SeaTac Station Area Action Plan
Market Analysis and Development Considerations

— ***Draft Report*** —

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to

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communityattributes
815 Western Avenue, Suite 300
Seattle, Washington 98104

Chris Mefford, Principal
tel: 206.523.6683
chris@communityattributes.com

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Executive Summary

Achieving the Light Rail Vision

SoundTransit's Link light rail traveling from Seattle to Sea-Tac Airport, stopping at stations at 154th Street near SeaTac boundaries and at 176th Street in SeaTac, will change both station areas by bringing new activity to the areas and providing access to the regional transportation system through a new transit mode.

With these changes, the City of SeaTac desires development that contributes community vibrancy to each of the station area neighborhoods, leveraging strong connections to regional transit. Realizing a vision of workers, residents and visitors active around each station area will require developers to leverage SeaTac's existing comparative advantages; orienting development to take full advantage of light rail connections; and continual collaboration of public officials with existing area businesses and developers that share the City's vision.

This report provides market and feasibility analyses of desired uses and development strategies to inform station area planning.

Development Opportunities and Challenges

The market supports airport parking and lodging. At the beginning of 2006, development conditions in and around SeaTac are dominated by the demand for airport parking. An overall surplus of demand for airport parking attracts commercial parking operators willing to pay more for land than most other types of development.

The economics of parking allow parking operators to bid up land values that challenge the ability for most other uses to provide revenues sufficient to cover transit-oriented development costs and higher land costs. Of the major development product types, only higher-end, upscale lodging appears capable to cover development and land costs in station areas, given local market trends.

SeaTac land values are at a tipping point to support structured parking. In Some areas within the station areas have higher land costs and building structured parking in those areas makes more sense than acquiring more land. In other places, where land costs may be lower, surface parking is more viable.

The intensity of development typically desired by cities for transit-oriented development exacerbates these dynamics exponentially, almost always driven by the need for structured parking. For a development to cover the increased development costs associated with structured parking, the development must produce strong revenues. Where land costs are very high, structured parking begins to make more financial sense than acquiring more land.

Some parcels along International Boulevard appear to command values of $40 to $60 per s.f. At these values, structured parking makes more sense. Elsewhere in each station areas, land values are in the $25 to $35 range. In these areas, structured parking is not viable.

The development cost burden of building structured parking to support higher densities challenges local market conditions. Only higher-end lodging appears ready to cover structured parking costs (that is, the market appears able to provide sufficient revenues). Without the need for structured parking and with lower land prices, other uses, such as residential, retail and office, are much more viable.

Mixed-use success is always difficult, given different location and site needs for each use. Mixed-use, transit-oriented development is challenging enough in urban environments without market forces of commercial parking specific to SeaTac. Successful mixed-use development requires market demand from multiple uses (retail, office and/or residential), all at the same location. The common location of multiple uses challenges development the most; a great location for residential is rarely great location for office or retail. For a mixed-use development with structured parking, the revenue requirement simply puts greater pressure on all markets.

Current SeaTac Market Conditions

The SeaTac market for residential, office, retail and lodging, all perform well for South King County markets, but prices are lower than commanded in Seattle and Eastside markets where TOD densities are more commonly found.

Lodging appears to be the most feasible in the near-term in SeaTac, followed by office and residential, based on extensive pro forma income analysis of prototypical developments in SeaTac station areas. Required rates for speculative absorption along with upper market rates for each major use are shown in **Exhibit S-1**.

Market factors for office location favor required rates in SeaTac, but the South King County office market has such high vacancies that absorption is unlikely by the at-large office market. Residential rates are lower than those found in neighboring communities and throughout South King County and countywide averages.

Exhibit S-1
Development and Market Summary

Uses	Measure	Required Rates	SeaTac Market: Average to High-End	Site Potential to Reach Requirement (1=Not Likely to 5=Likely)*
Hotel	Average Rate	$120 to $135	$77 Avg; ~$125 to $140 Estimated High-End	4
	Occupancy	70%+	67%	
	RevPAR	$85 to $95	$52 Avg: $90 Est. High-End	
Office	Rental Rate	$25 to $30+	$20 - $24	3
	Occupancy	94%	94%	
Residential	Rental Rate per s.f.	$2.50+	$1.25	2
	Occupancy	92.5%	92.5%	
Retail	Rents	$25	$25	3

Source: Community Attributes, 2005.

The analysis above applies to both station areas. Land values are comparable for larger parcels in both station areas, slightly higher in general in the City Center, depending on the parcel. For TOD considerations, land values are likely similar in each station area because parcels large enough to support significant TOD developments in either station area would attract commercial parking vendors as well.

Market Opportunities

Lodging

The lodging opportunity appears to be immediate with niche opportunities in the upper upscale segment. The market timing and niche opportunity works well with development costs needs, since structured parking with new lodging would require the higher end revenues associated with upper upscale lodging segments.

Enplanement forecasts for SeaTac, which correlate closely to lodging demand, suggest above average occupancy rates for the SeaTac market to appear sometime between late 2006 and late 2008. During this phase, development of new hotels would be expected and compete for a growing lodging market. Even assuming strong competition with increases in supply of 150 rooms per year, the SeaTac lodging market appears able to support a new hotel in the station area by 2008.

Only one hotel is in the development pipeline in SeaTac, Tukwila or Renton at present, The Landing in Renton. A few hotels in Tukwila are planned but are still speculative at best.

The SeaTac market has no luxury hotels and relatively few upper upscale hotels (only the SeaTac Hilton and the Tukwila Embassy Suites compete in this category). Competition is deep in midscale and economy hotels. All of these segments compete with Seattle lodging, but the lack of luxury or upper upscale hotels in the study area suggests this is a market niche ready for development.

Studio residential

Residential rates and prices in SeaTac are lower than its neighbors for all housing products, including multifamily rental, multifamily for-sale product (condos) and single-family detached homes. Existing local residential markets currently do not achieve rents or sales prices sufficient to cover development costs with structured parking.

However, the opportunity to bundle studio residential units with lodging around a light rail station has been met with significant interest by developers and stakeholders interviewed for this study. Airport crews and other airport-related workers would value a permanent home with immediate airport access, either as a second home or their only home, especially if they travel frequently and do not demand the full range of urban amenities that Downtown Seattle and other urban centers offer.

As a mix within a hotel or office, studio residential, either as rental or for-sale units, merits consideration.

Office

The general office market is not expected to absorb station area office space at rents required to cover high-density development costs. The City Center location, however, is suitable for continued consideration of a major corporate headquarters or other type of major office anchor. While predicting the arrival of such a tenant is impossible, targeting such prospects could be a rewarding strategy. Air passenger and freight transport companies are obvious targets, with Alaska and Horizon Headquarters as a similar example.

Corporate Training Centers

Corporate training centers emerged as a new use to consider further. The Washington Mutual Training Center is a successful example, blending lodging, classrooms and office space into a single facility. Another model to pursue would be a multi-tenant version of the WaMu facility, with tenants leasing private spaces and sharing classroom and lodging space.

Such a facility could anchor the City Center very well, providing more daytime population that would improve prospects for retail and housing. Stakeholders interviewed for this study support this concept and additional research would size up this opportunity further.

Multifamily at S. 154th

The Station Area at S. 154th Street calls for a residential-oriented strategy to surround existing and improved commercial activity. As shown in the technical analysis in this report, existing rents and sales prices would not cover high-density multifamily development with structured parking here. Typical four to five story residential development with surface parking, however, is more feasible and would add density to the station area.

Retail

Retail is considered a supportive use for each station area and a continued goal as part of the City Center vision to support SeaTac residents. The destination retail in Tukwila Urban Center will limit SeaTac's ability to attract shoppers from elsewhere in the region, but the local residential base could support more retail than exists in the SeaTac City Center at present. For immediate station area consideration, however, retail is most feasible as a relatively minor but supporting use for lodging, office or other.

Summary

For immediate development opportunities, upscale lodging at the City Center station area appears to provide the best opportunity to contribute vibrancy to the station areas and leverage the new transit mode.

Office and studio residential are worth pursuing as they appear compatible with the City Center location and adjacent uses, though the market around SeaTac suggests such development would require direct City financial support to create the development incentive.

Corporate training centers have emerged as an intriguing opportunity that appears to interest the development community. Relatively little data exist to analyze market trends for these uses, and additional exploration of local companies' interest would help better understand this opportunity.

At the S. 154th Street, a residential and commercial services strategy appears to best suit the neighborhood opportunity. The casino and existing commercial services present redevelopment challenges and connectivity to the light rail platform across International Boulevard appears critical to changing the residential market for this area. Residential development at the S. 154th Street station area would not be expected to include structured parking without public participation.

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SEATAC STATION AREA ACTION PLAN
MARKET ANALYSIS AND DEVELOPMENT CONSIDERATIONS

INTRODUCTION

Background

The City of SeaTac desires to plan and encourage transit-oriented development for the areas surrounding the two SoundTransit light rail train (LRT) stations planned to open in and adjacent to the City in 2009. Makers Urban Design + Architecture leads development and design of the SeaTac Station Area Action Plan. Community Attributes has been retained by Makers and the City to analyze market conditions and analyze development opportunities for station area planning.

This report presents current and projected economic opportunities and challenges to provide a foundation for planning decisions to be made by Makers, the City, developers and investors in the station areas. The analysis considers a range of uses considered for the station areas including retail, office, hotels and residential uses.

Methods

At the City's request, market analysis for the Station Area action plan picks up where previous studies left off, in particular the City's *SeaTac Economic Development Project*, released in December 2004.

The analysis relies on market data relevant to the SeaTac station areas, including:

- published information for the SeaTac, South King County and greater Puget Sound markets
- interviews of key stakeholders and experts in each of the key markets
- published regional economic forecasts
- State and local economic indicators and demographic data
- private vendor data collected for specific development markets
- original analysis designed to address key planning questions

The report provides a blend of a planning and development perspectives to portray development opportunities for purposes of sound planning. The analysis seeks to ground the planning effort in the realities of market conditions and development economics, while striving to identify opportunities consistent with the City's vision for the study areas.

Contents

The rest of the report is organized as follows:

Part I: Current Conditions and Market Outlooks. An overview of market conditions for each land use and station areas.

- **Study Area and Light Rail Impacts Overview.** General observations of the two station areas from a market perspective and an overview of how light rail will change market conditions.
- **Current Conditions.** A market-based treatment of characteristics that define the study area:
  - **Land Values and Commercial Parking Impacts**
  - **Airport Activity**
  - **Commercial Parking for Airport Users**
  - **International Boulevard Traffic**
  - **Employment**
  - **Housing**
- **Market Outlooks.** Market conditions and projections of key land uses considered for the study area:
  - **Office**
  - **Lodging**
  - **Residential**
  - **Retail**
  - **Other**

Part II: Development Economics. A detailed examination of the economics, potential for return and market gaps of prototypical development scenarios.

PART I: MARKET CONDITIONS AND PROJECTIONS

LIGHT RAIL IMPACTS OVERVIEW AND STATION AREA CONSIDERATIONS

This report addresses two station areas planned for SeaTac area: S. 154th Street (with the LRT platform actually located in Tukwila) and at S. 176th Street. This section presents a description of the two station areas as seen through the lens of a developer initially considering investing in each station area. Some market factors are consistent with and redundant with a planning and design perspective, and are reinforced here in a market context.

Light Rail Impacts on Development

Transportation benefits must be understood in the context of travel time savings and the overcall travel cost savings, primarily in the form of reduced travel time, associated with new transportation investments. In this case, light rail will bring a new mode of transit to people traveling between the City of SeaTac, Downtown Seattle, and points in between. The key impact that light rail will have on each station area is access to and from Seattle and the Airport. Light rail will link both station areas with Downtown Seattle in a new way.

Empirical studies show that transit and higher density zoning associated with transit-oriented development (TOD) do not necessarily create higher rents or new development patterns, regardless of the apparent theoretical support (Dueker and Bianco, 1997[1]). Dueker and Bianco's study of Portland light rail did find that single-family housing prices were bid up nearer to light rail stations. (This finding would seem to have particular significance for the S. 154th Street Station Area.)

In theory, people and businesses would choose to spend up to all of their benefits from reduced travel costs by paying more to locate near light rail or other transit stations, but this does not appear to have happened in U.S. experiences. This report does not weigh in on the debate, but rather uses the existing research as a way to shape assumptions for development feasibility. Other market factors weigh significantly for TOD in SeaTac, including most significantly the airport presence.

Other communities' experience with TOD has less direct application to SeaTac because of the airport. This is due to three important factors. First, the market

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[1] *Effects of Light Rail Transit in Portland: Implications for Transit-Oriented Development Design Concepts*, Kenneth J. Dueker and Martha J. Bianco, Discussion Paper 97-7, September 1997. Catalog Number DP97-7; posted 11/30/05 at http://www.upa.pdx.edu/CUS/publications/docs/DP97-7.pdf.

segments for development differ by including airport-related uses. Second, perceived negative impacts of the airport are unique to SeaTac TOD. And third, related, the presence and enormous demand for airport parking allows private parking vendors, as well as the Port, the drive up demand for land and push property values too high for lower-priced markets to support. These issues are explored in detail repeatedly throughout this report.

Based on this theory and research, this report assumes rents for various development market types can conceivably be achieved at the top of local market performance, provided the development is commensurately high-quality development. New development near light rail is assumed to help marginally with absorption as well, provided the development is attractive. Attracting rents above market performance seems unlikely, given abundant competitive supply and the empirical evidence suggesting transit in itself makes little difference for property revenues.

S. 154th Street Station Area

The SeaTac portion of the station area is divided from the LRT platform itself by International Boulevard (S.R. 99), creating an immediate challenge for transit-oriented development in the SeaTac portion of the study area. Marketing new properties in SeaTac based on proximity to the 154th Street station will require pedestrian crossings of International Boulevard that is worthy of marketing efforts. New tenants must perceive an inviting crossing to overcome the barrier that would otherwise exist, due to the great width and heavy traffic of International Boulevard at this location.

In the SeaTac portion of the station area, the dominant development is the casino-anchored commercial center, which includes a Curves fitness center and other retail shops and services. A multi-level parking garage is planned for the casino location to provide daily and long-term airport parking. Next door is a locally popular restaurant (Pancake Chef), which itself sits above a Somali grocery store and other commercial services. Also in the immediate vicinity is another Somali market and restaurant.

Other uses within the SeaTac portion of the study area include a U.S. Post Office and several residential units, including single-family detached homes as well as multifamily rental housing. The Corinthian Apartments represent the largest apartment complex within the S. 154th Street station area.

Market Impressions of Existing Uses

The casino and planned parking garage dominate this portion of the station area. The casino as a market draw creates a challenging dynamic to plan around. A casino is not the type of anchor well suited for TOD, yet the casino takes up a very large space in the center of the station area.

The single-family areas surrounding the casino present land assembly challenges, but if overcome the single-family parcels could be bundled flexibly to accommodate a range of development patterns.

The commercial areas north of the casinos are low density developments, reflective of market conditions. The Somali people's interest (there may be other ethnic groups represented here) in these sites is of considerable interest and presents a market segment worth exploring further. Ethnic concentrations in other areas of the region have resulted in creative and successful cultural and commercial centers (Ranch 99 markets in Kent and Edmonds, for example).

S. 176th Street Station Area – City Center

The S. 176th Street station area is in the heart of the City Center, located along a very busy State highway (International Boulevard) in nearly the north-south center of the City Center.

The LRT platform, located on the west side of International Blvd, will connect via a skywalk across International Blvd and down three stories (via elevator and stairs) to street-level on the east side of International Blvd. Access to the platform from the east side of I.B. will be through the parcel occupied currently by Dollar Rental Car and Park-and-Fly valet parking, a commercial parking lot serving airport commuters.

To the south across 176th from the platform access is the SeaTac Hilton, including the hotel and its conference center which spans the equivalent of several blocks to the east. The Park-and-Fly lot spans two land parcels and as such is much larger than SoundTransit will require for access to the LRT station at 176th. To the north of the Park-and-Fly lot is the SeaTac Holiday Inn. To the west is International Boulevard and the airport. To the east, which is uphill, is an electric power transform station, the Rodeway Inn, the Clarion Hotel, an office building, a hair salon and a 7-11 convenience store.

Market Impressions of Existing Uses

At present the character of the City Center station area is defined by three uses: airport parking, hotels and the Kilroy offices. The City Center Plan addresses urban design and transportation improvements for the station area that will improve market perceptions for other uses. In particular, grid-streets and pedestrian connections throughout the City Center will better connect properties within the Center.

Hotels and parking limit the development opportunities to leverage existing uses. Visitors come and go and the majority of workers at hotels and parking facilities earn lower wages, and as a result have little income for housing and little disposable income.

The Kilroy Office tower is a use that developers would seek to leverage for retail, restaurants or other uses, as well as office demand, all of which are analyzed in detail in the office and retail sections of this report.

The next section examines current conditions in greater detail including quantification of key demographic economic measures, followed by a development product market analysis.

CURRENT CONDITIONS

Land Values and Commercial Parking Impacts

A discussion of planning and development impacts in the two SeaTac station areas must begin with an understanding of the impact of airport parking operations on land values in the study area. Nowhere else in Washington State does this land use affect development patterns as in SeaTac. No other City faces the same community planning issue.

A quick examination of the economics of commercial parking demonstrates this impact. **Exhibit 1** shows that reasonable assumptions of commercial parking operations justify paying $45 per s.f. for land that can conveniently serve airport parking. The exhibit shows conditions for a 3-acre site, able to accommodate 436 cars. Operating year-round with 65% average occupancy, at $8 per day, provides net operating income (NOI) of more than $9.5 million per year.

Exhibit 1
Prototypical Commercial Parking Development Land Value

Site area (acres)	3		
Site area (s.f.)	130,680		
Circulation and access allowance (% of site)	20%		
Net area available for parking	104,544		
Area per space	275		
Site capacity (spaces)		380	
Average daily rate		$9.00	
Days of operation per year		365	
Average occupancy		66%	
Annual gross revenue		$824,225	
Operating costs as % of revenue		40%	
Net Operating Income		$494,535	
Cap Rate		6.5%	
Site value		$7,608,230	
Value of land and necessary improvements			$58
Capital costs			
2,000 s.f. office building at $200 per s.f.		$400,000	
Site improvement costs per s.f.		$10	
Total Capital costs		$1,706,800	
Capital costs per s.f. of land			$13
Value of land per s.f.			$45

Source: Community Attributes, 2005

At a 6.5% cap rate (the percentage of capital costs that one year of NOI can cover, a market indicator that reflects the property's potential revenue and attractiveness), this NOI stream justifies paying $58 per s.f. of land for all the costs necessary to acquire and develop the property. Surface parking requires relatively little for site improvement costs, allowing for $45 per s.f. to be paid for land acquisition alone. Development and operating costs are low, and demand is strong, resulting in a lucrative business.

This simplistic description of airport parking economics is critical to understanding the development challenges SeaTac faces in both station areas. Developers interested in building office, housing, hotels or any other transit-oriented development in the area will need to outbid parking vendors in this range of $45 per s.f.

The most profitable aspect of commercial parking is the relatively low operating costs, shown to be 25-40% of total revenues on a national average. The higher range reflects shuttle costs, the most expensive portion of airport parking operating costs. These costs could vary by vendor and season, of course, as could occupancy. In general, however, the low operating costs of commercial airport parking, coupled with the strong demand, make commercial parking a valuable land use in the SeaTac station areas.

The impacts of this land use, unique within the region to the City of SeaTac, are higher land values (costs) than developers pay in competing areas, such as Renton, Tukwila, Burien and Kent. New construction costs layered on top of high land costs put significant pressure on developers' revenue needs, requiring top of market rents and prices in office space, apartments, hotel rooms, or whatever product is offered.

Land Value Assumptions and Sensitivity

Land in the area is not uniformly valued at $45 per s.f. In most cases, demolition costs would increase the site improvement costs value approximately by the $10 per s.f. assumed in **Exhibit 1.** In some cases, however, higher demolition costs drive down the willingness to pay for land. Moreover, not all site locations are as attractive for parking or other uses, given their location, visibility and access. In those cases, a parking vendor would not be willing to pay the $45 per s.f., assuming only lower prices achievable, higher operating costs or lower average occupancy.

The cap rate shown in **Exhibit 1** is a highly sensitive assumption. Varying the cap rate to 5.5%, a very plausible assumption, and keeping all other values the same yields land values of $56 per s.f. A cap rate of 7.5% yields land values of $37 per s.f.

Recent sales in the study area show land values ranging from $40 to $61 per s.f. All of these sales included some improvements on the site, some of which would continue to operate; in these cases, the price of the land alone was lower, since the transaction included additional value than just the land.

The higher prices in the recent sales range reflect the Port of Seattle's recent acquisitions along International Boulevard as part of airport expansions. The Port's price is considered legally to be fair market value, though in reality a public agency may pay higher than other buyers to avoid additional expenses should a deal not be reached with the previous owner.

For the purposes of this report, average land values in the study area, including both station areas is assumed to be $45 per s.f. As shown above, this value could vary higher or lower, but the value is assumed to be indicative of what the development market would pay, assuming some demolition costs were necessary for new development.

Airport Activity

SeaTac's primary market identity is the integral relationship to Sea-Tac International Airport. As such, the airport activity defines the primary source of economic activity for City Center and much of the City's economic development activity.

Recent media coverage of Southwest Airlines' desire to switch their operations to Boeing Field, along with King County's opposition to the move, show both the areas of risk and the reason to believe growth in airport traffic will continue. The Port of Seattle's continued investments in the airport, SoundTransit's investment in light rail extending to the airport, and the lack of a viable airport alternative (logistically or politically) suggest SeaTac will be the region's passenger air travel center for the foreseeable future.

Enplanement Trends and Forecasts

Passenger air travel serves as a key indicator for trends in economic activity in SeaTac. The current environment of security concerns and the evolving changes in the air travel industry of the past four years will continue to challenge analysts' ability to forecast air travel.

For the purposes of development analysis in SeaTac, however, understanding that air travel will continue to grow is important to ease development jitters and to size up the opportunity in SeaTac. For starters, air travel in the region has always grown much more rapidly than population growth, as shown in **Exhibit 2**.

Exhibit 2
Historic Trends in Sea-Tac Enplanements and Regional Population

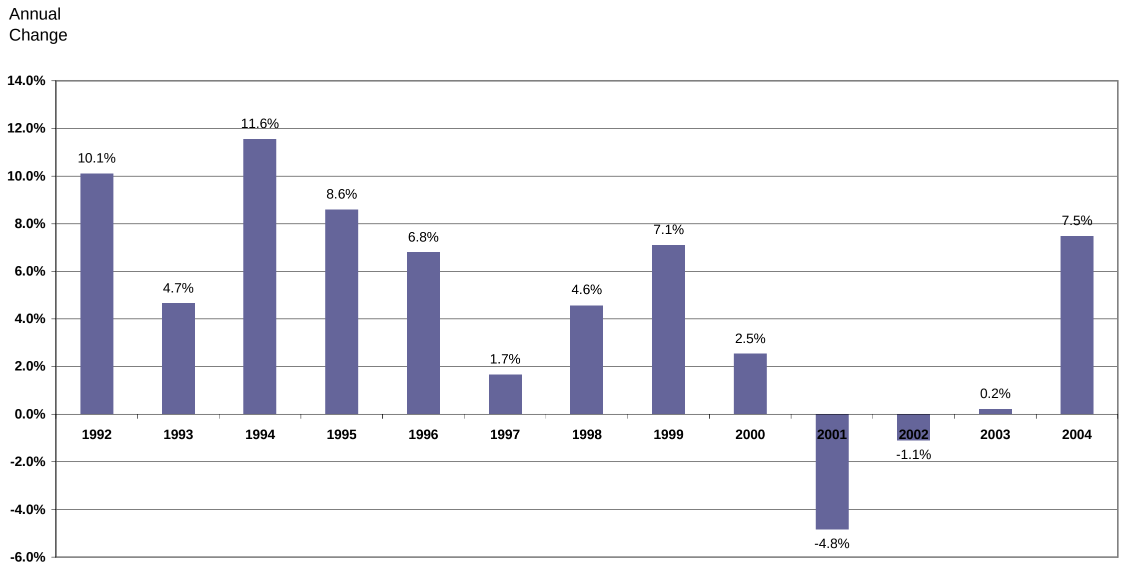
				Average Annual Growth Rate		
	1964	**1984**	**2004**	**1964-1984**	**1984-2004**	**1964-2004**
Sea-Tac Enplanements						
Domestic	1,789,234	9,468,444	26,368,438	8.7%	5.3%	7.0%
International	211,697	1,008,186	2,436,116	8.1%	4.5%	6.3%
Total	2,000,931	10,476,630	28,804,554	8.6%	5.2%	6.9%
Regional Population	1,623,000	2,388,468	3,416,837	2.0%	1.8%	1.9%

Source: Port of Seattle, Puget Sound Regional Council, 2005.

Passenger travel growth declined during the past twenty years (1984 – 2004) relative to the previous twenty (1964-1984), though air travel growth on average during the past two decades remained nearly three times that of regional population growth. Declining air fare costs in real terms (inflation adjusted) and growth in airlines and passenger jets, combined with the American public's familiarity with air travel continued to drive air travel.

Recent years have seen the biggest volatility declines in air travel worldwide, as shown below in **Exhibit 3**. 2004 saw the first rebound in air travel since the terrorist attacks of 9/11.

Exhibit 3
Historic Trends in Sea-Tac Enplanements



Source: Port of Seattle, 2005.

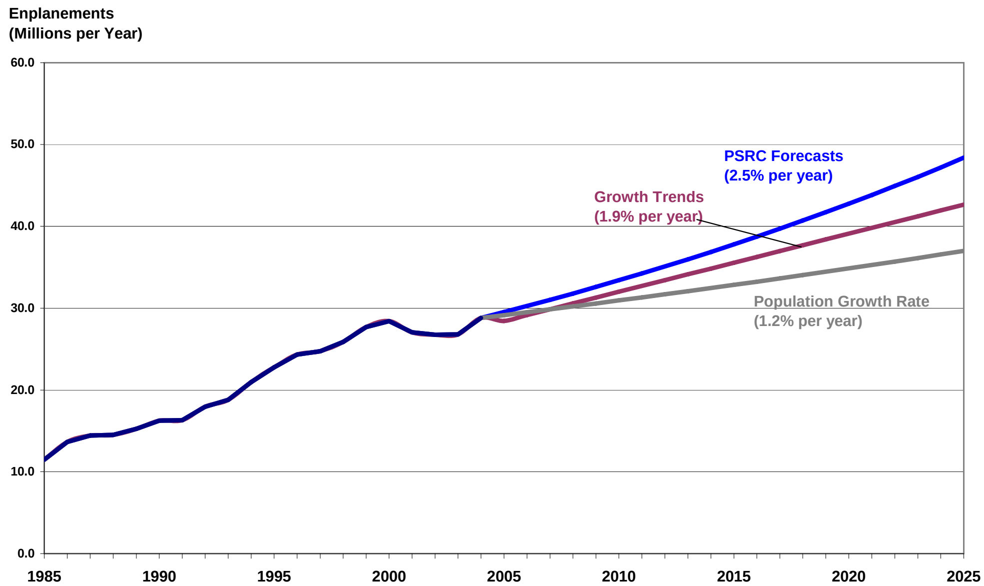
In spite of the recent impacts, in the long run air travel should continue to grow substantially. **Exhibit 4** shows three growth scenarios – all relatively conservative compared to the historic trends shown above in **Exhibit 3**.

The most conservative growth scenario shows enplanements merely following regional population growth at 1.2% per year, itself showing an increase of 8.2 million enplanements per year by 2025 over 2004 counts of 28.8 million.

The mid-rate scenario, called the Growth Trends scenario, is based on statistical analysis of the past 40 years of enplanment data, suggesting continued growth of 1.9% per year. This scenario shows enplanements at 42.7 million passengers per year, or 13.9 million per year more than today's totals.

Finally, the PSRC forecasts enplanements for its own regional transportation planning purposes. Their forecasts suggest enplanements will grow at 2.5% per year through 2025, with an annual total in 2025 of 48.4 million passengers per year, or nearly 20 million passengers annually than in 2004. Bear in mind that this growth rate is still slower – nearly twice as slow – than experienced during the past twenty years.

Exhibit 4
Historic Trends and Forecasts in Sea-Tac Enplanements



Source: Port of Seattle, Puget Sound Regional Council, 2005.

The forecasts suggest substantial increases in SeaTac air travel will continue for the foreseeable future. This has strong bearing on all development in SeaTac, as it is represents an external force on the regional economy that will continue to favor a primary market segment (airport travelers) for SeaTac development.

Commercial Parking for Airport Users

Exhibit 1 above demonstrates the development economics and value in airport-related parking using market values found easily achievable in today's market, with demand for parking expected to continue to increase as regional population and SeaTac traffic grow.

Prices in the study area average $8 to $9 per day. Covered parking can achieve higher rates, as much as 20% higher ($9.50 to $11.25 per day). Parking operators report that occupancy is quite stable and high. Average occupancy appears to be 70% to 75% year-round, with some lots performing better than average.

Several parking vendors provide daily and long-term parking for SeaTac travelers, located up and down International Boulevard from North of S.R. 518 to South of 188th Street, all of this in addition to parking provided by the Port of Seattle on the airport property itself.

Interviews of stakeholders in the area, including several parking operators, report strong and growing demand for commercial airport parking, as supported by the enplanement projections shown in **Exhibit 4**. Detailed inventory and demand of commercial parking was not included in this research, given the inconsistency of the land use with the City's vision for station areas. Strong near-term and long-term demand for airport parking exists and will continue to compete for other uses for scarce land in both station areas.

International Boulevard Traffic

Traffic volumes along International Boulevard total more than 20,000 cars traveling each way per day in 2004. Motorists use International Boulevard predominantly to get into and out of the airport and as a way through the City to get to and out of surrounding cities in South King County. Relatively few motorists appear to pass through SeaTac along International Boulevard to get to Downtown Seattle or other regional destinations.

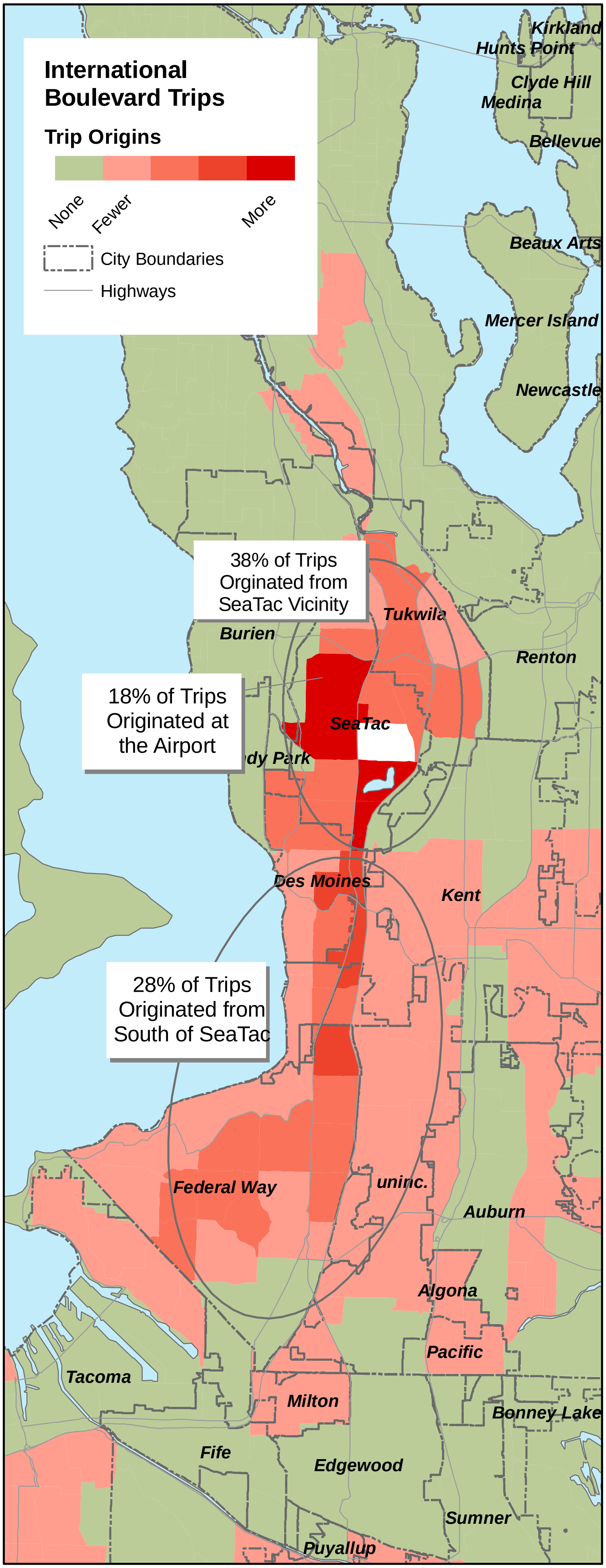
Exhibit 5 shows the origins and destinations of the motorists graphically. The maps in **Exhibit 5** show trips taken on a typical weekday morning. The red areas in the map on the left represent concentrations of trip origins. The blue areas in the map on the right represent concentrations of trip destinations.

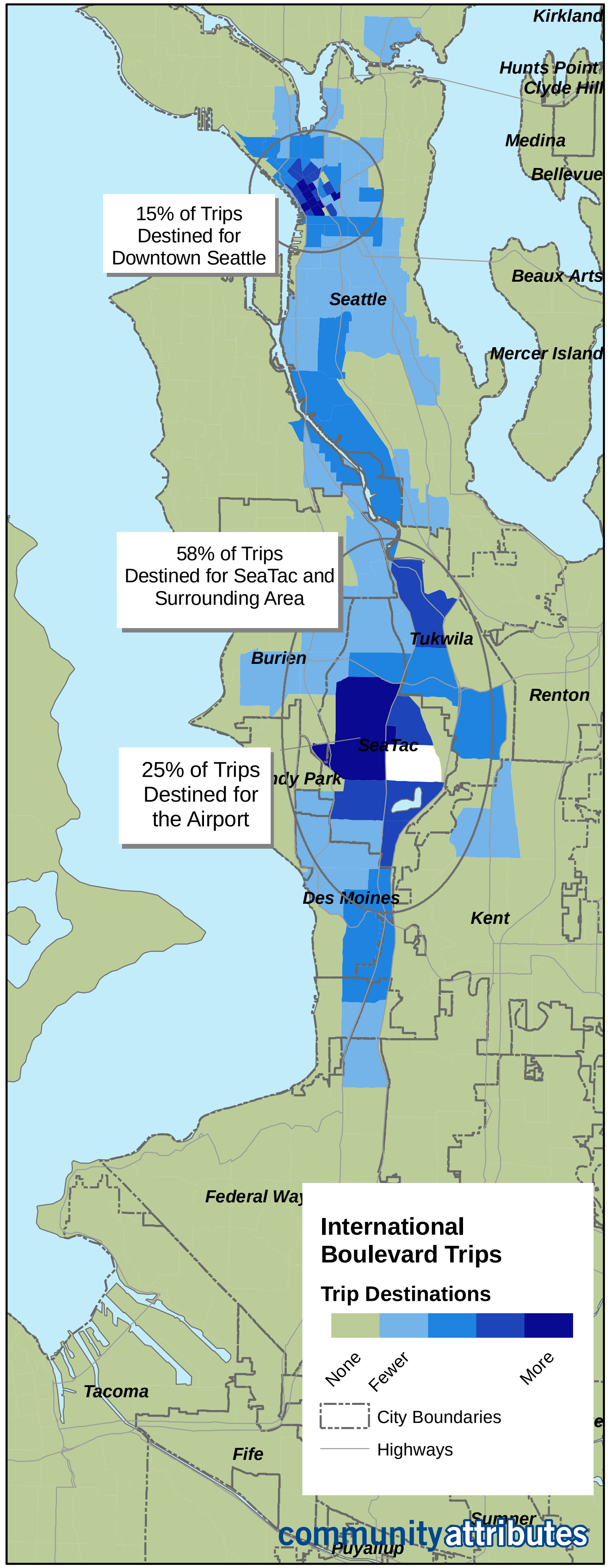
Many of the trips originate from and are destined for the airport itself, which accounts for 18% of trip origins and 25% of trip destinations. Including airport trips, 38% of the trips originate in and around the City of SeaTac, while 58% of the trips are destined for areas in the nearby vicinity.

Outlying areas appear to participate less in trips through SeaTac along International Boulevard. Cities south of SeaTac account for 28% of the International Boulevard trip origins. Downtown Seattle is the destination for 15% of trips passing through International Boulevard.

This finding of local concentrations of trip origins and destinations suggests that traffic along International Boulevard represents a stronger market to tap for retail, restaurants, entertainment than might otherwise be expected.

Exhibit 5: Origins and Destinations of Trips Along SeaTac's International Boulevard (City Center Segment, 2005)





Employment

The employment base in SeaTac is dominated by airport jobs, represented by the Wholesale Trade, Transportation and Utilities sector shown in **Exhibit 6**. Without the airport jobs (nearly 13,000 of the jobs shown in Exhibit 6 are located at the airport), the SeaTac economy is fairly representative of the County and Regional economy.

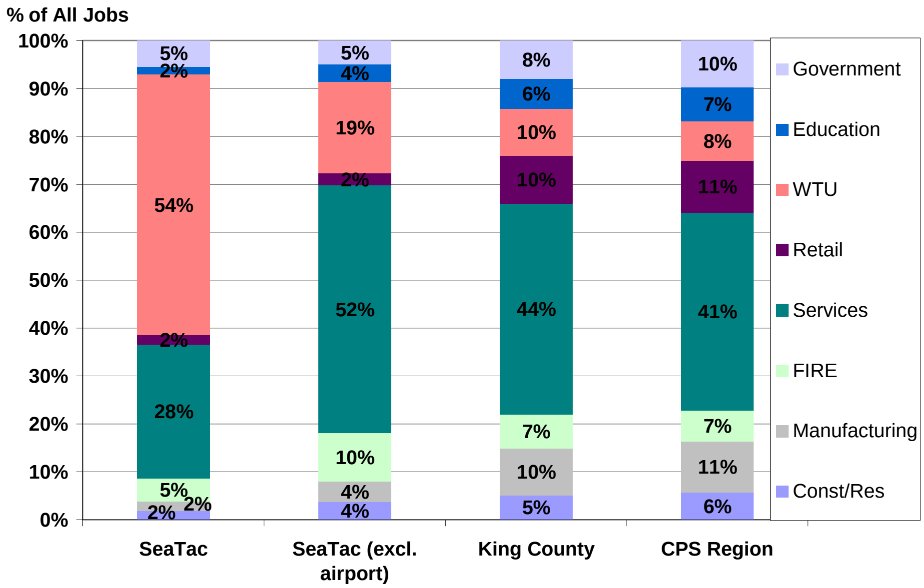
Exhibit 6
Employment by Sector in SeaTac

	Citywide		Excl. Airport Jobs	
Sector	**Jobs**	**% of Total**	**Jobs**	**% of Total**
Construction & Resources	473	2%	473	4%
Manufacturing	552	2%	552	4%
Finance, Insurance, Real Estate	1,274	5%	1,274	10%
Services	7,416	28%	6,584	52%
Retail	501	2%	318	2%
Wholesale Trade, Transportation, Utilities	14,445	54%	2,445	19%
Education	452	2%	452	4%
Government	1,439	5%	639	5%
Total	**26,552**	**100%**	**12,737**	**100%**

Source: Puget Sound Regional Council;
Washington State Employment Security Department
Note: Jobs include "covered employment" only; jobs covered by State unemployment insurance; underestimates jobs by 10% to 14%, varying by sector and geographical region.

The degree to which airport jobs dominate the local economy is shown in **Exhibit 7**. More than half, 54% in 2003, jobs are devoted to the transportation sector (WTU). Without the jobs based directly on airport grounds, the SeaTac economy is somewhat more reflective of the County and the region. (This is somewhat limited, of course, given that many of the jobs along International Boulevard are directly or closely indirectly linked to the airport). Retail jobs stand out as being under-represented in the local economy, with or without the airport jobs included in the analysis.

Exhibit 7
SeaTac and Regional Distribution of Jobs, 2003



Source: Puget Sound Regional Council;
Washington State Employment Security Department
Note: Jobs include "covered employment" only; jobs covered by State unemployment insurance; underestimates jobs by 10% to 14%, varying by sector and geographical region.

Population and Housing

SeaTac's population is relatively closely concentrated beyond both station areas' boundaries. The State Office of Financial Management estimates population to be 25,140 in 2005, a slight decline from 25,500 estimated in 2000 by the U.S. Census Bureau. This decline may be real, reflecting declining household size in the City along with a net decrease in housing units, or it could be a limitation of the State's population estimates. Regardless, the finding that the City has not grown in five years is noteworthy and important context for growth and development consideration.

Growth forecasts by the Puget Sound Regional Council (PSRC) suggest the City will add at least 4,300 people by 2025, based on the 0.8% growth rate forecast by PSRC for 2000 to 2030, shown in **Exhibit 8**. This essentially represents a do-nothing scenario, as the PSRC model allocates regional growth forecasts based on local plans and statistical trends.

Exhibit 8
Population Projections for SeaTac, 2005 to 2025

Population 2005	25,140
Single-Family Housing Units	5,555
Multifamily Housing Units	3,908
Mobile Home/Other	844
Total Housing Units	10,307
Single-Family Household Size	2.8
Multifamily Household Size	2.3
Forecasted Growth Rate, 2005 - 2025	0.8%
Population 2025	29,483
Population Growth, 2005 - 2025	4,343

Source: Puget Sound Regional Council; Washington State Office of Financial Management

Many SeaTac residents work at the airport and in SeaTac, as shown in **Exhibit 9**. The majority of the rest commute to Downtown Seattle, the Duwamish Corridor, Tukwila and Kent.

These findings are significant for development potential in the City's station areas. Two findings bode well for local development. First, light rail ridership to Downtown should be significant, bringing local residents to the light rail station areas. Second, the City Center appears to be well positioned to serve a community that lives and works in SeaTac, likely coming through the City Center on a daily basis.

Offsetting these findings, the connections to Tukwila and Kent, combined with strong retail and employment centers in those cities, suggest strong patterns of SeaTac residents that challenge local businesses market share and access to labor.

Exhibit 9
Where SeaTac residents work

Exhibit Forthcoming - CM, 12/5/05

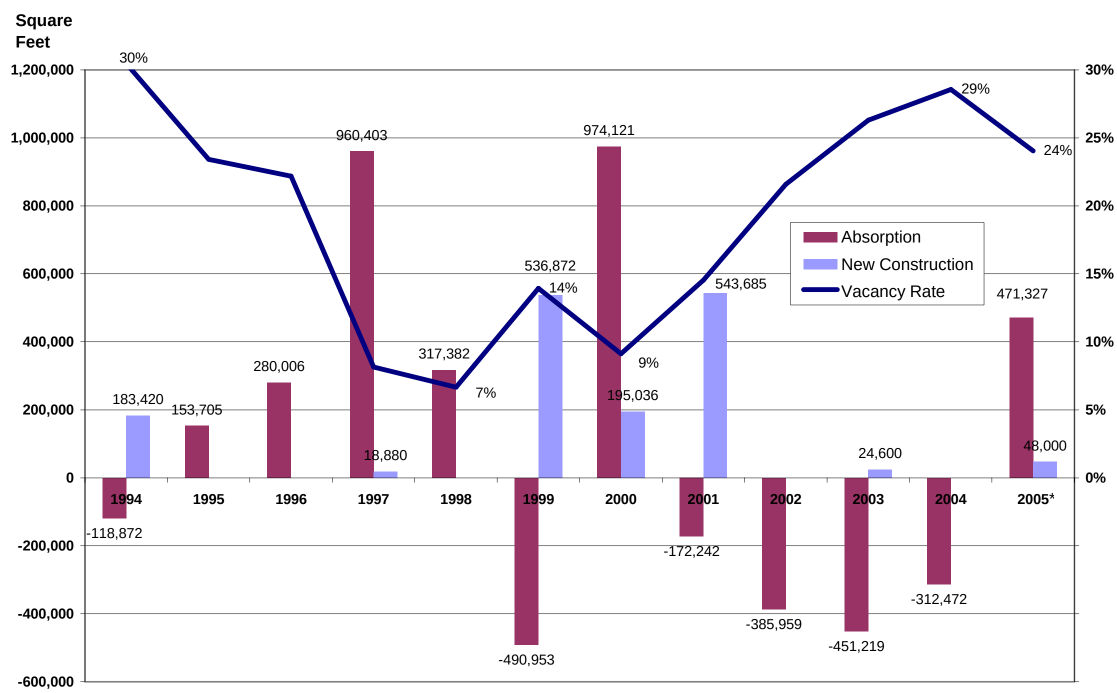
MARKET OUTLOOKS

Office

Office Market Conditions in South King County and SeaTac

The SeaTac office market participates in a larger South King County office market. The South King Office market is currently coming off the highest vacancy rates in 2004 in ten years, as shown in **Exhibit 10**. Absorption in 2005 (through the third quarter) of more than 470,000 s.f. has brought vacancy rates in the market down to 24%. The total South King market includes 10.25 million s.f. of Class A, B and C office space, with nearly 2.5 million s.f. vacant, including both the direct lease and the sub-lease markets.

Exhibit 10
South King County Office Absorption, 1994 - 2005



Source: Colliers International, 2005.

Exhibit 10 provides three key market indicators, absorption, new construction and vacancy, which together, along with rental rates (prices) tell a lot about historic, current and near-term office market conditions. 2005 is the first year since 2000 to see positive absorption of office space. Negative absorption occurs when more office space is vacated than is newly leased, as has been the case in recent years, since 2002. Negative absorption can also occur when new construction brings more office space onto the market than can be rented, as was the case in 2001, as shown above.

The chart shows that market-wide, substantial new construction has only occurred in the past ten years in years that lag periods with vacancy rates have dipped below 10 percent. For example, vacancy rates were at 8% and 7% in 1997 and 1998, which supported new office construction that came onto the market in 1999. Strong absorption in 2000 supported additional construction in 2001.

SeaTac has approximately 1.3 million s.f. of office space within its city limits, spread amongst 26 office buildings. Nearly half of this space, more than 530,000 s.f., is concentrated in the Kilroy Airport Center's three buildings in the City Center and 176th Street Station Area. The other major office presences in SeaTac include the Alaskan Airlines and Horizon headquarters, located further south.

Office space in SeaTac is currently operating at approximately 8% vacancy, with 18% listed as available, due to upcoming lease expirations. Vacancies are much lower in SeaTac than the market-wide vacancies in South King County shown above in **Exhibit 10**. Asking rates for rent in the area average $19 per s.f. (per year, full service).

The Kilroy Airport Center performs at the top of the SeaTac office market. Currently at the Kilroy Center, vacancies are 6%, which are relatively high for the Kilroy Center. Asking rates are $22 to $24, with most tenants paying that range currently.

Short-Term Development Implications

Developers build office space for one of two reasons: (1) a major tenant wants a building and the developer builds to suit that tenants needs, or (2) the market conditions favor rents and absorption sufficiently to provide a market-rate return on investing in office space that will be absorbed by the at-large market (on speculation that tenants will come).

New office development requires land acquisition, site improvements, construction costs, a developer's expected return on investment (developer's fee) and a range of planning and administrative costs, grouped together as "soft costs" (includes architecture work, impact analyses, permit fees and other requirements). The total of these costs vary by the type of office space developed.

Rider Hunt Levitt & Bailey is a consulting firm that surveys construction costs in West Coast cities regularly. Gross floor area costs ranged from $155 per s.f. to $210 per s.f. for prime office buildings in the Seattle market area at the end of 2005.

Transit-oriented office development typically includes substantial density on-site to create a significant employment center that can benefit from mass transit connectivity. A four-story office building with structured parking serves an adequate example.

Total land and development costs for a 4-story building with 90,000 s.f. gross area might cost between \$19.2 and \$25.3 million, based on the Rider Hunt presented data above. In simplistic turns, today's office market in SeaTac would require net operating income of the site equal to 6.0% of the total investment (a 6.0% cap rate). At a 6.0% cap rate, rents must average \$25 to \$33 per s.f. while successfully maintaining a market averages of 92.5% occupancy, as shown in **Exhibit 11**.

Exhibit 11
Range of Office Costs and Required Revenue

		Low Cost Scenario		High Cost Scenario	
Gross Floor Area	90,000				
Gross Leasable Area	80,000				
Stories	4				
Building Footprint	22,500				
Development Costs of Building					
Per S.F.		150		210	
Total Building Cost			13,500,000		18,900,000
Parking Garage					
1 Space per 350 s.f. office;	229				
Gross Space per Stall	300				
Gross Area	68,571				
Cost per S.F.		50		60	
Total Garage Cost			3,428,571		4,114,286
Site Improvement Cost per S.F.		6.00		6.00	
Total Land Area (S.F.)	45,000				
Total Site Improvement Costs			270,000		270,000
Total Improvement Costs			17,198,571		23,284,286
Land Costs per S.F.	45				
Land Costs			2,025,000		2,025,000
Total Development Cost			19,223,571		25,309,286
Cap Rate	6%				
Required NOI			1,153,414		1,518,557
Vacancy & Collection Loss	7.5%				
Required NOI per S.F. (NNN)			15.59		20.52
Operating Costs as % of Gross	38%				
Gross Rents per S.F.			25.14		33.10

Source: Community Attributes, 2005.

As discussed above, rents in SeaTac currently do not reach \$25 to \$33 per s.f. Rents are that high in throughout Downtown Seattle, Kirkland and Downtown Bellevue, reflecting the office market's desire to locate in those denser commercial centers.

KEY FINDING

The basic development economics suggest that in the near future it is unlikely to expect development of new office space built on speculation to be absorbed by the at-large South King County office market. The glut of vacant office space in the South King County market makes attracting higher rents to SeaTac all the more challenging.

New office space in SeaTac appears dependent on finding a key anchor tenant willing to build-to-suit, according to their needs. With such a commitment, the building owner may then capitalize on construction economies and build additional space on spec for at-large absorption.

The next section discusses the location needs of SeaTac office segments, analyzing SeaTac's comparative advantages to leverage to attract office tenants.

SeaTac Office Market Segments

The City commissioned a study in 2004 to analyze citywide comparative advantages and opportunities for economic development (Hovee, 2004). The study identified four near-term priority segments within the corporate office cluster opportunity: Regional/Global Headquarters; Airline Headquarters; Office Suites; State/Regional Non Profits.

A partial list of current office users in SeaTac is presented in **Exhibit 12**. The list includes the majority of individual tenants in SeaTac. Other smaller tenants are spread among small spaces throughout the City, some in one to two story buildings housing an assortment of personal and professional services.

Exhibit 12
Current Office Tenants

Company or Agency Name	Industry	Local Presence	Corp. HQ or Parent Company Location
Kilroy Office Tower - North Tower			
The Boeing Company			
Kilroy Office Tower - South Tower			
Administrative Office of the Courts	Washington State Courts	Local office	Olympia
Alaska Railbelt Marine, LLC	Rail Cargo Logistics	Local office	Anchorage
Another Source, Inc.	Employment Agency	Sole location	
Asiana Airlines	Airline	Local office	China
The Austin Company	Architecture and Engineering	Local office	Cleveland
Broadspire	Information Technology (Web Hosting)	Local office	Los Angeles
China Airlines	Airline	Local office	Taipei
CP Ships	Water Cargo Logistics	Local office	London
DSHS Division of Vocational Rehabilitation	Washington State DSHS	Local office	Olympia
Elcon Associates	Architecture and Engineering	Local office	Portland
Equant	Global Communications	Local office	Amsterdam
EVA Airways	Airline	Local office	Taiwan
Expertech Development, Inc.	Information Technology (Networks)	Local office	Toronto
GATX Air	Aircraft leasing	Local office	Chicago
Kilroy Building			
Port of Seattle			
Lynden, Inc.			
Others			
Alaska Air	Airline	Corp. HQ	SeaTac
City of SeaTac	City government		

Source: Community Attributes, 2005.

The City's 2004 study and the listings in **Exhibit 12** show that the market for offices at SeaTac can be thought of as two primary segments. The first consists of airport-related uses and the second is the general office market for south King County. The next section examines the SeaTac office market factors associated with these two segments in detail. Understanding these market factors is important to evaluating the potential demand and rents achievable for office space within station areas.

SeaTac Office Market Factors

AIRPORT RELATED USES

Airport-related office users have a varying array of office needs, varying by the size of the company, the number of employees in an office setting, the services they offer and the need for airport proximity.

For the airport-related office segment, SeaTac offers the following marketable assets:

- Proximity to airport
  — Access to airport operations
  — Access to flyers
  — Access to airport partners and competition
- Airport identity

Airport-related office in SeaTac faces the following market challenges:

- Regional competition
- Relative ease of access from Seattle, Renton and other office markets
- Improved access from Seattle with light rail

Interviews with local office managers and real estate brokers suggest that the SeaTac's airport identity is not enough to attract air-related offices. They suggest the airport-related segment does not value the immediate airport vicinity offered by International Boulevard any differently than it values office space throughout South King County and the rest of the region.

Regional Airport Related Activity. Exhibit 13 shows the distribution of air-related employers in South King County, color-coded by the type of business and sized by the number of jobs at each location. The black dots represent manufacturing companies that are not likely to represent office demand, but more likely to represent demand for industrial space. The two shades of blue represent passenger and freight air transport services, both of which are more likely to demand office space for its employees.

The exhibit shows clustering of office-related employment at Sea-Tac Airport, Boeing Field, Downtown Seattle and in Renton. Manufacturing companies are distributed throughout the Duwamish Corridor and the Kent Valley. The distribution shows a clear concentration of jobs on airport properties. Demand for non-airport properties, including along International Boulevard in SeaTac, is more dispersed.

Air-related companies located in Downtown Seattle and Renton, suggest locational needs other than proximity to either Sea-Tac Airport or Boeing Field. Downtown businesses likely value the major employment center of downtown for its employees' access, as well as access to financial markets, partnering engineering firms or other characteristics of Downtown. In the case of Renton and other locations, these companies likely originally valued a location near Boeing, though Boeing's mobility has likely lessened some aerospace companies' location significance.

Overall, the airport is a location factor to leverage for some companies that no other city can offer, but not all air-related companies value the airport proximity.

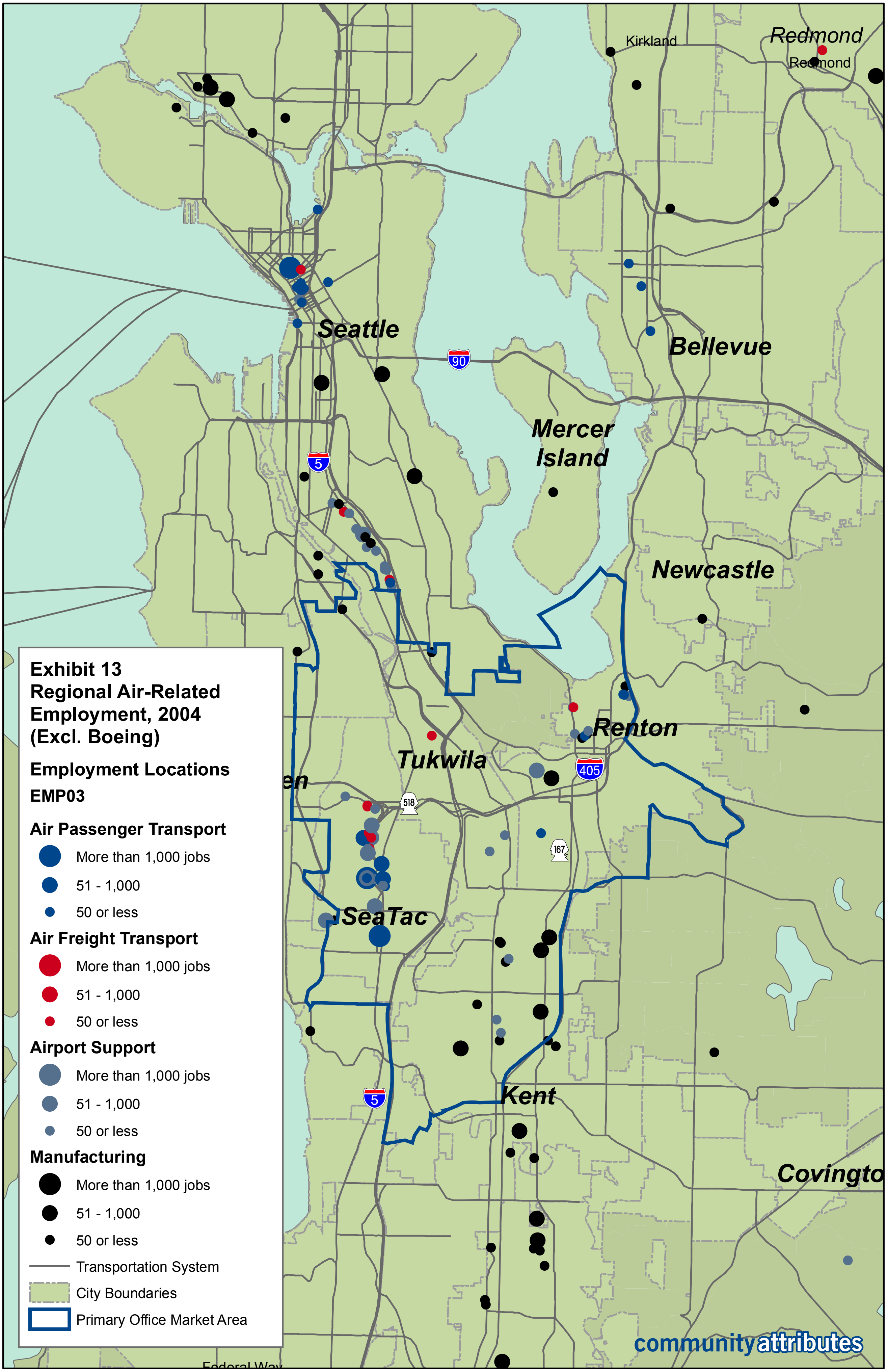


Exhibit 13
Regional Air-Related Employment, 2004 (Excl. Boeing)
Employment Locations
EMP03
Air Passenger Transport
More than 1,000 jobs
51 - 1,000
50 or less
Air Freight Transport
More than 1,000 jobs
51 - 1,000
50 or less
Airport Support
More than 1,000 jobs
51 - 1,000
50 or less
Manufacturing
More than 1,000 jobs
51 - 1,000
50 or less
Transportation System
City Boundaries
Primary Office Market Area
Kirkland
Redmond
Redmond
Seattle
Bellevue
Mercer Island
Newcastle
Renton
Tukwila
SeaTac
Kent
Covingto
Federal Way
90
5
405
518
167
5
communityattributes

GENERAL OFFICE MARKET

The rest of the demand for office space in SeaTac comes from users common to office markets throughout the region: financial services, professional services, real estate, insurance and other assorted businesses. SeaTac has several marketable assets for the general office markets, as follows.

SeaTac General Office Marketable Assets:

- Central South King County location
- Proximity to airport
- Airport identity

Airport-Related Office Market Challenges:

- Regional competition
- Local traffic circulation
- Need for additional neighborhood amenities

The challenge with locating a Corporate Headquarters is the regional competition and the attractiveness of major commercial centers. Moreover, for those companies that value access to the airport, transportation access to the airport is not so congested as to deter a Bellevue or Seattle location, especially when compared to airport access within many other regions throughout the country.

Companies despise the congestion between the airport, but on the margin the congestion is typically perceived as a ten to twenty minute impact – not enough to overcome the location advantages offered by locating in Downtown or key Eastside locations.

Light rail will challenge SeaTac's airport advantage further. Companies that value airport access and also a Downtown Seattle location will find airport access improved with light rail. Just how convenient Downtown Seattle businesses will find the new light rail access remains to be seen and will take some time to play out.

KEY FINDING

The City should continue to leverage the airport access advantage in hopes to attract a major office anchor. The market perceptions identified above speak to generalities, but the airport will always rank high among SeaTac's comparative advantages. If SeaTac is to attract a major office tenant, airport access is likely to be a key factor.

Long-Term Market Outlook

In the longer-term, employment growth in the region and in South King County will continue to drive office development opportunities for the City to pursue. Understanding the potential implications of the growth forecasts provides important context – not to be taken as SeaTac absorption forecasts, but useful to understand the order of magnitude of the opportunity that comes with the employment growth.

The Puget Sound Regional Council forecasts employment for travel demand modeling and Growth Management Act planning. The PSRC forecasts suggest average annual growth for the office market area (shown above in **Exhibit 13**) to be 2.5% between 2003 and 2020, shown with sector forecasts detail in **Exhibit 14**, resulting in forecasts of a net increase of 68,000 jobs over the 17-year period. Not all of these jobs will locate in office space, of course, but many will, as estimated in **Exhibit 15**, where Office-Using Employment (OUE) ratios help project total absorption of office space.

Exhibit 14
Market Area Employment Forecasts, 2003 - 2020

					Average Annual Growth Rate			
	2000	2003	2010	2020	2000-2003	2003-2010	2010-2020	2003-2020
Construction & Resources	5,154	5,416	5,934	7,029	1.7%	1.3%	1.7%	1.5%
FIRE	4,632	4,456	7,228	9,630	-1.3%	7.2%	2.9%	4.6%
Manufacturing	43,284	31,988	44,182	40,970	-9.6%	4.7%	-0.8%	1.5%
Retail	16,660	15,829	18,725	21,460	-1.7%	2.4%	1.4%	1.8%
Services	33,175	32,231	51,763	68,967	-1.0%	7.0%	2.9%	4.6%
WTU	39,793	34,293	39,747	44,420	-4.8%	2.1%	1.1%	1.5%
Education	1,528	1,667	1,772	2,010	2.9%	0.9%	1.3%	1.1%
Government	4,454	6,650	5,164	5,859	14.3%	-3.5%	1.3%	-0.7%
Total	125,399	132,530	174,515	200,345	1.9%	4.0%	1.4%	2.5%

Source: Puget Sound Regional Council; Washington State Employment Security Department, 2005.

Exhibit 15
Market Area Office Using Employment and Absorption, 2003 - 2020

		OUE Jobs			Annual Average Change		Annual Average Office Absorption		Absorption 2003 - 2020		
	OUE%	2003	2010	2020	2003-2010	2010-2020	2003-2010	2010-2020	Gross	Vacant	Net
Construction & Resources	10%	542	593	703	7	11	1,850	2,738	40,327	14,740	25,587
FIRE	90%	4,010	6,505	8,667	356	216	89,093	54,050	1,164,151	425,503	738,648
Manufacturing	10%	3,199	4,418	4,097	174	-32	43,551	(8,030)	224,559	82,077	142,482
Retail	10%	1,583	1,872	2,146	41	27	10,341	6,838	140,760	51,449	89,312
Services	45%	14,504	23,293	31,035	1,256	774	313,902	193,544	4,132,759	1,510,543	2,622,216
WTU	35%	12,002	13,912	15,547	273	164	68,183	40,881	886,093	323,871	562,222
Education	20%	333	354	402	3	5	752	1,192	17,190	6,283	10,907
Government	20%	1,330	1,033	1,172	-42	14	(10,618)	3,475	(39,577)	(14,466)	(25,112)
Total		37,504	51,981	63,769	2,068	1,179	517,054	294,688	6,566,261	2,400,000	4,166,261

Source: Community Attributes.

The forecasts suggest gross demand of 6.5 million s.f. office space by 2020. Bearing in mind existing vacancies in the market of 2.4 million s.f., this is a net increase in 4.2 million s.f. of office space in the central portion of South King County during the next decade and a half. The 2.4 million s.f. of vacant inventory excludes data from many smaller spaces, though the smaller spaces reportedly have much lower vacancies. It is unclear how significant this data limitation is to this analysis.

If SeaTac gains a "fair share" of the new development, based on its current share of employment that is *not* on airport property, then it is reasonable to expect demand of 800,000 s.f. of office development within the City during this period, the supporting data and assumptions as shown in **Exhibit 16**.

Exhibit 16
SeaTac Fair Share of Office Absorption, 2003 - 2020

	Jobs				
	Office Market Area Jobs	SeaTac Jobs	Excl. Port Property	% of Market Area Jobs	Fair Share of Absorption
Construction & Resources	5,416	473	473	9%	2,200
FIRE	4,456	1,274	1,274	29%	211,200
Manufacturing	31,988	552	552	2%	2,500
Retail	15,829	501	318	2%	1,800
Services	32,231	7,416	6,584	20%	535,600
WTU	34,293	14,445	2,445	7%	40,100
Education	1,667	452	452	27%	3,000
Government	6,650	1,439	639	10%	(2,400)
Total	132,530	26,552	12,737		794,000

The calculations represented in **Exhibits 14 – 16** come with many limitations and many scenarios could change these assumptions, of course. Many scenarios could increase SeaTac office absorption (for example, synergies and popularity of clustering airport-related employment could take effect and result in substantial absorption) and others could decrease (all of the planned development in Renton and Tukwila actually happens, for example). One thing is certain: employment growth will continue to come to South King County and drive demand for office space. SeaTac has an opportunity to participate in that growth, in the long run.

Lodging

Understanding the feasibility of lodging for the station areas requires an understanding of the market area in which station area hotels would compete, and the market conditions and outlook for those market areas. This section describes hotels in the study area, the market segments that local hotels serve and how light rail might affect demand for station area hotels. A projection of lodging demand for the market informs the feasibility discussion, analyzed in detail in the pro forma analysis presented at the end of this report with a focus on the City Center station area.

The lodging feasibility projection follows an industry standard methodology established and published by the Cornell University School of Hotel Administration, referred to as a room-night analysis of evaluating market demand and capacity. A room-night refers to one room booked for one night, to allow annual comparison and tallies of properties of varying numbers of rooms.

The lodging performance data (the inputs into the Cornell model) and terminology in this section come from Smith Travel Research, unless otherwise noted.

SeaTac Lodging Market Segments

Demand for the SeaTac lodging market is divided into three primary, sometimes overlapping, market segments.

- **Business.** Boeing and airline customers lead these segments locally, along with a broad mix of the region's businesses that value SeaTac hotels' proximity to the airport.
- **Meetings.** Corporate meetings, training programs, industry conventions, and trade shows drive hotel demand that requires meeting space. The utilization of meeting space and hotel rooms varies by user.
- **Leisure.** Leisure hotel demand comes from travelers staying conveniently near the airport at either end of their trip through the region, as well as Seattle visitors choosing to stay away from Downtown.

The supply of hotels in the SeaTac market is divided the following categories, each of which might serve the demand segments identified above:

- **Luxury.** Offering high-end amenities, a full range of hotel services, high-end furnishings and often larger rooms.
- **Upper Upscale.** Above average amenities, a full range of services. Quality furnishings and a mix of room sizes.
- **Upscale.** Includes a restaurant, bar, meeting facilities and most hotel services; up-dated interiors.
- **Midscale Full Service.** Average appointments, basic restaurant and bar services.
- **Midscale Limited Service.** No full-service restaurant. Frequently continental breakfast or coffee services is included.

- **Economy.** Restaurant facilities are minimal. Some coffee services typically in small lobby.

EXISTING HOTELS

A survey of existing hotels in SeaTac and Tukwila is shown in **Exhibit 16,** grouped by restaurant category. Smith Travel Research identifies SeaTac and Tukwila as its own lodging market. Kent and cities south do not compete closely with local hotels, but areas to the south qualify as a secondary competitive supply region. The lodging market in the City of Seattle is linked closely to SeaTac lodging, as reported by local hotel managers and verified by Smith Travel data.

All of the hotels list in **Exhibit 16** are in Tukwila or SeaTac. Together these hotels include 5,237 rooms. The list does not include eight independent operators, which add 348 rooms for a total of 5,585 rooms in SeaTac and Tukwila.

Exhibit 16
Hotel Inventory

Luxury	None
Upper Upscale	SeaTac Hilton Tukwila Embassy Suites Southcenter DoubleTree
Upscale	Gateway; Coast Hotels SeaTac Courtyard SeaTac Courtyard Southcenter Homewood Suites SeaTac Radisson SeaTac (2) Residence Inn Tukwila
Midscale Full Service	Best Western SeaTac Best Western Tukwila Holiday Inn SeaTac Quality Inn SeaTac Ramada Inn SeaTac Red Lion Inn SeaTac (2)
Midscale, Limited Service	Comfort Suites Tukwila Fairfield Inn SeaTac Hampton Inn SeaTac Hampton Inn Tukwila Holiday Inn Express SeaTac La Quinta Inns SeaTac
Economy	Airport Inn SeaTac Days Inn SeaTac Days Inn Tukwila EconoLodge SeaTac Extended Stay America Tukwila Homestead SeaTac Motel 6 SeaTac Red Roof Inn SeaTac Rodeway Inn SeaTac Super 8 SeaTac Travel Lodge SeaTac

PLANNED HOTELS

Very little hotel development is active at present in SeaTac or surrounding areas, though several projects are being discussed as potential developments. Of the projects discovered through media research and phone calls to local planning departments (SeaTac, Tukwila and Renton), all shown in **Exhibit 17**, only The Landing in Renton is considered probable for development in the near-term. The other projects are speculative. As such, other than the Landing, the other projects are not considered "real" competition for SeaTac lodging at this point.

Exhibit 17
Planned Hotels Near SeaTac

Project	City	Completion Date	Rooms
Westfield Mall Expansion	Tukwila	2006	140
The Landing	Renton	2008	140
SouthPort	Renton	2013	150
Tukwila South Phase 1	Tukwila	2015	400
Tukwila South Phase 2	Tukwila	2030	400
		Total Planned	1230

SeaTac Lodging Market Factors

The concentration of lodging in SeaTac shows the obvious location advantage of the City and the airport. The other key market factors for lodging in SeaTac include the following:

- Boeing and other South King employers
- Southcenter Mall
- Access to I-5

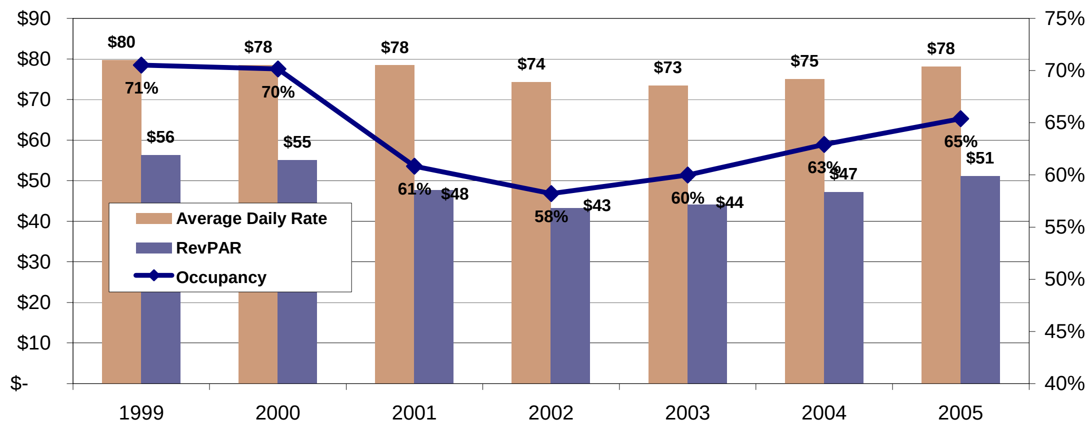
Market factors that deter lodging activity include the negative perception of airport impacts (noise, odors, traffic).

SeaTac Lodging Market Data

Key lodging market indicators from 1999 projected through 2005 are shown in **Exhibit 18**. The beige bars show the average daily rate charged for rooms in the market area, demonstrating along with the other indicators the decline in the lodging market from 1999 through 2003 before climbing in 2004 and 2005. The line indicates average occupancy rates for the market. The purple bars provide a market indicator called "RevPAR" which stands for revenue per available room.

RevPAR is calculated by the multiplying the occupancy rate by the average daily rate, providing a market indicator that blends the price achieved per room sold with the demand for existing supply. This is particularly useful for hotel evaluation because many costs are fixed and better understood in terms of costs per room available, as opposed to costs per room sold (rented for a night). RevPAR as an indicator allows a developer to consider whether to position the property to attract a higher rate with possibly lower occupancy, or a lower price per room with perhaps a higher occupancy.

Exhibit 18
SeaTac and Tukwila Lodging Market Performance Data



Source: Smith Travel Research; Community Attributes, 2005.

The data show an often overlooked fact that the travel industry was in decline before the U.S. terrorist attacks of Sept. 11, 2001. 9/11 certainly is a major cause of the decline in air travel and declines in the lodging market for 2001 into 2003, but the national economy had already begun to hurt the travel and lodging market before 9/11. The recovery has been strong since 2002, and is expected to continue, per the enplanment projections shown earlier in **Exhibit 4**.

Market Outlook

The methodology for lodging market analysis is to forecast growth for room nights and to compare that demand to supply. To evaluate the opportunity of developing a new hotel, the new hotel is considered along with total supply to project the new hotel's "fair share" of the market based on capacity alone.

A pro forma income analysis can then determine the market performance and benchmarks required for a feasible hotel project. Comparing the property-specific success to market trends and a property's fair share of expected market demand provides an indicator of the opportunity or challenge the proposed development faces.

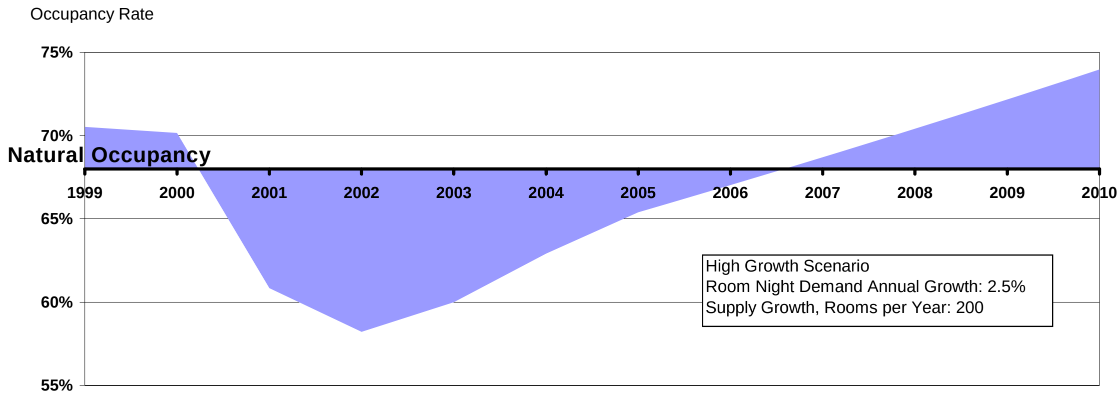
Room demand in the SeaTac market is highly correlated to airplane enplanements (94% of the variation in local room demand is explained by variance in SeaTac enplanements). With that in mind, the region's forecast of enplanements provide a useful means to project room night demand.

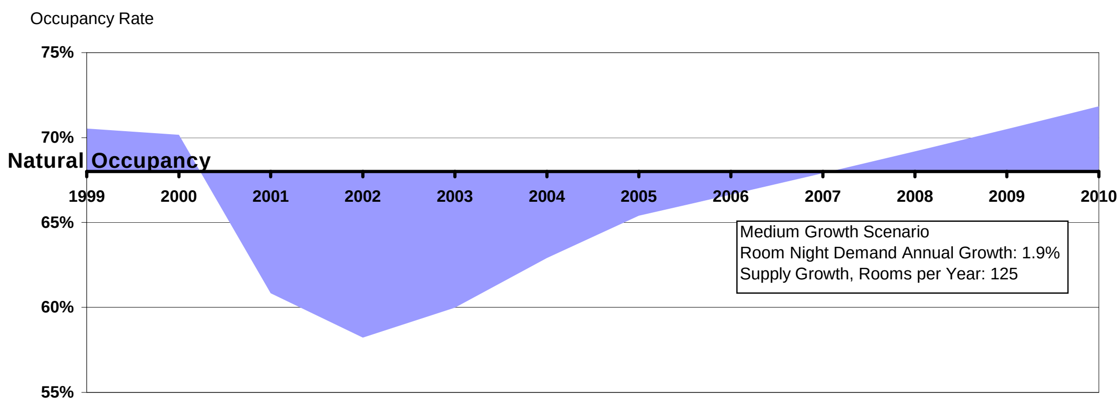
A forecast of room night demand compared with room night supply, existing and planned, provides an indication of the markets capacity to accommodate additional rooms.

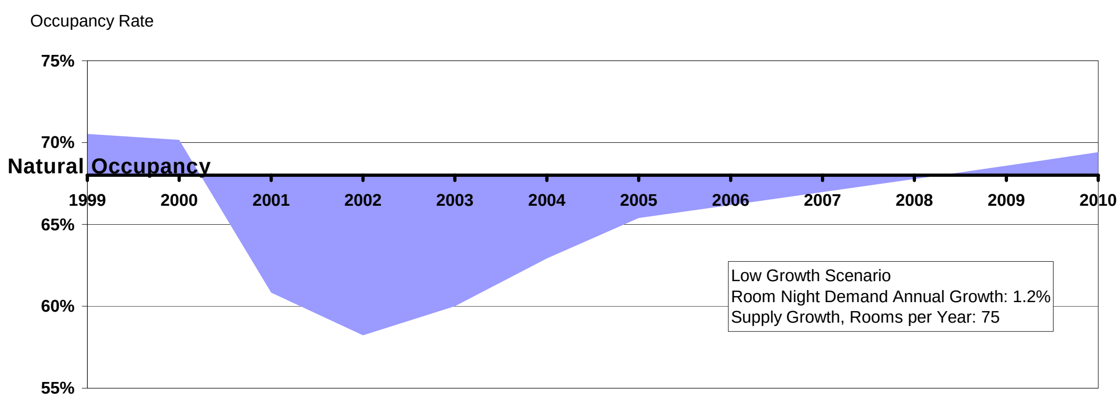
Demand forecasts are only for the SeaTac-Tukwila market areas. Other areas compete with SeaTac, primarily downtown Seattle, followed by outlying areas in South King County, then Tacoma and the rest of the region. Hotel demand in the immediate SeaTac area, however, is closely correlated with SeaTac enplanements. Development interest in the SeaTac market will rise and fall along with development interest in downtown Seattle and outlying areas, all driven by the same regional demand. As a result, SeaTac's demand for lodging reliably remains a fairly constant share of regional demand.

Exhibit 19 shows the implications of this analysis. Recent years have seen occupancies drop below the market's historical average, or natural occupancy. As occupancies dropped below the market's natural occupancy, less competitive local hotels have closed, in fact. Similarly, as demand for lodging returns, hotel development interest will rise and new hotels will be built. Local demand is projected to return above the natural occupancy rate in 2008 and beyond. New supply coming on line will off-set rising demand and new hotels will displace those that have not kept up with improvements.

Exhibit 19
SeaTac-Tukwila Hotel Market Occupancy Projections







Source: Community Attributes; Smith Travel Research; Port of Seattle; Puget Sound Regional Council.

Key Findings

The market-wide projections shown in **Exhibit 19** suggest an emerging opportunity to capture growing demand for lodging in the SeaTac market area. As such, the pro forma analyses that follow in Part II of this report focus on lodging development opportunities.

In addition, the market survey above shows an absence of luxury hotels in the South King County market. Downtown Seattle, Bellevue and a few other Eastside locations compete more favorably for luxury hotel guests, given their proximity to the higher-end amenities and shopping that luxury hotel guests prefer. Views in the SeaTac market area do not compete with the waterfront and mountain settings that other luxury locations offer.

The higher-end market does appear to be underserved in the SeaTac market and offers an opportunity for a new hotel to differentiate itself from the larger upscale, midscale and economy markets.

In fact, as shown in the pro formas in Part II, the densities desired for the Station Areas, which drive the need for structured parking on-site, drive the required hotel revenue up in the range that can only be achieved by the upper upscale or better hotel markets.

Pro forma modeling of hotel development suggests RevPAR is required in the range of $115 – more than double the average RevPAR in the study area. At an average occupancy of 70%, the required average daily rate for such a hotel is $135 or better. The Hilton in SeaTac likely competes in this range already, so the demand does exist for lodging guests in this price range.

Residential

Residential Market Segments and Market Factors

Multifamily housing around light rail is a key objective for transit-oriented development throughout the Puget Sound region. The two station areas in SeaTac differ in their housing considerations somewhat but both are affected by market wide trends.

Both station areas include multifamily housing at present, most of which performs at market averages and are well occupied. The challenge for residential uses in the station area is to increase the density around station areas. Density that requires structured parking will require rents above what are found in the market today, and attracting those above-market rents will require overcoming perceived market barriers.

The housing market barriers in SeaTac station areas include perceptions of airport related noise, odors and traffic. The SeaTac portion of the S. 154th Street station area is less affected by the market perceptions of airport impacts, in particular traffic and odors. Airplane noise will remain a market perception barrier.

The City Center area is challenged more in some ways, but also allows for direct access to airport, tapping into the breadth of the employees that work at the airport or fly into the airport very frequently (flight staff, for example).

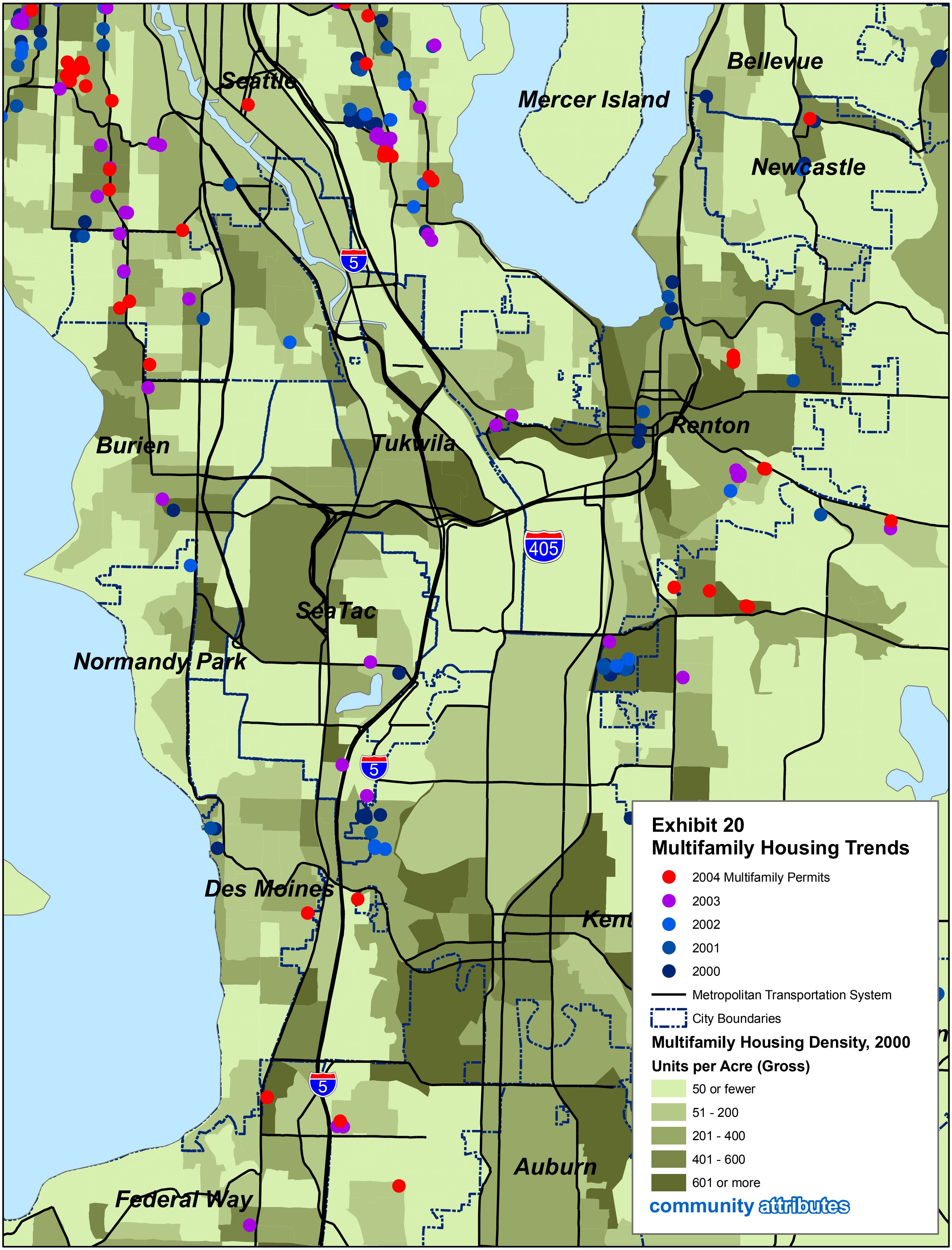
Light rail will bring improved access to Downtown Seattle, which can help the housing market in SeaTac, though housing prices will remain lower in SeaTac than in places nearer to Seattle along the light rail line. Therefore, households that require access to downtown and value access to SeaTac will find new value in housing near light rail in SeaTac.

This cost of living factor distinguishes the housing opportunity around SeaTac LRT from the commercial opportunity (where Downtown employers will find the new access to the airport another reason to locate Downtown Seattle). Housing value away from Seattle and near the light rail line will help absorption of new development near the station.

The challenge with TOD residential in SeaTac will be to overcome structured parking. Without a structured parking requirement, housing will be far more feasible.

Recent Multifamily Development

Exhibit 20 shows the dispersion of recent multifamily development in the study area. Very few multifamily units have been built in the immediate vicinity of SeaTac. More units have been permitted further away from the City in Tukwila, Renton and Burien.

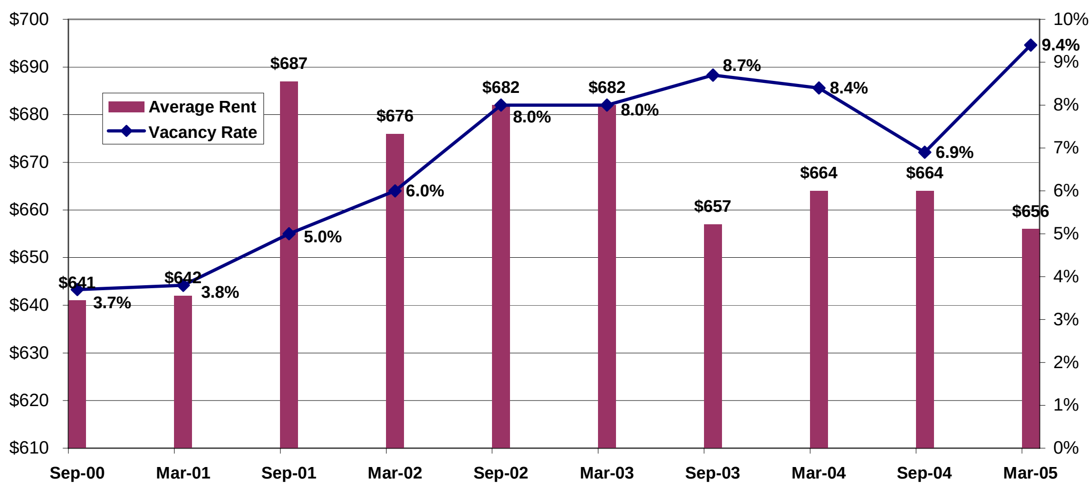

Seattle
Mercer Island
Bellevue
Newcastle
5
405
Renton
Tukwila
Burien
SeaTac
Normandy Park
Des Moines
Kent
Auburn
Federal Way
Exhibit 20
Multifamily Housing Trends
2004 Multifamily Permits
2003
2002
2001
2000
Metropolitan Transportation System
City Boundaries
Multifamily Housing Density, 2000
Units per Acre (Gross)
50 or fewer
51 - 200
201 - 400
401 - 600
601 or more
community attributes

Multifamily Market Data

RENTAL TRENDS

The data shown in **Exhibit 21** show the decline in the multifamily rental market in recent years. Vacancy rates are relatively high at 9.4%and rents are relatively low at average rents of $656 per month for units in SeaTac.

Exhibit 21
SeaTac Multifamily Rental Market Data, 2000 - 2005



Source: Dupre + Scott; Puget Sound Regional Council, 2005.
Note: Dollars are nominal, not adjusted for inflation.

Rents in SeaTac are relatively lower than in other areas in the region, as shown in **Exhibit 22**. Communities nearby all receive average higher rents on average. SeaTac average rents of $656 per unit are far lower than the King County average of $845, which is nearly a third higher than SeaTac rents.

Exhibit 22
Average Apartment Rents
SeaTac, Surrounding Areas, March 2005

	Average Rent	% Above SeaTac
SeaTac	**$656**	
Tukwila	$692	5%
Burien	$696	6%
Kent	$732	12%
Renton	$809	23%
King County	$845	29%

Source: Dupre + Scott; Central Puget Sound Real Estate Research Report, 2005.

FOR-SALE MULTIFAMILY PRODUCT

Condominium sales prices are lower in SeaTac than surrounding areas, as well, as shown in **Exhibit 23**. Kent attached single-family homes sell at the most similar prices at $274,301, 8% above SeaTac's average price of $254,302. Condo sales prices in Burien and Kent are 27% and 30% higher, and countywide averages are 63% higher than SeaTac.

Exhibit 23
Average Condominium Sales Prices
SeaTac, Surrounding Areas, March 2005

	Average Price	% Above SeaTac
SeaTac	**$254,302**	
Burien	$322,677	27%
Kent	$274,301	8%
Renton	$331,804	30%
King County	$413,355	63%

Source: First American Real Estate Solutions;
Real Estate Research Report, 2005.

Market Outlook

SHORT-TERM OUTLOOK

Current Trends. The prices shown above do not support the higher densities associated with transit-oriented development requiring structured parking. The structured parking requirement (practically, not necessarily by policy) of building at higher densities pushes revenue requirements from apartment rentals far above market trends in SeaTac and in most surrounding areas.

The same is true for condominium sales in general, and is challenged further by insurance required for condominium development liability. For developers to pass on these insurance costs to buyers, the units must sell in the range of $350,000 or more.

Pioneering Considerations. While the data do not provide conclusive evidence of residential demand at higher price ranges in SeaTac, several stakeholders interviewed for this study believe opportunities for residential development in each station area exists.

At the S. 154th Street station area, the urban design and neighborhood considerations of the station area suggest a higher concentration of residential units. Part II helps establish the revenue rates developers would require to build at the higher densities that bring structured parking along with it.

At the City Center station area, a few developers interviewed for the study perceive the possibility of studios or small flats selling well. This is an unproven market, but the airport users are seen as a potential market to absorb a moderate amount of studio style condominiums. This housing style might suit some members of flight crews who might not require all of the urban amenities typically associated with and surrounding this type of housing product, while at the same time providing convenient access to the airport. The studios could sell as a second home for others or as shared housing for corporate employees.

Garden style feasibility. The attached pro forma analyses in Part II demonstrate the development economics associated with multifamily rentals in station areas. The lower priced units in SeaTac, for rental or condominium sales, lend themselves more favorably to three- or four-story multifamily structures without structured parking. As this development pattern is not in the City's vision for the study area, additional analysis of their development feasibility was not included in this report.

LONG-TERM OUTLOOK

In the longer term, some multifamily housing will continue to find its way to SeaTac. Population forecasts of 0.8% for the City, combined with limited capacity for single-family detached homes, would result in more than 450 multifamily units by 2025, as shown in **Exhibit 24**.

Exhibit 24
Population forecasts and absorption

Population 2005	25,140		
Single-Family Housing Units	5,555		
Multifamily Housing Units	3,908		
Mobile Home/Other	844		
Total Housing Units	10,307		
Single-Family Household Size	2.8		
Multifamily Household Size	2.3		
Forecasted Growth Rate, 2005 - 2025	0.8%		
Population 2025	29,483		
Population Growth, 2005 - 2025		4,343	
Single-Family Housing Unit Capacity	1,178		
Single-Family Household Population Capacity		3,298	
Remaining Population Growth to be Absorbed		1,045	
Mulitfamily Housing Unit Marginal Demand, 2005 - 2025			454
Average Marginal Demand per Year, 2005 - 2025			23

Source: Puget Sound Regional Council; Washington State Office of Financial Management.

Retail

Retail Market Segments and Market Factors

RETAIL'S ROLE IN SEATAC STATION AREAS

Retail development for Station Area planning should primarily be limited to retail to complement and support other uses in the station areas and surrounding areas, as well as to fit within the City Center Vision and support the SeaTac residents that live around City Center.

Airport traffic itself provides limited opportunity for retail. The logistical challenges passengers face encourage them to get into and out of the airport as quickly as possible. Retail opportunities within the airport are significant, as the Port continues to invest in the airport, resulting in limited opportunity for station area retailers to compete for passengers as they come and go to the airport.

The City's proximity to Westfield Mall and Tukwila limit consideration of destination-type retail within either station area. Retailers want to be in the Tukwila Urban Center (frequently referred to in its entirety as Southcenter, the former name of the mall). Tukwila is a major regional retail center and retailers want to be in Tukwila, not a few minutes away on the other side of the freeway.

Retail does however, play an important role in providing amenities to support and serve SeaTac lodging guests, the daytime population of SeaTac workers and the local residents themselves.

STATION AREA MARKET FACTORS

The S. 154th Street station area offers location advantages to be improved with light rail traffic. The SeaTac side of International Boulevard is on the "return/commute" side of the street, the side favored by retailers, and on the side of the road traveled by commuters when returning home from work, when they are more likely to pull over to shop. Parcels are sizeable and offer redevelopment opportunities.

Mitigating factors, and unfortunately for SeaTac, the SeaTac property is across the busy International Boulevard from where light rail commuters will be parking.

City Center retail has several segments to target, ranked in order of significance:

- SeaTac residents
- Surrounding area residents
- Hotel guests
- City Center workers
- Light rail riders
- International Boulevard traffic
- Airport passengers and related traffic

The relative lack of shopping and dining in City Center suggests what could be considered leakage from SeaTac residents and City Center workers. Hotel guests represent a sizeable market as well; hotel managers interviewed for this study expressed frustration at the lack of restaurant choices that they have to send their guests to. Most stakeholders interviewed believe that more restaurants should be feasible in the City Center.

KEY FINDINGS

Retail will succeed as part of a mixed-use station area plan in each station area, but it will likely not be the anchor use that drives the plan. Residential, lodging and office uses all benefit from having retail and entertainment amenities nearby, and retail will be a required supportive use for vibrant station areas and a vibrant City Center.

Other Uses

Two other uses have been considered and proposed by several stakeholders in plan consideration: meeting space and training center.

Meeting and Convention Space

The Hilton Hotel in SeaTac recently built a conference center on its property to further facilitate meetings and conference space. The Marriott has several meeting facilities as well.

Meeting spaces within hotels are generally considered an investment to attract hotel occupancy. The meeting spaces themselves are not seen as net income generators, and any fees that hotels do charge are usually not enough to cover marginal costs of maintaining those facilities.

Pro forma models that included significant meeting space, therefore, simply put upward pressure on the hotel revenues required to make the project feasible. Given the apparent capacity of meeting space at the Hilton and Marriott in SeaTac, additional meeting space has not been advanced as a major use consideration for TOD planning, though any hotel that would come in would probably evaluate the inclusion of some amount of meeting space.

Training Center

The Washington Mutual Training Center in SeaTac includes classrooms and lodging accommodations. The SeaTac location allows the company to fly in trainees and make the most efficient use of their time by training them and hosting them overnight nearby in SeaTac.

Many other corporations might value a similar facility in SeaTac and the opportunity to share training space would make sense for smaller companies or companies not requiring a permanent, year-round presence.

The SeaTac location would work well for some regionally based major employers but not necessarily for others. Other local corporations prefer their regional office for on-site training facilities. They value the relationship building that can accompany in-house training.

A multi-tenant version of a training facilitate might make great sense for SeaTac. Tenants not wishing to commit to full-time ownership of a training center could share classroom space and other common areas while maintaining a smaller year-round presence in support offices. Bundling this facility with lodging would replicate the benefits Washington Mutual enjoys in their facility.