

MARKET ANALYSIS AND ABSORPTION STUDY CITY CENTER

PREPARED FOR THE
CITY OF LYNNWOOD

JUNE 2007





J O H N S O N
G A R D N E R

TABLE OF CONTENTS

I. PURPOSE.....1

II. KEY FINDINGS1

III. EXECUTIVE SUMMARY.....2

Review of Previous Reports..... 2

Market Trends..... 3

Economics of Redevelopment..... 4

Redevelopment Strategy..... 5

Summary..... 6

IV. BASELINE MARKET ANALYSIS8

 A. ECONOMIC OVERVIEW 8

National Trends 8

 Industry Specific Trends 11

 National Housing Market..... 13

Regional Trends (Snohomish County)..... 15

Employment & Wage Trends 17

 Focus on Aerospace..... 19

Local Trends..... 24

 B. RETAIL MARKET..... 28

Retail Market Conditions 28

 Seattle Metro Area Retail Trends 28

 Subregional/Submarket Trends..... 30

Benefits of Residential Development 36

 C. OFFICE MARKET 37

Office Market Conditions 37

 Seattle Metro Area Office Trends 37

 Subregional/Submarket Trends..... 40

 Employment Growth Forecast (2006-2026)..... 43

 Forecasted Office-Space Utilizing Employment (2006-2026)..... 44

 Forecasted Office-Space Demand (2006-2026) 45

 D. RENTAL APARTMENT MARKET 46

 Seattle Metro Area Rental Trends 46

 Local Area Rental Trends..... 49

 E. CONDOMINIUM MARKET 49

 Seattle Metro Area Ownership Residential Trends 49

V. PUBLIC OUTREACH 53

 A. DEVELOPMENT COMMUNITY FOCUS GROUP 53

What is your perception of Lynnwood?..... 53

Office Market..... 53

Residential Market 53

Retail Market..... 54

Parking..... 54



VI.	FINANCIAL CHARACTERISTICS OF DEVELOPMENT/REDEVELOPMENT.....	55
	<i>Overview of development process.....</i>	<i>55</i>
	<i>Financial feasibility.....</i>	<i>55</i>
	<i>Parking.....</i>	<i>55</i>
	<i>Construction Types.....</i>	<i>58</i>
	<i>Rental Apartments.....</i>	<i>59</i>
	<i>Office.....</i>	<i>61</i>
	<i>Return on Risk.....</i>	<i>61</i>
	<i>Scale.....</i>	<i>62</i>
	<i>Timing.....</i>	<i>62</i>
	<i>Redevelopment.....</i>	<i>62</i>
	<i>Competitive Issues.....</i>	<i>64</i>
	<i>Summary.....</i>	<i>64</i>
VII.	DEVELOPMENT/REDEVELOPMENT ACTION PLAN.....	65
A.	PRIORITIES, TOOLS AND STEPS TIMING.....	65
	<i>Priorities.....</i>	<i>65</i>
	<i>Framework for evaluating tools.....</i>	<i>66</i>
	<i>Action Steps.....</i>	<i>67</i>
B.	FINANCIAL IMPLICATIONS OF POTENTIAL ACTIONS.....	69



I. PURPOSE

The City of Lynnwood has retained Johnson Gardner to prepare a market analysis and absorption study for Lynnwood's City Center study area. Key components of the study include the following.

- *Review of Economic Trends in the Puget Sound Region*
- *Analysis of Development/Redevelopment Economics*
- *Identification of Market Potential & Development Opportunities, and*
- *Preparation of a Predictive Development/Redevelopment Model*

The City will use the results of the study to evaluate the ability of the private sector to fund necessary infrastructure improvements. In addition, it will provide a benchmark to identify current and anticipated feasibility in the area, monitor progress, evaluate specific projects, implement strategies and target investment. This report summarizes the general findings and conclusions of this analysis.

II. KEY FINDINGS

Johnson Gardner conducted an independent analysis of the Lynnwood City Center market area. The following are key findings from that assessment:

- The City Center Plan represents a valid expectation of potential development patterns over the planning horizon. The findings of our report present a number of challenges to successful implementation of the Plan. Realizing the City's objectives for the area requires a clear assessment of the challenges, and then identification of active steps to overcome these obstacles to the extent possible. The City Center Plan outlined bold objectives. **Implementation** will need to involve public sector participation to be successful. In summary, the vision can be realized, but public intervention and City participation will be needed to achieve the vision in the near term.
- A fundamental challenge to implementing the Lynnwood City Center Sub-Area Plan is inducing private-sector development activity consistent with established goals and objectives for the area. Much of the zoning in the City Center is currently ahead of the market, but may prove viable within the planning horizon. The development forms associated with many of the allowed densities are not seen as being viable under current market conditions. Developers should be required to design their developments to achieve targeted densities over time, while still allowing for a viable project under current market conditions.
- Public sector actions, including those by the City of Lynnwood, can have a substantive effect on the nature and magnitude of development in the City Center. The magnitude and character of future development activity in the area is a function of a wide range of variables, a number of which are policy sensitive. Public investments in infrastructure and community serving facilities will change the physical configuration as well as effective function of developable parcels. A range of other policy mechanisms are available that can change anticipated development patterns in the area as well.
- The financial viability of the targeted development forms in the study area represents the most significant impediment to achieving the desired development patterns. Addressing the viability gap must be a *primary* consideration in any strategy to realize more urban development forms in the Lynnwood City Center over the short term. Any strategy to



encourage desired development forms must consider the ability of all parties to pay, including the developers, property owners and tenants. There is little point in encouraging development forms that do not make economic sense for involved parties. Due to limited public resources, public investment should be targeted to achieve the greatest return on investment.

- There are a number of direct and indirect ways in which viability can be addressed. In general, policies to impact development in the study area can be organized into two categories: incentive-based approaches and regulatory approaches. The incentive-based approaches are typically voluntary and offer various ‘carrots’ to developers to encourage them to develop targeted project. Regulatory approaches are not voluntary. The City can require that developers meet development objectives through mandated policies. It should be noted that requiring development forms that are not financially viable should not be expected to generate these development types without market intervention.

III. EXECUTIVE SUMMARY

The City of Lynnwood commissioned the market analysis and absorption study to increase its understanding of the magnitude and character of development activity that can be expected to occur within the City Center sub-area. While this analysis addresses market factors impacting development similar to work done as part of the Sub-Area Plan, it varies from previous work by also providing a detailed assessment of the underlying economics of prospective development and/or redevelopment in the area. We consider this understanding to be critical to an accurate projection of development activity in the future, as shifting market factors support alternative development forms over time.

The market analysis and absorption study summarized in this report expands upon the information developed as part of the City of Lynnwood’s City Center and Economic Development Plans. The study gauges current market conditions and recent trends, as well as evaluating projected market condition, and translates that information into expectations with respect to development/redevelopment activity within the City Center. The economic landscape and real estate market are dynamic within the metropolitan area, and will be expected to shift substantively over time. As a result, this report should be viewed as a benchmark, which needs to be updated on an ongoing basis.

Review of Previous Reports

The City of Lynnwood has completed a number of studies to-date as part of the Lynnwood City Center Project. The following is a summary of documents relevant to this report.

City Center Sub-Area Plan, March 2005

This plan outlines the vision for the City Center sub-area, outlining the framework for the plan, policies and strategic policies. While the plan offers clear guidance of the City’s vision for the area, it does not include an evaluation of the development economics underlying the proposed concept.

Final Supplemental Environmental Impact Statement for the Lynnwood City Center Sub-Area Plan, September 9, 2004

This report provides an overview of the issues, impacts and mitigation measures associated with alternative development patterns within the City Center planning area. The alternatives include three assumed density patterns, as well as a “no action” alternative.



This analysis placed a focus on the physical infrastructure and regulatory environment as the primary problems with implementation. In essence, it viewed the question of achievable density from the perspective of what was physically possible to construct and serve. While these are appropriate issues to address, the study does not address the underlying economics of land development, and the predictable financial constraints to realizing the assumed redevelopment activity. As a result, it does not address the potential fiscal cost associated with leveraging development forms that are higher than market conditions are likely to support.

Economic Development Action Plan, August 2004

The economic development action plan, completed by Berk & Associates, documented demographic, housing and employment trends impacting the Lynnwood area. The study documented historic residential pricing in the area and compared it to neighboring communities. While the study focused on economic development opportunities, it did recognize an important role for the City Center.

Existing Conditions Report, February 28, 2002

The existing conditions report summarized the physical and market conditions in the City Center area. The study addressed market factors, land use and urban design, transportation and infrastructure.

To-date, work completed in support of the Lynnwood City Center Sub-Area plan has focused on the physical infrastructure and urban design, and has not substantively addressed the financial viability of assumed development types. Market analysis has been prepared, but that work does not indicate achievable pricing consistent with what would be required for the assumed development types. This disconnect needs to be resolved if those assumptions are to be carried forward.

Another issue that needs to be reconciled is the assumed level of development activity in the City Center relative to the overall market depth in Snohomish County. Even if necessary development forms are viable, the Sub-Area will need to substantively increase its share of regional growth to realize the assumed development levels. Our analysis uses PSRC forecasts as a baseline. These forecasts assume growth largely consistent with recent trends. Realizing the development outlined in the City Center Plan will require a major shift in historical trends, as well as a shift in the competitive position of the City Center within Snohomish County. This study addresses ways in which the City can actively intervene to change the nature of future development activity in the study area.

Market Trends

The Seattle metropolitan area has been enjoying a period of sustained growth, which has supported strong residential growth as well as a strengthening of the office, industrial and retail markets. Robust employment growth has provided strong demand for office and industrial space, as well as fueling a surge in residential activity. The retail market has also remained strong, driven by growth in buying local power and shifting tenant needs. The following is a brief summary of market conditions and trends at the metropolitan area level:

- *Condominiums have been a major player in the current business cycle, with a substantial level of development in both urban and suburban markets. While enjoying a great run, we expect that the market is likely to become saturated over the next year or two and then recover.*
- *Rental apartments are seen as having outstanding upside potential, with market fundamentals and investor interest strong.*
- *The office market is expected to exceed 90% occupancy in 2007, which should allow for rents to escalate in real terms for the first time in a decade. An increase in achievable rent levels*



will be necessary to support significant levels of new construction as construction costs have increased substantially over the last several years.

- *The retail market has been strong for appropriately configured spaces in good locations.*

Within the broader metropolitan area, Snohomish County has proven to be a popular housing alternative to King County, and an increasing number of companies are locating in nearby employment centers. In addition to Boeing's substantial presence, the available local labor force and regional access has proven attractive to employers. Market fundamentals in Snohomish County's major real estate sectors have been strong, with opportunities largely mirroring those in the metropolitan area.

Within the study area, we see the following as representing current market conditions:

- *The office market has a stabilized occupancy rate overall, but the Class A market has had difficulty maintaining stable occupancy. Achievable office rent levels of \$19 to \$24 per square foot full service for Class A space are expected to be achievable in the City Center, but the market depth for this type of product in Lynnwood is limited.*
- *Snohomish County has seen a number of more urban condominium projects completed over the last year. Based on available comparables, we would expect that stacked flat condominiums could achieve pricing in the \$325 to \$370 per square foot range. This assumes smaller unit sizes to attract a target buyer who is seeking lower price points.*
- *In recent history, townhomes have been developers' most preferable attached housing product in the Snohomish County. We would expect that townhouse units would range from \$220 to \$240 per square foot in current dollars.*
- *Achievable pricing for rental apartments in the area is estimated at between \$1.20 to \$1.40 per square foot in current dollars, with strong escalation potential over the next few years.*
- *The potential for retail space will be closely correlated with office and residential development, particularly for areas not fronting 196th or 44th Avenue. We estimate that larger anchor spaces can achieve pricing in the \$20-\$23 range triple net, while smaller spaces lease for between \$25-\$27.*

The market trends outlined and discussed in this report reflect a point in time assessment, and it should be noted that the market for alternative product types can shift significantly over time.

Economics of Redevelopment

Redevelopment activity is inherently difficult to predict, as it reflects the interaction of a complex range of variables. These include owner disposition, market conditions and current lessees. The key challenge from a market perspective to achieving the higher density development forms envisioned in the City Center Plan is the need for relatively higher rent levels necessary to support the associated higher development costs. The primary reason for a lack of higher density development in the Lynnwood City Center is the lack of financial feasibility under current achievable pricing levels. While zoning the area to allow for higher density development is positive, as it no longer precludes this form of development, zoning that is ahead of the market will not solve the fundamental problem of financial viability.

Successful urban areas have been able to translate an amenitized urban experience into pricing premiums that support higher density development forms. We have found that tenants in suburban locations are willing to pay rents at approximately 20% above newer product in the immediate market to live in an urban setting, particularly one with transit access. The "urban" model is very new to this area, and largely untested. There is considerable demand for this style of development



with both older households who are looking to move down in size and younger singles looking for first-time ownership or rental housing.

While our analysis supports a contention that the ability of the area to support higher densities is limited, it should be noted that these limitations reflect current market conditions. Over a longer planning horizon, shifts in usage patterns and land values may substantively alter the development environment. If achievable rent levels increase substantively within the metropolitan area and Lynnwood, many of the higher density development forms would become more viable. In other words, the high-density product may in fact be in demand today by consumers, but today's rent levels do not support high-density products.

There have been some efforts to allow for current development that does not preclude development at higher densities at a later time. This is an important consideration, as development under current market conditions is not expected to yield targeted densities but can limit redevelopment opportunities. Shadow platting is an approach being used by some jurisdictions. This process requires developers to design their developments to achieve targeted densities over time, while still allowing for a viable project under current market conditions.

An inherent problem in urban redevelopment is that the development of an urban amenity base is necessary to achieve a pricing premium associated with an urban setting. Support for commercial services that amenitized an urban environment is primarily derived from local housing and employment concentrations. This 'captive audience' of potential customers increases the attractiveness of the available space at the development, while the commercial tenants provide services that increase the value of the local office and residential space. The end result of this circular dependency is that densities tend to increase over time, as higher densities support better amenities,¹ which support higher pricing and subsequently higher density development forms.

A problem with the aforementioned market dynamic is that it often leads to an underutilization of properties, with key parcels developed at relatively low densities. Catalyst developments are a common approach used by jurisdictions to kick-start this virtuous cycle of investment. These types of projects identify key development opportunity sites, and the public intervenes in the market to assure a quality development consistent with public objectives.

Redevelopment Strategy

A fundamental challenge to implementing the Lynnwood City Center Sub-Area Plan is inducing private-sector development activity consistent with established goals and objectives for the area. As currently planned, the study area is expected to realize development densities significantly higher than currently viable in the area. While these densities may prove viable over the planning period, there will likely be market intervention required to direct development activity. Market intervention is to shift the highest and best use equation for the development community, not to provide subsidy.

Addressing the viability gap must be a *primary* consideration in any strategy to realize more urban development forms in the Lynnwood City Center over the short term. There are a number of direct and indirect ways in which viability can be addressed. Direct methods include project specific

¹ Within this context, "better amenities" refers to the availability of a range of services that increases convenience and enhances the experience of persons living or working in an area. These would include restaurants, specialty grocers, coffee shops, dry cleaners, etc. Johnson Gardner has conducted quantitative studies of the marginal value of a range of amenities, which can have a substantive impact on achievable residential pricing.



actions, such as property tax abatements and public ownership of parking. Indirect methods include public parking programs, directed public improvements and marketing.

Another category of actions that should be initiated in the short-term is marketing related. The City needs to package and disseminate information regarding development potential, opportunities and tools available to property owners and the development community. We consider the cost effectiveness of these types of actions to be relatively good.

The following table presents a summary of what we consider to be priority actions necessary to increase the potential to spur desired development goals in the Lynnwood City Center.

General Issue/Action	Description	Comments
High Priority		
Project Feasibility	<ul style="list-style-type: none"> ▪ Property Tax Abatements ▪ Public Parking Programs ▪ Allow for Phased Development ▪ Site and Market Analysis ▪ Land Assembly ▪ Off-Site Improvements 	The level of subsidy is directly related to the degree to which a publicly mandated development program varies from the market solution.
Medium Priority		
Marketing	<ul style="list-style-type: none"> ▪ Development Advocate ▪ Improve Contact with Downtown Business Owners ▪ Create Specific Plans for Catalyst Developments ▪ Matchmaking between property owners and developers ▪ Collateral materials (brochures, etc.) 	The City's posture needs to be more proactive with respect to property owners and the development community.

As outlined, these steps can be largely categorized as pertaining either to enhancing project feasibility or more actively marketing the study area.

Viable development forms, including or excluding public participation, need to be identified and effectively marketed to property owners and the development community. If targeted development is not viable, and there is no ability or political will to address the viability gap, there is no point in marketing it.

Summary

Our report presents data often derived from the Puget Sound Regional Council (PSRC) and Claritas, a national data provider. It is important to understand when using these sources that a fundamental underlying assumption in their modeling is a continuation of current and recent trends. Adoption of the City Center Plan assumes a substantial shift in the status quo in the area, and the City of Lynnwood should not be constrained by these forecasts in their planning efforts. The relatively modest expectations outlined in the PSRC forecasts are valuable to recognize as a baseline assumption, representative of a baseline case with little market intervention. This baseline will be influenced through policy and projects undertaken to implement the City Center Plan.

The nature of future development activity in the City Center is a function of a wide range of variables, a number of which are policy sensitive. In other words, actions taken by the City of Lynnwood can have a substantive and predictable effect on the nature and magnitude of development



activity in the area. Public investments in infrastructure will change the physical configuration as well as effective function of developable parcels. A range of other policy mechanisms are available that can change anticipated development patterns in the area as well.

The findings of our report present a number of challenges to successful implementation of the City Center Plan. Realizing the City's objectives for the area requires a clear assessment of the challenges, and then identification of active steps to overcome these obstacles to the extent possible. The City Center Plan outlined some bold objectives, and implementation measure will need to be equally bold if it is to be successful. In summary, the vision can be realized, but it will take public intervention and City participation.



IV. BASELINE MARKET ANALYSIS

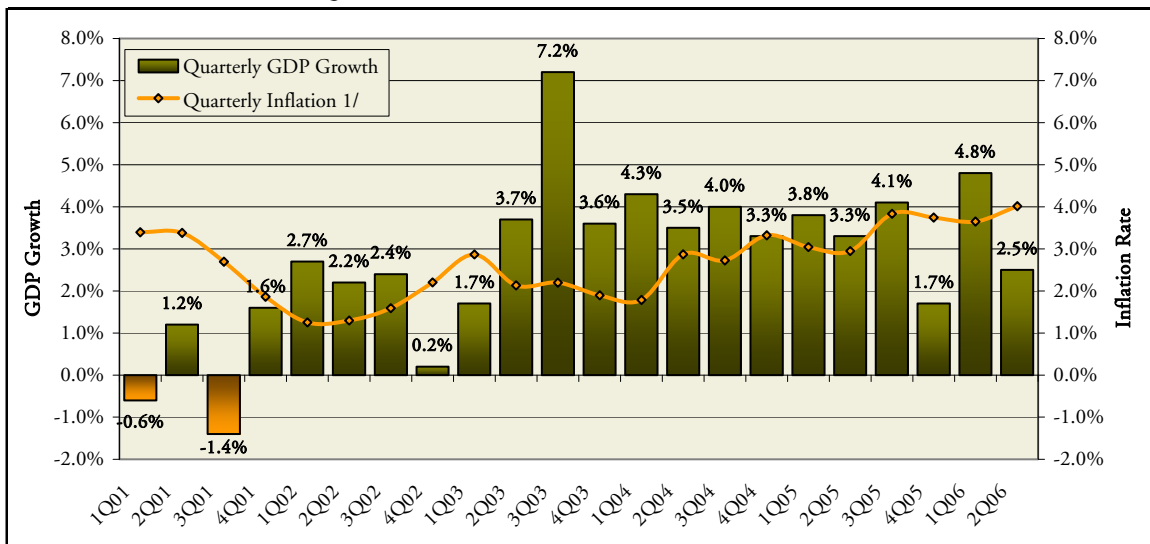
A. ECONOMIC OVERVIEW

The information in the following subsections summarize the baseline economic trends and conditions on a national, regional, and local level which will affect the direction and intensity of redevelopment opportunities in the City Center over the foreseeable future.

National Trends

Based on growth in national production as measured by quarterly Gross Domestic Product (GDP)², the economy of the United States is well entrenched in an expansionary period. The second quarter of 2006 posted 2.5% growth, the nineteenth consecutive fiscal quarters where National production growth has increased, however, GDP growth failed to outpace inflation for the second time in three quarters.³ A summary of GDP growth rates over the last three years is summarized in FIGURE 4.01

FIGURE 4.01
QUARTERLY GROWTH IN GDP (2001-2006)



1/ Quarterly inflation is calculated as a three month average.

SOURCE: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics

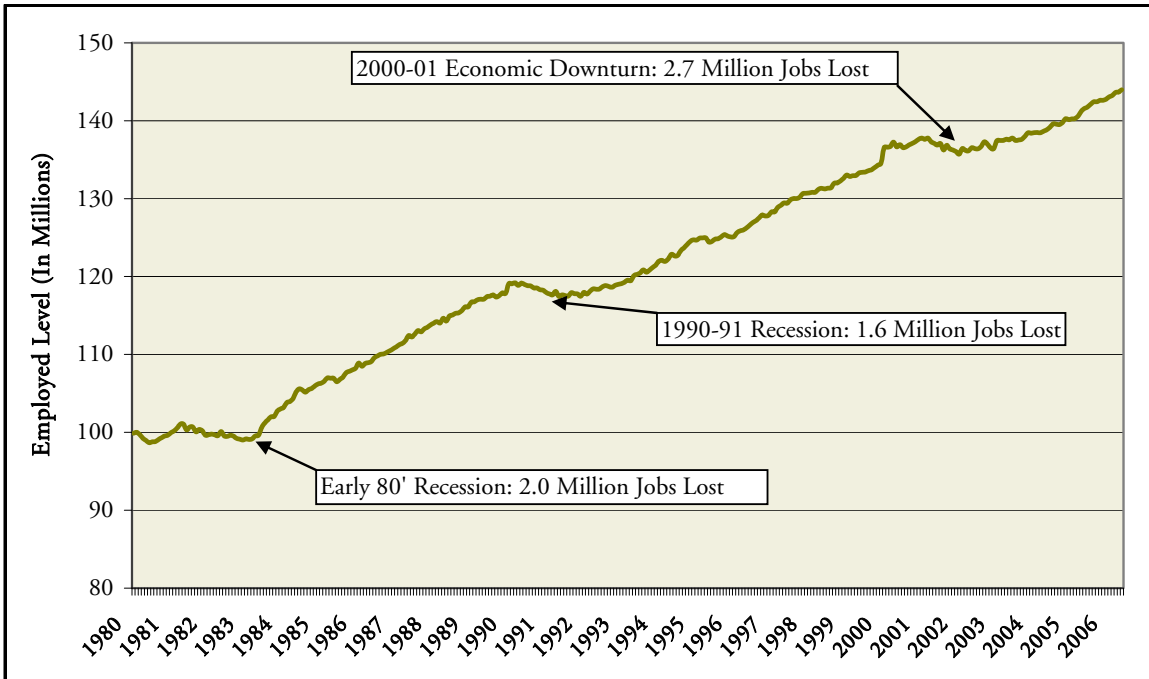
² Gross Domestic Product is officially defined as the combined economic production activity occurring within U.S. borders, typically on a three-month quarterly basis. Production activity can be due to domestic or foreign firms so long as the activity occurred within the continental U.S.

³ GDP growth in excess of national inflation signifies real expansion in activity rather than growth due simply to price increases. Inflation as measured by the U.S. Bureau of Economic Analysis frequently varies between 2.5% and 3.0% annually.



By measure of national production, the recession of 2000-2001 is more appropriately classified as an “economic downturn”, as recessions have historically been categorized by two consecutive quarters of negative production growth. Nevertheless, the impacts on the national labor market were significant and generally more extensive relative to the previous two recessions. [FIGURE 4.02]

FIGURE 4.02
NATIONAL EMPLOYMENT LEVEL AND RETRACTIONARY PERIODS
1980-2006



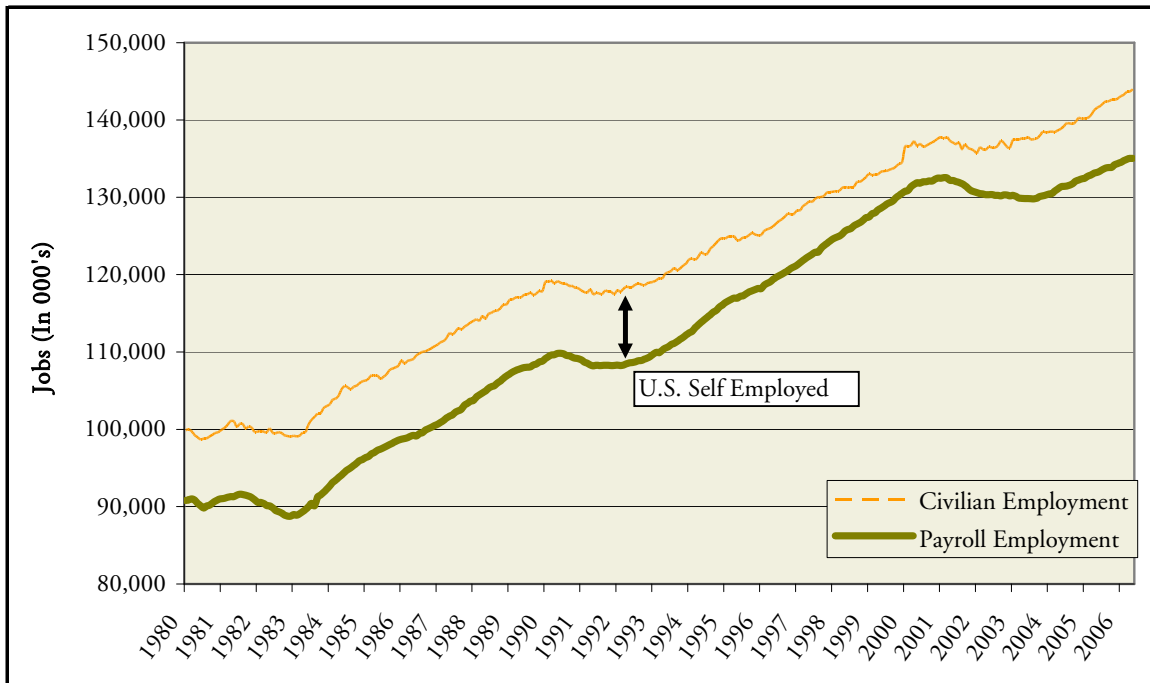
SOURCE: OLMIS

The labor market is a principal indicator of economic activity, and in turn, potential demand for commercial and residential space. With housing, retail services, and office space comprising significant components of the City Center Plan, the extent of economic activity as gauged by labor market indicators represents long-term potential for the City Center to capture additional market share.



While both payroll and civilian employment have surpassed their 2000 levels, the U.S. job market has performed better than commonly reported in terms of civilian employment, which includes agricultural jobs and the self-employed, sole proprietors and independent contractors. FIGURE 4.03 provides a comparison of payroll employment to civilian employment over the past 25 years.

FIGURE 4.03
U.S. CIVILIAN AND PAYROLL EMPLOYMENT
1980-CURRENT



SOURCE: U.S. Bureau of Labor Statistics

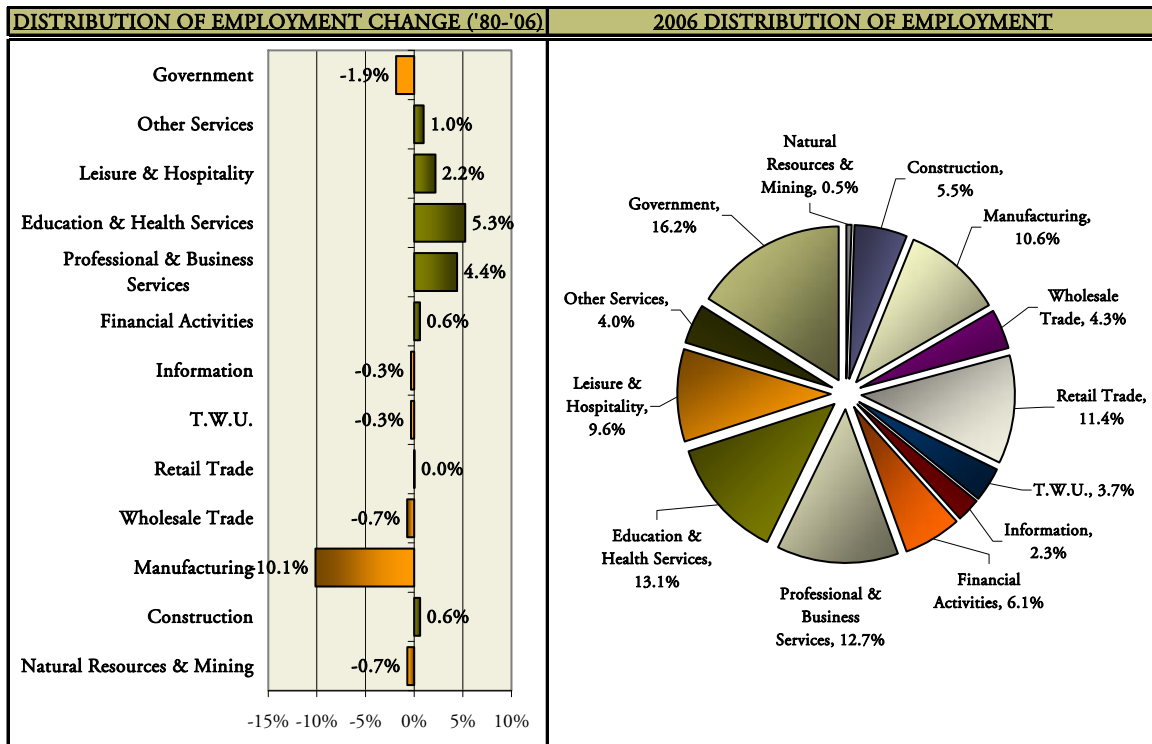
As the nation continues to expand economically, the independent and self-employed can be expected to continue to grow at a faster rate than payroll jobs. As FIGURE 4.03 indicates, the nation tends to average an 8 million to 10 million job differential between payroll and civilian employment. With agriculture employment declining by 7% annually according to the U.S. Department of Agriculture, the self-employed will account for a greater majority share of the difference over time.



Industry Specific Trends

Over the previous 25 years, the composition of the United States economy has undergone a dynamic transformation. In the early 1980s the economy was heavily weighted toward “hard industries”, producing goods and resources. At this time, Manufacturing, Wholesale Trade, and Transportation, Warehousing, & Utilities comprised 29.7% of national employment. In recent years, technological advances and increased educational attainment levels have driven growth in service industries, particularly Education & Health Services and Professional & Business Services. Since 1980, service-oriented industries have experienced a 13.4% increase in their share of the national economy. Currently, service industries comprise 45% of national payroll employment. [FIGURE 4.04]

FIGURE 4.04
INDUSTRIAL COMPOSITION OF THE NATIONAL ECONOMY

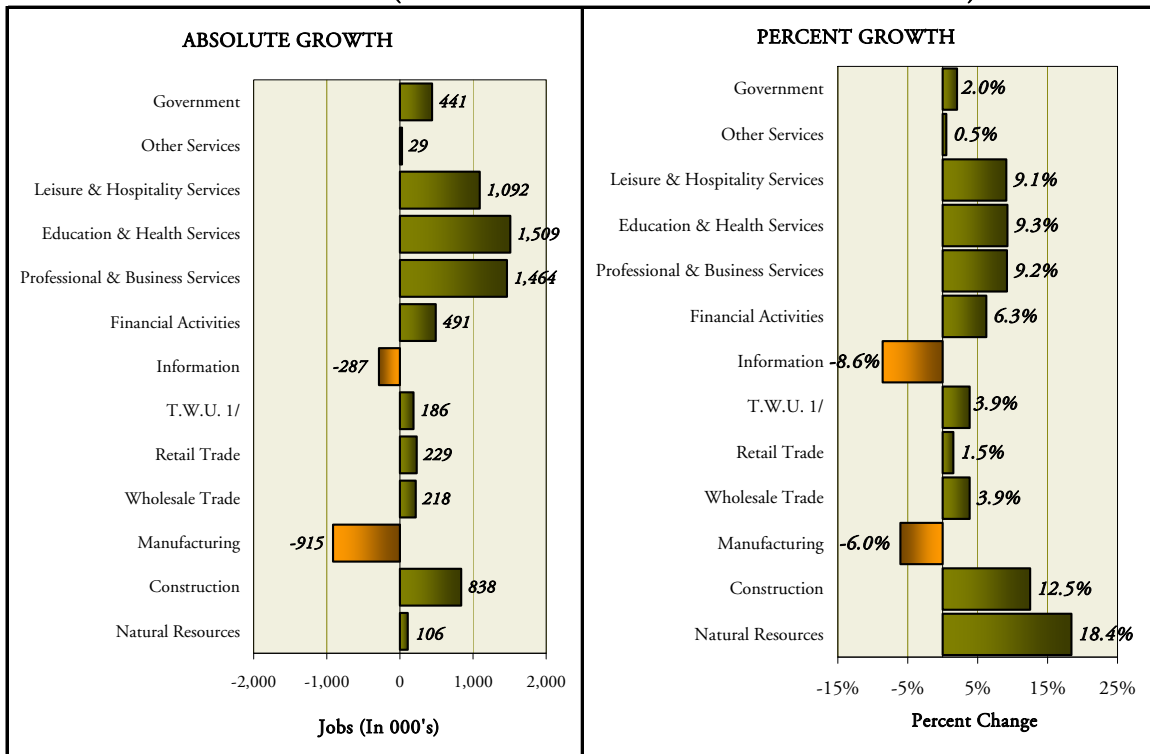


SOURCE: U.S. Bureau of Labor Statistics



In the more recent past, the U.S. economy experienced significant losses in its manufacturing core as summarized in FIGURE 4.05. Information industries, a significant portion of which is software and internet publishing firms, experienced the only other decline over the four year period ending in September 2006. Other Services, Wholesale Trade and Transportation, Warehousing & Utilities payroll employment have only realized modest gains during the economic recovery, largely due to ripple effects from primary Manufacturing and Information job losses.

FIGURE 4.05
SHORT TERM EMPLOYMENT GROWTH BY INDUSTRY
UNITED STATES (SEPTEMBER 2002 THROUGH SEPTEMBER 2006)



SOURCE: U.S. Bureau of Labor Statistics

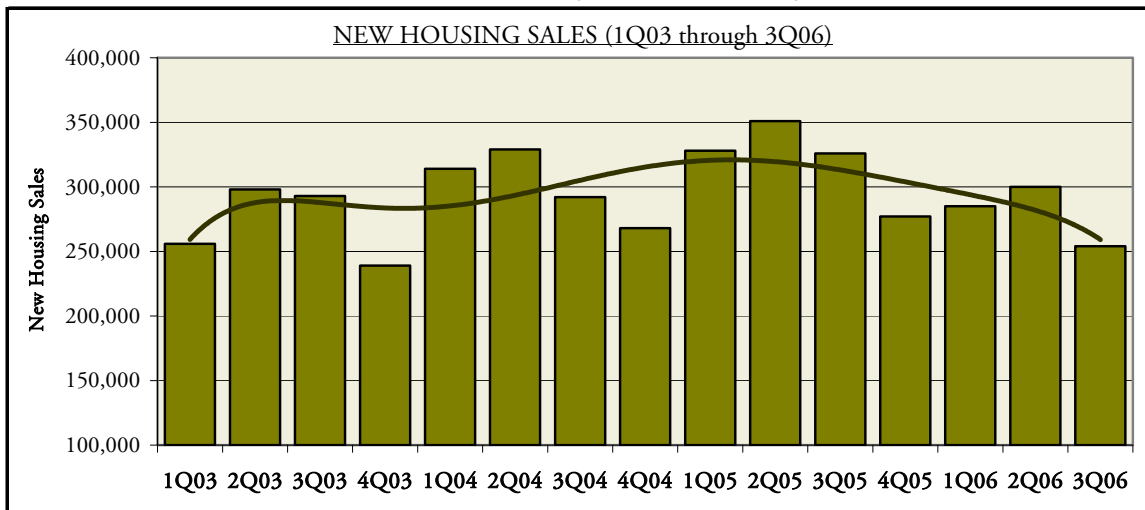


National Housing Market

The housing market has emerged as perhaps the most-watched economic variable. As exemplified in FIGURE 4.06, consensus has emerged that the national market indeed peaked in mid of 2005, declining thereafter with gradual increases in long-term interest rates. Nationwide, measures of the housing market are decidedly mixed and contributing to some ambiguity for Federal Reserve policy:

- New Housing Starts – New construction declined month-to-month in February and March, as well as from levels during the first quarter of 2005.
- New Home Sales – New home sales recorded a surprise jump in March 2006 following significant declines in January and February. Inventories are up nationwide, but consensus is that the decline is a soft landing rather than a sharp one.
- Existing Home Sales – The National Association of Realtors are reporting a cooling in existing home sales with a decline in January, an increase in February, and little change in March.
- Inventories - The National Association of Realtors also reports that inventories have increased nationwide to an average of 6 months supply, still below the 20-year average of 7 months supply. Inventories are still considered short, but the slight increase does benefit buyers by providing more choices.

FIGURE 4.06
NEW HOUSING SALES
UNITED STATES (1Q03 THROUGH 3Q06)



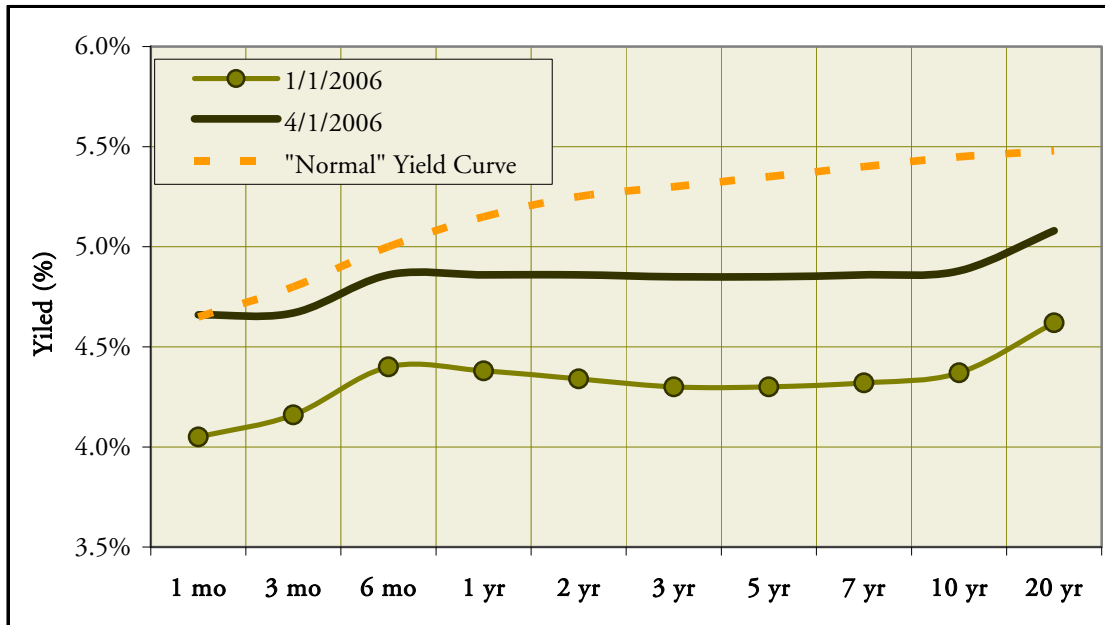
SOURCE: U.S. Census

Caution is the order of the day, both from larger homebuilders and from the Federal Reserve. Economic strength in the face of higher fuel prices has Fed policy still biased towards rate escalation, but rate hikes have clearly put the brakes on the market via higher cost of short-term construction lending, higher cost of credit for consumers, and a hit to the lending sector. JOHNSON GARDNER fully expects the Federal Reserve to adjust short-term rates in response to inflation and economic activity.



Recent hikes in short-term rates have created a persistently flat bond yield curve, as demonstrated in FIGURE 4.07. Continued economic strength with spiking fuel prices has raised the specter of longer-term inflation, which is being priced into longer-term rates. The yield curve has edged into the direction of normalization over the past three months as a result.

FIGURE 4.07
BOND YIELD CURVE



SOURCE: U.S. Treasury Department

JOHNSON GARDNER remains bullish about the national economy, despite a cooling housing market nationwide. Fuel cost increases have appeared to not significantly affect economic strength as has been anticipated. While the recent jump in economic activity of 5.3% was impressive, it will not be sustained and activity is anticipated to return to 3.1%-3.3% annual growth for the remainder of 2006 provided households continue to react rationally and mildly to rising rates. In aggregate, the near-term economic picture appears favorable to the implementation of the City Center Plan.



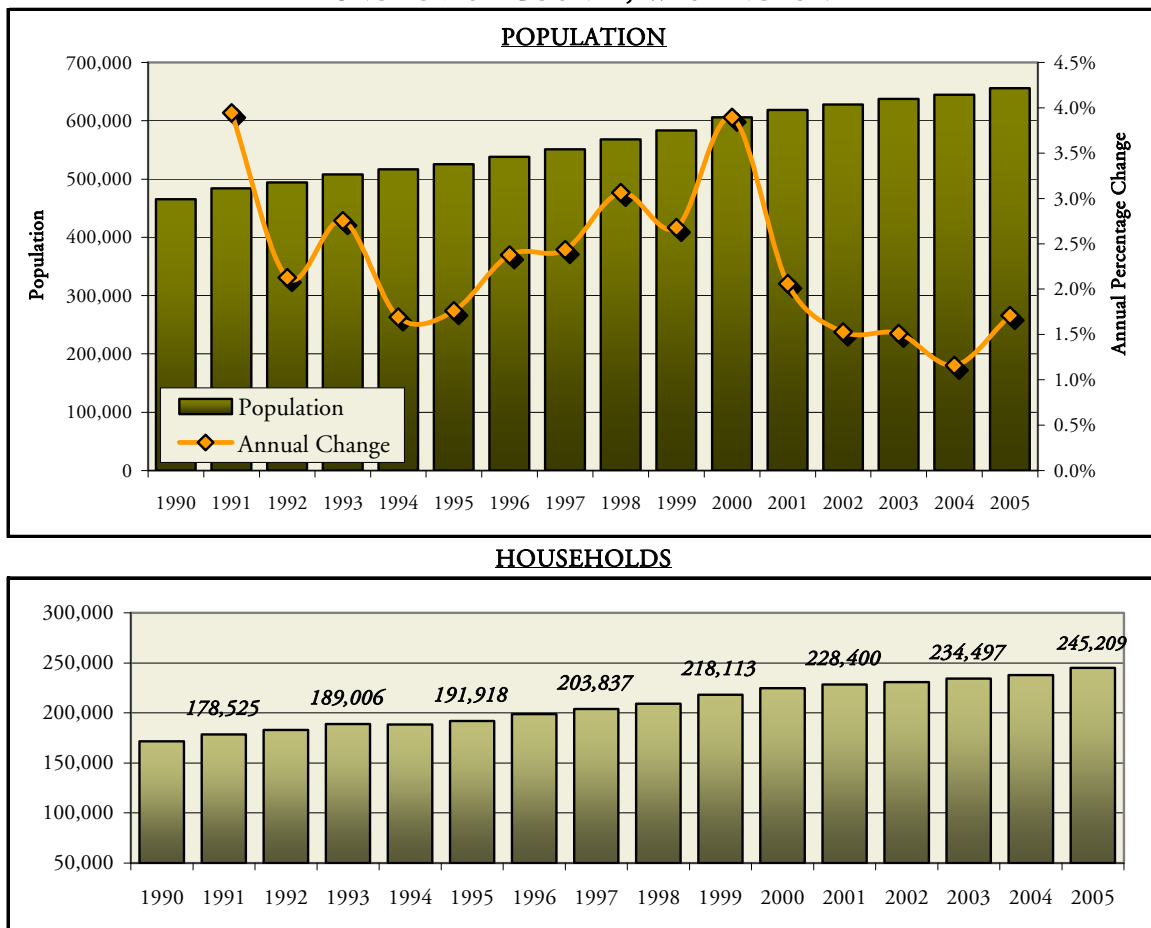
Regional Trends (Snohomish County)

The broadly recognized Snohomish County region is analyzed in this section. The practice of evaluating trends at the “regional” or county level is beneficial as broad market conditions and policy decisions will undoubtedly impact long-term conditions in Lynnwood. Additionally, county level data series are readily available through both State and Federal agencies.

Population & Households

- Over the fifteen year period ending in 2005, the Snohomish County population has increased dramatically by 2.3% annually from 465,628 to 655,821, a gain of 190,172 or 39.5%. Over the same interval, area households also swelled to over 245,200 or 2.64 persons per household. [FIGURE 4.08]

FIGURE 4.08
POPULATION & HOUSEHOLD TRENDS
SNOHOMISH COUNTY, WASHINGTON



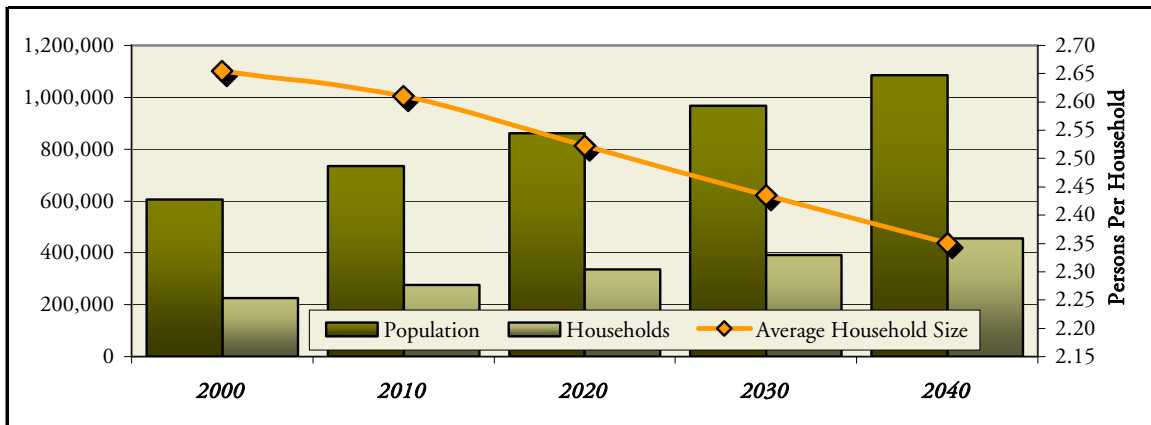
SOURCE: Puget Sound Regional Council and JOHNSON GARDNER

- Forecasted population from the PSRC indicated annual growth of 1.2% with population within the Lynnwood Market Area reaching 95,094 by 2040. The effect of smaller household sizes is expected to be even more apparent in Lynnwood with the average household falling from 2.43 to 2.12 persons per household over the evaluation period. The reduction in household size is consistent with demand for a higher density residential product mix on the margin.

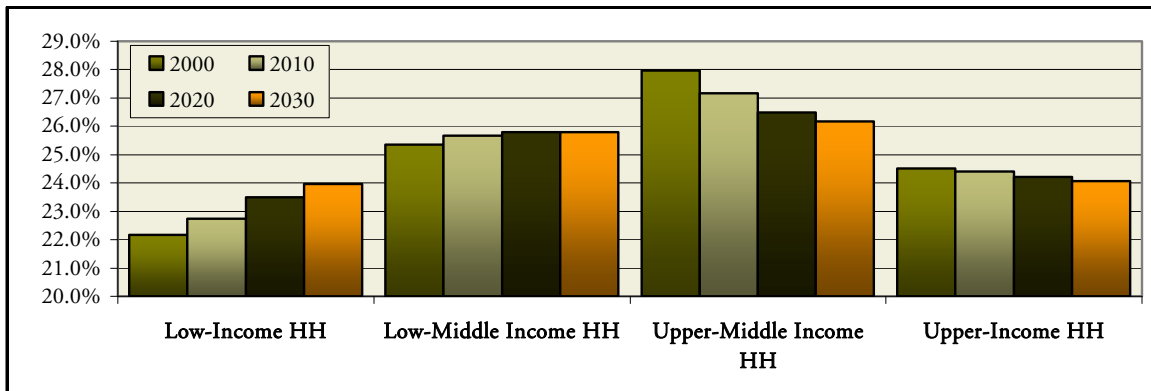


- Forecasts published by the PSRC suggest robust population growth will continue well into the foreseeable future in Snohomish County. By the year 2040 county population is expected to reach 1.1 million individuals, a gain of 65% over current levels. Households however are projected to grow at a far more accelerated pace with 82% growth. This discrepancy is largely the result of an exhibited trend of falling household sizes in the region. By 2040 Snohomish County households are expected to average only 2.35 persons per household. [Figure 3.09]
- Snohomish County household growth is expected to be fairly evenly distributed across varying income cohorts, with 53% of growth attributed to Lower and Lower-Middle income households. [Figure 4.09]

**FIGURE 4.09
PROJECTED POPULATION & HOUSEHOLD GROWTH
SNOHOMISH COUNTY, WASHINGTON**



DISTRIBUTION OF HOUSEHOLDS BY INCOME



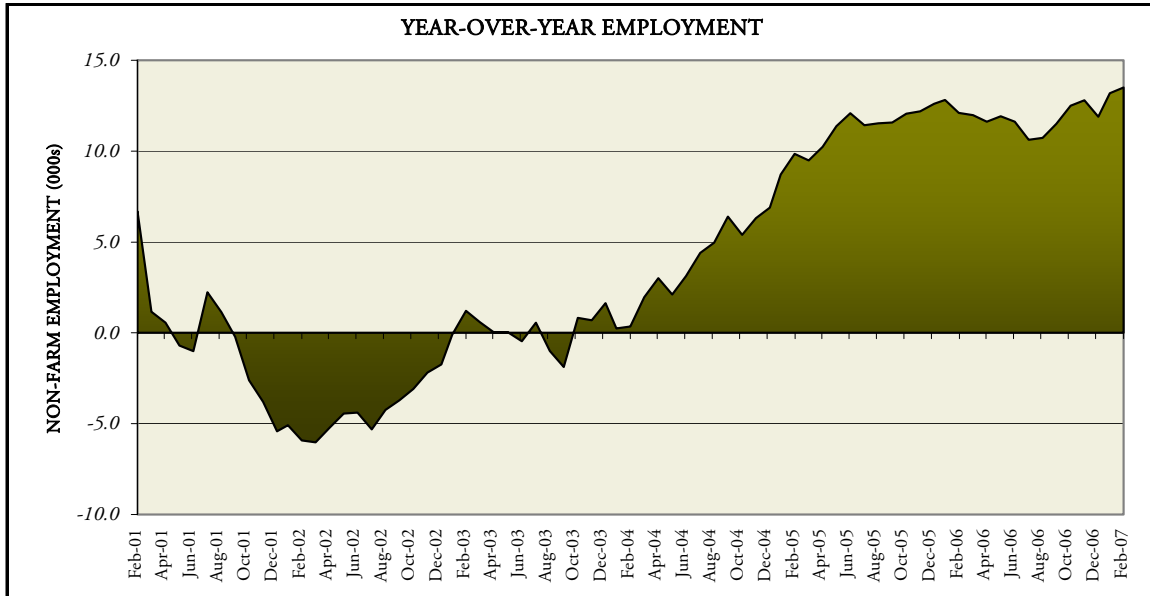
SOURCE: Puget Sound Regional Council and JOHNSON GARDNER



Employment & Wage Trends

- The month of September marks the 43 consecutive period of positive year-over-year employment growth in Snohomish County. Over this interval, the regional economy has added over 25,000 jobs while unemployment has fallen from a high of 7.7% to its most recent level of 4.6%. [Figure 4.10]

FIGURE 4.10
YEAR-OVER-YEAR EMPLOYMENT GROWTH
SNOHOMISH COUNTY, WASHINGTON



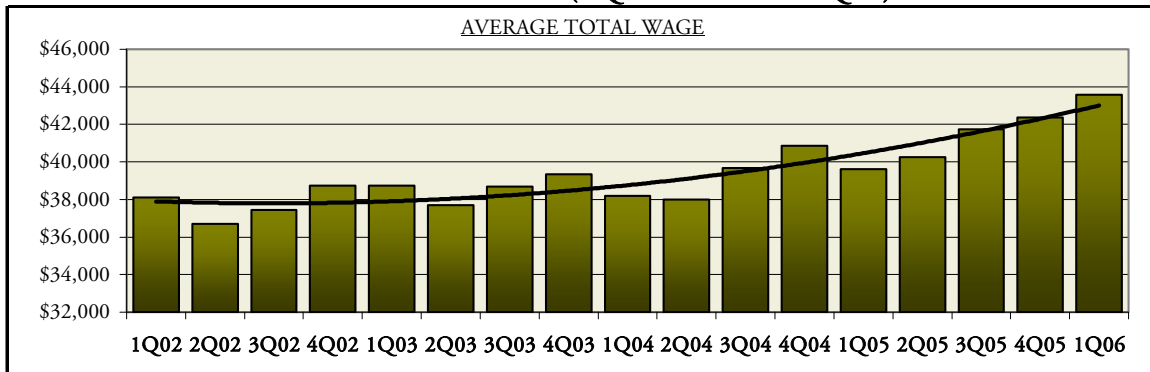
SOURCE: Washington State Employment Department and JOHNSON GARDNER

- The twelve month interval ending in February 2007 has been a period of robust economic expansion in Snohomish County, with the addition of over 13,600 new jobs reflecting a 5.8% rate of growth. The majority of new positions (roughly 24% of growth) can be attributed to the recovery of Aerospace manufacturing from Boeing's on-going operations in Snohomish County and the success of the *787 Dreamliner*. The Construction, Professional & Business Services and Retail Trade sectors also displayed significant expansion, accounting for 15.4% of growth respectively and 46.3% of growth combined. [EXHIBIT E.15]



- The tightening job market in Snohomish County has subsequently had notable wage impacts, particularly for key industrial sectors. Between the first quarter of 2002 and 2006 average wages in the County have risen roughly 14.3% to \$43,580. [Figure 4.11]

FIGURE 4.11
AVERAGE WAGE TREND
SNOHOMISH COUNTY (1Q02 THROUGH 1Q06)



SOURCE: Washington Employment Department

- The County's wage rates closely mirror the Statewide and National averages, exceeding both slightly. Wage levels in the County have grown at a faster rate than the State as a whole in the last few years, but have lagged National growth rates.

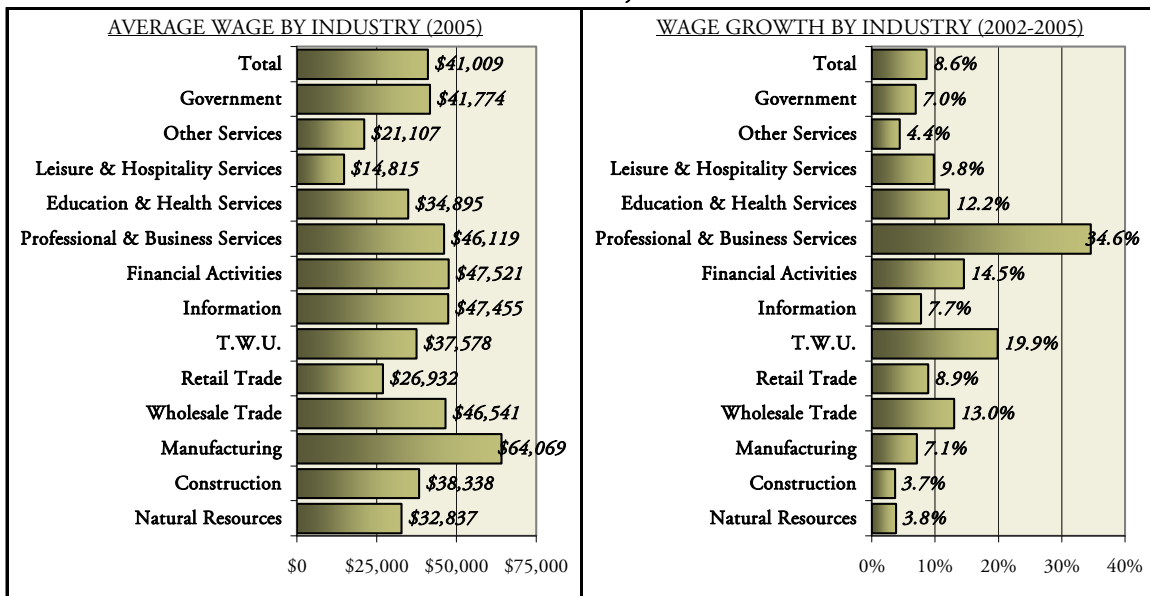
AVERAGE COVERED WAGE RATES

	2002	2003	2004	2005
Snohomish County	\$37,748	\$38,612	\$39,183	\$40,993
National	\$36,764	\$37,765	\$39,354	\$40,677
State of Washington	\$38,242	\$39,021	\$39,361	\$40,721



- Across industry classifications the manufacturing sector overwhelmingly averages the highest wages in the county (\$64,069 in 2005). This of course is undoubtedly driven by Boeing's concentration of Aerospace employment. Other high wage sectors include Information (\$47,455), Financial Activities (\$47,521), and Professional & Business Services (\$46,119). The City Center's ability to capture an increasing share of future employment from these targeted sectors will greatly impact wage levels locally. [Figure 4.12]

FIGURE 4.12
COVERED EMPLOYMENT BY INDUSTRY
SNOHOMISH COUNTY, WASHINGTON



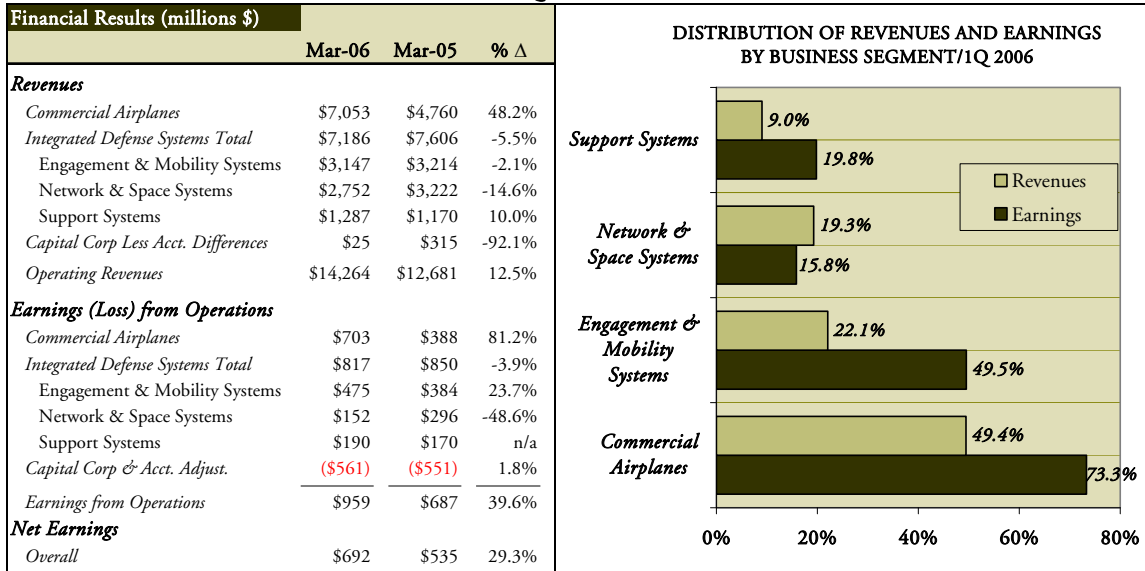
Focus on Aerospace

Boeing experienced another strong quarter during the first three months of 2006, including a 29 percent increase in profits driven largely by its commercial airline division. [Figure 4.13] 176 airliner orders were recorded during the first quarter of 2006, an astonishing 54 (31%) comprising the yet-developed 787 Dreamliner to be finally assembled in Everett. Commercial airplane backlog by March of 2006 was \$131.5 billion, nearly twice the backlog recorded at the end of the first quarter of 2005.

Much of Boeing's recent success has been credited to its recent focus on new product development. In addition to the highly anticipated 787 Dreamliner, Boeing is in the development and testing phases of its long-range 777-200LR and updated 747.



FIGURE 4.13
BOEING EARNINGS, DELIVERIES, AND EMPLOYMENT
FIRST QUARTER, 2006



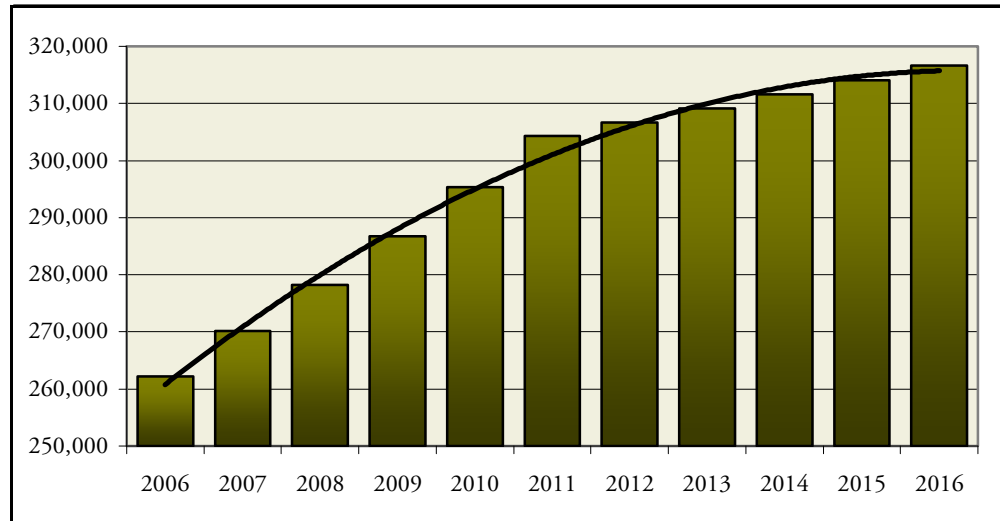
Boeing is expected to continue adding workers in the Puget Sound area in the coming months as the company steps up production at its commercial airplane final assembly plants in Renton and Everett. After delivering 290 planes in 2005, the company has set a goal of delivering 395 planes in 2006 and plans on delivering 440 to 445 plans in 2007.



Snohomish County Employment Forecast

- Figure 3.14 highlights short-term employment forecasts published by the Washington State Employment Department (2004 base-year) which have been updated to 2006 levels by JOHNSON GARDNER. Over the next ten years, Snohomish County's employment is expected to grow at a pace of 1.9% annually while adding over 54, 400 new jobs. [FIGURE 4.14]

**FIGURE 4.14
FORECASTED EMPLOYMENT GROWTH
SNOHOMISH COUNTY, WASHINGTON**



SOURCE: Washington State Employment Department and JOHNSON GARDNER

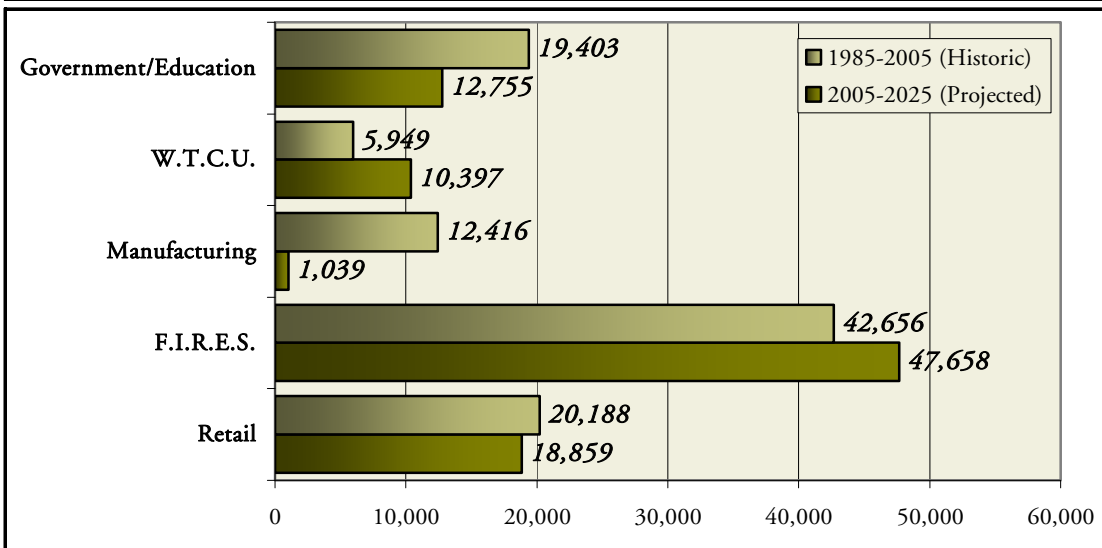
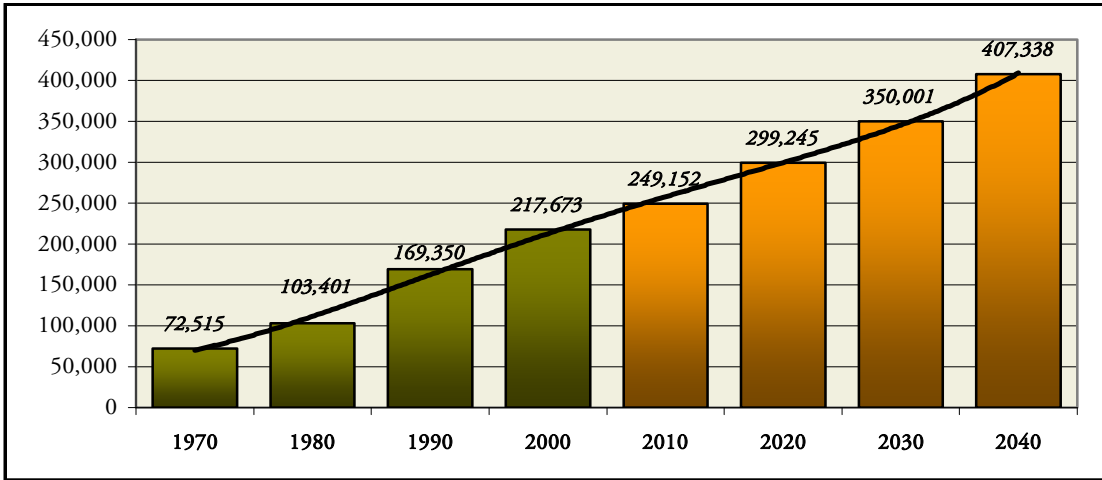
- According to the State Employment Department forecasts, new job growth in Snohomish County is expected to fall heavily on the Manufacturing (15,931 jobs⁴), Professional & Business Services (8,031 jobs), and Government (6,253 jobs) sectors. [EXHIBIT E.14]
- The City's Economic Development Plan has identified the following targeted industry sectors:
 - *Finance, Insurance and Real Estate;*
 - *Professional and Business Services;*
 - *Tourism/Hospitality;*
 - *Aerospace Component Manufacturing;*
 - *Electronics/Information Services; and*
 - *Biotech*

In addition, the City has targeted continued retail prominence in the broader area. The targeted industries are well correlated with the projected growth industries within Snohomish County.

⁴ Includes Aerospace



**FIGURE 4.15
LONG-TERM EMPLOYMENT FORECAST
SNOHOMISH COUNTY, WASHINGTON⁵**



Government/Education = S.I.C. 43, 82, 92-97

W.T.C.U. = S.I.C. 40-42, 44-51

Manufacturing = S.I.C. 19-39

F.I.R.E.S. = S.I.C. 7, 60-67, 70, 72-76, 78-81, 83-84, 86, 89

Retail = S.I.C. 52-59

SOURCE: Puget Sound Regional Council

- In addition to the State formulated short-term forecasts above, Johnson Gardner evaluated alternate long-term employment forecasts produced by the PSRC and projected through the year 2040. This forecast can be expected to better reflect the political, technical, and economic conditions affecting long-term employment growth in the region. The drawback of the forecast is its organization by S.I.C. classification groups as opposed to the State's estimation by N.A.I.C.S. This condition limits the level of detail reported across the regions high growth service industries.

⁵ F.I.R.E.S. is an acronym for Finance, Insurance and Real Estate Services, while W.T.C.U. is an acronym for Wholesale Trade, Transportation, Communications and Utilities.



The estimates, presented in FIGURE 4.15 indicate over 407,000 non-farm workers will be employed in Snohomish County by 2040. This growth represents an 87% increase over the PSRC's 2000 employment estimate.

Building Permits

- Continued population growth coupled with rising home prices in Snohomish County has increasingly fueled residential construction activity. [Figure 4.16] In 2005, residential permitting was up 7.7% over the previous year and 23% over 2001 levels.

**FIGURE 4.16
RESIDENTIAL PERMIT ACTIVITY
SNOHOMISH COUNTY, WASHINGTON**

Jurisdiction	2001		2002		2003		2004		2005		2006YTD	
	S.F.	M.F.	S.F.	M.F.	S.F.	M.F.	S.F.	M.F.	S.F.	M.F.	S.F.	M.F.
Arlington	233	12	258	19	287	20	320	33	323	26	193	18
Briar	14	0	16	0	18	0	21	0	22	0	13	0
Darrington	6	0	8	0	7	0	10	0	9	0	7	0
Edmonds	74	92	80	78	91	89	121	175	99	71	57	96
Everett	112	499	133	150	199	146	167	336	175	283	104	247
Gold Bar	23	0	26	0	30	0	32	0	30	0	17	0
Granite Falls	42	0	46	0	51	0	50	0	15	0	36	0
Lake Stevens	75	12	82	14	93	22	105	26	105	22	63	14
Lynnwood	65	25	64	20	73	35	80	40	80	60	49	52
Marysville	389	20	291	30	357	39	376	50	354	10	129	0
Mill Creek	63	226	12	167	6	360	13	14	54	0	44	0
Monroe	158	2	167	4	188	6	209	8	210	10	126	2
Mountlake Terrace	37	71	7	0	15	10	16	10	17	10	8	5
Mukilteo	111	87	121	66	136	71	150	69	149	70	91	62
Snohomish	5	47	3	55	2	63	1	70	8	61	5	38
Stanwood	52	43	57	47	65	66	71	61	69	67	43	64
Sultan	45	2	50	6	57	6	63	10	64	8	38	6
Woodway	24	0	27	0	28	0	29	0	29	0	18	0
Unincorporated	2,261	513	2,454	467	2,492	482	3,087	387	3,907	274	2,644	165
SNOHOMISH COUNTY	3,789	1,651	3,902	1,123	4,195	1,415	4,921	1,289	5,719	972	3,685	769

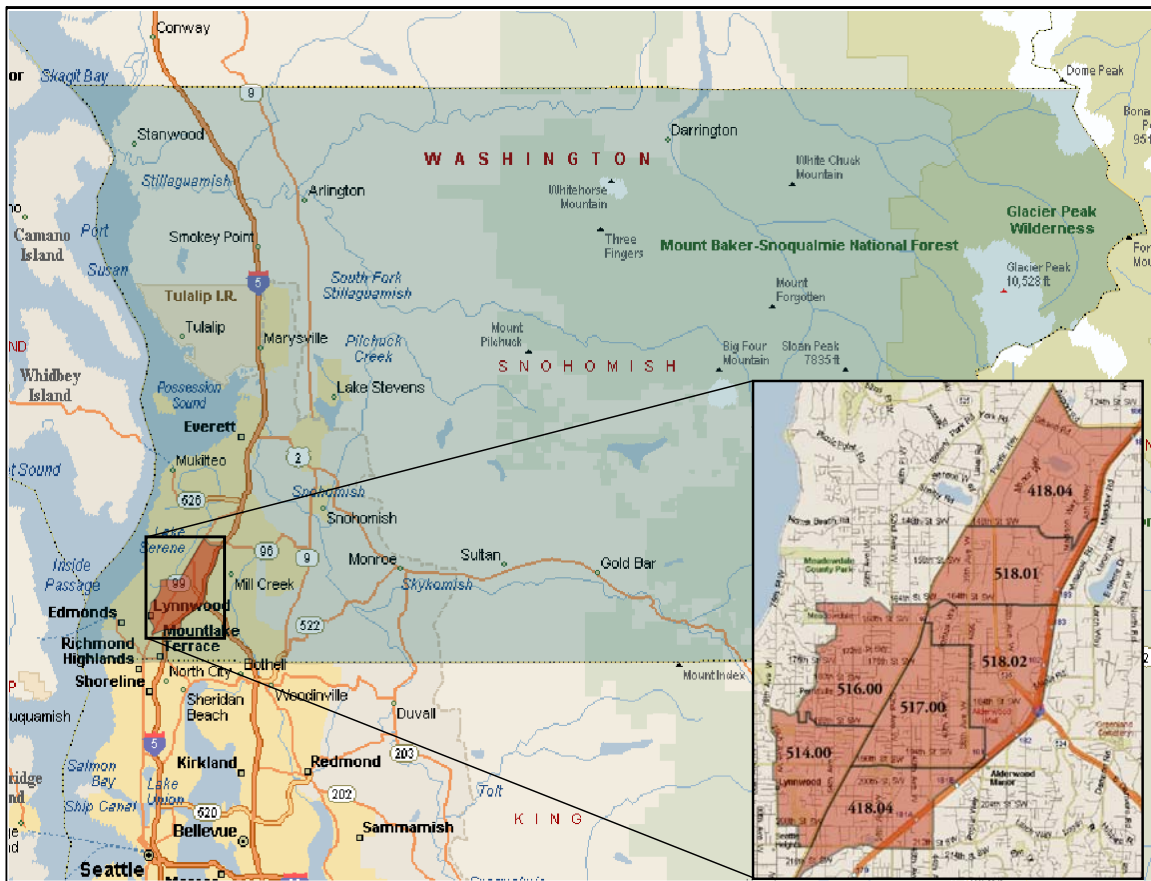
- Between 2001 and 2006, single-family homes became an increasingly popular housing choice among Snohomish County residents. The region's relative supply of vacant residential land coupled with a close proximity to growing employment concentrations created ideal buying opportunity for Snohomish County residents. Between 2001 and 2005, single-family homes became an increasingly popular housing choice, growing from 69.7% of permit activity in 2001 to 82.9% through September of 2006. Additionally, over the five-year interval 57.2% of all permit activity occurred in unincorporated areas.
- Through September of 2006 residential permit activity in Snohomish County was on pace to fall short of the previous year's mark for the first time since 2002, exemplifying the cooling housing market exhibited nationwide.
- Despite robust building activity in Snohomish County in recent years, the City of Lynnwood (as defined here as the jurisdictional city limits) has not been the recipient of significant attention. Over the five-year period ending in 2006, Lynnwood had captured less than 2% of all residential construction in the County. This reflects the City's built-out nature, with new development opportunities largely limited to redevelopment.



Local Trends

FIGURE 3.17 highlights the geographic area primarily evaluated in this section of our analysis. To obtain a detailed and locally informed evaluation of “local” economic conditions, this evaluation region is strictly delineated by broad FAZ districts as defined by the Puget Sound Regional Council (PSRC) and represented by a series of census tracts. We choose to utilize this region as opposed to the jurisdictional boundaries of the City of Lynnwood primarily on the basis of data availability. The use of FAZs in this case yields an area smaller than the City of Lynnwood. The PSRC produces regular localized long-term forecasts of population, households, and employment in the Puget Sound region. The most recent 2006 forecast was released on October 26, 2006. The defined region in Figure 4.17 will subsequently be referred to as the “Lynnwood Market Area” in this analysis.

**FIGURE 4.17
LYNNWOOD MARKET AREA**



SOURCE: Puget Sound Regional Council and JOHNSON GARDNER

Puget Sound Regional Council Forecast Methodology

PSRC prepares forecasts using a two-part “top-down” approach. Prior to developing forecasts for individual FAZs, a regional forecast was prepared using a variation of the Puget Sound Economic Forecaster (PSEF) econometric model. The PSEF model produces estimates of population, households, and employment for King, Kitsap, Pierce, and Snohomish counties as a whole. PSRC then employs a different set of models, DRAM (Disaggregate Residential Allocation Model) and EMPAL (Employment Allocation Model), to arrive at future year forecasts for individual FAZs.

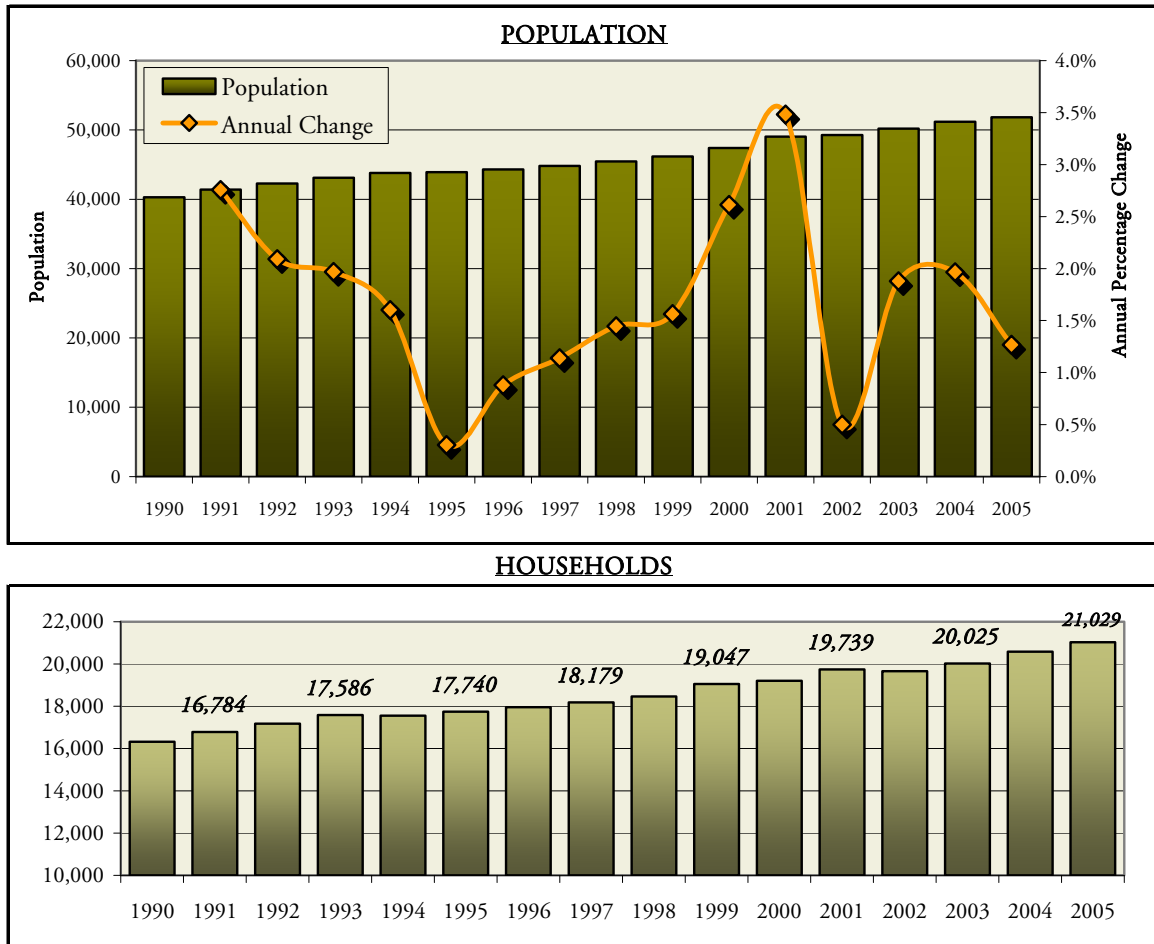


After the modeling is completed, draft results are released for review at the monthly Regional Technical Forum meetings. Planners from cities and counties in the region are given the opportunity to extensively review and comment on the results prior to the finalization and release of the forecasts, particularly in terms of developing adjustments that better reflect major development activity and local comprehensive plan designations.

Population & Households

- Within the delineated Lynnwood Market Area, population has increased at a slightly slower pace relative to county level growth. Since 1990 the area has added 11,547 individual and 4,716 households while averaging 1.7% annual growth. However, this exhibited growth should be considered impressive given that Lynnwood is a largely built-out community. [Figure 4.18]

**FIGURE 4.18
HISTORIC POPULATION TRENDS**

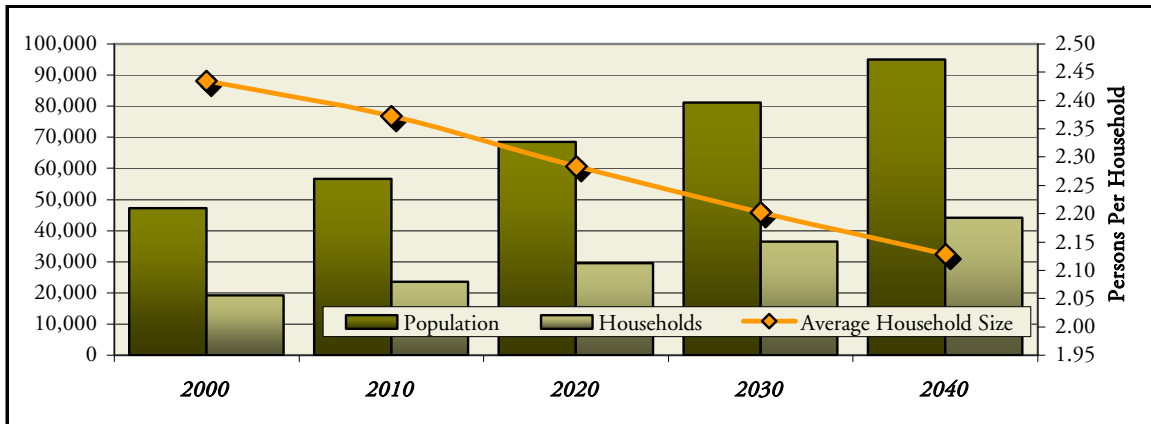


SOURCE: Puget Sound Regional Council and JOHNSON GARDNER

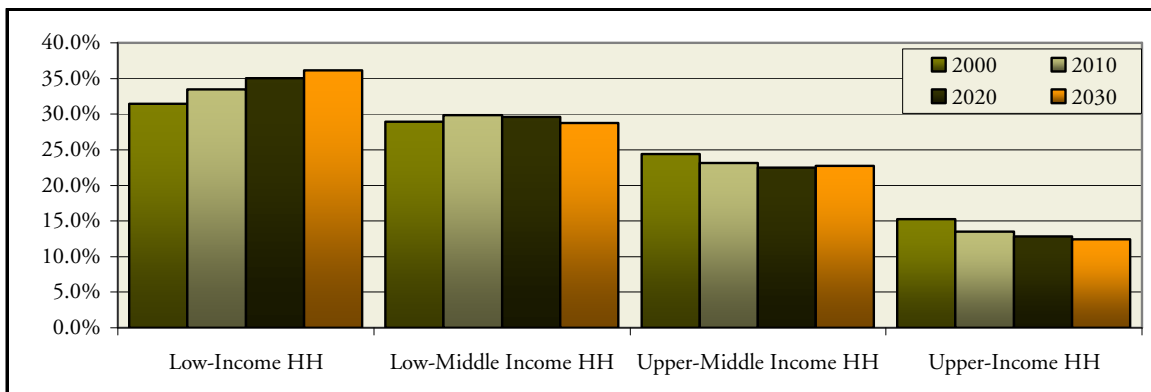


- Forecasted population from the PSRC indicates annual growth of 1.2% with population within the Lynnwood Market Area reaching 95,094 by 2040. The effect of smaller household sizes is expected to be even more apparent in Lynnwood with the average household falling from 2.43 to 2.12 persons per household over the evaluation period.
- Unlike the broader county level forecasts, household growth in Lynnwood is projected to be heavily derived from Lower to Lower-Middle income households in coming years. For example, over the next 25 years roughly 67% of household growth is expected originate from households earning less than \$51,390 annually. [Figure 4.19] It should be noted that the projections are based on current conditions and recent trends, and do not represent the only potential outcome for the area. Proposed changes in the City Center area can fundamentally alter the area's competitive position within Snohomish County, shifting the magnitude and character of growth that can be anticipated.

**FIGURE 4.19
PROJECTED POPULATION AND HOUSEHOLD GROWTH
LYNNWOOD MARKET AREA**



DISTRIBUTION OF HOUSEHOLDS BY INCOME



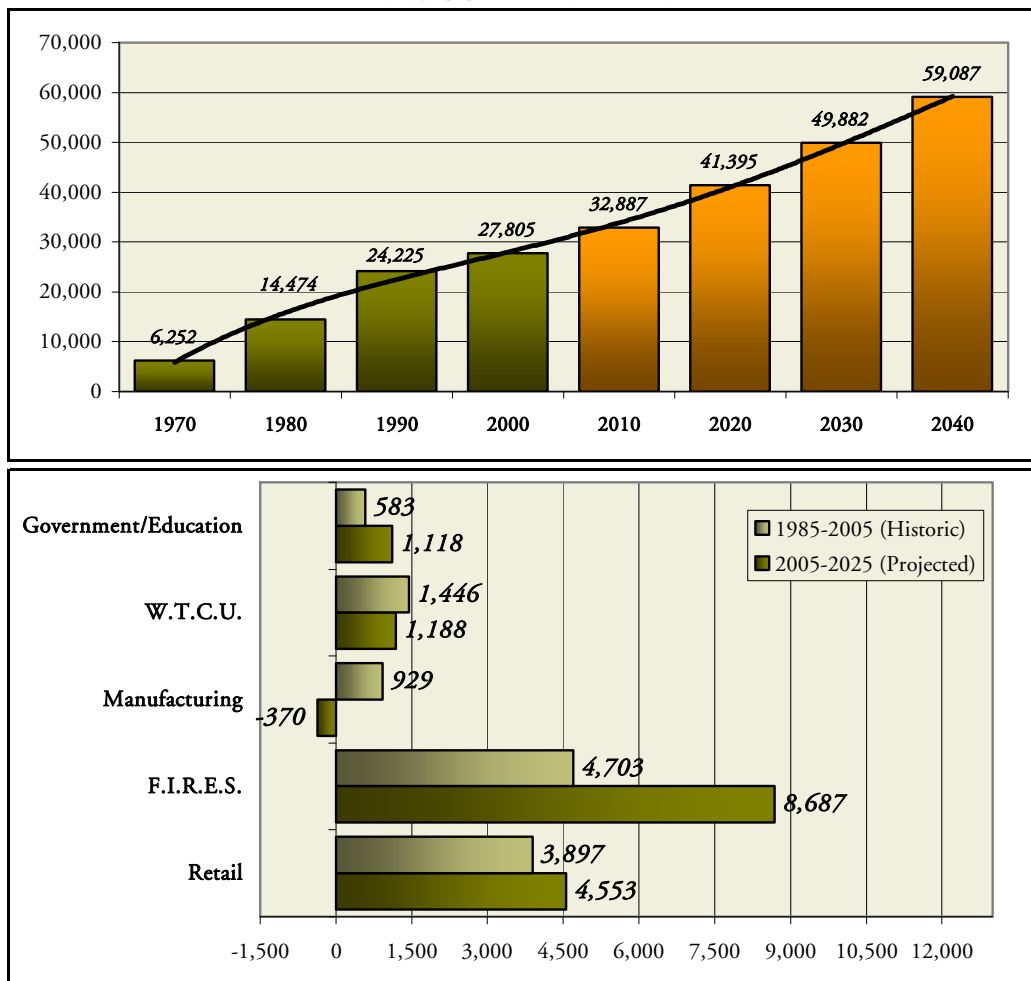
SOURCE: Puget Sound Regional Council and JOHNSON GARDNER



Employment & Wages

- Between 1990 and 2000, the Lynnwood Market Area added 3,580 jobs while growing by a relatively measured 1.4% annual rate. [Figure 4.20]
- Over the 40-year projection period, the PSRC estimates long-term employment growth to average 1.9% annually. Over this interval, an estimated 31,282 new positions are expected to be created in the market area.

**FIGURE 4.20
LONG-TERM EMPLOYMENT FORECASTS
LYNNWOOD MARKET AREA⁶**



Government/Education = S.I.C. 43, 82, 92-97

W.T.C.U. = S.I.C. 40-42, 44-51

Manufacturing = S.I.C. 19-39

F.I.R.E.S. = S.I.C. 7, 60-67, 70, 72-76, 78-81, 83-84, 86, 89

Retail = S.I.C. 52-59

SOURCE: Puget Sound Regional Council

⁶ F.I.R.E.S. is an acronym for Finance, Insurance and Real Estate Services, while W.T.C.U. is an acronym for Wholesale Trade, Transportation, Communications and Utilities.



- Paralleling the national trend, service oriented industries are expected to dominate local new job growth in coming years. For example, over the next 25-years an estimated 62.5% of employment growth is expected to fall on the Retail Trade and Services (F.I.R.E.S.) sectors. This trend projection is not the only potential outcome, which may be influenced through the policy objectives of the City’s Economic Development Plan and City Center Plan.

B. RETAIL MARKET

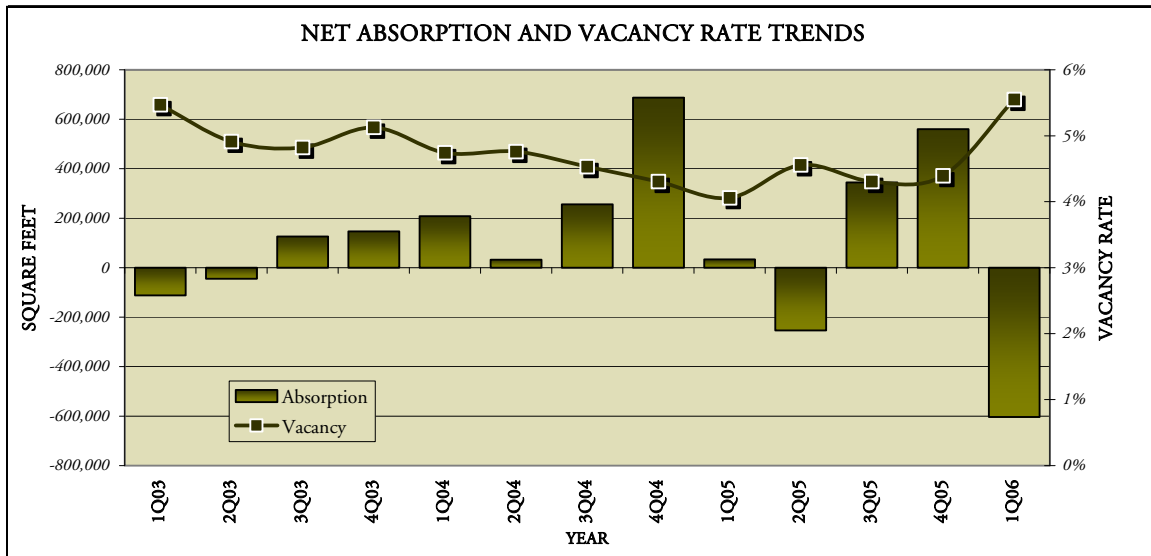
Retail Market Conditions

Our analysis of retail market trends will consist of two subsections. First, as a result of Lynnwood’s relative proximity and regional access to the greater Seattle area, the economic health of the regional retail market at large will be useful in explaining current and projected market trends. Thus, an evaluation of regional market conditions is in order. Secondly, an assessment of market trends at the subregional level, specifically in this instance Northend Subregion (see EXHIBIT R.01), will provide a more localized appraisal of market trends near the subject site.

Seattle Metro Area Retail Trends

- The Seattle metro area’s retail market shed 603,000 square feet in the first quarter of 2006. Current total market vacancy increased to a still-tight rate of 5.55% for all space. Speculative retail vacancy is now estimated at 4.31 million square feet. [Figure 4.21]

**FIGURE 4.21
RETAIL MARKET TRENDS AND CONDITIONS
SEATTLE METROPOLITAN AREA**



- Downtown:** The submarket saw little activity with 11,000 square feet vacated during the quarter. Specialty/Strip/Urban product positive absorption (45,000 sq. ft.) was not enough to counter losses in Power/Regional product (48,000 sq. ft.) and Mixed-Use (9,000sq. ft.). Vacancy is now at 5.1% for all space.



- Eastside: The submarket shed 86,000 square feet of space during the first quarter of 2006, the vast majority of which was in Regional Center product. Vacancy now stands at 4.6% across all market inventory.
- Northend: The submarket shed 421,000 square feet of space, with Community and Specialty formats taking 80% of the reduction. Vacancy now stands at 7% for all space, with most vacancy now in Specialty/Urban product.
- Southend: The Southend was the positive note for the first quarter, recording 267,000 square feet of positive net absorption. Community (207,000 sq. ft.) and Specialty/Urban (113,000 sq. ft.) led the submarket. Vacancy now stands at a regional low of 3.9% for all space.
- Tacoma: Pierce County shed 353,000 square feet during the first quarter, the majority of which was Community retail product (257,000 sq. ft.). Vacancy is now at a still-healthy 6.9% for all inventory in the submarket.

With residential demand and development slowing gradually in the near-future, retail should remain a strong product type in the Puget Sound market over the next year but begin to lose a bit of steam. JOHNSON GARDNER now expects nearly 1.47 million square feet of new supply and 950,000 square feet of net new demand in the next twelve months.

We project vacancy rates to increase in most suburban submarkets, but decrease in the Downtown (5.1% to 3.3%) and Eastside (4.4% to 3.4%) submarkets through March of 2007. Overall vacancy is predicted to increase from 5.4% to a still-tight 5.9%. To the extent that tightening conditions, and potentially significantly escalating lease rates, drive new, unanticipated development, the vacancy rate expressed below is on the optimistic side. [Figure 4.22]

FIGURE 4.22
FORECASTED RETAIL MARKET CONDITIONS
SEATTLE METROPOLITAN AREA

Subregion <i>Submarket</i>	1st Quarter 2006		New Supply		Forecasted Demand		Projected	
	Speculative Inventory	Vacancy Rate	2Q06-1Q07	2Q07-2Q08	2Q06-1Q07	2Q07-2Q08	Vacancy Rate	
							1Q07	2Q08
Downtown	9,141,586	5.1%	6,829	210,831	170,600	175,099	3.3%	3.6%
Eastside	18,722,931	4.4%	84,049	599,581	267,380	278,755	3.4%	4.9%
Northend	18,704,868	6.7%	493,641	1,089,692	271,150	290,854	7.7%	11.2%
Southend	17,722,096	3.7%	740,752	803,250	180,000	186,008	6.6%	9.5%
Tacoma	17,861,727	6.8%	140,570	471,412	61,260	76,209	7.2%	9.2%
Metropolitan Area Total	82,153,208	5.4%	1,465,840	3,174,765	950,390	1,006,925	5.9%	8.2%

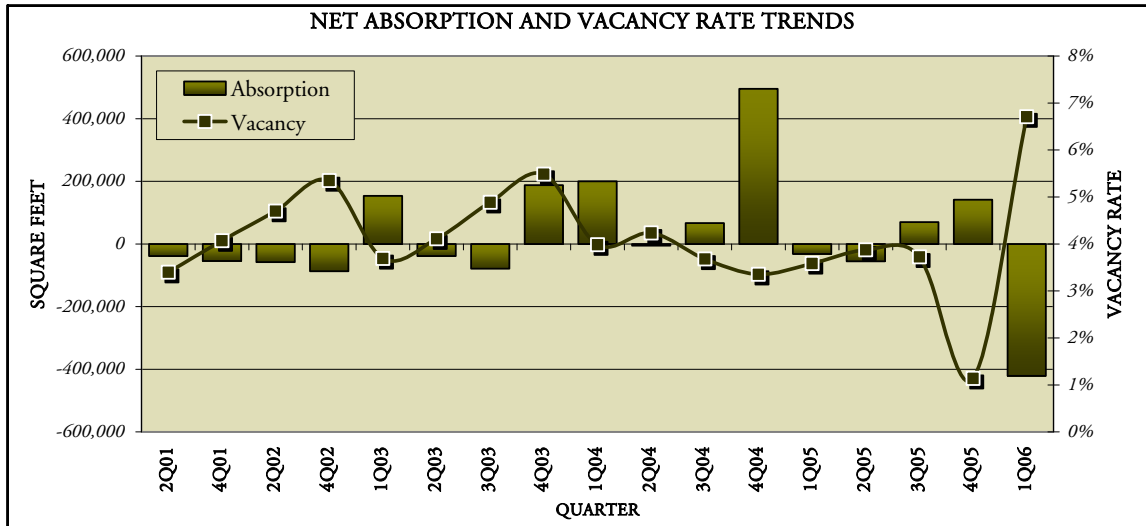
CB Richard Ellis' fourth quarter 2006 retail report shows an overall vacancy rate of 4.4% in the Lynnwood/Mountlake Terrace area, and an overall rate of 3.4% for the region. This survey is much more limited than the CoStar data used in our analysis, accounting for only half the square footage. What both surveys show is that the vacancy rate in retail space tends to remain within a fairly narrow range, and is impacted by changing retailing forms as well as buying power and new construction. The retail market is Darwinian, with new formats displacing outdated formats on a regular basis. This inherent dynamism provides for regular retail opportunities, even in markets with negligible growth. As Snohomish County is expanding, retail interest and sales growth should remain strong for the foreseeable future.



Subregional/Submarket Trends

- The Northend Subregion (Snohomish County) has long been a strong player in the regional retail market. Anchored by the super regional center Alderwood Mall, vacancy in the Northend has remained well below 5% for much of the last five years. However, a first quarter entrance of over 400,000 square feet of yet to be filled new construction retail space in the Arlington/Marysville area elevated retail vacancy to nearly 7%, its highest level in recent memory.

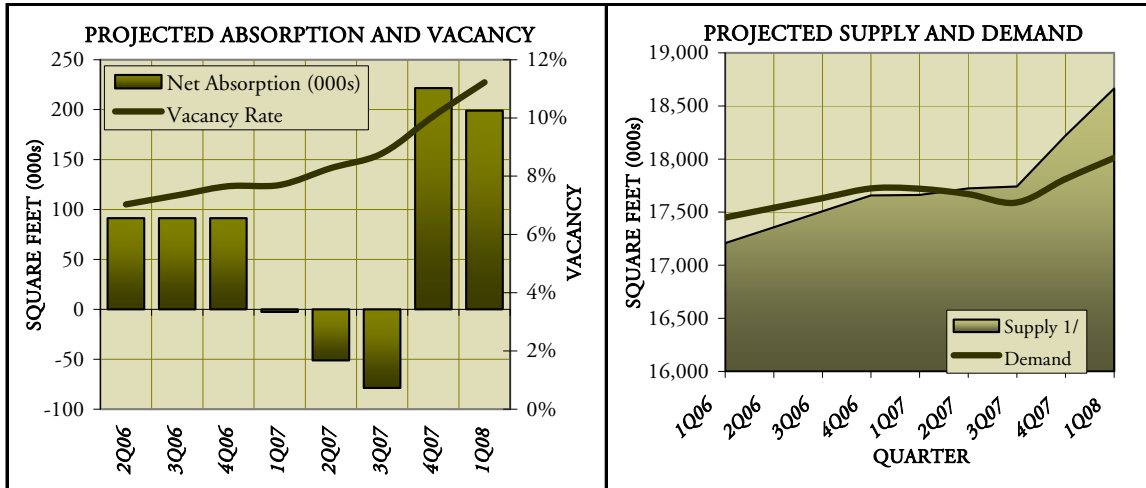
**FIGURE 4.23
RETAIL MARKET TRENDS AND CONDITIONS
NORTHEND SUBREGION**



- During the first quarter, the majority of vacant space in the Northend, roughly 54% or 686,000; was concentrated in the specialty/urban format. An additional 430,000 square feet of vacant space was listed as Community/Neighborhood. On a percentage basis, Mixed-Use space has been the most troubled format in the Northend. Mixed-use vacancy has remained above 15% for the past year and currently rests at 24.4%. [Exhibit R.3]
- Quoted lease rates in the subregion have fallen slightly in recent quarters as a result of current and anticipated increases in the supply of Power/Regional space. For example, since the first quarter of 2005, the average lease rate for Power/Regional space has fallen roughly 27% to just above \$26.00 per square foot. The current subregion wide average across all product types in \$20.18 per square foot. [Exhibits R.3 and R.4]



FIGURE 4.24
SHORT-TERM MARKET FORECASTS
NORTHEND SUBREGION



1/ Assumes a stabilized 8% vacancy rate.
 SOURCE: CoStar and Johnson Gardner

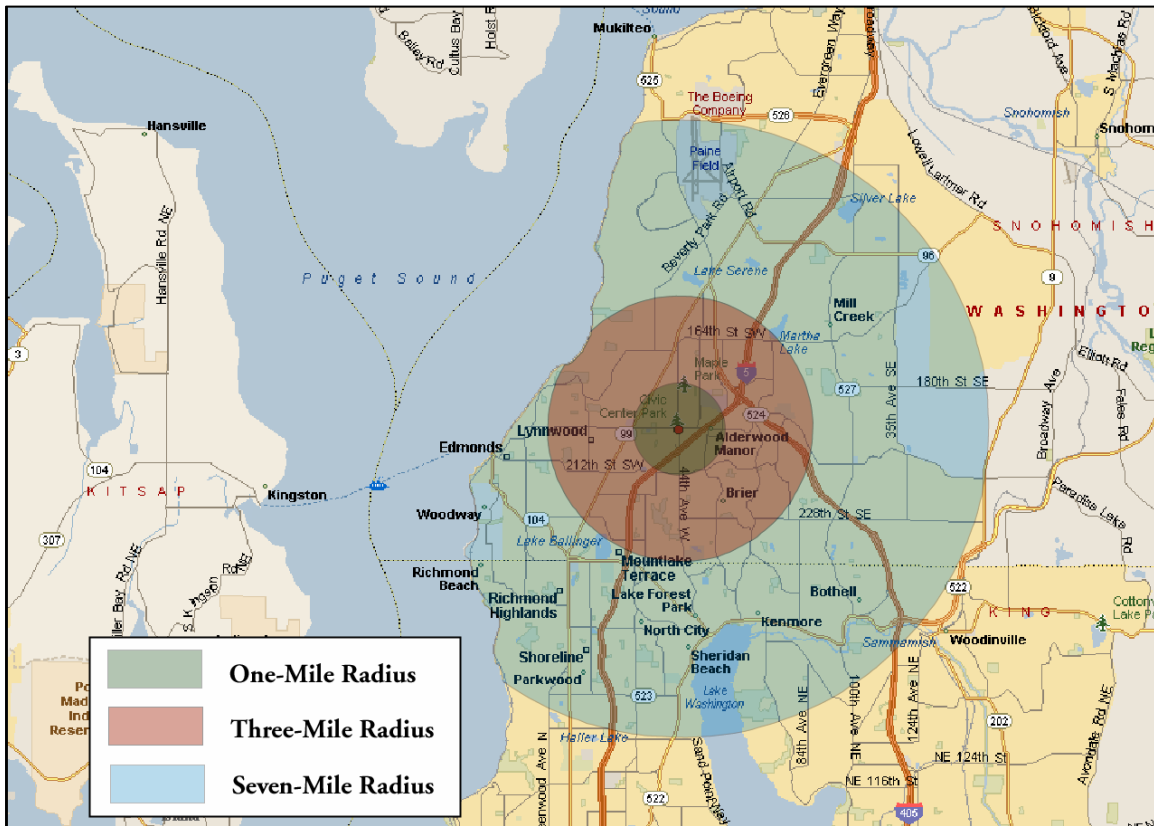
- Over the next two years, market vacancy in the subregion is expected to display notable upward movement, reaching as high as 11.2% by early 2008. Because the Northend has proven itself as a growth market, added market pressure is far more likely to be the result of rising inventories. Clearly, new construction activity is being largely driven by large format retailers across Snohomish County. Most notably, the Lakewood crossing development in Arlington will add both a Target and Costco while Smokey Point is targeted for a new Wal-Mart Supercenter. Wal-Mart stores have also been proposed in East Marysville and Mill Creek. The completion of the Tulalip Tribe's Seattle Premium Outlets has also given the Northend a regional retail destination north of Everett. [Figure 4.24]
- While the demographically-driven models anticipate a surplus of retail space, retail remains a tenant-driven sector. Snohomish County is widely viewed as an area with significant future growth potential, and retail tenants are attracted to the area to be in the path of growth. As a result, we do not expect vacancy rates to rise to the levels indicated, as tenants will fill spaces in anticipation of future growth in the area.



Commercial Retail Demand

This section provides forecasts relating to the demand for commercial retail space in the City of Lynnwood. The estimated demand should be interpreted as potential demand resulting primarily from household growth. The forecast uses a demographically driven, no-income growth methodology. This model estimated expenditures by maintaining constant real household income levels and only adjusting for household growth. This methodology is rather conservative, since it does not allow for likely increases in the real income of residents in the area. Consumer expenditures, and in turn, demand, was projected for the City. This analysis utilizes household projection scenarios highlighted in Section III.A. To best represent a varied range of potential development forms, forecasts were conducted for three trade areas comprising a one, three, and seven mile radius around the City Center. These trade areas are geographically presented in Figure 4.25

**FIGURE 4.25
DELINEATION OF COMMERCIAL RETAIL TRADE AREAS**





Consumer Expenditures Forecast (2006-2026)

Results presented in FIGURE 4.26 represent the summation of consumer spending inside the primary trade area by the trade area population.

**FIGURE 4.26
PROJECTION OF HOUSEHOLD RETAIL SALES
THREE-MILE TRADE AREA**

Three-Mile Radius NAICS Category	Average Household Spending 2/ Households:	Base Year 2006	Household Retail Spending in Millions (Households)								
			1/ Low Growth Scenario			Medium Growth Scenario			1/ High Growth Scenario		
			2016	2026	'06-'26 Change	2016	2026	'06-'26 Change	2016	2026	'06-'26 Change
441 Automotive Parts, Accessories & Tire Stores	\$7,116	\$313.8	\$350.7	\$382.7	\$36.9	\$367.3	\$419.3	\$53.5	\$382.3	\$452.3	\$68.5
442 Furniture & Home Furnishings Stores	\$1,160	\$51.2	\$57.2	\$62.4	\$6.0	\$59.9	\$68.4	\$8.7	\$62.3	\$73.7	\$11.2
443 Electronics & Appliance Stores	\$3,061	\$135.0	\$150.9	\$164.6	\$15.9	\$158.0	\$180.4	\$23.0	\$164.4	\$194.5	\$29.5
444 Building Materials & Garden Equipment	\$1,408	\$62.1	\$69.4	\$75.7	\$7.3	\$72.7	\$83.0	\$10.6	\$75.6	\$89.5	\$13.6
445 Food & Beverage Stores	\$7,319	\$322.7	\$360.7	\$393.6	\$38.0	\$377.8	\$431.3	\$55.0	\$393.2	\$465.2	\$70.5
446 Health & Personal Care Stores	\$2,919	\$128.7	\$143.9	\$157.0	\$15.1	\$150.7	\$172.0	\$21.9	\$156.8	\$185.5	\$28.1
448 Clothing & Clothing Accessories Stores	\$4,412	\$194.5	\$217.4	\$237.3	\$22.9	\$227.7	\$260.0	\$33.2	\$237.0	\$280.4	\$42.5
451 Sporting Goods, Hobby, Book & Music Stores	\$2,679	\$118.1	\$132.0	\$144.1	\$13.9	\$138.3	\$157.9	\$20.1	\$143.9	\$170.3	\$25.8
452 General Merchandise Stores	\$1,018	\$44.9	\$50.2	\$54.7	\$5.3	\$52.5	\$60.0	\$7.7	\$54.7	\$64.7	\$9.8
453 Miscellaneous Store Retailers	\$1,020	\$45.0	\$50.3	\$54.9	\$5.3	\$52.6	\$60.1	\$7.7	\$54.8	\$64.8	\$9.8
722 Foodservices & Drinking Places	\$3,952	\$174.3	\$194.8	\$212.5	\$20.5	\$204.0	\$232.9	\$29.7	\$212.3	\$251.2	\$38.0
Totals/Weighted Averages	\$36,064	\$1,276.5	\$1,426.7	\$1,556.7	\$150.2	\$1,494.1	\$1,705.8	\$217.7	\$1,555.2	\$1,839.8	\$278.7

1/ High and low estimates were adjusted by a margin consistent with the Snohomish County high and low population forecast adjustments.

2/ Claritas, Inc. average retail sales figures in 2006 dollars

Under the medium growth scenario, the trade area is expected to see retail expenditures increase from approximately \$1.27 billion in 2006 to more than \$1.70 billion in 2026, a gain of \$217.7 million. Although, contingent on the realized growth pattern, actual expenditure increases could range from \$150.2 million to \$278.7 million. Regardless of the growth scenario, the largest component of growth will be in the demand for Food & Beverage Stores, followed by Automotive Parts, Accessories & Tires Stores, and Clothing & Clothing Accessories Stores. [Figure 4.26]

This model does not incorporate inflation, assuming that income growth and the general rate of inflation will be roughly equivalent over the duration of the forecast period.



Retail Space Projection 2006-2026

Forecasted expenditures for the designated trade area have been used to estimate the amount of supportable retail space through 2026 utilizing average retail expenditure per-square-foot statistics from the Urban Land Institute publication *Dollars & Cents*. Results of this analysis are outlined in FIGURE 4.27.

**FIGURE 4.27
PROJECTED RETAIL SPACE DEMAND
THREE-MILLE TRADE AREA**

Three-Mile Radius		Average HH Spending 2006	Retail Space Need /3									
			Base Year 2006	1/ Low Growth Scenario			Medium Growth Scenario			1/ High Growth Scenario		
NAICS Category			2016	2026	'06-'26 Change	2016	2026	'06-'26 Change	2016	2026	'06-'26 Change	
441	Automotive Parts, Accessories & Tire Stores	\$313.8	2,483,174	2,775,347	3,028,405	545,231	2,906,619	3,318,398	835,224	3,025,318	3,579,111	1,095,937
442	Furniture & Home Furnishings Stores	\$51.2	325,235	363,503	396,648	71,412	380,696	434,629	109,394	396,243	468,777	143,541
443	Electronics & Appliance Stores	\$135.0	742,368	829,716	905,370	163,002	868,961	992,066	249,698	904,447	1,070,009	327,641
444	Building Materials & Garden Equipment	\$62.1	533,554	596,333	650,707	117,153	624,539	713,017	179,463	650,044	769,036	235,482
445	Food & Beverage Stores	\$322.7	1,137,845	1,271,725	1,387,682	249,837	1,331,877	1,520,563	382,718	1,386,267	1,640,028	502,183
446	Health & Personal Care Stores	\$128.7	615,591	688,022	750,757	135,166	720,565	822,647	207,056	749,991	887,279	271,688
448	Clothing & Clothing Accessories Stores	\$194.5	986,193	1,102,229	1,202,731	216,539	1,154,364	1,317,902	331,709	1,201,505	1,421,444	435,252
451	Sporting Goods, Hobby, Book & Music Stores	\$118.1	666,383	744,791	812,701	146,318	780,019	890,524	224,140	811,873	960,488	294,105
452	General Merchandise Stores	\$44.9	355,238	397,035	433,237	78,000	415,815	474,723	119,485	432,796	512,020	156,782
453	Miscellaneous Store Retailers	\$45.0	257,683	288,002	314,262	56,579	301,624	344,355	86,672	313,942	371,409	113,727
722	Foodservices & Drinking Places	\$174.3	812,252	907,823	990,599	178,347	950,762	1,085,456	273,204	989,589	1,170,736	358,484
Totals/Weighted Averages		\$1,590.3	8,915,516	9,964,526	10,873,099	1,957,583	10,435,841	11,914,280	2,998,764	10,862,014	12,850,338	3,934,822

1/ High & low estimates were adjusted by a margin consistent with the Snohomish County high & low population forecast adjustments.

2/ Based on national averages derived from "Dollars & Cents of Shopping Centers," Urban Land Institute, 2000.

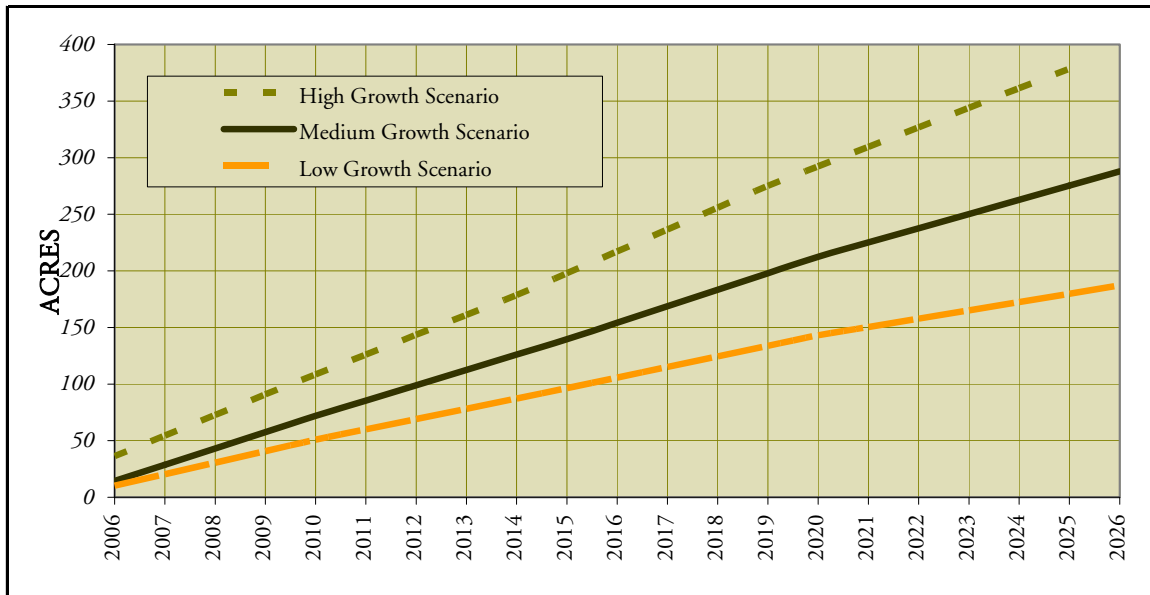
3/ Assumes a market-clearing retail space vacancy rate of 10%.

Results indicate that the trade area could support approximately 8.9 million square feet of retail space in 2006. Under the medium growth scenario, the supportable space grows to approximately 11.9 million square feet, an addition of roughly 3.0 million square feet or 33.7%. However, this estimate may overstate demand with respect to automotive oriented space, which typically displays significant leakage in most trade areas. Excluding auto-oriented space, the projected increase under medium growth is 2.1 million square feet.



FIGURE 4.28 highlights total estimated commercial retail land need over the twenty year projection period.

FIGURE 4.28
CUMULATIVE COMMERCIAL RETAIL LAND DEMAND
THREE-MILE TRADE AREA (2006-2026)



SOURCE: JOHNSON GARDNER

Lynnwood City Center

The Lynnwood City Center has a number of advantages as a retail location. The demographics within a three mile ring of downtown are quite good, although the population within one mile is rather weak. The retail market is highly dynamic, with new retail concepts and formats quickly replacing outdated forms. Over time, we would expect that retail projects will reformat and reposition, increasing their general attractiveness as well as improving their competitive position vis-à-vis alternative locations.

The current mix of retail in the City Center reflects the relatively high level of auto-oriented retail space. While this type of demand has supported a significant level of development over the years, transitioning into a less auto-dependent retail form will require a significantly higher level of local residential development, as envisioned in the City Center Plan.

Increasing the local residential population, and subsequently buying power, would be supportive of retailers more consistent with pedestrian and neighborhood orientation. These types of retailers serve a local area, rather than an entire region, which leads to a higher proportion of convenience-type retailing than of discretionary or comparison shopping. A more urban retail mix, as is envisioned in the City Center Plan, provides a level of amenity to local businesses and residents that can be translated into greater achievable pricing in terms of lease rates and sales prices. The increase in pricing allows for more intensive development, supporting even greater levels of urban amenity. This “virtuous cycle” is what drives many successful urban commercial concentrations.



Benefits of Residential Development

During the 1990s, many communities began to focus attention on proximate residential development as a tool to support retail districts. Demographic trends are helping spur growth and interest in urban density housing. The increase in empty nesters from the baby boomer generation and young professionals are the two key populations leading this trend. The other emerging population trend driving the urban housing market is young professionals in their 20s and 30s who have yet to start families. This group—often consumers of amenities such as coffeehouses and nightclubs—are frequently in the market for low-maintenance, urban housing convenient to work and amenities.⁷

Increases in full-time residents have many implications. The ability to conveniently access shopping and services is a key attraction for many residents, which imply benefits to retail sales for local merchants. This becomes a “captured” market, in that local retailers will have a sustainable advantage in attracting these consumers.

This section of our report addresses the marginal impact on retail demand associated with residential development. In addition to additional retail sales and the multiplier effect of those sales, this report evaluates other potential impacts of new local housing, including:

- Creating vital urban environments*
- Increasing the hours of activity*
- Decreased demand on road systems*
- Creating demand for other urban amenities such as museums, theaters, etc.*

The main source of quantifiable benefits is additional retail demand in the local area. Key areas of support include the following:

- Food. *The main categories of food expenditures are (1) food at home, (2) food away from home, and (3) food prepared by consumer on out of town trips.*
- Apparel and services.
- Health care.
- Entertainment. *Entertainment is broken into the following categories (1) fees and admissions, (2) television, radios, and sound equipment, (3) pets, toys, and playground equipment, and (4) other entertainment expenditures.*
- Personal care products and services.
- Reading. *This category includes books and magazines.*

In addition to the direct retail benefits of consumer expenditures by households living in close proximity, the Lynnwood City Center could experience multiplier effects. The benefit to downtown retailers are not the only consequence associated with residential development in the area.

Other related effects that would be anticipated include:

- *Rising property values and associated rise in assessed valuation and REET revenues;*
- *More efficient utilization of infrastructure;*
- *Increased marketability of the City Center as a location; and*
- *Greater levels of downtown activity over an extended time period, supporting stronger retail and greater public safety.*

⁷ *Life at the Center: The Rise of Downtown Housing*, Rebecca Sohmer and Robert E. Lang, Housing Facts and Findings, Spring 1999, Vol 1. Issue 1, Fannie Mae Foundation



Housing development in the City Center fits into a broader community development framework and can achieve multiple objectives and create multiple benefits. Residential development increases the duration of activity in the district, supporting longer business hours and a more vital environment. More activity in the district can create the perception of a safer environment.

C. OFFICE MARKET

Office Market Conditions

While trade areas are less meaningful in office analysis than in retail analysis, individual projects do compete within localized areas for demand, and serve local as well as regional needs. Our analysis of speculative office market conditions in Lynnwood utilized the broadly recognized Lynnwood/Edmonds submarket. Subsequently, our analysis of office demand will rely on the Lynnwood Market Area. Because the scale of the City Center project, proximity of the area to major transportation corridors, and cohesiveness of the region will serve to expand the competitiveness of the Lynnwood's office market on a regional scale, our analysis also assesses market conditions in the broader metro area and more specifically, the Northend subregion.

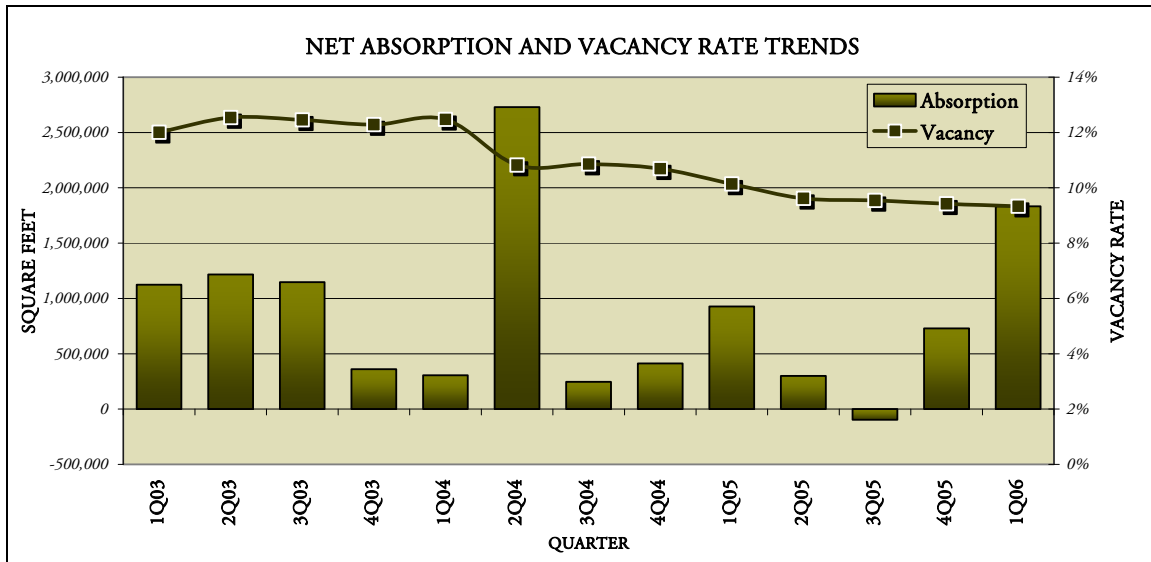
Seattle Metro Area Office Trends

- Following a 2½ year period which saw vacancy move from 5.7% in the first quarter of 2001 to 12.5% just ten quarters later, the Seattle office market has exhibited positive absorption in twelve of the last thirteen quarters on the way to continued recovery. Direct vacancy has fallen steadily to 9.3% following strong first quarter absorption.
- Downtown: The submarket leased up a net positive 581,277 square feet in the first quarter, with Lake Union and Queen Anne driving the vast majority of activity. New supply on the market, however, was enough to push vacancy rates up slightly to 10.6% for direct vacancy and 13.6% total.
- Eastside: 95,500 square feet of space were shed during the quarter with Bellevue CBD seeing 308,000 square feet of space vacated and Bellevue suburban leasing up 199,000 square feet. Vacancy, driven by Class B space, is now at 7.59% for all space.
- Northend: The submarket leased nearly 695,000 square feet during the quarter, led by Everett, Ballard & Northgate. Vacancy edged downward to 8.77% for all space.
- Southend: 582,837 square feet were absorbed through March of 2006, led by Kent, Auburn & Renton for class B product. Vacancy decreased to 14.78%, still the highest in the metro area.
- Tacoma: The submarket absorbed only 68,875 square feet during the period, largely class B space in suburban Pierce County. Vacancy is now at 8.13% for all space, the lowest level for this submarket in well over five years.



JOHNSON GARDNER projects a return to a tightening in the regional office market, despite an increase in development during the past few years. JOHNSON GARDNER counts roughly 1.47 million square feet as firm new additions to the regional market in the next twelve months, which can be expected to fall short of 3.2 million square feet in estimated demand capacity given resurging employment growth. Through the first quarter of 2007, JOHNSON GARDNER anticipates the region-wide vacancy rate to decrease to 9.6% as a result of accelerated demand and the current pipeline of new supply. [Figure 4.29]

FIGURE 4.29
OFFICE MARKET TRENDS AND CONDITIONS
SEATTLE METROPOLITAN AREA





We do note, however, that most submarkets are still some time from serious lease rate appreciation. As there does continue to be substantial available space in most suburban submarkets, we continue to anticipate lease rate appreciation to be modest, particularly with the potential substitutability of industrial business park space for many high-growth industries.

**FIGURE 4.30
FORECASTED OFFICE MARKET CONDITIONS
SEATTLE METROPOLITAN AREA**

Subregion <i>Submarket</i>	1st Quarter 2006		New Supply		Forecasted Demand		Projected	
	Speculative Inventory	Vacancy Rate	2Q06- 1Q07	2Q07- 1Q08	2Q06- 1Q07	2Q07- 1Q08	Vacancy 1Q07	Rate 1Q08
Downtown	51,484,386	13.6%	499,339	203,546	859,000	904,837	12.8%	11.4%
<i>Capitol Hill/First Hill</i>	3,250,357	10.2%	56,585	0	50,017	43,161	10.2%	8.9%
<i>CBD</i>	25,322,205	13.7%	185,714	139,286	412,131	460,655	12.7%	11.4%
<i>Denny Regrade</i>	6,620,524	11.2%	0	0	82,040	84,637	9.9%	8.6%
<i>Lake Union</i>	5,791,803	18.0%	257,040	64,260	163,341	159,672	18.8%	17.0%
<i>Pioneer Square</i>	6,059,327	13.6%	0	0	88,048	91,106	12.1%	10.6%
<i>Queen Anne</i>	4,440,170	13.3%	0	0	63,422	65,605	11.9%	10.4%
Eastside	40,221,207	7.6%	381,253	185,147	1,373,000	1,251,712	5.1%	2.4%
<i>520/ Overlake</i>	5,306,715	4.5%	0	0	100,855	83,900	2.6%	1.0%
<i>Bellevue CBD</i>	6,635,936	6.7%	359,333	179,667	381,703	383,298	6.0%	3.0%
<i>Bellevue Suburban</i>	6,035,713	9.9%	0	0	216,360	193,530	6.4%	3.2%
<i>Bothell/Kenmore</i>	3,995,734	13.4%	0	0	185,382	168,798	8.7%	4.5%
<i>I-90 Corridor</i>	8,794,513	5.8%	21,920	5,480	216,453	183,370	3.6%	1.6%
<i>Kirkland/ Totem Lake</i>	4,356,204	12.1%	0	0	184,788	167,312	7.8%	4.0%
<i>Redmond/ Willows</i>	5,096,392	3.9%	0	0	87,459	71,504	2.2%	0.8%
Northend	16,202,834	8.8%	36,338	9,084	510,000	495,994	5.8%	2.8%
<i>Everett/ Sonomish County</i>	5,752,147	9.1%	0	0	182,461	176,133	5.9%	2.8%
<i>Edmonds/Lynnwood</i>	8,547,024	8.3%	36,338	9,084	261,335	255,500	5.6%	2.7%
<i>Northgate/ North Seattle</i>	1,903,663	10.1%	0	0	66,205	64,361	6.6%	3.2%
Southend	18,656,810	14.8%	530,721	264,277	336,000	376,304	15.4%	14.6%
<i>Federal Way</i>	3,118,184	12.3%	0	0	38,773	40,686	11.0%	9.7%
<i>Kent/ Auburn</i>	2,861,877	17.2%	0	0	46,691	49,057	15.6%	13.9%
<i>Renton/ Tukwila</i>	7,481,790	19.6%	526,387	263,193	203,027	236,828	22.3%	22.0%
<i>SeaTac/Burien</i>	2,005,878	8.9%	4,334	1,084	20,158	21,100	8.1%	7.1%
<i>South/ West Seattle</i>	3,189,081	7.4%	0	0	27,352	28,633	6.5%	5.6%
Tacoma	11,001,440	8.1%	29,540	7,385	125,000	153,821	7.2%	5.9%
<i>Tacoma CBD</i>	4,481,743	8.4%	0	0	51,911	63,311	7.3%	5.9%
<i>Tacoma Suburban/Pierce</i>	6,519,697	7.9%	29,540	7,385	73,089	90,509	7.2%	6.0%
Metropolitan Area Total	137,566,677	11.0%	1,477,191	669,439	3,203,000	3,182,668	9.6%	7.8%

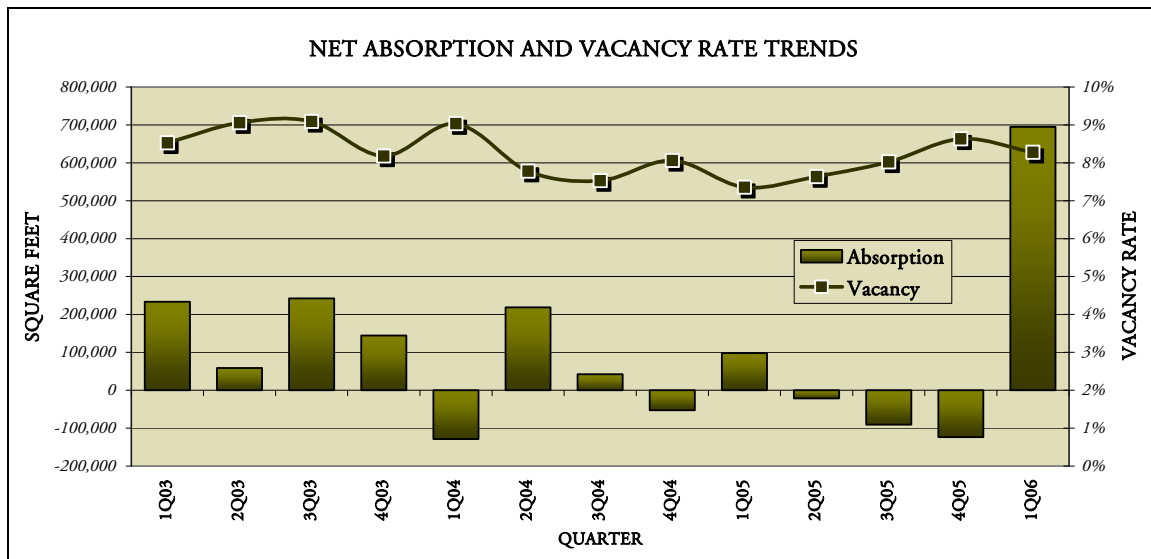
The market data presented in this section was prepared during second and third quarters of 2006, but have been confirmed by more recent data.



Subregional/Submarket Trends

- Relative to other Seattle office market subregions, the Northend (Snohomish County) is a relatively small component of the overall market, representing only about 11.7% of total space. However, with vacancy at 8.8%, the subregion is faring slightly better than the regional average.

**FIGURE 4.31
OFFICE MARKET TRENDS AND CONDITIONS
NORTHEND SUBREGION**

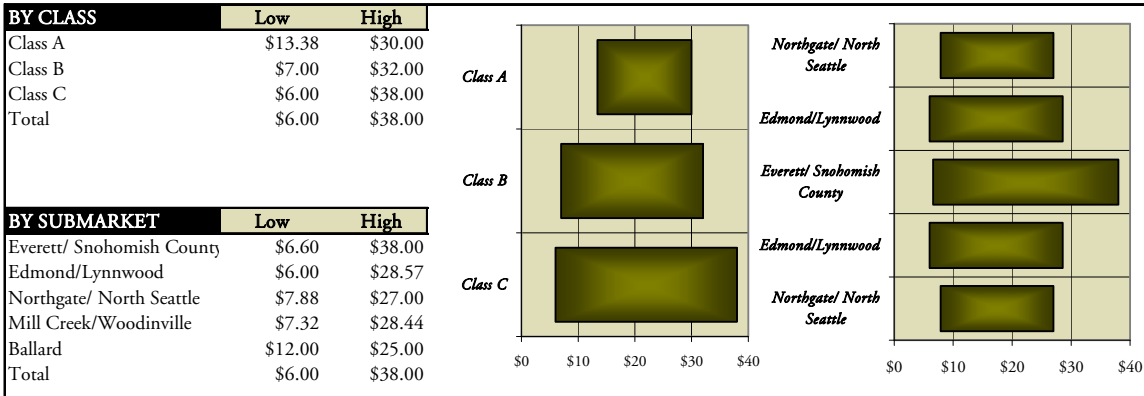


- The first quarter of 2006 was a period of tremendous leasing activity, netting a positive absorption of nearly 695,000 square feet. The majority of space was absorbed in the vicinity of Ballard and Everett/Snohomish County.
- The majority of vacant space (roughly 59%) in the Northend Subregion is Class B office. However, the Class A office market appears to be having the greatest difficulty maintaining stable vacancy rates. In the first quarter Class A vacancy exceeded 15.8%.
- The local vacancy rate in the previous data includes owner-occupied space, which reduces the rate significantly in areas such as Lynnwood. As a comparison, CB Richard Ellis' fourth quarter 2006 report shows an overall vacancy rate of 18.9% for Snohomish County, with a 24.59% rate in the more limited Lynnwood/Edmonds/Mountlake Terrace market. The overall rate in Everett was estimated at 10.0%. A similarly survey produced by Colliers International shows a Snohomish County overall vacancy rate of 17.14% as of the fourth quarter of 2006. Both of these surveys track only speculative office space, or space which is available to lease, and excludes owner-occupied space. While only a subsection of the market, the occupancy rate in this space is a better predictor of market health from a developer's perspective. A normal vacancy rate typically assumed in the speculative office market is 10%, and available surveys indicate that the rate in Snohomish County is well in excess of this rate.



- Overall lease rates in the subregion ranged from \$6.00 to \$38.00 per square foot during the first quarter. The highest lease rates were achieved in desirable employment areas such as Ballard and Northgate. However, suburban markets also fared well with projects in the Everett/North Snohomish County submarket and the Edmonds/Lynnwood submarket commanding the highest lease rates in the Northend. [Figure 4.32]

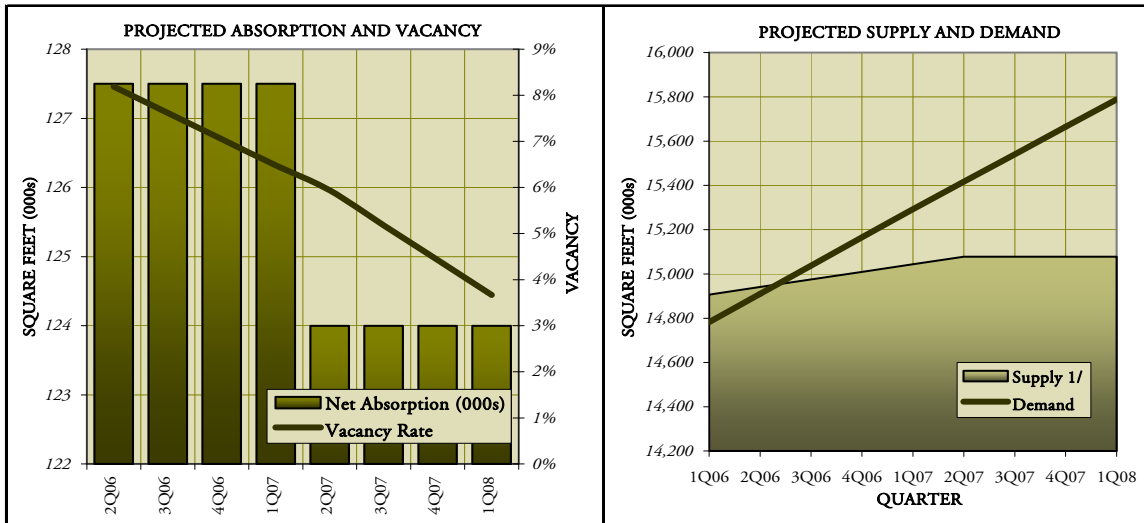
FIGURE 4.32
QUOTED RENT LEVELS BY CLASS AND SUBMARKET
NORTHEND SUBREGION



SOURCE: CoStar and Johnson Gardner

- Over the next eight quarters, the Northend subregion is not expecting significant additions to its inventory. Meanwhile, the ramping up of employment and economic growth in the region will continue to power business expansion in the short-term. Taken together, the two variables indicated a coming period of rapidly falling vacancy in the subregion. More specifically, our estimates suggest vacancy could reach 6.5% by the first quarter of 2007 and as low as 3.6% during the same period in 2008. [Figure 4.33]

FIGURE 4.33
SHORT-TERM MARKET FORECASTS
NORTHEND SUBREGION

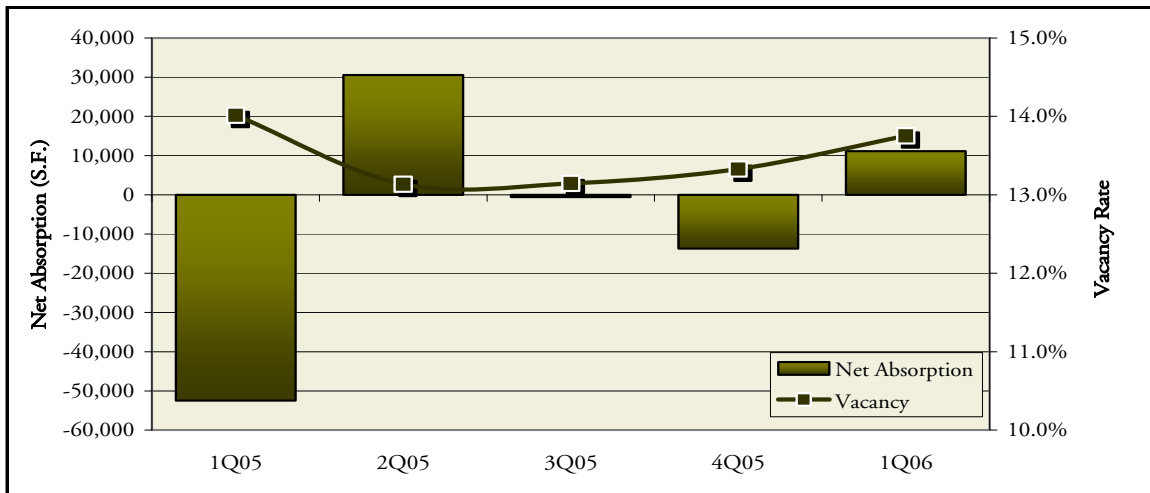


SOURCE: CoStar and Johnson Gardner



- With roughly 8.5 million square feet of space, the Edmonds/Lynnwood submarket is among the most significant office concentrations in the metro area, trailing only the Seattle CBD (25 million S.F.) and the I-90 Corridor (8.7 million S.F.)

FIGURE 4.34
OFFICE MARKET TRENDS AND CONDITIONS
EDMONDS/LYNNWOOD SUBMARKET



- Relatively higher vacancies in the submarket have led to slight lease rate reductions over the last four quarters. In the first quarter, quoted lease rates ranged from \$6.00 to \$28.57 per square foot. [Exhibit O.6]
- Despite healthy conditions at the subregional level, office projects in the Edmonds/Lynnwood submarket are having more difficulty maintaining stable vacancies. In the first quarter of 2006, roughly 550,000 square feet or 13.7% of space was vacant. This mark is up slightly from 13.3% in the final quarter of 2005.

Speculative Office Demand

The demand for office space is a direct function of employment growth in industrial sectors that utilize office space of various quality or class. In today's market there is a greater diversity of general office product types or classes depending upon the sector using the space. JOHNSON GARDNER, therefore, forecasts demand for office space by specific industrial employment growth. Our analysis begins with an estimation of future demand at the county level. We further project future employment in the Lynnwood Market Area by assuming a local capture of Snohomish County growth over the projection period as indicated by the U.S. Census Bureau and the Puget Sound Regional Council.



Employment Growth Forecast (2006-2026)

JOHNSON GARDNER forecast employment growth by industry for the Lynnwood Market Area through 2026 based on local data available from state and regional agencies. Three employment growth scenarios were estimated for the region for sensitivity analysis purposes: Medium Growth, Low Growth and High Growth. [Figure 4.35]

- **Medium Growth Scenario:** Assumes employment growth rate forecasts for Snohomish County industries estimated by the Washington State Employment Department, augmented to reflect localized trends highlighted by the Puget Sound Regional Council and estimated annual shifts in local capture.
- **High Growth Scenario:** Assumes industry employment growth rates under the Medium Growth Scenario accelerated by 20%.
- **Low Growth Scenario:** Assumes industry employment growth rates under the Medium Growth Scenario decelerated by 20%.

FIGURE 4.35
FORECASTED EMPLOYMENT BY EMPLOYMENT SECTOR
LYNNWOOD MARKET AREA

Medium Growth Scenario Industry Class	Forecasted Employment					2006-2026 Chg.	
	2006	2011	2016	2021	2026	Absolute	Percent
Construction	1,421	1,717	1,924	2,155	2,414	993	69.9%
Manufacturing	3,332	4,124	4,509	4,927	5,382	2,049	61.5%
Wholesale Trade	640	722	782	847	917	277	43.2%
Retail Trade	2,739	3,071	3,284	3,511	3,754	1,014	37.0%
T.W.U. 1/	221	266	299	336	378	157	70.9%
Information	326	349	373	398	425	98	30.2%
Financial Activities	1,244	1,386	1,486	1,594	1,708	464	37.3%
Professional & Business Services	1,683	2,090	2,432	2,829	3,289	1,606	95.4%
Educational & Health Services	1,740	1,976	2,170	2,383	2,615	875	50.3%
Leisure & Hospitality	2,053	2,344	2,558	2,791	3,045	991	48.3%
Other Services	713	785	841	902	966	253	35.4%
Government	2,190	2,425	2,650	2,894	3,158	968	44.2%
TOTAL	18,303	21,255	23,308	25,566	28,049	9,746	53.2%

High Growth Scenario Industry Class	Forecasted Employment					2006-2026 Chg.	
	2006	2011	2016	2021	2026	Absolute	Percent
TOTAL	18,396	21,923	24,488	27,367	30,603	12,207	66.4%

Low Growth Scenario Industry Class	Forecasted Employment					2006-2026 Chg.	
	2006	2011	2016	2021	2026	Absolute	Percent
TOTAL	18,210	20,605	22,117	23,778	25,605	7,395	40.6%

1/ Transportation Warehousing, & Utilities

SOURCE: JOHNSON GARDNER



Forecasted Office-Space Utilizing Employment (2006-2026)

Sector employment growth for each of the three economic scenarios is converted into growth in office employment based on typical percentages of jobs, or capture factors, by sector that will be located in office development. Results indicate an estimated 3,058 to 4,270 office jobs can be expected over the next twenty years in the Lynnwood Market Area. Office employment can be expected to be driven by the Professional & Business Services (1,329 to 1,896 jobs) sector in coming years, closely followed by Financial Activities (340 to 512 jobs), and Leisure & Hospitality (334 to 495 jobs). [Figure 4.36]

**FIGURE 4.36
FORECAST OF OFFICE-SPACE UTILIZING EMPLOYMENT BY INDUSTRY
LYNNWOOD MARKET AREA**

Medium Growth Scenario Industry Class (NAICS)	Total Forecasted Employment					Office Capture 3/	Office Space-Utilizing Employment					
	2006	2011	2016	2021	2026		2006	2011	2016	2021	2026	'06-'26
Construction	1,421	1,717	1,924	2,155	2,414	2%	28	34	38	43	48	20
Manufacturing	3,332	4,124	4,509	4,927	5,382	5%	167	206	225	246	269	102
Wholesale Trade	640	722	782	847	917	5%	32	36	39	42	46	14
Retail Trade	2,739	3,071	3,284	3,511	3,754	5%	137	154	164	176	188	51
T.W.U 1/	221	266	299	336	378	30%	66	80	90	101	113	47
Information	326	349	373	398	425	90%	294	314	335	358	382	89
Financial Activities	1,244	1,386	1,486	1,594	1,708	90%	1,119	1,247	1,338	1,434	1,537	418
Professional & Business Service	1,683	2,090	2,432	2,829	3,289	90%	1,515	1,881	2,189	2,546	2,960	1,445
Education & Health Services	1,740	1,976	2,170	2,383	2,615	40%	696	791	868	953	1,046	350
Leisure & Hospitality	2,053	2,344	2,558	2,791	3,045	40%	821	938	1,023	1,116	1,218	397
Other Services	713	785	841	902	966	40%	285	314	337	361	386	101
Government	2,190	2,425	2,650	2,894	3,158	35%	767	849	927	1,013	1,105	339
Total	18,303	21,255	23,308	25,566	28,049		5,927	6,843	7,574	8,389	9,299	3,372
High Growth Scenario	Total Forecasted Employment					Office	Office Space-Utilizing Employment					
Industry Class (NAICS)	2006	2011	2016	2021	2026	Capture 2/	2006	2011	2016	2021	2026	'06-'26
Total	18,396	21,923	24,488	27,367	30,603		5,956	7,051	7,970	9,022	10,226	4,270
Low Growth Scenario	Total Forecasted Employment					Office	Office Space-Utilizing Employment					
Industry Class (NAICS)	2006	2011	2016	2021	2026	Capture 3/	2006	2011	2016	2021	2026	'06-'26
Total	18,210	20,605	22,117	23,778	25,605		5,898	6,642	7,329	8,097	8,957	3,058

1/ Transportation, Warehousing, & Utilities

2/ Share of industry employment that utilizes office space. From the Urban Land Institute converted to NAICS by Johnson Gardner



Forecasted Office-Space Demand (2006-2026)

Employment density ratios, the average space in square feet necessary per office job, were utilized to calculate total office space demand given projected employment growth. Ratios and densities utilized are from the Urban Land Institute. Results indicate an anticipated twenty year need of roughly 674,000 to 941,000 square feet of office space contingent on the realized growth pattern. The Leisure & Hospitality, Financial Activities, and Professional & Business Services sectors are expected to be the greatest supporters of future office need. [Figure 4.37]

**FIGURE 4.37
FORECASTED OFFICE SPACE NEED
LYNNWOOD MARKET AREA**

Medium Growth Scenario Industry Class (NAICS)	Local Area Jobs in Office Space 2/					Avg. Space Per Job 3/	Predicted Office Space Need 4/					'06-'26
	2006	2011	2016	2021	2026		2006	2011	2016	2021	2026	
Construction	28	34	38	43	48	225	7,032	8,497	9,523	10,669	11,948	4,915
Manufacturing	167	206	225	246	269	200	36,657	45,367	49,596	54,196	59,198	22,541
Wholesale Trade	32	36	39	42	46	200	7,039	7,940	8,600	9,313	10,083	3,044
Retail Trade	137	154	164	176	188	200	30,131	33,776	36,124	38,625	41,289	11,158
T.W.U 1/	66	80	90	101	113	225	16,410	19,766	22,224	24,975	28,051	11,642
Information	294	314	335	358	382	200	64,581	69,103	73,798	78,782	84,073	19,491
Financial Activities	1,119	1,247	1,338	1,434	1,537	200	246,289	274,383	294,269	315,516	338,214	91,925
Professional & Business Services	1,515	1,881	2,189	2,546	2,960	200	333,285	413,890	481,540	560,076	651,229	317,945
Education & Health Services	696	791	868	953	1,046	200	153,091	173,923	190,998	209,675	230,100	77,009
Leisure & Hospitality	821	938	1,023	1,116	1,218	200	180,681	206,297	225,133	245,629	267,928	87,246
Other Services	285	314	337	361	386	200	62,777	69,066	74,038	79,343	85,003	22,226
Government	767	849	927	1,013	1,105	200	168,639	186,693	204,020	222,811	243,184	74,544
Total	5,927	6,843	7,574	8,389	9,299		1,306,613	1,508,700	1,669,863	1,849,610	2,050,299	743,686
High Growth Scenario	Local Area Jobs in Office Space 2/					Avg. Space Per Job 3/	Predicted Office Space Need 4/					'06-'26
Industry Class (NAICS)	2006	2011	2016	2021	2026		2006	2011	2016	2021	2026	
Total	5,956	7,051	7,970	9,022	10,226		1,312,985	1,554,391	1,757,149	1,989,059	2,254,769	941,784
Low Growth Scenario	Local Area Jobs in Office Space 2/					Avg. Space Per Job 3/	Predicted Office Space Need 4/					'06-'26
Industry Class (NAICS)	2006	2011	2016	2021	2026		2006	2011	2016	2021	2026	
Total	5,898	6,642	7,329	8,097	8,957		1,300,241	1,464,308	1,615,789	1,785,065	1,974,447	674,206

1/ Transportation, Warehousing, & Utilities

2/From Exhibit O.01

3/ Average office employment density by industry sector from the Urban Land Institute converted to NAICS by Gardner Johnson, LLC.

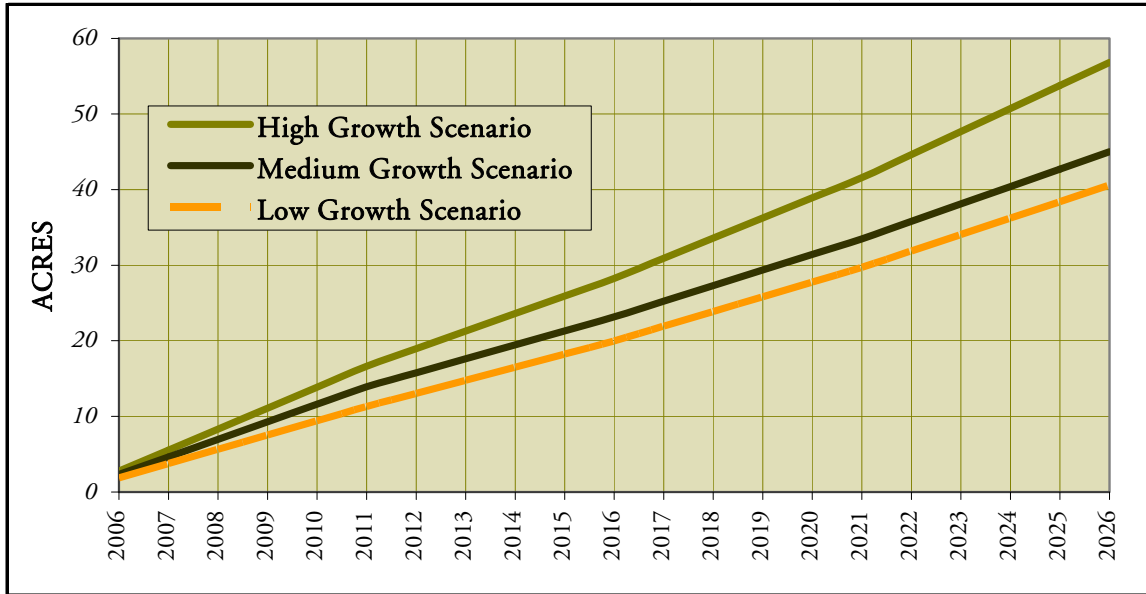
4/ Assumes a market-clearing 10% office space vacancy rate.

The projected demand for office space is a direct function of assumed employment growth by sector. This information was derived from the PSRC forecasts. While useful as a baseline assumption, the City shouldn't necessarily assume these forecasts as a given. The City Center Plan represents a substantial effort by the City to shift its competitive position within Snohomish County, which would be expected to substantively alter employment characteristics in the area.



FIGURE 4.38 highlights total estimated commercial office land need over the twenty year projection period.

FIGURE 4.38
CUMULATIVE OFFICE LAND DEMAND
LYNNWOOD MARKET AREA (2006-2026)



SOURCE: Johnson Gardner, LLC

D. RENTAL APARTMENT MARKET

Rental Apartment Market Conditions

As with other components of our analysis, our evaluation of the rental apartment market in Lynnwood will begin with a broad assessment of regional market trends and conditions which we expect to continue impacting the local rental market into the foreseeable future.

Seattle Metro Area Rental Trends

The regional rental apartment market continues to improve, and appears poised for continued strength over the next few years. While occupancy levels remain below an assumed structural level of 95% in the major markets, only the Southend is expected to remain below this level over the next year.

Declining vacancy levels and increases in replacement cost will continue to drive rents in the area, which are projected to growth by roughly 6% annually over the next two years.

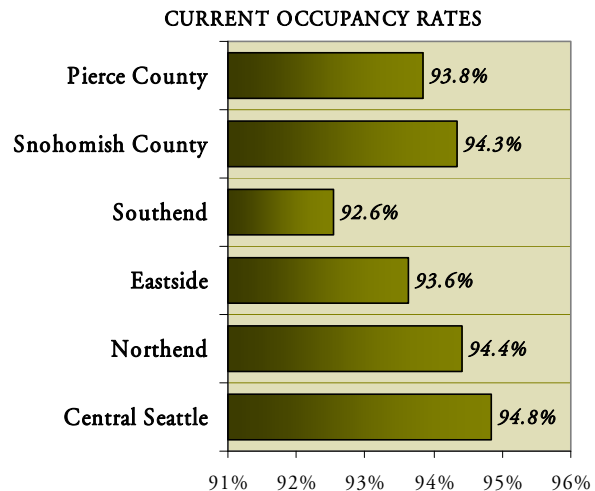
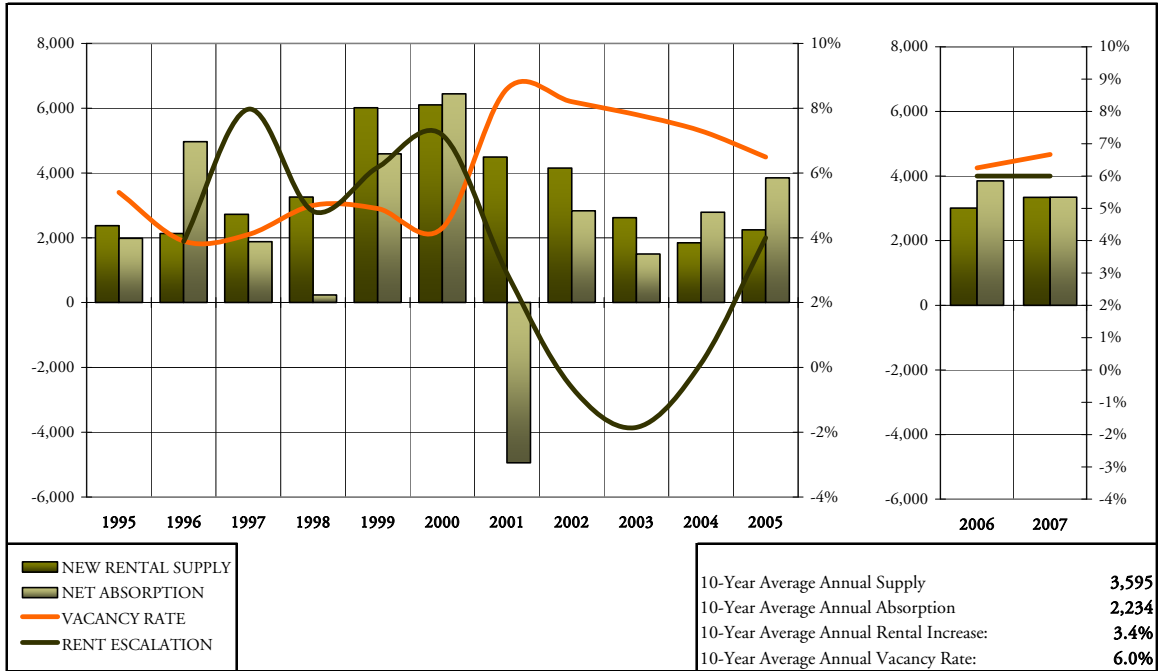




FIGURE 4.39
RENTAL APARTMENT MARKET CONDITIONS
SEATTLE METROPOLITAN AREA



SOURCE: Dupre & Scott and Johnson Gardner

JOHNSON GARDNER currently expects 1,734 new units to enter the Seattle market over the coming twelve months, a modest 0.7% increase in total regional inventory. By comparison, absorption over the next twelve months is projected at 5,700 units region wide as households find rental opportunities increasingly attractive with rising mortgage rates. Occupancy is expected to rise to over 95% metro area-wide, despite continued weakness in the Southend market.

New supply over the next year is concentrated in the Eastside (477 units), Central Seattle (453), and Pierce County (389). Net absorption in each of these broad markets is expected to exceed new introductions based on current pipeline of new inventory.



As noted previously, while we do not expect a rapid recovery, we do see that demand is turning and rent escalation should be pushed accordingly.

FIGURE 4.40
RENTAL APARTMENT MARKET CONDITIONS
SEATTLE METROPOLITAN AREA

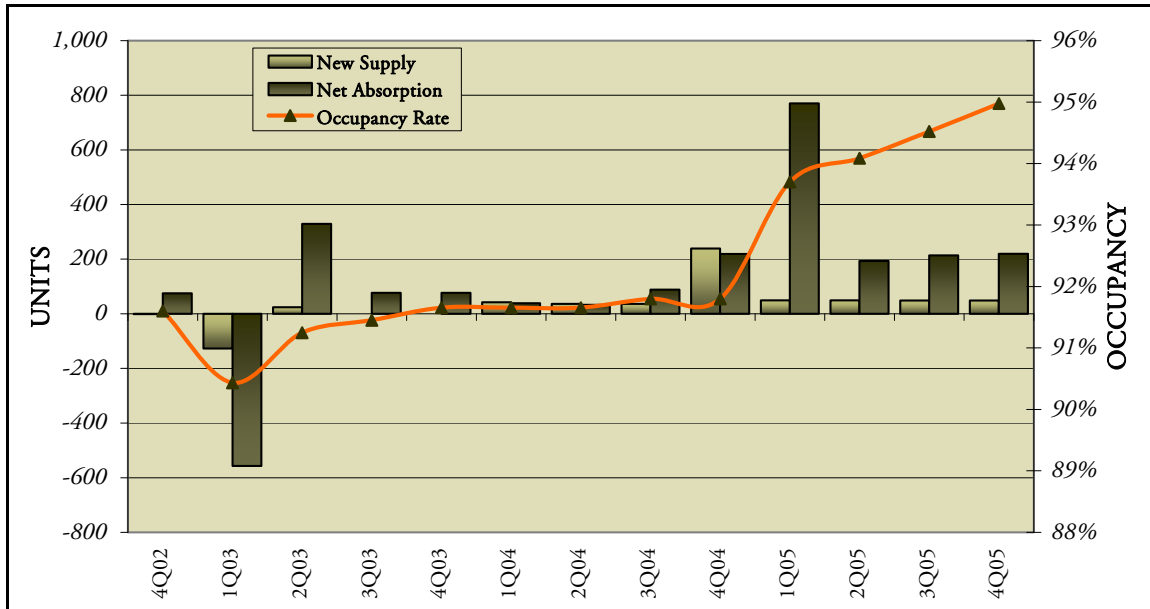
Subregion <i>Submarket</i>	1Q06		New Supply	Net Absorption	3Q06	
	Inventory	Occupancy			Inventory	Occupancy
Central Seattle	30,239	94.8%	453	927	30,692	96.5%
Northend	20,355	94.4%	164	451	20,519	95.9%
Eastside	39,269	93.6%	477	1,332	39,746	95.9%
<i>Bellevue/Kirkland/Redmond</i>	25,450	94.3%	242	1,042	25,692	97.5%
<i>Bothell/Woodinville</i>	8,597	94.0%	0	168	8,597	96.0%
<i>Issaquah/North Bend</i>	5,223	92.3%	0	122	5,223	94.6%
Southend	62,353	92.6%	182	966	62,535	93.8%
<i>Kent/Auburn</i>	17,668	92.2%	0	179	17,668	93.3%
<i>Maple Valley/Enumclaw</i>	574	93.5%	0	5	574	94.3%
<i>Des Moines/Federal Way</i>	17,686	93.0%	0	158	17,686	93.9%
<i>West/South Seattle</i>	2,719	95.0%	0	20	2,719	95.7%
<i>Burien/Tukwilla</i>	11,393	93.5%	0	97	11,393	94.3%
<i>Renton</i>	12,313	91.9%	125	385	12,438	94.1%
Snohomish County	38,245	94.3%	69	879	38,314	96.5%
<i>Central Everett</i>	2,265	90.8%	0	44	2,265	92.8%
<i>East Snohomish County</i>	2,524	95.2%	0	31	2,524	96.5%
<i>Edmonds</i>	2,895	93.6%	0	43	2,895	95.1%
Lynnwood	6,858	94.5%	0	93	6,858	95.8%
<i>Mill Creek</i>	5,078	90.5%	0	-16	5,078	90.2%
<i>Mountlake Terrace</i>	2,341	93.6%	0	35	2,341	95.1%
<i>North Snohomish County</i>	1,275	94.3%	0	18	1,275	95.7%
<i>Paine Field</i>	6,582	89.7%	46	375	6,628	94.7%
<i>Silver Lake</i>	8,425	92.7%	0	255	8,425	95.8%
Pierce County	41,708	93.8%	389	1,152	42,097	95.7%
Metro Area Total	232,168	93.7%	1,734	5,708	233,902	95.5%



Local Area Rental Trends

The rental apartment market in Snohomish County has been improving steadily since the fourth quarter of 2004, with occupancy rates rising above a stabilized rate of 95%.

FIGURE 4.41
RENTAL APARTMENT MARKET CONDITIONS
SNOHOMISH COUNTY, WASHINGTON



E. Condominium Market

Seattle Metro Area Ownership Residential Trends

The Seattle metropolitan area recorded a total of 18,182 home sales, both new and resale, during the third quarter of 2006. Total sales were down 15 percent over the previous quarter but up 9% over the same period in 2005. The greatest declines came in single family product where overall transaction volume was off by 19 percent over the second quarter but up 2 percent over a year ago.

In as much as we have seen declines in velocities, new detached product in King County continued to enjoy price appreciation, escalating by almost 22% in the twelve months ending in September of 2006. The detached product in Snohomish County also appreciated significantly, at a 36% rate compared to prices in the third quarter of 2005. Attached product in King County and Snohomish County increased in price by an astounding average of 61% and 62% respectively; quite remarkable figures. It should be emphasized that these numbers are an average price versus a median price, which can be substantially impacted by a relative few sales prices on either end of the pricing spectrum. While still very impressive, the median price of new single family homes in Snohomish County was up 23% on a year-to-date basis from the third quarter of last year. In addition, existing home sale prices were up 18% over the same period from a year ago.

Bellevue/Mercer Island regained the number one position as the most expensive submarket in the Seattle metro area during the third quarter of 2006. The average price of new construction is set at \$1.1m; Sammamish retreated to second place with \$1.025M. Kirkland (\$897,044) and Mill Creek

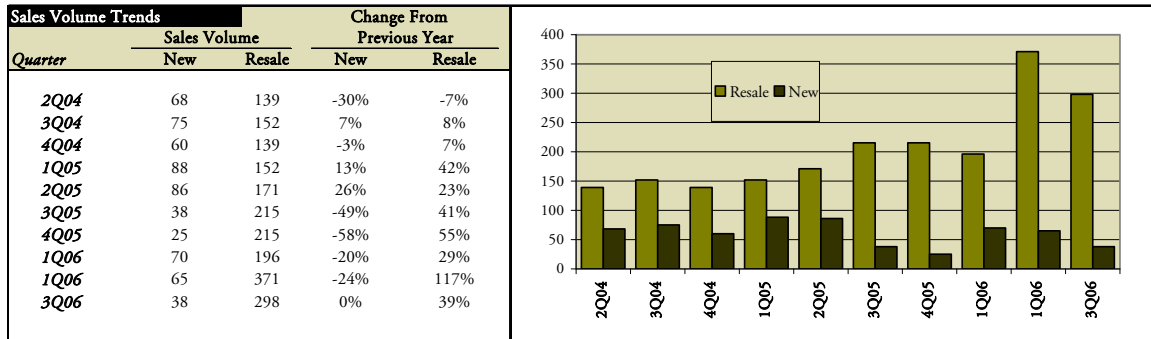


(\$593,218) were the next most-expensive markets. The most affordable markets were Sultan/Gold Bar/Index (\$291,336); Auburn (\$334,571) and Arlington/Granite Falls (\$339,210). The sharpest home price escalation was seen in Sammamish (117%), Monroe (89.1%), and North Seattle (69.1%).

Snohomish County

Within Snohomish County, we have segregated the area surrounding the study area to include Lynnwood, Mountlake Terrace, Edmonds, Woodway, and Brier as a Subregion. Similar to the rest of the Puget Sound Region, sales velocities of new attached housing units have come down off of their 2005 high, but in this submarket, the number of resales has increased substantially, which has boosted the total sales figure 32% above the third quarter of 2005. [Figure 4.42]

**FIGURE 4.42
ATTACHED HOUSING SALES VOLUME TRENDS
LYNNWOOD SUBREGION**

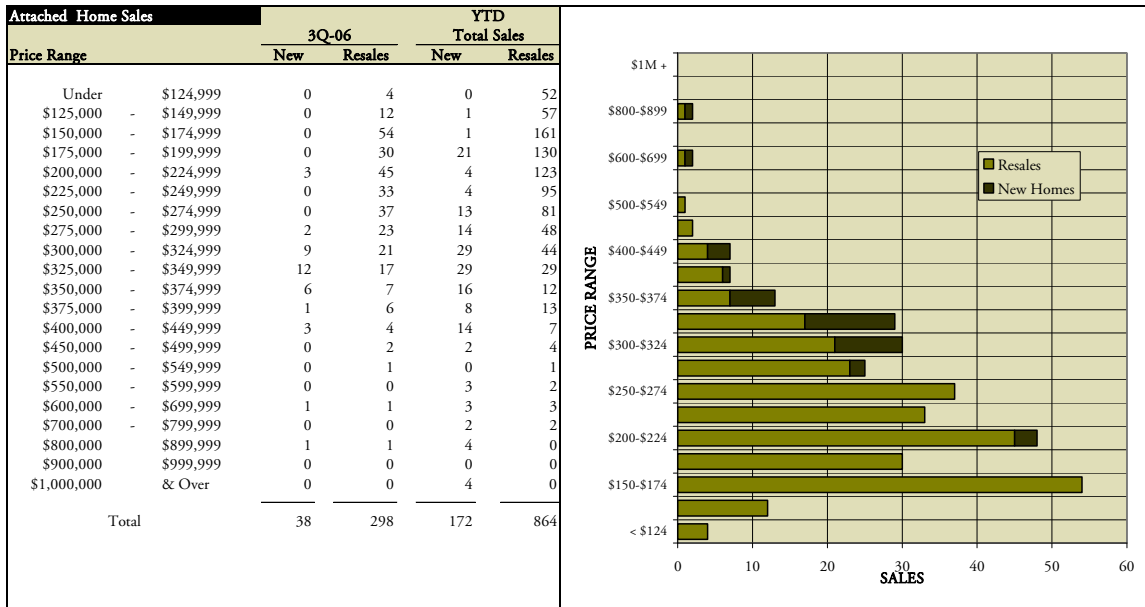


New attached home sales accounted for 11% of the total sales in this area during the third quarter of 2006. The recent spike in resales and the decrease in the proportionate share of sales for newly constructed units can be seen in the following chart. The 38 new units which sold in this period matched that amount in the third quarter of 2005, which is an improvement from the four previous quarters that recorded a decrease in volume from the prior 12 months. [Figure 4.42]

Looking at the concentration of sales volume of new units in terms of pricing categories for this market; we have seen a substantial shift upwards towards the average price of \$372,929. In line with the dramatic appreciation realized over the last year throughout Snohomish County, this market has seen its highest year-to-date sales volume move from approximately \$250,000 in the third quarter of 2005 to upwards of \$350,000 for the most recent period. The primary niche in this market ranges from \$300,000 to \$350,000 with approximately 34% of all sales. [Figure 4.43]



FIGURE 4.43
DISTRIBUTION OF ATTACHED SALES BY PRICE RANGE
LYNNWOOD SUBREGION



As previously mentioned, Snohomish County continues to work with developers on permitting projects with higher densities in areas suitable for a mix of uses, and has been successful highlighting their Urban Center Demonstration Projects. We have addressed pricing of mid-rise projects, which we feel serve as the most comparable active communities relative to what is envisioned in the City Center plan.

Zocalo is a community development which serves as a close reference to what could be achievable in the study area, due to the fact that it is within close proximity and has been designated an Urban Center while attempting to creating its own draw to the immediate area. The Zocalo development is located just south of Mill Creek. The developer currently has 88 mid-rise units under construction, named Estancia, but has not yet released final pricing. The most information we could get at the time of this report is that their preliminary pricing ranges from approximately \$272,000 to \$414,000 for one-, two-, and two-bedroom/dens measuring from 784 - 1,282 square feet. One bedroom units include one secure structured parking stall in the purchase price, while two-bedroom units receive one secure stall and one uncovered on grade level. The marketing team has had reservations for 10 units since September, but is looking to push pricing, above what is what is currently suggested at about \$323 to \$347 per square foot due to the projected interest in their higher-end finishes and the Mediterranean theme.



Another mid-rise project that serves as a good comparable is named Mira Vida and offers 36 two-bedrooms within the popular Mill Creek Town Center. The marketing team has been successful in closing 16 units since September, which makes for an average of almost 6 units per month. Given



their desirable location near a retail destination and the momentum of the neighborhood, their sales have gone well without having to push their level of finish. Two parking stalls are provided in the purchase price; however, they are not deeded and therefore the developer retains ownership while the HOA dues of \$368 per month (avg. \$0.29/sf) provide for maintenance and the parking lease.

Review of permit information tells us that there are currently 2,687 units under construction or planned for the designated market area on page 16. The table below highlights the details of these projects.

**FIGURE 4.44
PLANNED AND PROPOSED ATTACHED FOR-SALE DEVELOPMENTS**

Development Name	Jurisdiction	Units	Dwelling Type	Status	App. Date
West Ridge Bothell Gateway	Bothell	400	Mid Rise	In for Permit	--
Lakepointe Master Plan	Kenmore	1,200	Mid Rise	On Hold In	--
Simon's Run	Lynnwood	12	Townhome	for Permit In	Dec-05
Niche Wind Townhomes	Mill Creek	12	Townhome	for Permit In	Oct-01
1262 N 143rd St	Shoreline	17	Townhome	for Permit	Feb-06
Mill Creek East 2	Edmonds	20	Townhome	Permitted In	Jul-03
164th St Townhomes	Mill Creek	22	Townhome	for Permit In	Dec-05
7th Avenue Estates	Mill Creek	32	Townhome	for Permit In	Apr-06
Kenmore Courts	Kenmore	33	Townhome	for Permit In	May-05
Therrell	Mill Creek	49	Townhome	for Permit	Oct-01
Zocalo: Altura	Mill Creek/Bothell	93	Townhome	Permitted In	--
Paul Opie	Mill Creek/Bothell	50	Townhome	for Permit In	Aug-04
909 N 143rd St	Shoreline	365	Mid Rise	for Permit	Feb-06
9601 Edmonds Wy	Edmonds	15	Low Rise	Permitted	Oct-00
AJ's Place Condos	Edmonds	10	Townhome	Permitted In	Aug-03
Mill Creek Townhomes	Edmonds	11	Townhome	for Permit In	Dec-04
Nichowynd	Mill Creek	11	Townhome	for Permit In	Jul-06
22nd St Townhomes	Mill Creek/Bothell	16	Townhome	for Permit In	Aug-06
Tubbs Dusenbergs Condos	Mill Creek	22	Townhome	for Permit In	Dec-05
Sweazy Townhomes	Lynnwood	27	Townhome	for Permit In	Nov-05
Taylor's Landing	Lynnwood	40	Townhome	for Permit	Mar-04

Source: New Home Trends

Over the last year, much has changed in this market, with new Urban Center projects offering higher densities and building a product that has not historically existed in Snohomish County. Of interest for our analysis are achievable pricing levels associated with attached for-sale housing in the City Center area.

Our analysis of stacked flats projects an average price at the subject property of between \$335 and \$360 per square foot in 2006 dollars. This assumes smaller unit sizes to attract a target buyer who is seeking lower price points. We feel that this price schedule fits well into the market under current market conditions. As the urban amenity profile improves in the City Center area, we would expect achievable pricing to rise commensurately.

In recent history, developers' most preferable attached housing in the Snohomish County market has been townhomes. They achieve higher density than single family homes, hit a more affordable price point for buyers, and have been proven in the market. Given these factors, building townhomes is seen as a more conservative development strategy. Our analysis of townhouse units suggests an average price in the study area ranging from \$215 to \$240 per square foot in 2006 dollars. There are a number of competitive projects within the designated market area of our subject site which support



the achievable pricing for his type of product.

V. PUBLIC OUTREACH

a. Development Community Focus Group

A focus group was assembled on September 29, which included five members of the Seattle metropolitan area's development community. The purpose of this meeting was to discuss with industry professionals, as well as local property owners, issues related to redevelopment in Lynnwood's City Center. The following is a brief summary of comments received. Comments have been categorized and summarized.

What is your perception of Lynnwood?

- The Lynnwood area is increasingly viewed as a close-in location, as growth has pushed further to the periphery on the margin. There is a lot of local and proximate employment.
- Lynnwood does not suffer from any fundamental shortcomings, but it is not widely understood in the market. While accessibility and circulation is generally good, there is not an understanding of what constitutes Lynnwood. Is it the Highway 99 corridor, Alderwood or the City's I-5 frontage?
- The market has a better perception of Lynnwood than five years ago. Boeing has contributed, and the shift of assembly work to Snohomish County will make the area stronger.

Office Market

- Lynnwood has a number of advantages from a competitive position, as well as challenges. The City is seen as a great place to shorten worker's commute times. Current land values are approximately \$30 to \$35 per foot, which is a relative bargain now but prices are increasing. The City can provide an attractive alternative to more congested and costly markets, and is closer to the labor force in Snohomish County.
- Bothell is seen as a key competitor in the future. When Boeing suppliers were recently looking for office space, Lynnwood was eliminated because it was too far from 405 and I-5. The users went to Bothell.
- Lynnwood suffers from having no clear city center, as compared to other alternatives such as Mill Creek and Bothell. There is no concentration of urban amenities, and no clear idea of the direction of future public investments.
- Existing property owners in the area have limited interest in redevelopment, as current properties currently have sufficient cash flow.
- Density bonuses are only valuable if the density is viable. Achievable rents are not perceived to currently be high enough, and increased construction costs are increasing the gap. Office space is currently leasing in the \$15 to \$17 rent range; which supports only tilt up construction of 2 to 3 stories.

Residential Market

- There is not enough of an urban amenity base to support the rent levels associated with higher density urban residential development. The area is currently marketed as a straight suburban location, with no premium associated with downtown Lynnwood.
- The market could be a "tweener" for households working in Seattle with a spouse employed in Everett.



- The required residential rents would be close to \$2.00 per foot to justify rental mid-rise construction; they are probably right at \$1.10 now. You would need to get \$250k to \$300k for mid-rise condos; with substantially lower land value than Seattle or Bellevue.
- If you are looking for a mid-rise product, condominiums are likely to be more viable in the short term. There should target first-timer and young couples, as opposed to the urban singles or downtown Seattle demographic. The for-rent market will not work until amenities are better established.
- To achieve higher densities, the City should try to concentrate the employment base, develop a cluster of restaurants and create a unique character. These would make the area appealing as something more than an 8-9 hour community. If there was enough employment and enough amenities, the units might achieve higher demand.

Retail Market

- Local small stores are great, but they often can't pay the rents. Retail streets with limited chains may address local demand.
- City Center needs to differentiate from Alderwood, which has largely national brands.

Parking

- The cost of structured parking is difficult to recover in office development. Attempts to charge for parking in Lynnwood have largely been unsuccessful. Competitive areas such as Northpoint do not charge for spaces. Suburban markets are not used to having to pay for parking.
- Centralize parking can help, particularly for office and retail space. It doesn't have to be seen, just be accessible.
- Centralized parking does not work for residential, which prefers secured direct access spaces.

City Actions

- The City could look for opportunities to assemble parcels.
- Renton was cited as an example of how to get developers to the table. Without incentives, this type of development is not going to happen.
- Investments in infrastructure can pay off. Sumner actively pursued industrial development, laid out \$8 million in infrastructure and are getting it back in LIDs. The City's front-end commitment got the ball rolling.
- Bellevue identified the perimeter, and then boxed in where big development, particularly office, could occur. Until it filled up, nothing to be built elsewhere.
- Lynnwood has been driven by economics alone; if the City invests in a particular quadrant it will potentially work.
- Anchor projects are important. Catalytic actions to prompt evolution in the market are the only things that get active districts going.
- Bellevue Park is very active element/amenity for arts, attractions. Projects have sprouted up around the park. Great little shops are fine, but parks/balance is necessary.
- Bellevue "coming to grips" with urban friendly, encouraging higher density will require pedestrian amenities.



VI. FINANCIAL CHARACTERISTICS OF DEVELOPMENT/REDEVELOPMENT

Realizing of the vision for Lynnwood's City Center will be driven by the real estate development market. This section outlines issues related to anticipating development/redevelopment activity.

Overview of development process

The private sector development process is a largely rational and, therefore, largely predictable response to market and regulatory conditions. Developers serve as the primary drivers of the development process, typically initiating land development. The developer makes a living through managing risk, evaluating the probable financial return on a project in light of assumed risk. Developers cannot be expected to initiate a development in which the risk-to-return ratio is not compelling. Both lenders and equity contributors will also evaluate any development opportunity proposed by a developer using similar criteria.

The "market" is the customer or end-user in the development process, and will largely dictate to the developer what is marketable and what will be paid for the end product (either through purchase price or lease rate). Governmental agencies typically define the legal and bureaucratic process under which entitlements are granted (or purchased), and can influence the marketplace by incentives or restrictions.

Development typically occurs when the development of an allowed use yields an adequate return to attract a developer and equity source. The final development form will typically represent what is viewed as the "highest and best use" of the property from a development perspective, which reflects the development type and timing yielding the greatest risk adjusted return to the developer. The assessment of these risks and returns typically requires substantial analysis by the developer, equity source and lenders.

Financial feasibility

Private sector development activity reflects the management of perceived risks and returns. Anticipated return rates are typically generated using pro forma financial analyses, which forecast costs and revenues associated with specific developments. Developers use a broad range of approaches in preparing their financial analyses, with a number of financial return measures commonly used to evaluate the viability of projects.

Financial feasibility represents the most reliable predictor of developer activity, but by no means a perfect one. As a result, financial viability is the principal focus of our analysis, which includes the use of prototypical pro forma analysis applied to specific examples to evaluate financial feasibility of certain densities and land uses under a range of market conditions. We focus on office development and mid-rise housing. We do not examine industrial uses (which are not targeted in the City Center) or retail (which would be expected to either continue the present single story format with surface parking, or be included as a ground floor use in a mixed-use building).

The following sections describe the most commonly cited situations in which financial feasibility determines both use as well as development form.

Parking

The cost of structured parking is the most significant limitation cited with respect to achieving higher densities. The cost of this type of parking usually substantially exceeds what can be justified on a financial basis by any associated revenue gain in most locations. Development in the Lynnwood area has primarily utilized surface parking, with a few exceptions. The cost of structured parking ranges from approximately \$25,000 per space for above-ground structures to over \$35,000 for subterranean



spaces. These costs can be recovered in areas in which substantial parking fees can be collected, such as downtown Seattle, but cannot be justified (without subsidy) in most situations elsewhere in the metropolitan area.

A generalized pro forma was prepared to evaluate the relative cost of providing surface and structured parking assuming alternative land values. As shown in the following table, surface parking is substantially less costly to provide when underlying land values are relatively low.

Land values in suburban locations are typically well below what would be necessary for structured parking to represent the highest and best use of a site. As a result, surface parking generally represents the most cost effective way to provide parking, assuming the site allows for a surface parking solution. Based on the preceding rough cost estimates, structured parking does not become competitive with surface parking until land values approach \$65 per square foot. [Figure 6.01]

**FIGURE 6.01
GENERAL COST CHARACTERISTICS OF PARKING TYPES**

<i>Parking Type</i> Land Value-S.F.	Land Cost	Construction Cost	Total Cost	Monthly Amortization 1/
<i>Surface Parking</i>				
\$7.00	\$2,100	\$2,100	\$4,200	\$33
\$75.00	\$22,500	\$2,100	\$24,600	\$191
\$200.00	\$60,000	\$2,100	\$62,100	\$481
<i>Structured Parking 2/</i>				
\$7.00	\$525	\$20,000	\$20,525	\$159
\$75.00	\$5,625	\$20,000	\$25,625	\$199
\$200.00	\$15,000	\$20,000	\$35,000	\$271
<i>Subterranean Parking 2/</i>				
\$7.00	\$525	\$35,000	\$35,525	\$275
\$75.00	\$5,625	\$35,000	\$40,625	\$315
\$200.00	\$15,000	\$35,000	\$50,000	\$388

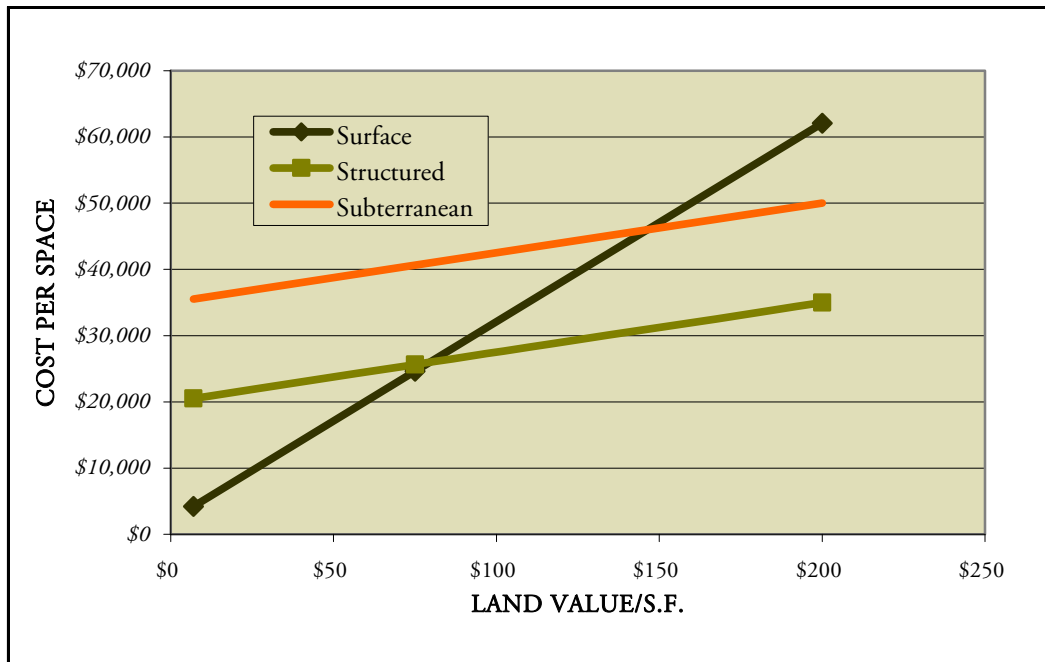
1/ Assumes 100% financing, 20 year loan term at 7.0%.
2/ Assumes four story structure

Source: Johnson Gardner



There have been some recent advances in providing lower cost structured parking options, which have made this type of parking more competitive with surface parking. Conversely, recent sharp increases in the cost of steel and concrete have increased the cost of structured parking vis-à-vis surface alternatives. While surface parking remains the lowest cost option in most suburban locations, the developments requiring higher densities serve to increase the viability of structured parking. [Figure 5.02]

FIGURE 6.02
COMPARATIVE COSTS OF PARKING TYPES



Source: Johnson Gardner

Several factors address the viability of structure parking, such as the following:

- There are some specialized situations in which structured parking would be considered viable in suburban locations.
 - *The first of these is when there is no other plausible option for providing parking, and the parking is required for a high-value land use. An example of this would be at a regional mall such as the Alderwood Mall, where retailers demand parking within a certain distance from their establishment. Another situation in which structured parking is viable is near regional hospitals, which generate a substantial area-specific premium.*
 - *There are also situations in which site slope conditions and other factors allow for a limited level of structured parking spaces. One example would be if grading or foundation requirements yield unused space suitable for tuck-under parking. As another example, one level of underground parking can be, at the margin, at the low end of cost (\$10,000 per space) if a multi-story building has to dig a hole anyway to get an adequate foundation.*



- Operating costs for both structured and surface parking lots that charge fees were not factored in. Operating costs tend to be higher for structured parking, reducing their competitiveness.
- Structured parking lots can offer covered and secured spaces, as well as direct entry to buildings. These characteristics often can yield a premium in achievable lease rates, allowing for partial cost recovery. In residential townhouse developments, secure, direct access parking can yield a substantial premium.
- Parking is viewed as a necessary asset to lease space, and developers will pay what is necessary to provide adequate parking, in order to support an existing or proposed development.
- The allocation of costs to parking is difficult, as the garage often contains structural improvements necessary for the remainder of the project. The allocation of land costs between parking and other improvements can also vary.

From a revenue perspective, the degree to which a developer can recapture the cost of parking through direct parking charges is limited in suburban locations. Suburban office space does not typically charge directly for parking, although the number of required parking spaces is often included in lease negotiations.

From a market perspective, structured parking is unlikely to represent a viable development form in Lynnwood's City Center at this time without public participation.

Construction Types

Higher-density development typically requires changes in construction types, which can yield higher costs per unit. In the case of both office and residential development, wood-frame construction represents the lowest cost per square foot for new space. Construction costs per square foot tend to increase as densities increase, with higher costs associated with shifts to concrete and steel construction. In general, the increase in either sales price or achievable lease rates associated with alternative construction type is insufficient to offset the higher costs.

The key benefit from a financial perspective of changing densities through construction type is a higher yield, in terms of leasable square footage or units, associated with a particular land parcel. As a result, higher underlying land values can change the financial equation to favor higher density development forms.



Rental Apartments

As a demonstration of this relationship, we have evaluated a series of cost estimates for alternative market-rate rental apartment development forms. The evaluation, summarized includes a calculation of threshold rent levels necessary to support this type of construction using a range of assumed land values. [Figure 6.03]

**FIGURE 6.03
GENERAL COST CHARACTERISTICS OF RENTAL APARTMENTS**

<i>Building Type</i> Land Value-S.F.	Land Cost	Construction Cost 1/	Total Cost	Cost/ Unit	Rent Threshold 2/
<i>Low Rise (100 units @ 30 per acre)</i>					
\$7.00	\$1,016,400	\$8,254,350	\$9,270,750	\$92,708	\$1.12
\$75.00	\$10,890,000	\$8,254,350	\$19,144,350	\$191,444	\$2.31
\$200.00	\$29,040,000	\$8,254,350	\$37,294,350	\$372,944	\$4.50
<i>Mid-Rise (100 units @ 200 per acre)</i>					
\$7.00	\$152,460	\$12,127,800	\$12,280,260	\$122,803	\$1.48
\$75.00	\$1,633,500	\$12,127,800	\$13,761,300	\$137,613	\$1.66
\$200.00	\$4,356,000	\$12,127,800	\$16,483,800	\$164,838	\$1.99
<i>High Rise (250 units @ 500 per acre)</i>					
\$7.00	\$152,460	\$38,229,600	\$38,382,060	\$153,528	\$1.85
\$75.00	\$1,633,500	\$38,229,600	\$39,863,100	\$159,452	\$1.92
\$200.00	\$4,356,000	\$38,229,600	\$42,585,600	\$170,342	\$2.06

1/ RS Means
2/ Rent necessary for 8.0% return on cost w/ 35% operating cost ratio.

Source: Johnson Gardner

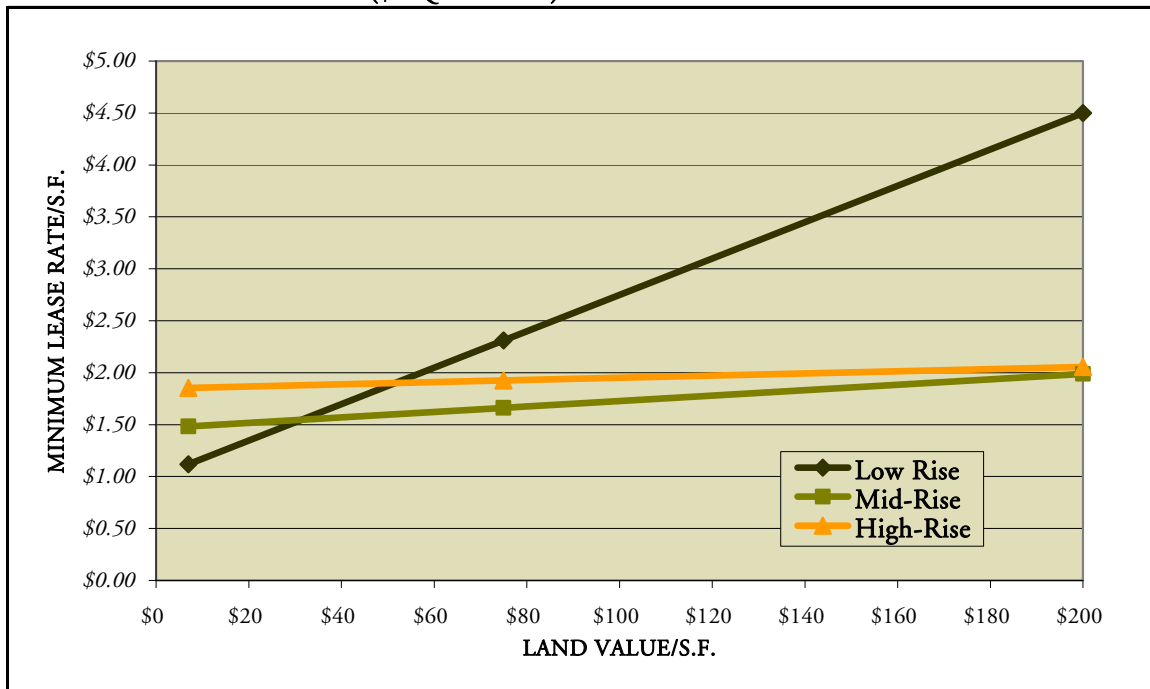
The costs presented for a low-rise rental apartment building reflect garden apartments, with a typical density of between 22 and 30 units per acre. These projects are wood frame construction, are between two and three stories, and provide surface parking.

The costs for mid-rise development represent wood or lightweight steel frame construction above a concrete parking podium. High-rise construction (seven or more stories) is seen primarily in central Seattle and Bellevue, which have the highest supportable rent levels and land values.



Under the assumptions used, garden apartments are able to pay the highest land values when the achievable rent levels are \$1.55 per square foot or below. When rents rise above this level, mid-rise housing delivers the highest residual land values up to about \$2.10 per square foot, when high-rise development becomes the highest and best use. [Figure 6.04]

FIGURE 6.04
RENT MINIMUMS (\$/SQ. FT./MO.) BY LAND VALUE AND BUILDING TYPE



Source: Johnson Gardner

The results of this analysis are consistent with observed development patterns within the metropolitan area. Non-subsidized mid-rise construction becomes the market choice where achievable rent levels are adequate to make this the highest and best use of the property.

The key challenge illustrated by this analysis is that the development of mid-rise apartments under current land prices in most suburban areas would require rent levels not currently attainable in these markets. While a regulatory action setting minimum densities that precluded low-rise apartments would make mid-rise construction the highest and best use of the property, no development activity would be expected to occur without substantive subsidy. Rising achievable lease rates would cause mid-rise development to make financial sense, but precluding development until achievable rent levels rise would not support the development necessary to provide the amenity level required for higher rents.

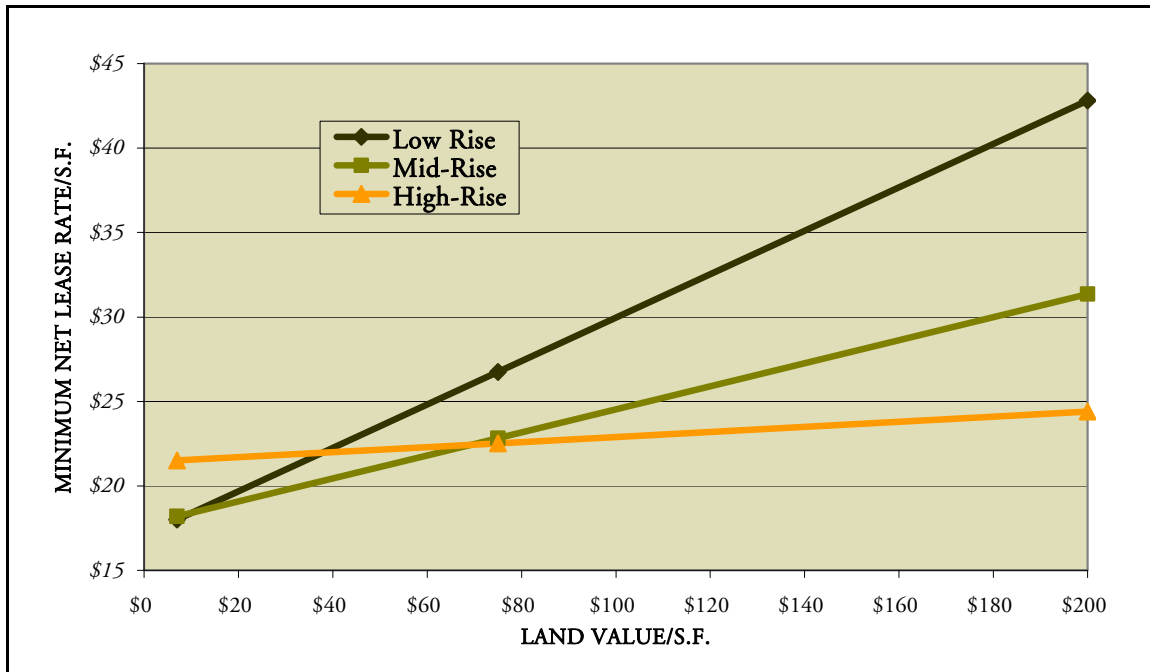
A possible solution to this fundamental problem is potentially a requirement for “shadow platting”, in which a development proposal must show a viable phasing solution to a higher density form over time. This allows for an interim development consistent with current market conditions while not precluding a more intensive development if supported at a later time period.



Office

The following figure shows a similar analysis for speculative office space: It shows minimum lease rates necessary to support alternative development types at a variety of land values. The three product types evaluated were low-rise, mid-rise and high-rise office space. Only the high-rise format included structured parking. [Figure 6.05]

FIGURE 6.05
NET LEASE RATE MINIMUMS (\$/SQ.FT./YR.) BY LAND VALUE AND BUILDING TYPE



The results of this analysis also trend with observed behavior in the market. Mid-rise development with surface parking is generally the preferred option in the Lynnwood area, with a few structured parking spaces.

Return on Risk

Urban and redevelopment projects are perceived to have a greater level of risk, necessitating a higher level of return for some developers. Particular problems cited included difficulty in construction (staging, conflict with existing uses) and relatively high soft costs associated with complex projects with limited scale. In addition, developers cited interaction with jurisdictional planning efforts as sometimes representing an additional layer of entitlement risk and bureaucracy. There are developers willing to accept lower initial rates of return for urban projects, on the anticipation that barriers to entry in these areas will allow for better long-term returns.

The primary impact of a relatively high perceived level of risk is the resulting impact on acceptable rate of return. Increasing the return threshold can dramatically impact development activity. Risk is also a particular concern when dealing with redevelopment, where construction cost estimates and timing are less predictable. Redevelopment is discussed in more detail later in this chapter.



Scale

The scale of most infill and redevelopment opportunities is limited, while the complexity is substantially higher. This increases soft costs relative to the overall level of investment, decreasing yield. Soft costs include the following basic categories:

- Architectural and Engineering
- Developer Fee
- Construction Interest
- Legal
- Market Analysis
- Bank Fees/Appraisal
- Permits & Fees
- Pre-Development Costs
- Community Outreach

Timing

While our analysis supports a contention that the ability of the area to support higher densities is limited, it should be noted that these limitations reflect current market conditions. Over a longer planning horizon, shifts in usage patterns and land values may substantively alter the development environment. If achievable rent levels increase substantively within the metropolitan area and Lynnwood, many of the higher density development forms would become more viable. In other words, the high-density product may in fact be in demand today by consumers, but today's rent levels do not support high-density products.

There have been some efforts to allow for current development that does not preclude development at higher densities at a later time. This is an important consideration, as development under current market conditions is not expected to yield targeted densities but can limit redevelopment opportunities. Shadow platting is an approach being used by some jurisdictions. This process requires developers to design their developments to achieve targeted densities over time, while still allowing for a viable project under current market conditions.

Redevelopment

A large proportion of the land in Lynnwood's City Center has been developed, and a key source for additional capacity in the area is therefore the redevelopment of existing properties. But while current uses may not represent what would be considered the highest and best use of a site from a public policy perspective, redevelopment is often not viable from a market perspective. Redevelopment requires several definable conditions to be viable, which are outlined in this section.

A ratio of improvement to land value is typically used to identify parcels with development or redevelopment potential. This ratio attempts to identify parcels in which the value of the improvement is relatively low relative to the value of the land. The following are some limitations of this type of analysis:

- *Not all of the vacant parcels are being actively marketed, and a property owner's decision to sell is not always predictable and can be based on personal as well as economic factors.*
- *The data used to quantify the value of improvements is derived from County Assessor records and is not always reliable.*
- *A large number of the properties identified as redevelopable have a significant economic value in their current configuration, which is likely to be greater than the value of the land for*



redevelopment. Under these conditions, it would not be reasonable to assume redevelopment of the property from market forces.

One of the key variables to track in determining the viability of redevelopment is residual land value, or the value of land under alternative development programs. The following are conditions under which redevelopment is likely.

- *The land value for the proposed development is greater than the sum of the land value and improvements under the current use;*
- *The return associated with improving a property yields rent premiums capable of amortizing the associated costs; or*
- *Depreciation of the improvements on a property has reached a point to which the improvement has no effective value.*

The factors impacting the viability and/or probability of redevelopment in a specific area are numerous, making it difficult to generate a reliable delineation of sites for redevelopment. Key factors include:

- ***Owner disposition.*** *This factor includes a broad range of variables, including the property owner's level of capitalization, investment objectives, risk sensitivity, availability and terms of credit, perception of return, etc.*
- ***Current lease structure.*** *The property's current lease structure and term may either preclude major improvements or reduce the potential for realizing a return on enhancements or improvements. An example of this is often found in retail leases, which have relatively long terms with extension options.*
- ***Leaseholder disposition.*** *The leaseholder's disposition is also a contributing factor to improvements, as the leaseholder's willingness to bear the burden of increased rents associated with improvements is critical. In addition to the current leaseholder, the general market for space and the disposition of potential lessees is also an important factor impacting the viability of improving a property.*
- ***Regulatory environment*** – *The ability to successfully complete an improvement also relies upon the local regulatory environment, including building and zoning code applications.*

One of the most prevalent errors made in encouraging more intensive development in an area is to require densities and development forms that are not viable. This precludes any unsubsidized development in the area. To the extent that development does not occur, densities and land values will not increase to the threshold necessary to trigger the desired development forms. As outlined in the financial portion of this chapter, the desired higher-density development requires an increase in achievable rent levels and land values to be viable.

Urban development forms represent an organic and iterative development process, in which development activity increases densities and demand, triggering redevelopment and higher densities over time. There are two primary regulatory risks that have the potential to work against achieving the desired development pattern:

- *Regulatory mandates on density and form which require development types that are not currently viable without subsidy; and*



- *Regulatory restrictions that force a development to configure in a manner that precludes redevelopment at higher densities when viable.*

The first of these risks is likely to leave the area undeveloped and bypassed as an area in which development activity is concentrated. As a result, land values and activity levels will not move towards the levels required to achieve the desired development forms. The second risk would lock in lower density development forms, even if market conditions justify higher density development later in the planning horizon.

Competitive Issues

The financial section of this chapter identifies substantive changes in achievable rental rates as a key factor necessary to increase achievable densities within the City Center. Achievable rent levels for real estate products are driven primarily by basic supply and demand factors. A significant impediment to the area realizing substantive changes in rent levels is competition from other areas, often neighboring suburban business districts.

Another competition related problem for the Urban Centers is the loss of traditional office space demand to industrially zoned land. Office development tends to be an outright allowed use in most industrial zoning designations, and returns a substantially higher land value. As a result, business parks that can support office space development have largely converted to office parks, offering a substantial amount of Class A office space.

Similar issues impact the residential market. While there is less benefit of agglomeration for housing, only highly desirable housing markets can support the values necessary to allow for high-density residential development, particularly ownership. Only a limited percentage of households are considered likely consumers of urban density housing products, and the pool can become quickly diluted. To achieve the relatively high prices necessary to support densities seen in close-in Seattle and Bellevue neighborhoods requires a package of urban amenities that is not easily duplicated elsewhere in the metropolitan area.

Summary

The following are the key findings of our analysis in this chapter.

- *Site issues, market issues, and policy issues combine to limit higher-density development in areas such as Lynnwood's City Center. Site issues include environmental constraints, infrastructure constraints, and site size constraints. Market issues include most prominently the issue of financial feasibility. High land values and high rental or lease rates to support these values are needed to make high-density development and the structured parking that it requires financially feasible. Other market issues include the difficulties of redevelopment, and competition between centers.*
- *The primary reason for a lack of higher density development in the Lynnwood City Center is the lack of financial feasibility. There is little evidence to support the conclusion that the high densities envisioned in the area are profitable under current market conditions.*
- *Achievable lease rates or sale prices are good indicators of when density becomes profitable.*
- *Zoning is still ahead of the market.*



- ***The fact that zoning is ahead of the market is not a condemnation of previous planning.*** *Planning is looking ahead to encourage the study area to be something it is not quite ready to be. Getting lower than planned densities should be expected. Where the public and private sectors can conflict, however, is when the public sector requires, either directly or indirectly, minimum density that the private sector cannot profitably build. In that case, development slows in the short and medium run as land is held.*

VII. DEVELOPMENT/REDEVELOPMENT ACTION PLAN

A fundamental challenge to implementing the Lynnwood City Center Plan is inducing private-sector development activity consistent with established goals and objectives for the area. As currently planned, the study area is expected to realize development densities significantly higher than currently viable in the area. Financial viability under current market conditions in the Lynnwood City Center is seen as the primary short-term obstacle to achieving more urban development forms necessary to realize targeted densities. While these densities may prove viable over the planning period, there will likely be market intervention required to direct development activity. The following sections address this problem, as well as strategies and potential solutions.

a. Priorities, Tools and Steps Timing

Priorities

The financial viability of the targeted development forms in the study area represents the most significant impediment to achieving the desired development patterns. Addressing the viability gap must be a **primary** consideration in any strategy to realize more urban development forms in the Lynnwood City Center over the short term. There are a number of direct and indirect ways in which viability can be addressed. Direct methods include project specific actions, such as property tax abatements and public ownership of parking. Indirect methods include public parking programs, directed public improvements and marketing.

Another category of actions that should be initiated in the short-term is marketing related. The City needs to package and disseminate information regarding development potential, opportunities and tools available to property owners and the development community. We consider the cost effectiveness of these types of actions to be relatively good.



The following table presents a summary of what we consider to be priority actions necessary to increase the potential to spur desired development goals in the Lynnwood City Center.

General Issue/Action	Description	Comments
High Priority		
Project Feasibility	<ul style="list-style-type: none"> ▪ Property Tax Abatements ▪ Public Parking Programs ▪ Allow for Phased Development ▪ Site and Market Analysis ▪ Land Assembly ▪ Infrastructure Improvements ▪ Public Facilities 	The level of subsidy is directly related to the degree to which a publicly mandated development program varies from the market solution.
Medium Priority		
Marketing	<ul style="list-style-type: none"> ▪ Development Advocate ▪ Contact with Downtown Business Owners ▪ Create Specific Plans for Catalyst Development sites ▪ Matchmaking between property owners and developers ▪ Collateral materials (brochures, etc.) 	The City's posture needs to be proactive with respect to property owners and the development community.

As outlined, these steps can be largely categorized as pertaining either to enhancing project feasibility or more actively marketing the study area.

Viable development forms, including or excluding public participation, need to be identified and effectively marketed to property owners and the development community. If targeted development is not viable, and there is no ability or political will to address the viability gap, there is no point in marketing it.

Framework for evaluating tools

In general, policies to impact development in the study area can be organized into two categories: incentive-based approaches and regulatory approaches. The incentive-based approaches are typically voluntary and offer various 'carrots' to developers to encourage them to develop targeted project. Regulatory approaches are not voluntary. The City can require that developers meet development objectives through mandated policies. It should be noted that requiring development forms that are not financially viable should not be expected to generate these development types without market intervention.

Alternative tools can be evaluated using the following three criteria:

- **Effectiveness.** *How great an effect is the policy likely to have on increasing density?*
- **Cost.** *What will it take to implement the policy?*
- **Equity.** *Who is likely to pay that cost?*
-



The following table summarizes the different policy tools government can use to make it easier for developers to do what elected officials, and the citizens they represent, want.

The table is organized from the least direct to the most direct incentives. The first two allow the targeted development to occur. The next three provide guidance or information that facilitates development. The next three provide financial incentives through regulatory relief—not a direct transfer of funds, but a means of allowing a developer to keep more of its financial resources. The final two provide more direct assistance to developers.

INCENTIVE BASED APPROACHES

Policy	Mechanism; Comments	Effect on Density	Cost
Increased permitted density Density bonus Development rights transfer	Allows densities at higher level than previously allowed	These types of approaches only work if density limits are below what the market determines in the highest and best use.	Small: requires change to zoning code
Mixed-Use zoning	Allows flexibility to mix uses. This policy can be either an incentive ("allow") or a regulation ("require")	Weak: May or may not increase density.	Small: requires change to zoning code
Regulatory relief: fee reduction	Wide range: reduces SDCs, building fees, exactions, etc.	Strong: direct effect on the cost of development	Moderate to high: loss in revenue to local government
Regulatory relief: design standards	Wide range: allows narrower streets, less parking, smaller setbacks, less landscaping	Strong: increases density directly and can decrease developer costs by increasing revenue-generating space	Small: requires change to zoning code
Land assembly	Acquisition, by voluntary negotiation or eminent domain, of contiguous parcels to create large developable tracts	Strong: increases marketability of downtown for development community	Moderate
Property Tax Abatements	Ten year property tax abatement for qualified residential and mixed-use development	Increased net operating income or achievable sales prices, enhancing return and allowing for higher density.	Modest; Short term loss in property taxes can be offset by long term gain in value.
Low Income Housing Tax Credits	Tax credit program administered by OHCS	Can improve the viability of rental housing projects	Low: federally funded

Many of these approaches are not necessarily focused on increasing density, but on encouraging redevelopment and infill. Redevelopment and infill are important because of the already developed landscape in the City Center.

Action Steps

A large number of potential action items have been identified in the course of this analysis. This section outlines a suggested course of action, which we feel is consistent with improving the potential for realizing the targeted development types within the Lynnwood City Center. The order and timing of actions relates to both the expected importance of these actions, as well as to the relative difficulty in completing individual steps.



General Issue/Action	Timeline	Comments
Project Feasibility		
Public Parking Program	Mid-Term	The cost of structured parking remains the primary obstacle to achieving targeted densities in suburban business districts. A program to provide structured parking within the area would be expected to increase the likelihood of achieving higher-density housing, but would require a considerable public commitment.
Public Infrastructure Mitigations	Ongoing	City funding for public infrastructure to address level of service mitigations.
Site and Market Analysis	Short-Term/ Ongoing	A significant amount of market analysis has been generated by this report. Current information should be maintained, with the City offering ongoing assistance for interested parties seeking more site specific information.
Catalyst Developments	Short-Term	The City should identify potential catalyst development sites, evaluate development potential on these sites, and determine a marketable development program for outreach to the development community.
Entitlement Process	Short-Term	The City can streamline entitlements, particularly for projects in the regional center meeting public objectives.

General Issue/Action	Timeline	Comments
Marketing		
Develop Collateral Materials	Short-Term	The City should develop materials for distribution providing information on the Lynnwood City Center. Packages can be tailored to developer, property owner and business owner needs. In addition, a web site should be established tracking planning efforts, development trends and news in the regional center.
Development Advocate	Short Term/ Ongoing	The City should assign an advocate for downtown development in the regional center. This position should coordinate efforts, including planning and outreach.
Developer Solicitation	Short-Term/ Ongoing	The City should make a regular effort to market opportunities in the regional center to the development community. This not only keeps the development community aware of any opportunities, but demonstrates commitment by the jurisdiction to facilitating new development.
Matchmaking	Short-Term/ Ongoing	The City should actively help match willing property owners and developers. This reduces the effort required, increasing the likelihood of new development. A database and mailing list can be created of interested developers as well as property owners in the area.
Branding of Center	Short-Term/ Ongoing	The city center competes within a broader context, and should establish a brand with a positive market, marketable image. If successful, this can enhance general desirability and more importantly from a viability standpoint, increase achievable lease rates. Branding of the district should clarify boundaries, as well as include joint marketing. Consistent signage, lighting, street treatments and other aspects of the physical environment should be coordinated to reinforce the brand, creating an identifiable sense of place.



b. Financial Implications of Potential Actions

A number of potential actions have been identified to encourage higher density development forms within the City Center. This section addresses the tangible general implications of these actions to the viability of a development.

First of all, it is important to recognize that the primary obstacle to achieving more urban densities in the City Center over the short-term is related to financial feasibility. The higher construction costs associated with higher density development forms cannot be justified under achievable rent levels in most suburban locations. This is particularly true for structured parking, which has only limited income potential in a suburban location.

The following is a brief summary of the implications of potential actions on the general viability of projects.

Allowing Dense Development

The impact on viability of allowing density is relatively limited in an area in which higher densities are not viable.

Reduce Planning and Information Costs

The reduction of planning and information costs improves viability in a number of ways. Increased certainty regarding what will be approved and abbreviated approval timelines lowers the level of uncertainty associated with entitlement, which lowers holding costs and may lower the required return parameters. This can have a substantial financial impact on the development, as well as lowering the required yield to induce new development. Readily available and current information lowers predevelopment costs. More importantly, it can broaden interest in the area by lowering the “learning costs” associated with understanding the local market.

Land Assembly

By assisting in land assembly, the City can reduce carrying costs as well as uncertainty.

Direct Grants/Parking Subsidy

These types of actions have a direct impact on the bottom line, delivering a large impact but at a large cost. The present value of grants is fairly straightforward to calculate, as is removing the cost of structured parking from a project. Low interest loans provide a number of benefits. First of all, they typically reduce the equity requirement for the project, with equity carrying a relatively high cost for the development. This can be through a better debt coverage ratio associated with lower-cost funds, and/or a lower equity requirement per the terms of the debt. A commonly used tool is subordinated or second position debt, which is debt secured by a second position in the property. This can be used to reduce equity requirements. This type of debt is not typically available in the market, as it is not adequately secured by real property.



Split Rate Property Tax/Tax Abatement

Measures to reduce ongoing property taxes have a significant impact on viability. Tax abatement programs are the most commonly used of these types of measures, typically with a term of ten years on qualifying projects. As shown in the table to the right, a ten year tax abatement has a discounted value roughly equal to between 11% and 12% of assessed value. For an income property such as a rental apartment project, this value is realized directly by the developer. For a condominium unit, the abatement goes to the purchaser, and the developer needs to realize a pricing premium on the unit consistent with the value of the abatement.

Residential Tax Abatement	
Assessed Value (AV)	\$160,000
Tax Rate	1.50%
Annual Property Taxes	\$2,400
Abatement Period/Years	10
Assumed Escalation Rate	3.0%
Total Value	\$27,513
Assumed Discount Rate	10%
Present Value (Discounted)	\$18,173
Present Value/Assessed Value	11.4%

Low Income Housing Tax Credits

HUD, through the State of Washington, provides tax credits for affordable housing projects. These credits significantly improve the viability of many rental projects, despite limits on rents that can be charged. As shown in the table to the right, the present value of a 4% tax credit can be equal to a quarter of qualified cost. While qualifying projects typically must demonstrate a rent advantage relative to what is achievable in the market of 15%, the program still provides for a net boost in viability.

Low Income Housing Tax Credits	
Qualified Cost	\$90,000
Credit Percentage	4.00%
Credit Period/Years	10
Total Value	\$36,000
Assumed Discount Rate	12%
Present Value (Discounted)	\$22,782
Present Value/Qualified Cost	25.3%

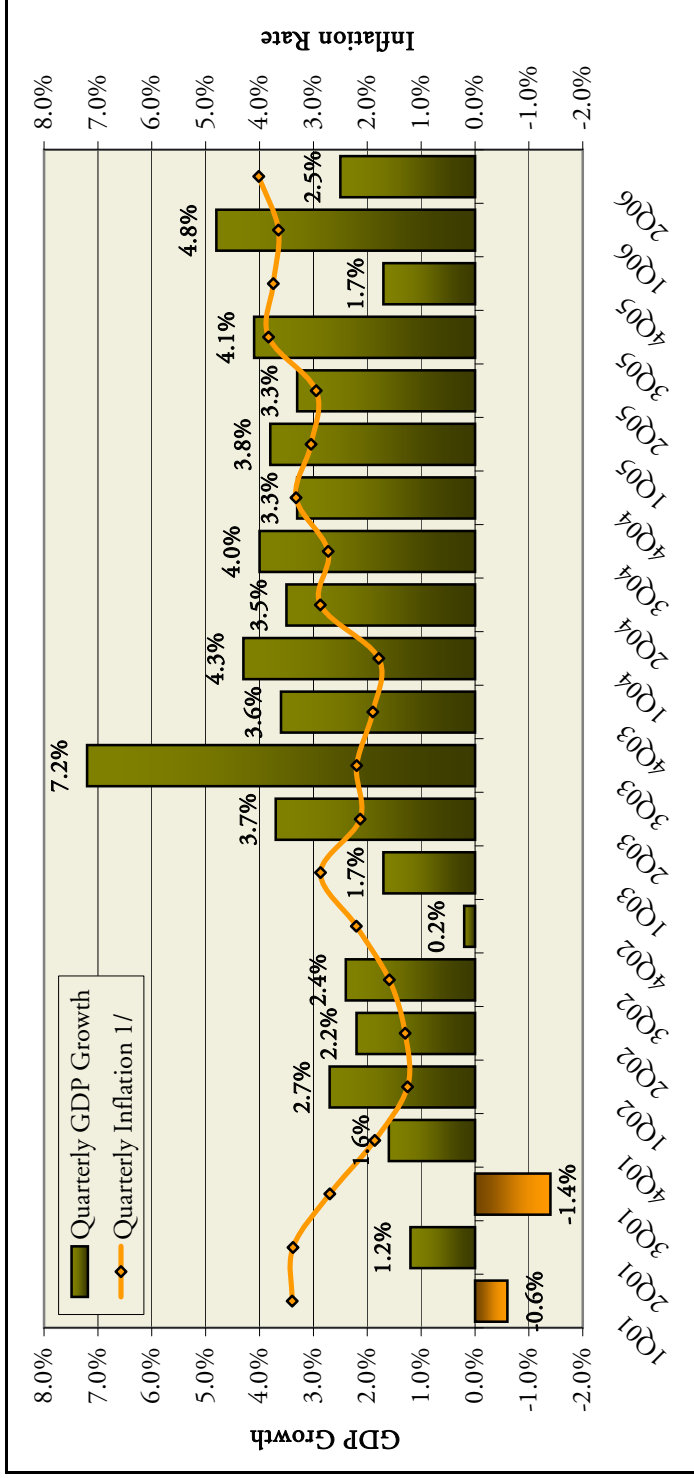


APPENDIX A
MARKET ANALYSIS

SECTION E

BASELINE ECONOMIC EXHIBITS

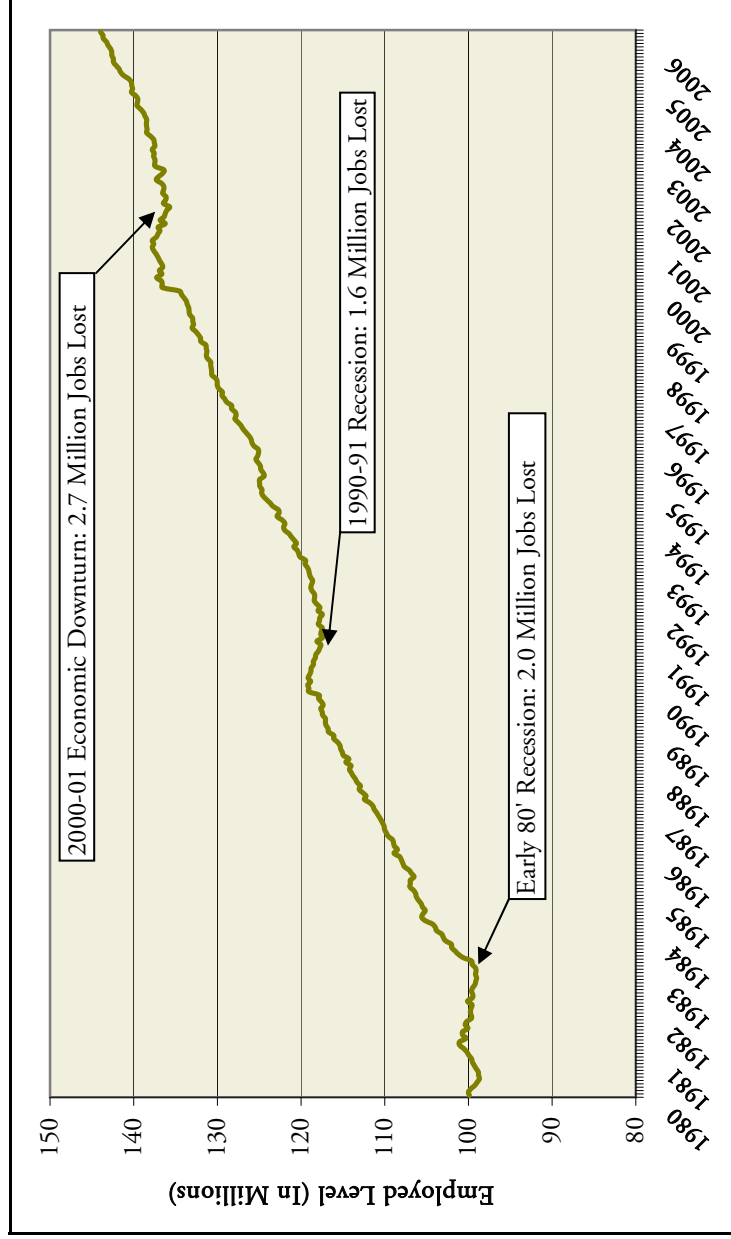
EXHIBIT E.01
REAL GROSS DOMESTIC PRODUCT AND INFLATION
UNITED STATES (2001-2006)



1/ Quarterly inflation is calculated as a three month average.

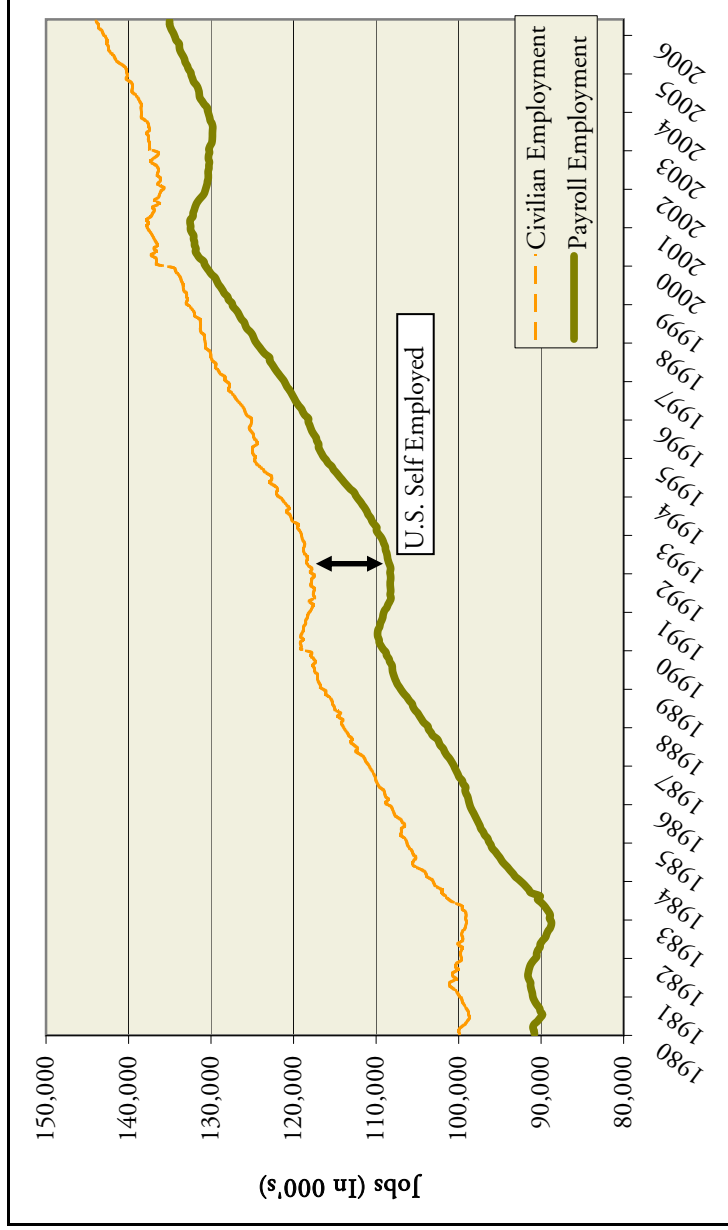
SOURCE: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics

EXHIBIT E.02
NATIONAL EMPLOYMENT LEVEL AND RETRATORY PERIODS
1980-2006



SOURCE: OLMIS

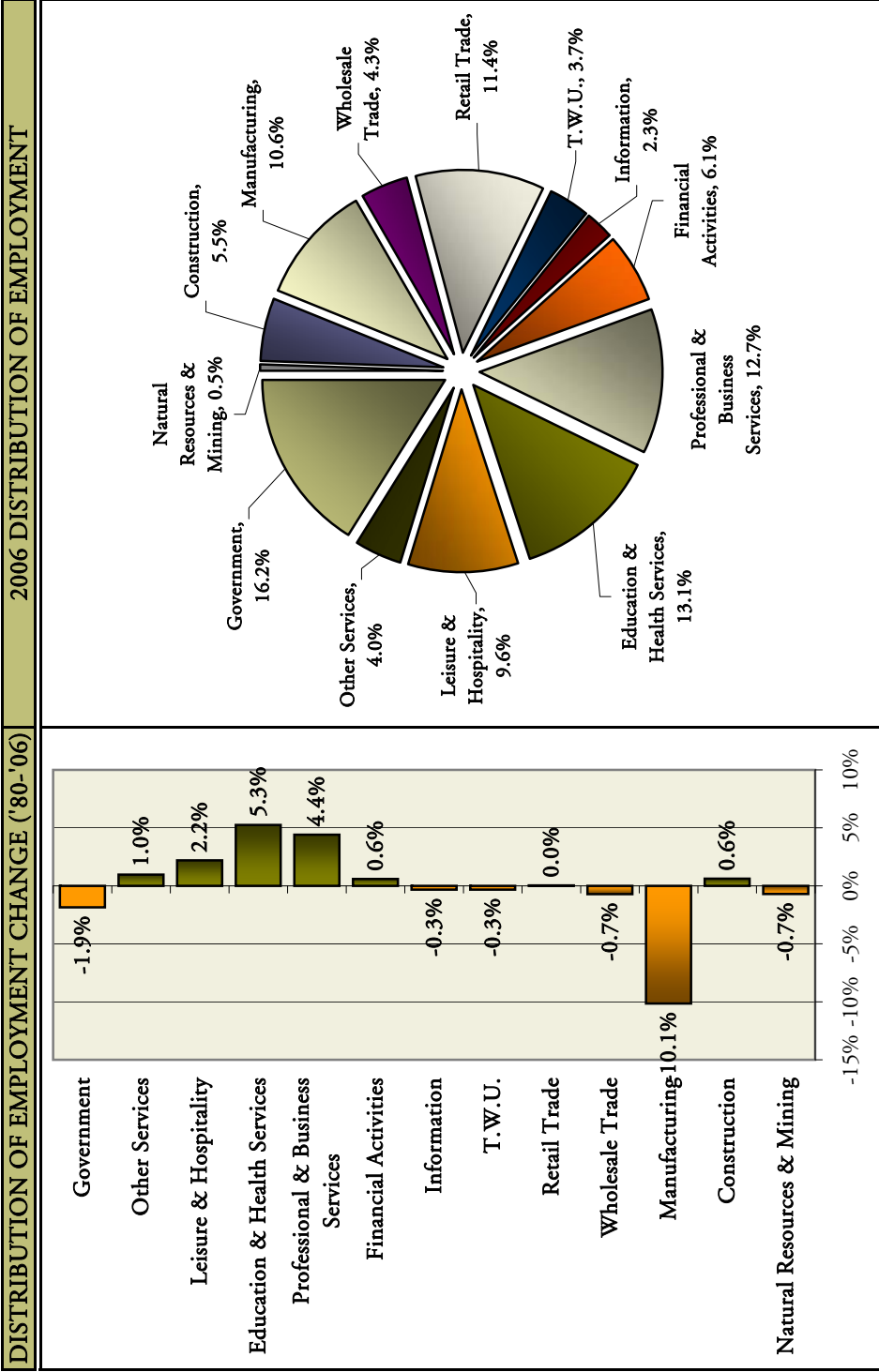
EXHIBIT E.03
 U.S. CIVILIAN AND PAYROLL EMPLOYMENT
 1980-2006



SOURCE: U.S. Bureau of Labor Statistics

EXHIBIT E.04

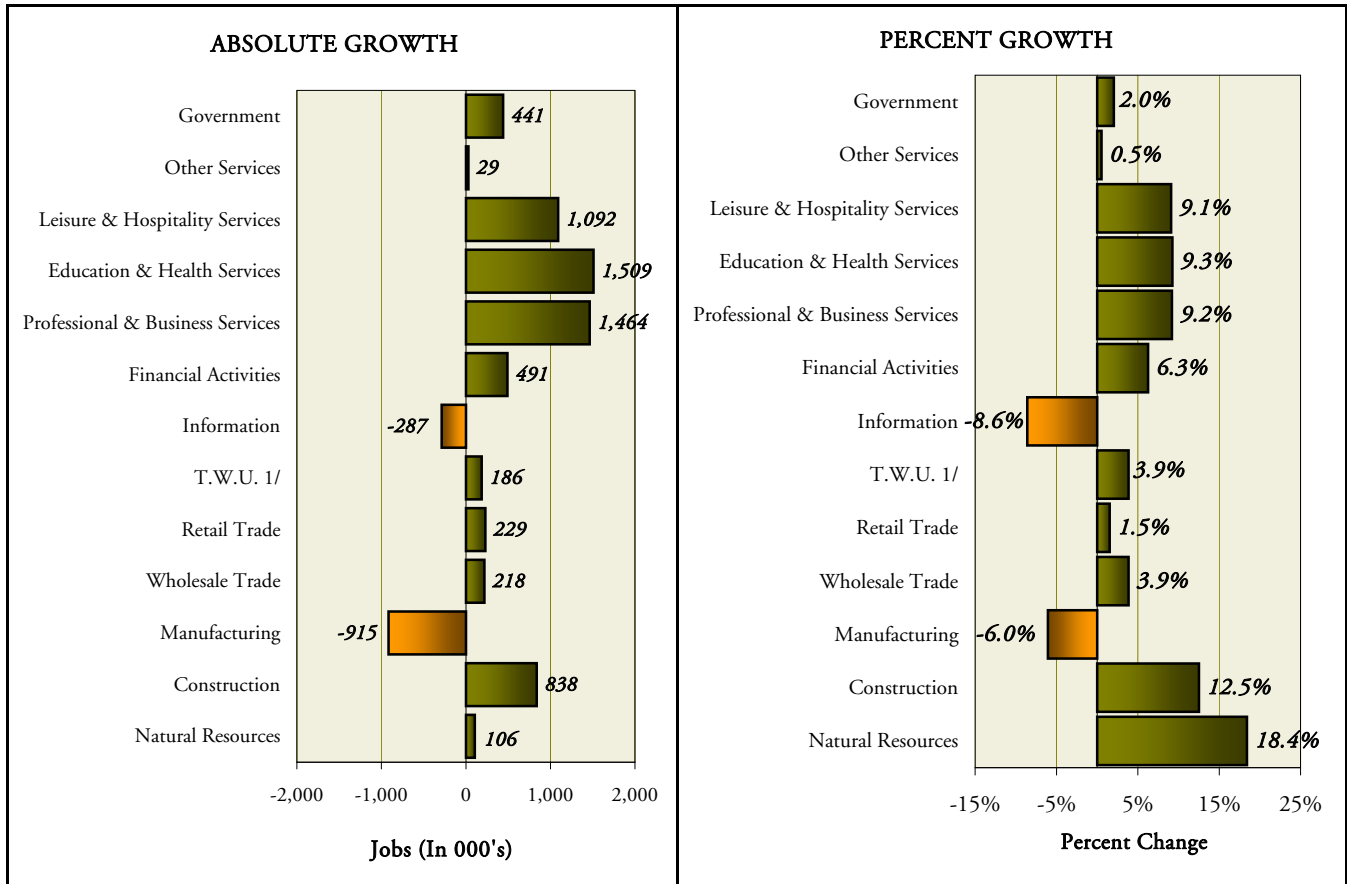
DISTRIBUTION OF EMPLOYMENT BY INDUSTRY



SOURCE: U.S. Bureau of Labor Statistics

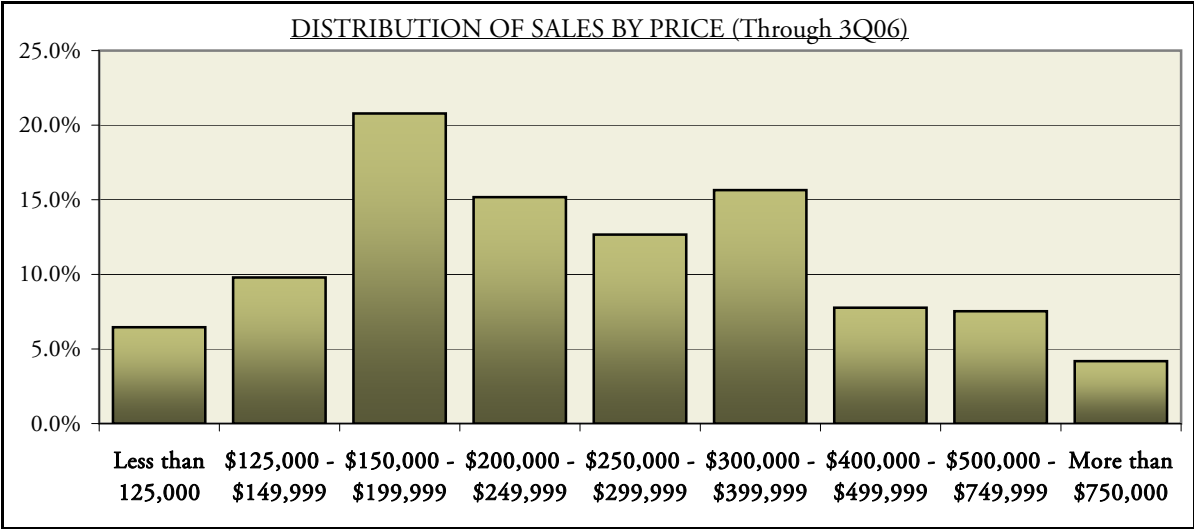
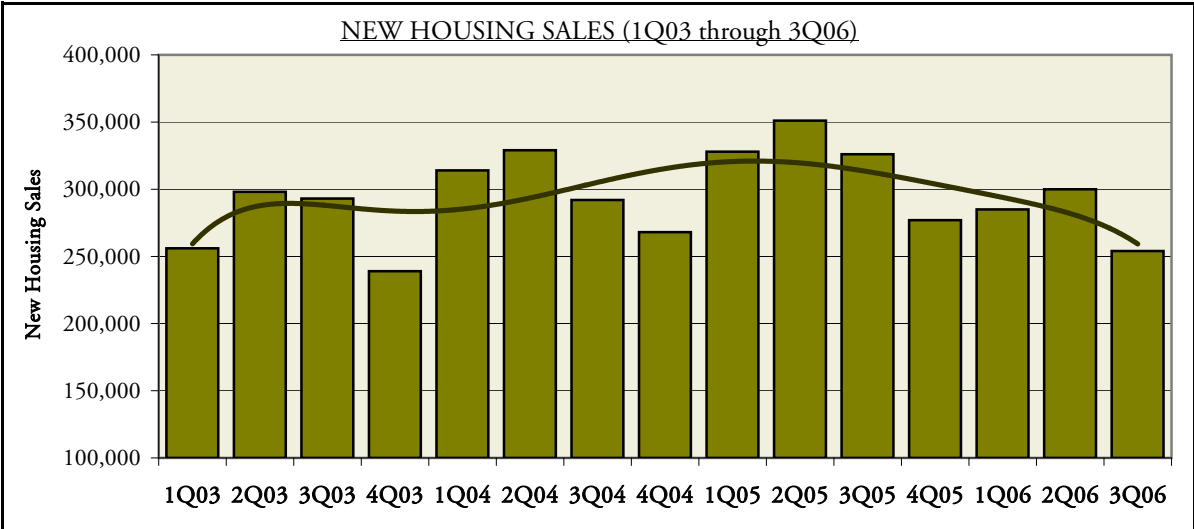
EXHIBIT E.05

SHORT TERM EMPLOYMENT GROWTH BY INDUSTRY
UNITED STATES (May 2002 through May 2006)



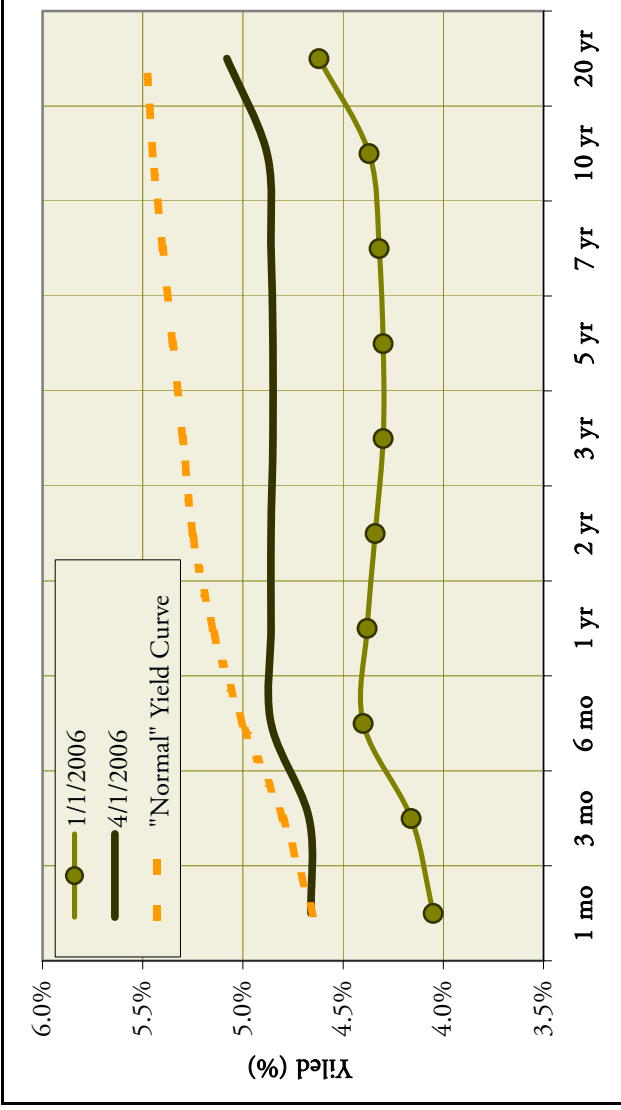
SOURCE: U.S. Bureau of Labor Statistics

EXHIBIT E.06
NEW HOUSEHOLD SALES TRENDS
UNITED STATES



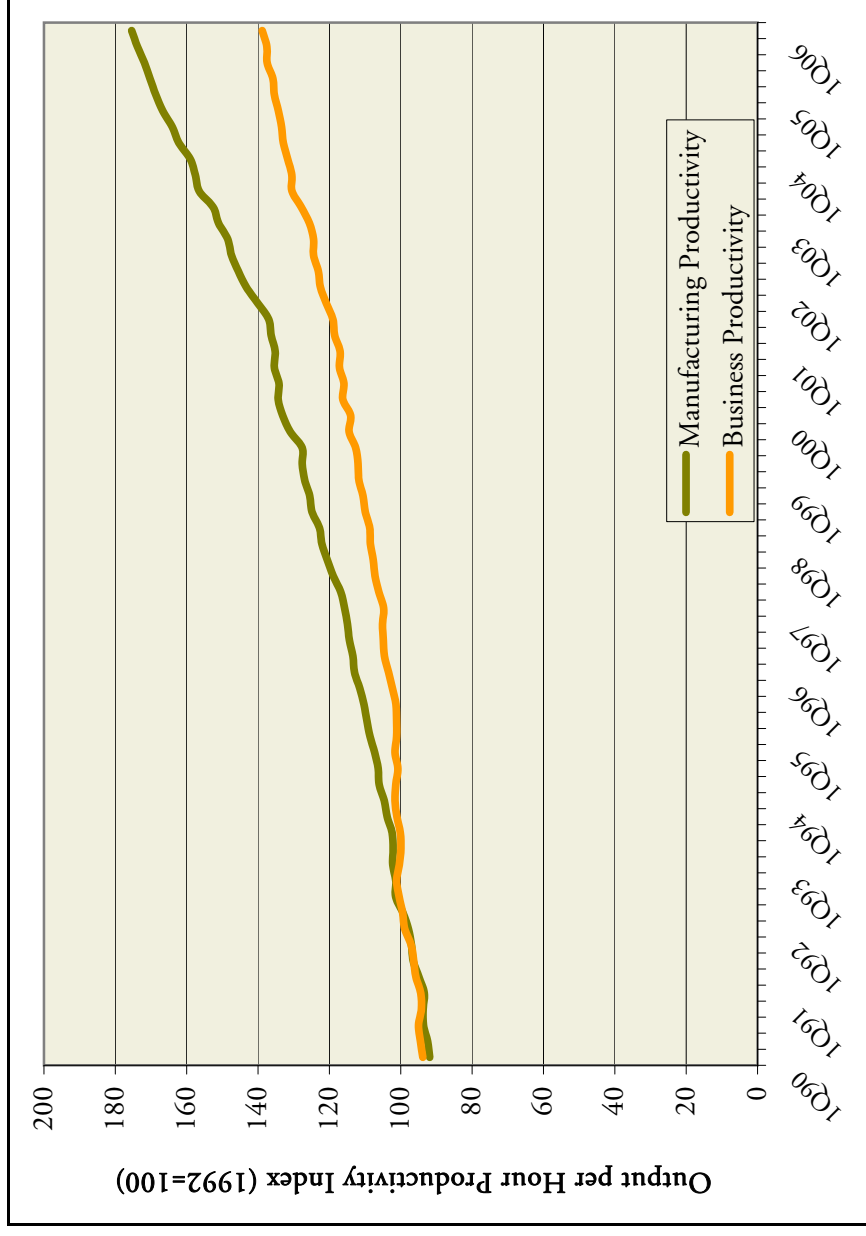
SOURCE: U.S. Census

EXHIBIT E.07
BOND YIELD CURVE



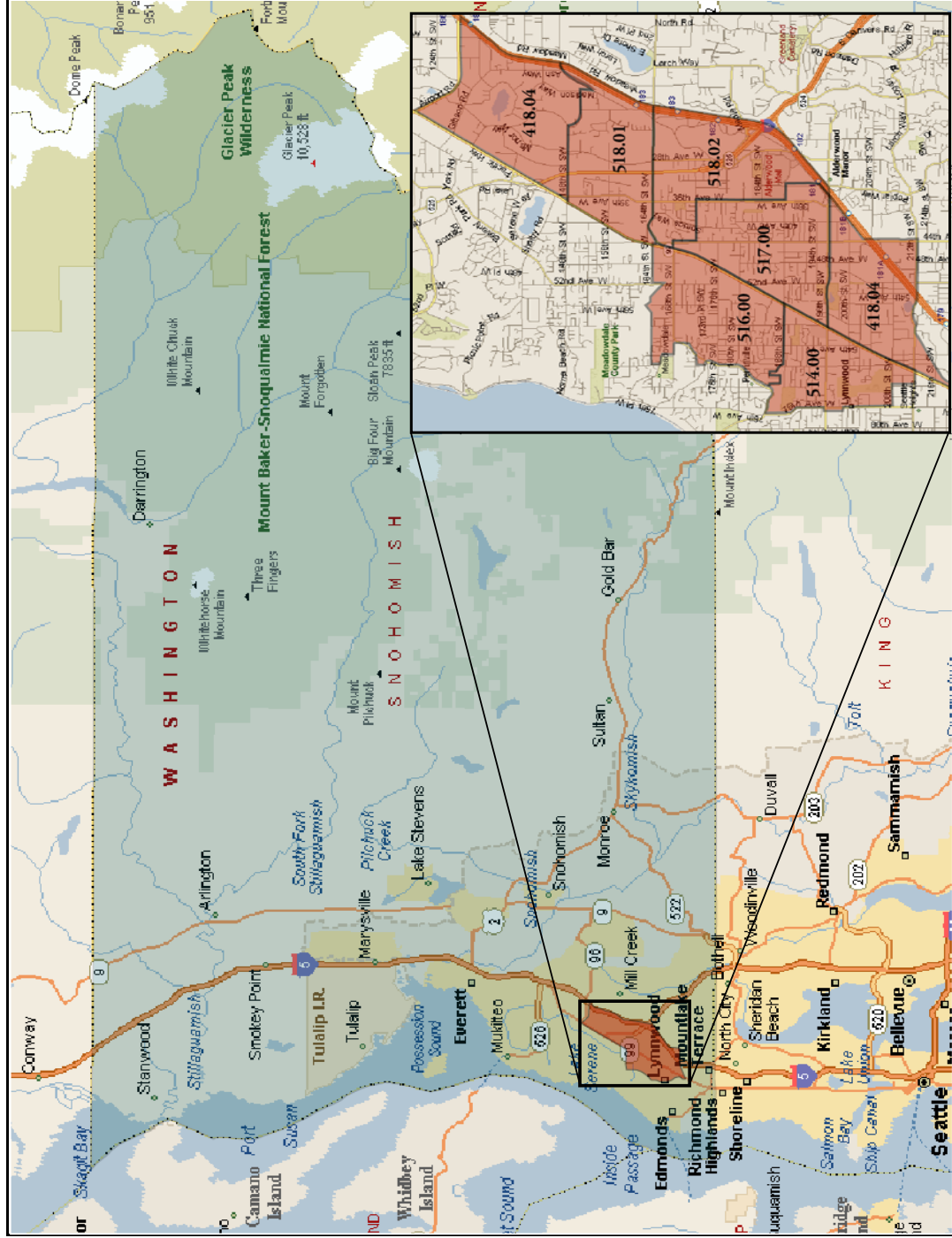
SOURCE: U.S. Treasury Department

EXHIBIT E.08
BUSINESS AND MANUFACTURING PRODUCTIVITY
UNITED STATES (1990-2006)



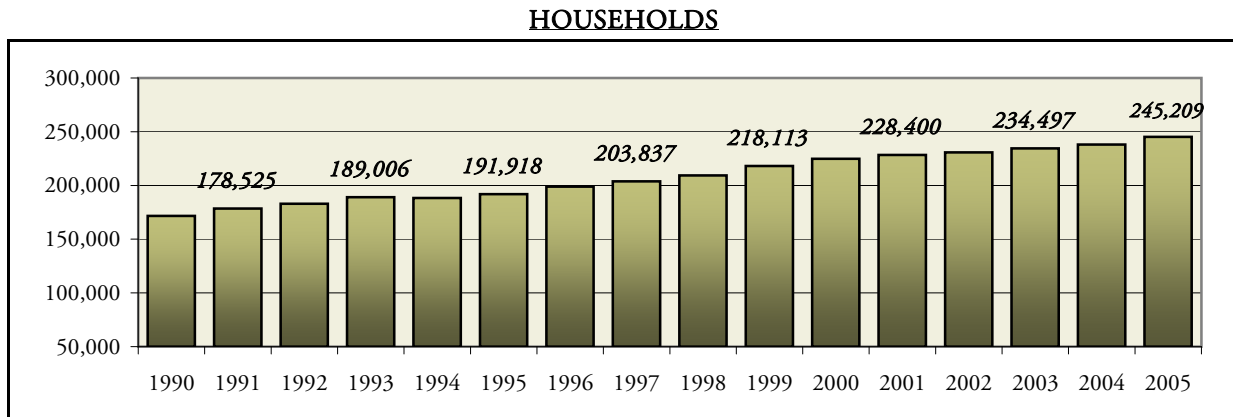
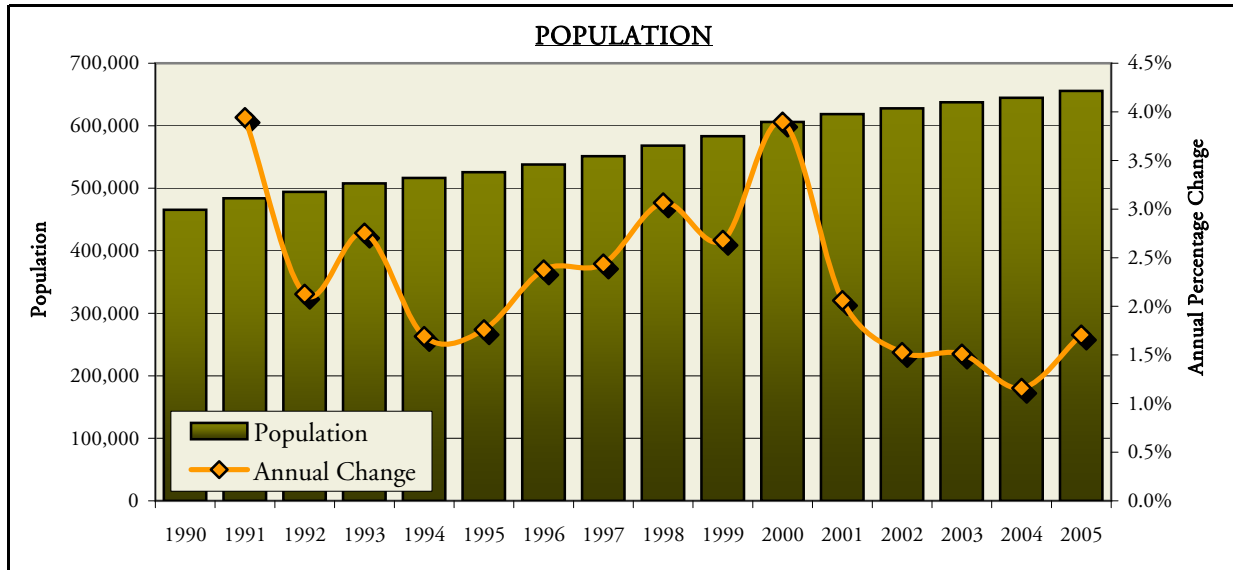
SOURCE: U.S. Bureau of Labor Statistics

EXHIBIT E.09
LYNNWOOD MARKET AREA
LYNNWOOD, WASHINGTON



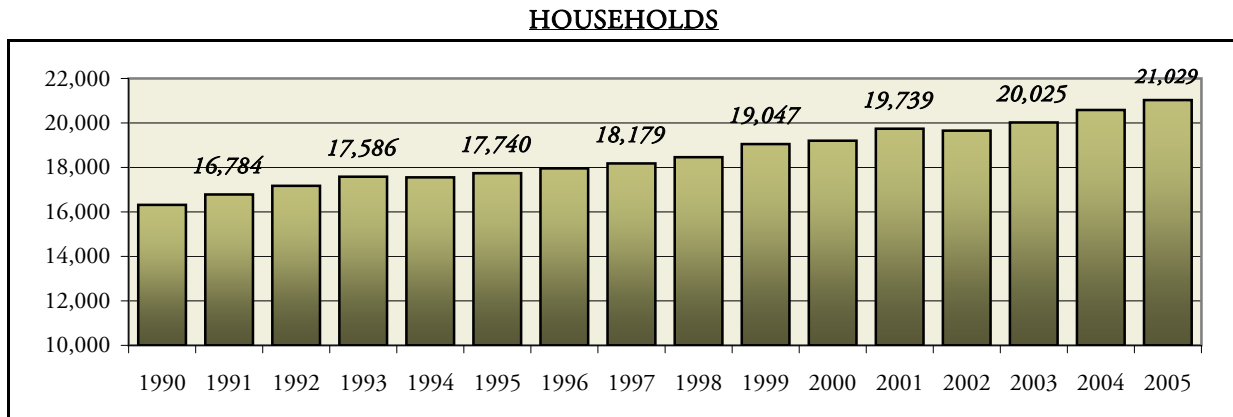
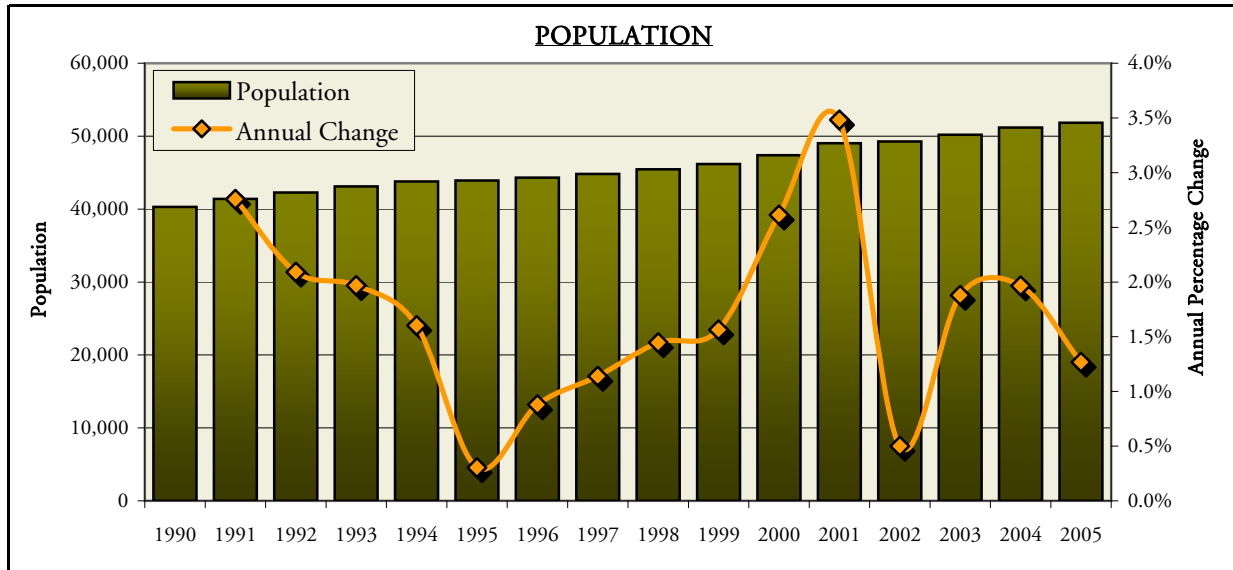
SOURCE: Puget Sound Regional Council and JOHNSON GARDNER

**EXHIBIT E.10
HISTORIC POPULATION TRENDS
SNOHOMISH COUNTY**



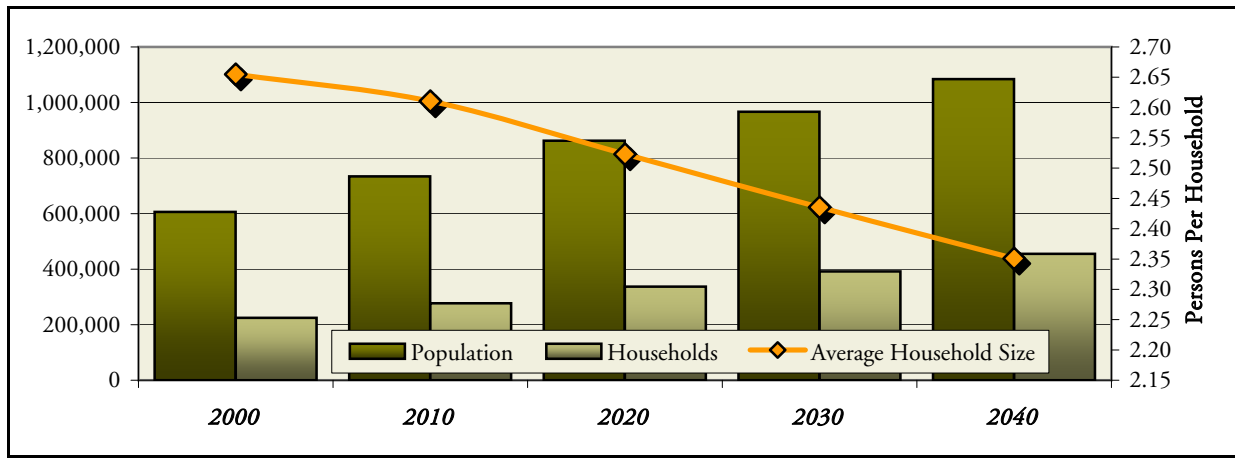
SOURCE: Puget Sound Regional Council and JOHNSON GARDNER

EXHIBIT E.11
HISTORIC POPULATION TRENDS
LYNNWOOD MARKET AREA

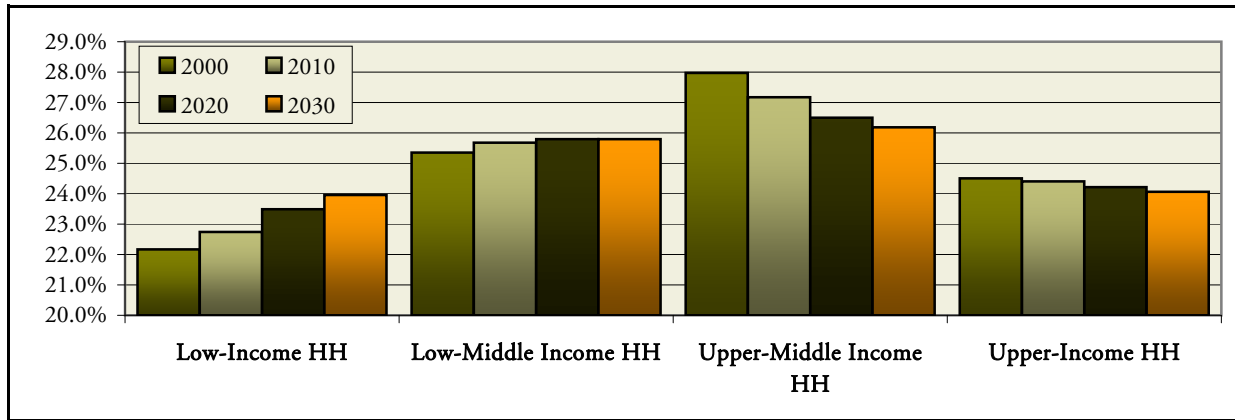


SOURCE: Puget Sound Regional Council and JOHNSON GARDNER

**EXHIBIT E.12
PROJECTED POPULATION AND HOUSEHOLD GROWTH
SNOHOMISH COUNTY, WASHINGTON**

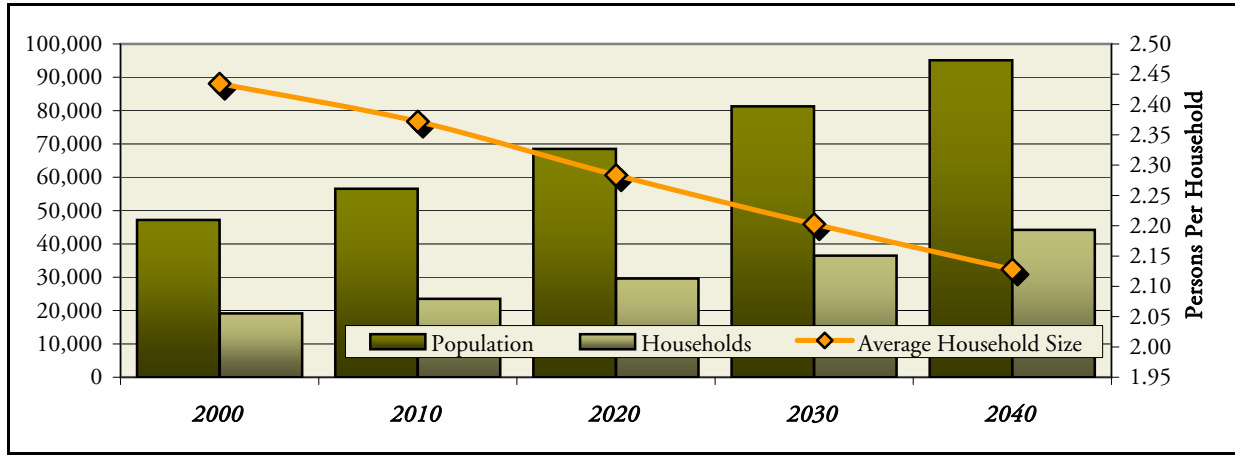


DISTRIBUTION OF HOUSEHOLDS BY INCOME

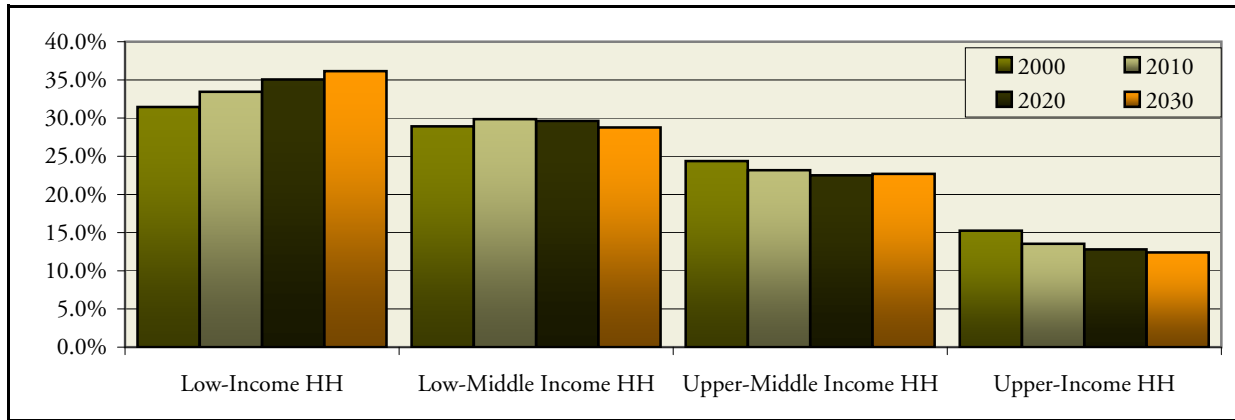


SOURCE: Puget Sound Regional Council and JOHNSON GARDNER

**EXHIBIT E.13
PROJECTED POPULATION AND HOUSEHOLD GROWTH
LYNNWOOD MARKET AREA**

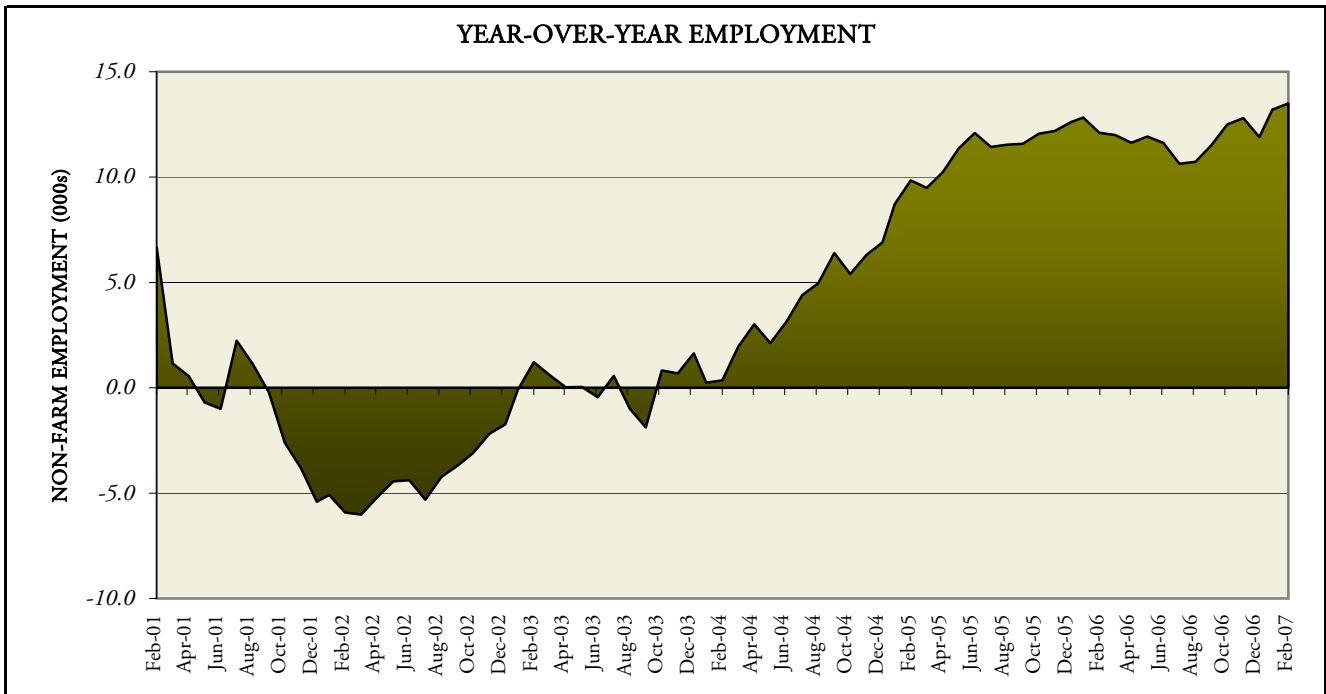


DISTRIBUTION OF HOUSEHOLDS BY INCOME



SOURCE: Puget Sound Regional Council and JOHNSON GARDNER

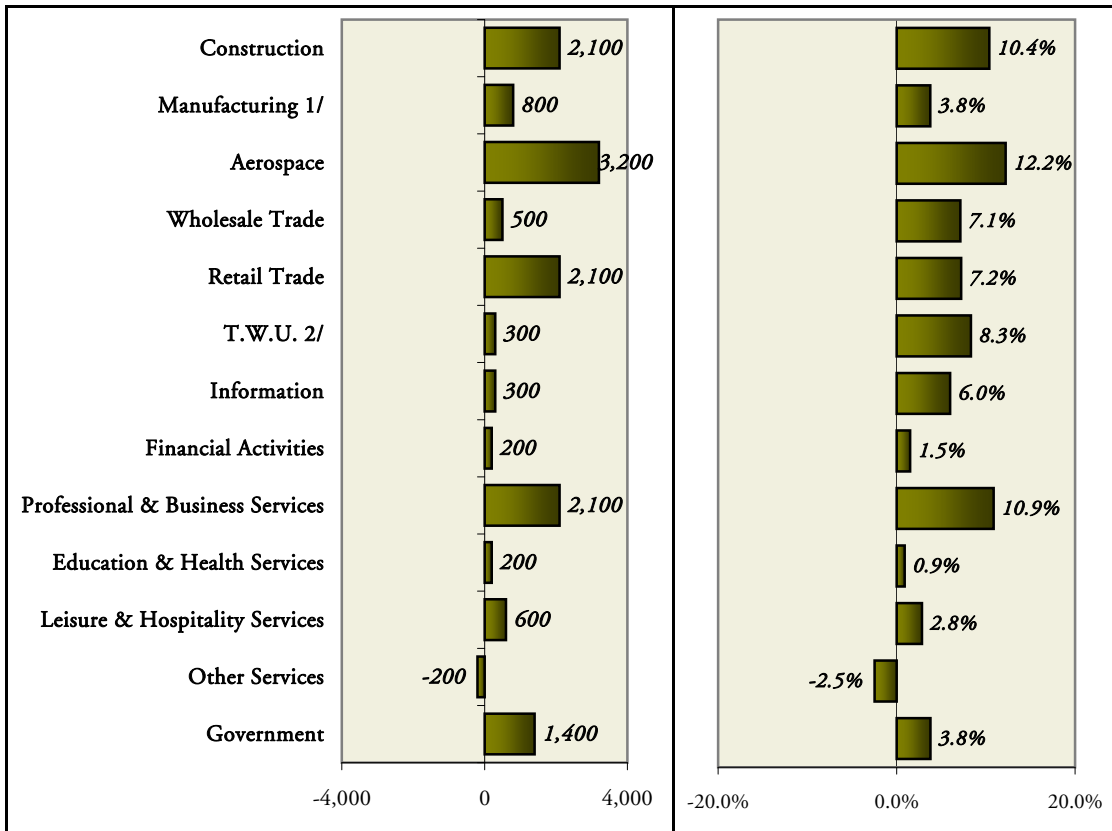
EXHIBIT E.14
NON-FARM EMPLOYMENT TRENDS
SNOHOMISH COUNTY, WASHINGTON



SOURCE: Washington State Employment Department and JOHNSON GARDNER

EXHIBIT E.15
INDUSTRIAL EMPLOYMENT
SNOHOMISH COUNTY, WASHINGTON

NAICS Class	February 2006	February 2007	Absolute Change	Percent Change
Construction	20,200	22,300	2,100	10.4%
Non-Aerospace Manufacturing	21,200	22,000	800	3.8%
Aerospace	26,200	29,400	3,200	12.2%
Wholesale Trade	7,000	7,500	500	7.1%
Retail Trade	29,000	31,100	2,100	7.2%
Transportation Warehousing & Utilities	3,600	3,900	300	8.3%
Information	5,000	5,300	300	6.0%
Financial Activities	13,200	13,400	200	1.5%
Professional & Business Services	19,300	21,400	2,100	10.9%
Education & Health Services	22,200	22,400	200	0.9%
Leisure & Hospitality Services	21,100	21,700	600	2.8%
Other Services	8,100	7,900	-200	-2.5%
Government	36,900	38,300	1,400	3.8%
TOTAL NON-FARM EMPLOYMENT	233,000	246,600	13,600	5.8%



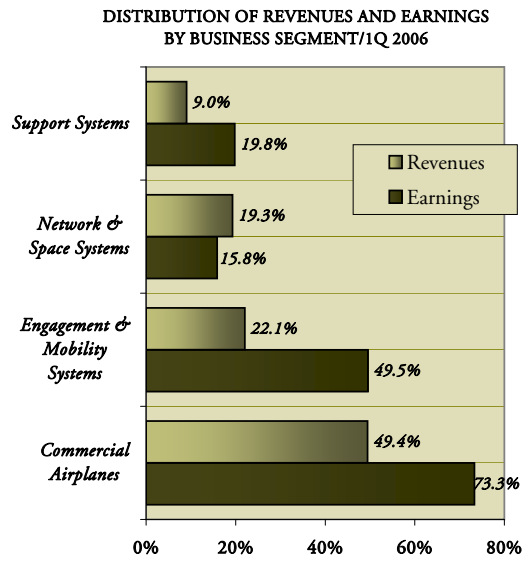
SOURCE: Washington State Employment Department and JOHNSON GARDNER

EXHIBIT E.16

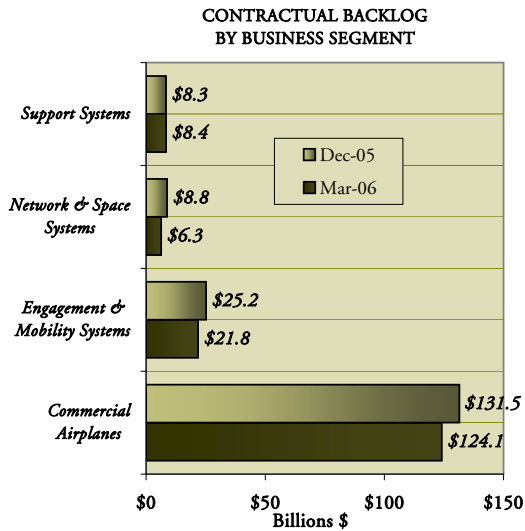
BOEING EARNINGS, DELIVERIES AND EMPLOYMENT

First Quarter, 2006

Financial Results (millions \$)			
	Mar-06	Mar-05	% Δ
Revenues			
Commercial Airplanes	\$7,053	\$4,760	48.2%
Integrated Defense Systems Total	\$7,186	\$7,606	-5.5%
Engagement & Mobility Systems	\$3,147	\$3,214	-2.1%
Network & Space Systems	\$2,752	\$3,222	-14.6%
Support Systems	\$1,287	\$1,170	10.0%
Capital Corp Less Acct. Differences	\$25	\$315	-92.1%
Operating Revenues	\$14,264	\$12,681	12.5%
Earnings (Loss) from Operations			
Commercial Airplanes	\$703	\$388	81.2%
Integrated Defense Systems Total	\$817	\$850	-3.9%
Engagement & Mobility Systems	\$475	\$384	23.7%
Network & Space Systems	\$152	\$296	-48.6%
Support Systems	\$190	\$170	n/a
Capital Corp & Acct. Adjust.	(\$561)	(\$551)	1.8%
Earnings from Operations	\$959	\$687	39.6%
Net Earnings			
Overall	\$692	\$535	29.3%



Contractual Backlog (billions \$)			
	Mar-06	Dec-05	% Change
Commercial Airplanes	\$131.5	\$124.1	6.0%
Integrated Defense Systems Total	\$42.3	\$36.5	15.9%
Engagement & Mobility Systems	\$25.2	\$21.8	15.6%
Network & Space Systems	\$8.8	\$6.3	39.7%
Support Systems	\$8.3	\$8.4	-1.2%
Total Contractual Backlog	\$173.8	\$160.6	8.2%
Unobligated Backlog	\$38.8	\$44.6	-13.0%
Workforce	154,000	153,000	0.7%

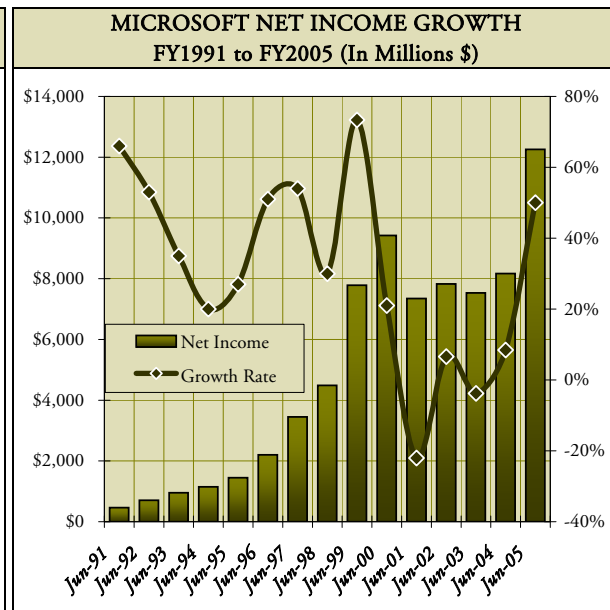
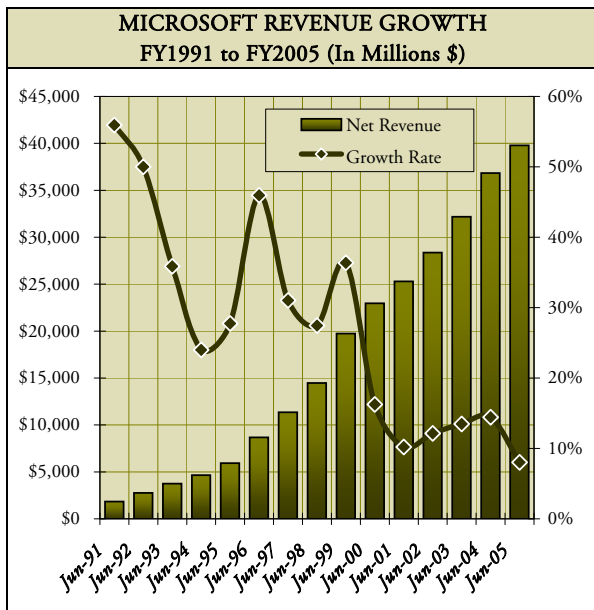


Commercial Jet Deliveries	3rd 2003	4th 2003	1st 2004	2nd 2004	3rd 2004	4th ###	1st 2005	2nd 2005	3rd 2005	4th 2005	1st 2006
717	3	3	3	3	3	3	3	3	3	4	2
737	41	47	55	50	49	48	54	59	47	52	72
747	4	5	5	4	2	4	3	4	2	4	4
757	4	1	4	4	3	0	1	1			
767	5	3	1	3	2	3	1	4	2	3	3
777	8	12	8	11	8	9	8	14	8	10	17
MD-80	--	--	--	--	--	--	--	--	--	--	--
MD-90	--	--	--	--	--	--	--	--	--	--	--
MD-11	--	--	--	--	--	--	--	--	--	--	--
Total	65	71	76	75	67	67	70	85	62	73	98

SOURCE: Boeing Investor Relations, UBS Securities, and Johnson Gardner

EXHIBIT E.17
MICROSOFT EARNINGS and EMPLOYMENT
First Quarter 2006

	Three Months Ended			12-Month Revenue Growth By Division
	Mar-05	Mar-06	% Δ	
Revenues				
<i>Client</i>	\$2,964	\$3,187	7.5%	
<i>Server Platforms</i>	\$2,459	\$2,845	15.7%	
<i>Information Worker</i>	\$2,805	\$2,946	5.0%	
<i>Business Solutions</i>	\$179	\$216	20.7%	
<i>MSN</i>	\$581	\$561	-3.4%	
<i>CE/Mobility</i>	\$61	\$89	45.9%	
<i>Home and Entertainment</i>	\$571	\$1,056	84.9%	
<i>Total</i>	\$9,620	\$10,900	13.3%	
Operating Expenses	\$6,291	\$7,012	11.5%	
Operating Income	\$3,329	\$3,888	16.8%	
Other Income or Loss	#####	(911.00)	n/a	
Net Earnings				
<i>Overall</i>	\$2,563	\$2,977	16.2%	
<i>Per Share (Diluted)</i>	\$0	\$0	6.3%	
(\$ millions except per share data)				

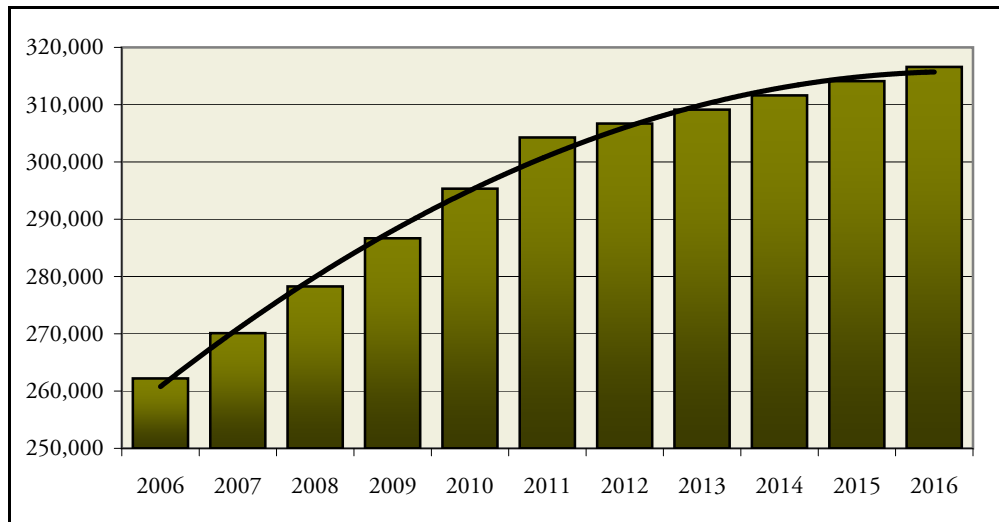


SOURCE: Microsoft Corporation and Johnson Gardner

EXHIBIT E.18
FORECASTED EMPLOYMENT GROWTH
SNOHOMISH COUNTY, WASHINGTON

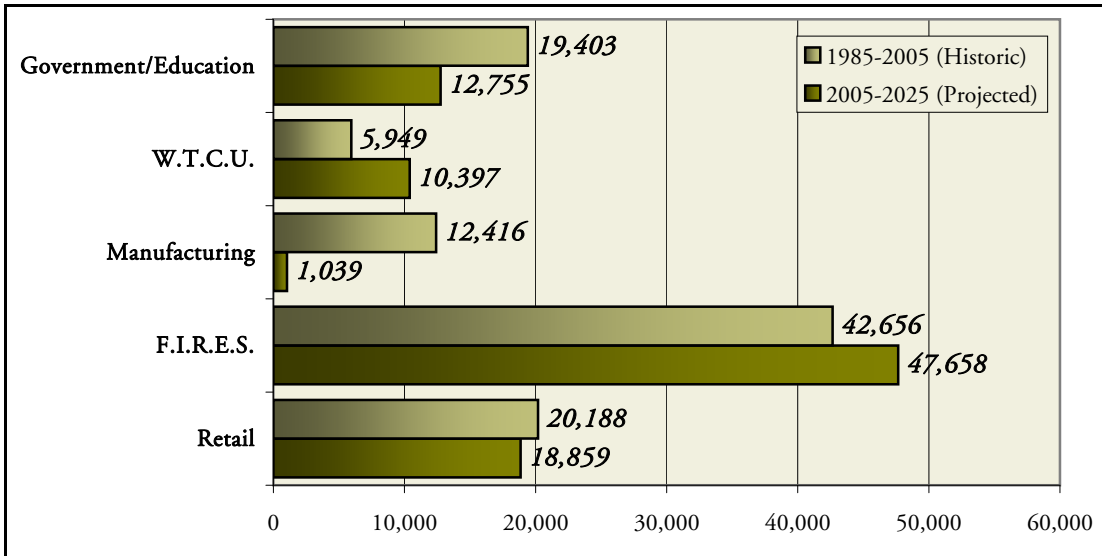
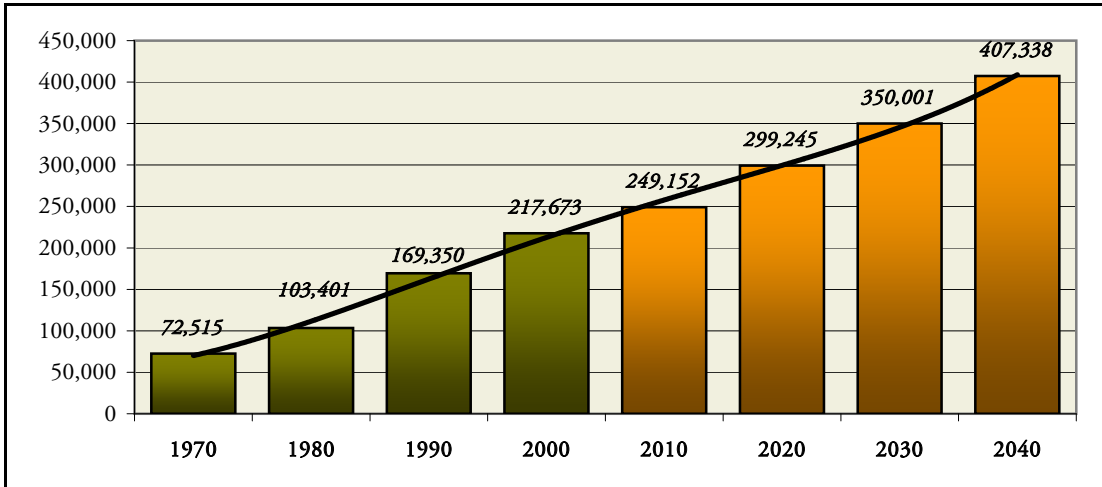
NAICS	Forecasted Employment Growth 3/			'06-'16 Change	
	2006	2011	2016	Absolute	Percent
Construction	21,300	25,217	26,931	5,631	26.4%
Manufacturing 1/	47,700	57,766	56,508	8,808	18.5%
Aerospace	26,200	35,135	33,324	7,124	27.2%
Wholesale Trade	7,200	7,988	8,437	1,237	17.2%
Retail Trade	29,400	32,415	33,385	3,985	13.6%
T.W.U. 2/	3,800	4,471	4,806	1,006	26.5%
Information	4,300	4,510	4,824	524	12.2%
Financial Activities	13,400	14,686	15,330	1,930	14.4%
Professional & Business Service	20,300	24,762	28,331	8,031	39.6%
Education & Health Services	22,300	24,849	26,866	4,566	20.5%
Leisure & Hospitality Services	21,200	23,823	25,353	4,153	19.6%
Other Services	8,400	9,076	9,559	1,159	13.8%
Government	36,700	39,570	42,953	6,253	17.0%

FORECASTED NON-FARM EMPLOYMENT GROWTH



SOURCE: Washington State Employment Department and JOHNSON GARDNER

**EXHIBIT E.19
HISTORIC AND PROJECTED EMPLOYMENT GROWTH
SNOHOMISH COUNTY, WASHINGTON**



Government/Education = S.I.C. 43, 82, 92-97

W.T.C.U. = S.I.C. 40-42, 44-51

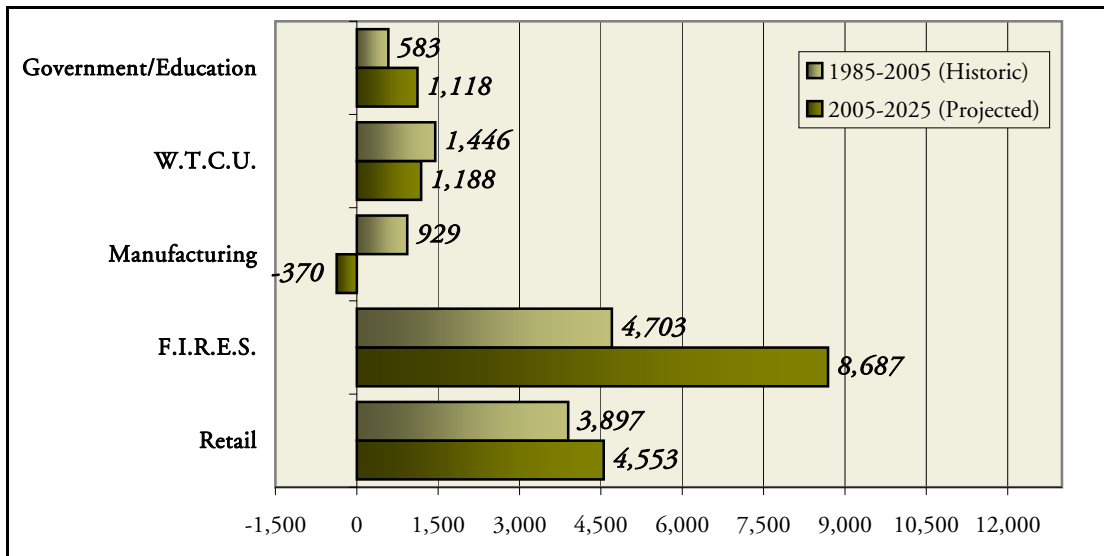
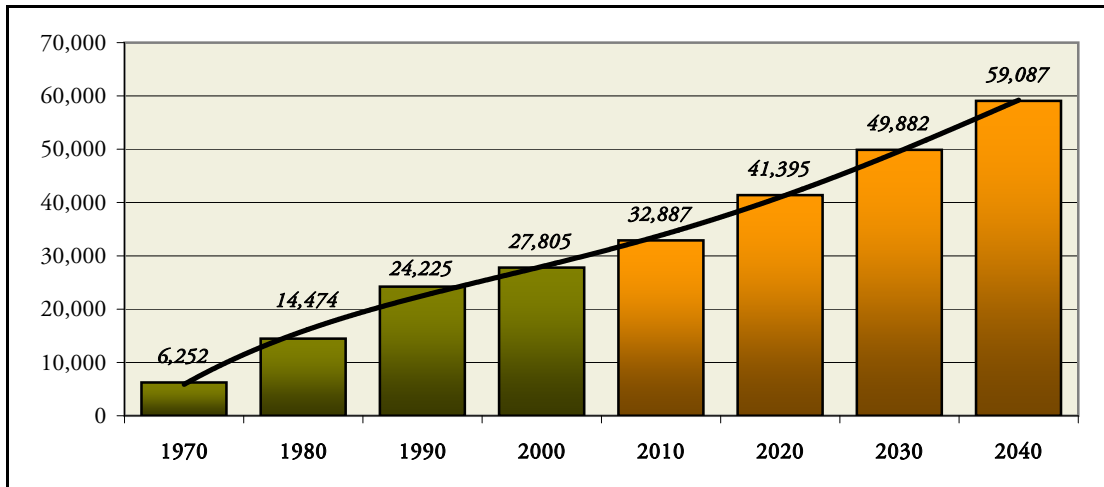
Manufacturing = S.I.C. 19-39

F.I.R.E.S. = S.I.C. 7, 60-67, 70, 72-76, 78-81, 83-84, 86, 89

Retail = S.I.C. 52-59

SOURCE: Puget Sound Regional Council

EXHIBIT E.20
HISTORIC AND PROJECTED EMPLOYMENT GROWTH
LYNNWOOD MARKET AREA



Government/Education = S.I.C. 43, 82, 92-97

W.T.C.U. = S.I.C. 40-42, 44-51

Manufacturing = S.I.C. 19-39

F.I.R.E.S. = S.I.C. 7, 60-67, 70, 72-76, 78-81, 83-84, 86, 89

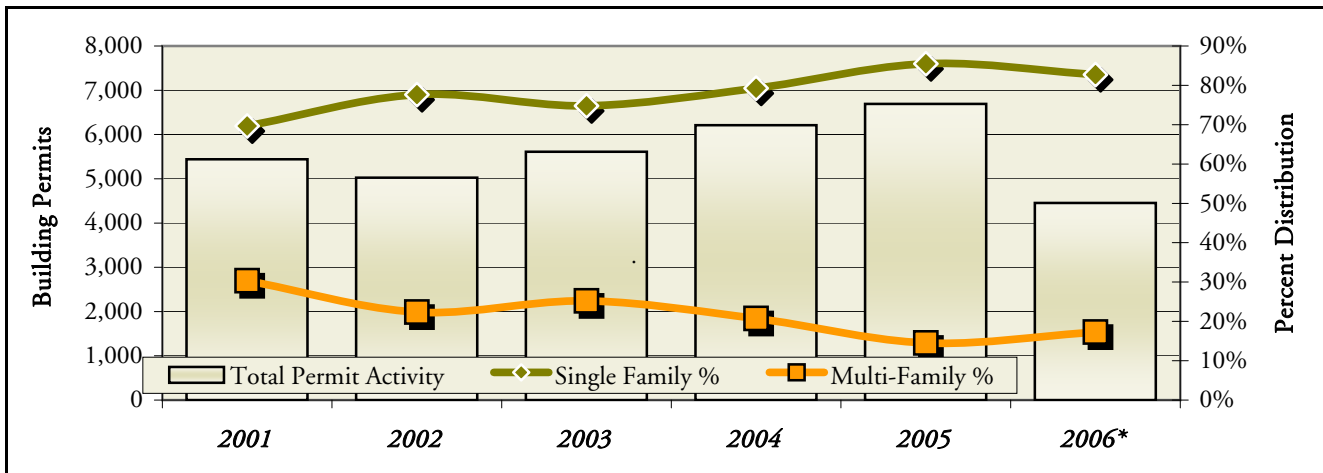
Retail = S.I.C. 52-59

SOURCE: Puget Sound Regional Council

EXHIBIT E.21
BUILDING PERMITS
SNOHOMISH COUNTY, WASHINGTON

Jurisdiction	2001		2002		2003		2004		2005		2006YTD	
	S.F.	M.F.	S.F.	M.F.	S.F.	M.F.	S.F.	M.F.	S.F.	M.F.	S.F.	M.F.
Arlington	233	12	258	19	287	20	320	33	323	26	193	18
Briar	14	0	16	0	18	0	21	0	22	0	13	0
Darrington	6	0	8	0	7	0	10	0	9	0	7	0
Edmonds	74	92	80	78	91	89	121	175	99	71	57	96
Everett	112	499	133	150	199	146	167	336	175	283	104	247
Gold Bar	23	0	26	0	30	0	32	0	30	0	17	0
Granite Falls	42	0	46	0	51	0	50	0	15	0	36	0
Lake Stevens	75	12	82	14	93	22	105	26	105	22	63	14
Lynnwood	65	25	64	20	73	35	80	40	80	60	49	52
Marysville	389	20	291	30	357	39	376	50	354	10	129	0
Mill Creek	63	226	12	167	6	360	13	14	54	0	44	0
Monroe	158	2	167	4	188	6	209	8	210	10	126	2
Mountlake Terrace	37	71	7	0	15	10	16	10	17	10	8	5
Mukilteo	111	87	121	66	136	71	150	69	149	70	91	62
Snohomish	5	47	3	55	2	63	1	70	8	61	5	38
Stanwood	52	43	57	47	65	66	71	61	69	67	43	64
Sultan	45	2	50	6	57	6	63	10	64	8	38	6
Woodway	24	0	27	0	28	0	29	0	29	0	18	0
Unincorporated	2,261	513	2,454	467	2,492	482	3,087	387	3,907	274	2,644	165
SNOHOMISH COUNTY	3,789	1,651	3,902	1,123	4,195	1,415	4,921	1,289	5,719	972	3,685	769

DISTRIBUTION OF PERMITS BY TYPE



SOURCE: U.S. Census Bureau and JOHNSON GARDNER

SECTION R

RETAIL MARKET EXHIBITS

EXHIBIT R.01

NORTHEND RETAIL SUBREGION



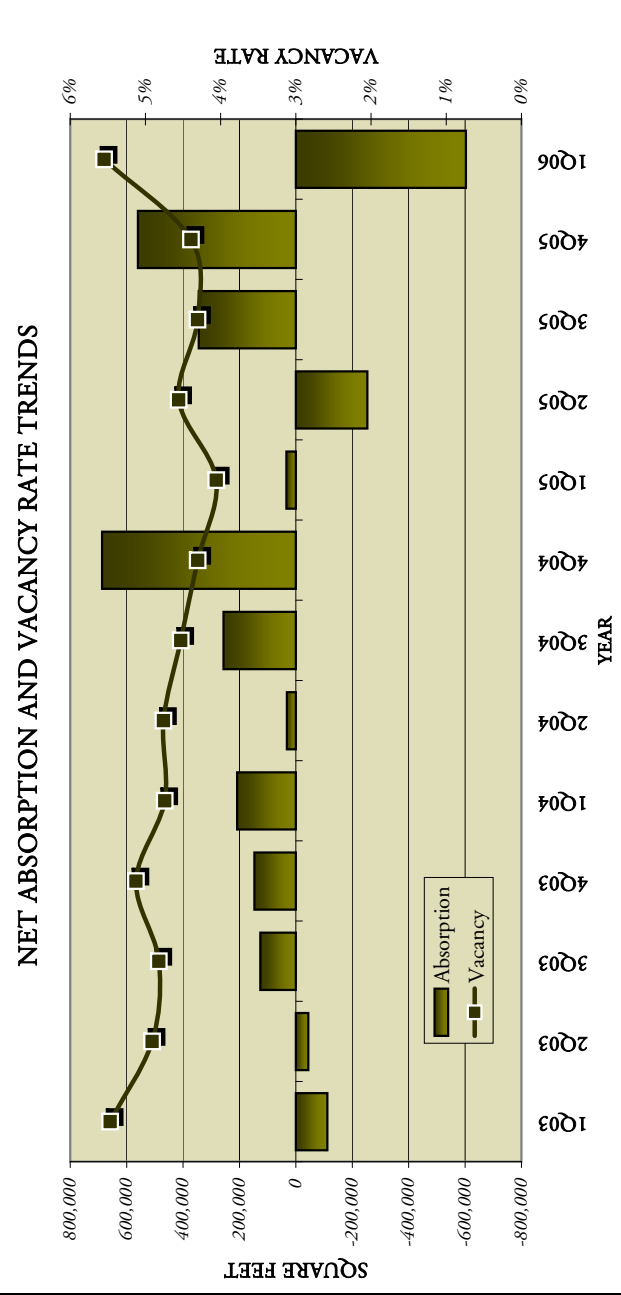
EXHIBIT R.02

OVERVIEW OF MARKET TRENDS TRENDS
SEATTLE METROPOLITAN AREA

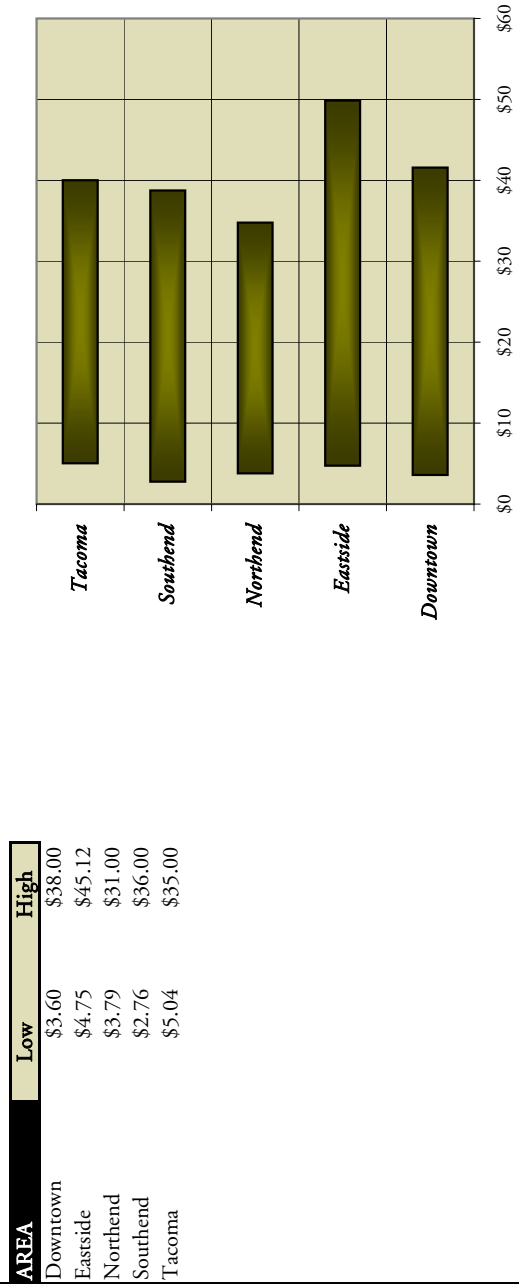
	Speculative Inventory	Under Construction	Inventory Adjustments	Net Absorption	Vacancy		Total
					Direct	Sublease	
QUARTERLY TRENDS							
4Q00	47,310,310	756,659	-17,504,001	683,758	1,239,799	0	2.62%
2Q01	38,135,082	1,384,847	-10,560,075	831,449	1,142,993	0	3.00%
4Q01	35,837,275	127,905	-2,425,712	-19,826	1,268,110	27,025	3.54%
2Q02	39,846,343	0	4,009,068	-326,029	1,589,291	164,692	3.99%
4Q02	42,676,838	490,330	2,340,165	451,131	1,634,517	147,210	3.83%
1Q03	35,142,790	51,997	-1,605,468	-111,870	1,817,901	104,001	5.17%
2Q03	41,092,050	65,755	-97,072	-44,431	1,910,255	107,947	4.65%
3Q03	45,423,546	134,655	4,194,278	126,057	2,076,291	113,974	4.57%
4Q03	46,305,224	155,512	-155,512	146,994	2,277,248	96,300	4.92%
1Q04	49,199,966	22,605	2,872,137	208,066	2,249,305	83,965	4.57%
2Q04	51,242,790	33,515	-33,515	31,893	2,359,739	79,009	4.61%
3Q04	55,023,869	142,991	3,638,088	256,352	2,417,131	75,630	4.39%
4Q04	57,048,053	588,347	1,435,837	687,241	2,393,438	62,082	4.20%
1Q05	58,087,948	35,035	-35,035	33,430	2,257,414	99,614	3.89%
2Q05	60,524,899	36,050	2,400,901	-253,687	2,535,753	222,671	4.19%
3Q05	75,018,823	204,011	14,289,913	344,437	3,010,942	219,034	4.01%
4Q05	85,598,687	761,328	9,818,536	559,861	3,474,917	285,194	4.06%
1Q06	82,153,208	383,748	-3,829,227	-603,305	4,307,993	249,923	5.55%

*Beginning with 2Q00 through 4Q02 data was compiled biannually.

EXHIBIT R.02 CONTINUED



QUOTED RENT RANGES



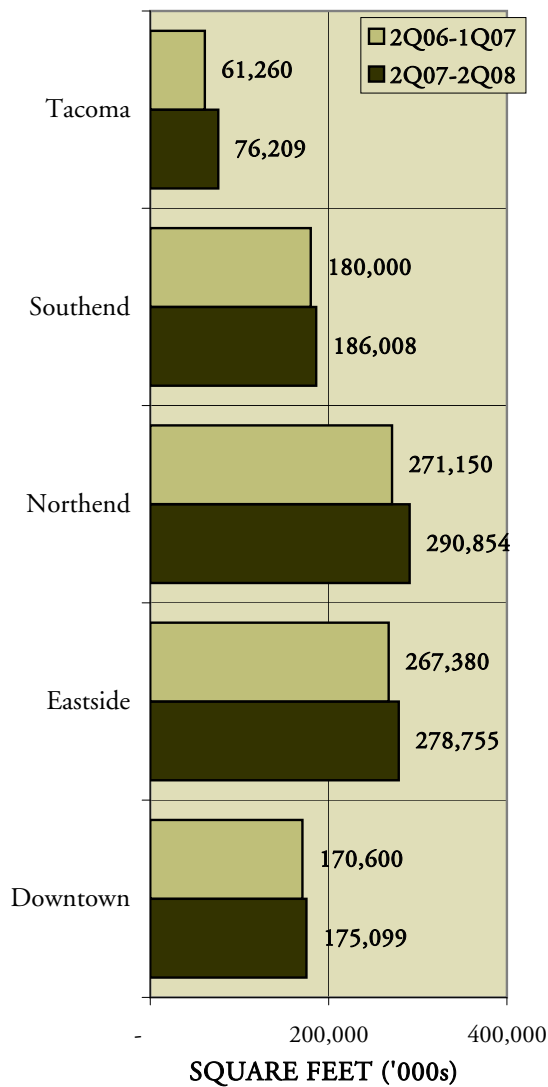
SOURCE: CoStar and Johnson Gardner

EXHIBIT R.03

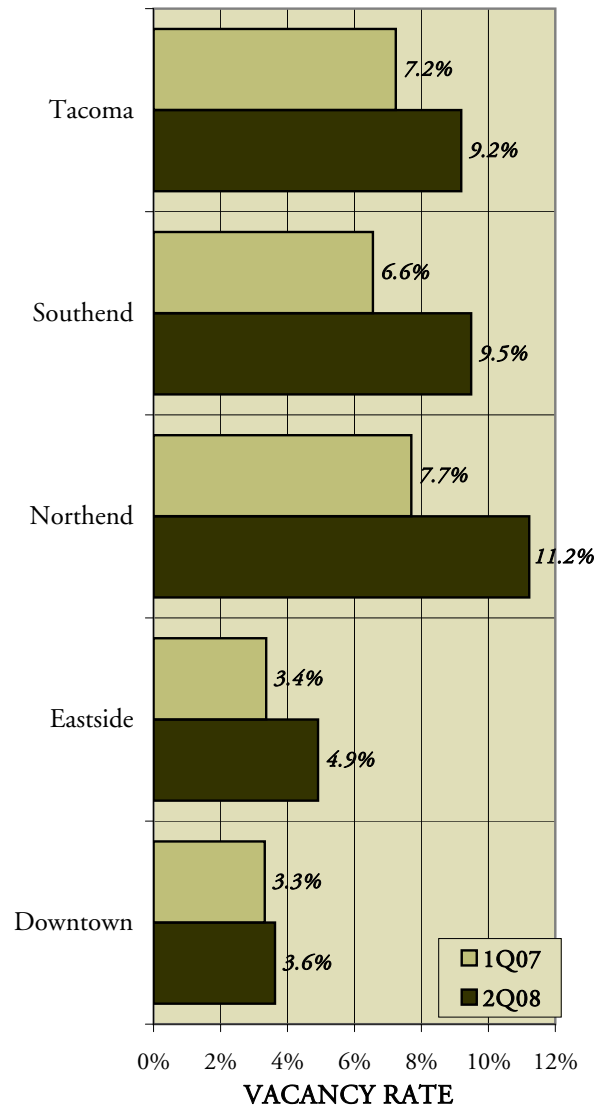
PROJECTED DEMAND BY SUBREGION AND SUBMARKET
SEATTLE METROPOLITAN AREA

Subregion <i>Submarket</i>	1st Quarter 2006		New Supply		Forecasted Demand		Projected	
	Speculative Inventory	Vacancy Rate	2Q06-1Q07	2Q07-2Q08	2Q06-1Q07	2Q07-2Q08	Vacancy Rate 1Q07	Vacancy Rate 2Q08
Downtown	9,141,586	5.1%	6,829	210,831	170,600	175,099	3.3%	3.6%
Eastside	18,722,931	4.4%	84,049	599,581	267,380	278,755	3.4%	4.9%
Northend	18,704,868	6.7%	493,641	1,089,692	271,150	290,854	7.7%	11.2%
Southend	17,722,096	3.7%	740,752	803,250	180,000	186,008	6.6%	9.5%
Tacoma	17,861,727	6.8%	140,570	471,412	61,260	76,209	7.2%	9.2%
Metropolitan Area Total	82,153,208	5.4%	1,465,840	3,174,765	950,390	1,006,925	5.9%	8.2%

PROJECTED ABSORPTION BY SUBREGION



PROJECTED VACANCY RATE BY SUBREGION

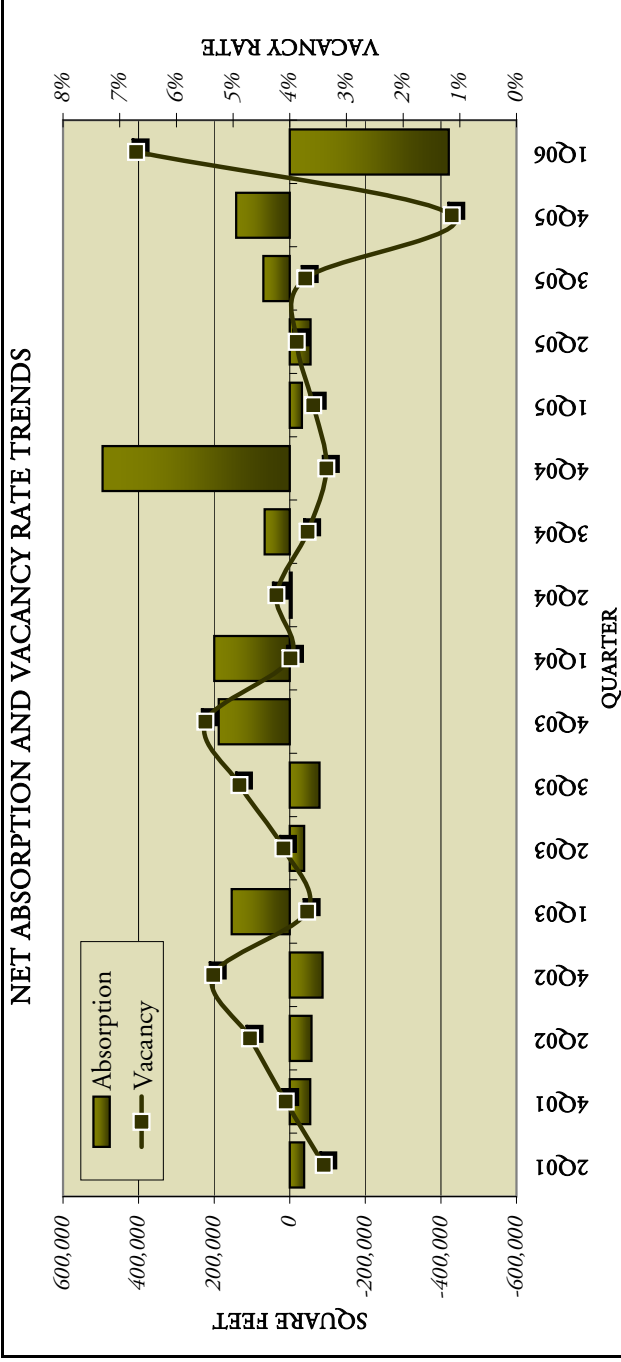


SOURCE: CoStar and Johnson Gardner

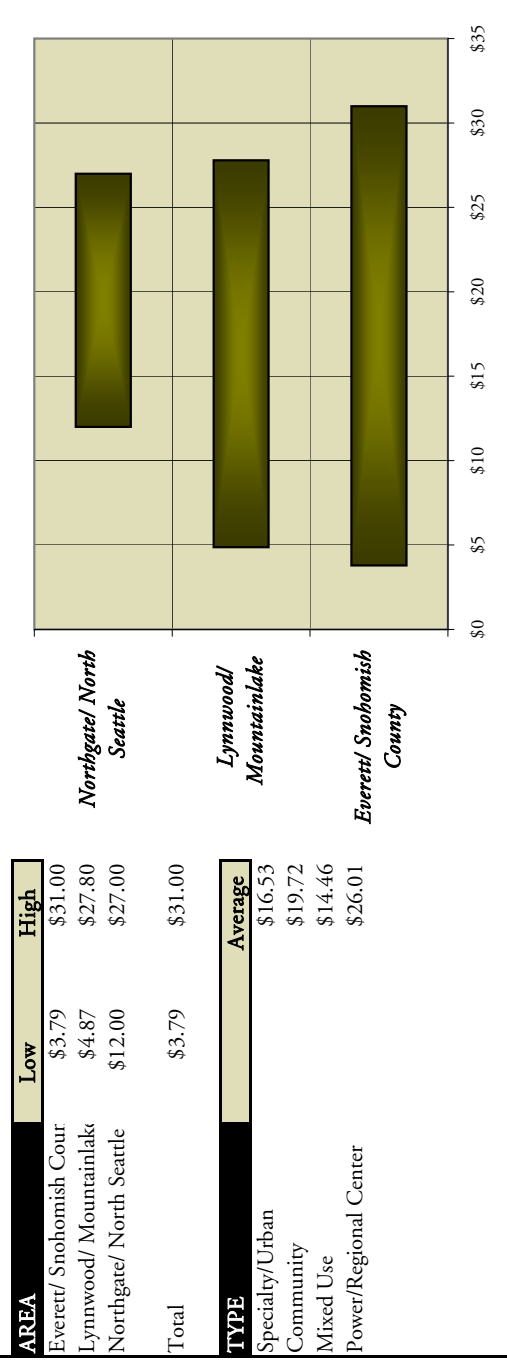
EXHIBIT R.04
OVERVIEW OF SUBMARKET TRENDS
NORTHERND SUBREGION

	Speculative Inventory	New Construction	Inventory Adjustments	Net Absorption	Vacancy		Total
					Direct	Sublease	
QUARTERLY TRENDS							
2Q01	7,884,471	31,512	-31,512	-38,154	268,072	0	3.40%
4Q01	8,728,562	0	844,091	-54,403	355,252	1,746	4.07%
2Q02	9,352,624	0	624,062	-57,609	439,573	4,676	4.70%
4Q02	9,444,786	0	92,162	-86,979	505,296	31,168	5.35%
1Q03	9,511,393	0	66,607	153,590	351,174	34,400	3.69%
2Q03	10,140,217	0	628,824	-38,149	416,737	35,000	4.11%
3Q03	10,445,512	0	305,295	-78,855	510,430	36,137	4.89%
4Q03	10,830,223	261,442	123,269	188,014	594,356	32,777	5.49%
1Q04	11,275,090	12,000	432,867	199,941	449,306	7,420	3.98%
2Q04	11,395,808	21,965	98,753	-5,289	482,641	5,570	4.24%
3Q04	13,116,466	0	1,720,658	66,685	483,102	2,070	3.68%
4Q04	13,947,954	468,010	363,478	495,417	467,943	2,070	3.35%
1Q05	14,267,832	0	319,878	-32,062	511,519	2,070	3.59%
2Q05	14,278,156	0	10,324	-54,837	553,213	15,624	3.87%
3Q05	16,475,353	63,340	2,133,857	69,959	614,074	31,796	3.73%
4Q05	19,857,466	430,850	2,951,263	141,693	915,238	55,489	1.14%
1Q06	18,704,868	15,289	-1,167,887	-421,057	1,255,184	69,198	6.71%
*Beginning with 2Q00 through 4Q02 data was compiled biannually.							
BREAKOUT BY PRODUCT TYPE							
Specialty/Urban	6,817,253	15,289	-158,237	-133,300	686,154	36,173	10.60%
Community	6,201,595	0	-514,484	-214,731	430,645	24,890	6.94%
Mixed Use	465,733	0	72,031	-100	111,683	2,070	23.98%
Power/Regional Center	5,220,287	0	-567,197	-72,927	26,702	6,065	0.51%
T total	18,704,868	15,289	-1,167,887	-421,057	1,255,184	69,198	7.08%

EXHIBIT R.3 CONTINUED

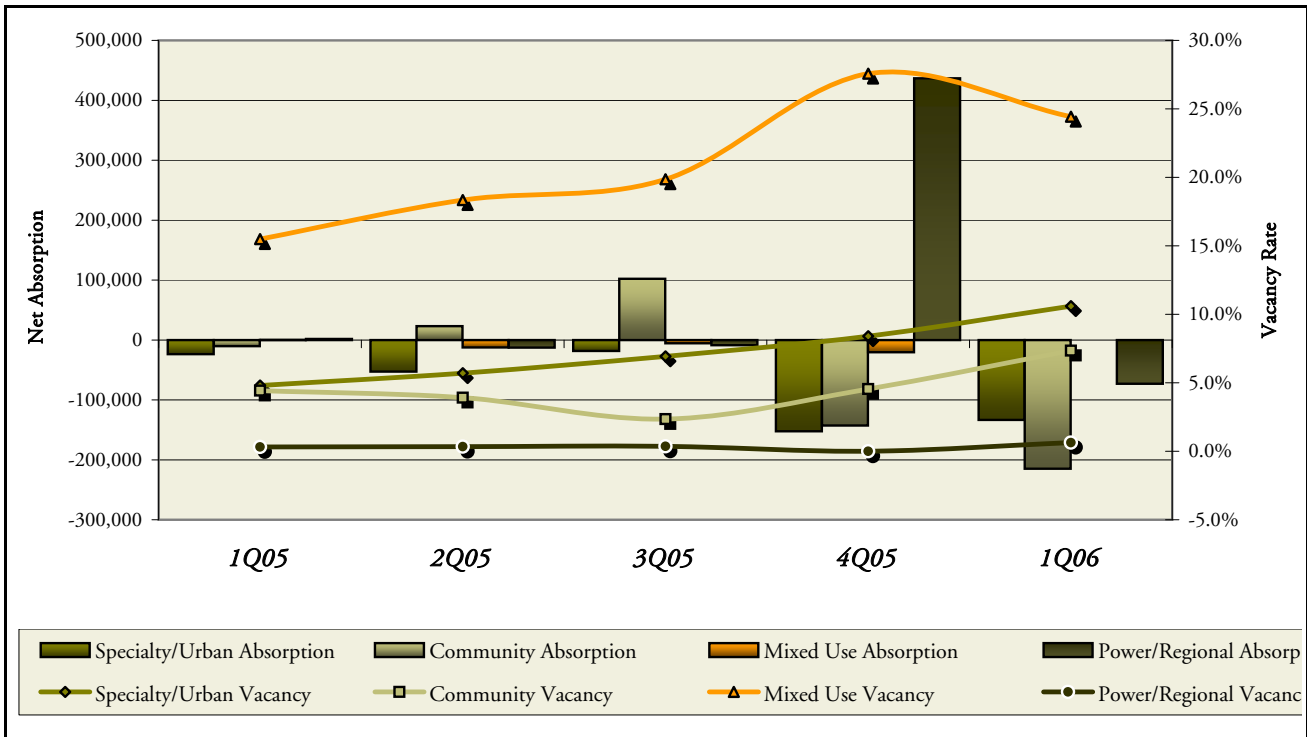


QUOTED AVERAGE RENT RATES

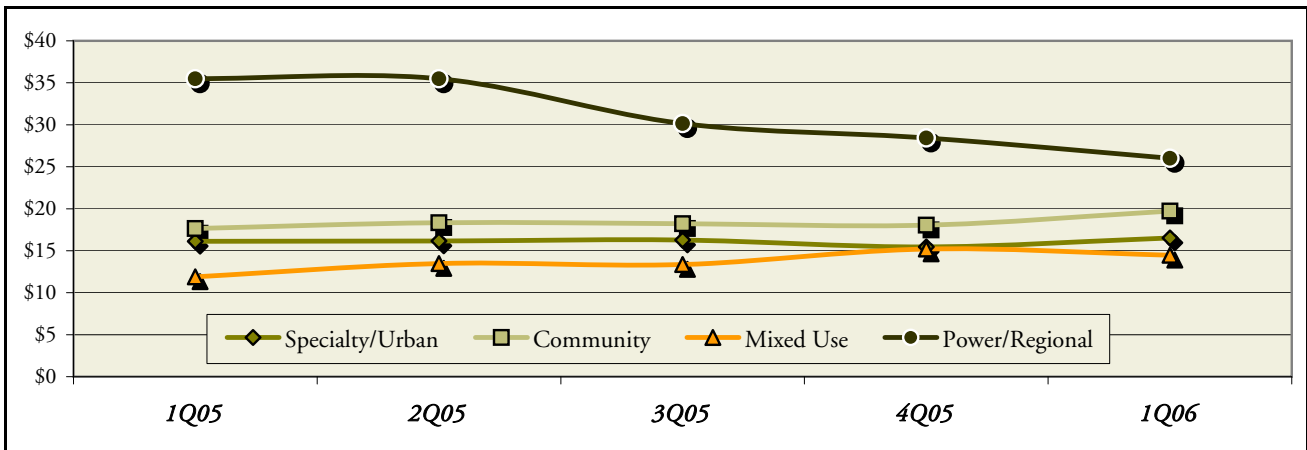


SOURCE: CoStar and Johnson Gardner

EXHIBIT R.05
RETAIL MARKET CONDITIONS BY PRODUCT TYPE
NORTHEAST SUBREGION



QUOTED LEASE RATE RANGE



SOURCE: CoStar and JOHNSON GARDNER

EXHIBIT R.06

PROJECTED MARKET CONDITIONS

0

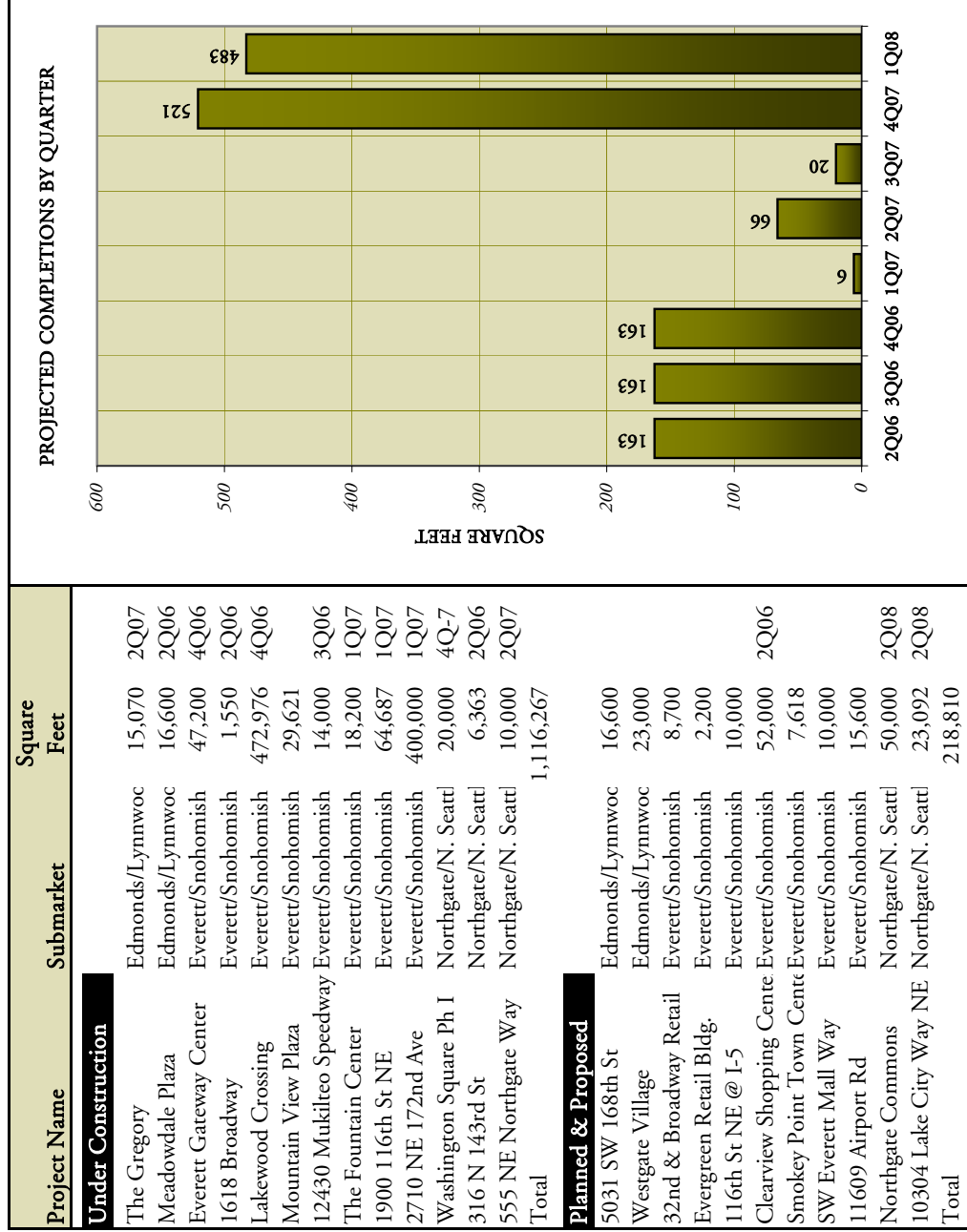
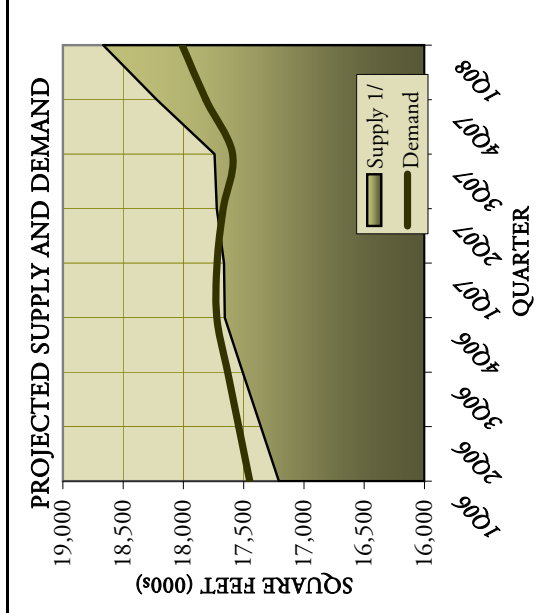
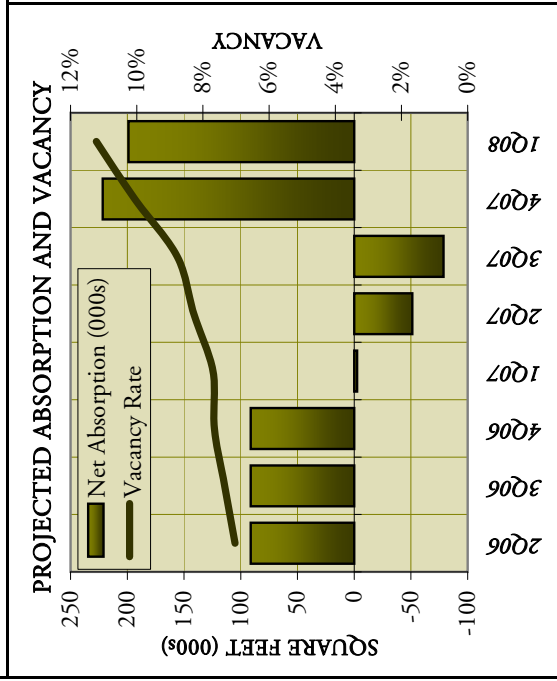


EXHIBIT R.5 CONTINUED

PROJECTIONS	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08
Inventory (000s)	18,704.9	18,867.4	19,029.9	19,192.4	19,198.5	19,264.5	19,284.6	19,805.3	20,288.2
New Supply (000s)		163	163	163	6	66	20	521	483
Net Absorption (000s)		91.3	91.3	91.3	-2.6	-51.1	-78.7	221.7	199.0
Occupied Space (000s)	17,449.7	17,540.9	17,632.2	17,723.4	17,720.8	17,669.7	17,591.0	17,812.7	18,011.7
Vacancy Rate - Period End	6.71%	7.03%	7.34%	7.65%	7.70%	8.28%	8.78%	10.06%	11.22%

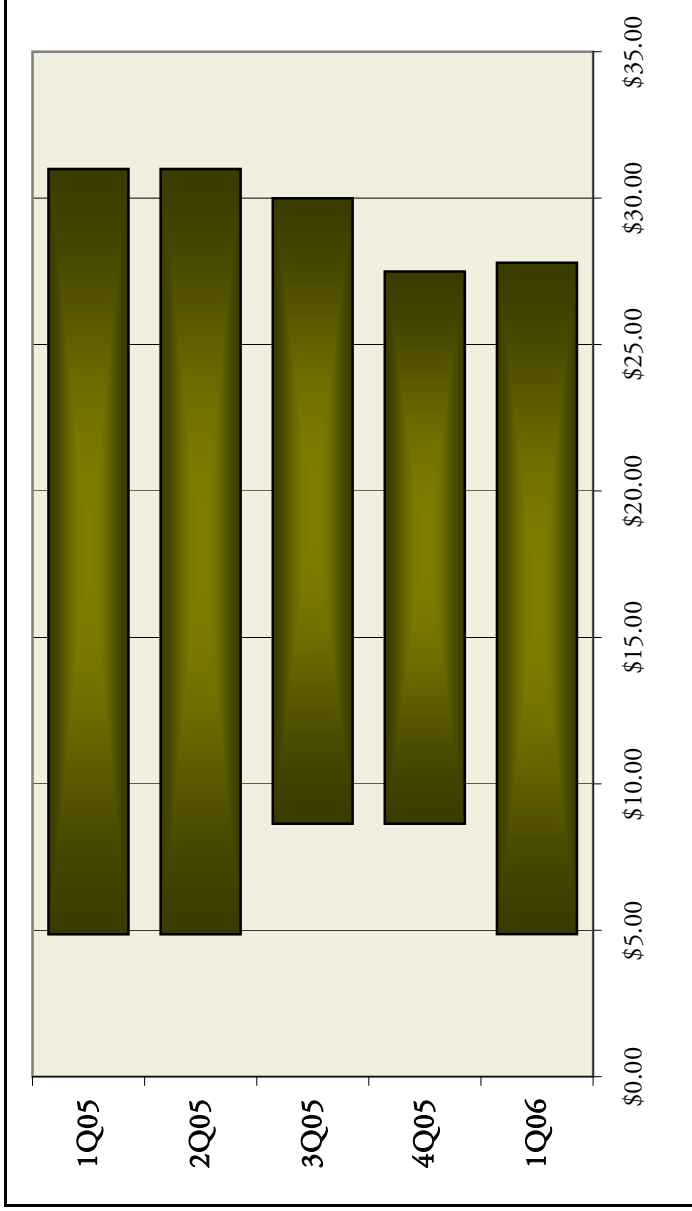


1/ Assumes a stabilized 8% vacancy rate.

SOURCE: CoStar and Johnson Gardner





EXHIBIT R.07

AVERAGE QUOTED LEASE RATE RANGE
LYNNWOOD/MOUNTLAKE TERRACE SUBMARKET



SOURCE: CoStar and JOHNSON GARDNER

**EXHIBIT R.7
SELECTED COMPETITIVE RETAIL DEVELOPMENTS
LYNNWOOD, WASHINGTON**

Alderwood East Shopping Center		Statistics	Image
<p>18910 28th Avenue W Lynnwood, Washington</p> <p>Description</p> <p>High exposure retail shopping center. Fronts Alderwood Mall Blvd and the Alderwood Mall. Anchor tenants include Azteca, International Design Furniture & 24 Hour Fitness.</p>	1	<p>RBA: 70,743</p> <p>Year Built: N/A</p> <p># of Available Spaces: 1</p> <p>Space Available (S.F.): 2,723</p> <p>Use Type: Retail</p> <p>Lease Rate: \$15,000</p> <p>Lease Terms: N/A</p> <p>Vacancy: 3.8%</p>	
	<p>Alderwood Plaza</p> <p>18620 33rd Avenue W Lynnwood, Washington</p> <p>Description</p> <p>Large scale retail center located across from Alderwood Mall. Includes a diverse mix of tenants and restaurants including Ross, Office Max, Red Robin, Rite Aid, and Big 5. The development is currently undergoing some cosmetic updating. Parking ratio: 4.9/1,000.</p>		
		<p>RBA: 171,159</p> <p>Year Built: 1981</p> <p># of Available Spaces: 2</p> <p>Space Available (S.F.): 20,725</p> <p>Use Type: Retail</p> <p>Lease Rate: Negotiable</p> <p>Lease Terms: NNN</p> <p>Vacancy: 12.1%</p>	
		<p>RBA: 22,234</p> <p>Year Built: 1979</p> <p># of Available Spaces: 1</p> <p>Space Available (S.F.): 4,000</p> <p>Use Type: Retail</p> <p>Lease Rate: \$15,000</p> <p>Lease Terms: NNN</p> <p>Vacancy: 18.0%</p>	
<p>Alderwood Retail Center</p> <p>19417 36th Avenue W Lynnwood, Washington</p> <p>Description</p> <p>Development is a somewhat dated strip retail center located proximate to the Alderwood Mall on 36th Avenue W. The only vacant space is sublease.</p>		<p>RBA: 22,234</p> <p>Year Built: 1979</p> <p># of Available Spaces: 1</p> <p>Space Available (S.F.): 4,000</p> <p>Use Type: Retail</p> <p>Lease Rate: \$15,000</p> <p>Lease Terms: NNN</p> <p>Vacancy: 18.0%</p>	

**EXHIBIT R.7
SELECTED COMPETITIVE RETAIL DEVELOPMENTS
LYNNWOOD, WASHINGTON**

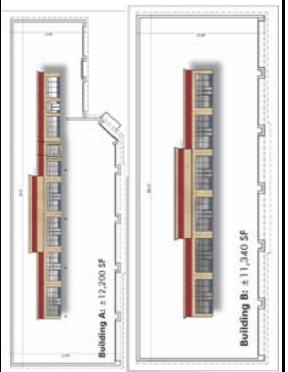

Tunnel Creek Plaza	Statistics	Image
<p>18021 Alderwood Mall Parkway Lynnwood, Washington</p> <p align="center">4</p> <p>Description The project is a redevelopment strip retail consisting of two buildings comprising roughly 23,540 square feet. The project is well positioned along the regions highly used Alderwood Mall Parkway.</p>	<p>RBA: 23,540 Year Built: New/Redevelopment # of Available Spaces: 1 Space Available (S.F.): 20,000 Use Type: Retail Lease Rate: \$13.00 Lease Terms: NNN Vacancy: 85.0%</p>	
Unnamed Retail 2	Statistics	Image
<p>3105 Alderwood Boulevard Lynnwood, Washington</p> <p align="center">5</p> <p>Description Excellent visibility to Interstate-5 and proximity to Alderwood Mall. Anchor tenants include Michael's and Marshall's. Parking ratio: 5/1,000</p>	<p>RBA: 105,346 Year Built: 1986 # of Available Spaces: 1 Space Available (S.F.): 14,675 Use Type: Retail Lease Rate: \$17.00 - \$21.00 Lease Terms: NNN Vacancy: 13.9%</p>	

EXHIBIT R.10
MAP OF COMPETITIVE RETAIL PROJECTS
LYNNWOOD, WASHINGTON

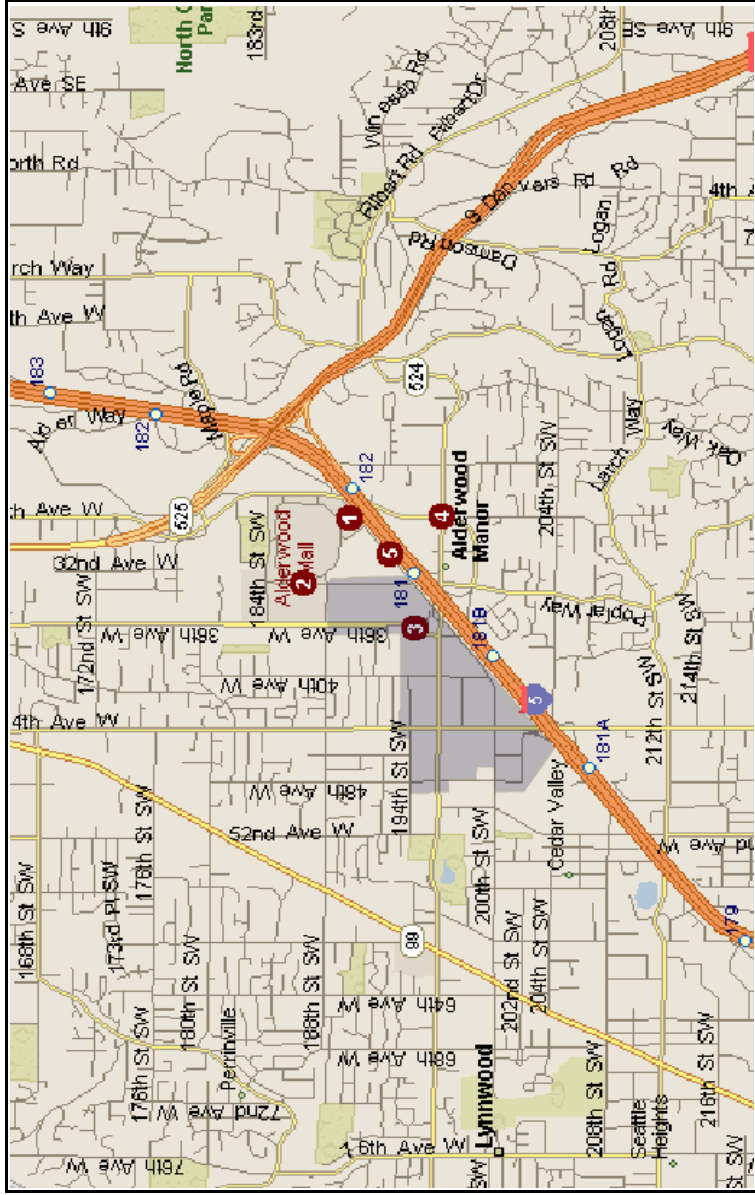


EXHIBIT R.12
RETAIL TRADE AREA'S
LYNNWOOD, WASHINGTON

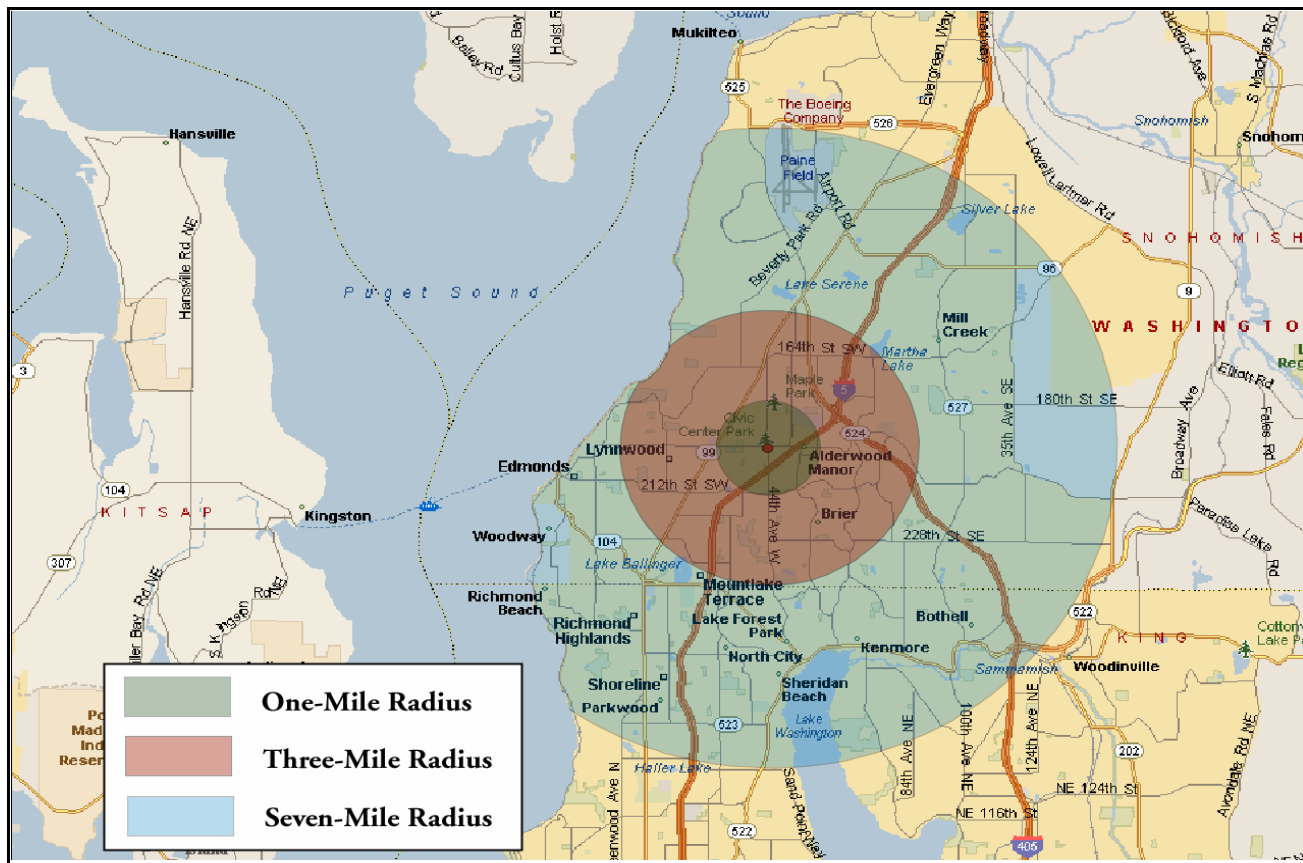


EXHIBIT R.13
PROJECTIONS OF HOUSEHOLD RETAIL SALES
ONE, THREE, & SEVEN MILE TRADE AREA'S
LOW, MEDIUM, and HIGH GROWTH SCENARIOS
(2006-2026)

NAICS Category	Average Household Spending 2/ Households:	Base Year 2006	Household Retail Spending in Millions (Households)														
			1/ Low Growth Scenario			Medium Growth Scenario			1/ High Growth Scenario								
			2011	2016	2021	2026	2011	2016	2021	2026	2011	2016	2021	2026			
441 Automotive Parts, Accessories & Tire Stores	\$6,359	\$44.7	\$46.8	\$48.9	\$51.0	\$53.1	\$4.2	\$47.7	\$50.7	\$54.0	\$57.5	\$6.0	\$48.4	\$52.4	\$56.7	\$61.5	\$7.7
442 Furniture & Home Furnishings Stores	\$911	\$6.4	\$6.7	\$7.0	\$7.6	\$8.2	\$1.6	\$6.8	\$7.3	\$7.7	\$8.2	\$0.9	\$6.9	\$7.5	\$8.1	\$8.8	\$1.1
443 Electronics & Appliance Stores	\$2,612	\$18.4	\$19.2	\$20.1	\$21.0	\$21.8	\$1.7	\$19.6	\$20.8	\$22.2	\$23.6	\$2.5	\$19.9	\$22.2	\$23.3	\$25.2	\$3.2
444 Building Materials & Garden Equipment	\$1,016	\$7.1	\$7.5	\$7.8	\$8.2	\$8.5	\$0.7	\$7.6	\$8.1	\$8.6	\$9.2	\$1.0	\$7.7	\$8.4	\$9.1	\$9.8	\$1.2
445 Food & Beverage Stores	\$6,856	\$48.2	\$50.5	\$52.7	\$55.0	\$57.2	\$4.5	\$51.4	\$54.7	\$58.3	\$62.0	\$6.5	\$52.2	\$56.5	\$61.2	\$66.3	\$8.3
446 Health & Personal Care Stores	\$2,646	\$18.6	\$19.5	\$20.3	\$21.2	\$22.1	\$1.7	\$19.8	\$21.1	\$22.5	\$23.9	\$2.5	\$20.2	\$21.8	\$23.6	\$25.6	\$3.2
448 Clothing & Clothing Accessories Stores	\$3,695	\$26.0	\$27.2	\$28.4	\$29.6	\$30.8	\$2.4	\$27.7	\$29.5	\$31.4	\$33.4	\$3.5	\$28.1	\$30.5	\$33.0	\$35.7	\$4.5
451 Sporting Goods, Hobby, Book & Music Stores	\$2,179	\$15.3	\$16.0	\$16.8	\$17.5	\$18.2	\$1.4	\$16.3	\$17.4	\$18.5	\$19.7	\$2.1	\$16.6	\$18.0	\$19.4	\$21.1	\$2.6
452 General Merchandise Stores	\$1,004	\$7.1	\$7.4	\$7.7	\$8.1	\$8.4	\$0.7	\$7.5	\$8.0	\$8.5	\$9.1	\$1.0	\$7.6	\$8.3	\$9.0	\$9.7	\$1.2
453 Miscellaneous Store Retailers	\$839	\$5.9	\$6.2	\$6.4	\$6.7	\$7.0	\$0.6	\$6.3	\$6.7	\$7.1	\$7.6	\$0.8	\$6.4	\$6.9	\$7.5	\$8.1	\$1.0
722 Foodservices & Drinking Places	\$3,523	\$24.8	\$25.9	\$27.1	\$28.3	\$29.4	\$2.3	\$26.4	\$28.1	\$29.9	\$31.9	\$3.4	\$26.8	\$29.0	\$31.4	\$34.0	\$4.3
Totals/Weighted Averages	\$31,640	\$222.4	\$232.9	\$243.2	\$253.8	\$264.1	\$20.8	\$237.2	\$252.5	\$268.8	\$286.2	\$30.1	\$241.0	\$260.8	\$282.2	\$305.8	\$38.4

NAICS Category	Average Household Spending 2/ Households:	Base Year 2006	Household Retail Spending in Millions (Households)														
			1/ Low Growth Scenario			Medium Growth Scenario			1/ High Growth Scenario								
			2011	2016	2021	2026	2011	2016	2021	2026	2011	2016	2021	2026			
441 Automotive Parts, Accessories & Tire Stores	\$7,116	\$313.8	\$333.3	\$350.7	\$368.6	\$382.7	\$36.9	\$341.3	\$367.3	\$395.2	\$419.3	\$53.5	\$348.6	\$382.3	\$419.2	\$452.3	\$68.5
442 Furniture & Home Furnishings Stores	\$1,160	\$51.2	\$54.3	\$57.2	\$60.1	\$62.4	\$6.0	\$55.6	\$59.9	\$64.4	\$68.4	\$8.7	\$56.8	\$62.3	\$68.3	\$73.7	\$11.2
443 Electronics & Appliance Stores	\$3,061	\$135.0	\$143.4	\$150.9	\$158.6	\$164.6	\$15.9	\$146.8	\$158.0	\$170.0	\$180.4	\$23.0	\$150.0	\$164.4	\$180.3	\$194.5	\$29.5
444 Building Materials & Garden Equipment	\$1,408	\$62.1	\$65.9	\$69.4	\$72.9	\$75.7	\$7.3	\$67.5	\$72.7	\$78.2	\$83.0	\$10.6	\$69.0	\$75.6	\$82.9	\$89.5	\$13.6
445 Food & Beverage Stores	\$7,319	\$322.7	\$342.8	\$360.7	\$379.1	\$393.6	\$38.0	\$351.1	\$377.8	\$406.5	\$431.3	\$55.0	\$358.6	\$393.2	\$431.2	\$465.2	\$70.5
446 Health & Personal Care Stores	\$2,919	\$128.7	\$136.7	\$143.9	\$151.2	\$157.0	\$15.1	\$140.0	\$150.7	\$162.1	\$172.0	\$21.9	\$143.0	\$156.8	\$172.0	\$185.5	\$28.1
448 Clothing & Clothing Accessories Stores	\$4,412	\$194.5	\$206.6	\$217.4	\$228.6	\$237.3	\$22.9	\$211.6	\$227.7	\$245.0	\$260.0	\$33.2	\$216.1	\$237.0	\$259.9	\$280.4	\$42.5
451 Sporting Goods, Hobby, Book & Music Stores	\$2,679	\$118.1	\$125.5	\$132.0	\$138.8	\$144.1	\$13.9	\$128.5	\$138.3	\$148.8	\$157.9	\$20.1	\$131.2	\$143.9	\$157.8	\$170.3	\$25.8
452 General Merchandise Stores	\$1,018	\$44.9	\$47.7	\$50.2	\$52.7	\$54.7	\$5.3	\$48.8	\$52.5	\$56.5	\$60.0	\$7.7	\$50.0	\$54.8	\$60.1	\$64.8	\$9.8
453 Miscellaneous Store Retailers	\$1,020	\$45.0	\$47.8	\$50.3	\$52.8	\$54.9	\$5.3	\$48.9	\$52.6	\$56.7	\$60.1	\$7.7	\$50.0	\$54.8	\$60.1	\$64.8	\$9.8
722 Foodservices & Drinking Places	\$3,952	\$174.3	\$185.1	\$194.8	\$204.7	\$212.5	\$20.5	\$189.6	\$204.0	\$219.5	\$232.9	\$29.7	\$193.6	\$212.3	\$232.8	\$251.2	\$38.0
Totals/Weighted Averages	\$36,064	\$1,590.3	\$1,689.1	\$1,777.4	\$1,868.2	\$1,939.4	\$187.1	\$1,729.9	\$1,861.4	\$2,003.0	\$2,125.1	\$271.2	\$1,766.8	\$1,937.5	\$2,124.6	\$2,292.1	\$347.2

NAICS Category	Average Household Spending 2/ Households:	Base Year 2006	Household Retail Spending in Millions (Households)														
			1/ Low Growth Scenario			Medium Growth Scenario			1/ High Growth Scenario								
			2011	2016	2021	2026	2011	2016	2021	2026	2011	2016	2021	2026			
441 Automotive Parts, Accessories & Tire Stores	\$7,284	\$1,099.4	\$1,170.7	\$1,239.5	\$1,310.8	\$1,370.1	\$140.2	\$1,200.2	\$1,303.0	\$1,414.6	\$1,517.2	\$203.6	\$1,226.9	\$1,360.5	\$1,508.6	\$1,650.3	\$261.1
442 Furniture & Home Furnishings Stores	\$1,220	\$184.1	\$196.1	\$207.6	\$219.5	\$229.5	\$23.5	\$201.0	\$218.2	\$236.9	\$254.1	\$34.1	\$205.5	\$227.9	\$252.7	\$276.4	\$43.7
443 Electronics & Appliance Stores	\$3,172	\$478.8	\$509.8	\$539.8	\$570.8	\$596.7	\$61.0	\$522.6	\$567.4	\$616.0	\$660.7	\$88.7	\$534.3	\$592.4	\$657.0	\$718.6	\$113.7
444 Building Materials & Garden Equipment	\$1,494	\$225.5	\$240.1	\$254.2	\$268.8	\$281.0	\$28.7	\$246.2	\$267.2	\$290.1	\$311.2	\$41.8	\$251.6	\$279.0	\$309.4	\$338.5	\$53.5
445 Food & Beverage Stores	\$7,450	\$1,124.4	\$1,197.4	\$1,267.8	\$1,340.6	\$1,401.4	\$143.3	\$1,227.5	\$1,332.7	\$1,446.8	\$1,551.8	\$208.2	\$1,254.9	\$1,391.5	\$1,543.0	\$1,687.9	\$267.0
446 Health & Personal Care Stores	\$2,911	\$439.4	\$467.9	\$495.4	\$523.8	\$547.6	\$56.0	\$479.6	\$520.7	\$565.3	\$606.3	\$81.4	\$490.3	\$543.7	\$602.9	\$659.5	\$104.3
448 Clothing & Clothing Accessories Stores	\$4,638	\$700.0	\$745.4	\$789.3	\$834.6	\$872.4	\$89.2	\$764.2	\$829.7	\$900.7	\$966.0	\$129.6	\$781.2	\$866.3	\$960.6	\$1,050.8	\$166.2
451 Sporting Goods, Hobby, Book & Music Stores	\$2,809	\$424.0	\$451.5	\$478.0	\$505.5	\$528.4	\$54.0	\$462.8	\$502.5	\$545.1	\$585.1	\$78.5	\$473.1	\$524.7	\$581.8	\$636.4	\$100.7
452 General Merchandise Stores	\$1,013	\$152.9	\$162.8	\$172.4	\$182.3	\$190.5	\$19.5	\$166.9	\$181.2	\$196.7	\$211.0	\$28.3	\$170.6	\$189.2	\$209.8	\$229.5	\$36.3
453 Miscellaneous Store Retailers	\$1,060	\$160.0	\$170.4	\$180.4	\$190.7	\$199.4	\$20.4	\$174.7	\$189.6	\$205.9	\$220.8	\$29.6	\$178.5	\$198.0	\$219.5	\$240.2	\$38.0
722 Foodservices & Drinking Places	\$4,064	\$613.4	\$653.2	\$691.6	\$731.3	\$764.5	\$78.2	\$669.6	\$727.0	\$789.2	\$846.5	\$113.6	\$684.5	\$759.1	\$841.7	\$920.7	\$145.7
Totals/Weighted Averages	\$37,115	\$5,601.8	\$5,965.3	\$6,316.0	\$6,678.9	\$6,981.5	\$714.1	\$6,115.4	\$6,639.2	\$7,207.9	\$7,730.6	\$1,037.4	\$6,251.6	\$6,932.1	\$7,686.9	\$8,408.7	\$1,330.3

1/ High and low estimates were adjusted by a margin consistent with the Snohomish County high and low population forecast adjustments.
2/ Claritas, Inc. average retail sales figures in 2006 dollars

**EXHIBIT R.14
PROJECTIONS OF COMMERCIAL RETAIL SPACE NEED
ONE, THREE, & SEVEN MILE TRADE AREA'S
LOW, MEDIUM, and HIGH GROWTH SCENARIOS
(2006-2026)**

One-Mile Radius		Retail Space Need 1/3													
NAICS Category	2006 HH Spending	Sales Support Factor 2/	Base Year 2006	1/ Low Growth Scenario			Medium Growth Scenario			1/ High Growth Scenario			'06-'26 Change		
			2011	2016	2021	2026	2011	2016	2021	2026	2011	2016	2021	2026	'06-'26 Change
441 Automotive Parts, Accessories & Tire Stores	\$44.7	\$139	353,724	386,867	403,703	419,986	370,379	401,600	427,581	455,167	383,348	414,805	448,849	486,308	61,081
442 Furniture & Home Furnishings Stores	\$6.4	\$173	40,716	44,531	46,469	48,343	42,633	46,227	49,217	52,392	44,126	47,747	51,665	55,977	7,031
443 Electronics & Appliance Stores	\$18.4	\$200	100,980	110,441	115,248	119,896	105,734	114,647	122,064	129,939	109,436	118,417	128,135	138,829	17,437
444 Building Materials & Garden Equipment	\$7.1	\$128	61,373	64,262	70,044	72,869	64,262	67,123	74,187	78,973	66,512	71,970	77,877	84,376	10,598
445 Food & Beverage Stores	\$48.2	\$312	169,905	185,825	193,912	201,733	177,905	192,901	205,381	218,632	184,134	199,245	215,597	233,590	29,339
446 Health & Personal Care Stores	\$18.6	\$230	88,951	93,140	97,286	101,520	93,140	100,991	107,524	114,461	96,401	104,312	112,872	122,292	15,360
448 Clothing & Clothing Accessories Stores	\$26.0	\$217	131,657	137,856	143,993	150,260	137,856	149,477	159,147	169,415	142,683	154,392	167,063	181,006	22,735
451 Sporting Goods, Hobby, Book & Music Stores	\$15.3	\$195	86,400	90,468	94,495	98,608	90,468	98,094	104,440	111,178	93,636	101,319	109,635	118,785	14,920
452 General Merchandise Stores	\$7.1	\$139	55,848	58,478	61,081	63,739	58,478	63,407	67,309	71,865	60,525	65,492	70,867	76,781	9,644
453 Miscellaneous Store Retailers	\$5.9	\$192	33,787	35,378	36,953	38,561	35,378	38,360	40,842	43,477	36,617	39,622	42,873	46,451	5,834
722 Foodservices & Drinking Places	\$24.8	\$236	115,423	120,857	126,237	131,731	120,857	131,045	139,523	148,524	125,089	135,354	146,463	158,686	19,931
Totals/Weighted Averages	\$222.4		1,297,090	1,354,831	1,413,795	1,470,818	1,297,090	1,406,427	1,497,417	1,594,023	1,342,508	1,452,675	1,571,896	1,703,081	213,911

Three-Mile Radius		Retail Space Need 1/3													
NAICS Category	2006 HH Spending	Sales Support Factor 2/	Base Year 2006	1/ Low Growth Scenario			Medium Growth Scenario			1/ High Growth Scenario			'06-'26 Change		
			2011	2016	2021	2026	2011	2016	2021	2026	2011	2016	2021	2026	'06-'26 Change
441 Automotive Parts, Accessories & Tire Stores	\$313.8	\$139	2,483,174	2,637,488	2,775,347	2,917,160	2,637,488	2,906,619	3,127,709	3,318,398	2,758,845	3,025,318	3,317,564	3,579,111	1,095,937
442 Furniture & Home Furnishings Stores	\$51.2	\$173	325,235	345,447	363,503	382,077	345,447	380,696	409,654	434,629	361,342	396,243	434,520	468,777	143,541
443 Electronics & Appliance Stores	\$135.0	\$200	742,368	788,502	829,716	872,112	788,502	868,961	935,058	992,066	824,783	904,447	991,817	1,070,009	327,641
444 Building Materials & Garden Equipment	\$62.1	\$128	533,554	566,712	596,333	626,804	566,712	624,539	672,044	713,017	592,787	650,044	712,838	769,036	235,482
445 Food & Beverage Stores	\$322.7	\$312	1,137,845	1,208,555	1,271,725	1,336,707	1,208,555	1,331,877	1,433,185	1,520,563	1,264,164	1,386,267	1,520,181	1,640,228	502,183
446 Health & Personal Care Stores	\$128.7	\$230	615,591	653,846	688,022	723,178	653,846	720,565	775,374	822,647	683,931	749,591	822,440	887,279	271,688
448 Clothing & Clothing Accessories Stores	\$194.5	\$217	986,193	1,047,479	1,102,229	1,158,550	1,047,479	1,154,364	1,242,170	1,317,902	1,095,676	1,201,505	1,317,571	1,421,444	435,252
451 Sporting Goods, Hobby, Book & Music Stores	\$118.1	\$195	666,383	707,795	744,791	782,848	707,795	780,019	839,350	890,524	740,362	811,873	890,300	960,488	294,105
452 General Merchandise Stores	\$44.9	\$139	355,238	377,313	397,035	417,323	377,313	401,624	424,567	447,723	394,675	432,796	474,604	512,020	156,782
453 Miscellaneous Store Retailers	\$45.0	\$192	257,683	273,696	288,002	302,718	273,696	301,624	324,567	344,355	286,289	313,942	344,268	371,409	113,727
722 Foodservices & Drinking Places	\$174.3	\$236	812,252	862,729	907,823	954,210	862,729	950,762	1,023,081	1,085,456	902,425	989,589	1,085,183	1,170,736	358,484
Totals/Weighted Averages	\$1,590.3		8,915,516	9,469,561	9,964,526	10,473,688	9,469,561	10,435,841	11,229,635	11,914,280	9,905,275	10,862,014	11,911,285	12,850,338	3,934,822

Seven-Mile Radius		Retail Space Need 1/3													
NAICS Category	2006 HH Spending	Sales Support Factor 2/	Base Year 2006	1/ Low Growth Scenario			Medium Growth Scenario			1/ High Growth Scenario			'06-'26 Change		
			2011	2016	2021	2026	2011	2016	2021	2026	2011	2016	2021	2026	'06-'26 Change
441 Automotive Parts, Accessories & Tire Stores	\$1,099.4	\$139	8,700,186	9,264,629	9,809,303	10,373,044	9,264,629	10,311,333	11,194,494	12,006,435	9,709,316	10,766,290	11,938,473	13,059,369	2,066,104
442 Furniture & Home Furnishings Stores	\$184.1	\$173	1,170,812	1,246,771	1,320,069	1,395,934	1,246,771	1,387,678	1,506,479	1,615,744	1,306,614	1,448,854	1,606,598	1,757,468	278,042
443 Electronics & Appliance Stores	\$478.8	\$200	2,633,156	2,803,988	2,968,836	3,139,455	2,803,988	3,120,778	3,388,071	3,633,809	2,938,574	3,258,473	3,613,240	3,952,545	625,317
444 Building Materials & Garden Equipment	\$225.5	\$128	1,937,823	2,063,543	2,184,860	2,310,424	2,063,543	2,296,679	2,493,388	2,674,235	2,162,590	2,398,013	2,659,097	2,908,803	460,191
445 Food & Beverage Stores	\$439.4	\$312	3,964,378	4,221,576	4,469,765	4,726,642	4,221,576	4,698,523	5,100,949	5,470,923	4,424,204	4,905,831	5,439,955	5,950,800	941,453
446 Health & Personal Care Stores	\$700.0	\$230	2,101,299	2,237,625	2,369,176	2,505,333	2,237,625	2,490,428	2,703,732	2,899,835	2,345,027	2,600,311	2,883,421	3,154,192	499,013
448 Clothing & Clothing Accessories Stores	\$184.1	\$217	3,548,497	3,778,713	4,000,866	4,230,796	3,778,713	4,205,626	4,565,836	4,896,998	3,960,085	4,391,187	4,869,279	5,326,534	842,690
451 Sporting Goods, Hobby, Book & Music Stores	\$424.0	\$195	2,391,611	2,546,772	2,696,498	2,851,466	2,546,772	2,834,502	3,077,276	3,300,472	2,669,013	2,959,566	3,281,790	3,589,970	567,955
452 General Merchandise Stores	\$152.9	\$139	1,209,952	1,288,450	1,364,199	1,442,599	1,288,450	1,434,017	1,556,840	1,669,758	1,350,293	1,497,289	1,660,307	1,816,220	287,337
453 Miscellaneous Store Retailers	\$160.0	\$192	916,596	976,062	1,033,446	1,092,838	976,062	1,086,336	1,179,381	1,264,922	1,022,912	1,134,268	1,257,761	1,375,873	217,672
722 Foodservices & Drinking Places	\$613.4	\$236	2,859,006	3,044,490	3,223,478	3,408,731	3,044,490	3,388,452	3,678,672	3,945,487	3,190,621	3,537,958	3,923,154	4,291,562	678,952
Totals/Weighted Averages	\$5,601.8		31,433,315	33,472,619	35,440,498	37,474,743	33,472,619	37,254,304	40,445,118	43,378,621	35,079,248	38,898,041	43,133,074	47,183,535	7,464,726

1/ High & low estimates were adjusted by a margin consistent with the Snohomish County high & low population forecast adjustments.
2/ Based on national averages derived from "Dollars & Cents of Shopping Centers," Urban Land Institute, 2000.
3/ Assumes a market-clearing retail space vacancy rate of 10%.

EXHIBIT R.15
PROJECTIONS OF COMMERCIAL RETAIL LAND NEED
ONE, THREE, & SEVEN MILE TRADE AREA'S
LOW, MEDIUM, and HIGH GROWTH SCENARIOS
(2006-2026)

NAICS Category	Sales Supported Retail 2006	Retail Land Need															
		I/Low Growth Scenario			Medium Growth Scenario			I/High Growth Scenario			'06-'26 Change						
		2011	2016	2021	2026	2011	2016	2021	2026	2011	2016	2021	2026	2011	2016	2021	2026
441 Automotive Parts, Accessories & Tire Stores	353,724	34.0	35.5	37.1	38.6	34.6	36.9	39.3	41.8	34.6	36.9	39.3	41.8	35.2	38.1	41.2	44.7
442 Furniture & Home Furnishings Stores	40,716	3.9	4.1	4.3	4.4	4.0	4.2	4.5	4.8	4.0	4.2	4.5	4.8	4.1	4.4	4.7	5.1
443 Electronics & Appliance Stores	100,980	9.7	10.1	10.6	11.0	9.9	10.5	11.2	11.9	9.9	10.5	11.2	11.9	10.0	10.9	11.8	12.7
444 Building Materials & Garden Equipment	61,373	5.6	5.9	6.2	6.4	6.0	6.4	6.8	7.3	6.0	6.4	6.8	7.3	6.1	6.6	7.2	7.7
445 Food & Beverage Stores	169,905	15.6	16.3	17.1	17.8	16.6	17.7	18.9	20.1	16.6	17.7	18.9	20.1	16.9	18.3	19.8	21.4
446 Health & Personal Care Stores	88,951	8.6	8.9	9.3	9.7	8.7	9.3	9.9	10.5	8.7	9.3	9.9	10.5	8.9	9.6	10.4	11.2
448 Clothing & Clothing Accessories Stores	131,657	12.7	13.2	13.8	14.4	12.9	13.7	14.6	15.6	12.9	13.7	14.6	15.6	13.1	14.2	15.3	16.6
451 Sporting Goods, Hobby, Book & Music Stores	86,400	7.9	8.3	8.7	9.1	8.5	9.0	9.6	10.2	8.5	9.0	9.6	10.2	8.6	9.3	10.1	10.9
452 General Merchandise Stores	55,848	5.4	5.6	5.9	6.1	5.5	5.8	6.2	6.6	5.5	5.8	6.2	6.6	5.6	6.0	6.5	7.1
453 Miscellaneous Store Retailers	33,787	3.2	3.4	3.5	3.7	3.3	3.5	3.8	4.0	3.3	3.5	3.8	4.0	3.4	3.6	3.9	4.3
722 Foodservices & Drinking Places	115,423	11.1	11.6	12.1	12.6	11.3	12.0	12.8	13.6	11.3	12.0	12.8	13.6	11.5	12.4	13.4	14.6
Totals/Weighted Averages		113.8	119.1	124.4	129.8	121.3	129.1	137.5	146.4	121.3	129.1	137.5	146.4	123.3	133.4	144.3	156.4

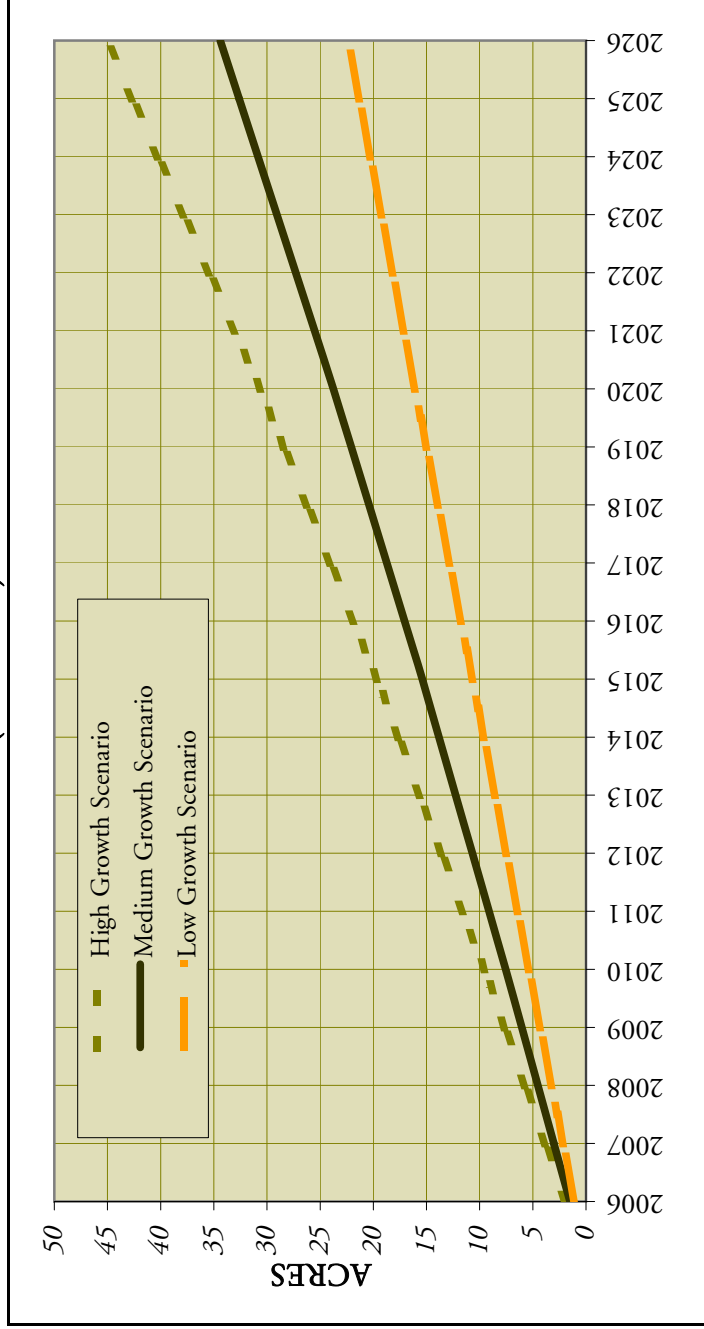
NAICS Category	Sales Supported Retail 2006	Retail Land Need															
		I/Low Growth Scenario			Medium Growth Scenario			I/High Growth Scenario			'06-'26 Change						
		2011	2016	2021	2026	2011	2016	2021	2026	2011	2016	2021	2026	2011	2016	2021	2026
441 Automotive Parts, Accessories & Tire Stores	2,483,174	242.2	254.9	267.9	278.1	248.0	266.9	287.2	304.7	248.0	266.9	287.2	304.7	253.3	277.8	304.6	328.7
442 Furniture & Home Furnishings Stores	325,235	31.7	33.4	35.1	36.4	32.5	35.0	37.6	39.9	32.5	35.0	37.6	39.9	33.2	36.4	39.9	43.0
443 Electronics & Appliance Stores	742,368	72.4	76.2	80.1	83.1	74.2	79.8	85.9	91.1	74.2	79.8	85.9	91.1	75.7	83.1	91.1	98.3
444 Building Materials & Garden Equipment	533,554	49.0	54.8	57.6	59.8	53.3	57.3	61.7	65.5	53.3	57.3	61.7	65.5	54.4	59.7	65.5	70.6
445 Food & Beverage Stores	1,137,845	111.0	116.8	122.7	127.4	113.7	122.3	131.6	139.6	113.7	122.3	131.6	139.6	116.1	127.3	139.6	150.6
446 Health & Personal Care Stores	615,591	60.0	63.2	66.4	68.9	61.5	66.2	71.2	75.5	61.5	66.2	71.2	75.5	62.8	68.9	75.5	81.5
448 Clothing & Clothing Accessories Stores	986,193	96.2	101.2	106.4	110.4	98.5	106.0	114.1	121.0	98.5	106.0	114.1	121.0	100.6	110.3	121.0	130.5
451 Sporting Goods, Hobby, Book & Music Stores	666,383	61.2	65.0	68.4	71.9	66.6	71.6	77.1	81.8	66.6	71.6	77.1	81.8	68.0	74.6	81.8	88.2
452 General Merchandise Stores	355,238	32.6	34.6	36.5	39.8	35.5	38.2	41.1	43.6	35.5	38.2	41.1	43.6	36.2	39.7	43.6	47.0
453 Miscellaneous Store Retailers	257,683	23.7	25.1	26.4	27.8	25.7	27.7	29.8	31.6	25.7	27.7	29.8	31.6	26.3	28.8	31.6	34.1
722 Foodservices & Drinking Places	812,252	74.6	79.2	83.4	87.6	81.1	87.3	93.9	99.7	81.1	87.3	93.9	99.7	82.9	90.9	99.6	107.5
Totals/Weighted Averages		818.7	869.6	915.0	961.8	890.6	958.3	1,031.2	1,094.1	890.6	958.3	1,031.2	1,094.1	909.6	997.4	1,093.8	1,180.0

NAICS Category	Sales Supported Retail 2006	Retail Land Need															
		I/Low Growth Scenario			Medium Growth Scenario			I/High Growth Scenario			'06-'26 Change						
		2011	2016	2021	2026	2011	2016	2021	2026	2011	2016	2021	2026	2011	2016	2021	2026
441 Automotive Parts, Accessories & Tire Stores	8,700,186	850.7	900.8	952.5	995.7	872.2	946.9	1,028.0	1,102.5	872.2	946.9	1,028.0	1,102.5	891.6	988.6	1,096.3	1,199.2
442 Furniture & Home Furnishings Stores	1,170,812	114.5	121.2	128.2	134.0	117.4	127.4	138.3	148.4	117.4	127.4	138.3	148.4	120.0	133.0	147.5	161.4
443 Electronics & Appliance Stores	2,633,156	257.5	272.6	288.3	301.3	264.0	286.6	311.1	333.7	264.0	286.6	311.1	333.7	269.8	299.2	331.8	363.0
444 Building Materials & Garden Equipment	1,937,823	189.5	200.6	212.2	221.8	194.3	210.9	229.0	245.6	194.3	210.9	229.0	245.6	198.6	220.2	244.2	267.1
445 Food & Beverage Stores	3,964,378	387.7	410.4	434.0	453.7	397.4	431.5	468.4	502.4	397.4	431.5	468.4	502.4	406.3	450.5	499.5	546.4
446 Health & Personal Care Stores	2,101,299	205.5	217.6	230.1	240.5	210.6	228.7	248.3	266.3	210.6	228.7	248.3	266.3	215.3	238.8	264.8	289.6
448 Clothing & Clothing Accessories Stores	3,548,497	347.0	367.4	388.5	406.1	355.7	386.2	419.3	449.7	355.7	386.2	419.3	449.7	363.6	403.2	447.1	489.1
451 Sporting Goods, Hobby, Book & Music Stores	2,391,611	233.9	247.6	261.8	273.7	239.8	260.3	282.6	303.1	239.8	260.3	282.6	303.1	245.1	271.8	301.4	329.7
452 General Merchandise Stores	1,209,952	118.3	125.3	132.5	138.5	121.3	131.7	143.0	153.3	121.3	131.7	143.0	153.3	124.0	137.5	152.5	166.8
453 Miscellaneous Store Retailers	916,596	89.6	94.9	100.4	104.9	91.9	99.8	108.3	116.2	91.9	99.8	108.3	116.2	93.9	104.2	115.5	126.3
722 Foodservices & Drinking Places	2,859,006	279.6	296.0	313.0	327.2	286.6	311.2	332.8	362.3	286.6	311.2	332.8	362.3	293.0	324.9	360.3	394.1
Totals/Weighted Averages		2,886.4	3,073.7	3,254.4	3,441.4	3,073.7	3,421.0	3,714.0	3,983.3	3,073.7	3,421.0	3,714.0	3,983.3	3,221.2	3,571.9	3,960.8	4,332.7

1/ High and low estimates were adjusted by a margin consistent with the Snohomish County high and low population forecast adjustments.

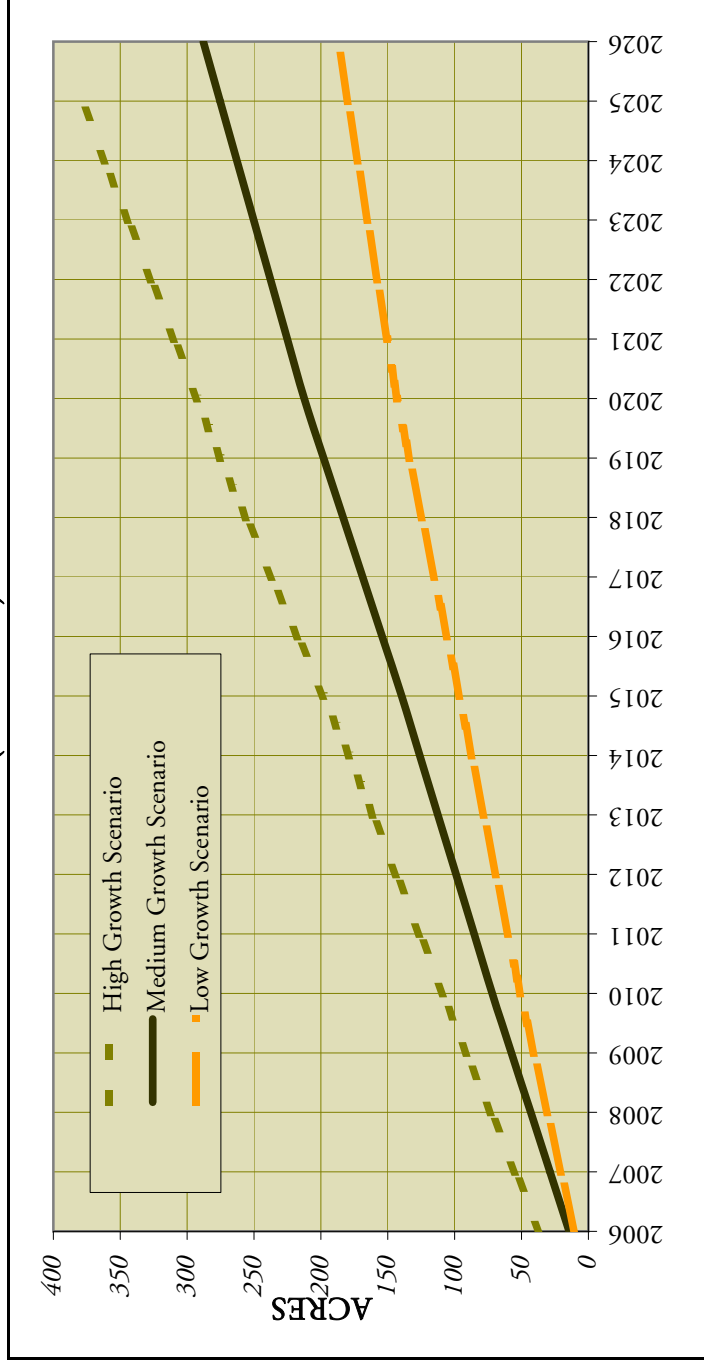
2/ Assumes typical suburban retail profile: single-story with four parking spaces per 1,000 square feet of developed space.

EXHIBIT R.16
COMPARISON OF CUMULATIVE DEMAND FOR COMMERCIAL RETAIL LAND
ONE-MILE RADIUS
MEDIUM, HIGH and LOW EMPLOYMENT GROWTH SCENARIOS
(2006-2026)



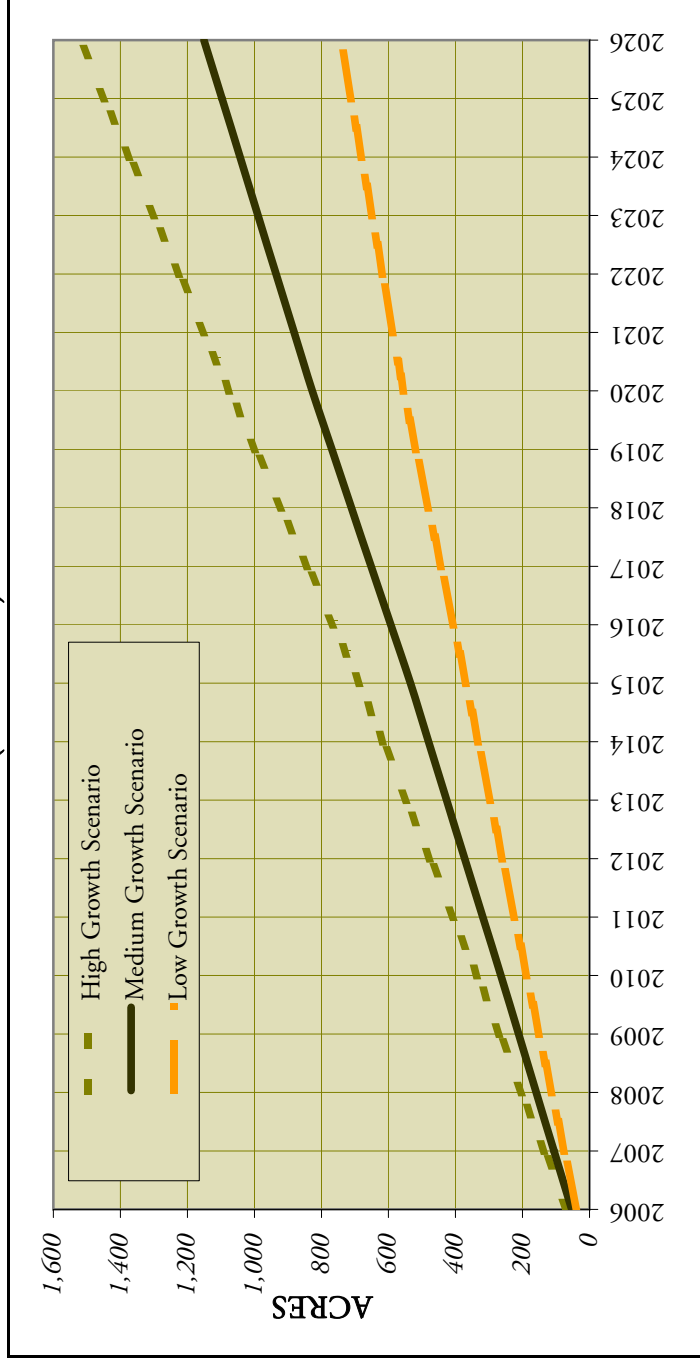
SOURCE: JOHNSON GARDNER

EXHIBIT R.17
COMPARISON OF CUMULATIVE DEMAND FOR COMMERCIAL RETAIL LAND
THREE-MILE RADIUS
MEDIUM, HIGH and LOW EMPLOYMENT GROWTH SCENARIOS
(2006-2026)



SOURCE: JOHNSON GARDNER

EXHIBIT R.18
COMPARISON OF CUMULATIVE DEMAND FOR COMMERCIAL RETAIL LAND
SEVEN-MILE RADIUS
MEDIUM, HIGH and LOW EMPLOYMENT GROWTH SCENARIOS
(2006-2026)



SOURCE: JOHNSON GARDNER

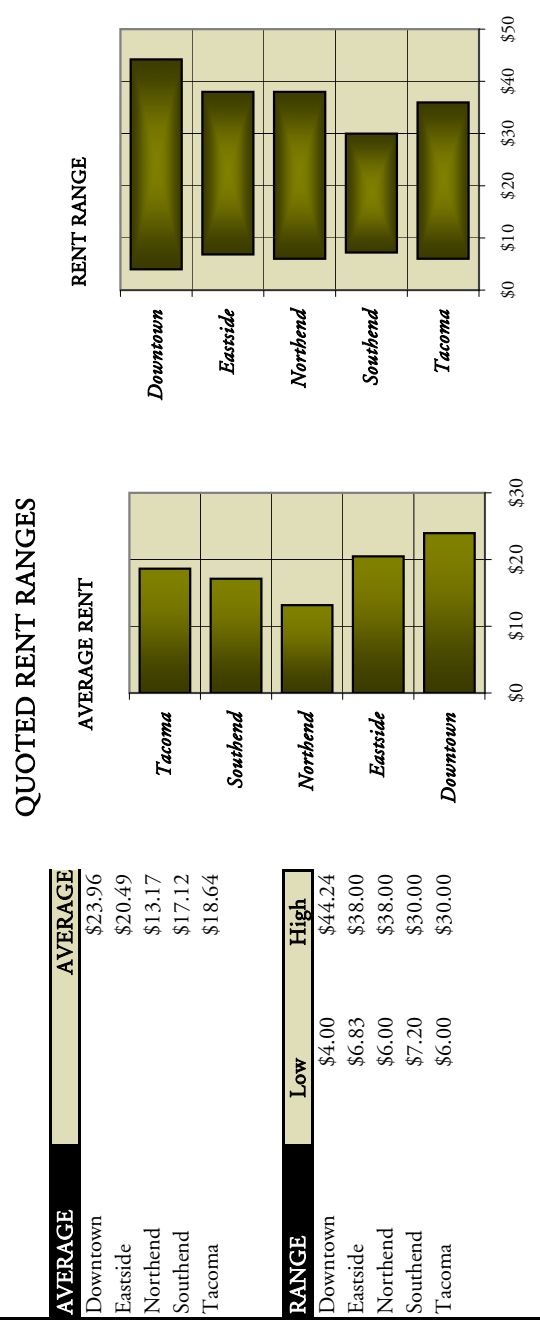
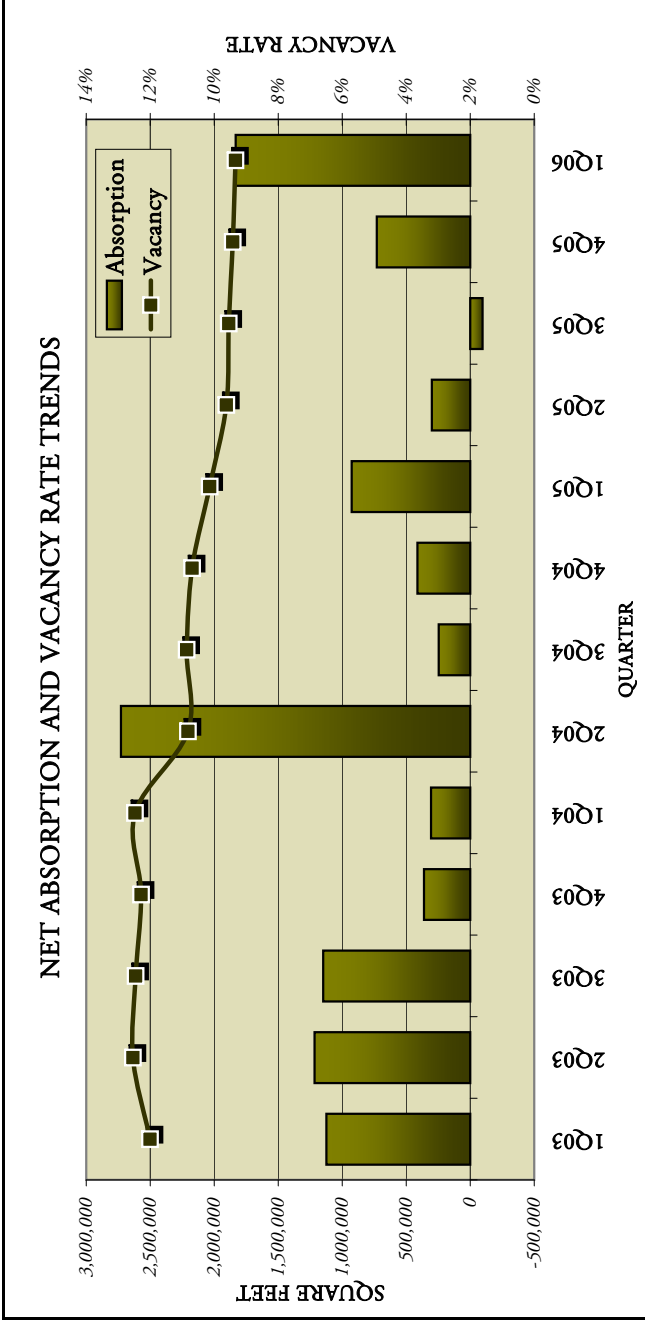
SECTION O

OFFICE MARKET EXHIBITS

EXHIBIT O.1
OVERVIEW OF SUBMARKET TRENDS
SEATTLE METROPOLITAN AREA

	Speculative Inventory	Under Construction	Inventory Adjustments	Net Absorption	Vacancy		Total
					Direct	Sublease	
QUARTERLY TRENDS							
1Q01	80,121,327	6,207,578	-3,556,326	-1,369,203	4,612,309	2,768,585	9.21%
2Q01	82,881,943	4,436,271	-1,675,655	-397,970	6,103,418	3,993,877	12.18%
3Q01	85,503,284	4,904,628	-2,283,287	-553,444	7,268,634	4,474,443	13.73%
4Q01	85,905,008	4,671,319	-4,269,595	1,647,178	7,409,788	4,587,707	13.97%
1Q02	85,953,332	4,023,455	-3,975,131	-1,175,447	8,108,594	3,771,029	13.82%
2Q02	87,352,083	3,239,131	-1,840,380	1,394,751	9,250,660	4,929,948	16.23%
3Q02	88,478,641	1,868,683	-742,125	780,446	9,792,232	4,847,331	16.55%
4Q02	89,560,976	2,952,283	-1,869,948	802,674	10,846,929	4,263,077	16.87%
1Q03	125,432,931	708,353	36,561,670	1,123,640	15,226,232	3,826,898	15.02%
2Q03	127,157,700	2,182,761	-457,992	1,216,185	15,948,109	3,867,990	15.58%
3Q03	127,329,307	726,092	-554,485	1,148,179	15,861,822	3,585,468	15.27%
4Q03	127,866,573	1,542,410	537,266	360,975	15,707,290	3,467,150	15.00%
1Q04	129,320,695	440,996	1,454,122	306,422	16,131,321	2,948,579	14.75%
2Q04	129,812,629	552,870	491,934	2,728,336	14,045,427	2,344,662	12.63%
3Q04	130,437,081	518,814	624,452	246,043	14,163,853	2,050,584	12.43%
4Q04	131,843,454	1,475,141	1,406,373	412,686	14,096,447	1,872,693	12.11%
1Q05	131,679,809	1,828,985	578,601	926,866	13,354,201	1,689,040	11.42%
2Q05	133,491,933	1,573,793	1,812,124	300,182	12,840,731	2,078,545	11.18%
3Q05	134,532,729	1,466,177	1,040,796	-96,229	12,840,731	2,078,545	11.09%
4Q05	136,286,389	2,382,453	1,753,660	729,845	12,840,731	2,078,545	10.95%
1Q06	137,566,677	2,287,821	1,280,288	1,832,370	12,840,731	2,078,545	10.85%
BREAKOUT BY SUBMARKET							
Downtown	51,484,386	702,885	959,315	581,277	5,458,594	1,544,059	13.60%
Eastside	40,221,207	566,400	-243,879	-95,510	2,536,971	515,738	7.59%
Northend	16,202,834	186,613	329,355	694,891	1,341,630	78,745	8.77%
Southend	18,656,810	794,998	249,217	582,837	2,708,436	48,410	14.78%
Tacoma	11,001,440	36,925	-13,720	68,875	881,299	13,335	8.13%

EXHIBIT O.1 CONTINUED

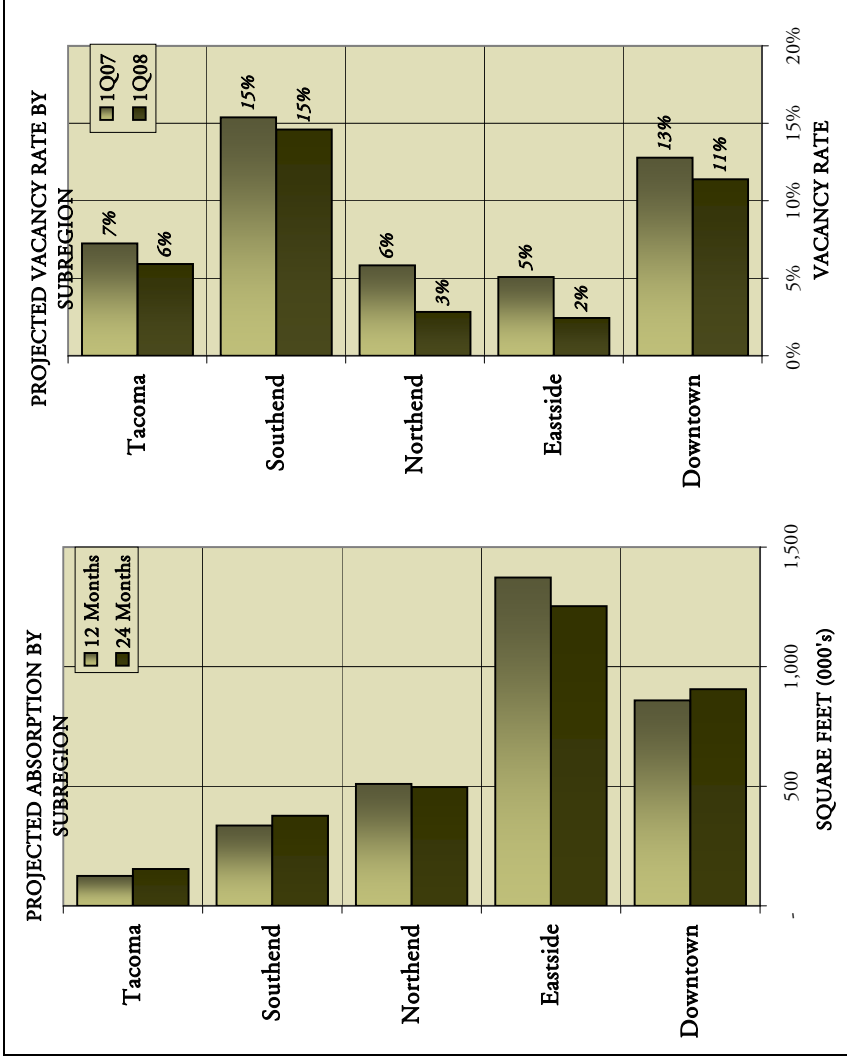


SOURCE: CoStar and Johnson Gardner

EXHIBIT O.2
PROJECTED DEMAND BY SUBREGION AND SUBMARKET
SEATTLE METROPOLITAN AREA

Subregion Submarket	1st Quarter 2006		New Supply		Forecasted Demand		Projected	
	Speculative Inventory	Vacancy Rate	2Q06- 1Q07	2Q07- 1Q08	2Q06- 1Q07	2Q07- 1Q08	Vacancy Rate 1Q07	Vacancy Rate 1Q08
Downtown	51,484,386	13.6%	499,339	203,546	859,000	904,837	12.8%	11.4%
<i>Capitol Hill/First Hill</i>	3,250,357	10.2%	56,585	0	50,017	43,161	10.2%	8.9%
<i>CBD</i>	25,322,205	13.7%	185,714	139,286	412,131	460,655	12.7%	11.4%
<i>Denny Regrade</i>	6,620,524	11.2%	0	0	82,040	84,637	9.9%	8.6%
<i>Lake Union</i>	5,791,803	18.0%	257,040	64,260	163,341	159,672	18.8%	17.0%
<i>Pioneer Square</i>	6,059,327	13.6%	0	0	88,048	91,106	12.1%	10.6%
<i>Queen Anne</i>	4,440,170	13.3%	0	0	63,422	65,605	11.9%	10.4%
Eastside	40,221,207	7.6%	381,253	185,147	1,373,000	1,251,712	5.1%	2.4%
<i>5201 Overlake</i>	5,306,715	4.5%	0	0	100,855	83,900	2.6%	1.0%
<i>Bellevue CBD</i>	6,635,936	6.7%	359,333	179,667	381,703	383,298	6.0%	3.0%
<i>Bellevue Suburban</i>	6,035,713	9.9%	0	0	216,360	193,530	6.4%	3.2%
<i>Bothell/Kennmore</i>	3,995,734	13.4%	0	0	185,382	168,798	8.7%	4.5%
<i>I-90 Corridor</i>	8,794,513	5.8%	21,920	5,480	216,453	183,370	3.6%	1.6%
<i>Kirkland/ Totem Lake</i>	4,356,204	12.1%	0	0	184,788	167,312	7.8%	4.0%
<i>Redmond/ Willows</i>	5,096,392	3.9%	0	0	87,459	71,504	2.2%	0.8%
Northend	16,202,834	8.8%	36,338	9,084	510,000	495,994	5.8%	2.8%
<i>Everett/ Sonomish County</i>	5,752,147	9.1%	0	0	182,461	176,133	5.9%	2.8%
<i>Edmonds/ Lynnwood</i>	8,547,024	8.3%	36,338	9,084	261,335	255,500	5.6%	2.7%
<i>Norhigate/ North Seattle</i>	1,903,663	10.1%	0	0	66,205	64,361	6.6%	3.2%
Southend	18,656,810	14.8%	530,721	264,277	336,000	376,304	15.4%	14.6%
<i>Federal Way</i>	3,118,184	12.3%	0	0	38,773	40,686	11.0%	9.7%
<i>Kent/ Auburn</i>	2,861,877	17.2%	0	0	46,691	49,057	15.6%	13.9%
<i>Renton/ Tukwila</i>	7,481,790	19.6%	526,387	263,193	203,027	236,828	22.3%	22.0%
<i>SeaTac/ Burien</i>	2,005,878	8.9%	4,334	1,084	20,158	21,100	8.1%	7.1%
<i>South/ West Seattle</i>	3,189,081	7.4%	0	0	27,352	28,633	6.5%	5.6%
Tacoma	11,001,440	8.1%	29,540	7,385	125,000	153,821	7.2%	5.9%
<i>Tacoma CBD</i>	4,481,743	8.4%	0	0	51,911	63,311	7.3%	5.9%
<i>Tacoma Suburban/Pierce</i>	6,519,697	7.9%	29,540	7,385	73,089	90,509	7.2%	6.0%
Metropolitan Area Total	137,566,677	11.0%	1,477,191	669,439	3,203,000	3,182,668	9.6%	7.8%

EXHIBIT O.2 CONTINUED



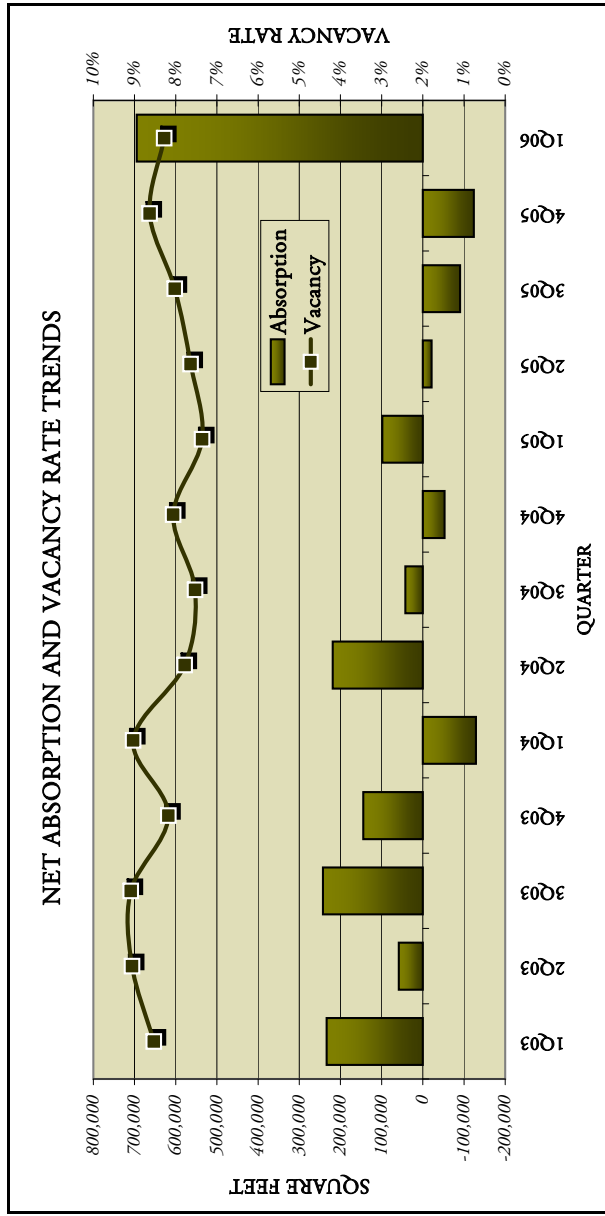
SOURCE: Johnson Gardner

EXHIBIT O.3

**OVERVIEW OF SUBMARKET TRENDS
NORTHEAST SUBREGION**

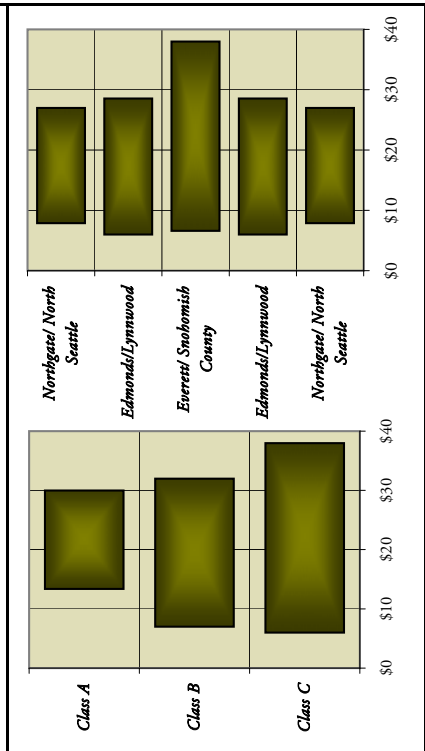
	Speculative Inventory	Under Construction	Inventory Adjustments	Net Absorption	Vacancy		Total
					Direct	Sublease	
QUARTERLY TRENDS							
2Q01	4,970,778	252,675	-148,934	83,972	748,885	27,080	15.07%
3Q01	5,151,113	195,036	-14,701	-48,958	998,724	58,289	19.39%
4Q01	5,223,873	201,652	-128,892	51,729	943,762	61,611	18.07%
1Q02	5,467,555	197,834	45,848	42,615	943,762	61,611	17.26%
2Q02	5,608,946	64,152	77,239	141,391	914,060	99,503	16.30%
3Q02	5,686,054	97,152	-20,044	23,420	938,360	98,623	16.50%
4Q02	5,794,671	117,818	11,465	62,101	951,077	53,805	16.41%
1Q03	16,615,320	117,818	10,820,649	233,560	1,536,527	395,161	8.53%
2Q03	16,822,900	37,806	207,580	58,525	1,523,980	406,471	9.06%
3Q03	13,965,751	4,806	-2,857,149	242,365	1,269,677	135,298	9.09%
4Q03	14,025,056	47,612	59,305	144,419	1,147,052	118,857	8.18%
1Q04	14,176,915	47,612	151,859	-128,736	1,280,464	129,282	9.03%
2Q04	14,535,918	39,258	358,492	218,731	1,131,177	89,955	7.78%
3Q04	14,593,918	39,258	58,511	42,309	1,098,841	84,727	7.53%
4Q04	14,757,153	187,272	163,235	-52,729	1,189,554	60,571	8.06%
1Q05	14,822,293	252,272	65,140	98,272	1,090,435	66,502	7.36%
2Q05	15,097,742	178,343	275,449	-21,444	1,153,133	47,146	7.64%
3Q05	15,325,181	250,402	227,439	-90,611	1,229,674	80,663	8.02%
4Q05	15,873,479	311,763	548,298	-123,782	1,370,291	115,137	8.63%
1Q06	16,202,834	186,613	329,355	694,891	1,341,630	78,745	8.28%
BREAKOUT BY CLASS							
Class A	2,238,842	14,830	2,233	20,557	354,526	10,598	15.84%
Class B	10,147,222	171,783	273,679	587,710	788,827	65,992	7.77%
Class C	3,816,770	186,613	53,443	86,624	198,277	2,155	5.19%
Total	16,202,834	186,613	329,355	694,891	1,341,630	78,745	8.28%
BREAKOUT BY SUBMARKET							
Everett/ Snohomish Coun	4,934,433	0	152,605	337,871	424,447	20,579	8.60%
Edmonds/ Lynnwood	4,058,321	45,422	15,917	11,137	543,361	14,712	13.39%
Northgate/ North Seattle	1,903,663	0	55,970	111,209	181,108	11,256	9.51%
Mill Creek/ Woodinville	817,714	46,191	-16,823	(32,814)	76,866	0	9.40%
Ballard	4,488,703	95,000	121,686	267,489	115,848	32,198	2.58%
Total	16,202,834	186,613	329,355	694,891	1,341,630	78,745	8.28%

EXHIBIT O.3 CONTINUED



QUOTED RENT RANGES AND SPACE AVAILABILITY

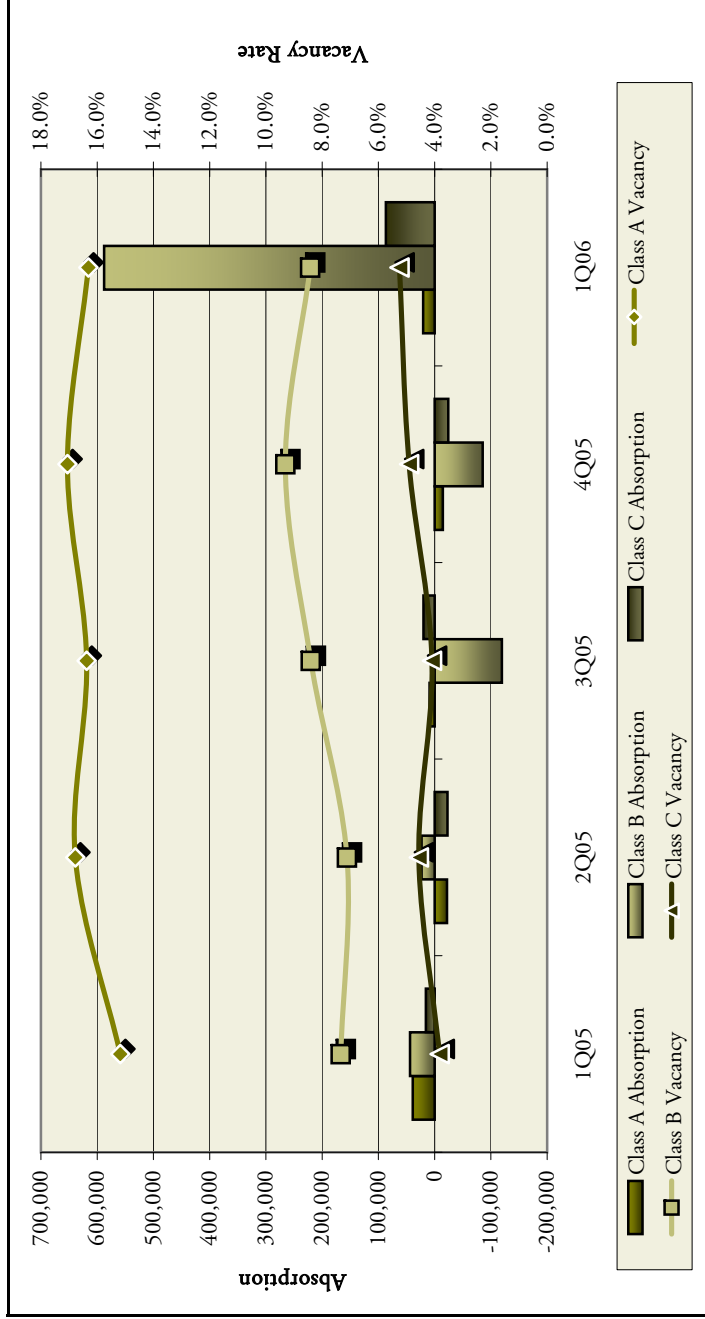
BY CLASS	Low	High
Class A	\$13.38	\$30.00
Class B	\$7.00	\$32.00
Class C	\$6.00	\$38.00
Total	\$6.00	\$38.00



BY SUBMARKET	Low	High
Everett/ Snohomish County	\$6.60	\$38.00
Edmonds/ Lynnwood	\$6.00	\$28.57
Northgate/ North Seattle	\$7.88	\$27.00
Mill Creek/ Woodinville	\$7.32	\$28.44
Ballard	\$12.00	\$25.00
Total	\$6.00	\$38.00

SOURCE: CoStar and Johnson Gardner

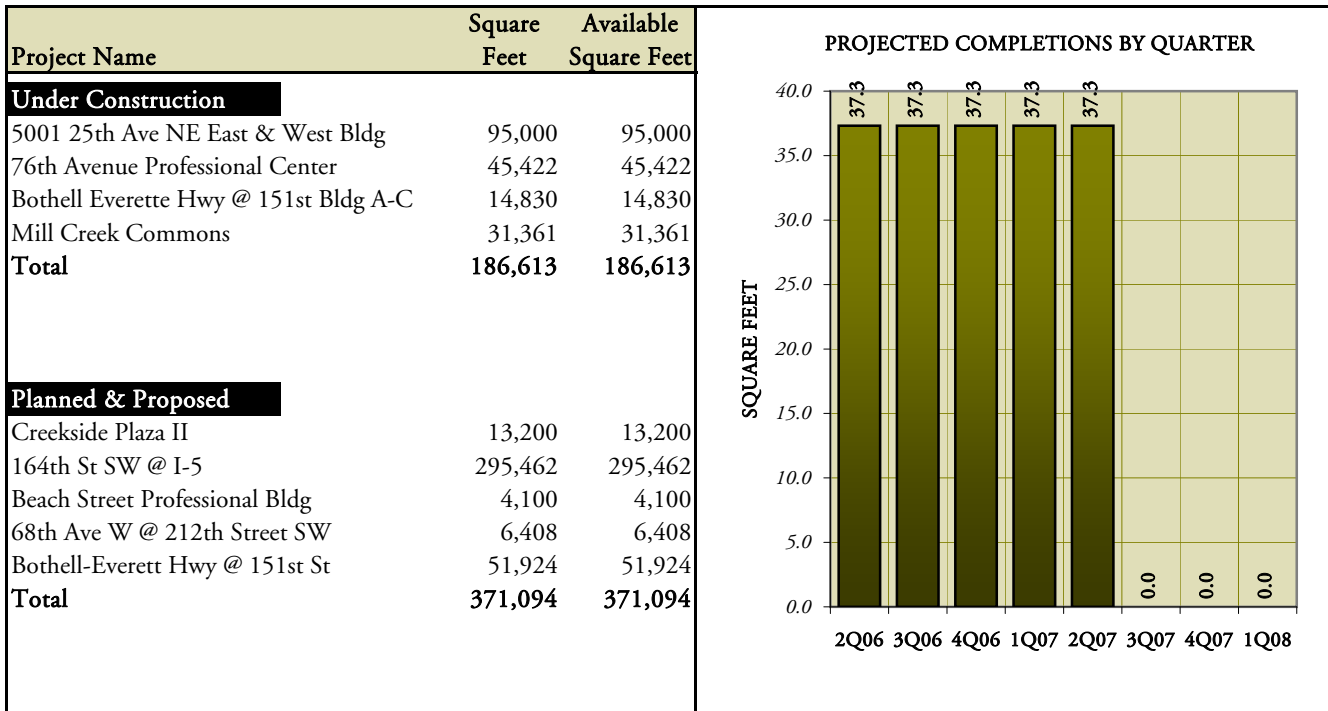
EXHIBIT O.4
OFFICE MARKET CONDITIONS BY BUILDING CLASS
NORTHEAST SUBREGION



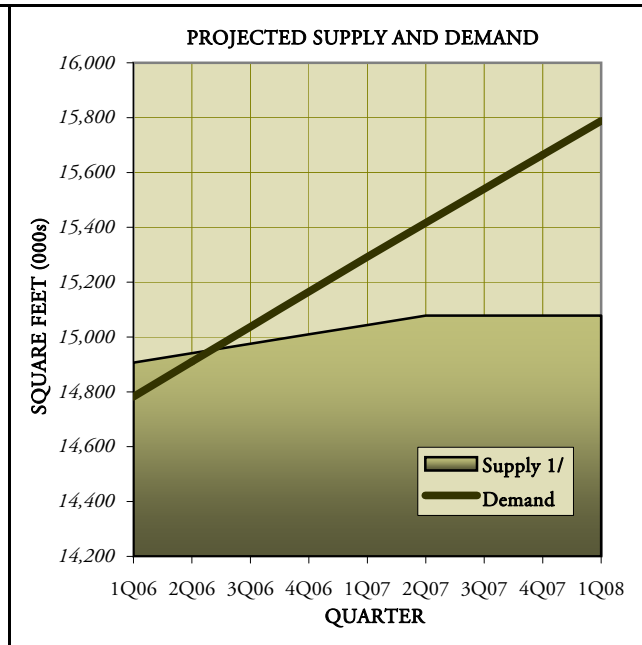
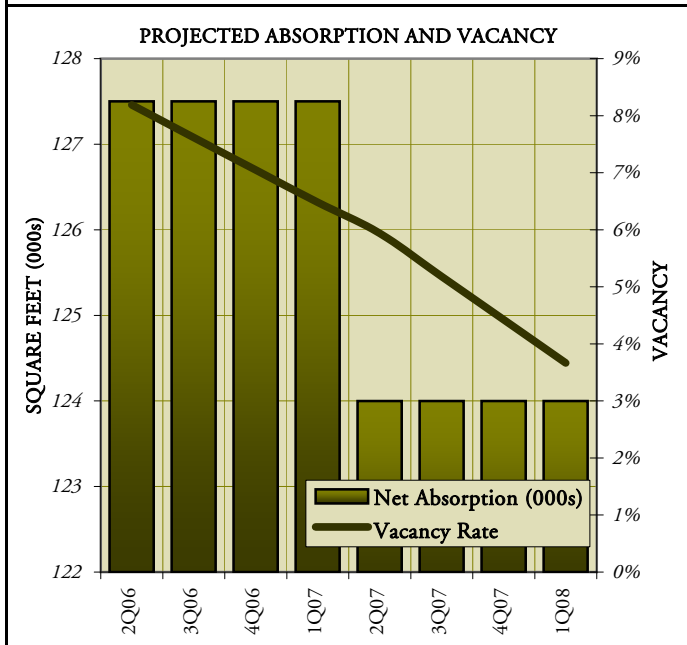
SOURCE: CoStar and JOHNSON GARDNER

EXHIBIT O.5 PROJECTED MARKET CONDITIONS

0

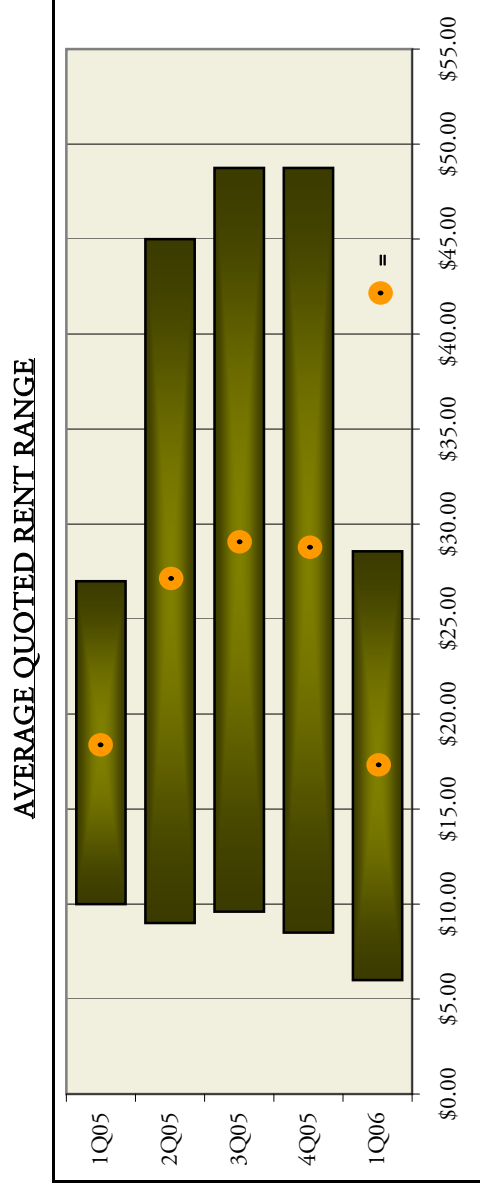
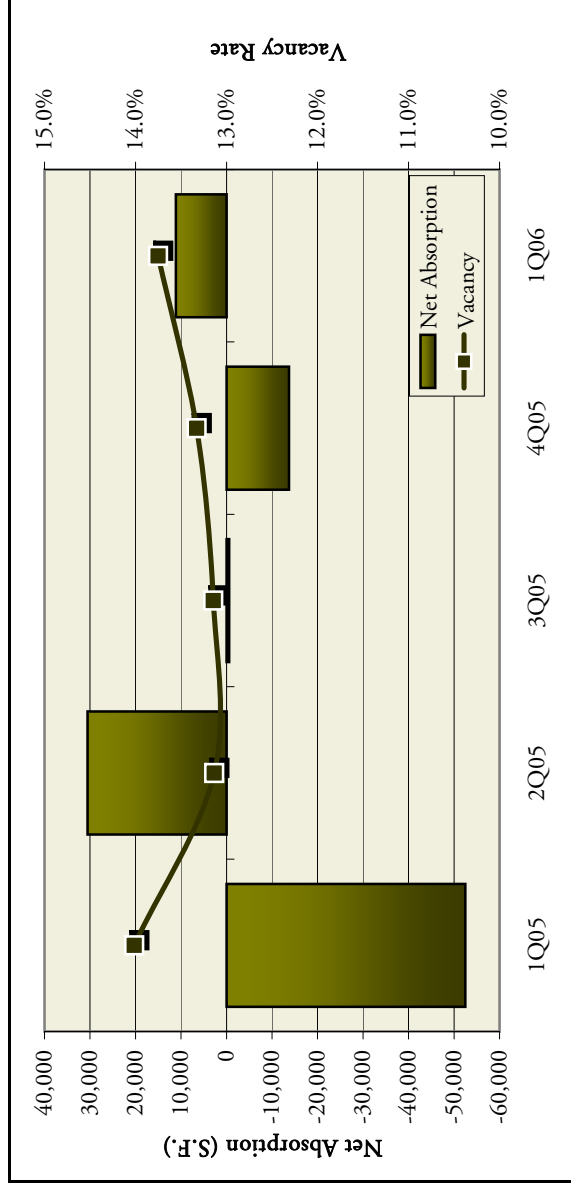


PROJECTIONS	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08
Inventory (000s)	16,202.8	16,240.2	16,277.5	16,314.8	16,352.1	16,389.4	16,389.4	16,389.4	16,389.4
New Supply (000s)		37.3	37.3	37.3	37.3	37.3	0.0	0.0	0.0
Net Absorption (000s)		127.5	127.5	127.5	127.5	124.0	124.0	124.0	124.0
Occupied Space (000s)	14,782.5	14,910.0	15,037.5	15,165.0	15,292.5	15,416.5	15,540.5	15,664.5	15,788.5
Vacancy Rate - Period End	8.77%	8.19%	7.62%	7.05%	6.48%	5.94%	5.18%	4.42%	3.67%




SOURCE: CoStar and Johnson Gardner

EXHIBIT O.6
OFFICE MARKET TRENDS & CONDITIONS
EDMONDS/LYNNWOOD SUBMARKET





SOURCE: CoStar and JOHNSON GARDNER

**EXHIBIT O.7
SELECTED COMPETITIVE OFFICE PROJECTS
LYNNWOOD, WASHINGTON**

Alderwood Business Center 1 & 2		Statistics	Image
<p>1</p> <p>3400 188th Street Lynnwood, Washington</p> <p>Description</p> <p>The building consists of nine private office spaces and a separate kitchen area. The 4-story structure is located on 188th Street adjacent to the Alderwood Mall and just west of Interstate-5. The building has a parking ratio of 3.75/1,000</p>	<p>RBA: 98,518</p> <p>Year Built: 1985</p> <p># of Available Spaces: 2</p> <p>Space Available (S.F.): 5,860</p> <p>Use Type: Office Space</p> <p>Lease Rate: \$20.00</p> <p>Lease Terms: Full Service</p> <p>Vacancy: 5.9%</p>	<p>NO IMAGE</p>	
Northview Corporate Center		Statistics	Image
<p>2</p> <p>20700 44th Avenue W. Lynnwood, Washington</p> <p>Description</p> <p>The structure has Class A finishes and an Embassy Suites Hotel on-site. Other amenities include Showers and locker rooms. The building's location just east of Interstate-5 provides excellent visibility and freeway access. The parking ratio is an ample 5/1,000.</p>	<p>RBA: 189,948</p> <p>Year Built: 1990</p> <p># of Available Spaces: 6</p> <p>Space Available (S.F.): 84,977</p> <p>Use Type: Office</p> <p>Lease Rate: \$18.00</p> <p>Lease Terms: NNN</p> <p>Vacancy: 44.7%</p>		

**EXHIBIT O.7
SELECTED COMPETITIVE OFFICE PROJECTS
LYNNWOOD, WASHINGTON**

<p>Unnamed Building 1 3333 184th Street SW Lynnwood, Washington</p>	<p align="center">3</p>	<p align="center">Image</p> 
<p>Description Located on 184th Street SW adjacent to the Alderwood Mall. Located in a high traffic high visibility area. Space also includes some retail uses.</p>		<p>Statistics RBA: 42,830 Year Built: N/A # of Available Spaces: 1 Space Available (S.F.): 3,222 Use Type: Office Lease Rate: \$19.50 Lease Terms: NNN Vacancy: 7.5%</p>
<p>Lynnwood Business Center 19231 36th Avenue W Lynnwood, Washington</p>	<p align="center">4</p>	<p align="center">Image</p> 
<p>Description Close-in Lynnwood location. Quick access to I-5, I-405 & Hwy 99. Less than 1 mile from Alderwood Mall!</p>		<p>Statistics RBA: 21,461 Year Built: N/A # of Available Spaces: 2 Space Available (S.F.): 4,047 Use Type: Office Lease Rate: \$16.00 Lease Terms: NNN Vacancy: 18.9%</p>

**EXHIBIT O.7
SELECTED COMPETITIVE OFFICE PROJECTS
LYNNWOOD, WASHINGTON**


<p>Cypress Semiconductor @ Northpointe 2700 162nd Street SW Lynnwood, Washington</p>	<p align="center">5</p>	<p align="center">Image</p> <p align="center">NO IMAGE</p>
<p>Description Part of a nine building office campus under development in Lynnwood near the I-5/I-405 interchange. The three story structure includes all infrastructure including high tech fibre optics and communication capabilities. Has excellent visibility</p>		<p>Statistics RBA: 69,300 Year Built: 2002 # of Available Spaces: 3 Space Available (S.F.): 18,985 Use Type: Class A Office Lease Rate: \$20.00 Lease Terms: Full Service Vacancy: 27.4%</p>
<p>Lynnwood Financial Center II 19031 33rd Avenue W Lynnwood, Washington</p>	<p align="center">6</p>	<p align="center">Image</p> 
<p>Description Office Building located in Lynnwood's business district. The property is a two-story structure with the only vacancy consisting of a small sublease space.</p>		<p>Statistics RBA: 47,378 Year Built: 1988 # of Available Spaces: 1 Space Available (S.F.): 2,588 Use Type: Office Lease Rate: \$21.00 Lease Terms: Full Service Vacancy: 5.5%</p>

EXHIBIT O.7
SELECTED COMPETITIVE OFFICE PROJECTS
LYNNWOOD, WASHINGTON



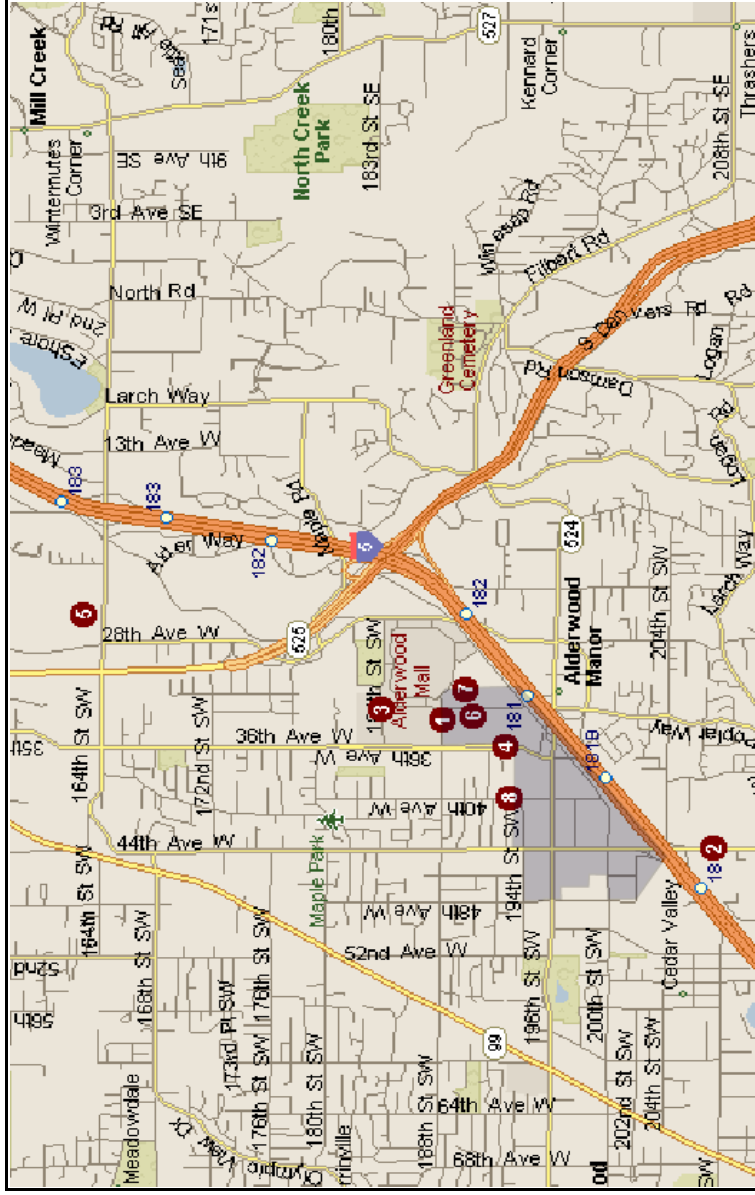
<p>Lynnwood Financial Center I</p> <p>19009 33rd Avenue W Lynnwood, Washington</p>	<p style="text-align: center;">7</p>	<p style="text-align: center;">Image</p> 
<p>Description</p> <p>Office Building located in Lynnwood's business district. The property is a three story office structure with three small spaces currently available.</p>		<p style="text-align: center;">Statistics</p> <p>RBA: 27,400 Year Built: 1986 # of Available Spaces: 3 Space Available (S.F.): 7,241 Use Type: Office Lease Rate: \$12.00 - \$19.00 Lease Terms: Full Service Vacancy: 26.4%</p>
<p>Sparling Building</p> <p>19311 40th Avenue W. Lynnwood, Washington</p>	<p style="text-align: center;">8</p>	<p style="text-align: center;">Image</p> 
<p>Description</p> <p>Attractive Office Building located in the Lynnwood City Center.</p>		<p style="text-align: center;">Statistics</p> <p>RBA: 69,269 Year Built: N/A # of Available Spaces: 1 Space Available (S.F.): 8,553 Use Type: Office Lease Rate: \$18.00 Lease Terms: NNN Vacancy: 12.3%</p>

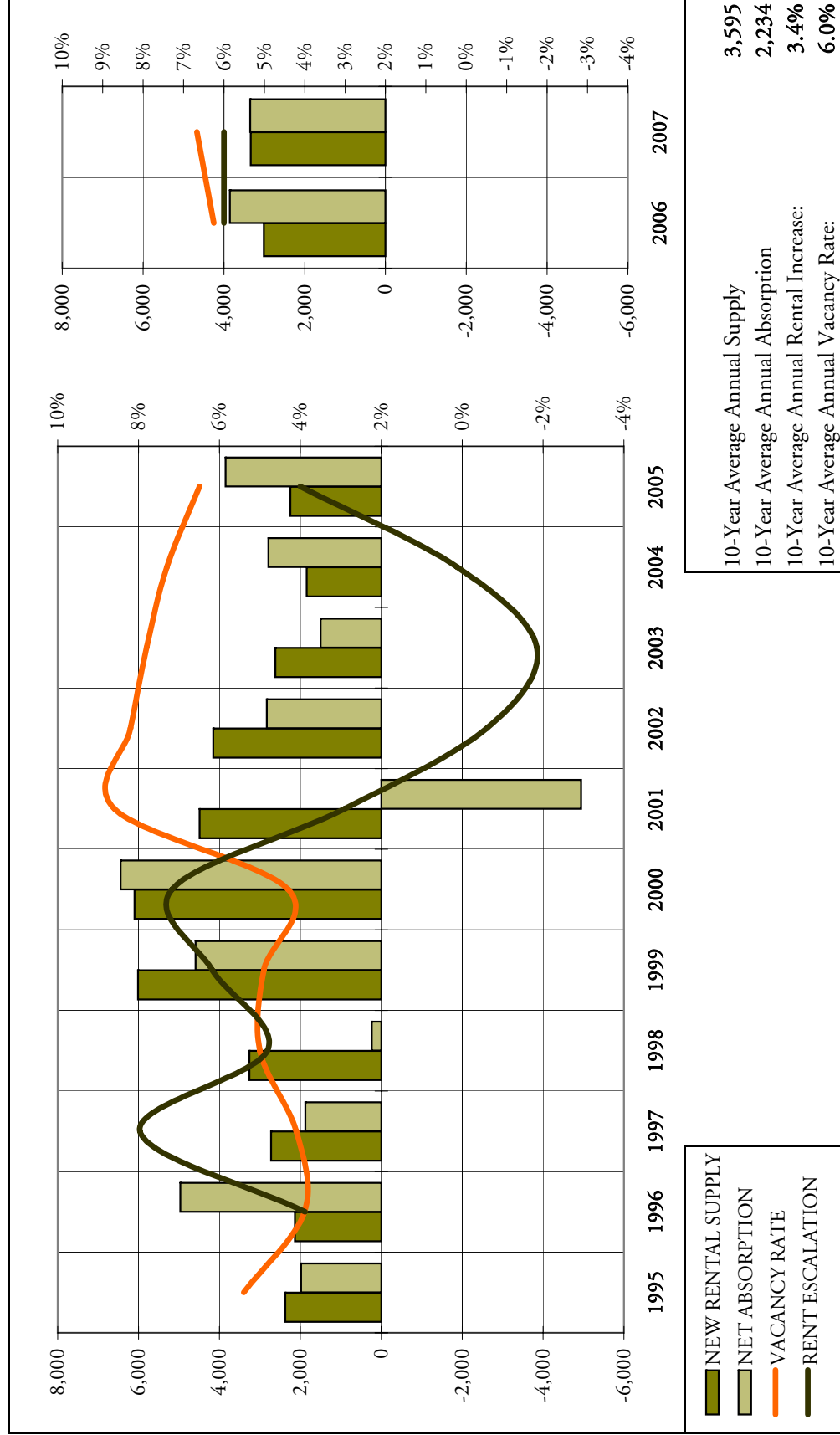
EXHIBIT O.8
MAP OF COMPETITIVE OFFICE PROJECTS
LYNNWOOD, WASHINGTON



SECTION A

RENTAL APARTMENT EXHIBITS

EXHIBIT A.1
RENTAL APARTMENT MARKET TRENDS - DUPRE & SCOTT
SEATTLE METROPOLITAN AREA
TEN-YEAR SUMMARY/TWO-YEAR FORECAST

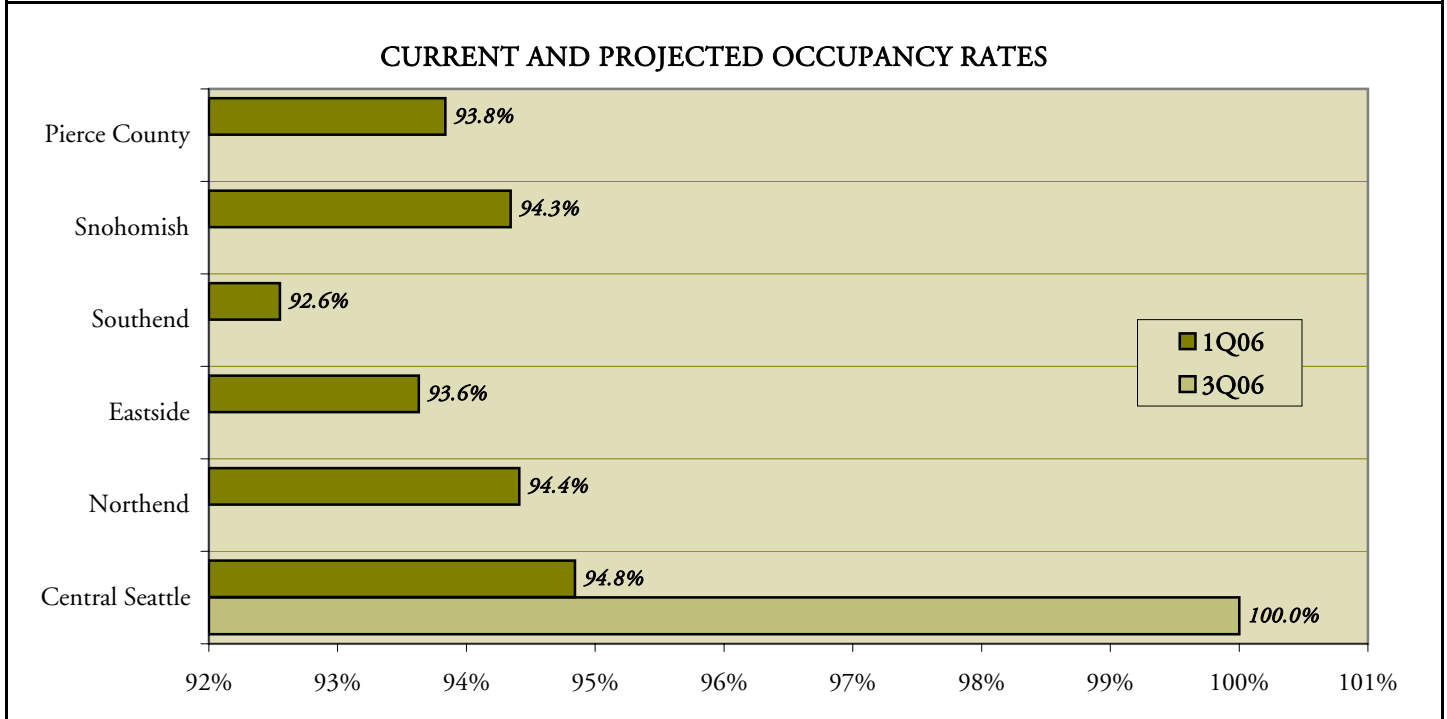
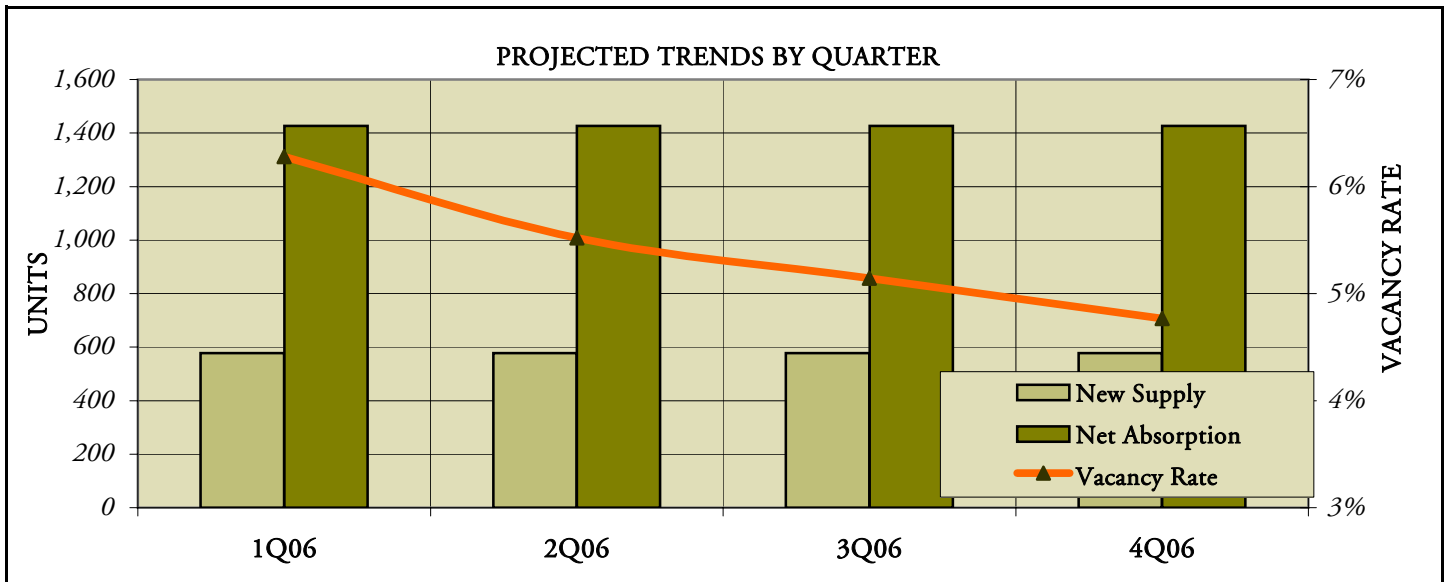


SOURCE: Dupre & Scott and Johnson Gardner

EXHIBIT A.2
CURRENT AND PROJECTED CONDITIONS
SEATTLE METROPOLITAN AREA MARKET-RATE RENTAL APARTMENTS
15+ Unit Complexes

Subregion <i>Submarket</i>	1Q06		New Supply	Net Absorption	3Q06	
	Inventory	Occupancy			Inventory	Occupancy
Central Seattle	30,239	94.8%	453	927	30,692	96.5%
Northend	20,355	94.4%	164	451	20,519	95.9%
Eastside	39,269	93.6%	477	1,332	39,746	95.9%
<i>Bellevue/Kirkland/Redmond</i>	25,450	94.3%	242	1,042	25,692	97.5%
<i>Bothell/Woodinville</i>	8,597	94.0%	0	168	8,597	96.0%
<i>Issaquah/North Bend</i>	5,223	92.3%	0	122	5,223	94.6%
Southend	62,353	92.6%	182	966	62,535	93.8%
<i>Kent/Auburn</i>	17,668	92.2%	0	179	17,668	93.3%
<i>Maple Valley/Enumclaw</i>	574	93.5%	0	5	574	94.3%
<i>Des Moines/Federal Way</i>	17,686	93.0%	0	158	17,686	93.9%
<i>West/South Seattle</i>	2,719	95.0%	0	20	2,719	95.7%
<i>Burien/Tukwilla</i>	11,393	93.5%	0	97	11,393	94.3%
<i>Renton</i>	12,313	91.9%	125	385	12,438	94.1%
Snohomish County	38,245	94.3%	69	879	38,314	96.5%
<i>Central Everett</i>	2,265	90.8%	0	44	2,265	92.8%
<i>East Snohomish County</i>	2,524	95.2%	0	31	2,524	96.5%
<i>Edmonds</i>	2,895	93.6%	0	43	2,895	95.1%
<i>Lynnwood</i>	6,858	94.5%	0	93	6,858	95.8%
<i>Mill Creek</i>	5,078	90.5%	0	-16	5,078	90.2%
<i>Mountlake Terrace</i>	2,341	93.6%	0	35	2,341	95.1%
<i>North Snohomish County</i>	1,275	94.3%	0	18	1,275	95.7%
<i>Paine Field</i>	6,582	89.7%	46	375	6,628	94.7%
<i>Silver Lake</i>	8,425	92.7%	0	255	8,425	95.8%
Pierce County	41,708	93.8%	389	1,152	42,097	95.7%
Metro Area Total	232,168	93.7%	1,734	5,708	233,902	95.5%

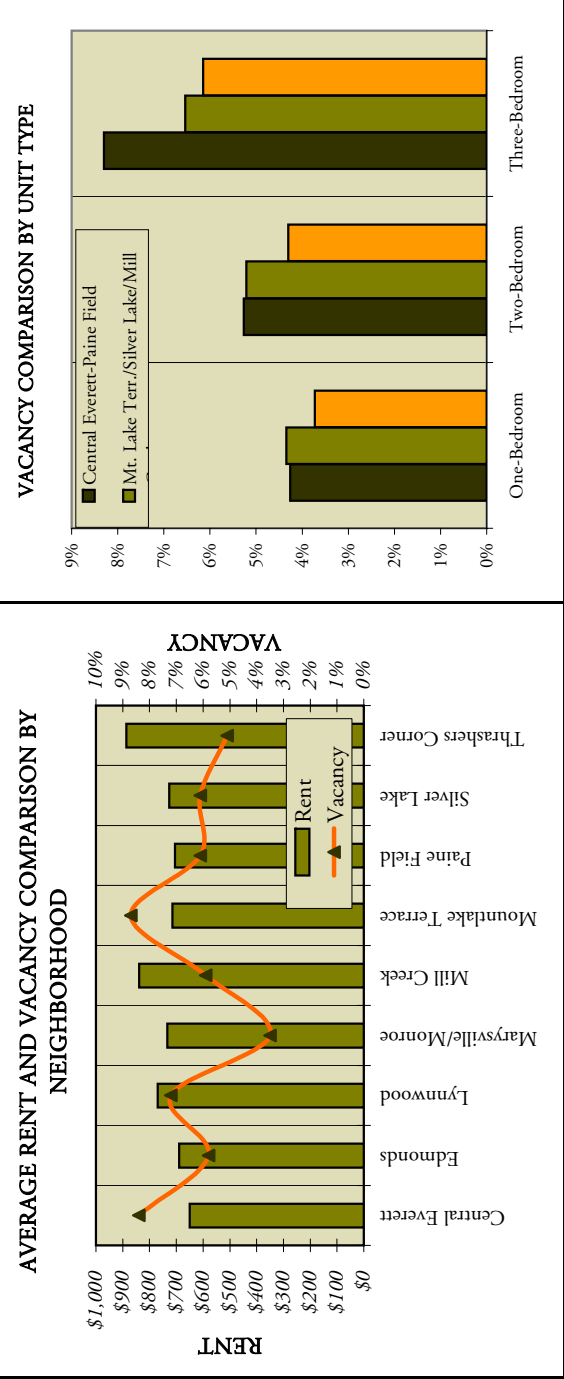
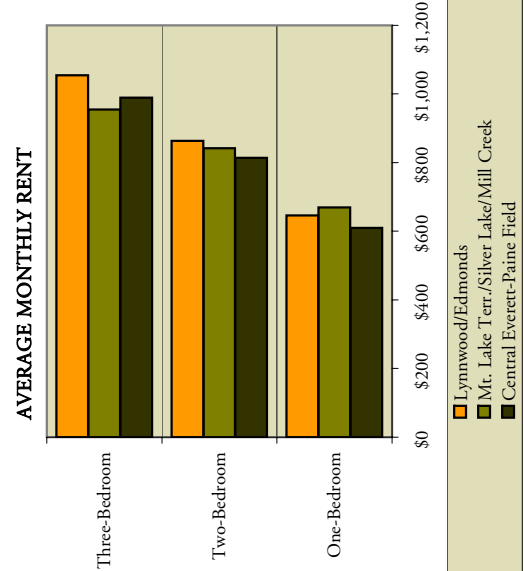
EXHIBIT A.2 (Continued)



SOURCE: Johnson Gardner

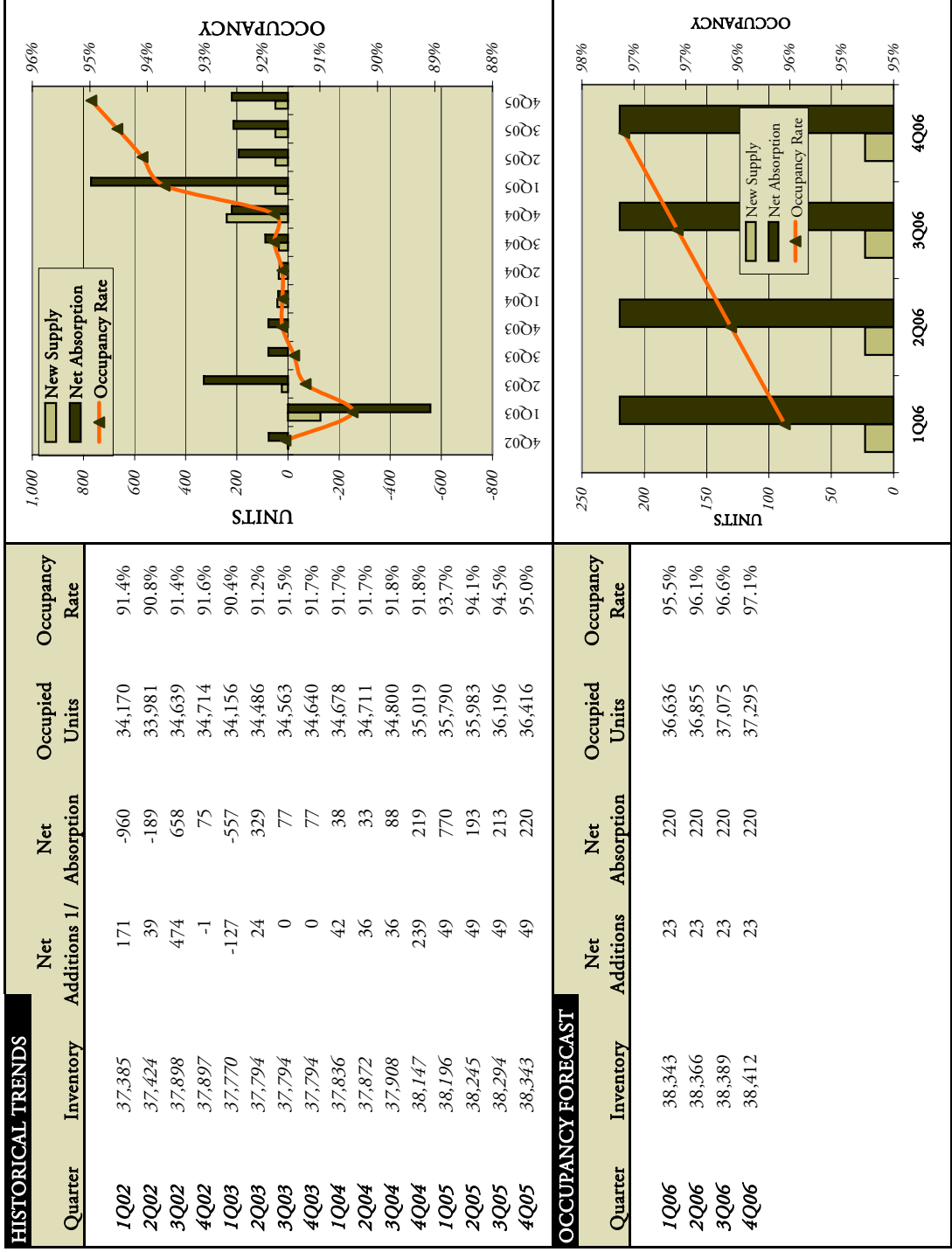
EXHIBIT A.3
SUBMARKET TRENDS
SNOHOMISH COUNTY RENTAL APARTMENT MARKET
FIRST QUARTER 2006

Product Age	Average Rent/Unit	Market Vacancy	Average Rent/S.F.
Overall Market			
Central Everett-Paine Field			
One-Bedroom	\$609	4.3%	\$0.89
Two-Bedroom	\$814	5.3%	\$0.79
Three-Bedroom	\$989	8.3%	\$0.81
Mt. Lake Terr./Silver Lake/Mill Creek			
One-Bedroom	\$670	4.3%	\$0.96
Two-Bedroom	\$842	5.2%	\$0.83
Three-Bedroom	\$955	6.5%	\$0.81
Lynnwood/Edmonds			
One-Bedroom	\$646	3.7%	\$0.92
Two-Bedroom	\$864	4.3%	\$0.81
Three-Bedroom	\$1,054	6.1%	\$0.88



SOURCE: Dupre & Scott and Johnson Gardner

EXHIBIT A.4
SUBMARKET TRENDS
SNOHOMISH COUNTY RENTAL APARTMENT MARKET
FIRST QUARTER 2006



1/ New construction less conversions and demolitions.

3/ Projected

SOURCE: Johnson Gardner

EXHIBIT A.5
RENTAL APARTMENT TRENDS
SNOHOMISH COUNTY, WASHINGTON

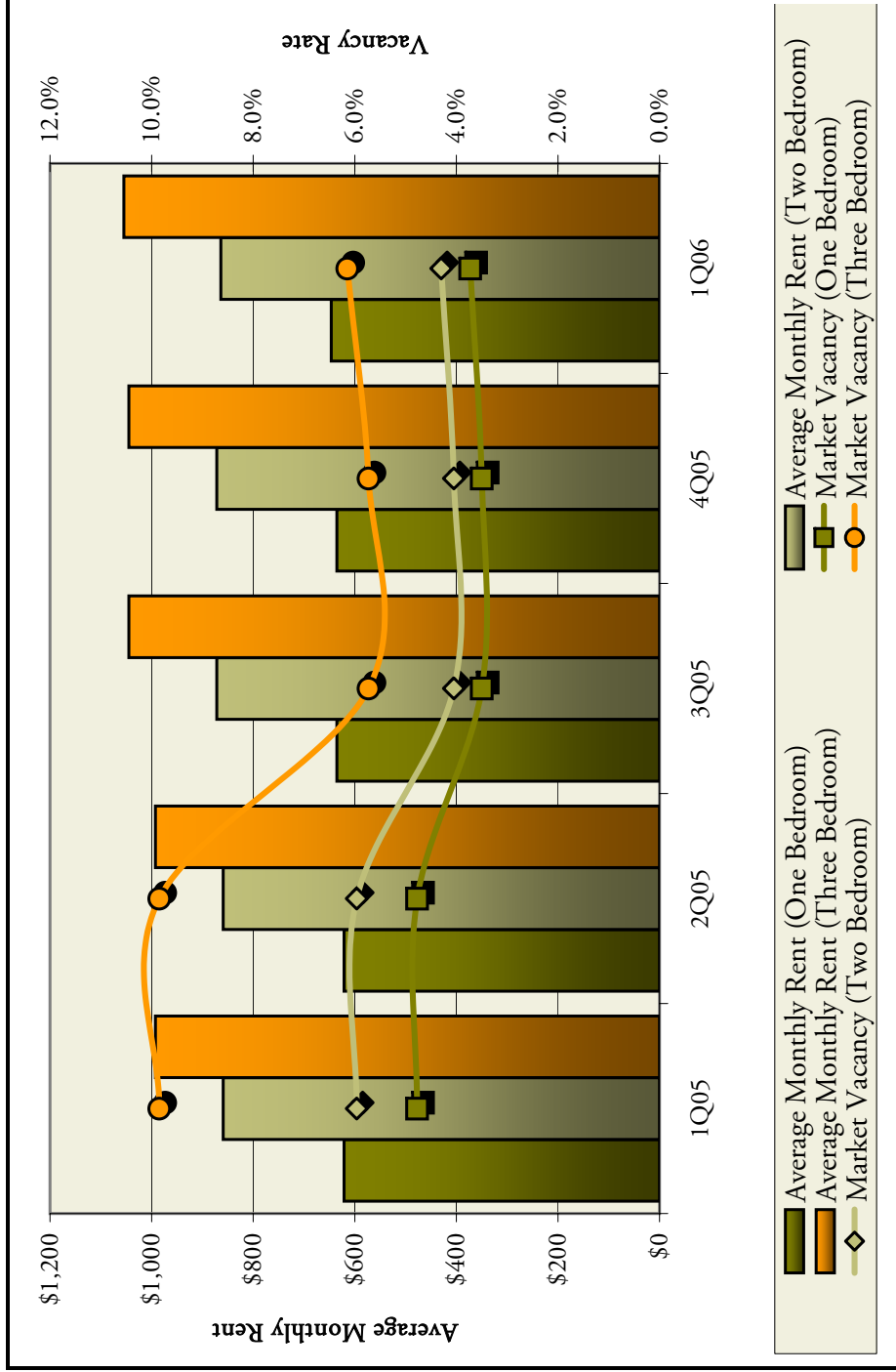


EXHIBIT A.6
RENTAL MARKET TRENDS & CONDITIONS
SNOHOMISH COUNTY AND CITY OF LYNNWOOD

Subregion	1Q06		Net Absorption
	Inventory	Occupancy	
<i>Snohomish County</i>			
1Q05	38,147	93.7%	675
2Q05	38,196	94.0%	753
3Q05	38,245	94.3%	854
4Q05	38,245	94.3%	810
1Q06	38,245	94.3%	879
Submarket	1Q06		Net Absorption
	Inventory	Occupancy	
<i>Lynnwood</i>			
1Q05	6,785	93.4%	278
2Q05	6,822	94.0%	266
3Q05	6,858	94.5%	311
4Q05	6,858	94.5%	248
1Q06	6,858	94.5%	93

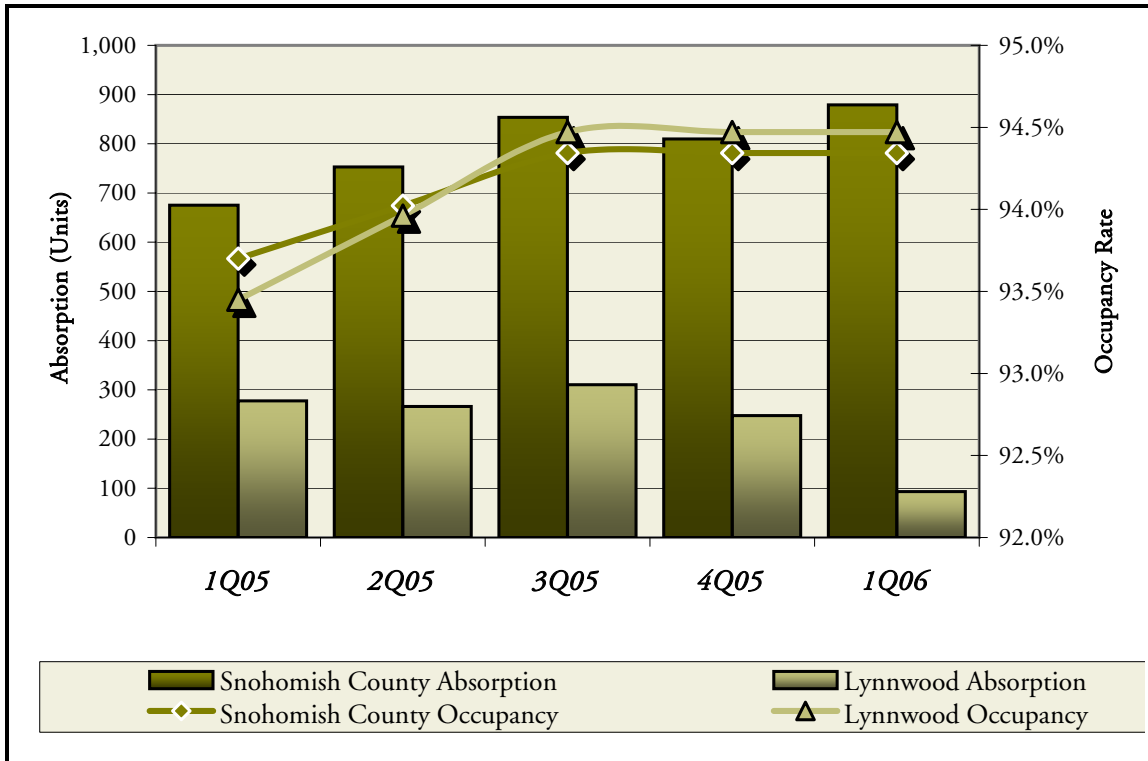


EXHIBIT A.7
SELECTED COMPETITIVE RENTAL APARTMENT PROJECTS
LYNNWOOD, WASHINGTON

Keeler's Corner		Unit Breakdown					
5720 204th St SW Lynnwood, Washington	1	Unit Type	Avg. Size	Absolute Rent Range Low - High	Rent Range Per Sq. Ft. Low - High		
		1B/1b	767	\$955 - \$990	\$1.25 - \$1.29		
		2B/1b	958	\$1,075 - \$1,190	\$1.12 - \$1.24		
		2B/2b	1,110	\$1,135 - \$1,435	\$1.02 - \$1.29		
		3B/2b	1,214	\$1,415 - \$1,455	\$1.17 - \$1.20		
		Total	1,009	\$1,103 - \$1,286	\$1.10 - \$1.28		
		Amenities					
		● Clubhouse, Fitness Center		● Tile Floors in Entry and Bathroom			
		● Business Center		● Territorial Views			
		● Washer & Dryer in Unit		● Community Courtyard			
		● Sport Court		● Walk-in Closets, Fireplace			
		● Private Patios & Balconies		● Pool, Playground			
		Description					
<p>Keeler's Corner is a garden Style three floor wood frame apartment complex at the intersection of 164th and Hwy 99. The project is comprehensive in the way of amenities, offering everything from a community clubhouse to a fitness center complete with indoor sport court. The project also offers an indoor and outdoor pool. Keeler's Corner was constructed in 1992, renovated in 2005.</p>							



EXHIBIT A.7
SELECTED COMPETITIVE RENTAL APARTMENT PROJECTS
LYNNWOOD, WASHINGTON

Newberry Square		Unit Breakdown			
16116 Ash Way Lynnwood, Washington	2	Unit Type	Avg. Size	Absolute Rent Range	Rent Range Per Sq. Ft.
			Low - High	Low - High	Low - High
		S/1b	674	\$700	\$710
		1B/1b	715	\$800	\$875
		2B/2b	918	\$1,050	\$1,100
		3B/2b	1,221	\$1,350	\$1,375
		Total	845	\$943	\$987
					\$1.11
					\$1.16
		Amenities			
		<ul style="list-style-type: none"> ● Stainless Steel Appliances ● Maple or oak Cabinets ● Elevator Access ● Walk-in Closets ● Washer & Dryer in Unit 		<ul style="list-style-type: none"> ● Slate Hearths with Electric Fireplace ● Community Clubhouse ● Patio or Balcony ● Secure Controlled Access 	
		Description			
		<p>Newberry square is a brand new apartment property in Lynnwood consisting of 123 units. The project offers Studios, One, two, and three bedroom floorplans. Although the development is not considered an "urban" property, this project is the closest comparable in Lynnwood. The project is still in its initial lease up.</p>			



EXHIBIT A.7
SELECTED COMPETITIVE RENTAL APARTMENT PROJECTS
LYNNWOOD, WASHINGTON



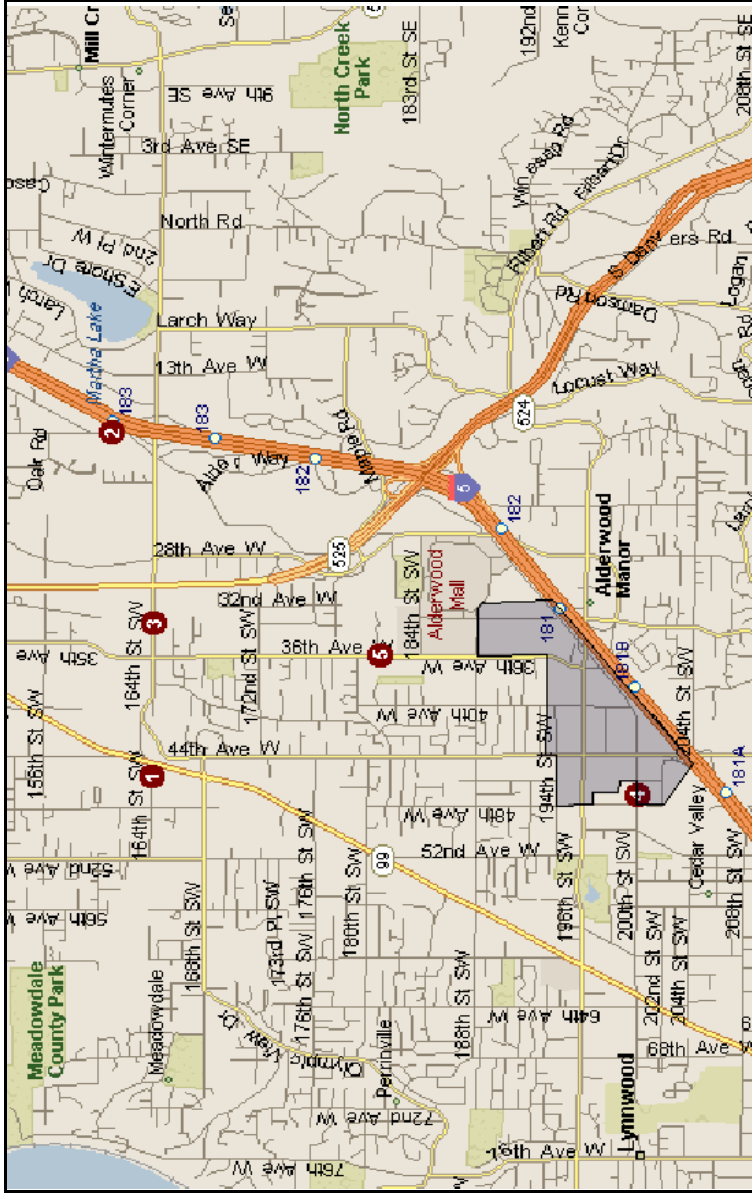
<p>Cambridge Square 4727 200th Street SW Lynnwood, Washington</p>																									
<p>IMAGE</p> 																									
<p>Description</p>																									
<p>Cambridge Square is the most proximate development we surveyed to the City Center Area. However, the project is marketed toward commuters given its location proximate to the Lynnwood Park & ride. Like most apartment projects in Lynnwood, Cambridge Square is a garden style project consisting of 244 units. The development was recently updated and renovated in late 2005.</p>																									
<p>Unit Breakdown</p> <table border="1"> <thead> <tr> <th>Unit Type</th> <th>Avg. Size</th> <th>Absolute Rent Range Low - High</th> <th>Rent Range Per Sq. Ft. Low - High</th> </tr> </thead> <tbody> <tr> <td>1B/1b</td> <td>665</td> <td>\$700 - \$799</td> <td>\$1.05 - \$1.20</td> </tr> <tr> <td>2B/1b</td> <td>870</td> <td>\$854 - \$904</td> <td>\$0.98 - \$1.04</td> </tr> <tr> <td>2B/1.5b</td> <td>1,062</td> <td>\$930 - \$1,050</td> <td>\$0.88 - \$0.99</td> </tr> <tr> <td>3B/1.5b</td> <td>1,300</td> <td>\$1,179 - \$1,200</td> <td>\$0.91 - \$0.92</td> </tr> <tr> <td>Total</td> <td>951</td> <td>\$881 - \$975</td> <td>\$0.94 - \$1.04</td> </tr> </tbody> </table>		Unit Type	Avg. Size	Absolute Rent Range Low - High	Rent Range Per Sq. Ft. Low - High	1B/1b	665	\$700 - \$799	\$1.05 - \$1.20	2B/1b	870	\$854 - \$904	\$0.98 - \$1.04	2B/1.5b	1,062	\$930 - \$1,050	\$0.88 - \$0.99	3B/1.5b	1,300	\$1,179 - \$1,200	\$0.91 - \$0.92	Total	951	\$881 - \$975	\$0.94 - \$1.04
Unit Type	Avg. Size	Absolute Rent Range Low - High	Rent Range Per Sq. Ft. Low - High																						
1B/1b	665	\$700 - \$799	\$1.05 - \$1.20																						
2B/1b	870	\$854 - \$904	\$0.98 - \$1.04																						
2B/1.5b	1,062	\$930 - \$1,050	\$0.88 - \$0.99																						
3B/1.5b	1,300	\$1,179 - \$1,200	\$0.91 - \$0.92																						
Total	951	\$881 - \$975	\$0.94 - \$1.04																						
<p>Amenities</p> <table border="1"> <tbody> <tr> <td> <ul style="list-style-type: none"> ● Community Courtyard ● Walk-in Closets ● Fireplace ● Washer & Dryer in Unit ● Townhome Style Units </td> <td> <ul style="list-style-type: none"> ● Patio or Balcony ● Covered Parking ● BBQ Pits ● Pool </td> </tr> </tbody> </table>		<ul style="list-style-type: none"> ● Community Courtyard ● Walk-in Closets ● Fireplace ● Washer & Dryer in Unit ● Townhome Style Units 	<ul style="list-style-type: none"> ● Patio or Balcony ● Covered Parking ● BBQ Pits ● Pool 																						
<ul style="list-style-type: none"> ● Community Courtyard ● Walk-in Closets ● Fireplace ● Washer & Dryer in Unit ● Townhome Style Units 	<ul style="list-style-type: none"> ● Patio or Balcony ● Covered Parking ● BBQ Pits ● Pool 																								

EXHIBIT A.7
SELECTED COMPETITIVE RENTAL APARTMENT PROJECTS
LYNNWOOD, WASHINGTON

Alderwood Park		Unit Breakdown			
18031 36th Avenue W Lynnwood, Washington	5	Unit Type	Avg. Size	Absolute Rent Range Low - High	Rent Range Per Sq. Ft. Low - High
		1B/1b	644	\$715 - \$735	\$1.11 - \$1.14
		2B/1b	844	\$800 - \$850	\$0.95 - \$1.01
		2B/2b	904	\$850 - \$875	\$0.94 - \$0.97
		Total	763	\$743 - \$770	\$0.91 - \$0.94
		Amenities			
		Community Clubhouse			● Patio or Balcony
		Courtyard			● Playground
		Fitness Center			● Walk-in Closets
		Spa and Pool			● Fireplace
		Washer & Dryer in Unit			● Covered Parking
		Description			
<p>Relative to other evaluated developments, Alderwood Park is somewhat dated with a completion date of 1982. Also varying from other projects, the Alderwood Park does not offer three bedroom floorplans. The garden style development is located just north of the City Center area on 36th Avenue W.</p>					

EXHIBIT A.8
MAP OF COMPETITIVE RENTAL APARTMENT PROJECTS
LYNNWOOD, WASHINGTON



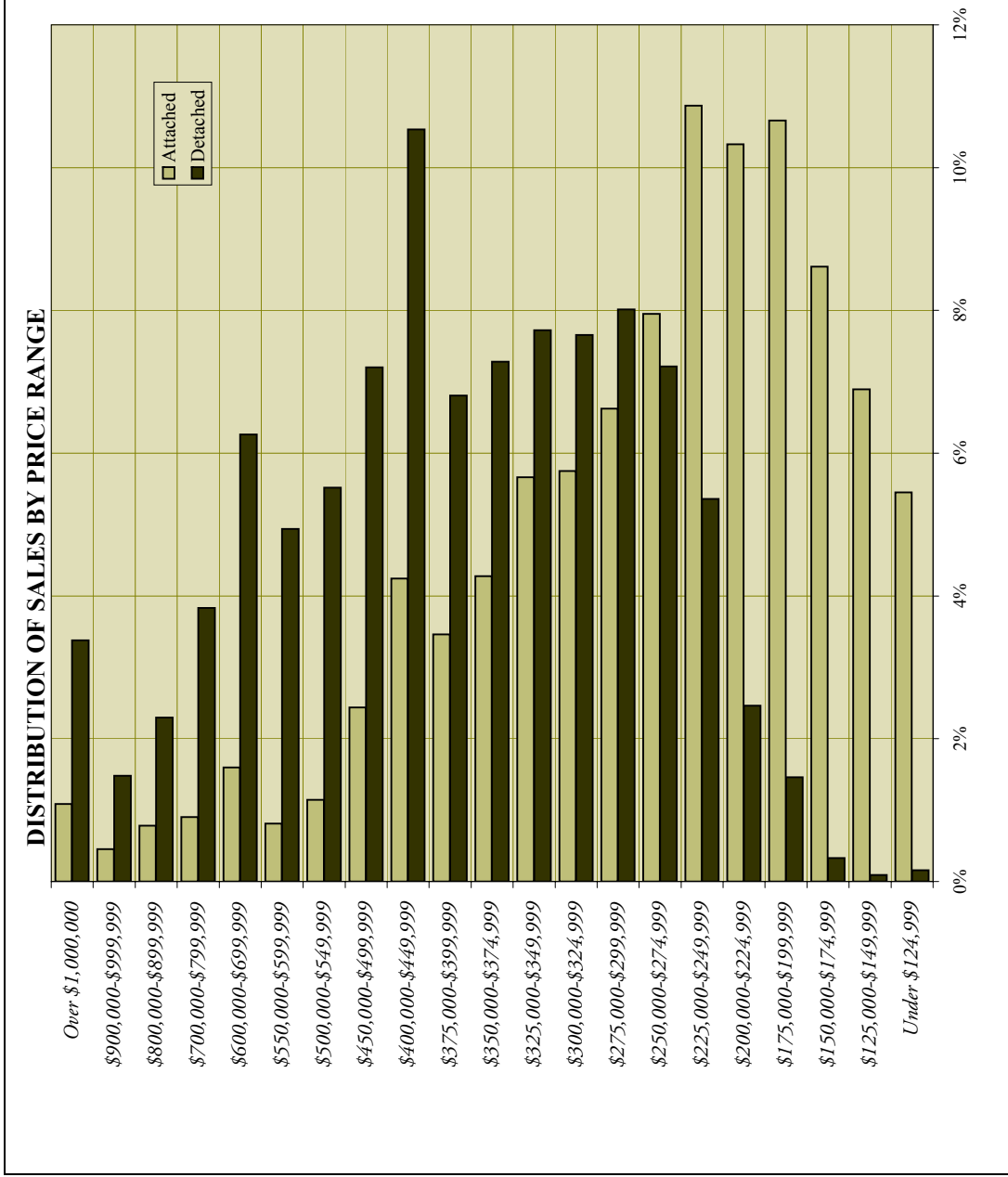
SECTION H

OWNERSHIP HOUSING EXHIBITS

EXHIBIT H.1
SUMMARY OF RECENT SALES ACTIVITY
OWNERSHIP RESIDENTIAL MARKET
SEATTLE/BELLEVUE/EVERETT PMSA
First Quarter, 2006

Price Range	Total Sales 1/		Distribution	Total Sales Volume 2/		Total
	Detached	Attached		Detached	Attached	
Under \$124,999	14	181	1.6%	8,845	3,321	12,166
\$125,000 - \$149,999	8	229	1.9%	11,670	3,340	15,010
\$150,000 - \$174,999	29	286	2.6%	12,972	3,655	16,627
\$175,000 - \$199,999	129	354	4.0%	14,694	3,768	18,462
\$200,000 - \$224,999	218	343	4.6%	10,043	2,667	12,710
\$225,000 - \$249,999	474	361	6.9%	10,741	2,707	13,448
\$250,000 - \$274,999	638	264	7.4%			
\$275,000 - \$299,999	709	220	7.6%			
\$300,000 - \$324,999	677	191	7.1%			
\$325,000 - \$349,999	683	188	7.2%			
\$350,000 - \$374,999	644	142	6.5%			
\$375,000 - \$399,999	602	115	5.9%			
\$400,000 - \$449,999	932	141	8.8%			
\$450,000 - \$499,999	637	81	5.9%			
\$500,000 - \$549,999	488	38	4.3%			
\$550,000 - \$599,999	437	27	3.8%			
\$600,000 - \$699,999	554	53	5.0%			
\$700,000 - \$799,999	339	30	3.0%			
\$800,000 - \$899,999	203	26	1.9%			
\$900,000 - \$999,999	131	15	1.2%			
\$1M & Over	299	36	2.8%			
Total	8,845	3,321	100%			
				Annual Percent Increase (Decrease) -11.9% 24.5% -4.3%		
				Average Sales Price --- New Construction		
				1Q06	1Q-05	Percent Change
King County 3/						
Detached				\$565,261	\$404,904	39.6%
Attached				\$406,878	\$304,726	33.5%
Snohomish County						
Detached				\$403,376	307,120	31.3%
Attached				\$288,070	232,265	24.0%

EXHIBIT H.1 CONTINUED



1/ Total of all sales, New Construction and Resales.

2/ Total of all sales, New Construction and Resales, for King and Snohomish County subregions only.

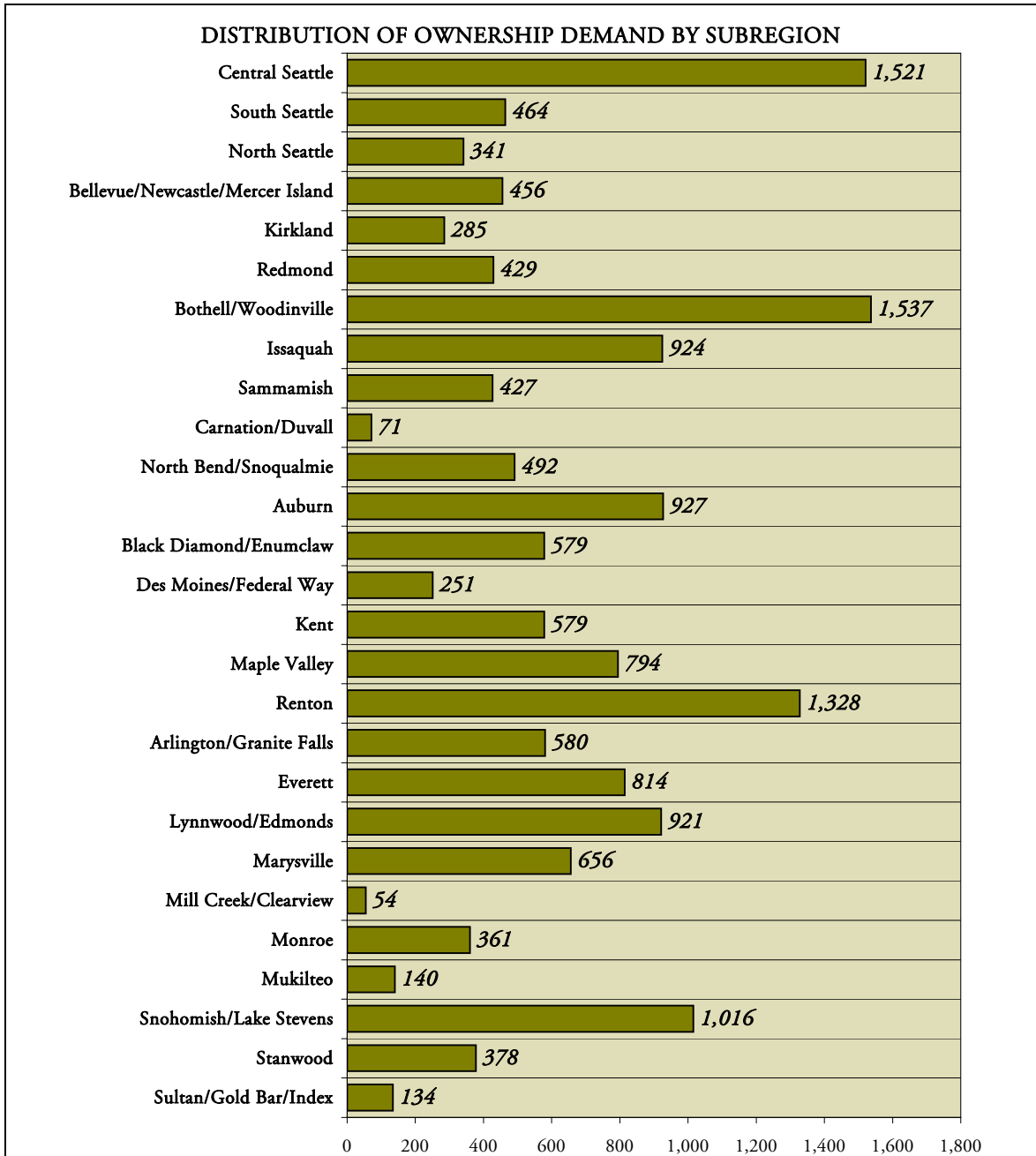
3/ Mounlake Terrace is included in King County, as part of the North Seattle subregion.

SOURCE: Johnson Gardner LLC.

EXHIBIT H.2
PROJECTED DISTRIBUTION OF OWNERSHIP DEMAND
BY AFFORDABLE PRICE RANGE AND SUBREGION
SEATTLE/BELLEVUE/EVERETT PMSA
Second Quarter, 2006 through First Quarter, 2007

Geographic Subregion	Projected Net New Demand	Percent of Total	Demand by Price Range					
			Under \$150,000	\$150,000 - \$249,999	\$250,000 - \$399,999	\$400,000 - \$599,999	\$600,000 - \$799,999	Over \$800,000
Seattle								
<i>Central Seattle</i>	1,521	9.6%	62	231	636	323	136	132
<i>South Seattle</i>	464	2.9%	25	99	224	83	12	10
Northend								
<i>North Seattle</i>	341	2.1%	24	71	127	85	22	13
Eastside								
<i>Bellevue/Newcastle/Mercer Island</i>	456	2.9%	12	88	60	62	70	163
<i>Kirkland</i>	285	1.8%	7	49	43	53	53	80
<i>Redmond</i>	429	2.7%	11	47	122	85	108	58
<i>Sammamish</i>	427	2.7%	10	38	105	96	102	77
<i>Bothell/Woodinville</i>	1,537	9.7%	49	141	609	574	113	52
<i>Issaquah</i>	924	5.8%	31	129	357	237	99	74
<i>Carnation/Duvall</i>	71	0.4%	1	15	25	22	4	6
<i>North Bend/Snoqualmie</i>	492	3.1%	22	49	129	146	95	49
Southend								
<i>Auburn</i>	927	5.8%	40	216	533	108	14	15
<i>Black Diamond/Enumclaw</i>	43	0.3%	2	11	11	8	7	3
<i>Des Moines/Federal Way</i>	251	1.6%	8	21	154	48	13	6
<i>Kent</i>	579	3.6%	23	63	319	132	31	12
<i>Maple Valley</i>	794	5.0%	10	160	415	137	21	52
<i>Renton</i>	1,328	8.3%	49	267	583	353	56	21
Snohomish County								
<i>Arlington/Granite Falls</i>	580	3.6%	31	202	294	50	2	1
<i>Everett</i>	814	5.1%	44	196	512	53	5	6
<i>Lynnwood/Edmonds</i>	921	5.8%	32	100	335	364	36	55
<i>Marysville</i>	656	4.1%	35	166	392	53	9	2
<i>Mill Creek/Clearview</i>	54	0.3%	1	4	20	20	3	6
<i>Monroe</i>	361	2.3%	22	89	196	52	1	1
<i>Mukilteo</i>	140	0.9%	3	13	27	79	13	3
<i>Snohomish/Lake Stevens</i>	1,016	6.4%	49	100	441	354	65	8
<i>Stanwood</i>	378	2.4%	19	85	215	53	4	2
<i>Sultan/Gold Bar/Index</i>	134	0.8%	8	23	98	3	0	0
Total-Metropolitan Area	15,921		630	2,673	6,982	3,633	1,094	907

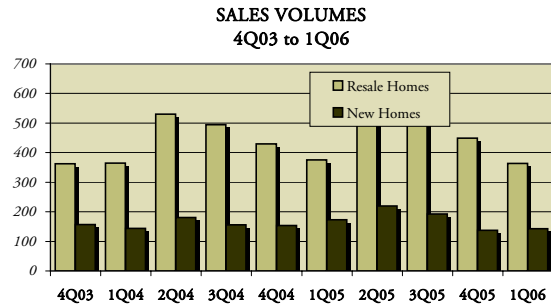
EXHIBIT H.2 CONTINUED



SOURCE: Johnson Gardner LLC

EXHIBIT H.3
SINGLE FAMILY HOME SALES TRENDS
LYNNWOOD/EDMONDS/WOODWAY/BRIER SUBREGION
First Quarter, 2006

Sales Volume Trends				
	Sales Volume		Rate of Change	
	New	Resale	New	Resale
4Q03	157	362	1%	-35%
1Q04	144	365	7%	-16%
2Q04	181	530	-1%	-10%
3Q04	156	494	-31%	0%
4Q04	154	429	-2%	19%
1Q05	173	375	20%	3%
2Q05	220	529	22%	0%
3Q05	193	579	24%	17%
4Q05	137	449	-11%	5%
1Q06	143	363	-17%	-3%



Single Family Home Sales					
Price Range	1Q-06		YTD Total Sales		
	New	Resales	New	Resales	
Under \$124,999	0	0	0	0	0
\$125,000 - \$149,999	0	0	0	0	0
\$150,000 - \$174,999	0	0	0	0	0
\$175,000 - \$199,999	0	0	0	0	0
\$200,000 - \$224,999	0	2	0	2	2
\$225,000 - \$249,999	0	6	0	6	6
\$250,000 - \$274,999	0	23	0	23	23
\$275,000 - \$299,999	2	26	2	26	26
\$300,000 - \$324,999	5	49	5	49	49
\$325,000 - \$349,999	3	51	3	51	51
\$350,000 - \$374,999	4	44	4	44	44
\$375,000 - \$399,999	8	34	8	34	34
\$400,000 - \$449,999	45	43	45	43	43
\$450,000 - \$499,999	37	31	37	31	31
\$500,000 - \$549,999	13	16	13	16	16
\$550,000 - \$599,999	5	7	5	7	7
\$600,000 - \$699,999	17	9	17	9	9
\$700,000 - \$799,999	2	8	2	8	8
\$800,000 - \$899,999	1	7	1	7	7
\$900,000 - \$999,999	0	0	0	0	0
##### & Over	1	7	1	7	7
Total	143	363	143	363	
<i>Average Sales Price (All Sales)</i>					\$438,366
<i>Average Sales Price (New Construction)</i>					\$488,436

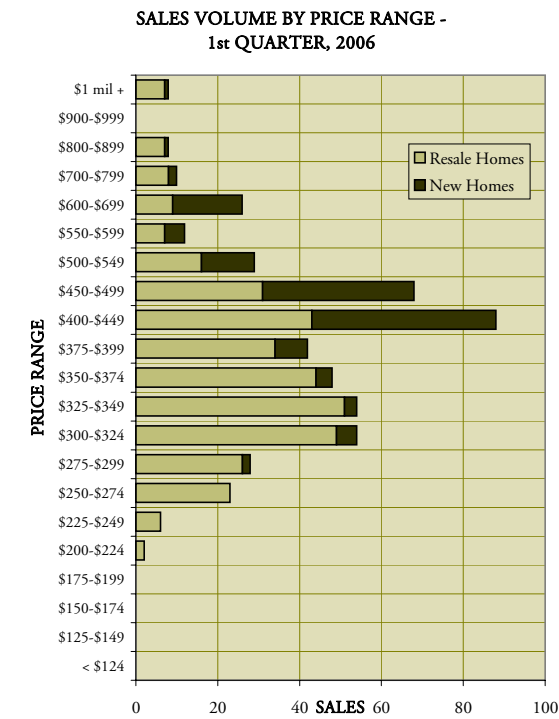
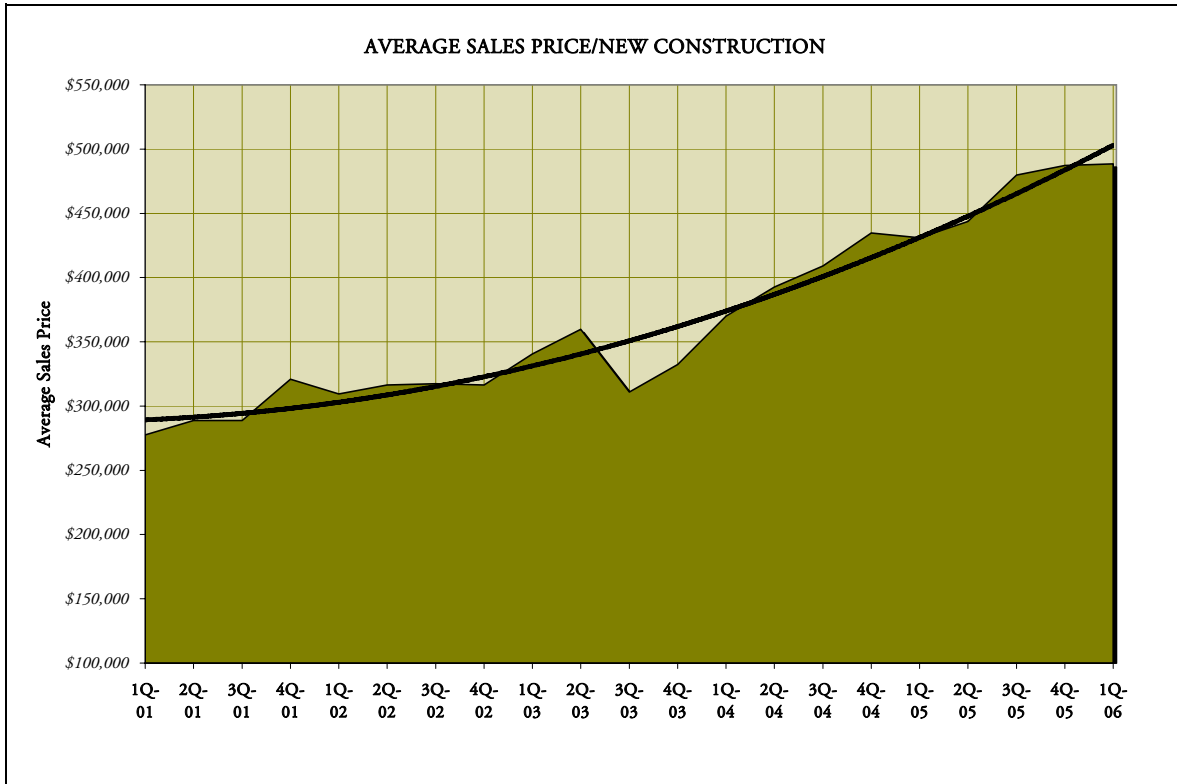


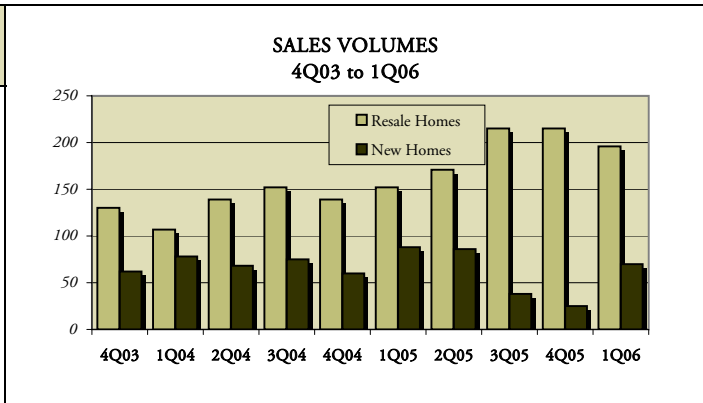
EXHIBIT H.3 CONTINUED



SOURCE: NWMLS and Johnson Gardner LLC

EXHIBIT H.4
ATTACHED FOR-SALE HOME SALES TRENDS
LYNNWOOD/EDMONDS/WOODWAY/BRIER SUBREGION
First Quarter, 2006

	Sales Volume		Rate of Change	
	New	Resale	New	Resale
	4Q03	62	130	-27%
1Q04	78	107	13%	-14%
2Q04	68	139	-30%	-7%
3Q04	75	152	7%	8%
4Q04	60	139	-3%	7%
1Q05	88	152	13%	42%
2Q05	86	171	26%	23%
3Q05	38	215	-49%	41%
4Q05	25	215	-58%	55%
1Q06	70	196	-20%	29%



Price Range	1Q-06		YTD Total Sales	
	New	Resales	New	Resales
	Under \$124,999	0	20	0
\$125,000 - \$149,999	1	20	1	20
\$150,000 - \$174,999	1	35	1	35
\$175,000 - \$199,999	10	33	10	33
\$200,000 - \$224,999	1	21	1	21
\$225,000 - \$249,999	3	26	3	26
\$250,000 - \$274,999	7	16	7	16
\$275,000 - \$299,999	6	8	6	8
\$300,000 - \$324,999	9	8	9	8
\$325,000 - \$349,999	7	3	7	3
\$350,000 - \$374,999	8	2	8	2
\$375,000 - \$399,999	5	1	5	1
\$400,000 - \$449,999	5	2	5	2
\$450,000 - \$499,999	1	0	1	0
\$500,000 - \$549,999	0	0	0	0
\$550,000 - \$599,999	1	0	1	0
\$600,000 - \$699,999	1	0	1	0
\$700,000 - \$799,999	2	1	2	1
\$800,000 - \$899,999	1	0	1	0
\$900,000 - \$999,999	0	0	0	0
\$1,000,000 & Over	1	0	1	0
Total	70	196	70	196
<i>Average Sales Price (All Sales)</i>			\$243,973	
<i>Average Sales Price (New Construction)</i>			\$344,146	

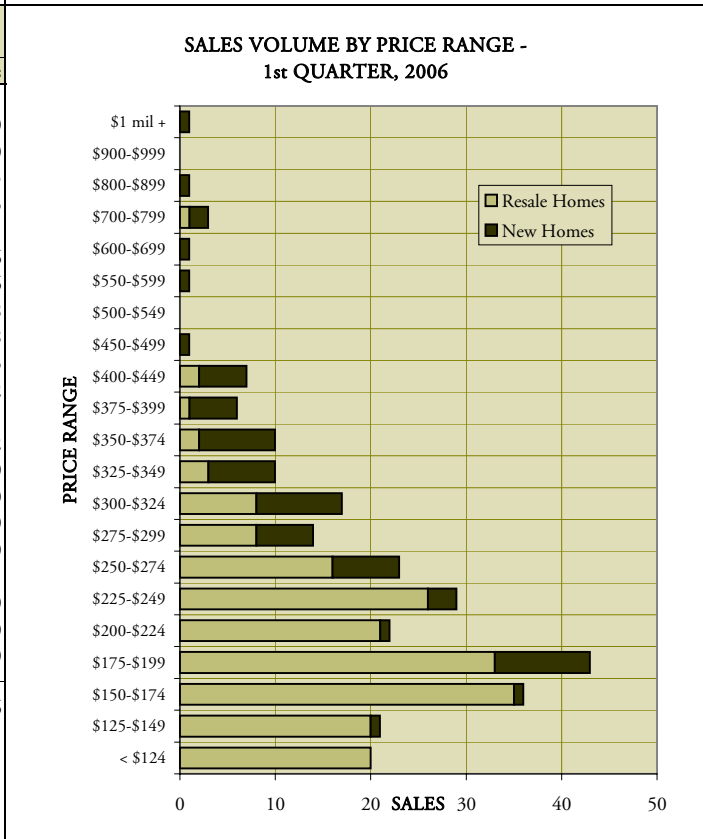
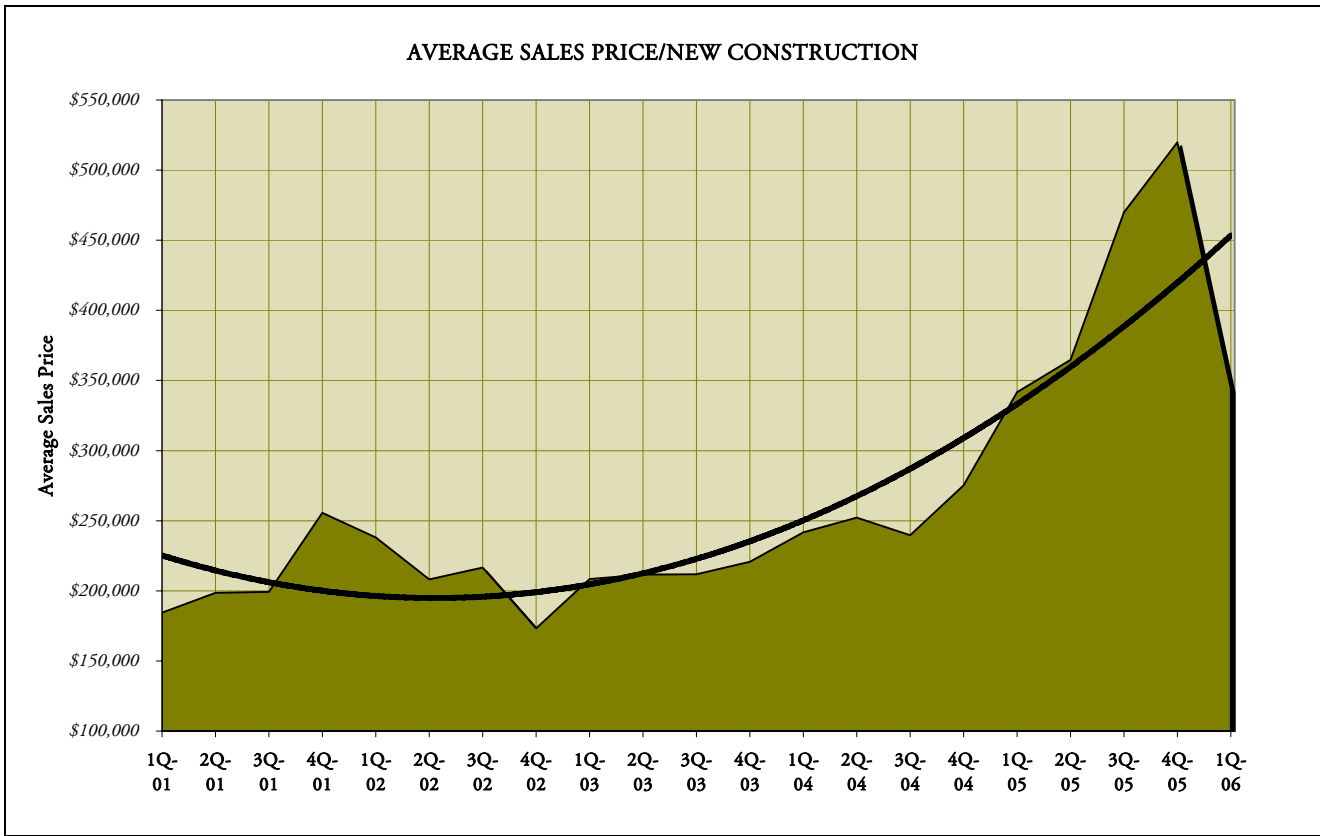


EXHIBIT H.4 CONTINUED



SOURCE: NWMLS and Johnson Gardner LLC

EXHIBIT H.5
PROJECTED DEMAND FOR OWNERSHIP HOUSING
LYNNWOOD/EDMONDS/WOODWAY/BRIER SUBREGION
2nd Quarter, 2006 through 1st Quarter, 2007

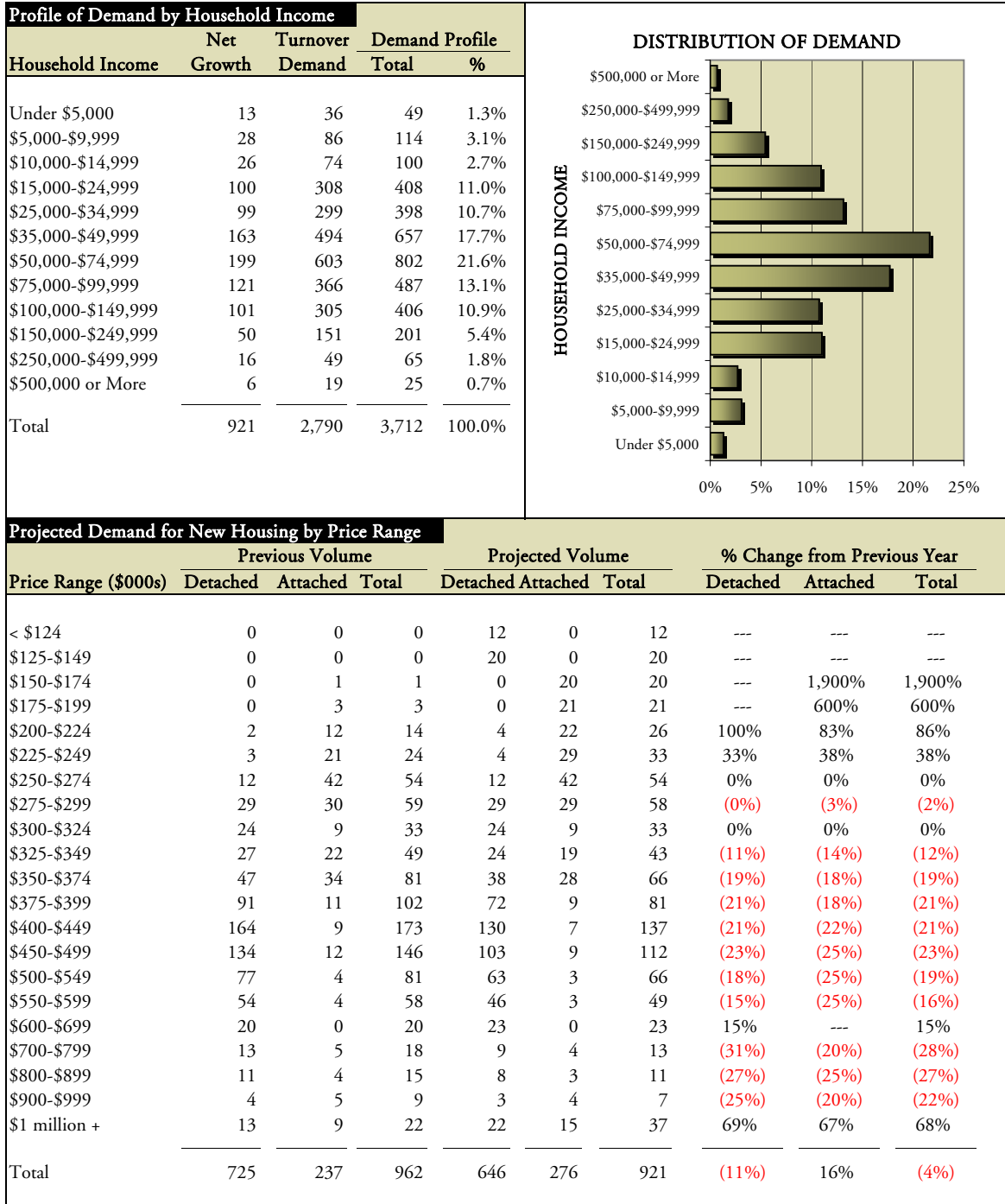
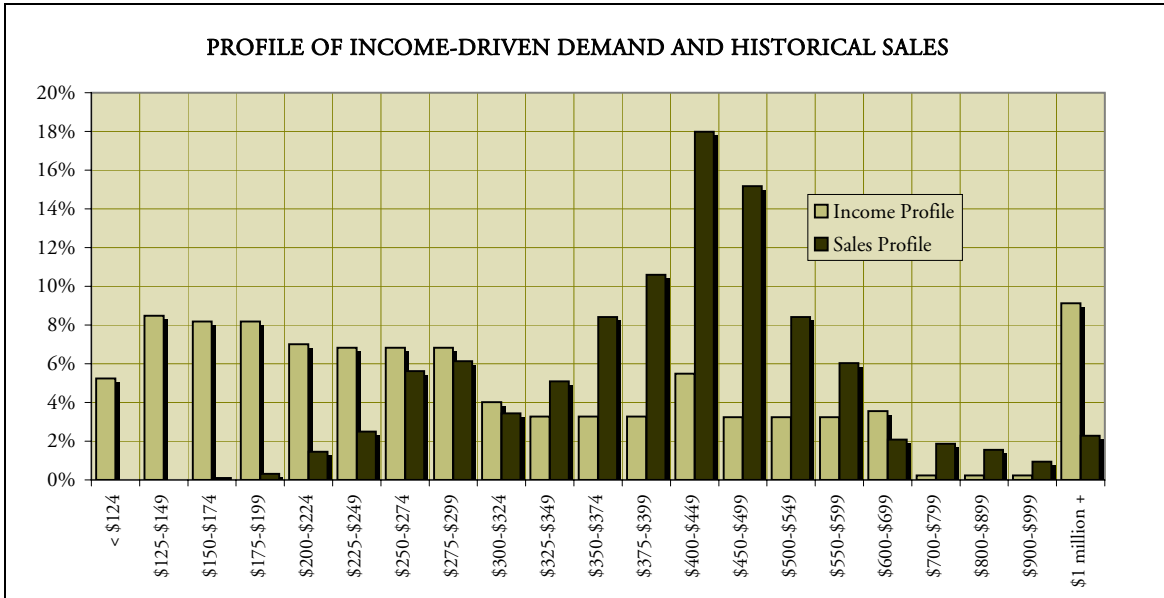


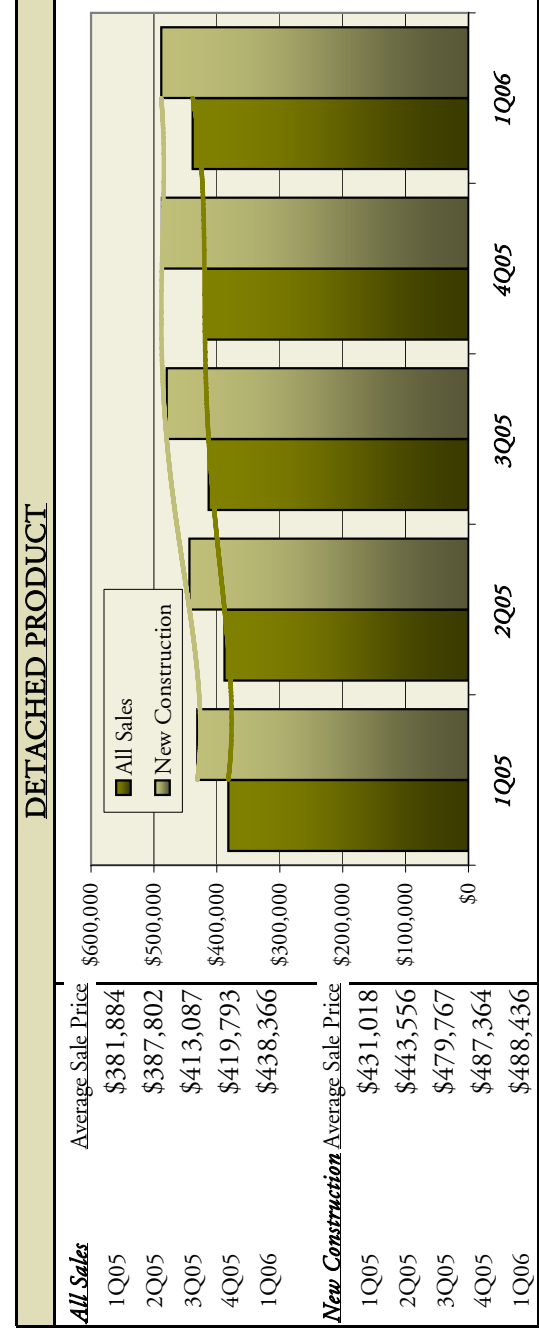
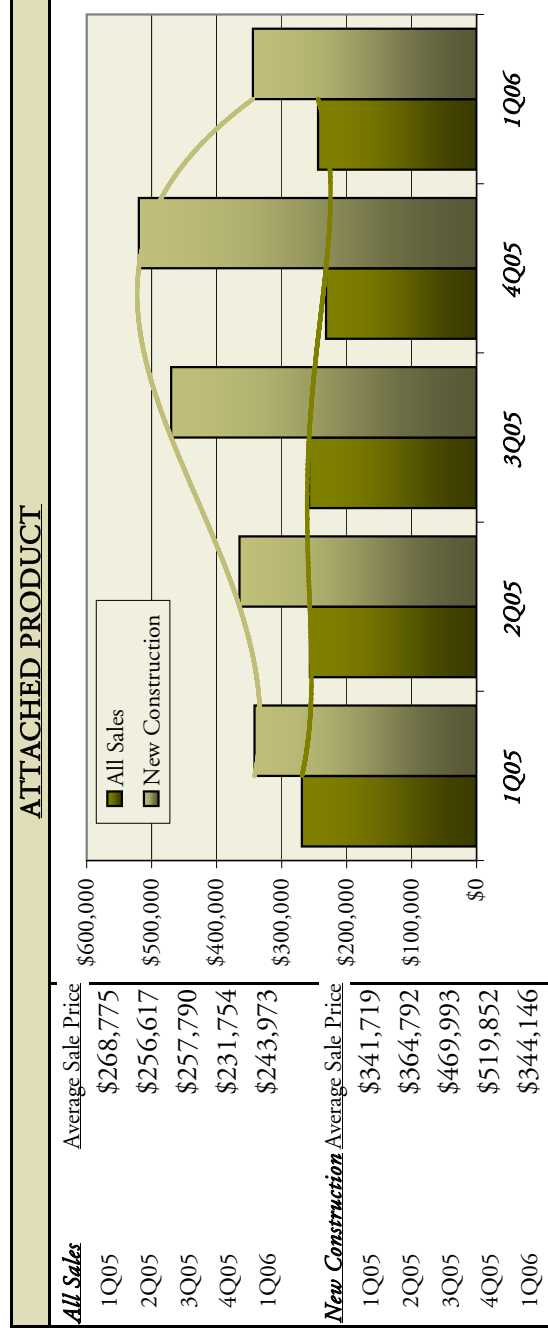
EXHIBIT H.5 CONTINUED



1/ Based upon sales volume over the previous twelve months and demand projections for the next twelve months.

SOURCE: Johnson Gardner LLC

EXHIBIT H.6
AVERAGE SALE PRICE FOR ATTACHED AND DETACHED PRODUCT
LYNNWOOD/EDMONDS-WOODWAY/BRIER SUBREGION





APPENDIX B
DEVELOPMENT PRO FORMAS

EXHIBIT B.01

STRUCTURED RENTAL APARTMENT PRO-FORMAS
 STATIC ANALYSIS, FIRST STABILIZED YEAR

	Low-Rise/Land Value/S.F.		Mid-Rise/Land Value/S.F.		High-Rise/Land Value/S.F.	
	\$4.50	\$35.00	\$4.50	\$35.00	\$4.50	\$35.00
PROJECT DETAILS						
Number of Units:	100	100	100	100	100	100
Price/Unit:	\$92,708	\$191,444	\$122,803	\$137,613	\$153,528	\$159,452
Construction Cost:	\$9,270,750	\$19,144,350	\$12,280,260	\$13,761,300	\$15,352,824	\$15,945,240
Permanent Loan Amount:	\$5,598,681	\$5,596,156	\$6,716,486	\$6,716,519	\$8,115,756	\$8,115,797
Equity:	\$3,672,069	\$13,548,194	\$5,563,774	\$7,044,814	\$7,237,068	\$7,829,478
Debt Coverage Ratio:	1.20	1.20	1.20	1.20	1.20	1.20
Loan Period/Years:	20	20	20	20	20	20
Permanent Loan Rate:	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Annual Debt Service:	\$541,231	\$540,987	\$649,291	\$649,291	\$784,560	\$784,560
INCOME						
Number of Units:	100	100	100	100	100	100
Occupancy Rate:	95%	95%	95%	95%	95%	95%
Monthly Lease Rate:	\$850	\$850	\$1,020	\$1,020	\$1,233	\$1,233
Average Unit Size/S.F.:	850	850	850	850	850	850
Average Rent/S.F.:	\$1.00	\$1.00	\$1.20	\$1.20	\$1.45	\$1.45
Lease Income:	\$969,000	\$969,000	\$1,162,800	\$1,162,800	\$1,405,050	\$1,405,050
Total Income	\$969,000	\$969,000	\$1,162,800	\$1,162,800	\$1,405,050	\$1,405,050
EXPENSES						
Operating Expenses	\$290,700	\$290,700	\$348,840	\$348,840	\$421,515	\$421,515
Reserves for Replacements/Repairs	\$29,070	\$29,070	\$34,884	\$34,884	\$42,152	\$42,152
Total Expenses	\$319,770	\$319,770	\$383,724	\$383,724	\$463,667	\$463,667
NET OPERATING INCOME	\$649,230	\$649,230	\$779,076	\$779,076	\$941,384	\$941,384
STATIC MEASURES OF RETURN						
Return on Cost	7.00%	3.39%	6.34%	5.66%	6.13%	5.90%
Return on Equity	5.84%	1.59%	4.63%	3.66%	4.30%	3.98%

(1) Assumes CCTV security coverage with monitors in parking attendants main booth.
 SOURCE: Johnson Gardner

EXHIBIT B.03

STRUCTURED PARKING PRO-FORMAS
 STATIC ANALYSIS, FIRST STABILIZED YEAR

	Land Value/S.F.			Land Value/S.F.			Land Value/S.F.		
	\$8	\$35	\$100	\$8	\$35	\$100	\$8	\$35	\$100
PROJECT DETAILS									
Number of Stalls:	200	200	200	200	200	200	200	200	200
Price/Stall:	\$20,525	\$25,625	\$35,000	\$20,525	\$25,625	\$35,000	\$20,525	\$25,625	\$35,000
Construction Cost:	\$4,105,000	\$5,125,000	\$7,000,000	\$4,105,000	\$5,125,000	\$7,000,000	\$4,105,000	\$5,125,000	\$7,000,000
Perment Loan Amount:	\$1,064,663	\$1,065,192	\$1,065,771	\$2,534,047	\$2,534,047	\$2,534,047	\$3,489,250	\$4,356,250	\$3,735,842
Equity:	\$3,040,337	\$4,059,808	\$5,934,229	\$1,570,953	\$2,590,953	\$4,465,953	\$615,750	\$768,750	\$3,264,158
Debt Coverage Ratio:	1.20	1.20	1.20	1.20	1.20	1.20	1.29	1.04	1.20
Loan Period/Years:	20	20	20	20	20	20	20	20	20
Permanent Loan Rate:	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Annual Debt Service:	\$102,922	\$102,973	\$103,029	\$244,969	\$244,969	\$244,969	\$337,310	\$421,124	\$361,148
INCOME									
Number of Parking stalls	200	200	200	200	200	200	200	200	200
Occupancy Rate	100%	100%	100%	100%	100%	100%	100%	100%	100%
Monthly Parking Rate/Standard	\$65.00	\$65.00	\$65.00	\$125.00	\$125.00	\$125.00	\$175.00	\$175.00	\$175.00
Parking Income									
Monthly -Standard	\$156,000	\$156,000	\$156,000	\$300,000	\$300,000	\$300,000	\$420,000	\$420,000	\$420,000
Hourly, Daily, Monthly, Evenings/Weekends	\$34,320	\$34,320	\$34,320	\$66,000	\$66,000	\$66,000	\$92,400	\$92,400	\$92,400
Total Income	\$190,320	\$190,320	\$190,320	\$366,000	\$366,000	\$366,000	\$512,400	\$512,400	\$512,400
EXPENSES									
Parking Operator Costs	\$10,400	\$10,400	\$10,400	\$10,400	\$10,400	\$10,400	\$10,400	\$10,400	\$11,098
Sweeping	\$1,522	\$1,522	\$1,522	\$1,522	\$1,522	\$1,522	\$1,522	\$1,522	\$1,624
Administration/Personnel	\$2,102	\$2,102	\$2,102	\$2,102	\$2,102	\$2,102	\$2,102	\$2,102	\$2,243
Minor Maintenance/Janitorial	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,671
Plumbing Expenses	\$72	\$72	\$72	\$72	\$72	\$72	\$72	\$72	\$77
Elevator Maintenance	\$3,118	\$3,118	\$3,118	\$3,118	\$3,118	\$3,118	\$3,118	\$3,118	\$3,327
Electrical Maintenance	\$1,120	\$1,120	\$1,120	\$1,120	\$1,120	\$1,120	\$1,120	\$1,120	\$1,195
Electricity	\$4,600	\$4,600	\$4,600	\$4,600	\$4,600	\$4,600	\$4,600	\$4,600	\$4,909
Water and Sewer	\$1,120	\$1,120	\$1,120	\$1,120	\$1,120	\$1,120	\$1,120	\$1,120	\$1,195
Security / Life Safety	\$72	\$72	\$72	\$72	\$72	\$72	\$72	\$72	\$77
Total Operating Expenses	\$34,126	\$34,126	\$34,126	\$34,126	\$34,126	\$34,126	\$34,126	\$34,126	\$36,415
OWNERSHIP EXPENSES									
Property Taxes	\$23,400	\$23,400	\$23,400	\$23,400	\$23,400	\$23,400	\$23,400	\$23,400	\$23,400
Insurance	\$2,200	\$2,200	\$2,200	\$2,200	\$2,200	\$2,200	\$2,200	\$2,200	\$2,348
Professional Services	\$1,324	\$1,324	\$1,324	\$1,324	\$1,324	\$1,324	\$1,324	\$1,324	\$1,413
Reserves for Replacements/Repairs	\$5,710	\$5,710	\$5,710	\$10,980	\$10,980	\$10,980	\$15,372	\$15,372	\$15,372
Total Ownership Expenses	\$32,634	\$32,634	\$32,634	\$37,904	\$37,904	\$37,904	\$42,296	\$42,296	\$42,532
NET OPERATING INCOME	\$123,560	\$123,560	\$123,560	\$293,970	\$293,970	\$293,970	\$435,978	\$435,978	\$433,452
Total Receipts/Stall	\$952	\$952	\$952	\$1,830	\$1,830	\$1,830	\$2,562	\$2,562	\$2,562
Total Expense/Stall	\$334	\$334	\$334	\$360	\$360	\$360	\$382	\$382	\$395
Total Net Operating Income/Stall	\$618	\$618	\$618	\$1,470	\$1,470	\$1,470	\$2,180	\$2,180	\$2,167
STATIC MEASURES OF RETURN									
Return on Cost	3.01%	2.41%	1.77%	7.16%	5.74%	4.20%	10.62%	8.51%	6.19%
Return on Equity	1.35%	1.01%	0.69%	6.19%	3.75%	2.18%	26.81%	12.72%	4.39%

(1) Assumes CCTV security coverage with monitors in parking attendants main booth.
 SOURCE: Johnson Gardner