

Mercer Island Town Center Economic Analysis Revised Output Summary Memorandum

Discussion Draft

June 22, 2021

Prepared by:



Prepared for:





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that are important to decision makers.*

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INTRODUCTION

The following memorandum responds to requests made by members of the Mercer Island City Council. Specifically, councilmembers wished to test different input values for capitalization rates and asked to update the retail demand analysis with forthcoming housing targets from the Puget Sound Regional Council (PSRC) rather than the current population forecast given by the Washington Office of Financial Management (OFM). Exhibits to summarize the analysis under these revised assumptions follow.

Please note that this memorandum should be taken in conjunction with the initial report, which utilizes the original inputs and assumptions, and which provides detail on how each development prototype is modeled.

REVISED OUTPUTS

Capitalization Rates

The following exhibits present the pro forma residual land value model's results while utilizing a revised cap rate range between 4% and 5%.

Exhibit 1 presents the economic surplus generated by the 3-story multifamily prototype with the revised capitalization rates. Economic surplus ranges from \$65 to \$183 per square foot.

Exhibit 1. Economic Surplus Summary, 3-Story Multifamily

Prototype	3-story: Multifamily				
Summary					
Site Size (Square Feet)	75,000				
Building Footprint	26,250				
Built Square Feet	78,750				
FAR	1.1				
Maximum Building Height	39				
Feasibility					
Capitalization Rate	4.00%	4.25%	4.50%	4.75%	5.00%
Residual Land Value (/sf)	\$352	\$316	\$283	\$254	\$228
Economic Surplus (/sf)	\$183	\$148	\$117	\$90	\$65

Sources: CBRE, 2021; CoStar, 2021; Office of Policy Development and Research, 2021; RS Means, 2021; Community Attributes, 2021.

Economic surplus for the 3-story mixed-use prototype ranged from \$3 to \$107 per square foot (**Exhibit 2**).

Exhibit 2. Economic Surplus Summary, 3-Story Mixed-Use

Prototype	3-story: 2-Over-1 Mixed-Use				
Summary					
Site Size (Square Feet)	75,000				
Building Footprint	26,250				
Built Square Feet	78,750				
FAR	1.1				
Maximum Building Height	39				
Feasibility					
Capitalization Rate	4.00%	4.25%	4.50%	4.75%	5.00%
Residual Land Value (/sf)	\$272	\$240	\$211	\$186	\$163
Economic Surplus (/sf)	\$107	\$76	\$49	\$24	\$3

Sources: CBRE, 2021; CoStar, 2021; Office of Policy Development and Research, 2021; RS Means, 2021; Community Attributes, 2021.

When using the revised capitalization rates, the 4-story mixed-use prototype produced economic surplus ranging from \$37 to \$149 (**Exhibit 3**).

Exhibit 3. Economic Surplus Summary, 4-Story Mixed-Use

Prototype	4-story: 3-Over-1 Mixed-Use				
Summary					
Site Size (Square Feet)	75,000				
Building Footprint	48,750				
Built Square Feet	195,000				
FAR	2.6				
Maximum Building Height	45				
Feasibility					
Capitalization Rate	4.00%	4.25%	4.50%	4.75%	5.00%
Residual Land Value (/sf)	\$547	\$462	\$386	\$318	\$257
Economic Surplus (/sf)	\$149	\$116	\$87	\$61	\$37

Sources: CBRE, 2021; CoStar, 2021; Office of Policy Development and Research, 2021, RS Means, 2021; Community Attributes, 2021.

Exhibit 4 presents the economic surplus generated by the 5-story mixed-use prototype using the revised capitalization rates. The surplus ranged from \$64 to \$178 per square foot.

Exhibit 4. Economic Surplus Summary, 5-Story Mixed-Use

Prototype	5-story: 4-Over-1 Mixed-Use				
Summary					
Site Size (Square Feet)	75,000				
Building Footprint	48,750				
Built Square Feet	243,750				
FAR	3.3				
Maximum Building Height	55				
Feasibility					
Capitalization Rate	4.00%	4.25%	4.50%	4.75%	5.00%
Residual Land Value (/sf)	\$737	\$629	\$532	\$446	\$369
Economic Surplus (/sf)	\$178	\$144	\$115	\$88	\$64

Sources: CBRE, 2021; CoStar, 2021; Office of Policy Development and Research, 2021, RS Means, 2021; Community Attributes, 2021.

Retail Demand

Exhibit 5 presents the updated supportable retail growth using PSRC housing targets along with 2020 taxable retail sales and population data. Under these assumptions, estimated population growth is 2,790 through 2044, assuming 1,240 new households and 2.25 persons per household. The taxable retail sales have also been updated to exclude non-retail sectors, and now includes just the retail trade (NAICS 44-45), arts, entertainment, and recreation (NAICS 71), and accommodation and food services industries (NAICS 72). The City of Mercer Island’s 2020 taxable retail sales per capita across these three sectors was \$7,600. Given anticipated population growth and current spending patterns, Mercer Island retailers could capture an estimated \$21.2 million in additional retail spending through 2044 (assuming per capita taxable retail sales does not change). This could support an estimated 34,840 square feet of retail space, after accounting for current retail vacancies on the island, and assuming \$600 per square foot of retail sales.

Exhibit 5. Supportable Retail Growth

Supportable Retail Growth	
Additional Retail Spending Given Population Growth	
Population Growth	
Housing Units Target (2020 - 2044)	1,240
Assumed Population per Household	2.25
<i>Estimated Population Growth</i>	<i>2,790</i>
Taxable Retail Sales	
2020 Estimated Taxable Retail Sales	\$187,238,800
2020 Population - City of Mercer Island (OFM)	24,690
<i>2020 Taxable Retail Sales per Capita</i>	<i>\$7,600</i>
Additional Retail Spending	
Estimated Population Growth	2,790
2020 Taxable Retail Sales per Capita	\$7,600
<i>Estimated Additional Retail Spending</i>	<i>\$21,204,000</i>
Supportable Retail	
Supportable Retail Square Feet*	35,340
Less Vacant Retail Square Feet	500
Estimated Supportable Retail Square Feet	34,840

*Assuming Sales at \$600/sf

Sources: Washington State Office of Financial Management, 2021; Puget Sound Regional Council, 2021; CoStar, 2021; Community Attributes, 2021.