

Market Analysis Overview

Drivers of Demand in Downtown Olympia.

- Who NEEDS to be downtown? Major demands drivers.
 - Those who need to be close the State Capitol campus
 - Those who need water front access (Port)
 - Those who support/depend on the above uses (services)
- Who WANTS to be downtown? Supplementary demand drivers.
 - General regional office employment,
 - Regional serving and specialty retailers,
 - City/regional public or non-profit services, and
 - Residents who want to live close to work and/or commercial services.

Most supplementary demand drivers have a number of options of where to locate in the region.

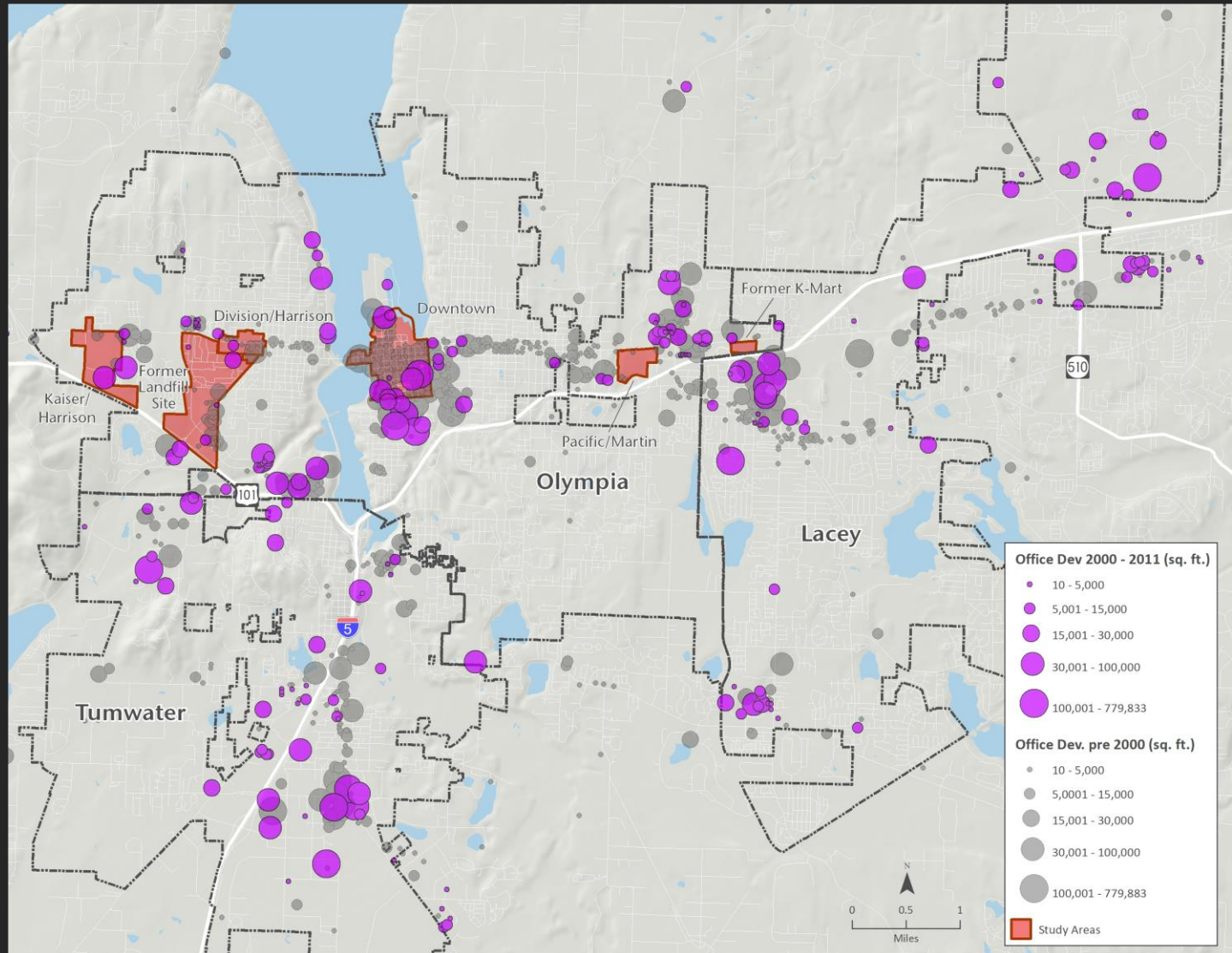
- Retail
 - Most recent development has been large format auto-oriented retail
 - Most locating near highway interchanges with good regional access
- Office
 - Many competing locations in the region for office uses.
 - High vacancy rates region-wide
- Multi-family
 - Relatively small percentage of housing developed in region since 2000 has been multi-family (just 13% of all units)
 - The majority of multi-family units built have been neighboring cities, only 1/3 were built in Olympia

Regional accessibility and lower land costs are important factors in why these uses are locating in other parts of the region besides Downtown Olympia.

Market Analysis Overview

Office

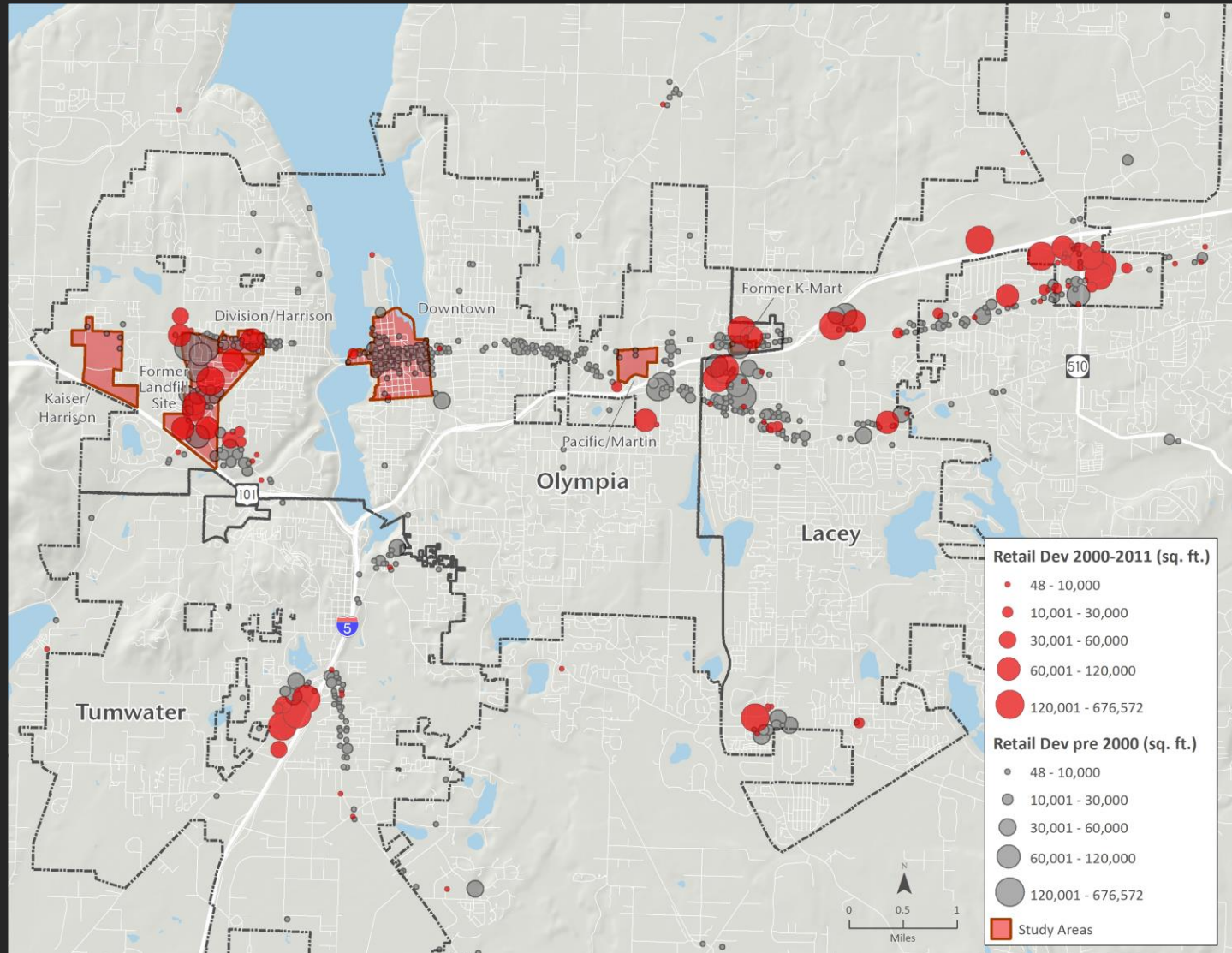
- Lots of recent development
- Focused around existing office centers



Market Analysis Overview

Retail

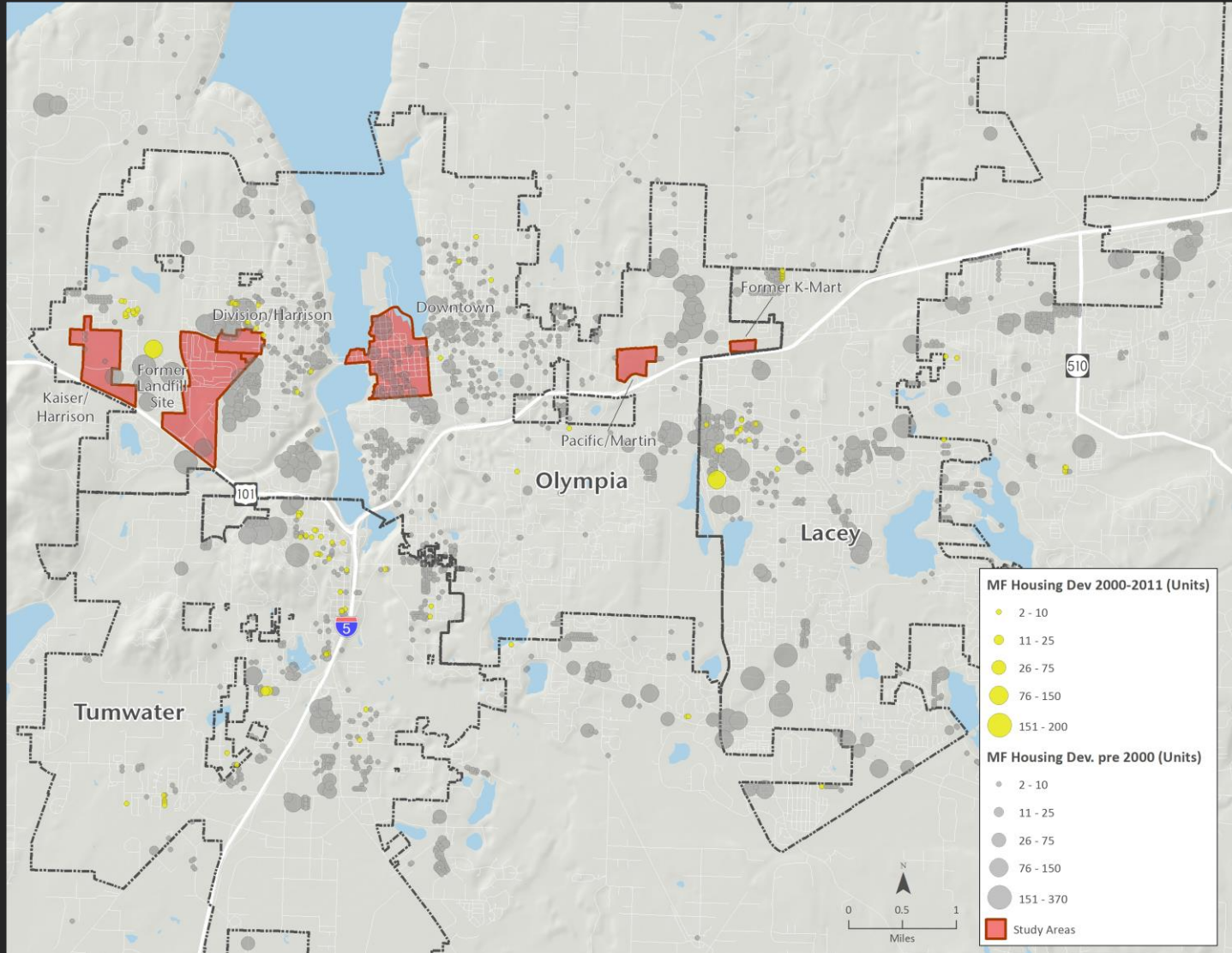
- Recent development has been large scale near freeway access



Market Analysis Overview

Multi-family

- Limited new development
- Occurred farther from city center



Market Analysis Overview

Downtown Buildable Lands

- There is a substantial amount of developable land downtown
- Most sites are considered redevelopable (49.4 acres)
- Only 3.5 acres are vacant
- The City has to pursue a redevelopment strategy for downtown.



Market Analysis Overview

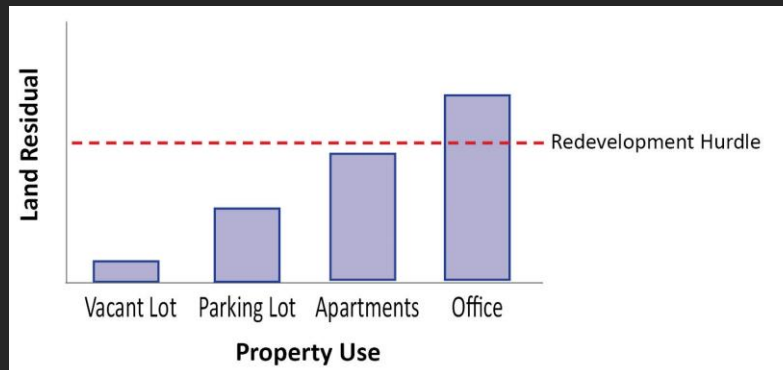
The Redevelopment Equation

- Revenues (rents) from a project minus development costs equal the price a developer is willing to pay for the land (the land residual)



Redevelopment Hurdle

- For redevelopment, the land residual must be more than the redevelopment hurdle.
- The redevelopment hurdle is the current cost of land based on the income it is creating for the current owner
- Even “vacant sites” – like parking lots - generate income for the property owner



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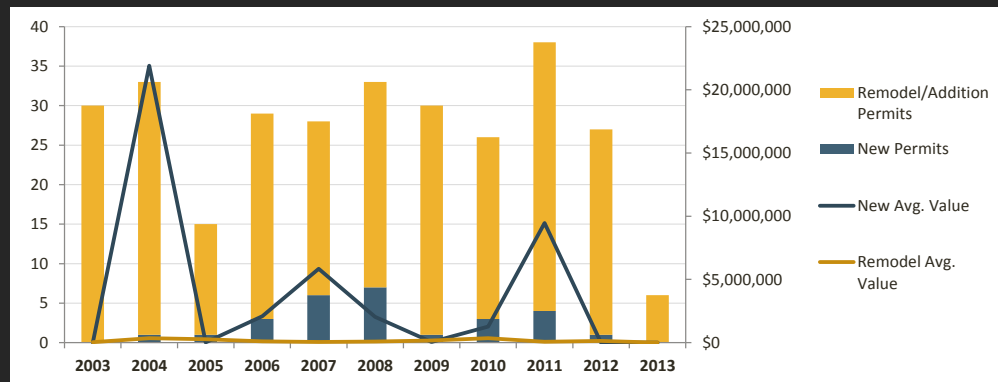
Downtown Development Activity

- Increase in property sales and land prices up to 2008 with sizable drop-off since 2008 for both
- Most of the permit activity downtown in the last 10 years has been in the rehabilitation and reuse of existing buildings

Downtown Property Sales and Average Price/SF



Downtown Commercial Building Permits and Value



Market Analysis Overview

Downtown Office

- The downtown office market is based on state government
- Most new development on south end of downtown
- Decreasing office rents
- Increasing vacancy rates



Downtown Office Rents and Vacancy Rates

	2009	2010	2011	2012	2013
Rents	\$19.61	\$19.24	\$18.58	\$15.81	\$15.69
Vacancy Rates	4.8%	7.0%	8.7%	8.8%	9.7%

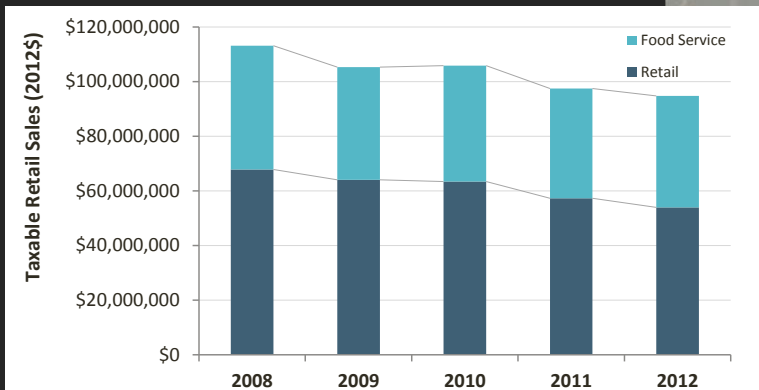
Market Analysis Overview

Downtown Retail

- Little new retail development
- Existing retail spaces are relatively small
- Vacancy rates are relatively low, but rents are also low
- Decreasing retail sales, especially for non-food service retail items



Downtown Taxable Retail Sales



Market Analysis Overview

Downtown Multi-family

- Increasing rents and low vacancy rates
- Anecdotally, recent successful multi-family housing projects (building reuse) have occurred downtown



Olympia Apartment Rents and Vacancy

	2008	2009	2010	2011	2012	2013
Average Rent	\$759	\$798	\$785	\$822	\$840	\$855
Vacancy Rate	2.6%	5.3%	6.3%	4.8%	6.5%	3.9%
Offering Incentives	7.1%	30.8%	39.5%	26.8%	39.5%	29.6%