THE DEMAND FOR RETAIL SPACE IN PEORIA AND RETAIL BASE ENHANCEMENT STRATEGY

To

CITY OF PEORIA

From

GRUEN GRUEN + ASSOCIATES
Urban Economists, Market Strategists & Land Use/Public Policy Analysts

February 2017

C1469

THE DEMAND FOR RETAIL SPACE IN PEORIA AND RETAIL BASE ENHANCEMENT STRATEGY

To

CITY OF PEORIA

From

GRUEN GRUEN + ASSOCIATES
Urban Economists, Market Strategists & Land Use/Public Policy Analysts

February 2017

C1469

SUMMARY OF RECOMMENDED STRATEGIC INITIATIVES

ENCOURAGE MODERNIZATION, EXPANSION, AND CHANGE

Action	Participants	Coordinating or Lead City Department
Encourage property owners and managers to develop business plans for the revitalization or adaptive reuse of commercial properties that are locationally obsolete.	City and Property Owners/Agents	Economic Development
Given the retail shopping pattern and supply shift away from Old Town and the attraction of a 173,000-square-foot State Trailer RV & Outdoor Supply outlet, consider an innovative land use option for the State Trailer anchored center or nearby locations in South Peoria - an "industrial shopping center". This would potentially require the City working with the landowner to rezone the site from C-2 to a PAD to accommodate unspecified uses as part of "industrial shopping center".	City and Property Owners/Agents	Planning and Economic Development

UPDATE GENERAL PLAN AND ZONING

Action	Participants	Coordinating or Lead City Department
Retail zoning would be appropriate at locations in the path of growth and development, such as (i) the 303 Freeway and Lake Pleasant Parkway, (ii) Highway 74 and Lake Pleasant Parkway, and (iii) the 303 Freeway and Lone Mountain Parkway. Regional- and community-serving retail should be concentrated, rather than spread out, and integrated with necessity-type retail and non-retail uses where practical. (Although, allow for some neighborhood-serving retail, such as grocery-anchored centers, to follow rooftop growth north and west of the 303 Freeway as it occurs.)	City and General Plan Consultant/ Stakeholders	Planning and Economic Development

Action	Participants	Coordinating or Lead City Department
Potential changes to the General Plan as part of the current General Plan update include the following: ▪ Allow for regional retail uses at the 303 Freeway and Lake Pleasant Parkway area, which is currently planned only for employment uses; ▪ Shift commercial nodes along Lake Pleasant Parkway (between Happy Valley and the 303 Freeway) north to the intersection of the 303 Freeway and Lake Pleasant Parkway; ▪ Combine the two smaller commercial cores (one at Happy Valley and the 303 Freeway and the other at Lone Mountain and the 303 Freeway) into one single, larger commercial core; ▪ Given a proposed major community retail core at Carefree Highway and Lake Pleasant Parkway, the State Trust lands along Carefree Highway at the future 91st Avenue alignment may need to be scaled down from community level retail to neighborhood level retail; ▪ Similarly, combine the smaller commercial core shown at (approximately) Highway 74 and 91st Avenue with either the Highway 74 and Castle Hot Springs Road or Highway 74 and Lake Pleasant Parkway nodes; and ▪ Consider additional commercial opportunities along the north side of Northern Parkway, particularly near 103rd Avenue and between 75th Avenue and 83rd Avenue.	City and General Plan Consultant/ Stakeholders	Planning and Economic Development

Action	Participants	Coordinating or Lead City Department
Areas identified for future retail uses may be pursued by developers for non-retail uses, as those uses are more feasible in the short term. Rezoning these locations to other uses will reduce the opportunities for retail to develop once the market matures. Resist development pressure to allow non-retail uses at critical retail locations.	City	City Planning & Zoning Commission and City Council

MAINTAIN STRENGTH OF CENTRAL PEORIA SUBMARKET

Action	Participants	Coordinating or Lead City Department
Encourage the expansion of the Kimco-owned North Valley Shopping Center and/or the DDR-owned Arrowhead Crossing Center.	City; Kimco; and DDR	Economic Development
Change policies/regulations as necessary to permit future retail development (and redevelopment) in Central Peoria and other Peoria submarkets to be aided by- and integrated with- non-retail activity generators, such as medical and distinctive entertainment-type uses, that provide attractive, experiential, and convenient alternatives to Internet shopping.	City and Property Owners/Agent Stakeholders	Planning
Evaluate retail and commercial parking requirements and obtain feedback from major retail property owners and developers about the parking needs of contemporary retailers/restaurants/entertainment uses. Consider also that the floor-area ratios associated with current parking requirements mandate very low suburban type densities. Regulations should reflect the potential for shared parking when uses on a property generate parking demands at different times of day or week. Reducing parking requirements, especially for infill development in high land value locations, is likely to enhance the feasibility of converting underutilized land to more productive and synergistic uses over time.	City and Property Owners/Developers	Planning

Action	Participants	Coordinating or Lead City Department
Meet regularly with existing property owners, property managers, and leasing agents to stay on top of current trends, issues of recurring concern, and opportunities and assist Central Peoria asset managers and leasing agents with attracting experiential retailers and eating and drinking establishments.	City and Property Owners, Property Managers and Leasing Agents	Economic Development

MONITOR THE HEALTH OF THE ARROWHEAD TOWNE CENTER AREA/CENTRAL PEORIA SUBMARKET AND MONITOR SUPPLY ADDITIONS OF REGIONAL SERVING RETAIL FACILITIES IN NEIGHBORING OR NEARBY COMMUNITIES

Action	Participants	Coordinating or Lead City Department
Monitor the planning and development of major retail facilities (and automotive facilities) outside of Peoria and evaluate sales levels, inventory occupancy, and rental rate characteristics to be alert for potential competitive impacts.	City	Economic Development
To more finely monitor potential competitive impacts and the relative position of Peoria's' retail base, expand the categories for which retail sales are tracked to include: general merchandise, apparel, food, eating and drinking, building materials, home furnishings, electronics, and automotive.	City	Finance

MONITOR AND PRESERVE STRENGTH OF AUTOMOTIVE SECTOR

Action	Participants	Coordinating or Lead City Department
Permit greater intensity on existing automotive dealership sites via parking structures and multiple story buildings. Attempt to develop a consistent set of regulations as part of a master entitlement package for the Auto Mall.	City and Automotive Dealerships	Planning and Economic Development
Monitor auto sales and regularly meet with representatives of the dealerships to keep abreast of changes in market and regulatory conditions that affect dealerships. In particular, help to respond to changes in facility requirements of dealerships and maintaining the locational accessibility of the dealerships.	City and Automotive Dealerships	Economic Development

SUPPORT THE P83 ENTERTAINMENT DISTRICT

Action	Participants	Coordinating or Lead City Department
Explore whether an opportunity may exist to include a food hall in the P83 District or in the new planned office building for P83.	City and Selected Developer	Economic Development
Encourage the individual owners to consider creating an over-arching District wide operations and management entity, which could better coordinate operational issues (e.g., parking), as well as serve as the master marketing entity for the District.	City and P83 Property and Business Owners	Economic Development
Coordinate with property owners to hold and publicize an annual contest to attract independent, unique retail and other experiential concepts to available space in buildings with vacant space at P83 south of Bell Road on 83rd Avenue.	City and P83 Property and Business Owners	Economic Development

FOCUS STAFF RESOURCES ON WORKING WITH THE REAL ESTATE COMMUNITY TO PROVIDE THE INFORMATION IT NEEDS AND THE POLICY FRAMEWORK AND PROCESS ASSISTANCE TO HELP THE RETAIL REAL ESTATE COMMUNITY ATTRACT BUSINESSES TO RETAIL PROPERTIES IN PEORIA

Action	Participants	Coordinating or Lead City Department
To keep retail brokers and developers informed of land use and economic development plans, municipal goals, objectives, and priorities, property availabilities, municipal incentives, new and expanded businesses and developments coordinate with representatives of major retail properties and nodes to host an annual retail brokers "open house".	City and Brokers and Developers	Economic Development
Continue to improve the permit and approval process through developer surveys, newsletters and updates, and Advisory committees.	City	Planning and Economic Development
Continue to monitor the market conditions in North Peoria. (North Peoria has developed somewhat ahead of the market, in anticipation of household growth that has not yet developed sufficiently to support high levels of sales.)	City	Economic Development

TABLE OF CONTENTS

Page

CHAPTER I: PURPOSE AND PRINCIPAL FINDINGS AND CONCLUSIONS 1
- INTRODUCTION AND PURPOSE 1
- WORK COMPLETED 1
- KEY FINDINGS 2
- CONCLUSIONS AND RECOMMENDATIONS 9
- REPORT ORGANIZATION 19

CHAPTER II: RETAIL MARKET CONDITIONS AND EXISTING SUPPLY IN PEORIA 20
- INTRODUCTION 20
- CITYWIDE RETAIL MARKET OVERVIEW 20
- EXISTING RETAIL SUPPLY IN PEORIA 20
  - SOUTH PEORIA SUBMARKET 28
  - CENTRAL PEORIA SUBMARKET 32
  - NORTH PEORIA SUBMARKET 36
- FUTURE SUPPLY WITHIN PEORIA 40

CHAPTER III: ANALYSIS OF RETAIL SALES TRENDS WITHIN PEORIA 43
- INTRODUCTION 43
- HISTORICAL TAXABLE RETAIL SALES IN PEORIA 43
- PER CAPITA RETAIL SALES 46
- ESTIMATED SALES SURPLUS AND LEAKAGE 47

CHAPTER IV: COMPETITIVE POSITION OF PEORIA RETAIL BASE 49
- INTRODUCTION 49
- FACTORS THAT ENCOURAGE DEMAND OR PRIMARY ADVANTAGES 49
- FACTORS THAT CONSTRAIN DEMAND OR PRIMARY DISADVANTAGES 51

CHAPTER V: RETAIL SPACE DEMAND WITHIN PEORIA 53
- INTRODUCTION 53
- CURRENT AND PROJECTED FUTURE POPULATION, HOUSEHOLDS, AND AVAILABLE INCOME IN THE PRIMARY TRADE AREAS 55
- ESTIMATES OF CURRENT AND FUTURE RETAIL EXPENDITURE POTENTIAL AND RETAIL SPACE DEMAND IN THE PRIMARY TRADE AREAS 56

CHAPTER VI: RELATIONSHIP BETWEEN RETAIL DEMAND AND SUPPLY 61
- SOUTH PEORIA 61
- CENTRAL PEORIA 62
- NORTH PEORIA 62

APPENDIX A: REAL ESTATE ECONOMIC ANALYSIS REPORT 64

APPENDIX B: MARKETING PACKAGES (SOUTH, CENTRAL, AND NORTH PEORIA) 80

LIST OF TABLES

Page

TABLE I-1: Comparison of Retail Space Supply and Demand in Peoria's Trade Areas: 2015-2030 7

TABLE II-1: City of Peoria Retail Space Inventory by Type of Shopping Center and Submarket 23

TABLE II-2: Proportion of Existing Peoria Retail Inventory Leased and Available 25

TABLE II-3: South Peoria Retail Inventory (Centers Larger than 25,000 Square Feet) 29

TABLE II-4: Central Peoria Retail Inventory (Centers Larger than 25,000 Square Feet) 34

TABLE II-5: North Peoria Retail Inventory (Centers Larger than 25,000 Square Feet) 38

TABLE III-1: Total Taxable Retail and Restaurant Sales in the City of Peoria, 2011-2015 43

TABLE III-2: Taxable Non-Automotive Retail Sales in the City of Peoria by Submarket 45

TABLE III-3: Per Capita Retail Sales Trends in the City of Peoria 46

TABLE III-4: Estimated Citywide Relationship Between Non-Automotive Retail Demand and Sales 47

TABLE V-1: Demographic and Income Estimates for Households in the Primary Trade Areas, 2015-2030 . 55

TABLE V-2: Phoenix-Mesa MSA Average Household Annual Expenditure on Retail Goods and Services . 57

TABLE V-3: Sales Per Square Foot Productivity 58

TABLE V-4: Estimated Average Sales Per Square Foot Productivity for Retail Submarkets in Peoria 59

TABLE V-5: Estimates of Retail Expenditure Potential and Retail Space Demand in the Primary Trade Areas: 2015-2030 60

TABLE VI-1: Comparison of Retail Space Supply and Demand in the Southern Trade Area, 2015-2030 61

TABLE VI-2: Comparison of Retail Space Supply and Demand in the Northern Trade Area, 2015-2030 62

LIST OF MAPS AND FIGURES

Page

MAP II-1: City of Peoria Existing Shopping Center Inventory 22

MAP II-2: Retail Availabilities Larger than 10,000 Square Feet 27

MAP II-3: South Peoria Existing Retail Supply 30

MAP II-4: Central Peoria Existing Retail Supply 35

MAP II-5: North Peoria Existing Retail Supply 39

MAP V-1: Regional Supply Competition and Primary Trade Areas Captured 54

FIGURE I-1: Retail Metrics Monitoring Dashboard 17

FIGURE II-1: Existing Retail Inventory by Submarket and Year Built 24

FIGURE II-2: Available Shopping Center Space by Type and Submarket 26

FIGURE III-1: Change in Composition of Peoria's Taxable Sales Base 44

CHAPTER I

PURPOSE AND PRINCIPAL FINDINGS AND CONCLUSIONS

INTRODUCTION AND PURPOSE

The City of Peoria engaged Gruen Gruen + Associates ("GG+A") to conduct retail market analysis and to develop a comprehensive retail strategy for the City. The research and analysis summarized in this report was directed towards gaining an understanding of the demographic, retail expenditure, and retail supply characteristics affecting the competitive position and performance of Peoria's retailing base and opportunities for further enhancement. The results of the research and analysis are intended to provide an information base and framework for the City representatives to implement the recommended strategic policy and marketing actions to preserve and enhance the retail base of Peoria.

WORK COMPLETED

In order to accomplish the study objectives, GG+A completed the following tasks:

- Inspected the retail uses throughout the City and adjoining communities;
- Conducted interviews with property owners, developers, leasing agents, and property managers including representatives of Armstrong Development, Barclay Group, Colliers, Cushman & Wakefield, DDR, Land Resources Inc., Kimco, MDC Development, Pederson Group, Phoenix Commercial Advisors, Phoenix Commercial West, SRS Real Estate Services, and Thompson-Thrift;
- Conducted interviews with representatives of retailers and eating and drinking establishments including Fire Station #1 Distillery, Haymaker Restaurant, Portillo's (a potential new business to Peoria), and State Trailer;
- Reviewed a variety of secondary data and reports to identify historic, present, and likely future population, household, and employment trends and distribution within the Peoria trade areas from U.S. Census Bureau and Maricopa Association of Governments;
- Analyzed time series retail sales data by category and location;
- Identified the amount of supply and make-up of retail space within the primary retailing agglomerations within or near Peoria;
- Estimated potential current and future demand for retail space within the identified trade areas;
- Compared the relationship between estimated retail supply and retail demand within the relevant retail trade areas; and

- Synthesized the results of our property and area inspections, interviews, and quantitative analysis to reach judgments and conclusions about the scale and type of retail development likely to be supported in the future in Peoria. In addition, we suggest some strategic policy and marketing action strategies, and locations for future retail development opportunities drawn from the research and analysis.

KEY FINDINGS AND CONCLUSIONS

FINDINGS

Retail Space Inventory

- The City of Peoria is estimated to currently contain about seven million square feet of shopping center space. The citywide retail vacancy rate as of first quarter 2017 was reported at 12.8 percent, representing a five year low. The vacancy rate has declined from a peak of about 16.5 percent in 2013. The decline in the vacancy rate reflects net absorption totaling about 250,000 square feet of space (citywide) over the past three years. Compared to five years ago, average asking rents have declined by about 25 percent although small positive gains were reported in 2016. This suggests that some landlords have lowered rent expectations in order to fill vacant space.

- South Peoria, comprising centers located south of Thunderbird Road, represents about 44 percent of the citywide shopping center space inventory. Central Peoria is the smallest retail submarket in the community with less than 20 percent of the total citywide shopping center space inventory. The Central submarket, however, is part of the largest strongest regional-serving retail agglomeration in the northwest Valley, anchored by the Arrowhead Towne Center super-regional mall (in Glendale). The North Peoria retail inventory comprises about 40 percent of the existing citywide inventory and is characterized by a series of newer centers and concentrations around major thoroughfares, in the path of growth.

- Power Centers totaling about 2.5 million square feet represent the largest category of shopping center space in the City of Peoria and each submarket of the community contains two of them. Neighborhood Centers and Community Centers, primarily located in South Peoria and North Peoria, contain about 3.6 million square feet of existing space or more than one-half of the existing citywide shopping center space. Strip Centers total about 500,000 square feet of existing space with about two-thirds of the inventory located in South Peoria.

- More than one-half of City's total retail space was built during an eight year period prior to the Great Recession.

- The total citywide shopping center inventory is approximately 90 percent leased. Central Peoria is very well leased at nearly 98 percent, while South Peoria and North Peoria are 85 percent and 91 percent leased respectively.

- Approximately 1.1 million square feet of retail space is available in Peoria. South Peoria contains about 60 percent of all currently available retail space within the City. Community Centers and Power Centers in South Peoria and Neighborhood Centers in North Peoria all contain more than 200,000 square feet of currently available retail space. Very limited availabilities exist in Central Peoria. Within Central Peoria, the Arrowhead Corridor with frontage on Bell Road is in significant demand by retailers, particularly for restaurants and specialty users. Retail sales productivity and rental rates are highest for retail space located in Central Peoria.

- The vast majority of the retail space in North Peoria was built prior to the Great Recession, ahead of market support in anticipation of household growth that has not yet developed sufficiently so that it has taken over a decade for the inventory to obtain a 91 percent occupancy rate with relatively low sales levels and projects which were started prior to the Recession that have still not been built-out.[1] The larger projects have similar middle market and big box tenancies as found in the Arrowhead Town Center corridor. The grocery- and drug- store anchored centers serve the emerging residential base. Rents and occupancy rates have recovered from the effects of the Great Recession. Fast casual restaurants are paying relatively high rents in the $30s per square foot and generating sufficient sales to support the locations. Growth in population and the attraction of employment uses will support the further development of retail space in North Peoria.

- The Peoria "Auto Row" – both sides of Bell Road between the 101 Freeway and 92nd Avenue – represents one of the largest agglomerations of dealerships in the Valley. Today, 23 of the top 25 selling automotive brands can be found on this Auto Row -- only BMW and Lincoln are not represented – although one of them is actually in the City of Glendale. Automotive sales represent 35 percent of Peoria's sales tax receipts.

- In Central Peoria, the P83 District contains approximately 221,000 square feet of eating and drinking establishments and movie theater and other entertainment uses located south of Bell Road on the west side of 83rd Avenue, across from the baseball stadium. The anchor of this District is a large 96,000-square-foot, 18-screen Harkins Theatre. The remainder of space is primarily freestanding restaurant and bar uses on freestanding pads. This restaurant and entertainment node does not have the same high level of traffic counts that Bell Road affords and lacks the billboard like advertising a Bell Road location affords retailers fronting Bell Road. The node lacks year-round destinations that generate lunch- and dinner-time traffic. The City had made significant investments through the "Building Reuse Program" to facilitate the re-occupancy of vacant space in the P83 area as the result of the closure of restaurants and other tenancies during and after the Great Recession.[2]

---

[1] Unlike office or industrial developments in which vacant space does not tend to negatively affect adjoining users, vacant space in retail buildings does negatively affect adjoining businesses because of reduced sales spillover. Therefore, an optimum retail vacancy rate tends to be five percent or less. For example, The Camino a Lago Marketplace which opened in 2007, just prior to the advent of the Great Recession with a 218,000-square-foot Super Wal-Mart has not attracted any other anchor users to the project, although infrastructure has been built-out to serve anchor users.

[2] http://www.azcentral.com/story/news/local/peoria/2016/09/26/peoria-spending-millions-fill-empty-buildings-p83-entertainment-district/90093868/. http://kjzz.org/content/188576/peoria-seeks-fill-vacancies-entertainment-district-offers-large-discounts.

Potential Future Retail Space Supply

- Over 336,000 square feet of potential future retail space is planned for development or being pursued by developers in the North Peoria submarket.

- While not in the Peoria market trade areas, a new regional mall has been proposed in Surprise at the 303 Freeway and Waddell for the past 10 years. Westcor (Macerich) envisions a 1.2 – 2.0 million- square-foot regional mall as part of the Prasada Master Planned Community; this mall would be about 14 miles away from Arrowhead Mall. No definitive timeline is set yet, and given the rapid changes occurring in department stores as a result of internet shopping and demographic and consumer shopping shifts, this mall may never get built. Additionally, Westcor is also planning a new regional mall in Goodyear called Estrella Falls. While further away from Arrowhead (almost 20 miles), Estrella Falls Mall was always projected to open sooner than the Prasada Mall. Prasada would be a bigger competitor to the Arrowhead corridor, and even though Arrowhead Mall is in Glendale, and therefore Peoria does not realize any direct tax revenues from it, the mall serves as the anchor for a broader area that does include Peoria retail. Therefore, if Prasada Mall should open at some point in the future, it will likely siphon away some current shoppers who patronize retail establishments in Peoria near Arrowhead Mall, especially shoppers who live west of Peoria.

- The City of Phoenix General Plan calls for significant commercial mixed use development along the I-17 corridor south of Carefree Highway and along Carefree Highway west of I-17 towards far north Peoria. While there are no definitive plans for these areas at this time, it does indicate that Phoenix plans to be aggressive in providing for these opportunities near the northeastern part of Peoria.

Historical Taxable Retail Sales in Peoria

- Total taxable retail and restaurant sales in Peoria on a real (i.e. inflation-adjusted) basis increased by $498 million or 25 percent between 2011 and 2015.

- Non-food retail sales declined from 44.6 percent of total sales in 2011 to 35.6 percent of total sales in 2015. Eating and drinking sales slightly declined as a percentage of total sales from 13.8 percent in 2011 to 13.1 percent in 2015. Food sales increased from 12 percent to 16 percent of total sales. Automotive sales increased from under 30 percent of total sales in 2011 to over 35 percent of total sales in 2015.

- North Peoria sales increased by nearly $89 million from $447.2 million in 2011 to $536.1 million in 2015. This equates to a nearly 20 percent increase. Food sales increasing by $82.7 million to $191.8 million and eating and drinking sales increasing by $19.1 million account for the overall increase in sales. General merchandise and apparel sales declined by $12.9 million to $262.9 million in 2015. Sales in Central Peoria increased by $33.6 million to $403.3 million in 2015. All categories experienced increases in sales. South Peoria sales increased by $88.2 million to $686.7 million. Growth in food sales of $71.5 million to $192.4 million and increases in eating and drinking sales of $24.2 million offset declines in general merchandise sales (-$7.5 million) and apparel sales (-$84,000). General merchandise sales in South Peoria at $345.6 million are still the largest source of sales.

- Total non-automotive per capita sales in Peoria are estimated to have grown by approximately $620 or seven percent over the 2011 to 2015 period, increasing from about $9,100 in 2011 to $9,700 by 2015. Per capita general merchandise sales are estimated to have declined by about eight percent over the period, decreasing from approximately $5,100 in 2011 to $4,700 in 2015. Apparel sales per capita are also estimated to have experienced a slight decline of about five percent, decreasing from about $700 in 2011 to $660 in 2015. Food sales increased by $854 to $2,400 in 2015.

Sales Surplus Realized

- The citywide retail base produces a sales surplus (i.e., sales exceed expenditure potential of residents alone) of about $600 million for non-automotive goods and services including restaurants. The sales surplus for non-food retail goods and services (e.g., general merchandise, apparel, home furnishings and electronics, and sporting goods) appears to be highest, representing about 43 percent of sales in 2015, while as would be expected the surplus appears to be smallest in the food (i.e., grocery) category.

- Because Peoria contains a net outflow of labor, and also given the likelihood that many Peoria residents spend some of their discretionary retail dollars beyond the community's borders (e.g., at Arrowhead Town Center in Glendale), the proportion of total sales made to non-resident shoppers is higher than the estimated 37 percent. The primary conclusion is that Peoria attracts considerably more sales from non-residents than it loses to retail shopping and dining alternatives in nearby communities.

Comparative Advantages for Retail Uses

Within the context of the northwest Valley, Peoria is well positioned to continue to capture retail sales. The comparative advantages for retail uses in Peoria include:

- Strong demographics, with the highest average income levels in the northwest Valley;
- Continued strong population growth in the northern portions of the City, with 41,000 residential units existing and planned;
- Excellent regional access afforded by the 101 and 303 Freeways;
- Portions of the City lie directly adjacent to areas outside of the City that are relatively underserved in terms of retail, particularly Sun City and portions of northwest Phoenix. This means that residents in those areas are more inclined to come into Peoria for retail goods and services; and.
- The combined sales tax rate in Peoria is lower than the rates in Phoenix, Glendale, and Surprise.

Sales Per Square Foot Productivity of Peoria Retail Inventory

- South Peoria retail space is estimated to generate annual sales of $220 per square foot while North Peoria retail space is estimated to generate sales per square foot of $209. Central Peoria retail space generates annual sales of $302 per square foot. Overall, the Peoria retail space inventory is estimated to generate annual sales of $231 per square foot.

- The relatively low sales productivity levels reflect that South Peoria has an excess supply of space, much of which is obsolete while relatively new space built in North Peoria was developed somewhat ahead of the market, in anticipation of household growth that has not yet developed sufficiently to support high levels of sales. Central Peoria is closest to achieving industry standards of sales productivity.

Estimated Retail Demand

- The South Peoria trade area is estimated to currently include about 92,000 residents and 35,000 households with an average income of about $57,000 per household. Total household income in the South Peoria trade area is currently about $2.0 billion. According to MAG projections, the South Peoria trade area is anticipated to grow by about 7,300 households or 21 percent by 2030. This suggests that total available household income in the South Peoria trade area will grow by about $414 million by 2030.

- The Central Peoria trade area is estimated to currently include around 74,000 households with a population of 175,000. Average household income currently approximates $76,000 and total household income is estimated at about $5.6 billion. In other words, the Central Peoria trade area is roughly three times larger than the South Peoria trade area in terms of total available household income. MAG projections suggest that the Central Peoria trade area will grow modestly; about 6,100 households are projected to be added by 2030. Total household income is projected to grow by about $465 million by 2030.

- The North Peoria trade area is estimated to currently contain about 64,000 residents and 22,000 households with a higher average household income of approximately $110,000. Total existing household income is currently estimated at just under $2.4 billion. According to MAG projections, the North Peoria trade area is anticipated to grow by about 24,500 households or 113 percent by 2030. If the incomes of new households are similar to the existing households in North Peoria, the total available household income will grow by about $2.6 billion by 2030.

- Assuming retail expenditures of 21 percent of household income and a retail sales threshold for viable high-quality development of $350 per square foot, existing households in the South Peoria trade area are estimated to be capable of supporting about 1,220,000 square feet of retail space. Retail space demand in the South Peoria trade area is projected grow to about 1,470,000 square feet by 2030. This indicates that future household growth over the next 15 years in the South Peoria trade area will increase the amount of supportable retail uses by about 250,000 square feet of space.

- Retail space demand in the Central Peoria trade area is projected to grow by about 285,000 square feet by 2030.

- Existing households in the North Peoria trade area are capable of supporting about

1,450,000 square feet of retail space at a sales threshold of $350-per-square-foot. Retail space demand in the North Peoria trade area will grow considerably over the next 15 years. Based on MAG projections, we estimate that retail space demand in the North Peoria trade area will grow by about 1.6 million square feet to just under 3.1 million square feet of space demand by 2030. For every person added in North Peoria, 23 square feet of additional retail space is estimated to be supported. With a forecast population growth of 72,700 people, this equates to the 1,646,000 square feet of additional space.

- A 12 screen movie complex needs about 96,000 people in a trade area. Given the current population of 68,000, a 12 screen movie screen theater will be supported within North Peoria when its population reaches a threshold of about 96,000 people.

- Additional employment and visitation growth is likely to be required to support additional higher-end restaurants and specialty/luxury retailers. Fine dining concepts such as Eddie V's or The Capital Grille, for example, which have average checks of $75-$90, not only require trade areas including more than 400,000 people within 15 minutes but also focus their site selection decisions on locations with "strong employment and high hotel density." While the Central Peoria submarket would meet trade area population criteria, it does not have the household income, employment, and visitation/hotel characteristics typically sought by higher-end restaurants (nor does North Peoria).

Relationship Between Estimated Retail Supply and Retail Demand

Table I-1 shows the amount of unmet or surplus space demand within the trade areas served by the South Peoria and North Peoria submarkets. The Peoria retail market areas contain a relatively complete supply of retail offerings.

TABLE I-1

Amount of Unmet or Surplus Retail Space Demand in Peoria's Trade Areas: 2015-2030[1]

	Estimate 2015 # Square Feet	Projection 2030 # Square Feet	Projected Change 2015-2030 # Square Feet
South Peoria Trade Area Potential Unmet Demand (Surplus)	(1,982,000)	(1,860,000)	122,000
North Peoria Trade Area Potential Unmet Demand (Surplus)	(648,000)	248,000	896,000

[1] The estimated balances between retail space demand and supply within each trade area are based on a sales threshold of $350-per-square-foot.

Sources: Maricopa Association of Governments, 2016 Socio-economic Projections; U.S. Census Bureau; Bureau of Labor Statistics, 2014-2015 Consumer Expenditure Survey; CoStar; Gruen Gruen + Associates.

The three trade areas associated with South Peoria, Central Peoria, and North Peoria <u>include a considerable surplus of existing retail space. This explains relatively low sales performance and low rents for most of the trade areas beyond the core regional-serving nodes. It also reflects that in</u>

some locations (e.g., North Peoria) many shopping centers have been built ahead of anticipated market support/rooftops.

- The total supply of space in the South Peoria trade area approximates 3.2 million square feet. This supply estimate includes the 341,000-square-foot Westgate district and 411,000-square-foot Tanger Outlets in Glendale, both of which draw sales/shoppers from beyond the trade area definition used in this analysis. Even without including this Glendale supply, the amount of supply exceeds the estimated current retail demand (1,220,000 square feet) and future estimate of potential retail demand (1,470,000 square feet). Even including only the nearly two million square feet of space in Peoria within the identified trade area, the surplus of space relative to estimated future demand would be nearly 500,000 square feet. This relationship explains the significant and persistent amount of vacant retail space, low rents, and low sales productivity in many retail centers in the South Peoria submarket.

- For North Peoria, the current estimate of space demand of 1,450,000 square feet is less than the approximately 2,100,000 square feet of existing space by about 648,000 square feet of retail space. The quantitative model of supply and demand is consistent with the results of the interviews and rental and occupancy trends suggesting much of the space was built ahead of market support. The estimated growth in retail demand of nearly 1,650,000 square feet to nearly 3,100,000 by 2030 suggests that over time, the relationship between supply and demand will be essentially in balance with positive unmet demand of 248,000 square feet of space, assuming 750,000 square feet of planned supply additions are made over time.

- Central Peoria has limited vacant land and a healthy supply-demand balance in the Arrowhead Corridor is evidenced by very low vacancies and high rents. Centers within one-half mile of the mall on the Glendale side are about 99 percent leased, similar to those on the south side of Bell Road in Peoria. To the extent additional space can be created in the core Central Peoria submarket, the estimated growth in households and available income suggest approximately 285,000 square feet of additional retail space can be supported between now and 2030. Much of the added demand can be expected to be captured in the core preferred locations.

CONCLUSIONS AND RECOMMENDATIONS

Encourage Modernization, Expansion, and Change

Downward shifts in the patterns of some retail locations have occurred. For example, many of the grocery-and drug-store anchored retail centers built in the 1970s in the far southwestern portions of the City have lost their anchor tenants as grocery and other anchor tenants have abandoned their original locations and moved to locations to the north where population and employment growth has shifted. Shifts in consumer preferences and growth patterns (to the north and west), combined with changes in preferred retail store formats, have led to the competitive and functional obsolescence of many neighborhood and community shopping centers in South Peoria.

The competitive conditions suggest that Peoria retail centers and commercial properties must regularly modernize, change, or expand to remain responsive to contemporary preferences. The City should encourage property owners and managers to develop business plans for the revitalization or adaptive reuse of commercial shopping areas that are locationally obsolete (that is, no longer viable, market responsive retail locations due to retail shopping pattern and shifts). For example, centers at intersections including 83rd Avenue/Lake Pleasant Parkway (two centers -- Fletcher Heights Marketplace and Fletcher Heights Plaza), and 75th Avenue/Cactus (four centers -- Lee Lee Plaza, Fry's Food and Drug Plaza, Columbia Square, and the CVS/Angry Crab center) have such high and persistent vacancies that they could be consolidated into a much smaller amount of retail space and then redeveloped into non retail uses that would help support the consolidated remaining retail uses at these locations.

Additionally, centers in the southern portion of the City which may be performing reasonably well today are at risk of becoming competitively obsolete as their anchor tenant leases expire. For example, the Safeway Center at 83rd Avenue and Cactus is anchored by a Safeway, which while apparently is doing well today, may desire to be enlarged and or modernized at some time in the near future; if Safeway were to choose to do that at an alternative location, the balance of the center would likely not be able to survive without this anchor. Another example is the Fry's center at 91st Avenue and Olive; Fry's has decided to close this store and build a new modern store one mile away at 83rd Avenue and Olive. Unless a replacement anchor tenant can be found to take the abandoned Fry's space at 91st and Olive, it is unlikely that this center will succeed. In these situations, characterized by both locational and functional obsolescence, plans will need to focus on identifying feasible programs for conversions to other uses and the required implementation procedures.

For centers which have lost their anchor(s), owners typically employ two alternative approaches to try to maintain their viability – replace the lost anchor with other retail uses, or change to non-retail uses. Alternative retail uses for older centers typically include a variety of "second-tier" uses – Goodwill stores, dollar stores (i.e. Dollar Tree or 99 Cent stores), discount or ethnic grocery stores (i.e. Ranch Market, Food City), or non-chain stores. Occasionally, a first tier use will move into an older center (such as T.J. Maxx, Pet Club, etc.), but usually that only happens in the most desirable locations. The other way owners fill empty retail space is through the addition of non-retail uses – this has become an everyday practice for owners of older shopping centers throughout the country. It is now quite common for shopping centers to incorporate educational uses (particularly charter and trade schools), medical facilities, child care centers, churches, fitness centers, and so forth; while these uses do not create the same sales tax impact to the community, they do provide for activity within the center, services for the nearby community, and lease revenues for the center owners.

These and other creative uses can serve as an opportunity to help revitalize obsolete centers, and those which have lost their anchor tenants.

Industrial Shopping Center to Complement State Trailer RV & Outdoor Supply and other potential locations in South Peoria

An innovative land use option to consider for the State Trailer anchored center or nearby locations in South Peoria would be what we label an "industrial shopping center". The product for this land use would be characterized by buildings designed to accommodate a broad tenant base from retail-oriented to service-oriented tenancies which may need significant warehousing, distribution, and production space in addition to retailing space, but typically cannot afford to pay normal retail shopping center rates. Examples include places that sell pool supplies, golf carts, outdoor furniture, building materials, and outdoor playsets. Peoria already has some of these types of businesses, particularly along the Grand Avenue corridor.

Given the retail shopping pattern and supply shift away from Old Town and the attraction of a 173,000-square-foot State Trailer RV & Outdoor Supply outlet to replace a former Walmart store at a location that Albertson's also closed over 10 years ago. Potential users for this location would include other industrial- retail destination type commercial businesses that:

1) benefit from the accessibility of the location and have significant advertising programs and established franchise or reputation to draw from a relatively wide trade area;

2) do not need to be in standard retail shopping centers;

3) wish to avoid the high rent associated with retail centers located in preferred locations such as along Bell Road near the Arrowhead Mall area;

4) need space for storage, assembly or showroom (and outdoor display);

5) can be a significant source of sale tax revenues since most of these businesses sell products and/or services; and

6) want to contribute to and participate in the future appreciation of the area as the result of the implementation of the enhancement and redevelopment program.

Such businesses could include:

- Heating and air conditioning, electrical, plumbing, painting and wall-covering contractors, kitchen and bathroom cabinets, and other building trades;

- Makers, distributors, and installers of garage and overhead doors, windows and doors, carpet and other flooring, lighting, cabinets, fire safety, and security systems;

- A broad array of home, building, landscape, and equipment maintenance, repair, and cleaning services;

- RV, heavy truck, boat, ATV, golf cart, or other specialized vehicle sales and service;
- Automotive repair, detailing, and related automotive services; and
- Recreational equipment, such as fitness equipment, outdoor playsets, and trampolines.

Prototypical space for an industrial shopping center product could include a roll-up back and attractive "store type" fronts that can serve a variety of office, light assembly, and showroom, and distribution uses with uniformity of building design, signage, and awnings. Given the typical size of many of their products and the importance of advertising product availability, outdoor display space is often needed.

Given the established retail shopping patterns, and the more industrial focus along Grand Ave./railroad tracks, this type of commercial may be viable, particularly along the roughly three mile Grand Avenue corridor between 71st Avenue and the 101 Freeway. As indicated above, a recent example of this shift is the replacement of the former Wal-Mart store at 83rd Avenue and Peoria with the State Trailer RV & Outdoor Supply store; this facility offers both sales and service of RVs.

Provide for Fewer but Larger Retailing-Mixed Use Nodes in North Peoria

Retail agglomerations succeed because they contain a variety of proximate shopping opportunities whose synergy attracts more customers. It would be advantageous for Peoria to have fewer, but larger, well-integrated shopping nodes than numerous smaller strip centers and free-standing buildings that siphon off relatively small sales dollars so as to make more difficult the development of larger projects with greater trade areas and more frequent visitation, or higher per visit expenditures. For the growth area from around Union Hills and Deer Valley to the north, where much of the residential uses have been built since 2000 this would suggest not providing for small strip centers in every residential neighborhood (as was done in the southern portion of the City).

Retail zoning would be appropriate at locations in the path of growth and development such as the 303 Freeway and Lake Pleasant Parkway, Highway 74 and Lake Pleasant Parkway, and Lone Mountain Parkway and the 303 Freeway. Regional- and community-serving retail should be concentrated, rather than spread out, and integrated with necessity-type retail and non-retail uses where practical, as major concentrations tend to pull in shoppers from longer distances and enhance the viability of retail uses. Lake Pleasant Parkway and Happy Valley is a good example of this phenomenon. Although, allow for some neighborhood-serving retail, such as grocery-anchored centers, to follow rooftop growth north and west of the 303 Freeway as it occurs. Additional housing development in North Peoria, however, will not necessarily equate to demand for additional grocery-anchored neighborhood centers in the near-term.[3]

[3] Using typical benchmarks related to store size, sales performance, and consumer expenditures on groceries as a function of income, one would expect North Peoria for example to support about four to six grocery stores based upon the size of the existing household base. It presently contains seven full-service grocery stores (including the recently-built large format Fry's at the Four Corners) as well as two general merchandise stores - Target and Walmart - which contain grocery stores within them.

Maintain Strength of Central Peoria Submarket

Given a location in the dominant preferred Arrowhead Towne Center super-regional mall, Central Peoria submarket, encourage the expansion of the Kimco-owned North Valley Shopping Center and/or the DDR-owned Arrowhead Crossing Center. As described in Appendix A, assuming the City would permit existing property to be more intensively developed by reducing land allocated for parking and increasing the amount of land allocated for building space in the prime Central Peoria submarket retail locations, private investment and development can be expected to replace obsolete uses with new fast casual restaurants, chef-driven eating and drinking concepts, and specialty food tenants; medical tenants, including urgent care; and other commercial service providers looking for high traffic, densely populated locations part of a critical mass of retail uses without the need for municipal subsidies.

In the coming years, this area may begin to be impacted by competitive pressures from newer regional retail developments, such as the proposed Prasada Mall in Surprise. Additionally, as the existing centers age, and as consumer preferences change (less demand may be experienced for in-store purchases of items readily purchased via e-commerce, such as soft goods and electronics; conversely, consumers are seeking out "experiential" retail, including food and beverage, entertainment, and other items not easily acquired electronically), this area will need to change to accommodate these competitive and consumer preference shifts. Topgolf is one example of a popular entertainment and food and beverage use that frequently locates near regional-serving retail agglomerations. (Note that Topgolf already has facilities in Scottsdale and Gilbert).

The proportion of retail expenditures made online will continue to grow and reduce the need for on-the-ground space. Future retail development (and redevelopment) in Central Peoria and other Peoria submarkets will need to be aided by- and integrated with- non-retail activity generators, such as medical and distinctive entertainment-type uses, that provide attractive, experiential, and convenient alternatives to Internet shopping. One opportunity may be to include a food hall[4] in the P83 District or in the new planned office building for P83.

Meet regularly with existing property owners, property managers, and leasing agents to stay on top of current trends, issues of recurring concern, and opportunities and assist Central Peoria asset managers and leasing agents with attracting experiential retailers and eating and drinking establishments (such as Pinstripes http://pinstripes.com/) which would fit well within this market niche as opportunities become available.

[4] A "food hall" can serve as both an experimental kitchen for well-known chefs to test their next big food concept and as an incubator for young food entrepreneurs to explore a new business opportunity. A well-curated food hall showcases the latest food trends and includes local offerings for visitors to enjoy in one venue. Some food halls like Eataly and the Market Hall own and operate all the vendors within their spaces; others include a variety of already established, locally known names. Often these are smaller, satellite locations of existing restaurants, offshoots of popular food trucks, or more casual concepts from local star chefs. Examples of food halls can be found here: http://www.travelandleisure.com/slideshows/americas-best-food-halls; https://www.eater.com/2015/3/5/8105295/23-most-anticipated-food-halls-eataly-market-hall-ponce-city-marketand; http://www.bonappetit.com/test-kitchen/ingredients/article/the-5-best-food-halls-in-america.

Parking Requirements Excessive and Constrain Making the Highest and Best Use of Land and Recommendations

There are likely to be opportunities to reduce current parking requirements for restaurant uses while still meeting the parking expectations of prospective tenants in both existing and new retail centers. The current requirements for restaurant uses- one space for every 50 square feet of dining area, one space for every 200 square feet of kitchen/non-dining area, and one additional space for every 100 square feet of outdoor dining area- likely equate to a parking ratio of more than 15 stalls for each 1,000 square feet of building space for a typical restaurant use. By comparison, the City of Scottsdale's parking code requires about eight parking stalls per 1,000 square feet of gross restaurant floor area; and the first 500 square feet of outdoor dining area is exempted from any parking requirement. Additionally and perhaps more important, an effective parking ratio for restaurant uses that exceeds 15/1,000 in many instances is more parking than most restaurant concepts will require, especially new-to-market fast casual uses. Moreover, with the advent of Uber, Lyft, and other shared car services, driverless cars, and other transportation shifts, over time, less parking demand can be anticipated.

As described in Appendix A, reducing parking requirements, especially for infill development in preferred retail agglomerations in Central Peoria and North Peoria submarkets, is likely to enhance the feasibility of converting underutilized land to more productive and synergistic uses over time. Effective parking policies must strike an appropriate balance between convenient parking, and developing a strong agglomeration of mixed land uses while recognizing the impact parking has on development feasibility. The demand for parking is a "derived demand". That is, parking is not an end in itself; it allows access to workplaces, shops, housing, civic and cultural uses. One problem parking policy must address is the convenience, congestion, and reduced accessibility associated with a parking shortage will divert trips by consumers and visitors to competing locations. However, requiring excessive parking reduces the amount of building space that can be constructed and occupied to serve new and evolving demands, the rents of which permit the landlord to maintain and enhance the quality of the property and experience provided to tenants and consumers.

The current municipal parking regulations discourage landlords and developers from attracting eating and drinking and entertainment uses even when the properties have sufficient physical property to accommodate such uses, but cannot meet the parking code requirements. As property reservation prices rise, this will make it increasingly less feasible for investor-developers to pay the reservation prices because they will not be able to add relatively high-paying restaurant uses which also generate customer traffic for retail or other uses and expand the building space on the property needed to amortize and earn a return on the increased land/property cost.

Restaurants and other eating and drinking places will do better if grouped together and will help provide customer traffic to support retail tenants and appeal to residents and office space-using businesses. In addition, additional restaurants and entertainment opportunities, particularly those that occur in the night-time, will enrich the image of Peoria as more than just a place to work or shop and are likely to be able to share parking with complementary day-time uses.

Therefore, we recommend that the City evaluate its parking requirements. As part of the evaluation, obtain feedback from major retail property owners and developers about what contemporary retailers/restaurants/entertainment uses require in terms of parking. Consider also that the floor-area ratios associated with current parking requirements mandate very low suburban type densities in an era where millennials and baby boomers, the major sources of retail demand, typically prefer a more urban ambiance and making efficient and high quality use of time. This means, for example, when practical, being able to walk or bike between uses and activities and not wasting time in traffic and parking to go short distances. We also recommend that the regulations reflect the potential for shared parking when uses on a property generate parking demands at different times of day or week.

Appropriately Plan Potential Future Retail Locations

Retail uses should be concentrated at key locations near population density and employment clusters served by major transportation modes (such as has been done at the Four Corners commercial node near the edges of the growth limits, where sufficient demand exists or will exist in the future), rather than spread out throughout the community. Four Corners is successful because it is at "ground zero" for North Peoria, at the intersection of the two busiest and most significant arterial streets in the area.[5] Future retail agglomerations need to be similarly located at major transportation corridor intersections. Fortunately, North Peoria is blessed with a number of these major transportation corridors, including the recently opened 303 Freeway, the planned "New River" Freeway, and State Highway 74 (Carefree Highway).

By providing commercial opportunities as part of employment centers near the edges of the City, it is more likely that the future trade areas of those retail cores will extend into adjacent communities, particularly where those adjacent communities are not providing for the same level of retail opportunities. An example of this is Sun City, directly adjacent to Peoria's western border. Sun City has not provided for much retail beyond basic neighborhood services – i.e. no auto dealers, big box stores, or regional level retail. As such it is underserved by retail, and its residents travel to other communities, particularly Peoria, for many of their retail needs.

The City's current General Plan identifies future nodes of commercial development throughout the northern portion of the City. Some of the key areas identified on the General Plan (even if they are not currently within the City corporate limits) that may be able to support these future community and/or regional cores include:

- Loop 303 and Lone Mountain (major regional commercial core)[6];
- Highway 74/Lake Pleasant Parkway/New River Freeway area (while this area is still being planned, the intersection of these three major transportation corridors may become a desirable retail location in the future); and
- Highway 74 and Castle Hot Springs Road (a very long term future core).

[5] As one example, planning for retail uses near the Four Corners but not sufficiently close to produce cross-shopping and sales spillover (such as at 83rd and Happy Valley) should be avoided.

[6] The development of the 303 Freeway across northern Peoria provides for potential future retail development opportunities. The approximate 10-mile freeway, with a total of nine planned interchanges, within the City or its planning boundary, can be expected to stimulate opportunities for new commercial development. The City has already identified one major regional commercial core along the 303 (at the planned Lone Mountain interchange). The 303 Freeway/Lone Mountain and the 303 Freeway/Lake Pleasant Parkway intersections are generally controlled by the State Land Trust and could potentially become viable retail locations.

Some potential changes to the General Plan that the City may want to evaluate as part of the current General Plan update include the following:

- Loop 303 and Lake Pleasant Parkway: While the City does have one potential regional commercial core shown on the General Plan (303 and Lone Mountain), a potential viable alternative location is at the 303 and Lake Pleasant Parkway. This area is currently planned for only employment uses, but could if employment and residential uses are attracted also be viable as the 303/Lone Mountain interchange for regional retail uses.

- Nodes for commercial uses are currently shown along Lake Pleasant Parkway between Happy Valley and the 303 (such as at Lake Pleasant Parkway and West Wing). The City may wish to consider shifting those planned uses north to the intersection of Loop 303 and Lake Pleasant Parkway, which is currently planned for employment uses, and including as an option a portion of this intersection as a permitted regional commercial core;

- Two smaller commercial cores shown at Happy Valley and the 303 and at Lone Mountain and the 303 should be combined into one single, larger commercial core;

- The General Plan currently shows a community level commercial core on State Trust Lands along Carefree Highway at the approximate future 91st Avenue alignment. Given a proposed major community core at Carefree Highway and Lake Pleasant Parkway (about two miles to the southeast), this location may need to be downgraded from community level retail to neighborhood level retail; and

- Similarly, a smaller commercial core is shown at (approximately) Highway 74 and 91st Avenue. Unless this core can be focused on unique commercial uses – such as tourism-related commercial – combine this into either the Highway 74 and Castle Hot Springs Road or Highway. 74 and Lake Pleasant Parkway nodes.

The northern Parkway corridor in southern Peoria may also have the potential for additional commercial opportunities. The Maricopa County Department of Transportation has long term plans to extend the current Northern Parkway further east. Currently, the Parkway is built out east of the 303 Freeway to Dysart Road (about four miles). The next segment, about 2 ½ miles, from Dysart to 111th Avenue (which will put it into Peoria), is scheduled to be built between 2017 and 2020. This segment will include grade separated interchanges at Dysart Road and El Mirage Road, along with a new bridge over the Agua Fria River. Future segments are still being designed, but current thinking suggests that the stretch from 111th to Grand Avenue will not be a full limited access freeway, but rather a substantially upgraded roadway.

It would not be prudent for the General Plan to "put all its retail eggs in one basket" and be stymied by sites which may be controlled by unwilling owners, who are not interested in retail development, or in developing at all. Much of the land in North Peoria is currently owned by either the Federal government (Bureau of Land Management and Bureau of Reclamation), or by the State of Arizona (as State Trust Lands). A few recommended locations are privately owned. Unless there is an alternative location identified, if a single location does not have a willing owner, retail could be precluded at key locations.

Resist Short Term Pressures to Allow Other Uses for Key Retail Locations

As the City continues to grow to the north, it may receive pressure from developers wishing to build non-retail uses at key retail locations. Typically, residential uses are developed first, and only then is retail feasible. Areas identified for future retail uses may be pursued by developers for non-retail uses, as those uses are more feasible in the short term. Rezoning these locations to other uses will reduce the opportunities for retail to develop once the market matures. The City should resist development pressure to allow these non-retail uses at critical retail locations.

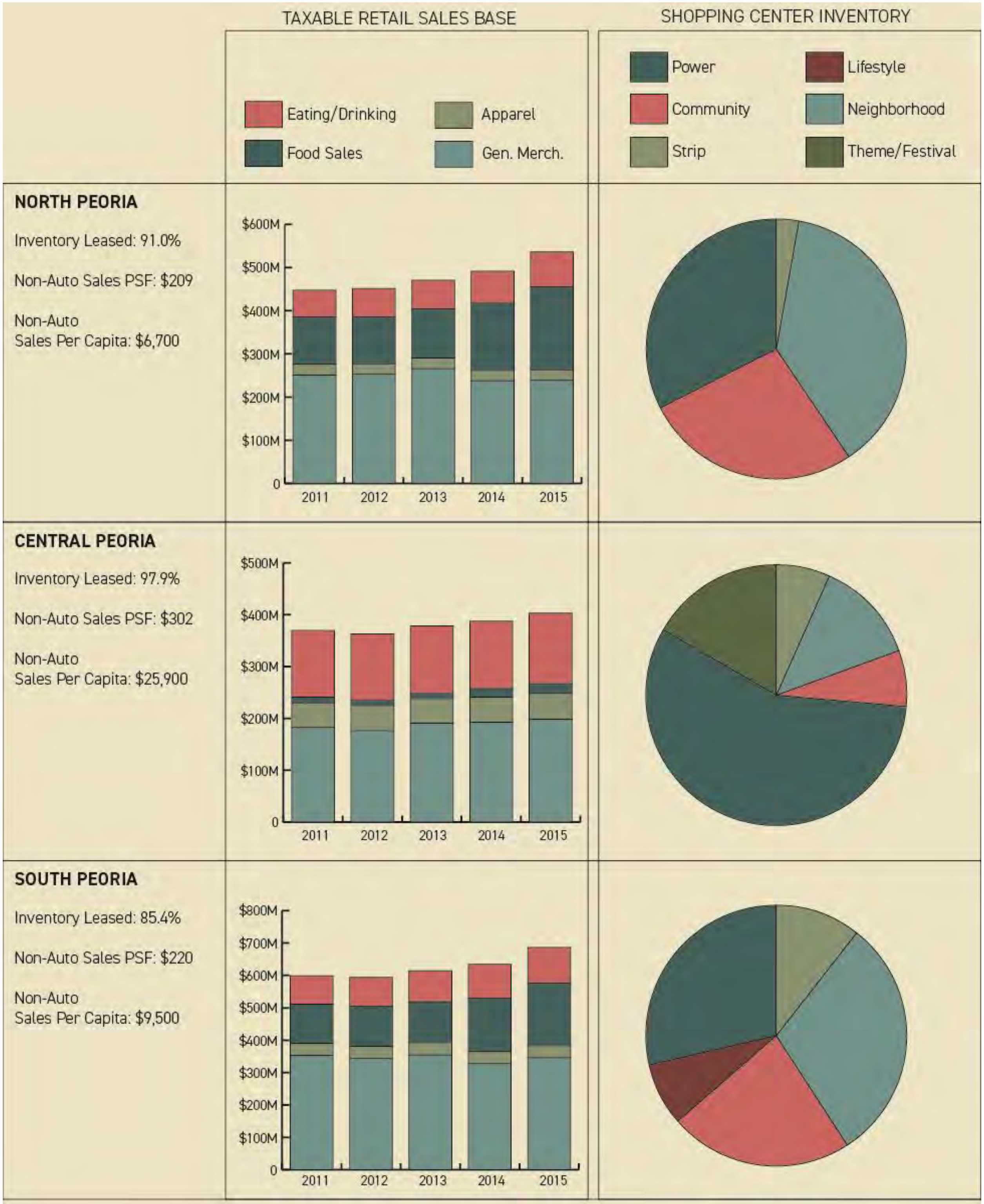
Monitor the Health of the Arrowhead Towne Center Area/Central Peoria Submarket and Monitor Supply Additions of Regional Serving Retail Facilities in Neighboring or Nearby Communities

Given the potential impacts of major retail facilities potentially built in Surprise, Phoenix, or other nearby communities, monitor the planning and development of major retail facilities (and automotive facilities) outside of Peoria and evaluate sales levels and inventory occupancy and rental rate characteristics to be alert for potential competitive impacts.

To more finely monitor potential competitive impacts and the relative strengths and weaknesses of Peoria's' retail base, expand the categories for which retail sales are tracked to include: general merchandise, apparel, food, eating and drinking, building materials, home furnishings, electronics, and automotive.

Figure I-1 below presents a "dashboard" that includes a brief summary of key retail metrics that should be monitored for each of Peoria's submarkets, including shopping center inventory composition, percent of inventory leased, taxable sales trends/composition, sales-per-square-foot, and per capita sales.

FIGURE I-1: Retail Metrics Monitoring Dashboard



Monitor and Preserve Strength of Automotive Sector

Bell Road from the Loop 101 Freeway to 93rd Avenue contains one of the largest concentrations of automotive dealers in the Phoenix metropolitan area. Of the 25 top selling car brands, 22 of them are represented in this area; one additional brand (Cadillac) is also located here, but is just over the line in the City of Glendale, while the remaining two brands are not currently in this market (Lincoln and BMW). Additionally, several motorcycle dealerships and auto parts/supplies/repair facilities are located in the area. Without any significant additional vacant land in the area, the only options for many dealers will be creating greater intensity on their existing sites via parking structures and multiple story buildings.

The importance of automotive-relative sales to the taxable sales base of Peoria suggests that it would be advisable for the City to monitor sales and regularly meet with representatives of the dealerships to keep abreast of changes in market and regulatory conditions that affect dealerships. In particular, the City should be proactive about helping to respond to changes in facility requirements of dealerships and maintaining the locational accessibility of the dealerships.

This is especially important because the City of Surprise is developing an auto complex on the 303 between Cactus and Waddell, approximately 12 miles to the west of the Peoria Bell Road auto core. While currently only encompassing six dealerships, this auto development will likely grow over time (and there are plans to add three new dealerships over the next year). While it will not likely attract many Peoria residents directly, it will reduce the number of buyers who currently patronize the Peoria auto dealers who live in Surprise, Sun City West, and other locations to the west.

Support the P83 Entertainment District

The City has designated the P83 District as an important destination within Peoria for entertainment uses. The District has struggled over the years, however, due to the seasonality of the patronage – i.e. it is packed during spring training games, but it can be very slow during the summer months.

The City will likely need to continue to support this area. One option includes encouraging the individual owners to consider creating an over-arching District wide operations and management entity, which could better coordinate operational issues (i.e. parking), as well as serve as the master marketing entity for the District.

Work with Property Owners to Attract and Incubate Unique Retail and Dining Concepts

Additionally, the City should coordinate with property owners to hold and publicize an annual contest to attract independent, unique retail and other experiential concepts to available space in buildings with vacant space at P83 south of Bell Road on 83rd Avenue. Under this approach, aspiring eating and drinking establishments, entertainment venues, or unique retailers complete applications and business plans, which are reviewed by a panel of experts, including private sector interests, the winners of which are given attractive terms for short-term leases or "free rent" and reduced or abated municipal fees. The idea is to incubate and grow the kinds of unique entertainment, retail-and food related uses not readily found in standard shopping centers.

Peoria contains many sophisticated and active retail property owners, developers, and brokers. Given the ample amount of retail space and categories already well covered, it would be most efficient to focus staff resources on working with the real estate community to provide the information it needs and the policy framework and process assistance to help the retail real estate community attract retail and non-retail businesses to retail properties in Peoria.

Hold Broker and Developer "Open House" Events and Continue to Improve Development Approval Process

To keep retail brokers and developers informed of land use and economic development plans, municipal goals, objectives, and priorities, property availabilities, municipal incentives, new and expanded businesses and developments coordinate with representatives of major retail properties and nodes to host an annual retail brokers "open house".

Continue to improve the permit and approval process through developer surveys, newsletters and updates, and advisory committees.

REPORT ORGANIZATION

Chapter II reviews the retail base within Peoria including the amount and type of retail space by subarea and the trade areas various centers and retailing nodes serve as well as rental rates and occupancy rates. Chapter III reviews taxable sales trends and presents an analysis of estimated sales leakage and surplus. Chapter IV presents an assessment of the strengths and weaknesses of Peoria retail base including the factors that encourage retail demand and the factors that constrain capturing retail demand. Chapter V presents estimates of potential current and future retail demand. Chapter VI presents the relationship between estimated current and future retail supply and retail demand. Appendix A includes a supporting document prepared to evaluate the real estate economics of prototypical retail development and redevelopment alternatives within submarkets of Peoria. Appendix B includes descriptive marketing packages prepared for each of the three primary submarkets.

CHAPTER II

RETAIL MARKET CONDITIONS AND EXISTING SUPPLY IN PEORIA

INTRODUCTION

This chapter reviews current retail market conditions within Peoria and presents a comprehensive inventory of existing retail space within the City of Peoria based on secondary data obtained from CoStar and supplemented with our own field research. Chapter II also reviews the results of our interviews with retail property owners, developers, brokers, and leasing agents, and business owners.

The City of Peoria retail market and its existing inventory of retail space can be best categorized as three distinct submarkets: South, Central, and North Peoria. The primary trade areas served by each submarket tend to be geographically separate (in that each submarket generally attracts customers and sales from different areas of Peoria and adjoining communities). This reflects differences in the amount, composition, and tenant mix of the existing retail supply in each submarket and varying degrees of current and past performance as well as varying demographic make-ups of households in differing parts of Peoria.

CITYWIDE RETAIL MARKET OVERVIEW

According to CoStar, the City of Peoria is estimated to currently contain just over seven million square feet of shopping center space. The citywide retail vacancy rate as of first quarter 2017 was reported at 12.8 percent, representing a five year low. The vacancy rate has declined from a peak of about 16.5 percent in 2013. The decline in the vacancy rate reflects net absorption totaling about 250,000 square feet of space (citywide) over the past three years. Annual asking rents are reported by CoStar to average $14.27-per-square-foot. Compared to five years ago, average asking rents have declined by about 25 percent although small positive gains were reported in 2016. This suggests that some landlords have lowered rent expectations in order to fill vacant space. As reviewed in the subsequent sections of this chapter, occupancy rates and retail rents vary significantly within Peoria by location, type, and age of space.

EXISTING RETAIL SUPPLY IN PEORIA

South Peoria, comprising centers located south of Thunderbird Road, represents about 44 percent of the citywide shopping center space inventory. South Peoria was generally developed in a one mile grid pattern, typical of the more central locations within the metropolitan areas. Grand Avenue bisects South Peoria and our field research suggests that it serves as a strong actual and psychological barrier to households on either side. Shopping centers are located at nearly every major intersection of arterial streets, although most of the inventory of South Peoria (in terms of overall square footage) is concentrated along 75th Avenue, within and around Old Town and west of Old Town on Peoria Avenue and at the Northern Avenue interchange on the 101 Freeway.

The Central submarket of the City is generally defined as the area between Bell Road and Thunderbird Road. This submarket of the community was built been the 1970s-2000s and is relatively built out today. Central Peoria is the smallest retail submarket in the community with less than 20 percent of the total citywide shopping center space inventory. The Central submarket, however, is part of the largest strongest regional-serving retail agglomeration in the northwest

Valley, anchored by the Arrowhead Towne Center super-regional mall (in Glendale). Central Peoria contains the Peoria Sports Complex, several select service and extended stay hotels, the P83 Entertainment District, and multiple power centers on Bell Road. It also includes Peoria's “Auto Row” (located west of the 101 Freeway on Bell Road) which contains 23 of the top 25 selling automotive brands; only BMW and Lincoln are not represented in this area. This is the most significant auto dealer cluster within the Valley and a source of significant sales tax revenue for the City.

North Peoria, defined generally as the geographic area north of Bell Road, is geographically large and represents the primary growth area of the community. Much of the area has developed in the past 15 years and the opening of the 303 Freeway and extension of Lake Pleasant Parkway has further stimulated the growth potential of the area. The North Peoria retail inventory comprises about 40 percent of the existing citywide inventory and is characterized by a series of newer centers and concentrations around major thoroughfares, primarily at Lake Pleasant Parkway and Happy Valley Road (referred to as the "Four Corners" area). Significant opportunities for future retail investment and development in North Peoria include locations such as Camino a Lago, in the Vistancia master planned community, and at interchanges along the 303 Freeway.

Map II-1 illustrates the existing retail space supply within the City of Peoria by geography and type of shopping center.

MAP II-1: City of Peoria Existing Shopping Center Inventory

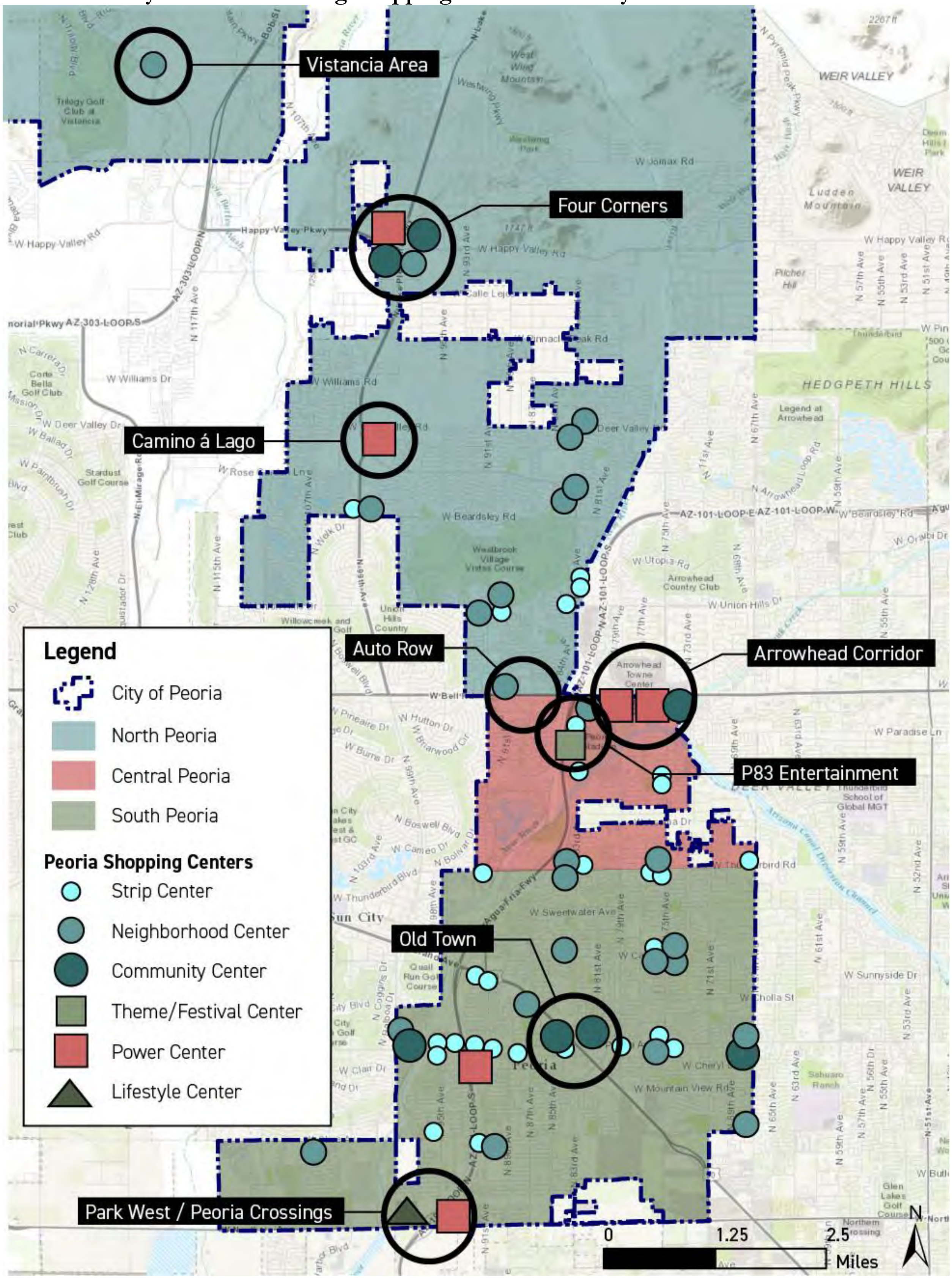


Table II-1 summarizes the existing inventory of space by type of shopping center and submarket.

TABLE II-1

City of Peoria Retail Space Inventory by Type of Shopping Center and Submarket

	South[1]		Central		North[2]		Total
	# Sq. Ft.	%	# Sq. Ft.	%	# Sq. Ft.	%	# Sq. Ft.
Strip Center	333,485	66.8	89,918	18.0	75,948	15.2	499,351
Neighborhood Center	949,209	45.4	170,725	8.2	968,687	46.4	2,088,621
Community Center	707,243	47.3	92,071	6.2	696,384	46.6	1,495,698
Lifestyle Center	246,033	100.0	0	0.0	0	0.0	246,033
Power Center	889,033	35.8	762,933	30.8	827,943	33.4	2,479,909
Theme/Festival Center	0	0.0	220,778	100.0	0	0.0	220,778
Total	**3,125,003**	**44.4**	**1,336,425**	**19.0**	**2,568,962**	**36.5**	**7,030,390**

[1] South of Thunderbird Road.
[2] North of Bell Road.

Sources: CoStar; Gruen Gruen + Associates.

Power Centers totaling about 2.5 million square feet represent the largest category of shopping center space in the City of Peoria and each submarket of the community contains two of them. Power Centers which typically ranging in size from about 250,000 to 600,000 square feet are characterized by several large anchor and "junior anchor" tenants and only a minimal amount if any of small "in line" retail space. The anchors of Power Centers are frequently general merchandise department stores and "category killer" retailers that offer a deep but narrowly focused selection of merchandise. Originally the power center, big-box concept was about convenience and depth in narrow product categories. The Internet provides even more convenience and even more breadth of products frequently at a lower cost point. It is likely that stores and retail centers that provide commodity like products with limited service will be most severely impacted over time by the shift to Internet shopping.

The P83 Entertainment District in Central Peoria, is classified by CoStar as a Theme/Festival Center because it is anchored by entertainment facilities and restaurants (as opposed to retailers). South Peoria contains the community's only Lifestyle Center, Park West, totaling about 250,000 square feet of space. Lifestyle Centers are typically characterized by specialty or upscale retail and dining offerings configured in an outdoor "main street" concept.

Neighborhood Centers and Community Centers, primarily located in South Peoria and North Peoria, contain about 3.6 million square feet of existing space or more than one-half of the existing citywide shopping center space. Neighborhood and Community Centers are both typically focused on providing convenience and necessity-type goods, as well as personal services, to the immediate neighborhoods (with supermarkets and drug stores typically serving as the anchor tenants, although some larger community centers may also have an emphasis on soft goods or discount stores). Strip Centers total about 500,000 square feet of existing space with about two-thirds of the inventory located in South Peoria.

As summarized in Figure II-1, more than one-half of City's total retail space was built during an eight year period prior to the Great Recession. Nearly 2.2 million square feet of space was built between 2000 and 2008 in North Peoria alone. Neither the North nor Central submarkets contain any significant shopping center space built prior to 1990.

FIGURE II-1: Existing Retail Inventory by Submarket and Year Built

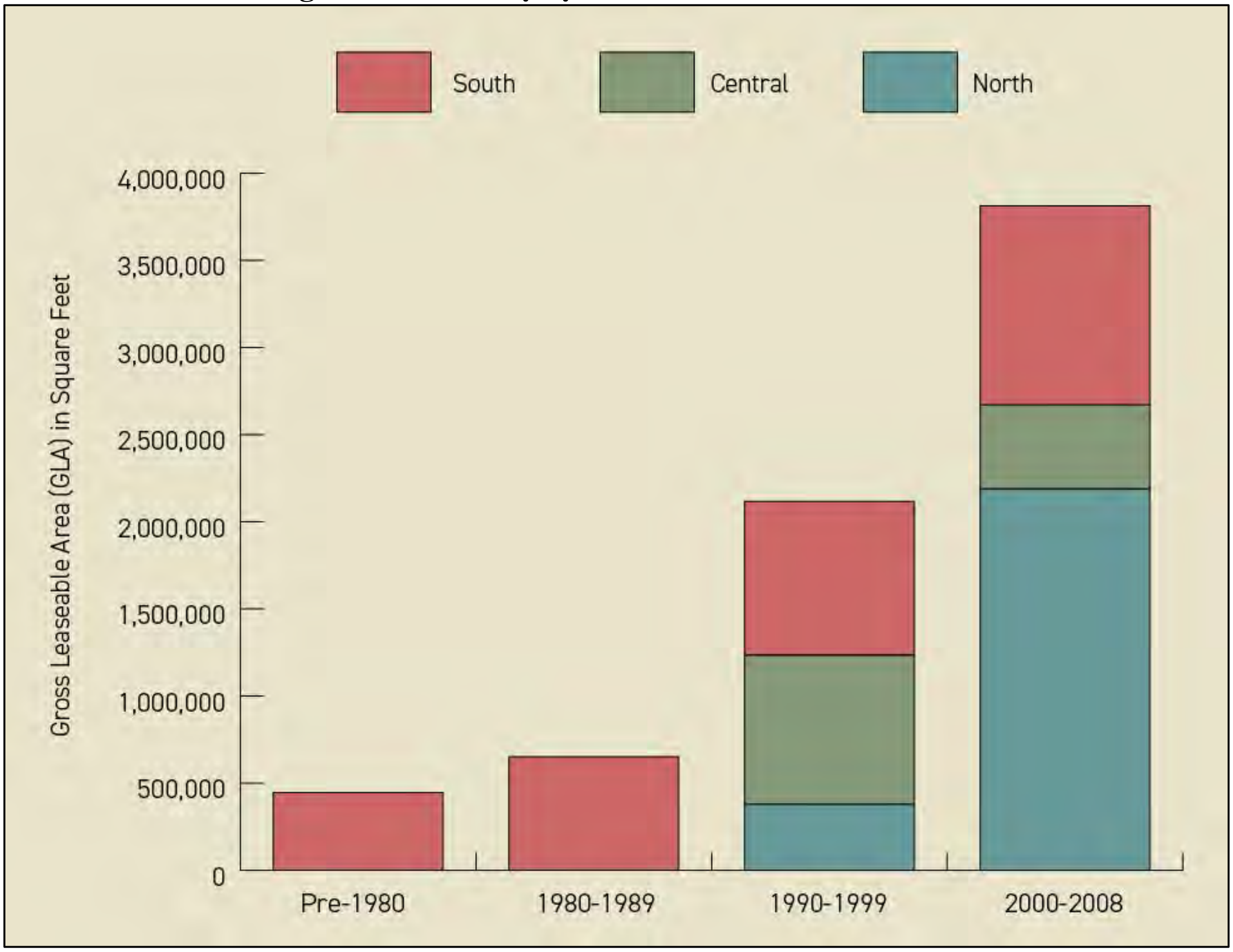


Table III-2 summarizes occupancy and availability trends by submarket.

TABLE II-2

Proportion of Existing Peoria Retail Inventory Leased and Available

	Total Inventory	Leased		Available[1]	
	# Square Feet	# Square Feet	%	# Square Feet	%
South	3,125,003	2,668,651	85.4	674,252	21.6
Central	1,336,425	1,308,548	97.9	55,913	4.2
North	2,568,962	2,338,343	91.0	399,643	15.6
Total	**7,030,390**	**6,315,542**	**89.8**	**1,129,808**	**16.1**

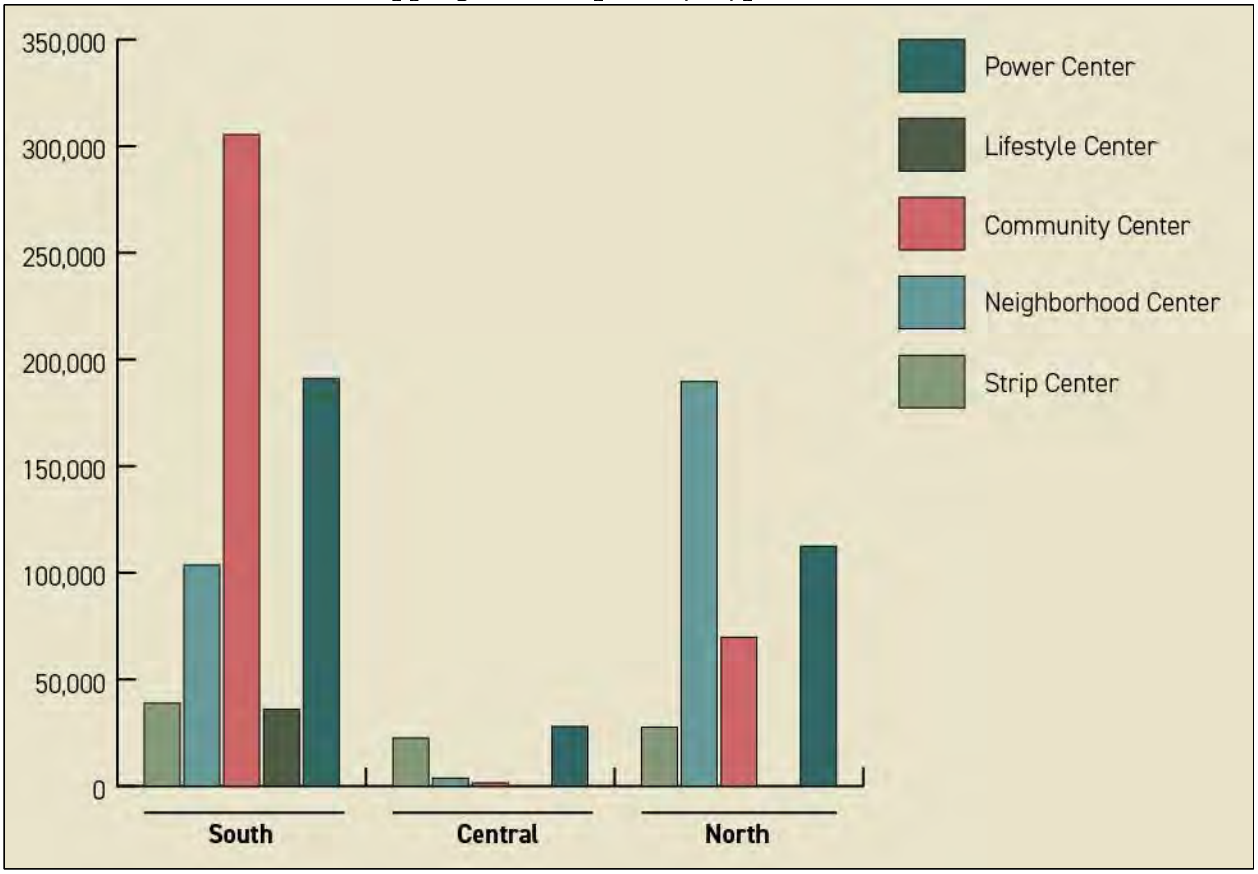
[1] The total amount of space that is currently being marketed as available for lease or sale. It includes any space that is available, regardless of whether the space is vacant, occupied, available for sublease, or available at a future date. The amount of "leased" and "available" space will not add to 100 percent.

Sources: CoStar; Gruen Gruen + Associates.

The total citywide shopping center inventory is approximately 90 percent leased according to CoStar. Central Peoria is very well leased at nearly 98 percent, while South Peoria and North Peoria are 85 percent and 91 percent leased respectively. About 1,130,000 square feet of space is reported by CoStar to be currently "available" representing 16 percent of the total space inventory. The majority of this available space is concentrated in South Peoria. Note that this estimate is inclusive of all space that is currently being marketed for lease or sale; regardless of whether it is currently vacant or occupied (e.g., a landlord may list a space for lease at a future date when the tenant has not renewed and the lease is close to expiration).

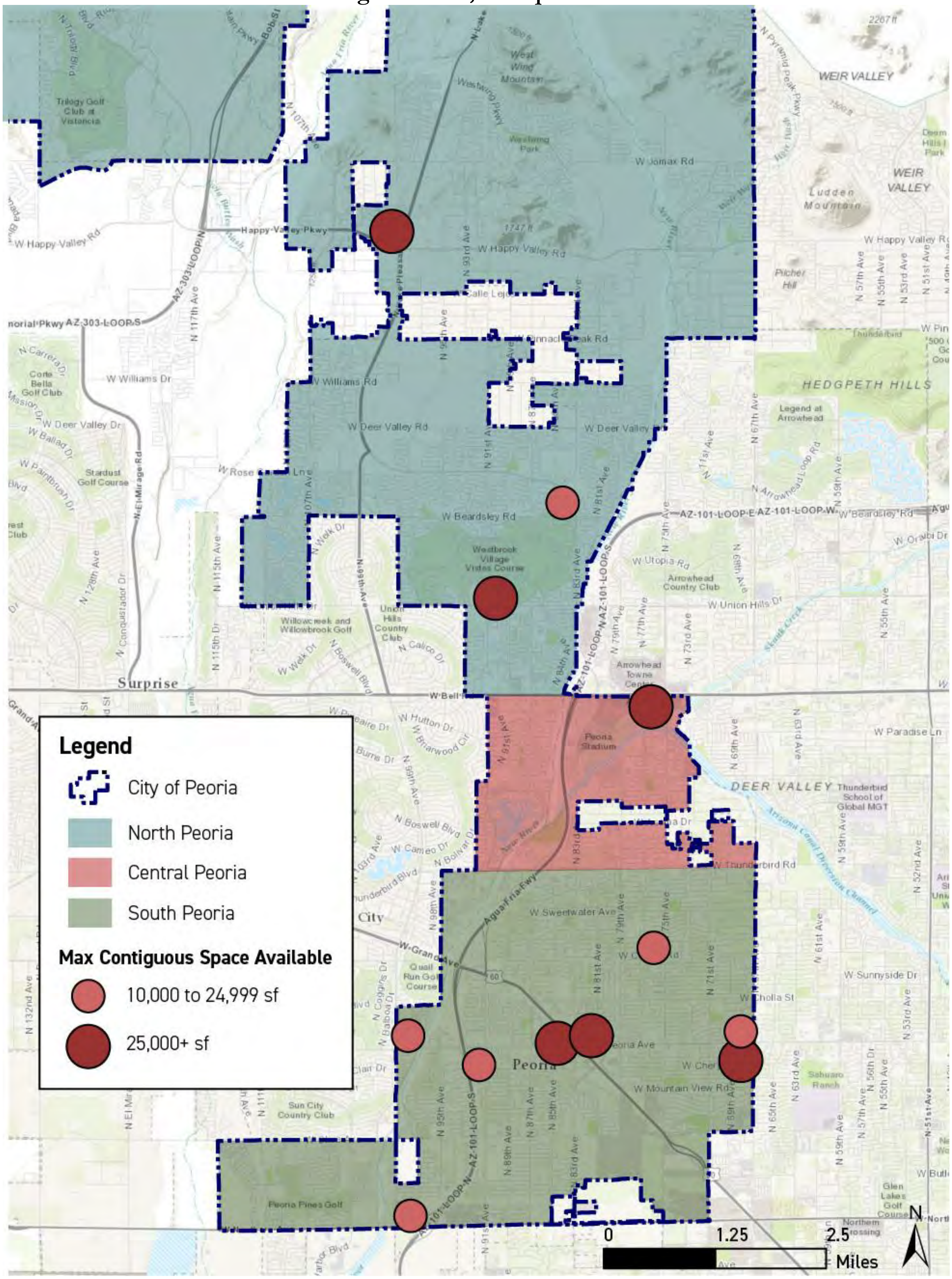
Figure II-2 summarizes the amount of available space by type of center and submarket.

FIGURE II-2: Available Shopping Center Space by Type and Submarket



South Peoria contains about 60 percent of all currently available retail space within the City. Community Centers and Power Centers in South Peoria and Neighborhood Centers in North Peoria all contain more than 200,000 square feet of currently available retail space. Very limited availabilities exist in Central Peoria. Map II-2 illustrates this condition, summarizing the location of larger shopping center space availabilities (larger than 10,000 square feet in size). Two-thirds of contiguous spaces exceeding 10,000 square feet are located in South Peoria, primarily along Peoria Avenue.

MAP II-2: Retail Availabilities Larger than 10,000 Square Feet



The following sections review the existing retail supply, conditions, characteristics, and competitive factors of each submarket.

SOUTH PEORIA SUBMARKET

South Peoria contains 21 shopping centers larger than 25,000 square feet in size according to CoStar. On a square footage basis, the average shopping center in South Peoria was built in 1993. About 40 percent of the existing inventory was built prior to 1990. According to CoStar, only seven of 21 shopping centers in South Peoria are more than 95 percent leased and eight centers currently have more than 25,000 square feet of available retail space.

A recurring theme of our interviews with developers, brokers, and property owners familiar with the South Peoria submarket is that shifts in consumer preferences and growth patterns (to the north and west), combined with changes in preferred retail store formats, have led to the competitive and functional obsolescence of many neighborhood and community shopping centers in South Peoria. When second and third generation anchor spaces become vacant in South Peoria, to the extent they can be back filled, they tend to appeal only to discount-oriented retailers or other marginal uses seeking very attractive lease or ownership deals. New-to-market retailers or restaurants will only consider locations on Bell Road in Central Peoria and to a lesser extent the Four Corners area of North Peoria. Contemporary larger centers on South Peoria's southern border (Park West and Peoria Crossings) reportedly perform better than the submarket as a whole though they too face challenges; they are essentially "betwixt and between" two larger and better established retailing agglomerations to the north (the Arrowhead Corridor on Bell Road) and to the south in Glendale (the Westgate district).

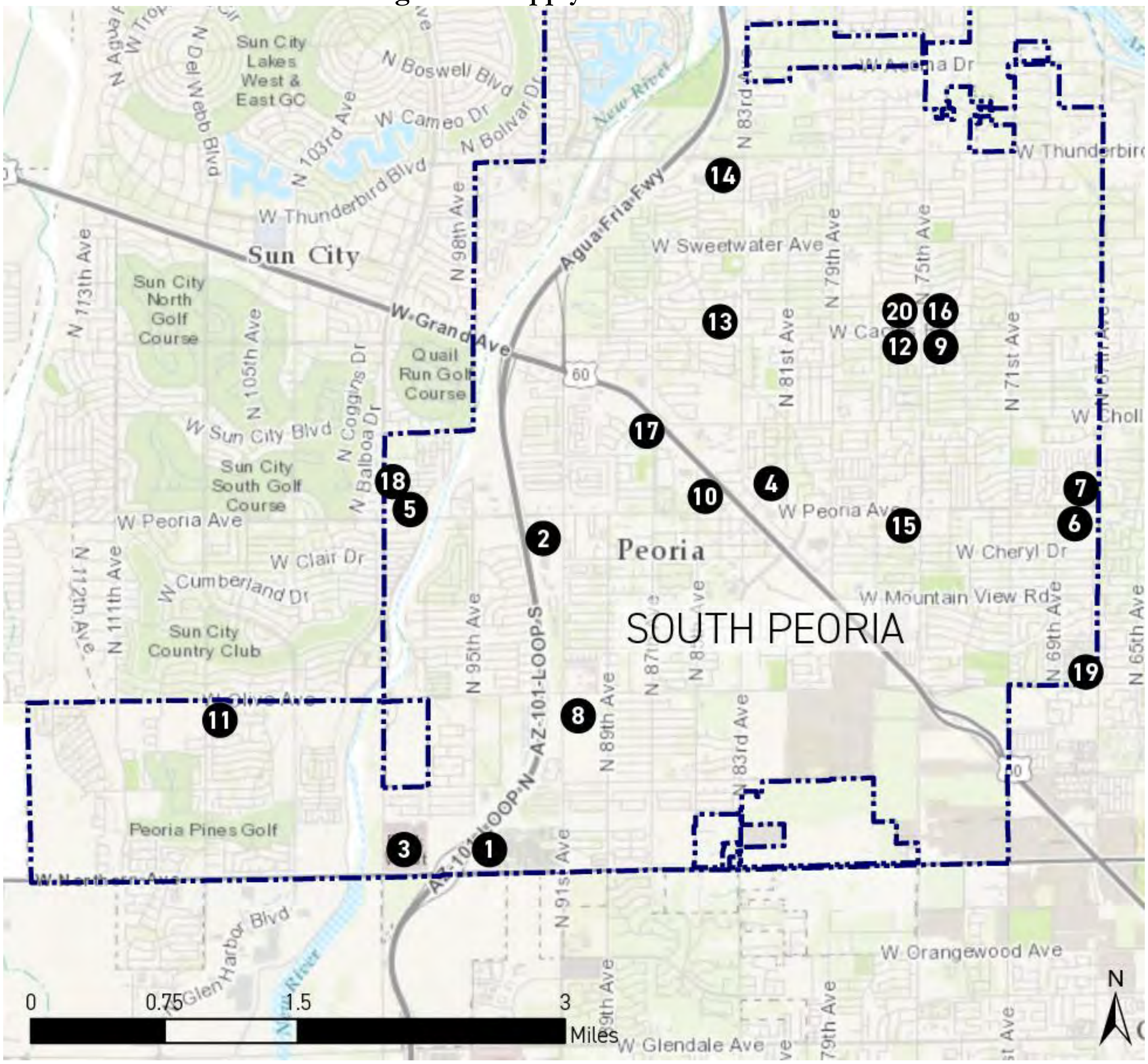
Table II-3 and Map II-3 summarize the existing inventory of shopping centers with more than 25,000 square feet of space in South Peoria.

TABLE II-3: South Peoria Retail Inventory (Centers Larger than 25,000 Square Feet)

ID	Name	Type	GLA # Sq. Ft.	Leased %	Available # Sq. Ft.	Year Built	Average Rents Per-Square-Foot
1	Peoria Crossings	Power Center	470,508	97.6	121,624	2001	$15.00
2	Peoria Power Center	Power Center	418,525	86.0	69,543	1997	$25.92
3	Park West	Lifestyle Center	246,033	96.6	36,085	2007	$27.96
4	Peoria Town Center	Community Center	214,310	62.7	80,025	1990	$6.48
5	Arrowhead Shopping Center	Community Center	207,902	78.5	44,688	1968	$7.20
6	Peoria Station	Community Center	181,686	79.4	91,547	1987	$15.00
7	Crossroads Plaza	Neighborhood Center	124,992	81.9	26,286	1987	$8.28
8	Agua Fria Plaza	Neighborhood Center	105,900	95.5	4,800	1996	$15.96
9	Fry's Food & Drug Plaza	Neighborhood Center	105,484	93.8	6,558	1988	-
10	Wagoner Plaza	Community Center	103,345	13.7	89,145	1970	$11.28
11	Peoria Marketplace	Neighborhood Center	92,505	88.3	10,826	2003	$18.00
12	Lee Lee Plaza	Neighborhood Center	91,289	100.0	1,900	2001	$20.04
13	Safeway Plaza	Neighborhood Center	87,819	87.2	12,492	2002	-
14	Thunderbird Crossing	Neighborhood Center	83,000	95.5	3,740	1997	$17.40
15	Peoria & 75th Avenue Center	Neighborhood Center	62,050	89.3	6,661	1995	$12.00
16	Columbia Square	Neighborhood Center	58,535	78.4	12,664	1986	$13.08
17	Sunflower Plaza	Neighborhood Center	56,986	100.0	0	1984	-
18	Grand Center Plaza	Neighborhood Center	42,620	86.2	12,900	1979	$12.24
19	Olive Plaza	Neighborhood Center	38,029	87.2	4,875	1986	-
20	CVS/Angry Crab Center	Strip Center	25,000	37.0	15,750	2006	$9.00
TOTAL			**2,816,518**	**84.5**	**652,109**		

Sources: CoStar; Gruen Gruen + Associates.

MAP II-3: South Peoria Existing Retail Supply



Notable retail centers within South Peoria include:

Park West: The newest retail development in South Peoria built in 2007 is the Park West lifestyle center situated at the northwest corner of the Northern Avenue interchange on the 101 Freeway. It contains about 250,000 square feet of space anchored by a 64,000-square-foot Harkins Theatre and a variety of specialty retailers and restaurants including Francesca's, Chico's, Bath and Body Works, BJ's Brewhouse, and Fleming's Steakhouse. The center is about 97 percent leased. However, about 36,000 square feet of space is currently available, including one contiguous space totaling about 18,000 square feet of space at the entry to the development. It was previously occupied by the Cowboys Saloon which abruptly closed in November after occupying the space for only a few months. Asking rent on the space is $28-per-square-foot and a broker marketing the Park West property noted that asking rents for availabilities in the center are generally in the "high $20's" per square foot. The property has recently changed ownership and available spaces are now being priced more aggressively. The previous owner was reportedly seeking per-square-foot rents in the mid $30's. CIRE Partners recently purchased the Park West center and an adjacent 18-acre parcel for $33.5 million.[7] The broker marketing the property indicated that the center's primary competition is approximately two miles south at the Westgate development (for food and beverage) and at the Tanger Factory Outlets in Glendale adjacent to University of Phoenix stadium (for soft goods). A freestanding Cabela's store is adjacent to the Tanger Center. This direct supply competition benefits from a larger scale and more diverse tenant mix and accordingly has a stronger draw. The Arrowhead Corridor on Bell Road represents secondary supply competition. To more effectively differentiate the center from the nearby supply competition, the new Park West owner is pursuing a tenanting strategy that will emphasize family-focused food and beverage, entertainment, and non-retail (e.g., health and wellness) offerings.

Peoria Crossing: The largest center in South Peoria, the Peoria Crossings power center, is located just east of Park West across the 101 Freeway. The 471,000-square-foot center was built in 2001 and is anchored by Target and Kohl's. Junior anchor tenants include Ross Dress for Less, Michaels, Petco, and LA Fitness. Two pad sites totaling about four acres remain undeveloped. According to CoStar, the center remains well leased (at approximately 98 percent) but more than 121,000 square feet of space is reported to be available for releasing with asking rents at $15-per-square-foot, which indicates that there may soon be some store closings. According to the original developer of the property, the power center has historically been relatively stable in terms of occupancy and lease rates and has continued to experience pad site absorption and development activity over time. Sales performance overall, however, is relatively low at an estimated $250-per-square-foot. The primary trade area is reported to extend about three miles to the north and to the east (to Grand Avenue), about two-to-three miles south to the Westgate/University of Phoenix area, and considerably further to the west given a lack of supply competition in that direction.

Peoria Town Center: Directly adjacent to Old Town, on the east side of Grand Ave., is the 214,000-square-foot Peoria Town Center, formerly anchored by Walmart and Albertson's. Wal-Mart has opened a new SuperCenter about two blocks to the east of this site, which appears to be very busy and doing well. The Peoria Town Center itself was recently purchased by an owner-occupant retailer (State Trailer Supply). The property was purchased for a low price. The property is only about 62 percent leased and includes approximately 80,000 square feet of vacant space, primarily the former Albertson's store. Interest in the space has primarily come from non-retail uses, such as a mini-storage user, that require conditional use permits that have not been granted. The only other major tenant of the property (Final Clearance) was provided a seven year lease with a very low effective net rent. One strategy if permitted by the City would be to attempt to attract complimentary uses to recreational vehicles (e.g., boating, motorcycle, or RV sales) and hardware, but net rents are not likely to be any higher than obtained from Final Clearance. The property also contains considerable surplus parking capacity that could be put to alternative use, including the industrial shopping center concept outlined in Chapter I.

Peoria Station: The Peoria Station community center, located on the eastern border of Peoria at 67th Avenue and Peoria Avenue is another second generation property with a considerable amount of vacant space. The 182,000-square-foot center is about 79 percent leased but roughly half vacant due to the closure of both of its anchor tenants- Safeway and L.A. Fitness. Safeway closed as the result of its recent merger with Albertsons, and the L.A. Fitness moved to a new, larger location

[7] http://www.orionprop.com/topfive/cire-partners-expands-valley-retail-portfolio-pays-33-45-million-for-peoria-plaza/

approximately one mile to the east in Glendale. A broker for the property indicated that effective rents for the property tend to range from $6- to $14-per-square-foot depending upon size. The center serves a very local trade area consisting of neighborhoods within about two miles of the property or a seven minute drive time. Both occupancy rates and obtainable rents have been declining over time particularly since the loss of Safeway as an anchor.

Agua Fria Plaza: Agua Fria Plaza, a comparatively new neighborhood center in South Peoria at 91st and Olive, built in 1996, is currently 95 percent occupied. Fry's occupies a 63,000-square-foot anchor grocery store. Fry's however, will be closing this store and relocating one mile east into a new 107,000-square-foot store at 83rd and Olive that it will own. Groundbreaking is expected within a few months. Agua Fria Plaza will then become about 65 percent vacant with limited prospects to back fill the vacant anchor space.

Other Centers in South Peoria: Most of the remaining centers in this area are typical, grocery anchored neighborhood centers, which are now 20-30 years old. Many of these have experienced the loss of their original anchor tenants – grocery stores have left, either as the result of mergers or their desires to have larger stores, while many of the traditional inline drug stores have also moved, primarily onto corner pad sites with the capacity to have drive-thru pharmacies. Some of these lost anchor locations have been backfilled with new anchors, although many of these are considered to be "second-tier" anchors, without the same level of desirability as a grocery or drug store (such as Goodwill, 99 Cent, or independent ethnic grocery stores). Other anchor locations are simply sitting empty, with little prospect for new tenants, which is slowly dragging down the rest of the center. The former grocery store anchors, at 30-50,000 square feet tend to be a difficult size, as they are too large for most junior anchors (e.g.,. Ross, Petsmart and Bed Bath and Beyond), but too small for other grocery stores or large general merchandise discounters. It is difficult to expand these older anchors, as the centers are landlocked, and do have not the ability to add more space. Finally, some very marginal older strip centers, such as the Arrowhead Shopping Center at 99th and Peoria, are functionally and aesthetically obsolete, and which are now generally only able to attract low paying marginal tenants.

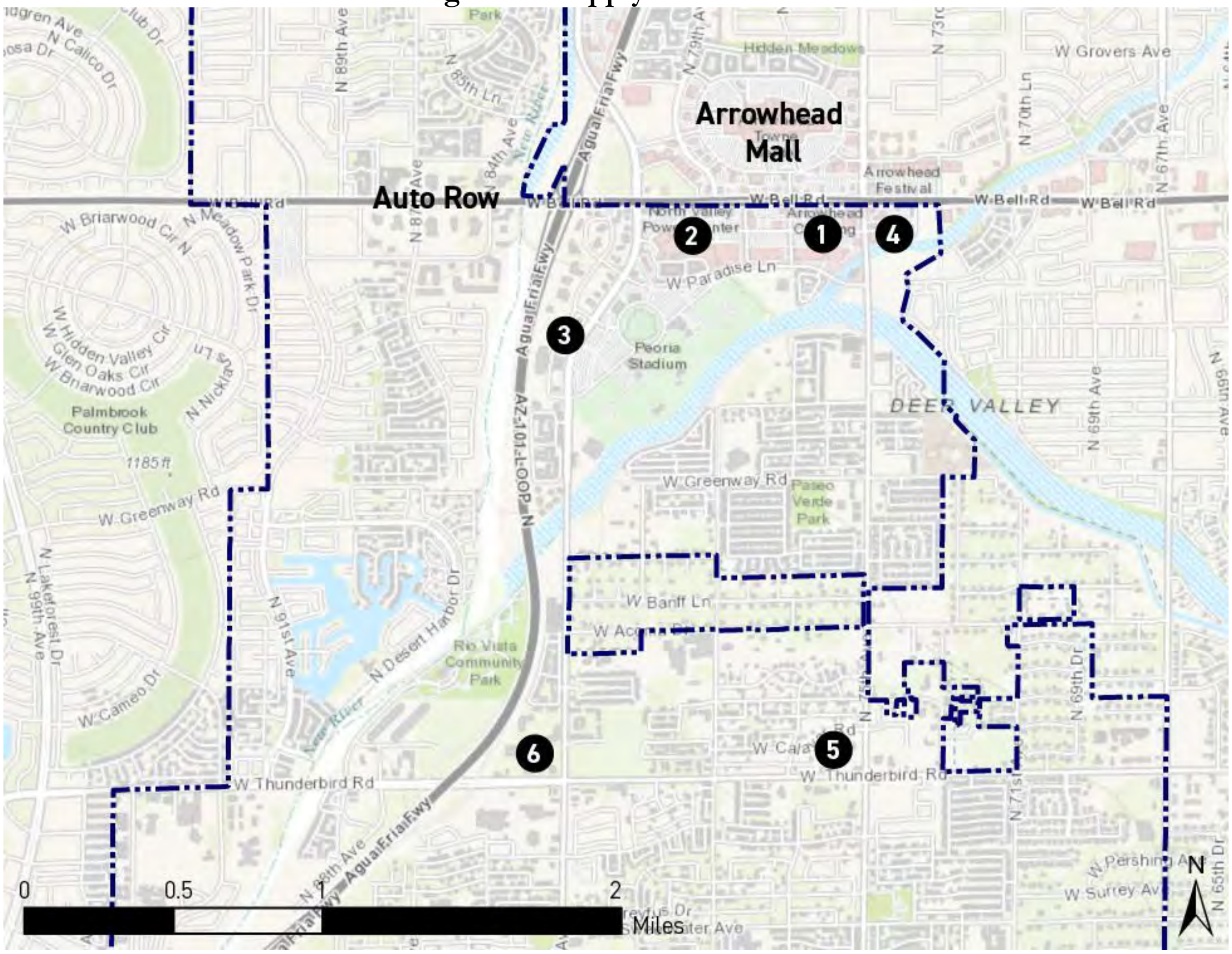
CENTRAL PEORIA SUBMARKET

Central Peoria contains Peoria's "Auto Row" (discussed later in this report), and is focused on the Arrowhead corridor – Bell Road between the 101 Freeway and 72nd Avenue While Arrowhead Mall is actually in the City of Glendale, the Arrowhead corridor is considered to be the most successful retail area in the City. Central Peoria contains six shopping centers larger than 25,000 square feet in size according to CoStar. All six are more than 95 percent leased and only one contains any significant amount of available space. Frontage on Bell Road is in significant demand by retailers, particularly by restaurants and specialty users. Arrowhead Mall is considered to be one of the top three malls in the Valley, primarily due to the relative lack of competition in the west Valley (the two closest existing malls are Desert Sky Mall, which is struggling, and MetroCenter Mall, which is currently slated for demolition and redevelopment into a new mixed use complex) has allowed the Arrowhead Corridor to establish a position of market area dominance with more than three million square feet of space and a diverse tenant mix, and to serve as the only true regional commercial complex in the northwest Valley. Rents for smaller restaurant and specialty users in this area are reportedly approaching $50-per-square foot and vacancy rates are very low. Market conditions have improved to the point where the redevelopment of older low-density property is economically feasible.

Table II-4 and Map II-4 summarize the existing inventory of shopping centers with more than 25,000 square feet of space in Central Peoria.

TABLE II-4: Central Peoria Retail Inventory (Centers Larger than 25,000 Square Feet)							
ID	Name	Type	GLA # Sq. Ft.	Leased %	Available # Sq. Ft.	Year Built	Average Rents Per-Square-Foot
1	Arrowhead Crossing	Power Center	442,267	100.0	26,836	1994	-
2	North Valley Shopping Center	Power Center	320,666	100.0	1,200	1992	Mid $30's
3	Arrowhead Entertainment Center (P83)	Theme/Festival Center	220,778	100.0	6,600	2000	-
4	Arrowhead Palms Shopping Center	Community Center	92,071	98.3	1,585	1999	-
5	Bashas Thunderbird Village	Neighborhood Center	82,100	95.4	3,791	2002	$18.00
6	Thunderbird Beltway Plaza	Neighborhood Center	73,200	100.0	0	2005	-
TOTAL			**1,231,082**	**99.6**	**40,012**		
Sources: CoStar; Gruen Gruen + Associates.							

MAP II-4: Central Peoria Existing Retail Supply



Notable retail centers in the Central Peoria submarket include:

North Valley/Arrowhead Crossing: The North Valley Shopping Center and the Arrowhead Crossing Center are adjacent to one another on the south side of Bell Road between 83rd Avenue and 75th Avenue effectively form a contiguous one-mile long power center (and they are marketed as such).

The Kimco-owned North Valley Shopping Center includes approximately 320,000 square feet of space. Built in 1991, the North Valley Shopping Center is anchored by a Target (which owns its store property), J.C. Penney Home, Jo-Ann Fabrics, and Ross Dress for Less. The majority of the center's customer base originates from within a three mile+ radius. The property is currently 100 percent leased and occupied and includes only one small 1,200-square-foot forthcoming availability. According to a representative of the property, any vacancies are typically leased in a very short timeframe. Average rents per square foot are reported to be in the mid $30's and average sales are estimated at about $300-per-square-foot. Rents, occupancy rates, and sales performance have all been improving over the past several years and are anticipated to maintain their upward trajectory. The property owner would likely develop additional retail and restaurant space to the center if it were allowed to build on its surplus parking capacity.[8]

The Arrowhead Crossing power center, directly east of the North Valley center, includes approximately 442,000 square feet of space and was built in 1994. Anchor tenants include Homegoods, Savers, Golfsmith, David's Bridal, Barnes & Noble, Hobby Lobby, Old Navy, DSW, Staples, Pier 1 Imports, Ulta, and Nordstrom Rack. A leasing representative indicated that the center is approximately 98 percent occupied. A 25,000-square-foot box space is available but a lease agreement for an undisclosed tenant is currently pending. The primary trade area for the center is reported to extend as far as five miles.[9] The leasing representative indicated that the property is one of DDR's best performing assets.

Arrowhead Palms: The Arrowhead Palms center, located east of Arrowhead Crossing power center on the southeast corner of 75th Avenue and Bell Road, contains 92,000 square feet of space anchored by a 32,000-square-foot Cost Plus World Market. Built in 1999, Arrowhead Palms is currently 98 percent occupied. While not owned by the center, a former Chevron gas station on the hard corner has been torn down, and a separate developer (Armstrong Development), is currently building a 10,000-square-foot strip center with five restaurants, including Smash Burger and Café Rio. This new development will have cross access easements and share parking with the Arrowhead Palms center. This is an example of the redevelopment which is beginning to occur in this area due to high demand by restaurants.

P83 District: The P83 District contains approximately 221,000 square feet of eating and drinking establishments and movie theater, and other entertainment uses located south of Bell Road on 83rd Avenue, across from the Peoria Sports Complex.

NORTH PEORIA SUBMARKET

The North Peoria submarket is currently dominated by the "Four Corners" area at Happy Valley and Lake Pleasant Parkway, which currently has over 1.7 million square feet of space. This submarket represents the new, growing area of the City.

The vast majority of the retail has been relatively recently developed (generally within the past 10-12 years) but much of the space has been built ahead of market support. For example, The Camino a Lago Marketplace which opened in 2007, just prior to the advent of the Great Recession with a 218,000-square-foot Super Wal-Mart has not attracted any other anchor users to the project, although infrastructure has been built-out to serve anchor users. Two pads have been leased but never built out by the tenants (MidFirst Bank and Yum Foods).

The center's location between the dominant Arrowhead corridor commercial node about three miles to the southeast and the Four Corners commercial node about two miles to the north has impacted its success. In addition, the Aqua Fria River about two miles to the southwest serves as a barrier.

[8] According to CoStar data, the combined Arrowhead Crossing and North Valley Shopping Center properties have an overall parking ratio of about eight parking stalls per 1,000 square feet of space.

[9] The owner of the center considers its trade area to be equivalent to that of the adjacent regional mall. A market profile of the Arrowhead Towne Center indicates that its primary trade also extends about five miles to the east, south, and west (and further north because there is no retail supply competition in that direction), including about 650,000 people.

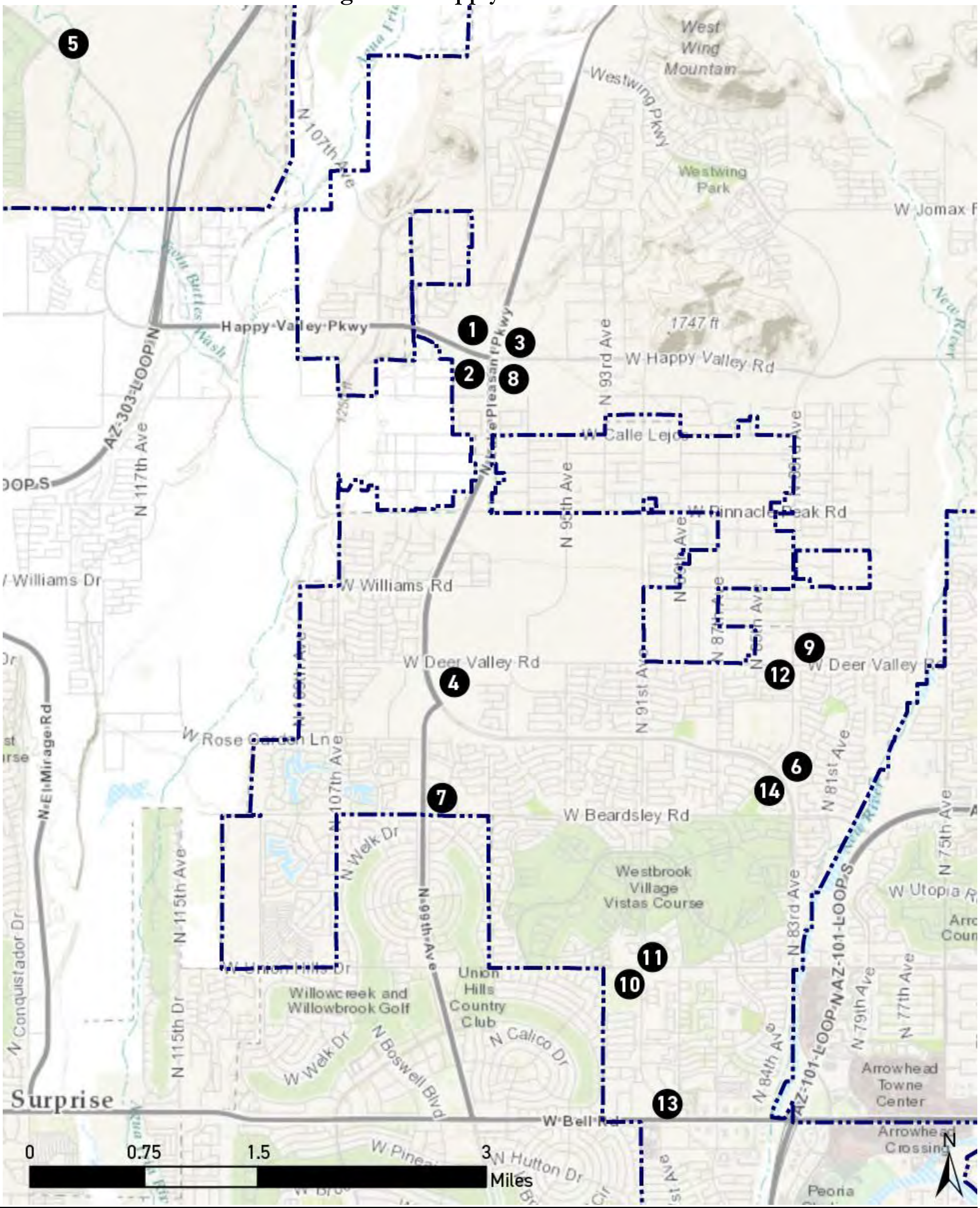
Another Wal-Mart store is located at 83rd Avenue and Union Hills and therefore the trade area is also circumscribed to the southeast.

Similarly, a 130,000-square-foot neighborhood retail center anchored by a Safeway grocery store and a Walgreen's drug store was built about eight years ago to serve residents of the very large master planned community, Vistancia. The trade area served by the center is primarily the Vistancia community. The Safeway was subsidized to induce it to anchor the development.

Table II-5 and Map II-5 summarize the existing inventory of shopping centers with more than 25,000 square feet of space in North Peoria.

TABLE II-5: North Peoria Retail Inventory (Centers Larger than 25,000 Square Feet)							
ID	Name	Type	GLA # Sq. Ft.	Leased %	Available # Sq. Ft.	Year Built	Average Rents Per-Square-Foot
1	Lake Pleasant Towne Center	Power Center	569,196	90.1	61,073	2006	$19.20
2	Lake Pleasant Pavilion	Community Center	359,237	97.0	35,865	2006	-
3	Lake Pleasant Crossing	Community Center	337,147	94.9	34,048	2008	-
4	Camino a Lago Marketplace	Power Center	258,747	97.4	51,371	2000	-
5	Vistancia Marketplace	Neighborhood Center	116,366	92.5	18,219	2007	$20.04
6	Fletcher Heights Marketplace	Neighborhood Center	111,483	73.6	29,438	2002	$10.92
7	Ventana Lakes Village Center	Neighborhood Center	107,825	89.5	11,293	2003	$15.00
8	Mountainside Crossing	Neighborhood Center	105,268	98.7	60,300	2008	-
9	Deer Valley Marketplace	Neighborhood Center	102,456	99.0	1,000	1999	$18.00
10	Peoria Plaza	Neighborhood Center	102,010	90.3	9,931	1998	$14.40
11	Lake Pleasant Promenade	Neighborhood Center	95,450	52.6	45,282	1995	$18.00
12	Fry's Center	Neighborhood Center	89,945	100.0	0	2000	-
13	Albertsons Peoria Plaza	Neighborhood Center	79,001	88.6	8,978	1996	-
14	Fletcher Heights Plaza	Neighborhood Center	58,883	93.7	5,186	2003	$14.64
TOTAL			**2,493,014**	**91.5**	**371,984**		
Sources: CoStar; Gruen Gruen + Associates.							

MAP II-5: North Peoria Existing Retail Supply



The notable centers in this submarket include:

Lake Pleasant Towne Center: Vestar Development built the largest center in North Peoria in 2006. The 569,000-square-foot Lake Pleasant Towne Center is currently about 90 percent leased. Anchor tenants include Home Depot, Kohl's, PetSmart, Sprouts Farmer Market (which replaced a closed Best Buy electronic store), Ross Dress for Less. One vacant anchor store – the former Sports Chalet – is expected to be re-leased during 2017. Because of lease provisions that restrict parking intensive entertainment uses, the center has few unique attractions. Most stores can also be found in the Arrowhead Town Center corridor. The center competes with retail space located at the Arrowhead corridor node. For example, P1 Superstores considered the vacant former Sports Chalet space at the Lake Pleasant Towne Center but opted to locate in the vacant former Sports Authority store space near the Arrowhead Town Center. Similarly, Dick's Sporting Goods has looked at options in the Four Corners area but has not expanded into the area because it does not want to have sales at its Arrowhead area store cannibalized.

Rents and occupancy rates in the North Peoria submarket, however, have almost fully recovered from the effects of the Great Recession. Fast causal restaurants such as Panera Bread, Smashburger, and Chipotle are paying rents in the mid $30s per square foot and generating sufficient sales to afford those rents.

Lake Pleasant Pavilion: The second largest center in the submarket is Lake Pleasant Pavilion, located at the southwest corner of Happy Valley and Lake Pleasant Parkway, also opened in 2006. This center is anchored by a SuperTarget, along with Bealls, Bed Bath and Beyond, Marshalls, and BevMo. This 359,000-square-foot community center is 97 percent leased.

Other Centers: A few of the older centers within the North Peoria submarket are struggling with some of the same issues as seen in South Peoria, as they have lost their original anchors and have either not replaced them or have replaced them with more marginal users. The Lake Pleasant Promenade center at 99th and Union Hills currently has almost half of its space vacant. Two smaller centers in the Fletcher Heights area at 83rd Avenue and Lake Pleasant Parkway are also experiencing difficulties – Fletcher Heights Marketplace, with only a Goodwill store as an anchor, appears to be particularly struggling, and has dropped its asking rents down to the $10 per square foot range. Both this center, and the Fletcher Heights Plaza across the street, have resorted to attracting primarily local independent retailers, and are likely suffering due to a location halfway between the two most successful retailing cores in Peoria – the Arrowhead corridor and the Four Corners area.

FUTURE RETAIL SUPPLY WITHIN PEORIA

In addition to the existing centers noted above, retail centers currently in various stages of planning and development in Peoria include:

- NEC Happy Valley and 83rd Avenue – an approximately 125,000-square-foot grocery anchored neighborhood shopping center including a 60,000-square-foot Safeway grocery as an anchor tenant is being pursued by the Pederson Group, a leading developer, but the planned project has not been submitted for review. Land assemblage is underway. The proposed development has not yet attained entitlements but is anticipated to open in 2019. According to the Pederson Group, the contemplated development is anticipated to serve a trade area two miles south/east/west and three miles north.

- SEC Happy Valley and 83rd Avenue – an approximately 60,000 to 70,000-square-foot higher-end specialty retail center is planned here. The site has been acquired; zoning has been approved; leasing is underway; and a groundbreaking is planned in the first half of 2017, with an anticipated opening in 2018. Additionally, the same developer, MDC Development/Cavan Construction has longer range plans to build retail pads on three acres it controls across the street.

- SEC El Mirage and Lone Mountain - The Barclay Group, who has developed four other centers in Peoria, has just entered into a contract for a proposed neighborhood center in the Vistancia development. No details are available at this time, but they have suggested a possible opening in 2020-2022. They are driven by the high incomes and high growth rates in this area, along with this location near the 303/Lone Mountain interchange.

- South of the SEC of Happy Valley and Lake Pleasant Parkway: An 18 acre site directly to the south of the Mountainside Crossings center on the southeast corner of Lake Pleasant Parkway and Happy Valley has been proposed for development by an Indiana developer, Thompson Thrift. The site still needs entitlements and is predicated on pre-leasing, but at this time they anticipate about nine acres of retail uses on the front half of the site, and nine acres of multi-family apartments on the back half (125-225 units). Their initial concept on the retail portion is for about a total of 75,000 square feet, with two anchors of 30,000 square feet and 15,000 square feet, respectively, and a number of restaurant uses. The earliest it would break ground would be 2018, and so realistically it would not open until 2019 or 2020.

- SWC of 83rd Avenue and Olive – In south Peoria, a new center has been proposed at 83rd Ave. and Olive, to be anchored by a new 107,000-square-foot Fry's. The existing Fry's at Agua Fria Center at 91st Avenue and Olive contains only 63,000 square feet, and there is not room to expand it at that location to the larger store Fry's desires. The developer (Barclay Group) says that this new center is being driven solely by Fry's desires to have a store at their current prototype size, plus they also want to own their own sites. Barclay will develop a few pads and inline shops (total center square footage will be 131,000). Ground breaking expected in next few months, with completion by early 2018.

- SWC 67th Avenue and Happy Valley - The Terrazza Center is a 22 acre proposed mixed use development, which will include an assisted care facility, services, and some retail pads; the City has rezoned the property and the first portions of the development have begun construction.

- SEC of Bell and 75th Avenue-: Armstrong Development is currently under construction on a redevelopment project. A former Chevron gas station was torn down and 10,000 square feet of new restaurant space is being put in its place on the hard corner in front of the separately owned Arrowhead Palms center. Tenant leases are signed (including Café Rio, Smash Burger, and Mad Greens) and construction is underway, with an estimated completion by late 2017.

- SEC Lake Pleasant Parkway and Deer Valley-The existing Camino a Lago (Wal-Mart) center has multiple pads and big box locations available to accommodate at least 200,000 square feet of anchor stores on the southeastern portions of the site. All of the infrastructure, including parking and landscaping area is already in place.

CHAPTER III

ANALYSIS OF RETAIL SALES TRENDS IN PEORIA

INTRODUCTION

An analysis of demographic patterns and taxable retail sales trends provides a framework for assessing the relative strengths, weaknesses, and shifts within the retailing base of the City of Peoria. The analysis of retail sales also provide a basis from which to identify the retailing sectors and submarkets of the community that are capturing or leaking more sales dollars than would be expected from local expenditure potential alone.

HISTORICAL TAXABLE RETAIL SALES IN PEORIA

Table III-1 summarizes the citywide retail, automotive, and restaurant sales trends for the 2011 to 2015 period. The estimates are based on local sales tax (transaction privilege tax) receipts reported by the City of Peoria's Finance Department.

TABLE III-1

Total Taxable Retail and Restaurant Sales in the City of Peoria, 2011-2015[1]

	Non-Food Retail $	Food Retail $	Eating & Drinking $	Automotive $	Total $
2011	896,279,745	241,221,431	277,933,371	596,244,083	2,011,678,630
2012	882,686,965	241,104,808	284,515,540	682,231,662	2,090,538,975
2013	920,409,009	249,060,113	293,849,745	786,748,748	2,250,067,614
2014	867,376,626	335,825,796	309,651,939	849,739,466	2,362,593,827
2015	894,350,210	402,546,582	329,218,699	883,596,759	2,509,712,250
Change 2011-15	**(1,929,535)**	**161,325,150**	**51,285,328**	**287,352,676**	**498,033,620**
Annual Rate	(0.05%)	13.66%	4.32%	10.33%	5.69%

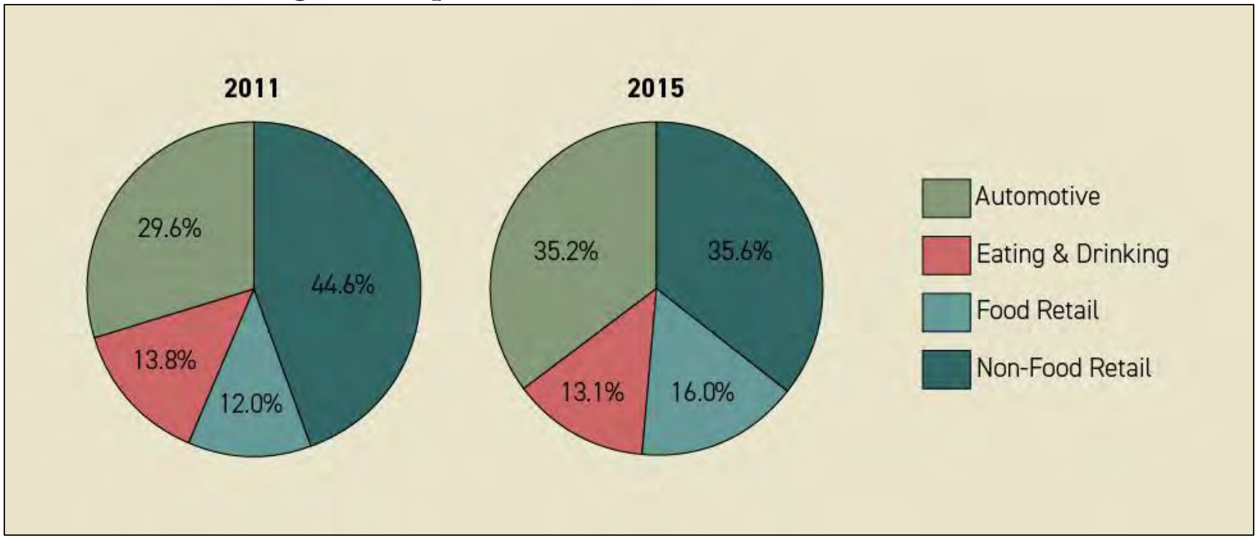
[1] Historical sales adjusted to current 2017 dollars based on the Consumer Price Index for the Phoenix-Mesa metro area.

Sources: City of Peoria; Bureau of Labor Statistics; Gruen Gruen + Associates.

Total taxable retail and restaurant sales in Peoria on a real (i.e. inflation-adjusted) basis increased by $498 million or 25 percent between 2011 and 2015. The food (13.66 percent annual growth) and automotive (10.33 percent annual growth) categories experienced the highest rates of sales growth over the 2011 to 2015 period. On an inflation-adjusted basis, the non-food retail category was the only component of the taxable sales base to experience a small decline over the period of $1.9 million to $894.3 million.

Figure III-1 illustrates the shift in the composition of the citywide taxable sales base that occurred between 2011 and 2015.

FIGURE III-1: Change in Composition of Peoria's Taxable Sales Base



Non-food retail sales declined from 44.6 percent of total sales in 2011 to 35.6 percent of total sales in 2015. Eating and drinking sales slightly declined as a percentage of total sales form 13.8 percent in 2011 to 13.1 percent in 2015. Food sales increased from 12 percent to 16 percent of total sales. Automotive sales increased from under 30 percent of total sales in 2011 to over 35 percent of total sales in 2015.

We hypothesize that the two most substantial changes are the result of national trends. Automotive sales rose due to the strengthening of the national automotive market since 2011 (plus the addition of a few new brands to the Peoria Auto Row), while non-food retail sales declined due to the competition with e-commerce.

Table III-2 summarizes the citywide non-automotive retail, food, and restaurant sales trends for the 2011 to 2015 period by submarket.

TABLE III-2

Taxable Non-Automotive Retail Sales in the City of Peoria by Submarket[1]

	General Merchandise[2] $	Apparel[2] $	Food Sales $	Eating & Drinking $	**Non-Auto Total $**
NORTH					
2011	251,119,109	24,635,879	109,112,715	62,353,682	**447,221,386**
2012	252,841,269	24,073,503	108,346,102	65,907,362	**451,168,235**
2013	265,413,212	24,712,709	113,435,438	67,101,481	**470,662,839**
2014	237,377,914	24,153,646	155,516,250	74,072,015	**491,119,824**
2015	238,911,594	23,950,468	191,810,527	81,476,760	**536,149,348**
Change	(12,207,515)	(685,411)	82,697,812	19,123,077	**88,927,963**
CENTRAL					
2011	182,561,982	47,294,344	11,286,277	128,574,511	**369,717,115**
2012	176,344,388	48,235,790	9,861,059	128,483,214	**362,924,452**
2013	190,469,585	47,693,379	9,842,168	130,543,613	**378,548,746**
2014	192,648,706	48,548,069	15,928,906	130,274,232	**387,399,914**
2015	198,528,197	49,862,338	18,373,267	136,550,214	**403,314,017**
Change	15,966,215	2,567,994	7,086,990	7,975,704	**33,596,903**
SOUTH					
2011	353,087,562	37,580,869	120,822,439	87,005,177	**598,496,047**
2012	343,509,810	37,682,205	122,897,647	90,124,964	**594,214,626**
2013	354,116,319	38,003,804	125,782,507	96,204,651	**614,107,282**
2014	327,862,459	36,785,833	164,380,640	105,305,692	**634,334,624**
2015	345,601,038	37,496,575	192,362,788	111,191,725	**686,652,125**
Change	(7,486,524)	(84,294)	71,540,349	24,186,548	**88,156,078**
CITYWIDE					
2011	786,768,653	109,511,092	241,221,431	277,933,371	**1,415,434,547**
2012	772,695,467	109,991,498	241,104,808	284,515,540	**1,408,307,313**
2013	809,999,117	110,409,892	249,060,113	293,849,745	**1,463,318,866**
2014	757,889,078	109,487,548	335,825,796	309,651,939	**1,512,854,361**
2015	783,040,829	111,309,382	402,546,582	329,218,699	**1,626,115,491**
Change	(3,727,825)	1,798,289	161,325,150	51,285,328	**210,680,944**

[1] Historical sales adjusted to current 2017 dollars based on the Consumer Price Index for the Phoenix-Mesa metro area. "North" Peoria is considered the geographic areas north of Bell Road, while "South" Peoria is considered the geographic areas south of Thunderbird Road. "Central" Peoria is between Bell and Thunderbird.

[2] The City of Peoria provided estimates of non-food sales for two categories, Apparel and General Merchandise (which includes all other non-food and non-apparel sales, e.g., hardware and building material stores, drug stores).

Sources: City of Peoria; Gruen Gruen + Associates.

North Peoria sales increased by nearly $89 million from $447.2 million in 2011 to $536.1 million in 2015. This equates to a nearly 20 percent increase. Food sales increasing by $82.7 million to $191.8

million and eating and drinking sales increasing by $19.1 million account for the overall increase in sales, while General merchandise sales declined by $12.9 million to $262.9 million in 2015. Likely the increases in Food sales and Eating/Drinking sales were driven by population increases in the northern portion of the City, while the decline in General Merchandise sales were the result of increases in e-commerce activity and consumers spending less on goods and more on experiences.

Sales in Central Peoria increased by $33.6 million to $403.3 million in 2015; an increase of about nine percent. All categories experienced increases in sales.

South Peoria sales increased by $88.2 million to $686.7 million, representing a nearly 15 percent increase in sales. Growth in food sales of $71.5 million to $192.4 million (a gain of 59 percent) and increases in eating and drinking sales of $24.2 million (an increase of 28 percent) offset declines in general merchandise sales (-$7.57 million). General merchandise sales in South Peoria at $345.6 million are still the largest source of sales. The large increase in food sales is likely due to the opening of the new Wal-Mart Super Center in Old Town (the old Wal-Mart it replaced did not have a grocery store component).

PER CAPITA RETAIL SALES

Table III-3 summarizes citywide non-automotive sales per capita. Population estimates for July of each year from the Arizona Department of Administration are used to estimate the per capita sales.

TABLE III-3

Per Capita Retail Sales Trends in the City of Peoria[1]

	General Merchandise $	Apparel $	Food Sales $	Eating & Drinking $	**Non-Auto Total $**
2011	5,051	703	1,549	1,784	**9,088**
2012	4,901	698	1,529	1,805	**8,933**
2013	5,045	688	1,551	1,830	**9,115**
2014	4,626	668	2,050	1,890	**9,234**
2015	4,674	664	2,403	1,965	**9,706**
Change	(378)	(39)	854	181	**618**

[1] Historical sales adjusted to current 2017 dollars based on the Consumer Price Index for the Phoenix-Mesa metro area. Citywide population estimates are drawn from the Arizona Department of Administration.

Sources: City of Peoria; Arizona Department of Administration; Gruen Gruen + Associates.

Total non-automotive per capita sales in Peoria are estimated to have grown by approximately $620 or seven percent over the 2011 to 2015 period, increasing from about $9,100 in 2011 to $9,700 by 2015. Per capita sales on general merchandise are estimated to have declined by about eight percent over the period, decreasing from approximately $5,100 in 2011 to $4,700 in 2015. Apparel sales per capita are also estimated to have experienced a slight decline of about five percent, decreasing from about $700 in 2011 to $660 in 2015. Food sales per capita increased by $854 to $2,400 in 2015. Per capita eating and drinking sales are estimated to have to have grown by about $180 or 10 percent over the 2011 to 2015 period, increasing from approximately $1,800 in 2011 to just under $2,000 by 2015.

In North Peoria non-automotive sales per capita totaled approximately $6,700 in 2015. Per capita sales (in all categories) are lowest in North Peoria. Given income levels in this area are higher than in the rest of the City, this suggests many residents in North Peoria travel to other areas for their retail purchases and that the area has had space built ahead of market support.

In Central Peoria non-automotive sales per capita totaled a very high $25,900 in 2015. This area is a regional draw. Much of the sales in Central Peoria are likely being made to people who live outside of this area. Per capita sales in Central Peoria are highest in all categories except for food. Central Peoria has the lowest per capita food sales at $1,200 per capita, compared to $2,400 in North Peoria and $2,700 in South Peoria. The relative lack of grocery stores in Central Peoria likely accounts for this low figure.

While South Peoria has experienced downward shifts in its retail inventory, because of the relatively high population density in this area the total non-automotive sales per capita of approximately $9,500 in 2015 is higher (in all categories) than less densely built-out North Peoria.

ESTIMATED SALES SURPLUS AND LEAKAGE

Table III-4 presents an estimate of non-automotive retail sales surplus and leakage in the City of Peoria by category for 2015. It compares the estimated expenditure potential of local Peoria households to the actual sales performance of each sector of the City's retailing base. The estimates of total expenditure potential (from local Peoria households; not visitors or non-resident workers) is based on the 2014-2015 Consumer Expenditure Survey for the Phoenix Metropolitan Area.

TABLE III-4

Estimated Citywide Relationship Between Non-Automotive Retail Demand and Sales (2015)

	Non-Food Retail	Food Retail	Eating & Drinking	**Non-Automotive Total**
SUPPLY:				
Estimated Sales	$894,350,000	$402,547,000	$329,219,000	**$1,626,116,000**
DEMAND:				
Total Household Income[1]	$4,826,526,000	$4,826,526,000	$4,826,526,000	
Expenditure Rate[2]	10.6%	6.1%	4.5%	**21.2%**
Household Expenditure Potential	$511,611,756	$294,418,086	$217,193,670	**$1,023,223,512**
SUPPLY/DEMAND BALANCE:				
Sales Surplus (Leakage)	$382,738,244	$108,128,914	$112,025,330	**$602,892,488**
Percent of Sales	42.8%	26.9%	34.0%	**37.1%**

[1] The 2015 American Community Survey estimates that Peoria contained 57,095 permanent households with an average household income of $84,535 in 2015.

[2] Percent of before-tax income spent on non-automotive retail goods and services and eating/drinking away from home. Estimated average for the Phoenix Metropolitan Statistical Area for 2014-2015.

Sources: U.S. Census Bureau, 2015 American Community Survey; Bureau of Labor Statistics, 2014-2015 Consumer Expenditure Survey; City of Peoria, Gruen Gruen + Associates.

According to sales tax receipts for 2015, non-automotive retailers and restaurants in the City of

Peoria produced total taxable sales of approximately $1.6 billion. American Community Survey estimates suggest that the City of Peoria contained approximately 57,000 permanent households with an average household income of about $84,500 in 2015. This equates to total citywide household income of approximately $4.8 billion in 2015. Consumer Expenditure Survey data for the Phoenix Metropolitan Area indicates that the average household spends approximately 21 percent of their before-tax income on most non-automotive retail goods and services. The relationship between available income and expenditure rates suggest that non-automotive retail "expenditure potential" or demand from local Peoria households approximated $1.0 billion in 2015.

This suggests that the citywide retail base produces a sales surplus (i.e., sales exceed expenditure potential, meaning the City captures more net retail sales from outside of the community than it loses from leakages of sales by Peoria residents to areas outside of the community) of about $600 million for non-automotive goods and services including restaurants. The sales surplus for non-food retail goods and services (e.g., general merchandise, apparel, home furnishings and electronics, sporting goods) appears to be highest, representing about 43 percent of sales in 2015, while as would be expected the surplus appears to be smallest in the food (i.e., grocery) category.

The comparison indicates that, at a minimum, about $3.70 of every $10.00 of non-automotive sales made in Peoria originate from visitors, non-local residents (or seasonal residents), or non-resident workers employed in Peoria. Because Peoria contains a net outflow of labor, and also given the likelihood that many Peoria residents spend some of their discretionary retail dollars beyond the community's borders (e.g., at Arrowhead Town Center in Glendale), the proportion of total sales made to non-resident shoppers is higher than the estimated 37 percent.

The primary conclusion is that Peoria attracts considerably more sales from non-residents than it loses to retail shopping and dining alternatives in nearby communities. Two competing areas to which Peoria experiences significant retail sales leakage include the following:

1) The Glendale portion of the Arrowhead corridor. Arrowhead Mall, along with a few significant retailers nearby (including Costco, Wal-Mart, Sams Club, Home Depot, and the Cadillac dealership), likely attract expenditures from Peoria residents; and

2) The Westgate area of Glendale, including the Westgate entertainment complex, Tanger Factory Outlet Center, and Cabela's. This area likely primarily pulls residents out of the southern half of Peoria.

Residents of adjacent areas – particularly the Sun Cities, Youngtown, and El Mirage, which are all under-retailed – and to a lesser extent Surprise, Glendale, and north Phoenix –, however, come to Peoria to shop. The inflows into Peoria from those areas exceed the leakages of sales out of Peoria to these two competing areas.

CHAPTER IV

COMPETITIVE POSITION OF THE PEORIA RETAIL BASE

INTRODUCTION

GG+A staff interviewed 20 representatives of property owners, developers, real estate brokers, merchants, and automotive dealers. This outreach and primary research was directed towards obtaining information and insight about the following:

- A better understanding of the nature of the existing retail market;
- Sources of customer demand for the facilities, usage patterns, locations from which the demand sources originate, and competing locations/facilities;
- The competitive advantages and disadvantages associated with the locations and facilities; and
- Perspective on the changing nature of the retail industry and future demands.

The interviews were specifically conducted to provide for a broad sample of respondents, including retail developers/shopping center owners/leasing agents/property managers/tenants. We also interviewed representatives of a wide range of larger/smaller developments and newer/older developments located in all areas of the City.

FACTORS THAT ENCOURAGE DEMAND OR PRIMARY ADVANTAGES

The primary competitive advantages (and those that could potentially be created) of Peoria as a retailing location, and more specifically the submarkets within it, include the following factors:

South Peoria

1. A comparatively dense household and population base. The average population density in South Peoria exceeds 4,400 people per square mile (by comparison, the average density throughout the entire City of Peoria is around 1,000 people per square mile);

2. The largest and newest shopping centers in South Peoria benefit from excellent freeway accessibility as well as visibility and exposure to high volumes of traffic (according to the Maricopa Association of Governments, the average weekday traffic count on the 101 Freeway at Northern Avenue is approximately 130,000 vehicles per day); and

3. Retail real estate costs in many parts of South Peoria tend be very low. Although this discourages investment in maintenance and rehabilitation of existing properties, it does provide for the opportunity to incubate unique independent retail/restaurant or destination uses that are location-neutral and cannot afford market rents for newer space in premier retail agglomerations.[10]

[10] Tenancies recently attracted to South Peoria such as State Trailer Supply and Lucidi Distillery are good examples of this opportunity.

Central Peoria

1. The Arrowhead Corridor and the Arrowhead Towne Center super-regional mall (reported to be the second or third best performing mall in the state of Arizona) have established a position of market area dominance through critical mass, tenant mix, relatively little nearby competition, and superior accessibility to the regional population base;

2. Excellent freeway accessibility as well as visibility and exposure to high volumes of traffic (according to the Maricopa Association of Governments, the average weekday traffic count on Bell Road is about 45,000 vehicles per day, and daily traffic on the 101 Freeway is approximately 130,000 vehicles per day);

3. Proximity to the Peoria Sports Complex, which during Spring Training season produces sales spillover for adjoining nearby retail and restaurant uses. This area also is the home of most of the hotels located within the City of Peoria as well as visitor attractions, such as Peoria Stadium and the nearby Challenger Center;

4. Larger daytime population (employment) in Central Peoria than other parts of the community and surrounding market area. Approximately 20,000 wage and salary jobs are estimated to exist within two miles of Bell Road and 83rd Avenue (this compares to about 12,000 jobs within two miles of Northern Avenue and 101 Freeway and fewer than 3,000 jobs within two miles of the Four Corners location);

5. Commercial uses along Bell Road are generally very compact/concentrated and well-planned; and

6. The agglomeration of auto dealers represent a dominant "Auto Row" that may also stimulate spillover or cross-shopping.

North Peoria

1. North Peoria contains significant capacity for future residential growth;

2. Households in North Peoria are more affluent with higher incomes than the rest of the community. About 40 percent of households residing in Census Block Groups comprising North Peoria are estimated to possess incomes exceeding $100,000. (This compares to less than 20 percent in South Peoria);

3. Supply competition does not yet exist to the north or west of North Peoria's established and growing critical mass of retail and restaurant space at Happy Valley Road and Lake Pleasant Parkway. A long-term opportunity therefore exists to pre-empt future supply competition beyond Peoria's borders by facilitating the sustained success and enhancement of this agglomeration; and

4. Ample greenfield sites to accommodate future retail supply additions in compact, well-integrated formats and to therefore prod existing retail space in the area to be well maintained and tenanted or risk losing tenants and customers to new centers.

FACTORS THAT CONSTRAIN DEMAND OR PRIMARY DISADVANTAGES

The factors most discouraging demand or the primary disadvantages of the three submarkets as a retailing locations include the following:

South Peoria

1. South Peoria is essentially built-out and much of the growth in Peoria and adjoining communities over the past few decades has occurred outside of South Peoria (This does not indicate that there is no new growth occurring here – there have been several recent infill residential development projects in South Peoria). This has resulted in a shift in the major retail uses and consumer shopping patterns to the north and west. A relatively complete supply of well-established neighborhood, community, and regional retail supply competition now circumscribes South Peoria;

2. Historical development pattern that contains a high proportion of smaller centers (relative to larger centers) that are incapable of attracting modern anchor tenants that have wider draws and generate sales spillover to adjoining tenancies;

3. The local household base is generally less educated with lower disposable incomes. About 80 percent of South Peoria households do not possess a bachelor's degree; and

4. Visible signs of vacancy, physical obsolescence, and deferred maintenance in existing retail centers (in combination with the demographic differences relative to newer growth areas), along with visible signs of decay in some of the oldest residential areas of South Peoria, have contributed to a "stigma" or negative perception of South Peoria.

Central Peoria

1. Additional regional-serving retail uses are planned to the west of the Arrowhead Corridor along the 303 Freeway in Surprise (the proposed Prasada development), as well as further south (the proposed Estrella Falls development in Goodyear). Competitive impacts on the Arrowhead Corridor will occur if and when this external supply competition materializes and becomes economically viable;

2. Traffic on Bell Road has become more congested over time. This is generally a two-edged sword to the existing retailers and restaurants -- the high traffic counts and visibility are positive factors, but if congestion gets so bad that their customers cannot easily reach them it may inhibit the long term success of such retailers and restaurants and limit the attraction and development of additional retail in the Central Peoria submarket. Additionally, to the extent traffic congestion reduces the appeal to consumers of searching for automobiles at Peoria's Auto Row, this could also be a major constraint on the performance of the Auto Row; and

3. Uses directly located on and visible to Bell Road are the most successful and desirable. Entertainment and restaurant uses off of Bell Road, such as on 83rd Avenue (e.g. P83) may

not capture sufficient spillover from the Arrowhead Towne Center and adjacent power centers to readily succeed.

North Peoria

1. North Peoria is strictly a bedroom community at this point in its evolution and development with a very limited daytime population (employment base);

2. North Peoria contains a higher proportion of seasonal part-time households. About 30 percent of housing units built in the Vistancia master planned community, for example, are estimated as vacant for "seasonal or occasional use" by the Census Bureau; and

3. Existing retail base is anchored entirely by duplicate "middle-market" tenancies shared with competing agglomerations in the Arrowhead Corridor to the southeast, Norterra and Deer Valley Towne Center to the east, and Highway 60/Bell Road cluster in Surprise to the southwest.

CHAPTER V

RETAIL SPACE DEMAND WITHIN PEORIA

INTRODUCTION

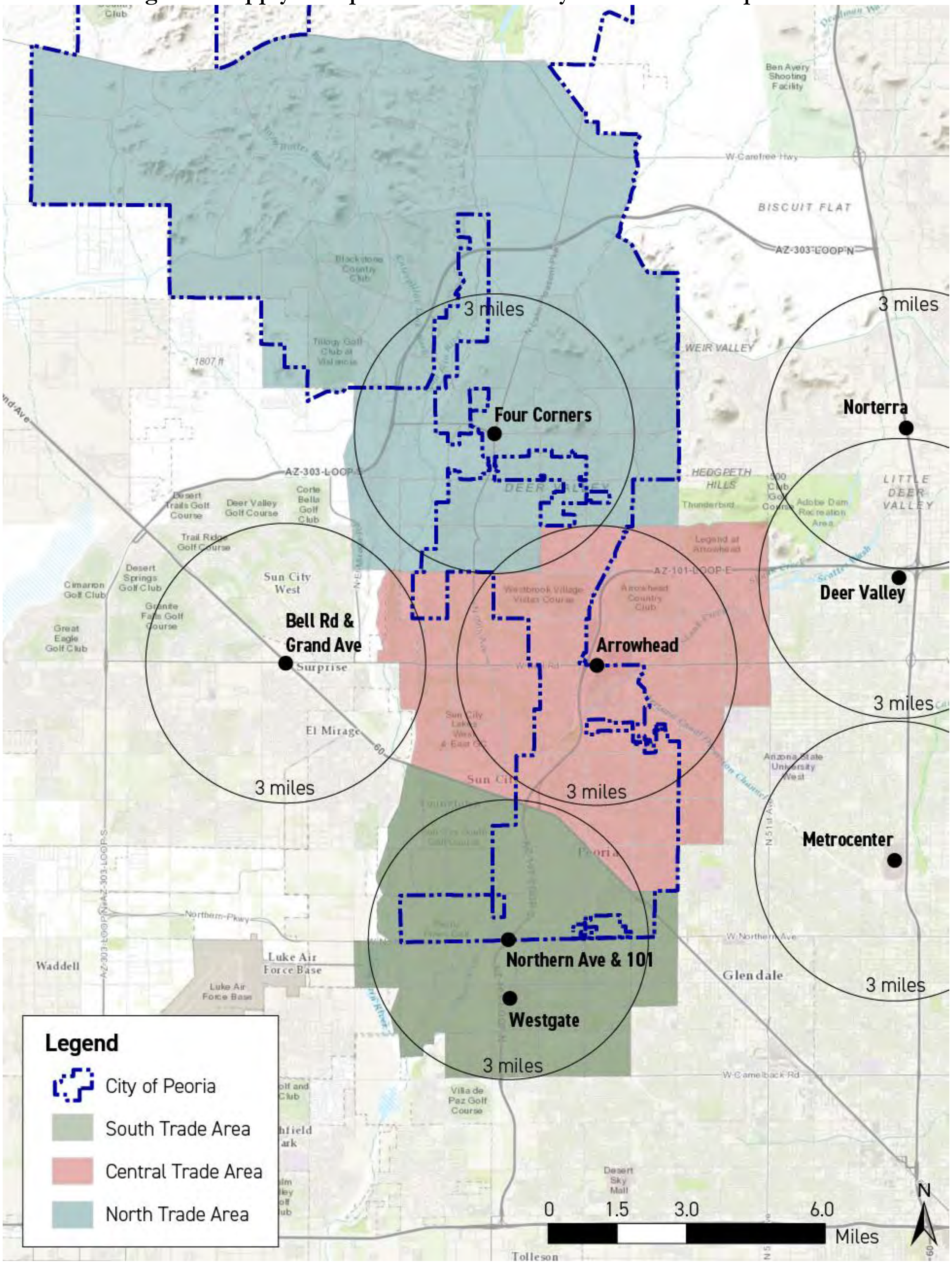
GG+A obtained and analyzed demographic and income data to estimate the range of demand in terms of expenditure potential and the square footage of space the identified demand could support, given assumptions about required average sales per square foot of commercial space. Retail demand primarily originates from two sources: market area residents and workers. To a lesser extent demand can also come from tourists/visitors, although this is not a significant source for Peoria at this point. Potential retail demand from residents primarily depends upon the amount of disposable income within the trade area. Population and income factors influence disposable income. Estimating potential demand also requires the identification of the proportion of income spent on retail goods and services.

Not all internally generated demand is satisfied in a primary trade area. Some of the potential demand within the trade area is lost to retailers outside the trade area (community) such as Arrowhead Towne Center in Glendale. This is called *leakage*. Conversely, retail sales in a trade area will be made to customers such as visitors, and to residents or workers who live outside in the trade area. As described above, although overall sales surplus is likely to occur, we estimate the potential dollars available for retail expenditures in the relevant trade areas for the primary submarkets based on the estimated present and forecast future households and average household income within the specific geographic areas estimated to comprise the trade areas -- that is, the geographic area from which most customers of shopping centers or retail nodes come. Because Peoria has a significant outflow or residents who work outside of Peoria, we do not estimate demand attributable to jobs in Peoria.

GG+A forecast the amount of potential dollars to be spent for retail goods and services and eating and drinking establishments within each relevant trade area. We then divided these estimates of purchasing power potential by the estimated sales per square foot that a new retail project would likely need to generate in order to be profitably developed and operated. We did so in order to estimate the amount of on-the-ground retail space the estimated purchasing power could support.

Map V-1 summarizes regional retail supply competition and the primary trade areas estimated to be captured by Peoria's three largest retailing agglomerations centered at the Four Corners (North Peoria), the Arrowhead Corridor on Bell Road (Central Peoria), and the Northern Avenue interchange on Loop 101 (South Peoria). The primary trade area definitions are delineated by MAG traffic analysis zone boundaries. The South Peoria trade area extends about three miles and is generally bounded by Grand Avenue on the north, the Agua Fria River on the west, Camelback Road on the south, and 67th Avenue on the east. The Central Peoria trade area extends about three to four miles and is generally bounded by Grand Avenue on the south, 59th and 51st Avenues on the east, Deer Valley Road on the north, and the Agua Fria River on the west. The North Peoria trade area extends considerably further north to Highway 74 (given a lack of existing supply competition) and generally extends east to 67th Avenue.

MAP V-1: Regional Supply Competition and Primary Trade Areas Captured



CURRENT AND PROJECTED FUTURE POPULATION, HOUSEHOLDS, AND AVAILABLE INCOME IN THE PRIMARY TRADE AREAS

Table V-1 summarizes estimates of current and future population, households, and income within each of the three trade areas. The estimates are based on 2016 MAG socioeconomic projections (to 2030) for traffic analysis zones comprising each trade area. We conservatively assume that future new households will possess similar incomes to existing households.

TABLE V-1

Demographic and Income Estimates for Households in the Primary Trade Areas: 2015-2030

	Estimate 2015 #	Projection 2020 #	Projection 2030 #	Projected Change 2015-2030 #	Projected Change 2015-2030 %
SOUTH PEORIA TRADE AREA					
Population	92,067	102,727	112,360	20,293	22.0%
Households	34,963	39,015	42,233	7,270	20.8%
Average Household Income	$57,000	$57,000	$57,000	--	--
Total Household Income	$1,992,891,000	$2,223,855,000	$2,407,281,000	$414,390,000	20.8%
CENTRAL PEORIA TRADE AREA					
Population	174,511	183,852	192,927	18,416	10.6%
Households	74,138	77,443	80,260	6,122	8.3%
Average Household Income	$76,000	$76,000	$76,000	--	--
Total Household Income	$5,634,488,000	$5,885,668,000	$6,099,760,000	$465,272,000	8.3%
NORTH PEORIA TRADE AREA					
Population	63,752	79,018	136,499	72,747	114.1%
Households	21,607	26,866	46,083	24,476	113.3%
Average. Household Income	$110,000	$110,000	$110,000	--	--
Total Household Income	$2,376,770,000	$2,955,260,000	$5,069,130,000	$2,692,360,000	113.3%

Sources: Maricopa Association of Governments, 2016 Socio-economic Projections; U.S. Census Bureau; Gruen Gruen + Associates.

The South Peoria trade area is estimated to currently include about 92,000 residents and 35,000 households with an average income of about $57,000 per household. Total household income in the South Peoria trade area is currently about $2.0 billion. According to MAG projections, the South Peoria trade area is anticipated to grow by about 7,300 households or 21 percent by 2030. This suggests that total available household income in the South Peoria trade area will grow by about $414 million by 2030.

The Central Peoria trade area is estimated to currently include around 74,000 households with a population of 175,000. Average household income currently approximates $76,000 and total household income is estimated at about $5.6 billion. In other words, the Central Peoria trade area is roughly three times larger than the South Peoria trade area in terms of total available income. MAG projections suggest that the Central Peoria trade area will grow modestly; about 6,100 households are projected to be added by 2030. Total household income is projected to grow by about $465 million by 2030.

The North Peoria trade area is estimated to currently contain about 64,000 residents and 22,000 households with a higher average household income of approximately $110,000. Total existing household income is currently estimated at just under $2.4 billion. According to MAG projections, the North Peoria trade area is anticipated to grow by about 24,500 households or 113 percent by 2030 (i.e., more than double). If the incomes of new households are similar to the existing households in the northern trade area, the total available household income will grow by about $2.7 billion by 2030.

ESTIMATES OF CURRENT AND FUTURE RETAIL EXPENDITURE POTENTIAL AND RETAIL SPACE DEMAND IN THE PRIMARY TRADE AREAS

In order to estimate the potential purchasing power for shopping-center type goods of the resident population living in the primary trade area definitions, we reviewed the 2014-2015 Bureau of Labor Statistics Consumer Expenditure Survey ("CES") for the Phoenix Metropolitan Statistical Area ("MSA").

TABLE V-2

Phoenix-Mesa MSA Average Household Annual Expenditure on Retail Goods and Services: 2014-2015

Good/Service	Average Annual Household Expenditure $	Share of Before-Tax Average Household Income[1] %
Food at Home	4,370	6.1
Food Away from Home	2,798	3.9
Alcoholic Beverages	611	0.8
Housekeeping Supplies	519	0.7
Household Furnishings & Equipment	1,434	2.0
Apparel and Services	1,848	2.6
Entertainment[2]	2,756	3.8
Personal Care Products and Services	712	1.0
Reading	116	0.2
Tobacco Products	278	0.4
TOTAL	**15,442**	**21.4**

[1] Phoenix-Mesa MSA average households income was $72,130 reported in the 2014-2015 Consumer Expenditure Survey.
[2] Includes a variety of discretionary goods and entertainment activities, such as sporting goods, pet supplies, personal electronics, fees and admissions to movie theatres, etc.

Sources: Bureau of Labor Statistics, Consumer Expenditure Survey, 2014-2015; Gruen Gruen + Associates.

As shown on Table V-2, the 2014-2015 BLS Consumer Expenditure Survey for the Phoenix MSA indicates that Phoenix region households expend approximately 21 percent of their before-tax income or $15,400 on retail goods and services.

Estimated Sales Per Square Foot Threshold

In order to convert estimates of expenditure potential or purchasing power into estimates of potential supportable on-the-ground retail space, an assumption must be made about the average sales per square foot required to amortize development costs and provide an acceptable return on investment.

To make an estimate of space demand that would support relatively high rents needed to amortize costs of higher-quality development, we estimate an average sales threshold requirement of $350 per square foot. The sales productivity assumptions are based on a synthesis of (a) our interviews with developers and real estate brokers, (b) review of secondary data on sales per square foot, and (c) and consideration of sales levels needed to support varying rental amounts.[11]

Table V-3 summarizes the sales per square foot productivity of individual retailers and restaurants.

TABLE V-3

Sales Per Square Foot Productivity

Store	Average Store Size # Square Feet	Annual Sales Per Square Foot $
Target	133,671	307
Wal-Mart	99,670	416
Kohls	71,993	229
Dick's Sporting Goods	49, 533	181
Bed, Bath & Beyond	28283	280
Michaels Stores	18,000	223
Home Depot	104,000 square feet of enclosed building space plus 24,000 square feet of garden space	370
Lowe's	109,000	293
Costco	144,000	1,104
CVS	8,251	907
Walgreens	14,400	712
DSW	21000	267
TJX Companies	19,456	383
Panera Bread	4,500	567
Arrowhead Towne Center	1,197,000	741

Sources: Companies 10K Reports; Gruen Gruen +Associates.

The major big box retail stores generate sales ranging from $181 to $416 per square foot. Costco generates extremely high sales of over $1,100 per square foot while drug stores Walgreens and CVS also generate high sale volumes of sales of $712 to $907 per square foot. The fast casual restaurant

[11] E-commerce sales have continued to increase at a rapid pace. In 2016, national E-commerce sales represented 8.4 percent of all retail sales; just six years earlier E-commerce sales comprised 4.2 percent of total retail sales; a doubling in just the past six years. As e-commerce continues to grow in the future it will have an impact on the amount of physical retail space that can be supported and the space that is built will need to generate higher sales per square foot to be viable.

Panera Bread generates sales of $567 per square foot. The Arrowhead Town Center regional mall generates sales of $741 per square foot. Well performing grocery and drug stores anchored neighborhood retail centers therefore typically generate sales of over $350 per square foot as should restaurant rows, specialty and lifestyle retail centers.

Table V-4 shows that the current retail inventory in Peoria is generating sales below chain-wide average sales.

TABLE V-4

Estimated Average Sales Per Square Foot Productivity for Retail Submarkets in Peoria

	South	Central	North	City Total
Estimated Non-Automotive Sales	$686,652,125	$403,314,017	$536,149,348	$1,626,115,491
Inventory of Retail Space in Square Feet	3,125,003	1,336,425	2,568,962	7,030,390
Average Sales Per Square Foot	$219.73	$301.79	$208.70	$231.30

[1] Estimate for 2015, based on reported sales tax receipts by submarket (from Chapter IV).

Sources: City of Peoria; CoStar; Gruen Gruen + Associates.

This reflects that South Peoria has an excess supply of space, much of which is obsolete. As centers age, sales per square foot productivity tends to decline. Relatively new space built in North Peoria was developed somewhat ahead of the market, in anticipation of household growth that has not yet developed sufficiently to support high levels of sales. Central Peoria is closest to achieving industry standard levels of sales productivity.

Table V-5 summarizes current and future estimates of retail expenditure potential and on-the-ground retail space demand from primary trade area households.

TABLE V-5

Estimates of Retail Expenditure Potential and Retail Space Demand in the Primary Trade Areas: 2015-2030

	Estimate 2015	Projection 2020	Projection 2030	Projected Change 2015-2030 #	Projected Change 2015-2030 %
SOUTH PEORIA TRADE AREA					
Total Household Income	$1,992,891,000	$2,223,855,000	$2,407,281,000	$414,390,000	20.8
Retail Expenditure Potential[1]	$426,478,674	$475,904,970	$515,158,134	$88,679,460	
Retail Space Demand[2]	1,218,510	1,359,728	1,471,880	253,370	
CENTRAL PEORIA TRADE AREA					
Total Household Income	$5,634,488,000	$5,885,668,000	$6,099,760,000	$465,272,000	8.3
Retail Expenditure Potential[1]	$1,205,780,432	$1,259,532,952	$1,305,348,640	$99,568,208	
Retail Space Demand[2]	3,445,087	3,598,666	3,729,568	284,481	
NORTH PEORIA TRADE AREA					
Total Household Income	$2,376,770,000	$2,955,260,000	$5,069,130,000	$2,692,360,000	113.3
Retail Expenditure Potential[1]	$508,628,780	$632,425,640	$1,084,793,820	$576,165,040	
Retail Space Demand[2]	1,453,225	1,806,930	3,099,411	1,646,186	

[1] Based on non-automotive retail expenditure rate of 21.4 percent.
[2] In square feet of space. Based on sales per square foot threshold of $350.

Sources: Maricopa Association of Governments, 2016 Socio-economic Projections; U.S. Census Bureau; Bureau of Labor Statistics, 2014-2015 Consumer Expenditure Survey; Gruen Gruen + Associates.

Existing households in the South Peoria trade area are estimated to be capable of supporting about 1,220,000 square feet of retail space at a $350-per-square-foot sales level. Retail space demand in the South Peoria trade area is projected grow to about 1,470,000 square feet by 2030. This indicates that future household growth over the next 15 years in the South Peoria trade area may be able to support about 250,000 square feet of additional new retail space.

Existing households in the Central Peoria trade area are estimated to be capable of supporting just over 3.4 million square feet of retail space. Retail space demand in the Central Peoria trade area is projected to grow by about 285,000 square feet by 2030.

Existing households in the North Peoria trade area are capable of supporting about 1,450,000 square feet of retail space at a sales threshold of $350-per-square-foot. Retail space demand in the North Peoria trade area will grow considerably over the next 15 years. Based on MAG projections, we estimate that retail space demand in the North Peoria trade area will grow by about 1.6 million square feet to just under 3.1 million square feet of space demand by 2030.

CHAPTER VI

RELATIONSHIP BETWEEN RETAIL DEMAND AND SUPPLY

RELATIONSHIP BETWEEN ESTIMATED RETAIL DEMAND AND SUPPLY

This chapter presents draws from the estimates of supply presented in Chapter II and estimates of potential retail demand in Chapter V to estimate the relationship between estimated demand and supply in each primary submarket.

South Peoria Trade Area

Table VI-1 presents the relationship between the estimated retail space the potential retail demand could support and the estimated supply of existing retail space for the South Peoria trade area.

TABLE VI-1

Comparison of Retail Space Supply and Demand in the South Peoria Trade Area: 2015-2030

	Estimate 2015 \# Square Feet	Projection 2030 \# Square Feet	Projected Change 2015-2030 \# Square Feet
Estimated Supportable Space Demand[1]	1,219,000	1,472,000	253,000
Estimated Supply of Space[2]	3,201,000	3,332,000	131,000
Potential Unmet Demand (Surplus)	**(1,982,000)**	**(1,860,000)**	**122,000**

[1] Based on sales threshold of $350-per-square-foot.
[2] Includes existing supply of 1,964,000 square feet within Peoria and additional 1,236,000 square feet elsewhere within the trade area (i.e., Glendale). Identified future supply within the trade area includes a Fry's-anchored neighborhood center of 131,000 square feet planned for development at 83rd and Olive in Peoria (anticipated to break ground soon).

Sources: Maricopa Association of Governments, 2016 Socio-economic Projections; U.S. Census Bureau; Bureau of Labor Statistics, 2014-2015 Consumer Expenditure Survey; CoStar; Gruen Gruen + Associates.

The total supply in the South Peoria trade area approximates 3.2 million square feet. This supply estimate includes the 341,000-square-foot Westgate district and 411,000-square-foot Tanger Outlets in Glendale, both of which draw sales/shoppers from beyond the trade area definition used in this analysis. Even without including this Glendale supply, the amount of supply exceeds the estimated current retail demand (1,219,000 square feet) and future estimate of potential retail demand (1,472,000 square feet). Even including only the nearly two million square feet of space in Peoria within the identified trade area, the surplus of space relative to estimated future demand would be nearly 500,000 square feet. This relationship explains the significant and persistent amount of vacant retail space, low rents, and low sales productivity in many retail centers in the South Peoria submarket.

Central Peoria Trade Area

The Peoria part of the trade area has limited vacant land and a healthy supply-demand balance in the Arrowhead Corridor is evidenced by very low vacancies and high rents. Centers within the Glendale portion of the trade area and located within one-half mile of the mall are about 99 percent leased, similar to those on the south side of Bell Road in Peoria. To the extent redevelopment or infill development can be implemented, as described in Chapter V, the potential purchasing power increase by 2030 within the trade area is estimated to support an additional 285,000 square feet of retail space, much of which can be expected to be captured in the core preferred locations.

North Peoria Trade Area

Table VI-2 presents the relationship between the estimated retail space the potential retail demand could support and the estimated supply of existing retail space for the North Peoria trade area.

TABLE VI-2

Comparison of Retail Space Supply and Demand in the North Peoria Trade Area: 2015-2030

	Estimate 2015 # Square Feet	Projection 2030 # Square Feet	Projected Change 2015-2030 # Square Feet
Estimated Supportable Space Demand[1]	1,453,000	3,099,000	1,646,000
Estimated Supply of Space[2]	2,101,000	2,851,000	750,000
Potential Unmet Demand (Surplus)	**(648,000)**	**248,000**	**896,000**

[1] Based on sales threshold of $350-per-square-foot.
[2] Includes existing supply of 1,970,000 square feet within Peoria and additional 130,000 square feet elsewhere within the trade area. Identified future supply within the trade area of approximately 750,000 square feet includes surplus capacity at the Camino a Lago power center (only partially built thus far), two planned neighborhood centers at Happy Valley Road and 83rd, a planned 20-acre center at El Mirage and Lone Mountain Parkway, and the 22-acre mixed-used Terrazza development.

Sources: Maricopa Association of Governments, 2016 Socio-economic Projections; U.S. Census Bureau; Bureau of Labor Statistics, 2014-2015 Consumer Expenditure Survey; CoStar; Gruen Gruen + Associates.

The current estimate of space demand of 1,453,000 square feet is less than the approximately 2,100,000 square feet of existing space by about 648,000 square feet of retail space. The quantitative model of supply and demand is consistent with the results of the interviews and rental and occupancy trends suggesting much of the space was built ahead of market support. The estimated growth in retail demand of nearly 1,650,000 square feet to nearly 3,100,000 square feet by 2030 suggests that over time, the relationship between supply and demand will be essentially in balance with positive unmet demand of 248,000 square feet of space, assuming 750,000 square feet of planned supply additions are made over time. More space will be built than suggested by the demand-supply model because existing retail uses will become obsolete and be converted to alternative uses while new retail formats and niches will emerge.

For every person added in North Peoria, 23 square feet of additional retail space is estimated to be supported. With a forecast population growth of 72,700 people, this equates to the 1,646,000 square feet of additional space. A 12 screen movie complex needs about 96,000 people in a trade area. Given the current population of 68,000, a 12 screen movie screen theater will be supported within North Peoria when its population reaches a threshold of about 96,000 people.

Additional employment and visitation growth is likely to be required to support additional higher-end restaurants and specialty/luxury retailers. Fine dining concepts such as Eddie V's or The Capital Grille, for example, which have average checks of $75-$90, not only require trade areas including more than 400,000 people within 15 minutes but also focus their site selection decisions on locations with "strong employment and high hotel density." The North Peoria submarket is unlikely to meet the trade area population criteria at any point in the foreseeable future and it does not have the employment and visitation/hotel characteristics typically sought by higher-end restaurants.

APPENDIX A

REAL ESTATE ECONOMIC ANALYSIS OF RETAIL DEVELOPMENT OPTIONS IN PEORIA

REAL ESTATE ECONOMIC ANALYSIS OF
RETAIL DEVELOPMENT OPTIONS IN PEORIA

To

CITY OF PEORIA

From

GRUEN GRUEN + ASSOCIATES
Urban Economists, Market Strategists & Land Use/Public Policy Analysts

March 2017

C1469

REAL ESTATE ECONOMIC ANALYSIS OF
RETAIL DEVELOPMENT OPTIONS IN PEORIA

To

CITY OF PEORIA

From

GRUEN GRUEN + ASSOCIATES
Urban Economists, Market Strategists & Land Use/Public Policy Analysts

March 2017

C1469

TABLE OF CONTENTS

Page

OVERVIEW OF APPROACH AND KEY CONCEPTS 1

CONCLUSIONS 3

North Peoria Submarket 3

Central Peoria Submarket 3

South Peoria Submarket 3

Parking Requirements Excessive and Constrain Making the Highest and Best Use of Land and Recommendations 4

ASSUMPTIONS UNDERLYING REAL ESTATE ECONOMIC ANALYSIS FOR NORTH PEORIA RETAIL DEVELOPMENT PROTOTYPE 6

Development Concept 1 -Small-Scale Infill Pad Site Development North Peoria 6

Results of Real Estate Economic Analysis of Development Concept 1 -Small-Scale Infill Development North Peoria 7

ASSUMPTIONS UNDERLYING REAL ESTATE ECONOMIC ANALYSIS FOR CENTRAL PEORIA RETAIL DEVELOPMENT PROTOTYPE 10

Development Concept 2 - Small-Scale Infill Pad Site Development Central Peoria 10

Results of Real Estate Economic Analysis of Development Concept 2- Small-Scale Infill Pad Site Development Central Peoria 11

ASSUMPTIONS UNDERLYING REAL ESTATE ECONOMIC ANALYSIS FOR SOUTH PEORIA RETAIL DEVELOPMENT PROTOTYPE 12

Results of Real Estate Economic Analysis of Development Concept 3 -25,000-Square-foot Development in South Peoria 12

LIST OF TABLES

Page

TABLE 1: Before-Tax Land Value and Return Supported by Development Concept 1 8

TABLE 2: Before-Tax Land Value and Return Supported by Development Concept 2 11

TABLE 3: Real Estate Economics of Retail Development in South Peoria 13

GRUEN GRUEN + ASSOCIATES
MEMORANDUM

Date: March 1, 2017
To: Kirsten Hall
From: Gruen Gruen + Associates
Subject: C1469 Real Estate Economic Analysis of Retail Development Options in Peoria

OVERVIEW OF APPROACH AND KEY CONCEPTS

The prior report by Gruen Gruen + Associates ("GG+A") entitled "The Demand for Retail Space in Peoria and Retail Base Enhancement Strategy" focused on gaining an understanding of the retail demand and supply conditions that apply to submarkets within Peoria. The forces of demand and supply, land use policy/zoning regulations, and development costs interact to form the real estate economics that affect property development, redevelopment, and remodeling and maintenance decisions of owners and would-be developers. The most significant determinants of land use value are the potential income (rents) that can be earned by alternative land uses, the costs associated with the construction and maintenance of alternative land uses, and the regulations that govern the right to develop or alter alternative land uses and the physical characteristics of how they can be developed.

We estimated the real estate economics of developing several representative development concepts described below. We then compared the supportable land value results from the simulation of the development concepts to the potential reservation prices[1] for the existing parcels to identify whether the development concepts would be sufficiently profitable to justify the acquisition of the existing parcels at the potential reservation prices, and the construction of new commercial buildings and associated sitework and parking improvements.

If the supportable land value of the contemplated development is not higher than the reservation prices for the current uses of the parcels, the inference that can be drawn is the development will not occur through private actions. Conversely, if the development concepts would support a higher land value than the reservation prices for the existing parcels, then the inference can be drawn that development can be accomplished privately.

The residual land value methodology used to evaluate the development concepts is similar to what is often referred to as an income approach, and provides an estimate of the amount of money a developer could afford to pay for land, given an estimate of the net cash flow that

[1] A reservation price is the minimum price for which an owner will sell property.

results from the development, operation, and sale of the development.[2] We used this methodology of estimating the land value that would be supported by the investment returns of the forecast revenues and costs associated with the development concepts in order to identify whether such commercial uses will be feasible to develop. A hurdle rate or return requirement of 19 percent Internal Rate of Return ("IRR") is used. A project is feasible if a developer can achieve a return on the developer/investor equity that meets a hurdle rate commensurate with the associated risk. In essence, we asked the following question:

> How much could a prospective developer pay for the land needed to site the postulated development concepts and earn the specified 19 percent IRR, or alternatively, how many dollars of subsidy incentive would be required to provide the developer with the specified rate of return?

Note that the residual land value estimate is best used for comparing alternatives and obtaining insight on a developer's "ability to pay". Actual market value is also affected by the price of competing entitled land supply. For example, even if a developer could afford to pay $50 per square foot for the land and still obtain a minimum threshold return, the developer will not do so if other equally or more desirable development locations are available for less. Actual market prices are influenced by the buyer's perception of use value, expectations about the timing and risk of development, and the price of the other available locations.

The interviews and field research indicate that in some cases existing property owners in prime locations have underutilized property or property with excess parking relative to building space. Therefore, to evaluate infill development opportunities within existing retail properties, we assume the property owner already owns the land needed to site the development and solve for the IRR the more intensive use of property would support. We estimate the IRR from the marginal increase investment and evaluate whether the IRR produced would be sufficient to induce the property owner to make the additional investment in building space and tenanting on the property.

[2] A residual land value refers to the amount a would-be developer could afford to pay for the land, given the cash flow that results from a specified set of cost and revenue forecasts and stipulated financial terms. An internal rate of return ("IRR") means the rate of return at which the discounted future cash flows from an investment equal the rate of the initial cash outlay. In the jargon of finance theory, the IRR is the discount rate at which the net present value is zero. If the IRR exceeds the desired rate of return, the investment is financially feasible; if the IRR is lower than the desired rate of return, the investment is not financially feasible.

CONCLUSIONS

North Peoria Submarket

The real estate economic analysis of the pad site or infill development concept for North Peoria suggests that over time, well-located underutilized properties or sites with excessive parking relative to building space will experience private development of pad or infill development sites in North Peoria without significant changes in municipal regulations other than reducing excessive parking requirements. Sites, however, with high reservation prices and any extraordinary sitework requirements are less likely to be privately developed without changes in municipal policy or other municipal actions (such as reduced impact fees or reduced parking requirements).

Central Peoria Submarket

The real estate economic analysis of infill development to replace obsolete uses or more intensively develop existing retail centers in prime Central Peoria submarket locations suggest that property owners/developers would be rewarded by the marginal investment in additional building space or replacement of obsolete uses with new fast casual restaurants, chef-driven eating and drinking concepts, and specialty food tenants; medical tenants, including urgent care; and other commercial service providers looking for high traffic, densely populated locations part of a critical mass of retail uses.

Assuming the City would permit existing property to be more intensively developed by reducing land allocated for parking and increasing the amount of land allocated for building space in the prime Central Peoria submarket retail locations, private investment and development can be expected to replace obsolete uses or more intensively develop existing retail uses with underutilized land without the need for municipal subsidies.[3]

South Peoria Submarket

Even with relatively optimistic assumptions about obtainable rents and the capitalized value of new, fully leased retail building space, the real estate economic analysis of a new retail development scenario suggests speculative, multi-tenant retail development is unlikely to be financially feasible for private investor-developers to accomplish in South Peoria.

---

[3] A previous example of a developer replacing an obsolete use with a new infill development includes at Bell Road and 75th Avenue, in the southwest corner a former Five & Diner restaurant was sold and redeveloped into a, 8,700-square-foot three-tenant building with Mattress Firm, Spa 810, and Noodles & Company as tenants.

The results of the real estate economic analysis suggest that City policy should encourage: (a) the conversion of obsolete, excess retail space in South Peoria to nonretail uses and (b) the use of incentives where necessary to bridge feasibility gaps for such conversions, as opposed to incentivizing the construction of additional retail space in South Peoria.

Parking Requirements Excessive and Constrain Making the Highest and Best Use of Land and Recommendations

There are likely to be opportunities to reduce current parking requirements for restaurant uses while still meeting the parking expectations of prospective tenants in both existing and new retail centers. The current requirements for restaurant uses- one space for every 50 square feet of dining area, one space for every 200 square feet of kitchen/non-dining area, and one additional space for every 100 square feet of outdoor dining area- likely equate to a parking ratio of more than 15 stalls for each 1,000 square feet of building space for a typical restaurant use. By comparison, the City of Scottsdale's parking code requires about eight parking stalls per 1,000 square feet of gross restaurant floor area; and the first 500 square feet of outdoor dining area is exempted from any parking requirement. Additionally and perhaps more important, an effective parking ratio for restaurant uses that exceeds 15/1,000 in many instances is more parking than most restaurant concepts will require, especially new-to-market fast casual uses. Moreover, with the advent of Uber, Lyft, and other shared car services, driverless cars, and other transportation shifts, over time, less parking demand can be anticipated.

Reducing parking requirements, especially for infill development in preferred retail agglomerations in Central Peoria and North Peoria submarkets, is likely to enhance the feasibility of converting underutilized land to more productive and synergistic uses over time. Effective parking policies must strike an appropriate balance between convenient parking, and developing a strong agglomeration of mixed land uses while recognizing the impact parking has on development feasibility. The demand for parking is a "derived demand". That is, parking is not an end in itself; it allows access to workplaces, shops, housing, civic and cultural uses. One problem parking policy must address is the convenience, congestion, and reduced accessibility associated with a parking shortage will divert trips by consumers and visitors to competing locations. However, requiring excessive parking reduces the amount of building space that can be constructed and occupied to serve new and evolving demands, the rents of which permit the landlord to maintain and enhance the quality of the property and experience provided to tenants and consumers.

The current municipal parking regulations discourage landlords and developers from attracting eating and drinking and entertainment uses even when the properties have sufficient physical property to accommodate such uses, but cannot meet the parking code requirements. As property reservation prices rise, this will make it increasingly less feasible for investor-developers to pay the reservation prices because they will not be able to add relatively high-paying restaurant uses which also generate customer traffic for retail or other uses and expand the building space on the property needed to amortize and earn a return on the increased land/property cost.

Restaurants and other eating and drinking places will do better if grouped together and will help provide customer traffic to support retail tenants and appeal to residents and office space-using businesses. In addition, additional restaurants and entertainment opportunities, particularly those that occur in the night-time, will enrich the image of Peoria as more than just a place to work or shop and are likely to be able to share parking with complementary day-time uses.

Therefore, we recommend that the City evaluate its parking requirements. As part of the evaluation, obtain feedback from major retail property owners and developers about what contemporary retailers/restaurants/entertainment uses require in terms of parking. Consider also that the floor-area ratios associated with current parking requirements mandate very low suburban type densities in an era where millennials and baby boomers, the major sources of retail demand, typically prefer a more urban ambiance and making efficient and high quality use of time. This means, for example, when practical, being able to walk or bike between uses and activities and not wasting time in traffic and parking to go short distances. We also recommend that the regulations reflect the potential for shared parking when uses on a property generate parking demands at different times of day or week.

ASSUMPTIONS UNDERLYING REAL ESTATE ECONOMIC ANALYSIS FOR NORTH PEORIA RETAIL DEVELOPMENT PROTOTYPE

In order to structure the real estate economic or financial feasibility analysis, based on interviews with retail property owners, real estate developers, real estate leasing agents, real estate brokers, GG+A made the following basic assumptions:

Development Concept 1 -Small-Scale Infill Pad Site Development North Peoria

Building Program

The primary spatial inputs into the real estate economic analysis include the following:

- 87,120 square feet of land (2.0 acres);
- 16,335 square feet of commercial building space (0.19 F.A.R.); and
- 160 parking spaces (assuming approximately 10 parking stalls per 1,000 square feet of building space).

We assume a pad site or infill development within or near an existing retail development of 2.0 acres or 87,120 square feet of land. We assume approximately 16,335 square feet of commercial building space is developed on the site for a floor-area ratio[4] of 0.19. We assume 160 parking spaces are provided (at a ratio of about 10 spaces per 1,000 square feet of building space as required under the municipal regulations).[5]

Development Costs

Based on information obtained from developers and real estate brokers, total costs, excluding land and financing costs but including hard construction building cots, architectural, engineering and other soft costs, sitework costs, tenant improvements and leasing commissions are estimated to total $200 per square foot of building space or $3,267,000.

Absorption/Rents/Expenses

We assume that 70 percent of the space is leased by project opening and 95 percent of the space is leased in the second operating year and thereafter. We estimate annual average

[4] The floor-area ratio refers to the ratio of a building's total floor area to the amount of land upon which the building space is constructed.

[5] Estimate based on current City of Peoria parking requirements per Article 14-23 ("Parking & Loading Requirements") of the zoning code. Assumes that approximately one-half of the building would be occupied for restaurant use, one-quarter for service and/or medical uses, and one-quarter for general retail use.

gross rents of $34 per square foot and that that rents escalate 10 percent once every five years. We estimate annual operating costs including property taxes and insurance of $7.00 per square foot so that net rents approximate $27.00 per square foot.

Investment and Financial Parameters

The primary investment and financial parameters used as inputs into the real estate economic analysis include the following:

- Thirty percent (30%) equity investment and a hurdle rate or IRR target of 19 percent and a holding period of seven years;
- Seventy percent (70%) of project development costs funded by debt;
- Construction loan @ 4.75 percent with a loan fee of one percent (1%); and
- A permanent mortgage loan retires the construction loan with an interest rate of five percent (5.0%) and an amortization schedule of 25 years.

The developed and substantially leased property is assumed to be sold in year seven at a capitalization rate of 6.5 percent.[6] (A capitalization rate is the rate of return or yield on the purchase of a property based on the income the property is expected to generate). We estimate a cost of sale of three percent of the sales price.

Results of Real Estate Economic Analysis of
Development Concept 1 -Small-Scale Infill Development North Peoria

GG+A simulated the real estate investment results of constructing, marketing, and operating the postulated small scale pad site or infill development concept in North Peoria using. GG+A's real estate cash flow model REALISM™. As indicated above, we calculated a land residual value that would permit an investor in the project which contributed 30 percent equity to earn a 19 percent IRR if the investor held the development for seven years. The simulation projects the financial results, including the residual land value of the development concept, or in other words, what the investor-redeveloper could pay to acquire the land to site the development.

[6] CBRE's *North American Cap Rate Survey* for the second half of 2016 indicates prevailing capitalization rates in the Phoenix market of 6.00% to 6.75% for stabilized Class A power center properties.

TABLE 1: Before-Tax Land Value and Return Supported by Development Concept 1 [1]	
Residual Land Value	**$2,120,000**
Residual Land Value Per Square Foot of Land	**$24.34**
Total Project Value ("All in Cost")	$5,453,000/$334 Per Square Foot
Equity (30% of Project Value)	$1,636,000
Permanent Loan	$3,817,000
Annual Debt Service	$271,000
Leveraged IRR in Year 7	**19.0%**
[1] Figures are rounded.	
Source: Gruen Gruen + Associates	

We estimate an investor-developer could pay approximately $2.1 million for 2.0 acres of land on which the 16,335 square feet of commercial building space and associated parking would be built. This land value equates to approximately $24-per-square-foot of land. The total project value approximates $5.5 million. Equity would total about $1.6 million while debt would total $3.8 million.

Note to account for costs proving higher than anticipated, rents proving lower than anticipated or the space taking longer to absorb than anticipated, changes in conditions in capital markets, and other risks and uncertainties, it would not be unusual for the estimated residual land value to be discounted by at least 20 percent. **Discounting the resulting residual land value of $2.1 million by 20 percent would produce an estimate of obtainable value for the land of $1.7 million or $19-per-square-foot of land.**

These figures present a perspective for evaluation rather than a cardinal array of hard forecasts. The results are limited by the development potential, market, financial, and other underlying assumptions outlined above. To put the estimate into content, according to a real estate broker with Phoenix Commercial Advisors, a pad site located at Lake Pleasant and Happy Valley Parkways on which IHOP plans to develop a restaurant recently sold for about $25.00 per square foot. The visibility of the pad, proximity to adjoining retail, nature of signage opportunities, drive-through capabilities, size of pad, and ease for the customer for ingress and egress and location in the particular submarket influence the land price but the research indicates a relatively wide range of $15 to $40 per square foot for pad sites in North Peoria.

The results and findings suggest that over time, well-located underutilized properties or sites with excessive parking relative to building space will experience private development of pad or infill development sites in North Peoria without significant changes in municipal regulations, other than reducing excessive parking requirements. Sites, however, with high reservation prices and/or any extraordinary sitework requirements are less likely to be privately developed without changes in municipal policy or other municipal actions (such as reduced impact fees or reduced parking requirements).

ASSUMPTIONS UNDERLYING REAL ESTATE ECONOMIC ANALYSIS FOR CENTRAL PEORIA RETAIL DEVELOPMENT PROTOTYPE

Development Concept 2 - Small-Scale Infill Pad Site Development Central Peoria

Building Program

The primary spatial inputs into the real estate economic analysis include the following:

- 6,000 square feet of new building space on land currently utilized for parking; and
- Overall parking ratio reduced to about four spaces per 1,000 square feet of building space.

The prior research found that key retail centers located in the most desirable Central Peoria submarket near the Arrowhead Towne Center have ample parking that is frequently underutilized. Development Concept 2 assumes a small infill development to intensify the amount of building space on an existing retail development in the preferred Central Peoria submarket. This hypothetical development of a representative situation would reduce the overall parking ratio from about 4.6 parking spaces per 1,000 square feet of building space to 4.0 spaces per 1,000 square feet.

Development Costs

Based on information obtained from developers and real estate brokers, total costs, excluding land and financing costs but including hard construction building cots, architectural, engineering and other soft costs, sitework costs, tenant improvements and leasing commissions are estimated to total $200 per square foot of building space or $1,200,000.

Rents/Absorption

We assume that 100 percent of the space is leased by project opening and 95 percent of the space is leased in the second operating year and thereafter (to account for potential credit lose or turnover). We estimate annual average gross rents of $42 per square foot and that that rents escalate 10 percent once every five years. We estimate annual operating costs including property taxes and insurance of $7.00 per square foot so that net rents approximate $35.00 per square foot.

Investment and Financial Parameters

The primary investment and financial parameters used as inputs into the real estate economic analysis include the following:

- Thirty percent (30%) equity investment;
- Seventy percent (70%) of project development costs funded by debt;
- Construction loan @ five percent (5%) percent with a loan fee of one percent (1%); and
- A permanent mortgage loan retires the construction loan with an interest rate of five percent (5%) and an amortization schedule of 25 years.

The developed and substantially leased property is assumed to be sold in year seven at a capitalization rate of six percent. We use a lower capitalization rate because the Central Peoria submarket part of the Arrowhead Towne Center corridor is the most desirable location for retailers and restaurants in Peoria and investors will pay a premium to obtain properties in this location.

Results of Real Estate Economic Analysis of Development Concept 2- Central Peoria

In this case, in order to solve for an IRR on the marginal investment, we assumed a land value of $1.5 million or $40 per square foot. (If we simply use a $1 as a land value since we are measuring the return on additional investment on land already owned, the IRR would be significantly higher). As indicated above, we solved for the IRR assuming an investor contributed 30 percent equity and held the investment for seven years.

TABLE 2: Before-Tax Land Value and Return Supported by Development Concept 2[1]

Residual Land Value	**$1,500,000**
Residual Land Value Per Square Foot of Land	**$40.00**
Total Project Value ("All in Cost")	$2,724,000
Equity (30% of Project Value)	$817,000
Permanent Loan	$1,907,000
Annual Debt Service	$31,000
Leveraged IRR in Year 7	**21.2%**
[1] Figures are rounded.	
Source: Gruen Gruen + Associates	

As Table 2 shows, the IRR would exceed 21 percent, assuming a land value or cost of $1.5 million or $40 per square foot. This return would justify the marginal investment to intensify the use of the property.

Assuming the City would permit existing property to be more intensively developed by reducing land allocated for parking and increasing the amount of land allocated for building space, in the prime Central Peoria submarket retail locations, private investment and development can be expected to replace obsolete uses or more intensively develop existing retail uses with underutilized land without the need for municipal subsidies.[7]

ASSUMPTIONS UNDERLYING REAL ESTATE ECONOMIC ANALYSIS FOR SOUTH PEORIA RETAIL DEVELOPMENT PROTOTYPE

In order to contrast how the real estate economics differ in South Peoria to the real estate economics influencing development decisions in the Central Peoria and North Peoria submarkets, we assume for simplicity the following:

- 25,000 square feet of building space;
- Development costs of $200 per square foot plus an investor-developer profit on costs of 15% on an equity investment of 30 percent or $1,500,000;
- An occupancy rate of 95 percent;
- A capitalization rate of 7.5 percent; and
- An annual rental rate of $17.00 per square foot triple net (meaning the tenants are responsible for operating expenses, insurance expense, and property taxes).

Results of Real Estate Economic Analysis of Development Concept 3 -25,000-Square-foot Development in South Peoria

Table 3 presents a simplified financial analysis of the real estate economics of a retail prototype for South Peoria.

[7] A previous example of a developer replacing an obsolete use with a new infill development includes at Bell Road and 75th Avenue, in the southwest corner a former Five & Diner restaurant was sold and redeveloped into a, 8,700-square-foot three-tenant building with Mattress Firm, Spa 810, and Noodles & Company as tenants. Armstrong Development is currently redeveloping a former Chevron gas station located on 1.2 acres of land at the southwest corner of Bell Road and 75th Avenue into an approximately 10,000-square-foot retail use including a Smash Burger, Café Rio, and Mad Greens. The developer expects the project to be fully leased upon completion of construction.

TABLE 3: Real Estate Economics of Retail Development in South Peoria[1]	
Annual Net Operating Income	$404,000
Capitalized Value of Property @ 7.50% Capitalization Rate	$5,383,000
Proceeds From Sale Assuming Sales Costs of Three Percent of Transaction Value	$5,222,000
Cost of Developing Building, Excluding Land Cost and Investor-Developer's Profit	$5,000,000
Investor-Developer Profit @ 15% on 30% Equity Investment or $1,500,000	$225,000
Total Dollars Available for Land Purchase	**-$3,000**
[1] Figures are rounded.	
Source: Gruen Gruen + Associates	

Assuming rental rates for new retail space are above those for most retail space (and all neighborhood retail space) in South Peoria and not taking into account the carrying costs to lease up the space or expenses not passed onto to tenants, annual net operating income is assumed to total $404,000. Assuming a higher capitalization rate than applies to the more favorable demand submarkets of Central Peoria and North Peoria but a lower capitalization rate than likely applies to most neighborhood or strip center space in South Peoria[8], the value of the built space would total $5,383,000. Assuming the cost of the sales process equates to three percent of the value of the transaction, net proceeds from the potential sale of the property total $5,222,000.

Under a $200 per square foot total development cost assumption, excluding land cost and an investor-developer profit, development costs total $5,000,000 for the 25,000-square-foot retail prototype. Providing for a simple profit margin for the investor-developer of 15 percent of the equity investment assumed to comprise 30 percent of project costs totals $225,000. Therefore, without discounting for risk and uncertainty (to take into account the potential for a longer lease up period, lower rents, higher than anticipate development costs, etc.), the investor-developer would need to receive the land at no cost plus a small upfront cash contribution of $3,000 in order for the project to be financially feasible to undertake. Accordingly, speculative new multi-tenant retail construction is not likely to be feasible for the private sector to accomplish in at least some locations in South Peoria.

[8] CBRE's *North American Cap Rate Survey* for the second half of 2016 indicates prevailing capitalization rates in the Phoenix market of 6.75% to 7.50% for stabilized Class B neighborhood/community center properties and rates of 8.00% to 8.50% for stabilized Class C neighborhood/community center properties.

APPENDIX B

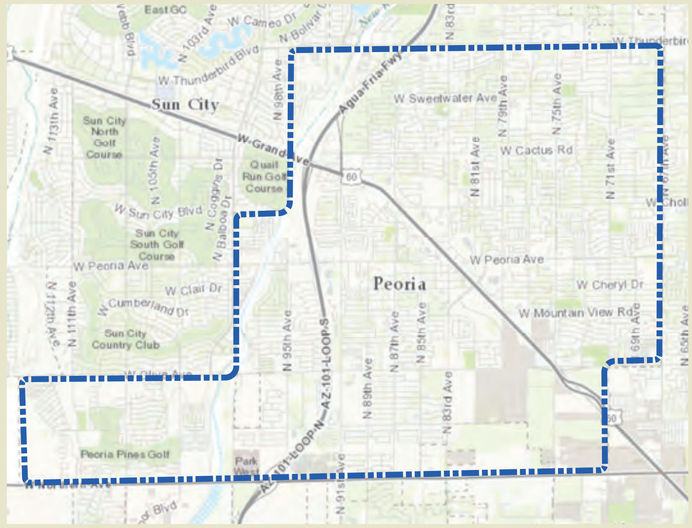
MARKETING PACKAGES FOR SOUTH, CENTRAL, AND NORTH PEORIA

OPPORTUNITIES TO DEVELOP, REDEVELOP AND ENHANCE NONRESIDENTIAL PROPERTY IN SOUTH PEORIA

South Peoria Submarket

The average population density in South Peoria exceeds 4,400 people per square mile. The South Peoria retail trade area is estimated to currently include about 92,000 residents and 35,000 households with an average income of about $57,000 per household. Total household income in the South Peoria trade area is currently about $2.0 billion.

South Peoria contains 21 shopping centers larger than 25,000 square feet in size. About 40 percent of the existing inventory was built prior to 1990. Eight retail centers currently have more than 25,000 square feet of available retail space.



REQUEST FOR PROPOSALS

Property owners, developers, and businesses are invited to submit proposals for the development, redevelopment, or enhancement of nonresidential real estate in South Peoria.

Types of Proposals Considered:

The City is receptive to proposals that include the replacement of obsolete and/or vacant retail space with new housing, medical office, office, retail, or in some cases light industrial uses.

What Proposals Should Include:

- Ownership participation/control of most if not all of the land /property impacted by your proposal will be a major factor considered in the City's evaluation.
- A business plan that describes the current situation and the physical improvements, land use, real estate product and tenanting changes, and operating and marketing enhancement intended to be made.
- Concept plan indicating land uses, building envelopes, building massing and location of parking and overall cost estimate.
- Proposals should identify likely difficulties in implementing the business plan and explain how the owner/developer intends to overcome these difficulties and what assistance the owner/developer would like from the City.
- Description of ownership/development team and its capabilities and experience.

City Assistance/Participation:

The City of Peoria's assistance or participation may include any of the following:

- An expedited review and development approval process;
- The waiver of development application fees;
- Modification to and greater flexibility with zoning ordinance and building codes related to use, parking, setbacks or signage; and
- Financial assistance to bridge feasibility gaps (based on a showing of need and conditioned on positive fiscal payback).

The City's willingness to assist or participate will hinge on the quality of the proposed development/redevelopment and the extent to which the development and redevelopment project provides fiscal, economic, and social benefits and enhances the quality and function of South Peoria.

INVEST Peoria AZ SMART
ECONOMIC DEVELOPMENT SERVICES

For more information or assistance from the City of Peoria, contact:

Kirsten Hall, Business Development Coordinator
Economic Development Services
T: 623.773.5210 E: kirsten.hall@peoriaaz.gov

City of Peoria
9875 North 85th Avenue
Peoria, Arizona 85345

Retail Space and Development Opportunities Available at the West Valley's Premier Arrowhead Corridor Destination in Peoria, Arizona

CENTRAL PEORIA / ARROWHEAD RETAIL SUBMARKET

The Arrowhead Corridor and the Arrowhead Towne Center super-regional mall retail submarket of which Central Peoria is a part have established a position of market area dominance through critical mass, tenant mix, and superior accessibility to the regional population base. The 1.2 million-square-foot Arrowhead Towne Center- anchored by Macy's, Dillard's, Dick's Sporting Goods, JCPenney, AMC Theatres and including 170 store brands- generates sales of $751 per square foot.

DOMINANT RETAIL LOCATION

Accessibility: Excellent accessibility to the 101 Freeway. 75th and 83rd Avenues serve as the major north/south arterials to access the 101 Freeway, while Bell Road is the predominant east/west arterial serving the entire northwest Valley.

Traffic Counts: Bell Road - 40,200 ADT; 101 Freeway - 113,400 ADT (2015 Estimates)

Activity Generators: Peoria Sports Complex (Seattle Mariners & San Diego Padres spring training home stadium), Peoria "Auto Row" (23 dealerships), Peoria Challenger Center (space exploration museum), 18-screen Harkins Theatre, AZ Ice Peoria (ice skating facility), Arizona Broadway Theater (musical theater), and Rollerplex Roller Skating Rink.

Leading Retailers: Target, Jo-Ann Fabrics, Ross Dress for Less, HomeGoods, T.J. Maxx, Ethan Allen , Golfsmith, David's Bridal, Barnes & Noble, Hobby Lobby, Old Navy, DSW, Staples, Pier 1 Imports, Ulta, Nordstrom Rack, Cost Plus World Market, the Container Store, and 52 restaurants. Other Arrowhead corridor anchor retailers include Bed, Bath & Beyond, Best Buy, Costco, and The Home Depot.

CENTRAL PEORIA RETAIL SUPPLY

Primary Retail Centers in Central Peoria Submarket

Retail Center	Type of Center	Anchor(s)	Gross Leasable Area (# Sq. Ft.)
Arrowhead Crossing	Power Center	HomeGoods, DSW, T.J. Maxx, Hobby Lobby	442,267
North Valley Shopping Center	Power Center	Target, Jo-Ann Fabrics, Ross, JCPenney Home	320,666
Arrowhead Entertainment Center (P83)	Theme/Festival Center	Harkins Theatre	220,778
Arrowhead Palms Shopping Center	Community Center	Cost Plus World Market	92,071
Bashas Thunderbird Village	Neighborhood Center	Bashas	82,100
Thunderbird Beltway Plaza	Neighborhood Center	CVS	73,200
SUBTOTAL			1,231,082
Sources: Costar; Gruen Gruen + Associates.			

DESIRABLE DEMOGRAPHIC PROFILE

Radii Estimates from Bell Road and 75th Avenue

	1-mi	3-mi	5-mi
Population	8,440	113,208	285,969
Median Age	33	44	45
Households	3,652	46,192	113,928
Homeowners	38.2%	82.2%	82.5%
Renters	61.8%	17.8%	17.5%
Employment (Jobs)	14,162	49,827	101,020
Average Household Income	$73,295	$75,557	$71,296
$50k-$75k	24.5%	20.4%	19.8%
$75k-$100k	13.7%	12.9%	12.9%
$100k+	20.2%	23.8%	21.4%
Sources: MapInfo; Gruen Gruen + Associates.			

City of Peoria Educational Attainment

	#	%
Population 25 to 34 years	21,880	
High school graduate or higher	19,852	90.70%
Bachelor's degree or higher	5,190	23.70%
Population 35 to 44 years	18,765	
High school graduate or higher	17,966	95.70%
Bachelor's degree or higher	8,130	43.30%
Population 45 to 64 years	44,033	
High school graduate or higher	41,592	94.50%
Bachelor's degree or higher	12,877	29.20%
Population 65 years and over	26,193	
High school graduate or higher	23,694	90.50%
Bachelor's degree or higher	6,441	24.60%
Total Population (25+ years)	110,871	
High school graduate or higher	103,104	93.00%
Bachelor's degree or higher	32,638	29.40%
Sources: U.S. Census Bureau, 2015 American Community Survey; Gruen Gruen + Associates.		

CONTINUED SALES GROWTH IN CENTRAL PEORIA

Taxable Retail Sales Trends in Central Peoria Submarket

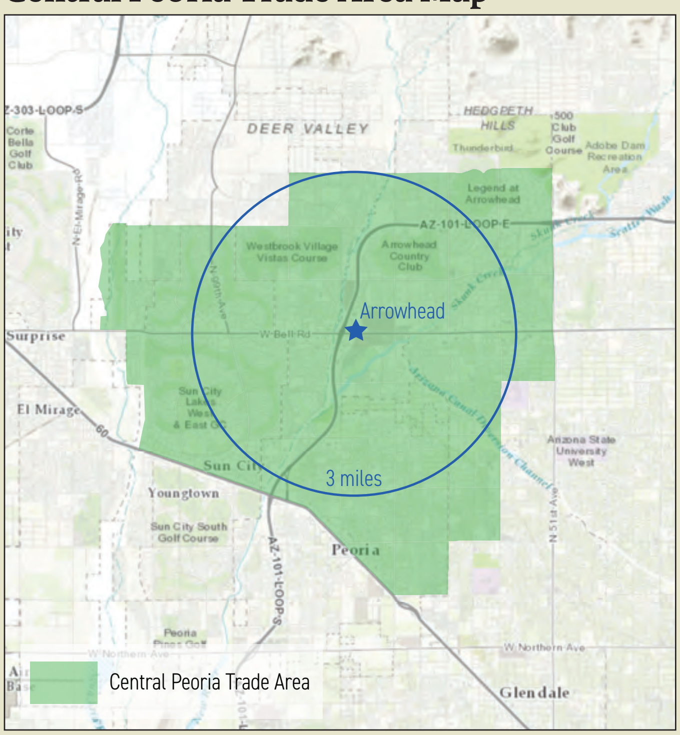
	General Merchandise $	Apparel $	Food Sales $	Eating & Drinking $	Non-Auto Total $
2011	182,561,982	47,294,344	11,286,277	128,574,511	369,717,115
2012	176,344,388	48,235,790	9,861,059	128,483,214	362,924,452
2013	190,469,585	47,693,379	9,842,168	130,543,613	378,548,746
2014	192,648,706	48,548,069	15,928,906	130,274,232	387,399,914
2015	198,528,197	49,862,338	18,373,267	136,550,214	403,314,017
Change	15,966,215	2,567,994	7,086,990	7,975,704	33,596,903
Sources: City of Peoria, Finance Department; Gruen Gruen + Associates.					

CENTRAL PEORIA CAPTURES LARGE TRADE AREA

Current and Projected Available Income in Central Peoria Trade Area

	Population	Households	Average Household Income	Total Household Income
2015	174,511	74,138	$76,000	$5,634,488,000
2020	183,852	77,443	$76,000	$5,885,668,000
2030	192,927	80,260	$76,000	$6,099,760,000
Projected Growth 2015-2030	18,416	6,122	--	$465,272,000
Sources: Maricopa Association of Governments; Gruen Gruen + Associates.				

Central Peoria Trade Area Map



- Central Peoria's primary trade area currently includes about 74,000 households with a population of approximately 175,000. Total available household income currently exceeds $5.6 billion.
- Available income in the trade area projected to exceed $6 billion by 2030.

For information on Peoria's retail development and available space opportunities, introductions to retail property owners and retail leasing agents, and assistance from the City of Peoria, contact:

Kirsten Hall
Business Development Coordinator
Economic Development Services Dept.
City of Peoria
9875 North 85th Avenue
Peoria, Arizona 85345
623.773.5210
kirsten.hall@peoriaaz.gov

Retail Space and Development Opportunities Available in the Growth Pole of the West Valley's Premier Community: Peoria, Arizona

NORTH PEORIA RETAIL SUBMARKET

The North Peoria retail submarket features desirable demographics, with high average income levels and robust population and household growth, and high quality newer shopping centers concentrated around the Four Corners (Lake Pleasant Parkway and Happy Valley) with over 1.7 million square feet of neighborhood and community shopping center space. Well located existing centers and planned new centers offer opportunities for a wide variety of retailers (including warehouse clubs), restaurants (including chef-driven concepts), and entertainment uses (including movie theaters) as well as personal services such as health, beauty, and fitness.

ESTABLISHED RETAIL LOCATION IN THE PATH OF GROWTH

Future Growth:	17 master planned communities totaling 62,000 housing units. Includes Vistancia (17,546 units, the 15th fastest growing master planned community in the nation in 2016).
Accessibility:	Excellent accessibility to Loop 303 freeway. The Loop 303 freeway connects with I-17.
Traffic Counts:	Happy Valley Road - 20,000+ ADT (between 74th Avenue and Lake Pleasant Parkway) Lake Pleasant Parkway - 20,400 ADT (south of Happy Valley Road)
Leading Retailers:	Synergistic mix of major retailers including Bed, Bath & Beyond, BevMo!, Fry's, Lowe's, Kohl's, Marshall's, Michael's, Office Max, PetSmart, Ross Dress for Less, Safeway, Sprouts, Super Target, The Home Depot, Ulta, and Walmart.

INVEST PeoriaAZSMART
ECONOMIC DEVELOPMENT SERVICES

NORTH PEORIA RETAIL SUPPLY

Primary Retail Centers in North Peoria Submarket

Retail Center	Type of Center	Year Built	Gross Leasable Area (# Sq. Ft.)	Leased (%)
Lake Pleasant Towne Center	Power Center	2006	569,196	90.1
Lake Pleasant Pavilion	Community Center	2006	359,237	97.0
Lake Pleasant Crossing	Community Center	2008	337,147	94.9
Camino a Lago Marketplace	Power Center	2000	258,747	97.4
Vistancia Marketplace	Neighborhood Center	2007	116,366	92.5
Fletcher Heights Marketplace	Neighborhood Center	2002	111,483	73.6
Ventana Lakes Village Center	Neighborhood Center	2003	107,825	89.5
Mountainside Crossing	Neighborhood Center	2008	105,268	98.7
Deer Valley Marketplace	Neighborhood Center	1999	102,456	99.0
Peoria Plaza	Neighborhood Center	1998	102,010	90.3
Lake Pleasant Promenade	Neighborhood Center	1995	95,450	52.6
Fry's Center	Neighborhood Center	2000	89,945	100.0
Albertsons Peoria Plaza	Neighborhood Center	1996	79,001	88.6
Fletcher Heights Plaza	Neighborhood Center	2003	58,883	93.7
SUBTOTAL			2,493,014	91.5
Sources: Costar; Gruen Gruen + Associates.				

DESIRABLE DEMOGRAPHIC PROFILE

Radii Estimates from Happy Valley Road and Lake Pleasant Parkway

	1-mi	3-mi	5-mi
Population	4,857	47,117	133,952
Median Age	36	36	43
Households	1,442	15,383	51,336
Household Growth 2000-2015	1,326	10,090	21,158
Employment (Jobs)	2,808	7,902	24,548
Average Household Income	$119,808	$104,580	$90,786
$50k-$75k	12.9%	15.7%	17.4%
$75k-$100k	21.6%	17.8%	15.1%
$100k+	48.4%	40.4%	32.7%
Sources: MapInfo; Gruen Gruen + Associates.			

City of Peoria Educational Attainment

	#	%
Total Population (25+ years)	110,871	
High school graduate or higher	103,104	93.00%
Bachelor's degree or higher	32,638	29.40%
Sources: U.S. Census Bureau, 2015 American Community Survey; Gruen Gruen + Associates.		

OPPORTUNITIES TO PARTICIPATE IN NEW DEVELOPMENT

Opportunities in planned new retail developments for retailers to serve the affluent, rapidly growing household base of North Peoria include:

1. ***NEC Happy Valley Road and 83rd Avenue*** – planned 125,000-square-foot grocery anchored neighborhood shopping center including a 60,000-square-foot Safeway grocery as an anchor tenant;
2. ***SEC Happy Valley Road and 83rd Avenue*** – planned 70,000-square-foot higher-end specialty retail center;
3. ***SEC El Mirage Road and Lone Mountain Parkway*** – planned neighborhood retail center in the Vistancia community; and
4. ***South of the SEC of Happy Valley Road and Lake Pleasant Parkway*** - planned 75,000-square-foot neighborhood center immediately south of the Mountainside Crossings center on the southeast corner of Lake Pleasant Parkway and Happy Valley Road.

FUTURE GROWTH IN NORTH PEORIA TRADE AREA

Current and Projected Available Income in North Peoria Trade Area

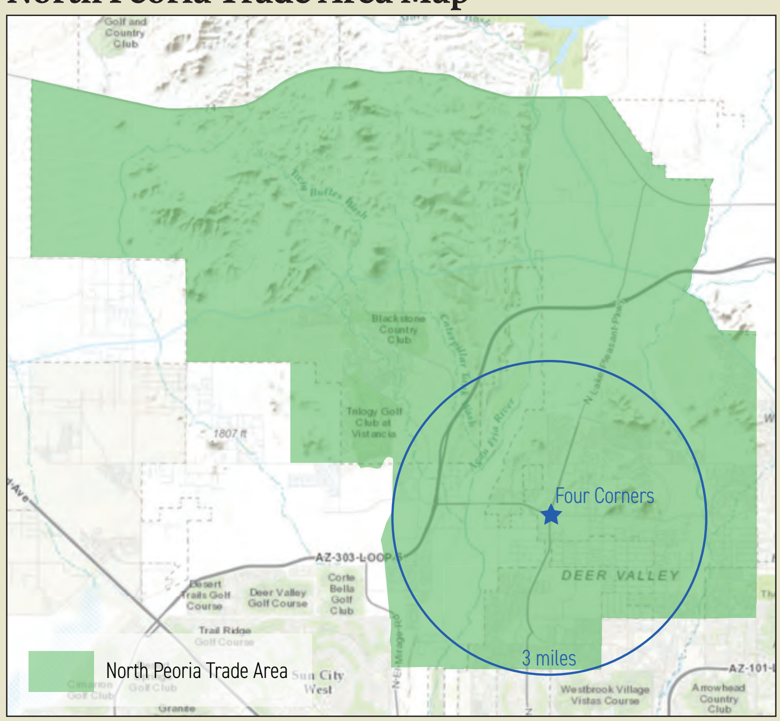
	Population	Households	Average Household Income	Total Household Income
2015	63,752	21,607	$110,000	$2,376,770,000
2020	79,018	26,866	$110,000	$2,955,260,000
2030	136,499	46,083	$110,000	$5,069,130,000
Projected Growth 2015-2030	72,747	24,476	--	$2,692,360,000
Sources: Maricopa Association of Governments; Gruen Gruen + Associates.				

- North Peoria's primary trade area currently includes about 22,000 households with a population of approximately 64,000.
- Available income in the trade area projected to more than double by 2030 to nearly $5.1 billion.

For information on Peoria's retail development and available space opportunities, introductions to retail property owners and retail leasing agents, and assistance from the City of Peoria, contact:

Kirsten Hall
Business Development Coordinator
Economic Development Services Dept.
City of Peoria
9875 North 85th Avenue
Peoria, Arizona 85345
623.773.5210
kirsten.hall@peoriaaz.gov

North Peoria Trade Area Map



Gruen Gruen + Associates (GG+A) is a firm of economists, sociologists, statisticians and market, financial and fiscal analysts. Developers, public agencies, attorneys and others involved in real estate asset management utilize GG+A research and consulting to make and implement investment, marketing, product, pricing and legal support decisions The firm's staff has extensive experience and special training in the use of demographic analysis, survey research, econometrics, psychometrics and financial analysis to describe and forecast markets for a wide variety of real estate projects and economic activities.

Since its founding in 1970, GG+A has pioneered the integration of behavioral research and econometric analysis to provide a sound foundation for successful land use policy and economic development actions. GG+A has also pioneered the use of economic, social and fiscal impact analysis. GG+A impact studies accurately and comprehensively portray the effects of public and private real estate developments, land use plans, regulations, annexations and assessments on the affected treasuries, taxpayers, consumers, other residents and property owners.

www.ggassoc.com

CHICAGO:	DENVER:	SCOTTSDALE:	SAN FRANCISCO:
(847) 317-0634	(720) 583-2056	(602) 370-0965	(415) 433-7598