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MEMORANDUM

TO: Skagit County GMA Steering Committee

FROM: Robert A. Carmichael and Simi Jain, on behalf of Skagit Partners, LLC

DATE: October 12, 2016

SUBJECT: *Avalon Proposal*

Summary of Applications

To lay the groundwork for a new fully contained community at Avalon, Skagit Partners submitted three separate applications to Skagit County: (1) a Comprehensive Plan Map Amendment seeking a new designation for a future fully contained community; (2) Comprehensive Plan and Development Regulation text amendments to intended to allow for a new fully contained community at Avalon; and (3) proposed text amendments to the Countywide Planning Policies to allow for a new fully contained community. See Appendix 1. No current urban growth area boundaries are affected by any of the applications. Upon approval, Skagit Partners would be eligible to file a project application for a new fully contained community at Avalon.

Avalon

Avalon will be a vibrant new community, rich in amenities, which will attract new residents to Skagit County who would not otherwise come. The market exists for a first class development at Avalon of which all of Skagit County can be proud. Avalon will consist of 1244 acres of land, of which approximately 45% will be set aside for services including, a new school, new community center for indoor and outdoor recreational activities, lake and lake-front public park, and miles of trails, natural open space, and wildlife corridors. A centerpiece of the new community will be the existing award winning Avalon Links Golf Course. These amenities may be enjoyed by all County residents.

Based on experience with other similar scale developments in the Pacific Northwest, we expect Avalon will generate a high degree of interest in Skagit County and substantially contribute to new residential and commercial development in surrounding communities, including Mount Vernon and Sedro Woolley. Furthermore, Avalon will bring a plethora of new family wage jobs to the County in the construction industry, service industries, and provide a significant economic boost to surrounding communities. Finally, our market research indicates that the likely demographic for many if not most Avalon residents will be couples with financial resources, just beyond child rearing years. The demographic profile of new residents drawn to communities like Avalon, produce positive net revenue for the local tax base from additional sales tax generated by surrounding businesses, real estate excise taxes from home sales, permit fees, property taxes and the like.

Avalon has many unique locational advantages that support an economically viable new fully contained community, accessible to residents and those visiting the community, and one that can be developed efficiently. Located 30 minutes north of Everett, east of Old Highway 99, it is bordered by Kelleher Road to the south and F&S Grade Road to the east with convenient access from the I-5 corridor. Avalon is located almost entirely outside the County's Agricultural zone (with the exception of 7 acres) and is entirely outside the flood zone, something rare for undeveloped land in the County. Utilities such as water from the PUD, sewer and stormwater are in unusually close proximity, which should keep development costs relatively low.

The Avalon site is special for another reason. Its 1244 acres is controlled by a group of property owners with the shared vision to transform this property into a new jewel in Skagit County. It is a unique opportunity presented at this moment in time. It may not always be available, but it is now. Skagit Partners requests the opportunity for its vision to be reviewed and considered by the greater Skagit County community on its merits, after all relevant information is fully developed, so that an informed choice may be made.

Preliminary designation of Avalon as a new fully contained community is the first step and depends on the County's approval of the submitted applications for new development regulations, new Comprehensive Plan policies and new Countywide Planning Policies. Skagit Partners requests consideration of several amendments to the CPPs in order to support a community like Avalon. These amendments are listed at the end of this memo for your convenience and are also contained in the application materials.

Comment on Proposed Process per County 10/12/16 memo

Skagit Partners appreciates the County's development of a proposed process for the GMASC's consideration of its proposal and considering FCCs. Skagit Partners agrees that the GMASC will make a recommendation on the CPP amendments at a later time, in accordance with the process laid out by the County. The County also suggests that the GMASC answer the following question after a recommendation from the GMASC technical advisory committee:

> **Is the GMASC willing at this time to consider revisiting the 20-year population forecast and allocations, and the policy framework they are based on, to allow for fully contained communities in Skagit County?**

Respectfully, Skagit Partners believes a Technical Committee recommendation of the GMASC is premature at this time, and not necessary to answer the above preliminary question. In our view, this initial question may be answered without such a recommendation. There will be ample opportunity for more meaningful review and input by the Technical Committee following development of more information about the proposal and what the proposed County Wide Planning Policy changes would mean for Skagit County. We are prepared to fund completion of an environmental impact statement (EIS) in which these questions can be fully explored. Under the current proposed process for considering FCCs step 2, "The County would consult with the GMA Technical Committee regularly throughout the EIS process, including during development of the scope." Input through the EIS process will be the most informed.

APPENDIX 1

Proposed CPP Amendments

1. CPP 1.1 should be amended as follows (additions underlined):

> 1.1 Urban growth shall be allowed only within cities and towns, their designated UGAs and within any non-municipal urban growth areas already characterized by urban growth, identified in the County Comprehensive Plan with a Capital Facilities Plan meeting urban standards <u>or may be allowed outside of cities and towns in areas designated a fully contained community as defined by RCW 36.70A.350.</u>

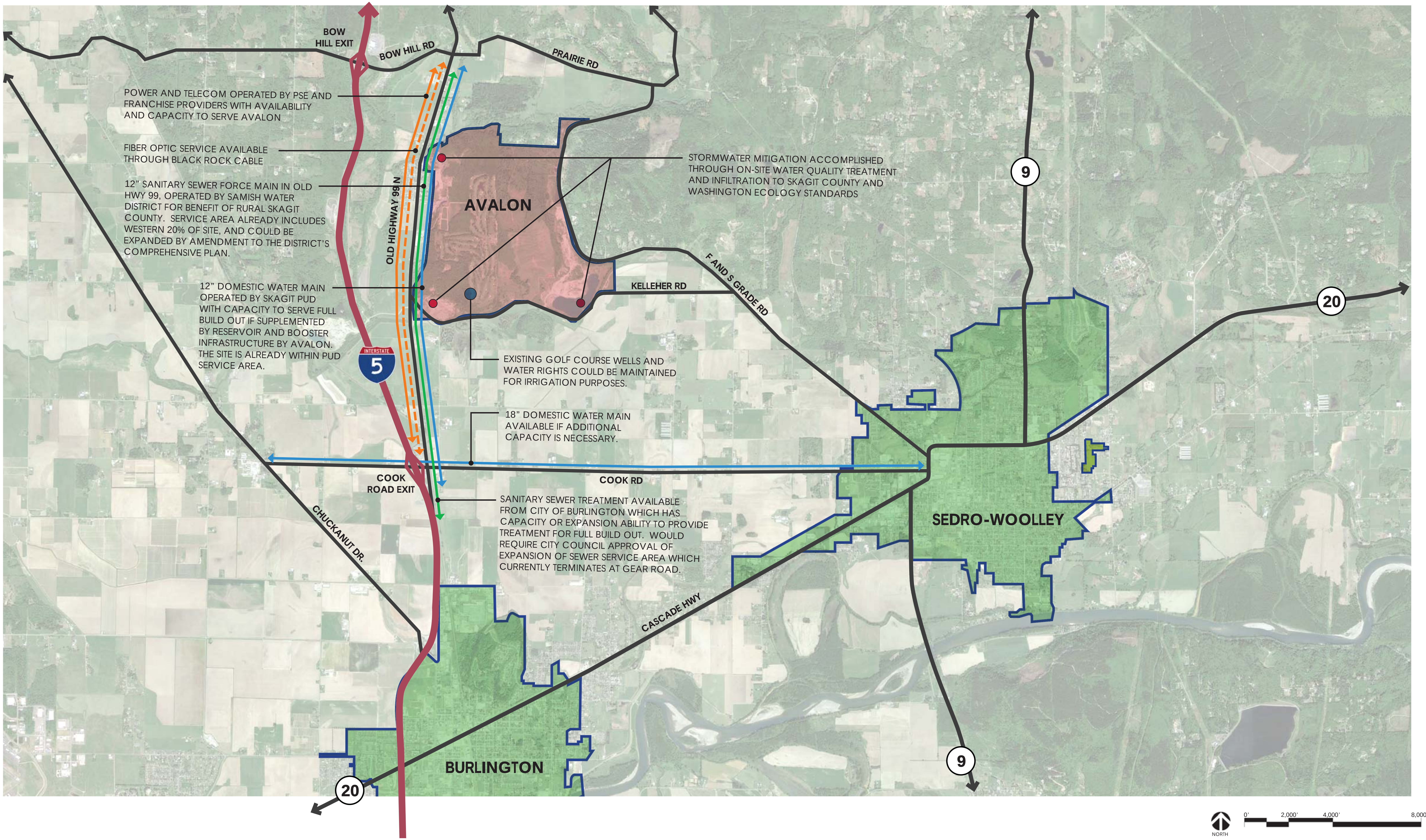
2. A new category under UGA would be added to the population allocation growth chart in Appendix A to the Countywide Planning Policies as follows:

> Population Reservation for Allocation to Avalon 8,500

Skagit Partner's application requests that Skagit County allocate an additional 8,500 people to its population allocation for Skagit County. This additional population represents an increase to the overall population figure planned for 2036 rather than a re-allocation of the current population figure for 2036. Currently, the County is utilizing a population figure of 155,452. Our research indicates that a new fully contained community will draw additional population that would not otherwise come to reside in Skagit County. Therefore, the proposed new fully contained community at Avalon is not within the forecasting parameters used to arrive at the 155,452 population number. An increase of 8,500 people would bring this population figure to 163,952.
The County must allocate (reserve) a portion of its twenty-year population projection for the new fully contained community. This "reserve" is referred to as a "new community reserve" under the GMA. RCW 36.70A.350 (2).

3. To account for how new fully contained communities draw additional residents, a new Section 5 is proposed to Appendix B of the Countywide Planning Policies:

> 5. **New Fully Contained Communities.** New fully contained communities are specially authorized non-municipal urban growth areas under RCW 36.70A.350, which have the potential to draw additional population that would not otherwise come to reside in Skagit County. A new fully contained community is not within the forecasting parameters described by the population allocation process outlined in Appendix B. Therefore, additional population may be allocated or reserved to a new fully contained community outside the procedural steps in Appendix B, upon recommendation of the GMASC and approval of the County Commissioners, so long as the additional population allocated to the new fully contained community does not result in Skagit County exceeding the high range of the most recently published official 20-year population projections for Skagit County from the OFM.



AVALON kpff

AVALON SITE CONTEXT & EXISTING UTILITIES

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1601 Fifth Avenue, Suite 1600 Seattle, WA 98101 206.622.5822 kpff.com

July 28, 2016

Ms. Simi Jain
Carmichael Clark, P.S.
1700 S Street
Bellingham, WA 98225

Subject: Avalon
Infrastructure Context

Dear Simi:

The purpose of this letter is to provide additional context and relative benefits of existing infrastructure already serving the area of the Avalon proposal.

In the last 40 years, large-scale planned communities in the Puget Sound region have typically been added on the eastern or western edges of the urban growth boundaries of King, Pierce, Snohomish, Thurston, and Kitsap counties. With some exceptions, major transportation and utility infrastructure corridors in the region generally orient to serve the north-to-south line of communities paralleling Interstate 5 and Puget Sound.

Prior to development, large-scale planned communities in the region, such as Redmond Ridge, Tehaleh, McCormick Woods, Snoqualmie Ridge, Oakpointe, and The Villages, have been outside of this central corridor, and as such, at the outset have lacked requisite major transportation and/or utility infrastructure. Planned communities have therefore had to plan, permit, and construct substantial infrastructure in order to provide basic services. This translates directly into higher home costs as the infrastructure investment is recovered by home sales.

The Avalon development is unique in its adjacency to Interstate 5 and to major sanitary sewer, domestic water, and franchise utility infrastructure with a capacity to serve new urban density development. It is also unique in that its water and sewer service providers, Skagit PUD, Samish Water District, and the City of Burlington, have substantial available conveyance capacity as well as resource and treatment capacity. Avalon will need to construct off-site infrastructure improvements, but at a much smaller scale and over much shorter distances than other typical large-scale planned communities, which will in turn translate to lower home prices.

For comparison, infrastructure cost considerations for typical large-scale planned communities such as those named above include:

Transportation
Large-scale planned communities typically must extend, widen, and/or construct new major arterials for miles from state and federal highways. The scope of these efforts involves substantial right-of-way acquisition, roadway grading and paving, stormwater mitigation, and traffic control systems such as roundabouts and new signalized intersections.

These transportation corridor improvements often involve environmental impacts to water courses, wetlands, and wildlife habitat which must be mitigated at additional cost. Based on historic cost data for existing communities, transportation improvement costs may be on the order of $75 to $150 million or more for a new community, depending on scope of development and location.

Sanitary Sewer

Large-scale planned communities typically cannot simply extend gravity sewer mains from nearby municipalities or utility districts, and when gravity sewer extension is possible the treatment capacity is usually not available in the municipal or district system being extended. Therefore, new planned communities are often constructing large-scale sewer lift station facilities and transmission networks as well as investing in sewer treatment upgrades at municipal or utility district treatment plants providing service. Alternatively, new communities may construct their own sewer treatment and disposal facilities on site. Based on historic data for existing communities, construction of major sewer pump and conveyance systems or construction of a new sewer treatment plant and disposal systems can cost $25 to $50 million or more, depending on the demand and location of the new community.

Domestic Water

New large-diameter water mains typically must be extended for miles from nearby utility districts or municipalities to serve new large-scale planned communities. Long-distance main extensions require additional reservoir and pressure boosting or pressure reduction facilities. In many cases, nearby municipal or district water providers do not have water rights or well supplies of sufficient capacity for the new community, and new water sources must be permitted and constructed. Based on historic data for existing communities, water service for a new planned community can cost $10 to $25 million or more, depending on demand and location of the community.

It is our opinion that given Avalon's location and proximity to utility district and municipal utility purveyors, the above infrastructure development costs will be less for Avalon. We hope that this provides some context for the relative benefits of the location of the Avalon proposal and the existing utility systems in place. If you have any questions, please feel free to call me at (206) 622-5822.

Sincerely,

Jeremy Febus, PE
Principal

JSF:kjl

1600263

Peterson Economics

MEMORANDUM REPORT

A Summary Review of Current and Anticipated Future Market and Financial Support for a New Fully Contained Community on the Avalon Parcel

Prepared for Vineyard Development Group

July 26, 2016

Project Number 490

11106 Marine Drive
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MEMORANDUM REPORT

A Summary Review of Current and Anticipated Future Market and Financial Support for a New Fully Contained Community on the Avalon Parcel

In 2008, Peterson Economics completed a detailed market and financial analysis evaluating potential for a new Fully Contained Community (FCC) on a 1,500-acre parcel surrounding the existing Avalon golf course in Skagit County, Washington. This analysis concluded that, due to the unique attributes of this site, strong demand could emerge for an attractive, amenitized community, oriented primarily toward moderately affluent retirement-oriented buyers relocating from the greater Seattle area for lifestyle and affordability reasons. This community would also attract a variety of local-area resident buyers, as well as retirement-oriented buyers and others from various locations around the U.S., along with some potential buyers from the Vancouver metro area.

In July 2016, Peterson Economics was retained to complete a targeted update of market and financial potential for this community, based on a combination of Peterson Economics' recent market research for other similar communities in the Pacific Northwest and the following targeted market research tasks:

1. Conference calls with the developer, land planner, and land use attorney discussing project status and development options;
2. A brief review of current land planning completed by GCH;
3. A review of our detailed 2008 market and financial analysis;
4. A snapshot update of current market conditions, including a review of the primary source market (the Seattle metro area) and local/regional residential prices and market trends; and
5. A review/evaluation of our 2008 recommendations, conclusions, and projections.

This targeted analysis was completed by Jon Peterson, President.

Remaining portions of this memorandum report include the following subsections:

1. A review of Peterson Economics' experience and qualifications;
2. A summary of targeted research completed for this assignment;
3. A summary of our revised conclusions, recommendations, and financial projections; and
4. Anticipated economic benefits and fiscal impacts.

PETERSON ECONOMICS' QUALIFICATIONS AND INDUSTRY EXPERIENCE

Peterson Economics is a real estate economics consulting firm which specializes in evaluating market and financial potential for recreation-oriented master-planned communities. Since inception in 2002, Peterson Economics has been retained to complete more than 400 market and financial analyses for proposed new resorts, second-home communities, retirement communities and other projects, representing well over $100 billion in proposed new development.

Peterson Economics specializes in evaluating market and financial potential for unique destination communities. The firm is also based in the Pacific Northwest, where we have completed more than 100 market and financial analyses for destination resorts, second-home communities, and other recreation-oriented master-planned communities (most likely more than all of our competitors combined).

Our relevant experience elsewhere in the Pacific Northwest is summarized geographically as follows:

- **San Juan Islands and North Puget Sound Region:** over the past 15 years, Peterson Economics has completed about 15 analyses in this region. In addition to our 2008 analysis for the subject community, these have included detailed market and financial analyses for a proposed new cottage resort community at the Point Roberts Marina, a proposed new resort community on Orcas Island (at Rosario), a new retirement-oriented community in Anacortes (San Juan Passage), a large-scale waterfront condo community in Everett, a second-home community near Stevens Pass, and a variety of smaller cottage resorts and other projects. In 2012, Peterson Economics also completed a detailed valuation of a 353-acre development parcel adjacent to Semiahmoo.
- **Central Puget Sound Region:** Peterson Economics has completed more than one dozen market and financial analyses for proposed new retirement communities and second-home communities around the greater Puget Sound region, including a large-scale retirement community at Tehaleh (Bonney Lake) and ten analyses evaluating potential for estate homesite communities on converted timber tracts owned by Green Diamond in Mason County.
- **Central Washington:** Peterson Economics completed a series of detailed market and financial analyses for Suncadia and Tumble Creek which largely determined the initial business plan for these communities. We have since completed in excess of 30 additional studies in Central Washington for Suncadia, Tumble Creek, and over 15 additional proposed new resort or retirement communities in the area, including ongoing work for a proposed new large-scale retirement community adjacent to Cle Elum.
- **Lake Chelan:** during the past 15 years, Peterson Economics has completed about 12 market and financial analyses for proposed new resorts and second-home communities around Lake Chelan and in surrounding areas (such as along the Columbia Valley and in the Methow Valley).
- **Columbia Gorge:** Peterson Economics has completed market and financial analyses for several proposed new resort communities, including Broughton Landing and a proposed new golf resort community near The Dalles. In 2010, Peterson Economics also served as an expert witness regarding Broughton Landing.
- **Central Oregon:** Peterson Economics has completed market and financial analyses for more than 15 proposed new destination resort communities, including the original

analyses for Brasada Ranch, Caldera Springs, and Pronghorn's fractional components. In early 2011, Peterson Economics also prepared a detailed Expert Report regarding Remington Ranch, a partially developed destination resort community in bankruptcy proceedings.

For additional information on our qualifications, please refer to our website at: www.petersoneconomics.com

TARGETED RESEARCH COMPLETED FOR THIS ASSIGNMENT

Prior to re-evaluating conclusions, recommendations, and financial projections for the subject parcel, Peterson Economics completed the following tasks:

1. Reviewed key market findings from our 2008 analysis, as well as more recent findings from analyses completed for several proposed new projects in Whatcom County.
2. Contacted and interviewed several top builders and real estate brokers in Skagit County, gathering information on homesite pricing, new home construction trends, existing home values and sales trends, changing buyer profiles, and other relevant factors (including site visits to several new retirement communities developed by Landed Gentry).
3. Briefly reviewed current and recent residential real estate market conditions and trends in the Central Puget Sound Region, focusing on emerging trends in King County and Snohomish County, where prices have skyrocketed due to supply constraints and strong demand growth.
4. Examined potential ongoing demand for retirement-oriented properties in a new, quality, recreation-oriented retirement community on the subject site, based on size and profile of the target population in the Seattle area (households age 45 to 64 with annual incomes over $100,000).

Key conclusions from this targeted research effort are summarized by topic below.

RESIDENTIAL MARKET CONDITIONS IN THE SKAGIT VALLEY

As was the case in virtually all markets in the U.S., residential market conditions in the Skagit Valley peaked prior to the Financial Crisis – due in large part to unsustainable easy credit -- and deteriorated badly between late 2008 and 2010. However, market conditions have improved notably over the past three years – and now appear to be on much more solid footing -- primarily due to the growing influx of retirement-oriented buyers moving up from the Central Puget Sound region.

In Burlington, median home sales prices peaked in the mid-2000s at roughly $250,000 to $260,000. By 2012, median home sales prices dropped as low as $158,000, due to the combination of weak demand and a market flooded by low-priced "distressed" properties (foreclosures, short sales, etc.). However, by 2013, market conditions began improving notably, as distressed industry was absorbed and demand continued to recover. By 2016, median home sales prices have returned to the range of $240,000 to $260,000 – almost identical to peak 2006/2007 values.

Very similar trends are reported for Sedro Woolley and Mount Vernon. In Sedro Woolley, median home sales prices peaked in 2008 around $207,000. By 2012, median home sales prices dropped as low as $156,000. However, by 2014, market conditions began improving notably, as distressed industry was absorbed and demand continued to recover. By June 2016, median home sales prices in Sedro Woolley have returned to about $206,000 – almost identical to peak 2008 values.

In Mount Vernon, median home sales prices peaked in mid-2007 around $253,000. By mid-2012, median home sales prices dropped as low as $202,000. However, by 2014, market conditions began improving notably, as distressed industry was absorbed and demand continued to recover. By June 2016, median home sales prices in Mount Vernon reached $263,000 – a notch above peak 2007 values.

Demand from working families may also grow faster in the future due to the planned development of a major new technology center in Sedro Woolley. This new project – referred to as the Center for Innovation and Technology – is a proposed as a new large-scale technology campus envisioned to create thousands of local jobs. This new tech center is a proposed joint venture between the City of Sedro Woolley, Skagit County, and the Port of Skagit; it would occupy the 225-acre Northern State campus. Its first tenant is expected to be Janicki Bioenergy. According to the City of Sedro Woolley website, this new tech center could support over 1,000 tech-related jobs within five years.

Although these trends are overwhelmingly positive and encouraging, relative to a massive market like the Seattle metro area, the central Skagit Valley market remains a fairly small, price sensitive market, with only modest demand for new homes, and relatively limited demand for homes priced above $350,000 – similar to the conclusion from our detailed 2008 analysis. For example:

- **Housing Starts:** housing starts in the region remain rather limited, with only about 100 to 200 new homes being built per year in Mount Vernon, and only a handful being completed in Burlington (three per year in recent years).
- **Higher-End Home Sales:** the local market is heavily dominated by homes in the $150,000 to $300,000 price range, with few sales occurring above $400,000.
- **Homesite Values:** standard homesites in local subdivisions are presently valued around $75,000 to $85,000, while homesites in communities with minor amenities or other advantages support values around $100,000. In comparison, similar homesites are valued around $150,000 in Anacortes or significantly higher (up to $500,000) in the Seattle metro area.

Based on these market conditions, it appears clear that Peterson Economics' conclusion from our 2008 analysis remains valid:

> *For the subject community to achieve substantial absorption and prices sufficiently high to justify development costs, it will need to be positioned as a destination-caliber community capable of attracting new buyers to the region, rather than simply competing with existing communities for market share.*

The local market is simply too small, with too few affluent households and too little growth, to support this type of community on its own. However, given the region's highly appealing characteristics and proximity to the Seattle metro area, a highly attractive new community on the site designed and positioned to appeal to young, active, moderately affluent retirement-oriented buyers and other "footloose" buyers from the Seattle metro area and elsewhere could enjoy strong market and financial support. As discussed in more detail at the conclusion of this section, it could also generate hundreds of new jobs for local-area residents and generate a very substantial fiscal surplus to help support local public schools, fire departments, and other public services.

Residential Market Conditions in the Bellingham Area

It is also worth noting residential market trends 20 to 30 minutes north of the subject site in the Bellingham area. As a result of tight inventory, job growth, and a strong influx of retirees moving into the region for lifestyle reasons, median home prices continue to escalate in Whatcom County. Illustrating this:

- The median price of homes sold in Whatcom County has soared from about $247,000 in mid-2012 to about $311,000 by mid-2016 – an increase of nearly 26 percent over the past four years.
- Current values are now well above the prior market peak of about $292,000 in mid-2007.

Although Whatcom County would not likely represent a major source market for the subject community, some buyers would likely come from Whatcom County due to proximity and the unique lifestyle/amenity package and neighborhood design of the subject community. Moreover, many of the retirement-oriented buyers currently flocking to Whatcom County from the Seattle area, California, and elsewhere would consider the subject community as an attractive nearby alternative.

Residential Market Conditions in the Central Puget Sound Region

Due to a strong economy, strong demand growth, severe limitations on new supply, and traffic congestion and geographic constraints limiting options to move further out, King County has seen a remarkable spike in real estate values over the past four years. Illustrating these trends, the median sales price of single-family homes (new and existing detached homes) sold in King County increased as follows:

- Early 2012 -- $308,000.
- March 2015 -- $440,000.
- December 2015 -- $508,000 (up 15 percent over the year).
- March 2016 -- $531,000 (up nearly 21 percent in 12 months).

This remarkable price escalation -- an increase of about 72 percent in four years -- has dramatically increased the cost of a typical home in King County, where even basic, dated, smaller homes can now sell for $600,000. March 2016 prices also set a new record -- eclipsing the prior record of $481,000 set in July 2007, just before the Great Recession and market crash of the late 2000s.

Although future prices will fluctuate with changes in the economy, interest rates, and other factors, the region's underlying dynamics – a vibrant economy combined with severe supply constraints – will likely continue to push prices higher and higher over the long-term. Upward pressure on prices also shows no signs of easing in the near future:

- The number of active listings of houses and condominiums — just 2,196 in early 2016 — hit the lowest monthly level since at least 1993, according to data from the Northwest Multiple Listing Service.

By March 2016, the number of listings fell to a 1.05 month supply.

Surrounding counties also saw robust gains:

- In Snohomish County, the median sales price rose from $358,000 in December 2015 to $385,000 in March 2016 (up 13 percent in one year).
- In Pierce County, the median sales price rose from $252,500 in December 2015 to $265,000 in March 2016 (up 8 percent in one year).
- In Kitsap County, the median sales price rose from $270,000 in December 2015 to $279,000 in March 2016 (up 16 percent in one year).

As illustrated by these figures, however, real estate prices are much lower in surrounding counties, due to employment concentrations, traffic congestion, and supply (with far more potential to continue developing new homesites in surrounding counties).

Within King County, the highest average prices are found on the Eastside (Bellevue, Kirkland, Issaquah, etc). In this area, the median price of single-family homes sold in December 2015 was $675,000, up six percent over the year. In the City of Seattle, the median price rose 20 percent over the year to $600,000. North King County saw its median price jump 25 percent over the year to $480,000. In Southwest King County, the median price rose 17 percent over the year to $305,000. The median price in Southeast King County was $349,950, a 12 percent gain.

According to Seattle-based Redfin, King and Snohomish counties in November 2015 had a mere 1.5 months of supply — the second lowest of 61 metros nationwide, just behind Oakland, California.

While ultra-hot market conditions and high prices in King County do not necessarily create an opportunity to market higher-priced homes to working families or others who must commute daily to jobs in the Seattle area, these market conditions do create an opportunity for "footloose" residents to sell high-priced existing homes and buy a much nicer, new home in a new community in Skagit County at a significantly lower price. Critically, the higher prices move in the Seattle area and the bigger the price differential becomes with Skagit County, the more attractive this move becomes for households who are no longer tied to daily commutes, especially those households whose kids have finished high school and left home, and who are now phasing into early retirement.

Surging market conditions in the Seattle area have already led to a surge in interest (and sales) for new communities in Mount Vernon, Anacortes, and elsewhere oriented toward Seattle-area retirement-oriented buyers. For example, Landed Gentry is reporting very strong sales at two new age-restricted communities in Mount Vernon (Woodside and Twin Brooks), with combined sales of about 30 to 40 new homes per year (or nearly one-third of all new homes being completed in Mount Vernon). These homes average about 1,800 square feet, with prices averaging about $365,000. Demand for new homes has also surged in Anacortes, where values are surging and new communities are quickly being sold out to affluent retirement-oriented buyers moving in from the Seattle area and elsewhere.

Other comments provided by regional builders include:

- Because of the Growth Management Act and land-use decisions by major timber companies, King County has largely run out of new development land, with the exception of a major new community in Black Diamond, which will likely come to market in 2017. However, this location will feature poor access and very long commutes. As a result, it will always be supply-constrained, with a direct impact on future prices.
- Real estate prices in the region have soared over the past two years due to lack of supply. Without major new parcels to develop, each uptick in demand leads to a major price increase, while also pushing some buyers further and further out into the suburbs.
- Previously, Tehaleh drew most buyers from Pierce County. However, in 2015, 43 percent of buyers came from King County, with many coming from the core Seattle/Bellevue area and often commuting daily 1.5 hours back to jobs in the urban core (by car or by car/light rail).
- As a result of the strong market, Tehaleh's lot prices have increased nearly 50 percent over the past two years, with nearly 300 homes per year being built and sold. Typical finished lots (55 to 60 feet wide) are now valued around $90,000. Excluding higher-value homes in Shea's community, the average home now sells for about $415,000.
- Prices are much higher in Shea's Trilogy community, which is oriented toward retirees. Lots are typically valued around $100,000 for a standard lot up to $154,000 for a lot bordering preserved open space (greenbelt). With upgrades, homes typically sell for $550,000 to $600,000, with about 60 to 90 homes sold per year (expected to average 90 per year going forward).
- Four years ago, it was difficult to attract builders to Tehaleh; now, the community is being developed at capacity, with 12 additional builders seeking land to develop.
- Snoqualmie Ridge sold off its remaining lots to Pulte in December 2010. Small homesites (45 to 50 feet wide) are now valued around $220,000 to $235,000.
- Infill builder homesites on the Sammamish Plateau now effectively cost up to $500,000 per unit, including costs of tearing down old homes and upgrading infrastructure, resulting in new homes priced at $1.2 million to $1.8 million (though some new homes are priced as low as $800,000 in less desirable areas).

Residential Market Conditions in the Vancouver Metro Area

Residential real estate prices have soared in the Vancouver metro area over the past several decades, primarily due to supply constraints and the massive influx of investment dollars and immigrants from China and other countries. Illustrating this:

- The median home price in the greater Vancouver area rose 26 percent to $1.27 million Canadian (about $960,000 U.S.) in January 2016 from a year earlier, according to the city's real-estate board.
- The median condo sales price rose 16 percent to $443,400 ($334,000 U.S.) by January 2016.

That compares with a 14 percent increase to a $1.1 million median in San Francisco and a median sales price of just over $500,000 in King County.

Prices are even more shocking when comparing similar properties. For example, a golf-front homesite in a golf community in British Columbia just across the border from Blaine might fetch $900,000 to $1 million – nearly ten times the value of a comparable golf-front homesite at Semiahmoo, an attractive resort-style community in Whatcom County, just south of the border.

Clearly, exceptionally high real estate values in the Vancouver metro area exert a positive impact on values and market conditions in Whatcom County, and to a lesser extent in Skagit County. For example, retirement-oriented buyers and others who have the option of living in the United States (citizens, spouses of citizens, etc.) will view Skagit and Whatcom counties as much more affordable options to the Lower Mainland of British Columbia.

Canadian citizens cannot live in the U.S. full-time without working through U.S. immigration requirements, but they have a long history of buying low-cost second homes in waterfront and water-view settings Whatcom County. In fact, the vast majority of housing units in Point Roberts are second-home properties owned by Canadians, and a significant portion of full-time properties are also occupied by Canadians. However, as is typical, Canadian demand for products in Point Roberts is heavily concentrated for built products in the $200,000 to $400,000 price range. Moreover, cross-border second-home demand is also heavily dependent on exchange rates, as illustrated by current challenges closing on initial reservations at Seabright Cottages (a new high-end waterfront cottage development in Point Roberts).

In 2013, Peterson Economics completed a detailed analysis of cross-border demand into the most notable destinations in Whatcom County (including Point Roberts, Semiahmoo, Birch Bay, Homestead, Glacier, and Wildwood). **Table 1** summarizes cross-border demand for these communities in 2011, when the Canadian dollar was exceptionally strong.

Table 1: 2011 Real Estate Purchases in Top Second-Home / Retirement Destination Areas in Whatcom County by Vancouver-Area Residents

	Unit Sales to Vancouver-Area Buyers	% of Sales to Vancouver-Area Buyers
Birch Point and Birch Bay	100	42%
Point Roberts	95	95%
Sandy Point Shores	12	70%
Homestead	3 to 5	5% to 10%
Glacier	20 to 25	80%
Sudden Valley	25 to 30	20% to 25%
Wildwood Resort	7	100%
Total	262 to 274	48%

Source: regional real estate brokers and Peterson Economics.

This analysis illustrates that when the Canadian dollar soars in strength and the Canadian economy is strong, Canadian second-home demand is substantial, accounting for the majority of sales in many of these destinations. However, when the Canadian economy softens and the Canadian dollar slumps (as in 2014 through the present), Canadian cross-border second-home demand largely evaporates, with far more wishing to sell U.S. properties than buy new ones.

However, prior studies also found limited (if any) demand from Vancouver-area buyers further south (in Skagit County), and very little demand for properties lacking prime water frontage (on Lake Whatcom or attractive saltwater), with the exception of ski-oriented cabins in Glacier. Thus, Peterson Economics views Vancouver demand as a minor secondary market, which could provide a modest bump to absorption. However, a significant change in immigration rules (allowing Canadians to live full-time across the border in the U.S.) or other significant changes, such as a stronger Canadian dollar, could lead to a massive boost in Canadian demand.

Demand Analysis

Based on our industry experience and the targeted research outlined above, the subject community offers potential to attract and serve a variety of buyers. These could include:

1. Moderately affluent local families seeking a new home, many of whom would commute back to jobs in the Seattle area;
2. Moderately affluent local pre-retirees and retirement-oriented buyers;
3. Young buyers pushed further out of the Seattle metro area in search of an affordable home;
4. More established families or empty nesters who may be phasing into retirement, with many able to work from home at least some days;
5. Young, active retirees; and

6. Seasonal resident retirees.

On the one hand, the subject community could maximize its potential absorption by appealing to all these buyer types. On the other hand, younger full-time resident buyers have very different needs, preferences, and sensitivities than other buyer types, and they may diminish the appeal of the community to other buyers. For example, younger buyers would view the travel time to the Seattle area as a significant hurdle, given the need to commute regularly to jobs in the Seattle area. They would also place less value on major amenities, and be less capable of paying premium prices for homes and paying ongoing costs of maintaining amenities and other services. Many retirement-oriented buyers also prefer communities with fewer young families.

In contrast, older, more established buyers appear far more suitable for the subject community. In particular, Peterson Economics recommends focusing on buyers who are roughly 45 to 64 years old and own their own homes in King County, where values are highest. Most top prospects would be empty nesters (or without kids). They may be only moderately affluent (typical household incomes of $100,000 to $200,000) and live in fairly typical suburban homes around King County, but these homes recently jumped in value from $400,000 or $500,000 to $700,000 or $850,000. They may now be able to retire or phase into retirement, working from home part-time or commuting several days per week. They may have only moderate net worth, but with substantial home equity combined with pensions, social security, and/or part-time work, they may now be in a position to enjoy a very attractive "resort-style" lifestyle in a new community like the subject community, which could offer high quality amenities, extensive services and activities, attractive new cottage-style homes, and a location in an attractive "rural county" like Skagit County, but still close enough to Seattle to visit family and friends on a regular basis, or even commute to work on an occasional basis.

This "equation" has now become extremely attractive, because such households can sell a dated, modest home in King County for as much as $700,000 or $800,000, and move into a nicer, brand new home in the subject community for perhaps $350,000 to $550,000, using the difference to pay off a mortgage or fund a more luxurious retirement. The recent success of new communities like Twin Brooks and Woodside in Mount Vernon – which offer much more limited amenities and services than possible at the subject community – illustrates this growing demand.

In order to quantify the potential depth of this market, Peterson Economics completed the analysis summarized in **Tables 2** through **4**. Table 2 presents historical data (from 2002) merely illustrating the relationship between age and household income in the core "eastside" portion of King County. As illustrated, older households (age 45 to 54) are dramatically more affluent than younger households. Not only do they tend to own their own homes (now very valuable), they also have dramatically higher household incomes, with a 2002 median household income of $110,000 – nearly 40 percent higher than 25 to 34 year-old households in the same affluent region.

Table 3 presents more recent data on the total population of target households in King County. In 2014, King County was home to about 137,000 households headed by a person 45 to

Table 2

HOUSEHOLD INCOME DISTRIBUTION FOR OLDER HOUSEHOLDS IN THE CORE EASTSIDE MARKET
2002 FIGURES

	Ages 25 to 34	Ages 35 to 44	Ages 45 to 54	Total Ages 25 to 54
Less than $15,000	807	699	635	2,141
$15,000 to $24,999	1,027	939	583	2,549
$25,000 to $34,999	1,643	1,173	834	3,650
$35,000 to $49,999	3,334	2,662	2,047	8,043
$50,000 to $74,999	6,695	6,004	4,662	17,361
$75,000 to $99,999	6,241	6,907	5,458	18,606
$100,000 or more	9,640	18,319	19,911	47,870
Total	**29,387**	**36,703**	**34,130**	**100,220**
Median Household Income	$ 79,758	$ 99,881	$ 110,000	N.A.

[1]Includes I-90 corridor in greater Bellevue/Issaquah area.

[2]Includes only those individuals identifying themselves as belong to one race; therefore, numbers may not equal the total population.

[3]As Claritas reports figures in percentage terms, the actual number of households may not equal total.

[4]Estimate of median household income for households age 45-54 provided by Peterson Economics based on Claritas num

Source of Estimates: Claritas, Inc.

Table 3

INCOME DISTRIBUTION -- KING COUNTY HOUSEHOLDS -- 45 TO 64 YEAR-OLD
2014 CENSUS FIGURES -- ESTIMATE ANNUAL HOUSEHOLD INCOME

Total # of Householder 45 to 64 years:	308,140
Less than $10,000	16,138
$10,000 to $14,999	7,962
$15,000 to $19,999	7,896
$20,000 to $24,999	8,544
$25,000 to $29,999	7,979
$30,000 to $34,999	9,465
$35,000 to $39,999	8,614
$40,000 to $44,999	10,141
$45,000 to $49,999	10,034
$50,000 to $59,999	18,523
$60,000 to $74,999	26,739
$75,000 to $99,999	38,958
$100,000 to $124,999	35,741
$125,000 to $149,999	27,825
$150,000 to $199,999	33,566
$200,000 or more	40,015
Total HH's 45-64 Years Old Earning > $100k	137,147

Source: US Census Bureau

Table 4

POTENTIAL KING COUNTY RESIDENT DEMAND FOR NEW RETIREMENT PROPERTIES BY AGE OF HOUSEHOLD[1]

	Households by Age Range		
	45 to 54	**55 to 64**	**Total**
Total Residents in 2014 by Age	290,828	244,207	535,035
Estimated # of Households (headed by persons of this age)	168,109	141,160	309,269
Assumed % Electing to Move into a Master-Planned Community for Ret./Pre-ret. w/in 10 years	10%	10%	10%
Assumed # of Relevant Retirement Property HHs	16,811	14,116	30,927
Est. Average # of retirement properties/HH	1.20	1.20	
Assumed % of *Net* Demand for New Master-Planned Ret. Community Housing Captured / Year[2]	8%	8%	8%
Total Demand for New Master Planned Community Properties/Year by Income	1,614	1,355	2,969
Assumed % Desiring a Retirement-Oriented Community in Washington State	75%	75%	
Demand for Retirement-Oriented Communities in Washington State	1,210	1,016	2,227
Potential % Captured by Subject Community if Highly Amenitized & Competitively Priced:	5% to 10%	5% to 10%	
Potential Demand for Subject Community Total Units/Yr. from N. Seattle Metro Area:	60 to 120	51 to 102	111 to 122

[1]Includes households ranging in age from 45 to 64.

[2]Expressed in terms of net annual growth (subtracting out demand absorbed by resales as some older HH's move out or die).

Source: US Census Bureau and Peterson Economics.

64 years old, with over $100,000 in annual household income. About 70 percent of these households made $100,000 to $200,000 per year, and 30 percent made over $200,000 per year.

Table 4 presents a preliminary evaluation of total potential depth of demand for retirement-oriented purchases at the subject community from existing households in King County aged 45 to 64. As depicted, if ten percent of such households elect to eventually move into a master-planned community for retirement (or pre-retirement), and if 75 percent remain within Washington State, and if the subject community is able to capture five to ten percent of this demand, it could potentially sell about 111 to 222 new properties per year to this market segment alone. [Note: based on this estimated potential range, a reasonable target could be an average of perhaps 150 new sales per year to King County residents, though actual sales would vary year-by-year based on economic trends, residential market trends, and other external factors, as well as a variety of "internal" project factors, such as design, pricing, and marketing.]

While this type of analysis is admittedly imprecise, absorption could be boosted by also selling additional properties to retirees or pre-retirees from elsewhere in Washington (not just King County). Additional sales could come from empty nesters who are still working, retirees from California and elsewhere, and others, including a variety of buyers from the local market or the greater Vancouver area. These other sources could easily account for 40 to 60 additional sales per year within the subject community, bringing total project-wide absorption up to about 200 units per year.

Thus, this analysis provides a reasonable basis from which to project potential absorption, assuming an attractive amenity package, an appealing land plan, desirable units, competitive pricing, and skilled marketing.

PRELIMINARY CONCLUSIONS, RECOMMENDATIONS, AND FINANCIAL PROJECTIONS

Based on Peterson Economics' industry experience and market research, in 2008, Peterson Economics concluded that the highest and best use of the subject site is as a new, large-scale, master-planned community oriented primarily toward younger, active retirees. Based on our more recent industry experience and this targeted market update, this conclusion still appears valid. These prospective buyers offer significantly greater affluence than typical first-time home buyers, and they would not be tied as firmly to jobs in the Seattle metro area as middle-aged affluent buyers (who would be turned off by the prospect of an hour-long commute each day and growing traffic concerns getting in and out of Seattle).

However, Peterson Economics does not recommend strictly limiting this community to buyers over 55 years old (i.e., the age set by federal rules for age-restricted communities); Peterson Economics fears that the risks of such a designation (eliminating younger buyers, creating the image of an "old persons' community," etc.) would outweigh the advantages (creating a community entirely focused on older buyers). Instead, Peterson Economics recommends simply targeting an appropriate demographic profile, and designing the community to maximize its appeal to this demographic profile, but then allowing (and perhaps even "celebrating") a healthy mix of buyers and residents within the community, including some likeminded younger retirees or part-time retirees who may be in their 40s (as well as a few families and other younger buyers).

This location appears very appropriate for this type of amenity-rich, retirement-oriented community due to its:

1. Close proximity to quality medical care (a very important factor);
2. Close proximity to I-5 and easy access to and from the Seattle metro area (close enough to visit the grandkids and other family on a regular basis, but far enough away to achieve a degree of freedom and to enjoy a significant price-incentive to move out of an existing home and an existing neighborhood);
3. Scenic, peaceful, rural setting, with beautiful views of the Skagit Valley;
4. Excellent proximity to extensive shops and other key services in Burlington, Mount Vernon, and Sedro-Woolley;
5. Reasonable/acceptable climate; and
6. Excellent access to a wide range of appealing recreation destinations (to the south, west, north and east), ranging from mountains, to lakes, to islands, to attractive small towns (as well as Seattle and Vancouver).

In addition, the site already includes an attractive 27-hole golf course (which can be incorporated into the new development) and a very attractive new lake (which can be enlarged and improved). Thus, in many important ways, this site appears to meet the critical requirements for a successful new retirement-oriented community seeking to "offer a true resort lifestyle within driving distance of home" for pre-retirees and retirees from the Seattle area.

The majority of these future retirement-oriented buyers would likely derive from the northern half of the Seattle metro area. Most are likely still working, and many would likely continue to work part-time after moving into the new community, but few would commute back into the Seattle area on a regular basis after moving into the subject community. Most are likely moderately affluent, with typical net worth of about $500,000 to $2 million and typical household incomes (before retiring) of about $100,000 to $200,000 per year. Most likely live in moderately upscale suburban homes they have owned for ten years or more. These homes have typically appreciated smartly over the past decade, creating substantial home equity for most of these households. Typically, such households would be able to sell an older, moderately attractive home in the Seattle metro area suburbs for perhaps $500,000 to $800,000, and then move into a highly attractive, new home in the subject community for somewhat less (perhaps $100,000 to $150,000 less on average), while also enjoying the substantial benefits of the new community – extensive amenities, services, open space, and social interaction with other young, active retirees.

While retirement-oriented buyers from the northern Seattle metro area may account for perhaps three-quarters of future sales, substantial demand could also emerge from a variety of other sources, including:

1. Local retirement-oriented or amenity-oriented buyers from the Skagit Valley;
2. Retirement-oriented buyers from elsewhere in the Puget Sound region;

3. Retirement-oriented buyers from Bellingham; and
4. Retirement-oriented buyers from the rest of the U.S. (the Inland Northwest, California, etc.).

As noted, additional demand could come from the Vancouver metro area, as well as new residents moving into Skagit County to fill jobs at the Center for Innovation and Technology or elsewhere. Over time, the subject community could be developed to include several neighborhoods oriented toward local working families, with homes priced at somewhat lower levels, and with lower ongoing costs.

As discussed above and examined in detail in our 2008 analysis, Peterson Economics' demand analysis suggests ongoing demand from these combined sources could exceed demand for 200 new units per year in the subject community, if this new community is developed to include attractive amenities, such as:

1. The existing golf facility;
2. A large lake (expanding the existing lake if possible) and perhaps five smaller lakes (about ten acres each);
3. A major lakefront community center (featuring a restaurant, spa and fitness center, pools, and other amenities);
4. Extensive preserved open space (mature forests, landscaped parks, meadows, and other natural areas), all improved to include extensive trails and other amenities; and
5. A variety of other amenities and components (roads, trails, etc.).

If developed to include this amenity package, this community would be dramatically larger and more attractive than existing local-area retirement-oriented communities like Twin Brooks and Woodside, which are already enjoying strong support from the target market (despite limited amenities, limited size, limited marketing budgets, etc.). In fact, if developed as proposed, the subject community could become Washington State's premier retirement-oriented community, with far more open space and far more extensive amenities than top existing communities in King, Pierce and Thurston counties.

In our 2008 analysis, Peterson Economics budgeted unit development costs of $125 to $160 per square foot (including upgrades). This is significantly higher than current costs reported at communities like Twin Brooks and Woodside in Mount Vernon, or within major retirement-oriented communities like Trilogy at Tehaleh or Trilogy at Jubilee in Pierce and Thurston counties.

In our 2008 analysis, Peterson Economics recommended pricing the community at fairly compelling levels – more expensive than the less-upscale Trilogy at Jubilee in Lacey, but significantly less expensive than the centrally-situated Trilogy at Redmond Ridge in Redmond. Specifically, expressed in 2008 dollars, Peterson Economics recommended initially pricing most cottages at about $370,000 to $600,000 (or about $250 to $300 per square foot), but charging $600,000 to $950,000 for prime lakefront cottages (up to $380 per square foot). Also expressed in 2008 dollars, Peterson Economics recommended pricing golf-front and lake-view low-density condos at about $345,000 (or about $215 per square foot), while pricing low-density lakefront condos at about $535,000 (or about $300 per square foot). Finally, Peterson Economics recommended pricing 16,000 square foot custom homesites (in gated, wooded enclaves, typically fronting open space) at roughly $215,000 (expressed in 2008 dollars).

Based on these recommended price points in 2008, expressed in 2008 dollars, the vast majority of finished products within the subject community would have initially been found in the range of about $345,000 to $640,000. The average (mean) price would be roughly $488,000 (and the median would be somewhat lower). In comparison, the average price reported at Jubilee in 2008 was about $375,000 and the average at Trilogy at Redmond Ridge was about $670,000.

However, if completing a revised market and financial analysis based on 2016 market realities, it would likely be appropriate to contemplate:

1. A slight redesign of the proposed amenity package (possibly downsizing some amenities, along with other modifications);
2. A slight decrease in the assumed cost of building proposed condos, cottages, and homes (at least in some neighborhoods); and
3. An associated slight decrease in condo, cottage, and home pricing, increasing the number of units offered in the $300,000 to $450,000 price range to broaden market appeal.

[Note that all prices discussed above include upgrades and lot premiums; base prices would be significantly lower. However, Peterson Economics' 2008 analysis also assumed "real" appreciation of 1.0 percent per year for built product and 2.0 percent per year for lots, over and above the assumed rate of inflation (3.0 percent per year).]

Given these proposed price points, the proposed amenity package, the proposed land plan, and the subject site's attractive setting and location, Peterson Economics believes the subject community could enjoy strong market support going forward. Specifically, Peterson Economics believes ongoing absorption could average close to 200 developer-owned lots and units per year, similar to absorption levels achieved by other major retirement-oriented communities in the Puget Sound region prior to the Financial Crisis (and well below recent and current absorption reported at Tehaleh). With an average of perhaps 2.2 residents per unit (primarily couples, along with some families and other household types), the community's population could therefore increase by about 440 residents per year once closings begin.

As examined in detail in our 2008 analysis, this new community offers potential for a solid return on investment with absorption and pricing at these anticipated levels.

ANTICIPATED ECONOMIC BENEFITS AND FISCAL IMPACTS

Peterson Economics has completed detailed economic benefit and fiscal impact studies for dozens of proposed new large-scale master-planned communities, including detailed studies for Suncadia / Tumble Creek, several proposed new large-scale resort communities in Central

Oregon, a proposed new resort on the Oregon Coast, and several proposed new resort communities in British Columbia.

Critically, as proposed, the subject community would create massive benefits for the local economy, local-area businesses, and public service providers, because it would be positioned to draw in a large number of moderately affluent retirement-oriented buyers from the Seattle area, rather than simply compete for market share with existing communities in the Skagit Valley. These new residents would bring their money with them, spending money in local shops and restaurants, hiring staff to help maintain their homes, etc.

In general terms, developing the subject community as proposed would likely offer the following major local economic benefits and fiscal impacts (among many other benefits):

1. Including indirect and induced impacts, construction/development activity alone would likely generate between 600 and 1,000 new full-time-equivalent jobs in the Skagit Valley each year during the primary development period (a period of perhaps ten years).
2. Including indirect and induced impacts, permanent ongoing operations employment (community management, maintenance, sales and marketing, home maintenance, etc.) could easily total 100 to 200 ongoing full-time-equivalent jobs (after several years of development).
3. Expressed in 2016 dollars, net new property tax revenues could grow by roughly $1 million per year, reaching about $10 million per year after ten years of sales.

The demographic profile of anticipated buyers and proposed community design would also mean that this community would place unusually low burdens on most local service providers. For example, while a new starter-home community generates much less property tax revenue per home, it is typically filled with young families placing children in public schools (at an average cost to taxpayers of about $10,600 per child in the U.S.). [Note: in Skagit County, reported education costs per child are well above the national average.] However, if positioned and developed as proposed, the subject community would primarily attract affluent "empty nesters" from outside Skagit County. In similar communities, it is common for only one home in 20 or even one in 50 to include school-age children, meaning this community would generate massive new revenues for local public schools (growing to a level of millions of dollars per year), while creating very limited additional cost for these schools, thereby creating a massive fiscal surplus, which could be used to improve the quality of local schools and/or reduce the tax burden on all area residents. With property values well above average and impacts on service providers typically below average, it could also create modest fiscal surpluses for local fire departments, police departments, public works departments, and other service providers. Similar small towns with a long history of attracting affluent retirees (such as Bend, Oregon) provide a clear illustration of the benefits of developing similar communities and using property tax revenues to fund world-class parks, roads, schools, and other public services and facilities.