



I-5 Lid Feasibility Study

Real Estate Market Scan

October 2019

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Real Estate Market Scan

October 2019

Prepared for:



Prepared by:



PURPOSE

EXECUTIVE SUMMARY

PROJECT CONTEXT

MARKET CONTEXT

STUDY AREA CONTEXT

MARKET SCAN

RESIDENTIAL

OFFICE

RETAIL

HOSPITALITY

COVID-19 Context

COVID-19 has significantly impacted socioeconomic market conditions and the commercial and residential property sectors, since the analysis was developed. The evaluation provided in the economic and financial analysis of this study was based on pre-COVID-19 market conditions but was developed based on historical trends that capture multiple full economic cycles. As stated in the key study assumptions of the LFS Summary Report, by the time the lid is assumed to start construction in 2030 it is anticipated that the Seattle market would have gone through one or more full economic and development cycles, thus capturing those long-range economic trends in the study design.

PURPOSE OF THIS ANALYSIS

This real estate market scan informs the creation of development program test cases for the I-5 Lid Feasibility Study (LFS) regarding assumptions around development scenarios where conceptually the private sector would contribute as an agent for lid development (Test Cases 2 and 3).



EXECUTIVE SUMMARY

MARKET CONTEXT

- Seattle is experiencing its **most rapid period of population growth since the Klondike Gold Rush** and has been the fastest-growing big city in the U.S. since 2010.
- **Regional growth has been fueled by job growth**, with Seattle's total employment growing by 3.3% (17,000 jobs) annually since 2010. While tech jobs are credited for Seattle's economic growth, service jobs, including in retail and hospitality, comprised 39% of the city's recent job growth.
- **Seattle has rapidly added new housing**, accommodating population growth during the past decade, but housing production lags job growth. **Rents in the city, particularly in the Downtown Core*, have risen steeply since 2010.**
- Seattle is outpacing recent projections for growth, both in housing units added and jobs added. **In only three years, between 2015 and 2018 the city achieved more than one third of its 20-year growth projections.** Looking ahead, Seattle's population growth may slow, but regional growth is projected to be sustained at close to 2015 rates through 2040.

[*] "Downtown Core" is used in this document to describe the Primary Study Area boundary for each land use, which includes the Downtown Retail Core, First Hill, Capitol Hill, South Lake Union, and Denny Triangle neighborhoods in Seattle, Washington.

EXECUTIVE SUMMARY

RESIDENTIAL MARKET FINDINGS

- During this cycle, a preference for urban living and job growth in the Downtown core has fueled the **primary study area becoming the fastest-growing apartment submarket** in the Puget Sound region. However, as the apartment market in the urban core becomes saturated with units, developers are **increasingly looking to outlying markets** for new opportunities.
- Although household growth in the city is expected to slow over the next ten years, **recent rezonings position the primary study area for continued multifamily development, particularly to the east of the I-5 lid study site.**
- The **build out of Sound Transit's ST Light Rail** via the East Link, Downtown Redmond Link, Northgate Link, and Lynnwood Link Extensions, and **Amazon's commitments for nearly 2.5 million SF of office space in Downtown Bellevue**, are **likely to support new multifamily deliveries and rent growth within the tertiary market area.**
- **With modest capture rates that account for demand for new multifamily units, the lid would be able to support between 800 and 1,200 market-rate rental units.**

EXECUTIVE SUMMARY

OFFICE MARKET FINDINGS

- Overall **job growth**, particularly in healthcare, tech, and information, will generate **increased demand** for office space, likely outpacing citywide and regional goals/metrics.
- Class A inventory in the primary study area has grown by 25% in the past five years, with **declining vacancy, robust rent growth, and consistent absorption**.
- The pipeline will add up to another 7M+ SF of Class A office space in the primary study area. This **amenity-laden development** attracts high rents and “tech” and other creative office tenants. Competing space in regional submarkets replicates these conditions, to some extent, through delivering office space as part of larger mixed-use districts.
- A significant share of large lease transactions has occurred recently in Bellevue; office development within the I-5 lid study site will face **increasingly competitive regional submarkets**.
- With capture rates of 10 to 15% of the demand in the primary study area, **the lid could support 3 to 4 office buildings**, or 1.2-1.8M SF, between 2035 and 2045.

EXECUTIVE SUMMARY

RETAIL MARKET FINDINGS

- The **character of existing retail in the study area varies**, with destination malls and department stores to the west of I-5 in the Downtown Retail Core, and specialty stores and food and beverage to the east of I-5 along the Pike-Pine Corridor.
- **Newly constructed retail throughout the study area is primarily neighborhood-serving** food/beverage and convenience retail, with some destinations throughout.
- There **may be opportunities on the lid for visitor-serving, experiential retail** for conventioners.
- The **character of retail should vary in different parts of the lid** and be concentrated in the areas in which it can **amenitize development**, serving lid residents, employees, and potentially surrounding communities.
- **Based on HR&A's residential and office demand findings, demand for retail on the lid could range between 130k and 200k SF**, depending on the amount of residential and office development.

EXECUTIVE SUMMARY

HOSPITALITY MARKET FINDINGS

- The volume of hotel development in the past two years indicate a response to the limited inventory change between 2010 and 2016. As a result, **occupancy rates have declined slightly, and ADR is stabilizing.**
- **Mixed use residential-hotel development** comprises a large portion of the pipeline and may indicate a shift towards this typology.
- There is a significant number of hotel rooms in the pipeline over the next five years. While hotel development is likely leveling off in the near-term, by 2035-2045, there could be **additional demand driven by new office space and growing tourism.**
- Preliminary conclusions suggest that the lid could support total **400 to 600 hotel rooms between 2035 and 2045.** The 400 to 600 rooms could potentially be distributed between larger, business-oriented hotel and a smaller, leisure-focused hotel.
- This analysis uses current market data, which includes the impact of Airbnb or similar room-sharing platforms; it does not account for unanticipated policy changes.

EXECUTIVE SUMMARY

POTENTIAL MARKET RATE DEVELOPMENT PROGRAM RANGES

The lid could potentially support up to 1,200 market-rate residential units, 1.8M SF of office, 200k SF of retail, and 600 hotel rooms.

Potential Development Program	Low-end range of Market Capture	High-end Range of Market Capture
Residential (market-rate rental) ¹	800 units	1,200 units
Office ²	1.2 M square feet	1.8 M square feet
Retail ³	130,000 square feet	200,000 square feet
Hospitality ⁴	400 hotel rooms	600 hotel rooms

Note: All numbers are not adjusted to account for the existing pipeline. Future pipeline and churn will also meet a share of demand. These numbers do not include affordable housing units.

- HR&A has tested lid capture rates for residential of 3.0% for the primary study area, 1.5% for the secondary study area, and 0.5% for the tertiary study area.*
- The office lid capture rate range is a preliminary estimate based on professional judgment of the lid study area's strengths and weaknesses for office development within the context of the primary study area, available land area, and other factors.*
- Retail demand is calculated as 7% of the total potential residential and office program. HR&A has applied historical ratio between retail deliveries and office and multifamily deliveries in the study area (70 SF of retail per 1,000 SF of office and multifamily development) to the lid program.*
- The lid capture range for hospitality is based on the office lid capture rates. The preliminary conclusion that the lid could support a larger business-oriented hotel and smaller leisure-focused hotel is based on an estimate of the current proportion of business to leisure travelers.*

PURPOSE

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PROJECT CONTEXT

MARKET CONTEXT

STUDY AREA CONTEXT

MARKET SCAN

RESIDENTIAL

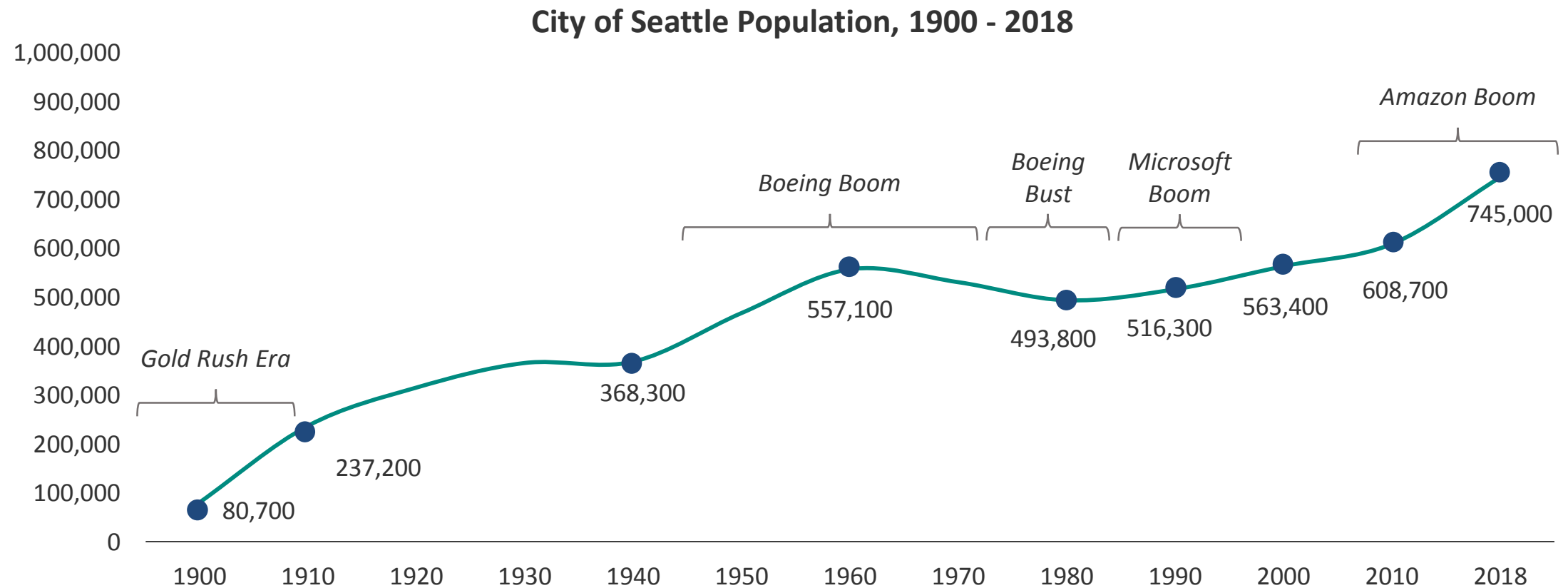
OFFICE

RETAIL

HOSPITALITY

REGIONAL CONTEXT

Seattle is experiencing its most rapid period of population growth since the Klondike Gold Rush and has been the fastest-growing big city in the U.S. since 2010.



Source: (U.S. Census Bureau, 2017a); (Guy, 2018) - Note that the Guy (2018) Seattle Times article references U.S. Census data, comparing Seattle against the 50 largest cities in the U.S. based on population.

REGIONAL CONTEXT

The region is home to large employment anchors across diverse industries.

MAJOR REGIONAL EMPLOYERS



Regional Employment:
70K



Regional Employment:
53K



Seattle Employment:
45K



Regional Employment:
51K



Regional Employment:
47K

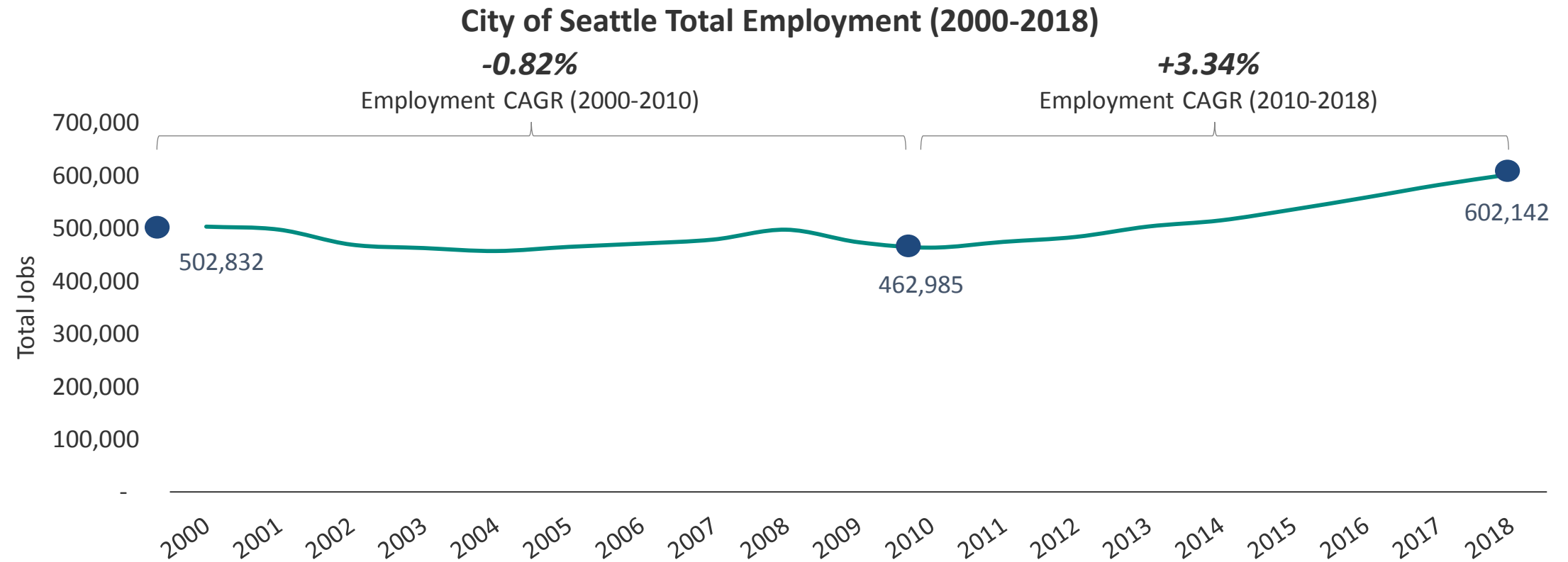
Source: (Crowe, 2016); The Seattle Times (n.d.); (Fortune, 2019)

FORTUNE 500 COMPANIES HEADQUARTERED IN SEATTLE



REGIONAL CONTEXT

Seattle has seen significant job growth in the past ~10 years, adding more than 17,000 jobs per year on average since 2010.

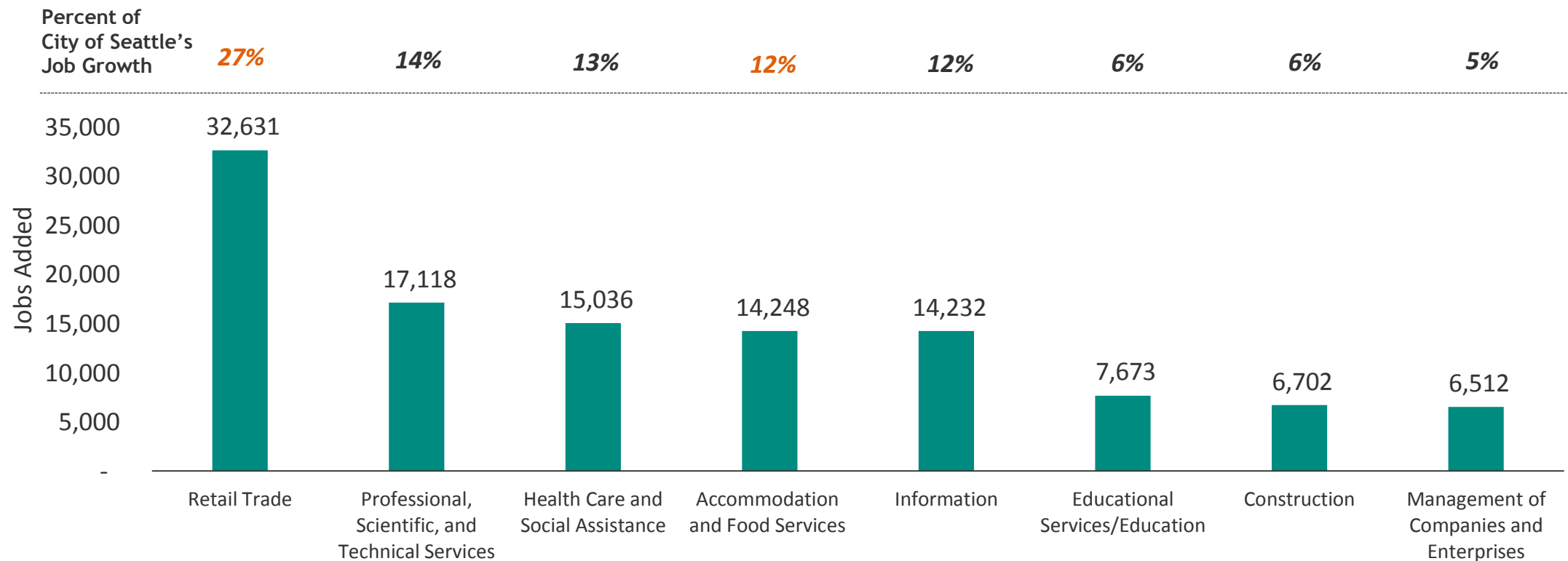


Source: (Puget Sound Regional Council, 2017a)

REGIONAL CONTEXT

While “tech” jobs are credited for Seattle’s economic growth, service jobs, including in retail and hospitality, comprised 39% of the city’s recent job growth.

Jobs Added by Industry in Seattle, 2010-2017

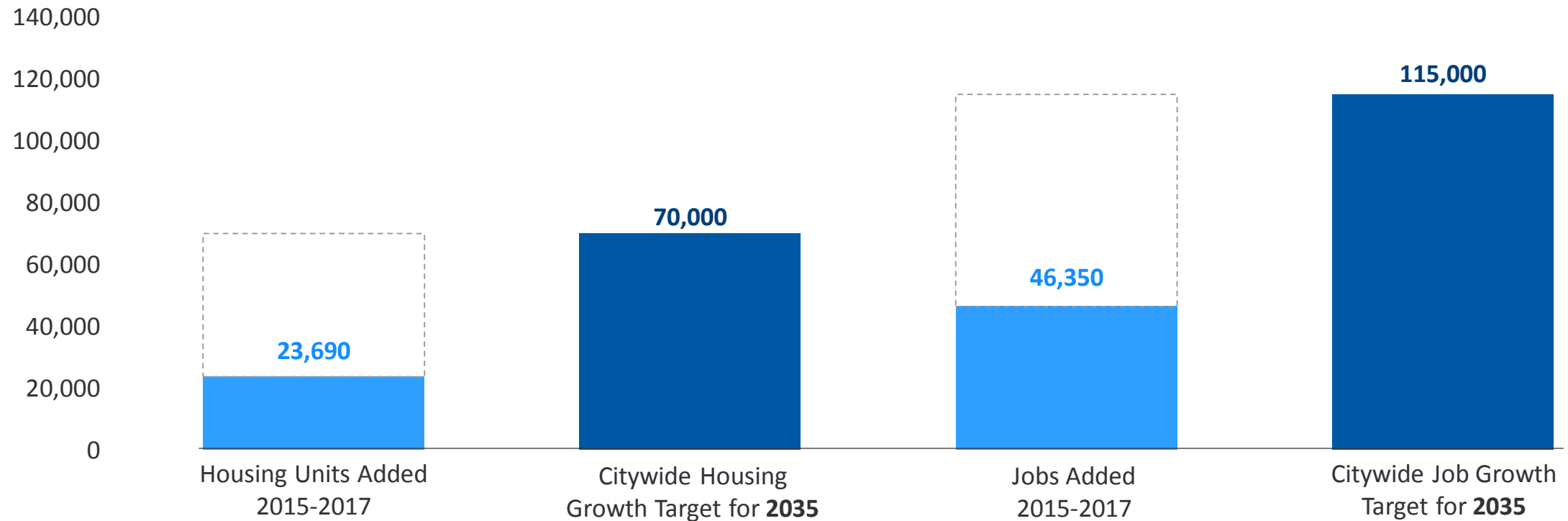


Source: (Puget Sound Regional Council, 2017a).

REGIONAL CONTEXT

Seattle is outpacing recent projections for growth, both in housing units added and jobs added post-Recession. In only three years the city achieved more than one third of its 20-year growth projections.

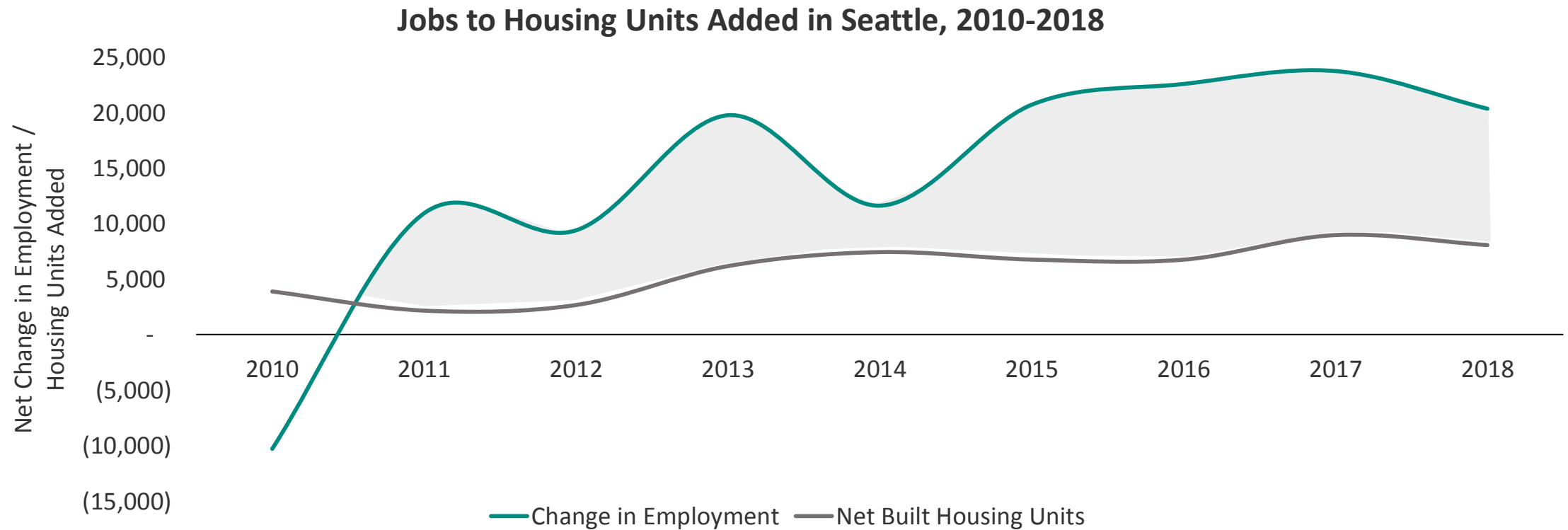
Citywide Housing Units and Job Goals



Source: (Office of Planning & Community Development, 2019)

REGIONAL CONTEXT

However, housing production consistently lags jobs added, with approximately 2.5 jobs added for every housing unit between 2010 and 2018; in 2018, the overall jobs-to-housing ratio was still 1.69.

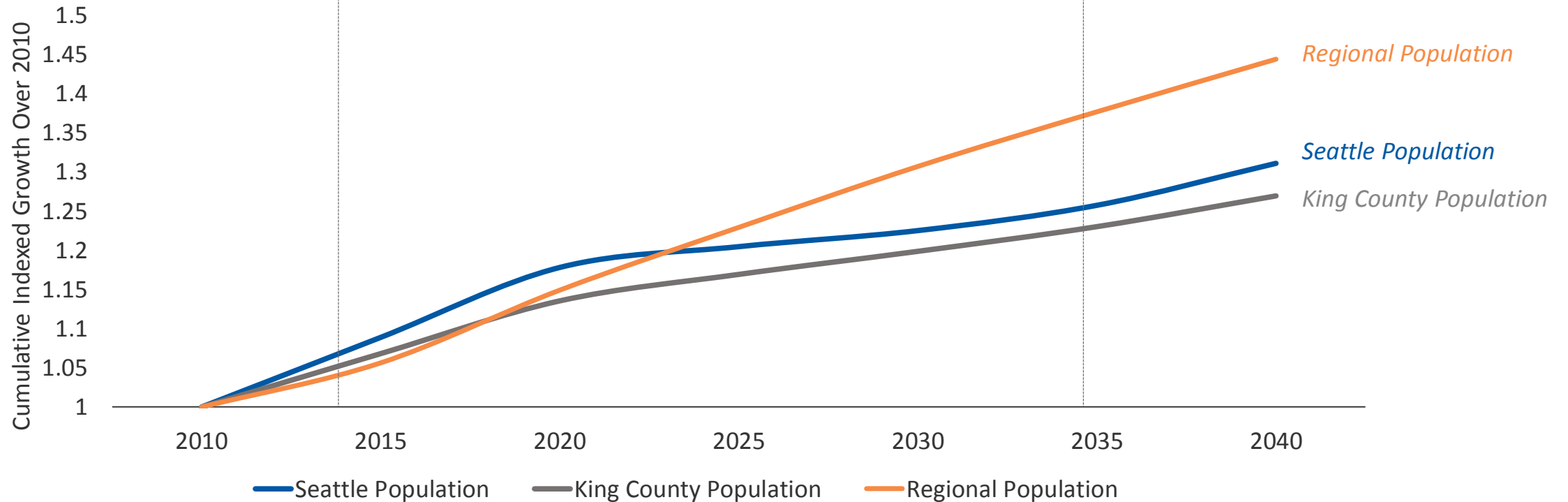


Source: (Puget Sound Regional Council, 2017a); (Seattle Department of Construction & Inspections, 2019)

REGIONAL CONTEXT

Looking ahead, Seattle's population growth may slow, but regional growth is projected to be sustained at close to 2015 rates through 2040...

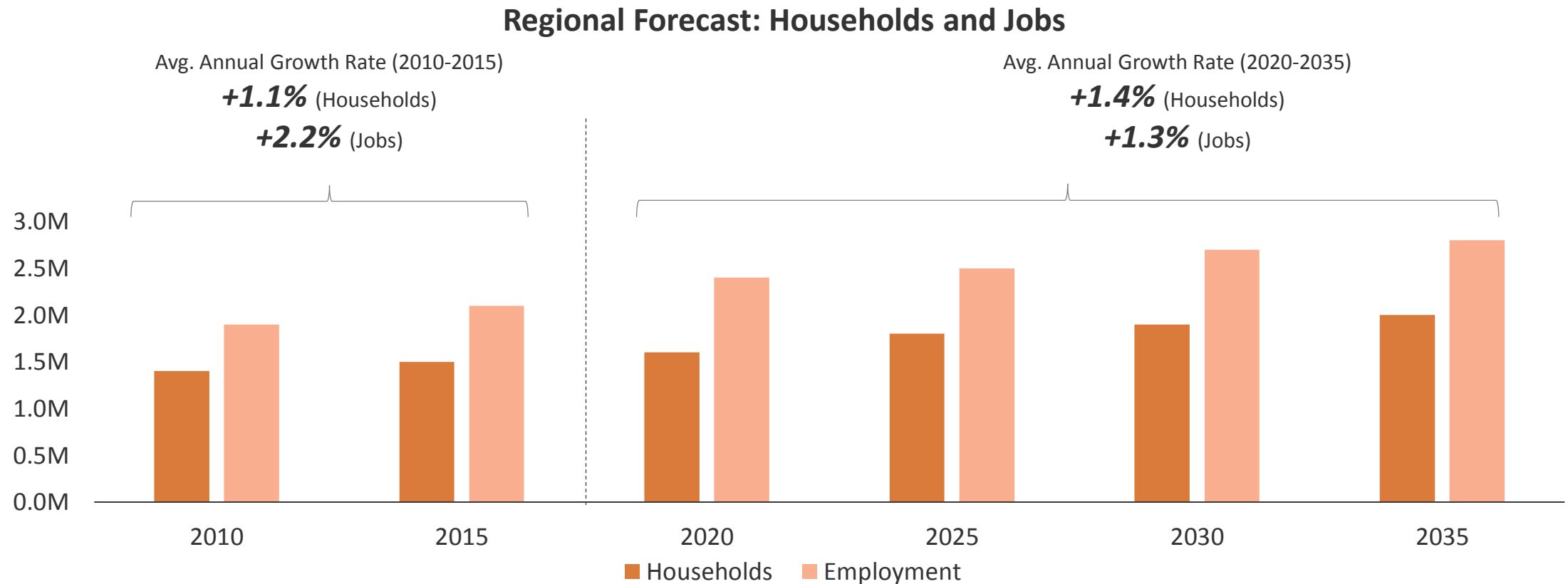
Historical and Projected Indexed Population Growth, 2010-2040



Source: (Puget Sound Regional Council, 2017a) Note: Actual data through 2015; projections from 2015-2040.

REGIONAL CONTEXT

...with regional household growth accelerating and job growth slowing.

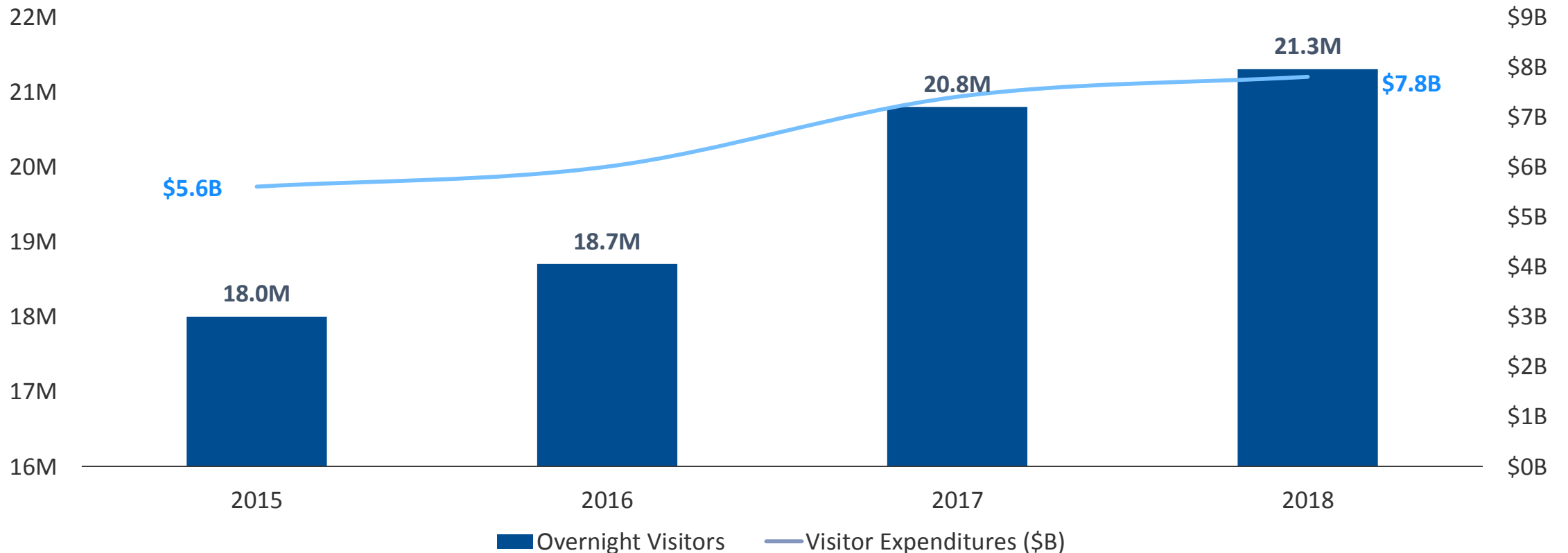


Source: (Puget Sound Regional Council, 2017a)

REGIONAL CONTEXT

As the economy and population have grown, Seattle has also seen record high tourism and visitor spending in recent years.

Overnight Visitors and Visitor Expenditures in Seattle/King County



Source: (Visit Seattle, 2019)

PURPOSE

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STUDY AREA CONTEXT

MARKET SCAN

RESIDENTIAL

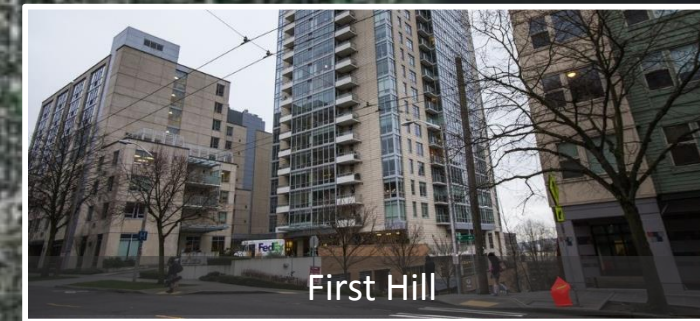
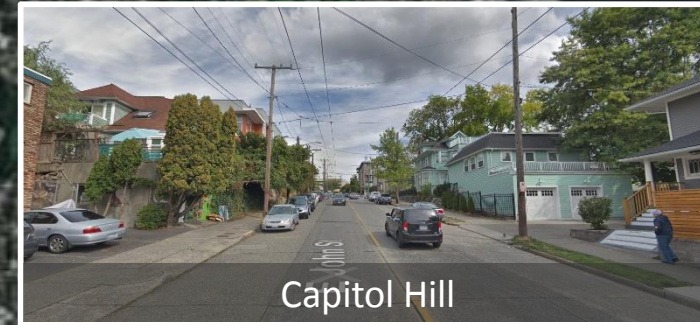
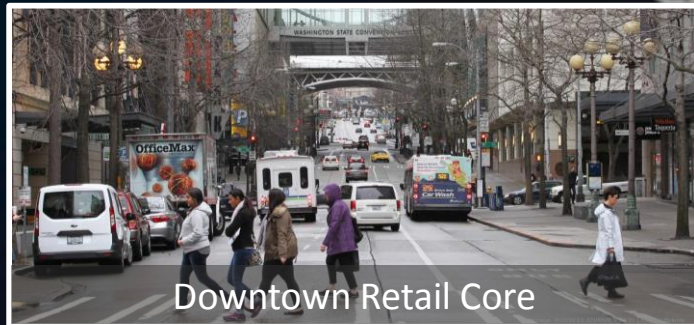
OFFICE

RETAIL


HOSPITALITY

LID STUDY SITE CONTEXT

The I-5 lid study site is situated between the Downtown Retail Core, South Lake Union, Capitol Hill, and First Hill, each neighborhood differing in urban scale and experience.



Legend

 I-5 Lid Study Site

LID STUDY SITE CONTEXT

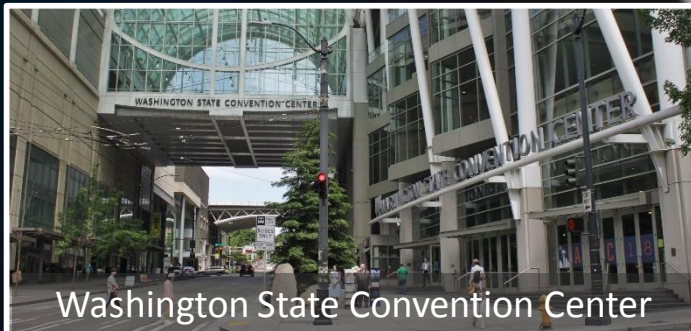
The I-5 lid study site is located within blocks of retail, employment, and hospitality centers: the Pike/Pine retail corridor, Amazon's campus, and the Convention Center.



Pike/Pine Retail Corridor



Amazon South Lake Union HQ Campus



Washington State Convention Center



Legend

■ I-5 Lid Study Site

LID STUDY SITE CONTEXT

Several planned and ongoing projects, such as the Convention Center addition, will transform the context of the I-5 lid study site.



Washington State Convention Center Addition

- The \$1.8-billion renovation will add 255K SF of exhibition space, 125K SF of meeting rooms, and 60K SF of ballroom space, potentially driving an increase in business visitors.
- Washington State Convention Center will sell rights to a 29-story apartment building and 16-story office tower to a private developer.
- The adjacent 1,300-room Hyatt Regency opened in December 2018.

LID STUDY SITE CONTEXT

To the southeast of the I-5 lid study site, the Yesler Terrace redevelopment reimagines its site as a mixed-income, mixed-use community.

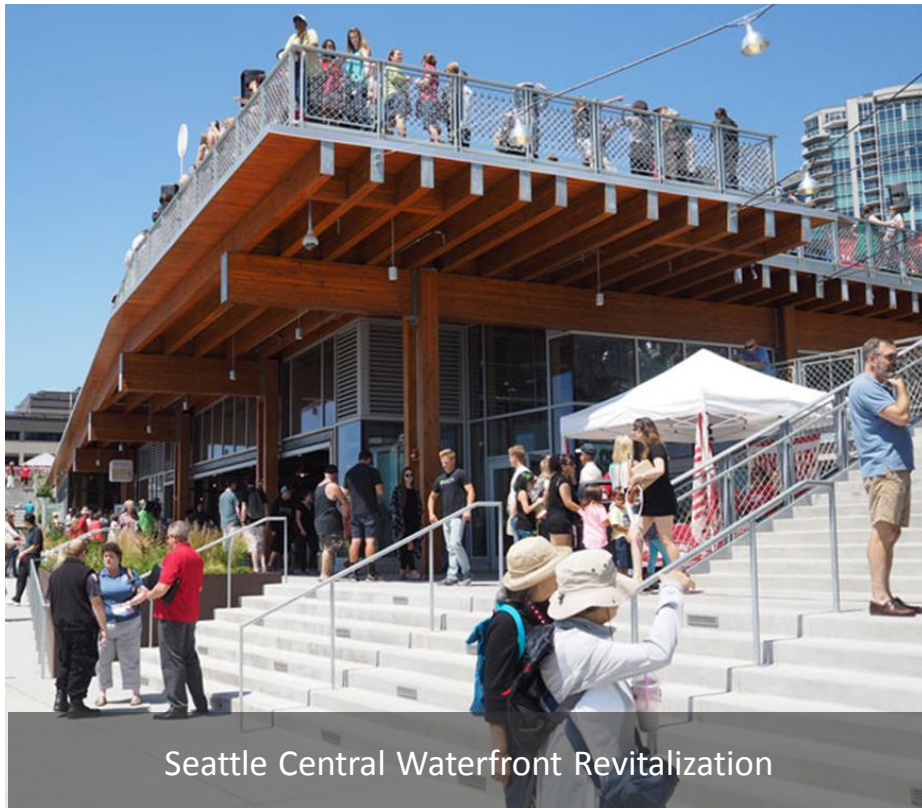


Yesler Terrace Redevelopment

- Development on the 30-acre site will replace the 561 original units at 30% AMI and create up to 1,100 new low-income units; additionally, there will be approximately 3,200 market-rate rentals.
- To finance the project, Seattle Housing Authority sold portions of the site to private developers and negotiated affordable housing requirements exceeding the City's rules.
- The development will bring 16 acres of parks and open space, in addition to a new streetcar line.

LID STUDY SITE CONTEXT

Waterfront Seattle is a multi-year, \$724M program to transform Seattle's waterfront through adding and improving public space, improving connectivity, and enhancing infrastructure.



- Waterfront Seattle projects include: demolition of Alaskan Way Viaduct; construction of a park promenade and a new surface street along Alaskan Way; an elevated connection from Pike Place Market to the waterfront; and improved east-west connections between Downtown and Elliott Bay.
- Key partner investments in the waterfront include projects such as: Pike Place Market's MarketFront, Seattle Aquarium's Ocean Pavilion, and Seattle Multimodal Terminal at Colman Dock Project.
- To date, the project has generated \$1B+ in private investments.

PROJECT CONTEXT SUMMARY

- Seattle is experiencing its most **rapid period of population growth** since the Klondike Gold Rush in the early 20th century. However, the rate of population **growth in Seattle is expected to slow over the next ten years**, while **regional growth is projected to sustain** at close to its 2015 growth rates through 2040.
- The region is supported by **large employment anchors**, and Seattle is the home to numerous Fortune 500 companies. After a period of stagnant employment growth between 2000 and 2010, Seattle has entered a period of **continued job growth**, with 3.34% average annual increase in employment per year since 2010.
- **Housing unit delivery has not kept pace with job growth**, with approximately 2.5 jobs added for every housing unit between 2010 and 2018 and an overall jobs-to-housing ratio of 1.69 in 2018. Nonetheless, housing production is catching up in the post-Recession period: since publication in 2015 of the City's 2035 housing goals, Seattle has **already achieved one-third of its planned 20-year growth**.
- The I-5 lid study site is adjacent to key **retail, employment, and hospitality centers** and is situated at the **nexus of distinct neighborhoods**: Downtown Retail Core, South Lake Union, Capitol Hill, and First Hill. The I-5 lid study site will be affected by several **ongoing, transformative projects**, such as the Convention Center addition, Yesler Terrace redevelopment, and Seattle Waterfront revitalization.

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MARKET SCAN

RESIDENTIAL

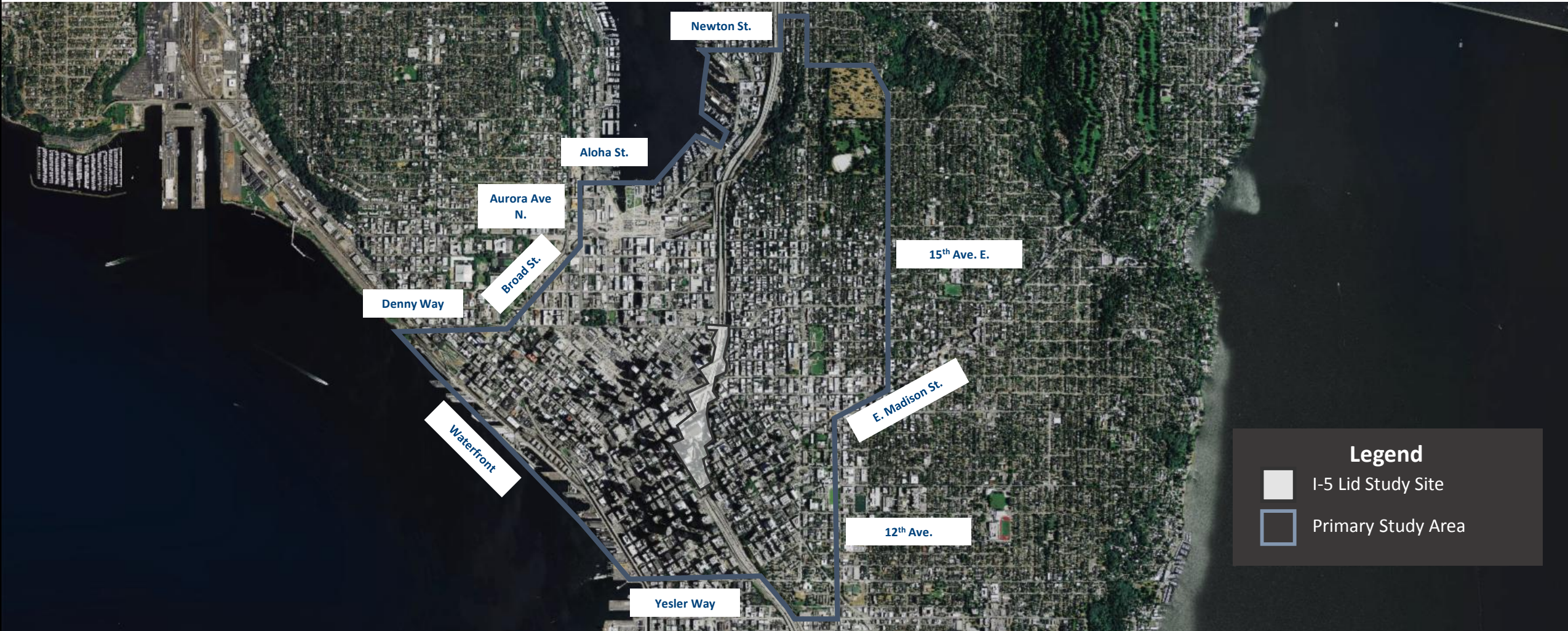
OFFICE

RETAIL

HOSPITALITY

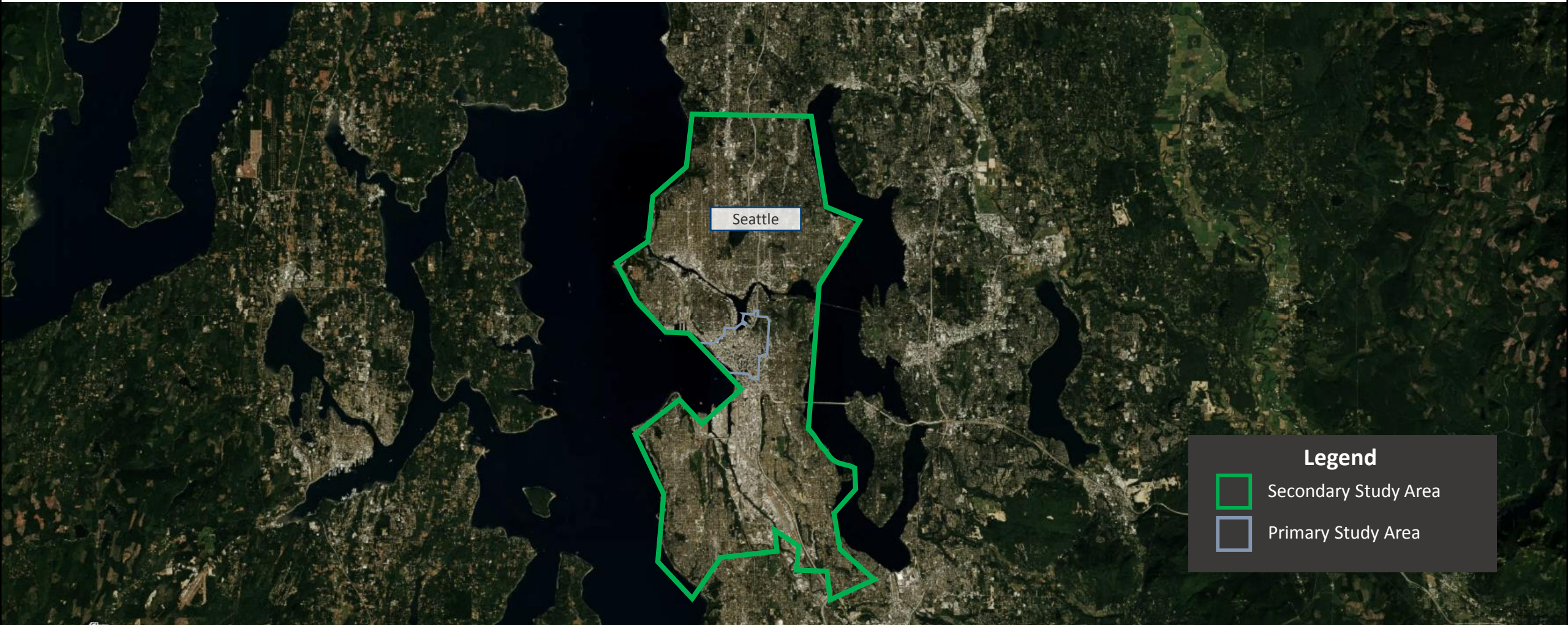
RESIDENTIAL: STUDY AREA

The primary residential study area is Downtown-focused, and includes South Lake Union, Capitol Hill as far east as 15th Ave., First Hill, Yesler Terrace, Downtown, and Belltown.



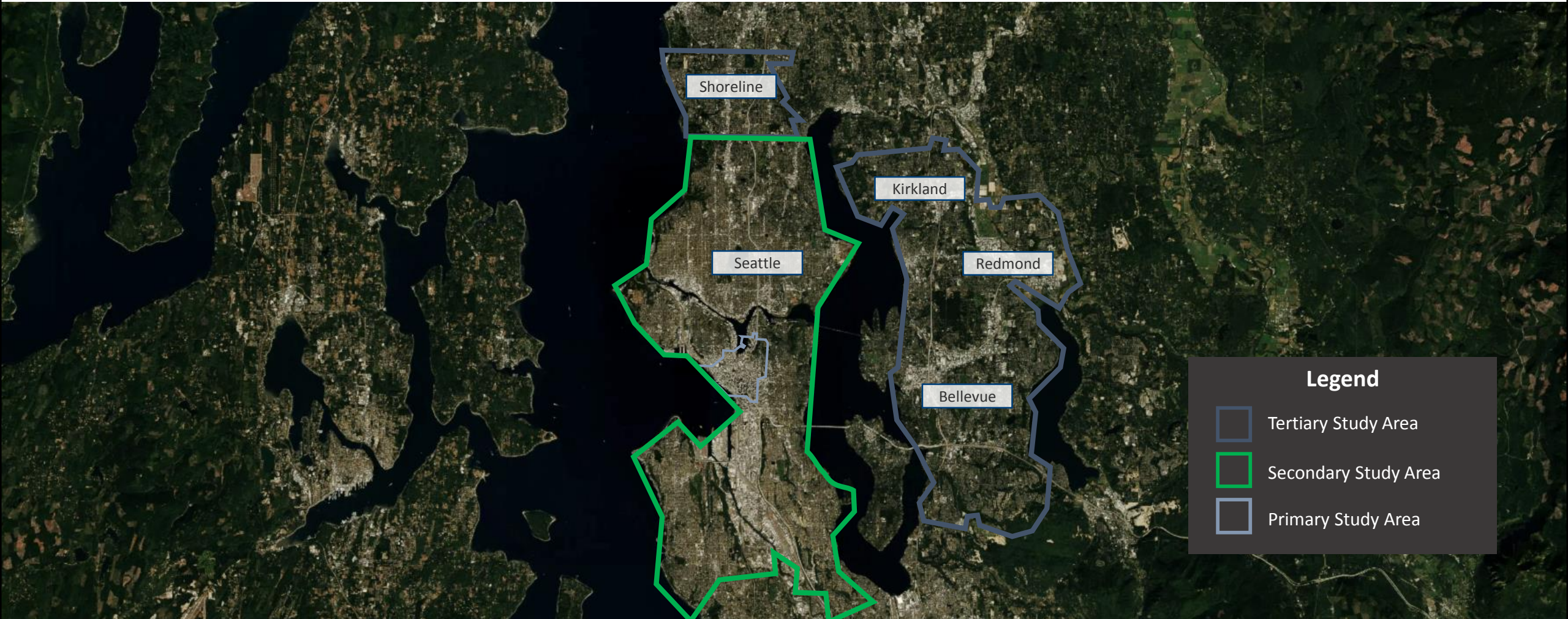
RESIDENTIAL: STUDY AREA

The secondary residential study area encompasses the entire city of Seattle excluding the Primary Study Area.



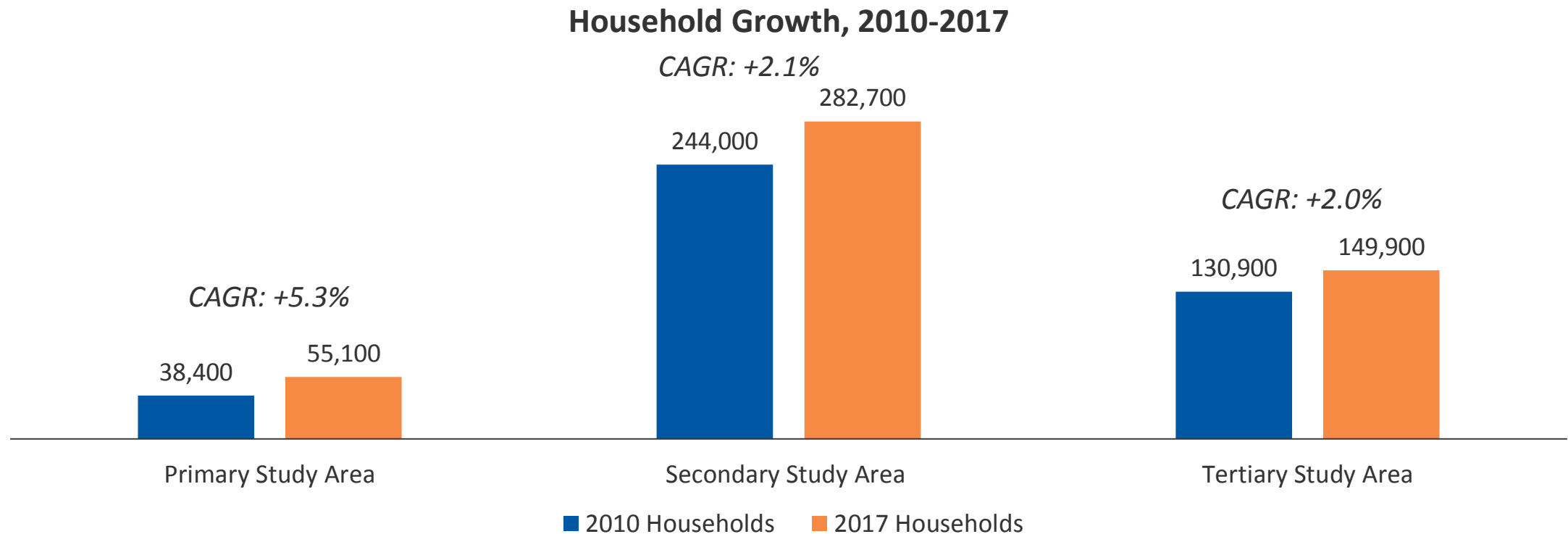
RESIDENTIAL: STUDY AREA

A tertiary study area includes cities outside of Seattle with concentrations of recent multifamily development activity: Bellevue, Redmond, Kirkland, and Shoreline.



RESIDENTIAL: EXISTING CONDITIONS

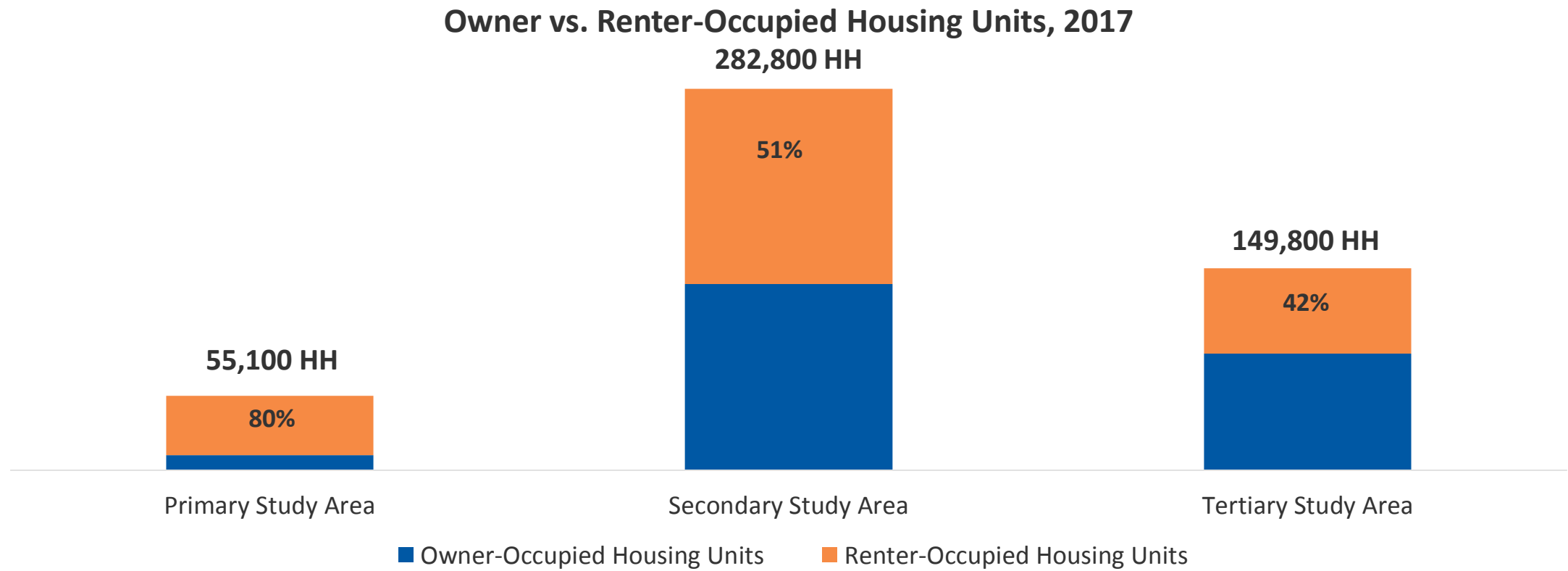
The number of households in the primary study area increased by 43% between 2010 and 2017, with annual household growth in the primary study area more than double the city's recent growth.



Source: (Esri Business Analyst 2019a)

RESIDENTIAL: EXISTING CONDITIONS

The primary study area has a far greater percentage of renter households than the secondary and tertiary market areas.¹



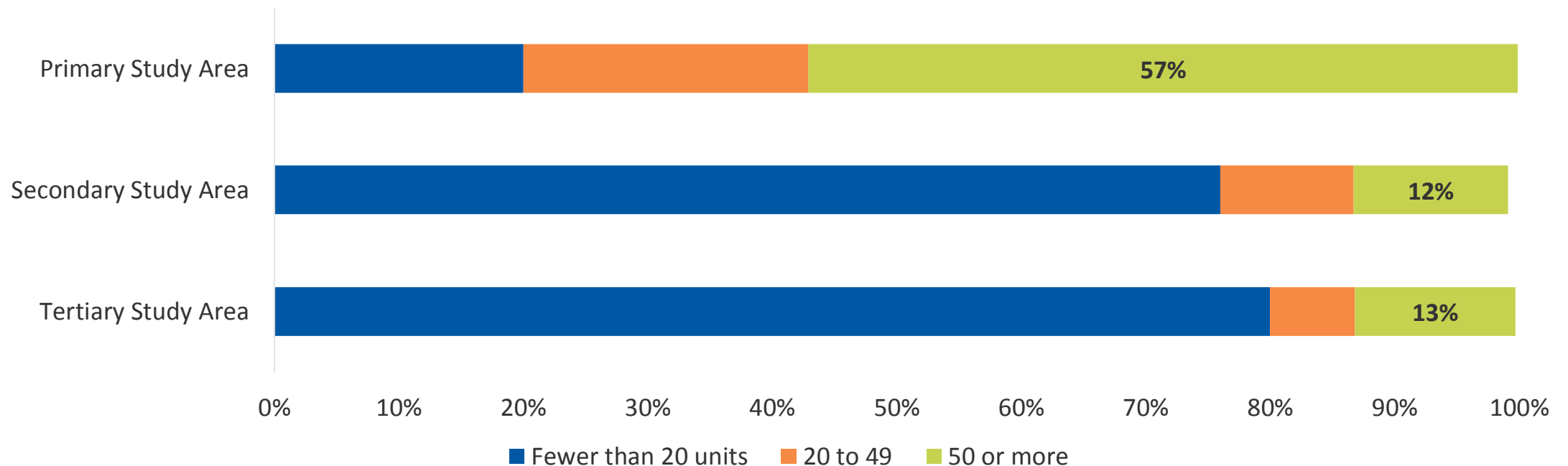
Source: (ESRI Business Analyst, 2019a)

¹This report analyzes multifamily rental market supply and demand only; HR&A did not study any for-sale product such as condos.

RESIDENTIAL: EXISTING CONDITIONS

The primary study area also has a greater share of its housing units in large, 50+ unit buildings than other study areas, reflecting its urban context and recent development.

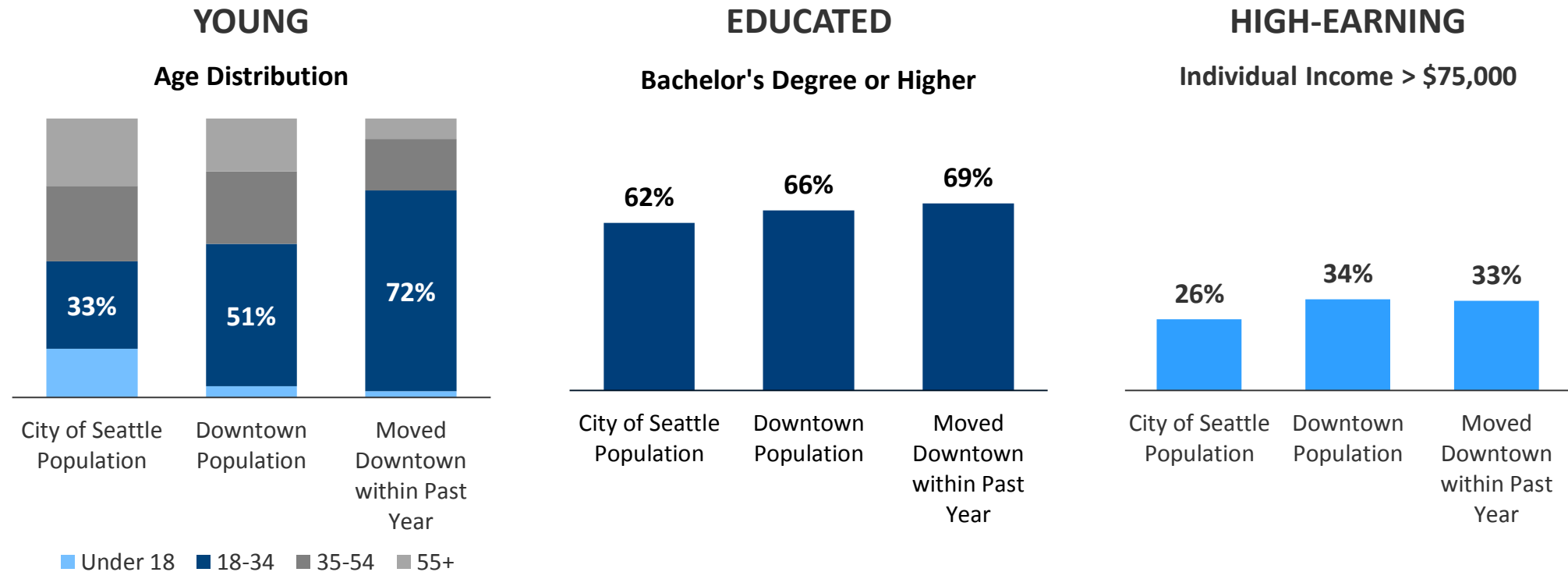
Percentage of all Units (Renter- and Owner-Occupied) by Number of Units in Structure, 2017



Source: (ESRI Business Analyst, 2019b)

RESIDENTIAL: EXISTING CONDITIONS

The primary study area is attracting educated millennials who seek amenitized urban neighborhoods and proximity to many of the region's "tech" jobs, including Amazon's campus.

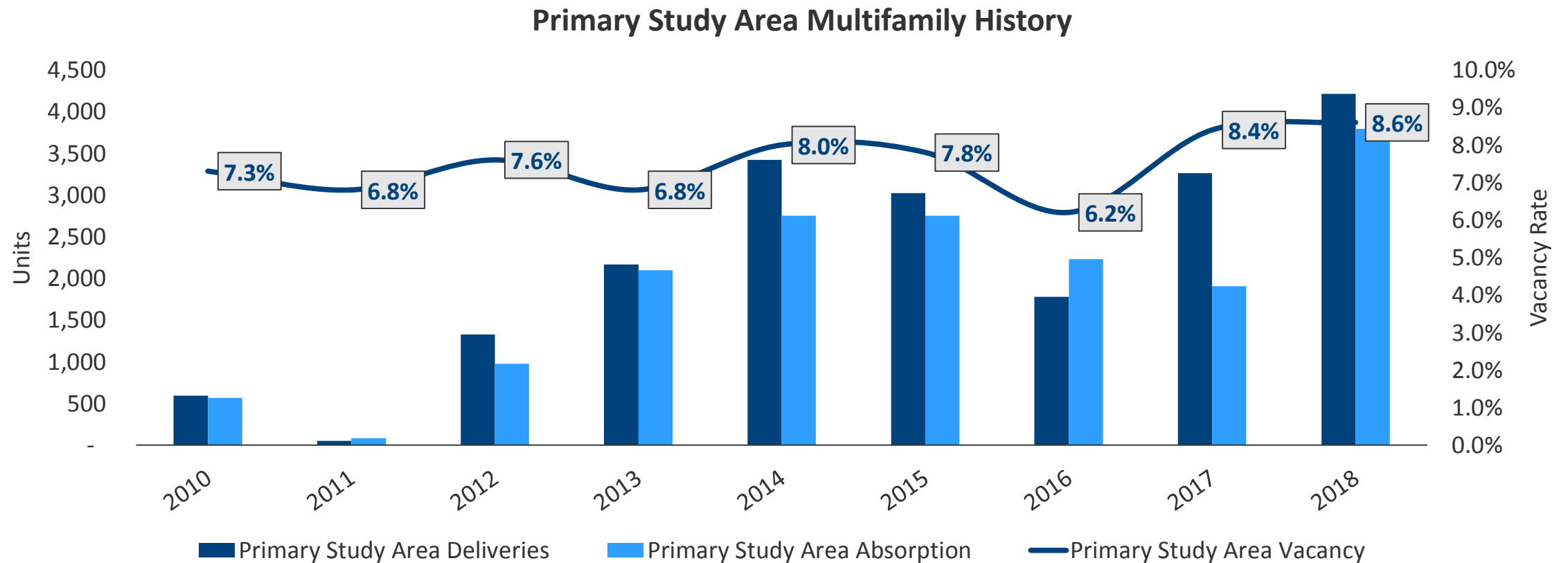


Note: Downtown Seattle is defined here as the neighborhoods of First Hill, Yesler Terrace, Downtown, Belltown, South Lake Union, and Capitol Hill as far east as 15th Street.

Source: (U.S. Census Bureau, 2017a)

RESIDENTIAL: EXISTING CONDITIONS

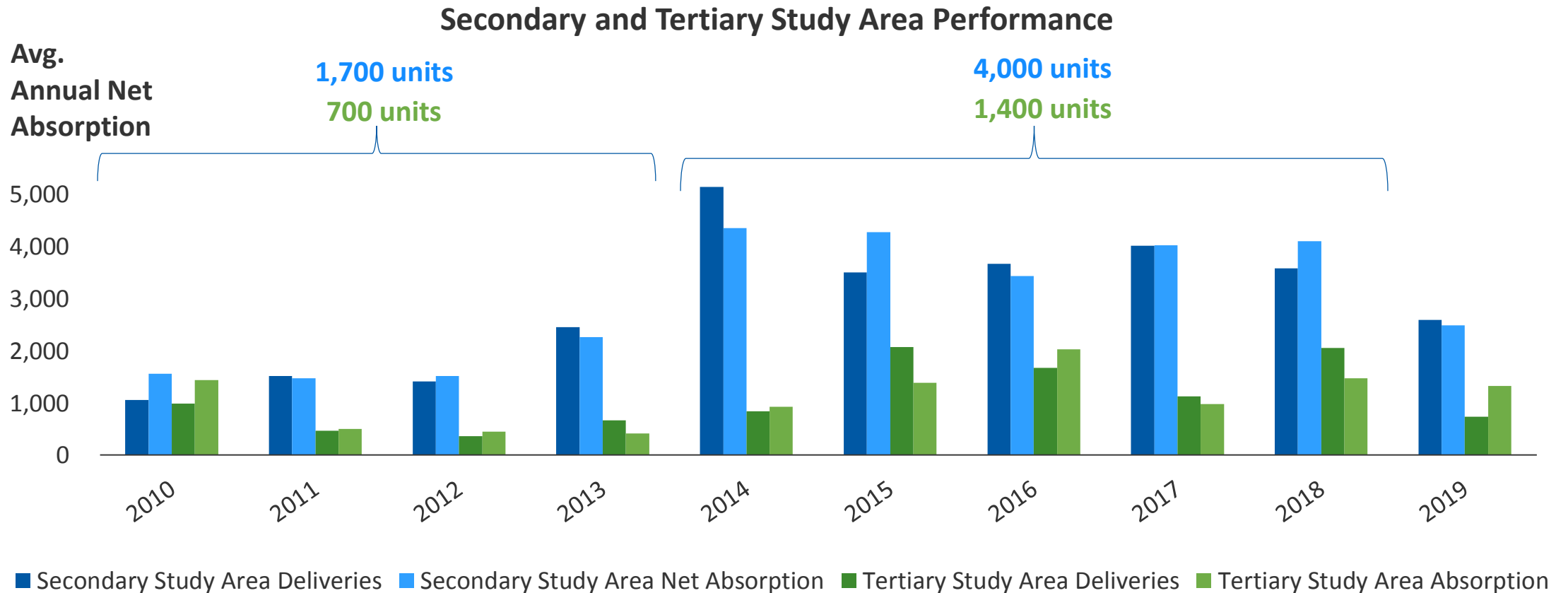
The primary study area contains approximately 47,000 multifamily units, with 19,000 (42%) of all units delivered since 2013.



Source: (CoStar Group, 2018)

RESIDENTIAL: EXISTING CONDITIONS

The secondary and tertiary study areas are also experiencing periods of growth that began in 2013, with average annual net absorption doubling in both study areas from between 2010 and 2013 and between 2014 to 2018.

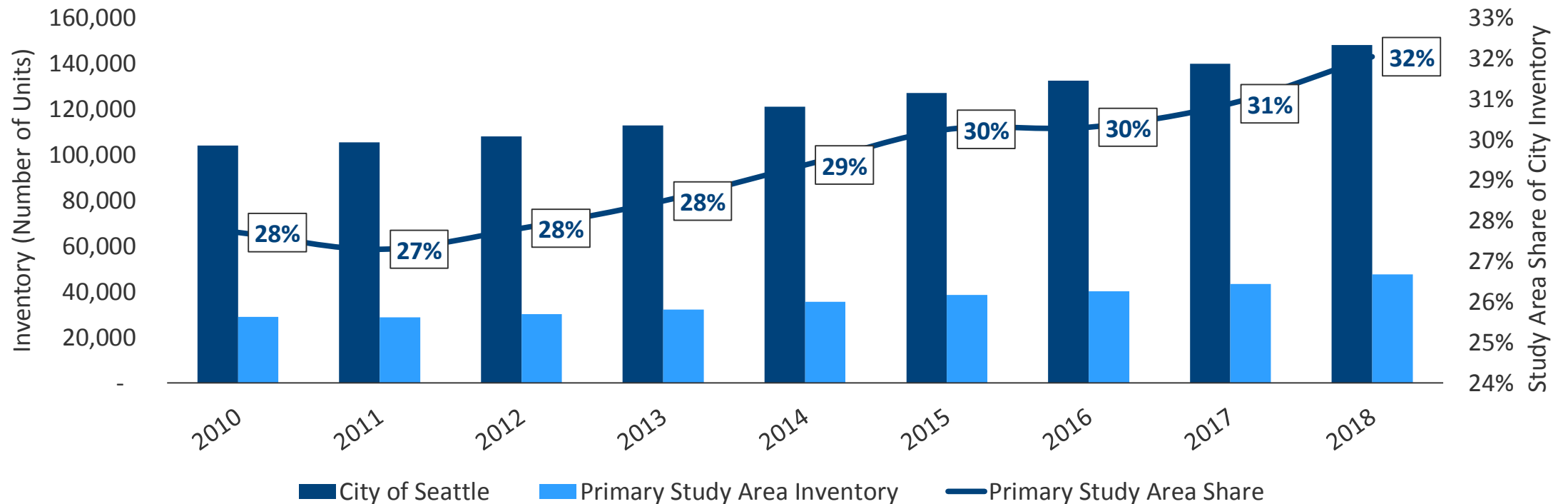


Source: (CoStar Group, 2018)

RESIDENTIAL: EXISTING CONDITIONS

With recent deliveries concentrated in Downtown, including most of the region's largest multifamily projects, the primary study area has been growing as a portion of the city's multifamily inventory.

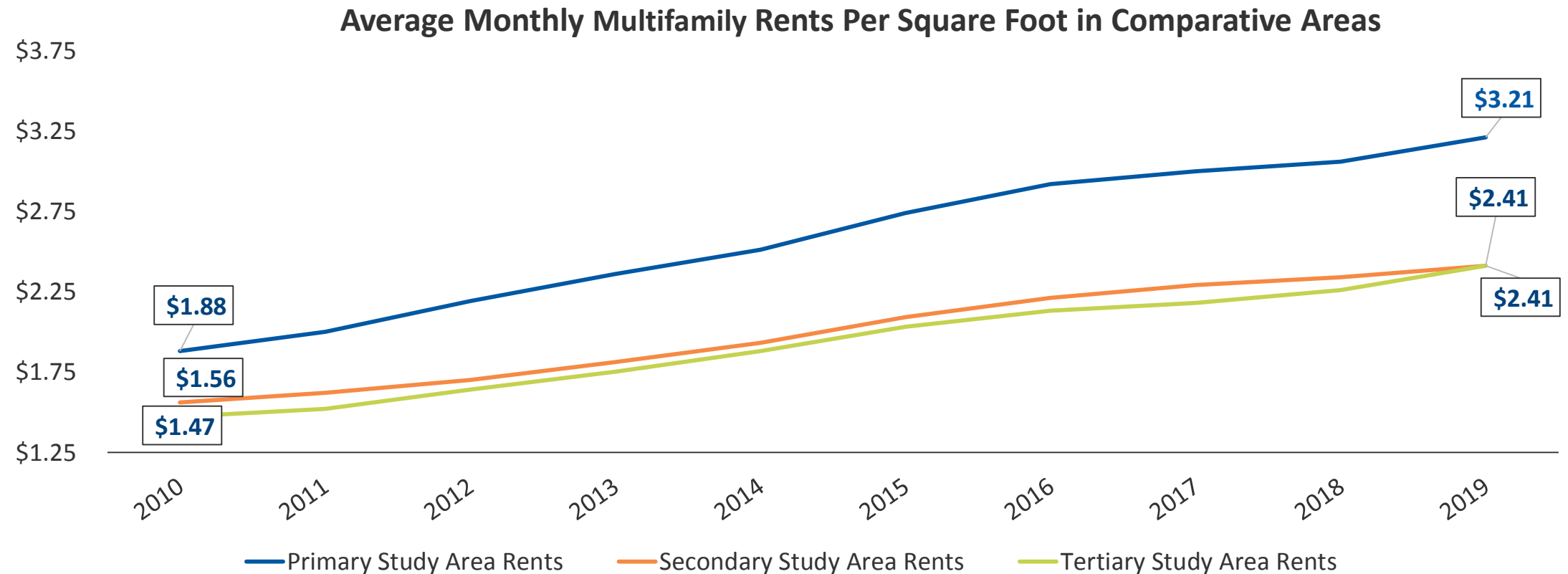
Primary Study Area Share of Seattle Multifamily Inventory



Source: (CoStar Group, 2018)

RESIDENTIAL: EXISTING CONDITIONS

While the region's rapid rent growth has slowed since 2015, the past year has seen an uptick in rent growth throughout the region, most prominently in the primary study area.

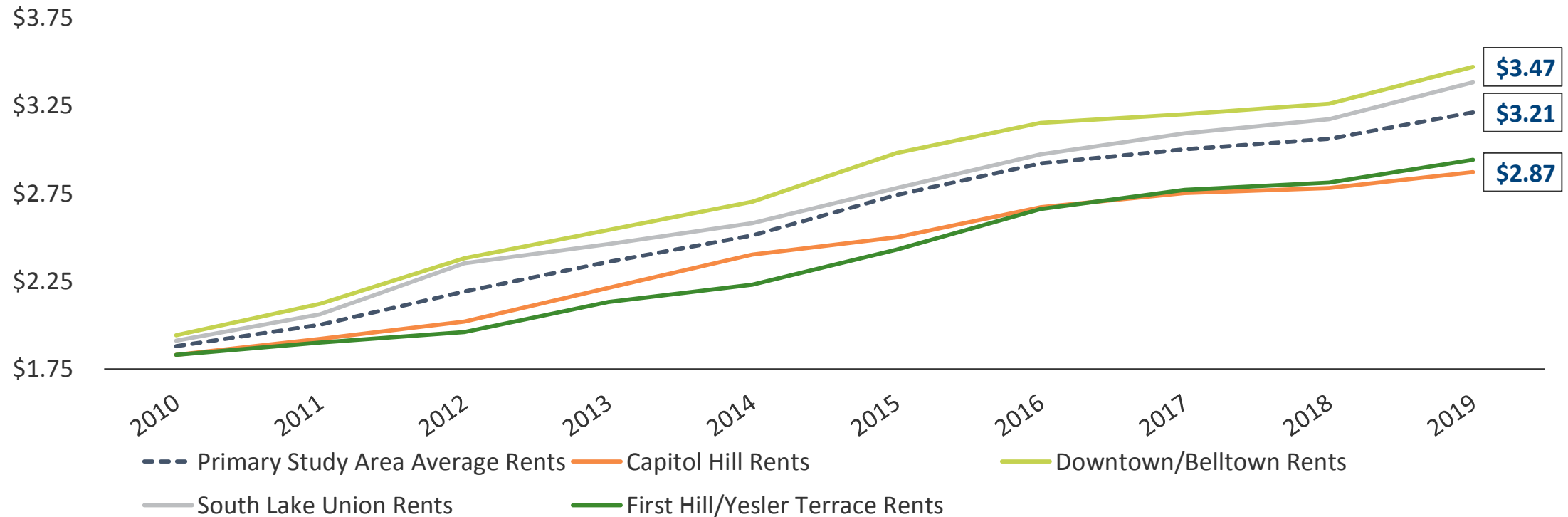


Source: (CoStar Group, 2018)

RESIDENTIAL: EXISTING CONDITIONS

Within the primary study area, different neighborhoods command a range of multifamily rents, with Downtown multifamily rents about 20% higher than Capitol Hill rents.

Average Monthly Multifamily Rent Trends in Primary Study Area Neighborhoods

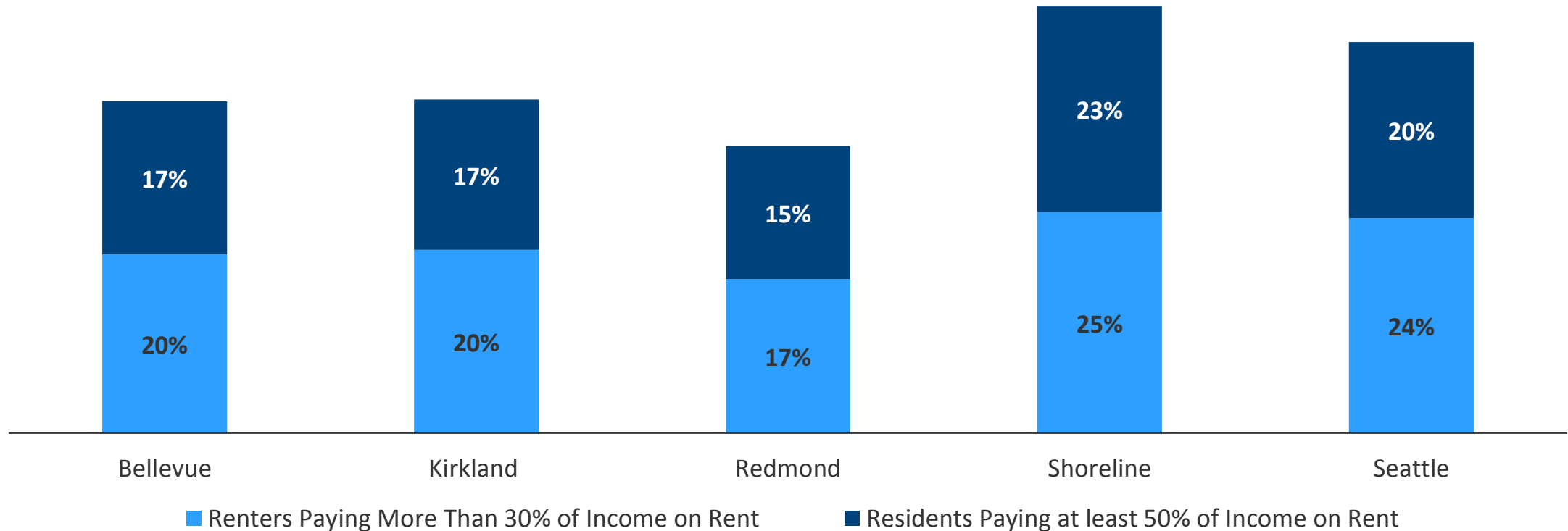


Source: (CoStar Group, 2018)

RESIDENTIAL: EXISTING CONDITIONS

44% of Seattle renters spent 30% or more of their income on rent (were “rent burdened”) in 2017, while a lower share of renters in most cities in the tertiary study area are rent burdened.

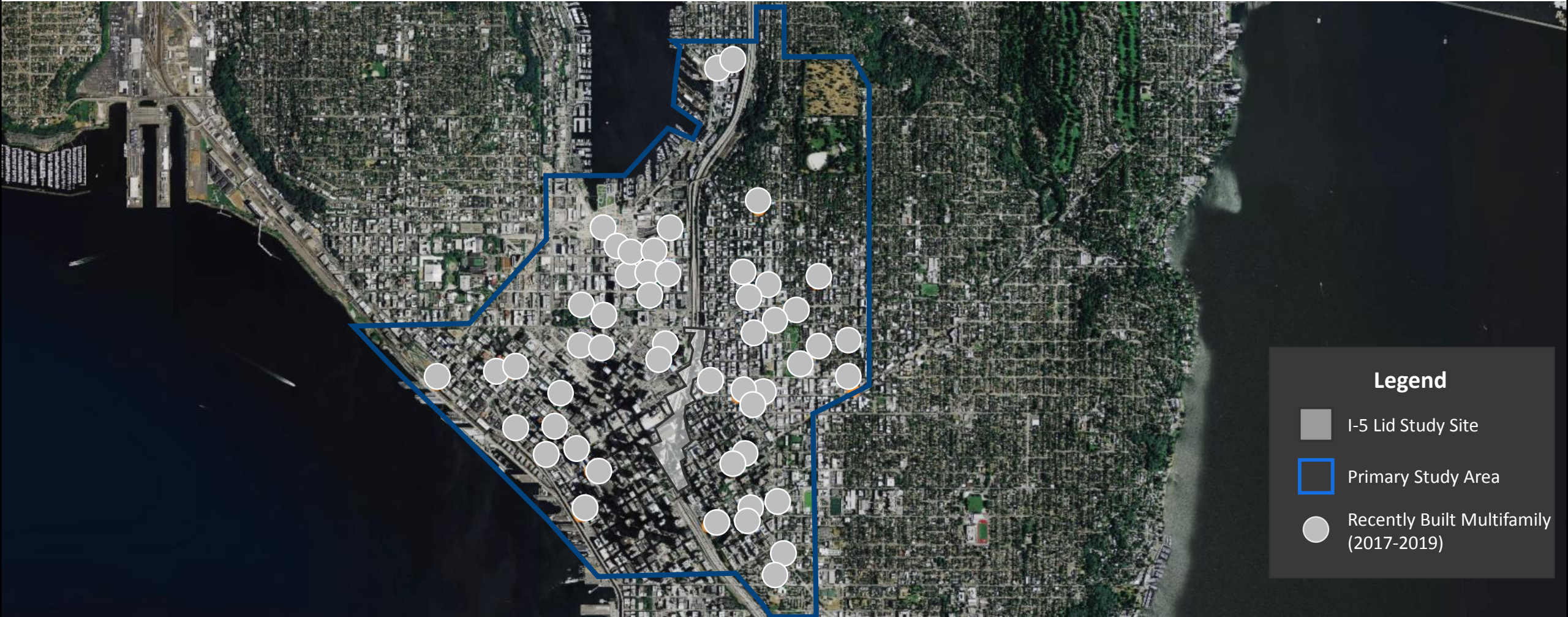
Percentage of Renters Experiencing Rent Burden, 2017



Source: (U.S. Census Bureau, 2017a)

RESIDENTIAL: EXISTING CONDITIONS

The primary area has seen recent deliveries in all of its neighborhoods, with a particular concentration of new apartment buildings in South Lake Union.

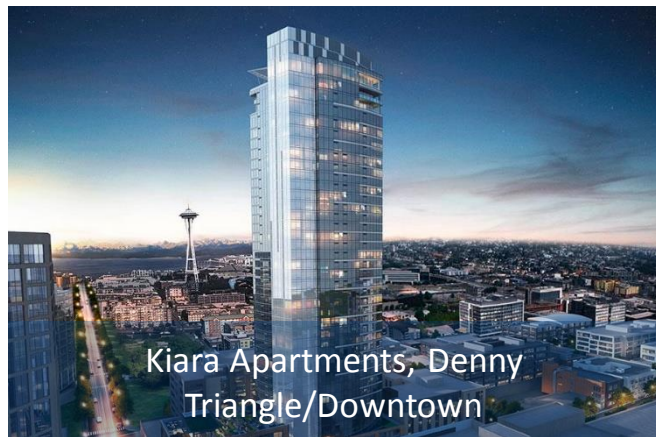


Legend

- I-5 Lid Study Site
- Primary Study Area
- Recently Built Multifamily (2017-2019)

RESIDENTIAL: EXISTING CONDITIONS

Mid-rise residential projects are located throughout the study area, while high-rise construction is primarily locating Downtown and increasingly in First Hill.



High-Rise (12+ stories)
New Construction

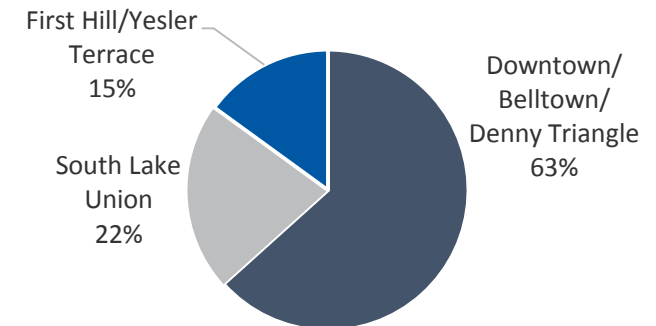
Developments (2018 – Pipeline)	60
Units (2018 – Pipeline)	20,000



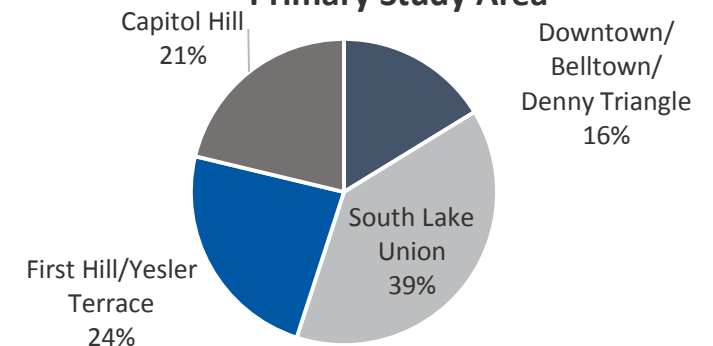
Mid-Rise (5-12 stories)
New Construction

Developments (2018 – Pipeline)	57
Units (2018 – Pipeline)	6,763

High-rise Multifamily Pipeline Projects within Primary Study Area



Mid-rise Multifamily Pipeline Projects within Primary Study Area



Source: (Downtown Seattle Association, 2019) Note: Pipeline Data, 2019

RESIDENTIAL: EXISTING CONDITIONS

Although rents to the east of I-5 are lower overall than to the west, recent Capitol Hill and First Hill deliveries include ultra-luxury buildings.



Chroma South Lake Union (2018)
275 units/7 stories
\$3.61-\$3.81 PSF



Tower 12 Apartments (2017)
314 units/34 stories
\$3.95-\$4.14 PSF



802 E. Thomas Street (2017)
70 units/7 stories
\$3.14-\$3.46 PSF



1820 Boylston Way (2018)
55 units/8 stories
\$4.08-\$5.70 PSF

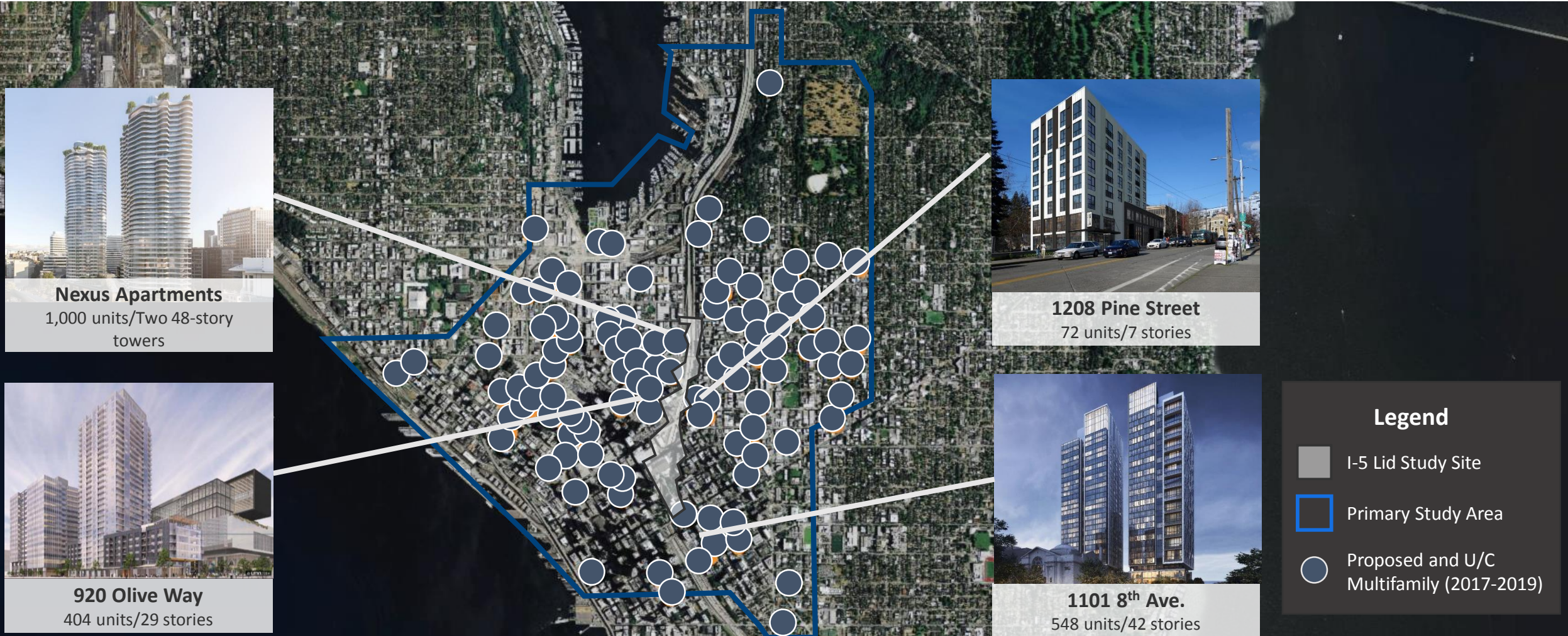


The Perry (2019)
209 units/17 stories
\$3.74-\$3.91



RESIDENTIAL: EXISTING CONDITIONS


The 25,000 pipeline units in the primary study area would double area inventory. I-5 lid study-site-adjacent pipeline projects include a number of high-rise projects in Denny Triangle and First Hill.



RESIDENTIAL: EXISTING CONDITIONS

Within the tertiary area, recent deliveries and pipeline projects are concentrated in Downtown Bellevue and Downtown Redmond, both of which are key regional office nodes. With recent rezoning and a large office pipeline, Downtown Bellevue is likely to grow as a multifamily center.

Shoreline



Paceline Apartments (2018)
221 units/6 stories
\$2.48-\$3.00 PSF

Downtown Kirkland



Voda Apartments (2018)
128 units/40 stories
\$3.48-\$4.09 PSF

Downtown Bellevue



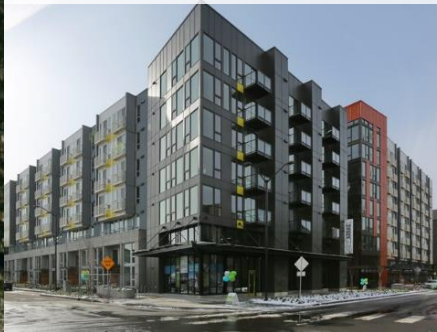
2 Lincoln Tower (2017)
218 units/40 stories
\$3.45-\$4.53 PSF

Downtown Redmond

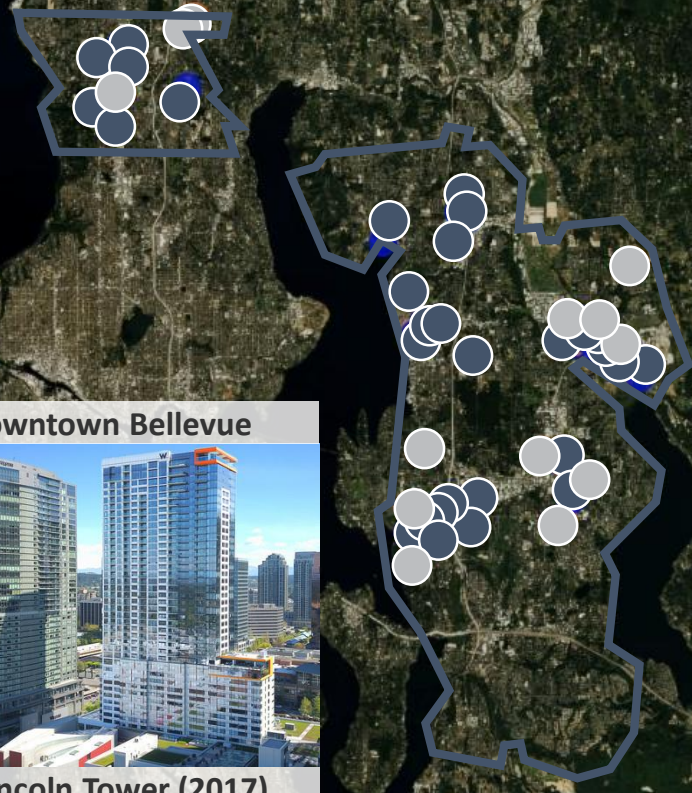


16450 Redmond Way (2018)
195 units/6 stories
\$3.12-\$3.45 PSF




East Bellevue



Arras (2019)
162 units/6 stories
\$2.52-\$2.91 PSF



Legend

-  Tertiary Study Area
-  Recently Built Multifamily (2017-2019)
-  Proposed and U/C Multifamily (2017-2019)

RESIDENTIAL DEMAND

Residential demand analysis sizes and assesses the target market to guide recommendations.

1. INCOME QUALIFICATION

- Use Market rate rent and average unit size data (*CoStar*)
- Determine required income for market rate units using the assumption that a household will spend between 20% and 30% of income on rent
- Filter study area households by required income (*Esri*)

2. TURNOVER BY TENURE

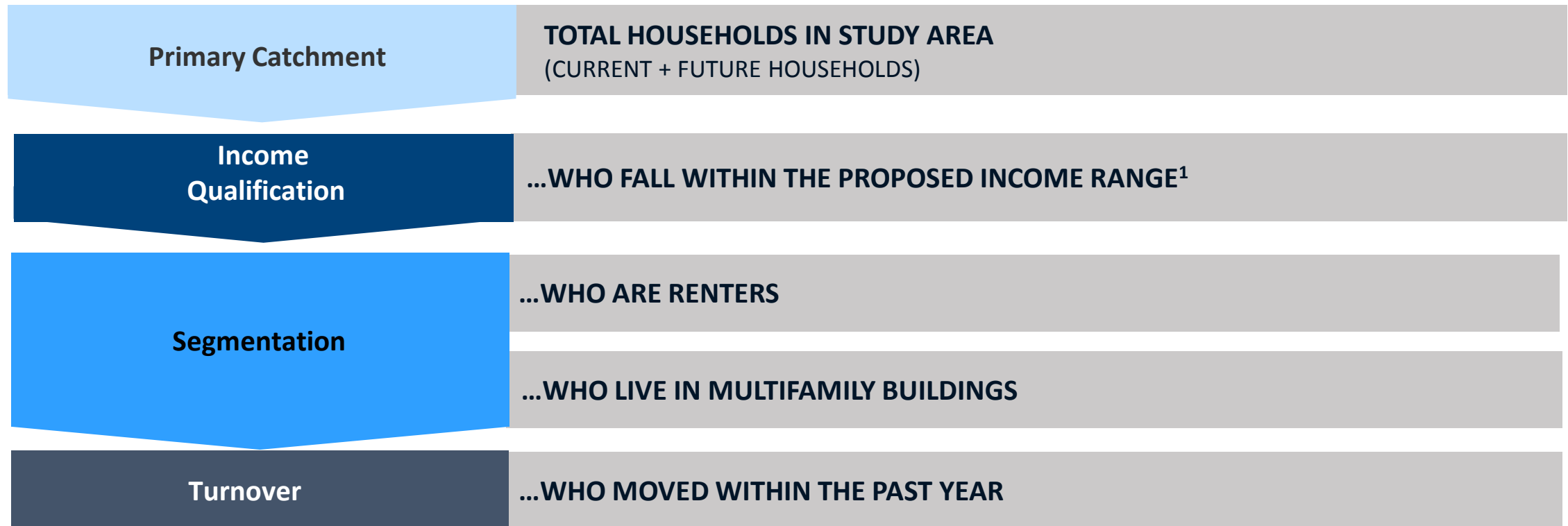
- Use mobility data (*American Community Survey*) to identify income-qualified households “in the market” for new rental and for-sale residence within each study area.

3. SEGMENTATION

- Use demographic data to segment the population by age, income, tenure, turnover, and building type within each study area.

RESIDENTIAL DEMAND

HR&A segmented households in the market, based on income, preference, and turnover rates to determine multifamily rental demand in the three market areas.



Multifamily Rental Demand in 2017

¹\$3.21 avg. Rent PSF x 690 SF Avg. Unit Size x 12 months = \$27,500/year rent; \$89,000-\$125,000 household income required to afford market-rate rents assuming that less than 30% and more than 22% of income is spent on housing costs. Because this model uses household figures (i.e., occupied housing units) rather than housing unit figures, vacancy is not a variable in determining supportable demand.

RESIDENTIAL DEMAND

Cumulative demand for rental units in the primary study area during assumed project construction years is about 15,000 units.

ANNUAL DEMAND SUMMARY

	Primary Study Area	Secondary Study Area	Tertiary Study Area
Eligible Households (2017)	11,600 HH	59,700 HH	34,500 HH
Renter Estimate (% of Income Eligible HHs) ¹	79%	46%	40%
Turnover Rate for Renters by Area ²	21%	21%	21%
Preference for Urban Multifamily Housing (based on age of eligible households) ³	54%	51%	53%
Total Rental Demand in 2017	1,000 HH	3,000 HH	2,746 HH
CAGR (2017-2045) ⁴	1.4%	0.6%	0.9%
Cumulative Rental Demand (2035-2045)	15,500 units	38,200 units	20,200 units
Average Annual Rental Demand (2035-2045)	1,400 units	3,500 units	1,800 units

¹ (ESRI Business Analyst, 2019a)

² For all three study areas, HR&A uses the rate of renter household turnover in King County in 2017 for all households that moved elsewhere within King County: 21%. This turnover rate has trended down from 24% since 2010, and we would anticipate that this downward trend may continue as the recent market is likely a high-point.

³ (Urban Land Institute, 2015)

⁴ HR&A used OPCD housing projections for 2035 and applied the primary study area's historical share of city housing growth between 2010 and 2017 to future years. A detailed explanation of HR&A's household growth assumptions is included in Appendix 1.

RESIDENTIAL DEMAND

With conservative capture rates that account for demand for brand new product, there could be demand on the lid for up to 1,200 market-rate units.

	Primary Study Area	Secondary Study Area	Tertiary Study Area
Potential Lid Capture Rate	3.0%	1.5%	0.5%
Cumulative Lid Capture (2035-2045)	470 units	570 units	100 units

800-1,200 units
POTENTIAL TOTAL LID CAPTURE,
2035-2045

RESIDENTIAL: KEY MARKET FINDINGS

- During this cycle, a preference for urban living and Amazon's influence on the Downtown Core has fueled the **primary study area becoming the fastest-growing apartment submarket** in the Puget Sound region. This decade has also seen a divergence in rents between the Downtown Core apartment market and the surrounding region, with far higher rents than the city and surrounding areas.
- However, **higher vacancy rates in the primary area** and **faster-growing rents outside the city** could suggest that development dynamics are shifting. As the apartment market in the **urban core becomes saturated with units**, developers are increasingly looking to outlying markets for new opportunities.
- Although growth in the city is expected to slow over the next ten years, **recent rezonings position the primary study area for continued development, particularly to the east of the I-5 lid study site.**
- With modest capture rates of the demand across the three study areas, **the lid study site could likely support between 800 and 1,200 market-rate units** between 2035 and 2045.

PURPOSE

EXECUTIVE SUMMARY

PROJECT CONTEXT

MARKET CONTEXT

STUDY AREA CONTEXT

MARKET SCAN

RESIDENTIAL

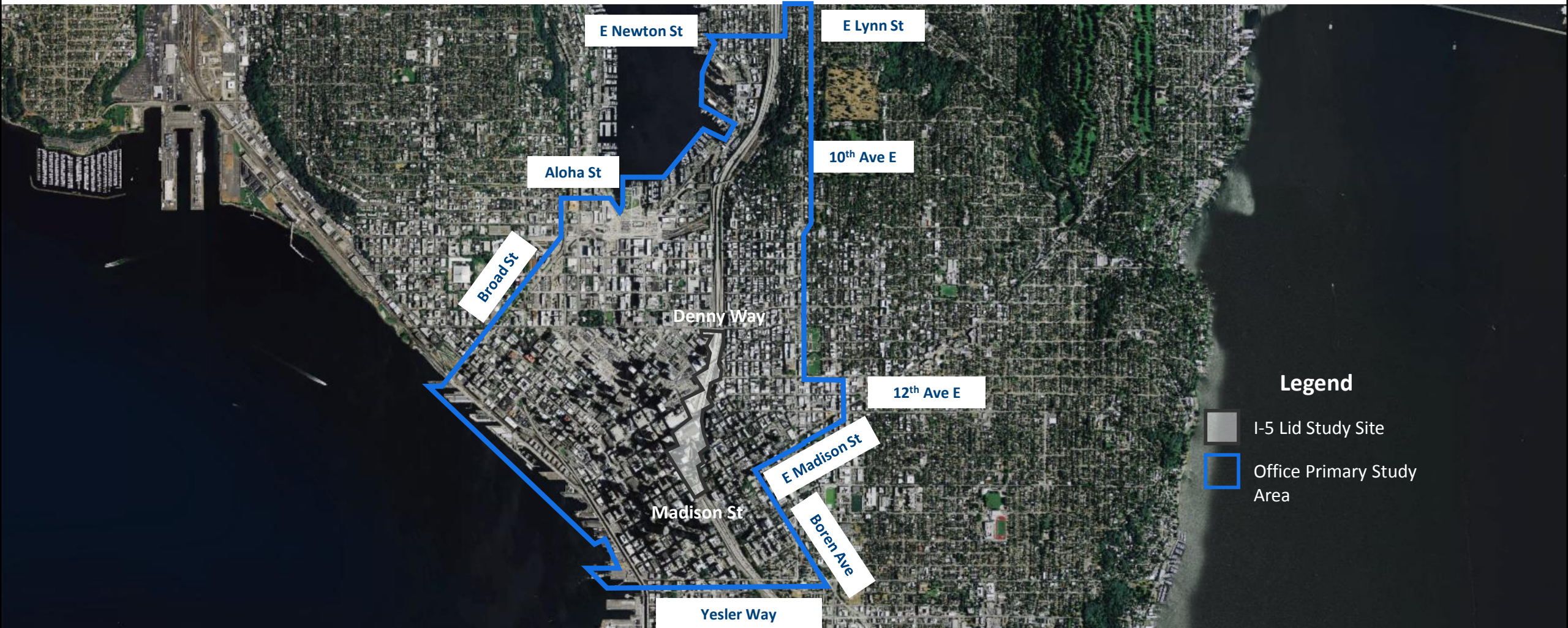
OFFICE

RETAIL

HOSPITALITY

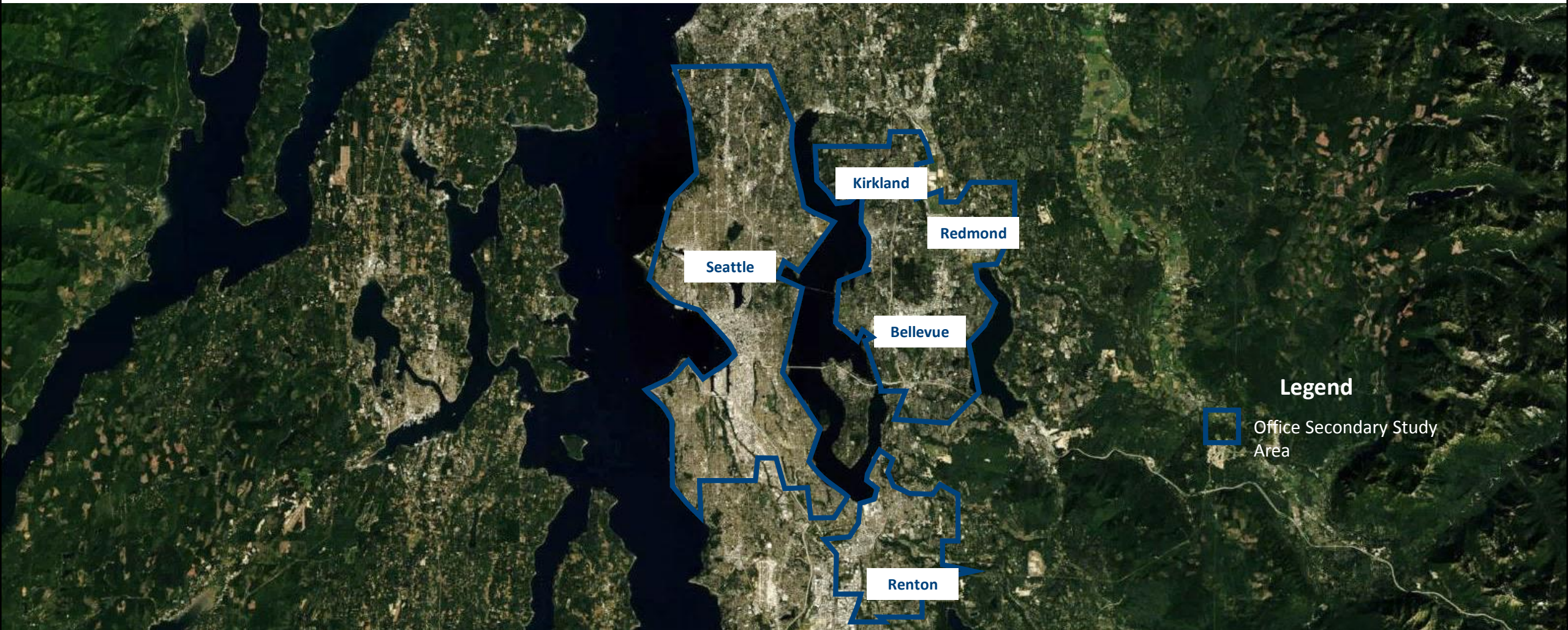
OFFICE: STUDY AREA

The primary office study area incorporates Downtown Retail Core, the Central Business District, the Central Waterfront, South Lake Union, and a portion of Capitol Hill east of I-5.



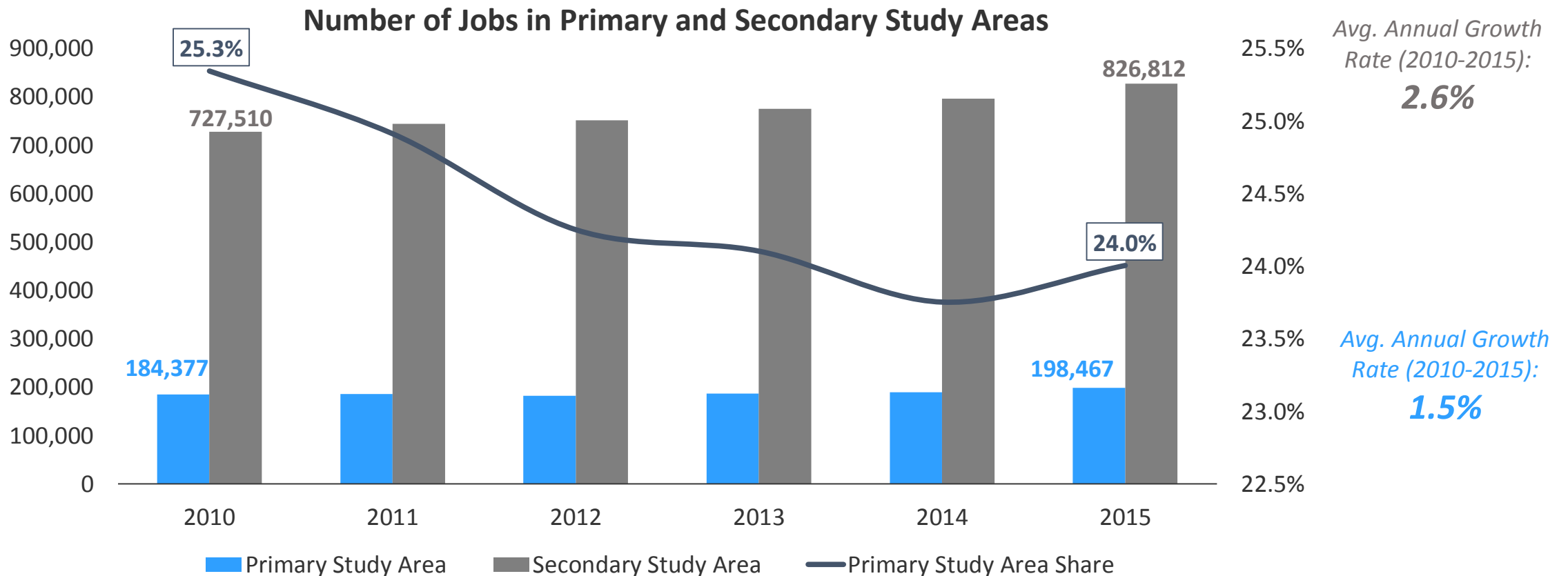
OFFICE: STUDY AREA

The secondary office study includes Renton and the Eastside submarkets of Kirkland, Redmond, and Bellevue and all of Seattle.



OFFICE: EXISTING CONDITIONS

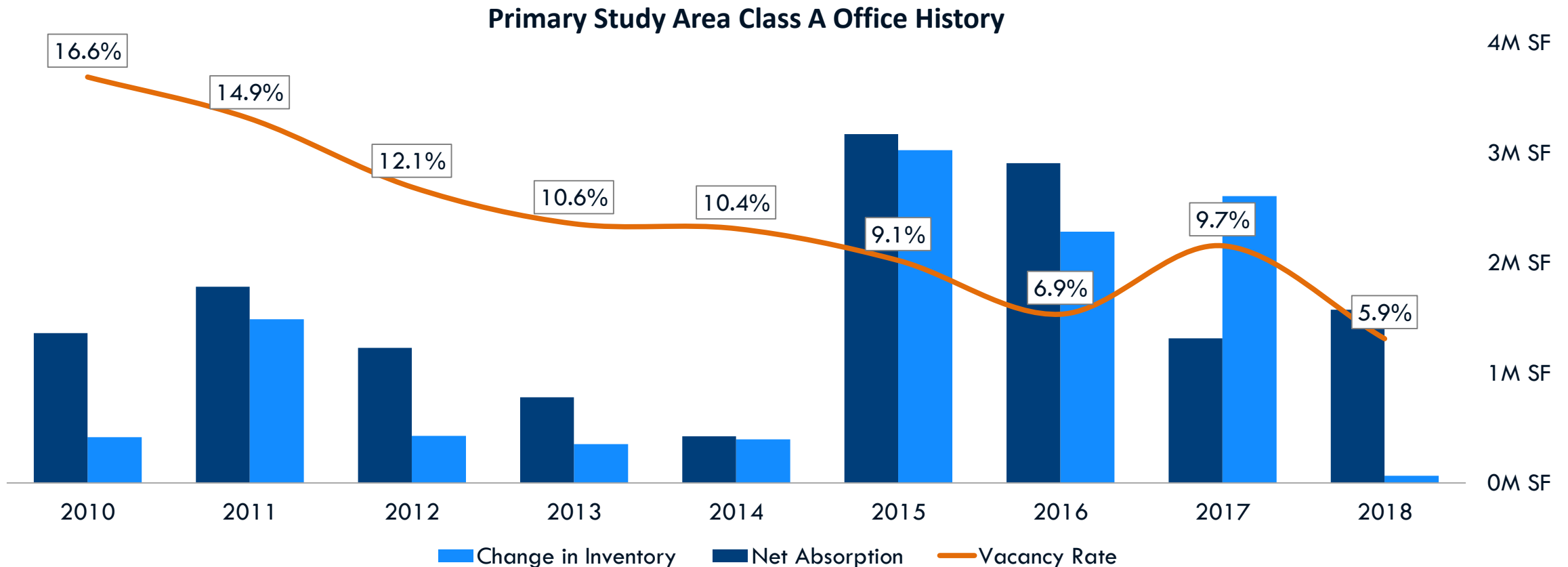
In both the primary and secondary study areas, the number of jobs has grown. However, the primary study area share of jobs is decreasing.



Source: (U.S. Census Bureau, 2017b)

OFFICE: EXISTING CONDITIONS

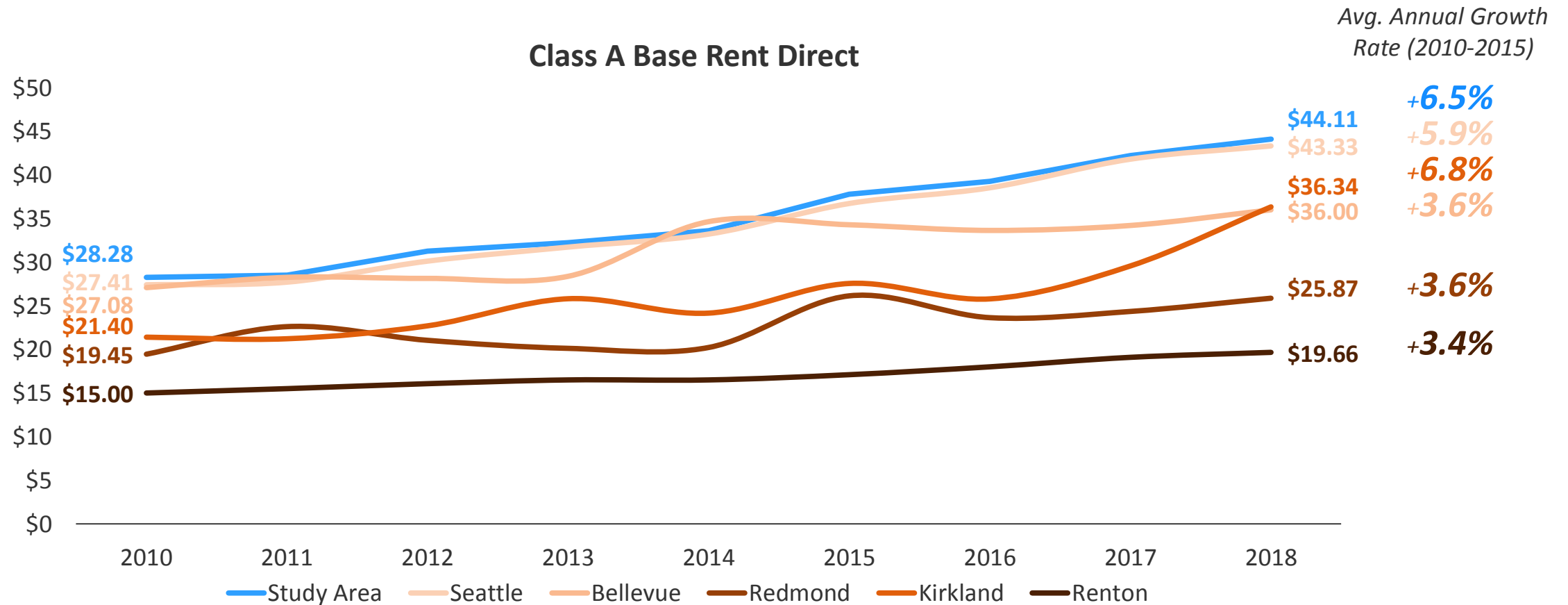
The 60M SF of office space in the primary study area includes 40M SF of Class A space and has seen substantial new deliveries and an overall decrease in vacancy since 2010.



Source: (CoStar Group, 2018)

OFFICE: EXISTING CONDITIONS

Compared to the region, the primary study area achieves the highest Class A office base rents, and these rents have grown at a comparatively fast pace.



Source: (CoStar Group, 2018)

OFFICE: EXISTING CONDITIONS

This past year's five largest lease transactions in the primary study area consist primarily of "tech" companies.



SF Leased: **200K SF**
Rent: \$49.50/nnn
Location: Seattle CBD



SF Leased: **90K SF**
Rent: Unknown
Location: Seattle CBD



SF Leased: **120K SF**
Rent: \$47.50/nnn
Location: Seattle CBD



SF Leased: **65K SF**
Rent: Unknown
Location: Seattle CBD



SF Leased: **90K SF + 85K SF**
Rent: Unknown
Location: Seattle CBD, Capitol Hill

Source: (CoStar Group, 2018)

OFFICE: EXISTING CONDITIONS

The majority of recent deliveries and ongoing or proposed office developments are located west of I-5, within the Downtown Retail Core or South Lake Union districts.

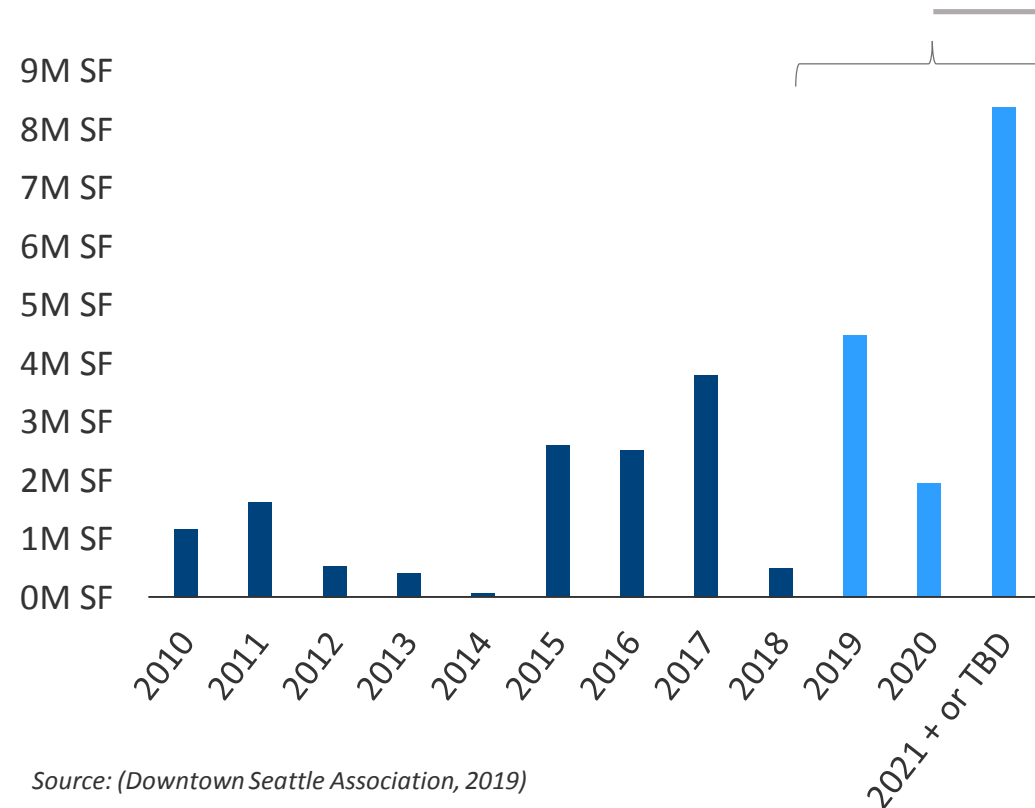


Source: (CoStar Group, 2018)

OFFICE: EXISTING CONDITIONS

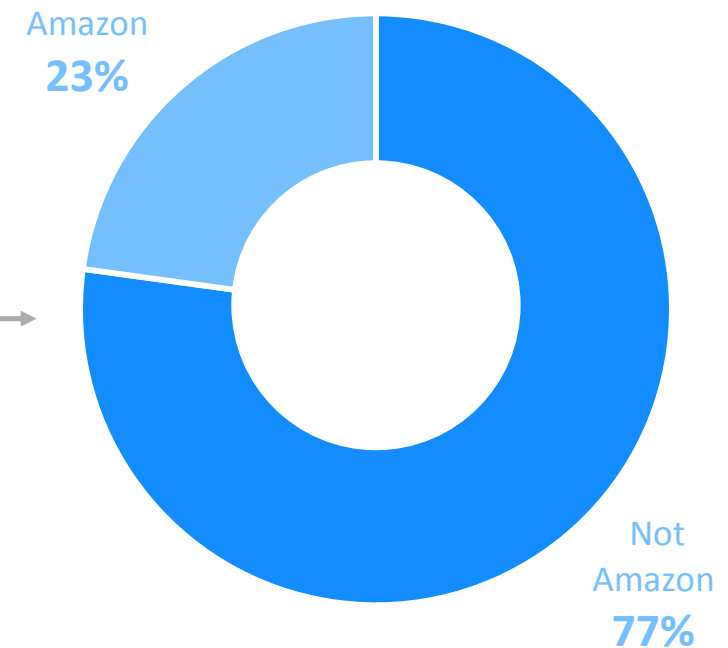
Nearly a quarter of the office pipeline is Amazon space (including owner-occupied space), and Amazon's location decisions will continue to play a role in shaping the Seattle office market.

Seattle Office Construction (2010-2021+)



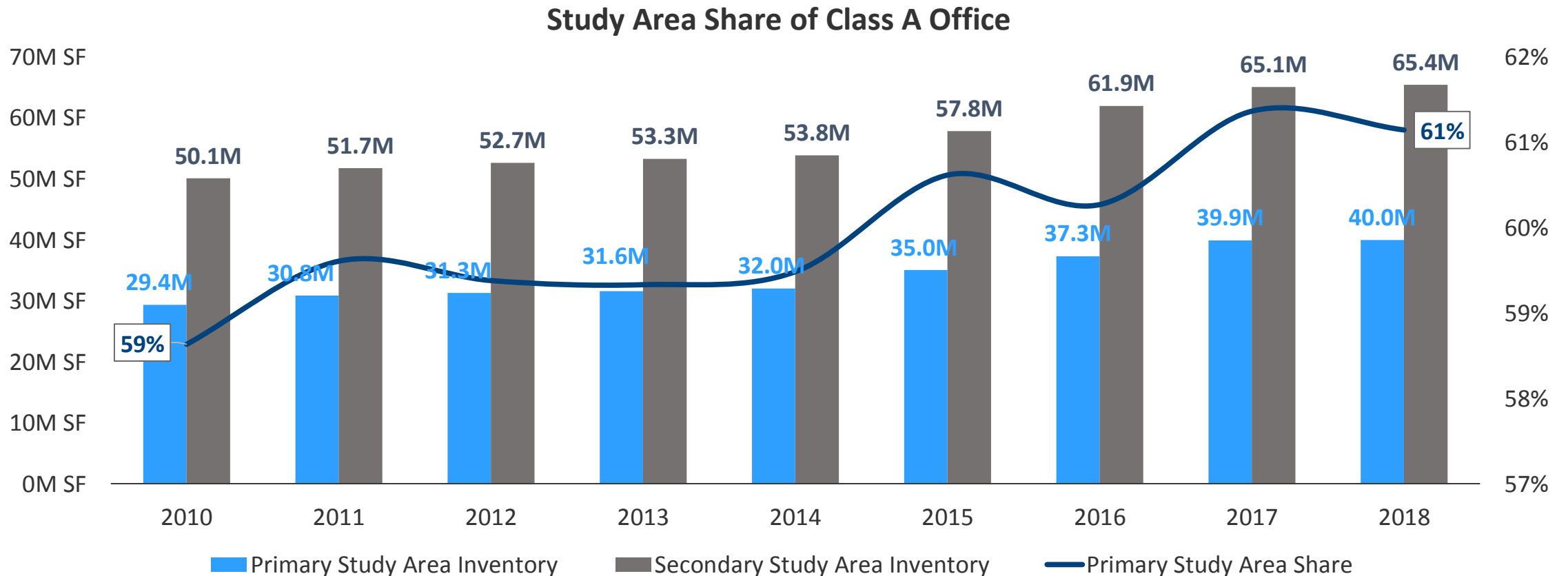
Source: (Downtown Seattle Association, 2019)

Amazon Share of Pipeline



OFFICE: EXISTING CONDITIONS

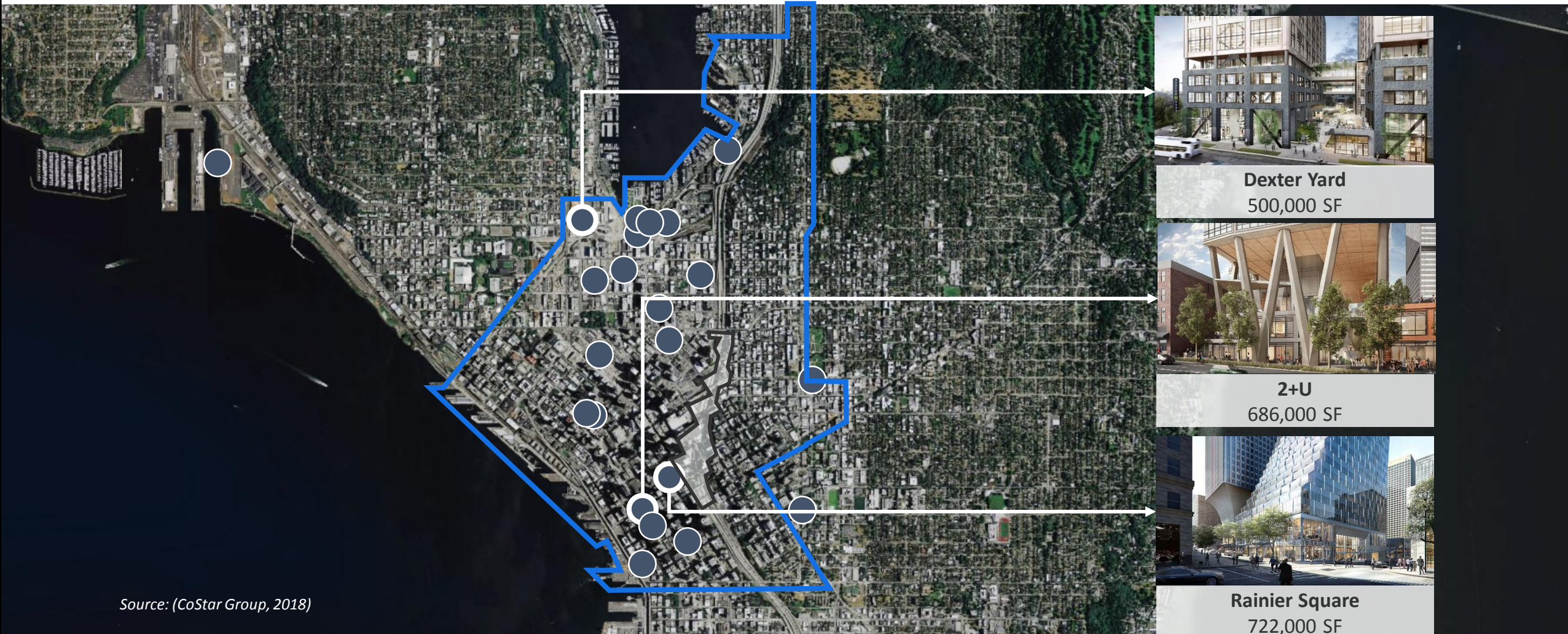
Although the share of jobs is decreasing in the primary study area, its share of Class A office inventory is increasing.



Source: (CoStar Group, 2018)

OFFICE: EXISTING CONDITIONS

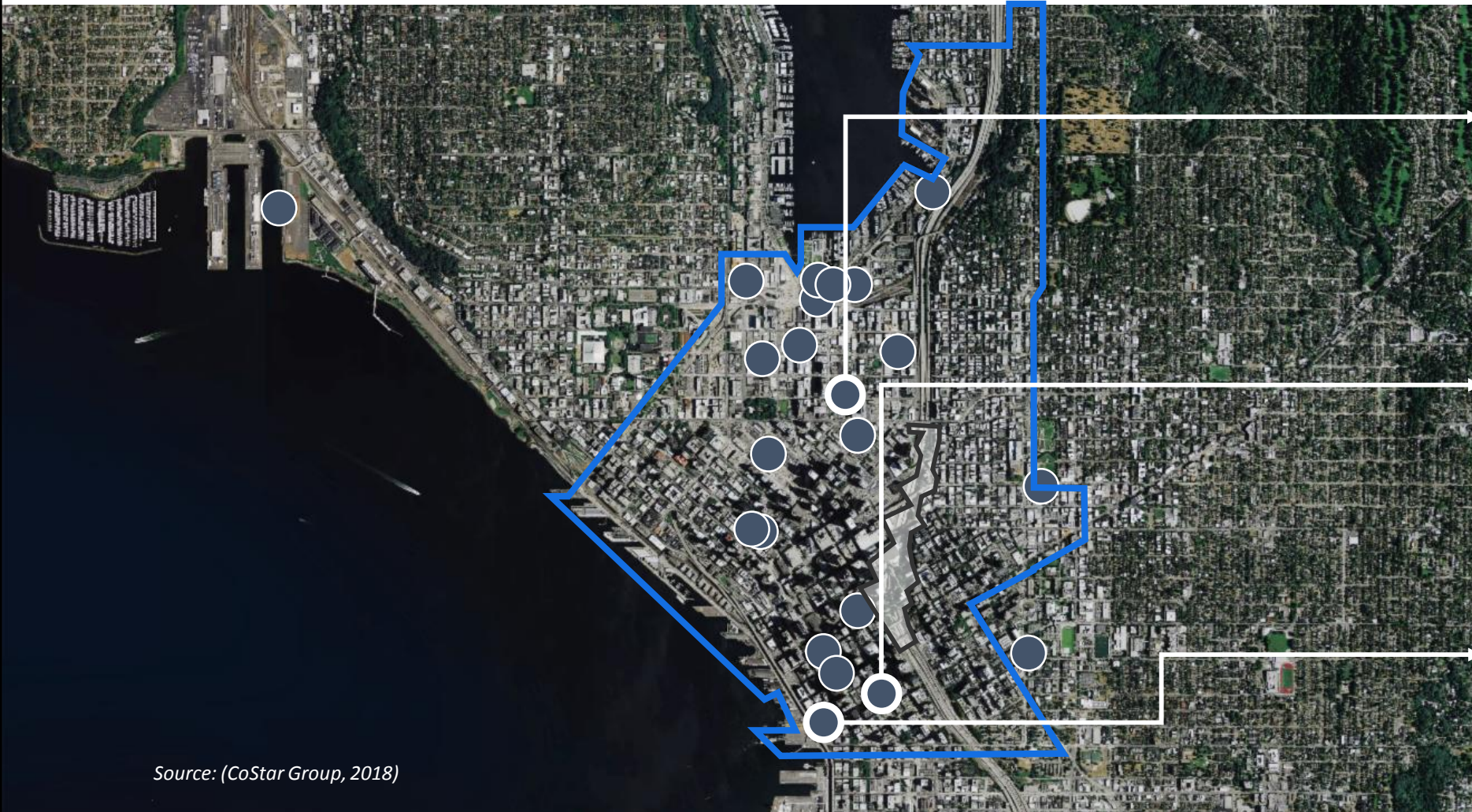
More than 3.3M SF of Class A office space is under construction.



Source: (CoStar Group, 2018)

OFFICE: EXISTING CONDITIONS

An additional 3.7M+ SF of Class A office space is proposed.



1120 John St
960,000 SF



The Marion
820,000 SF

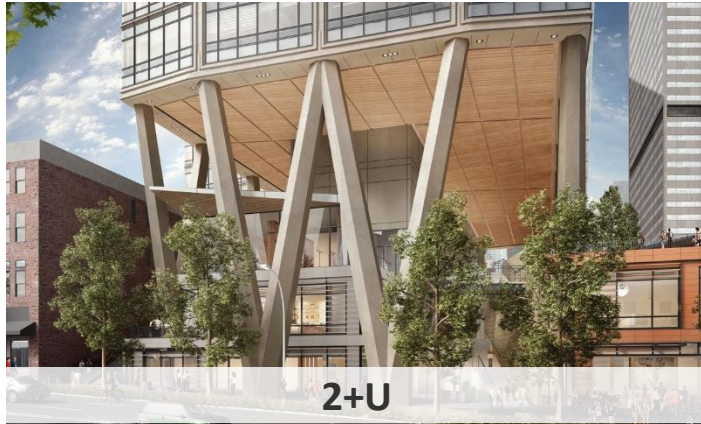


75 Marion
443,000 SF

Source: (CoStar Group, 2018)

OFFICE: EXISTING CONDITIONS

In the primary study area, recent and pipeline development is well-amenitized “creative” office space with large floor plates, located within walking distance of retail and cultural hubs, and designed to maximize vitality at the street level.



- 686K SF office
- 18K – 30K SF floor plates
- Amenities: retail and cultural space, fitness and yoga studio, tenant deck/event space, bike program
- Tenants: Dropbox, Indeed, Spaces



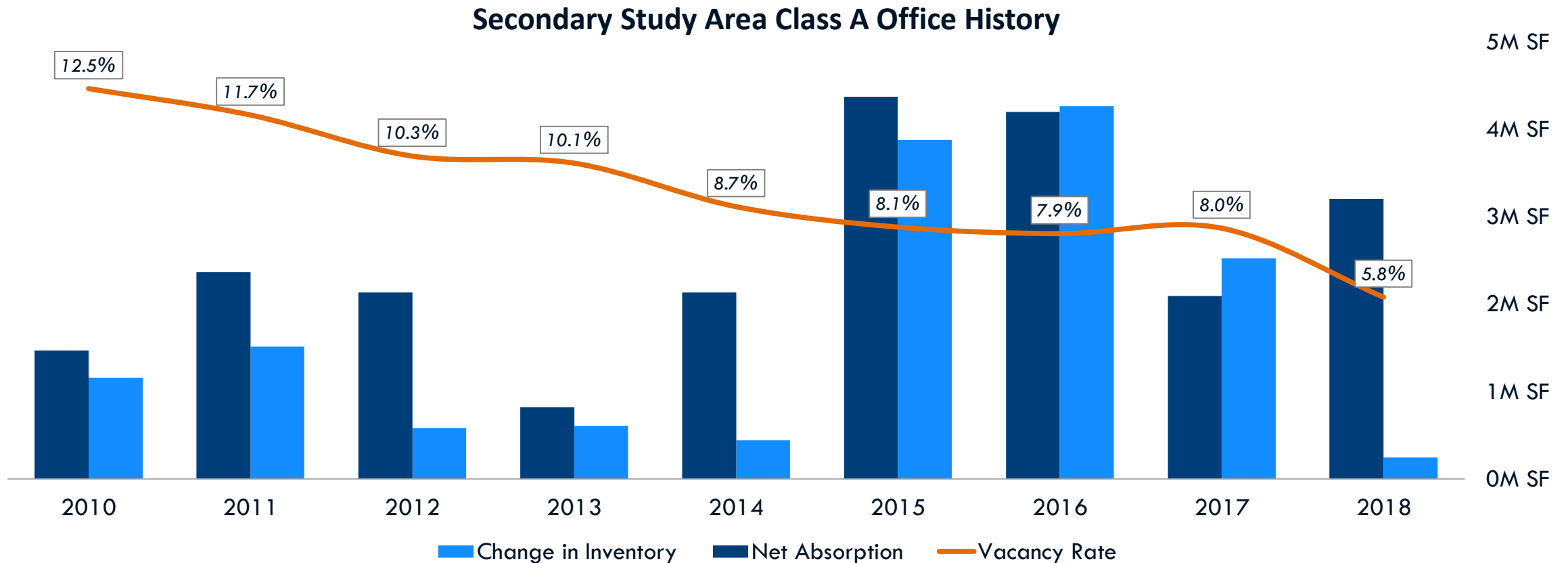
- 722K SF office
- 20K – 33K SF floor plates
- Amenities: bike facilities, coffee and wine bar, outdoor courtyard, tenant lounge space, outdoor deck, fitness center
- Part of a mixed-use building containing 191 residential units and 163 hotel rooms



- 515K SF tech/biomedicine office
- 20K – 23K SF floor plates
- Amenities: retail space, pedestrian plaza and connection, open athletic field and multi-use amenity space
- Tenants: Facebook

OFFICE: EXISTING CONDITIONS

Similar to the primary study area, the secondary study area has seen consistent absorption and declining vacancy in the Class A office market.



Source: (CoStar Group, 2018)

OFFICE: EXISTING CONDITIONS

Half of the six largest regional lease transactions within the last year were located within the primary study area. However, ~76% of all leasing activity occurred in Bellevue.



SF Leased: **410K SF + 370K SF + 360K SF**
Location: Bellevue



SF Leased: **340K SF**
Location: Bellevue



SF Leased: **200K SF**
Rent: \$49.50/nnn
Location: Seattle CBD



SF Leased: **120K SF**
Rent: \$47.50/nnn
Location: Seattle CBD



SF Leased: **90K SF + 85K SF**
Location: Seattle CBD,
Capitol Hill

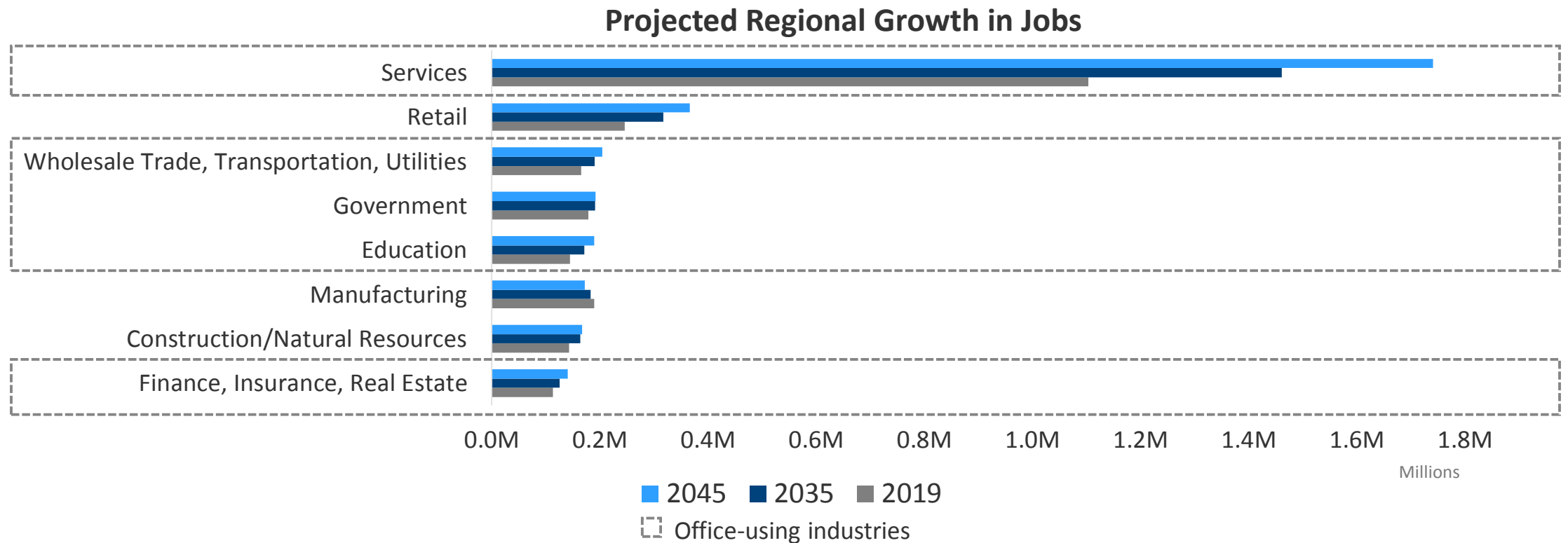


SF Leased: **120K SF**
Location: Bellevue

Source: (CoStar Group, 2018)

OFFICE: DEMAND

Office-using industries are growing regionally, potentially generating significant demand for space. Between 2019 and 2035, the region is forecasted to add 520K jobs in the following industries. By 2045, the region could add approximately 890K jobs.



Source: (Puget Sound Regional Council, 2018)

OFFICE: DEMAND

Office demand analysis assesses the forecast of new office-using jobs to guide recommendations.

1. JOB GROWTH IN THE PRIMARY & SECONDARY STUDY AREAS

- Establish a share of regional growth based on current employment data.
- Determine appropriate job growth forecasts based on regional projections.

2. OFFICE-USING JOBS IN PRIMARY STUDY AREA

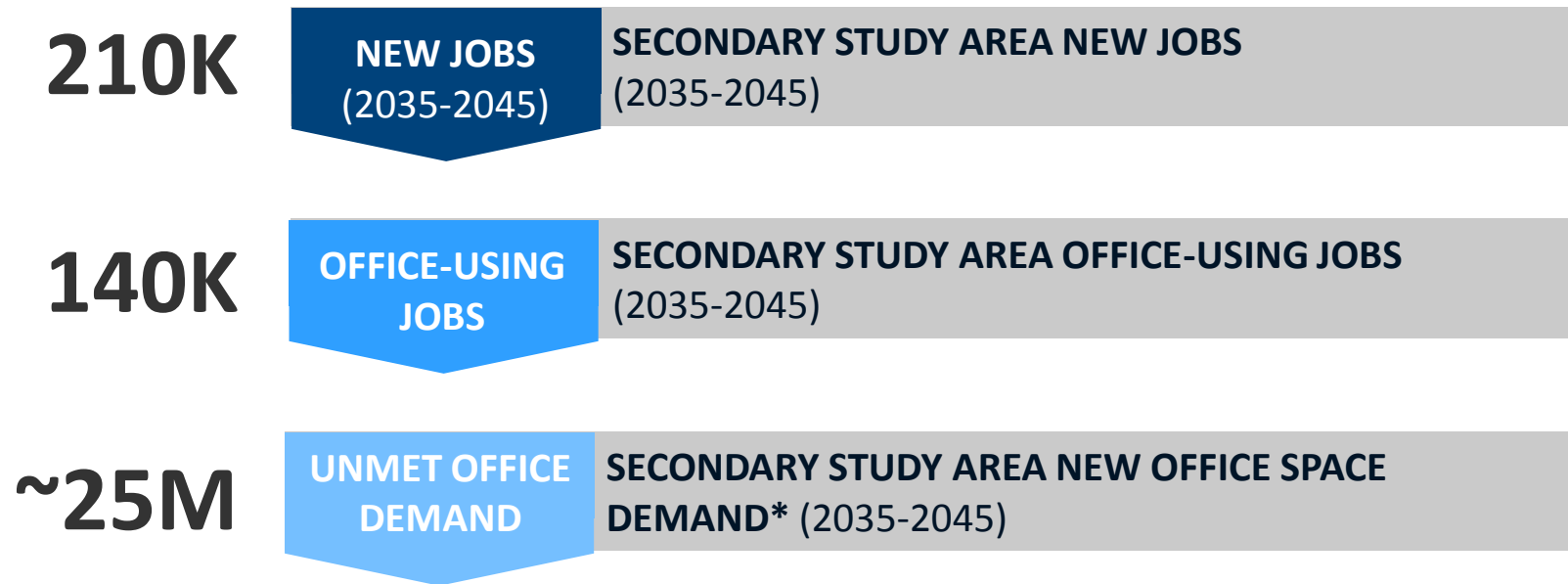
- Estimate share of employment growth occurring in primary study area.
- Estimate office-using jobs within total employment growth.

3. OFFICE SPACE PROJECTION

- Estimate the demand for new office space based on the average SF per employee and the projected job growth.

OFFICE: DEMAND

HR&A estimates future demand for office space based on regional job growth and the anticipated portion of growth within the primary study area.



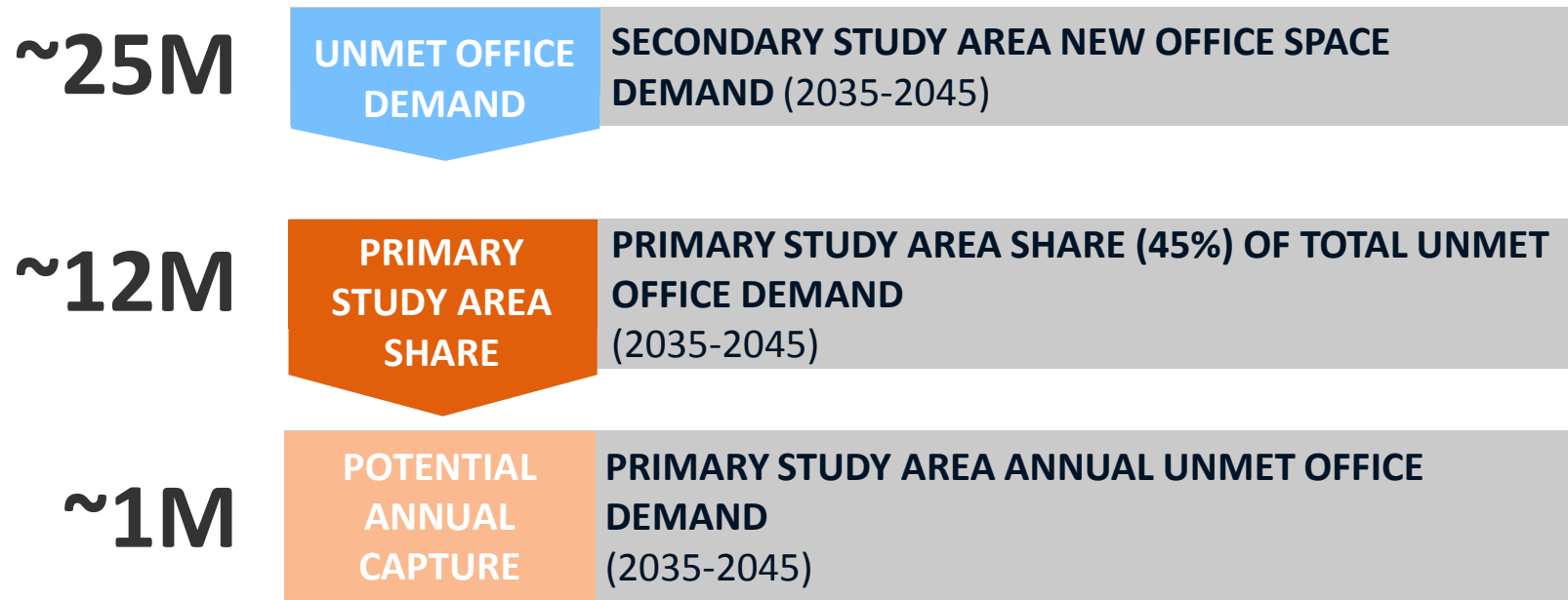
Source: (Puget Sound Regional Council, 2018), (Emsi, 2019), (CoStar Group, 2018), (JLL, 2019)

*Assumes 188 GSF per employee.

Note: All numbers are not adjusted to account for the existing pipeline. Future pipeline and churn will also meet a share of demand.

OFFICE: DEMAND

Current, preliminary conclusions suggest that demand could align with 12M SF of new office space in the primary study area between 2035 and 2045.

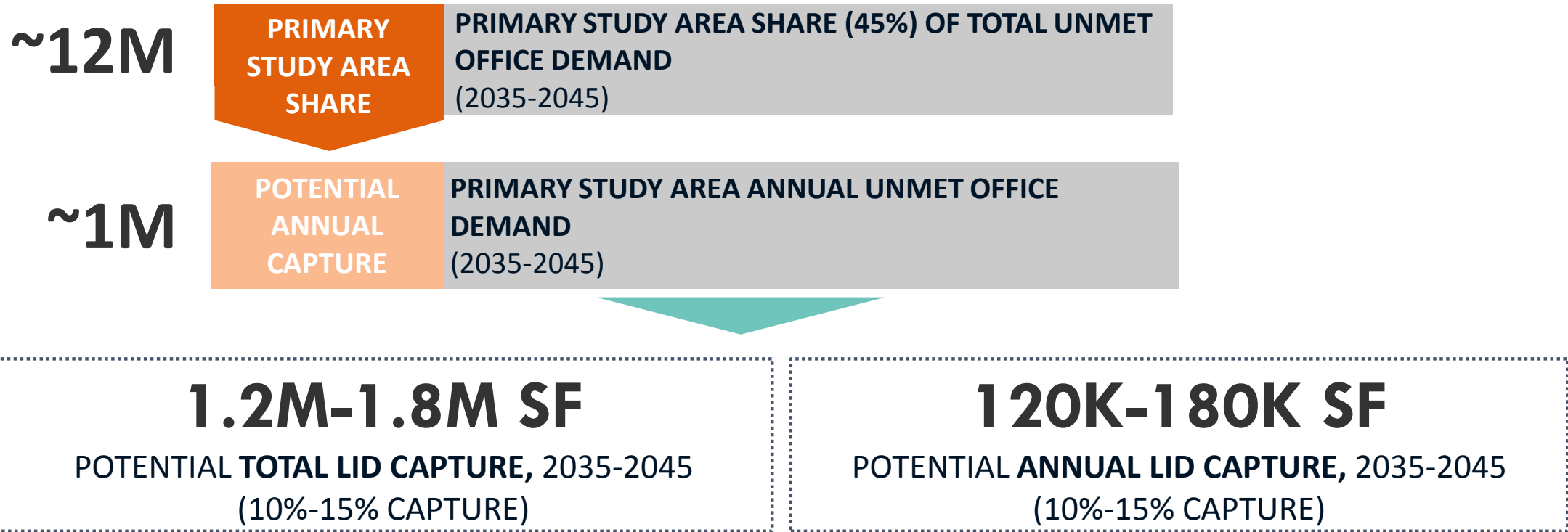


Source: (Puget Sound Regional Council, 2018), (Emsi 2019), (CoStar Group, 2018), (NAIOP Commercial Real Estate Development Association, 2019)

Note: All numbers are not adjusted to account for the existing pipeline. Future pipeline and churn will also meet a share of demand.

OFFICE: DEMAND

Current, preliminary conclusions suggest that demand could align with a total of 1.2 to 1.8M SF of office space on the lid study site between 2035 and 2045. Using the average office building size of approximately 400K SF, the lid could support up to 3 to 4 new office buildings.



Source: (Puget Sound Regional Council, 2018), (Emsi 2019), (CoStar Group, 2018), (NAIOP Commercial Real Estate Development Association, 2019)
 Note: All numbers are not adjusted to account for the existing pipeline. Future pipeline and churn will also meet a share of demand. The lid capture range is a preliminary estimate based on professional judgment of the lid study area's strengths and weaknesses for office development within the context of the primary study area, available land area, and other factors.

OFFICE: KEY MARKET FINDINGS

- Overall **job growth**, particularly in healthcare, “tech”, and information, will generate **increased demand** for office space, likely outpacing citywide and regional goals/metrics
- Class A inventory in the primary study area has grown by 25% in the past five years, with **declining vacancy, robust rent growth, and consistent absorption.**
- The pipeline will add up to another 7M+ SF of Class A office space in the primary study area. This **amenity-laden development** attracts high rents and tech and other creative office tenants. Competing space in regional submarkets replicates these conditions, to some extent, through delivering office space as part of larger mixed-use districts.
- A significant share of large lease transactions has occurred recently in Bellevue; office development within the Lid Study Area will face **increasingly competitive regional submarkets.**
- With a capture rate of 10 to 15% of the demand in the primary study area, **the lid could likely support 3 to 4 office buildings**, or 1.2-1.8M SF, between 2035 and 2045.

PURPOSE

EXECUTIVE SUMMARY

PROJECT CONTEXT

MARKET CONTEXT

STUDY AREA CONTEXT

MARKET SCAN

RESIDENTIAL

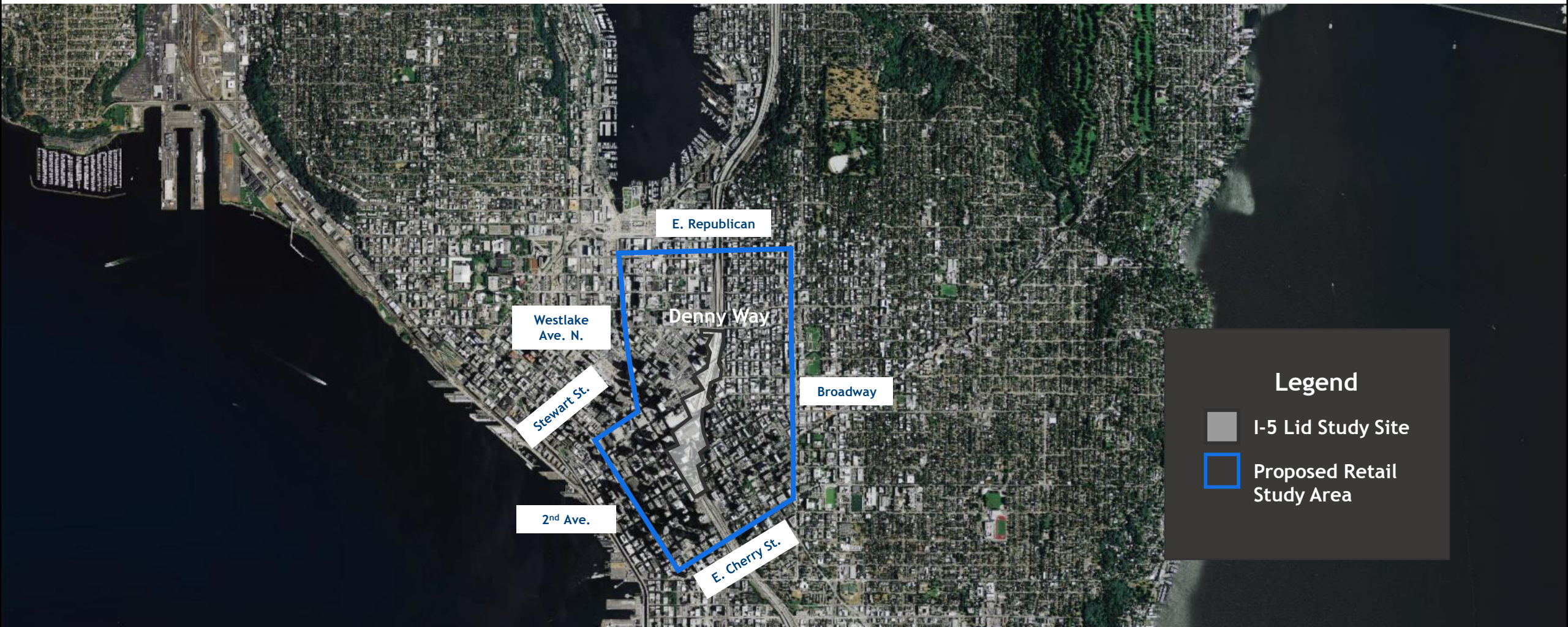
OFFICE

RETAIL

HOSPITALITY

RETAIL: STUDY AREA

The retail study area is approximately a 10-minute walkshed from the southernmost and northernmost edges of the lid.

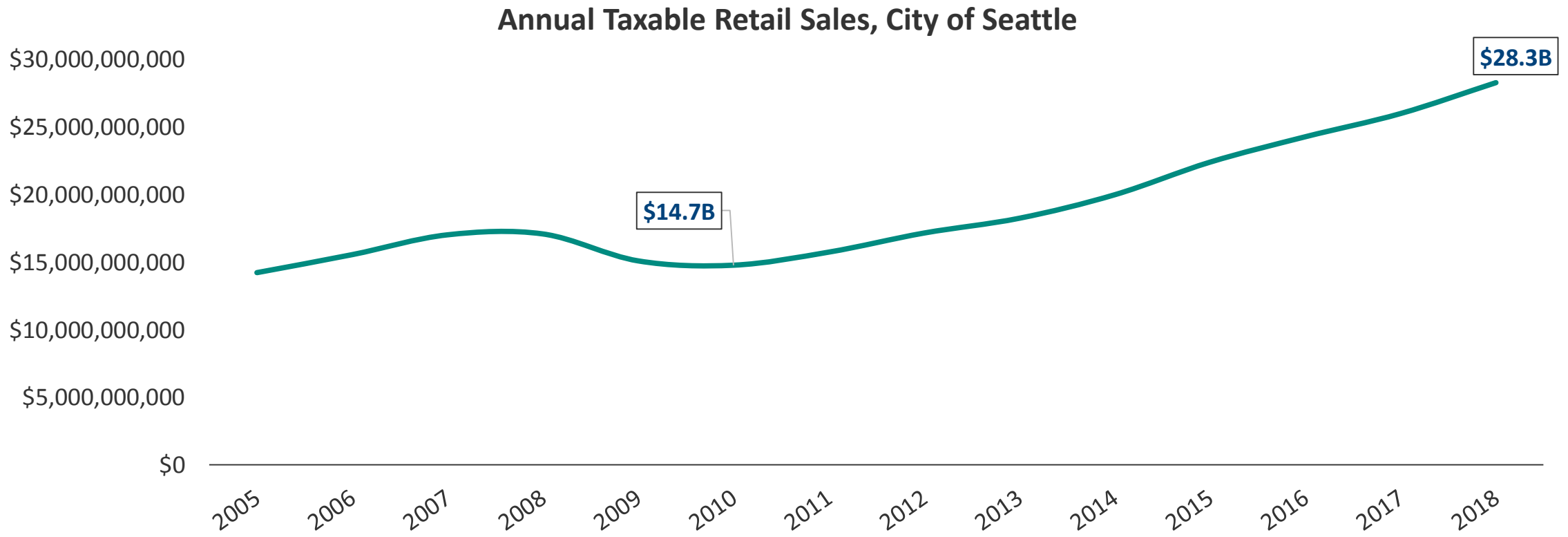


Legend

- I-5 Lid Study Site
- Proposed Retail Study Area

RETAIL: EXISTING CONDITIONS

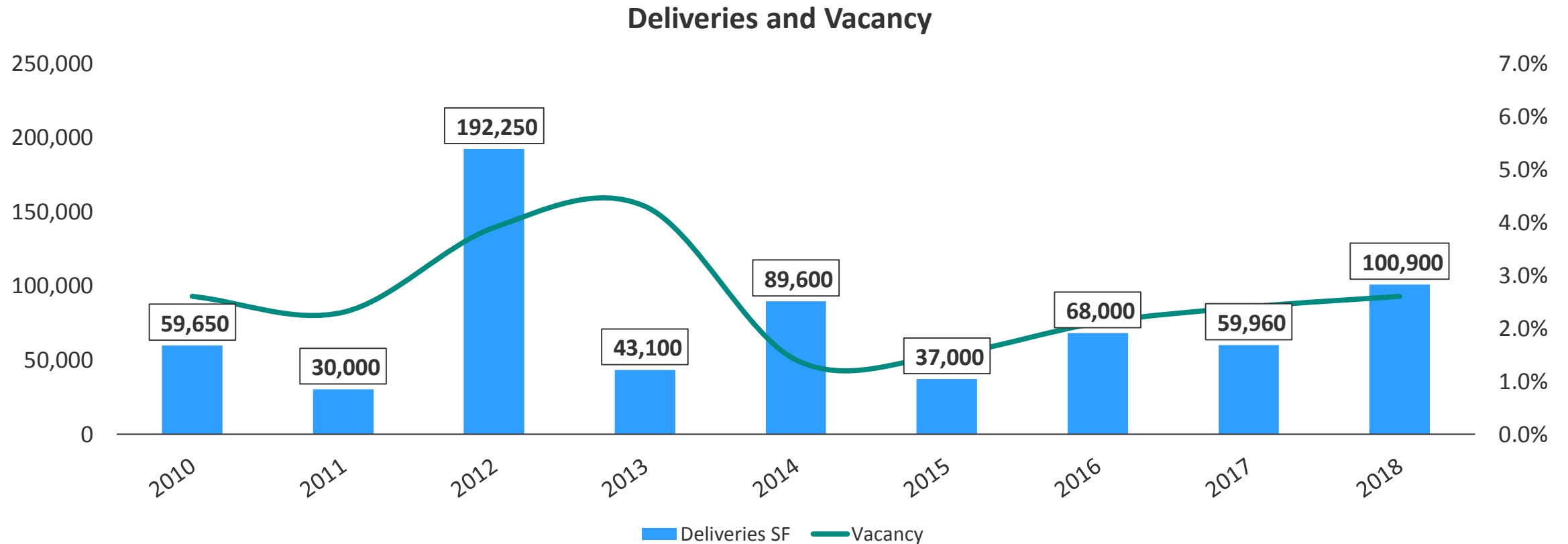
A sustained period of population and job growth has driven retail sales to nearly double since 2010.



Source: (Washington State Department of Revenue, 2018)

RETAIL: EXISTING CONDITIONS

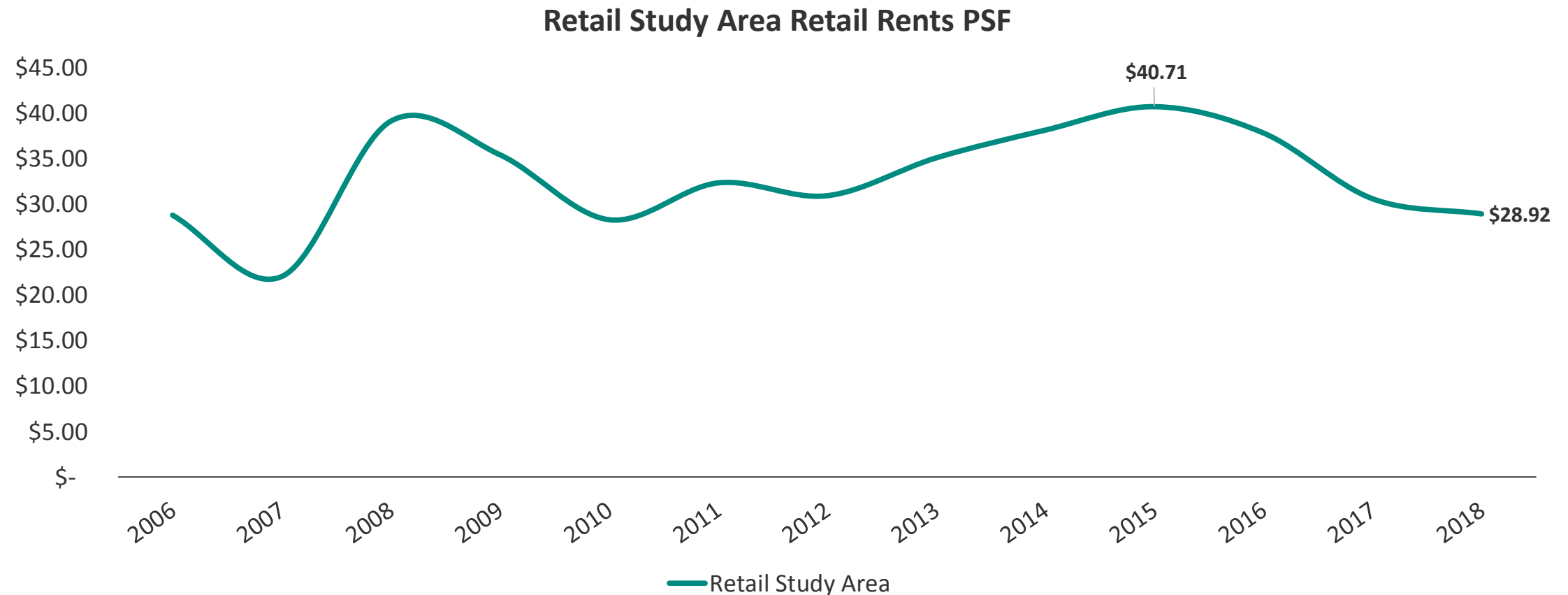
The study area includes 3M SF of retail space, with nearly 700k SF added since 2010.



Source: (Downtown Seattle Association, 2019); (CoStar Group, 2019)

RETAIL: EXISTING CONDITIONS

After a period of retail rent growth in the primary study area between 2012 and 2015, rents have decreased since historically high rents of \$40 in 2015, and are currently around \$29, echoing a nationwide decline in retail performance.



Source: (CoStar Group, 2018)

RETAIL: EXISTING CONDITIONS

An additional 450k SF of retail is in the pipeline, concentrated in South Lake Union and Denny Triangle.



RETAIL: EXISTING CONDITIONS

New inventory in the study area is predominantly resident- and employee- serving convenience retail and dining located in the ground floor of office and multifamily buildings.



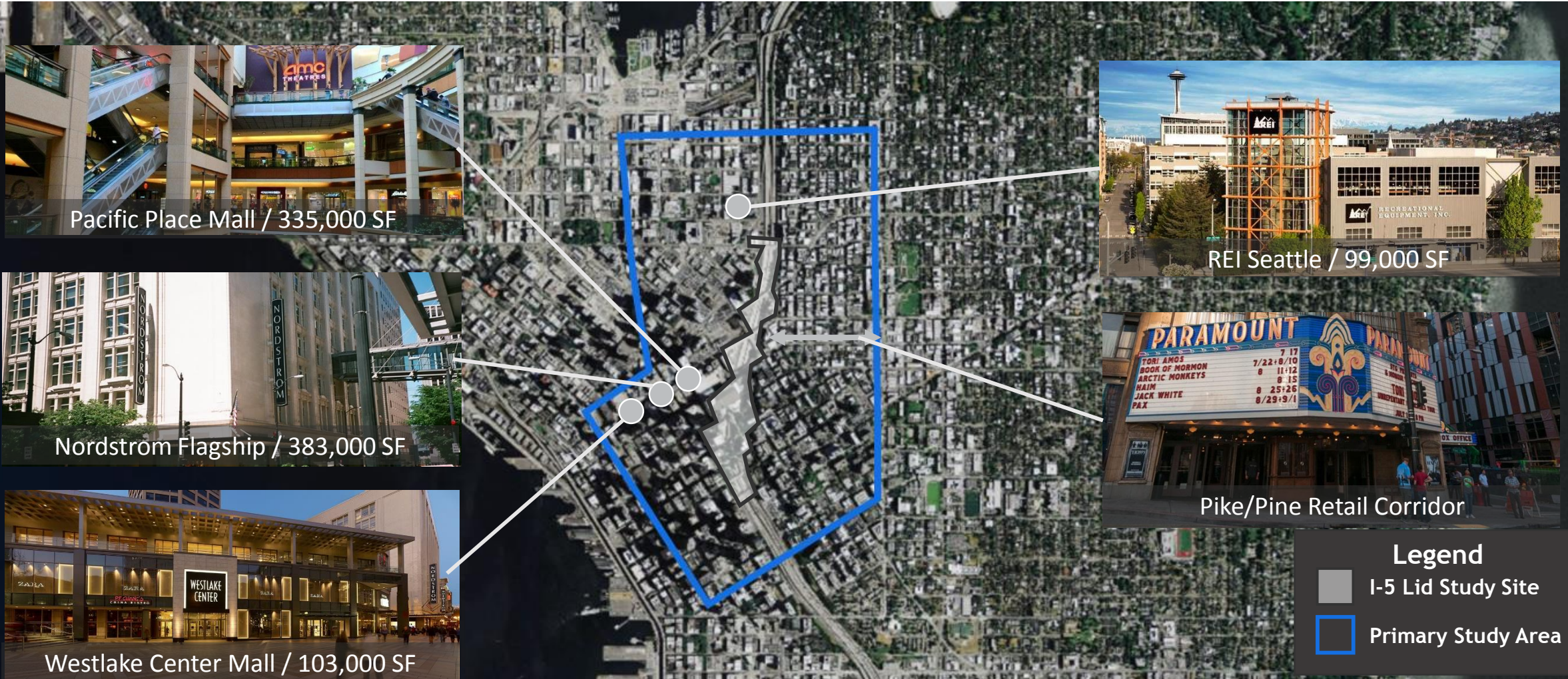
RETAIL: EXISTING CONDITIONS

The primary study area now has four major grocery stores, with at least one more in the pipeline. Amazon has recently opened two of its small-format cashier-less grocery stores, Amazon Go, in the area.





RETAIL: EXISTING CONDITIONS

There are large, established destination retail nodes in the study area, making it unlikely that the lid would be another major retail destination.

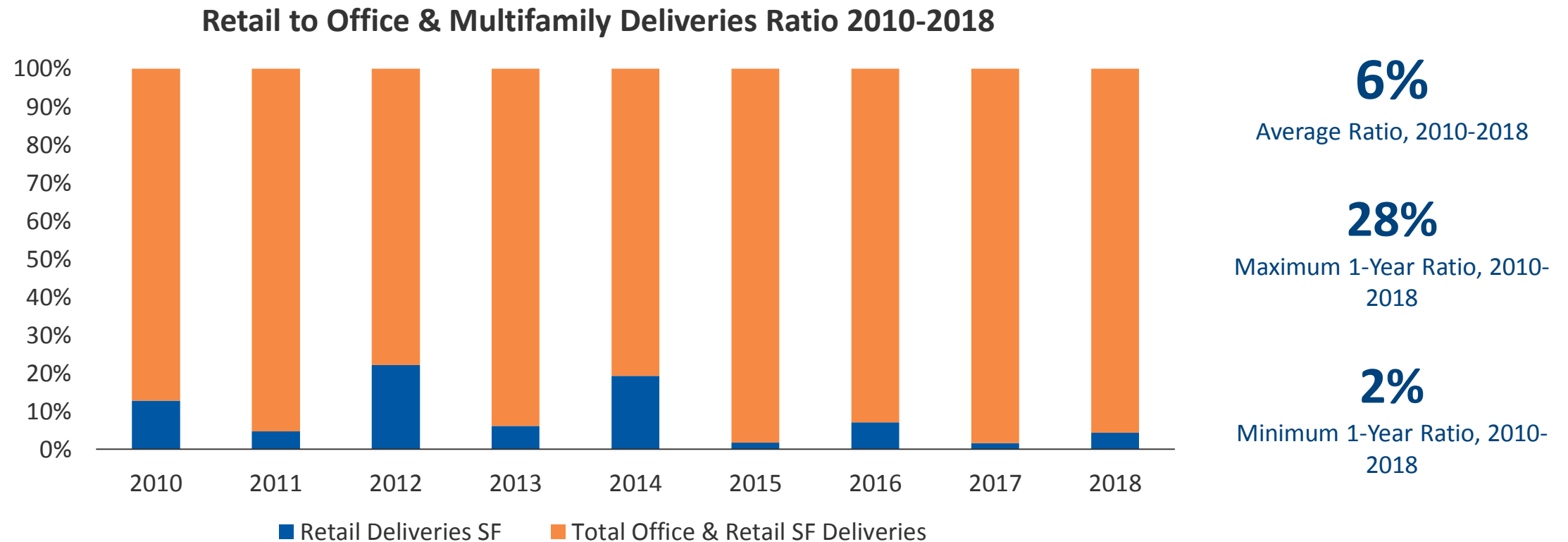


Legend

-  I-5 Lid Study Site
-  Primary Study Area

RETAIL: EXISTING CONDITIONS

Given the uncertainty and declining performance of retail in the area and nationwide, HR&A analyzed incremental retail delivered in the primary area as a fraction of multifamily and office development delivered in the same area during the past decade.

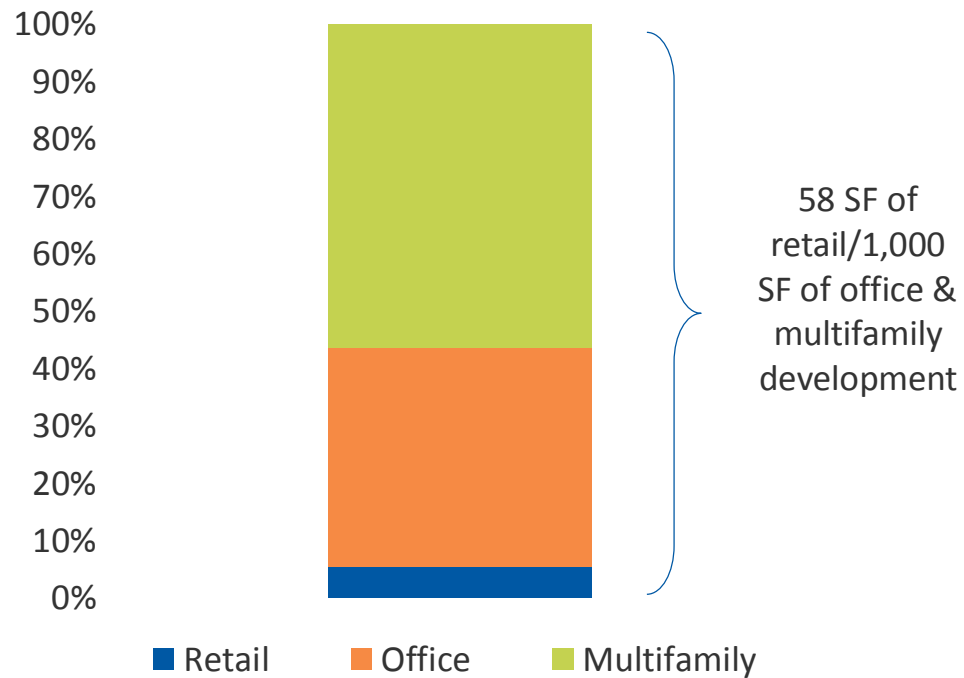


Source: (Downtown Seattle Association, 2019); (CoStar Group, 2018)

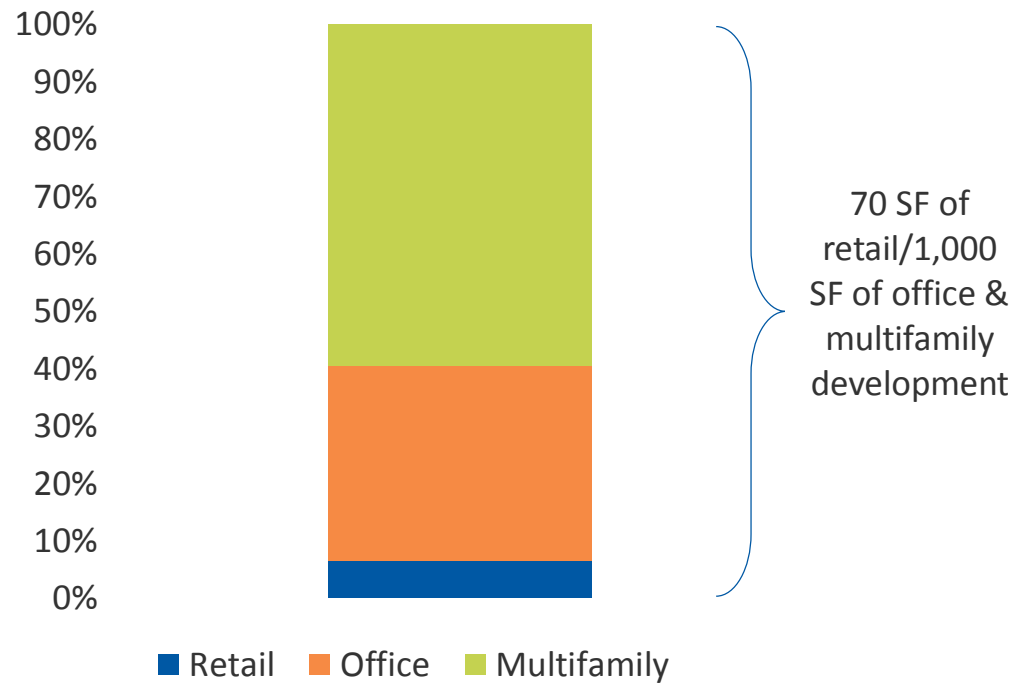
RETAIL

The ratio of retail to office and multifamily development in the pipeline is consistent with this relationship since 2010, with retail representing 7% of the pipeline.

Historic Retail Ratio, 2010-2018



Pipeline Retail Ratio



Source: (Downtown Seattle Association, 2019); (CoStar Group, 2018)

RETAIL RECOMMENDATIONS

Based on HR&A's residential and office demand findings, the residential and office development on the lid could support a retail program of between 130k and 220k SF, with retail representing 7% of the total residential, office, and retail program.

	Lid Program: Low-end	Lid Program: High-end
Residential	800 units	1,200 units
Office	1.2M SF	1.8M SF
Total SF of Residential & Office Development	1.9M SF	2.8M SF

130k-200k SF
POTENTIAL TOTAL LID CAPTURE,
2035-2045

12k-18k SF
POTENTIAL ANNUAL LID
CAPTURE, 2035-2045

RETAIL: KEY MARKET FINDINGS

- The **character of existing retail in the study area varies**, with destination malls and department stores to the west of I-5 in the Retail Core, and specialty stores and food and beverage to the east of I-5 along the Pike-Pine Corridor.
- **Newly constructed retail throughout the study area is primarily neighborhood-serving** food/beverage and convenience retail.
- There **may be opportunities on the lid for visitor-serving, experiential retail** for conventioners.
- The **character of retail should vary in different parts of the lid** and be concentrated in the areas in which it can **amenitize development**, serving lid residents, employees, and potentially surrounding communities.
- HR&A has applied the current Study Area pipeline ratio of retail deliveries to office and multifamily deliveries in the study area (70 SF of retail per 1,000 SF of office and multifamily development) to the conceptual lid program. **Based on HR&A's residential and office demand findings, and for the purposes of the development program test case development, demand for retail on the lid could range between 130k and 200k SF**, depending on the amount of residential and office development.

PURPOSE

EXECUTIVE SUMMARY

PROJECT CONTEXT

MARKET CONTEXT

STUDY AREA CONTEXT

MARKET SCAN

RESIDENTIAL

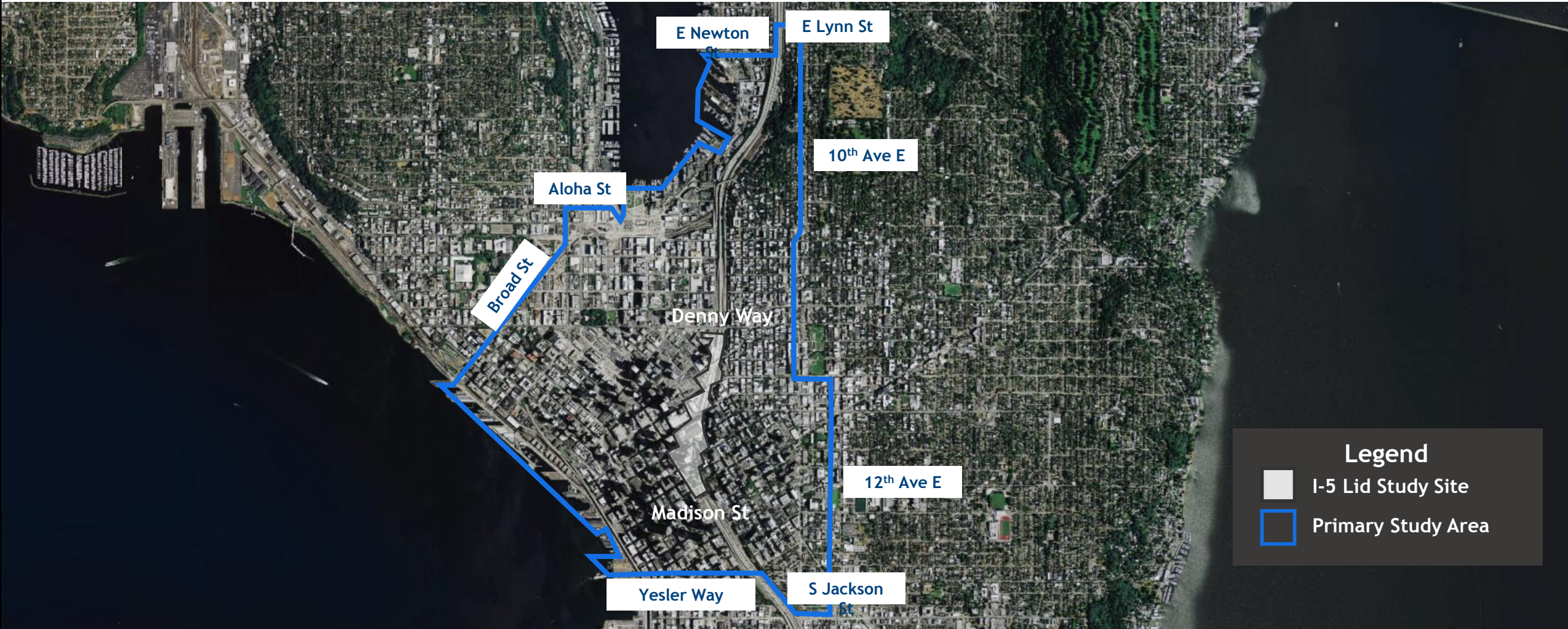
OFFICE

RETAIL

HOSPITALITY

HOSPITALITY: STUDY AREA

The primary hospitality study area is Downtown-focused, and includes South Lake Union and Capitol Hill.



HOSPITALITY: EXISTING CONDITIONS

An expanding office market, the convention center expansion, growing tourism, and proximity to local attractions are key hotel market drivers in Downtown Seattle.

EXPANDING OFFICE MARKET



INCREASING TOURISM



CONVENTION CENTER EXPANSION

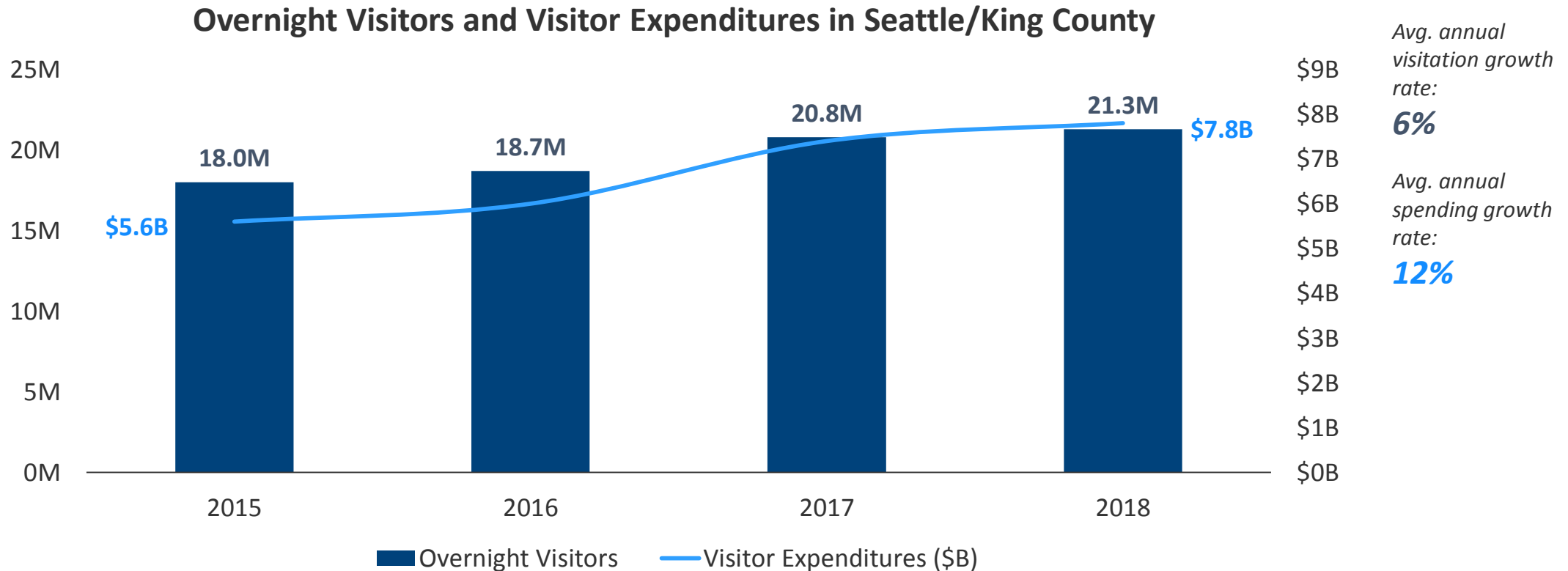


LOCAL ATTRACTIONS



HOSPITALITY: EXISTING CONDITIONS

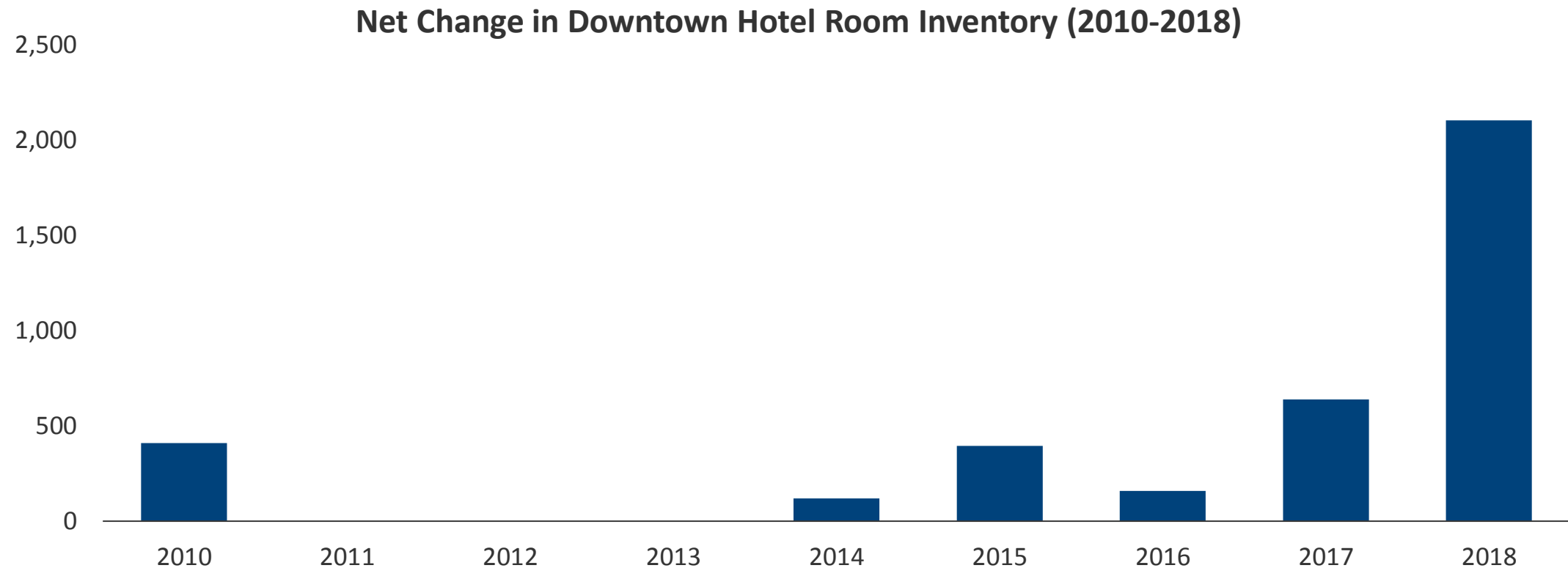
Seattle has seen consecutive years of record tourism.



Source: (Visit Seattle, 2018)

HOSPITALITY: EXISTING CONDITIONS

Nearly 20% of the ~14,200 current hotel room inventory was added in the past two years after a period of no change or limited change in inventory.



Source: (Downtown Seattle Association, 2019), (STR, 2019)

HOSPITALITY: EXISTING CONDITIONS

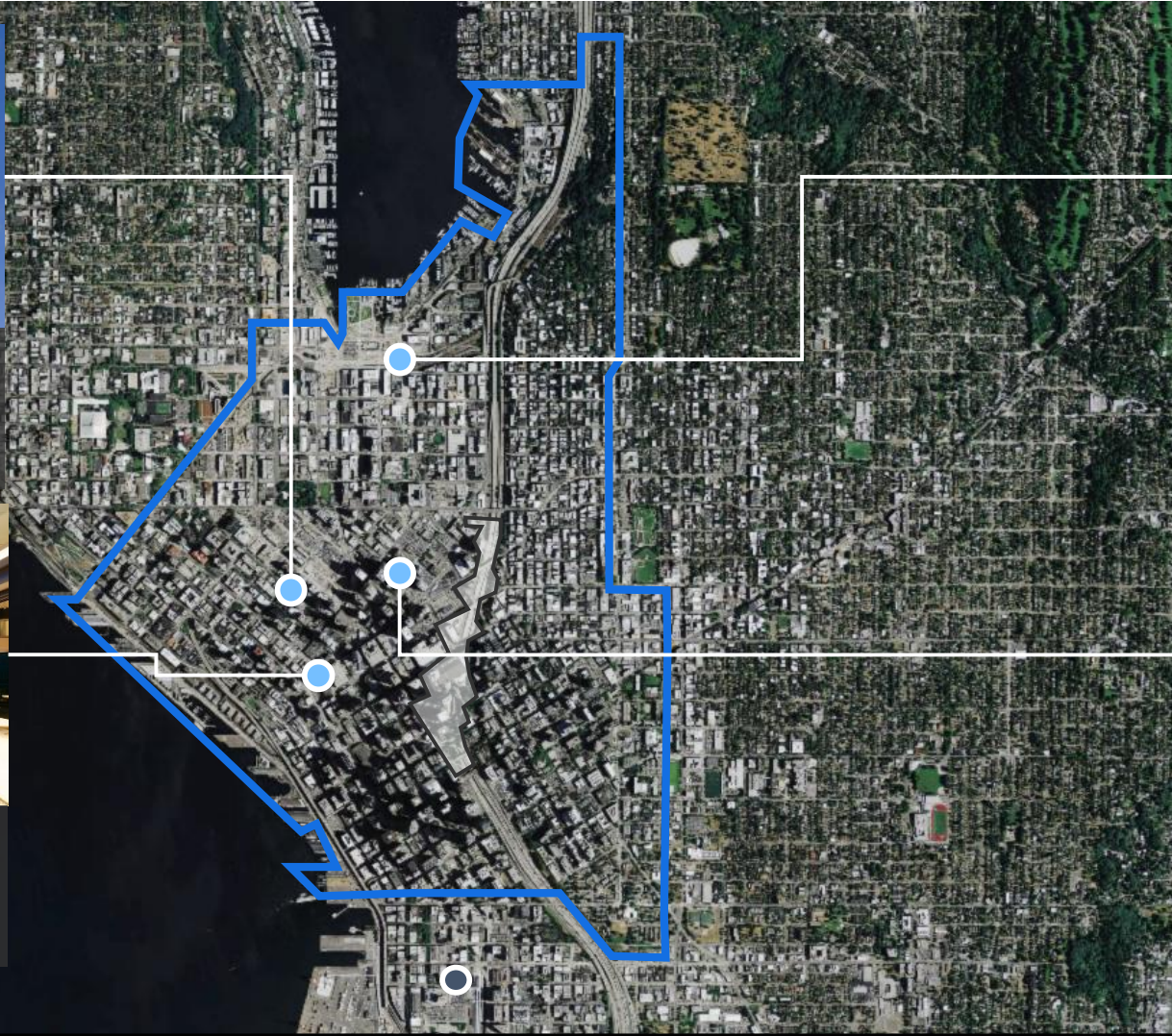
2,100 new Downtown hotel rooms were completed in 2018; distributed among luxury, upper upscale, upscale, and boutique hotels.



Arrivé / Sound Hotel
Independent; 142 Rooms



**The Charter Hotel - Curio
Collection by Hilton**
Upper Upscale; 229 Rooms



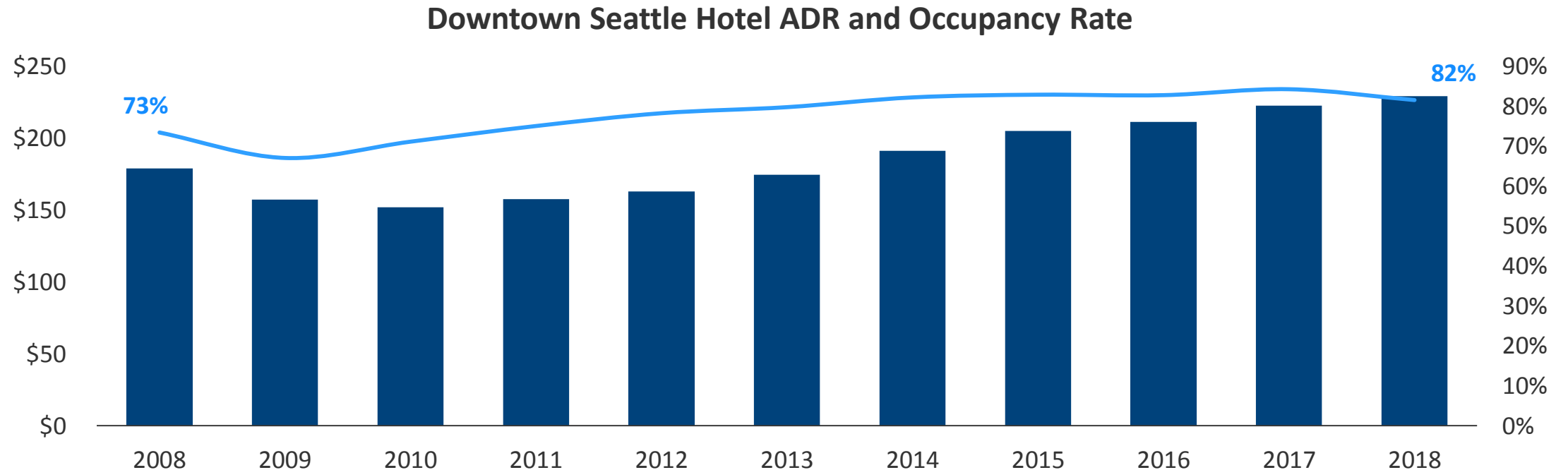
**Even Hotel and Staybridge
Suites**
Upscale, 235 Rooms



Hyatt Regency
Luxury, 1,260 Rooms

HOSPITALITY: EXISTING CONDITIONS

In response to recent hotel deliveries, the average occupancy rate has declined in recent years. While average daily rate (ADR) has continued to increase, the growth rate has slowed.



Source: (STR, 2019)

HOSPITALITY: EXISTING CONDITIONS

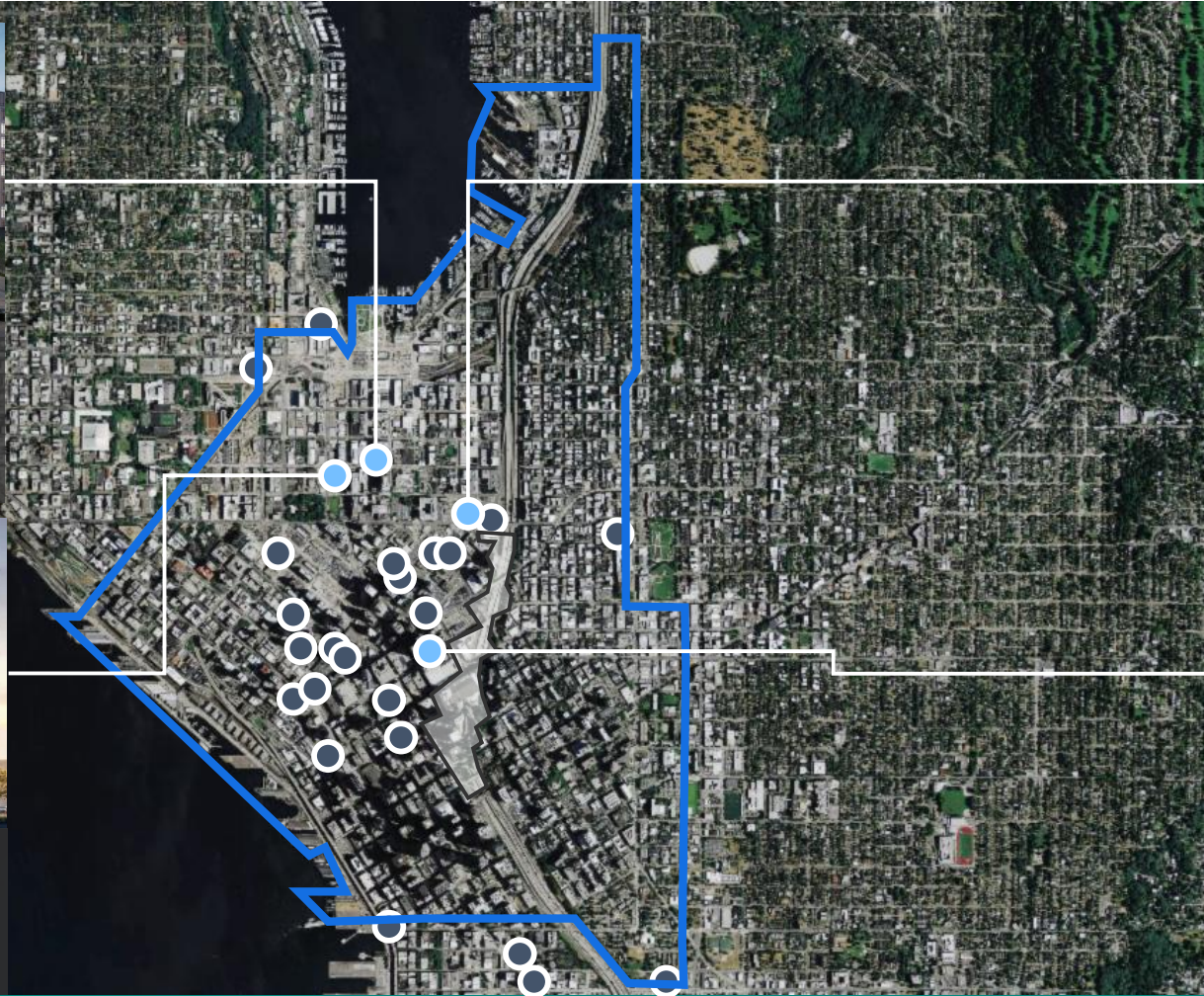
Currently, there are nearly 1,140 hotel rooms under construction and an additional 3,540 hotel rooms proposed over the next five years; 73% are mixed-use hotel-residential projects.



Marriott SLU
Upper Upscale, 283 Rooms



Citizen M
Upscale, 264 Rooms



AC Marriott
Upscale, 200 Rooms



8th & Pine
*Mixed-Use Residential/Hotel,
203 Rooms/494 Rental Units*

HOSPITALITY: DEMAND

Hotel demand analysis evaluates potential drivers of new visitation, including new office space, tourism, and population growth to guide recommendations.

1. DRIVERS OF HOTEL DEMAND

- Estimate number of jobs forecasted and demand for office space.
- Establish share of business and leisure visitors.

2. RATIO OF OFFICE SPACE, TOURISM, AND POPULATION TO HOTEL ROOMS

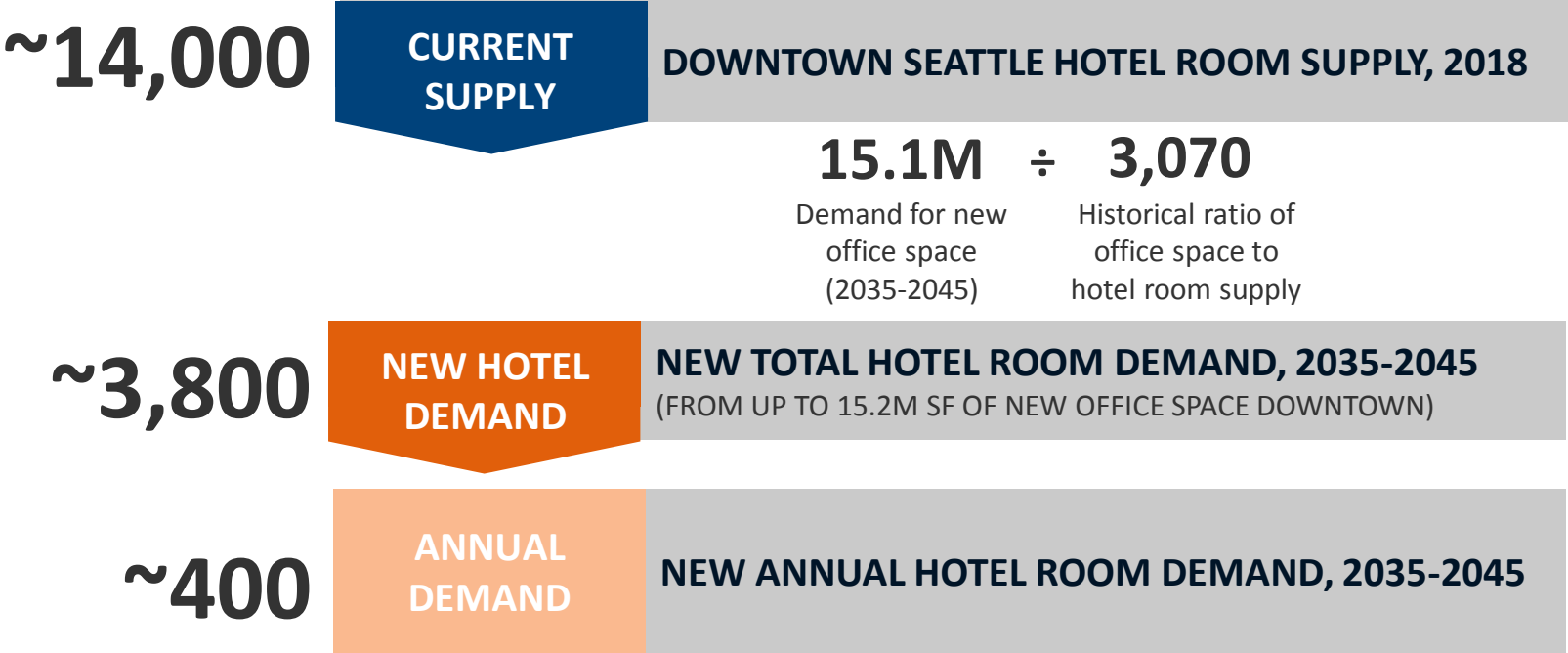
- Evaluate historical ratio of office space, visitation, and population to hotel room supply.

3. HOTEL ROOM DEMAND PROJECTION

- Using the historical ratio of office space to hotel rooms, estimate the demand for new hotel rooms based on office demand projections.
- Using the current ratio of business to leisure visitors, estimate the demand for business-focused vs. leisure-focused hotels.

HOSPITALITY: DEMAND

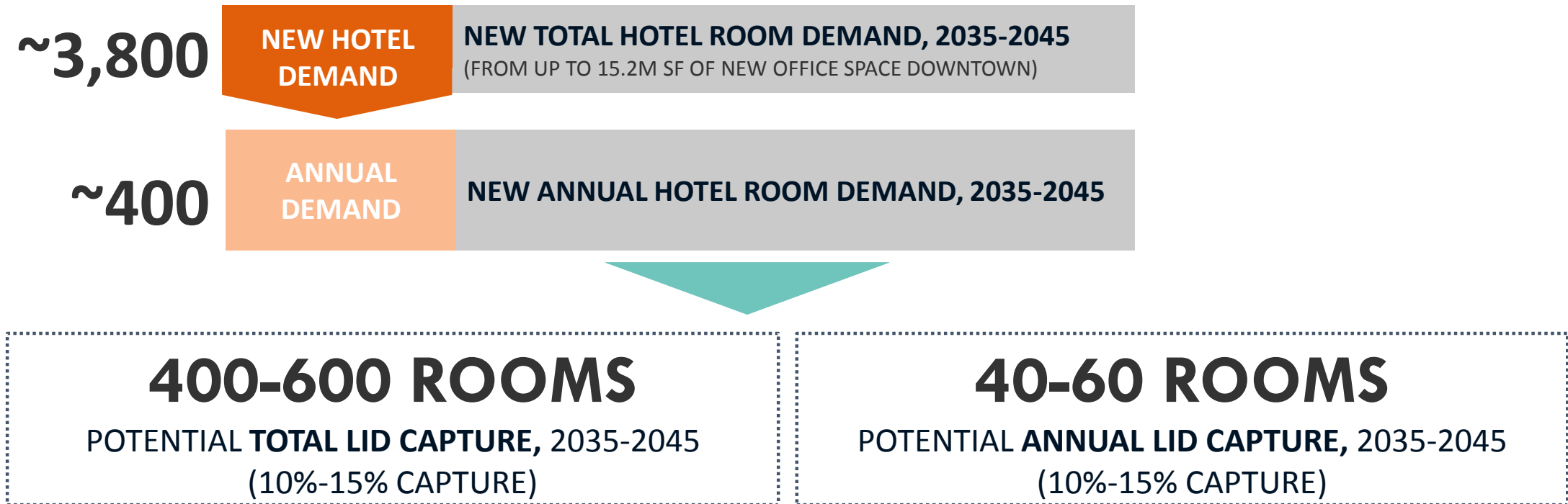
HR&A estimates future hotel demand based on an assessment of key drivers of hotel growth and that the ratio between visitor populations and hotel supply will remain constant. While this analysis uses current market data, which includes the impact of Airbnb or similar room-sharing platforms, it does not account for unanticipated policy changes.



Source: (Downtown Seattle Association, 2019), (STR, 2019)
 Note: All numbers are not adjusted to account for the existing pipeline. Future pipeline and churn will also meet a share of demand.

HOSPITALITY: DEMAND

Preliminary conclusions suggest that the lid could support 2 hotels, potentially including a larger, business-oriented hotel and a smaller, leisure-focused hotel.



Source: (Puget Sound Regional Council, 2018), (Emsi 2019), (CoStar Group , 2018), (NAIOP Commercial Real Estate Development Association, 2019)

Note: All numbers are not adjusted to account for the existing pipeline. Future pipeline and churn will also meet a share of demand. **The lid capture range for hospitality is based on the office lid capture rates. The office lid capture rates are derived from average annual office net absorption in the primary study area over the past five years (15% of total primary study area demand) and an estimate of the current lid study area share of the current primary study area office inventory (10%).** The preliminary conclusion that the lid could support a larger business-oriented hotel and smaller leisure-focused hotel is based on an estimate of the current proportion of business to leisure travelers.

HOSPITALITY: KEY MARKET FINDINGS

- The volume of hotel development in the past two years indicate a response to the limited inventory change between 2010 and 2016. As a result, **occupancy rates have declined slightly, and ADR is stabilizing.**
- **Mixed use residential-hotel development** comprises a large portion of the pipeline and may indicate a shift towards this typology.
- There is a significant number of hotel rooms in the pipeline over the next five years. While hotel development is likely leveling off in the near-term, by 2035-2045, there could be **additional demand driven by new office space and growing tourism.**
- Preliminary conclusions suggest that the lid could support total **400 to 600 hotel rooms between 2035 and 2045.** The 400 to 600 rooms could potentially be distributed between larger, business-oriented hotel and a smaller, leisure-focused hotel.

POTENTIAL MARKET RATE DEVELOPMENT PROGRAM RANGES

The lid could potentially support up to 1,200 market-rate residential units, 1.8M SF of office, 200k SF of retail, and 600 hotel rooms.

Potential Development Program	Low-end range of Market Capture	High-end Range of Market Capture
Residential (market-rate rental) ¹	800 units	1,200 units
Office ²	1.2 M square feet	1.8 M square feet
Retail ³	130,000 square feet	200,000 square feet
Hospitality ⁴	400 hotel rooms	600 hotel rooms

Note: All numbers are not adjusted to account for the existing pipeline. Future pipeline and churn will also meet a share of demand. These numbers do not include affordable housing units.

- HR&A has tested lid capture rates for residential of 3.0% for the primary study area, 1.5% for the secondary study area, and 0.5% for the tertiary study area.*
- The office lid capture rates are derived from 1) average annual office net absorption in the primary study area over the past five years (15% of total primary study area demand) and 2) an estimate of the current lid study area share of the current primary study area office inventory (10%). This compares to an average annual net absorption rate of 12% of total primary study area demand over the past 10 years.*
- Retail demand is calculated as 7% of the total potential residential and office program. HR&A has applied historical ratio between retail deliveries and office and multifamily deliveries in the study area (70 SF of retail per 1,000 SF of office and multifamily development) to the lid program.*
- The lid capture range for hospitality is based on the office lid capture rates. The preliminary conclusion that the lid could support a larger business-oriented hotel and smaller leisure-focused hotel is based on an estimate of the current proportion of business to leisure travelers.*

I-5 Lid Feasibility Study

Real Estate Market Scan

October 2019

Prepared for:



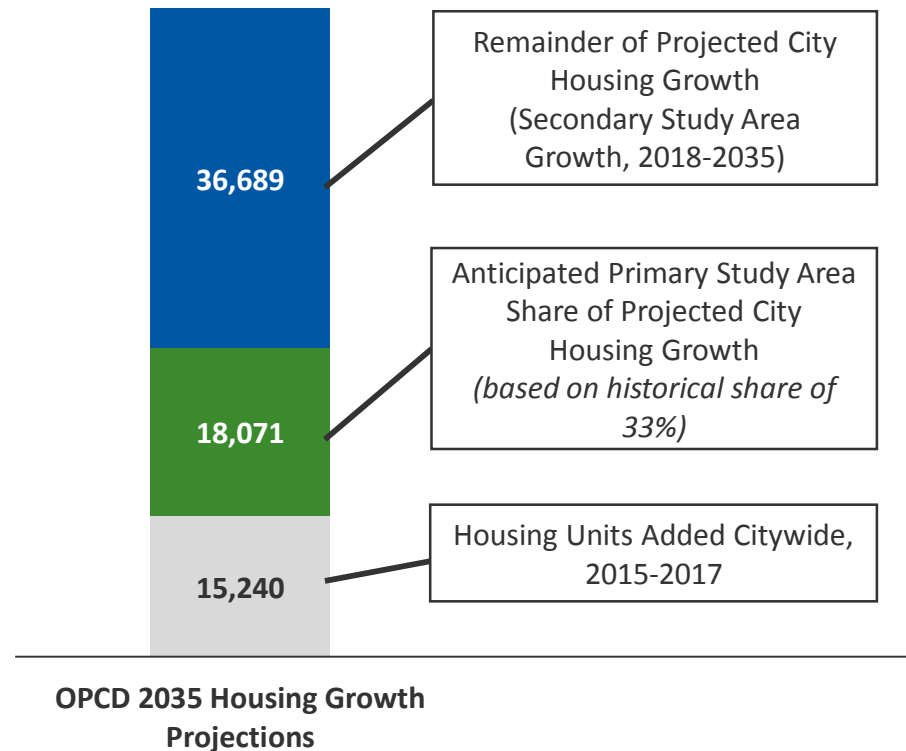
Prepared by:



RESIDENTIAL DEMAND METHODOLOGY

HR&A used OPCD housing projections, the historical relationship between primary study area growth and city growth, and PSRC household projections to develop household growth assumptions.

Applying OPCD Housing Projections



HISTORIC GROWTH & GROWTH PROJECTIONS

Project Duration	2035-2045	
Household Growth Assumptions	2010-2017 Historical Annual Growth	2017-2045 Projected Annual Growth
City	2.4%	0.8%
Primary Study Area	5.2%	1.4%
Secondary Study Area	1.9%	0.6%
Tertiary Study Area*	2.0%	0.9%

*HR&A uses Puget Sound Regional Council Household Growth Projections for the Tertiary Study Area.

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