

## South 200th Station Area Market Report

RTA/AE 0017-11 Task Order 10



Presented to

**Sound Transit**

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November 7, 2012

South 200th Station Area Market Report

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## Nature of the Assignment

The information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Owner, Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of value, income, and expenses. CONSULT YOUR ATTORNEY, ACCOUNTANT, OR OTHER PROFESSIONAL ADVISOR.

## South 200th Station Area Market Report

# Executive Summary

## PURPOSE

Sound Transit will be providing park and ride parking capacity at the South 200th Light Rail Station. The agency has acquired land adjacent to the station and is evaluating a range of project delivery approaches, including the use of public private partnership. Sound Transit has contracted with KPPF to evaluate the real estate development potential at the future South 200th Link Light Rail Station Area. Kidder Mathews is providing real estate consulting services in support of KPPF’s work.

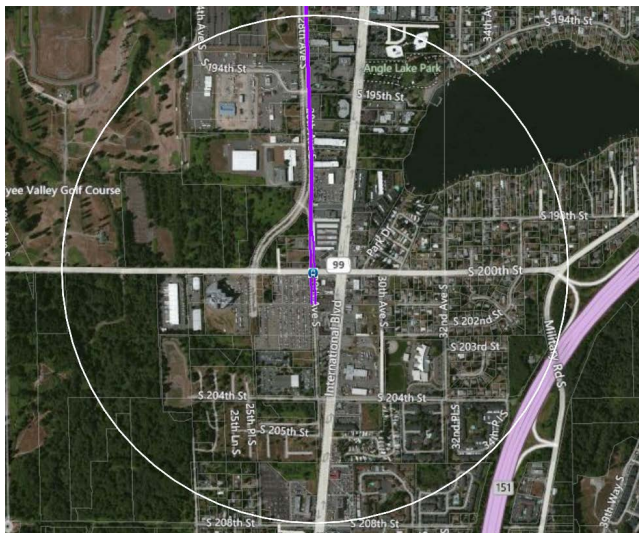
Kidder Mathews’ assignment is to assess the relevant real estate segments including the lodging, office, retail, apartment, affordable housing, and park-and-fly markets.

## SUMMARY FINDINGS

### Station Area Description

The subject of this analysis, shown in the map below, is the half-mile area surrounding the future South 200th Street Link Light Rail Station. The entire Station Area is located within the City of SeaTac and consists of

*South 200th Street - Half Mile Station Area*



approximately 500 acres of land area. Existing uses include a mix of both commercial and residential development. The most intense development is located within close proximity to International Boulevard.

### Lodging Market

The SeaTac lodging market is highly complex, with a mix of convention hotels, midprice full service and limited service hotels, and hard budget properties. Excluding independent strip motels, the overall market supply consists of 30 properties and 5,180 guestrooms. There are also three hotels consisting of an additional 410 guestrooms currently proposed within the SeaTac Market.

In 2011, the overall market generated an occupancy rate of 72.4%, an average room rate of \$101, and a Daily Revenue Per Available Room (RevPAR) of \$73. In the absence of further additions to supply, occupancy is expected to stabilize at 75% by 2016. Room prices are projected to increase in real terms over the next three years.

The market data suggests that there is demand for additional lodging space, particularly for a select service or extended stay hotel with between 120 and 150 rooms. Close attention should be paid to other competing projects as there is a limit to the number of rooms that the SeaTac market will support.

### Office Market

The SeaTac-Burien submarket contains 2.4 million square feet of office space, of which 20% is vacant. The average asking rental rate is currently \$19.25 per square foot, full service.

There are 12 office buildings representing 294,000 square feet of space within the half-mile Station Area. According to Costar.com, there has been no new office space built within the Station Area over the last 25 years.

## South 200th Station Area Market Report

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Approximately 8.1% of this space is currently vacant, with an average asking rental rate of \$19.95 per square foot. This is similar to the SeaTac-Burien submarket as a whole, and down from the ten year peak of \$24.27 per square foot, reached in 2005.

What the available data does not indicate, and cannot predict, is the possibility that a large office user may choose to locate or significantly expand existing operations in the Station Area. Historically, demand for owner/user space has been weak; however, both the Federal Aviation Administration and Puget Sound Energy have discussed the possibility of locating a regional headquarters in this market.

There has been little demand for new office space in SeaTac-Burien submarket, and even less demand within the Station Area over the last two decades. Furthermore, unless a large office user locates within the Station Area and catalyzes the market there is insufficient demand to support office development over the next five years.

### Retail Market

The SeaTac-Burien submarket contains 5.4 million square feet of retail space, of which 7.6% is vacant. The average asking rental rate is currently \$16.24 per square foot, triple net.

The Station Area contains 20 retail buildings, representing 98,000 square feet of space. Vacancy is currently only 2.4% and net absorption has totaled 11,000 square feet over the last 12 months. Similar to the SeaTac-Burien submarket as a whole, rental rates currently average \$16.62 per square foot. Of the 20 existing retail buildings, 19 are located along International Boulevard and its substantial daily traffic volume.

The most attractive retail sites within the Station Area are corner parcels along International Boulevard. The types of retailers attracted to these sites are auto-oriented drive-up

businesses like gas stations and drug stores. If employment increases significantly, it is also reasonable to believe that a limited amount of demand for service retail will be created.

### Apartment Market

The SeaTac apartment market totals approximately 3,000 units. Vacancy currently stands at slightly more than 4.4%. Rental rates range from \$1.10 to \$1.45 per square foot for buildings constructed since 2000. Since 2002, two projects totaling 145 new units have been constructed in the market. One of the projects, consisting of 55 units completed in 2008, had been struggling and recently went through foreclosure. The other project, consisting of 90 units, was purchased out of foreclosure and then completed in 2011.

Location is important to consider when contemplating apartment development. Within the Station Area, the apartment market is strongest east of International Boulevard on sites with views of Angle Lake and proximity to existing apartments

### Affordable Housing Market

Affordable housing specifically refers to income restricted housing that requires potential occupants to have a yearly income at, or below, a predetermined level.

The Station Area is not currently an attractive location for affordable housing. Light rail will improve the desirability of this area especially in combination with other public infrastructure investments.

According to King County Housing Authority representatives, the proximity of the Station Area to the SeaTac Airport and its employment base increases the desirability of this area relative to some other locations. Relative to other light rail station areas, along the East Link for example, the South 200th Station Area is arguably a less attractive location for affordable housing.



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### Park and Fly Market

It is estimated that 30,000 Park and Fly (P&F) spaces currently serve the SeaTac Airport. According to a report put out by the Port of Seattle in October of 2011, there is demand for between 22,000 and 27,000 P&F spaces. The report also forecasts an annual increase in P&F demand of approximately 600 spaces through 2020.

The Station Area is considered a fringe P&F market. This has a negative effect on the rate that can be charged for parking relative to P&F operations with more immediate access to the SeaTac Airport. The presence of light rail is significant and gives the Station Area an advantage over other locations. Light rail service minimizes the need for shuttle service, which is typically the largest expense a P&F operator faces. In order to benefit from light rail service, P&F must be located immediately adjacent to the station.

There is a moderate amount of demand for P&F within the Station Area. In order to capture this demand, sites must be located adjacent to the light rail station.

### CONCLUSION

- Market data suggests that there is demand for additional lodging space within the Station Area, particularly for a select service or extended stay hotel sized between 120 and 150 rooms.
  - Unless a large office user locates within the Station Area and catalyzes the market there is insufficient demand to support office development over the next five years.
  - There is moderate demand for auto-oriented retail space along International Boulevard. If employment increases significantly, there may also be demand for a very limited amount of service retail.
- Within the Station Area, the apartment market is strongest east of International Boulevard on sites with views of Angle Lake and proximity to existing apartments.
  - The Station Area is not currently an attractive location for affordable housing. Light rail will improve the desirability of this area especially in combination with other public infrastructure investments.
  - There is a moderate amount of demand for P&F within the Station Area. In order to capture this demand, sites must be located adjacent to the light rail station.
  - In the near term, the market analysis suggests the subject location is best suited for lodging space. Further, retail space should be limited given the sites lack of exposure to International Boulevard.
  - Sound Transit's property at the South 200th Street Station currently lacks the neighborhood services to attract speculative apartment and office development.

## South 200th Station Area Market Report

# Introduction

## PURPOSE OF THE ASSIGNMENT

Sound Transit has contracted with KPFF to evaluate the real estate development potential at the future South 200th Link Light Rail Station Area. Kidder Mathews is providing real estate consulting services in support of KPFF’s work.

Kidder Mathews’ assignment is to assess the demand in the relevant real estate market segments including the lodging, office, retail apartment, affordable housing, and park-and-fly markets.

## METHODOLOGY

The assignment is a detailed study of the potential for hospitality, office, and retail within the station area. The work is intended to assess the current supply and demand characteristics of each of these markets and project future demand. As part of this study, Kidder Mathews analyzed data from a variety of sources, reviewed past work, and interviewed relevant market participants.

In addition to three markets mentioned above, preliminary research was conducted and basic market statistics gathered for the apartment, affordable housing, and park-and-fly markets. The methodology followed for this part of the assignment is best described as an “expert opinion survey” combined with a review of past work.

Representatives from the following organizations were interviewed as part of this study: Kidder Mathews Brokerage, Kidder Mathews Appraisal, the Port of Seattle, the King County Housing Authority, and the City of SeaTac.

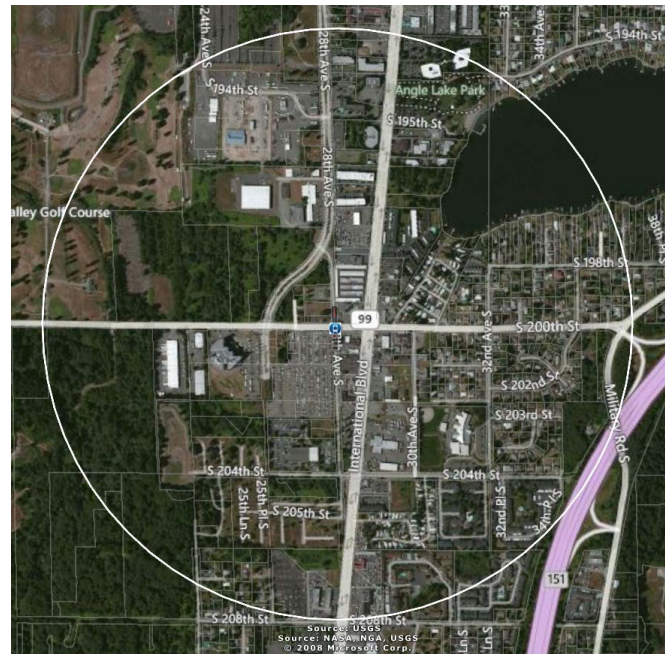
The study does not address the demand for civic amenities such as parks, community spaces, and other uses not supported by market fundamentals.

## SUBJECT DESCRIPTION

### Existing Conditions

The subject of this analysis, shown in Exhibit I1, is the half-mile area surrounding the future South 200th Street (S. 200th St) Link Light Rail Station. The entire station area is located within the City of SeaTac and consists of approximately 500 acres of land area. The future station will be located at the intersection of S. 200th St. & 28th Ave. S. According to Sound Transit, light rail is scheduled to begin service at this station in 2016.

Exhibit I1 - Subject Station Area



The best way to describe this station area, which contains a mix of existing uses including office, retail, hospitality, multi-family, institutional, and single family residential development, is to split it into two East/West halves along 28th Ave. S.

## South 200th Station Area Market Report

The eastern half of the station area contains a number of older auto-oriented retail spaces, and low to mid rise office buildings along International Boulevard South. Further east, the station area transitions to single and multi-family residential development. Interstate-5 (I-5) grazes the eastern edge of the station area and is connected to S. 200th St. via a freeway interchange.

The western half of the station area consists of a mix of industrial and institutional uses including a federal detention center built in 1997. The Port of Seattle, which operates the SeaTac International Airport located directly to the northwest of the station area, owns the few large vacant commercial parcels within this half of the station area.

### Subject Location

The Subject is located to the south of the SeaTac Airport, to the west of I-5, and to the east of the Normandy Park Neighborhood. International Blvd. is the main north-south thoroughfare, and S. 200th St. is the main east-west thoroughfare. S. 200th St. is connected to I-5 via a freeway interchange at the eastern edge of the station area.

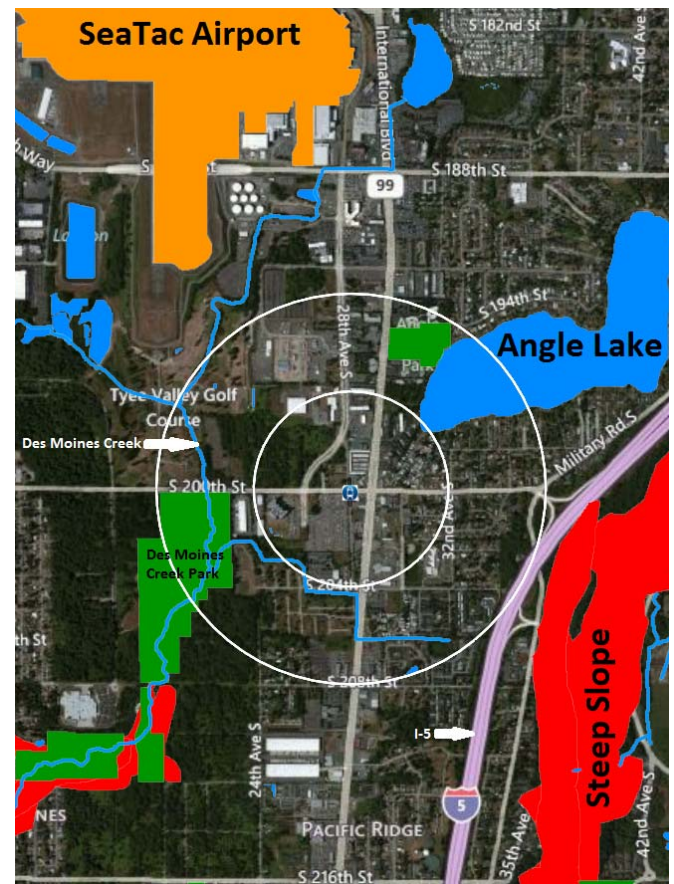
### Geographic Barriers

As shown in Exhibit I2, a number of geographic barriers make it difficult to access the station area from certain directions. The following section describes the most significant barriers:

- Both the SeaTac Airport and the Tyee Valley Golf Course make accessing the station area from the northwest difficult, if not impossible. The Des Moines Creek and associated wetland areas also present access issues from the northwest.

- Access from the southwest is impeded by the Des Moines Creek and associated Des Moines Creek Park. Undeveloped parcels lacking through streets also impede access from the southwest.
- Angle Lake and Angle Lake Park greatly limit access from the northeast.
- I-5, in combination with steeply sloping topography, prevents direct access from many areas east of the interstate.

Exhibit I2 - Location Analysis



## South 200th Station Area Market Report

### MARKET OVERVIEW

#### National Economic Outlook

The composite economic indexes are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components.

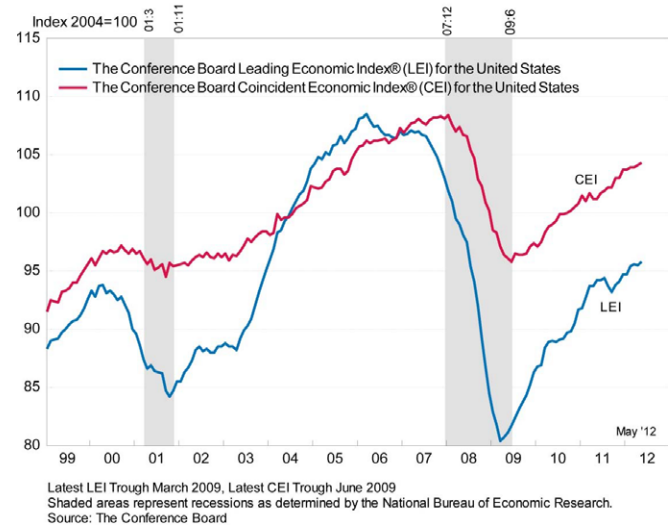
The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.3 percent in May to 95.8 (2004=100), following a 0.1 percent decline in April, and a 0.2 percent increase in March.

Says Ataman Ozyildirim, economist at The Conference Board: “The LEI remains on an upward trend, suggesting the modest economic expansion will continue in the near term. The LEI’s growth has been slowing this year, but gains in the financial components helped its pickup in October.”

Says Ken Goldstein, economist at The Conference Board: “The economy is slow, but latest data on the U.S. LEI suggest that change may be around the corner. Expect modest holiday sales, driven by steep discounting. But following a post-holiday lull, the indicators are suggesting a mild pickup this spring.”

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.2 percent in May to 104.3 (2004 = 100), following a 0.2 percent increase in April, and no change in March. The Conference Board Lagging Economic Index® (LAG) increased 0.3 percent in May to 115.2 (2004 = 100), following a 0.6 percent increase in April, and a 0.3 percent increase in March.

Exhibit I3 - Conference Board Leading Economic Index (6/12)



#### Puget Sound Economic Forecast

The Puget Sound Economic Forecaster’s Dick Conway and Doug Pedersen are cautiously optimistic about a job turnaround in the Puget Sound region. In their June 2012 newsletter they predict that, assuming no major shocks from China, Europe, or the Fiscal Cliff, that by the end of 2012 there will be a 2.8% increase in employment, a 5.4% rise in nominal personal income, and a 7.6% unemployment rate.

#### Market Cycles

The demand for real estate is cyclical in nature. Real estate cycles represent a pattern of prices over a fairly long period of time, ranging from two or three years to over 20 years. Cycles account for interim price movements of real estate properties, however, real estate cycles are not exact cycles because they are neither periodic nor resemble each other in an exact manner.



## South 200th Station Area Market Report

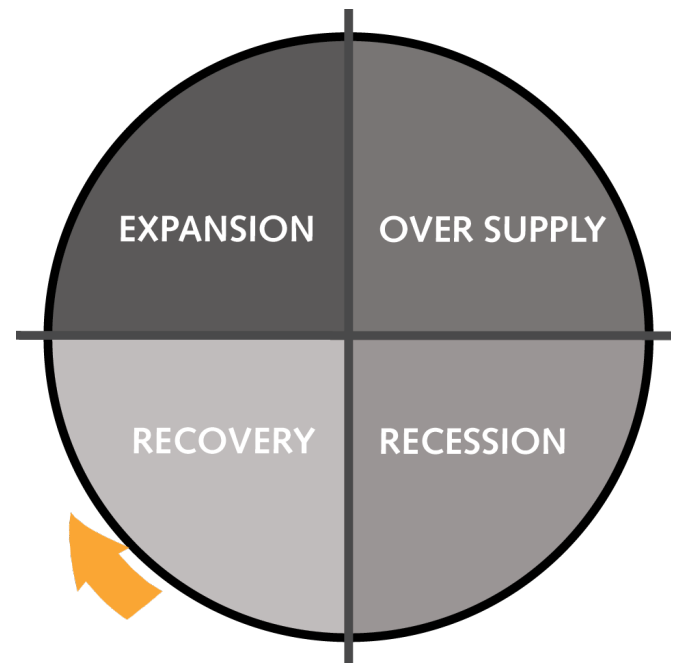
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Each cycle differs from previous cycles in terms of its causes, length, depth, and effect on different property types and regions. Real estate cycles behave differently from other market cycles, such as the stock or commodities markets. Real estate markets are imperfect, less liquid, and slower to respond to economic changes.

The typical market cycle can be described in four phases; recession, recovery, expansion, and oversupply. The recession phase is marked by increasing vacancy and the completion of new projects. During the recovery phase vacancy begins to decline and new construction is nonexistent or limited. In the expansion phase vacancy continues to decline and the construction of new projects begins. In the oversupply phase new projects are completed and vacancy begins to increase.

As shown in Exhibit I4, in most practitioners' opinion, the Seattle real estate market is entering a recovery phase. Rental rates and vacancies have corrected and signs of recovery are present in the retail, office, and industrial segments. The lodging market is also in the recovery phase with occupancy rates and average room prices increasing. The multi-family rental market is currently in the expansion phase with signs of overheating in certain submarkets.

Exhibit I4 - Seattle Market Cycle



## Lodging Market

### INTRODUCTION

This section of the report includes our analysis of lodging supply and demand, including discussion of the existing hotels, historical and projected market occupancy rates, and average daily room rates.

### MARKET SUPPLY

A lodging market is defined by the location, rate structure, guestroom quality, amenities, and demand sources of the various hotels. The most appropriate market definition is one that takes into account the willingness of guests to move between properties, room price competition, brand loyalty, and the impact of new property development.

The SeaTac lodging market is highly complex, with a mix of convention hotels, midprice full service and limited service hotels, and hard budget properties. Excluding independent strip motels, the overall market supply consists of 30 properties and 5,180 guestrooms.

#### Upscale

The upscale tier consists of seven full service hotels and 2,416 guestrooms. Most of these properties have over 200 rooms, and all compete actively for lodging demand associated with meetings, conventions, and other group functions.

- **HILTON:** The Hilton Hotel was the first major lodging property to be developed at SeaTac Airport. The hotel opened in 1961 with 142 guestrooms, and expanded to 173 guestrooms in 1982. In 2001, it underwent a second major expansion and renovation, increasing the guestroom count to 396 and significantly upgrading common areas. As part of that project, a midsize convention center was constructed adjacent to the hotel, providing 40,000 sq ft of meeting space.
- **DOUBLETREE:** The DoubleTree Hotel is the largest lodging property in the SeaTac market, and one of the largest in the state. The original hotel, consisting of several low-rise structures, opened in 1969. A high-rise tower was added in 1980, bringing the guestroom count to 850. This property has two restaurants and 34,000 sq ft of meeting space.
- **RED LION:** This 144-room property was built in 1969. It operated for many years as the Vance SeaTac Hotel and the WestCoast SeaTac Hotel, and was reflagged as the Red Lion Hotel in 2003. Although it is one of the older properties in the market, the hotel has been thoroughly refurbished. It has a restaurant and 4,500 sq ft of meeting space.
- **HOLIDAY INN:** The Holiday Inn opened in 1970, and for a decade was the only high-rise hotel in the market. It has 259 rentable guestrooms, a lobby restaurant and lounge, a swimming pool, and over 9,000 sq ft of function space. The hotel was designed with a rooftop restaurant, space now reserved for catering functions.
- **MARRIOTT:** For many years, the Marriott Hotel was the rate leader in the SeaTac market, a role subsequently assumed by the expanded Hilton Hotel. Opened in 1981, this property has 459 guestrooms, full food and beverage service, and 18,500 sq ft of meeting space.
- **RADISSON:** This hotel opened in 1988, and previously operated as a Ramada Hotel and a Wyndham Hotel. It acquired the Radisson flag following the closure and demolition of a nearby property that had carried that brand. The hotel has 204 guestrooms, a restaurant and lounge, 4,000 sq ft of meeting space, and an attractive view of Bow Lake.

## South 200th Station Area Market Report

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- **CEDARBROOK:** Cedarbrook Lodge was developed in 2003 as a private conference center. It was converted to conventional lodging operation in 2008. Located on the fringe of the commercial district, this property has 102 guestrooms, a restaurant, a social room with a pool table, and over 13,000 sq ft of meeting space, including a 120-seat theater.

### Midscale

The nine midscale hotels in this market have 1,372 guestrooms. One of these hotels has a restaurant; the others feature a complimentary breakfast. Nearly all have some meeting space.

- **LA QUINTA:** This hotel was built as a Travelodge in 1970. It was purchased in 1986 by the La Quinta lodging chain, which carried out a very extensive renovation. The 143 guestrooms are relatively large, and there is a small meeting room.
- **BEST WESTERN:** The Best Western Airport Executecel opened in 1981. The hotel has 137 guestrooms, an in-house restaurant and over 2,000 square feet of meeting space. It is located near the southern end of the SeaTac market area.
- **COMFORT:** The Comfort Inn opened in 1987, and subsequently was expanded with an addition at the rear of the property. This hotel now has 176 guestrooms and suites, and a small meeting room.
- **HAMPTON:** The Hampton Inn has 130 guestrooms and a small meeting room. It opened in 1988. With the opening of the new Hampton Inn & Suites, this older hotel could eventually adopt a different brand.
- **FAIRFIELD:** The Fairfield Inn opened in 1996. Facilities include 147 guestrooms and recreational facilities, but no meeting space.

- **COAST GATEWAY:** This hotel opened in 1990. Previously operated as the WestCoast Gateway, it was reflagged following a corporate reorganization. Facilities include 145 guestrooms, a small meeting room, and a new restaurant.
- **SLEEP:** The Sleep Inn opened in 1999. This 105-room hotel is several blocks south of the airport, in a neighborhood with a mix of lodging, parking lots, and services.
- **HOLIDAY EXPRESS:** This 171-room Holiday Inn Express opened in 2000. The hotel has a breakfast room and two small meeting rooms.
- **HAMPTON INN & SUITES:** Opened in June 2012, the Hampton Inn & Suites is the most recent addition to the SeaTac market. This 218-room hotel has a breakfast room, an indoor swimming pool, and nearly 1,300 sq ft of meeting space.

### Budget

The third tier of the SeaTac lodging market consists of branded hotels with low room rates and few amenities. Examples include the Quality Inn, the Ramada Inn, two Days Inns, and two hotels flagged as Motel 6. There are 14 properties and 1,392 guestrooms in this tier.

### Economy

The economy tier includes several hundred rooms in over a dozen small independent motels. Most of these properties are quite dated. Several supplement their modest room revenue by operating a park 'n fly service.

## South 200th Station Area Market Report

### Proposed Hotels

A Residence Inn has been proposed for a site south of the airport, near Angle Lake. This property would have 160 guestrooms and would target guests on extended stays. Due primarily to the lack of available financing, this project has been placed on an indefinite hold.

The Artemis Hotel is proposed for development at the intersection of International Boulevard and S 224th Street. This would be an independent full service hotel with 250 guestrooms, a restaurant and lounge, and meeting space. The project had a formal groundbreaking in July 2011, but

the actual construction never commenced. The site is fenced but otherwise undeveloped.

Profiles of the hotels are presented in the Exhibits H1 and H2 and hotels locations are presented in Exhibits H3 and H4. It should be noted that the published or quoted room rates shown in these tables are not reliable indicators of the average room rates actually achieved. Most hotels allow substantial discounts from advertised rates, depending on actual and expected occupancies, length of stay, seasonality, and the segment or source of demand.

#### Exhibit H1 - Market Profile, Upscale Hotels

Name Address City, State	Built Affil Eff Age	Standard Suite Total	Land Area Bldg Area Mtg Space	Land/Rm Bldg/Rm Mtg/Rm	Class Corridors Height	Rack Rates Amenities AAA
Hilton Hotel 17620 International Boulevard SeaTac, Washington	Jan-61 1961 10	396 0 396	416,121 310,698 40,000	1,051 785 101	Convention Interior 4 Story	\$139-\$199 A B D E F ◆◆◆
DoubleTree Hotel 18740 International Boulevard SeaTac, Washington	Jun-69 1997 20	838 12 850	1,025,403 588,728 34,000	1,206 693 40	Convention Interior 13 Story	\$109-\$145 A B D E F ◆◆◆
Red Lion Hotel 18220 International Boulevard SeaTac, Washington	Jun-69 2003 20	144 0 144	90,000 69,938 4,500	625 486 31	Select Interior 5 stories	\$89-\$239 A B D E F ◆◆◆
Holiday Inn 17338 International Boulevard SeaTac, Washington	Dec-70 1970 20	259 0 259	133,320 136,919 9,106	515 529 35	Select Interior 12 stories	\$99-\$209 A B D E F ◆◆◆
Marriott Hotel 3201 S 176th Street SeaTac, Washington	Jan-81 1981 20	454 5 459	399,552 298,150 18,500	870 650 40	Convention Interior 9 Story	\$89-\$227 A B D E F ◆◆◆
Radisson Hotel 18118 International Boulevard SeaTac, Washington	Aug-88 2005 15	180 24 204	403,168 117,218 4,027	1,976 575 20	Select Interior 7 stories	\$99-\$259 A B D E F ◆◆◆
Cedarbrook Lodge 18525 36th Avenue S SeaTac, Washington	Jun-02 2002 5	104 0 104	749,232 97,962 13,083	7,204 942 126	Conference Interior 3 Stories	\$129-\$299 A B E ◆◆◆

Sources: Hotel Management  
County Assessor  
AAA Tourbook 2012

A = Restaurant  
B = Meeting Rooms  
C = Refrig/MW

D = Comp Breakfast  
E = Exercise Room  
F = Swimming Pool



## South 200th Station Area Market Report

### Exhibit H2 - Market Profile, Midscale Hotels

Name Address City, State	Built Affil Eff Age	Standard Suite Total	Land Area Bldg Area Mtg Space	Land/Rm Bldg/Rm Mtg/Rm	Class Corridors Height	Rack Rates Amenities AAA
La Quinta Inn & Suites 2824 S 188th Street SeaTac, Washington	Jun-70 Sep-86 25	142 1 143	91,567 70,593 600	640 494 4	Limited Interior 6 Stories	\$125-\$130 B D E F Not Rated
Best Western Airport Executel 20717 International Boulevard SeaTac, Washington	Jun-81 Mar-86 25	140 0 140	97,491 73,947 1,880	696 528 13	Select Interior 3 Stories	\$79-\$139 A B C E F ◆◆
Comfort Inn & Suites 19333 International Boulevard SeaTac, Washington	Oct-87 Oct-87 25	153 23 176	74,929 84,590 0	426 481 0	Limited Interior 4 Stories	\$80-\$120 D E ◆◆
Hampton Inn 19445 International Boulevard SeaTac, Washington	Aug-88 Aug-88 25	130 0 130	112,626 54,984 576	866 423 4	Limited Interior 4 Stories	\$115-\$125 B D E F Not Rated
Coast Gateway Hotel 18415 International Boulevard SeaTac, Washington	Aug-90 Mar-03 20	142 1 143	71,132 65,306 625	497 457 4	Select Interior 6 Stories	\$99-\$179 A B E ◆◆
Fairfield Inn 19631 International Boulevard SeaTac, Washington	Jul-96 Jun-02 15	146 0 146	77,268 51,896 0	529 355 0	Limited Interior 4 Stories	\$80-\$125 C D E F ◆◆◆
Sleep Inn 20406 International Boulevard SeaTac, Washington	Oct-99 Oct-99 10	105 0 105	40,376 40,410 600	385 385 6	Limited Interior 4 Stories	\$80-\$112 B D E ◆◆
Holiday Inn Express & Suites 19621 International Boulevard SeaTac, Washington	Sep-00 Jun-02 10	118 53 171	69,399 77,154 1,176	406 451 7	Limited Interior 6 Stories	\$89-\$159 B C D E ◆◆◆
Hampton Inn & Suites 18850 28th Avenue S SeaTac, Washington	Jun-12 Jun-12 0	218 0 218	98,181 142,516 1,288	450 654 6	Limited Interior 5 Stories	\$119-\$134 B D E F Not Rated

Sources: Hotel Management  
County Assessor  
AAA Tourbook 2012

A = Restaurant  
B = Meeting Rooms  
C = Refrig/MW

D = Comp Breakfast  
E = Exercise Room  
F = Swimming Pool

## South 200th Station Area Market Report

Exhibit H3 - Upscale Hotel Map

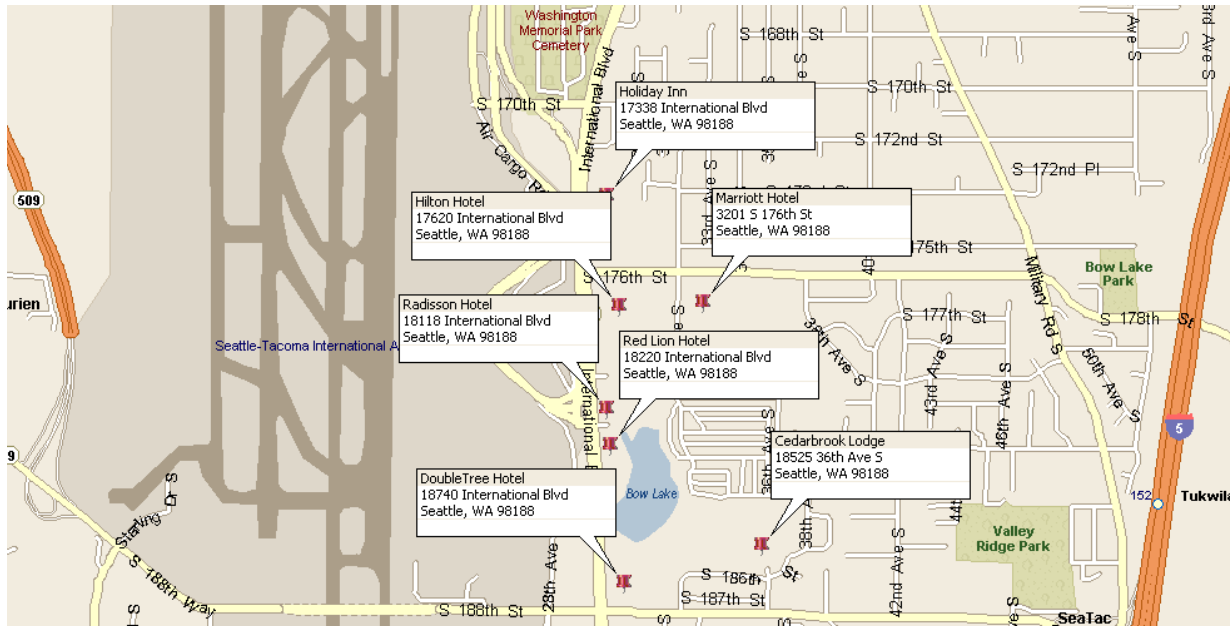


Exhibit H4 - Midscale Hotel Map



## South 200th Station Area Market Report

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### **LODGING DEMAND**

Demand for lodging is analyzed by measures of volume and price. The volume of demand is measured by the number of guests seeking or receiving accommodation in the market (occupied room nights) and by the market occupancy rate (the ratio of occupied room nights to available room nights). Financial measures of demand include room revenue, average daily room rate or ADR (room revenue divided by the number of occupied room nights), and Daily RevPAR (room revenue divided by the number of available room nights). Daily RevPAR also is the product of the ADR and the occupancy rate.

Our primary data source for measuring demand is a report prepared at our request by STR Global, a firm that compiles data on the performance of hotels throughout the United States. Results were available for the overall competitive set from January 2000 through June 2012, and for the upscale and midscale submarkets beginning in 2006.

Exhibits H5, H6, and H7 summarize the historical performance of the competitive set. Data is presented for calendar years and for fiscal years ending June 30.

## South 200th Station Area Market Report

### Exhibit H5 - Historical Performance - Overall Market

	Annual													FYE 6/30	
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	FY2011	FY2012	
<b>Guestrooms</b>															
Upscale Hotels							2,422	2,422	2,422	2,422	2,417	2,416	2,416	2,416	
Midscale Hotels							1,154	1,154	1,154	1,154	1,154	1,154	1,154	1,172	
Competitive Set	2,999	3,466	3,530	3,576	3,576	3,576	3,576	3,576	3,576	3,576	3,571	3,570	3,570	3,588	
<b>Available Room Nights</b>															
Upscale Hotels							884,030	884,030	884,030	884,030	882,380	881,840	881,840	881,840	
Midscale Hotels							421,210	421,210	421,210	421,210	421,210	421,210	421,210	427,750	
Competitive Set	1,094,721	1,265,090	1,288,630	1,305,240	1,305,240	1,305,240	1,305,240	1,305,240	1,305,240	1,305,240	1,303,590	1,303,050	1,303,050	1,309,590	
Percentage Change	-	15.6%	1.9%	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	0.0%	-	0.5%	
<b>Occupied Room Nights</b>															
Upscale Hotels							636,293	642,668	641,938	605,690	645,359	659,286	652,627	673,050	
Midscale Hotels							324,824	330,987	312,397	263,803	263,578	283,806	286,776	292,549	
Competitive Set	786,651	811,665	846,446	877,598	913,930	927,319	961,117	973,655	954,335	869,493	908,937	943,092	939,403	965,599	
Percentage Change	-	3.2%	4.3%	3.7%	4.1%	1.5%	3.6%	1.3%	-2.0%	-8.9%	4.5%	3.8%	-	2.8%	
<b>Market Occupancy</b>															
Upscale Hotels							72.0%	72.7%	72.6%	68.5%	73.1%	74.8%	74.0%	76.3%	
Midscale Hotels							77.1%	78.6%	74.2%	62.6%	62.6%	67.4%	68.1%	68.4%	
Competitive Set	71.9%	64.2%	65.7%	67.2%	70.0%	71.0%	73.6%	74.6%	73.1%	66.6%	69.7%	72.4%	72.1%	73.7%	
<b>Occupancy Index</b>															
Upscale Hotels							97.7%	97.5%	99.3%	102.9%	104.9%	103.3%	102.7%	103.5%	
Midscale Hotels							104.7%	105.3%	101.4%	94.0%	89.7%	93.1%	94.4%	92.8%	
<b>Market Room Rate</b>															
Upscale Hotels							\$109.42	\$119.64	\$120.68	\$103.83	\$101.98	\$105.85	\$101.79	\$106.29	
Midscale Hotels							\$77.49	\$86.37	\$93.87	\$88.44	\$88.00	\$89.26	\$89.63	\$91.82	
Competitive Set	\$88.83	\$86.42	\$81.48	\$79.85	\$81.83	\$86.78	\$98.63	\$108.33	\$111.91	\$99.16	\$97.92	\$100.86	\$98.08	\$101.91	
Percentage Change	-	-2.7%	-5.7%	-2.0%	2.5%	6.1%	13.7%	9.8%	3.3%	-11.4%	-1.2%	3.0%	-	3.9%	
<b>Room Rate Index</b>															
Upscale Hotels							110.9%	110.4%	107.8%	104.7%	104.1%	104.9%	103.8%	104.3%	
Midscale Hotels							78.6%	79.7%	83.9%	89.2%	89.9%	88.5%	91.4%	90.1%	
<b>Market RevPAR</b>															
Upscale Hotels							\$78.76	\$86.97	\$87.63	\$71.14	\$74.58	\$79.13	\$75.33	\$81.12	
Midscale Hotels							\$59.75	\$67.87	\$69.62	\$55.39	\$55.07	\$60.14	\$61.03	\$62.80	
Competitive Set	\$63.83	\$55.45	\$53.52	\$53.69	\$57.30	\$61.65	\$72.63	\$80.81	\$81.82	\$66.06	\$68.28	\$72.99	\$70.71	\$75.14	
Percentage Change	-	-13.1%	-3.5%	0.3%	6.7%	7.6%	17.8%	11.3%	1.3%	-19.3%	3.4%	6.9%	-	6.3%	
<b>RevPAR Index</b>															
Upscale Hotels							108.4%	107.6%	107.1%	107.7%	109.2%	108.4%	106.5%	108.0%	
Midscale Hotels							82.3%	84.0%	85.1%	83.8%	80.7%	82.4%	86.3%	83.6%	
<b>Market Revenue (000)</b>															
Upscale Hotels							\$69,624	\$76,888	\$77,470	\$62,890	\$65,811	\$69,782	\$66,433	\$71,537	
Midscale Hotels							\$25,169	\$28,587	\$29,325	\$23,330	\$23,195	\$25,333	\$25,705	\$26,863	
Competitive Set	\$69,875	\$70,146	\$68,971	\$70,075	\$74,784	\$80,474	\$94,793	\$105,475	\$106,796	\$86,219	\$89,007	\$95,116	\$92,138	\$98,400	
Percentage Change	-	0.4%	-1.7%	1.6%	6.7%	7.6%	17.8%	11.3%	1.3%	-19.3%	3.2%	6.9%	-	6.8%	



## South 200th Station Area Market Report

### Exhibit H6 - Historical Performance - Upscale Hotels

	2006	2007	2008	2009	2010	2011	FY2011	FY2012
<b>Guestrooms</b>	2,422	2,422	2,422	2,422	2,417	2,416	2,416	2,416
<b>Available Room Nights</b>	884,030	884,030	884,030	884,030	882,380	881,840	881,840	881,840
Percentage Change	-	0.0%	0.0%	0.0%	-0.2%	-0.1%	-	0.0%
<b>Occupied Room Nights</b>	636,293	642,668	641,938	605,690	645,359	659,286	652,627	673,050
Percentage Change	-	1.0%	-0.1%	-5.6%	6.5%	2.2%	-	3.1%
<b>Market Occupancy</b>	72.0%	72.7%	72.6%	68.5%	73.1%	74.8%	74.0%	76.3%
<b>Market Room Rate</b>	\$109.42	\$119.64	\$120.68	\$103.83	\$101.98	\$105.85	\$101.79	\$106.29
Percentage Change	-	9.3%	0.9%	-14.0%	-1.8%	3.8%	-	4.4%
<b>Market RevPAR</b>	\$78.76	\$86.97	\$87.63	\$71.14	\$74.58	\$79.13	\$75.33	\$81.12
Percentage Change	-	10.4%	0.8%	-18.8%	4.8%	6.1%	-	7.7%
<b>Market Revenue (000)</b>	\$69,624	\$76,888	\$77,470	\$62,890	\$65,811	\$69,782	\$66,433	\$71,537
Percentage Change	-	10.4%	0.8%	-18.8%	4.6%	6.0%	-	7.7%

### Exhibit H7 - Historical Performance, Midscale Hotels

	2006	2007	2008	2009	2010	2011	FY2011	FY2012
<b>Guestrooms</b>	1,154	1,154	1,154	1,154	1,154	1,154	1,154	1,172
<b>Available Room Nights</b>	421,210	421,210	421,210	421,210	421,210	421,210	421,210	427,750
Percentage Change	-	0.0%	0.0%	0.0%	0.0%	0.0%	-	1.6%
<b>Occupied Room Nights</b>	324,824	330,987	312,397	263,803	263,578	283,806	286,776	292,549
Percentage Change	-	1.9%	-5.6%	-15.6%	-0.1%	7.7%	-	2.0%
<b>Market Occupancy</b>	77.1%	78.6%	74.2%	62.6%	62.6%	67.4%	68.1%	68.4%
<b>Market Room Rate</b>	\$77.49	\$86.37	\$93.87	\$88.44	\$88.00	\$89.26	\$89.63	\$91.82
Percentage Change	-	11.5%	8.7%	-5.8%	-0.5%	1.4%	-	2.4%
<b>Market RevPAR</b>	\$59.75	\$67.87	\$69.62	\$55.39	\$55.07	\$60.14	\$61.03	\$62.80
Percentage Change	-	13.6%	2.6%	-20.4%	-0.6%	9.2%	-	2.9%
<b>Market Revenue (000)</b>	\$25,169	\$28,587	\$29,325	\$23,330	\$23,195	\$25,333	\$25,705	\$26,863
Percentage Change	-	13.6%	2.6%	-20.4%	-0.6%	9.2%	-	4.5%

## South 200th Station Area Market Report

### HISTORICAL OCCUPANCY

Over the period surveyed, the average rate of occupancy for the overall competitive set was 70.0%. Annual occupancy rates ranged from 64.2% (in 2001) to 74.6% (in 2007). Occupancy rates were relatively low during the recession years of 2002/2003 and 2009/2010. The highest rates were achieved in 2006 and 2007, and in the most recent fiscal year.

As a group, the seven upscale hotels have outperformed the overall competitive set. Between 2006 and 2011, the weighted average occupancy of these hotels was 72.3%, versus 71.7% for the overall market. Upscale occupancy was slightly below the market average from 2006 through 2008, but has surpassed the market in each subsequent year. Contributing factors included price reductions, resurgence in convention business, and the conversion of Cedarbrook Lodge from a private conference center to traditional transient lodging.

The performance of the midscale submarket was essentially the reverse. Prior to the recession, these hotels were achieving rates of occupancy that were three to four points above the market average. With the onset of the recession and greater rate competition from the nearby upscale hotels, midscale occupancy rates declined sharply, falling below the overall market. Since 2006, the midscale hotels have recorded an average occupancy rate of 70.4%.

The occupancy index is calculated by dividing the occupancy rate of each submarket by the overall rate of occupancy for the competitive set. For the upscale submarket, occupancy indices ranged from 97% to 105%, with a mean of 101%. For the midscale submarket, the range was 90% to 105%, with a mean of 98%. The most recent indices were 104% for the upscale submarket and 93% for the midscale submarket.

*Exhibit H8 - Occupancy Indices*

	2006	2007	2008	2009	2010	2011	FY2011	FY2012
<b>Market Occupancy</b>								
Upscale Hotels	72.0%	72.7%	72.6%	68.5%	73.1%	74.8%	74.0%	76.3%
Midscale Hotels	77.1%	78.6%	74.2%	62.6%	62.6%	67.4%	68.1%	68.4%
Competitive Set	73.6%	74.6%	73.1%	66.6%	69.7%	72.4%	72.1%	73.7%
<b>Occupancy Index</b>								
Upscale Hotels	97.7%	97.5%	99.3%	102.9%	104.9%	103.3%	102.7%	103.5%
Midscale Hotels	104.7%	105.3%	101.4%	94.0%	89.7%	93.1%	94.4%	92.8%

## South 200th Station Area Market Report

### HISTORICAL ROOM RATES

Room prices increased rapidly from 2006 through early 2008, declined in 2009 and 2010, and began to recover in 2011. For the most recent fiscal year, the overall room rate was \$10 less than the pre-recession peak.

During the recession, the most significant discounts were offered at the upscale hotels, where prices declined by nearly 16%. By contrast, the midscale hotels reduced rates by only 6%. Since 2006, room rate indices have averaged 107% for the upscale hotels and 85% for the midscale hotels. The most recent indices were 104% and 90%.

### HISTORICAL REVPAR

With significantly lower room prices, the revenue of the midscale hotels was well below the overall market average, even in years of above-market occupancy. For FY2012, the midscale submarket recorded daily RevPAR of \$62.80, for a RevPAR index of 84%. The upscale hotels generated RevPAR of \$81.12 and an index of 108%. The most recent indices were near the averages for the period surveyed.

Exhibit H9 - Room Rate Indices

	2006	2007	2008	2009	2010	2011	FY2011	FY2012
<b>Market Room Rate</b>								
Upscale Hotels	\$109.42	\$119.64	\$120.68	\$103.83	\$101.98	\$105.85	\$101.79	\$106.29
Midscale Hotels	\$77.49	\$86.37	\$93.87	\$88.44	\$88.00	\$89.26	\$89.63	\$91.82
Competitive Set	\$98.63	\$108.33	\$111.91	\$99.16	\$97.92	\$100.86	\$98.08	\$101.91
<b>Room Rate Index</b>								
Upscale Hotels	110.9%	110.4%	107.8%	104.7%	104.1%	104.9%	103.8%	104.3%
Midscale Hotels	78.6%	79.7%	83.9%	89.2%	89.9%	88.5%	91.4%	90.1%

Exhibit H10 - RevPAR Indices

	2006	2007	2008	2009	2010	2011	FY2011	FY2012
<b>Market RevPAR</b>								
Upscale Hotels	\$78.76	\$86.97	\$87.63	\$71.14	\$74.58	\$79.13	\$75.33	\$81.12
Midscale Hotels	\$59.75	\$67.87	\$69.62	\$55.39	\$55.07	\$60.14	\$61.03	\$62.80
Competitive Set	\$72.63	\$80.81	\$81.82	\$66.06	\$68.28	\$72.99	\$70.71	\$75.14
Percentage Change	17.8%	11.3%	1.3%	-19.3%	3.4%	6.9%	-	6.3%
<b>RevPAR Index</b>								
Upscale Hotels	108.4%	107.6%	107.1%	107.7%	109.2%	108.4%	106.5%	108.0%
Midscale Hotels	82.3%	84.0%	85.1%	83.8%	80.7%	82.4%	86.3%	83.6%

## South 200th Station Area Market Report

### SEASONALITY & DISTRIBUTION

During 2011, the degree of demand seasonality for the competitive set was moderate, with quarterly share ratios ranging from 20% to 31%. Monthly market occupancy rates ranged from 54% in December to 92% in August. The impact of seasonality on occupancy was similar for the two submarkets. In every month the upscale hotels recorded significantly higher occupancy rates than did the midscale properties.

The overall market ADR averaged \$93 during the winter, \$98 in the spring, \$102 in the fall, and \$107 for the peak summer season. The quarterly share range for room revenue was 18% to 33%. One-third of the annual room revenue was generated during the summer. Again, the results were similar when analyzed by market tier. In each submarket,

nearly half the annual revenue was earned during the shoulder seasons. The midscale hotels generated a slightly larger share of revenue (35%) during the summer, suggesting a greater dependence on leisure travel.

A related characteristic is the degree to which demand is distributed during the week. For the market as a whole, weekday occupancy (Monday through Thursday) averaged 78%, while occupancy rates on Friday and Saturday averaged 72%. As is typical in most urban markets, occupancy rates were lowest on Sundays. The market average room rate averaged \$108 midweek and \$92 on the weekends. This suggests that leisure travelers pay a significantly lower rate than do guests traveling on business.

Exhibit H11 - Market Distribution

	Market Occupancy		Market Room Rate		Market RevPAR	
	OCC	Ratio	ADR	Ratio	RevPAR	Ratio
Sunday	59.7%	81%	\$92.62	91%	\$55.27	74%
Monday	70.2%	95%	\$104.18	102%	\$73.11	97%
Tuesday	79.4%	108%	\$110.39	108%	\$87.64	117%
Wednesday	82.1%	111%	\$111.80	110%	\$91.78	122%
Thursday	80.8%	110%	\$107.09	105%	\$86.56	115%
Friday	73.8%	100%	\$92.60	91%	\$68.33	91%
Saturday	70.2%	95%	\$90.61	89%	\$63.66	85%
Mon-Thu	78.1%	106%	\$108.37	106%	\$84.77	113%
Fri-Sat	72.0%	98%	\$91.61	90%	\$66.00	88%
FY2012	73.7%		\$101.91		\$75.14	



## South 200th Station Area Market Report

### Exhibit H12 - Market Seasonality

	Market Demand		Market Occupancy		Market Room Rate		Market RevPAR		Market Revenue	
	ORN	Share	OCC	Ratio	ADR	Ratio	RevPAR	Ratio	REV	Share
January	62,584	7%	56.6%	78%	\$92.98	92%	\$52.58	72%	\$5,819,012	6%
February	65,551	7%	65.6%	91%	\$96.12	95%	\$63.04	86%	\$6,301,018	7%
March	81,935	9%	74.0%	102%	\$97.85	97%	\$72.45	99%	\$8,017,651	8%
April	71,567	8%	66.8%	92%	\$97.22	96%	\$64.96	89%	\$6,957,588	7%
May	83,955	9%	75.9%	105%	\$98.47	98%	\$74.70	102%	\$8,267,297	9%
June	91,480	10%	85.4%	118%	\$103.53	103%	\$88.43	121%	\$9,470,746	10%
July	95,899	10%	86.7%	120%	\$107.32	106%	\$92.99	127%	\$10,291,711	11%
August	101,421	11%	91.6%	127%	\$110.94	110%	\$101.67	139%	\$11,251,981	12%
September	87,894	9%	82.1%	113%	\$104.53	104%	\$85.79	118%	\$9,187,673	10%
October	73,131	8%	66.1%	91%	\$101.22	100%	\$66.88	92%	\$7,402,126	8%
November	67,747	7%	63.3%	87%	\$99.26	98%	\$62.79	86%	\$6,724,441	7%
December	59,928	6%	54.2%	75%	\$90.51	90%	\$49.01	67%	\$5,424,348	6%
Winter	188,063	20%	58.5%	81%	\$93.29	92%	\$54.60	75%	\$17,544,378	18%
Spring	237,457	25%	72.3%	100%	\$97.88	97%	\$70.77	97%	\$23,242,536	24%
Summer	288,800	31%	87.9%	121%	\$107.39	106%	\$94.43	129%	\$31,014,438	33%
Fall	228,772	24%	70.4%	97%	\$101.91	101%	\$71.76	98%	\$23,314,240	25%
2011	943,092	100%	72.4%	100%	\$100.86	100%	\$72.99	100%	\$95,115,592	100%

## PROJECTED PERFORMANCE

For the SeaTac lodging market, estimates of future performance require consideration of several factors. These include (1) the underlying growth generated by long-term demographic and economic trends; (2) the practical capacity of the market, as limited by the seasonality and distribution of demand; (3) new demand that may be introduced into the market through the opening of a new hotel with a popular brand, a desirable product type, or a superior location; (4) the relationship between hotel demand and the volume of air passengers; and (5) the potential for real growth in room prices as the economy emerges from recession.

### Underlying Growth

Over the past decade, population growth averaged 1.0% in King County and 1.3% statewide. The employment

growth rates were 1.0% and 1.4%. The median household income increased at rates of 2.5% and 2.1%. Based on the historical trends, it is estimated the long-term underlying growth rate for this market at 2.0%.

### Practical Capacity

With underlying growth of 2.0%, the volume of demand captured by the competitive hotels theoretically could exceed 1,000,000 occupied room nights within three years. However, the annual seasonality and weekly distribution of demand place a practical ceiling on the market occupancy rate. The highest annual rates recorded during the period surveyed were 76.3% for the upscale hotels, 78.6% for the midscale hotels, and 74.6% for the overall market. In our opinion, the practical ceiling of market occupancy for the competitive set as a whole is 75%, or about 977,000 room nights.

## South 200th Station Area Market Report

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### Hotel Development

Given the strength of the local lodging market, development of one or more hotels is considered probable in the near to mid-term. While a new property likely would induce some new demand, it also would increase the market supply. Typically, the result is a temporary decrease in the market occupancy rate.

The Hampton Inn & Suites opened in June 2012. We are projecting that this hotel will induce 15 occupancy points of new demand (about 12,000 room nights), distributed over its first two years of operation. The potential impact of subsequent hotel development is addressed later in this report.

### Passenger Volume

For hotels in an airport market, lodging demand is directly related to the volume of air passenger traffic. Since 2001, the passenger volume at SeaTac Airport has increased at an average annual rate of 2.0%. Over the same interval, the average increase in market demand was 1.5%.

In 2001, the airport accommodated 27.0 million passengers. For the same year, the hotels in the competitive set recorded nearly 812,000 occupied room nights (ORN), or 30.0 occupied room nights for every 1,000 passengers. Between 2002 and 2006, lodging demand averaged 32.0 ORN/1,000. Since then, the usage ratio has declined gradually, to a current level of 28.7 ORN/1,000.

For the upscale submarket, the relationship between passenger volume and occupancy has been reasonably consistent at about 20 ORN/1,000. By contrast, the usage ratio for the midscale hotels has declined, falling from 10.8 ORN/1,000 in 2006 to the current 8.6 ORN/1,000. This reflects the greater dependence of midscale hotels on leisure travel, a segment that is especially vulnerable during a recession.

For 2012, the Port of Seattle estimates that SeaTac Airport will accommodate 33.3 million passengers. Over the next four years, the Port is projecting growth at an annual rate of 2.2%. By 2016, the airport is expected to host over 36.3MM passengers.

Our estimate of the potential airport demand is based on the Port forecast of air passenger volume. For the upscale submarket, we apply a usage ratio of 20.0, which is near the historical mean. For the midscale submarket, we selected a ratio of 9.0, anticipating modest improvement as the recession abates.

Exhibit H13, on the following page, shows the historical relationship between air passenger volume and hotel demand, and the potential demand that is implied by the Port forecast.

### Room Rates

The market average room rate fell precipitously during the recession, and only recently has shown signs of recovery. Over the next three years, we expect that hotels will recover a portion of this loss with annual rate increases of 4%. Thereafter, we are projecting that prices will increase at or near the overall rate of inflation, which we estimate at 2%.

### Static Scenario

Absent any changes in the competitive supply, we are projecting market demand as the least of (a) the trended demand, (b) the practical capacity of the existing hotels, and (c) the demand suggested by the projected volume of air passenger traffic. The table on the following page presents our forecast of occupancy and revenue for the overall market under this scenario.

## South 200th Station Area Market Report

### Exhibit H13 - Air Passenger Volume and Lodging Demand

	Air Passengers		Occupied Room Nights				ORN Per 1,000 Passengers		
	Volume	Change	Upscale	Midscale	Overall	Change	Upscale	Midscale	Overall
<b>Historical</b>									
2001	27,036,073	-			811,665	-			30.0
2002	26,738,558	-1.1%			846,446	4.3%			31.7
2003	26,799,913	0.2%			877,598	3.7%			32.7
2004	28,804,554	7.5%			913,930	4.1%			31.7
2005	29,289,026	1.7%			927,319	1.5%			31.7
2006	29,996,424	2.4%	636,293	324,824	961,117	3.6%	21.2	10.8	32.0
2007	31,295,822	4.3%	642,668	330,987	973,655	1.3%	20.5	10.6	31.1
2008	32,196,528	2.9%	641,938	312,397	954,335	-2.0%	19.9	9.7	29.6
2009	31,227,512	-3.0%	605,690	263,803	869,493	-8.9%	19.4	8.4	27.8
2010	31,553,166	1.0%	645,359	263,578	908,937	4.5%	20.5	8.4	28.8
2011	32,823,220	4.0%	659,286	283,806	943,092	3.8%	20.1	8.6	28.7
<b>Projected</b>									
2012	33,300,000	1.5%	666,000	299,700	965,700	2.4%	20.0	9.0	29.0
2013	34,034,000	2.2%	680,680	306,306	986,986	2.2%	20.0	9.0	29.0
2014	34,782,000	2.2%	695,640	313,038	1,008,678	2.2%	20.0	9.0	29.0
2015	35,548,000	2.2%	710,960	319,932	1,030,892	2.2%	20.0	9.0	29.0
2016	36,330,000	2.2%	726,600	326,970	1,053,570	2.2%	20.0	9.0	29.0

## SUMMARY

The competitive set presently consists of seven upscale hotels and nine midscale hotels, for a total of 3,788 guestrooms. During the recession, most of the upscale hotels offered deep discounts to soften the impact on occupancy, whereas the midscale hotels offered fewer discounts and weathered a more severe drop in demand.

In 2011, the overall market generated an occupancy rate of 72.4%, an average room rate of \$101, and daily RevPAR of \$73. In the absence of further additions to supply, occupancy is expected to stabilize at 75% by 2016. Room prices are projected to increase in real terms over the next three year period.

## South 200th Station Area Market Report

Exhibit H14 - Projected Market Performance, Static Scenario

	Historical	Projected						
	2011	2012	2013	2014	2015	2016	2017	2018
<b>Market Supply</b>								
Guestrooms	3,570	3,698	3,788	3,788	3,788	3,788	3,788	3,788
Available Room Nights	1,303,050	1,349,702	1,382,620	1,382,620	1,382,620	1,382,620	1,382,620	1,382,620
Percentage Change		3.6%	2.4%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Market Demand</b>								
Base Demand		943,092	966,619	991,576	1,013,053	1,033,314	1,053,981	1,075,060
Underlying Growth Rate		2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Trended Demand		961,954	985,951	1,011,407	1,033,314	1,053,981	1,075,060	1,096,561
Induced Demand		4,665	5,624	1,646	0	0	0	0
Demographic Demand		966,619	991,576	1,013,053	1,033,314	1,053,981	1,075,060	1,096,561
Air Passengers (000)		33,300	34,034	34,782	35,548	36,330	37,129	37,946
Usage Ratio		29.0	29.0	29.0	29.0	29.0	29.0	29.0
Passenger Demand		965,700	986,986	1,008,678	1,030,892	1,053,570	1,076,749	1,100,437
Available Room Nights		1,349,702	1,382,620	1,382,620	1,382,620	1,382,620	1,382,620	1,382,620
Occupancy Ceiling		75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%
Practical Capacity		1,012,277	1,036,965	1,036,965	1,036,965	1,036,965	1,036,965	1,036,965
Occupied Room Nights	943,092	965,700	986,986	1,008,678	1,030,892	1,036,965	1,036,965	1,036,965
Percentage Change		2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
<b>Market Occupancy</b>	72.4%	71.5%	71.4%	73.0%	74.6%	75.0%	75.0%	75.0%
<b>Market Room Rate</b>	\$100.86	\$104.89	\$109.08	\$113.45	\$115.72	\$118.03	\$120.39	\$122.80
Percentage Change		4.0%	4.0%	4.0%	2.0%	2.0%	2.0%	2.0%
<b>Market RevPAR</b>	\$72.99	\$75.05	\$77.87	\$82.77	\$86.28	\$88.52	\$90.29	\$92.10
Percentage Change		2.8%	3.8%	6.3%	4.2%	2.6%	2.0%	2.0%
<b>Market Revenue (000)</b>	\$95,116	\$101,292	\$107,665	\$114,433	\$119,292	\$122,395	\$124,842	\$127,339
Percentage Change		6.5%	6.3%	6.3%	4.2%	2.6%	2.0%	2.0%

## South 200th Station Area Market Report

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### PROJECT RECOMMENDATIONS

#### Introduction

In this section, we discuss the various types of hotels and recommend two development options for further consideration.

#### Hotel Types

While lodging properties vary widely in their facilities and services, there are several broad categories.

As the name implies, a full service hotel is intended to meet all of the requirements of a typical guest, including sleeping, dining, assembly, and recreation. Most of these hotels have at least 200 guestrooms, and each has at least one restaurant and extensive meeting space. Recreational facilities may include an exercise room, a swimming pool, and/or a health spa.

The typical limited service hotel is a property of three or four stories, designed with interior corridors. These hotels often rely on transient travelers, and thus benefit from arterial exposure. Most range in size from 80 to 150 guestrooms. Typical amenities include a breakfast room, a small amount of meeting space, and a swimming pool.

Select service hotels are a hybrid of full service and limited service properties. The intent is to provide the amenities desired by upscale business travelers while eliminating unnecessary facilities and gaining some of the operating efficiencies of a limited service hotel.

An extended stay hotel is one that is specifically targeted to long-term guests, defined as those staying at least seven days. For these guests, quieter surroundings generally are preferred over direct arterial exposure. Each guestroom includes a full kitchen.

#### Selection Criteria

As demonstrated in our lodging market analysis, the upscale hotels in SeaTac are outperforming the midscale properties in terms of both room occupancy and average daily room rate. The DoubleTree, the Hilton, and the Marriott each have a large volume of meeting space, and accommodate most of the demand for large group functions. Their capacity argues against the development of expansive function areas.

The hotels in the midscale market are limited service properties, most of which command modest room rates. The new Hampton Inn & Suites will likely capture the top tier of midscale demand.

The competitive set does not presently include any select service hotels. In this respect, SeaTac is unique among the major airport markets of the region, each of which has at least one select service property. Over the years, several proposals have been made for development of such a hotel, but none have proceeded beyond the early planning stage.

Similarly, the SeaTac market does not have any extended stay hotels. Since most airport travel is transient, the potential demand for longer stays is uncertain. There are two extended stay properties near the Portland Airport, one upscale and one midscale.

Based on our evaluation of the facilities, services, and performance of the hotels in the competitive set, we recommend consideration of two development options: select service and extended stay.

## South 200th Station Area Market Report

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### Option A - Select Service

#### Design

The typical select service hotel is a property of four to six stories, designed with interior corridors. Since these hotels benefit from arterial exposure, a site fronting on International Boulevard would be preferable to a site set back from the arterial.

The footprint of the structure usually is rectangular. For a corner location, the building may be “L”-shaped, with arms extending along each roadway. In either case, the entrance should be oriented to the arterial.

Most of the public and service areas of a select service hotel are concentrated on the first floor. In some cases, this floor also houses some guestrooms. The remaining rooms are stacked on the upper floors. For a hotel with arterial frontage, a portion of the first floor may be reserved for leased retail space.

#### Guestrooms

Most select service hotels have between 100 and 200 guestrooms, a size that has proven conducive to efficient operation. For purposes of analysis, we assume development of 150 guestrooms. The zoning requirement for on-site parking would be 38 stalls, or .25 per room. It can be noted that select service hotel parking ratios range from .25 to 1 space per unit. A lower ratio for downtown and airport locations and higher ratios for suburban locations. To assess project feasibility, a formal parking study is needed to establish the appropriate ratio. Casual observation suggests, given the location's access to the Light Rail, the appropriate ratio would fall into the .3 to .5 spaces per unit.

The typical room size is 350 sq ft to 500 sq ft, depending largely upon brand requirements. Including corridors and common areas, the gross building area per room generally

is in the range of 550 sq ft to 650 sq ft. The most common in-room amenities include a telephone, a television, a hair dryer, a coffee maker, an iron and ironing board, a small refrigerator, and a microwave oven.

#### Amenities

Common areas found in most select service hotels include the lobby, a small restaurant and/or lounge, a business center, a guest laundry, an exercise room, a boardroom, and a divisible meeting room. Some select service hotels offer a complimentary breakfast and/or evening reception, while others operate on a fee-for-service model. While most have an indoor swimming pool, this amenity is by no means universal, particularly among urban or airport hotels.

#### Brands

In this region, popular flags for select service hotels include Courtyard by Marriott, Hilton Garden Inn, Hyatt House, aloft, and Oxford Suites. None of these brands presently is represented in the SeaTac market.

#### Advantages

Select service hotels have proven to be very popular, particularly with business travelers. The modest volume of meeting space (typically 1,500 sq ft to 3,000 sq ft) is adequate for most small and midsize events, and the loss of a few functions generally is outweighed by the cost savings.

#### Disadvantages

The primary disadvantage of this scenario is the cost of construction. The restaurant and swimming pool are significant expenses, and some select service hotels have found that these facilities are underutilized.



## South 200th Station Area Market Report

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### Option B - Extended Stay

#### Design

Select service hotels are not as sensitive to arterial exposure as other hotels. A location off the arterial with easy access to the arterial is preferable - guests' preference for quiet being the driving force.

From an exterior perspective, most extended stay hotels do not differ noticeably from their limited service counterparts. A height of three to four stories is typical, and guestrooms are entered from interior corridors. The primary differences are found within the structure, where extended stay properties feature larger guestrooms and fewer common areas. Room rates are tiered by length of stay, housekeeping services are less frequent, and staffing needs are modest.

#### Guestrooms

For this category of hotel, guestrooms typically are designed as Studio or 1BR apartments. Each unit has a full kitchen with a range, a full size refrigerator, a microwave oven, and (in some cases) a dishwasher. Guests are provided with pots and pans, dishes, glassware, and utensils.

Most extended stay hotels have between 80 and 160 guestrooms. We assume development of 120 rooms, in which case the parking requirement would be 30 stalls, based on zoning requirements. While additional analysis is needed, market parking ratios for extended stay hotels range from .5 to 1 per room. A location within the station warrants a ratio on the lower end of the range. The typical room size is 450 sq ft to 550 sq ft for Studio and 550 sq ft to 700 sq ft for 1BR, again depending upon brand standards.

Including corridors and common areas, the gross building area per guestroom is about 600 sq ft/room for midscale extended stay hotels, and in the range of 700 sq ft to 900 sq ft for upscale properties.

#### Amenities

In exchange for larger units, midscale extended stay hotels devote less space to common areas. Lobbies tend to be compact, and meeting space is minimal or nonexistent. Most of these hotels have a guest laundry, and some have an exercise room and/or a simple continental breakfast.

Upscale extended stay hotels are more similar to the select service model. While they do not include an in-house restaurant, these properties feature large common areas and provide a very complete complimentary breakfast, in some cases supplemented by an evening reception. Meeting space and recreational amenities are on par with a typical select service hotel.

#### Brands

Prominent upscale extended stay brands include Staybridge Suites (IHG), Residence Inn (Marriott), and Homewood Suites (Hilton). Midscale extended stay brands include Candlewood Suites (IHG), TownePlace Suites (Marriott), and Home2 Suites (Hilton).

#### Advantages

At present, there are no branded extended stay hotels in the SeaTac market. A new property of this type would have a strong competitive advantage in attracting long-term guests. The new Residence Inn at Portland International Airport has proven to be an effective competitor.

## South 200th Station Area Market Report

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### Disadvantages

The potential volume of extended stay demand is difficult to assess. Most of the business travel to and through SeaTac Airport is transient in nature, and the local market lacks obvious sources of demand for more lengthy visits, such as a hospital, a university, and or a manufacturing facility.

### Site Utilization

Factors affecting site utilization include the room count, the gross building area per room, the number of stories, and the parking requirement.

### Select Service

For the select service scenario, we assume development of a four-story structure with 150 guestrooms and 38 surface parking stalls. The gross building area is estimated at 90,000 sq ft (600 sq ft/room), for a building footprint of 22,500 sq ft. The land area devoted to parking stalls and driveways is estimated at 13,300 sq ft (350 sq ft/stall). With a 20% allowance for landscaping and setbacks, the land area required for the hotel is estimated at 43,000 sq ft, or 287 sq ft/room.

### Extended Stay

For the extended stay scenario, we assume development of a three-story structure with 120 guestrooms and 30 surface parking stalls. The gross building area is estimated at 96,000 sq ft (800 sq ft/room), for a building footprint of 32,000 sq ft. The land area devoted to parking stalls and driveways is estimated at 10,500 sq ft (350 sq ft/stall). We again add a 20% allowance for landscaping and setbacks. The land area required for the hotel is estimated at 51,000 sq ft, or 425 sq ft/room.

### Summary

We are recommending further consideration of two development options. Option A would be a 150-room select service hotel with a height of four stories, a gross

building area of 90,000 sq ft, and a land area of 43,000 sq ft. Option B would be a 120-room extended stay hotel with a height of three stories, a gross building area of 96,000 sq ft, and a land area of 51,000 sq ft. Under each option, we assume the minimum parking requirement of 0.25 stalls per room.

## PROJECTED PERFORMANCE

### Introduction

In this section, we present our estimates of room occupancy and average daily room rate for the two scenarios.

### Development Parameters

We first project performance assuming development of a 150-room select service hotel. We then use the same analysis to evaluate the potential for a 120-room upscale extended stay hotel.

Under either scenario, the estimated construction period for the new hotel is approximately one year. We recommend that the opening be timed to coincide with completion of the light rail station. For purposes of analysis, the hotel is assumed to begin operation in 2016.

### Subject Position

We have estimated the future position of the new hotel under each scenario by evaluating the competitive advantages and disadvantages of the subject site, the recommended improvements, and the suggested lodging brands.

### Advantages

The proximity of the subject site to the new transit station offers two advantages. First, convenient access to the airport and Seattle CBD would be viewed as strongly positive by both transient and long-term guests. Second, because the transit project likely will be coordinated with complementary uses, the hotel may be designed to integrate with other components of the overall development.

## South 200th Station Area Market Report

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Under either development option, the subject would be the only hotel in its class, giving it a strong competitive advantage within the SeaTac market. Most of the brands cited above have proven popular in other airport markets.

### Disadvantages

The only obvious disadvantages of the project are minimal. The irregular shape of the site could limit the efficiency of land utilization. The site is further from the airport terminal than the existing upscale hotels, although the impact of this disparity is minimized by the reliance of most guests on an airport shuttle service, be it light rail or bus shuttle. As with any proposed development, there is the potential for unanticipated project costs. Finally, since there presently are no extended stay hotels in this market, the depth of demand for long-term lodging is difficult to gauge.

### Room Occupancy

Our projections of room occupancy are based on the recent performance of the competitive hotels and the anticipated position of the subject. The unit of measure is the occupancy index, defined as the ratio of subject occupancy to market occupancy.

### Select Service

In most markets, the popularity of select service brands among business travelers allows these hotels to achieve rates of occupancy above the average for their competitive set. In addition, a new select service property likely would attract a modest volume of demand from peripheral markets on the basis of brand loyalty. We include 10 occupancy points of induced demand in Year 1 and an additional 5 points in Year 2.

For the select service scenario, we are projecting occupancy indices of 90% in 2016, 100% in 2017, and 105% thereafter. The projected rates of occupancy for the subject hotel are 66%, 75%, and 79%.

### Extended Stay

For the extended stay scenario, the accommodation of additional guests through the weekend should allow the hotel to achieve a higher occupancy rate. In addition, as the only extended stay property at the airport, the hotel should induce a greater volume of induced demand. For this scenario, our forecast includes 30 occupancy points of induced demand, evenly distributed between the first two years of operation.

For the extended stay scenario, we are projecting occupancy indices of 90% in 2016, 100% in 2017, and 110% thereafter. The projected rates of occupancy for the subject hotel are 66%, 75%, and 83%.

### Average Room Rate

Room rate indices are developed based on the recent performance of the upscale submarket.

### Select Service

As a select service hotel, the subject likely would be positioned below the Hilton and the Marriott, and above the other upscale competitors. As a group, the existing upscale hotels are achieving a room rate index of 104%. Our stabilized forecast for the subject is 105%. Stated in current dollars, we are estimating the stabilized ADR at \$114.

### Extended Stay

Even an upscale extended stay hotel would generate a slightly lower average room rate, as discounts would be used to attract and retain long-term guests. For this scenario, the room rate index is projected to stabilize at 100%. Stated in current dollars, we are estimating the stabilized ADR at \$109.

## South 200th Station Area Market Report

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### **Room Revenue**

Annual room revenue is estimated as the product of the available room nights, the room occupancy rate, and the average daily room rate.

### **Select Service**

For the 150-room select service scenario, we project the stabilized occupancy rate at 79%. For a future stabilized year, stated in current dollars, we are estimating an average daily room rate of \$114, daily RevPAR of \$91, and annual room revenue of \$4.9MM.

### **Extended Stay**

For the 120-room extended stay scenario, we project the stabilized occupancy rate at 83%. For a future stabilized year, stated in current dollars, we are estimating an average daily room rate of \$109, daily RevPAR of \$90, and annual room revenue of \$3.9MM.

## South 200th Station Area Market Report

### Exhibit H15 - Projected Performance, Select Service Scenario

	2016	2017	2018	2012 \$
<b>Supply Ratio</b>				
Subject Room Supply	150	150	150	150
Market Room Supply	3,938	3,938	3,938	3,938
Subject Supply Ratio	3.8%	3.8%	3.8%	3.8%
<b>Room Occupancy</b>				
Market Demand	1,053,570	1,076,749	1,078,028	1,078,028
Subject Supply Ratio	3.8%	3.8%	3.8%	3.8%
Proportionate Demand	40,131	41,014	41,063	41,063
Subject Demand	36,118	41,014	43,116	43,116
Occupancy Index	90.0%	100.0%	105.0%	105.0%
Market Occupancy	73.3%	74.9%	75.0%	75.0%
Subject Occupancy	66.0%	74.9%	78.8%	78.8%
<b>Room Rate</b>				
Market Room Rate	\$118.03	\$120.39	\$122.80	\$109.04
Room Rate Index	100.0%	105.0%	105.0%	105.0%
Subject Room Rate	\$118.03	\$126.41	\$128.94	\$114.50
<b>Room Revenue</b>				
Market RevPAR	\$86.52	\$90.19	\$92.10	\$81.78
RevPAR Index	90.0%	105.0%	110.3%	110.3%
Subject RevPAR	\$77.86	\$94.70	\$101.54	\$90.16
Subject Revenue	\$4,263,041	\$5,184,625	\$5,559,329	\$4,936,525

### Exhibit H16 - Projected Performance, Extended Stay Scenario

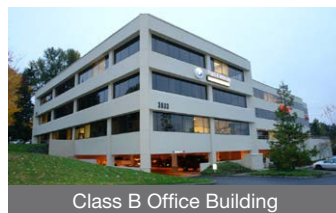
	2016	2017	2018	2012 \$
<b>Supply Ratio</b>				
Subject Room Supply	120	120	120	120
Market Room Supply	3,908	3,908	3,908	3,908
Subject Supply Ratio	3.1%	3.1%	3.1%	3.1%
<b>Room Occupancy</b>				
Market Demand	1,053,570	1,069,815	1,069,815	1,069,815
Subject Supply Ratio	3.1%	3.1%	3.1%	3.1%
Proportionate Demand	32,351	32,850	32,850	32,850
Subject Demand	29,116	32,850	36,135	36,135
Occupancy Index	90.0%	100.0%	110.0%	110.0%
Market Occupancy	73.9%	75.0%	75.0%	75.0%
Subject Occupancy	66.5%	75.0%	82.5%	82.5%
<b>Room Rate</b>				
Market Room Rate	\$118.03	\$120.39	\$122.80	\$109.04
Room Rate Index	90.0%	95.0%	100.0%	100.0%
Subject Room Rate	\$106.23	\$114.37	\$122.80	\$109.04
<b>Room Revenue</b>				
Market RevPAR	\$87.18	\$90.29	\$92.10	\$81.78
RevPAR Index	81.0%	95.0%	110.0%	110.0%
Subject RevPAR	\$70.62	\$85.78	\$101.31	\$89.96
Subject Revenue	\$3,092,952	\$3,757,138	\$4,437,378	\$3,940,265

## Office Market

### INTRODUCTION

The primary intended use of an office building is to house employees of companies that produce a product or service primarily for support services such as administration, accounting, marketing, information processing and dissemination, consulting, human resources management, financial and insurance services, educational and medical services, and other professional services. Office buildings are characterized by work efficient floor plans, work areas, comfortable heating and cooling, cabling for phones and computers, and other conveniences that allow people to conduct business. The interior finish and the structural design of the building supports the activities of the employees. Office buildings are typically configured for high density use, with a ratio of people to square footage in the 150 to 300 or more range and less than 25% of the demised floor space allocated to industrial or retail use.

*Exhibit O1 - Office Buildings by Class*



The office building class designation is a way of differentiating buildings of the same building type into different categories of quality. These classes represent a combination of a subjective and objective quality rating of buildings that indicates the competitive ability of each building to attract similar types of tenants. Assigning class codes allows us to compare individual buildings within a market as well as across markets, and also to compare office market conditions between areas in peer groups. For the purposes of comparison, office buildings are categorized into three classes. The options are Class A, B, and C, with assignment depending on a variety of building characteristics, such as total rentable area, age, building finishes and materials, mechanical systems standards and efficiencies, developer, architect, building features, location/ accessibility, property manager, design/tenant layout, and much more. Once assigned, a building’s class reflects not only characteristics and attributes evaluated objectively, but also the subjective evaluations of finishes and amenities.

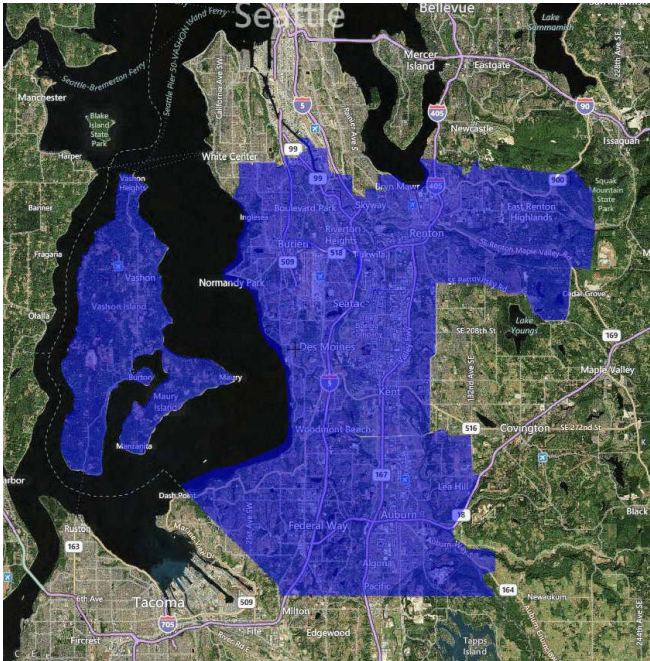
The following market report describes the supply and demand characteristics of the office market within the half mile area surrounding the future South 200th St. Link Light Rail Station. To provide context, the report begins with a high level description of the existing conditions in the Southend office market. A more in-depth analysis of the subject’s Primary Market Area (PMA), including a five year demand forecast and project development snapshot, is then laid out to provide an understanding of the potential for future office development in the subject’s greater competitive market. The report concludes with a narrative of the existing market conditions within the half mile station area, including a description of the potential (or lack thereof) for office development within the station area.



## South 200th Station Area Market Report

### SOUTHEND OFFICE MARKET

Exhibit O2 - Southend Market Map



#### Southend Market Area Definition

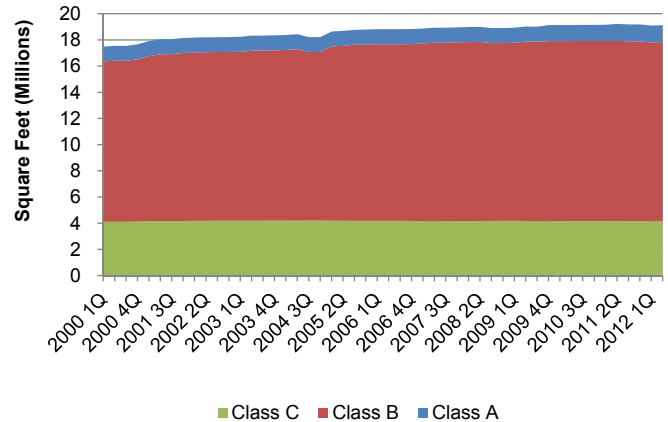
For the purposes of this study, the Southend market shown in Exhibit O2 is reasonable for describing the subject's Secondary Market Area (SMA). This area represents the subject's greater competitive market and consists of the combined Federal Way/Auburn, SeaTac/Burien, Vashon/Maury, Kent, and Renton/Tukwila submarkets as described by Costar.com.

#### Competitive Supply

##### Inventory

According to Costar.com, a commercial real estate data aggregator, as of June 2012 there were 1,013 office buildings containing approximately 19.1 million square feet of space in the Southend office market.

Exhibit O3 - Southend Office Market Inventory by Class



As shown in Exhibit O3, when broken down by class it becomes apparent that this is primarily a Class B office market. Approximately 71% of the existing inventory is made up of Class B space, 22% of Class C space, and the remaining 7% of Class A space.

Since 2000, 134 office buildings have been constructed in the Southend office market, adding approximately 3.6 million square feet of inventory to the market. As would be expected in a market with 71% of the total inventory consisting of Class B space, the majority of buildings built since 2000 have also been Class B buildings.

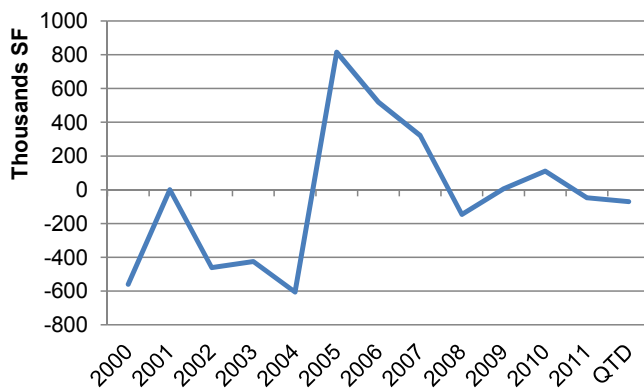
Since 2000, 102 Class B buildings have been constructed, representing approximately 3.2 million square feet of space. By comparison, over the same time period there was only new construction of two Class A buildings representing 146,000 square feet, and 28 Class C buildings representing 237,000 square feet of office space.

#### Absorption

Annual net absorption, which represents the change in occupied office space from one year to the next, has averaged negative 40,000 square feet since 2000.

## South 200th Station Area Market Report

Exhibit O4 - Southend Office Market Net Absorption



As shown in Exhibit O4, annual net absorption spiked in 2005 to its ten year peak of approximately 815,000 square feet, then fell precipitously over the next three years, dropping to negative 146,000 square feet in 2008. As of June 2012, year-to-date net absorption stands at negative 172,000 square feet.

### Vacancy

Vacancy can be a good indicator of the overall health of a real estate market. Developers aren't typically willing to build space on a speculative basis until a market reaches equilibrium, which is defined as the point at which supply and demand are in balance. In most markets a 5% vacancy rate is considered to be the point of equilibrium.

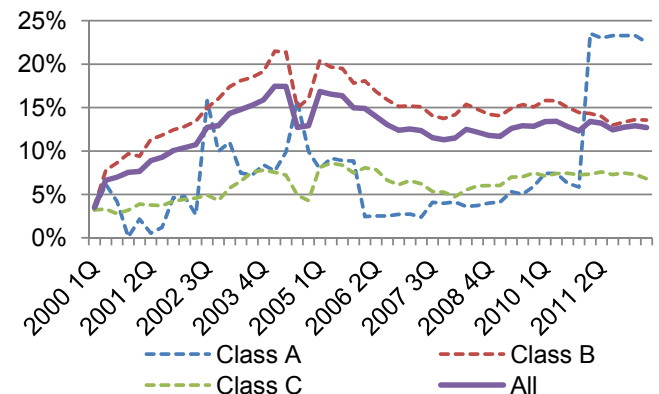
As of June 2012, vacancy in the Southend market was 12.7%, representing 2.4 million square feet of vacant office space; this is slightly lower than the ten year peak of 14.2% which occurred in the fourth quarter of 2009, but still far above market equilibrium.

As shown in Exhibit O5, when broken down by class it becomes evident that vacancy in Class A space spiked in 2011, reaching as high as 23.5%. The driver behind this spike was Boeing's vacation of over 211,000 square feet

of space in the SeaTac Office Center. The Class A market is still feeling the effects of this event, with current vacancy sitting at 21%. By comparison, vacancy in Class B space, which represents the majority of existing office product in the Southend market, is currently 13.8%, and Class C space is currently 6.8% vacant.

Approximately 172,000 square feet of office space is currently for sublease, accounting for approximately 7% of the total vacant space in the market.

Exhibit O5 - Southend Office Market Vacancy by Class



### Largest Lease Signings

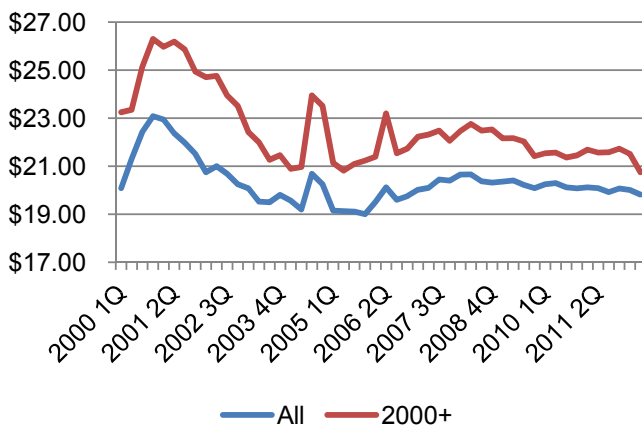
Over the last 12 months there have been four office leases signed for spaces measuring over 10,000 square feet within the Southend market. The four transactions include a 30,000 square foot lease to Direct Discount, in the Southcenter Corporate Square Building 11 in Tukwila; a 10,989 square foot lease to City University, in Triton Tower One in Renton; a 10,515 square foot lease to Ammex USA, at the James Street Center building in Kent; and a 10,319 square foot lease in the Southcenter Corporate Square Center Building 2 in Tukwila.

## South 200th Station Area Market Report

### Rental Rates

Average quoted rental rates in the Southend office market are currently \$19.82 per square foot, per year, full service. This is down 14.1% from its peak of \$23.08 in fourth quarter 2000. As shown in Exhibit O6, in comparison to the year-to-year volatility of rental rates in the period between 2000 and 2006, rental rates have remained relatively steady in the last five years.

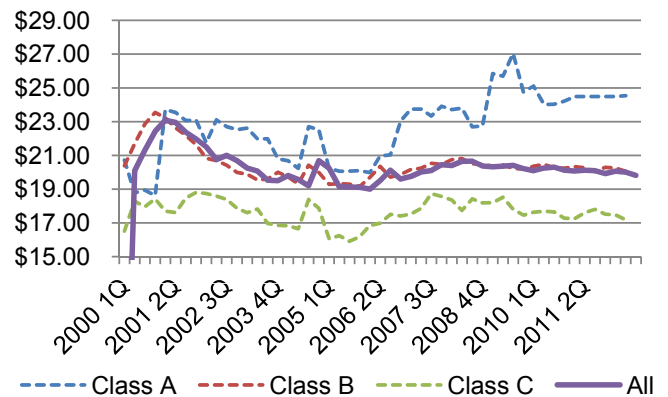
Exhibit O6 - Southend Office Market Rental Rates



In buildings built since 2000, asking rental rates are currently \$20.75 per square foot full service. The combined taxes and operating expenses in buildings constructed since 2000 averaged approximately \$7 per square foot. Similar to the office inventory as a whole, asking rates for buildings built since 2000 increased significantly in 2000, peaking at \$26.30 in the fourth quarter, before falling precipitously through 2004. Over the last six months, rental rates in buildings built since 2000 have been declining at a faster pace than the inventory as a whole.

Exhibit O7 shows the breakdown of office space by class. Because Class B office space accounts for 71% of the total inventory, average rental rates for the inventory as a whole track closely with Class B rental rates.

Exhibit O7 - Southend Office Market Rental Rates by Class



### Deliveries and Projects Currently Under Construction

Over the last twelve months there have been no office buildings delivered to the Southend market. There are also no known office projects currently under construction.

Between 2000 and 2011, annual deliveries ranged from a low of 12,000 square feet in 2010, to a high of 512,000 square feet in 2000. The amount of office space under construction on a quarterly basis since the first quarter of 2000 ranged from zero square feet over the last five quarters to 601,195 square feet in the third quarter of 2000.

### Proposed Projects

As of June 2012, there are 14 known office projects totaling approximately 2.3 million square feet of office space proposed in the Southend market. The largest proposed office project is the Southport Office Campus located at 1101 Lake Washington Blvd. N in Renton. If built, this mixed use project would consist of three 9 story towers totaling almost 800,000 square feet of building area. The developer of this project has not yet secured a tenant, and will not likely begin construction at the proposed scale on a speculative basis.

## South 200th Station Area Market Report

### Sales Activity

Since 2000, Costar.com has tracked 485 office building sales in the Southend market worth more than \$2.5 billion dollars. The median sales price ranged from a low of \$95 per square foot in 2000 to a high of \$193 per square foot in 2009.

Since June of 2012, Costar.com has tracked 13 office sales in the Southend market. These sales ranged in price from a low of \$230,000 to a high of \$3.2 million. The median price was \$106 per square foot of building area. Four of the sales were over \$1 million; two of the sales were over \$3 million; and there have been no sales in excess of \$5 million.

Exhibit O8 - Southend Office Market Sales Activity

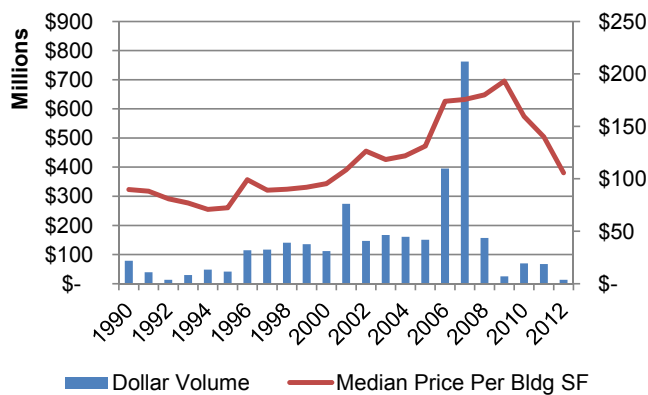


Exhibit O8 illustrates the sales dollar volume by year since 1990 in the Southend office market, as well as the median sales price per square foot.

### Demand

#### Office Using Employment

The demand for office space is driven primarily by employment growth. Employment growth can be a

function of business activity and population growth.

According to census data there were 262,593 employed citizens in the Southend market in 2010. According to Costar.com, there was 16,794,272 square feet of occupied office space in the Southend market, or 64 square feet of occupied office space per employee in 2010.

ESRI forecasts the number of employees in the Southend market to increase from 262,593 employees in 2010 to 278,461 employees in 2015; this represents an annual compound growth rate of 1.18%. Assuming this growth trend continues through 2017, and the number of square feet per employee holds constant at 64 square feet, demand for office space in the Southend market would increase by approximately 1 million square feet over the next five years.

#### Office Space Forecast

The following graph shows the amount of new space delivered to the market since 2000 in gray. The blue bars represent the amount of space absorbed by the market each year. The trend line, in red, displays the historical and projected market vacancy. The forecast relies on the following assumptions:

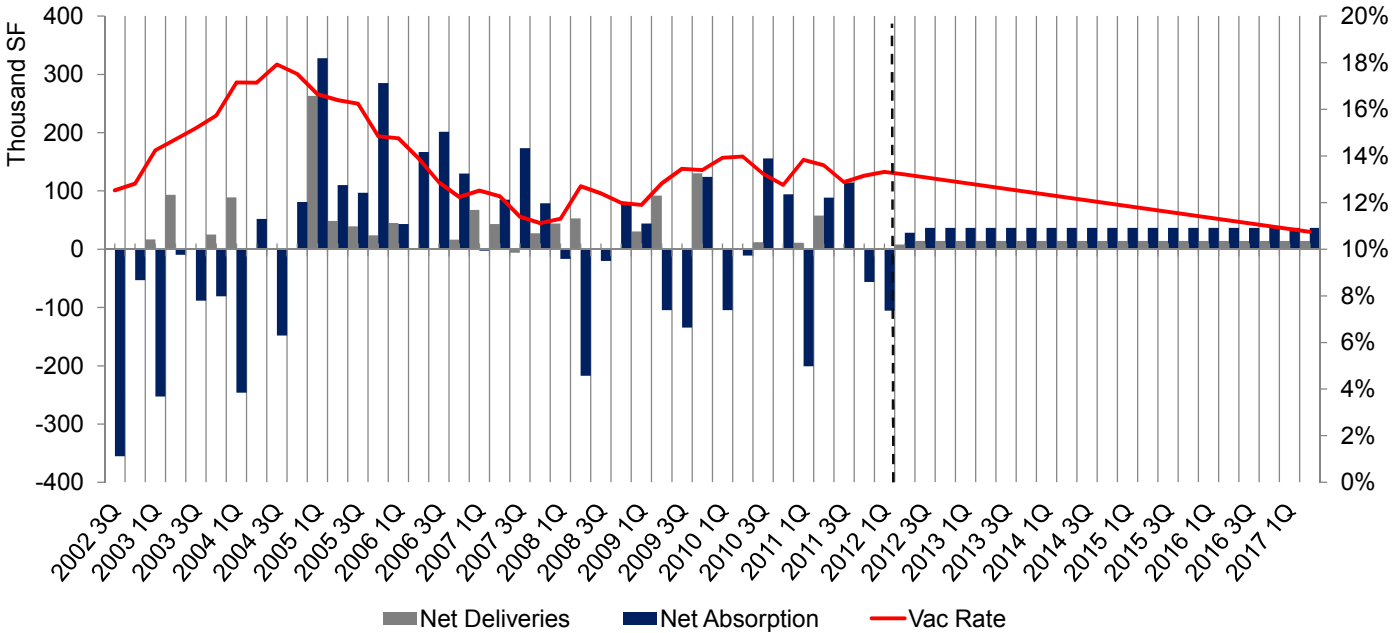
- Approximately 15% of the office space proposed to come online over the next five years is included in future deliveries.
- Projected demolitions are based on the ten year historic average.
- The amount of occupied office space per employee is held at 64 square feet through the second quarter of 2017.
- Employment is projected to grow by 1.18% per year through 2017. This matches ESRI's annual employment projections through 2015.

South 200th Station Area Market Report

As shown in Exhibit O9, the analysis suggests that approximately 200,000 square feet of office space will be demanded annually and only 56,000 net new square feet will be delivered annually over the next five years, bringing vacancy in the Southend office market down to around 10.8% by second quarter 2017.

An office market is generally said to be in equilibrium when vacancies fall to around 5%. Based on the assumptions outlined above, vacancy in the Southend office market is not expected to reach the point of equilibrium by the second quarter of 2017. This suggests, from a demand perspective, speculative office development will not be feasible over this period.

Exhibit O9 - Southend Office Forecast





## South 200th Station Area Market Report

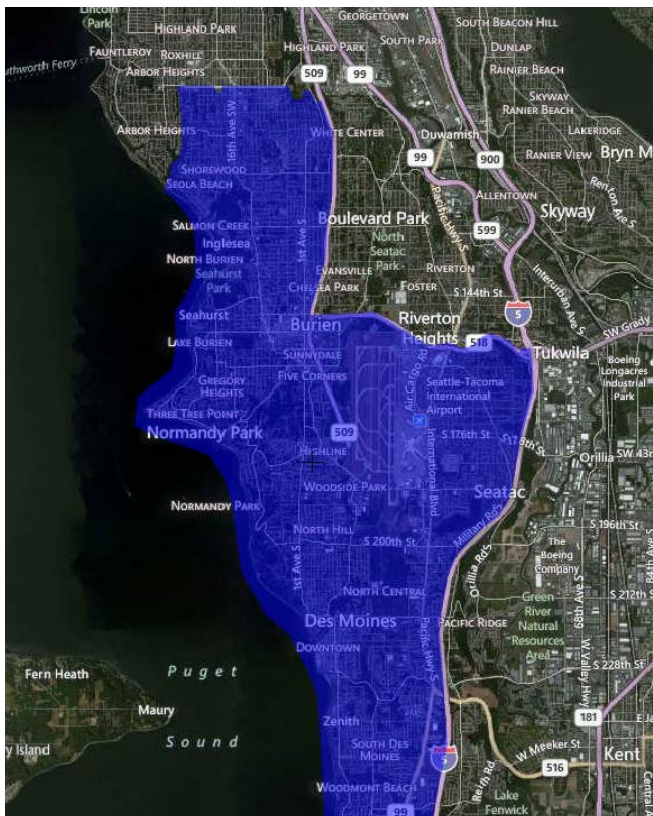
### PRIMARY MARKET AREA

#### Primary Market Area Definition

The Primary Market Area (PMA) is the geographic area that provides the majority of demand to support office properties within the station area. The boundaries of the PMA are determined by a number of factors including property type, accessibility, physical barriers, location of competing facilities, and limitations of driving time or distance.

The PMA used for this analysis, highlighted in blue in Exhibit O10, consists of an area referred to as the SeaTac/Burien office submarket.

Exhibit O10 - Primary Market Area Map



### Competitive Supply

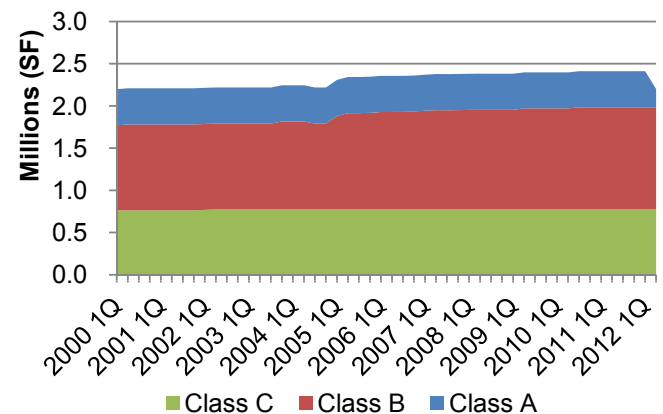
#### Inventory

The total inventory in the PMA consists of 197 buildings containing a total of approximately 2.4 million square feet of office space; this inventory represents approximately 13% of total office inventory in the Southend market.

Approximately 258,000 square feet, or 10% of the total office space in the PMA, was built since 2000. During this same period, approximately 193,000 square feet of office space was demolished. After accounting for demolitions, only 65,000 net new square feet of inventory has been added since 2000.

Approximately 40% of the existing inventory was built between 1980 and 2000; the remaining 50% was built before 1980. A portion of the office product built before 1980 will come out of the office inventory each year as it becomes functionally obsolete.

Exhibit O11 - PMA Office Market Inventory by Class



As shown in Exhibit O11, of the total inventory in the PMA approximately 18% is Class A space; approximately 50% is Class B space; and approximately 32% is Class C



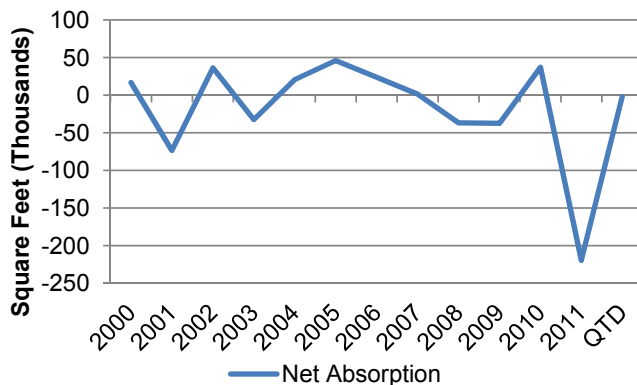
## South 200th Station Area Market Report

space. It is worth noting that slightly more than half of the Class A space within the PMA is consolidated within the SeaTac Office Center, a two tower project adjacent to the SeaTac Airport.

### Absorption

Net absorption, which represents the change in occupied office space from one year to the next, has been negative for four of the last five years. As shown in Exhibit O12, since 2000 cumulative net absorption has totaled negative 218,000 square feet; most of this loss occurred in 2011 when Boeing vacated 211,000 square feet of space in the SeaTac Office Center's north tower. As of June 2012, year-to-date net absorption stands at approximately negative 2,000 square feet.

Exhibit O12 - PMA Office Market Net Absorption



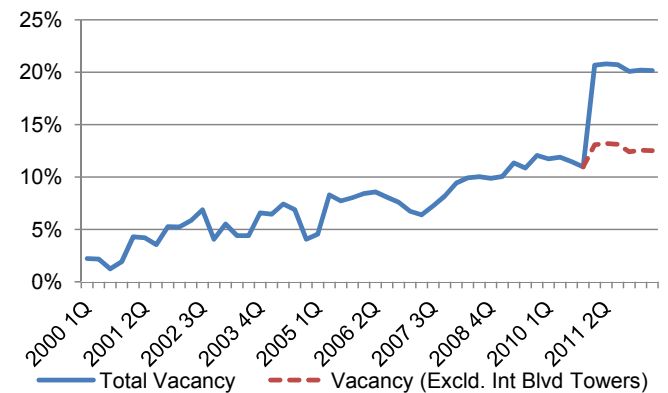
### Vacancy

Of the total inventory within the PMA, approximately 20% or 486,000 square feet is currently vacant. As shown in Exhibit O13, vacancy almost doubled in the first quarter of 2011; this jump is almost exclusively due to Boeing vacating 211,000 square feet of space in the SeaTac Office

Center's north tower. To demonstrate the significance that the Boeing vacation had on vacancy in the PMA, the red line in Exhibit O13 represents vacancy after discounting the effect of Boeing's vacation. Although removing this space decreases vacancy significantly, it still stands at slightly higher than 12%.

The amount of vacant sublease space in the PMA currently totals only 5,548 square feet, or less than .03% of the total vacant office space.

Exhibit O13 - PMA Office Market Vacancy by Class



### Largest Lease Signings

According to Costar.com, there have been 204 office leases signed in the PMA within the last 12 months. Of these leases, only three were for more than 5,000 square feet of space. These three leases include a 9,900 square foot lease and a 7,200 square foot lease in the SeaTac Office Center, and a 7,386 square foot lease in the Heritage Plaza Building.

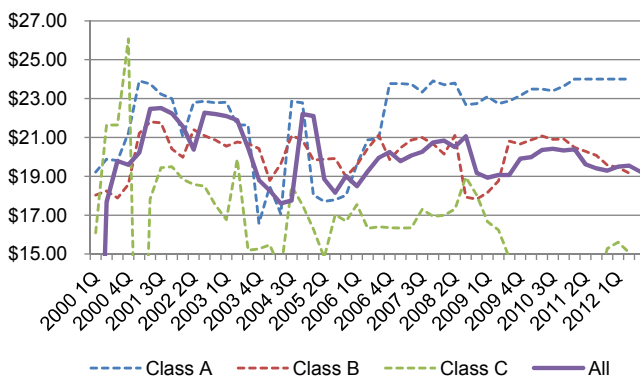
## South 200th Station Area Market Report

### Rental Rates

Average quoted rental rates in the PMA are currently \$19.25 per square foot, per year, full service. This is down 13% from a five year peak of \$22.20 in second quarter 2002. As shown in Exhibit O14, rents have fluctuated between \$17.59 and \$22.51 per square foot since 2000.

The average quoted rental rate for buildings completed since 2000 is currently \$20.41 per square foot, full service. This is down 22% from the ten year peak of \$26.21 per square foot reached in the second quarter of 2010. Combined, taxes and operating expenses for office space built since 2000 currently averages \$7 per square foot of rentable building area.

Exhibit O14 - PMA Office Market Rental Rates by Class



### Deliveries, Construction, and Proposed Projects

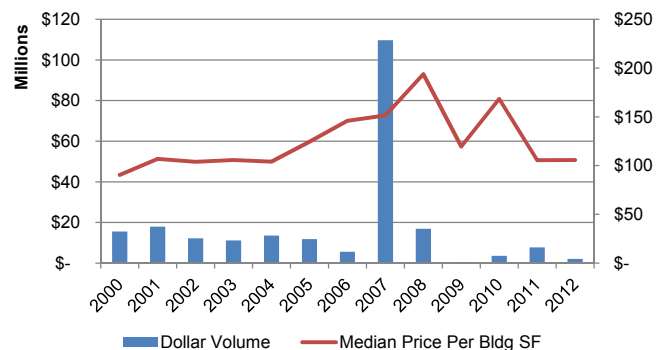
There has been no office space delivered to the PMA in the last 12 months and there are no projects currently under construction.

A survey of market participants revealed four large office projects in the planning stages proposed within the PMA. Each of the projects is speculative and may not get built in the next five years, if ever. Combined, the projects would represent an estimated 765,000 square feet of office space.

### Sales Activity

Since 2000 Costar.com has tracked 103 office building sales in the PMA worth a total of \$228.5 million dollars. Exhibit O15 shows the median price of the sales ranging from a low of \$97 per square foot in 2004 to a high of \$196 in 2008. In the last 12 months there have been five office building sales in the PMA, ranging from \$275,000 to \$4,000,000. Of these five sales three were purchased by owner/users. Since 2000 there have been 35 owner/user building transactions, representing approximately 35% of the total transactions within the PMA.

Exhibit O15 - PMA Office Market Sales Activity



### Development Feasibility

The high-level feasibility analysis, presented in Exhibit O16, demonstrates the relationship between the cost to construct new multi-story office space and the value that is created from the income that is generated. The analysis is based on comparable data from a variety of sources, including industry norms, comparable land sales, RS Means Construction Cost estimates, comparable rental rates, and comparable capitalization rates. The analysis is a fairly optimistic “back of the napkin” assessment used to help practitioners assess the potential feasibility and reasonableness of completing more in-depth analysis.

## South 200th Station Area Market Report

The analysis assumes that a 20,000 square foot, four story, wood framed office structure is built with a parking ratio of 4 spaces per 1000 square feet.

According to the latest Price Waterhouse Cooper Investor Survey, the typical investor is requiring margins of around 10% for suburban office product in the Northwest. As shown in Exhibit O15, when targeting a 10% profit margin,

the analysis suggests that net rental rates for new space would need rents of around \$27 per square foot, or \$34 per square foot gross to make development financially feasible. Exhibit O15 shows the short-fall in profitability associated with rental rates that are currently achievable in the market today, and indicates that the project is not feasible.

### Exhibit O16 - Office Development Snapshot

#### PMA Office

For Lease

<b>Project Summary</b>	Units	GSF	RSF
Land		50,400	
Office		20,000	20,000
Parking*	80	28,000	

<b>Project Cost</b>	Unit	Cost
Land	\$30	\$1,512,000
Hard Cost		
Sitework	\$5	\$252,000
Surface Parking	\$2,000	\$160,000
Office Space**	\$153	\$3,060,000
Tenant Improvements	\$20	\$400,000
Soft Costs	25%	\$868,000
		<u>\$6,252,000</u>

<b>Income &amp; Capitalized Value</b>	Unit	Annual Rent
Commercial Net Rent***	\$19.00	\$380,000
NOI (Vacancy Adjustment)	5%	\$361,000
Capitalized Value	7.50%	<u>\$4,813,333</u>

<b>Margin Calculation</b>	% Margin	Margin
Margin	-23%	<u>-\$1,438,667</u>

Source: Analysis by Kidder Mathews; \*Parking ratio assumes 4 surface spaces per 1000sf. \*\*RS Means provided hard cost data for four story office building. \*\*\*Operating expenses equal to \$7 per SF.

<b>Project Summary</b>	Units	GSF	RSF
Land		50,400	
Office		20,000	20,000
Parking*	80	28,000	

<b>Project Cost</b>	Unit	Cost
Land	\$30	\$1,512,000
Hard Cost		
Sitework	\$5	\$252,000
Surface Parking	\$2,000	\$160,000
Office Space**	\$153	\$3,060,000
Tenant Improvements	\$20	\$400,000
Soft Costs	25%	\$868,000
		<u>\$6,252,000</u>

<b>Income &amp; Capitalized Value</b>	Unit	Annual Rent
Commercial Net Rent	\$27.25	\$545,000
NOI (Vacancy Adjustment)	5%	\$517,750
Capitalized Value	7.50%	<u>\$6,903,333</u>

<b>Margin Calculation</b>	% Margin	Margin
Margin	10%	<u>\$651,333</u>

## South 200th Station Area Market Report

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### Demand

#### Office Using Employment

To understand the dynamics of the Primary Market Area, it is instructive to forecast future market conditions. The demand for office space is driven primarily by employment growth. Employment growth is typically a function of business activity and population growth. According to census data there were 55,747 employed citizens in the PMA in 2010, up from 54,019 in 2000 and from 53,034 in 1990. According to Costar.com, there was 2.15 million square feet of occupied office space in the PMA, or approximately 40 square feet of occupied office space per employee in 2010. In 2000 there was also approximately 40 square feet of occupied office space per employee in the PMA.

ESRI forecasts the number of employees to increase by 2,201, to 57,948 employees between 2010 and 2015; this represents an annual compound growth rate of .78%. Assuming this growth trend continues through 2017 and the number of square feet per employee holds constant at 40 square feet, demand for office space in the PMA would increase by a total of approximately 52,000 square feet over the next five years.

#### Forecast

Exhibit O17 shows the amount of new space delivered to the market since 2000 in gray. The blue bars represent the amount of space absorbed by the market each year. The trend line, in red, displays the historical and projected market vacancy. The forecast relies on the following assumptions:

- Approximately 15% of the office space proposed to come online over the next five years is included in future deliveries.

- Projected demolitions are based on the ten year historic average.
- The amount of occupied office space per employee is held at 40 square feet through the second quarter of 2017.
- Employment is projected to grow by .78% per year through 2017. This matches ESRI's employment projections through 2015.

The analysis suggests that an additional 10,500 square feet of net new office space will be demanded annually and 7,000 net square feet will be delivered annually, bringing office vacancy in the PMA down to 18% by second quarter 2017.

Conversations with Southend office specialists described the PMA as a market area that was not likely to attract significant speculative office development in the foreseeable future. Although this reinforces the findings of the analysis, there was also a general consensus that a large office user entering the market would have a significant effect on the health of the overall office market. While a large office space user has not entered the market in over a decade, it is possible that one may materialize. For example, the FAA has discussed consolidating its operations into a new campus in the Southend market. The requirement totals 450,000 square feet of office space and would be occupied by 1,500 to 3,000 office workers. If located within the PMA area it would be a "game changer" and act as a catalyst for other new projects in the area. If this were to happen, demand would likely increase beyond current projections.

## South 200th Station Area Market Report

Exhibit O17 - PMA Office Forecast

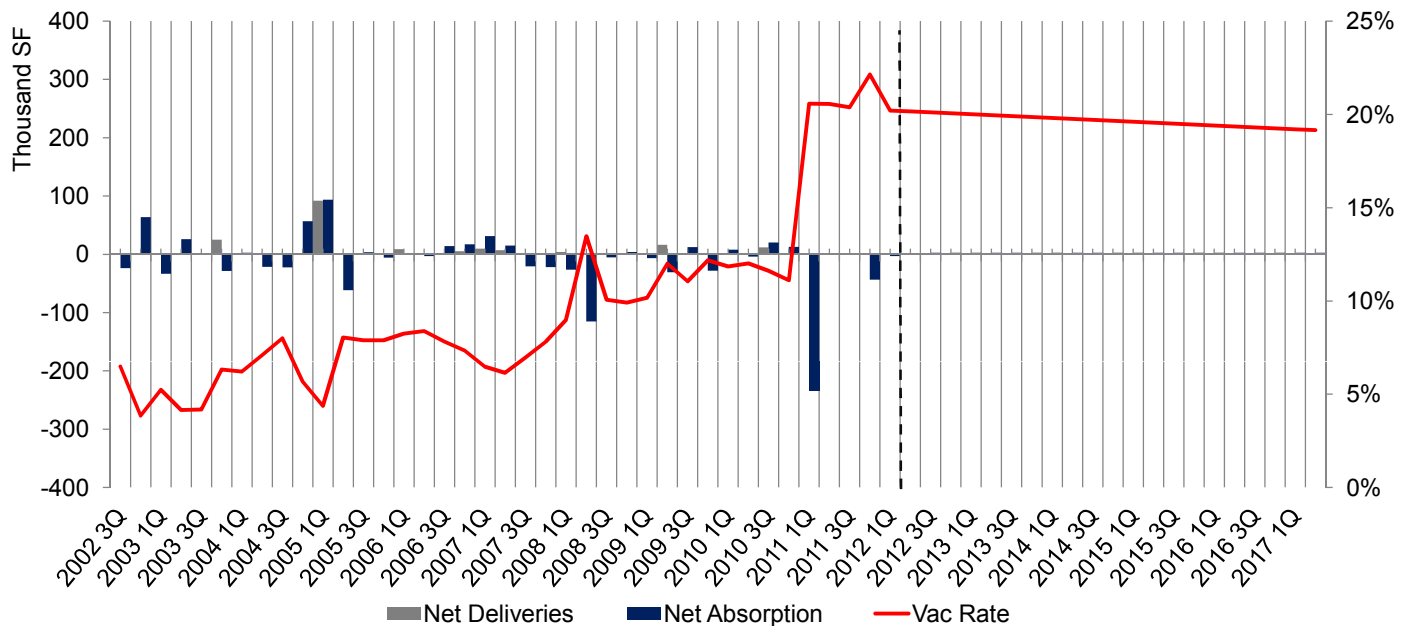
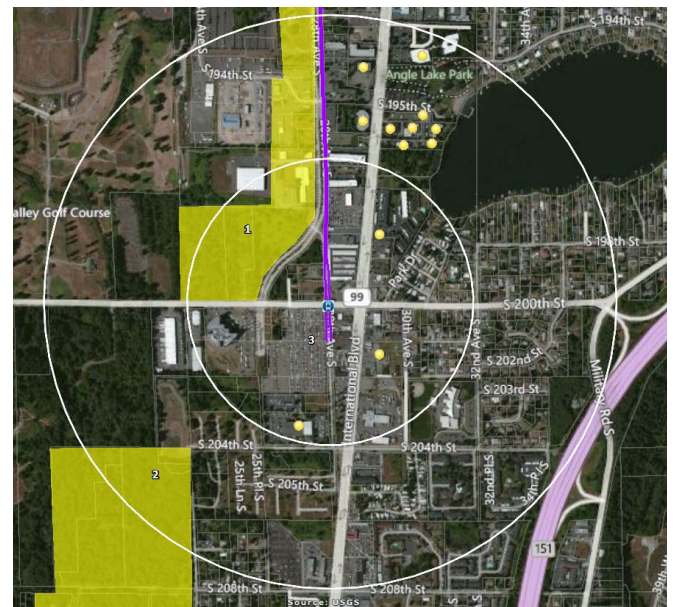


Exhibit O18 - Primary Market Area Map

## HALF MILE STATION AREA

### Station Area Definition

The subject of the analysis, shown in Exhibit O18, is the half-mile area surrounding the future South 200th Street Link Light Rail Station. The Station Area consists of approximately 500 acres of land. The outer circle represents the half-mile area, and corresponds to the distance over which someone from the edge of the circle can reach the center within 10 minutes, walking at 3 mph. The inner circle represents the quarter-mile area, and corresponds to the distance over which someone from the edge of the circle can reach the center within 5 minutes, walking at 3 mph.



## South 200th Station Area Market Report

### Competitive Supply

#### Inventory

As shown by the yellow dots in Exhibit O18, there are 12 buildings representing 293,777 square feet of office inventory within the half-mile station area. Of these twelve buildings only three are located within the quarter-mile area, the rest are clustered in an area to the north of the quarter-mile area along International Boulevard. The existing office space consists exclusively of Class B and C buildings constructed more than 25 years ago.

#### Absorption, Vacancy, and Rental Rates

Net absorption has been fairly flat since 2000, with an average of only 1,893 net square feet of office space absorbed annually.

As shown in Exhibit O19, office vacancy currently sits at 8.1%, half of what it was at its ten year peak of 15.6% in the second quarter of 2009. Average asking rental rates are currently \$19.92 per square foot, full service. This is down from a ten year peak of \$24.27 in the second quarter

Exhibit O19 - Half Mile Station Area



of 2005.

#### Deliveries, Construction, and Proposed Projects

According to Costar.com, there has been no office space delivered to the station area in the last decade and there are no office projects currently under construction.

A survey of market participants revealed three large office projects that, if built, could potentially transform the station area. The following paragraphs describe each of the three proposed projects:

1. The first proposed project, marked as Site 1 in Exhibit O18, is a 40 acre commercially zoned property located to the south of the SeaTac Airport and adjacent to the proposed S. 200th Park and Ride property. This site is owned by the Port of Seattle. The Port is aggressively marketing the property to the Federal Aviation Administration (FAA) which is in the market for up to 450,000 square feet of office space. In anticipation of the FAA, the Port had a high level site development plan created which envisions up to 480,000 square feet of office space. It is unlikely that this property would be developed speculatively and unknown if the Port would continue marketing the property if the FAA wasn't actively pursuing space. It is worth noting that the FAA's project is dependent on funding approval from the GSA, which is up for review. The Federal government typically conducts a thorough review of proposed projects in an attempt to approve real estate projects that maximize the benefit of each tax dollar spent. This could work in the FAA's favor, as the Southend requirement was designed to consolidate existing operations in order to reduce



## South 200th Station Area Market Report

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operating expenses.

2. The second project, marked as Site 2 in Exhibit O18, is the 89 acre Des Moines Creek Business Park. Like Site 1, this project is owned by the Port of Seattle and is being marketed to the FAA. The site plan envisions almost 1.1 million square feet of mixed-use space including a significant office component. In June of 2012 the Port of Seattle approved a ground lease for 21 acres of this property to Puget Sound Energy. According to Puget Sound Energy, the utility plans to develop 281,000 square feet of warehouse space and potentially another 125,400 square feet office space in the future.
3. South 200th Street Station LLC owns 9.2 acres of surface parking, plus 2.2 acres of undeveloped land directly to the south of the proposed S. 200th Park and Ride property. This property is labeled as Site 3 in Exhibit O18. The owners currently run the SeaTac Park park-and-fly operation on the property, but have discussed plans for a large mixed use development. The exact square footage and mix of uses has not been determined yet; however, the property has been proposed for the FAA request.

### Lease and Sales Activity

The only lease for more than 2,000 square feet of office space within the station area over the last 24 months was for 2,405 square feet of space to Elliott Bay Mortgage in the Park Place Plaza Building located at 19550 International Blvd. There are currently three office spaces for lease, which are listed below.

1. A 15,571 square foot space is being offered for \$20.00 per square foot, full service, in the IBEW Local 77 Headquarters building. This Class B space has been on the market for 33 days.
2. A 1,477 square foot space is being offered for \$19.50 per square foot, gross, in the Shores II at Angle Lake

Building. This Class C space has been on the market for 460 days.

3. A 2,153 square foot space is being offered for \$18.50 per square foot, full service, in the Park Place Plaza Office Building. This Class B space has been on the market for 815 days.

The only building sold within the station area over the last 24 months was the 31,032 square foot Airport Plaza Building located at 19415 International Blvd. This building sold for \$3.4 million as part of an REO transaction in June of 2011. This property was then resold for \$4.0 million in October of 2011. The one office building currently for sale is the 18,912 square foot Park Place Plaza Office Building. The asking price for this Class B Building is \$2.5 million, or \$132.19 per square foot.

### Land

Most of the commercial land in SeaTac is zoned to allow for a mix of uses including both office and retail development. According to a buildable lands survey conducted by the City of SeaTac in 2006, there was a total of only 8.76 acres of redevelopable land with commercial capacity (that allows for office development) and 7.01 acres of vacant land with commercial capacity within the half mile station area. The assessed value of the vacant commercial parcels within the station area generally ranges between \$20 and \$30 per square foot of land.

There are currently four commercial development sites for sale within the station area. These sites range in size from .24 acres to 1.87 acres and are priced from \$27.58 per square foot to \$58.86 per square foot. With one exception, all of the properties have been on the market for over a year.

The Port also has two large mixed-use assemblages that cross into the half-mile station area. Both properties are currently marketed for ground lease, however much of the

## South 200th Station Area Market Report

property suitable for office development falls outside of the half-mile area.

Exhibit O20 presents a number of relevant land sales within a mile of the proposed station area. The data suggests that since 2005, land has transacted for between

### Exhibit O20 - Commercial Land Sales

Property	Zoning	Sale Date	Land/SF	Sale Price	Price/SF	Buyer/Seller	Sale Condition
1 28th Ave S	CBC	Listing	33,976		\$58.87		
2 20406 Pacific Hwy S	CB-C	Listing	81,587		\$23.90		
3 21212 International Blvd	UH900	Listing	89,798		\$17.82		
4 20023 International Blvd	CB-C	Listing	30,958		\$48.45		
5 20842 Pacific Hwy S	CBC	Listing	22,215		\$27.01		
6 20658 International Blvd	CBC	Listing	10,598		\$51.90		
7 20658 International Blvd	CBC	10/19/2009	10,598	\$170,000	\$16.04	/The Vanderbilt University	Soil Contamination Issue
8 21050 International Blvd	CB	10/15/2008	65,753	\$1,680,000	\$25.55	Robert & Myung Shin/	
9 20440 International Blvd	C-BC	10/26/2007	290,545	\$4,999,500	\$17.21	/Fife Motel Inc	1031 Exchange
10 21212 International Blvd	UH900	9/17/2007	89,798	\$1,620,000	\$18.04	GWC/Kelly R Barrett	
11 20627 Military Rd	CB	8/1/2007	24,829	\$800,000	\$32.22	Platinum Properties II/Sukhdev	1031 Exchange
12 S 208th St	ABC	2/7/2007	25,961	\$803,150	\$30.94	NA	
13 28th Ave S	CBC	11/29/2005	33,976	\$900,000	\$26.49	Condor Development LLC	

\$16 and \$32 per square foot of land area and averaged approximately \$24 per square foot.

Although no relevant land transactions have taken place since late 2009, the asking price for the five properties currently listed averages \$38 per square foot, or 54% higher than the average sales price since 2005. Three of the properties that are currently listed were purchased since 2005; of these properties the re-listing prices are up by an average of 102%, from \$20.19 per square foot to an average of \$42.86 per square foot. Until one of these properties transacts it is difficult to know if the sellers have realistic price expectations. It is instructive to note that the five listings have been on the market for an average of 44 months, suggesting that they may be overpriced. For the purposes of this study it is assumed that land zoned to

allow for retail or office development would sell today for \$30 per square foot.

### Location Analysis

The attributes of an area can be evaluated to determine its strengths and weaknesses in the market from the

perspective of a typical office user. In office site selection, location is multi-faceted. Its elements include, among other factors, proximity of housing, walkability, access to public transportation, public planning and zoning, the cost of doing business, direction of office growth, physical barriers, proximity of complementary retail retailers, and the cost of land. The following section describes these attributes as they relate to the South 200th station area.

- **Travel Time to Employee Housing:** The neighborhoods surrounding the half-mile station area are moderately priced relative to much of the housing to the north and east of Seattle. The relatively inexpensive cost of housing minimizes travel time for lower cost labor such as support staff.

## South 200th Station Area Market Report

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- **Travel Time to Executive Housing:** The subject is not well located to executive housing; the most notable exception to this would be the western half of the Normandy Park neighborhood located approximately 1.5 miles to the west of the station area. A lack of executive housing options makes the location less attractive to executives who are often key site selection decision makers.
- **Land Cost:** Relative to office markets closer to downtown Seattle and Bellevue, land within the half mile station area is inexpensive. There are areas like downtown Renton, however, that offer land at comparable prices but with more amenities in close proximity.
- **Public Planning and Zoning:** Much of the commercial land within the station area is zoned to allow for a mix of commercial uses including office development.
- **Cost of Doing Business:** Businesses in SeaTac profit from the absence of a local Business and Occupation (B&O) tax, which is imposed by many Washington cities. The City of SeaTac does not impose a utility tax on businesses or residents. The business license fee in the City of SeaTac is a reasonable flat fee of \$35 per business.
- **Direction of Growth:** There has been little multi-story office space built in the area surrounding the half mile station area over the last two decades.
- **Proximity to Complementary Retail Uses:** Complementary retail uses are viewed as a positive by employers who like to have lunch offerings nearby in order to cut down on lunch breaks and other retail services that enable employees to take care of errands quickly. There are five restaurants and four grocery/convenience stores within the station area. There is also a day-care service, bank, pharmacy, fitness center, and post office located within a mile of the station area. The most notable retail offering missing within close proximity to the station area is an office supply store.
- **Walkability:** Today the station area is primarily an automobile served destination. Foot traffic on the sidewalks in the immediate vicinity have only limited use. According to Walk-Score.com the station area is “car dependent” and scores 40 out of 100 points on its walkability scale.
- **Public Transportation:** The station area is currently served by one bus line and receives a transit score of 44 out of 100 on Walkscore.com’s transit accessibility scale. Public transportation will significantly improve once the South 200th St. Link Light Rail Station is completed.

## CONCLUSION

The Subject’s Primary Market Area (PMA) consists of 2.4 million square feet of office space, making up approximately 8% of the total Southend office inventory. This market, which has struggled to gain traction over the last dozen years, is primarily driven by airport related office users like Boeing and Alaska Airlines. Although 258,000 gross square feet of space was added to the market since 2000, over 193,000 square feet was demolished over this same period, for a net addition of only 65,000 square feet. Since 2000, annual net absorption has averaged approximately negative 18,000 square feet, causing vacancy to steadily increase from below 2% in 2000 to just above 20% today. Average asking rental rates in the PMA are currently \$19.25 per square foot, full service for all

## South 200th Station Area Market Report

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office space, and \$20.41 per square foot for office space built since 2000. A five year vacancy forecast based on historic absorption rates, forecasted employment growth, and known proposed office projects, projects vacancy in the PMA to fall to 18% in the second quarter of 2017. While this is lower than current vacancy it is still far above the 5% vacancy rate typically required for developers to consider speculative development.

Vacancy within the half-mile station area is currently 8.1%. Rental rates only average \$19.92 per square foot, which is not enough to support new office development, and according to Costar.com there has been no new office space built in the station area over the last 25 years. A generic development feasibility snapshot shows that even if vacancy decreases to 5%, rental rates would need to improve far more than projected to attract speculative office development.

What the data does not indicate, and cannot predict, is the

possibility that a large office user may choose to locate or significantly expand existing operations in the station area. While these deals are rare, it is possible that one might materialize. There are currently three known properties within the station area that are set up to accommodate this type of requirement.

In conclusion, the data indicates that there has been little demand for new office space in the half-mile station area over the last few decades; furthermore, unless a large office user locates within the station area and catalyzes the market; it is unlikely that speculative office development will occur over the next five years.

## South 200th Station Area Market Report

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# Retail Market

## INTRODUCTION

A retail property's primary intended use is to promote, distribute or sell products and services to the general public. It will often be in high traffic or easily accessible areas. Retail buildings are configured for the display of merchandise or the interaction of company sales personnel with others.

- Retail buildings can be used for various sales opportunities, and can generally be broken into the following four categories:
- General Retail spaces are typically single tenant freestanding general purpose commercial buildings with parking. Many single retail buildings fall into this category.
- Power Centers typically consist of several freestanding (unconnected) anchors and only a minimum amount of small specialty tenants. A Power Center is dominated by several large anchors, including discount department stores, off-price stores, warehouse clubs, or "category killers," i.e., stores that offer tremendous selection in a particular merchandise category at low prices. Power centers typically range in size from 250,000 SF to 600,000 SF.
- Shopping Centers include community centers (they typically have a total square footage between 100,000 and 350,000 SF), neighborhood centers (provides for the sales of convenience typically between 50,000 and 100,000 SF), and strip centers (10,000 to 50,000 SF attached row of stores or service outlets managed as a coherent retail entity, with on-site parking usually located in front of the stores).

- Malls include lifestyle centers (an upscale open center, usually without anchors, about 300,000 SF or larger), regional malls (provides shopping goods, general merchandise, apparel, furniture, and home furnishings and is between 300,000 and 750,000 SF) and super regional malls (similar to regional malls, but 750,000+ SF in size)

The following market report describes the supply and demand characteristics of the retail market within the half mile area surrounding the future South 200th St. Link Light Rail Station. To provide context, the report begins with a high level description of the existing conditions in the Southend retail market. A more in depth analysis of the subject's Primary Market Area (PMA) including a five year demand forecast, and project development snapshot, is then laid out to provide an understanding of the potential for future retail development in the subject's greater competitive market. The report concludes with a narrative of the existing market conditions within the half mile station area including a description of the potential (or lack thereof) for retail development within the station area.

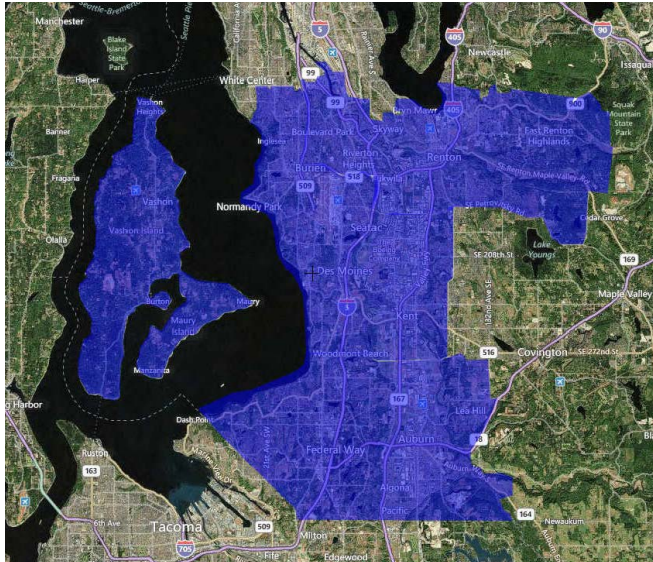
## SOUTHEND RETAIL MARKET

### Southend Market Area Definition

For the purposes of this study, the Southend market shown on the following page, in Exhibit R1, is reasonable for describing the subject's Secondary Market Area (SMA). This area represents the subject's greater competitive market and consists of the combined Federal Way/Auburn, SeaTac/Burien, Vashon/Maury, Kent, and Renton/Tukwila submarkets as described by Costar.com.

## South 200th Station Area Market Report

Exhibit R1 - Southend Market Map



### Competitive Supply

#### Inventory

There are 2,115 buildings containing 31.4 million square feet of retail space within the Southend Market. Approximately 24% of the total inventory, or 7.5 million square feet, was built since 2000. Of the total inventory, approximately 13.9 million square feet, or 44%, is general retail space, approximately 5.1 million square feet is located within malls, 1.2 million square feet within Power Centers, and the remaining 11.2 million square feet is located within shopping centers.

### Absorption, Vacancy, and Rental Rates

Since 2006, annual net absorption has ranged between negative 307,000 square feet in 2009, to positive 1.21 million square feet in 2007. Over this same period, annual net absorption averaged 16,600 square feet. In the last 12 months net absorption in the Southend market totaled 305,000 square feet.

As of second quarter 2012, vacancy in the Southend Market stands at 7.4%, representing 2.3 million square feet of vacant space. Asking rental rates average \$15.58 per square foot, per year, triple net. This is down from a five year high of \$21.82 per square foot in the first quarter of 2008. For buildings built since 2000, vacancy is currently 5.6%. The average asking rental rate in buildings built since 2000 is \$19.72 per square foot, down from a five year peak of \$30.95 per square foot in the second quarter of 2008.

Exhibit R2 breaks out average absorption, vacancy, and rental rates in the Southend market by retail product type. As shown, with the lowest vacancy and highest asking rental rates, malls are the healthiest retail product type in the Southend market. General retail has the second lowest vacancy, although it also has the lowest average asking rental rates.

Type	Existing Inventory		Vacancy			YTD Net Absorption	Quoted Rates
	# Bids	Total GLA	Direct SF	Total SF	Vac %		
General Retail	1,471	13,856,156	641,537	661,865	4.8%	201,447	\$14.03
Mall	5	5,146,188	163,046	166,546	3.2%	(32,672)	\$28.79
Power Center	3	1,219,445	207,718	245,032	20.1%	(88,474)	\$27.43
Shopping Center	265	11,223,394	1,248,114	1,297,015	11.6%	69,528	\$16.00

Source: Costar.com



## South 200th Station Area Market Report

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### Demand

#### Demographics

In 2000 the population in the Southend retail market was 477,180, this compares to 526,103 people in 2010; it is projected to increase by 29,273, to 555,376 in 2015. The average annual rate of growth between 2000 and 2010 was 1.06%; between 2010 and 2015 the average annual growth rate is expected to be 1.09%.

According to census data there were 262,122 employed citizens in the Southend market in 2010; this was up from 241,401 in 2000.

By gender the population is balanced, in 2010 it consisted of 50% males and 50% females. By race the population is 65% white, 14% Asian, with the balance made up of other races. The median age is 36.2 years old, and approximately 55% of the housing units are owner occupied.

In 2000 there were 186,847 households in the Southend market. In 2010 the number increased to 205,612, and is expected to grow to 217,101 by 2015. The average annual growth rate between 2000 and 2010 was 1.04% per year, and is projected to grow by 1.09% per year through 2015.

As of 2010 the median household income was estimated to be \$67,045; this figure is projected to grow to \$78,983 by 2015. The average annual rate of change in household

income between 2000 and 2010 was 3.84%; from 2010 to 2015 the average household income is expected to increase by 3.33% per year. The median disposable household income was \$53,646 in 2010.

#### Retail Potential

Supply (retail sales) is an estimate of sales to consumers by establishments. Sales to businesses are excluded. Demand (retail potential) is an estimate of the expected amount of expenditures by consumers at retail establishments. The Leakage/Surplus Factor presents a snapshot of retail opportunity. This is a measure of the relationship between supply and demand that ranges from +100 (total leakage) to -100 (total surplus). A positive value represents 'leakage' of retail opportunity outside the trade area. A negative value represents a surplus of retail sales, a market where customers are drawn in from outside the trade area. The retail gap represents the difference between retail potential and retail sales.

According to ESRI, as of 2010 there were a total of 4,358 retail businesses in the Southend market. As shown in Exhibit R3, in 2010 there was a total of \$9.5 billion in retail expenditures made. Of this figure, \$8.5 billion was in retail trade and \$984 million was in food and drink. The data suggests there is \$3.6 billion in retail surplus in the Southend market representing a leakage factor of -23%.

*Exhibit R3 - SMA Retail Leakage (2010)*

#### Industry Summary

	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap (Demand - Supply)	Surplus / Leakage Factor
Total Retail Trade and Food & Drink (NAICS 44-45, 722)	\$5,938,265,703	\$9,536,341,796	<b>-\$3,598,076,093</b>	<b>-23.3</b>
Total Retail Trade (NAICS 44-45)	\$5,090,881,010	\$8,552,394,516	<b>-\$3,461,513,506</b>	<b>-25.4</b>
Total Food & Drink (NAICS 722)	\$847,384,693	\$983,947,280	<b>-\$136,562,587</b>	<b>-7.5</b>

## South 200th Station Area Market Report

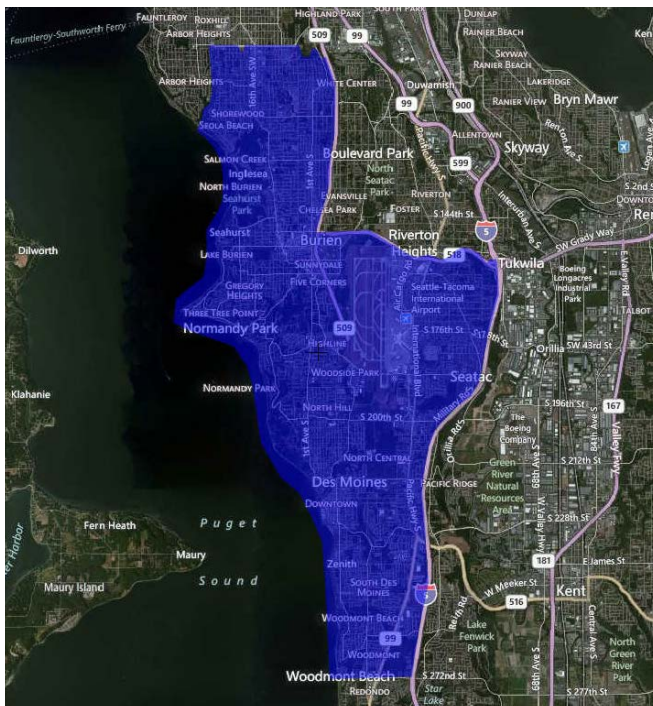
### PRIMARY MARKET AREA

#### Primary Market Area Description

The Primary Market Area (PMA) is the geographic area that provides the majority of demand to support retail activity.

For this analysis the PMA, shown in Exhibit R4, consists of an area referred to as the SeaTac/Burien office submarket.

Exhibit R4 - Primary Market Area Map



Approximately 1.2 million square feet, or 21% of the total retail space in the PMA, was built since 2000.

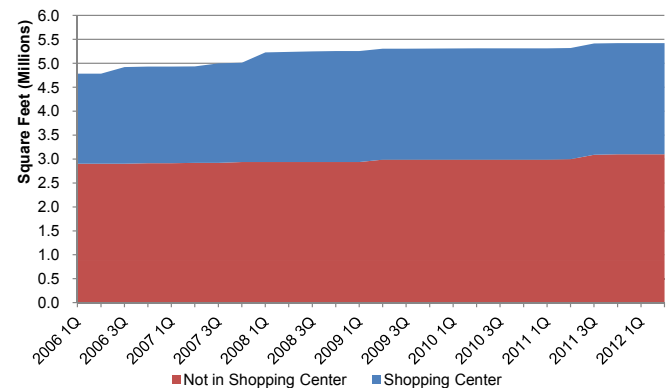
Approximately 24% of the inventory was built between 1980 and 2000; and the remaining 55% was built before 1980.

The fact that over half of the inventory in the PMA was built before 1980 is notable, as a portion of this space will come out of the inventory each year as it becomes functionally obsolete.

#### Inventory by Type

As shown in Exhibit R5, approximately 57%, or 3.1 million square feet of the total retail inventory consists of general retail space. The remaining 2.3 million square feet of retail space is located within shopping centers. There are currently no malls or power centers located within the PMA.

Exhibit R5 - PMA Retail Market Inventor by Type



#### Competitive Supply

##### Inventory

The total retail inventory in the PMA consists of 580 buildings containing a total of approximately 5.4 million square feet of space; this inventory represents approximately 17% of the total inventory in the Southend market.

#### Absorption

Since 2006 net absorption has totaled approximately 581,000 square feet; this represents an average of approximately 89,000 square feet of annual net absorption. As of the end of June 2012, year-to-date net absorption stands at 33,076 square feet of retail space.

## South 200th Station Area Market Report

### Vacancy

Of the total 5.4 million square feet of retail space in the PMA, approximately 7.6%, or 411,485 square feet, is currently vacant. As shown in Exhibit R6, vacancy in buildings built since 2000 is currently at 6.7%, representing approximately 80,000 square feet of space.

Vacancy in retail space located within shopping centers is currently at 10.4%; this is more than double the vacancy of general retail space, which is currently only 5.1% vacant.

Exhibit R6 - PMA Retail Market Vacancy



### Largest Lease Signings

According to Costar.com, there have been 27 retail leases signed in the PMA since the beginning of 2012. Of these leases, five were for more than 5,000 square feet of space. These five leases included a 20,253 square foot lease to Centro Familiar Cristiano in a building located at 10612 15th Ave. SW for \$6.00 per square foot, triple net; a 8,800 square foot lease to Payless Car Rental at 20636 International Blvd. for \$20.46 per square foot, triple net; a 8,600 square foot lease to Africa Fish at 115 SW 153rd St. for \$6.60 per square foot, full service; a 7,500 square foot

lease to an unknown tenant at 19815 International Blvd. for \$13.60 per square foot, triple net; and a 5,272 square foot lease at 11009 1st Ave. to NW Relocations for \$6.14 per square foot, triple net.

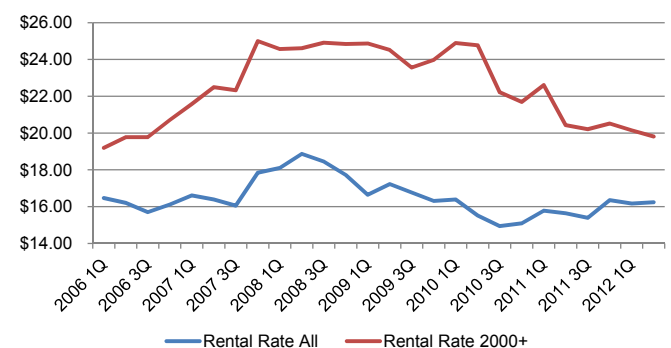
### Rental Rates

As shown in Exhibit R7, the average quoted rental rate for retail space in the PMA is currently \$16.24 per square foot, per year, triple net.

The average asking rental rate in shopping center space is \$17.79 per square foot, triple net. In general retail space the average asking rental rate is \$14.19 per square foot, triple net.

Average quoted rental rates for all buildings built since 2000 is currently \$19.81 per square foot. This is down from a five year peak of \$24.91 in the third quarter of 2008. Combined, operating expenses and taxes for retail space built since 2000 in the PMA average roughly \$6.75 per square foot, ranging from a low of \$5.50 to a high of almost \$9.00 per net rentable square foot of building area.

Exhibit R7 - PMA Retail Market Rental Rates by Class



## South 200th Station Area Market Report

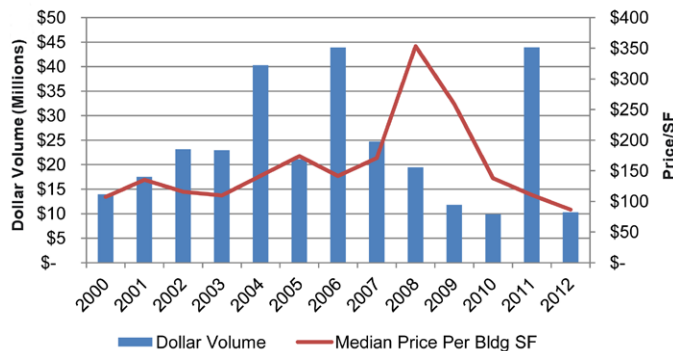
### Deliveries, Construction, and Proposed Projects

There were three buildings representing 101,000 square feet of retail space delivered in the PMA within the last twelve months. To provide context, since 2006 there has been an average of 99,000 square feet of space delivered to the market annually. There are no retail buildings currently under construction; there are ten known projects representing approximately 545,000 square feet of retail space proposed within the PMA. It is unknown when these proposed projects will be built, if ever.

### Sales Activity

Since 2000, Costar has tracked 279 retail building sales in the PMA, with a combined transaction value of approximately \$303 million dollars.

Exhibit R8 - PMA Retail Market Sales Activity



As shown in Exhibit R8, on a per square foot basis, the median price of the sales ranged from a low of \$62 per square foot in 2000 to a high of \$353 per square foot in 2008. In the last 12 months there have been 16 retail building sales in the PMA, ranging in price from \$378,000 to \$20 million, with cap rates ranging from 7.30% to 9.12%.

In addition to the 16 closed sales, there are two additional properties currently under contract.

### Development Feasibility

The high-level feasibility analysis, presented in Exhibit R9 demonstrates the relationship between the cost to construct new ground floor retail space in a multi-story mixed-use project, and the value that is created from the income that is generated. The analysis is based on comparable data from a variety of sources, including industry norms, comparable land sales, RS Means Construction Cost estimates, comparable rental rates, and comparable capitalization rates. The analysis is a fairly optimistic “back of the napkin” assessment used to help practitioners assess the potential feasibility and reasonableness of completing more in-depth analysis.

The analysis assumes 20,000 square feet of ground floor retail space with structured parking. The parking ratio is set at 3 spaces per 1,000 square feet.

As shown, when targeting a 15% profit margin the analysis suggests that net rental rates for new space would need to be in the neighborhood of \$30 per square foot, triple net, to make development of the space feasible. The market rent model below shows the short-fall in profitability associated with rental rates that are currently achievable in the market today, and indicate the project is not feasible.

### Demand

#### Demographics

In 2000, the population in the PMA was 111,435 people; it increased to 116,473 people in 2010. According to a population forecast by ESRI, the population in the PMA is estimated to reach 120,509 people by the end of 2015, representing an estimated annual growth rate of .68%. The total employee population, which represents all of those employed in businesses located within the PMA, is currently 59,097 employees.

## South 200th Station Area Market Report

### Exhibit R9 - Retail Development Snapshot

#### PMA Retail

For Lease

<b>Project Summary</b>	Units	GSF	RSF
Land		30,500	
Retail		20,000	20,000
Parking*	60	21,000	

<b>Project Cost</b>	Unit	Cost
Land	\$30	\$915,000
Hard Cost		
Sitework	\$5	\$152,500
Parking**	\$60	\$1,260,000
Retail Space**	\$137	\$2,740,000
Tenant Improvements	\$20	\$400,000
Soft Costs	25%	\$1,038,125
		<u>\$6,505,625</u>

<b>Income &amp; Capitalized Value</b>	Unit	Annual Rent
Commercial Net Rent	\$19.00	\$380,000
NOI (Vacancy Adjustment)	5%	\$361,000
Capitalized Value	7.75%	<u>\$4,658,065</u>

<b>Margin Calculation</b>	% Margin	Margin
Margin	-28%	<u>-\$1,847,560</u>

Source: Analysis Kidder Mathews; \*Parking ratio assumes 3 per 1000sf;

\*\*RS Means provided hard cost data for the retail and garage portion.

<b>Project Summary</b>	Units	GSF	RSF
Land		30,500	
Retail		20,000	20,000
Parking*	60	21,000	

<b>Project Cost</b>	Unit	Cost
Land	\$30	\$915,000
Hard Cost		
Sitework	\$5	\$152,500
Parking**	\$60	\$1,260,000
Retail Space**	\$137	\$2,740,000
Tenant Improvements	\$20	\$400,000
Soft Costs	25%	\$1,038,125
		<u>\$6,505,625</u>

<b>Income &amp; Capitalized Value</b>	Unit	Annual Rent
Commercial Net Rent	\$30.50	\$610,000
NOI (Vacancy Adjustment)	5%	\$579,500
Capitalized Value	7.75%	<u>\$7,477,419</u>

<b>Margin Calculation</b>	% Margin	Margin
Margin	15%	<u>\$971,794</u>

## South 200th Station Area Market Report

As of 2010, the population was evenly balanced by gender, with 50% male and 50% female. By race, the population is 62% White, 15% Asian, and 15% Hispanic with the balance made up of other races. The PMA scores 69.3% on the diversity scale, which is fairly high; to add perspective, King County scores 47.5%. The median age is 38 years old; this is slightly higher than the Southend market as a whole, which is 36 years old.

In 2000, there were 43,967 households in the PMA. In 2010 the number increased to 45,596, and is projected to grow to 47,130 households by 2015. The average household size was 2.5 people per household in 2010. Approximately 54% of the housing in the PMA is owner occupied.

As of 2010 the estimated median household income in the PMA was \$60,569. This figure is projected to grow by \$12,767, to \$73,336 by 2015.

### Retail Potential

According to ESRI, as of 2010 there were a total of 851 retail businesses in the PMA. As shown in Exhibit R10, there was a total of \$1.41 billion in retail expenditures made annually in the PMA. Of this figure, \$1.20 billion was in retail trade and \$210 million was in food and drink.

The data suggests there is \$181 million in retail surplus, representing a leakage factor of -6.8%.

### Forecast

To understand the dynamics of the Primary Market Area it is instructive to forecast future market conditions. Demand for retail space is driven primarily by population growth. In 2010, there were 116,473 people living in the PMA and 4,963,031 square feet of occupied retail space; this calculates to 43 square feet of occupied retail space per capita. This is in line with the national average; according to the International Council of Shopping Centers (ISCS) there was 46.6 gross square feet of leasable retail area per capita in the US.

The US Census Bureau put the population of the PMA at 111,435 people in 2000 and at 116,473 people in 2010. According to a population forecast by ESRI, the population of the PMA is forecasted to reach 120,509 people by the end of 2015, representing an estimated annual growth rate of .68%. Assuming the .68% annual growth rate continues through 2017, and the number of occupied retail space holds steady at 43 square feet of occupied space per capita, demand for retail space would increase by approximately 175,000 square feet over the next five years.

Exhibit R10 - PMA Retail Leakage (2010)

### Industry Summary

	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap (Demand - Supply)	Surplus / Leakage Factor
Total Retail Trade and Food & Drink (NAICS 44-45, 722)	\$1,231,153,328	\$1,411,774,828	-\$180,621,500	-6.8
Total Retail Trade (NAICS 44-45)	\$1,054,620,393	\$1,200,776,960	-\$146,156,567	-6.5
Total Food & Drink (NAICS 722)	\$176,532,935	\$210,997,868	-\$34,464,933	-8.9



## South 200th Station Area Market Report

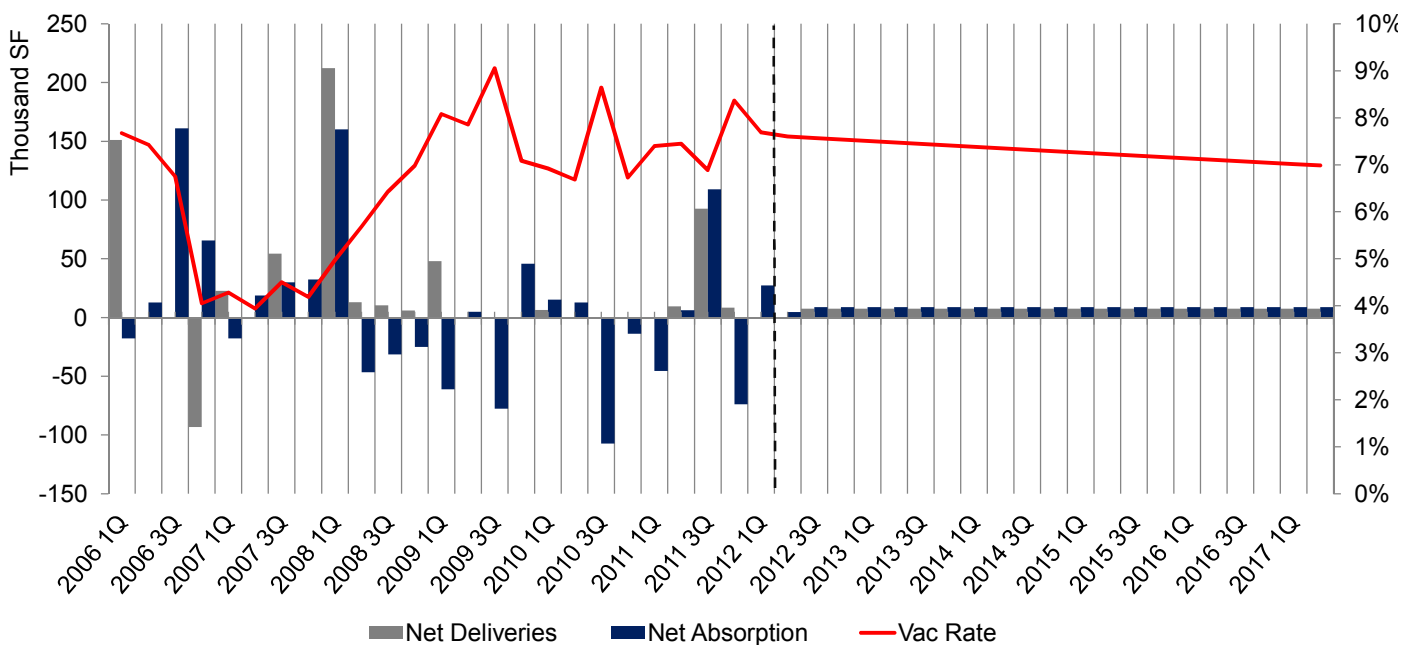
The graph in Exhibit R11 shows the amount of new retail space delivered to the market since 2000 in gray. The blue bars represent the amount of space absorbed by the market each year. The trend line, in red, displays the historical and projected market vacancy. The forecast relies on the following assumptions:

- Approximately 15% of the retail space proposed to come online over the next five years is included in future deliveries.
- Demolitions are based on the ten year historic average.

- The amount of retail space per capita is held at 43 square feet through the second quarter of 2017.
- Population is projected to grow by .68% per year through 2017. This matches ESRI's population projections through 2015.

The analysis suggests that an additional 35,000 square feet of net new retail space will be demanded annually, and 30,500 square feet will be delivered annually, bringing retail vacancy in the PMA down to 7.0% by second quarter 2017.

Exhibit R11 - PMA Retail Forecast



## South 200th Station Area Market Report

### HALF MILE STATION AREA

#### Station Area Description

The subject of the analysis, shown in Exhibit R12, is the half-mile area surrounding the future South 200th Street Link Light Rail Station. The Station Area consists of approximately 500 acres of land. The outer circle represents the half-mile area, and corresponds to the distance over which someone from the edge of the circle can reach the center within 10 minutes, walking at 3 mph. The inner circle represents the quarter-mile area, and corresponds to the distance over which someone from the edge of the circle can reach the center within 5 minutes, walking at 3 mph.

Exhibit R12 - Half Mile Station Area Map



#### Transit Oriented Retail

Today the South 200th Station area is primarily an

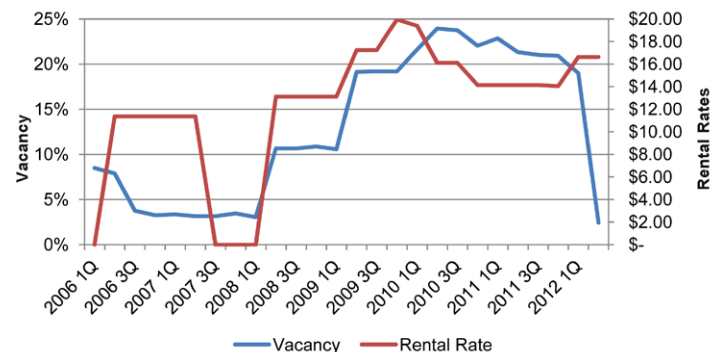
automobile served destination. Foot traffic on the sidewalks in the immediate vicinity have only limited use. In the transit oriented retail marketplace, until ridership becomes substantial (50,000 daily boardings or greater), demand is not adequate on its own to support retail. To add perspective, Sound Transit expects 4,500 daily boardings at the South 200th Station. To drive this point home, according to a Starbucks representative, demand for transit oriented retail is important; however, additional day-long traffic is required to support its model. In short, transit ridership contributes to, but does not make retail viable.

#### Competitive Supply

##### Inventory

As shown by the blue spheres in Exhibit R12, there are 20 buildings representing 98,488 square feet of retail inventory within the half-mile station area. Of these twenty buildings, all but three are located within the quarter-mile area, and all but one are located on parcels with frontage on International Blvd. Three buildings consisting of 8,387 square feet were built since 2000, representing approximately 8.5% of the total retail inventory.

Exhibit R13 - Half Mile Station Area



#### Absorption, Vacancy, and Rental Rates

Net absorption has averaged negative 2,240 square feet

## South 200th Station Area Market Report

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annually since 2006. In the last 12 months, however, the station area has absorbed 16,300 square feet of retail space.

As shown in Exhibit R13, vacancy is currently 2.4%; this represents a five year low and is down from 19.0% last quarter. The dramatic drop in vacancy is due to two relatively large leases totaling 16,300 square feet of retail space. Rental rates are currently \$16.62 per square foot, triple net. This is down from a five year peak of \$24.27 in the second quarter of 2005.

### **Deliveries, Construction, and Proposed Projects**

According to Costar.com, there has been no retail space delivered in the station area in the last 12 months and there are no known retail buildings currently under construction. A survey of market participants revealed three projects within the station area that, if built, could potentially include a retail component.

1. The first proposed project, marked as Site 1 in Exhibit R12, is a 40 acre commercially zoned property located to the south of the SeaTac Airport and adjacent to the future S. 200th park-and-ride property. This site is owned by the Port of Seattle. The Port is aggressively marketing the property to the Federal Aviation Administration (FAA) which is in the market for up to 450,000 square feet of office space. In anticipation of the FAA, the Port had a high level site development plan created; in addition to meeting the FAA's office requirement the plan also included drawings for up to 100,000 square feet of retail space. It is unlikely that this property would be developed speculatively and unknown if the Port would continue marketing the property if the FAA wasn't actively pursuing space. It is worth noting that the FAA's project is dependent on funding approval from the GSA, which is up for

review. The Federal government typically conducts a thorough review of proposed projects in an attempt to approve real estate projects that maximize the benefit of each tax dollar spent. This could work in the FAA's favor, as the Southend requirement was designed to consolidate existing operations in order to reduce operating expenses.

2. The second project, marked as Site 2 in Exhibit R12, is the 89 acre Des Moines Creek Business Park. Like Site 1, this project is owned by the Port of Seattle and is being marketed to the FAA. The site plan envisions almost 1.1 million square feet of mixed use space including 235,000 square feet of retail space.

In June of 2012 the Port of Seattle approved a ground lease for 21 acres of this property to Puget Sound Energy. According to Puget Sound Energy, the utility plans to develop a 281,000 square foot warehouse and potentially another 125,400 square feet office space, they do not plan to develop any retail space. In 2008, before the recession hit the Port was in discussions with multiple Big Box retailers who were considering the site. None of the big box retailers ended up locating on the site and there has not been any known interest or renewed discussions since. If there were renewed interest the remainder of the site could likely accommodate a limited amount of big box retail. According to market participants interviewed for this study, the station area is only moderately well located for big box retail.

3. South 200th Street Station LLC owns 9.2 acres of surface parking, plus 2.2 acres of undeveloped land directly to the south of the proposed S. 200th Park and Ride property. This property is labeled as Site 3 in Exhibit R12. The owners currently run the SeaTac

## South 200th Station Area Market Report

Park park-and-fly operation on the property, but have discussed plans for a large mixed use development; the exact square footage and mix of uses has not been determined yet.

### Lease and Sales Activity

There have been two retail leases signed within the station area over the last 12 months. They include an 8,800 square foot lease in the 20636 International Boulevard Building to Payless Car Rental for \$20.46 per square foot, triple net; and a 7,500 square foot lease to an unknown tenant in the 19815 International Boulevard Building for \$13.60 per square foot, triple net.

No sales transactions have taken place over the last 24 months and there are currently no retail buildings for sale within the station area. There are currently four commercial sites for sale within the half mile station area. These sites range in size from .24 acres to 1.87 acres and are priced between \$27.58 per square foot and \$58.86 per square foot. With one exception, all of the properties have been on the market for over a year.

### Land

Most of the commercial land in SeaTac is zoned to allow for a mix of uses including both office and retail

development. According to a buildable lands survey conducted by the City of SeaTac in 2006, there was a total of only 8.76 acres of redevelopable land with commercial capacity (that allows for retail development) and 7.01 acres of vacant land with commercial capacity within the half mile station area. The assessed value of the vacant commercial parcels within the station area generally ranges between \$20 and \$30 per square foot of land.

There are currently four commercial development sites for sale within the station area. These sites range in size from .24 acres to 1.87 acres and are priced from \$27.58 per square foot to \$58.86 per square foot. With one exception, all of the properties have been on the market for over a year.

The Port also has two large mixed-use assemblages that cross into the half-mile station area. Both properties are currently marketed for ground lease.

Exhibit R14 presents a number of relevant land sales within a mile of the proposed station area. The data suggests that since 2005, land has transacted for between \$16 and \$32 per square foot of land area and averaged approximately \$24 per square foot.

Although no relevant land transactions have taken place

Exhibit R14 - Commercial Land Sales

Property	Zoning	Sale Date	Land/SF	Sale Price	Price/SF	Buyer/Seller	Sale Condition
1 28th Ave S	CBC	Listing	33,976		\$58.87		
2 20406 Pacific Hwy S	CB-C	Listing	81,587		\$23.90		
3 21212 International Blvd	UH900	Listing	89,798		\$17.82		
4 20023 International Blvd	CB-C	Listing	30,958		\$48.45		
5 20842 Pacific Hwy S	CBC	Listing	22,215		\$27.01		
6 20658 International Blvd	CBC	Listing	10,598		\$51.90		
7 20658 International Blvd	CBC	10/19/2009	10,598	\$170,000	\$16.04	/The Vanderbilt University	Soil Contamination Issue
8 21050 International Blvd	CB	10/15/2008	65,753	\$1,680,000	\$25.55	Robert & Myung Shin/	
9 20440 International Blvd	C-BC	10/26/2007	290,545	\$4,999,500	\$17.21	/Fife Motel Inc	1031 Exchange
10 21212 International Blvd	UH900	9/17/2007	89,798	\$1,620,000	\$18.04	GWC/Kelly R Barrett	
11 20627 Military Rd	CB	8/1/2007	24,829	\$800,000	\$32.22	Platinum Properties II/Sukhdev Singh	1031 Exchange
12 S 208th St	ABC	2/7/2007	25,961	\$803,150	\$30.94	NA	
13 28th Ave S	CBC	11/29/2005	33,976	\$900,000	\$26.49	Condor Development LLC	

## South 200th Station Area Market Report

since late 2009, the asking price for the five properties currently listed averages \$38 per square foot, or 54% higher than the average sales price since 2005. Three of the properties that are currently listed were purchased since 2005; of these properties the re-listing prices are up by an average of 102%, from \$20.19 per square foot to an average of \$42.86 per square foot. Until one of these properties transacts it is difficult to know if the sellers have realistic price expectations. It is instructive to note that the five listings have been on the market for an average of 44 months suggesting that they may be overpriced. For the purposes of this study it is assumed that land zoned to allow for retail or office development would sell today for \$30 per square foot.

### Demand

#### Demographics

The population of the half-mile station area increased from 5,044 people in 2000 to 5,137 people in 2010. According to an ESRI forecast, the population living within the station area is projected to reach 5,171 people by 2015. This represents an average annual growth rate of .2% between 2000 and 2010, and a projected annual growth rate of .13% between 2010 and 2015. Between 2010 and 2015 the average household size is expected to increase from 2.50 to 2.51 people per household.

In 2010, there were 1,683 households in the station area; this is down from 1,730 in 2000. The number of households is forecasted to increase slightly to 1,693 by 2015. Of the total households in 2010, approximately 63% were renter households and 37% owned their own home.

According to 2010 Census Data the median age of the population was 31.6 years old. By gender the population within the station area was 57% male and 43% female. By race, the population is 37% white, 19% black, and 11% Asian with the balance made up of other races.

The estimated median household income was \$51,177 in

2010, with an average disposable income of \$43,114. This median household income is projected to grow by \$11,265 to \$62,442 by 2015. To add perspective, in 2010 the median household income was \$60,569 in the PMA, and \$67,045 in the Southend market as a whole.

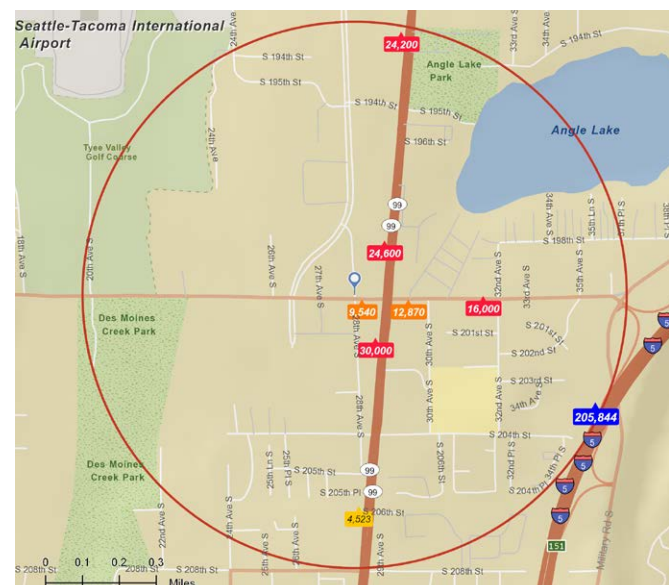
The total employee population, which represents all of those employed in businesses located within the station area, is currently estimated to be 1,568 employees.

### Location Analysis

The attributes of an area can be evaluated to determine its strengths and weaknesses in the market from the perspective of a typical retailer. In retail site selection, location is multi-faceted. Its elements include, among other factors, public planning and zoning, traffic counts, access to major arterials, physical barriers, proximity to major retailers, walkability, the cost of land, and other demographic trends. The following section describes these attributes as they relate to the South 200th station area.

- Public Planning and Zoning: Much of the commercial

Exhibit R15 -Station Area Traffic Counts





## South 200th Station Area Market Report

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land within the station area is zoned to allow for a mix of commercial uses including retail development.

- **Traffic Counts:** Retailers pay close attention to traffic counts when evaluating sites and many retailers require sites with exposures to streets with minimum daily traffic volumes. Exhibit R15 is a traffic volume map of the station area. As shown, with the exception of I-5, International Blvd. has the highest traffic volume with between 24,600 and 30,000 daily trips recorded. Traffic volume on S. 200th St., the major east/west thoroughfare, is lowest at the intersection of 28th Ave. S & S. 200th St. and increases to the east as it approaches I-5.
- **Access to Major Arterials:** Portions of the station area have excellent access to International Blvd. and to I-5 via S. 200th St.
- **Visibility:** The visibility from I-5 is limited within the station area. There are a number of sites that offer good visibility from International Blvd.
- **Physical Barriers:** Both the SeaTac Airport and the Tyee Valley Golf Course make accessing the station area from the northwest difficult if not impossible. The Des Moines Creek and associated wetland areas also create access issues from the northwest. Access from the southwest is impeded by the Des Moines Creek and associated Des Moines Creek Park. Angle Lake and Angle Lake Park greatly limit access from the northeast. I-5, in combination with steeply sloping topography, impedes access from the east.
- **Proximity of Major Retailers:** Retail site selection criteria often require proximity to other specific retailers. From this perspective, there are few non-airport related retailers located in the station area.
- **Walkability:** Today the station area is primarily an automobile served destination. Foot traffic on the sidewalks in the immediate area have only limited use. According to Walk-Score.com the station area is “car dependent” and scores 40 out of 100 points on its walkability scale.
- **Cost of Land:** The four sites for sale within the station area that are zoned to accommodate retail range in price from \$30 to \$60 per square foot. The cost of land is high enough to prohibit some retailers from entering the market. It should be noted that all but one of the parcels is located on International Blvd. and that each of the listings has been active for more than 200 days.
- **Demographics:** In 2010, there were 1,683 households in the station area; this is down from 1,730 in 2000. The number of households is forecasted to increase slightly to 1,693 by 2015. Of the total households in 2010, approximately 63% were renter households and 37% owned their own home. The estimated median household income was \$51,177 in 2010, with an average annual disposable income of \$43,114.

## CONCLUSION

Vacancy in the Southend retail market’s 31 million square feet of retail space is starting to recover from the effects of the latest recession on retail spending. Vacancy has come down from a five year peak of 8.1% in the fourth quarter of 2011 to 7.2% today. Rental rates have been slower to recover, with a current average asking rate of \$15.58 per square foot, triple net; this is down from a five year peak of \$21.82 per square foot in the second quarter of 2008. On average, annual net absorption in the Southend market has averaged 16,600 square feet since 2006. Over the last 12 months, net absorption has totaled 305,000 square feet.

Vacancy in the Primary Market Area, which consists of



## South 200th Station Area Market Report

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580 buildings containing 5.4 million square feet of space, currently stands at 7.6%. Demographics in the PMA are projected to see modest growth over the following years with annual population growth expected to average .68% through 2017 and average household income projected to increase from \$60,569 in 2010 to \$73,336 by the end of 2015. While this is positive, according to CCIM.com, there is currently a slight surplus of retail offerings in the PMA, which indicates that retailers locating within the PMA will likely need to attract customers from outside the PMA itself to support operations. When broken down by type it becomes apparent that retail space located within shopping centers is struggling more than stand-alone retail space, with vacancy at 10.4% and 5.1% respectively. Rental rates in shopping centers tend to be more expensive than stand-alone spaces, however, with current asking rental rates at \$17.79 per square foot triple net for shopping center space and \$14.19 per square foot for stand-alone retail space. Although there has been an average of 99,000 square feet delivered to the market annually since 2006, there are no retail projects currently under construction; net absorption has averaged about 89,000 square feet per year over this same period. It is forecasted that vacancy in the PMA will decrease slightly over the next five years, falling from 7.6% today to 7.4% in the second quarter of 2017.

The half-mile area surrounding the future South 200th Station offers limited opportunity for retail development.

Vacancy in the station area's 20 existing retail buildings is currently only 2.4% and net absorption has totaled 11,000 square feet over the last 12 months; however, rental rates currently average only \$16.62 per square foot, which is below the rental rate needed to support new construction. Of the 20 existing retail buildings, 19 are located along International Boulevard, which has a daily traffic volume of 30,000 vehicles per day, almost twice the daily traffic volume of the second most trafficked road in the station area. If a corner parcel on a key intersection along International Boulevard became available, there might be some interest from an auto oriented business like a gas station or drug store; however, even along International Boulevard new development will need to be driven by own/users or require a significant pre-leasing commitments.

There are three mixed-use projects proposed within the station area that combined, could bring between 2,000 and 3,000 jobs to the station area. It is unknown if any of these projects will come to fruition; if one does, the additional employees would likely generate a small amount of demand for service retail.

In conclusion, the half-mile station area will only support a very limited amount of service oriented retail, if any, within the next five years. There is also some demand for auto-oriented retail along International Boulevard; however not at rental rates that justify development on a speculative basis.

## South 200th Station Area Market Report

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### Apartment Market

The apartment market in SeaTac totals approximately 3,000 units. Vacancy in the SeaTac apartment market currently stands at slightly more than 4.4%. Since 2002, two projects totaling 145 new units have been constructed in the market. One of the projects, consisting of 55 units completed in 2008, had been struggling and recently went through foreclosure. The other project, consisting of 90 units, was purchased out of foreclosure and then completed in 2011.

As shown in the table above, rental rates range from \$1.10 to \$1.45 per square foot for the newer buildings. One of the newest projects on the market has in-place average rates equal to \$1.40 per square foot. Rental rates needed to make surface parked, garden style, apartments financially feasible need to be in excess of \$1.75 per square foot.

Location within the station area is important to consider when contemplating apartment development. With the exception of the Angle Lake area, the Station Area is not an established multi-family neighborhood. Locations west of International Boulevard are less desirable and unlikely to see a significant amount of multifamily development. Airport noise, incompatible uses, lack of other multi-family buildings, and lack of amenities to support residential uses are the indicators. The most likely place for apartment development to occur is to the East of International Boulevard on sites with views of Angle Lake within proximity of other residential uses.

*Exhibit A1 - Apartment Market Statistics*

	Units	New Unit Rent			Vacancy	New Units 2001+
		1 Bd	2Bd/1Bth	2Bd/2Bth		
S/SE King County	68,553	\$ 1.57	\$ 1.59	\$ 1.51	5.90%	8,596
SeaTac Market	2,939	\$ 1.45	\$ 1.30	\$ 1.10	6.10%	145

## South 200th Station Area Market Report

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### Affordable Housing Market

For this study, affordable housing specifically refers to income restricted housing that requires potential occupants to have a yearly income at, or below, a predetermined level.

The South 200th Street Station area is not a highly attractive location for affordable housing projects. For the same reasons, the location is not apartment friendly, it is less desirable than other competing markets; airport noise, incompatible adjoining uses, little multi-family inventory, and lack of amenities need to support residential users.

To add perspective, according to representatives at the King County Housing Authority, affordable housing developers need to locate on sites that allow projects to compete for a limited pool of affordable housing dollars. The proximity of the South 200th station area to the SeaTac Airport which is a major employer, along with light rail access, makes this area more attractive than many locations further south. However, there are other locations, like future East Link station areas for example, that King County Housing Authority finds more attractive for affordable housing.

## South 200th Station Area Market Report

# Park and Fly Market

## INTRODUCTION

The subject station area is located a substantial distance from the airport and is considered a fringe location for Park and Fly (P&F), however, its proximity to the proposed light rail station is significant. Light rail service minimizes the need for shuttle service, which is typically the largest expense P&F operators face.

Based on a study of comparable P&F sites, it is likely that a project built adjacent to the proposed light rail station location would be able to charge between \$8 and \$12 per day and experience an average occupancy rate of 50% to 70%. In order to benefit from light rail service P&F must be located immediately adjacent to the station, so as to reduce a reliance on shuttle service.

Demand for P&F fluctuates significantly due to seasonal travel patterns. According to a report put out by the Port of Seattle on October 2011, there is currently demand for between 22,000 and 27,000 P&F spaces in the SeaTac market. The report also forecasts an annual increase in P&F demand of approximately 600 spaces, through 2020.

### Existing Inventory

It is estimated that 30,000 P&F spaces currently serve the SeaTac Airport; however, this number fluctuates due to a number of hotel and rental car operators that temporally convert unused spaces to P&F during peak demand. Of the total spaces, approximately 10,000 are located in the Port of Seattle’s parking garage adjacent to the airport; approximately 10,000 are located in off-airport structured parking garages; and approximately 10,000 are located on off-airport surface lots.

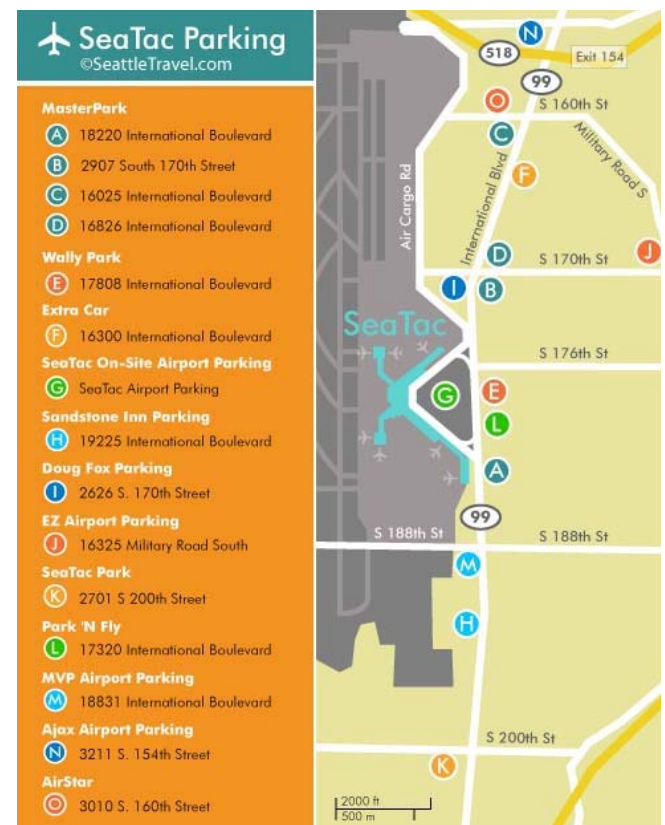
### Future Supply

Approximately 7,000 new P&F spaces are forecast to

come on line over the next two years, representing an increase of more than 20%. The majority of these stalls will be located in two projects described below.

- The Port of Seattle is moving rental car operations from the airport’s main garage to a consolidated rental car facility. This will open up two floors of parking, or approximately 3,200 additional P&F stalls.
- James and Doris Cassan, the owners of Park-N-Fly, are proposing a 2,500 to 3,500 stall P&F garage located at their 17400 International Blvd property. This property offers direct access to the airport via an existing pedestrian bridge.

Exhibit P1 - Park-and-Fly Locations



## South 200th Station Area Market Report

### Occupancy and Rental Rate by Type

For the purpose of this report, the SeaTac Park-and-Fly (P&F) market has been segregated into four tiers which are defined below.

- The only Tier 1 Site is the Port of Seattle’s P&F garage located adjacent to the main terminal. It offers convenient access to the airport, generates high revenue per stall, and doesn’t require shuttle service. This location is typically 75% to 85% occupied and charges between \$18 and \$28 per day depending on the season, day of the week, and the length of stay.
- Tier 2 Sites are located along International Blvd. between 160th St. to the North and 188th St. to the South. These locations are typically 70% to 80% occupied and charge \$10 to \$18 per day depending on the season, day of the week, length of stay, and level of service provided.
- Tier 3 Sites are either located in the City Center, but not along International Blvd., or directly to the north of the City Center along International Blvd. These locations are typically 65% to 75% occupied and charge \$8 to \$16 per day depending on the season, day of the week, length of stay, and level of service provided.
- Tier 4 Sites are located south of 188th St. along, or in proximity to, International Blvd.

These locations are typically 50% to 70% occupied and charge \$5 to \$15 per day depending on the season, day of the week, length of stay, and level of service provided. The Subject is a Tier 4 Site, although its proximity to light rail puts it at an advantage relative to other Tier 4 Sites.

- In addition to the hourly parking rate, customers are usually responsible for paying a \$3.00 City of SeaTac parking tax, a \$2.50 SeaTac airport surcharge tax to cover the Port Trip Tax, and a 9.5% Washington State Sales Tax.

### Comparable Data

Exhibit P2 on the previous page provides a snapshot of listed parking rates at existing P&F operations, and Exhibit P1 maps the locations of these P&F operations. SeaTac Park, highlighted in yellow, is located adjacent to the subject and is the most relevant comparable. SeaTac Park claims that the daily rate is \$14.95; however, it has an on-going promotion that discounts the rate to \$10.95 per day. Much of its business consists of long term parking, which is discounted as low as \$5 per day.

Exhibit P2 - Park and Fly – 2010 List Prices

Parking Provider	Per Day / Week List Price
Master Park Garage	\$15.95 / day, \$84 / week with coupon
Master Park Surface	\$14.95 / \$84 with coupon
Ajax	\$8.99 per day / Under \$8 with coupon / Employee rate for Microsoft, Boeing, and Military with ID of under \$7. \$63/week
Ajax "Parking 'r Us" 2	\$10.95 per day / Under \$8 with coupon / Employee rate for Microsoft, Boeing, and Military with ID of under \$7. \$63/week
Seatac Park	\$14.95 / day and \$70 / week (Coupons to \$10.95) Monthly for \$150
Extra Car	Varies seasonal - \$7-10/ day and \$65-\$75 / week
On-Site SeaTac Parking	\$28 / day, \$130 / week
Doug Fox Travel	\$15 day, \$85/week
EZ Airport Parking	\$8-9 / day, \$56/week, \$8.25 airport fee + add 9.5% sales tax
ShuttlePark2	\$13/day and \$67/week
Park 'N Jet	\$10/day - discounts of ~30% for pre-reservation
Park 'N Fly	\$13/day valet, \$10/day self-park. \$76/week for valet with coupons
Wally Park - 2 locations	Self park: \$11/day and \$60/week. Valet \$14/day and \$80/week
MVP Airport Parking	\$10 / day, \$67/week

Source: Seattletravel.com

## South 200th Station Area Market Report

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### Operating Expense

Operating expenses are site specific, therefore difficult to estimate at a high level. The most significant expense that most P&F operators face is the cost of providing shuttle service. A rule of thumb is that shuttle serviced operations require a minimum of 600 stalls to justify this expense.

Customers generally won't wait more than 15 minutes for a shuttle, therefore sites that are located more than 10 minutes from the airport require multiple shuttles in-route simultaneously; this drives up the operating expenses per space, relative to close-in sites. The Subject's proximity to light rail, however, may decrease or eliminate the need for 24 hour shuttle service.

### CONCLUSION

The station area is located a substantial distance from the airport, however, its proximity to the proposed light rail station is significant. Light rail service minimizes the need for shuttle service, which is typically the largest expense a park-and-fly (P&F) operator faces. In order to benefit from light rail service, P&F must be located immediately adjacent to the station.

Based on a study of comparable P&F sites, it is likely that a project built adjacent to the proposed light rail station location would be able to charge between \$8 and \$12 per day and experience an average daily occupancy rate of between 50% and 70%.