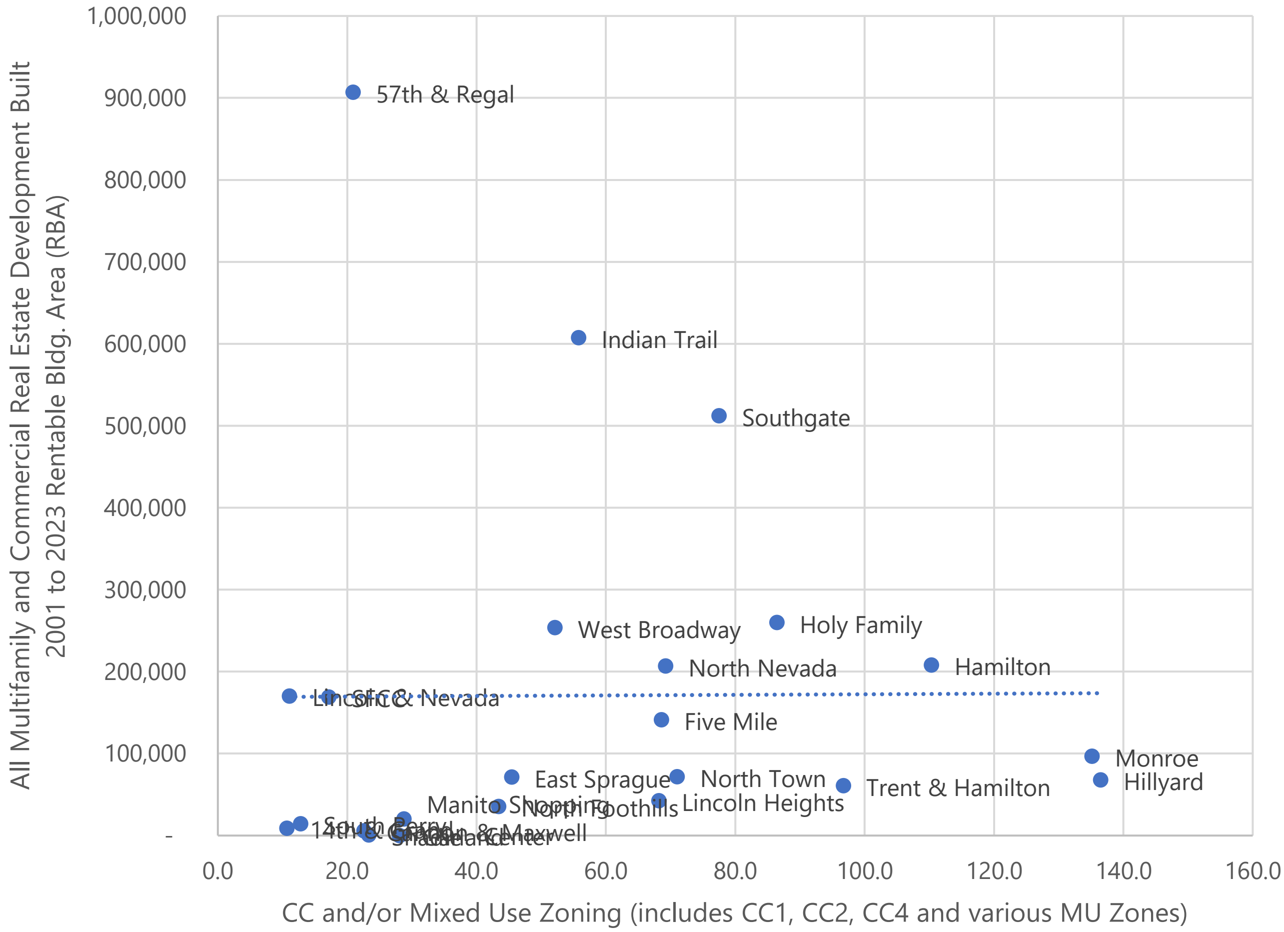


Figure 34. Acres of CC and Mixed-Use Zoned Land

Name	Zoning: CC1 acres	Zoning: CC2 acres	Zoning: CC4 acres	Zoning: other MU (CA1-4, CB, DTG, DTU, GC, OR, O or NR)	Total: CC and/or Mixed Use Zoning (includes CC1, CC2, CC4 and various MU Zones)
57th & Regal		20.9			20.9
Five Mile				68.6	68.6
Lincoln Heights	1.2	57.5	0.6	8.9	68.2
Manito Shopping Center	13.0	12.0	2.2	1.6	28.8
North Town				71.0	71.0
Shadle	3.9	19.4			23.3
Southgate		47.1		30.4	77.5
Cannon & Maxwell		18.6	1.7	2.3	22.6
East Sprague	27.5	17.9			45.4
Holy Family		51.6	4.4	30.4	86.4
North Foothills	33.8			9.6	43.4
North Nevada				69.2	69.2
Trent & Hamilton	42.8			53.9	96.7
Hamilton	41.6	1.7		67.0	110.4
Hillyard	31.8	65.5	26.6	12.7	136.5
Monroe	5.9	68.2		61.1	135.2
14th & Grand	8.2			2.5	10.7
Garland	24.6			3.5	28.1
SFCC				17.2	17.2
Indian Trail		37.0		18.8	55.8
Lincoln & Nevada				11.1	11.1
South Perry	12.8				12.8
West Broadway	27.8		2.1	22.2	52.1
Total	**274.8**	**417.4**	**37.6**	**562.0**	**1291.7**