

EXECUTIVE SUMMARY

ECONOMIC BENEFIT STUDY

RIVER PARK SQUARE—TEN YEARS LATER

SPOKANE, WASHINGTON

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TABLE OF CONTENTS

	<u>Page #</u>
OVERVIEW	1
STUDY GOALS	1
METHODOLOGY AND LIMITATIONS	2
RPS PROJECT BENEFITS	2
One-Time Construction Jobs and Wages	3
Permanent Jobs and Wages	3
One-Time Tax Revenue During Construction	6
Annually Recurring Tax Revenues	7
2007 ACTUAL EXPERIENCE VERSUS THE “GO” FORECAST	8
Downtown Retail Jobs	8
Downtown Retail Wages	8
Downtown Retail Space	9
Downtown Retail Sales	10
“Go” Forecast Summary	10
2007 ACTUAL EXPERIENCE VERSUS THE “NO GO” DECISION	11
Downtown Retail Jobs	11
Downtown Retail Wages	11
Downtown Retail Space	13
Downtown Retail Sales	13
“No Go” Forecast Summary	14
DOWNTOWN RENAISSANCE	14

EXECUTIVE SUMMARY

RIVER PARK SQUARE TEN YEARS LATER

OVERVIEW

In 1995, Real Estate Economics was retained to analyze the economic implications of redeveloping River Park Square (RPS) as the heart of Spokane's retail core versus the "no go" alternative. At that time, a number of RPS and surrounding area retailers were shutting their doors or fleeing to suburban locations. The rapid demise of downtown Spokane as the retail focal point of the community was unmistakable.

In partial response, Real Estate Economics was commissioned in early 1995 to study the economic impacts of the River Park Square "go/no go" revitalization decision. Study findings showed major positive or negative economic impacts, dependent upon the RPS action alternative chosen. The substantial differences between this "go/no go" redevelopment decision were forecast. They were measured in terms of what was termed the "*big four*" variables: (1) jobs, (2) wages, (3) property values and (4) public revenue.

Ultimately, the "go" decision to proceed with development of River Park Square was made, despite major obstacles. Phase I construction, which included developing a new Nordstrom store, commenced in August of 1997. Immediately upon its completion in August of 1999 and the relocation of Nordstrom to its new building, Phase II construction began. The entire River Park Square project was completed in November 2000.

It is now approximately ten years later since River Park Square construction was in full swing. RPS has been operational for over seven years. Therefore, it is an appropriate time to assess the economic impacts of River Park Square on downtown Spokane businesses, employees, property owners, the City and the greater Spokane community.

STUDY GOALS

The overall goal of this study is to summarize the economic impacts of River Park Square ten years later. Impact findings corresponding to *three* redevelopment scenarios are presented.

- The economic benefits achieved during construction as well as from the current operations of River Park Square *only*.¹ These benefits are measured in terms of total jobs, corresponding wages and tax revenues to various government entities.
- The actual economic benefits of River Park Square to *all* downtown Spokane retail activity compared to our 1995 ten-year “go” forecast if redevelopment proceeded. This answers the forecast *accuracy* question.
- The current economic benefits of River Park Square on all downtown Spokane retailing compared to our 1995 ten-year forecast of the negative impacts if redevelopment had *not* proceeded.

Finally, a general summary is presented of the economic renaissance in downtown Spokane that has occurred since completion of River Park Square in 2000. It is suggested that major additions to the downtown are partially the result of the Downtown Spokane Partnership Business Improvement District efforts as well as the redevelopment of River Park Square.

METHODOLOGY AND LIMITATIONS

The methodology used in preparing this River Park Square economic benefit study incorporates myriad data sources, development of computer-based economic impact models incorporating downtown Spokane real estate statistical data and interviews with key persons considered knowledgeable in various aspects of the downtown Spokane real estate. The economic benefit findings of redeveloping River Park Square are only as valid as the underlying assumptions reflecting reasonable approximations of actual economic experience in the marketplace.²

RPS PROJECT ECONOMIC BENEFITS

This section shows the economic benefits achieved during construction as well as from the current operations of River Park Square only (see retail core map). It does not present the economic implications to other downtown Spokane retailing.³

¹ This initial discussion excludes the economic impacts of River Park Square on all of the remainder of downtown Spokane retailing operations.

² Although not guaranteed, the economic benefit estimates expressed in this document are intended to reflect market-driven information from sources deemed to be authoritative and reliable. Unless stated otherwise, all monetary figures are expressed in 2007 dollars. This study was prepared by Real Estate Economics of Sandpoint, Idaho.

³ The positive impacts affecting the performance of other downtown Spokane retailers because of the “go” River Park Square redevelopment decision are detailed in the next section.

Table 1 and the corresponding charts provide economic findings by showing estimated 2007 job, wage, and public tax revenue totals resulting *only* from River Park Square retailing activities. These economic benefits are measured on: (1) a one-time basis during construction, and (2) on an annually recurring basis resulting from ongoing retailing operations. Key findings are summarized below:

One-Time Construction Jobs and Wages

- During construction of River Park Square between 1997 and 2000, an estimated 484 one-time jobs were created. Of these, 182 were direct construction jobs and an additional 303 were indirectly created during this four year period. It is estimated that half of these indirect new jobs were created in the City of Spokane.
- The total wage income generated from the construction of River Park Square during the 1997–2000 construction period is estimated to total over \$66 million. Of this, over \$25 million was paid directly to on-site construction workers.
- An additional \$41 million in wage income was paid to indirect workers who benefited from the \$115 million River Park Square construction project. Over \$20 million of this indirect wage income is estimated to have accrued to associated workers employed at other firms located within the City of Spokane.

Permanent Jobs and Wages

- In 2007, River Park Square created an estimated 1,171 permanent jobs.⁴ This total includes 866 on-site jobs and the creation of 306 indirect jobs elsewhere.
- An estimated 153 of the indirect jobs are estimated to have been created within the City of Spokane.⁵

⁴ This job total represents full-time equivalent (FTE) jobs and includes both direct and indirect jobs. “Indirect jobs” is the measure of secondary job creation resulting (induced) from expenditures associated with direct job creation. Examples of the myriad types of indirect jobs include retailing, consumer services (dry cleaners, dentist, barber, etc.) and producer services (e.g. engineers, land planners, construction materials suppliers, corporate attorneys, etc.).

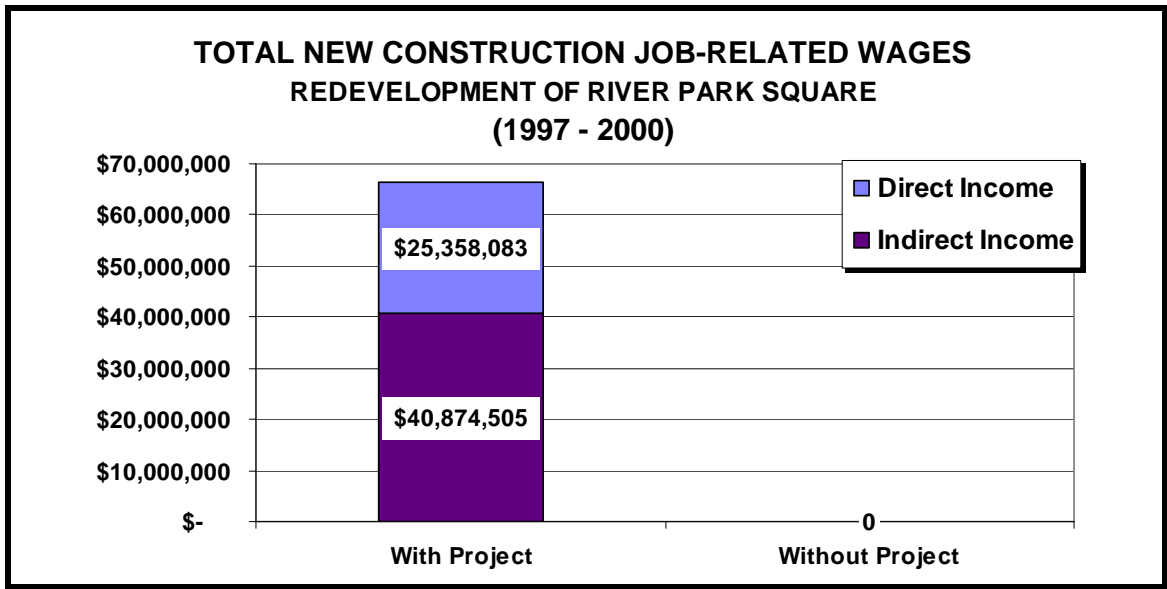
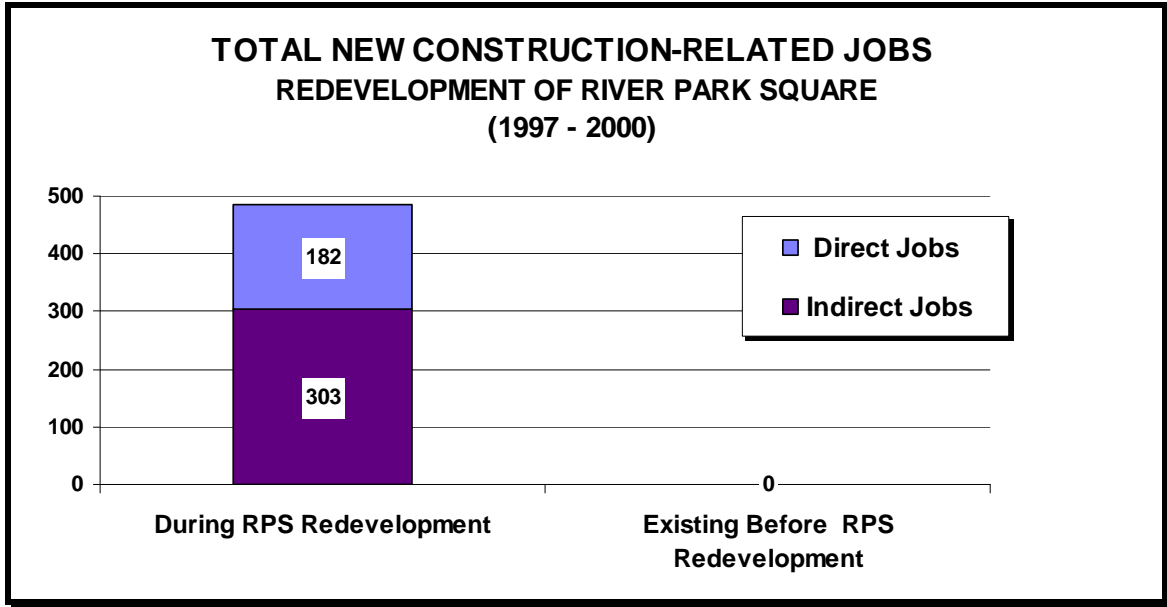
⁵ It is a reasonable assumption that 50 percent of the indirect jobs and corresponding income are captured within the City of Spokane. The remaining 50 percent of indirect jobs and related income are disseminated throughout the community, region and beyond.

**Table 1
RIVER PARK SQUARE ECONOMIC BENEFITS**

	One-time During RPS Construction 1997 - 2000	Recurring in 2007
TOTALS JOBS AND INCOME:		
Direct Jobs--Total	182	866
Indirect Jobs--Total	303	306
Total Jobs	484	1,171
Direct Income --Total	\$ 25,358,083	\$ 26,401,497
Indirect Income--Total	\$ 40,874,505	\$ 11,315,509
Total Income--Total	\$ 66,232,588	\$ 37,717,006
CITY OF SPOKANE JOBS AND INCOME:		
Direct Jobs--Spokane	182	866
Indirect Jobs--Spokane	151	153
Total Spokane Jobs	\$ 333	1,019
Direct Income--Spokane	\$ 25,358,083	\$ 26,401,497
Indirect Income--Spokane	\$ 20,437,253	\$ 5,657,754
Total Spokane Income	\$ 45,795,335	\$ 32,059,251
SELECTED TAX REVENUE TOTALS: (Property, sales, B&O and real estate)		
State Of Washington Taxes	\$ 7,681,809	\$ 5,935,872
Spokane County	\$ 157,064	\$ 253,455
School District 81	NA	\$ 644,063
City of Spokane Construction Tax Totals:	\$ 2,652,932	
Sales & Real Estate Transfer Taxes	\$ 1,020,030	
Permit Fees--RPS Vacation of Post Street	\$ 474,648	
Permit Fees--RPS Construction & TI's	\$ 1,158,254	
City of Spokane 2007 Recurring Tax Total:		\$ 1,503,993

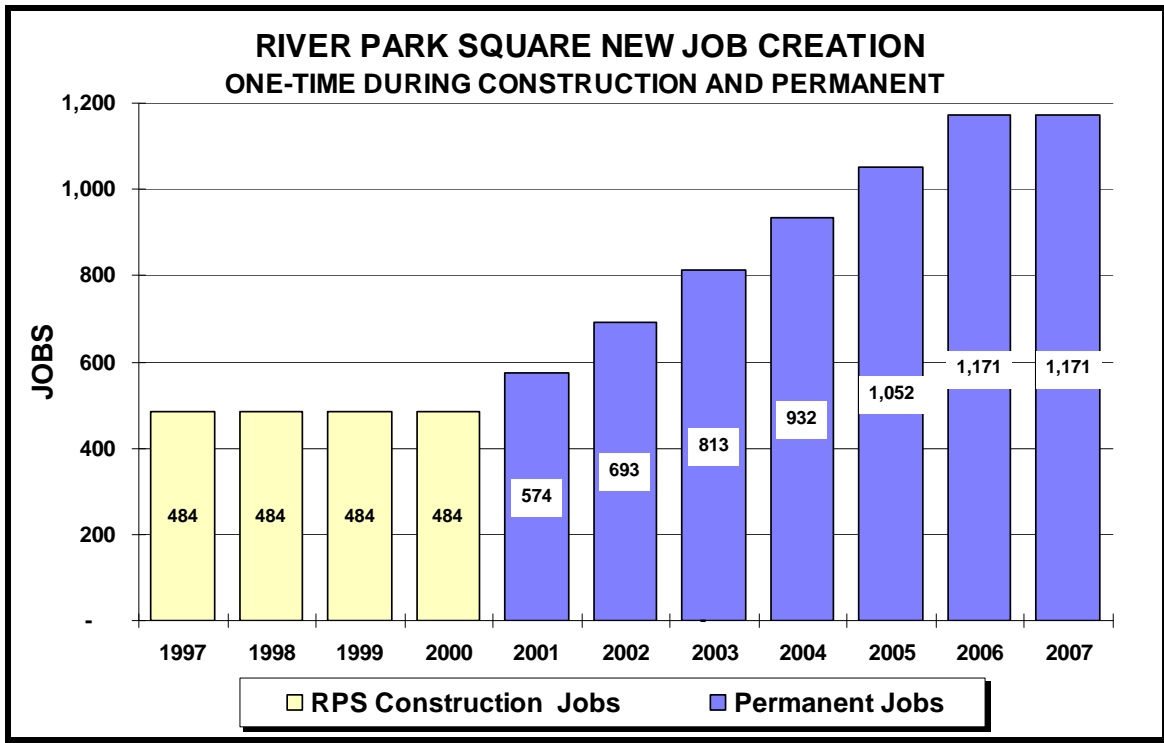
- In 2007, the total of 1,171 direct and indirect FTE permanent jobs resulting from redevelopment of River Park Square generated nearly \$38 million in recurring annual wage income. These direct and indirect wages are annually recurring due to the permanent retailing jobs at River Park Square.
- Of the \$38 million wage income total, over \$26 million was paid directly to persons working at River Park Square in 2007. In addition, an estimated \$5.7 million in resultant indirect income was generated at other jobs inside the City of Spokane in 2007.

Job creation benefits during construction of River Park Square are illustrated in the following two charts.



Both construction and permanent job creation at River Park Square are illustrated in the chart below. New job creation related to construction (direct and indirect) was assumed to average 484 each of the four years the project was under redevelopment. In addition to Nordstrom relocating and fully staffing, other permanent retailing jobs in the mall shops gradually increased as tenant space was

absorbed. The chart reflects the assumption that by 2006, River Park Square GLA was essentially leased up and remains at this same high level of occupancy.



One-Time Tax Revenues During Construction

Major one-time public tax revenues were generated during the 1997–2000 construction period for River Park Square. All of these tax revenues were *newly created*. They would not have been collected if River Park Square had not been redeveloped. Multiple government entities were the beneficiaries of this one-time public tax revenue windfall.

- The State of Washington received nearly \$7.7 million in one-time tax revenues during this four year period. Over 88 percent of this total came from sales tax on materials. The other two tax revenue sources were B & O taxes and real estate excise taxes.
- Also, during this construction period, Spokane County received over \$157,000 in sales tax revenue.
- The one-time windfall in new tax revenues to the City of Spokane during the 1997-2000 construction period was nearly \$2.7 million broken down as follows:

- One-time River Park Square building permits and fees paid to the City of Spokane totaled over \$1,158,000.
 - River Park Square permit fees associated with the vacation of Post Street totaled nearly \$475,000.
 - Sales taxes generated through the 1997-2000 River Park Square construction period generated over \$890,000 for the City.
 - A one-time transfer generated \$130,000 in real estate excise taxes for the City.
- In addition, the River Park Square tenants themselves have generated new tenant improvement fees for the City when they signed leases and built out their leasehold spaces. Based on City of Spokane data, River Park Square tenants paid over \$53,000 in permit fees corresponding to over \$4.8 million in tenant improvements between January 2000 and the present.

Annually Recurring Tax Revenues

In 2007, the State of Washington received over \$5.9 million in tax revenues solely from retailing operations at River Park Square. This estimated total came mainly from sales tax revenues—over 91 percent. The remainder came from B & O taxes and real estate excise transfer taxes.

- Spokane County also received over \$250,000 in tax revenues generated directly from River Park Square in 2007.
- School District 81 received an estimated \$644,000 in property tax revenues in 2007 from River Park Square.
- In 2007, our estimates show that the City of Spokane received over *\$1.5 million* in tax revenues from River Park Square alone.

All of the above state, county, school and city tax revenues are annually recurring. This is important. It means that the redevelopment of River Park Square has created substantially increased and recurring tax revenue streams for these various government entities. Moreover, the state, local government and District 81 schools can expect ever escalating tax revenue streams as the *tax base* elements underpinning River Park Square operations increase over time.

The cumulative tax revenue benefits to the City of Spokane from River Park Square exemplify the fiscal importance of this major redevelopment project as well as its catalytic impact on revitalizing the downtown. The cumulative tax revenues (from construction and operations) accruing to the City of Spokane during the 1999 through mid-2007 period from River Park Square alone are estimated at ***over \$16.2 million.***

2007 ACTUAL EXPERIENCE VERSUS THE “GO” FORECAST

The economic impact scope is expanded in this section to encompass the actual experience for the *entire downtown Spokane retailing sector* (see map) versus our ten-year forecast for downtown retailing if a “go” decision was made to redevelop River Park Square.⁶ This ten-year forecast, made in 1995, is the benchmark against which actual downtown marketplace experience in 2007 is compared. The key economic impact variables compared here are downtown retail jobs, wages, space and sales.

Downtown Retail Jobs

In 1995, we forecast that ten years later downtown Spokane retail jobs would total 3,708 if a “go” decision was made to redevelop River Park Square—an increase of 58 percent. Remarkably, for 2007 the actual total number of downtown retail jobs is estimated at 4,043 (see jobs chart). *Conclusion: The actual retail job count exceeded the forecast by 335 jobs.*

Downtown Retail Wages

Our 1995 ten-year forecast of total wages corresponding to these downtown retail jobs was over \$65.5 million (1995 Dollars) if a “go” decision was made to redevelop River Park Square—a 58 percent increase. Inflating this total to a 2007 dollar equivalent converts this forecast of total downtown retail wages to \$89 million (see wages chart).⁷ *Conclusion: The actual total of \$97 million in retail wages exceeded the forecast by \$8 million.*

⁶ For purposes of this study, the greater downtown area is geographically defined as bounded by Maple Street on the west, I-90 on the south, Division Street on the east and the Spokane River on the north.

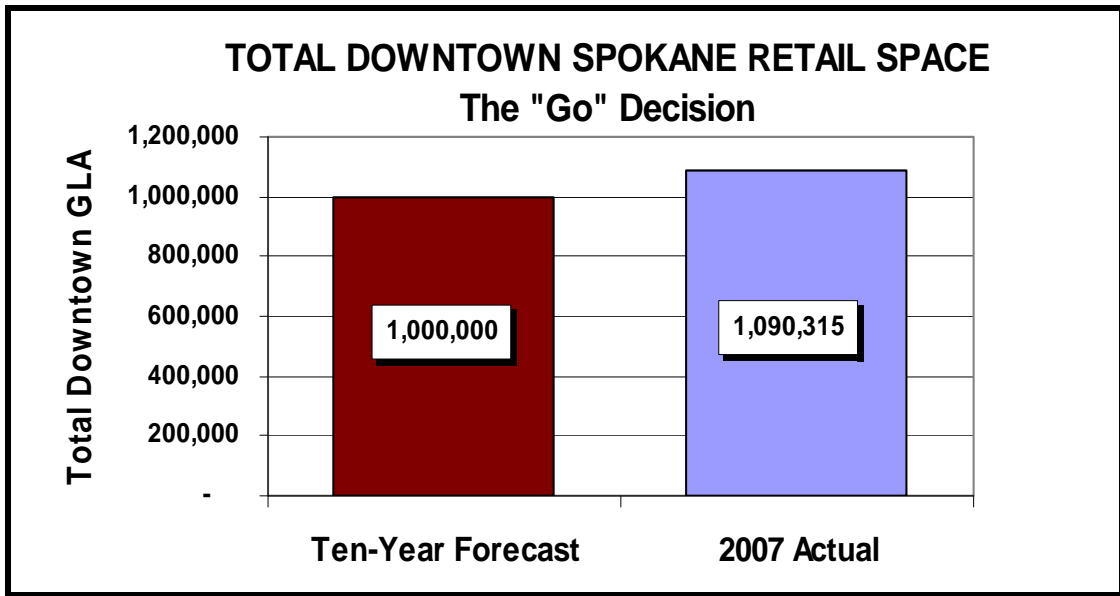
⁷ The same methodology used in the 1995 ten-year forecast to determine downtown retail wages was also used to estimate total retail wages actually earned in downtown Spokane in 2007.



Downtown Retail Space

Similarly, our 1995 forecast showed that if the “go” decision was made to redevelop River Park Square, downtown Spokane retailing would grow dramatically to total 1,000,000 square feet of gross leasable area (GLA) in ten years. Moreover, much lower vacancy rates could be expected compared to the 25 percent vacancy rate in the 800,000 square feet of retail GLA that existed in

1995. In fact, the total inventory of downtown retail space (GLA) totaled 1,090,315 square feet in 2007 and the overall downtown vacancy rate dropped to 12 percent—a decline of over 50 percent from 1995. *Thus, the actual retail GLA in downtown also exceeds the forecast by nearly 100,000 square feet at a much improved occupancy rate.*

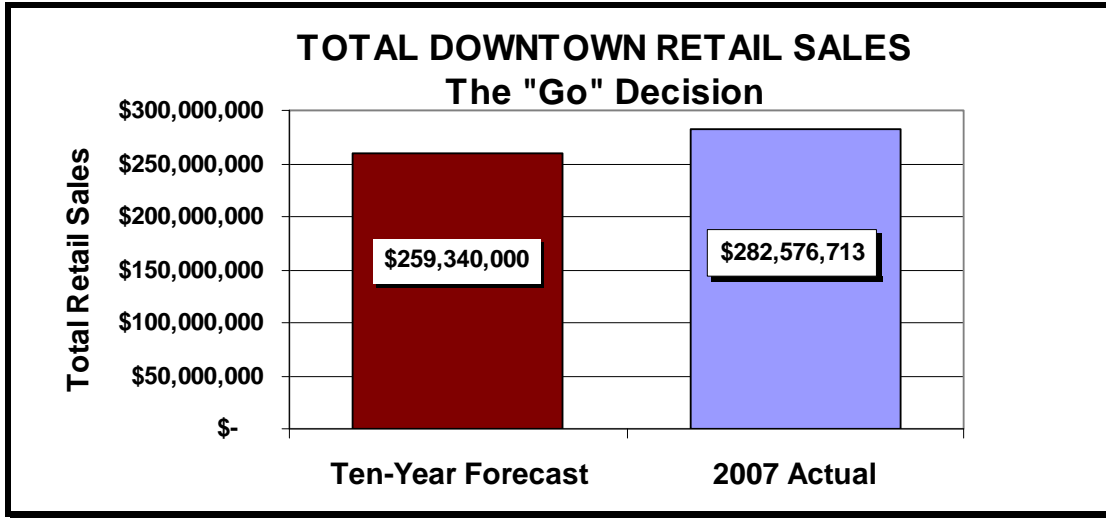


Downtown Retail Sales

In 1995, it was also forecast that downtown retail sales from department stores and small retailer sales would total over \$259 million in ten years. This projection assumed substantial growth in downtown retail space and in average sales per square foot at department stores and small retailers. Actual retail sales for all of downtown in 2007 were then calculated using the same sales per square foot rates set forth in the original forecast in order to ensure a valid comparison. *Conclusion: Comparing the 1995 ten-year retail sales forecast to actual 2007 sales reveals that retail sales downtown exceeded the projection by over \$23 million.*

“Go” Forecast Summary

Actual retail growth in the downtown Spokane marketplace has exceeded forecasts. Each of the key economic variables measured above --total retail jobs, wages, gross leasable area and retail sales—has grown more than the optimistic ten-year projections set forth in 1995.



The preceding data strongly suggest that River Park Square was the catalyst for most new retail space, job, wage and sales growth in downtown Spokane. Clearly, most of this retail growth was either incorporated into the new River Park Square complex or strongly induced by its retail customer attraction capability as the initial key anchor triggering a now rapidly revitalizing downtown Spokane Central Business District.

2007 ACTUAL EXPERIENCE VERSUS THE “NO GO” FORECAST

This section summarizes the opportunity cost if the decision had been made *not* to proceed with the redevelopment of River Park Square. Again, the ten-year forecast set forth in 1995 is the benchmark against which actual downtown retail marketplace experience in 2007 is compared.

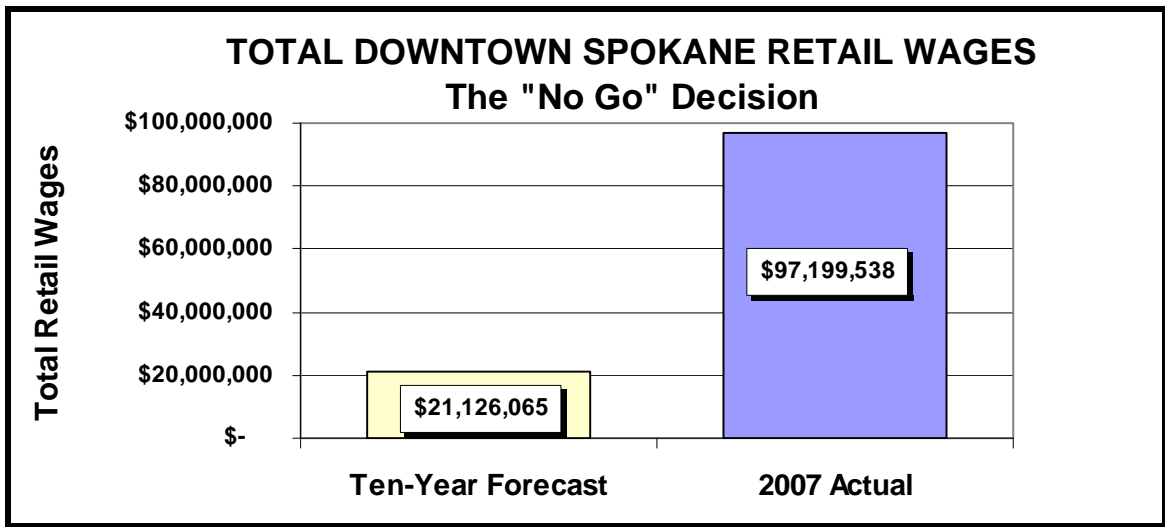
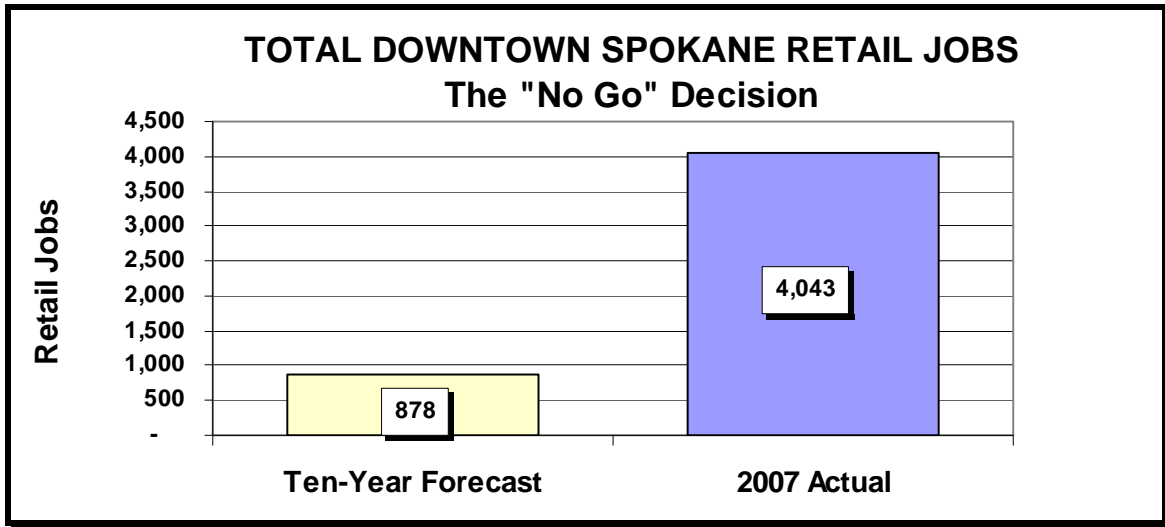
Downtown Retail Jobs

In 1995, we forecast that ten years later downtown Spokane retail jobs would total only 878 if the “no go” decision was made to redevelop River Park Square--a precipitous drop from the 2,342 downtown retail jobs existing at the time. Mainly because of the redevelopment of River Park Square, the actual number of downtown retail jobs in 2007 was estimated to total 4,043 (see the following jobs chart). *Conclusion: The actual retail job count exceeded our forecast by the very substantial swing amount of 3,165 foregone jobs if the “no go” decision had been made.*

Downtown Retail Wages

The ten-year forecast of total wages corresponding to this precipitous drop in

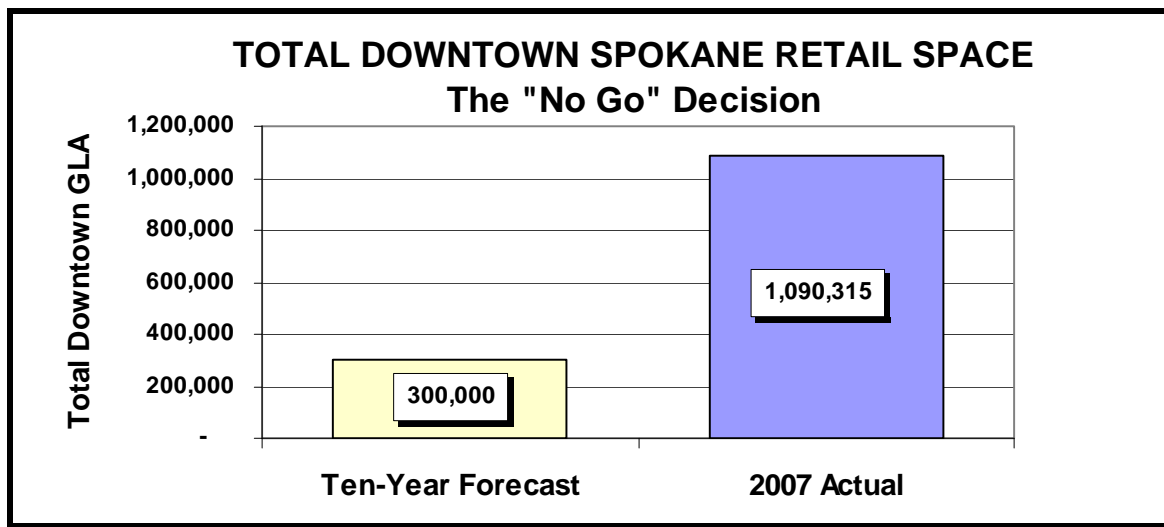
downtown retail jobs was only slightly over \$15.5 million (1995 Dollars) if the decision not to redevelop River Park Square had occurred. This would have resulted in a 62 percent decrease in such total retail-related wages. Inflating this total to a 2007 dollar equivalent converts this forecast of total downtown retail wages under the “no redevelopment” scenario to only \$21.1 million (see the following wages chart).⁸ *Conclusion: The actual total of over \$97 million in retail wages due to River Park Square redevelopment exceeded the “no go” forecast by a remarkable \$76 million.*



⁸ The same methodology used in the 1995 ten-year forecast to determine downtown retail wages was also used to estimate total retail wages actually earned in downtown Spokane in 2007.

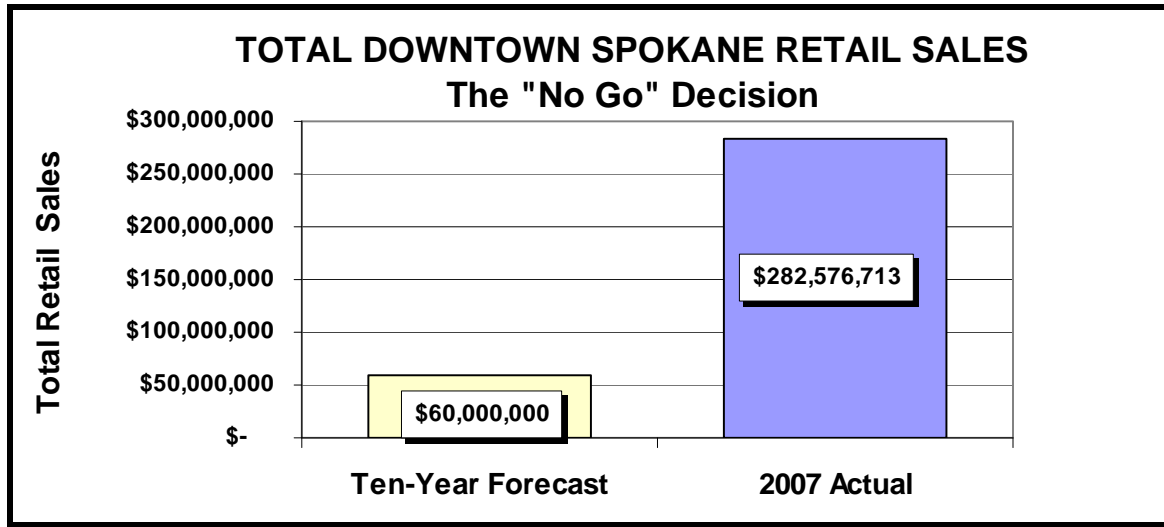
Downtown Retail Space

Similarly, our 1995 forecast showed that if the decision had been made not to proceed with the redevelopment of River Park Square, downtown Spokane retailing would have shrunk dramatically in the next ten years to a total of only 300,000 square feet of GLA retail space. Nordstom and Macys would be gone; and the highly deteriorated downtown would be relegated to a group of struggling small retailers. High retail vacancies would persist, perhaps even higher than the 25 percent vacancy rate in the 800,000 square feet of retail GLA that existed in 1995. In contrast, downtown retail space currently totals 1,090,315 square feet of GLA; and the overall downtown vacancy rate has dropped to 12 percent. *Thus, the actual retail GLA in downtown Spokane exceeds the “no go” forecast by nearly 800,000 square feet—a huge swing.*



Downtown Retail Sales

In 1995, we also forecast that downtown retail sales in what remained of the small retailer store base would only total \$60 million in ten years without the redevelopment of River Park Square. This projection assumed a substantial drop in average downtown retail sales per square foot. Actual retail sales for all of downtown in 2007 were then calculated using the same sales per square foot rates set forth in the original “go” forecast because redevelopment of River Park Square did occur (see the following retail sales chart). *Conclusion: Comparing the 1995 ten-year retail “no go sales” forecast to actual 2007 sales reveals that without the redevelopment of River Park Square retail sales downtown would have plunged by nearly \$223 million.*



“No Go” Forecast Summary

The actual resurgence in the downtown Spokane retail marketplace stands in stark contrast to our 1995 forecast of dramatically deteriorated retailing conditions had the redevelopment of River Park Square not proceeded. Downtown retail jobs, wages, gross leasable area and retail sales would have plummeted. The above data reveal just how large the *opportunity cost* to downtown businesses, employees, property owners and the City of Spokane would have been if the decision had been made not to redevelop River Park Square.

DOWNTOWN RENAISSANCE

The economic benefits achieved in downtown Spokane during the past ten years are now briefly summarized. A key premise is that redevelopment of River Park Square was the initial catalyst for the majority of this new growth by reversing the deterioration and anchoring the downtown retail core.

The long term *opportunity cost* to the Spokane community would have been a steep price to pay had the redevelopment of River Park Square not proceeded. As demonstrated, the City would have lost a very substantial tax base. Because of land availability constraints, it is highly unlikely that an alternative site existed in 1995 within the city limits to accommodate a new outlying retail complex. Therefore, retail jobs and the multiple tax revenues now accruing to the City of Spokane due to the redevelopment of River Park Square would otherwise have been redirected into Spokane County locations or to outlying city sites.

From an overall community perspective, such potential foregone opportunities and further deterioration of the downtown would have negatively impacted the fabric of the city in many ways. Fortunately, this did not happen. The City of Spokane has maintained its “heart”; and today downtown economic vibrancy is rapidly growing.

The quantitative analyses set forth earlier clearly demonstrate the substantial economic benefits generated through redevelopment of River Park Square. However, the discussion in this section is more subjective.

A non-exhausting listing is shown below of key private development projects and public facilities/activities that have been implemented in downtown Spokane since River Park Square was completed.

- Davenport Hotel & Tower
- Major new office space development
- New condominiums and workforce housing
- New/renovated financial center facilities:
 - Sterling Savings
 - Well Fargo
 - Bank of Whitman
 - American West
 - Global Credit Union
- New entertainment Venues:
 - Fox Theater
 - The Bing Crosby Theater
 - The Big Easy Concert House
 - Heroes & Legends
 - Major chain destination restaurants
 - Davenport Arts District
- New Spokane Convention Center
- Major growth in convention attendees
- New University District plan
- Terabyte Triangle cluster
- Spokane River Gorge project

Although no absolute proof exists that many of these downtown projects would not have been constructed without the prior redevelopment of River Park Square, such an assumption is reasonable.

According to the Downtown Spokane Partnership over \$3.4 billion has been privately and publicly invested in over 800 construction, redevelopment and infrastructure projects in downtown Spokane over the past nine years. It is very

unlikely that this recent downtown renaissance would have occurred without a redeveloped River Park Square first anchoring the retail heart of the city.