City of Stevenson
Planning Department

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TO: Planning Commission
FROM: Ben Shumaker, Community Development Director
DATE: October 12th, 2020
SUBJECT: Housing Needs Analysis—Stevenson Specifics

Introduction

This memo introduces the Residential Market Analysis performed in July 2019 by Johnson Economics, LLC (2019 RMA), conducted as part of the Downtown Plan for SUCCESS!. This analysis helped that plan's understanding of what's possible in its recommendations for residential development in the downtown core. Because the residential market area established for the analysis involved only the city limits of Stevenson, it serves as a component of the information requested by the Planning Commission in its review of the January, 2020 countywide Housing Needs Analysis (2020 HNA).

Projected Housing Needs

The Planning Commission discussions of the Zoning Text Amendment have relied on the 2020 HNA as a basis for information on the community's projected housing growth. The table below supplements this information it with the information from the 2019 RMA.

Comparison of Projected Housing Needs*

	Owner-Occupied Units	Long-Term Rental Units	Total Long Term Units	Short-Term Rental Units
Skamania County-Wide (20-year)	1,142	476	1618	331
Stevenson-Specific (10-year)	115 (10%)	113 (24%)	228 (14%)	n/a

*County-wide data from 2020 HNA Exhibit 4.2. Stevenson-specific data taken from 2019 RMA Figure 5.14 and description of pent-up demand on Page 21.

The method for projecting housing needs varies between the two studies in several important ways:

- The horizon for the county-wide projection is twice as long as the 10-year horizon used for the Stevenson-specific projection. The number of units and percent share provided in the table does not reflect the difference in horizons, and readers may consider doubling Stevenson's numbers in their comparison of the studies.
- The 2020 HNA uses openly available data from the Washington Office of Financial Management and elected to uses the high growth estimates for its demand projection. The low- and mid-level projections are not reported in detail. The 2019 RMA develops projections in part based on proprietary data, Environics (from Nielsen Claritas). Though the text of 2019 RMA relies on a mid-level projection for its findings, the table above uses the reported high projection to provide better comparison to the 2020 HNA.
- The demand for short-term vacation rental housing was evaluated in the county-wide projection and accounts for 17% of the total number of units projected. It was not evaluated in 2019.

<u>Stevenson's Observed and Projected Growth Rates</u>

The 2019 provides a comparison of the observed Stevenson-specific growth rate and the projected housing growth. The table below summarizes the findings of the analysis.

2019 RMA Growth Rate Comparison

2000-2010	2010-2019	2019-2019*
2.2% per year	1.5% per year	2.8% per year

*This includes the report's high growth projection and pent-up demand as summarized in the table above. The text of the report on Page 19 uses only the baseline projection and anticipates annual growth rates of 1.6%

Prepared by,

Ben Shumaker

Attachments

1. "Residential, Commercial, and Hospitality Markets, Downtown Stevenson, Washington" (35 pages)

JOHNSON
ECONOMICS

TASK 4.1: EXISTING CONDITIONS

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RESIDENTIAL, COMMERCIAL, AND HOSPITALITY MARKETS,

DOWNTOWN STEVENSON, WASHINGTON

PREPARED FOR
THE CITY OF STEVENSON
JULY 2019

JOHNSON ECONOMICS, LLC
621 SW Alder St, Suite 506
Portland, Oregon 97205

JOHNSON ECONOMICS

TABLE OF CONTENTS

I. Introduction

Johnson Economics was retained by Crandall Arambula to conduct an analysis of existing conditions in Downtown Stevenson as part of the City of Stevenson's development of a new Downtown Plan. The main objective of the analysis is to outline current conditions for private real estate development in Downtown, taking into account broader market trends, achievable pricing, and anticipated demand over the coming ten years. The analysis draws on extensive economic, demographic, and market data, including surveys conducted by the consultant. The three major use types evaluated in this analysis are residential (including for-sale and rentals), commercial, and hospitality, with a focus on building formats suitable within a downtown context.

II. Executive Summary

Stevenson Profile

Stevenson exhibits characteristics typical of small towns located along tourist routes, with an economy dependent on local residents as well as visitors. The city benefits from its location near Clark County, which has experienced strong economic and residential growth over the past five years, something that is likely to spill over into housing demand and tourist traffic in Stevenson. The city also benefits from the relatively strong growth in the Portland Metro Area and wider Pacific Northwest, which has generated increasing traffic and spending in the Gorge over the recent past.

Development Activity

New development in Stevenson has been limited in this business cycle, in line with what is observed in many smaller peripheral communities. Residential construction currently represents around half the pre-recession volume, with only two multifamily units built in this decade. However, five projects are currently proposed in Downtown, including three attached-home developments and two mixed-use projects. There has been no new commercial or hospitality development in this decade, but a 15,000-square-foot retail expansion and a four-room boutique hotel are currently proposed.

Residential Market Potential

Residential demand in Stevenson has increased during this business cycle, as evidenced in escalating prices and declining vacancy rates. In the current market, we estimate that new townhomes can achieve sales prices in the $240-300 range per square foot (PSF). Rental townhomes are estimated to capture monthly rents around $1.25-1.30 PSF, while one-bedroom apartments are estimated to achieve $1.65-1.95 PSF.

The city exhibits signs of pent-up demand currently, especially for rental housing. Though pent-up demand is difficult to quantify, we estimate the current rental shortage to be around 50 units, including 20-30 units priced at or close to current market levels. City-wide, we expect demand growth of around 130 residential units over the coming ten years, including around 10 ownership townhomes and condos, and around 50 rental townhomes and apartments.

Figure 2.1: Projected Net New Housing Demand, Stevenson (2019-29)

	LOW			BASELINE			HIGH		
	Owner	Renter	Total	Owner	Renter	Total	Owner	Renter	Total
Single-family detached	45	13	58	56	16	72	78	22	100
Single-family attached	6	7	13	7	9	16	10	12	22
Multi-family	1	31	32	2	39	41	2	54	56
Total	52	51	103	65	64	129	90	88	178

SOURCE: Environics and Johnson Economics

COMMERCIAL MARKET POTENTIAL

The commercial market has seen declining vacancy rates in recent years, though lease rates have remained fairly low in Stevenson. This can partly be attributed to the type and quality of available space. We estimate that new buildings can achieve annual lease rates in the range of $12-17 PSF (triple-net) for ground-floor storefront space and $11-15 for second-floor office space, depending on location.

Stevenson has seen an increase in commercial activity during this business cycle, especially among eating and drinking establishments. Between 2010 and 2016, employment in commercial categories increased by an estimated 54 jobs, which translates into an annual increase in space demand of around 1,800 square feet. Over the coming ten years, we project demand for nearly 20,000 additional square feet in our baseline scenario, including 13,000 square feet of demand for downtown storefront retail space.

FIGURE 2.2: PROJECTED NET NEW COMMERCIAL SPACE DEMAND (SF), STUDY AREA (2019-29)

	Low	Baseline	High
All Commercial	14,103	19,187	25,923
Downtown Retail	9,449	12,855	17,368

SOURCE: JOHNSON ECONOMICS

Demand for industrial space has not been evaluated in this analysis. However, we regard industrial buildings of smaller scale to be compatible with other uses in certain parts of the Study Area, and expect that there will be demand for new space of this format in Stevenson over the coming ten years.

HOSPITALITY MARKET POTENTIAL

The western portion of the Columbia Gorge saw strong growth in the hospitality market in the first part of this business cycle, but the market has stabilized in recent years after the addition of an 88-room hotel in Hood River. Occupancy and room rates still remain relatively high. We estimate that a new limited-service hotel in Stevenson can achieve daily rates in the $125-200 range for a standard room in today's market, averaging roughly $155 throughout the year. Boutique hotels and full-service hotels can likely achieve higher rates, depending on level of amenities and services.

We project demand for 250-390 additional hotel rooms in the West Columbia Gorge over the next ten years. The ability of Stevenson to capture part of this demand will depend on growth in its amenity base and the development of visitor attractions over the period. Cruise ship traffic and schedules will also impact the demand, possibly creating potential for full-service options as well as limited-service and boutique hotels. Based on the city's current share of the West Gorge market (25%), we project capacity for around 60-100 additional rooms over the next ten years.

FIGURE 2.3: PROJECTED NET NEW ROOM DEMAND (2019-29)

	LOW	BASELINE	HIGH
West Columbia Gorge	248	317	389
Stevenson	63	81	99

SOURCE: JOHNSON ECONOMICS

III. Market Area Definitions

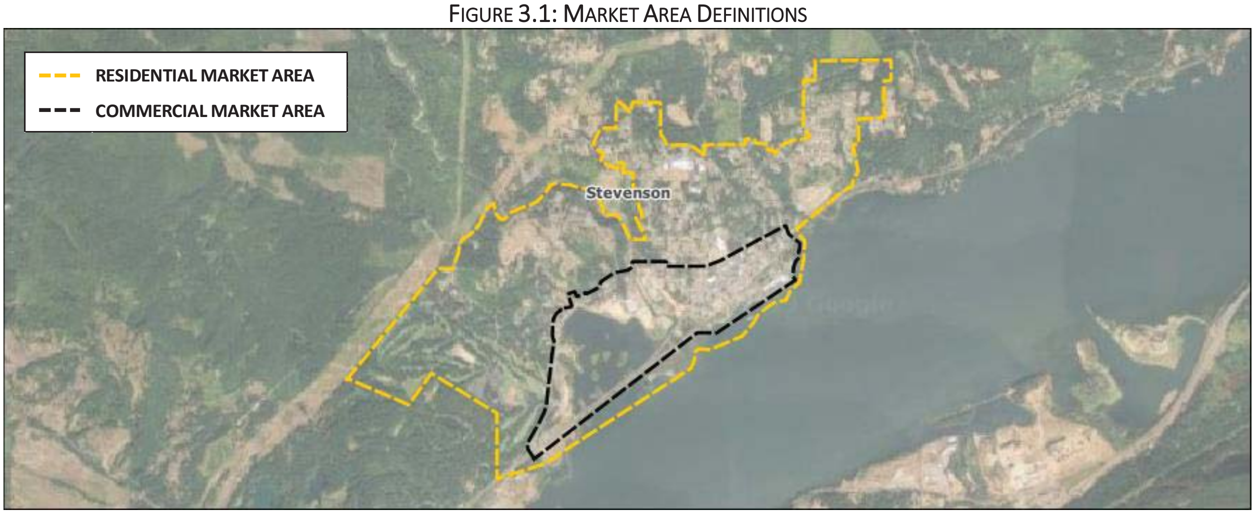
In the context of real estate market analysis, market areas are the geographic regions from which new development draw the majority of its market support, and within which similar projects compete on a comparable basis and tenants evaluate alternative options. Different land use types often have different market areas, reflecting the dynamics of each use type. Market areas are used as parameters for demand projections and also serve to identify comparable properties for pricing purposes, though additional reference points from outside the market are sometimes needed.

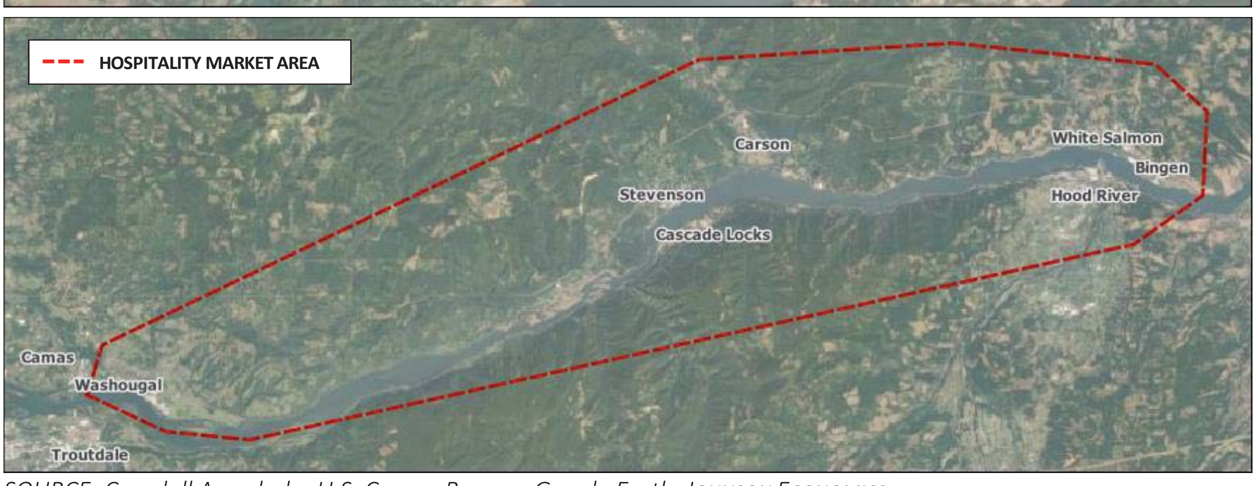
The primary area of concern in this analysis is Downtown Stevenson, or more specifically the Study Area delineated for the development of the new Downtown Plan. We use this delineation for our commercial analysis, as this is a discrete commercial market separate from other markets in the region.

For our residential analysis, which is focused on townhomes and rental apartments, we use Stevenson city limits as the market area, as prospective townhome and apartment residents in Stevenson are likely to evaluate options outside as well as inside the Study Area. This delineation also takes into account the availability of historical data on the city level, such as demographic data and building permits.

The hospitality analysis operates with a larger market area, reflecting that travelers in the Gorge are willing to consider a broader area for their lodging needs. We have defined the area as extending from Washougal in the west to Bingen in the east, including Cascade Locks and Hood River on the Oregon side.

FIGURE 3.1: MARKET AREA DEFINITIONS





SOURCE: Crandall Arambula, U.S. Census Bureau, Google Earth, Johnson Economics

IV. EXISTING AND PROPOSED DEVELOPMENT

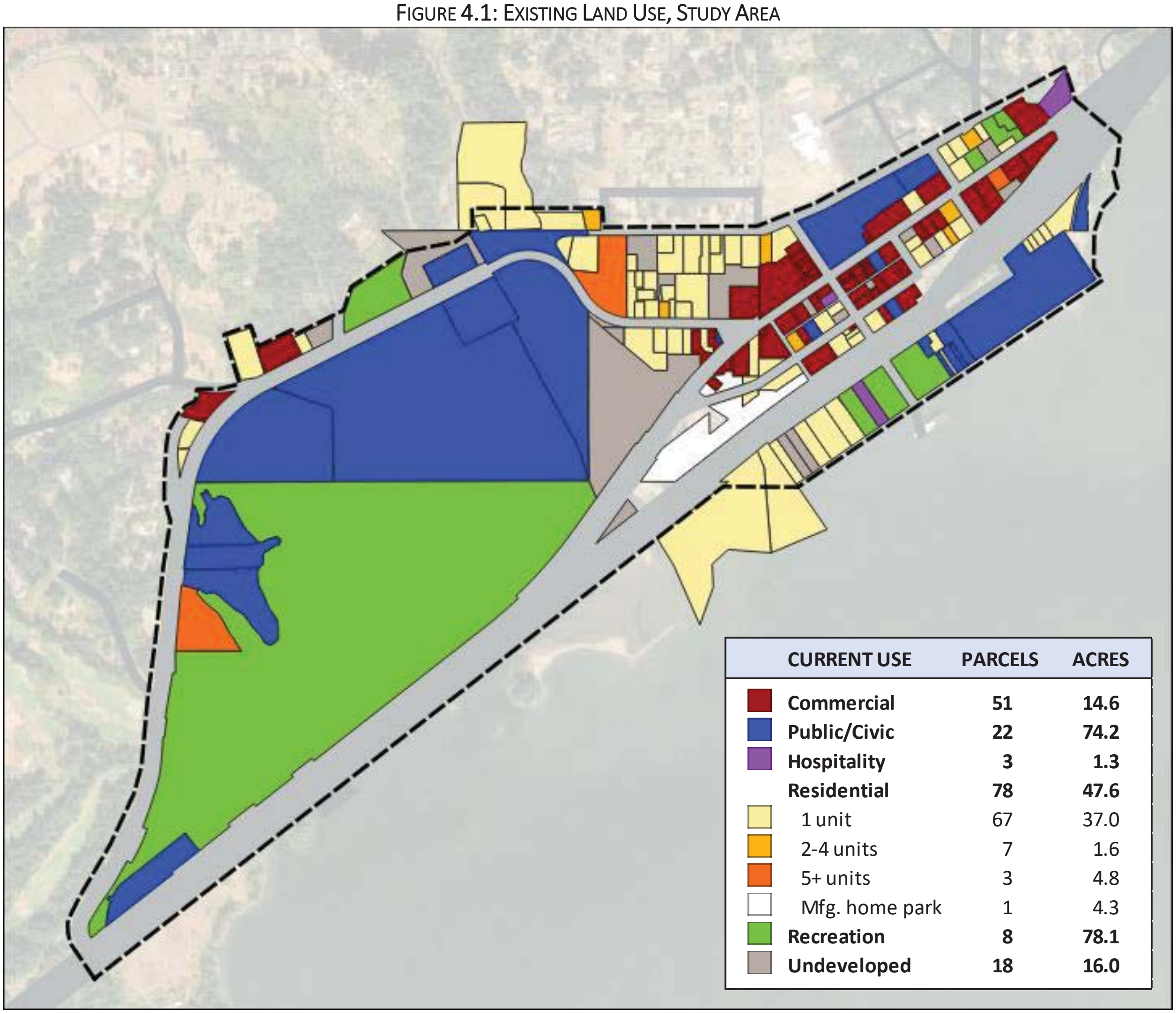
EXISTING LAND USE

The Study Area is dominated by commercial and public/civic properties, which together total 73 parcels and account for nearly two-thirds of the developed land, excluding recreational land and right of ways. Residential properties account for 35% of the land. Of the 78 residential properties in the Study Area, 67 are single-family homes; seven are multifamily properties with two to four units; three are multifamily properties with five or more units; and one is a manufactured home park. There are three hospitality properties in the Study Area, which account for 1% of the developed land.

The Study Area includes 16 acres of land on undeveloped parcels, including a handful in the downtown core. In addition to these, there are many partially developed properties in the Study Area that can accommodate additional development.

A map and table summarizing existing land uses in the Study Area are included below. Port properties are classified as public, though Port properties along the Columbia River may be categorized as industrial or commercial.

FIGURE 4.1: EXISTING LAND USE, STUDY AREA



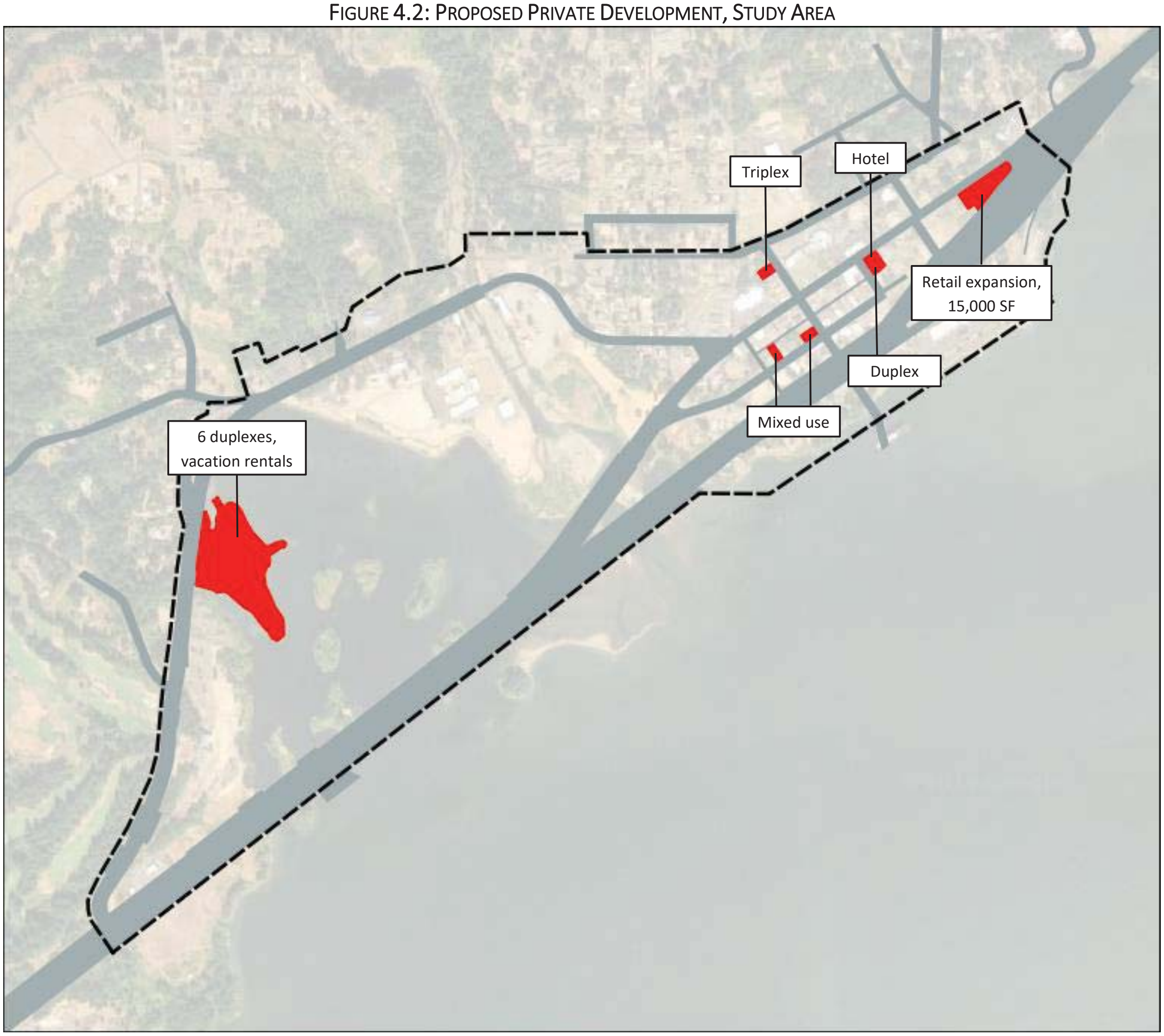
CURRENT USE	PARCELS	ACRES
Commercial	**51**	**14.6**
Public/Civic	**22**	**74.2**
Hospitality	**3**	**1.3**
Residential	**78**	**47.6**
1 unit	67	37.0
2-4 units	7	1.6
5+ units	3	4.8
Mfg. home park	1	4.3
Recreation	**8**	**78.1**
Undeveloped	**18**	**16.0**

SOURCE: Crandall Arambula, Skamania County, Google Earth, JOHNSON ECONOMICS

PROPOSED PRIVATE DEVELOPMENT

Several private developments have been initiated in the Study Area recently. These include three townhome and duplex projects totaling 11 units, two of which are located in the downtown core and one which is located on the west side of Rock Cove. Two mixed-use projects have been proposed in the Core Area, both located on 1st Street. Additionally, a 15,000-square-foot expansion of Columbia Hardware east in Downtown and a four-room boutique hotel have also been proposed.

FIGURE 4.2: PROPOSED PRIVATE DEVELOPMENT, STUDY AREA



SOURCE: Skamania County, Google Earth, JOHNSON ECONOMICS

V. Residential Market Analysis

The focus of this analysis is on urban building formats that can fit within a downtown setting. In the following, we will therefore focus on townhomes and rental apartments. However, because there are few recent examples of these housing formats in Stevenson, we will assess broader trends in the ownership and rental markets, including in neighboring markets, as trends for substitute housing forms and nearby markets tend to follow the same trajectories.

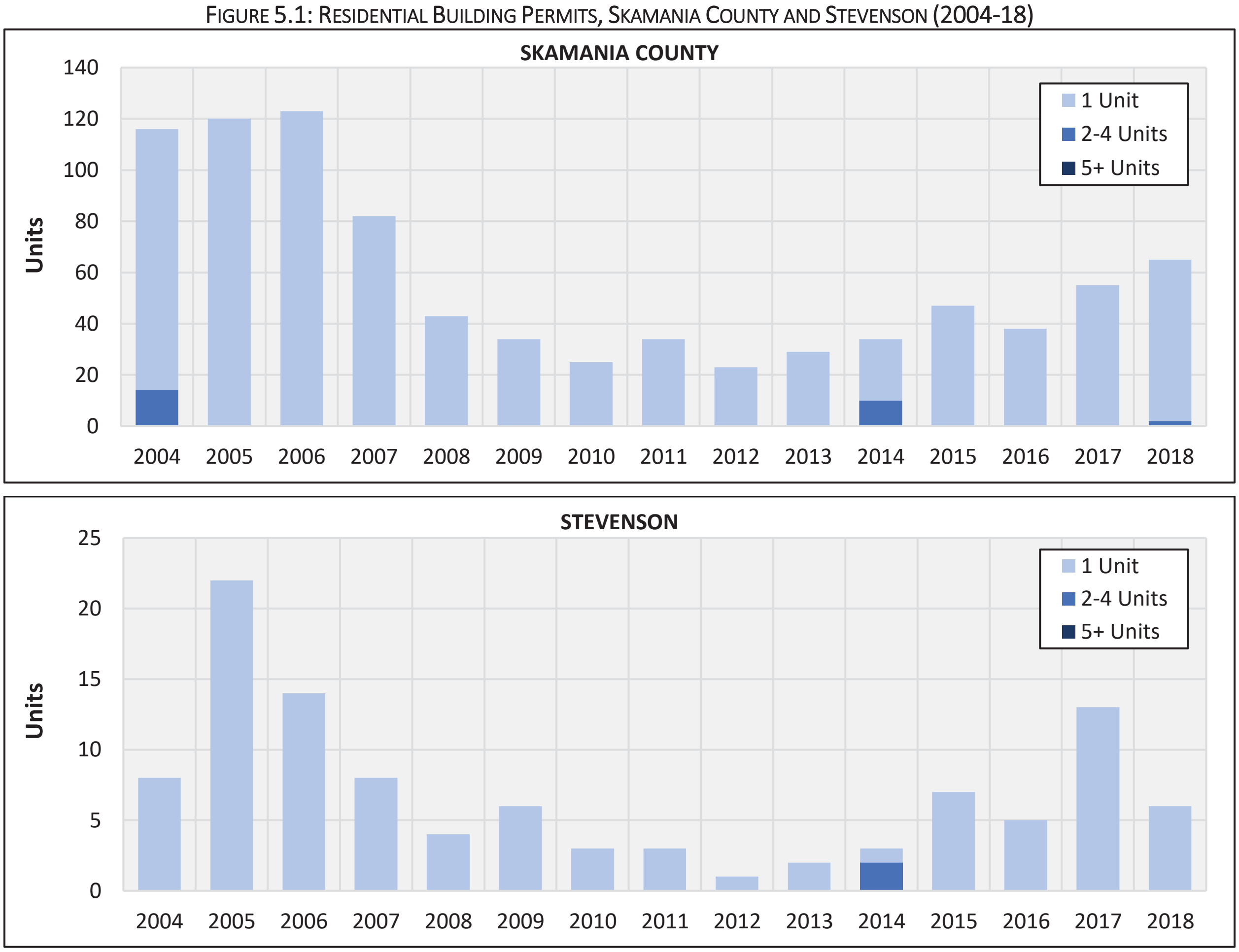
Market Trends

Construction Activity

Before the foreclosure crisis took hold in the late 2000s, around 120 housing units were built annually in Skamania County. The construction volume fell to around 25 units per year in the downturn, before gradually increasing to nearly 65 units in 2018. Stevenson peaked at 22 units in 2005, and bottomed at one unit in 2012. Stevenson permitted 13 units in 2017 and 6 in 2018. Stevenson has accounted for 12% of all housing construction in Skamania County since 2004, and 13% since 2013. The latter is in line with the city's share of the countywide population.

Single-family homes dominate residential development in Skamania County and Stevenson. Only 26 multifamily units were built in the county over the 2004-18 period, including two in Stevenson. In the first four months of 2019, five multifamily units were permitted – all in Stevenson. All the multifamily units built since 2004 have been built in structures with fewer than five units. These represent 4% of all homes built in the county over the period.

Figure 5.1: Residential Building Permits, Skamania County and Stevenson (2004-18)

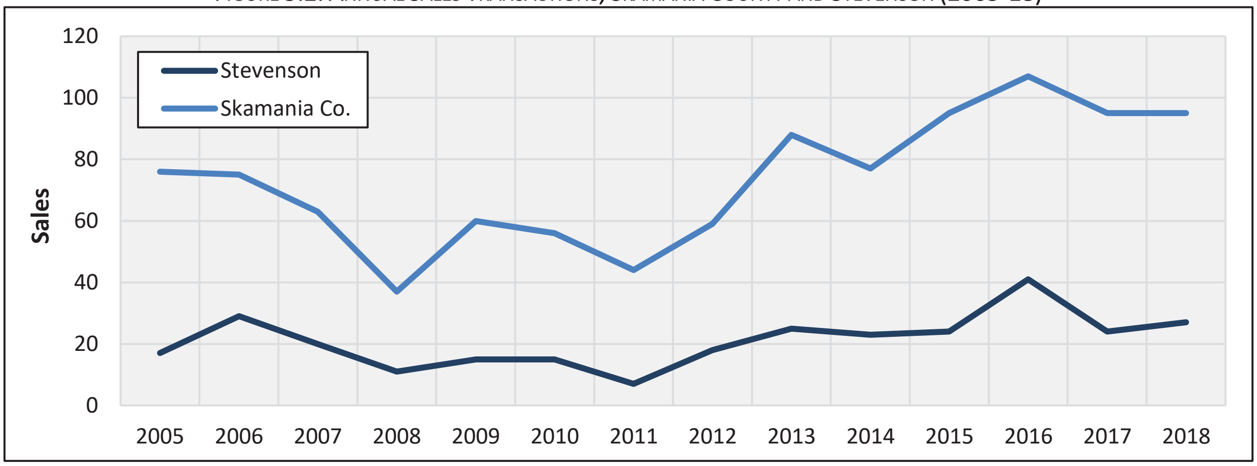


SOURCE: U.S. Census Bureau, Johnson Economics

Ownership Sales Volume

After the foreclosure crisis of the late 2000s greatly reduced the number of sales transactions in the market for ownership homes, Skamania County and Stevenson have seen relatively strong sales volumes over the past five years – at or above the pre-recession peak. In 2018, 95 homes were sold in the county according to RMLS, including 27 in Stevenson. The current sales volume represents 3-4 times the transaction volume at the bottom of the downturn. However, Skamania and Stevenson do not exhibit the same signs of undersupply as areas to the west. For instance, in 2018 the average market time for listed homes was 4.7 months in Skamania and 5.0 months in Stevenson, compared to 1.6 months in Clark County.

Figure 5.2: Annual Sales Transactions, Skamania County and Stevenson (2005-18)

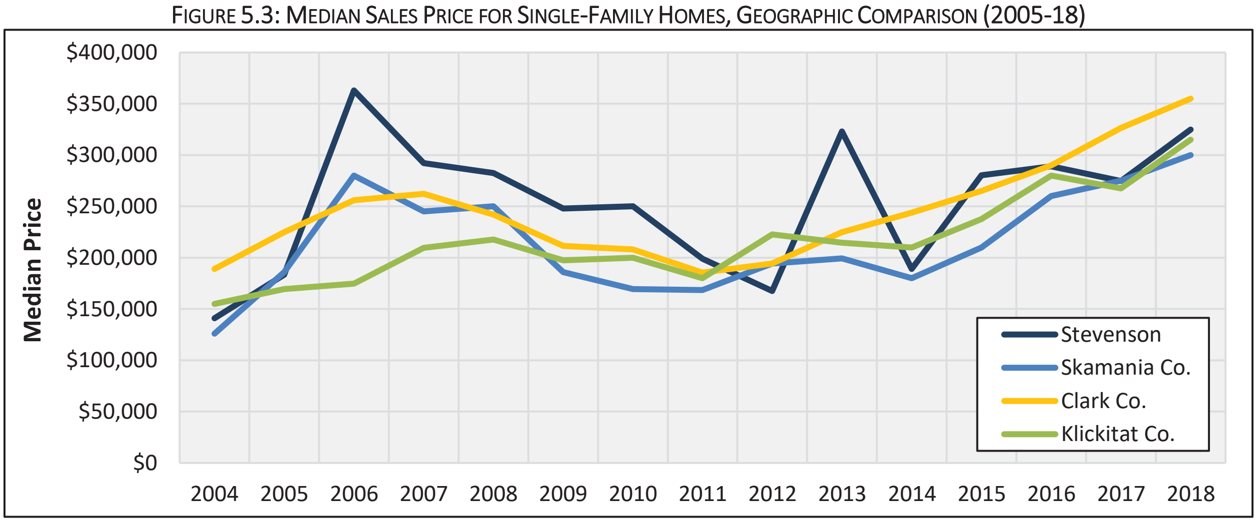


SOURCE: RMLS, Johnson Economics

Ownership Pricing

Home prices were relatively high in Stevenson in the previous decade, higher than in the remainder of Skamania County and the neighboring counties. Stevenson's median price level reached a bottom of $167,500 in 2012. Since then it has nearly doubled, to $325,000 in 2018. This represents an average annual price increase of 11.7%. This trend is in line with surrounding areas. In 2018 the median price was up 18% from 2017. Annual price gains of this magnitude indicate an undersupplied market. However, the limited size of the Stevenson market can cause wide fluctuations in the median price level from year to year, something that might have impacted the price increase in 2018.

Figure 5.3: Median Sales Price for Single-Family Homes, Geographic Comparison (2005-18)



SOURCE: RMLS, Johnson Economics

Rental Market Conditions

Demand for rental housing has been strong in this decade nationwide. The late-2000s foreclose crisis and ensuing recession led to more restrictive lending, which shifted housing demand from the ownership market to the rental market. Demand in this decade has also been boosted by the large millennial cohort reaching adulthood and forming their first households. High thresholds to creditworthiness and down payment, coupled with high levels of student debt, have largely relegated the millennials to the rental market. The demand has reduced vacancy and increased rents all over the nation, though increased construction has alleviated market pressures in recent years.

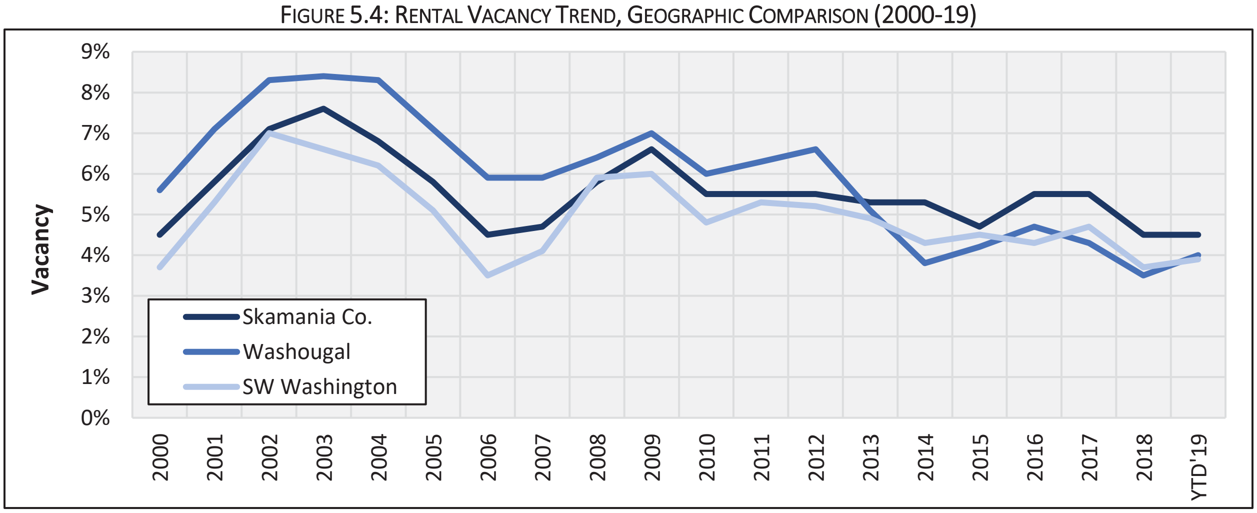
Stevenson has a very limited number of professionally managed rental properties, and some of these are income-restricted properties with regulated rent levels. In order to evaluate historical trends for market-rate properties, we therefore rely on data for Skamania County, as reported by CoStar. We compare this to trends in the wider Southwest Washington region and in Washougal, which is the closest rental market with recently completed apartment projects. We also note our own observations from surveys of properties in Stevenson.

Rental Vacancy

A vacancy rate around 5.0% typically represents a healthy supply-demand balance where rent increases keep in line with wage and income growth. In Skamania County, the vacancy rate has hovered around 5.5% throughout most of this decade, according to CoStar. However, over the past two years it has fallen to 4.5%, which indicates a slight undersupply. The current rate is roughly half a percentage point higher than in Southwest Washington and Washougal, which have seen somewhat steeper declines in vacancy in this business cycle. The latter likely reflects the strong job growth in Clark County, which has been dominated by young millennial workers.

We expect the vacancy rate in Stevenson to be lower than reflected in the CoStar data for Skamania. In our survey of rental properties within the city, we did not identify a single vacant unit. Property owners and managers that we spoke to all reported that available units are leased quickly, and that there is unmet demand for additional units. Several properties maintain long waitlists.

Figure 5.4: Rental Vacancy Trend, Geographic Comparison (2000-19)

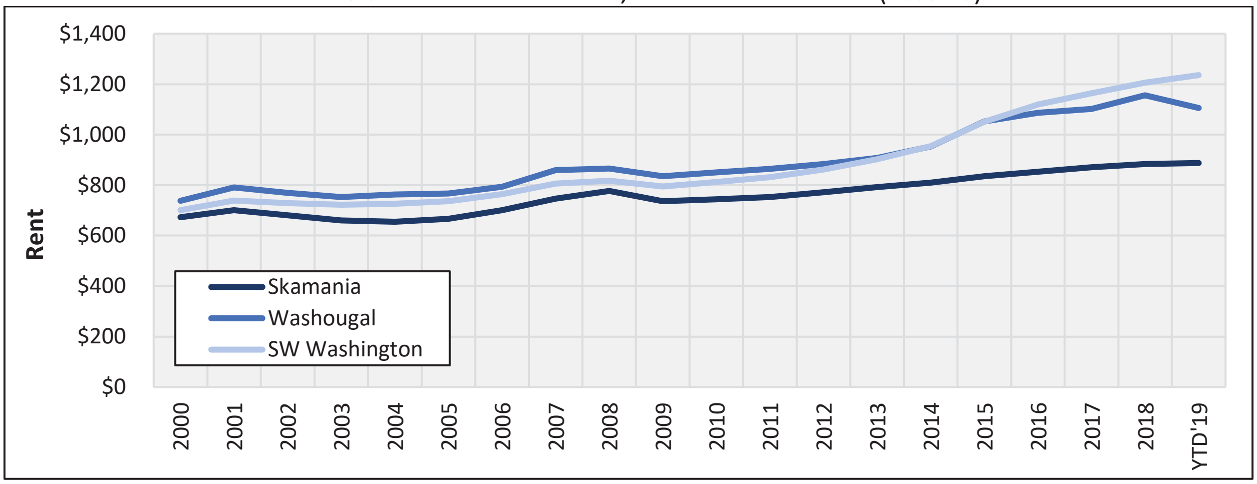


SOURCE: *CoStar*

Rent Levels

The average market-rate rental unit in Skamania County currently rents for $890 per month. This represents a 20% discount to the average rent level in Washougal and 28% to the regional average. Skamania's rent level has largely tracked the remainder of the region over the past two decades, though the discount has deepened over the past five years – a period with very strong economic growth in Clark County (4-5% job growth per year). The delivery of new apartment projects with extensive, modern amenities in Clark County and Washougal has also likely contributed to stronger rent growth in these markets than in Skamania, where no new supply has been built in this decade.

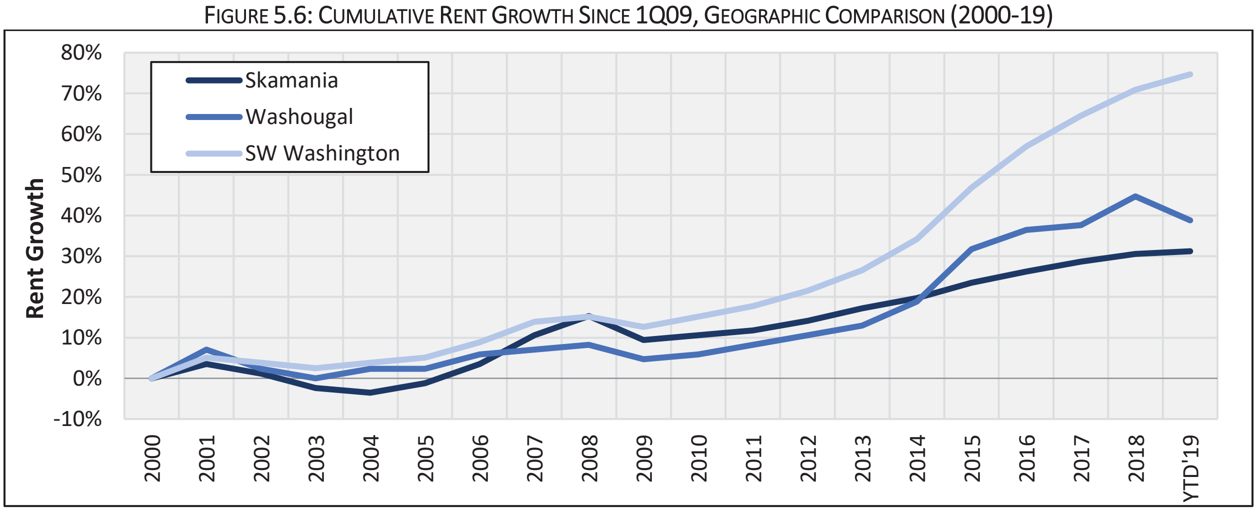
Figure 5.5: Average Monthly Rent, Geographic Comparison (2008-19)



SOURCE: *CoStar*

Over the past ten years, the average rent level in Skamania has increased 17% according to CoStar (1.6% annual average). This compares to 30% in Washougal and 53% in Southwest Washington. On a year-over-year basis, the rent growth in Skamania peaked at 3.1% per year in 2015. In comparison, Washougal saw an increase of 10.9% in 2015, while the increase in Southwest Washington was 9.4%. The delivery of new apartment supply since 2015 has cooled these markets and reduced the rent growth in recent years. Current year-over-year growth is 2.2% in the region and 1.4% in Skamania. The following chart shows cumulative rent growth since 2000.

Figure 5.6: Cumulative Rent Growth Since 1Q09, Geographic Comparison (2000-19)



SOURCE: *CoStar*

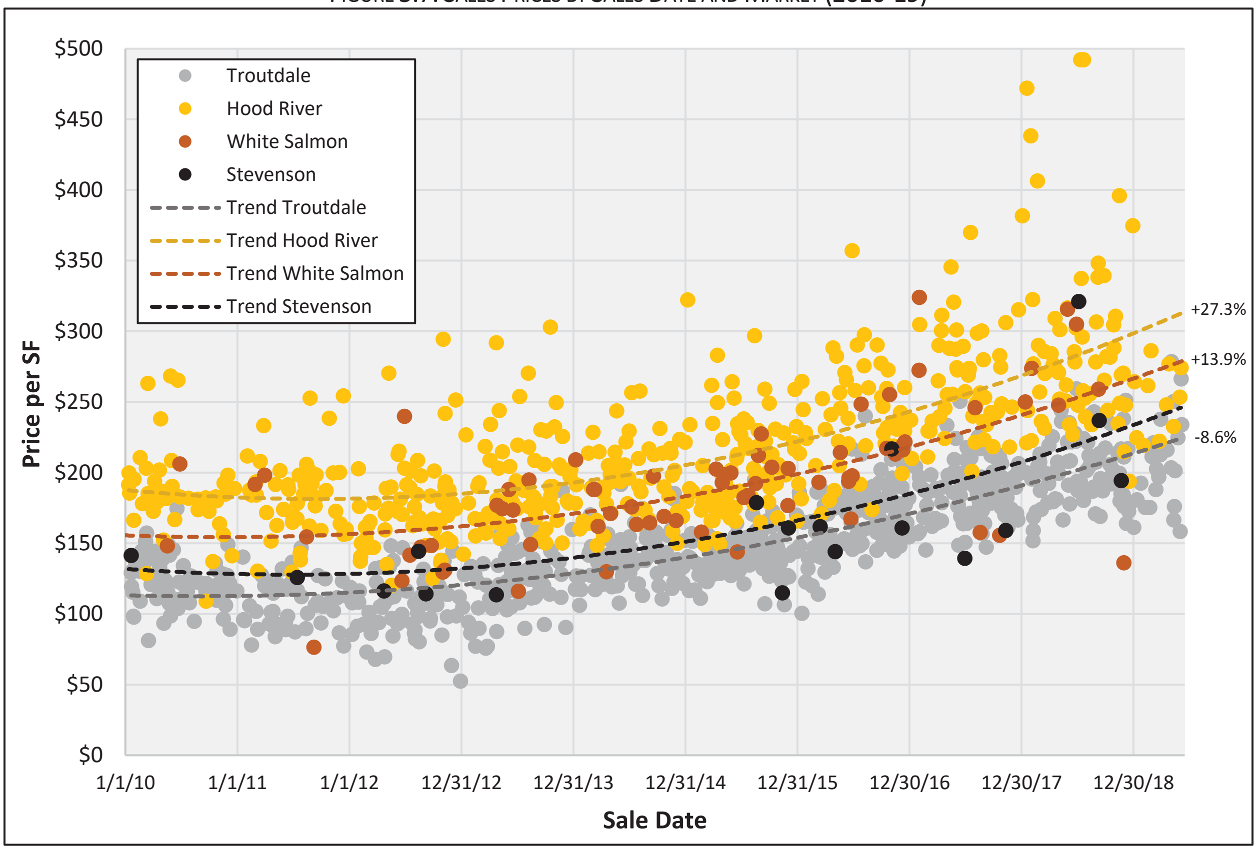
Achievable Pricing

For-Sale Townhomes

Stevenson has not seen construction of any townhomes of an urban format over the past ten years. In order to estimate achievable pricing for new townhomes in Downtown Stevenson, we have therefore surveyed townhome transactions from other downtown areas in the Columbia Gorge. The sales prices recorded for these properties are adjusted to account for the pricing differentials between Stevenson and these other markets, as well as for the price change since the transactions took place. For this analysis, we have included two townhome projects in White Salmon, one in Troutdale, and three in Hood River.

The following chart shows per-square-foot home prices in these markets since 2010, as recorded in the regional RMLS system. We have limited the analysis to homes built after 1990, with floor plans between 1,000 and 2,500 square feet, and with lots smaller than 20,000 square feet. The chart also includes trendlines for each market. These are used to adjust historical prices to current levels. The current differential between the trend lines are used to adjust the prices to market levels appropriate for Stevenson. This methodology needs to be used with some caution, as larger markets with more extensive downtown areas (e.g., Hood River) have the potential to capture higher premiums for very upscale homes due to their appeal to less price sensitive luxury buyers.

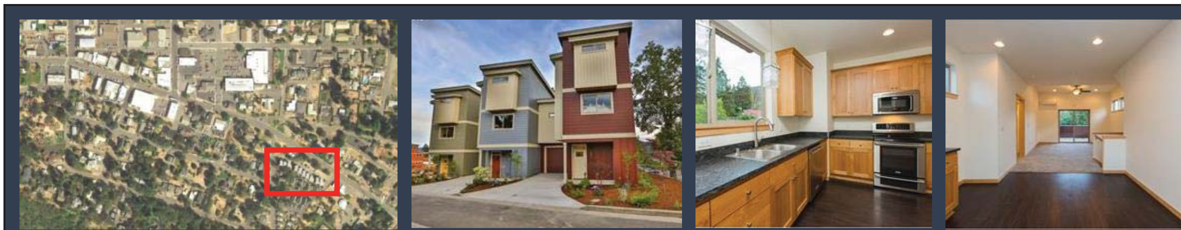
FIGURE 5.7: SALES PRICES BY SALES DATE AND MARKET (2010-19)



SOURCE: RMLS, JOHNSON ECONOMICS

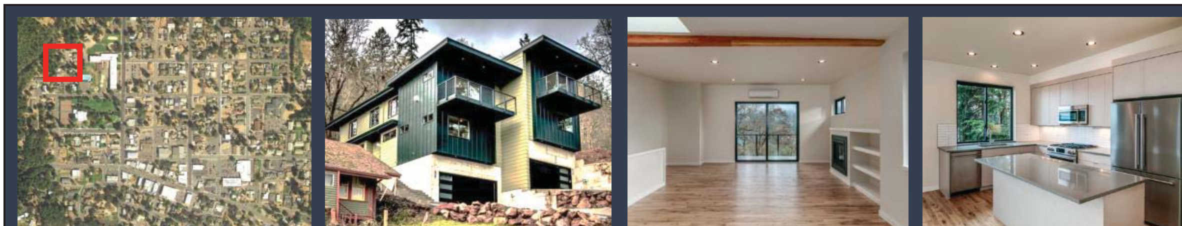
The surveyed townhome projects are profiled over the next pages, followed by an analysis of achievable pricing in Downtown Stevenson. Note that some of the properties are located just outside the downtown areas. We have also included one project located in the Heights area in Hood River (#5, Hull Street Lofts). The Heights is a historic pedestrian-urban area separate from the central business district in Hood River, representing a scale similar to Downtown Stevenson.

FIGURE 5.8: SURVEYED FOR-SALE TOWNHOME PROJECTS



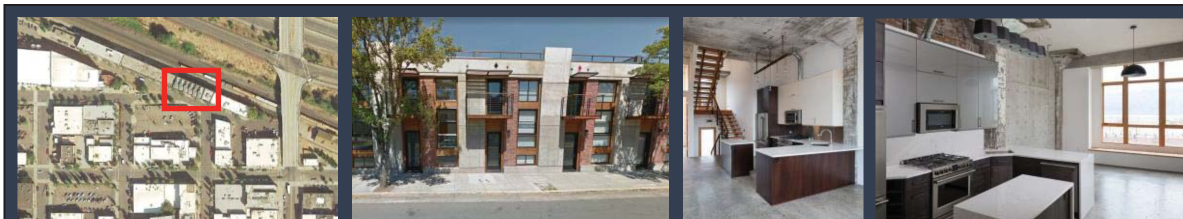
1) 505-523 Upper Wyers Street, White Salmon, WA

Year built:	2014-16	Sale date:	7/24/15 - 12/16/16	Estimaged current value:	$275
Bed/bath:	3B/3b	Sale price:	$287,000 - $342,422	Market differential:	13.9%
Square feet:	1,544 - 1,560	Price/SF:	$184 - $222	Indicated Stevenson price:	**$241**



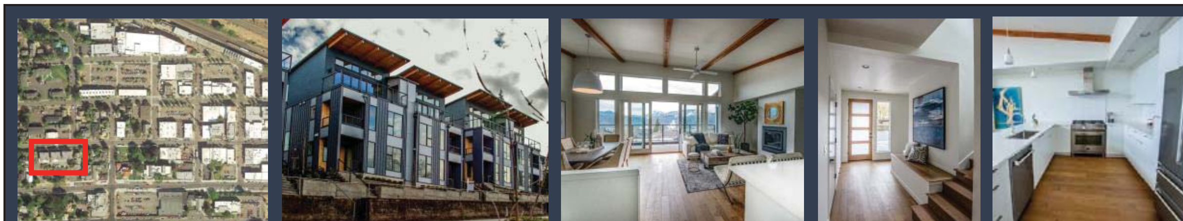
2) 608 NW Michigan Avenue, White Salmon, WA

Year built:	2018	Sale date:	1/11/19	Estimaged current value:	$288
Bed/bath:	3B/3b	Sale price:	$520,000	Market differential:	13.9%
Square feet:	1,868	Price/SF:	278	Indicated Stevenson price:	**$253**



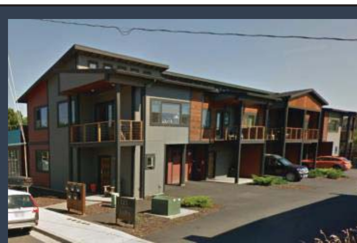
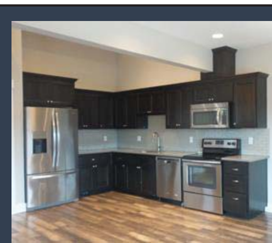
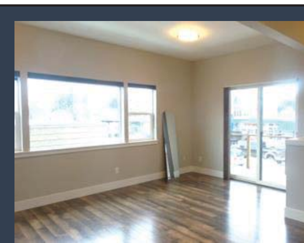
3) Union Lofts, 304-314 Columbia Street, Hood River, OR

Year built:	2017-18	Sale date:	1/17/18 - 7/20/18	Estimaged current value:	$497
Bed/bath:	2B/2b	Sale price:	$416,500 - $640,000	Market differential:	27.3%
Square feet:	1,292 - 1,460	Price/SF:	$322 - $492	Indicated Stevenson price:	**$391**



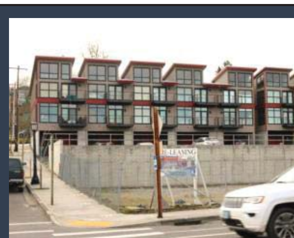
4) Cascadia Townhomes, 701-711 Oak Street, Hood River, OR

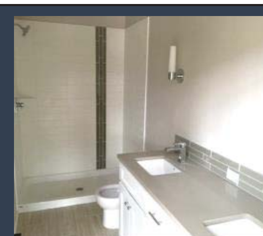
Year built:	2018-19	Sale date:	11/14/18 - 6/6/19	Estimaged current value:	$400
Bed/bath:	4B/3b	Sale price:	$979,000 - $989,000	Market differential:	27.3%
Square feet:	2,472	Price/SF:	$396 - $400	Indicated Stevenson price:	**$314**

5) Hull Street Lofts, 1121 Hull Street, Hood River, OR

Year built:	2014	Sale date:	11/26/14-12/30/14	Estimaged current value:	$334
Bed/bath:	2B/2b	Sale price:	$229,000 - $239,000	Market differential:	27.3%
Square feet:	1,031 - 1,128	Price/SF:	$213 - $224	Indicated Stevenson price:	**$262**



6) Discovery Block, 205-293 SE 2nd Ave, Troutdale, OR

Year built:	2016-17	Sale date:	10/11/16 - 9/22/17	Estimaged current value:	$270
Bed/bath:	2B/2.5b	Sale price:	$349,000 - $380,000	Market differential:	-8.6%
Square feet:	1,640 - 1,660	Price/SF:	$210 - $232	Indicated Stevenson price:	**$296**

SOURCE: *RMLS, S Baird Design, JOHNSON ECONOMICS*

The six projects indicate pricing in the range of $241-391 per square foot in Stevenson. Two of the projects (#3 and #4) have a luxury profile that may exaggerate what is achievable in Stevenson. If we exclude these, the projects indicate achievable pricing in the $241-296 range. The low end of this range is indicated by a project (#1) that is somewhat detached from downtown and that has a relatively basic profile (e.g., carpet in living room, small windows). The high end (#6) is represented by a project with a moderately upscale profile (e.g., large windows) and a situation within the downtown core. We regard this as an appropriate range for projects with analogous locations and similar profiles in the Study Area.

FIGURE 5.8: ACHIEVABLE PRICING, URBAN TOWNHOMES

COMPARABLE	INDICATED PRICE/SF
1) 505-523 Upper Wyers Street, White Salmon, WA	$241
2) 608 NW Michigan Avenue, White Salmon, WA	$253
~~3) Union Lofts, 304-314 Columbia Street, Hood River, OR~~	~~$391~~
~~4) Cascadia Townhomes, 701-711 Oak Street, Hood River, OR~~	~~$314~~
5) Hull Street Lofts, 1121 Hull Street, Hood River, OR	$296
6) Discovery Block, 205-293 SE 2nd Ave, Troutdale, OR	$262
Achievable townhome pricing, Study Area	**$241-296**

SOURCE: *JOHNSON ECONOMICS*

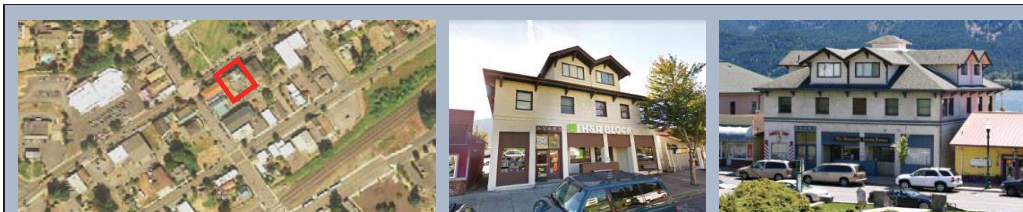
Rental Apartments and Townhomes

Stevenson does not have any rental housing of recent vintage. Examples of newer projects in other cities in the Gorge are also very limited. In order to assess achievable pricing for new units in the Study Area, we therefore draw on information from older properties in Stevenson – including recently renovated properties – as well as new projects in Washougal. For this analysis, we surveyed three historic mixed-use buildings with second-floor rental apartments in Downtown Stevenson, plus another three single-family rentals just outside Downtown, including one attached duplex-property. We also surveyed three properties in Washougal, including one new and one recently renovated mixed-use building in Downtown, plus one larger apartment project of a suburban walk-up format just outside Downtown. The surveyed properties are profiled on the next pages, followed by an analysis of achievable pricing in the Study Area.

Figure 5.9: Surveyed Rental Properties

1) Ash Building, 74 SW Russell Ave, Stevenson WA

		Type	SF	Units	Vacant	Rent	Avg. Rent/SF
Type:	Historic Mixed-Use	0B/1b	250-400	6	0	$800	$2.67
Year built:	1907 (ren. 2013)	1B/1b	400	3	0	$900	$2.25
Total units:	9						



2) Avery Building, 198 SW 2nd St, Stevenson, WA

		Type	SF	Units	Vacant	Rent	Avg. Rent/SF
Type:	Historic Mixed-Use	0B/1b	600	1	0	$1,000	$1.67
Year built:	1912	1B/1b	700	3	0	$1,000	$1.43
Total units:	4						

3) 47 SW Russell Ave, Stevenson, WA

		Type	SF	Units	Vacant	Rent	Avg. Rent/SF
Type:	Historic Mixed-Use	1B/1b	800	1	0	$1,000	$1.25
Year built:	1920						
Total units:	1						

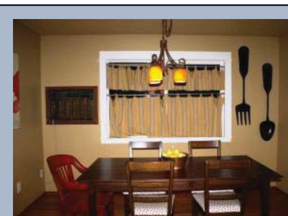



4) 80 NW Roosevelt St, Stevenson, WA

		Type	SF	Units	Vacant	Rent	Avg. Rent/SF
Type:	Duplex (side-by-side)	2B/1b	700	2	0	$1,150	$1.64
Year built:	1934						
Total units:	2						

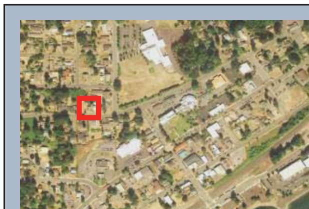






5) 290 NW Chesser Stevenson, WA

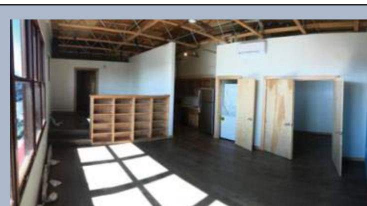
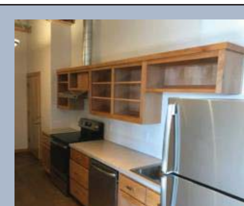
		Type	SF	Units	Vacant	Rent	Avg. Rent/SF
Type:	Single-Family Home	3B/2b	1,200	1	0	1700	$1.42
Year built:	1964						
Total units:	1						




6) 363 NW Vancouver Ave Stevenson, WA

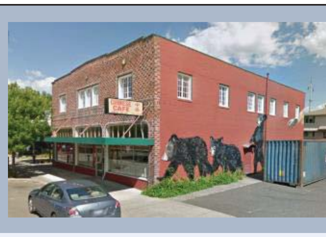
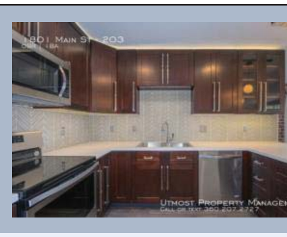
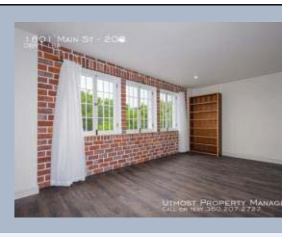
		Type	SF	Units	Vacant	Rent	Avg. Rent/SF
Type:	Single-Family Home	4B/2b	1,412	1	0	$1,800	$1.27
Year built:	1950						
Total units:	1						



7) Rig-a-Hut, 1911 Main St, Washougal, WA

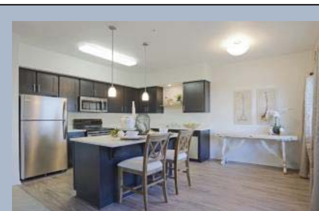
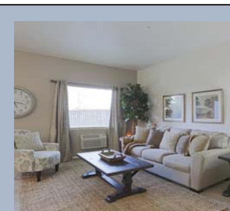
		Type	SF	Units	Vacant	Rent	Avg. Rent/SF
Type:	New Mixed-Use	1B/1b Sm	591-694	6	0	$1,250-1,300	$1.98
Year built:	2018	1B/1b Lg	753-906	2	0	$1,350-1,400	$1.65
Total units:	9	1B/1b LW	701	1	0	$1,300	$1.85

8) Blair Lofts, 1801 Main St, Washougal, WA

		Type	SF	Units	Vacant	Rent	Avg. Rent/SF
Type:	Historic Mixed-Use	0B/1b	450-850	4	3	$1,380	$1.76
Year built:	1925						
Total units:	4						



9) Main Street Village, 2300 Main St, Washougal, WA

		Type	SF	Units	Vacant	Rent	Avg. Rent/SF
Type:	Suburban Apartments	2B/2b	1,065	66	7	$1,295-1,495	$1.31
Year built:	2018	2B/2b	1,075	33	4	$1,495	$1.39
Total units:	99						

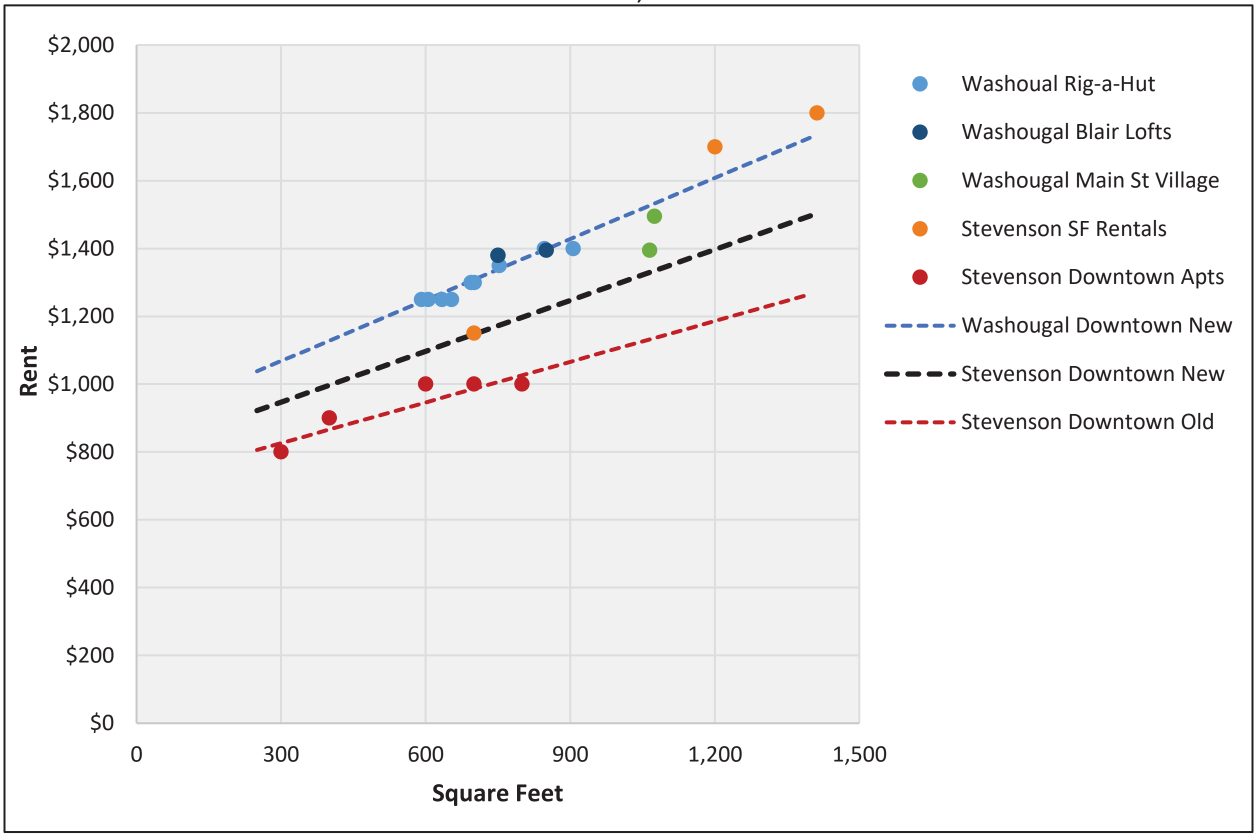
SOURCE: CoStar, Craigslist, property owners, Skamania County, Google Maps

The scatter plot on the next page displays the observed rent levels as a function of square footage. The two mixed-use properties in Downtown Washougal have the highest rents among the apartment properties. Adjusted for unit size, these are priced higher than the suburban walk-up project located just outside Downtown (Main Street Village). The trendline for the two properties indicate a premium of 6% to the suburban project. This is in line with the premiums we typically see for apartments in small downtown areas (5-10%).

Among the Stevenson properties, the highest observed rents are for the two detached single-family homes. This is in line with typical pricing patterns, reflecting premiums for greater privacy, outdoor space, garages, etc. Also in line with typical patterns, the duplex property is priced between these and the downtown apartments. The latter reflect rents in the $800-1,000 range, or $1.25-2.67 per square foot (PSF).

Achievable pricing for new rental units in the Study Area can be assumed to lie between rent levels for older properties in Downtown Stevenson and new properties in Downtown Washougal. The black dashed line in the following chart indicates the mid-point between these two rent levels. We will use this as our assumption for achievable pricing for new apartments in the Study Area. For a typical apartment unit, this represents a monthly rent premium of around $150 per month (16%) to the existing apartments in Downtown Stevenson.

FIGURE 5.10: RENTS BY UNIT SIZE, SURVEYED RENTAL PROPERTIES



SOURCE: CoStar, Craigslist, property owners

The following table provides examples of estimated achievable rent levels for various unit types and sizes in the Study Area. For regular apartment units, the estimates range from around $1,000 ($2.49 PSF) to around $1,300 ($1.30 PSF) per month. We have also included an estimate for townhome units with private ground-floor entrances and reserved parking, which in Southwest Washington typically capture premiums of around $100 per month to similarly sized apartment units. With the following hypothetical unit mix, the rents translate into a project average of $1.55 per square foot. The rent levels assume 12-month contracts with utilities billed separately.

FIGURE 5.11: ACHIEVABLE APARTMENT AND TOWNHOME RENTS, STUDY AREA (2Q19)

Unit Type	Units	Unit Mix	Size (SF)	Rent	Rent/SF
0B/1b	4	17%	400	$997	$2.49
1B/1b	4	17%	550	$1,072	$1.95
1B/1b	4	17%	700	$1,147	$1.64
2B/1b	4	17%	800	$1,197	$1.50
2B/2b	4	17%	1,000	$1,297	$1.30
3B/2b TH	4	17%	1,200	$1,497	$1.25
Total/Avg.	***24***	***100%***	***775***	***$1,201***	***$1.55***

SOURCE: JOHNSON ECONOMICS

DEMAND

In this section we estimate housing demand in Stevenson (city limits) over the next ten years. We evaluate demand for both rental and ownership housing, categorized by multifamily, single-family attached, and single-family detached formats. We assume that the Study Area has the potential to capture all the new demand for multifamily and attached single-family units.

JOHNSON ECONOMICS projects future housing demand by segmenting the existing household base by age and income – the two most important determinants of housing preferences – and modeling growth in each segment (70 segments) based on economic and demographic trends. As a starting point, we draw on household growth projections by Environics (form. Nielsen Claritas), which take into account aging of the existing population as well as birth, death, and migration trends. We adjust these estimates based on our survey of economic conditions and housing trends, including county-level population projections by age group developed by the Washington Office of Financial Management. The goal is for the estimates to reflect underlying demand rather than realized household growth, which can be constrained by supply.

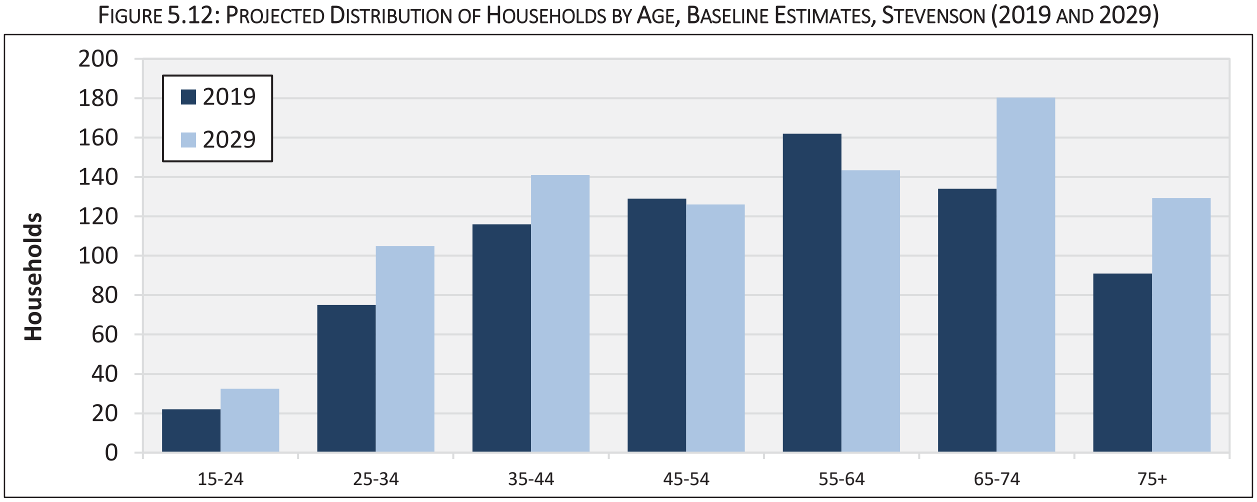
After developing a segmented projection of overall housing demand by age and income, we use data from the Census Bureau (including ACS Microdata samples) in order to establish local, segment-specific rates of housing tenure (owners/renters) and housing type (detached/attached/multifamily). The assumed future propensity rates take into account ongoing shifts related to credit requirements and affordability – factors that in recent years have increased the share of renters, especially in multifamily structures.

TOTAL HOUSING DEMAND

Our baseline demand projection indicates net growth of roughly 130 housing units in Stevenson over the next 10 years. This represents average annual household growth of 1.6%. In comparison, household growth between 2000 and 2010 was 2.2% per year, and 1.5% per year between 2010 and 2019 (using Claritas 2019 estimate). In other words, we expect underlying housing demand over the next 10 years to be slightly stronger than realized growth during the current decade, which has been a period marked by a mismatch between housing supply and demand, something that has likely reduced realized growth. The strong momentum in the Southwest Washington economy also indicates somewhat higher growth in coming years. Our low- and high-growth estimates assume growth rates of 1.3% and 2.2%.

The following chart displays the anticipated distribution of housing demand by age in 2029 (baseline estimates). The projections indicate growth concentrations among households in the pre-family and early-family state (age 25-44) as well as among seniors. This is in line with wider demographic shifts related to the millennial and baby boomer cohorts.

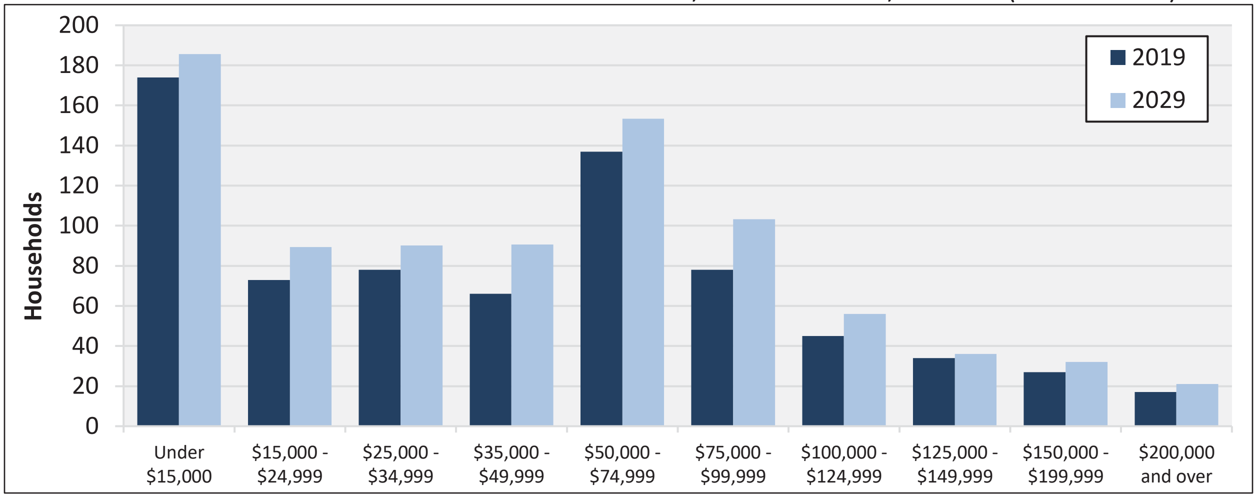
FIGURE 5.12: PROJECTED DISTRIBUTION OF HOUSEHOLDS BY AGE, BASELINE ESTIMATES, STEVENSON (2019 AND 2029)



SOURCE: Environics, JOHNSON ECONOMICS

With respect to income, the demand growth is anticipated to be concentrated among middle-income segments. However, demand growth is also anticipated among low-income households, driven by the youngest and oldest segments. This demand is not likely to be realized into actual household growth without adequate supply of affordable housing.

FIGURE 5.13: PROJECTED DISTRIBUTION OF HOUSEHOLDS BY INCOME, BASELINE ESTIMATES, STEVENSON (2019 AND 2029)



SOURCE: Environics, JOHNSON ECONOMICS

DEMAND BY HOUSING TYPE

The following table summarizes our demand projections by housing type and ownership form over the next ten years, under a low-, baseline-, and high-growth scenario. We regard the baseline estimates to be the most likely. Projected demand is roughly evenly split between ownership and rental housing. In comparison, the most recent data from the Census Bureau indicates that 52% of the existing households are homeowners.

FIGURE 5.14: SUMMARY OF HOUSING DEMAND PROJECTIONS, STEVENSON (2019-29)

	LOW			BASELINE			HIGH		
	Owner	Renter	Total	Owner	Renter	Total	Owner	Renter	Total
Single-family detached	45	13	58	56	16	72	78	22	100
Single-family attached	6	7	13	7	9	16	10	12	22
Multi-family	1	31	32	2	39	41	2	54	56
Total	52	51	103	65	64	129	90	88	178

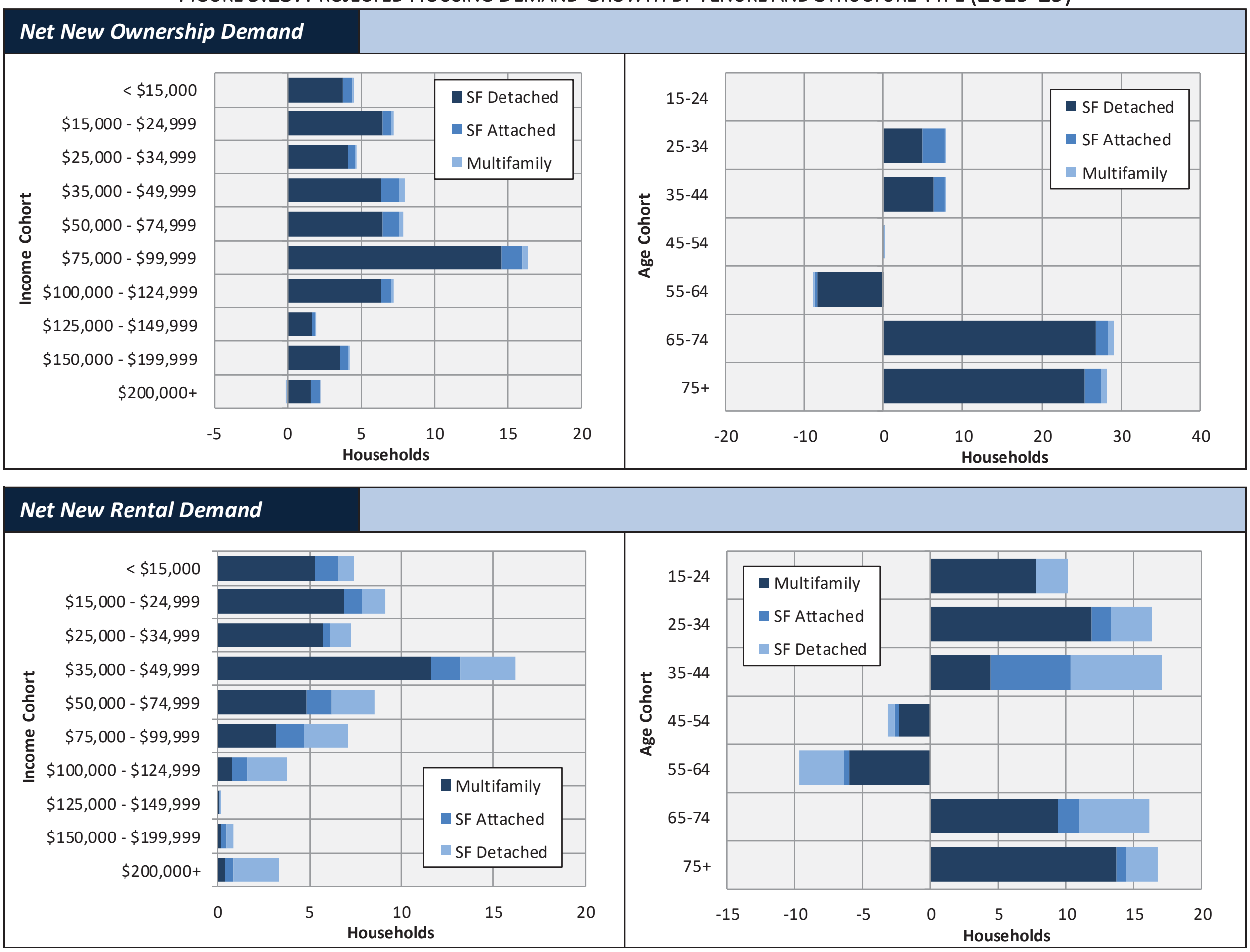
SOURCE: Environics and JOHNSON ECONOMICS

In the baseline scenario, we project net growth in demand for ownership homes of 65 units over the next ten years. The majority of this demand will be for detached single-family homes. Attached homes (townhomes, duplexes) are projected to see demand growth of seven units in the baseline scenario while the projected demand growth for condominium units (stacked flats) is negligible.

Growth in rental demand is expected to be dominated by apartment demand, representing roughly 40 units over the ten-year period in the baseline scenario. Rental townhomes are projected to see demand growth of around 10 units, while demand for detached rental units is projected to increase by 16. There is more flexibility between structure types in the rental market than the ownership market, and there is thus likely to be some flow between detached, attached, and multifamily segments depending on where there is available supply.

The following charts show how the demand growth is projected to be distributed across age and income categories. Demand for ownership homes is expected to be dominated by seniors, including seniors with low incomes that rely on equity and savings to purchase homes. Rental demand is expected to have a younger profile, dominated by low- and middle-income households.

FIGURE 5.15: PROJECTED HOUSING DEMAND GROWTH BY TENURE AND STRUCTURE TYPE (2019-29)



SOURCE: Environics and JOHNSON ECONOMICS

EXISTING PENT-UP DEMAND

In addition to the growth in demand projected over the coming ten years, Steven also exhibits signs of existing pent-up demand. This is unrealized demand from individuals and families who are not able to find suitable housing within the city at appropriate price or rent levels, and thus live outside the city or with family or friends. This demand is usually concentrated among low-income households, typically among the youngest and oldest segments. Our surveys of owners and managers of rental properties in Stevenson indicated considerable unmet demand currently.

Pent-up demand is very difficult to estimate quantitatively. However, based on our interviews and available data, we would expect the current shortage in Stevenson to be on the order of 50 units (mainly rental apartments), including demand for subsidized housing. We would expect pent-up demand for small single-occupant apartments at or slightly below current market rent levels to be in the range of 20-30 units, dominated by retired seniors and young workers in the service and retail sectors.

VI. Commercial Market Analysis

Market Trends

Though the commercial real estate market has recovered from the last downturn, it has not experienced the same growth as the residential market in this decade. One of the main headwinds facing this market is the shift in retail from brick-and-mortar stores to online shopping. The latter currently accounts for nearly 10% of all retail spending, and is increasing its market share by roughly one percentage point per year. Another trend, which has a longer history, is the shift from spending on goods to spending on services. The confluence of the two trends has led to weak real estate demand from physical goods retailers in recent years. This has hurt the larger retail centers in particular.

Downtown areas have fared relatively well in this decade, as these are dominated by service providers and eating/drinking places. On a net basis, eating and drinking places have accounted for nearly all the absorption of commercial space in smaller downtown areas in this decade. The best performing service providers have been personal care salons (hair, nails, spa, etc.), followed by health/leisure studios (fitness, dance, martial arts, etc.) and professional service offices (financial, legal, insurance, real estate). The best performing goods retailers have belonged to the everyday goods category (grocery, convenience, specialty food/drink, health/supplement), though wireless stores, certain hobby/pet stores, and antique shops are also increasing. The weakest categories have been banks, electronics stores, and print shops.

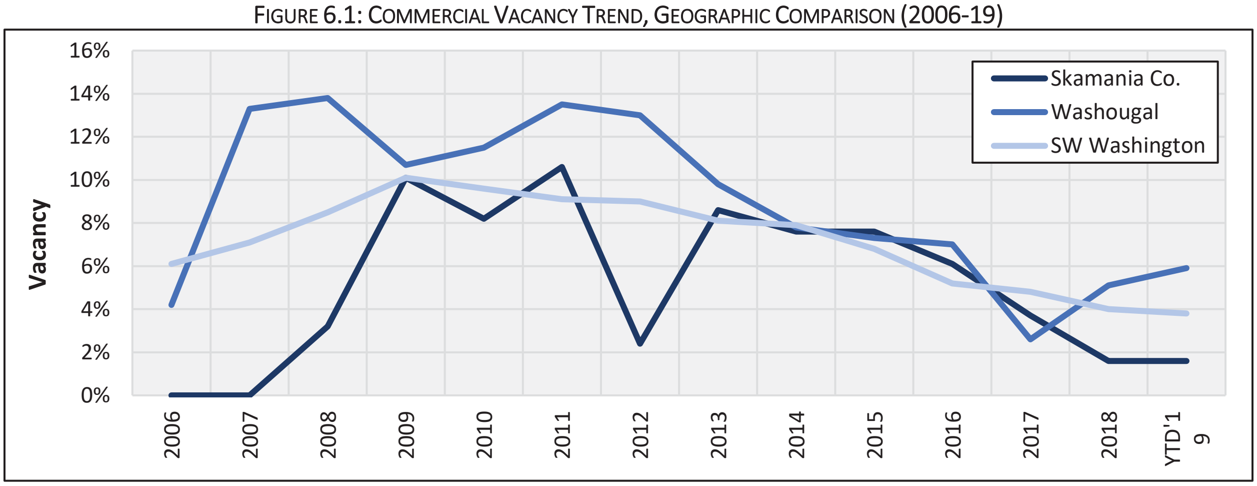
Available data on business entities and employment in Stevenson indicate that breweries, restaurants, and chiropractors/physical therapists have been the strongest commercial tenant categories in the Study Area in this decade. The steepest declines are seen among physicians and to a lesser extent professional service providers. Based on typical per-employee floor area factors, we estimate that job growth between 2010 and 2016 in Stevenson's commercial sector (+54 jobs) represented absorption of 11,000 square feet of space (see demand section).

Vacancy

Because of limited availability of commercial real estate market data in Stevenson, we rely on market data for Skamania County in this section, comparing the county to Washougal and Southwest Washington.

Vacancy rates for commercial space in Southwest Washington peaked at 10.0% in 2009, well above the 7.5% typically regarded to represent a healthy market. The rates have declined gradually since then, to a current level of 4.0%. Washougal was harder hit by the downturn, peaking at 13.5% vacancy in 2011, and currently sitting at 5.9%. Skamania County tracked the regional trend between 2013 and 2016, but have since seen steeper declines and currently sit at 1.6%. Stevenson likely has a higher vacancy rate currently, as there are several vacant spaces in Downtown.

Figure 6.1: Commercial Vacancy Trend, Geographic Comparison (2006-19)

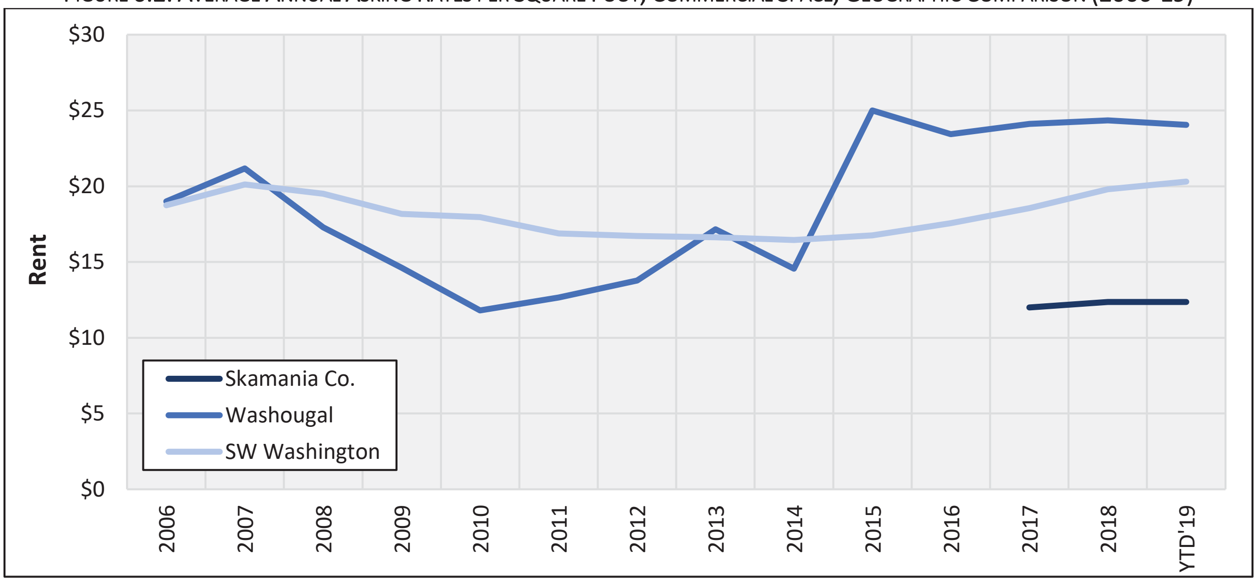


SOURCE: *CoStar*

RENTS

Asking rates have increased moderately on the regional level in this recovery, from an average of $16.45 (annual, PSF) in 2014 to $20.31 currently. Washougal has seen a stronger increase, though the limited amount of space available in this market makes the average asking rate sensitive to changes in the quality of available spaces. The same can be said about Skamania County, which has only been tracked by CoStar since 2017. The current average, $12.36 is well below the average in Washougal and Southwest Washington, and has only changed marginally since 2017.

FIGURE 6.2: AVERAGE ANNUAL ASKING RATES PER SQUARE FOOT, COMMERCIAL SPACE, GEOGRAPHIC COMPARISON (2006-19)



SOURCE: *CoStar*

ACHIEVABLE PRICING

The average lease rates presented on the previous page do not necessarily reflect achievable pricing for new structures. Existing commercial buildings in Skamania County (primarily in Downtown Stevenson) are of older vintage and do not offer the ceiling height or large storefront windows that modern downtown commercial buildings typically offer. Some of the spaces are also very deep relative to their frontage. These factors likely put downward pressure on lease rates in this market. In order to estimate achievable pricing for modern space, JOHNSON ECONOMICS surveyed new buildings in Washougal and Troutdale in addition to existing buildings in Downtown Stevenson. Washougal and Troutdale represent access to larger populations than Stevenson, and thus have potential for higher sales volumes. This should translate into higher lease rates in these markets. However, the downtown areas in these two cities are limited in size, as most of the residential demand is captured by nearby retail centers with stronger exposure to residential traffic. We therefore regard these downtowns to be appropriate reference points for Stevenson.

FIGURE 6.3: SURVEYED COMMERCIAL PROPERTIES

1) ASH BUILDING
74 SW Russel Ave, Stevenson, WA

Type:	Historic mixed-use
Year built:	1907
Commercial SF:	5,000
Available SF:	-
Lease type:	NNN
Annual rate:	$10.00

2) 66 RUSSELL

66 SW Russel Ave, Stevenson, WA

Type:	Historic mixed-use
Year built:	1910
Commercial SF:	1,325
Available SF:	-
Lease type:	NNN
Annual rate:	$8.40


3) AVERY BUILDING #1

198 SW 2nd St, Stevenson, WA

Type:	Historic mixed-use
Year built:	1912
Commercial SF:	1,800
Available SF:	-
Lease type:	NNN
Annual rate:	$11.00


4) AVERY BUILDING #2

198 SW 2nd St, Stevenson, WA

Type:	Historic mixed-use
Year built:	1912
Commercial SF:	800
Available SF:	-
Lease type:	NNN
Annual rate:	$15.00


5) TOWN SQUARE

1700 Main St, Washougal, WA

Type:	Commercial plaza
Year built:	2008
Commercial SF:	50,000
Available SF:	18,460
Lease type:	NNN
Annual rate:	$20.00


6) 1887 MAIN

1887 Main St, Washougal, WA

Type:	Urban office/retail
Year built:	2012
Commercial SF:	7,900
Available SF:	2,000
Lease type:	NNN
Annual rate:	$15-20 (est)


7) RIG-A-HUT

1911 Main St, Washougal, WA

Type:	Urban mixed-use
Year built:	2018
Commercial SF:	2,060
Available SF:	1,422
Lease type:	NNN
Annual rate:	$18-19



8) DISCOVERY BLOCK
200 E Columbia Hwy, Troutdale, OR

Type:	Office/retail
Year built:	2019
Commercial SF:	13,000
Available SF:	9,500
Lease type:	NNN
Annual rate:	$17-20

SOURCE: CoStar, brokers, property owners, Skamania County, Google Maps

The surveyed properties in Stevenson reflect commercial lease rates in the range of $8.40-15.00 per square foot (annual, NNN), with the highest rates observed in the Avery Building on 2nd Street. Newer spaces in Washougal are offered at rates in the $15-20 range on a triple-net (NNN) basis, depending on size and floor level. The lower end of the range is in line with rates at older commercial properties with inferior configuration and frontage. The Discovery Block in Troutdale has been advertised at $17-20, with the highest rates for ground-floor retail and the lowest for second-floor office space. In comparison, smaller ground-floor spaces in Downtown Troutdale in buildings built around 2000 are generally offered in the $18-20 range, while older buildings are typically priced a bit lower ($16-18).

Based on this survey and other surveys conducted by Johnson Economics in recent years, we would expect new buildings with modern commercial space in Stevenson to capture annual premiums of $3-5 per square foot to existing buildings. We would expect ground-floor retail space to achieve pricing in the $12-17 range, depending on size and location. 2nd Street is likely to capture the highest rates ($15-17), while rates will likely be somewhat lower on 1st Street and Russell Avenue ($13-15) and other streets in the Study Area ($12-14). Second-floor office rates are likely to represent discounts to these rates, though they will likely exhibit less variation.

FIGURE 6.4: ACHIEVABLE COMMERCIAL LEASE RATES (ANNUAL, PSF, NNN), STUDY AREA (2Q19)

	GROUND-FLOOR STOREFRONT			2ND-FLOOR OFFICE		
Location	Low		High	Low		High
2nd Street	$15.00	-	$17.00	$12.00	-	$15.00
1st Street/Russell Ave	$13.00	-	$15.00	$11.50	-	$13.50
Other streets	$12.00	-	$14.00	$11.00	-	$13.00

SOURCE: JOHNSON ECONOMICS

BUSINESS PROFILE AND NEEDS

EXISTING BUSINESS PROFILE

Downtown Stevenson has a profile typical of smaller business centers located along seasonal tourist routes. The majority of its businesses are oriented toward local, year-around residents, but it includes a relatively large number of eating and drinking places that rely at least in part on tourist support. Businesses focused exclusively on tourism (e.g., galleries, gift/souvenir shops, recreation equipment rentals, tour operators) are few, likely reflecting the difficulty of sustaining such businesses in the off-season.

The following table provides an overview of commercial tenant categories present in Stevenson as of 2016, which is the most recent year for which this data is available. The data is derived from a Census Bureau dataset that tallies establishments by industry and size (number of employees) on the zip code level. We regard the data to be representative for the Study Area as nearly all commercial activity in zip code 98648 is located within the Study Area. As can be seen from the table, roughly 40% the businesses in this area have fewer than five employees, and nearly 70% have fewer than 10 employees.

FIGURE 6.5: COMMERCIAL BUSINESSES BY TENANT CATEGORIES, ZIP CODE 98648 (2016)

BUSINESS		ESTABLISHMENTs BY SIZE (EMPLOYEE COUNT)					
Tenant Category	**Business Type**	**1-4**	**5-9**	**10-19**	**20-49**	**50-99**	**Total**
Auto parts	Goods retailer		1				1
Clothing	Goods retailer	1					1
Convenience	Goods retailer	1					1
Gas station	Goods retailer	1	1		1		3
Grocery	Goods retailer					1	1
Hardware/materials/garden	Goods retailer		1				1
Pharmacy	Goods retailer		1				1
Used goods	Goods retailer	1					1
Bank	Service provider	1	2				3
Attorney	Service provider	1					1
Chiropractor/physical therapy	Service provider	1	2				3
Dentist	Service provider		1				1
Insurance	Service provider	1					1
Optic/vision	Service provider	1					1
Physician/clinic	Service provider			1			1
Real estate agent	Service provider	1					1
Vet/animal clinic	Service provider	1					1
Phone/internet	Service provider	1					1
Bar/pub	Eating/drinking place	1					1
Brewery/winery/distillery	Eating/drinking place				1		1
Coffee/juice/ice cream	Eating/drinking place	1	1				2
Full-service restaurant	Eating/drinking place			3	1		4
Limited-service restaurant	Eating/drinking place	1	1	1			3
Total		**15**	**11**	**5**	**3**	**1**	**38**

SOURCE: U.S. Census Bureau JOHNSON ECONOMICS

Certain resident-oriented business that are often found in small downtown areas are missing in this list. These include personal care salons (hair/nail/spa), fitness/leisure options (e.g., spinning, dance/yoga, and martial arts studios), certain professional services (CPAs, financial advisors), wireless stores, and health/supplement stores. Some of these categories are currently represented in Stevenson.

BUSINESS NEEDS: RESIDENT-ORIENTED

Businesses oriented toward residents generally benefit from being located near employment centers or along commute paths. Downtown Stevenson is well positioned in this respect, as it is itself an employment center, and it is located on Highway 14, easily accessible to most commuters. It does not have to compete against nearby retail centers that provide stronger access to commuters.

Resident-oriented businesses also benefit from convenient and ample parking. Businesses that rely on frequent, routine visits (e.g., grocery stores) have the strongest needs in this respect. Like most other downtown areas, Stevenson has limited parking, something that becomes a particular challenge during the tourist season. In downtown areas where heavy seasonal tourist traffic is an issue, resident-oriented businesses generally benefit from locations that are off the main tourist routes and that are close to other resident-oriented businesses, allowing for available parking as well as synergies in customer traffic. This can detract from growth and densification of the downtown core. However, the lack of nearby suburban retail centers prevents this dynamic in Downtown Stevenson. The existing location of key public services in Downtown adds to the gravitational force on resident-oriented businesses.

In terms of floor area needs, resident-oriented businesses vary considerably. Service providers generally occupy the smallest spaces, down to around 500 square feet. However, certain service categories – like medical clinics – can occupy large spaces, though usually less than 5,000 square feet in smaller towns like Stevenson. Eating and drinking places typically occupy 1,000-4,000 square feet in smaller towns, though coffee shops, sandwich bars, and ice cream parlors can occupy smaller spaces. Goods retailers can range from 1,000 square feet for certain boutique stores to around 20,000 square feet for grocery and hardware stores, though these larger building formats are usually located outside the downtown core.

BUSINESS NEEDS: TOURIST-ORIENTED

Tourist-oriented businesses benefit from attractive, cohesive, and walkable environments that in themselves provide an experience for visitors. Streets that are dense with active, varied uses and engaging storefronts are particularly appealing to visitors. Buildings with large storefront windows enhance the visitor experience by facilitating two-way engagement between indoor and outdoor activity. Vacant lots, parking lots, blighted structures, and structures with limited window area detract from the visitor experience.

In Stevenson, 2nd Street provides the most vital setting in this regard, though it does not yet have the scale, cohesion, or vitality necessary to make it a primary destination or a must stop for tourists. This makes it more dependent on capturing pass-through traffic, something that requires exposure (location on 2nd or 1st Street is an advantage) and convenient parking. As it grows into more of a destination, convenient parking will become less of an issue, as destination visitors typically plan to walk around and are willing to park further away.

Tourist-oriented businesses generally have more limited floor area needs than resident-oriented businesses. Galleries and boutique shops are often found in spaces with less than 1,000 square feet. The largest downtown spaces in tourist towns are often occupied by restaurants, up to around 5,000 square feet.

DEMAND

JOHNSON ECONOMICS projects future demand for commercial space by modeling changes in the underlying drivers of demand. The two main drivers in Stevenson are population growth and growth in visitor spending. We therefore focus on these two metrics when we project commercial space demand in the Study Area over the coming ten years. Our analysis begins with estimates of demand growth over the recent past, as indicated by local business and employment growth in industries that typically occupy commercial space. For this, we rely on the same dataset as used when profiling downtown businesses.

Demand for industrial space is not evaluated in this analysis. However, we regard industrial buildings of smaller scale to be compatible with other uses in certain parts of the Study Area, especially flex buildings with storefront windows and relatively large office/showroom components. We expect there will be demand for new industrial space in Stevenson over the coming ten years.

In the following, we convert counts of establishments by number of employees to employment estimates, and thereafter to space demand. For these conversions we rely on average employment and square-footage figures observed in analyses of employment and commercial space in smaller downtown areas in the Portland Metro Area. The estimates of historical space demand are used to calibrate estimates of future demand resulting from population growth and visitor spending.

The following table displays estimates of growth in commercial space demand within the Study Area over the 2010-16 period. Over this period, commercial employment increased by an estimated 54 jobs. Based on typical space utilization, this corresponds to an increase in space demand of 10,600 square feet over this period, or roughly 1,800 square feet (1.9%) per year.

The table identifies and totals tenant categories often found in downtown storefront retail space (identified by *). These categories have seen stronger growth than categories usually located in office buildings or suburban retail buildings, together representing estimated demand growth of 11,700 square feet over the period.

FIGURE 6.6: ESTIMATED CHANGE IN COMMERCIAL SPACE DEMAND, STUDY AREA (2010-16)

	ESTABLISHMENTS			EMPLOYMENT			SQUARE FEET			
	2010	2016	Change	2010	2016	Change	SF/emp	2010	2016	Change
Attorney	2	1	-1	4	2	-2	298	1,191	595	-595
Auto parts	1	1		7	7		576	4,031	4,031	0
Bank	2	3	1	14	15	1	277	3,876	4,153	277
Bar/pub *		1	1		3	3	328	0	984	984
Brewery/winery/distillery *	1	1		7	21	14	356	2,492	7,476	4,984
Chiropractor/physical therapy	1	3	2	7	16	9	352	2,466	5,636	3,170
Clothing *	1	1		2	2		355	710	710	0
Coffee/juice/ice cream *	2	2		4	9	5	114	458	1,030	572
Convenience *	1	1		2	2		399	798	798	0
CPA	2		-2	4		-4	175	698	0	-698
Dentist	1	1		7	7		267	1,870	1,870	0
Flowers *	1		-1	2		-2	624	1,248	0	-1,248
Full-service restaurant *	6	4	-2	58	73	15	235	13,607	17,126	3,519
Gas station	5	3	-2	28	35	7	210	5,880	7,350	1,470
Grocery	1	1		56	56		347	19,432	19,432	0
Hardware/materials/garden	1	1		7	7		989	6,923	6,923	0
Insurance	2	1	-1	4	2	-2	372	1,489	745	-745
Limited-service restaurant *	3	3		11	24	13	147	1,617	3,527	1,910
Motor vehicles	1		-1	2		-2	253	506	0	-506
Optic/vision	1	1		2	2		515	1,030	1,030	0
Pharmacy	1	1		7	7		945	6,618	6,618	0
Physician/clinic	4	1	-3	19	13	-6	672	12,765	8,734	-4,031
Real estate agent		1	1		2	2	287	0	574	574
Used goods *		1	1		3	3	334	0	1,003	1,003
Vet/animal clinic	1	1		2	2		156	312	312	0
Phone/internet *	1	1		2	2		310	620	620	0
Total	**42**	**35**	**-7**	**258**	**312**	**54**		**90,635**	**101,276**	**10,641**
** Typical downtown retail*	*16*	*15*	*-1*	*88*	*139*	*51*		*21,549*	*33,274*	*11,725*

SOURCE: U.S. Census Bureau, JOHNSON ECONOMICS

The first metric used to project demand over the 2019-2029 period is population growth. We use the county population, as Stevenson attracts resident demand for goods and services from the entire county. The county-wide population grew at an average annual rate of 0.6% over the 2010-16 period. Over the 2019-29 period, the population is projected by the State (OFM) to grow at an 0.8% annual rate, adding 1,040 residents. For low- and high-growth assumptions, we use 0.5% and 1.1%.

Visitor spending is also modeled on the county level. We exclude lodging spending in order to focus on goods and services. Over the 2010-16 period, the average annual increase in non-accommodation visitor spending was 3.1% (inflation-adjusted). Based on the longer-term trend, we expect more moderate growth over the coming ten years, at an average rate of 2.5% per year, with 2.0% and 3.3% assumed in our low and high estimates.

Averaging the annual growth rates for the two metrics over the 2010-16 period indicates a blended 1.9% growth rate. This is identical to our estimate of growth in commercial space demand over this period, which was derived from establishment and employment counts. We therefore average projected population growth and visitor spending growth over the 2019-29 period in order to project space demand over this period. This indicates a 1.7% annual growth rate in the baseline scenario, which translates into 19,200 square feet of space, or nearly 2,000 square feet per year on average. The low- and high-growth estimates indicate demand between 14,700 and 25,900 square feet.

FIGURE 6.7: PROJECTED CHANGE IN COMMERCIAL SPACE DEMAND, STUDY AREA (2019-29)

BASELINE	Skamania Population	Skamania Visitor Spending (2010 $M)	Average Growth Rate (AAGR)	Commercial Space Demand (SF)
2010	11,066	$42.10		90,635
2016	11,500	$50.52		101,276
2010-16	434	$8.42		10,641
AAGR	0.6%	3.1%	1.9%	1.9%
2019	12,017	$57.29		106,439
2029	13,057	$73.36		125,625
2019-29	1,040	$16.07		**19,187**
AAGR	0.8%	2.5%	1.7%	1.7%

LOW	Skamania Population	Skamania Visitor Spending (2010 $M)	Average Growth Rate (AAGR)	Commercial Space Demand (SF)
2019-29	615	$12.55		**14,103**
AAGR	0.5%	2.0%	1.3%	1.3%

HIGH	Skamania Population	Skamania Visitor Spending (2010 $M)	Average Growth Rate (AAGR)	Commercial Space Demand (SF)
2019-29	1,389	$21.98		**25,923**
AAGR	1.1%	3.3%	2.2%	2.2%

SOURCE: WA OFM, Dean Runyan Associates, WSDOT, JOHNSON ECONOMICS

Based on the historical growth over the 2010-16 period, we would expect a large share of the new demand to be driven by categories that often lease storefront space in downtown retail buildings. However, in light of regional trends in smaller downtown areas, we regard it unlikely that the downtown retail demand will be greater than the total commercial demand, as was the case between 2010 and 2016. For the sake of projections, we would assume that roughly two-thirds of the demand, or around 13,000 square feet in the baseline scenario will be for downtown retail space.

Note that the baseline estimates are largely based on historical trends, and thus do not take into account the potential catalytic impact of improvement projects that enhance the appeal of Stevenson as a tourist destination. We regard the proximity between Downtown and the Columbia River to represent strong potential for increased tourist-oriented commercial activity, and thus for space demand in the high end of the indicated range (25,900 SF).

Note also that whereas demand growth during this decade has largely been accommodated by space that was left vacant in the wake of the last downturn, growth over the coming decade will likely require construction of additional commercial space.

FIGURE 6.8: SUMMARY OF COMMERCIAL SPACE DEMAND (SF), STUDY AREA (2019-29)

	Low	Baseline	High
All Commercial	14,103	19,187	25,923
Downtown Retail	9,449	12,855	17,368

SOURCE: JOHNSON ECONOMICS

VII. HOSPITALITY MARKET ANALYSIS

MARKET TRENDS

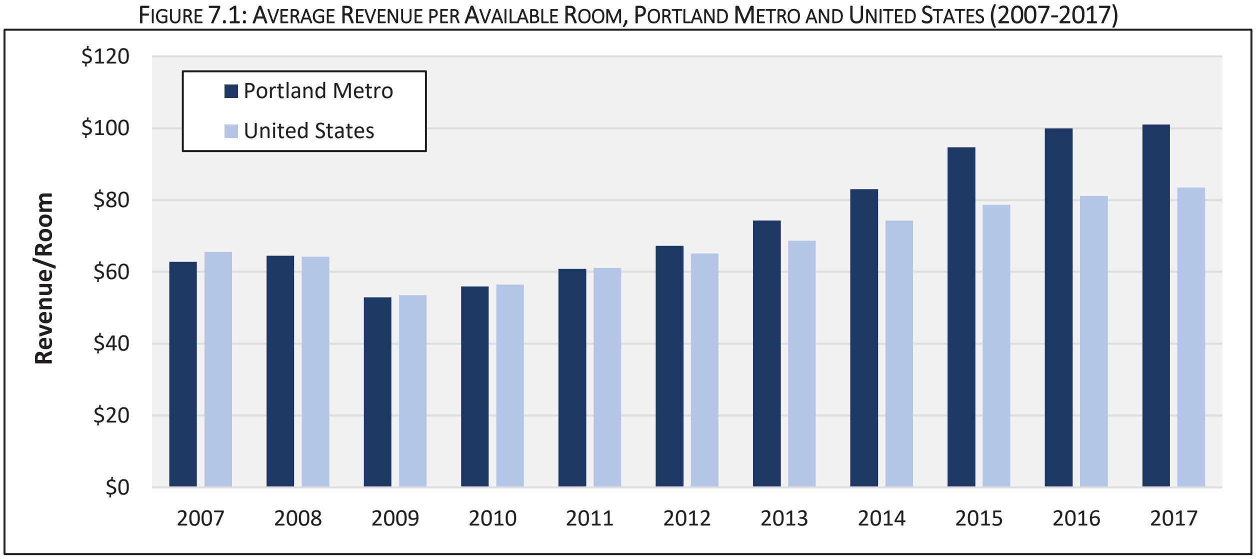
BROAD TRENDS

The hospitality sector has seen strong growth in the current decade, reflecting that the economic expansion has increased business activity as well as leisure travel. Corporate travel, conventions, relocations, and tourism are all contributing to the growth, leading to rising occupancy and room rates, as well as increased development activity.

The segment with the strongest momentum currently is select-service hotels, especially in larger urban centers. These hotels typically offer amenities like pool, spa, gym, business center, and a breakfast buffet, but not a full restaurant. This segment has taken market share from full-service hotels, particularly among business travelers, and to some extent also from limited-service hotels. However, limited-service hotels also exhibit strong growth, accounting for most of the new development outside large urban centers. Limited-service hotels continue to benefit from a shift in preferences among budget travelers, for whom motels used to be the standard option before falling out of favor over the past two decades.

On the national level, the occupancy rate in the hotel industry currently exceeds 66%, after climbing every year since 2009. The current rate is 11 percentage points higher than the 2009 bottom. 65% is generally considered a healthy level, and is often the assumption used for underwriting of new properties. The average room rate has increased 33% in this decade, from $98 to $130. Combing the two measures, the average revenue per available room has increased 53% since 2010, or 5.4% per year on average. The Portland Metro Area has seen stronger gains, with revenues increasing 8.8% per year on average in this decade.

FIGURE 7.1: AVERAGE REVENUE PER AVAILABLE ROOM, PORTLAND METRO AND UNITED STATES (2007-2017)

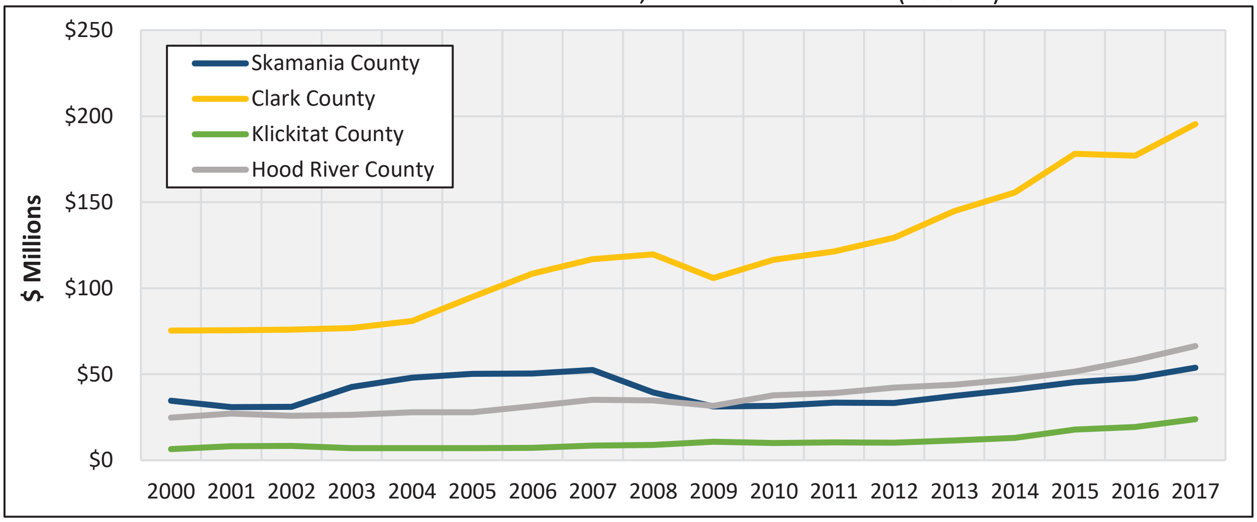


SOURCE: *Smith Travel Research, JOHNSON ECONOMICS*

SKAMANIA COUNTY HOTEL REVENUE

Total lodging revenue in Skamania County was $54 million as of 2017. This is only slightly higher than prior to the last recession. However, taking into account inflation over the period, the 2017 level represents a decline of 13% from the 2007 level. Though other markets in the Portland area and the Gorge also suffered declines during the downturn, most markets recovered within a few years. Reduced demand in the resort segment, which is a significant portion of Skamania County's hotel sector due to Skamania Lodge, might be a contributing factor to the relatively weak growth in the county. As of 2017, lodging spending in Skamania County is nearly on par with spending in Hood River County, and represents roughly twice the spending in Klickitat County.

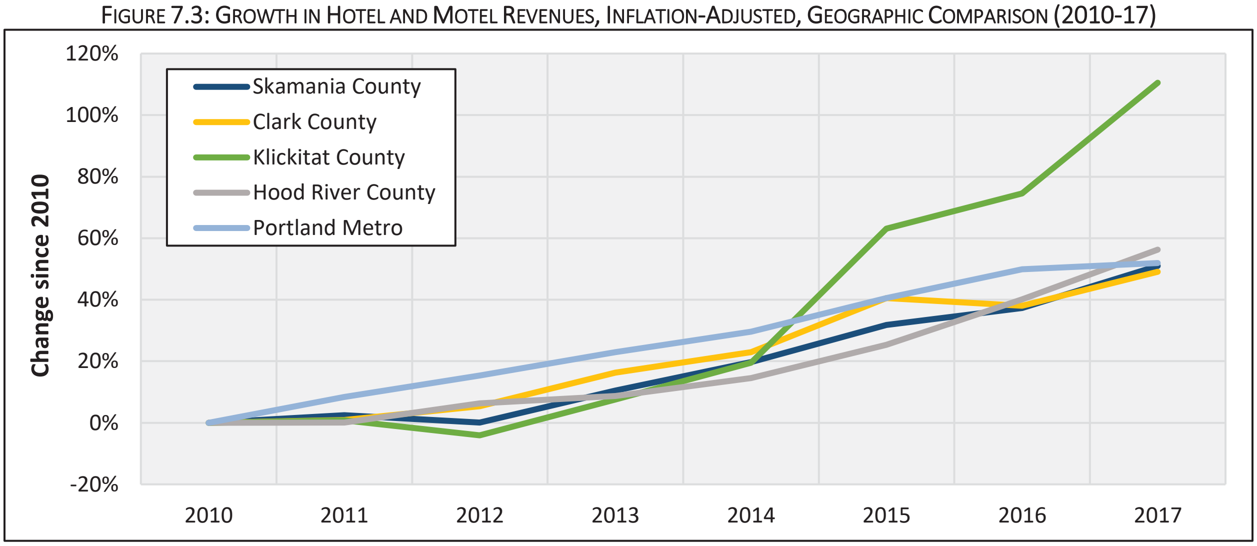
FIGURE 7.2: HOTEL AND MOTEL REVENUES, GEOGRAPHIC COMPARISON (2000-17)



SOURCE: *Dean Runyan Associates*

In this decade Skamania County has seen growth in lodging revenue on par with the other markets. Adjusted for inflation, Skamania's revenue was up 51% over the 2010-17 period, compared to 49% in Clark County, 56% in Hood River County, and 52% in the Portland Metro Area. Only Klickitat County stands out with growth of 111% over the period.

FIGURE 7.3: GROWTH IN HOTEL AND MOTEL REVENUES, INFLATION-ADJUSTED, GEOGRAPHIC COMPARISON (2010-17)



SOURCE: *Dean Runyan Associates*

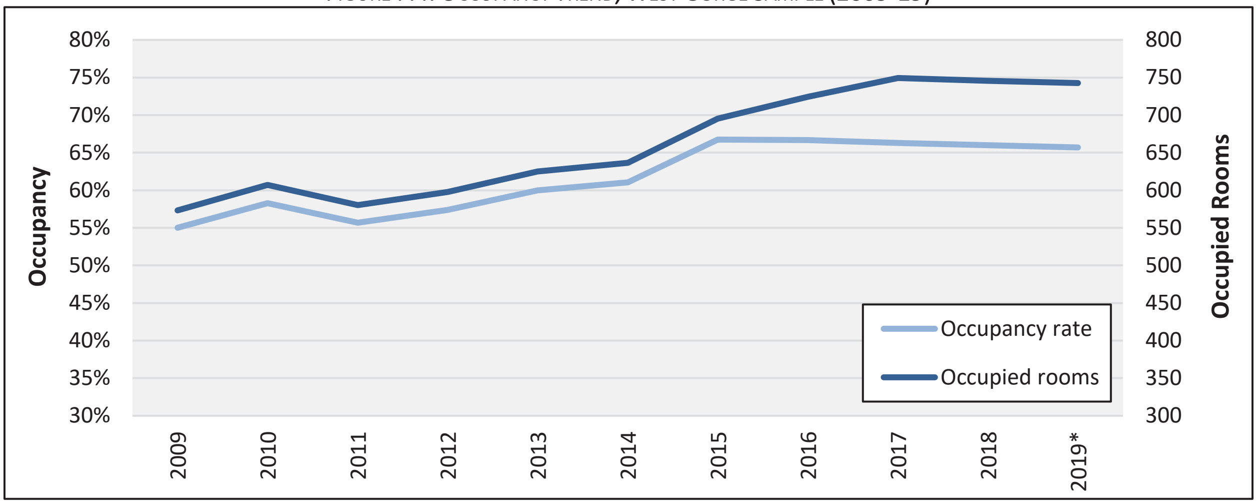
<u>HOTEL OCCUPANCY</u>

For trends in occupancy and room rates, we rely on data reported to Smith Travel Research from a sample of hotel properties in the western portion of the Columbia Gorge. These include two properties in Stevenson, one in Cascade Locks, one in Washougal, and two in Hood River. Most of these properties are profiled later in this section.

The sample currently has a collective occupancy rate of 66%, which is in line with the national average and slightly higher than the target level of most hotel managers. Below this level, room rates are often reduced, and above this level room rates are often increased. The occupancy level peaked in 2015 at 67% and has declined very gradually to the current level since then. At the 2009 bottom, the occupancy rate was 55%.

The following chart includes the occupancy trend as well as the estimated average number of rooms occupied in this market over the past ten years. The latter is estimated by applying the sample occupancy rate to the total number of rooms in this market, which extends from Washougal to Bingen on the Washington side and Cascade Locks to Hood River on the Oregon side. One hotel property has been built in this market over this period (Hampton Inn Hood River, 88 units, 2016). Total occupancy has been near 750 rooms in this market after this property opened.

FIGURE 7.4: OCCUPANCY TREND, WEST GORGE SAMPLE (2009-19)



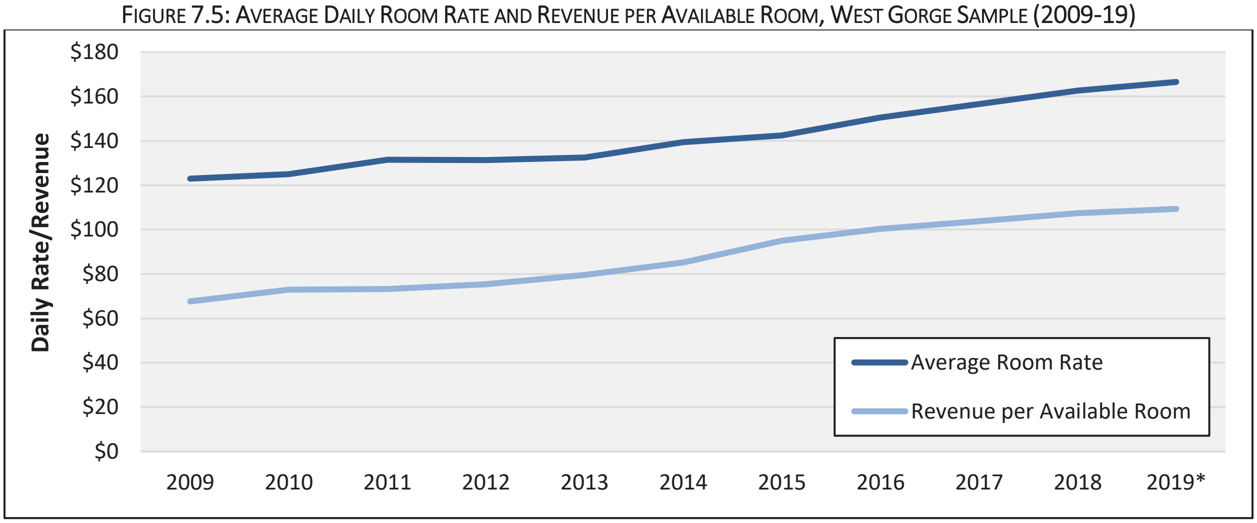
* 2019 level represents a full-year estimate based on the year-over-year change as of May 2019.

SOURCE: *Smith Travel Research, Johnson Economics*

ROOM RATES

Room rates in the Gorge have climbed every year over the past ten years. Across the sample, our full-year estimate for the average rate in 2019 is $167 per night, 2.4% above the 2018 average. The rate has increased 19.4% over the past five years, or 3.6% per year on average. The highest single-year increase was in 2016, at 5.7%, responding to the strong occupancy gain in the previous year. Revenue per available room, which takes into account occupancy, currently averages $109 per night, 1.9% above the 2018 level. The gain, which is in line with current inflation, indicates a well-balanced market.

FIGURE 7.5: AVERAGE DAILY ROOM RATE AND REVENUE PER AVAILABLE ROOM, WEST GORGE SAMPLE (2009-19)



* 2019 level represents a full-year estimate based on the year-over-year change as of May 2019.

SOURCE: *Smith Travel Research*

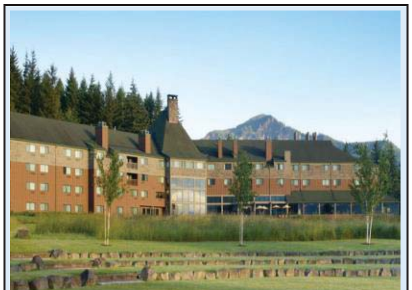
Achievable Pricing

In this analysis, we will focus on achievable pricing for limited-service hotels. This is the hospitality format that has exhibited the strongest demand growth outside large urban centers during this business cycle, and that has dominated new development in the region. Achievable pricing for boutique, select-service, and full-service hotels will represent premiums to limited-service pricing, depending on amenity and service level.

Limited-service hotels benefit from highway visibility and access, and are less dependent on the character of the immediate surroundings than resort hotels (which benefit from attractive natural settings) and boutique hotels (which benefit from vital downtown settings). They have extensive parking needs and thus tend to locate outside the most active urban areas where land costs are highest.

Stevenson does not currently have any limited-service hotels. The closest example is Best Western Plus in Cascade Locks, which offers views of the Columbia River. However, this property is in the I-84 corridor, and thus benefits from exposure to higher traffic volumes. The closest example along Highway 14 is Best Western Parkersville in Washougal, though this property captures demand from visitors to Camas and Washougal as well as pass-through travelers on Highway 14. Both properties are included in our survey. In order to provide reference points for pricing differentials between Stevenson and Cascade Locks, we have included one motel property from each of these cities. We have also included Skamania Lodge (resort hotel) and the Camas Hotel (boutique hotel) for additional reference points.

Figure 7.6: Surveyed Hospitality Properties



#1 Rodeway Inn		#2 Skamania Lodge		#3 Columbia Gorge Inn	
40 NE Second Street, Stevenson, WA		*1131 SW Skamania Lodge Way Stevenson, WA*		*404 Wa Na Pa Street Cascade Locks, OR*	
Year Open	1993	**Year Open**	1993	**Year Open**	1970
Type	Motel	**Type**	Resort Hotel	**Type**	Motel
Market Scale	Economy	**Market Scale**	Upscale	**Market Scale**	Economy
Customer Base	Tourist	**Customer Base**	Destination visitor	**Customer Base**	Tourist
Rooms	30	**Rooms**	258	**Rooms**	30
Standard Rates		**Standard Rates**		**Standard Rates**	
Low: $60	High: $80	Low: $240	High: $265	Low: $70	High: $90
On-site Amenities		**On-site Amenities**		**On-site Amenities**	
☑ Wifi		☑ Wifi		☑ Wifi	
☐ Business Center		☑ Business Center		☐ Business Center	
☐ Fitness Center		☑ Fitness Center		☐ Fitness Center	
☐ Indoor Pool		☑ Swimming Pool		☐ Indoor Pool	
☑ Free Breakfast		☐ Free Breakfast		☐ Free Breakfast	
☐ Restaurant		☑ Restaurant		☑ Restaurant	
☐ Sundry/Convenience Shop		☑ Sundry/Convenience Shop		☐ Sundry/Convenience Shop	
☑ Laundry/Dry Cleaning		☑ Laundry/Dry Cleaning		☐ Laundry/Dry Cleaning	


#4 Best Western Plus Columbia River	#5 Best Western Plus Parkersville	#6 Camas Hotel
735 Wa Na Pa Street, Cascade Locks, OR	*121 S 2nd Street Washougal, WA*	*405 NE 4th Ave, Camas, WA*
Year Open 1995	**Year Open** 2009	**Year Open** 1911
Type Limited Service Hotel	**Type** Limited Service Hotel	**Type** Boutique Hotel
Market Scale Midscale	**Market Scale** Midscale	**Market Scale** Midscale
Customer Base Business/Tourist	**Customer Base** Business/Tourist	**Customer Base** Tourist
Rooms 63	**Rooms** 79	**Rooms** 24
Standard Rates	**Standard Rates**	**Standard Rates**
Low: $130 High: $220	Low: $125 High: $162	Low: $100 High: $130
On-site Amenities	**On-site Amenities**	**On-site Amenities**
☑ Wifi	☑ Wifi	☑ Wifi
☑ Business Center	☑ Business Center	☐ Business Center
☑ Fitness Center	☑ Fitness Center	☐ Fitness Center
☑ Indoor Pool	☑ Indoor Pool	☐ Indoor Pool
☑ Free Breakfast	☑ Free Breakfast	☑ Free Breakfast
☐ Restaurant	☐ Restaurant	☑ Restaurant
☐ Sundry/Convenience Shop	☑ Sundry/Convenience Shop	☐ Sundry/Convenience Shop
☑ Laundry/Dry Cleaning	☑ Laundry/Dry Cleaning	☐ Laundry/Dry Cleaning

SOURCE: Smith Travel Research, property staff, property websites

The best indication of achievable pricing for a new limited -service hotel in Stevenson is comparable the Best Western Plus in Cascade Locks. A standard room at this property sells for $130 to $220 per night in the low and high season respectively. (The range is considerably wider than for the Best Western Plus in Washougal, which is less dependent on tourist demand and thus sees more stable occupancy throughout the year.) We would expect a discount in Stevenson relative to Cascade Locks, due to lower traffic volumes. Using the two motel properties as proxies, Stevenson appears to incur a discount in the 10-15% range. Applying this discount to the Best Western Plus in Cascade Locks indicates standard room rates in the $115-190 range. Adjusting for the age of the property, we would expect a new limited-service hotel with river views in Stevenson to achieve standard room rates in the $125-200 range in today's market, averaging roughly $155 throughout the year.

Demand

We model hospitality demand for the larger West Gorge market (Washougal to Bingen and Cascade Locks to Hood River). The estimates include all hotel types. Inflation-adjusted hotel/motel spending in this market has grown at an annual average rate of 1.9% since 1993, when the first data is available. Over the 2007-2017 period, which included a severe downturn, the spending level increased at a 2.4% average annual rate. Hotel occupancy (measured in rooms) has increased at a 2.6% average annual rate over the past ten years. Based on these figures, we will assume 2.4% average annual growth in this market over the coming ten years in our baseline projections. This is close to the assumption used for non-accommodation visitor spending in the projections for commercial space demand (2.5%). We assume 1.9% and 2.9% annual growth in the low- and high-growth scenarios.

With the assumed 2.4% baseline growth rate, hotel occupancy is expected to increase from the current level of around 740 rooms to around 940 rooms by 2029. In order to accommodate the 65% occupancy rate that represents a healthy market with available rooms during peak season, this requires an inventory of around 1,450 rooms in 2029. This represents an increase of around 320 rooms from the current level (155 over the first five years). In a low- and high-growth scenario, we estimate a need for an additional 250 to 390 rooms in this market (125-190 the first five years).

Stevenson's potential for capturing hotel room demand in the West Gorge market will depend on growth in its amenity base and the development of visitor attractions over the period. The demand will also depend on cruise ship traffic and schedules. Additional analysis might be needed to further assess the capacity for additional hotel rooms in Stevenson. However, assuming a capture rate in line with its current market share (25%) suggests a need for around 80 additional rooms over the next ten years in the baseline scenario, and 100 rooms in the high-growth scenario.

In light of these estimates, we would expect several hotel formats to be feasible in Stevenson over the next ten years. A typical limited-service roadside hotel includes around 75 rooms, though some have as few as 50. Boutique hotels typically have fewer than 50 rooms in smaller towns, while full-service restaurants usually have more than 50. A recent example of a smaller full-service hotel in a small town is McMenamins in Kalama, Washington (opened 2018), which has only 40 rooms in addition to a restaurant, bar, and lounge.

FIGURE 7.7: ESTIMATED CHANGE IN HOTEL ROOM DEMAND, STEVENSON (2019-29)

	LOW	BASELINE	HIGH
WEST COLUMBIA GORGE			
Room Supply, 2019	1,130	1,130	1,130
Average Occupied Rooms, 2019	742	742	742
Occupancy Rate, 2019	66%	66%	66%
Assumed Annual Demand Growth, 2019-29	1.9%	2.4%	2.9%
Average Occupied Rooms, 2029	896	941	988
Market-Balanced Occupancy	65%	65%	65%
Market-Balanced Room Supply 2029	1,378	1,447	1,519
Supported New Supply, 2019-29	**248**	**317**	**389**
STEVENSON			
Stevenson Market Share (2019)	25%	25%	25%
Stevenson Supported New Supply 2019-29	**63**	**81**	**99**

SOURCE: Smith Travel Research, Dean Runyan Associates, JOHNSON ECONOMICS