Draft

Northgate Transit Center Apartment Market Report

King County

July 24, 2011,

Prepared for:

Mr. David Blum
Mr. Gary Prince
King County TOD Program
201 South Jackson Street
Seattle, WA 98101

Prepared by:

Blair Howe, CCIM
Michael George, LEED AP
206.296-9600
bhowe@kiddermathews.com

Table of Contents

Nature of the Assignment

Executive Summary

REGION MARKET

The regional apartment market, which includes King, Snohomish, Peirce, Kitsap, and Thurston Counties, has passed an inflection point in the real estate cycle and is making a strong recovery. Vacancy in the region is currently 4.6% and is forecasted to fall even further as demand grows. Average rental rates are currently $1.14 per net rentable square foot (NRSF), per month.

Within the region, the Seattle market achieved the highest rent levels with an average rental rate of $1.60 per NRSF.

SECONDARY MARKET AREA

The Secondary Market Area (SMA) consists of the University, North Seattle, Green Lake, and Ballard sub-markets. Only 3.27% of the 16,519 apartment units in the SMA are currently vacant. In projects built since 2005 vacancy is slightly higher, at 3.61%. Rental rates in the SMA currently average $1.44 per NRSF, an all time high. In projects built since 2005 rental rates currently average $1.90 per NRSF.

PRIMARY MARKET AREA

Overview

The Primary Market Area (PMA) consists of 19 census tracts centered around the subject. Vacancy in the PMA is currently 4.11%, which is slightly less than the ten year average of 4.73%. In units built since 2005 vacancy currently sits at 5.16%. Vacancy in the PMA is forecasted to decline through the first half of 2013 as there are few units coming on-line to meet projected demand. As deliveries increase in the second half of 2013, vacancy rates will decline more slowly and possibly even increase slightly through 2015.
The average rental rate for all apartment units in the PMA is currently $1.33 per NRSF. In projects built since 2005 rental rates currently average $1.92 per NRSF. Rental rates are expected to increase by as much as 5% annually over the next two years as a lack of supply puts upward pressure on rents. Beginning in the second half of 2013 rent growth should moderate as the number of deliveries increases supply.

Supply and Demand

There are currently 6,086 market rate apartment units and 5,836 apartment renter households within the PMA.

By 2015 the total number of apartment units in the PMA will reach 6,209, and 3,435 of these will be available for rent. The total number of renter households is expected to reach 6,743 in 2015; of these households, it is expected that 3,307 will be in the market for apartment units.

NORTHGATE TRANSIT CENTER PROPERTY

An apartment project constructed on the Northgate Transit Center property will consist of new units, offering superior amenities, with immediate access to transit. Newer properties almost always lease up at the expense of older properties. Based on the size of the PMA, it is reasonable to expect a new project located on the subject to absorb between 8% and 10% of the annual apartment demand in the PMA. If a new project captures 9% of the demand it would support approximately 300 units.

A well accepted apartment development risk management practice involves creating a range of unit sizes and configurations to attract a broader market. The unit mix and size distribution outlined in Exhibit M1 is based on the forecasted demographics, market averages, and comparable projects recently built within the PMA.

Exhibit M1
Subject Unit Mix and Size

Unit Type	Unit Mix	SF/Uni
Studio	25%	560
1 Bedroom/1 Bath	55%	700
2 Bedroom/2 Bath	20%	1,050
Overall Project Avg.	*100%*	*735*

The current and anticipated level of transit service creates and opportunity to reduce project parking ratios. Apartment projects in the area have an average of 1.26 vehicles per household. Studies suggest it is reasonable to reduce parking by 20% or more in transit station areas. A ratio of 1.0 space per unit is appropriate for the subject.

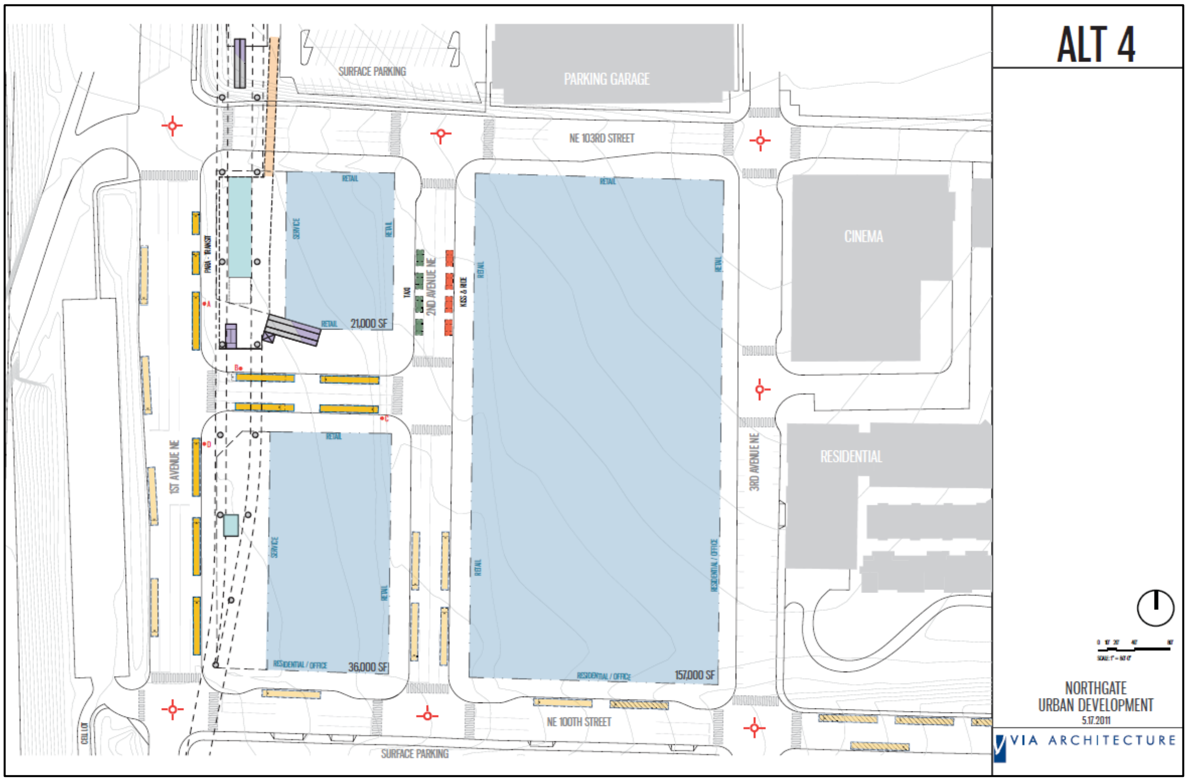
Purpose of the Assignment

The purpose of the assignment is to assess the supply and demand for market rate apartments at King County's Northgate Transit Center property.

The Northgate Transit Center property is currently the home of one of the region's busiest transit centers. Exhibit P1 shows the current land uses; a bus served transit center and supportive park and ride parking. Exhibit P2 shows a conceptual reconfiguration of the Northgate Transit Center property. The plan includes the future light rail station along the western property boundary, a redeveloped transit center, and three parcels available for transit oriented development. The western transit oriented development parcels measure 36,000 and 21,000 square feet for the southwest parcel and northwest parcel respectively. The eastern parcel measures 157,000 square feet.

Exhibit M2 Northgate Transit Center, Current Conditions

Exhibit M3 Northgate Transit Center Redevelopment Concept Plan



Regional Apartment Market

INTRODUCTION

The following is an overview of the regional apartment market based on spring 2011 survey results produced by Dupree and Scott Apartment Advisors Inc, who publish the most comprehensive apartment survey in the region. Although this data excludes projects smaller than 20 units, it provides a good proxy of the overall apartment market. The regional apartment market is composed of five counties including King, Snohomish, Pierce, Kitsap and Thurston Counties.

VACANCY TRENDS

According to the spring 2011 Dupree and Scott Vacancy Survey, the regional vacancy rate is estimated at 4.6%. This is a measure of market vacancy that excludes units in lease-up and those undergoing significant renovation. Including these units gives a gross market vacancy of 5.3%.

The principal driver of apartment demand in the coming months will be job creation. The latest economic forecasts, presented by the Puget Sound Economic Forecaster, shows regional employment and household growth improving with about 20,900 new jobs anticipated for 2011 and another 45,500 in 2012, following the loss of nearly 127,000 during the previous recession. At the same time, new construction deliveries are at historic lows, with 2011 expected to be one of the lowest on record. In the near term, the forecast calls for continued decreasing vacancy rates.

RENT RATE TRENDS

Vacancy rates generally have an inverse relationship with changes in rent; as vacancy rates increase the rate of rent growth generally decreases. Over the past six months the average regional rental rate increased from $1.14 to $1.16 per Net Rentable Square Foot (NRSF), representing a 1.8% increase.

Within the region, the Seattle submarket achieved the highest rent levels, averaging $1.60 per NRSF, per month.

CURRENT INVENTORY/SUPPLY

Since 1996, new construction has averaged 3,667 units per year. From 2003 to 2008, this rate decreased to an average of 2,576 units per year before significantly increasing in 2009 and 2010 to 6,481 and 4,148 new units delivered respectively. For 2011, 2,433 new units are expected to be completed, reflecting an addition of 1.0% to the existing housing stock.

Offsetting new construction is the loss of apartment units due to demolitions or conversions to other uses. Since 1996, the loss has averaged 1,714 units per year. From 2005 to 2007, this rate spiked to an average 5,279 units per year, which had the effect of decreasing the overall inventory. This loss of units was mostly driven by condominium conversions which grew from about 30% of removals to more than 80% during this period.

From 2005 to 2007, nearly 15,800 units were pulled out of the rental market. This reduced the overall apartment inventory in 2007 to levels existing in 2000. In 2008, the trend reversed, with nearly all conversion projects repositioned back to a rental operation.

PROJECT FUTURE SUPPLY

The latest tallies show that 4,148 units were built region wide in 2010. As of the first quarter 2011 another 477 units have been completed, with another 3,398 units currently under construction for delivery in the next two years. As described earlier, new construction for 2011 is forecast to be one of the lowest on record. The remaining are planned projects; most scheduled for delivery in 2012 and beyond. Looking forward, apartment inventory is anticipated to gain momentum going into 2013.

ESTIMATE OF FUTURE APARTMENT DEMAND

The latest employment figures published by the Puget Sound Economic Forecaster and the Office of Financial Management report that there are approximately 1.84 million jobs in the region and about 227,000 occupied apartment units based on the latest survey figures. This translates into a demand factor of one occupied apartment for every 8.1 jobs.

Based on estimated the vacancy and absorption forecasts, the latest employment trends, population trends, and projected future supply, the regional vacancy is forecast to gradually decrease to between 4.2% and 4.8%, with 4.5% considered most likely by the end of 2014.

RISKS TO FORECAST

This forecast is a function of both the timing and magnitude of the turnaround in the economy, primarily relating to employment growth. At this time, uncertainty is still lingering in the market. Impacts that could slow economic growth could include higher gasoline prices, unexpected inflation and increased interest rates. Another item impacting future demand is the amount of inventory delivered. At this time it can be reasonably assumed that most projects already under construction will be completed. Timing and completion of planned projects beginning in 2012 and beyond are less certain and carry a higher degree of risk. Even so, based on the previous analysis, the market looks favorable for new construction in the coming years, with a less than normal supply anticipated in 2011 and 2012.

OTHER TRENDS

The apartment market appears to be benefitting from a changing psychology. Following the recession, home ownership is seen as a less secure financial investment as home values have decreased due to excess inventory brought on by the foreclosure crisis. Although home values have compressed, the Puget Sound region still has a high cost of home ownership compared to other markets in the county. This results in a large price gap between owning and renting. This price gap, along with a return toward traditional lending practices with large down payment requirements, will likely increase the number of renters in the market. Further, those households in the age 25 to 34 range, who are traditionally mostly renters, are expected to dominate population growth over the next five years. These factors point toward increased demand for apartment units over the next few years.

INVESTMENT ACTIVITY

Apartments building sales velocity peaked in the Puget Sound Region in 2005 with 268 sales, representing $2.65 billion in volume. The pace moderated in 2007, although the price per unit increased. In 2008 the recession was well underway and the number of sales swiftly dropped. The total sales for the year equaled 107 representing $1.52 billion in value, a 78% drop over the previous period. In 2009, only 53 sales were completed reflecting a sales volume of about $332 million.

In 2010 the market began to show signs of recovery, registering 64 sales and $756 million transaction volume. Top quality assets in close-in locations saw renewed interest from institutional investors, with several selling at capitalization rates below 5%, close to the previous peak levels.

Secondary Market Area

The Secondary Market Area (SMA) is the geographic area that provides the majority of demand (i.e. renter households) to support multifamily rental properties beyond that provided by the Primary Market Area (PMA).

The SMA is comprised of four submarkets: the University, North Seattle, Green Lake, and Ballard. The SMA, highlighted in grey Exhibit M5, is made up of 54 census tracts and is bounded by the Ship Canal to the south, Puget Sound to the west, Lake Washington to the east, and NE 145th Street to the north.

Exhibit M5
Secondary Market Area

DEMOGRAPHIC ANALYSIS

Overview

Demographic characteristics vary widely across the region. While the majority of renters will be drawn from the PMA an understanding of the SMA is important in providing perspective as to how the PMA fits into the larger competitive area. It may also provide insight into how to compete for renters in a larger geographic area.

The following analysis is based on current estimates and forecasts using ESRI data consolidated by CCIM's STBD.com as of June 2011. All current demographic estimates are as of year-end 2010.

Population

There are an estimated 256,707 people currently living within the SMA, up from 237,397 people in 2000. This figure is forecast to grow by 12,371, to 269,078 in 2015; representing an annual compound growth rate of .95% between 2010 and 2015.

Household Size

The total number of households within the SMA is expected to increase from its current total of 118,557 households to 124,913 households in 2015, representing an annual compound growth rate of 1.05%. The average household size is expected to decrease from 2.17 people per household today, to 2.15 people per household in 2015.

Percentage of Renter Households

Renter households currently account for 49.1% of all households in the SMA and is forecasted to rise to 49.7% by 2015.

As shown in Exhibit M6, the total number of renter households in the SMA is forecasted to increase from of 58,268 in 2010 to 62,062 by 2015. This represents a total increase of 3,794 renter households through 2015.

Exhibit M6
Base Household Demographics (SMA)

	Census 2000	Estimate 2010	Projection 2015
Population	237,397	256,707	269,078
Household Size	2.19	2.17	2.15
Households	108,352	118,557	124,913
Percentage Renter	48.4%	49.1%	49.7%
Renter Households	52,449	58,268	62,062

Source: ESRI; Analysis: Kidder Mathews

Apartment Demand

Apartment rental demand in the subject's SMA is driven by two factors:

- Annual change in demand resulting from normal turnover of existing renter households either relocating, or up/downsizing from previously occupied rental units. Historical market data suggests that turnover is typically around 50%.

- Annual net new demand resulting from changes in population growth that translates to new apartment household growth.

Apartment Renter Household Definition

For the purposes of this report, apartment renter households are defined as, households renting market rate apartment units in buildings with 20 or more units.

Existing Apartment Renter Households

According to Dupree and Scott, in the 20 or more unit cohort, as of first quarter 201 there were 16,519 apartment renter households within the SMA. The group represents approximately 27% of the 58,268 total renter households in the SMA.

Projected Apartment Renters Households

For the purposes of this analysis it is assumed that the ratio of apartment renters to total renters remains constant through 2015, at approximately 27% of the total renter households.

As shown in Exhibit M7, the number of apartment renter households, in buildings with 20 units and more, is forecasted to grow from 15,979 in 2010 to 17,019 in 2015, representing a total increase of 1,040 apartment renter households over the five year period, or 208 additional apartment renter households annually.

Exhibit M7
Base Demand Estimates (SMA)

	Estimate 2010	Projection 2015	Growth Rate 2010-2015
Population	256,707	269,078	0.95%
Household Size	2.17	2.15	-0.10%
Households	118,557	124,913	1.05%
Percentage Renter	49.1%	49.7%	0.22%
Renter Households	58,268	62,062	1.27%
Apartment Renter Demand	15,979	17,019	6.5%

Source: ESRI; Dupree&Scott Apartment Advisors. Analysis: Kidder Mathews.

Apartment Demand 2015

As shown in Exhibit M8, to determine the existing number of households demanding apartments in 2015, a 50% turnover rate is applied to the total number of existing apartment renter households at the beginning of the year. The additional households forecasted to enter the market in 2015 are then added to the existing demand, to arrive at the annual apartment renter household demand in 2015, before adjusting for vacancy.

For a balanced market, an ideal 5% frictional vacancy rate is added to the annual household renter demand. The result is an annual household renter demand equal to 9,067 apartment renter households.

Exhibit M8
Apartment Renter Demand (SMA)

Existing Apartment Renter Household (2010)		15,979
Additional Apartment Renter Households (2010 - 2014)	+	832
Existing Apartment Renter Household (2015)		16,811
Apartment Turnover Rate	x	50%
Existing Apartment Renter Household Demand (2015)		8,406
Additional Apartment Renter Households (2015)	+	208
Apartment Renter Household Demand (2015)		8,614
Frictional Vacancy Adjustment	+	5%
Apartment Renter Household Demand Including Adj. (2015)		9,067

Source: ESRI; Dupree&Scott Apartment Advisors. Analysis: Kidder

APARTMENT SUPPLY

Existing Inventory

In the SMA there are currently 16,519 apartment units in buildings with 20 or more units. On average 294 new units have been added to the SMA each year since 1996, and 81 units have been demolished or converted to other uses. This calculates to an average of 213 net additional units added to the SMA per year since 1996.

Apartment Development

According to Dupree and Scott, a large number of units (3,532) are currently under construction and scheduled for completion during the next five years. Almost 45% of these units are located in the Ballard neighborhood.

Competing Apartment Supply

To arrive at the total number of units expected to compete with the subject, a 50% turnover rate is applied to the supply of existing apartment units within the SMA in 2015. Next, new apartment supply forecasted to come on line in 2015 is added to the existing supply. As shown in Exhibit M9, the resulting total annual competing supply is equal to 9,614 units.

Exhibit M9
Competing Supply (SMA)

Existing Apartment Supply (2010)		16,519
New Apartment Supply Added (2010 - 2014)	+	2,283
Existing Apartment Supply (2014)		18,802
Apartment Turnover Rate	x	50%
Existing Competing Apartment Supply (2015)		9,401
New Apartment Supply Added (2015)	+	213
Total Annual Competing Supply (2015)		9,614

Source: ESRI; Dupree&Scott Apartment Advisors. Analysis: Kidder Mathews.

The forecast assumes that 100% of all units currently under construction will reach completion; that 90% of all units with an estimated completion date on or before 2013 will reach completion; and that 70% of all units with an estimated date of completion after 2013 and on or before 2015 will reach completion. It is also assumed that demolitions and conversions to other uses will remain at 81 units annually through 2015.

Existing Vacancy

The vacancy rate for market rate apartment units within the SMA is currently 3.27%. Since 1997 vacancy has averaged 3.63%, and has ranged from a high of 7.73% in fall 2003, to a low of 1.09% in spring 1997. The vacancy rate for apartment units built since 2000 within the SMA is currently 3.25%, and for units built since 2005 it is 3.61%.

Projected Vacancy

Vacancies are forecasted to fall through 2012 as job and population growth creates additional demand; homeownership remains unpopular, or at least difficult to obtain; and apartment developers open few new units. Starting in 2013 the number of apartment deliveries is expected to increase significantly which will begin to increase vacancy in the SMA.

Rental Rates

Gross rental rates for units in the SMA are currently $1.44 per net rentable square foot for all units, representing a 3% increase from the average rental rate of $1.40 per square foot in spring 2010; this also represents the highest per square foot rental rate since 1997 when Dupree and Scott began tracking this market.

Rental rates in units built since 2000 currently average $1.80 per net rentable square foot. In the 26 buildings constructed since 2005 within the SMA, rental rates currently average $1.90 per net rentable square foot.

Projected Rent Forecast

Rental rates are expected to increase by as much as 5% annually over the next two years as a lack of supply puts upward pressure on rents. Beginning in 2013 rent growth should moderate as the number of projected deliveries increases supply.

INVESTMENT ACTIVITY

Sales velocity by dollar volume peaked in the SMA in 2007 with 21 sales representing $149 million in volume. The pace plunged to seven sales, representing only $29 million in volume in 2008.

In 2010 there were six sales representing $40 million in volume. According to Dupree and Scott, as of June 2011, the only sale in the market was the Westwood Apartments, located at 4327 8th Ave. NE. This 84 unit project was built in 1985, and sold for $11,175,000.

Capitalization rates averaged 6.05% in 2010, up from a low of 4.41% in 2007. Since 2000 capitalization rates in the SMA have averaged 5.94% across the 126 apartment buildings sales. The Westwood sold at a capitalization rate of 6.55%.

Primary Market Area

The primary market area (PMA) is the geographic area that provides the majority of demand (i.e. renter households) to support multifamily rental properties. The boundaries of the trade area are determined by a number of factors, including property type, accessibility, physical barriers, and location of competing projects.

The area highlighted in grey in Exhibit M10 shows the PMA or subject target market. The area consists of 19 census tracts which are mostly contained within the Northgate, Maple Leaf, Lake City, and Green Lake neighborhoods.

Exhibit M10
Primary Market Area

DEMOGRAPHIC ANALYSIS

Overview

Demographic characteristics vary widely across the region; accordingly, careful demographic analysis of the Primary Market Area (PMA) is critical to understanding market depth and demand for housing.

Housing needs are determined by characteristics of existing and projected population, which represents the level of births, deaths and net migration within a particular area.

As discussed earlier, current estimates and forecasts are based on ESRI data as of June 2011.

Population

There are currently 82,914 people living within the PMA, up from 75,614 people in 2000. This figure is expected to grow by 4,695 people to 87,609 in 2015; representing an annual compound growth rate of 1.11% between 2010 and 2015. By comparison the annual compound growth rate in the SMA is projected to be .95% over this same period.

Household Size

The total number of households within the PMA is expected to increase by 2,264, from its current total of 38,890, to 41,154 households in 2015. The average household size decreased from 2.15 in 2000 to 2.13 in 2010. The number of people per household is forecasted to remain at 2.13 through 2015.

Percentage of Renter Households

As shown in Exhibit M11, in subject's PMA the total number of renter households is forecasted to increase from of 18,060 in 2010, to 19,215 in 2015. This represents a total increase of 1,155 renter households over the next five years. In the 2000 census, renter households accounted for 46.7% of all households. Renter households currently account for 46.4% of all households, a figure that is expected to increase to 46.7% in 2015.

Exhibit M11
Base Household Demographics (PMA)

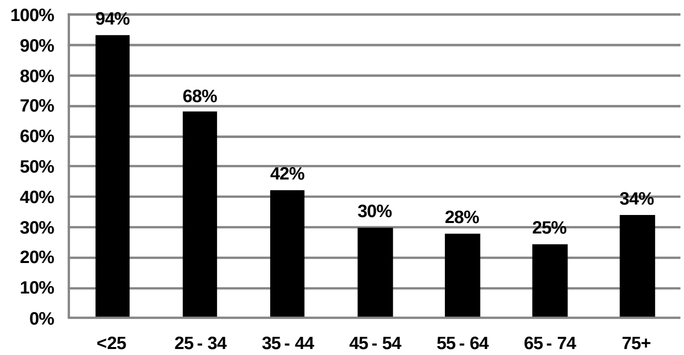
	Census 2000	Estimate 2010	Projection 2015
Population	75,614	82,914	87,609
Household Size	2.15	2.13	2.13
Households	35,183	38,890	41,154
Percentage Renter	46.7%	46.4%	46.7%
Renter Households	16,432	18,060	19,215

Source: ESRI; Analysis: Kidder Mathews

Percentage Renter by Age

According to 2000 census data the highest concentration of renter households by age are those under 25 years old, with approximately 94% of all households in this age category renting. As illustrated in Exhibit M12, this concentration gradually drops off as the head of the household gets older and is more likely to own their home. Then the propensity to rent begins to reverse with those over age 75. Overall, it is the households under age 54 that have the highest concentration of renters.

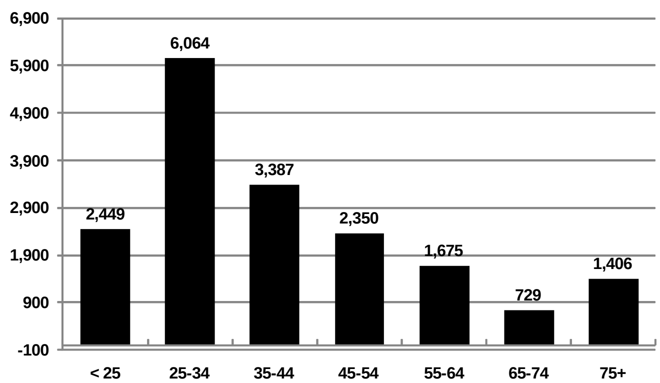
Exhibit M12
Percentage Renter Households by Age (PMA: 2000)



Existing Renter Households by Age

Existing renter households in the PMA are currently dominated by two age groups; they are the 25 to 34, and the 35 to 44 year olds. As shown in Exhibit M13, the 25 to 34 group consist of 6,064 households or 34% of the total renter households, and the 35 to 44 age group consists of 3,387 households or 19% of the total renter households; together these two age groups represent more than half of all the renters in the PMA.

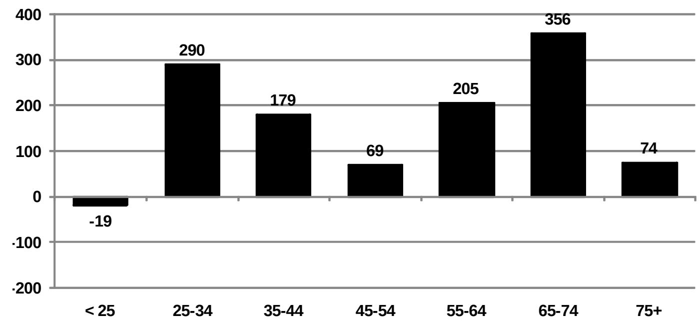
Exhibit M13
Existing Renter Households by Age (PMA: 2010)



Projected Renter Households by Age

By 2015, the 25-34 year old renter household group is expected to increase by 290 renter households to 6,354, and make up 33% of the total renter households within the PMA. The 35 to 44 age group is forecasted to increase by 179 households, and continue to represent 19% of the total renter households. The largest increase is forecasted to be in the 65 to 74 year old age group. This group is forecasted to increase by 356 households; however it will only make up 6% of the total renter households in 2015. Exhibit M14 shows the forecasted change in population by age group.

Exhibit M14
Projected Renter Households by Age (PMA: 2010-2015)



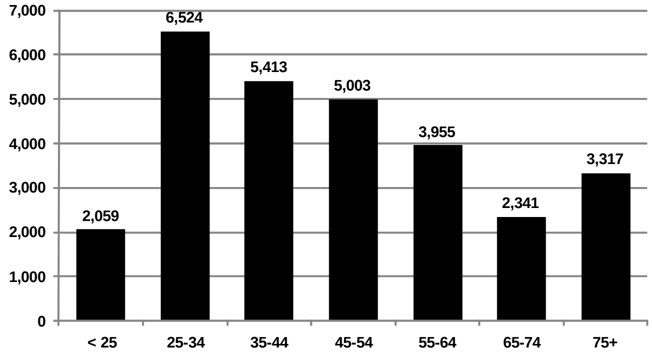
Households by Income and Age of Householder

The majority of renter households earn $100,000 or less annually. As household incomes exceed $100,000, the opportunity for renters to qualify for homeownership increases.

A study done for Kidder Mathews by the American Housing Survey branch of the US Census Bureau found that there are an estimated 51,900 households in Seattle that rent apartment units in buildings with 20 or more units. The study included both subsidized and market rate apartment projects. Of these households 48,900 or approximately 94% earn less than $100,000 per year. Approximately 75% or 39,000 of these households earn less than $60,000 per year and 66% or 34,100 households earn lease than $40,000.

Exhibit M15 graphs the number of households by age category earning less than $100,000 in the PMA.

Exhibit M15
Households by Age and Income (PMA: 2010)



APARTMENT DEMAND

Apartment rental demand in the subject's PMA is driven by two factors:

- Annual change in demand resulting from normal turnover of existing renter households either relocating, or up/downsizing from previously occupied rental units. Historical market data suggests turnover is typically around 50%.
- Annual net new demand resulting from changes in population growth that translates to new apartment household growth.

Apartment Renter Household Definition

For the purposes of this report, apartment renter households are defined as, households renting market rate apartments in buildings with 20 or more units.

Existing Apartment Renter Households

According to Dupree and Scott there are 5,836 apartment renter households within the PMA. This equates to approximately 32% of the 18,060 total renter households.

Projected Apartment Renters Households

For the purposes of this analysis it is assumed that the ratio of apartment renters to total renters remains constant through 2015, at approximately 32%.

As shown in Exhibit M16, the number of apartment renters is forecasted to grow from 5,836 households in 2010 to 6,209 households in 2015, an increase of 6.4% or 75 additional apartment renter households annually.

Exhibit M16
Base Demand Estimates (PMA)

	Estimate 2010	Projection 2015	Growth Rate 2010-2015
Population	82,914	87,609	1.11%
Household Size	2.13	2.13	-0.03%
Households	38,890	41,154	1.14%
Percentage Renter	46.4%	46.7%	0.11%
Renter Households	18,060	19,215	1.25%
Apartment Renter Demand	5,836	6,209	6.40%

Data Source: ESRI; Dupree&Scott Apartment Advisors. Analysis: Kidder

Apartment Demand 2015

As shown in Exhibit M17, to determine the existing number of households demanding apartments in 2015, a 50% turnover rate is applied to the total number of existing apartment renter households.

The additional households forecasted to enter the market in 2015 are then added to the existing demand, to arrive at the annual apartment renter household demand in 2015 before adjusting for frictional vacancy.

For a balanced market, an ideal 5% frictional vacancy rate is added to the annual household renter demand. The result is a total annual household renter demand equal to 3,307 in 2015.

Exhibit M17
Apartment Renter Demand (PMA)

Existing Apartment Renter Household (2010)		5,836
Additional Apartment Renter Households (2010 - 2014)	+	299
Existing Apartment Renter Household (2015)		6,134
Apartment Turnover Rate	x	50%
Existing Apartment Renter Household Demand (2015)		3,067
Additional Apartment Renter Households (2015)	+	75
Apartment Renter Household Demand (2015)		3,142
Frictional Vacancy Adjustment	+	5%
Apartment Renter Household Demand Including Adj. (2015)		3,307

Data Source: ESRI; Dupree&Scott Apartment Advisors. Analysis: Kidder Mathews.

APARTMENT SUPPLY

Existing Inventory

In the PMA there are currently 6,086 apartment units in buildings with 20 or more units. On average 86 new units have been added to the SMA each year since 1996, and 14 units have been demolished or converted to other uses. This calculates to an average of 72 net additional units added to the PMA per year since 1996.

Exhibit M18
Planned Apartment Projects (PMA)

Property name	Status	Units	End Construction	Address	Zip	Developer
NA	Planned	24	8/1/2012	414 NE Ravenna Blvd	98115	Pryde+Johnson
Indigo at 66	Planned	63	12/1/2012	6521 Roosevelt Way NE	98115	Heartland
Greenlake Village	Planned	284	7/1/2013	7104 Woodlawn Avenue NE	98115	Lorig Associates LLC
NA	Planned	37	1/1/2014	12544 15th Avenue NE	98125	ACI Micro
NA	Planned	44	4/1/2014	8626 Roosevelt Way NE	98115	Western Property Mgmt
Roosevelt I	Planned	280	7/1/2014	6503 15th Avenue NE	98115	HB Capital
507 Northgate II	Planned	200	1/1/2015	543 NE Northgate Way	98125	Wallace Properties Inc.

Apartment Development

According to Dupree and Scott there are currently no apartment projects under construction in the PMA. There are seven market rate apartment projects totaling 932 units scheduled for completion during the next five years. Exhibit M18 lists the known market rate apartment projects that are planned to come on line in the PMA on or before 2015.

Competing Apartment Supply

To arrive at the total number of units expected to compete with the subject, a 50% turnover rate is applied to the supply of existing apartment units within the PMA at the beginning of 2015. Then new apartment supply forecasted to come on line in 2015 is added to the competing supply, resulting at a total annual competing supply equal to 3,435 units as shown in Exhibit M19.

Exhibit M19
Competing Supply (PMA)

Existing Apartment Supply (2010)		6,086
New Apartment Supply Added (2010 - 2014)	+	531
Existing Apartment Supply (2014)		6,617
Apartment Turnover Rate	x	50%
Existing Competing Apartment Supply (2015)		3,309
New Apartment Supply Added (2015)	+	126
Total Annual Competing Supply (2015)		3,435

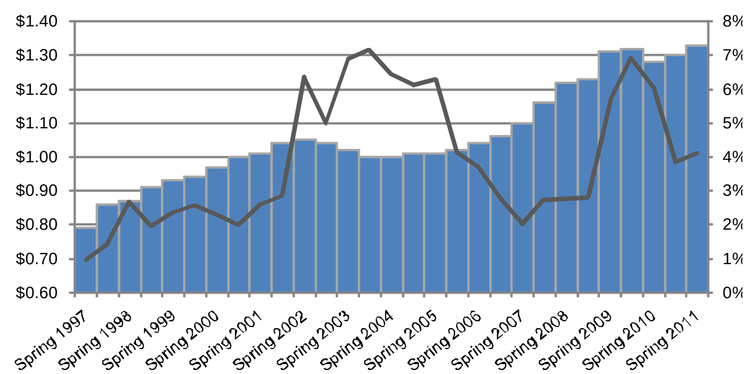
Source: ESRI; Dupree&Scott Apartment Advisors. Analysis: Kidder Mathews.

This forecast assumes that that 90% of all units with an estimated completion date on or before 2013 will reach completion, and that 70% of all units with an estimated date of completion between 2014 and before 2015 will reach completion. It is also assumed that demolitions and conversions to other uses will remain at 14 units annually as this represents the annual average since 1996.

Existing Vacancy

The market vacancy rate for apartment units within the PMA is currently 4.11%, this compares to 3.27% in the SMA as a whole. Market vacancy excludes projects that are currently in the lease-up stage; gross vacancy which includes projects in lease-up is currently at 5.23% in the PMA. Vacancy for apartment units built since 2000 within the PMA is currently 5.01%; this is higher than the vacancy rate in the SMA as a whole which is currently 3.25%. Vacancy in buildings built since 2005 is currently 5.16% in the PMA as compared to 3.61% in the SMA.

Exhibit M20
Rent and Vacancy Trends (PMA)



Vacancy Trends

Exhibit M20 illustrates rent and market vacancy trends in the PMA since 1997. As shown, vacancy has remained well below 8% since 1997. The ten year vacancy peak of 7.14% was recorded in the fall of 2003. The ten year low of 2.0% was reached in the spring of 2007. Between the fall of 2008 and the fall of 2009 vacancy more than doubled, increasing from 2.81% to 6.90%. This is increase was likely due to the large number of projects that came on line in 2009 within the PMA. With the majority of these projects now leased, vacancy is currently down to 4.11%.

Projected Vacancy

Vacancy in the PMA is forecasted to decline through the first half of 2013 as there are few units coming on-line to meet forecasted demand. As deliveries increase in the second half of 2013, vacancy rates will decline more slowly and possibly even increase slightly through 2015.

The forecast is dependent on a number of factors including; the assumption that developers don't propose additional new projects for completion before 2015 in mass; that job growth continues over the next five years; and that lenders don't loosen standards making homeownership easier to obtain.

Existing Rental Rates

Rental rates in all units in the PMA currently average $1.33 per Net Rentable Square Foot (NRSF) or $1,001 per unit. This compares to $1.44 per NRSF in the SMA as a whole.

Average rents in projects built in the PMA since 2000 are currently $1.79 per NRSF or $1,358 per unit. Units built since 2005 rent for an average of $1.92 per NRSF or $1,433 per unit. To provide perspective, rental rates for projects built since 2000 in the SMA currently stand at $1.80 per NRSF, and in units built since 2005 currently stand at $1.90 per NRSF.

The average studio built after 2005 in the PMA rents for a median of $1.96 per NRSF or $1,090 per unit; one bedroom units rent for an average of $1.80 per NRSF or $1,394 per unit; two bedroom/one bathroom units rent for an average of $1.95 per NRSF or $1,770 per unit; and two bedroom/two bathroom units rent for an average of $1.64 per NRSF or $1,914 per unit.

Exhibit M21 reflects a survey of five comparable properties delivered since 2006. It should be noted that the most relevant comparable properties are the Thorton Place Plaza and the 507 Northgate projects; both were completed within the last two years, are located in the subject's immediate vicinity, and were originally built as apartments.

Exhibit M21
Rental Rates (Comparable Properties)

	Thornton* Place Creekside	Thornton Place Plaza	507 Northgate	North Park Villa	Sedges at Piper Village
Age	2009	2009	2009	2006	2009
Number of Stories	3	6	5	6	3
Number of Units	109	279	163	70	46
Average Unit Size	945	716	606	740	752
Effective Gross Income/Unit	$2.46	$2.06	$1.92	$1.27	$1.54

Rental Trends

Rental rates in the PMA reached the low point for the decade equal to $1.00 per NRSF in the spring of 2004.

Between the spring of 2004 and fall of 2009 rental rates made a steady march upward to a high of $1.32 per NRSF. Rental rates leveled off in the fall of 2009 and currently average $1.33 per NRSF, representing an all time high for the PMA.

Projected Rent Forecast

Similar to the SMA as a whole, rental rates in the PMA are expected to increase by as much as 5% annually over the next two years as a lack of supply puts upward pressure on rents. Beginning in the second half of 2013 rent growth should moderate as the number of deliveries increases.

Unit Mix

According to Dupree and Scott, the most common unit configuration in projects built since 2000 in the PMA is a one bedroom unit, which represents about 53% of the units in the typical apartment building. Two bedroom units and studio units typically constitute 18% and 26% respectively. Other unit types only make up about 3% of the distribution in projects built since 2000.

Exhibit M22 details the unit configuration of a representative sample of six comparable apartment projects built since 2006. As shown, one bedroom units constitute 47% of the total units. Two bedroom units and studios constitute 18% and 30% of the total units, respectively. Other unit types make up 5% of the total distribution.

Size Distribution

According to Dupree and Scott, the average studio unit built within the PMA since 2000 is 564 square feet in size, the average one bedroom unit is 785 square feet in size, and the average two bedroom unit is 1,043 square feet in size.

Exhibit M23 details the unit size distribution of a representative sample of five apartment projects built since 2006. In general, studio sizes range from 414 to 700 square feet in size, one-bedroom units range from 674 to 807 square feet, two-bedroom/one-bath units range from 842 to 910 square feet, and two-bedroom/two-bath units range from 960 to 1,171square feet. It should be noted that the high end of the size ranges for studio and one bedroom units was set by Thornton Place Creek side, which was originally built as condominiums.

INVESTMENT ACTIVITY

Sales velocity by dollar volume peaked in the PMA in 2010 with four sales, representing $35 million in volume. This is up from two sales representing only $9 million in 2008. There have been no sales to date in 2011, within the PMA.

Capitalization rates averaged 6.71% in 2010, up from a low of 4.42% in 2007. Since 2000 capitalization rates in the PMA have averaged 5.96% across the 42 apartment buildings sold.

Exhibit M24 lists the four projects sold within the PMA in 2010 according to Dupree and Scott.

Exhibit M22
Unit Mix Comparisons

Project Name	Year Built	No. Units Studio	No. Units 1 Bed	No. Units 2 Bed/ 1 Bath	No. Units 2 Bed/ 2 Bath	No. Units Other
Thornton Place Creekside	2009	17	32	17	17	26
Thornton Place Plaza	2009	65	166	29	13	6
507 Northgate	2009	79	78	-	6	-
North Park Villa	2006	30	15	5	20	-
Sedges at Piper Village	2009	10	20	10	4	2
Percentage of Total		*30%*	*47%*	*9%*	*9%*	*5%*

Exhibit M24
Unit Mix Comparisons

Project Name	Project Address	Units	Age	Total Price	Price/ unit	Price/ NRSF	Actual Cap Rate
Oswego Arms	6840 Oswego Place NE	24	1988	$3,062,500	$127,604	$172	6.24%
Blanchet	9201 Densmore Avenue N	27	1960	$4,200,000	$155,556	$110	7.29%
Galleria Homes	10500 Meridian Avenue N	208	1969	$26,200,000	$125,962	$144	6.52%
Midvale North	13732 Midvale Avenue N	20	1983	$1,793,000	$89,650	$116	6.79%

Exhibit M23
Size Distribution Comparisons

Project Name	Year Built	Avg. Size Studio	Avg. Size 1 Bed	Avg. Size 2 Bed/ 1 Bath	Avg. Size 2 Bed/ 2 Bath
Thornton Place Creekside	2009	700	807	910	1,170
Thornton Place Plaza	2009	586	694	973	1,155
507 Northgate	2009	512	674	-	1,171
North Park Villa	2006	570	748	848	960
Sedges at Piper Village	2009	414	734	842	1,127

Parking

OVERVIEW

Parking plays a pivotal role in a new project's viability. A project that is over-parked represents funds spent unnecessarily. A project that is under-parked creates a situation where unmet parking demand spills out into the neighborhood resulting in shortages of on-street parking for existing inhabitants. Under-parked projects also negatively impact the marketability of a project.

Exhibit M25 is a sample of parking ratios in five comparable properties located near the subject. As shown, the ratios range from .95 to 1.29 stalls per unit.

Exhibit M25
Parking Ratio Comparisons

Project	Parking Ratio
507 Northgate	1.10
North Park Villa	1.10
Sedges at Piper Village	1.09
Villa Appia	0.95
Thorton Place Creekside*	1.29

** Originally built as condominiums.*

Due to a unique parking situation, the Thorton Place Plaza was not included in Exhibit M25. The residents of Thorton Place Plaza share an 847 stall garage with the Thorton Place retail tenants during the day. If residents choose to leave there car in the garage overnight, they are assessed a $70 monthly parking fee. As of July 2011 there were 263 resident spaces leased overnight; however, a portion of these spaces were leased to Thorton Place Creekside residents who opted out of paying $90 per month for a dedicated parking space.

VEHICLE OWNERSHIP

According to a study done by Kidder Mathews in 2009, the vehicles per renter household ratio in the Seattle's Central neighborhoods averaged .84 vehicles. The ratio in the SMA averaged 1.26 vehicles per renter household.

TOD PARKING RATIOS

TOD residents are typically young professionals, singles, retirees, childless households, and immigrants from foreign countries. These groups tend to require less housing space than traditional "nuclear families", and are more likely to live in attached housing units for financial and convenience reasons, regardless of where the units are located. Most TOD residents tend to work downtown and in other locations that are well served by transit.

Studies suggest that parking reductions are feasible for multifamily projects located near transit stations. In the study '*California's Transit Village Movement*' author Robert Cervero concludes that relative to non-TOD projects in California, parking demand per TOD household is reduced by an average of 23%. The '*Statewide Transit-Oriented Study: Factors for Success'* which was released by the California Department of Transportation in 2002, concluded that TODs can lower annual household rates of driving by 20% to 40%. A third study by Bunt and Associates Engineering, surveyed 4,000 households in 60 buildings around six Skytrain transit stations in 1996 to learn if parking requirements could be reduced in future developments in the City of Vancouver. This study found that households located near stations use transit much more often than more distant households and generally owned 10% fewer vehicles than more distant households. Based on these findings, the City of Vancouver has since allowed parking reductions ranging from 14% to 28% for new projects in other multifamily zones near major transit stations

CONCLUSION

Parking ratios for market rate multifamily residential buildings located at the subject can be reduced by between 20% and 30% relative to the average parking ratios in the market.

Given the current and anticipated level of transit service at the site it is reasonable to think that a 20% reduction in parking, from the average 1.26 vehicles per household in the SMA, to 1.0 space per household unit is feasible.

I can be noted that if multi-family units are located within a mixed use project, and the tenant mix is appropriate, the parking ratio may be further reduced through sharing strategies.

Location Analysis

The location analysis is useful in helping determine how the subject site would fair relative to other locations within PMA. The subject's location can be evaluated in terms of is suitability for a multifamily rental project on a number of factors such as; proximity to other apartment communities, views, public planning and zoning, proximity to employment centers, proximity to public transportation, proximity to retail centers, proximity to grocery stores, proximity to healthcare facilities, proximity to recreational and entertainment facilities, and the overall walkability of site.

As shown in Exhibit M26, the analysis suggests that the subject is a good location for the development of apartments.
There have been two major apartment projects built in the immediate are within the last few years including the neighboring Thorton Place project, which opened in 2009 and is currently 91% leased. Zoning allows for multifamily development, however, the Thorton Place project did run into some community resistance.

One of the major amenities that the site offers is its proximity to the Northgate Transit hub. This facility currently offers bus service to all the major employment centers in the area including downtown Seattle, downtown Bellevue, and Redmond. The proposed North-link light rail line includes a stop at this facility; once completed, it is expected it will be a 13 minute commute to downtown Seattle via the light rail. The immediate area also has a number of sizable employers including the Northgate Mall, North Seattle Community College, and the Northwest Hospital.

There are a number of retail, grocery, healthcare, and entertainment options in the area. The views are mostly territorial, although some units may look over Thorton Creek. The site received an 86% Walkscore which is considered very walkable.

Exhibit M26
Location Analysis

Criteria	1 Poor	2 Average	3 Good	4 Excellent	Reletive Score
Other Apt Communities			3		3
Planning and Zoning				4	4
Employment Centers			3		3
Public Transportation				4	4
Retail Centers				4	4
Grocery Store			3		3
Healthcare Facilities			3		3
Recreation/Entertainment			3		3
Veiws		2			2
Walkable community			3		3
Average Score					3

Capture Rate

The subject's share of demand is the ratio of annual renter demand that the subject must capture to achieve a stabilized level of occupancy. It is calculated by dividing the total number of units at the subject by the total apartment renter household demand. Exhibit M27 shows the portion of apartment renter household demand in the PMA that the subject would need to capture to support projects of increasing size.

Exhibit M27
Capture Rate Sensitivity (PMA)

Subject's Share	Units
7%	232
8%	265
9%	298
10%	331
11%	364

Newer properties almost always lease up at the expense of older properties. An apartment project constructed at the subject will consist of new units, offering superior amenities, and have a location advantages including immediate access to transit. If priced competitively, it is reasonable to assume that the subject could capture between 8% and 10% of the market demand. If the subject captured 9.1% of the demand in the PMA, from a demand perspective, a 300 unit apartment project would be supported in the market. To add perspective, a 300 unit project represents a capture rate of 3.3% of the apartment renter demand in the SMA.

UNIT MIX AND SIZE

A well accepted apartment development risk management practice involves creating a range of unit sizes and configurations to attract a broader market. The unit mix and size distribution outlined in Exhibit M28 is based on the forecasted demographics, market averages, and comparable projects recently built within the PMA.

Exhibit M28
Subject Unit Mix and Size

Unit Type	Unit Mix	SF/Unit
Studio	25%	560
1 Bedroom/1 Bath	55%	700
2 Bedroom/2 Bath	20%	1,050
Overall Project Avg.	*100%*	*735*