



**ECONOMIC & TAX REVENUE BENEFITS TO
THE CITY OF SEATTLE FROM RESIDENTIAL
& COMMERCIAL REAL ESTATE
DEVELOPMENT**

PREPARED FOR:

THE COALITION FOR HOUSING SOLUTIONS

MONDAY, MAY 18, 2015

524 SECOND AVENUE, SUITE 500,
SEATTLE, WA 98104
TEL: 206-442-9200



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MEMORANDUM

DATE: Monday, May 18, 2015

TO: THE COALITION FOR HOUSING SOLUTIONS
1809 7th Ave, Suite 900,
Seattle, Washington 98101

FROM: GARDNER ECONOMICS LLC

SUBJECT: ECONOMIC & TAX REVENUE BENEFITS TO THE CITY OF SEATTLE FROM DOWNTOWN DEVELOPMENT FORMS

PREFACE

In May of 2013, the City of Seattle adopted Resolution 31444 as a companion piece of legislation to the South Lake Union rezone ordinance. Amongst other things, Resolution 31444 established a work program for reviewing and updating the City's affordable housing incentive program.

Three consultants were retained by the City to assist them with this task and, thereafter, were further retained to prepare analyses of the economics of an enhanced affordable housing incentive program¹, as well as to provide policy options for refining the existing incentive zoning program².

In September of 2014, David Paul Rosen & Associates (DRA) published a draft Nexus Study³ which established a relationship between new development and demand for low and moderate income housing as well as to qualify a maximum supportable linkage fee to mitigate

¹ David Paul Rosen & Associates - Seattle Affordable Housing Incentive Program Economic Analysis – October 2014

² Cornerstone Partnership – Policy Options for Refining Seattle's Incentive Zoning Program – July 2014

³ DRA – Seattle Affordable Housing Nexus Study – September 11, 2014



the impact of that increase in demand. Additionally, Cornerstone published a memorandum concerning their recommendations for implementation of an Affordable Housing Linkage Fee.

In October 2014, the Seattle Planning, Land Use and Sustainability Committee recommended approval of Resolution 31551 related to a new linkage fee program.

This resolution was sponsored by Council member O'Brien and was adopted on October 20, 2014.

Following adoption of this resolution, GARDNER ECONOMICS has been retained by the Coalition for Housing Solutions to consider the unintended consequences that will likely occur should the resolution be passed into law.

In order to consider this question, we have prepared a study of the economic and tax revenue contributions made to the City of Seattle as a function of real estate development within the City. This was undertaken as new development in Seattle contributes to a variety of economic measures as well as tax revenue streams that financially benefit the city during both the construction phase as well as permanently upon building occupancy.

This report sets out to document the one-time contributions to the City of Seattle from new construction, as well as the permanent, on-going impact to the City given a variety of different uses as well as mid-rise or high-rise structure form.

In order to complete this assignment, the following analytical steps were taken in pursuit of these objectives.

1. *Document the economics of typical mid-rise and high-rise Seattle apartment residential, office, retail and hotel development including structure size and development cost;*
2. *Estimate the one-time impacts of different downtown development, including economic contributions such as jobs, wages, and Seattle business revenues, as well as the various City tax streams that benefit from new construction, such as sales & use tax, business & occupation tax, and others; and*
3. *Estimate the permanent, on-going contributions to the City of Seattle from different downtown development types and uses once occupied, including economic variables as well as City tax revenue streams.*



The following report documents our methodology and findings for this assignment.



I. EXECUTIVE SUMMARY

Real estate development in the City has grown considerably over the past several decades. This development, in all of its component forms, provides considerable revenue to the City in the form of one-time as well as ongoing taxes. We would contend that adoption of the resolution in question will substantially curtail development activity which will have equally negative impact to the City in terms of revenue generation.

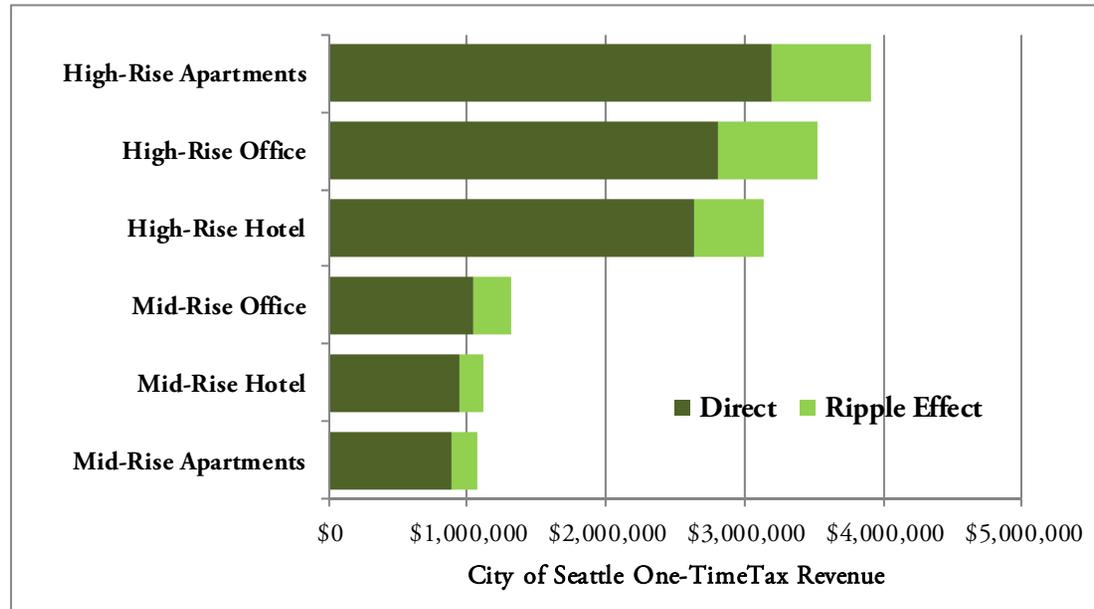
Overall, we find that construction of new mid-rise and high-rise projects in downtown Seattle already generates substantial resources to the City of Seattle ranging from the *hundreds of thousands to millions of dollars*. After new development projects are reasonably occupied and business operations occur, the City is permanently and annually funded by additional tax revenues in the *hundreds of thousands to millions of dollars* in revenue per structure.

Development generates substantial resources for a number of government services. Our analysis indicates that the development of a high-rise office building will generate more than \$3.7 million towards public safety annually, and roughly \$1 million towards arts, culture, & recreation, as well as many other activities. Ongoing development is critical to enhancing future government services.

However, of the substantial tax revenue resources generated by construction and then operations of new mid-rise and high-rise projects that fund the core Seattle General Subfund budget, according to current City budget priorities, only 3% are distributed to Neighborhoods & Development programs, only one of which comprises city affordable housing programs.



FIGURE A: ONE-TIME CITY TAX REVENUE FROM DEVELOPMENT PROTOTYPES

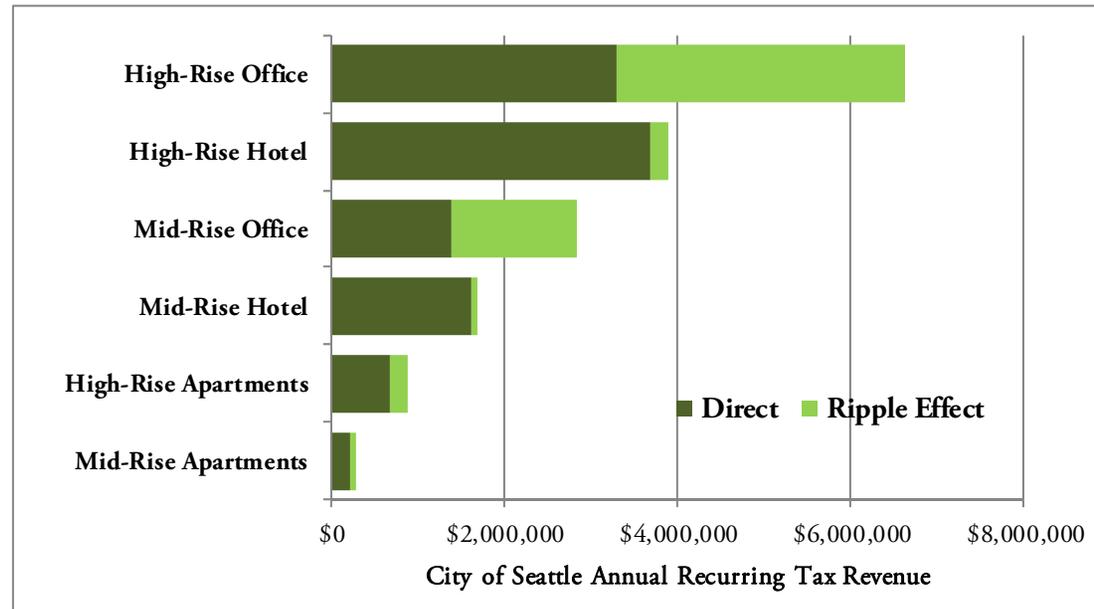


SOURCE: GARDNER ECONOMICS

- A graphical summation of total, combined one-time City tax revenues structure type are shown in FIGURE A.
- Total, one-time City tax revenue generated by project development in downtown Seattle provides anywhere from roughly \$1.0 million (Mid-Rise Apartments) to roughly \$3.9 million (High-Rise Apartments) in total resources for City programs already without new, additional earmarked fees.



FIGURE B: RECURRING ANNUAL CITY TAX REVENUE FROM DEVELOPMENT PROTOTYPES



SOURCE: GARDNER ECONOMICS

- FIGURE B provides annual, permanent City tax revenue estimates from different development types already generated under the existing City tax structure.
- Permanent, annual City tax revenue generated by project development in downtown Seattle provides anywhere from roughly \$284,000 (Mid-Rise Apartments) to just over \$6.6 million (High-Rise Office) in total resources for City programs already without new, additional earmarked fees.
- High-rise hotel is found to have the greatest direct impact to City tax revenues on a permanent basis due to significant visitor spending, the majority of which is largely taxable.
- High-rise office generates the highest total annual, permanent tax revenue for the City due to the taxable value of business revenues within a high-rise office structure, as well as the significant retention of business transactions within the City of Seattle rather than “leaking” outside of the city.



FIGURE C: CITY TAX REVENUE STREAM SUMMARY FROM MID-RISE DEVELOPMENT PROTOTYPES

Mid-Rise Development Forms City Tax Revenue Impacts	Construction (One-Time)			Operations (On-Going)		
	Apartments	Hotel	Office	Apartments	Hotel	Office
Sales & Use Tax	\$929,789	\$991,985	\$1,114,015	\$123,490	\$510,757	\$1,164,920
<i>Sales & Use Tax</i>	\$758,241	\$808,962	\$908,477	\$100,705	\$416,522	\$949,990
<i>RTA</i>	\$137,238	\$146,418	\$164,430	\$18,227	\$75,389	\$171,944
<i>Transportation Benefit District</i>	\$34,310	\$36,605	\$41,108	\$4,557	\$18,847	\$42,986
B&O Tax	\$140,461	\$124,896	\$190,822	\$32,710	\$48,844	\$1,271,651
Property Tax	\$0	\$0	\$0	\$89,191	\$95,797	\$124,112
<i>Regular City Levy</i>	\$0	\$0	\$0	\$55,262	\$59,356	\$76,899
<i>Lid-Lift Levies</i>	\$0	\$0	\$0	\$29,496	\$31,680	\$41,044
<i>G.O. Bond Levy</i>	\$0	\$0	\$0	\$4,433	\$4,762	\$6,169
Utility Tax	\$3,139	\$3,369	\$4,365	\$38,698	\$32,408	\$269,342
Lodging Tax	\$0		\$0	\$0	\$1,004,115	\$0
<i>City Share</i>	\$0	\$0	\$0	\$0	\$421,575	\$0
<i>Convention Center</i>	\$0	\$0	\$0	\$0	\$536,550	\$0
<i>Metro Transit</i>	\$0	\$0	\$0	\$0	\$45,990	\$0
<i>Total Tax Revenue</i>	<i>\$1,073,389</i>	<i>\$1,120,251</i>	<i>\$1,309,201</i>	<i>\$284,088</i>	<i>\$1,691,922</i>	<i>\$2,830,026</i>

SOURCE: GARDNER ECONOMICS

- FIGURE C provides a comprehensive summary of City tax revenues generated by mid-rise development types during Construction (One-Time) and Operations (Annual, On-Going).
- During construction, City sales & use tax is the primary revenue stream due to tax on the value of project construction contracts purchased. On-going operations tax revenues vary by use, whether led by sales & use (Apartments), lodging tax (Hotel), or B&O tax (Office).



FIGURE D: CITY TAX REVENUE STREAM SUMMARY FROM HIGH-RISE DEVELOPMENT PROTOTYPES

High-Rise Development Forms City Tax Revenue Impacts	Construction (One-Time)			Operations (On-Going)		
	Apartments	Hotel	Office	Apartments	Hotel	Office
Sales & Use Tax	\$3,376,375	\$2,784,543	\$3,012,504	\$352,468	\$1,135,124	\$2,714,584
<i>Sales & Use Tax</i>	\$2,753,428	\$2,270,789	\$2,456,692	\$287,437	\$925,692	\$2,213,738
<i>RTA</i>	\$498,358	\$411,003	\$444,650	\$52,025	\$167,546	\$400,677
<i>Transportation Benefit District</i>	\$124,589	\$102,751	\$111,163	\$13,006	\$41,887	\$100,169
B&O Tax	\$526,255	\$348,618	\$504,473	\$92,559	\$160,596	\$2,963,297
Property Tax	\$0	\$0	\$0	\$323,917	\$267,395	\$328,812
<i>Regular City Levy</i>	\$0	\$0	\$0	\$200,697	\$165,677	\$203,730
<i>Lid-Lift Levies</i>	\$0	\$0	\$0	\$107,120	\$88,428	\$108,738
<i>G.O. Bond Levy</i>	\$0	\$0	\$0	\$16,100	\$13,291	\$16,343
Utility Tax	\$11,398	\$9,405	\$11,565	\$109,014	\$72,918	\$627,642
Lodging Tax	\$0	\$0	\$0	\$0	\$2,259,259	\$0
<i>City Share</i>	\$0	\$0	\$0	\$0	\$948,544	\$0
<i>Convention Center</i>	\$0	\$0	\$0	\$0	\$1,207,238	\$0
<i>Metro Transit</i>	\$0	\$0	\$0	\$0	\$103,478	\$0
<i>Total Tax Revenue</i>	\$3,914,028	\$3,142,566	\$3,528,543	\$877,959	\$3,895,293	\$6,634,334

SOURCE: GARDNER ECONOMICS

- FIGURE D provides a comprehensive summary of City tax revenues generated by high-rise development types during Construction (One-Time) and Operations (Annual, On-Going).
- Tax revenues from construction and operations of high-rise prototypes generally exceed mid-rise versions by 150% to 230% due to greater comparative project size, as well as greater volume of ripple effect commerce as vendors, service providers, and households employed by activities spend income in Seattle.



- We would also note that, in addition to the above revenue streams which flow to the City, they also receive 0.5 percent of the Real Estate Excise Tax (REET) that is generated from the transaction of real estate between at-length entities. The REET is based on gross sales price. Although commercial buildings trade on a basis of varying frequency, collections from the REET during periods of rising real estate prices and transaction volume are significant. Although we are not prepared to provide specific revenues that would be generated from such trades as they would ultimately be speculative of unknown building owner disposition strategy and timing, it is still appropriate to recognize this as an additional revenue stream which would not be generated if development were to be curtailed.

The following sections of this study provide granular information and support for the above statements.



II. MID-RISE & HIGH-RISE DEVELOPMENT FORMS

The downtown Seattle Central Business District (CBD) is the highest concentration of development density in the City due to the highest concentration of various economic activities that occur there and compete for viable location. The result, as found in the CBD's of other major cities, are the highest prices of real estate in the city for both underlying land value as well as existing development in place that would need to be torn down and replaced with higher density development.

Because of these cost reasons – high land values and the absolute loss in value of an older structure that would be torn down – new development in downtown Seattle must be of sufficient density and quantity that the high cost of the property can be sufficiently absorbed and yet the new use(s) achieve sufficient economic return on investment.

The result is that in the Seattle CBD, high-rise and sometimes mid-rise structures are the only new development that can sufficiently absorb the cost of a property, any demolition on site, and the cost of a new and larger structure while still offering lease rates, rents, or sales prices that are competitively and suitably priced for the market of households and businesses requiring downtown location.

For this study of Seattle development, we define mid-rise and high-rise structures as follows:

- Mid-Rise Development: Wood-frame structures over concrete podium usually having a total of seven floors above-grade.
- High-Rise Development: Individual steel and concrete structures generally of twelve (12) stories or taller up to maximum height restrictions.

It is important to note that, for high-rise development types, steel and concrete are the predominant construction materials. Mid-rise development is a transition construction type more frequently found in close-in neighborhoods (i.e. Capitol Hill, South Lake Union, and Ballard) in the “five over two” structure type, or five floors of wood frame construction over two floors of concrete podium-based construction. Mid-rise is common in areas where height is restricted by zoning but property values are high enough to require greater development yield relative to other uses.



High-rise construction, comprising steel and concrete as primary materials, are significantly more expensive on a per-square-foot basis due to the architectural and engineering requirements to achieve greater height with seismic and other environmental stability. For this reason, high-rise development is most common in the core, downtown CBD of major cities including Seattle where underlying property values and prevailing market prices require substantial development yield and density.

A. MID-RISE & HIGH-RISE DEVELOPMENT PROTOTYPES

To model the economic and fiscal impacts of new Seattle development in mid-rise and high-rise forms, a series of assumptions are required to describe the size and cost for each structure type and its primary uses: apartment, office, retail, and hotel.

This was achieved by GARDNER ECONOMICS utilizing a survey of Downtown Seattle Association member real estate development firms with recent development projects and up-to-date physical and economic cost factors for the downtown Seattle market. Survey respondents were asked for key development assumptions or mid-rise and high-rise variations on predominant uses, including structure sizes and various costs per square foot for planning purposes.

The following discussions treat the results of that survey and their implementation as assumptions for this analysis. Ranges of sizes and costs were given by respondents due to their varied experience with different sites and construction concepts uniquely suited to those sites and projects. As much as possible, GARDNER ECONOMICS conservatively utilized averages or lower-range estimates via professional judgment in order to achieve conservative analytical results. Finally, because of the widely varying costs of underlying property value of different redevelopment sites, land values are excluded from all prototype cost estimates.

We would add that we were advised by many respondents that they have been starting to see considerable cost inflation in the marketplace and, therefore, certainly consider the figures provided below to be conservative. For instance, Soft Costs & Contingency have in some recent projects exceeded 30% according to survey results, but for conservative estimates a typical average among respondents was utilized.



i. Mixed-Use Apartment Residential Forms

FIGURE 1 on the following page provides a summary of the various assumptions utilized in this analysis to model the economic and tax revenue impacts of both mid-rise and high-rise apartment residential construction in Seattle. Overall:

- Individual apartment project structure size varies from 176,600 square feet (mid-rise) to 442,500 (high-rise) in size.
- Both mid-rise and high-rise assume ground floor retail amenity consistent with new and recent mixed-use development downtown.
- The mid-rise prototype assumes 35,000 square feet of below-grade parking while high-rise assumes 100,000 square feet.
- Residential construction varies from a total of \$213 per square foot for mid-rise to \$310 for high-rise development.
- Ground floor retail construction averages \$312 per square foot including tenant improvements, which include specific constructed space improvements tailored for tenant business operations that are frequently modified or replaced during the lifetime of the structure.
- Structure costs subject to the Washington State Sales Tax (WSST) by the project developer range from \$29.2 million for mid-rise to \$105.9 million for high-rise.
- Total structure cost, including soft costs, contingency, and tenant improvements, exclusive of land and WSST, ranges from an estimated \$37.7M for a mid-rise project to as high as \$137.2M for a high-rise project in downtown Seattle.



FIGURE 1: MID-RISE & HIGH-RISE APARTMENTS PROTOTYPE ASSUMPTIONS

Development Variable	Residential - Apartments	
	Mid-Rise	High-Rise
Residential	140,000	337,500
Retail Space	1,600	5,000
Below-Grade Parking	<u>35,000</u>	<u>100,000</u>
Total Space	176,600	442,500
Unit Count	160	450
Leaseable Retail Space Sq. Ft.	1,600	5,000
Cost per Sq. Ft.		
Residential		
Core Structure	\$ 165.00	\$ 240.00
Soft Costs & Contingency (29% of Structure)	<u>\$ 48.00</u>	<u>\$ 70.00</u>
<i>Total Cost per Sq. Ft.</i>	<i>\$ 213.00</i>	<i>\$ 310.00</i>
Retail		
Core Structure	\$ 180.00	\$ 180.00
Soft Costs & Contingency (29% of Structure)	<u>\$ 52.00</u>	<u>\$ 52.00</u>
Tenant Improvements	<u>\$ 80.00</u>	<u>\$ 80.00</u>
<i>Total Cost per Sq. Ft.</i>	<i>\$ 312.00</i>	<i>\$ 312.00</i>
Structure Cost		
Residential	\$ 28,875,000	\$ 105,000,000
Retail	<u>\$ 288,000</u>	<u>\$ 900,000</u>
<i>Total</i>	<i>\$ 29,163,000</i>	<i>\$ 105,900,000</i>
Total Cost		
Residential	\$ 37,275,000	\$ 135,625,000
Retail	<u>\$ 499,200</u>	<u>\$ 1,560,000</u>
<i>Total</i>	<i>\$ 37,774,200</i>	<i>\$ 137,185,000</i>

SOURCE: GARDNER ECONOMICS



ii. Hotel Commercial Forms

FIGURE 2 on the following page provides a summary of the various assumptions utilized in this analysis to model the economic and tax revenue impacts of both mid-rise and high-rise hotel construction in Seattle.

- Individual hotel structure size varies from 156,000 square feet (mid-rise) to 381,000 (high-rise) in size.
- Mid-rise and high-rise assume ground floor commercial development with a mix of retail space and restaurant/dining space.
- The mid-rise prototype assumes 30,000 square feet of below-grade parking, while high-rise assumes 75,000 square feet.
- Hotel construction cost varies from a total of \$258 per square foot for mid-rise to \$297 for high-rise development.
- Ground floor retail and dining commercial construction average \$312 per square foot including tenant improvements.
- Structure costs subject to WSST by the project developer range from \$31.1 million for mid-rise to \$87.3 million for high-rise.
- Total development cost, including soft costs, contingency, and tenant improvements, ranges from an estimated \$40.6 million for a mid-rise hotel project to nearly \$113.2 million for a high-rise hotel.



FIGURE 2: MID-RISE & HIGH-RISE HOTEL PROTOTYPE ASSUMPTIONS

Development Variable	Hotel	
	Mid-Rise	High-Rise
Hotel	120,000	300,000
Retail Space	6,000	6,000
Below-Grade Parking	<u>30,000</u>	<u>75,000</u>
Total Space	156,000	381,000
Keys	200	450
Leaseable Retail Space Sq. Ft.	6,000	6,000
Cost per Sq. Ft.		
Hotel		
Core Structure	\$ 200.00	\$ 230.00
Soft Costs & Contingency (29% of Structure)	\$ 58.00	\$ 67.00
<i>Total Cost per Sq. Ft.</i>	<i>\$ 258.00</i>	<i>\$ 297.00</i>
Retail		
Core Structure	\$ 180.00	\$ 180.00
Soft Costs & Contingency (29% of Structure)	\$ 52.00	\$ 52.00
Tenant Improvements	\$ 80.00	\$ 80.00
<i>Total Cost per Sq. Ft.</i>	<i>\$ 312.00</i>	<i>\$ 312.00</i>
Structure Cost		
Hotel	\$ 30,000,000	\$ 86,250,000
Retail	\$ 1,080,000	\$ 1,080,000
<i>Total</i>	<i>\$ 31,080,000</i>	<i>\$ 87,330,000</i>
Total Cost		
Hotel	\$ 38,700,000	\$ 111,375,000
Retail	\$ 1,872,000	\$ 1,872,000
<i>Total</i>	<i>\$ 40,572,000</i>	<i>\$ 113,247,000</i>

SOURCE: GARDNER ECONOMICS



Office Commercial Forms

FIGURE 3 on the following page provides a summary of the various assumptions utilized in this analysis to model the economic and tax revenue impacts of both mid-rise and high-rise office construction in downtown Seattle.

- Individual office structure size varies from 120,000 square feet (mid-rise) to 280,000 (high-rise) in size.
- Unlike apartment residential and hotel types, office development does not assume ground floor retail commercial components.
- The mid-rise prototype assumes 74,000 square feet of below-grade parking, while high-rise assumes 181,000 square feet.
- Total office construction costs, which include soft costs, contingency, and office tenant improvements, range from \$306 per square foot (mid-rise) to \$338 per square foot (high-rise).
- Structure costs subject to WSST by the project developer range from \$21.0 million for mid-rise to \$56.0 million for high-rise.
- Total development cost, including soft costs, contingency, and tenant improvements, ranges from an estimated \$35.8 million for a mid-rise office building to \$92.6 million for a high-rise office structure.



FIGURE 3: MID-RISE & HIGH-RISE OFFICE PROTOTYPE ASSUMPTIONS

Development Variable	Office	
	Mid-Rise	High-Rise
Office Space	120,000	280,000
Retail Space	0	0
Parking/Below-Grade	<u>74,000</u>	<u>181,000</u>
Total Space	194,000	461,000
Leaseable Office Space Sq. Ft.	109,000	254,000
Leaseable Retail Space Sq. Ft.	0	0
Cost per Sq. Ft.		
Office		
Core Structure	\$ 175.00	\$ 200.00
Soft Costs & Contingency (29% of Structure)	\$ 51.00	\$ 58.00
Tenant Improvements	<u>\$ 80.00</u>	<u>\$ 80.00</u>
<i>Total Cost per Sq. Ft.</i>	<i>\$ 306.00</i>	<i>\$ 338.00</i>
Retail		
Core Structure	\$ 180.00	\$ 180.00
Soft Costs & Contingency (29% of Structure)	\$ 52.00	\$ 52.00
Tenant Improvements	<u>\$ 80.00</u>	<u>\$ 80.00</u>
<i>Total Cost per Sq. Ft.</i>	<i>\$ 312.00</i>	<i>\$ 312.00</i>
Structure Cost		
Office	\$ 33,950,000	\$ 92,200,000
Retail	<u>\$ -</u>	<u>\$ -</u>
<i>Total</i>	<i>\$ 33,950,000</i>	<i>\$ 92,200,000</i>
Total Cost		
Office	\$ 52,564,000	\$ 139,258,000
Retail	<u>\$ -</u>	<u>\$ -</u>
<i>Total</i>	<i>\$ 52,564,000</i>	<i>\$ 139,258,000</i>

SOURCE: GARDNER ECONOMICS



III. ECONOMIC & TAX REVENUE IMPACTS DEFINED

To assess the economic impacts of different development types in Seattle and the tax revenues affected by those activities, an economic impact analysis was conducted to estimate likely employment, income and business revenue generation as a result of mid-rise and high-rise variations of apartment building, hotel, and office building development as previously described in SECTION II.

This section provides technical definitions of the various economic impacts to the City of Seattle as a result of new development, as well as the specific City taxes that apply to new economic activity and the resulting revenues created.

A. ECONOMIC IMPACTS DEFINED

i. Technical Distinctions

Economic impact analysis seeks to assess changes in overall economic activity within a geographic area as a result of a change in one or many specific activities. The ripple effect of a gain or loss in economic activity is identified in three stages: *Direct Impacts*, *Indirect Impacts* and *Induced Impacts*.

- *Direct Impacts*: The actual change in activity affecting a local economy. For example, if a new office building is constructed, direct economic impacts comprise the construction contract revenues for businesses involved in the project, as well as the jobs required by those businesses and the labor income they pay.
- *Indirect Impacts*: The response of all other local businesses to the direct impact. Continuing the previous example, indirect impacts of office building construction comprise revenues for project vendors, i.e. building materials wholesalers, subcontractors, etc., and the jobs and labor income thereby generated.
- *Induced Impacts*: The response of households affected by direct and indirect impacts. In the given example, induced impacts would be the increase in all categories of spending by households directly or indirectly employed by office building construction activities.



To quantify economic impacts upon the City of Seattle economy from different development types, GARDNER ECONOMICS utilized the IMPLAN⁴ (IMpacts for PLANning) economic impact analysis model. Developed by the Forest Service to assist in land and resource management planning, IMPLAN is an economic impact model designed for analyzing the effects of industry activity (employment, income or business revenues) upon all other industries in an economic area.

ii. Study Area and Economic Leakage

The study area for this impact analysis is strictly defined as the City of Seattle. GARDNER ECONOMICS utilized an IMPLAN economic data set strictly comprising all zip codes in the City of Seattle⁵. The data set includes comprehensive industry, business counts, gross business revenues, employment counts, covered payroll, proprietor income, direct and indirect municipal taxes and many other economic variables by specific industry code.⁶

Resulting estimates of economic impacts for the City of Seattle as a result of development types, therefore, reflect actual business revenue, employment and wage income generated that strictly remain in the City of Seattle. Some economic activity will undoubtedly be created for businesses and households located outside the City of Seattle that might supply goods or services to construction companies during project development or to firms that decide to locate in finished project space.

IMPLAN methodology does not model this economic leakage, defined as generated economic activity that escapes the City of Seattle. Furthermore, once economic leakage occurs, the IMPLAN model does not estimate the quantity of economic activity that returns to Seattle via ripple effects. Therefore, economic impact estimates in this analysis are inherently conservative. In effect, total economic activity generated by downtown development types will indeed include commerce generated elsewhere in the Puget Sound Region and the State, but it is not reflected in this analysis due to its designation as leakage.

⁴ Minnesota IMPLAN Group (MIG), Inc., Stillwater, Minnesota.

⁵ Casual observation of zip code boundaries will indicate that some zip codes overlap slightly into a neighboring city or unincorporated area while others fall short of the city limits and, therefore, slightly exclude land area that should be included. At the margin, these overlaps and omissions are nearly equal in size and are largely confined to residential areas. Accordingly, GARDNER ECONOMICS considered the slight resulting discrepancies as a “wash” and negligible for the purposes of this analysis.

⁶ Proprietary data for individual firms are not reported but are rather aggregated to industry totals.



iii. Dollar Value of Impact Estimates

Impact estimates in this analysis are in constant 2014 dollars for the purpose illustrating incremental economic contributions of each Seattle development type.

B. TYPES OF ECONOMIC IMPACT OF CONSTRUCTION

Construction of mid-rise or high-rise mixed-use apartment, hotel, or office buildings poses substantial, positive economic impacts for the Seattle economy. Construction impacts are temporary in nature, lasting only for the duration of the anticipated building schedule for each individual project.

Economic impacts from temporary construction activities occur as follows:

- *Direct Impacts:* The cost of construction for a building represents revenues for construction, development, design and other related firms;
- *Indirect Impacts:* Commerce for vendors that supply companies directly involved in building development and construction activities; and
- *Induced Impacts:* Spending by households that are employed as a result of construction activities.

C. TYPES OF DIRECT ECONOMIC IMPACT OF OCCUPANCY & OPERATIONS

After construction is complete, households and/or commerce utilizing new buildings in downtown Seattle pose permanent, on-going economic impacts for Seattle. Unlike construction activities, however, on-going economic activities in completed development projects pose a wide variety of impact types due to the basic differences in building types and uses.



i. Ongoing Apartment Direct Economic Impacts

- Renter Household Spending (\$50,000 to \$75,000 Income): Based on prevailing rents in downtown Seattle, half of all apartment units when occupied will be home to households that will spend disposable income within the City of Seattle, particularly the downtown area. Household spending impacts are limited to those transactions that stay within the City of Seattle rather than within other jurisdictions.
- Renter Household Spending (\$75,000 to \$100,000 Income): 50% of occupied downtown apartments are assumed to be households in this income category. Their annual spending of disposable income within the City of Seattle are modeled as economic impacts.
- Retail Sales: Retail sales within the ground floor of either mid-rise or high-rise construction at an annual average of \$300 per square foot are modeled as economic impacts of on-going downtown apartment operations.
- Retail Jobs & Wages: Jobs and average wage for retail operations are modeled as permanent impacts.

ii. Ongoing Hotel Direct Economic Impacts

- Hotel Business Operations & Revenues: Hotel rooms, at an average nightly rate of \$150, occupied at an average rate of 70% represent direct, permanent impacts modeled in this analysis.
- Hotel Operations Employment & Wages: Jobs required for hotel operations based on hotel size and average wages for those jobs are included as permanent impacts.
- Hotel Visitor Per Diem Spending: Overnight visitors to the hotel, and therefore downtown Seattle, are included as permanent, ongoing economic impacts of hotel development. Based on Seattle Visitor Bureau impact studies, \$156 per person visitor spending on dining, amusement, transportation, and general retail are modeled as permanent impacts of hotel development. Spending outside of the hotel is modeled.
- Retail Sales: Retail sales within the ground floor of either mid-rise or high-rise construction at an annual average of \$300 per square foot are modeled as economic impacts of on-going downtown hotel operations.
- Retail Jobs & Wages: Jobs and average wage for retail operations are modeled as permanent impacts.



- Restaurant Sales: Dining within the ground floor of either the mid-rise or high-rise hotel at an average of \$350 per square foot is modeled as permanent impacts of hotel operations.
- Restaurant Jobs & Wages: Jobs and average wage for restaurant operations are modeled as permanent impacts.

iii. Ongoing Office Building Direct Economic Impacts

- Office Tenant Business Revenues: Analysis assumes office development would be occupied by a mix of industries consistent with office-using sector employment reported for downtown Seattle by the Census Bureau County Business Patterns Zip Code data. Business revenues for those sectors, as reported by IMPLAN data for the Seattle study area, are modeled as permanent economic impacts of office building development.
- Office Tenant Employment & Wages: Jobs using office space at an average of 200 square feet per employee and average wages for office-using sectors as reported by Washington Employment Security Department for King County are modeled as permanent impacts of office development in downtown Seattle.

D. CITY TAX REVENUE IMPACTS DEFINED

A number of City taxes will be applicable to both one-time construction activities as well as permanent, on-going commerce related to development as described above. The following are description of each City tax stream that would be affected, and specifically benefit, from the types of economic activities described above.

i. Tax Revenue Stream Impacts: Construction

- City Share of WSST (Sales & Use Tax): The developer of a project, specifically the buyer of construction contract services for construction of any building type, would pay Washington State Sales Tax. The share of the WSST that would be distributed locally by the State of Washington is 2.7% based on the following distribution as described by the Washington Department of Revenue.
 - Seattle Sales & Use Tax Share: 2.2%.
 - Regional Transit Authority: 0.40%.



- Transportation Benefit District: As of April 2015, a new and additional 0.1% will contribute to local transportation funding.
- City Business & Occupation Tax: Seattle businesses providing construction services for new downtown development, as well as firms providing development-related services such as architecture and engineering, finance, and other such sectors would be subject to one of two B&O tax rates:
 - Contracting Sectors: 0.215% B&O tax on gross business receipts.
 - Construction-Related Services: 0.415% B&O tax on gross business receipts.
- City Utility Tax: Utility usage during the course of different project development would be subject to the City utility tax, assumed at a 9% average based on rates for different utilities ranging from 6% to 12%.

ii. Apartment & Retail Building Permanent Tax Impacts

- City Share of WSST (Sales & Use Tax): Spending within Seattle by downtown apartment residents would generate sales & use tax revenue locally, primarily for the City. The combined local rate is 2.7% distributed by the State of Washington as follows:
 - Seattle Sales & Use Tax Share: 2.2%.
 - Regional Transit Authority: 0.40%.
 - Transportation Benefit District: As of April 2015, a new and additional 0.1% will contribute to local transportation funding.
- City Business & Occupation Tax: On-site retail businesses in mid-rise or high-rise apartment development as well as off-site spending by renter households within Seattle would pay the City B&O tax according to one of two rates based on industry sector.
 - Most Sectors including Retail: 0.215% B&O tax on gross business receipts.
 - Various Services Sectors: 0.415% B&O tax on gross business receipts for various purely services sectors as defined by the City of Seattle.



- City Share of Property Tax: The value of new mid-rise or high-rise development put in place⁷ would be subject to property tax and specifically the rate for downtown Seattle, rate code for Area 32. According to King County Assessor Data, the local non-county share of the property tax rate in downtown Seattle is presently \$2.62352 per \$1,000 of assessed value distributed as follows:
 - City Regular Levy: \$1.62552 per \$1,000 assessed value.
 - Optional “Lid-Lift” Levy: \$0.86760 per \$1,000 assessed value.
 - General Obligation (G.O.) Bond Levy: \$0.13040 per \$1,000 assessed value.
- City Utility Tax: Utility usage related to operation of the building as well as businesses elsewhere benefitting from renter household spending would be subject to the City utility tax, assumed at a 9% average based on rates for different utilities ranging from 6% to 12%.

iii. **Hotel & Retail Building Permanent Tax Impacts**

- City Share of Hotel/Motel Tax: Of the 15.6% lodging tax on hotels within the State of Washington, 13.1% is distributed locally according to the Washington Department of Revenue as follows:
 - City Lodging: 5.5%.
 - Convention Center: 7.0%.
 - Metro Transit: 0.6%
- City Share of WSST (Sales & Use Tax): Spending within Seattle by overnight hotel guests within the building or off-site, as well as sales in first-floor commercial space would generate sales & use tax revenue locally, primarily for the City. The combined local rate is 2.7% distributed by the State of Washington as follows:
 - Seattle Sales & Use Tax Share: 2.2%.
 - Regional Transit Authority: 0.40%.

⁷ This analysis assumes the basis of assessed property value is the Cost of Replacement of the new development. The alternative valuation method most commonly utilized by King County, (Capitalized) Income Method, would likely yield higher assessed values but is not utilized for purposes of conservative estimates.



- Transportation Benefit District: As of April 2015, a new and additional 0.1% will contribute to local transportation funding.
- City Business & Occupation Tax: Hotel operations, on-site retail and dining businesses, businesses, as well as businesses benefiting by off-site spending by overnight guests within Seattle would pay the City B&O tax according to one of two rates based on industry sector.
 - Most Sectors including Retail: 0.215% B&O tax on gross business receipts.
 - Various Services Sectors: 0.415% B&O tax on gross business receipts for various purely services sectors as defined by the City of Seattle.
- City Share of Property Tax: The replacement value of a new mid-rise or high-rise hotel put in place would be subject to property tax and specifically the rate for downtown Seattle, rate code for Area 32. According to King County Assessor Data, the local non-county share of the property tax rate in downtown Seattle is presently \$2.62352 per \$1,000 of assessed value distributed as follows:
 - City Regular Levy: \$1.62552 per \$1,000 assessed value.
 - Optional “Lid-Lift” Levy: \$0.86760 per \$1,000 assessed value.
 - General Obligation (G.O.) Bond Levy: \$0.13040 per \$1,000 assessed value.
- City Utility Tax: Utility usage related to operation of the building as well as businesses elsewhere benefitting from overnight hotel guest spending would be subject to the City utility tax, assumed at a 9% average based on rates for different utilities ranging from 6% to 12%.



iv. Office Building Tax Impacts

- City Share of WSST (Sales & Use Tax): To the extent that office-utilizing sectors collect WSST,⁸ office tenant commerce within the building would generate sales & use tax revenue locally, primarily for the City. The combined local rate is 2.7% distributed by the State of Washington as follows:
 - Seattle Sales & Use Tax Share: 2.2%.
 - Regional Transit Authority: 0.40%.
 - Transportation Benefit District: As of April 2015, a new and additional 0.1% will contribute to local transportation funding.
- City Business & Occupation Tax: Hotel operations, on-site retail and dining businesses, businesses, as well as businesses benefiting by off-site spending by overnight guests within Seattle would pay the City B&O tax according to one of two rates based on industry sector.
 - Most Sectors including Retail: 0.215% B&O tax on gross business receipts.
 - Various Services Sectors: 0.415% B&O tax on gross business receipts for various purely services sectors as defined by the City of Seattle.
- City Share of Property Tax: The replacement value of a new mid-rise or high-rise hotel put in place would be subject to property tax and specifically the rate for downtown Seattle, rate code for Area 32. According to King County Assessor Data, the local non-county share of the property tax rate in downtown Seattle is presently \$2.62352 per \$1,000 of assessed value distributed as follows:
 - City Regular Levy: \$1.62552 per \$1,000 assessed value.
 - Optional “Lid-Lift” Levy: \$0.86760 per \$1,000 assessed value.
 - General Obligation (G.O.) Bond Levy: \$0.13040 per \$1,000 assessed value.
- City Utility Tax: Utility usage related to businesses occupying office space would be subject to the City utility tax, assumed at a 9% average based on rates for different utilities ranging from 6% to 12%.

⁸ Different shares of gross sales for different sectors are subject to sales & use tax. Washington Department of Revenue Quarterly Business Review Detailed Statistics data were utilized to identify likely share of business sales by sector that would be subject to the sales & use tax.



IV. APARTMENT & RETAIL ECONOMIC & TAX IMPACTS

This section of the report documents the results off both economic impact analysis and tax revenue impact analysis to the City of Seattle from the development of apartment buildings with ground-floor retail in downtown Seattle. Impacts of both mid-rise and high-rise forms as defined earlier in this documented are both discussed.

The section is divided into the following topics:

- A. Economic Impacts of Mid-Rise & High-Rise Forms: Discussion of business revenues, jobs, and labor income generated both on a one-time basis (Construction) and permanently (Operations) with development of downtown apartments with retail.
- B. Tax Revenue Impacts of Mid-Rise Apartments with Retail: Estimates of various Seattle tax revenues generated on a one-time basis (Construction) as well as permanently (Operations) from mid-rise apartment and retail development downtown.
- C. Tax Revenue Impacts of High-Rise Apartments with Retail: City of Seattle tax revenue estimates on a one-time/construction basis as well as permanent/operations basis generated by the high-rise form of apartments with ground floor retail.

A. ECONOMIC IMPACTS OF MID-RISE & HIGH-RISE FORMS

FIGURE 4 provides a complete summary of business revenues, jobs, and labor income generated by the development of Seattle apartments and retail during both construction as well permanent, on-going operations.



FIGURE 4: MID-RISE & HIGH-RISE APARTMENT/RETAIL CITY ECONOMIC IMPACTS (2015 DOLLARS)

Economic Impacts	Construction (One-Time)		Operations (On-Going)	
	Mid-Rise	High-Rise	Mid-Rise	High-Rise
Direct Impacts				
Business Revenues	\$64,305,592	\$231,988,783	\$8,497,413	\$24,073,974
Jobs	585.9	2,127.6	97.9	278.7
Income	\$30,143,938	\$109,472,055	\$3,487,978	\$15,182,490
Indirect & Induced Impacts				
Business Revenues	\$17,886,725	\$72,475,078	\$4,721,523	\$13,378,825
Jobs	---	---	45.4	128.6
Income	---	---	\$1,868,341	\$5,290,302
Total Impacts				
Business Revenues	\$82,192,317	\$304,463,861	\$13,218,936	\$37,452,799
Jobs	585.9	2,127.6	143.2	407.3
Income	\$30,143,938	\$109,472,055	\$5,356,319	\$20,472,792

SOURCE: GARDNER ECONOMICS

i. Apartment & Retail One-Time Construction Impacts

Gardner Economics estimates that the development of new apartments with ground floor retail in downtown Seattle generates the following economic impact for the City of Seattle:

- *One-Time Seattle Business Revenues:* Roughly \$82.2 million (mid-rise construction) in total business revenues to \$304.4 million (high-rise) in total business revenues depending upon structure type are injected into the Seattle economy temporarily from project development and construction.
- *One-Time Seattle Jobs:* Jobs temporarily created during the development and construction period are estimated to range from 585.9 positions (mid-rise) to 2,127.6 positions (high-rise).



- *One-Time Seattle Labor Income:* Seattle jobs created by development and construction activity are estimated to pay a total of \$30.1 million (mid-rise) to \$109.5 million (high-rise) in Seattle labor income.
- *Direct vs. Ripple Effects:* On average, 77% of business revenues generated are direct impacts of project construction, with the remaining due to ripple effects as subcontractors and service providers to construction and development make purchases and as those employed directly or indirectly spend labor income on goods and services within Seattle.

ii. Apartment & Retail Permanent Operations Impacts

Gardner Economics estimates that once a downtown apartment and retail development reaches stabilized occupancy by businesses and renter households, the project as either mid-rise or high-rise form permanently generates the following economic impact for the City of Seattle:

- *Annual Seattle Business Revenues:* \$13.2 million (mid-rise) in total Seattle business revenues to \$37.5 million (high-rise) in total business revenues are generated annually by on-site retail business and spending by households living in the structure downtown.
- *Annual Seattle Jobs:* Retail operations and the spending of downtown renters in the project supports an estimated 143.2 jobs (mid-rise) to 407.3 jobs (high-rise) annually. Greater quantity of apartment units in high-rise and resulting greater household spending within the City of Seattle explain the difference.
- *Annual Seattle Labor Income:* Seattle jobs supported by the stabilized development are estimated to pay a total of \$5.4 million (mid-rise) to \$20.5 million (high-rise) in labor income within Seattle.
- *Direct vs. Indirect:* On average, 64% to 68% of permanent economic impacts to the City of Seattle are due specifically to on-site retail and the spending of renter households (direct impacts). 32% to 36% of total impacts are due to the ripple effects, or indirect and induced impacts of that activity benefiting other Seattle businesses and employed households.



B. TAX REVENUE IMPACTS OF MID-RISE APARTMENTS WITH RETAIL

Figure 5 provides detailed tax revenue stream impacts of both the Construction (One-Time) and Operations (On-Going) of mid-rise apartments with ground floor retail in downtown Seattle.

FIGURE 5: MID-RISE APARTMENT/RETAIL CITY TAX REVENUE IMPACTS (2015 DOLLARS)

Mid-Rise Apartment & Retail Fiscal Impacts	Construction (One-Time)			Operations (On-Going)		
	Direct	Indirect/Induced	Total	Direct	Indirect/Induced	Total
Sales & Use Tax	\$790,317	\$139,471	\$929,789	\$77,109	\$46,381	\$123,490
<i>Sales & Use Tax</i>	\$644,502	\$113,739	\$758,241	\$62,882	\$37,824	\$100,705
<i>RTA</i>	\$116,652	\$20,586	\$137,238	\$11,381	\$6,846	\$18,227
<i>Transportation Benefit District</i>	\$29,163	\$5,147	\$34,310	\$2,845	\$1,711	\$4,557
B&O Tax	\$88,769	\$51,692	\$140,461	\$21,363	\$11,347	\$32,710
Seattle Property Tax	\$0	\$0	\$0	\$89,191	\$0	\$89,191
<i>City General Levy</i>	\$0	\$0	\$0	\$55,262	\$0	\$55,262
<i>City Lift-Levies</i>	\$0	\$0	\$0	\$29,496	\$0	\$29,496
<i>City G.O. Bond Levy</i>	\$0	\$0	\$0	\$4,433	\$0	\$4,433
Utility Tax	<u>\$0</u>	<u>\$3,139</u>	<u>\$3,139</u>	<u>\$24,965</u>	<u>\$13,732</u>	<u>\$38,698</u>
<i>Total Tax Revenue</i>	\$879,087	\$194,302	\$1,073,389	\$212,628	\$71,460	\$284,088

SOURCE: GARDNER ECONOMICS

i. One-Time Tax Revenue Impacts from Mid-Rise Apartments with Retail

One-time, construction-generated economic impacts previously described are estimated to generate the following tax revenue impacts to the City of Seattle:

- *Direct Activity Tax Revenues:* Mid-rise apartment and retail development is estimated to generate roughly \$879,000 directly via development and construction contract activity. The vast majority (\$700,887) is via the City share of Washington State Sales Tax, which includes local share, regional transit authority funds, and revenue from the new 0.1% additional tax for Transportation Benefit District funding in Seattle.



- *Ripple Effect Tax Revenues:* An additional \$194,302 in estimated City tax revenue is due to economic ripple effects caused by indirect commerce (vendor and service provider contracts) and induced commerce (households employed directly or indirectly spending disposable income on goods and services) in Seattle.
- *Total One-Time Tax Revenues:* Mid-rise development is estimated to benefit the City of Seattle with a total, one-time injection of roughly \$1.07 million in tax revenues during the duration of project construction.

ii. Permanent Tax Revenue Impacts from Mid-Rise Apartments with Retail

Permanent, annual economic impacts of mid-rise apartments with retail in downtown Seattle are estimated to generate the tax benefits for the City of Seattle, exceeding mid-rise tax impacts by 150% to 250% for most revenue streams:

- *Direct Activity Tax Revenues:* Mid-rise renter household spending in Seattle and on-site retail operations are estimated to generate roughly \$212,700 in annual (2015 dollars) tax revenue for the City of Seattle. The largest share (\$89,191) is via the City share of property tax revenues, comprising the general levy, lift-levies, and existing general obligation bond obligations, followed by local share of Washington State Sales Tax (\$79,133 annually).
- *Ripple Effect Tax Revenues:* An additional \$71,460 in estimated taxes is due to economic ripple effects caused by indirect and induced commerce remaining with the City of Seattle.
- *Total One-Time Tax Revenues:* Over \$284,000 in permanent, annual tax revenues will benefit the City of Seattle from both direct activity related to the mid-rise apartment building and ripple effects of renter household spending and on-site retail business operations.



C. TAX REVENUE IMPACTS OF HIGH-RISE APARTMENTS WITH RETAIL

FIGURE 6 provides One-Time (Construction) and On-Going (Operations) tax revenue impacts of high-rise apartments with ground floor retail in downtown Seattle.

FIGURE 6: HIGH-RISE APARTMENT/RETAIL CITY TAX REVENUE IMPACTS (2015 DOLLARS)

High-Rise Apartment & Retail Fiscal Impacts	Construction (One-Time)			Operations (On-Going)		
	Direct	Indirect/Induced	Total	Direct	Indirect/Induced	Total
Sales & Use Tax	\$2,869,890	\$506,485	\$3,376,375	\$220,947	\$131,522	\$352,468
<i>Sales & Use Tax</i>	<i>\$2,340,390</i>	<i>\$413,038</i>	<i>\$2,753,428</i>	<i>\$180,182</i>	<i>\$107,256</i>	<i>\$287,437</i>
<i>RTA</i>	<i>\$423,600</i>	<i>\$74,758</i>	<i>\$498,358</i>	<i>\$32,612</i>	<i>\$19,413</i>	<i>\$52,025</i>
<i>Transportation Benefit District</i>	<i>\$105,900</i>	<i>\$18,689</i>	<i>\$124,589</i>	<i>\$8,153</i>	<i>\$4,853</i>	<i>\$13,006</i>
B&O Tax	\$322,385	\$203,870	\$526,255	\$60,423	\$32,136	\$92,559
Seattle Property Tax	\$0	\$0	\$0	\$323,917	\$0	\$323,917
<i>City General Levy</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$200,697</i>	<i>\$0</i>	<i>\$200,697</i>
<i>City Lift-Levies</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$107,120</i>	<i>\$0</i>	<i>\$107,120</i>
<i>City G.O. Bond Levy</i>	<i>\$0</i>	<i>\$0</i>	<i>\$0</i>	<i>\$16,100</i>	<i>\$0</i>	<i>\$16,100</i>
Utility Tax	<u>\$0</u>	<u>\$11,398</u>	<u>\$11,398</u>	<u>\$70,214</u>	<u>\$38,800</u>	<u>\$109,014</u>
<i>Total Tax Revenue</i>	<i>\$3,192,275</i>	<i>\$721,753</i>	<i>\$3,914,028</i>	<i>\$675,500</i>	<i>\$202,458</i>	<i>\$877,959</i>

SOURCE: GARDNER ECONOMICS



i. One-Time Tax Revenue Impacts from High-Rise Apartments with Retail

One-time, construction-generated economic impacts documented for high-rise apartment and retail development are estimated to generate the following tax revenue impacts to the City of Seattle:

- *Direct Activity Tax Revenues:* High-rise apartment and retail development is estimated to generate roughly \$3.2 million directly via development and construction contract activity. The vast majority (\$2.9 million) is via the City share of Washington State Sales Tax, followed by B&O tax on the value of construction and services firms revenues.
- *Ripple Effect Tax Revenues:* An additional \$721,753 in estimated City tax revenue is due to economic ripple effects caused by indirect commerce and induced commerce that occurs and stays in Seattle.
- *Total One-Time Tax Revenues:* High-rise apartments with ground floor retail development is estimated to benefit the City of Seattle with a total, one-time injection of roughly \$3.9 million in tax revenues during the duration of project construction, over two-thirds of which is from City share of sales & use tax.

ii. Permanent Tax Revenue Impacts from High-Rise Apartments with Retail

Permanent, annual economic impacts of high-rise apartments with retail in downtown Seattle are estimated to generate the following tax impacts for the City of Seattle:

- *Direct Activity Tax Revenues:* High-rise renter household spending in Seattle and on-site retail operations are estimated to generate roughly \$675,000 in annual (constant 2015 dollars) tax revenue for the City of Seattle. The largest share (\$323,917) is via the City share of property taxes, followed by the local share of Washington State Sales Tax.
- *Ripple Effect Tax Revenues:* An additional \$202,458 in estimated taxes is due to economic ripple effects caused by indirect and induced commerce remaining with the City of Seattle. This primarily comprises taxes on purchases by businesses benefiting from renter household spending as well as spending by households directly or indirectly employed as a result of building operations and renter spending.
- *Total One-Time Tax Revenues:* Nearly \$849,000 in permanent, annual tax revenues will benefit the City of Seattle from both direct activity related to the high-rise apartment building and ripple effects of renter household spending and on-site retail business operations.



V. HOTEL & RETAIL ECONOMIC & TAX IMPACTS

This section of the report documents the results off both economic impact analysis and tax revenue impact analysis to the City of Seattle from the development of a downtown hotel with ground-floor retail and dining in downtown Seattle. Impacts of both mid-rise and high-rise forms as defined earlier in this documented are both discussed.

The section is divided into the following topics:

- A. Economic Impacts of Mid-Rise & High-Rise Forms: Discussion of business revenues, jobs, and labor income generated both on a one-time basis (Construction) and permanently (Operations) with development of downtown apartments with retail.
- B. Tax Revenue Impacts of Mid-Rise Hotel with Ground Floor Commercial: Estimates of various Seattle tax revenues generated on a one-time basis (Construction) as well as permanently (Operations) from mid-rise hotel with retail and dining development downtown.
- C. Tax Revenue Impacts of High-Rise Hotel with Ground Floor Commercial: City of Seattle tax revenue estimates on a one-time/construction basis as well as permanent/operations basis generated by the high-rise form of hotel development with ground floor retail and dining.



A. ECONOMIC IMPACTS OF MID-RISE & HIGH-RISE FORMS

Figure 7 provides a complete summary of business revenues, jobs, and labor income generated by the development of a downtown Seattle hotel with retail and dining during both construction as well permanent, on-going operations.

FIGURE 7: MID-RISE & HIGH-RISE HOTEL/COMMERCIAL CITY ECONOMIC IMPACTS (2015 DOLLARS)

Economic Impacts	Construction (One-Time)		Operations (On-Going)	
	Mid-Rise	High-Rise	Mid-Rise	High-Rise
<u>Direct Impacts</u>				
Business Revenues	\$40,572,000	\$113,247,000	\$23,608,200	\$34,294,647
Jobs	397.6	1,109.8	360.6	471.1
Income	\$22,488,167	\$62,770,321	\$10,286,600	\$14,728,938
<u>Indirect & Induced Impacts</u>				
Business Revenues	\$28,516,443	\$79,596,807	\$10,686,447	\$24,044,506
Jobs	263.7	736.1	110.5	248.6
Income	\$10,904,577	\$30,437,509	\$4,442,338	\$9,995,260
<u>Total Impacts</u>				
Business Revenues	\$69,088,443	\$192,843,807	\$34,294,647	\$58,339,153
Jobs	661.3	1,845.9	471.1	719.8
Income	\$33,392,744	\$93,207,830	\$14,728,938	\$24,724,198

SOURCE: GARDNER ECONOMICS

i. Hotel & Commercial One-Time Construction Impacts

Gardner Economics estimates that the development of a new hotel with ground floor commercial in downtown Seattle generates the following economic impact for the City:



- *One-Time Seattle Business Revenues:* Roughly \$69.1 million (mid-rise construction) in total business revenues to \$192.8 million (high-rise) in total business revenues depending upon structure type are injected into the Seattle economy temporarily from project development and construction.
- *One-Time Seattle Jobs:* Jobs temporarily created during the development and construction period are estimated to range from 661.3 positions (mid-rise) to 1,845.9 positions (high-rise).
- *One-Time Seattle Labor Income:* Seattle jobs created by development and construction activity are estimated to pay a total of \$33.4 million (mid-rise) to \$93.2 million (high-rise) in Seattle labor income.
- *Direct vs. Ripple Effects:* On average, 58% to 60% of total impacts generated are direct impacts of project construction, with the remaining due to ripple effects as subcontractors and service providers to construction and development make purchases and as those employed directly or indirectly spend labor income on goods and services within Seattle.

ii. Hotel & Ground Floor Commercial Permanent Operations Impacts

Gardner Economics estimates that once a downtown hotel and commercial development reaches stabilized business operations, the project as either mid-rise or high-rise form permanently generates the following economic impacts for the City of Seattle:

- *Annual Seattle Business Revenues:* \$34.3 million (mid-rise) in total Seattle business revenues to \$58.3 million (high-rise) in total business revenues are generated annually by on-site retail and dining business, hotel business revenues, and off-site spending by overnight guests.
- *Annual Seattle Jobs:* Commerce related to the project supports an estimated 471.1 jobs (mid-rise) to 719.8 jobs (high-rise) annually. Greater quantity of hotel rooms in high-rise and resulting greater visitor spending within the City of Seattle explain the difference.
- *Annual Seattle Labor Income:* Seattle jobs supported by the stabilized development are estimated to pay a total of \$14.7 million (mid-rise) to \$24.7 million (high-rise) in labor income within Seattle.
- *Direct vs. Ripple Effect:* On average, 59% to 69% of permanent economic impacts to the City of Seattle are due specifically to hotel guest spending on-site, off-site, and other guests in project commercial development (direct impacts). 31% to 41% of total impacts are due to the ripple effects, or indirect and induced impacts of that activity benefiting other Seattle businesses and employed households.



B. TAX REVENUE IMPACTS OF MID-RISE HOTEL WITH GROUND FLOOR COMMERCIAL

Figure 8 provides detailed tax revenue stream impacts of both the Construction (One-Time) and Operations (On-Going) of mid-rise hotel development with ground floor commercial in downtown Seattle.

i. One-Time Tax Revenue Impacts from Mid-Rise Hotel and Ground Floor Commercial

One-time, construction-generated economic impacts previously described are estimated to generate the following tax revenue impacts to the City of Seattle:

- *Direct Activity Tax Revenues:* Mid-rise hotel and commercial development is estimated to generate roughly \$938,000 directly via development and construction contract activity. The vast majority (\$842,268) is via the City share of Washington State Sales Tax, followed by City B&O tax receipts from construction and development business revenues.
- *Ripple Effect Tax Revenues:* An additional \$182,639 in estimated City tax revenue is due to economic ripple effects caused by indirect commerce (vendor and service provider contracts) and induced commerce (households employed directly or indirectly spending disposable income on goods and services) in Seattle.
- *Total One-Time Tax Revenues:* Mid-rise hotel and commercial development is estimated to benefit the City of Seattle with a total, one-time injection of nearly \$1.1 million in tax revenues during the duration of project construction.



FIGURE 8: MID-RISE HOTEL/COMMERCIAL CITY TAX REVENUE IMPACTS (2015 DOLLARS)

Mid-Rise Hotel & Retail Fiscal Impacts	Construction (One-Time)			Operations (On-Going)		
	Direct	Indirect/Induced	Total	Direct	Indirect/Induced	Total
Sales & Use Tax	\$842,268	\$149,717	\$991,985	\$487,697	\$23,061	\$510,757
<i>Sales & Use Tax</i>	\$686,868	\$122,094	\$808,962	\$397,716	\$18,806	\$416,522
<i>RTA</i>	\$124,320	\$22,098	\$146,418	\$71,985	\$3,404	\$75,389
<i>Transportation Benefit District</i>	\$31,080	\$5,525	\$36,605	\$17,996	\$851	\$18,847
B&O Tax	\$95,344	\$29,552	\$124,896	\$28,555	\$20,289	\$48,844
Property Tax	\$0	\$0	\$0	\$95,797	\$0	\$95,797
<i>Regular City Levy</i>	\$0	\$0	\$0	\$59,356	\$0	\$59,356
<i>Lid-Lift Levies</i>	\$0	\$0	\$0	\$31,680	\$0	\$31,680
<i>G.O. Bond Levy</i>	\$0	\$0	\$0	\$4,762	\$0	\$4,762
Utility Tax	\$0	\$3,369	\$3,369	\$0	\$32,408	\$32,408
Lodging Tax	\$0	\$0	\$0	\$1,004,115	\$0	\$1,004,115
<i>City Share</i>	\$0	\$0	\$0	\$421,575	\$0	\$421,575
<i>Convention Center</i>	\$0	\$0	\$0	\$536,550	\$0	\$536,550
<i>Metro Transit</i>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$45,990</u>	<u>\$0</u>	<u>\$45,990</u>
<i>Total Tax Revenue</i>	\$937,612	\$182,639	\$1,120,251	\$1,616,164	\$75,758	\$1,691,922

SOURCE: GARDNER ECONOMICS

ii. Permanent Tax Revenue Impacts from Mid-Rise Hotel with Ground Floor Commercial

Permanent, annual economic impacts of mid-rise hotel with commercial space in downtown Seattle are estimated to generate the tax benefits for the City of Seattle, exceeding mid-rise tax impacts by 85% to 150% for most revenue streams:

- *Direct Activity Tax Revenues:* Mid-rise hotel revenues, visitor spending, and additional on-site commercial activity are estimated to generate roughly \$1.6 million in annual (2015 dollars) tax revenue for the City of Seattle. The largest share (\$1.0 million) is via the City and local share of hotel/motel tax revenue, which benefits the City, the Convention Center, and metro transit.



- *Ripple Effect Tax Revenues:* An additional \$75,758 in estimated taxes is due to economic ripple effects caused by indirect and induced commerce remaining with the City of Seattle.
- *Total Annual, On-Going Tax Revenues:* Over \$1.69 million in permanent, annual tax revenues will benefit the City of Seattle from both direct activity related to the mid-rise hotel development and ripple effects of visitor spending and on-site retail business operations.

C. TAX REVENUE IMPACTS OF HIGH-RISE HOTEL WITH GROUND FLOOR COMMERCIAL

FIGURE 9 provides One-Time (Construction) and On-Going (Operations) tax revenue impacts of high-rise hotel development with ground floor commercial in downtown Seattle.

FIGURE 9: HIGH-RISE HOTEL/COMMERCIAL CITY TAX REVENUE IMPACTS (2015 DOLLARS)

High-Rise Hotel & Retail Fiscal Impacts	Construction (One-Time)			Operations (On-Going)		
	Direct	Indirect/Induced	Total	Direct	Indirect/Induced	Total
Sales & Use Tax	\$2,366,643	\$417,900	\$2,784,543	\$1,097,318	\$37,807	\$1,135,124
<i>Sales & Use Tax</i>	\$1,929,993	\$340,796	\$2,270,789	\$894,861	\$30,831	\$925,692
<i>RTA</i>	\$349,320	\$61,683	\$411,003	\$161,966	\$5,580	\$167,546
<i>Transportation Benefit District</i>	\$87,330	\$15,421	\$102,751	\$40,491	\$1,395	\$41,887
B&O Tax	\$266,130	\$82,488	\$348,618	\$55,261	\$105,335	\$160,596
Property Tax	\$0	\$0	\$0	\$267,395	\$0	\$267,395
<i>Regular City Levy</i>	\$0	\$0	\$0	\$165,677	\$0	\$165,677
<i>Lid-Lift Levies</i>	\$0	\$0	\$0	\$88,428	\$0	\$88,428
<i>G.O. Bond Levy</i>	\$0	\$0	\$0	\$13,291	\$0	\$13,291
Utility Tax	\$0	\$9,405	\$9,405	\$0	\$72,918	\$72,918
Lodging Tax	\$0	\$0	\$0	\$2,259,259	\$0	\$2,259,259
<i>City Share</i>	\$0	\$0	\$0	\$948,544	\$0	\$948,544
<i>Convention Center</i>	\$0	\$0	\$0	\$1,207,238	\$0	\$1,207,238
<i>Metro Transit</i>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$103,478</u>	<u>\$0</u>	<u>\$103,478</u>
<i>Total Tax Revenue</i>	<i>\$2,632,773</i>	<i>\$509,792</i>	<i>\$3,142,566</i>	<i>\$3,679,233</i>	<i>\$216,060</i>	<i>\$3,895,293</i>

SOURCE: GARDNER ECONOMICS



i. One-Time Tax Revenue Impacts from High-Rise Hotel with Ground Floor Commercial

One-time, construction-generated economic impacts documented for high-rise hotel and commercial development are estimated to generate the following tax revenue impacts to the City of Seattle:

- *Direct Activity Tax Revenues:* High-rise hotel and commercial development is estimated to generate roughly \$2.6 million directly via development and construction contract activity. The vast majority (\$2.37 million) is via the City share of Washington State Sales Tax, followed by B&O tax on the value of construction and services firms revenues.
- *Ripple Effect Tax Revenues:* An additional \$509,792 in estimated City tax revenue is due to economic ripple effects caused by indirect commerce and induced commerce that occurs and stays in Seattle.
- *Total One-Time Tax Revenues:* High-rise hotel development with commercial amenity is estimated to benefit the City of Seattle with a total, one-time injection of roughly \$3.14 million in tax revenues during the duration of project construction, the great majority of which is from City share of sales & use tax.

ii. Permanent Tax Revenue Impacts from High-Rise Hotel with Ground Floor Commercial

Permanent, annual economic impacts of high-rise hotel development with commercial amenity in downtown Seattle are estimated to generate the following tax impacts for the City of Seattle:

- *Direct Activity Tax Revenues:* Hotel guest spending and on-site retail and dining operations are estimated to generate roughly \$3.7 million in annual (constant 2015 dollars) tax revenue for the City of Seattle. The largest share (\$2.3 million) is via the City share of lodging taxes, followed by the local share of Washington State Sales Tax.
- *Ripple Effect Tax Revenues:* An additional \$216,060 in estimated taxes is due to economic ripple effects caused by indirect and induced commerce remaining with the City of Seattle.
- *Total Annual, On-Going Tax Revenues:* Over \$3.9 million in permanent, annual tax revenues will benefit the City of Seattle from both direct activity related to high-rise hotel and ground floor commercial and ripple effects commerce that remains within the City of Seattle.



Overall, hotel development is found to have the most ripple effect economic leakage. Hotel vendors and support sectors (induced impacts) and employed households (induced impacts) have the significant presence outside of the City of Seattle study area, mostly likely in nearby suburbs.



VI. OFFICE BUILDING ECONOMIC & TAX IMPACTS

This section of the report documents the results of both economic impact analysis and tax revenue impact analysis to the City of Seattle from the development of office building development in downtown Seattle. Impacts of both mid-rise and high-rise forms as defined earlier in this document are both discussed.

The section is divided into the following topics:

- A. Economic Impacts of Mid-Rise & High-Rise Forms: Discussion of business revenues, jobs, and labor income generated both on a one-time basis (Construction) and permanently (Operations) with construction of downtown office development.
- B. Tax Revenue Impacts of Mid-Rise Hotel with Ground Floor Commercial: Estimates of various Seattle tax revenues generated on a one-time basis (Construction) as well as permanently (Operations) from mid-rise office development.
- C. Tax Revenue Impacts of High-Rise Hotel with Ground Floor Commercial: City of Seattle tax revenue estimates on a one-time/construction basis as well as permanent/operations basis generated by high-rise office development in downtown Seattle.

A. ECONOMIC IMPACTS OF MID-RISE & HIGH-RISE FORMS

Figure 10 provides a complete summary of business revenues, jobs, and labor income generated by the development of a downtown Seattle office building during both construction as well as permanent, on-going operations.



FIGURE 10: MID-RISE & HIGH-RISE OFFICE CITY ECONOMIC IMPACTS (2015 DOLLARS)

Economic Impacts	Construction (One-Time)		Operations (On-Going)	
	Mid-Rise	High-Rise	Mid-Rise	High-Rise
<u>Direct Impacts</u>				
Business Revenues	\$52,564,000	\$139,258,000	\$343,981,125	\$801,570,695
Jobs	515.1	1,364.7	515.5	1,201.2
Income	\$29,135,069	\$92,200,000	\$45,290,245	\$105,538,735
<u>Indirect & Induced Impacts</u>				
Business Revenues	\$36,945,143	\$97,878,903	\$95,172,303	\$221,777,661
Jobs	341.7	905.2	557.5	1,299.1
Income	\$14,127,679	\$37,428,512	\$37,410,167	\$87,175,985
<u>Total Impacts</u>				
Business Revenues	\$89,509,143	\$237,136,903	\$439,153,429	\$1,023,348,356
Jobs	856.8	2,269.9	1,072.9	2,500.2
Income	\$43,262,748	\$129,628,512	\$82,700,411	\$192,714,720

SOURCE: GARDNER ECONOMICS

i. Office Building One-Time Construction Impacts

Gardner Economics estimates that the development of a new office building in downtown Seattle generates the following economic impact for the City:

- *One-Time Seattle Business Revenues:* Roughly \$89.5 million (mid-rise construction) in total business revenues to \$237.1 million (high-rise) in total business revenues depending upon structure type are temporarily injected into the City of Seattle economy.
- *One-Time Seattle Jobs:* Jobs temporarily created during development and construction are estimated to range from 856.8 positions (mid-rise) to 2,269.9 positions (high-rise).



- *One-Time Seattle Labor Income:* Seattle jobs created by development and construction activity are estimated to pay a total of \$43.3 million (mid-rise) to \$129.6 million (high-rise) in Seattle labor income.
- *Direct vs. Ripple Effects:* On average, 59% to 67% of total impacts generated are direct impacts of project construction, with the remaining due to ripple effects as subcontractors and service providers to construction and development make purchases and as those employed directly or indirectly spend labor income on goods and services within Seattle.

ii. Office Building Permanent Operations Impacts

Gardner Economics estimates that once a downtown office building reaches stabilized occupancy with office-utilizing businesses, the project as either mid-rise or high-rise form permanently generates the following economic impacts for the City of Seattle:

- *Annual Seattle Business Revenues:* \$439.2 million (mid-rise) in total Seattle business revenues to \$1.0 billion (high-rise) in total business revenues are generated annually by businesses located in the office building, assumed to mirror the current office-using sector mix in downtown Seattle, as well as ripple effects from those businesses elsewhere in the Seattle economy.
- *Annual Seattle Jobs:* Total commerce related to the project supports an estimated 1,072.9 jobs (mid-rise) to 2,500.2 jobs (high-rise) annually. Greater office space available in a high-rise project relative to a mid-rise project, and the difference in total economic activity related, explain the difference.
- *Annual Seattle Labor Income:* Seattle jobs supported by the stabilized development are estimated to pay a total of \$82.7 million (mid-rise) to \$192.7 million (high-rise) in labor income within Seattle.
- *Direct vs. Ripple Effect:* On average, 55% to 78% of permanent economic impacts to the City of Seattle are due specifically to office-utilizing businesses located in the office development (direct impacts). 22% to 45% of total impacts are due to the ripple effects, or indirect and induced impacts of that activity benefiting other Seattle businesses and employed households.



B. TAX REVENUE IMPACTS OF MID-RISE OFFICE DEVELOPMENT

FIGURE 11 provides detailed tax revenue stream impacts of both the Construction (One-Time) and Operations (On-Going) of mid-rise office development in downtown Seattle.

i. One-Time Tax Revenue Impacts from Mid-Rise Office Development

One-time, construction-generated economic impacts previously described are estimated to generate the following tax revenue impacts to the City of Seattle:

- *Direct Activity Tax Revenues:* Mid-rise office construction is estimated to generate roughly \$1.0 million directly. The vast majority (\$920,045) is via the City share of Washington State Sales Tax, followed by City B&O tax receipts from construction and development business revenues.
- *Ripple Effect Tax Revenues:* An additional \$270,264 in estimated City tax revenue is due to economic ripple effects caused by indirect commerce (vendor and service provider contracts) and induced commerce (households employed directly or indirectly spending disposable income on goods and services) in Seattle.
- *Total One-Time Tax Revenues:* Mid-rise office development is estimated to benefit the City of Seattle with a total, one-time injection of over \$1.3 million in tax revenues during the duration of project construction.



FIGURE 11: MID-RISE OFFICE CITY TAX REVENUE IMPACTS (2015 DOLLARS)

Mid-Rise Office Fiscal Impacts	Construction (One-Time)			Operations (On-Going)		
	Direct	Indirect/Induced	Total	Direct	Indirect/Induced	Total
Sales & Use Tax	\$920,045	\$193,970	\$1,114,015	\$238,370	\$926,549	\$1,164,920
<i>Sales & Use Tax</i>	\$750,295	\$158,182	\$908,477	\$194,391	\$755,599	\$949,990
<i>RTA</i>	\$135,800	\$28,630	\$164,430	\$35,184	\$136,760	\$171,944
<i>Transportation Benefit District</i>	\$33,950	\$7,158	\$41,108	\$8,796	\$34,190	\$42,986
B&O Tax	\$118,892	\$71,929	\$190,822	\$1,032,094	\$239,557	\$1,271,651
Property Tax	\$0	\$0	\$0	\$124,112	\$0	\$124,112
<i>Regular City Levy</i>	\$0	\$0	\$0	\$76,899	\$0	\$76,899
<i>Lid-Lift Levies</i>	\$0	\$0	\$0	\$41,044	\$0	\$41,044
<i>G.O. Bond Levy</i>	\$0	\$0	\$0	\$6,169	\$0	\$6,169
Utility Tax	\$0	\$4,365	\$4,365	\$0	\$269,342	\$269,342
<i>Total Tax Revenue</i>	\$1,038,937	\$270,264	\$1,309,201	\$1,394,576	\$1,435,449	\$2,830,026

SOURCE: GARDNER ECONOMICS

ii. Permanent Tax Revenue Impacts from Mid-Rise Office Development

Permanent, annual economic impacts of mid-rise office development in downtown Seattle are estimated to generate the tax benefits for the City of Seattle, exceeding mid-rise tax impacts by 100% to 135% for most revenue streams:

- *Direct Activity Tax Revenues:* Office tenant businesses, frequently corporate, national and international firms in downtown Seattle, generate roughly \$1.39 million in annual (2015 dollars) tax revenue for the City of Seattle. The largest share (\$1.0 million) is via the City B&O tax, followed by local share of the sales & use tax.
- *Ripple Effect Tax Revenues:* An additional \$1.4 million in estimated taxes is due to economic ripple effects caused by indirect and induced commerce remaining with the City of Seattle.



- *Total Annual, On-Going Tax Revenues:* Over \$2.8 million in permanent, annual tax revenues will benefit the City of Seattle from both direct activity related to office building tenant businesses and ripple effects from commerce with other sectors and business in Seattle, as well as directly and indirectly employed household spending.

C. TAX REVENUE IMPACTS OF HIGH-RISE OFFICE DEVELOPMENT

Figure 12 provides One-Time (Construction) and On-Going (Operations) tax revenue impacts of high-rise office development in downtown Seattle.

i. One-Time Tax Revenue Impacts from High-Rise Office Development

One-time, construction-generated economic impacts documented for high-rise office development are estimated to generate the following tax revenue impacts to the City of Seattle:

- *Direct Activity Tax Revenues:* High-rise office development is estimated to generate roughly \$2.8 million directly via development and construction contract activity. The vast majority (\$2.5 million) is via the City share of Washington State Sales Tax, followed by B&O tax on the value of construction and services firms revenues.
- *Ripple Effect Tax Revenues:* An additional \$716,012 in estimated City tax revenue is due to economic ripple effects caused by indirect commerce and induced commerce remaining in Seattle.
- *Total One-Time Tax Revenues:* High-rise office development is estimated to inject roughly \$3.5 million in tax revenues into the Seattle economy during the duration of project construction, the great majority of which is from local share of sales & use tax.



FIGURE 12: HIGH-RISE OFFICE CITY TAX REVENUE IMPACTS (2015 DOLLARS)

High-Rise Office Fiscal Impacts	Construction (One-Time)			Operations (On-Going)		
	Direct	Indirect/Induced	Total	Direct	Indirect/Induced	Total
Sales & Use Tax	\$2,498,620	\$513,884	\$3,012,504	\$555,468	\$2,159,115	\$2,714,584
<i>Sales & Use Tax</i>	\$2,037,620	\$419,072	\$2,456,692	\$452,983	\$1,760,754	\$2,213,738
<i>RTA</i>	\$368,800	\$75,850	\$444,650	\$81,988	\$318,689	\$400,677
<i>Transportation Benefit District</i>	\$92,200	\$18,963	\$111,163	\$20,497	\$79,672	\$100,169
B&O Tax	\$313,911	\$190,562	\$504,473	\$2,405,062	\$558,235	\$2,963,297
Property Tax	\$0	\$0	\$0	\$328,812	\$0	\$328,812
<i>Regular City Levy</i>	\$0	\$0	\$0	\$203,730	\$0	\$203,730
<i>Lid-Lift Levies</i>	\$0	\$0	\$0	\$108,738	\$0	\$108,738
<i>G.O. Bond Levy</i>	\$0	\$0	\$0	\$16,343	\$0	\$16,343
Utility Tax	\$0	\$11,565	\$11,565	\$0	\$627,642	\$627,642
<i>Total Tax Revenue</i>	\$2,812,531	\$716,012	\$3,528,542	\$3,289,342	\$3,344,992	\$6,634,334

SOURCE: GARDNER ECONOMICS

ii. Permanent Tax Revenue Impacts from High-Rise Office Development

Permanent, annual economic impacts of high-rise office development in downtown Seattle are estimated to generate the following tax impacts for the City of Seattle:

- *Direct Activity Tax Revenues:* Office tenant businesses, again frequently national, international, and corporate in nature in downtown Seattle, are estimated to generate roughly \$3.3 million in annual (constant 2015 dollars) tax revenue for the City of Seattle. The largest share (\$2.4 million) is via the City B&O tax, followed by the local share of Washington State Sales Tax.
- *Ripple Effect Tax Revenues:* An additional \$3.3 million in estimated taxes is due to economic ripple effects caused by indirect and induced commerce remaining with the City of Seattle.
- *Total Annual, On-Going Tax Revenues:* Over \$6.6 million in permanent, annual tax revenues will benefit the City of Seattle from both direct activity related to high-rise office tenant business operations and ripple effects commerce that remains within the City of Seattle.

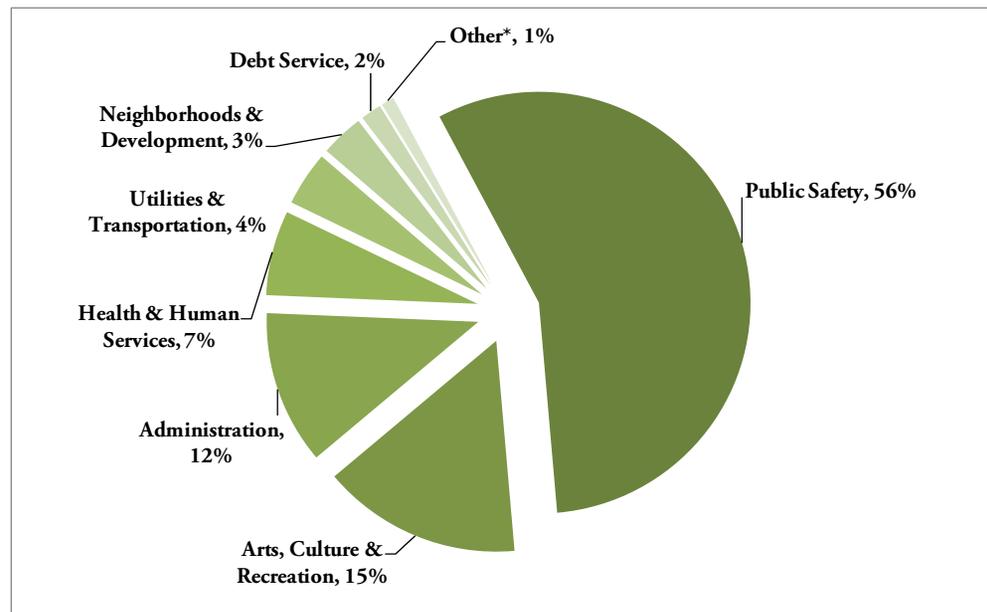


VII. CITY OF SEATTLE GENERAL SUBFUND REVENUE IMPACTS FROM DEVELOPMENT

This section of the analysis provides estimates of how tax revenue resources from studied development forms, whether one-time due to construction or on-going after building occupancy, would likely be distributed by the City of Seattle to fund various public services.

Although tax revenue receipt by the City of Seattle can fluctuate greatly from year to year given prevailing economic conditions, as the Proposed 2015-2016 budget⁹ documents, most tax revenue streams fund the City General Subfund, which includes the majority of core city services. Figure 13 provides a percentage breakdown of what City services are supported by tax revenue distributed to the General Subfund. “Other*” spending in the fund budget represents General Fund subfunds, judgement and claims expenditures.

FIGURE 13: CITY OF SEATTLE GENERAL SUBFUND TAX REVENUE-SUPPORTED SERVICES EXPENDITURE DISTRIBUTION



SOURCE: CITY OF SEATTLE PROPOSED 2015-2016 BUDGET

⁹ <http://www.seattle.gov/financedepartment/15proposedbudget/>



While it is true that the distribution in Figure 3 is not a fixed, permanent distribution of tax revenue expenditure within the General Subfund each year or tax revenue distributions in general, the distribution is a good indicator of how the various tax revenue streams generated by new development construction and operations will fund City services. Following is a treatment of likely development-driven tax revenue resources by the different City services they would support.

A. City Services Funded by One-Time Tax Revenues from Construction

Figure 14 provides estimates of how tax revenues generated by direct construction activity of each development type would likely be distributed to support various City of Seattle core services within the General Subfund.

FIGURE 14: ONE-TIME DEVELOPMENT TAX REVENUE RESOURCES BY CITY SERVICE: DIRECT IMPACTS

One-Time Revenues: Direct	Mid-Rise Apartments	Mid-Rise Hotel	Mid-Rise Office	High-Rise Apartments	High-Rise Hotel	High-Rise Office
Public Safety	\$495,800	\$528,800	\$586,000	\$1,800,500	\$1,484,900	\$1,586,300
Arts, Culture & Recreation	\$134,100	\$143,000	\$158,400	\$486,800	\$401,500	\$428,900
Administration	\$103,700	\$110,600	\$122,500	\$376,400	\$310,500	\$331,700
Health & Human Services	\$57,200	\$61,000	\$67,600	\$207,700	\$171,300	\$183,000
Utilities & Transportation	\$36,600	\$39,100	\$43,300	\$133,100	\$109,700	\$117,200
Neighborhoods & Development	\$29,000	\$31,000	\$34,300	\$105,400	\$87,000	\$92,900
Debt Service	\$14,000	\$15,000	\$16,600	\$51,000	\$42,000	\$44,900
Other*	\$8,700	\$9,200	\$10,200	\$31,400	\$25,900	\$27,700
Prototype Totals:	\$879,100	\$937,600	\$1,038,900	\$3,192,300	\$2,632,800	\$2,812,500

SOURCE: GARDNER ECONOMICS

At 59% of typical expenditures, Public Safety is by far the biggest beneficiary of City tax revenues generated by direct construction impacts. One-time estimates range from as low as \$495,800 from a Mid-Rise Apartment project to as high as \$1.8 million from a High-Rise Apartment project. Interestingly, Neighborhoods & Development, which includes City affordable housing programs, has the third-lowest budget allocation within the General Subfund and represents only 22% of City spending on Arts, Culture, and Recreation programs.



Figure 15 displays one-time tax revenue resources generated by different development types from total project impacts, including both direct construction activity and all ripple effects that remain within the City of Seattle.

FIGURE 15: ONE-TIME DEVELOPMENT TAX REVENUE RESOURCES BY CITY SERVICE: TOTAL IMPACTS

One-Time Revenues: Total	Mid-Rise Apartments	Mid-Rise Hotel	Mid-Rise Office	High-Rise Apartments	High-Rise Hotel	High-Rise Office
Public Safety	\$605,400	\$631,800	\$738,500	\$2,207,600	\$1,772,400	\$1,990,100
Arts, Culture & Recreation	\$163,700	\$170,800	\$199,600	\$596,900	\$479,200	\$538,100
Administration	\$126,600	\$132,100	\$154,400	\$461,500	\$370,600	\$416,100
Health & Human Services	\$69,800	\$72,900	\$85,200	\$254,700	\$204,500	\$229,600
Utilities & Transportation	\$44,700	\$46,700	\$54,600	\$163,200	\$130,900	\$147,000
Neighborhoods & Development	\$35,400	\$37,000	\$43,200	\$129,200	\$103,800	\$116,600
Debt Service	\$17,100	\$17,900	\$20,900	\$62,500	\$50,100	\$56,300
Other*	<u>\$10,600</u>	<u>\$11,000</u>	<u>\$12,900</u>	<u>\$38,500</u>	<u>\$30,900</u>	<u>\$34,700</u>
Prototype Totals:	\$1,073,400	\$1,120,200	\$1,309,200	\$3,914,100	\$3,142,600	\$3,528,500

SOURCE: GARDNER ECONOMICS

When the economic ripple effects of project construction are accounted for, Public Safety receives anywhere from \$605,400 (Mid-Rise Apartments) to \$2.2 million (High-Rise Office) in one-time resources. Neighborhoods & Development, according to the current General Subfund distribution utilized in the 2015-2016 proposed budget, would receive anywhere from \$35,400 (Mid-Rise Apartments) to \$129,200 (High-Rise Apartments) in one-time resources.



B. City Services Funded by On-Going Tax Revenues from Development Operations

Figure 16 provides estimates of how tax revenues generated annually on an on-going basis from direct development operations impacts would likely be distributed to support various City of Seattle core services within the General Subfund.

FIGURE 16: ANNUAL ON-GOING DEVELOPMENT TAX REVENUE RESOURCES BY CITY SERVICE: DIRECT IMPACTS

On-Going Revenues: Direct	Mid-Rise Apartments	Mid-Rise Hotel	Mid-Rise Office	High-Rise Apartments	High-Rise Hotel	High-Rise Office
Public Safety	\$119,900	\$911,600	\$786,600	\$381,000	\$2,075,100	\$1,855,200
Arts, Culture & Recreation	\$32,400	\$246,500	\$212,700	\$103,000	\$561,100	\$501,600
Administration	\$25,100	\$190,600	\$164,500	\$79,700	\$433,900	\$387,900
Health & Human Services	\$13,800	\$105,100	\$90,700	\$43,900	\$239,300	\$214,000
Utilities & Transportation	\$8,900	\$67,400	\$58,100	\$28,200	\$153,400	\$137,100
Neighborhoods & Development	\$7,000	\$53,400	\$46,100	\$22,300	\$121,500	\$108,700
Debt Service	\$3,400	\$25,800	\$22,300	\$10,800	\$58,700	\$52,500
Other*	\$2,100	\$15,900	\$13,700	\$6,600	\$36,200	\$32,400
Prototype Totals:	\$212,600	\$1,616,200	\$1,394,600	\$675,500	\$3,679,200	\$3,289,300

SOURCE: GARDNER ECONOMICS

Although the relative distribution of tax revenue resources remains unchanged, the different economic functions of each development type changes the total magnitude of varying resources. Public Safety, still the majority of development-driven resource expenditure, is estimated to vary from \$119,900 (Mid-Rise Apartments) to as much as \$2.1 million from High-Rise Hotel operations and significant daily spending by hotel guests on-site and off-site throughout Seattle.

Annual resources generated by direct operations impacts for Neighborhoods & Development according to the current City General Subfund distribution ranges from \$7,00 annually (Mid-Rise Apartments) to \$121,500 annually (High-Rise Hotel).

Figure 17 displays annual, on-going tax revenue resources generated by different development types from total project impacts, including both direct building operations and all ripple effects that remain within the City of Seattle.



FIGURE 17: ANNUAL ON-GOING DEVELOPMENT TAX REVENUE RESOURCES BY CITY SERVICE: TOTAL IMPACTS

On-Going Revenues: Total	Mid-Rise Apartments	Mid-Rise Hotel	Mid-Rise Office	High-Rise Apartments	High-Rise Hotel	High-Rise Office
Public Safety	\$160,200	\$954,400	\$1,596,200	\$495,200	\$2,197,000	\$3,741,800
Arts, Culture & Recreation	\$43,300	\$258,100	\$431,600	\$133,900	\$594,100	\$1,011,700
Administration	\$33,500	\$199,500	\$333,800	\$103,600	\$459,400	\$782,300
Health & Human Services	\$18,500	\$110,000	\$184,100	\$57,100	\$253,400	\$431,600
Utilities & Transportation	\$11,900	\$70,600	\$117,900	\$36,600	\$162,400	\$276,500
Neighborhoods & Development	\$9,400	\$55,900	\$93,500	\$29,000	\$128,600	\$219,200
Debt Service	\$4,500	\$27,000	\$45,200	\$14,000	\$62,100	\$105,900
Other*	<u>\$2,800</u>	<u>\$16,600</u>	<u>\$27,800</u>	<u>\$8,600</u>	<u>\$38,300</u>	<u>\$65,300</u>
Prototype Totals:	\$284,100	\$1,692,000	\$2,830,000	\$878,000	\$3,895,300	\$6,634,300

SOURCE: GARDNER ECONOMICS

When the economic ripple effects of the operations of each development type are accounted for, Public Safety receives anywhere from \$160,200 (Mid-Rise Apartments) to \$3.74 million (High-Rise Office) in annual, on-going resources. Neighborhoods & Development, according to the current General Subfund distribution utilized in the 2015-2016 proposed budget, would receive anywhere from \$9,400 (Mid-Rise Apartments) to \$219,200 (High-Rise Office) in one-time resources.



VIII. CONCLUSIONS

It must be remembered that real estate development is an investment for purposes of a return on that investment, not unlike a stock or bond fund. The development process is far more complicated and loaded with risk than other investment types, and as such, development will only occur if the expected return on that risk is worthwhile compared to safer, far less complicated investment opportunities.

Additional costs to new project development by way of the new fee simply increase the risk of the project. The fee requires greater debt financing obligation and lending risk, as well as while return on investment is diminished given that households and businesses that would utilize new development have alternative options and costs for where they locate. In other words, if high-rise development in Seattle sees a diminished return on investment that, given its high risk, pales in comparison to far safer investment opportunities such as bond funds, private investment will avoid the more costly, riskier development opportunity.

The certain upshot will be a dramatic reconsideration of Seattle as a place for competitive investment nationally and internationally. And while Seattle seeks solutions for its well-documented, existing affordability problems, waning or frozen new development will generate few to no resources to help with this serious problem. In the end, Seattle will be threatened with the worst of both worlds: limited new investment and a continued, worsening affordability problem with no mitigating resources.

These conclusions culminate from over 45 years of combined professional experience in the analysis of land use at the regional, national and international level.

This report was prepared by William Reid and Matthew Gardner whose curriculum vitae's are provided below.



MATTHEW GARDNER, MANAGING PRINCIPAL, GARDNER ECONOMICS

Matthew Gardner heads all residential commercial, economic and litigation support assignments dealing with market evaluation, market positioning, economic base assessment, financial feasibility and fiscal implications of residential and commercial real estate projects. Mr. Gardner is particularly involved on highest and best use assignments where market trends are given residual land value expressions. He is the retained economist for the Master Builders Association and Windermere Real Estate Company and has over twenty eight years of professional experience in the U.K. and U.S.

PROFESSIONAL AFFILIATIONS

University of Washington Center for Real Estate Research – Chair of the Board of Trustees.

University of Washington – Advisory Board Member to the Runstad Center for Real Estate Studies.

Urban Land Institute – Technical Assistance Panel Member.

University of Washington –Central Puget Sound Real Estate Research Report – Chairman & Editor.

EXPERIENCE:

- Author of numerous white papers concerning affordable housing, inclusionary zoning and other topics;
- Prepared market analyses for proposed income restricted (tax credit) apartment developments for numerous clients;
- Lecturer in Real Estate Forecasting & Economics at the University of Washington; and
- Expert witness in multiple matters where real estate issues are involved.

Mr. Gardner graduated from Saint John's College, Oxford, U.K. with a baccalaureate degree in Economics & English.



WILLIAM REID, SENIOR ASSOCIATE, GARDNER ECONOMICS

William Reid provides real estate development, land use, infrastructure, and financial feasibility consulting to both private and public sector interests throughout the Pacific Northwest, Alaska, and other U.S. markets. Mr. Reid brings over seventeen years of experience with complex market and financial determinants of real estate and economic development objectives, market and financial feasibility, highest & best use, and land use regulation and policies. Based in the Portland, Oregon market, Mr. Reid is well-versed in development within a manage growth context, including Transit-Oriented and mixed-use development, as well as development incentive programs.

PROFESSIONAL AFFILIATIONS

Portland State University, School of Business – Adjunct Professor of Real Estate

Westside Economic Alliance – Land Use & Government Affairs Committees

Portland State University – Quarterly Journal of Real Estate, Content Advisor & Review

Hillsboro Housing Needs – Technical Advisory Committee

Guest Columnist – Pamplin Media

EXPERIENCE:

- Retained by the Home Builders Association of Metropolitan Portland on economic and land need matters for the Portland, Oregon region
- County Economist in the Boise, Idaho MSA regarding economic, financial, and public services financial feasibility of Master Planned Communities (640 acres or larger)
- Market analyst on all manner of commercial, industrial, and residential retail development
- Provides economic and land use forecasting for infrastructure planning, financing, and U.S. Department of Transportation grant and lending programs

Mr. Reid holds an M.A. in Economics & Public Finance from the University of Oregon and a B.A. from Baylor University with emphasis in Economics & Mathematics.



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