Existing Conditions
Housing and Economic Trends

September, 2015

Prepared for:
City of Spokane Valley
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Acknowledgments

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ECONorthwest prepared this report to the City of Spokane Valley. It received substantial assistance from Van Ness Feldman. That assistance notwithstanding, ECONorthwest is responsible for the content of this report.

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1 Introduction

1.1 Overview

The City of Spokane Valley is updating its Comprehensive Plan in accordance with the Growth Management Act (GMA), chapter 36.70A RCW. The Comprehensive Plan is the City’s official statement concerning its vision for future growth and development. With this update, the City is reviewing its existing Comprehensive Plan and development regulations to ensure the plan and regulations comply with GMA requirements and to make any other policy changes the City determines are needed to help shape growth in the ensuing 20 year planning horizon. The City began the process of updating its Comprehensive Plan in November, 2014.

To date, the City has completed a substantial portion of the public engagement process and has also received and analyzed numerous public comments. Additionally, planning staff and the City’s consultant have completed an audit of the Comprehensive Plan’s existing goals and policies which resulted in a recommendation to retain, remove, or revise specific goals and policies in order to improve the Plan’s effectiveness and usability.

This report provides background, context, and preliminary analysis to help the City make policy decisions on growth management strategies by identifying existing conditions of Spokane Valley’s land uses and zoning. The Report will help the City gain a better understanding of how the City’s existing zoning has performed and will perform. It will also help identify ways that the City can consider changing its Comprehensive Plan – and the Economic Development, Housing, and Land Use Elements, specifically – to best guide the City’s growth over the next 20 years consistent with the GMA and the City’s policy choices.

The Report provides a snapshot of the City’s current land uses, demographics and zoning and describes development and economic trends from the last several years. The Report also includes more detailed analysis of specific issues and trends identified by this analysis, public comments, or staff input. That additional analysis explores the impacts existing land use policies and zoning have on the identified issues. Where appropriate, the Report also identifies potential regulatory and policy options that the City can consider in the update process to address the identified issues. However, it is important to note that any policy suggestions in this document are preliminary. Any changes the City makes to its Comprehensive Plan and development regulations will be informed by additional data and information that is still being gathered through the update process, including the land capacity analysis.

1.2 Report Organization

The remainder of the report is organized into three sections, including a technical appendix.

- **Existing Conditions Summary:** This section summarizes the key findings of the existing conditions analysis.
- **Focused Analysis of Zoning Issues**: This section assesses four issues that have been identified in existing conditions and through public comment to better explore how the City’s existing zoning is performing where trends suggest insufficient development of uses anticipated by that zoning district.

- **Technical Appendix**: This appendix provides more detailed findings of existing demographic, economic, land use and development conditions and trends.

# 2 Existing Conditions Summary

This section provides a summary of the existing conditions by topic. It establishes a baseline and common understanding of the conditions and trends affecting housing needs and economic growth in Spokane Valley by summarizing the most current data on Spokane Valley demographics, housing growth, economic growth, current land use, and real estate development patterns. Where possible and available, we sought to identify trends from that information based on several years of data. Additionally, to provide context, we have compared data and trends from Spokane Valley to that of Spokane County, more generally.

The sections that follow provide a summary of key findings. More detailed information is included in the technical appendix of this report.

## 2.1 Population and Demographic Trends

Spokane Valley has a similar demographic composition as Spokane County overall. The population will continue to grow in size and it is anticipated that the population will continue to “age,” meaning that the percentage of the overall population that is over 65 years of age will continue to increase.

- Spokane Valley has realized modest but steady population growth since it incorporated in 2003, growing at a rate of about one percent per year.

- Generally, the City is similar in demographic and household composition to Spokane County.

- However, Spokane Valley currently has a higher percentage of persons over the age of 65 compared to the County (14 percent to 13 percent) and also has a slightly older median age than the County, at 39.8 years old (Spokane County median age is 37.2 years old).

- 21 percent of Spokane Valley residents have a Bachelor’s degree or higher, compared to 28 percent in Spokane County.

- Spokane Valley’s median household income of nearly $48,000 is lower than the median household income of the County as a whole, which is approximately $49,200.
2.2 Housing Trends

Based on housing data from OFM and demographic data from the Census, recent trends indicate decreasing demand for larger single-family homes. A larger share of housing built in Spokane Valley is multi-family housing and household sizes and number of households with children have decreased over time.

- Like its population growth, Spokane Valley’s housing growth has been modest, but steady since it incorporated in 2003, growing at a rate of just over one percent per year.
- Spokane Valley’s housing characteristics are changing: More multi-family than single-family units are being built, the share of renters is increasing, average household size is decreasing, and the percent of households with children is decreasing.
- Housing affordability is an issue; 35 percent of all Spokane Valley households are considered cost-burdened, which is a term defined by the U.S. Department of Housing and Urban Development (HUD) as, “Families who pay more than 30 percent of their income for housing.”
- The majority of renters in Spokane Valley are cost-burdened (52 percent).

2.3 Economic Trends

The regional economy is increasingly a service-based economy providing commercial, professional, and retail services. The region and Spokane Valley has been slow to recover from the recession starting in 2008.

- Service industries have accounted for most of the region’s gross domestic product and job growth since 2001.
- The Spokane Valley employment and taxable retail sales have been slow to recover from the 2008 recession.
- The Regional Commercial and Corridor Mixed Use zones account for the largest share of retail sales in the city. These zones also realized the largest decrease in sales during the recession.

2.4 Land Base

Present Land Use

Based upon the GIS analysis of the County Assessor’s present use designation, much of the City’s land is used for just a few different uses, particularly single-family residential and general commercial uses, while industrial uses represent a far smaller portion of the City’s land base as shown in Exhibit 1 below.
Exhibit 1. Land Use by Acreage

<table>
<thead>
<tr>
<th>Land Use Category</th>
<th>Acres</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-family</td>
<td>10,021</td>
<td>49.7%</td>
</tr>
<tr>
<td>General Commercial</td>
<td>3,667</td>
<td>18.2%</td>
</tr>
<tr>
<td>Vacant Land</td>
<td>2,979</td>
<td>14.8%</td>
</tr>
<tr>
<td>Industrial</td>
<td>1,306</td>
<td>6.5%</td>
</tr>
<tr>
<td>Multi-family</td>
<td>1,123</td>
<td>5.6%</td>
</tr>
<tr>
<td>Exempt/Utilities</td>
<td>1,054</td>
<td>5.2%</td>
</tr>
<tr>
<td>Total</td>
<td>20,150</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Spokane County Assessor

Residential Lands

- Half of the City’s land base is used for single-family housing, which is indicative of a suburban community.
- Multi-family housing accounts for 5.6 percent of the City’s land base with 1,123 acres.

Commercial Lands

- General commercial properties compose the second largest share of land uses with 18 percent of land area.

Industrial Lands

- There are 1,306 acres of industrial lands, accounting for approximately 6.5 percent of all land uses in the City.

Present Land Capacity

Under the City’s current zoning, much of the capacity for future growth is within a few zones (R-3 and R-4 for residential and I-1 and I-2 for commercial and industrial land) as shown by Exhibit 2 and Exhibit 3. The capacity for future growth is determined by identifying vacant, partially-used, and underutilized land that can accommodate additional growth and then subtracting the land that is undevelopable (either due to environmentally critical areas, dedication for public purposes, or otherwise unsuitable for development). To determine the total housing unit and population capacity of the buildable residential land, the average housing unit density and household size is multiplied by the amount of buildable land in each residential zoning category.
Residential Lands

**Exhibit 2. Residential Land Capacity**

<table>
<thead>
<tr>
<th>Zone</th>
<th>Net Buildable Acres</th>
<th>Unit Capacity</th>
<th>Population Capacity</th>
<th>Share of Population Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>R-3</td>
<td>653</td>
<td>3,787</td>
<td>9,468</td>
<td>47.4%</td>
</tr>
<tr>
<td>R-4</td>
<td>151</td>
<td>1,101</td>
<td>2,751</td>
<td>13.8%</td>
</tr>
<tr>
<td>MF-2</td>
<td>51</td>
<td>1,129</td>
<td>2,257</td>
<td>11.3%</td>
</tr>
<tr>
<td>MF-1</td>
<td>87</td>
<td>958</td>
<td>1,917</td>
<td>9.6%</td>
</tr>
<tr>
<td>MUC</td>
<td>165</td>
<td>1,017</td>
<td>1,525</td>
<td>7.6%</td>
</tr>
<tr>
<td>R-2</td>
<td>101</td>
<td>402</td>
<td>1,005</td>
<td>5.0%</td>
</tr>
<tr>
<td>CMU</td>
<td>74</td>
<td>651</td>
<td>976</td>
<td>4.9%</td>
</tr>
<tr>
<td>R-1</td>
<td>15</td>
<td>32</td>
<td>79</td>
<td>0.4%</td>
</tr>
<tr>
<td>Total</td>
<td>1,297</td>
<td>9,076</td>
<td>19,980</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: City of Spokane Valley

- Currently the City has the residential land capacity to accommodate over 19,980 additional people by 2037.
- Multi-family zones (MF-1 and MF-2) account for nearly 21 percent of residential land capacity.

Commercial Lands

**Exhibit 3. Buildable Commercial and Industrial Land**

<table>
<thead>
<tr>
<th>Zone</th>
<th>Net Vacant Acres</th>
<th>Net Underutilized Acres</th>
<th>Net Buildable Acres</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>I-2</td>
<td>379</td>
<td>208</td>
<td>587</td>
<td>46.9%</td>
</tr>
<tr>
<td>I-1</td>
<td>201</td>
<td>65</td>
<td>266</td>
<td>21.3%</td>
</tr>
<tr>
<td>MUC</td>
<td>105</td>
<td>4</td>
<td>109</td>
<td>8.7%</td>
</tr>
<tr>
<td>RC</td>
<td>44</td>
<td>52</td>
<td>96</td>
<td>7.7%</td>
</tr>
<tr>
<td>CMU</td>
<td>37</td>
<td>47</td>
<td>84</td>
<td>6.7%</td>
</tr>
<tr>
<td>C</td>
<td>28</td>
<td>29</td>
<td>57</td>
<td>4.5%</td>
</tr>
<tr>
<td>O</td>
<td>25</td>
<td>7</td>
<td>32</td>
<td>2.5%</td>
</tr>
<tr>
<td>GO</td>
<td>9</td>
<td>5</td>
<td>14</td>
<td>1.2%</td>
</tr>
<tr>
<td>NC</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td>0.4%</td>
</tr>
<tr>
<td>Total</td>
<td>831</td>
<td>419</td>
<td>1,250</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: City of Spokane Valley

- Most of the commercial areas in Spokane Valley are located along transportation corridors, apart from residential areas.
- Spokane Valley currently lacks small-scale, neighborhood-oriented commercial areas within walking distance to many of the residential areas in the City.
Industrial Lands

- The large share (67 percent and 853 acres) of the City’s commercial and industrial land capacity is in the City’s two industrial zones, I-1 (266 acres) and I-2 (587 acres).
- Spokane Valley has 580 acres of vacant industrial land in the I-1 and I-2 zones, of which the I-2 zone accounts for 379 acres.

2.5 Development Trends

Spokane Valley has realized a marked change in development since the recession in 2008. Residential development has been the most consistent category of growth. The City has increasingly realized more multi-family housing development, which has been characterized by new apartment complexes larger in size with several hundred units compared to older apartment buildings. At the same time, Spokane Valley has experienced slow commercial and industrial growth since 2008, which indicates there is a lack of employment growth generating a need for more space. Of the commercial growth that did occur, much of it has been around or north of Interstate-90. More detailed trends by use are outlined below and in the appendix.

Residential Development

- Multi-family housing has increased as a share of housing built over time, and demand has been strong since 2008 as vacancy rates reached a 15-year low of 4 percent in 2013. Typically, a vacancy rate of 5 percent is considered normal, and a rate below 5 percent indicates new units may need to be built to meet demand.
- The MUC and CMU zones have experienced the majority of multi-family housing development while the MF-1 zone has seen little development since 2012.
- Single-family housing is still predominant as a percentage of overall housing type, but multi-family housing development has been a greater share of recent housing development indicating the demand for housing types in Spokane Valley is changing.
- Redevelopment has been slow throughout the City, particularly in the Corridor Mixed Use (CMU) zone along Sprague Avenue, which has not realized any new multi-family development over four years.

Commercial Development

- Retail sales in Spokane Valley have been slow to recover from the recession, particularly in the City’s largest sales tax producing zones (RC, C and CMU).
- Demand for commercial properties in Spokane Valley is weaker, particularly for office space, which has a vacancy rate over 20 percent. Only when office vacancy rates dip below 10 percent is there an indication that the existing supply is getting constrained and new supply may be needed. Based on these existing vacancy rates, Spokane Valley has an oversupply of office space.
- Retail vacancy rates in Spokane Valley decreased from over 10 percent in 2012 to about 6 percent presently.
- Conditions have begun to improve over the last year for retail space as vacancy has decreased and rents have increased.

**Industrial Development**

- Spokane Valley has realized little new industrial development since 2008.
- However vacancies have decreased substantially from over 20 percent to less than 10 percent today indicating new demand is utilizing unused existing space.
- As the economy continues to recover and the region grows, new industrial or light industrial space may need to be developed to meet growing demand.
3 Focused Analysis of Zoning Issues

Several of the existing conditions and trends illustrated above raise questions about the performance of existing policies and regulations that prompted further analysis:

- Multi-family zones (MF-1 and MF-2) account for nearly 21 percent of residential land capacity in the City, but the MF-1 zone has experienced little development in recent years. Are there barriers to new development in this zone?
- To diversify the housing supply in Spokane Valley, are mixed use development projects feasible in the Corridor Mixed Use zone?
- In recognition of high vacancy rates in office zones, are there barriers to development in the office zoning designations (Garden Office and Office)?
- Based on comments received throughout the public engagement process, it is clear that the community desires more small-scale retail uses in neighborhoods. Is there potential for small-scale retail uses in the City, especially in the Neighborhood Commercial zone?

To address these issues, we used a combination of several different methods including development financial pro forma analysis of prototypical development projects, evaluation of the zoning code requirements, and analysis of market trends and parcel composition. The analysis results are summarized below, but it is important to note that the analysis is of existing zoning based on current demographic trends is meant to inform subsequent decision-making by the City Council in this update process.

3.1 Medium Density Residential Zoning

The MF-1 zone has not realized much development since 2012. Anecdotally, the City has heard that multi-family projects are not feasible in this zone. Over the same time the City has realized an average of almost 300 multi-family units built per year; the same average as before the recession in 2008. This indicates that the MF-1 is not as competitive for new residential development as other zones in its post-recession recovery.

To assess whether there are issues with the MF-1 zone that restrict development feasibility, ECONorthwest evaluated building permit applications in the MF-1 zone to determine how many projects were proposed for the MF-1 zoned compared to other zones. The analysis also conducted a pro forma analysis of a hypothetical apartment project based on the existing MF-1 regulations.

Results

The MF-1 zone has realized little multi-family development since 2012. The largest share of permitted units (70%) were in mixed use zones. Just one permit for 12 units was issued in the MF-1 zone from 2012 to 2015, and the project applicant later submitted a CAR application requesting an increase in the density allowed on the site.
To get a better sense of the reasons for the slow growth in the MF-1 zone despite the increasing demand for multi-family development, generally, a financial analysis of a hypothetical apartment development was conducted. A summary of the analysis and assumptions can be found in the appendix. The hypothetical analysis indicates new apartment development is not currently feasible in the MF-1 zone under current regulations because the cost exceeds the return.

- For a one-acre lot, the hypothetical apartment project would have 12 units and 14 surface parking spots.
- After accounting for the building area and parking lot, over 28 percent of the lot is unused due to the 12 units per acre density limit, preventing full utilization of the site and limiting financial return on the project. This density limit also prevents any potential multi-family development from reaching the zone’s 60 percent lot coverage limit.
- Based on the pro forma analysis, with current rent levels and density limits (12 units per acre) in the MF-1 zone, development costs (including land acquisition) would need to be 30 percent or more lower than current costs for an apartment building to be financially feasible in the MF-1 zone, as shown in Exhibit 38 in the Technical Appendix.
- To improve the financial feasibility for new multi-family housing development potential development needs to be able to maximize the development potential of the full site.

**Policy Considerations**

For an individual project’s costs and revenues, the City has limited to no ability to affect rent levels in the near-term. As a result, most of the options available to the City are related to reducing costs. Options include:

- The City could consider exploring other types of medium density housing that are less expensive to construct, but that are not currently allowed within the MF-1 zones. Such housing typologies could be viable alternatives in the MF-1 zone because they are denser than single-family dwelling units and provide a transition between lower density and higher density zones.
- The City could consider rezoning some areas currently zoned MF-1 to zoning designations that allow higher density residential uses.
- To support additional housing types, the City could consider adjustments to the minimum lot size, setbacks, lot width, and other development standards in the MF-1 zone.
- The City could consider using the multi-family tax exemptions (MFTE) for medium density housing types (which may include affordable housing provisions).
3.2 Mixed Use Zoning

The Corridor Mixed Use (CMU) zone has realized little new development (of any type), both along Sprague Avenue and Trent Avenue. To assess the development potential within this zone, ECONorthwest conducted a pro forma analysis of a hypothetical residential mixed use project on Sprague Avenue based on the CMU development requirements. The analysis also compared land values throughout the City. Areas with higher land values necessitate higher density development to offset the higher development cost.

Results

Overall, the lack of redevelopment is currently due to project economics where anticipated rents do not support more costly vertical mixed use development rather than an issue with the zone regulations, specifically.

- As explained in the Technical Appendix in Exhibit 39, the analysis assumed a hypothetical two story mixed use project on a one acre lot along Sprague Avenue. The project would have 22 dwelling units above 21,000 square feet of retail, common area, and tuck-under, ground-level parking. The building would have 67 parking spaces in total.

- Due to the higher cost of construction for vertical mixed-use development, expected rental income would have to increase by over 25 percent or more for vertical mixed-use development to be financially feasible, as shown in Exhibit 40 in the Technical Appendix.

- Property values along Trent Avenue are lower than along Sprague Avenue or other corridors. Lower land value is likely due to proximity to industrial uses, proximity to the railroad tracks, and distance from major transportation routes, such as Interstate-90. As a result, redevelopment is not as competitive here relative to other locations in the City due to the less-desirable location.
Policy Considerations

- Targeted incentives, such as a Multi-Family Tax Exemption for housing, may help new developments reach project feasibility.
- The City could consider reducing parking requirements, including for commercial uses. Lower parking requirements for residential and commercial uses could provide more flexibility in site development and reduce construction costs, potentially increasing project feasibility.
- The City could consider focusing mix-used zones in areas and corridors where multi-family development is more feasible and served by transit.
- The City could consider reducing setback standards or reducing open space requirements in the mixed-use zones to allow property owners greater ability to develop their property.
3.3 Office Zoning

Recent office development in the City has clustered around Interstate-90, outside of the two zoning districts specifically designed to support office development. These areas in which office development has occurred have good access, visibility, and sizable undeveloped parcels, particularly in the MUC zone. By contrast, much of the City’s two zones specifically oriented toward office development lack these attributes. Specifically, the Garden Office (GO) and Office (O) zones are concentrated along major north-south corridors (Argonne, Pines and Evergreen), and have not realized much new office development since 2004. Currently, these zones include a mixture of uses, including retail and single-family homes. The zone is also characterized by parcel sizes typically less than 0.75 acres, which makes it hard to assemble land for sizable new office developments.

ECONorthwest conducted additional analysis to try to identify potential causes of the lack of office development in the office zones. Specifically, we analyzed recent office developments in Spokane Valley to assess whether available vacant land is suitable or desirable for new office development. Vacant and underutilized parcels in these zones were also assessed to determine if they could accommodate the type of office uses Spokane Valley has realized recently.

Results

Currently, there is low demand for office space as indicated by a current vacancy rate for office space over 20 percent and that the City has absorbed (i.e. space leased less space vacated) only a small amount of office space over the last couple years. Most new office space built in the last ten years has occurred near Interstate-90 and/or in the Mixed Use Center zone, as can be seen in the map below.
The absorption (space leased less space vacated) of office space since the recession has been negative, indicating more vacancies than before the recession.

In the last two years the City has absorbed less than 10,000 square feet of office space a year on average.

A typical small office building built since 2004 had at least 20,000 building square feet plus surface parking. Assuming that this threshold of building and parking space reflects market considerations for development projects, this translates to needing a development site around 35,000 square feet or more to accommodate a new office development project.

The Office (O) and Garden Office (GO) zones only have a few well suited sites 35,000 square feet in size or larger that could support similar new office developments.

The map below shows potential office development sites in the O and GO zones that could be developed for this type of small office building based on size and development status (i.e. either vacant or redevelopable). Vacant and redevelopable parcels are in green. Dark green have one
acre or larger (good development potential) and the lighter green are half an acre to one acre in size (some potential).

**Policy Considerations**

- The MUC and other areas in proximity to Interstate-90 may be better suited for future office development when the market improves. These areas have good transportation access and development sites large enough to support sizable office developments.
- Medical office uses may be a use likely to see more demand due to the areas aging population and the Affordable Care Act’s emphasis on outpatient care.
- Due to small parcel sizes and distance from Interstate-90 most of the existing vacant land in the Office and Garden Office zones are unlikely to be desirable locations for new office development, based on sites used for past office development projects.
- Vacant areas in the O and GO zones (especially those areas along major corridors with good transit service) are suitable for uses for which there is demand, such as additional multi-family housing.
Accordingly, the City could consider policy or regulatory changes that would provide opportunity for development of other types of uses for which there is higher demand, such as residential uses. Such changes could be in the form of additional permitted uses in these office zones or rezones, where appropriate, to open up more development options.

### 3.4 Neighborhood Commercial Zoning

Spokane Valley lacks small-scale, neighborhood-oriented commercial areas within walking distance to many of the residential areas in the City. Based on comments received throughout the public engagement process, it is clear that the community desires more small-scale retail uses in neighborhoods. Additionally, small and local businesses can help to achieve a vibrant retail market, especially with increasing competition from online options, warehouse retail stores, and established regional shopping centers.

To assess what opportunities exist for adding new retail uses in residential areas (either stand-alone retail developments or as part of a mixed use project), ECONorthwest assessed the number of vacant or partially-vacant parcels for small-scale retail uses at major intersections in residential areas and evaluated the Neighborhood Commercial zoning regulations. The analysis also references the mixed use pro forma results to further assess the prospects for mixed use redevelopment.

**Results**

Based on the parcel analysis, opportunities for small-scale, neighborhood-oriented commercial are fairly limited.

- There are only two to three vacant or buildable sites at major intersections in residential areas that are large enough to support even a small-scale retail uses.
- The residential uses surrounding these sites are characterized by low density housing. While further analysis may be necessary to confirm, we have some concern that the low density development pattern may limit market demand for these neighborhood scale uses.
- However, the sizable number of home business permits in residential areas of the City may represent latent demand for small-scale commercial spaces nearby.
- As discussed above and in the appendix, the pro forma analysis also determined that vertical mixed use redevelopment is not feasible in the near-term.

**Policy Considerations**

- The City could consider ensuring that the few vacant parcels that could support new retail uses are appropriately zoned to allow neighborhood commercial uses.
- The City could consider changing policies and zoning in appropriate commercial corridors (or adjacent block faces) to allow local-serving commercial uses in close proximity to existing residential neighborhoods.

- Long-term, the City could lay the groundwork for new neighborhood nodes by allowing small, neighborhood scale retail and mixed use buildings at major intersections (or blocks), even if these areas are currently built with residences. Over time, these residences may be converted to commercial uses, become locations for more intense home businesses, or otherwise redeveloped for mixed use projects.

- Parking requirements are often a constraint for small retail businesses. The City may want to review its parking requirements to ensure they are not a barrier for new small-scale retail uses in those areas.
4 Technical Appendix

The Technical Appendix provides detailed numbers and finding for the existing conditions analysis by each of the five sections:

- **Population and Demographic Trends:** This section looks at population and demographic characteristics of Spokane Valley in comparison to Spokane County.
- **Housing Trends:** This section looks at trends related to household characteristics of Spokane Valley in comparison to Spokane County.
- **Economic Trends:** This section looks at employment by sector, retail sales and commuting patterns in Spokane Valley.
- **Land Base:** This section looks at current land use in the City and the capacity for future growth.
- **Development Trends:** This section looks at the real estate market fundamentals for multi-family, office, retail, and industrial uses in Spokane Valley.

Data Sources used in the existing conditions analysis include:

- **Population and Demographic Trends:** US Census Bureau and the Washington Office of Financial Management
- **Housing Trends:** US Census Bureau and the Washington Office of Financial Management
- **Economic Trends:** US Bureau of Economic Analysis, Washington Employment Security Department, Washington Department of Revenue, and the City of Spokane Valley permit data.
- **Land Base:** City of Spokane Valley parcel data, land quantity analysis, and permit data.
- **Development Trends:** Washington Office of Financial Management, US Census Bureau, and CoStar\(^1\).
- **Pro Forma Analysis:** CoStar and RS Means\(^2\).

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\(^1\) CoStar is a national commercial real estate information company. [www.costar.com](http://www.costar.com)

\(^2\) RS Means is a proprietary national construction cost data service. [www.rsmeans.com](http://www.rsmeans.com)
4.1 Population and Demographic Trends

4.1.1 Population Growth

- In 2003, shortly after its incorporation, Spokane Valley had a population of 82,985 people.
- From 2003 to 2014, Spokane Valley grew slightly more slowly than Spokane County and Washington at 0.9 percent per year or 10.9 percent over the period. By 2014, it reached a population of 92,050 people.
- During this period, Spokane Valley accounted for 16.3 percent of total population growth in the Spokane County.


<table>
<thead>
<tr>
<th>Area</th>
<th>Population</th>
<th>Change 2003 to 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2003</td>
<td>2014</td>
</tr>
<tr>
<td>Spokane Valley</td>
<td>82,985</td>
<td>92,050</td>
</tr>
<tr>
<td>Spokane County</td>
<td>428,889</td>
<td>484,500</td>
</tr>
<tr>
<td>Washington</td>
<td>6,126,885</td>
<td>6,968,170</td>
</tr>
</tbody>
</table>

### 4.1.2 Demographics

- Overall Spokane Valley and Spokane County have a very similar demographic composition.
- In 2013, Spokane Valley had a median age of 39.8, which is slightly older population than Spokane County with a median age of 37.2. In addition, 14 percent of Spokane Valley’s population is over age 65.
- Both geographies are aging and had a higher proportion of individuals 65 years and older in 2013 as compared with 2005.

#### Exhibit 8. Population distribution by age, Spokane Valley and Spokane County, 2005-2013

![Population distribution chart](chart.png)

Source: US Census ACS 1 year estimates, 2005 Table S0101 and ACS 5 year estimates, 2009-2013 Table S0101
4.1.3 Educational Attainment

- From 2005 to 2013, the percentage of individuals with a bachelor’s degree or higher in Spokane Valley decreased by two percentage points to 21 percent of individuals over age 25.

- Both geographies saw a decrease in the proportion of the population with less than a high school degree over the period.

- Overall, Spokane County has a greater rate of educational attainment in 2013 as compared with Spokane Valley.

Exhibit 9. Educational attainment of the population age 25 and older, Spokane Valley and Spokane County, 2005-2013

Source: US Census ACS 1 year estimates, 2005 Table S1501 and ACS 5 year estimates, 2009-2013 Table S1501
4.1.4 Income

- Between 2005 and 2013, median household income grew by more than $10,000 in Spokane Valley but it is still below the Spokane County median income.

- Despite this positive change, households in the lowest income bracket (those making less than $25,000) constituted nearly one third of all households in Spokane Valley in 2013.

- 59 percent of households in Spokane Valley made less than $50,000 in 2013 as compared with 51 percent of households in Spokane County.

Exhibit 10. Median Household Income, Spokane Valley and Spokane County, 2005-2013

Exhibit 11. Income distribution of households, Spokane Valley and Spokane County, 2005-2013

Source: US Census ACS 1 year estimates, 2005 Table S0101 and ACS 5 year estimates, 2009-2013 Table S0101
4.2 Housing Trends

4.2.1 Housing Tenure

- Spokane County’s renter and owner occupied housing share remained consistent with only a one percentage point increase over the period. In both geographies, renter-occupied housing constituted slightly over a third of all housing units.

- Renter occupied housing units in Spokane Valley increased by four percentage points from 2005 to 2013.

Exhibit 12. Housing Tenure, Spokane Valley and Spokane County, 2005-2013

<table>
<thead>
<tr>
<th>Area</th>
<th>2005</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spokane County</td>
<td>35%</td>
<td>36%</td>
</tr>
<tr>
<td>Spokane Valley</td>
<td>34%</td>
<td>38%</td>
</tr>
</tbody>
</table>

Source: US Census ACS 1 year estimates, 2005 Table B25003 and ACS 5 year estimates, 2009-2013 Table B25003.

4.2.2 Household Size

- In 2013, the average household size of both geographies was similar at just over 2.4 persons per household.

- Average household size slightly decreased in Spokane Valley by 0.04 persons from 2005 to 2013.

- In the County average household size increased by 0.05 persons.

Exhibit 13. Average Household Size, Spokane Valley and Spokane County, 2005-2013

<table>
<thead>
<tr>
<th>Area</th>
<th>Average Household Size</th>
<th>2005</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spokane Valley</td>
<td>2.47</td>
<td>2.43</td>
<td></td>
</tr>
<tr>
<td>Spokane County</td>
<td>2.39</td>
<td>2.44</td>
<td></td>
</tr>
</tbody>
</table>
4.2.3 Households with Children

- In 2013 approximately 31 percent of both geographies’ households had children.
- The percent of households with children decreased in both Spokane Valley and Spokane County between 2005 and 2013.
- Spokane Valley saw a decrease of nearly five percentage points from 35.6 percent to 30.7 percent while Spokane County experienced a small decrease in the number of households with children.

Exhibit 14. Percent of households with children, Spokane Valley and Spokane County, 2005-2013

4.2.4 Housing Affordability

- For sale housing has become more affordable since 2007 with the decrease in housing prices and mortgage rate; an index value above 100 indicates housing is more affordable.
Overall, 36 percent of all households in Spokane Valley are considered cost-burdened. In both Spokane Valley and Spokane County the percentage of cost-burdened households with a mortgage increased the most between 2005 and 2013 compared to those renting.

However, in both jurisdictions, over half of renters are cost burdened. The share of renters who were cost-burdened remained relatively consistent from 2005 to 2013, and actually decreased in Spokane Valley.

**Exhibit 16. Cost-burdened households by type, Spokane Valley and Spokane County, 2005-2013**
4.3 Economic Trends

4.3.1 Gross Domestic Product

- The Spokane region’s economy has steadily grown with gross domestic product increasing at an average annual rate of 2.75 percent in inflation adjusted dollars.
- Almost all of the region’s economic growth has been in service providing industries, as opposed to growth in goods-producing industries or government.


4.3.2 Employment

- Employment in Spokane County between 2002 and 2014 reflects the broad economic trends of the past decade; job growth increased steadily until the financial crisis in 2009 and has slowly begun to recover since.
- The County’s job mix has remained consistent over the twelve-year period.
- Services, such as education, health care, and professional and technical services, compose the largest share of the county’s employment base at 46 percent of the total.
- The service sector also experienced the greatest growth at just over four percent.
Exhibit 18. Number of jobs by sector, Spokane County, 2002-2014

Note: At the time this chart was made, fourth quarter estimates for 2014 were unavailable. Employment numbers for 2014 are the average of quarters 1-3.

- There were 2,504 home employment permits issued between 2008 to 2015 in Spokane Valley, averaging over 400 permits a year.
- The number of these home employment permits still active is not known, however.

4.3.3 Taxable Retail Sales

- Similar to jobs, taxable retail sales in Spokane Valley decreased during the recession after a period of strong growth and are slowly beginning to grow again, but they have not returned to the 2007 peak.

- The recession’s impact on taxable retail sales was significant with taxable retail sales in the region dropping by about $500 million from 2007 to 2010.

- Retail sector sales constituted 63 percent of all taxable retail sales in 2013.


- In 2013, the Regional Commercial zone accounted for 40 percent of Spokane Valley’s total taxable retail sales. The Corridor Mixed Use and Community Commercial zones accounted for 15 percent of the total.

- In 2007, the Regional Commercial zones accounted for 43 percent of total TRS, and most of the decrease in taxable retail sales from 2007 to 2010 occurred in the Regional Commercial zone.

- Since 2004, retail sales in the Mixed Use Center zone have more than doubled.
Exhibit 21. Inflation-adjusted taxable retail sales by zone, Spokane Valley, 2004-2013

Source: Washington Department of Revenue, Taxable Retail Sales, 2000-2014

4.3.4 Commute Patterns

- Spokane Valley residents tend to work close to home with the almost 80 percent of workers employed in the City and the City of Spokane.
4.4  Land Base

4.4.1  Present Land Use

- Single-family housing constitutes the largest share of land use within Spokane Valley making up 50 percent of all land area.

- General commercial properties compose the second largest share of land uses with 18 percent of land area.

- At almost 3,000 acres, vacant land is the third highest land use category in the City. A sizable shore of this land is in the northeastern part of the City.

- Public facilities and multi-family housing has the smallest share with just five and six percent of total land area, respectively.

- 90 percent of all residential land is zoned single-family and 10 percent is zoned multi-family.
4.4.2 Residential Land Quantity

- Under current zoning, Spokane Valley has capacity for over 9,000 additional housing units and over 19,980 people based on density and household size assumptions.
- The largest share of the City’s capacity is in the Residential 3 (R-3) zone with 47 percent of the residential land capacity. The R-4 zone has the second most capacity.
The multi-family zones (MF-1 and MF-2) also have a sizable share of the City’s residential capacity.

Exhibit 24. Residential Land Capacity

<table>
<thead>
<tr>
<th>Zone</th>
<th>Parcels</th>
<th>Vacant Acres</th>
<th>Partially Used Acres</th>
<th>Underutilized Acres</th>
<th>Net Buildable Acres</th>
<th>Unit Capacity</th>
<th>Population Capacity</th>
<th>Share of Population Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>R-3</td>
<td>1,214</td>
<td>197</td>
<td>456</td>
<td>0</td>
<td>653</td>
<td>3,787</td>
<td>9,468</td>
<td>47.4%</td>
</tr>
<tr>
<td>R-4</td>
<td>207</td>
<td>123</td>
<td>27</td>
<td>0</td>
<td>151</td>
<td>1,101</td>
<td>2,751</td>
<td>13.8%</td>
</tr>
<tr>
<td>MF-2</td>
<td>140</td>
<td>26</td>
<td>25</td>
<td>0</td>
<td>51</td>
<td>1,129</td>
<td>2,257</td>
<td>11.3%</td>
</tr>
<tr>
<td>MF-1</td>
<td>193</td>
<td>39</td>
<td>48</td>
<td>0</td>
<td>87</td>
<td>958</td>
<td>1,917</td>
<td>9.6%</td>
</tr>
<tr>
<td>MUC</td>
<td>181</td>
<td>163</td>
<td>0</td>
<td>1</td>
<td>165</td>
<td>1,017</td>
<td>1,525</td>
<td>7.6%</td>
</tr>
<tr>
<td>R-2</td>
<td>198</td>
<td>51</td>
<td>49</td>
<td>0</td>
<td>101</td>
<td>402</td>
<td>1,005</td>
<td>5.0%</td>
</tr>
<tr>
<td>CMU</td>
<td>316</td>
<td>56</td>
<td>0</td>
<td>18</td>
<td>74</td>
<td>651</td>
<td>976</td>
<td>4.9%</td>
</tr>
<tr>
<td>R-1</td>
<td>27</td>
<td>13</td>
<td>3</td>
<td>0</td>
<td>15</td>
<td>32</td>
<td>79</td>
<td>0.4%</td>
</tr>
<tr>
<td>Total</td>
<td>2,476</td>
<td>669</td>
<td>608</td>
<td>20</td>
<td>1,297</td>
<td>9,076</td>
<td>19,980</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: City of Spokane Valley

4.4.3 Commercial and Industrial Land Quantity

- The City’s industrial zones (I-1 and I-2) have the most buildable acres of all commercial and industrial zones.
- Vacant industrial land in the I-1 and I-2 zones accounts for 46 percent (580 acres) of the City’s commercial and industrial capacity.
- The Mixed Use Center zone also has a sizable amount of vacant land with 105 acres.

Exhibit 25. Buildable Commercial and Industrial Land

<table>
<thead>
<tr>
<th>Zone</th>
<th>Net Vacant Acres</th>
<th>Net Underutilized Acres</th>
<th>Net Buildable Acres</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>I-2</td>
<td>379</td>
<td>208</td>
<td>587</td>
<td>46.9%</td>
</tr>
<tr>
<td>I-1</td>
<td>201</td>
<td>65</td>
<td>266</td>
<td>21.3%</td>
</tr>
<tr>
<td>MUC</td>
<td>105</td>
<td>4</td>
<td>109</td>
<td>8.7%</td>
</tr>
<tr>
<td>RC</td>
<td>44</td>
<td>52</td>
<td>96</td>
<td>7.7%</td>
</tr>
<tr>
<td>CMU</td>
<td>37</td>
<td>47</td>
<td>84</td>
<td>6.7%</td>
</tr>
<tr>
<td>C</td>
<td>28</td>
<td>29</td>
<td>57</td>
<td>4.5%</td>
</tr>
<tr>
<td>O</td>
<td>25</td>
<td>7</td>
<td>32</td>
<td>2.5%</td>
</tr>
<tr>
<td>GO</td>
<td>9</td>
<td>5</td>
<td>14</td>
<td>1.2%</td>
</tr>
<tr>
<td>NC</td>
<td>3</td>
<td>2</td>
<td>5</td>
<td>0.4%</td>
</tr>
<tr>
<td>Total</td>
<td>831</td>
<td>419</td>
<td>1250</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: City of Spokane Valley
4.5 Development Trends

4.5.1 Residential Development

- Overall, the number of housing units in Spokane Valley increased steadily from 2004 to 2015 when it reached approximately 40,600 total units.
- However, the mix of housing units has shifted from 2004 to 2014; the share of mobile homes fell by half (four percent to two percent over the period) while multi-family units increased slightly and single family homes stayed consistent.
- Over the last 10 years a majority (60 percent) of new single-family and multi-family housing units have been multi-family (two or more) units.
- In the last five years, 76 percent of new single-family and multi-family housing units have been multi-family.

Exhibit 26. Total housing units by type, Spokane Valley, 2004-2014

![Graph showing total housing units by type from 2003 to 2015]


- The housing stock in Spokane Valley is older with the majority of total housing units built before 1979. Only 14 percent of the City’s total housing stock was built since 2000.
- The majority of multi-family housing has been built since 1980. During this period it composed a larger share of total housing built accounting for 40 percent of new units.
Apartment rental rates (not adjusted for inflation) in Spokane Valley have grown steadily at 3.5 percent per year from 2000 to 2015.

Starting in 2009, Spokane Valley rental rates surpassed Spokane County and have remained slightly higher ever since.

Vacancy rates have varied considerably, ranging between 4 and 13 percent during this period.

Since 2012 rents in Spokane Valley have increased sharply as vacancy rates reached a low of less than four percent.

Vacancies increased in Spokane Valley in 2014 to over seven percent and rent increases slowed during this period.

Regionally, vacancy rates are still at a 15-year low.
Multi-family development in Spokane County mainly consists of buildings built before 2004, especially in the urban core of Spokane and Spokane Valley.

Newer multi-family buildings tend to be over 150 units per complex and are concentrated on the outskirts of Spokane and Spokane Valley.
Exhibit 29: Multi-Family Development in the Spokane Valley Area, 2014

Source: CoStar.
4.5.2 Commercial and Industrial Development

- Commercial and industrial development has not changed significantly from 2008 to 2015 in Spokane Valley.
- Office space has experienced the greatest change, growing from 24 percent to 28 percent of total commercial space.


Office

- Vacancies in the City are relatively high, but have decreased from a high of 35 percent in 2009 to about 23 percent in 2015.
- Office vacancy rates in the County were lower at just over 11 percent. Vacancy rates below 10 percent indicate that the existing supply is getting constrained and new supply may be needed.
- Office rents in Spokane Valley and Spokane County decreased by almost two dollars per square foot per year from 2008 to 2015 and have yet to recover.

Source: CoStar
Similar to multi-family development, the majority of office development in the area was built before 2004.

More recent office development has tended to be over 50,000 square feet and concentrated in downtown Spokane or in Spokane Valley along Interstate-90.
Exhibit 32. Office Development in the Spokane Valley Area, 2014

Source: CoStar
Retail

- Retail rents in Spokane Valley reached a high of $11 per square foot per year in 2010 before dropping below $8 per square foot in 2014.
- Rents in the County followed a similar trend though they were consistently $2 to $3 higher per square foot.
- Retail vacancy rates peaked in 2012 and have decreased since. By 2015 the City’s retail vacancy rate was about 6 percent.
- As vacancies have decreased, rental rates have begun to increase again in the last year.

Exhibit 33. Spokane Valley Retail Rents and Vacancy Rates, 2008-2015

- The majority of retail development is along major corridors, especially developments before 2004.
- More recent development is generally more dispersed, but tends to be concentrated along major roads and larger in scale.
Exhibit 34. Retail Development in the Spokane Valley Area, 2014

Source: CoStar
Industrial

- Spokane Valley and Spokane County industrial rents have decreased between 2008 and 2015.
- Industrial vacancy rates in 2015 are less than half of their peak of almost 25 percent in 2010. Spokane County vacancy rates are far lower than those in Spokane Valley but are also far less volatile.

**Exhibit 35. Spokane Valley Industrial Rents and Vacancy Rates, 2008-2015**

- New industrial development in the Spokane Valley area is largely concentrated east of Spokane City and on the outer edges of previous industrial sites.
- Only 60,000 square feet of new industrial space has been built in Spokane Valley since 2008.
- However, from 2004 to 2008, much of the new industrial development in the region was in Spokane Valley as shown in the map below.
Exhibit 36. Industrial Development in the Spokane Valley Area, 2014.
4.6 Pro Forma Analysis Summary

The pro forma analysis provides an initial high-level financial feasibility assessment of redeveloping properties in Spokane Valley. The analysis used a static pro forma analysis to assess the financial feasibility. A static pro forma analyzes the costs of constructing a new building and the potential revenues the new building would generate in its first year. The analysis assumes that the building is sold in its first years and compares the total cost to construct with how much it would sell for in the current market. If the estimated sales price is high enough to cover the cost of construction, the developer’s profit, and buying the property the project is considered feasible.

This analysis subtracts the cost of construction and developer’s profits from the estimated sales price to determine how much a developer would be willing to pay for the property (the residual land value). It is assumed the developer would keep 10% of the sales price as profit.

Apartment in MF-1 Zone

Building Program

- The analysis assumed a hypothetical one acre parcel zoned MF-1.
- Based on the zoning code, a developer could build 12 units (eight one-bedroom units and four two-bedroom units) on the parcel.
- Parking requirements dictate a minimum of 14 parking spaces, which was assumed to be all surface parking.

Financial Assumptions

- Total cost of the project (excluding the cost of purchasing the property) would be $1.49 million, $136.65 on a per square foot basis.
- The analysis assumed a one-bedroom unit rents for about $800 per month and a two-bedroom unit rents for about $1,000 per month.
- Assuming a 7.0% capitalization rate, the total project would be valued at $1.30 million.
Exhibit 37. Apartment Financial Performance Summary

<table>
<thead>
<tr>
<th>Lot Size</th>
<th>43,560</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Building Area</td>
<td>10,890</td>
</tr>
<tr>
<td>Floor Area Ratio</td>
<td>0.25</td>
</tr>
<tr>
<td>Units</td>
<td>12</td>
</tr>
<tr>
<td>Parking Spots</td>
<td>14</td>
</tr>
</tbody>
</table>

**Financial Summary**

<table>
<thead>
<tr>
<th>Total</th>
<th>Per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cost</td>
<td>$1,488,123</td>
</tr>
<tr>
<td>Building Cost</td>
<td>$1,417,783</td>
</tr>
<tr>
<td>Parking Costs</td>
<td>$70,000</td>
</tr>
<tr>
<td>NOI</td>
<td>$91,347</td>
</tr>
</tbody>
</table>

| Total Value    | $1,304,962 | $119.83 |
| Residual Land Value | -$313,317 | -$7.19 |

Source: ECONorthwest, RS Means, CoStar, City of Spokane Valley

Total costs exceed projected value. As a result a developer’s willingness to pay for this hypothetical property is negative, making the project financially unfeasible.

Assuming construction costs were over 30 percent lower, a developer’s willingness to pay for the hypothetical property would close to $95,000, which is getting close to being financially feasible in the current market.

Exhibit 38. Apartment Financial Performance Summary, Lower Cost

<table>
<thead>
<tr>
<th>Lot Size</th>
<th>43,560</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Building Area</td>
<td>10,890</td>
</tr>
<tr>
<td>Floor Area Ratio</td>
<td>0.25</td>
</tr>
<tr>
<td>Units</td>
<td>12</td>
</tr>
<tr>
<td>Parking Spots</td>
<td>14</td>
</tr>
</tbody>
</table>

**Financial Summary**

<table>
<thead>
<tr>
<th>Total</th>
<th>Per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cost</td>
<td>$1,080,597</td>
</tr>
<tr>
<td>Building Cost</td>
<td>$1,010,257</td>
</tr>
<tr>
<td>Parking Costs</td>
<td>$70,000</td>
</tr>
<tr>
<td>NOI</td>
<td>$91,347</td>
</tr>
</tbody>
</table>

| Total Value    | $1,304,962 | $119.83 |
| Residual Land Value | $94,208    | $2.16 |

Source: ECONorthwest, RS Means, CoStar, City of Spokane Valley
Mixed Use in the CMU Zone

Building Program

- The analysis assumed a hypothetical one acre parcel zoned CMU on Sprague Avenue.
- Based on the zoning code, a developer could build 22 units (a mix of studios, one-bedroom, two-bedroom, and three-bedroom units) on the parcel.
- The building footprint covers about half of the parcel. Ground level includes 14,000 square feet of retail, 4,600 square feet of common area, and 2,300 square feet of tuck-under parking.
- Parking requirements dictate a minimum of 67 parking spaces, which was assumed to be mostly surface parking.
- Open space accounts for about 5,000 square feet. Zoning dictates a minimum of 4,600 square feet or 210 square feet per unit.

Financial Assumptions

- Total cost of the project (excluding the cost of purchasing the property) would be $5.75 million.
- Per square foot costs are higher given the higher cost of constructing a concrete podium for the first floor.
- The analysis assumed a one-bedroom unit rents for about $800 per month and a two-bedroom unit rents for about $1,000 per month.
- Assuming a 7.0% capitalization rate, the total project would be valued at $5.07 million.

### Exhibit 39. Mixed Use Financial Performance Summary

<table>
<thead>
<tr>
<th>CMU Mixed-Use</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lot Size</td>
<td>43,560</td>
<td></td>
</tr>
<tr>
<td>Total Building Area</td>
<td>39,518</td>
<td></td>
</tr>
<tr>
<td>Floor Area Ratio</td>
<td>0.91</td>
<td></td>
</tr>
<tr>
<td>Units</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>Parking Spots</td>
<td>67</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial Summary</th>
<th>Total</th>
<th>Per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cost</td>
<td>$5,748,023</td>
<td>$145.45 sf</td>
</tr>
<tr>
<td>Building Cost</td>
<td>$5,338,518</td>
<td>$135.09 sf</td>
</tr>
<tr>
<td>Parking Costs</td>
<td>$409,166</td>
<td>$6,153 space</td>
</tr>
<tr>
<td>NOI</td>
<td>$355,344</td>
<td>$11.25 sf</td>
</tr>
</tbody>
</table>

| Total Value       | $5,076,340    | $128.46     |
| Residual Land Value | -$1,178,977  | -$27.07     |

Source: ECONorthwest, RS Means, CoStar, City of Spokane Valley

Total costs exceed projected value. As a result a developer’s willingness to pay for this hypothetical property is negative, making the project financially unfeasible.
Assuming rents are 25 percent higher, a developer’s willingness to pay for the hypothetical property would be a little over $100,000, which is getting close to being financially feasible in the current market.

Exhibit 40. Mixed Use Financial Performance Summary, Higher Rents

<table>
<thead>
<tr>
<th>Financial Summary</th>
<th>Total</th>
<th>Per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cost</td>
<td>$5,748,023</td>
<td>$145.45 sf</td>
</tr>
<tr>
<td>Building Cost</td>
<td>$5,338,518</td>
<td>$135.09 sf</td>
</tr>
<tr>
<td>Parking Costs</td>
<td>$409,166</td>
<td>$6,153 space</td>
</tr>
<tr>
<td>NOI</td>
<td>$455,126</td>
<td>$14.41 sf</td>
</tr>
<tr>
<td>Total Value</td>
<td>$6,501,801</td>
<td>$164.53</td>
</tr>
<tr>
<td>Residual Land Value</td>
<td>$103,938</td>
<td>$2.39</td>
</tr>
</tbody>
</table>

Source: ECONorthwest, RS Means, CoStar, City of Spokane Valley