THE MARKET FOR RETAIL AND OFFICE USES AND STRATEGIC RECOMMENDATIONS FOR THE ENHANCEMENT OF SOUTHERN SCOTTSDALE

A Report to

THE CITY OF SCOTTSDALE

From

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

December 2007

C1220

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APPLYING KNOWLEDGE
CREATING RESULTS
ADDING VALUE

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CHAPTER I

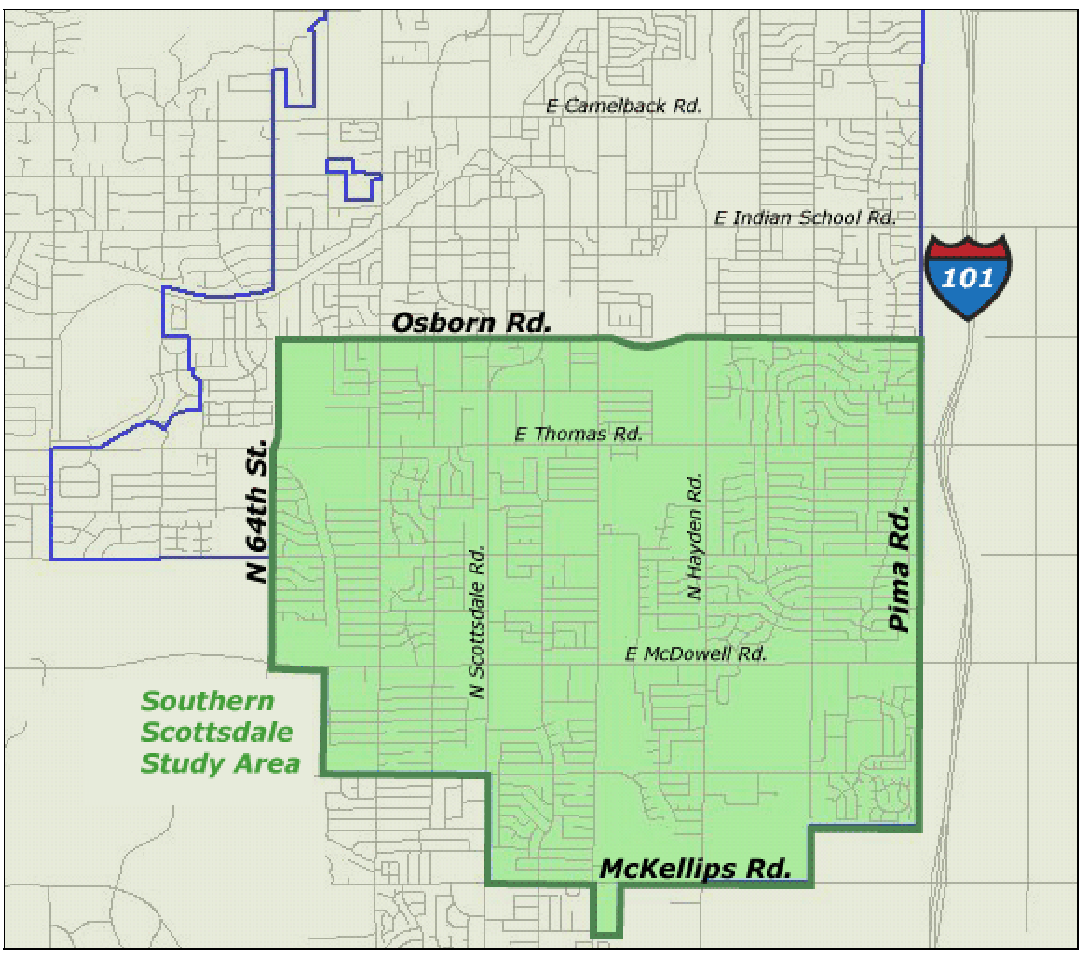
INTRODUCTION AND PRINCIPAL CONCLUSIONS AND RECOMMENDATIONS

INTRODUCTION AND WORK COMPLETED

This report summarizes the assessment and forecast Gruen Gruen + Associates ("GG+A") conducted of the market for retail and office uses in the Southern Scottsdale study area. Map I-1 shows the boundaries of the Southern Scottsdale study area. The study area is bounded by Osborn Road on the north, Pima Road on the east, McKellips Road on the south, and 64th Street on the west. The Southern Scottsdale study area does not include any part of Downtown Scottsdale.

MAP I-1

Southern Scottsdale Study Area



The primary purpose of the study summarized in this report is to forecast the potential market support for commercial uses and to identify potential strategic actions that will facilitate the enhancement of Southern Scottsdale. GG+A directed the retail market research to estimating the relationship between the potential demand for retail space and the potential supply of space within smaller (as described below, an approximately five-minute drive-time) and wider (as described below, an approximately 12-minute drive-time) geographic market areas. We estimated the potential existing and likely future retail demand within the smaller, five-minute, drive-time and wider, 12-minute drive-time market areas in terms of available dollars from residents and workers in and visitors to the market areas for the purchase of retail goods and services. We converted estimated retail demand or expenditure potential into estimates of the amount of retail space the identified demand could support, given research-based assumptions about the required average sales per square foot of retail space. We then compared the estimated supportable space within the smaller, five-minute drive-time and wider, 12-minute drive-time market areas to the estimated supply of retail space in the same market areas. We identified the relationship between potential retail demand and estimated retail supply to reach judgments about the relative intensity of competition for the sale dollars of consumers within the smaller and wider market areas and the potential for study area to capture additional retail space.

The retail market research included a review of taxable sales trends. The retail market research also included interviews directed to obtaining information about the relative advantages and disadvantages of Southern Scottsdale as a convenience and shopper or comparison good retail location as well as a location for automobile dealerships. The interviews were also used to obtain perspective on relevant market areas and competing locations with retail space and automotive dealerships in Southern Scottsdale.

To provide a framework for the office space demand-supply assessment, GG+A conducted field research and interviews with real estate brokers, office space developers, and office building owners as well as large office space users. We directed these interviews toward gaining information and insights needed to define the relevant primary market area and to identify: (a) the likely origins and types of prospective users, (b) the alternative locations prospective users will consider, and (c) the relative advantages and disadvantages of Southern Scottsdale as an office location. We studied office space supply conditions within Southern Scottsdale and the broader office market. We assessed the demand for office space by: (a) analyzing historic employment levels by economic sector for Scottsdale and Southern Scottsdale, (b) reviewing forecast employment by primary land use (provided by Maricopa Association of Governments), and (c) comparing the estimated present and future supply of office space in Southern Scottsdale to forecast demand. We synthesized these office market research tasks to reach conclusions about the potential for office space development in Southern Scottsdale.

The information and insights gained from the market reconnaissance have been used to identify an enhancement strategy for Southern Scottsdale. The recommended strategy is summarized in the next section.

CONCLUSIONS AND RECOMMENDATIONS

Decline in Relative Position of Southern Scottsdale

Because much of the growth in retail, office, and residential uses has occurred outside of the Southern Scottsdale study area, Southern Scottsdale has not shared in the growth of Scottsdale taxable sales. The overall sales decline in the Southern Scottsdale study area reflects the limited growth in new retail space and the reduction in the penetration into demands by the existing stores and other businesses operating in the Southern Scottsdale retail space inventory. Overall, due to combinations of supply additions in competing locations, shifts in population distribution, and aging, smaller, less-consumer responsive, and in some cases obsolete, retail space, the penetration into demands by Southern Scottsdale retail facilities has declined.

As a consequence of both supply additions in North Scottsdale, Mesa, Tempe, Chandler and Gilbert in locations with visibility and even better accessibility to freeways and shifts in other retail and population bases, the size and magnetism of the McDowell Road-Southern Scottsdale automotive dealership agglomeration has declined.[1] Domestic brands which confront significantly greater amounts and locations of supply competition have been more adversely affected by these shifts than luxury automotive dealerships.

The retail agglomerations in Mesa, Tempe, and Downtown Scottsdale include a substantial amount of community center, power center, regional mall and specialty retail space in contemporary shopping formats. The increase in the supply of major retail centers in Tempe and Mesa with dominant retailers in categories such as general merchandise, apparel, and electronics categories makes it challenging to arrest and reverse the decline in Southern Scottsdale's market share.

Estimated Relationship Between Retail Demand and Retail Supply

Using a typical regional standard of $350 per square foot sales threshold produces a small positive unmet or excess demand balance of 89,000 square feet of space within the smaller, five-minute drive-time trade area.[2] In 2012, assuming the addition of 215,000 square feet of new retail space at the SkySong and Los Arcos Crossing projects, using the $350 per square foot sales threshold, demand (including growth in demand due to projected population

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[1] Chapman BMW is moving from the Motor Mile to Chandler to build a four-level, 300,000-square-foot dealership on 6.6-acres of land, including 800 parking spaces, 70 service bays. Lexus, Mercedes-Benz, and Audi are other dealerships that will operate from the Chandler auto row complex. According to Mesa Economic Development Department, Scott Toyota and Scottsdale Nissan are relocating to the Mesa Riverview development from the Motor Mile.

[2] The estimate of $350 per square foot sales threshold for the viable operation of retail tenancies to support new retail development reflects the review of area rents, sales per square foot productivity for a sample of major retailers, review of shopping center sales data, and the interviews.

growth) and supply will be in balance. The demand-supply model construct excludes approximately 420,000 square feet of older, smaller, unanchored retail space in Southern Scottsdale, much of which is competitively obsolete.

In 2007, the existing supply of community, power and regional-center space within the larger 12-minute drive-time trade area is estimated to exceed the supportable space demand from residents, workers and visitors by approximately 1.5 million square feet of space. By 2012, the surplus of community shopping, power center, category killer, big-box space, regional mall and specialty retail space is estimated to decrease by approximately 743,000 square feet to 731,000 square feet of space. (Unique retailers without an ubiquitous presence in the region will tend to have wider trade areas than the overall 12-minute drive-time trade area definition). The decline in the estimate of excess or surplus space relative to demand is attributable to the lack of identified future supply additions in the trade area and the expected growth in the expenditure potential of households, workers and visitors.

Intensely Competitive Retail Market Conditions and Primary Strategic Implications for Retail and Automobile Dealership Uses

The results of the demand-supply analysis for both the smaller, five-minute drive-time and wider, 12-minute drive-time trade areas suggest retail market conditions are likely to be intensely competitive for the foreseeable future and that new retail space cannot succeed without siphoning off sales from existing centers. Those merchants and retail centers unable to adapt to the constantly changing retail environment and unable to respond to contemporary consumer preferences will lose sales. This is part of the natural evolution and inherent creative destruction and reinvention of the retailing and retail real estate industries.

The primary strategic retail use implication is that Southern Scottsdale needs to reduce the amount of smaller, older, obsolete unanchored centers that by their very nature serve limited trade areas, do not encourage multi-purpose trips, do not generate significant sales spillover for adjoining tenancies, and are not positioned to accommodate larger-sized tenants or create dynamic shopping and dining environments through size, tenant mix, and physical improvements.

In addition, the City must proactively work with the automobile dealers to not only promote the Motor Mile but also to facilitate land and building expansions, remodeling, and the addition of complementary automotive-service related uses. The City should also support the introduction of additional eating and drinking establishments so that luxury dealers in particular continue to find the Motor Mile a productive and efficient location from which to operate.

Retail Planning Policy Strategy

Smaller obsolete retail centers will either need to be combined with adjoining property to create larger and stronger retail developments and/or converted to higher density residential uses. Residential uses will augment demand for retail goods and services, including automotive-related goods and services. Increased residential uses, including multi-family apartments, should have great appeal to Scottsdale Healthcare and other major employers (including automobile dealers) and the talented labor force they need, which will benefit from a greater supply of multi-family and comparatively lower-priced housing near their workplaces.

Because of the positive image of Scottsdale, high property prices, and in some cases, relatively high income stream to landlords given limited expenditures on capital improvements, we believe based on our interviews, past research for Scottsdale, and the experiences of numerous other first tier suburban cities that in many cases, the reuse or redevelopment residential density will need to be higher than the current regulations permit. In addition, because higher density residential uses will typically require some form of structured parking in order to be able to build significantly more revenue-producing space, the costs of structured parking will offset at least a portion of the financial benefits of the higher density. Accordingly, municipal assistance with the provision of necessary parking may also be needed to encourage the feasible reuse or redevelopment of smaller, obsolete retail properties. This will serve to reduce the number of smaller, older centers in Southern Scottsdale. The creation of fewer but larger centers will be better positioned to compete for the expenditures of households in the trade areas. The encouragement of higher density residential uses will improve jobs-housing linkages. In addition, retail planning regulations need to reflect the fact that the depth of parcels south of Thomas Road typically are shallow, while the parcels north of Thomas Road tend to be deeper. The shallow parcels may be more suitable for residential uses than retail uses as larger retail uses typically need deeper parcels.

Retail Tenanting Strategy

Eating and drinking sales in Southern Scottsdale have held up well. The interviews suggest businesses and households, including automobile dealerships would respond well to additional food service options. The growth in eating and drinking establishment food sales, the planned office space development in SkySong, the trend of consumers spending a greater proportion of their dollars on food away from home, and the projected growth in trade area population, including growth related to the expansion of the housing base in Downtown suggest potential support for additional food service options. One strategy to explore is a restaurant row, which needs to be placed in a highly-visible location with landscaping and signage techniques that serve to attract residents and workers as well as travelers through the corridors. We use the term restaurant row because one restaurant by itself cannot serve to attract a significant number of patrons from an extended area. A cluster of restaurants, however, can typically penetrate a deeper area because consumers have the added confidence that if they cannot get into one restaurant, option options will be available. A cluster of restaurants can also engage in greater promotional activity. A restaurant row would also generate traffic and in turn be reinforced by the automobile dealers agglomeration on McDowell Road.

An effort should be made to attract a dominant retailer offering a wide variety of general merchandise or home furnishings or other goods related to the home such as a Kohl's store or a R.C. Willey store. Kohl's is located in North Scottsdale, and in Mesa but not yet Tempe. R.C. Willey is a Utah-based furniture and appliance store chain that has expanded into Nevada, and California and is not yet operating stores in Arizona. Efforts should be made to attract a Kohl's store or a higher-quality furniture or other home-related store or other major retailer near the new Lowe's store. Kohl's and R.C. Willey, for example, would complement the Lowe's store, reduce leakage out of the study area, and represents an example of a size and type of tenant that will expand the trade area served. As indicated above, higher-quality furniture and other home-related stores needing relatively large amounts of space at prices lower than rates for which retail space is available in Downtown and North Scottsdale should be encouraged in order to serve the expanding Downtown household base and new households entering Southern Scottsdale neighborhoods.

Southern Scottsdale is "Betwixt and Between" Two Core Office Locations

Southern Scottsdale is "betwixt and between" the dynamic and appealing office space locations of Downtown Scottsdale and Downtown Tempe/Tempe Town Lake. Downtown Scottsdale and Downtown Tempe/Tempe Town Lake provide the following advantages for office space uses:

- Central and accessible locations with positive images;
- Proximity to a diverse set of housing uses;
- Proximity to retail, lodging, and other support services and amenities, including eating and drinking establishments;
- Market responsive product types with appropriate physical characteristics including adequate infrastructure and parking; and most important,
- Locations within office agglomerations or a "critical mass" that help businesses attract and retain labor and operate cost effectively and productively. Agglomeration economies refer to a spatially concentrated development and capital base that from increasing returns to economies of scale, gives cost and revenue advantages to a geographic area's expanding and new firms. These advantages are "external to the firm" because they benefit all the companies engaged in a given range of activities within a particular place, without firms having to shell out extra resources.

Southern Scottsdale is not so close that it can be readily linked to potential expansion of the Downtown Scottsdale or Downtown Tempe/Tempe Town Lake office space agglomerations. Southern Scottsdale, however, is close enough to these agglomerations such that prospective non-price sensitive users considering office space options in either

Downtown Scottsdale or Downtown Tempe/Tempe Town Lake will typically not choose to locate in Southern Scottsdale. However, the potential opportunity exists to capture office space users that are priced out of these adjacent areas because of the availability of lower-priced office space in Southern Scottsdale.

SkySong Likely to Capture Most of Obtainable Office Space Demands

SkySong is a mixed-use project planned to consist of 1.2 million square feet of office, research, retail, and hotel/conference center space at full build-out. The project is located on the site of the former Los Arcos Mall at the intersection of Scottsdale and McDowell roads. SkySong is planned to include approximately 600,000 square feet of office space. SkySong has primarily attracted firms either seeking to enhance their business relationships with Arizona State University ("ASU") or entities affiliated with ASU. The first 150,000-square-foot building is 93 percent leased. ASU will occupy 80,000 square feet or 53 percent of the space. Canon, which does business with ASU, will occupy 13,000 square feet, while a variety of smaller, incubator tenants, many of which have connections with ASU, will occupy 37,000 square feet. The second 150,000-square-foot building has pre-leased 35,000 square feet to Ticketmaster, which handles ticket sales for ASU events for their research and development, technology support, and information technology operations.

SkySong may improve the image of Southern Scottsdale as an office location and develop agglomeration advantages. In the interim, SkySong and other office space in Southern Scottsdale will need to compete on price, particularly for corporate or professional services users serving geographically broad markets. SkySong will need to build further upon the advantage of the presence and support of ASU by attracting firms wanting access to firms already doing business with or sponsored by ASU.

As SkySong establishes Southern Scottsdale as a desirable and productive office space location, most demand for office space in Southern Scottsdale in the foreseeable future will be captured at SkySong because of the price advantages and sense of place and agglomeration advantages tenants will derive from the location at project build-out. In the long-run, a differentiated commercial office space product type, including smaller floor plates oriented to smaller owner-occupants, or a live-work product would complement SkySong office product and benefit from economic spill-over from the project.

ENCOURAGE HIGHER-DENSITY RESIDENTIAL USES

The most important recommendation supported by both the results of the retail and office market analyses is to rezone obsolete uses, including smaller, older, currently unsuccessful shopping centers for relatively high density residential uses. Zoning changes accompanied by appropriate design and other regulatory revisions to encourage assemblage of older obsolete retail or other property into moderately priced higher density housing will bring in more residents who will provide both the employment base for offices, healthcare, and research and development activities as well as patrons for Southern Scottsdale stores and restaurants.

Additional residents are needed to provide support for a greater selection and quality of restaurants and retail goods and services that will appeal to both office workers and residents.

The availability of an expanded workforce as the result of encouraging the development of relatively higher density residential uses will be attractive to tenants of SkySong, and other area employers including Scottsdale Healthcare and General Dynamics. Some of the new residents of such housing may become sources of demand or labor for firms that occupy other types of office space products eventually built in southern Scottsdale as the result of SkySong improving the image of Southern Scottsdale as a location for office space. Improving the linkages between locations of jobs and housing opportunities and the resulting shorter commute potential will improve the competitive position of Southern Scottsdale as an office location.

The interviews suggest high reservation prices (the minimum prices for which property owners will sell their properties) for Southern Scottsdale property constrain feasible redevelopment or reuse projects under current zoning regulations. To avoid high reservation prices causing stagnation, any zoning changes that will tend to cause owners to justify high reservation prices should be subject to "performance zoning" or a "sunset clause". Under these clauses, either the property would not be zoned unless specific development parameters are in place, or if the property is not developed for new residential, retail, or office users within a certain time, the zoning permitting higher-density uses would revert to a lower-density zoning classification.

ARRESTING AND REVERSING THE DECLINE OF SOUTHERN SCOTTSDALE

From a real estate economics point of view, the downward trend or stagnation of Southern Scottsdale corridors has been caused by the gap between what owners will accept for property and what current uses can support. Revitalization will be made more difficult by the development of competition from locations such as Downtown Scottsdale and northern and DowntownTempe which have experienced upward quality improvements and which have benefited from specific and substantial municipal efforts to upgrade those areas (well over $140 million for each community). The increased competition from nearby locations and decline in the quality and productivity of Southern Scottsdale retail and office properties relative to other areas of the community create a reinforcing feedback mechanism that can lead to further decline.

As one of many examples of such a downward cycle, another affluent and prestigious community for which GG+A did research includes smaller neighborhood retail centers. Neighborhood retail centers in that community became increasingly obsolete and blighted due to regulations that limited the size of grocery stores and imposed constraints on adapting properties to serve contemporary demands, including conversion to residential uses. Supply competition with modern grocery stores and larger, more dynamic anchor tenants arose in nearby communities. The development of dominant supply in nearby competitive communities shifted consumer shopping patterns that caused further deterioration in neighborhood shopping centers in the community whose owners given regulatory and market factors had little incentive to invest in maintaining the status quo. Revitalization begins when creative new projects and uses serve to create desirable places able to charge more than currently-prevailing rates, and spill-over their value-enhancing benefits to adjoining properties. To facilitate the feasibility of such projects in Southern Scottsdale, higher density can be provided to buyer-developers which will not maintain the status quo, but will create image and rent-enhancing developments.

Given these market realities, the City of Scottsdale (like any other community facing these issues) is left with a difficult choice:

(1) Let market forces prevail and do not support comprehensive redevelopment or reinvestment through municipal actions, such as the intensification of zoning or the use of financial incentives. Under this scenario, it will likely take five to 10 years before reservation prices or property values decline to the point where purchase and redevelopment of those properties is financially feasible for private investors to undertake, given current development standards and constraints (such as low height restrictions, shallow lots, and zoning that doesn't easily facilitate mixed-use development). In the interim, however, further stagnation and decline of Southern Scottsdale can be expected to occur; or

(2) The City can proactively intervene by using financial and regulatory incentives, including permitting more intensive use of land to stimulate private feasible investment and redevelopment. This is what Scottsdale elected to do with its Downtown through the creation of the 1984 Downtown Plan with ordinance changes in 1986 that allowed increased heights, density and mixed-use in the area. The Downtown Overlay Districts, approved in 2003, helped the smaller lots improve through various incentives such as the façade program, changes to parking requirements, fee reductions for some building permits, creation of the Specialty Retail District incentive. Additionally the Canal Parkway improvement plan, the Marshall Way bridge, various plazas with public art, abandoning some alleys and ROW's, the Infill Incentive District, and building four public parking garages helped to facilitate redevelopment. The City also undertook a series of infrastructure improvements that included undergrounding, relocating, upsizing and upgrading electric, gas, water, storm sewer, and sewer lines. With these changes, many envisioned over 20 years ago, the area is now booming. Between January 2003 and July 2007, the City's public investment in completed and budgeted projects of $140 million in the downtown area was matched by $1.76 billion in private investments; almost a 13 to 1 return on the public investment. Proactive City intervention, however, in order to avoid the downward cycle of Southern Scottsdale will also entail high costs in terms of both financial resources and political capital.

In the absence of a clear signal on which policy direction the City will steer, property owners may maintain their high reservation prices because of expectations that the City will intervene in the future. This will reinforce the status quo and prevent either path to revitalization outlined above from occurring in the foreseeable future.

REPORT ORGANIZATION

Chapter II presents an analysis of historical taxable sales trends in the City of Scottsdale as a whole and in the Southern Scottsdale study area. Chapter III presents an assessment of the competitive position of Southern Scottsdale and sources of competition to and demand for retail space in Southern Scottsdale. Chapter IV describes the relevant market areas and supply of retail space. Chapter V presents estimates of retail expenditure potential and the potential demand for space in the smaller and wider market areas. Chapter VI presents estimates of the relationship between estimated supply and demand within the smaller and wider market area and the share of the market demand that can potentially be captured in Southern Scottsdale.

Chapter VII reviews the primary geographic areas within which Southern Scottsdale office sites compete for office space users and the primary geographic areas from which office space users are attracted. Chapter VII also reviews the competitive position or relative advantages and disadvantages of Southern Scottsdale for attracting office space users. Chapter VIII reviews the office space inventory and supply trends for the City of Scottsdale and Southern Scottsdale. Chapter IX reviews current employment by economic sector and forecast office space demand based on employment growth. Chapter IX presents a comparison between the relationship between forecast office space demand and existing and likely future available Class B and Class A office space in Southern Scottsdale.

CHAPTER II

HISTORICAL TAXABLE SALES TRENDS IN CITY OF SCOTTSDALE AND SOUTHERN SCOTTSDALE STUDY AREA

INTRODUCTION

The analysis of retail sales trends provides a framework for assessing the relative strengths and weaknesses of Southern Scottsdale's retail base and indicates the share of market demand the study area captures. To provide perspective of how Southern Scottsdale compares to the City as a whole, we first review taxable trends for the entire City of Scottsdale.

TAXABLE RETAIL SALES TRENDS

City of Scottsdale

Table II-1 presents changes in taxable retail sales for the City of Scottsdale from 2001 to 2006. The City of Scottsdale is the source of the data.

TABLE II-1

City of Scottsdale Taxable Retail Sales: 2001-2006[1]

Category	2001 $	2002 $	2003 $	2004 $	2005 $	2006 $	Change in Sales $	Annual Growth Rate %
General Merchandise	1,879,900,879	1,881,792,147	1,875,103,300	1,975,953,919	2,055,427,204	2,096,153,172	216,252,293	2.2
Apparel	186,637,353	173,633,368	179,285,100	200,766,724	224,116,650	246,550,102	59,912,749	5.7
Food Stores	572,407,131	570,253,586	587,381,382	588,616,082	586,583,638	608,577,811	36,170,680	1.2
Eating & Drinking	593,485,111	597,504,415	618,509,157	675,143,182	703,754,133	752,129,666	158,644,555	4.9
Building Materials	51,758,628	39,878,797	44,881,023	49,861,758	54,891,428	62,073,232	10,314,604	3.7
Home Furnishings & Electronics	326,418,504	329,184,817	330,481,111	370,635,969	392,950,335	384,055,368	57,636,864	3.3
Auto Dealers	1,361,764,577	1,270,516,265	1,263,495,951	1,290,204,102	1,315,553,699	1,291,666,744	-70,097,833	-1.1
							0	
Total Including Auto Dealers	4,972,372,182	4,862,763,395	4,899,137,026	5,151,181,735	5,333,277,088	5,441,206,094	468,833,912	1.8
Total Excluding Auto Dealers	3,610,607,605	3,592,247,130	3,635,641,075	3,860,977,633	4,017,723,389	4,149,539,350	538,931,745	2.8

[1]In 2006 constant dollars.

Sources: City of Scottsdale; Gruen Gruen + Associates.

Adjusted into constant 2006 dollars to take into account the effects of inflation, between 2001 and 2006, taxable non-automotive retail sales in Scottsdale increased at an annual rate of approximately 2.8 percent or $538.9 million to $4.1 billion in 2006. The categories with the highest increase in retail sales were: (a) apparel (5.7 percent average annual growth for an increase of nearly $60 million), from $186.6 million in 2001 to $246.6 million in 2006; and (b) eating and drinking (4.9 percent average annual growth for an increase of $158.6 million to $752.1 million in 2006). As reviewed below, tourism expenditures explain the high sales in the apparel and eating and drinking categories.

Food store sales grew only slightly over the five-year period. The growth of food sales at a relatively slow rate of 1.2 percent with most of the increase to $608.6 million occurring in 2006 reflects the trend of higher expenditures of income on food away from home as well as the increase in competition from general merchandise and warehouse stores. General merchandise sales growth was relatively flat from 2001 through 2003, during the early 2000s recession, but increased at an average annual growth rate of 2.2 percent or $216 million, from $1.9 billion in 2001 to $2.1 billion in 2006. Building materials sales declined off a 2001 base of $51.8 million through 2004, but increased to peak sales of $62.1 million in 2006 for an overall growth rate of 3.7 percent. Home furnishing sales grew from $326.4 million in 2001 to a peak of $393.0 million in 2005, with sales in 2006 of $384.1 million. Sales in the home furnishings categories grew at an annualized rate of 3.3 percent.

The overall sales growth, excluding the automotive category, following the early 2000s recession in Scottsdale reflects the addition of over two million square feet of new retail space between 2001 and 2006 and the redevelopment of the waterfront area in Downtown Scottsdale.

The one category that did not share in Scottsdale's retail sales growth is the automotive category. On an inflation-adjusted basis, sales in the automotive sector declined by 1.1 percent annually to just under $1.3 billion in 2006, from $1.4 billion in 2001. Automotive sales declined from the peak in 2001 in 2003 and 2004 before beginning to rebound in 2004. This decline reflects not only the recessionary period in the early 2000s but also the addition of new automotive dealership facilities located outside of Scottsdale such as the new dealerships in Mesa, Chandler, and Gilbert.

Southern Scottsdale Study Area

Table II-2 presents changes in taxable retail sales for the Southern Scottsdale from 2001 to 2006.

TABLE II-2

Southern Scottsdale Taxable Retail Sales: 2001-2006[1]

Category	2001 $	2002 $	2003 $	2004 $	2005 $	2006 $	Change in Sales $	Annual Growth Rate %
General Merchandise	141,765,584	130,048,595	121,696,467	129,959,635	124,198,222	116,702,487	-25,063,097	-3.8
Apparel	2,045,169	1,865,118	1,585,646	1,476,065	1,786,751	2,225,329	180,160	1.7
Food Stores	75,933,114	80,510,707	80,753,580	78,113,133	72,394,657	73,623,310	-2,309,804	-0.6
Eating & Drinking	71,953,833	73,697,612	74,072,571	80,285,864	82,674,872	83,660,428	11,706,595	3.1
Building Materials	6,576,599	6,265,885	6,607,762	6,649,627	7,444,479	8,498,565	1,921,966	5.3
Home Furnishings & Electronics	14,879,809	12,017,364	12,512,359	12,467,469	11,572,329	10,350,719	-4,529,090	-7.0
Auto Dealers	774,882,222	681,617,491	619,689,745	630,311,865	668,052,595	664,962,978	-109,919,244	-3.0
							0	
Total Including Auto Dealers	1,088,036,329	986,022,773	916,918,129	939,263,659	968,123,904	960,023,816	-128,012,513	-2.5
Total Excluding Auto Dealers	313,154,107	304,405,282	297,228,384	308,951,794	300,071,309	295,060,838	-18,093,269	-1.2

[1]In 2006 constant dollars.

Sources: City of Scottsdale; Gruen Gruen + Associates.

Adjusted for inflation and reported in 2006 dollars, between 2001 and 2006, total taxable non-automotive retail sales in Southern Scottsdale decreased at an annual rate of approximately one percent to $295 million in 2006, from $313.2 million in 2001. Sales rebounded in 2004 due to increases in sales in the general merchandise and eating and drinking categories. The decline in sales resumed in 2005 and 2006. The categories with the highest decrease in retail sales were: (a) home furnishings and electronics (7.0 percent average annual decline for a decrease of nearly $4.5 million, from $14.9 million in 2001 to $10.4 million in 2006); and (b) general merchandise, the largest retail category (3.8 percent average annual decline for a decrease of $25.0 million, from $141.8 million to $116.7 million in 2006). Food store sales, remained about the same over the five-year period at about $73.6 million in 2006. As indicated above, the lack of food sales growth reflects the supply competition from Costco and other general merchandise stores offering groceries as well as a shift of food dollar expenditures to eating and drinking establishments.

Eating and drinking, building materials and apparel sales experienced positive increases. Eating and drinking sales grew by nearly $12 million or three percent annually to $83.6 million in 2006 to become the second largest source of non automotive sales. Building materials sales also grew rapidly, albeit off a small base by nearly $2 million or over five percent annually, from $6.6 million in 2001 to $8.5 million in 2006. Lowe's opened in January 2007 so the 2006 sales figures do not include the impacts of this store opening. Apparel sales varied between 2001 and 2006, but remained a minimal proportion of sales at $2.25 million in 2006.

The overall sales decline in the study area reflects the lack of growth in new retail space between 2001 and 2006 and the reduction in the penetration into demands by the existing stores and other businesses operating in the Southern Scottsdale retail space inventory.

PROPORTION OF TOTAL SALES BY CATEGORY INCLUDING AUTO DEALERS

City of Scottsdale

Table II-3 presents the proportion each retail category, including automotive sales, comprises of total retail sales from 2001 to 2006. Appendix B contains two tables showing the proportion of sales by category excluding automobile dealer sales.

TABLE II-3

Proportion of Scottsdale Total Sales by Category Including Auto Dealers: 2001-2006[1]

Category	2001 %	2002 %	2003 %	2004 %	2005 %	2006 %	Shift in Proportion 2001-2006 %
General Merchandise	37.8	38.7	38.3	38.4	38.5	38.5	0.7
Apparel	3.8	3.6	3.7	3.9	4.2	4.5	0.8
Food Stores	11.5	11.7	12.0	11.4	11.0	11.2	-0.3
Eating & Drinking	11.9	12.3	12.6	13.1	13.2	13.8	1.9
Building Materials	1.0	0.8	0.9	1.0	1.0	1.1	0.1
Home Furnishings & Electronics	6.6	6.8	6.7	7.2	7.4	7.1	0.5
Auto Dealers	27.4	26.1	25.8	25.0	24.7	23.7	-3.6
Total	100	100	100	100	100	100	

[1]In 2006 constant dollars.

Sources: City of Scottsdale; Gruen Gruen + Associates.

The category with the largest positive shift in total sales was the third largest sales category, eating and drinking. Sales in this category increased from 11.9 percent in 2001 to 13.8 percent in 2006. The largest retail category, general merchandise, remained relatively stable, ranging from a low of 37.8 percent in 2001 to a high of 38.7 percent in 2002. Consistent with its decline in sales by $70 million, the second largest category, automotive, experienced a significant downward shift in its proportion of total sales, from 27.4 percent in 2001 to 23.7 percent in 2006. The proportion of food sales remained relatively constant at about 11 percent. The four largest categories: general merchandise, auto dealers, eating and drinking, and food sales collectively comprise over 87 percent of total sales in the City of Scottsdale. The smaller sales categories - apparel, building materials, and home furnishing - each registered slight upward shifts in their respective proportions of total sales.

Excluding the effects of automotive sales, general merchandise sales comprised the largest share of all other retail sales in Scottsdale. Although general merchandise share of total sales shifted downward slightly it still comprises nearly half of all other non-automotive sales in Scottsdale. Eating and drinking sales comprises the next largest share of approximately 18 percent of all other non-automotive sales in Scottsdale.

Southern Scottsdale Study Area

Table II-4 presents the proportion each retail category comprises of total retail sales from 2001 to 2006 in the Southern Scottsdale study area.

TABLE II-4

Proportion of Southern Scottsdale Total Sales by Category Including Auto Dealers: 2001-2006[1]

Category	2001 %	2002 %	2003 %	2004 %	2005 %	2006 %	Shift in Proportion 2001-2006 %
General Merchandise	13.0	13.2	13.3	13.8	12.8	12.2	-0.9
Apparel	0.2	0.2	0.2	0.2	0.2	0.2	0.0
Food Stores	7.0	8.2	8.8	8.3	7.5	7.7	0.7
Eating & Drinking	6.6	7.5	8.1	8.5	8.5	8.7	2.1
Building Materials	0.6	0.6	0.7	0.7	0.8	0.9	0.3
Home Furnishings & Electronics	1.4	1.2	1.4	1.3	1.2	1.1	-0.3
Auto Dealers	71.2	69.1	67.6	67.1	69.0	69.3	-2.0
Total	100	100	100	100	100	100	

[1]In 2006 constant dollars.

Sources: City of Scottsdale; Gruen Gruen + Associates.

The category with the largest positive shift in total sales was the third largest sales category, eating and drinking. Sales in this category increased from 6.6 percent in 2001 to 8.7 percent in 2006. Consistent with its decline by $70 million, the largest category, automotive, experienced a downward shift in its proportion of total sales, from 71.2 percent in 2001 to 69.3 percent in 2006. Note the downward shift of automotive sales in the study area was less than the downward shift in automotive sales for the City as a whole. This indicates that automotive sales in the study area are holding up better than for Scottsdale overall. All other categories remained relatively constant in their proportion of total sales. Sales in the automotive, general merchandise, eating and drinking categories comprise over 90 percent of total sales in Southern Scottsdale.

Excluding automotive sales which comprises nearly 70 percent of the study area's total sales, eating and drinking sales growth appears even stronger while the decline in general merchandise sales appears worse. Eating and drinking sales shifted up by five percentage points to comprise nearly 28 percent of the study area's total sales. Conversely, general merchandise sales shifted down by nearly six percentage points to comprise about 40 percent of the study area's total sales. Food sales and eating and drinking sales comprise a significantly larger share of total sales in the Southern Scottsdale study area than these categories make up of the City's total sales (food sales comprise 25 percent of total Southern Scottsdale sales compared to 14.7 percent for all of Scottsdale; while eating and drinking sales comprise over 28 percent of total sales in Southern Scottsdale, compared to 18.1 percent for all of Southern Scottsdale.

PROPORTION OF SOUTHERN SCOTTSDALE SALES OF CITY OF SCOTTSDALE SALES AS A WHOLE

Table II-5 shows the proportion that the Southern Scottsdale study area's sales comprise of all of the City of Scottsdale's sales from 2001 to 2006.

TABLE II-5

Southern Scottsdale Study Area Proportion of City of Scottsdale Sales by Category: 2001-2006[1]

Category	2001 %	2002 %	2003 %	2004 %	2005 %	2006 %
General Merchandise	7.5	6.9	6.5	6.6	6.0	5.6
Apparel	1.1	1.1	0.9	0.7	0.8	0.9
Food Stores	13.3	14.1	13.7	13.3	12.3	12.1
Eating & Drinking	12.1	12.3	12.0	11.9	11.7	11.1
Building Materials	12.7	15.7	14.7	13.3	13.6	13.7
Home Furnishings & Electronics	4.6	3.7	3.8	3.4	2.9	2.7
Auto Dealers	56.9	53.6	49.0	48.9	50.8	51.5
Total Including Auto Dealers	21.9	20.3	18.7	18.2	18.2	17.6
Total Excluding Auto Dealers	8.7	8.5	8.2	8.0	7.5	7.1

[1]In 2006 constant dollars.

Sources: City of Scottsdale; Gruen Gruen + Associates.

Including automotive dealers, the study area's share of Scottsdale sales as a whole has steadily declined by 4.3 percentage points, from 21.9 percent in 2001 to 17.6 percent in 2006. Excluding automotive sales, the study area's sales comprise a much smaller proportion of the City's sales. The study area's sales excluding automotive sales declined from 8.7 percent in 2001 to 7.1 percent of total City sales in 2006. The Southern Scottsdale study area has not shared in taxable sales growth proportionally as much of the growth in retail, office, and residential uses occurred outside of the study area.

While no categories in Southern Scottsdale increased as a proportion of total sales for the City as a whole, three categories represent between 11 and 13 percent of total City-wide sales: eating and drinking, building materials, and home furnishings. Sales in the eating and drinking category in Southern Scottsdale captured nearly eight percent of the overall City's sales growth in this category. Building materials sales in the study area did even relatively better capturing almost 20 percent of the City's sales growth in this category. The opening of the Lowe's store in January 2007 will further contribute to the maintenance and improvement in Southern Scottsdale's share of building materials sales. The growth in building materials sales and the subsequent opening of Lowe's in the study area suggest the potential for positioning Southern Scottsdale as a repository of home furnishings and home improvement retailers and service providers to attract the growing base of Downtown residents to come south rather than drive a much longer distance north for these goods.

Although automotive sales have declined in the study area, automotive sales in Southern Scottsdale still comprise a significant share of Scottsdale's automotive sales overall at 51.5 percent, down from almost 57 percent in 2001. As a proportion of total sales, the automotive sector in Scottsdale has increased its share from a low of 48.9 percent in 2004 to

51.5 percent in 2006.

PER CAPITA SALES COMPARISON

We next present per capita retail sales in the City of Scottsdale and the Southern Scottsdale study area (i.e., total sales divided by population). This measure provides another indication of the relative weakness of Southern Scottsdale's retail base. The per capita sales measure indicates the in-flows (the attraction of sales dollars from non-local households) and outflows (leakage) in an area. Very high per capita sales tend to indicate that an area may be attracting dollars from those who do not live in that area. Similarly, lower per capita sales tend to indicate that residents are shopping elsewhere or that the retail base is not attracting consumers from outside the area for goods in the subject category.

Table II-6 shows the per capita sales for Scottsdale and the Southern Scottsdale study area for 2001 and 2005. We present only non-automotive sales by category because the Southern Scottsdale study area captures a much higher per capita share of automotive sales ($17,050 versus $5,457) than for the City as a whole due to the presence of the Motor Mile in the study area.

TABLE II-6

Per Capita Retail Sales by Category for Southern Scottsdale Study Area in Comparison to City of Scottsdale: 2001 and 2005[1]

Southern Scottsdale	General Merchandise $	Apparel $	Food Stores $	Eating & Drinking $	Building Materials $	Home Furnishings & Electronics $	Total Non-Automotive $
2001	3,517	51	1,884	1,786	163	369	7,769
2005	2,964	43	1,728	1,973	178	276	7,162
City of Scottsdale							
2001	8,957	889	2,727	2,828	247	1,555	17,202
2005	9,138	996	2,608	3,129	244	1,747	17,863

[1] 2006 Dollars. Used 2000 population estimate for Southern Scottsdale to calculate 2001 per capita sales figure. Population estimate for 2005 for Southern Scottsdale is 41,900.

Sources: City of Scottsdale; Gruen Gruen + Associates.

As Table II-6 shows, Southern Scottsdale's 2000 per capita sales (excluding automotive sales) were less than half of that generated for the City of Scottsdale as a whole. In 2005, Southern Scottsdale's per capita sales fell even further relative to the City's per capita sales. Southern Scottsdale's per capita sales comprise about 40 percent of the per capita sales for the City of Scottsdale. While the City of Scottsdale's per capita sales increased by nearly four percent over the four-year period, Southern Scottsdale's per capita sales fell by almost eight percent to $7,162.

Three categories in Southern Scottsdale fare especially poorly compared to the City as a whole. Apparel, home furnishings and electronics, and general merchandise per capita sales declined in Southern Scottsdale but increased for the City as a whole. Southern Scottsdale's per capita sales in these three categories are one-third or less of that generated for the City. This indicates the relative weakness of Southern Scottsdale as a location to serve demands in these categories. The increasing scale and magnetism of retail agglomerations outside of Southern Scottsdale supported by Scottsdale's population growth will make it increasingly challenging for Southern Scottsdale to appeal to consumers beyond its borders. As described below, the increase in the supply of major retail centers in Tempe and Mesa with dominant retailers in the general merchandise, apparel, and electronics categories also makes it challenging to arrest and reverse the sales trends described above.

Conversely, per capita eating and drinking and building materials sales have held up fairly well compared to the City of Scottsdale as a whole. Southern Scottsdale's per capita building material sales while a small share of total sales is increasing and comprises about 70 percent of that generated for the City of Scottsdale. Per capita eating and drinking sales in Southern Scottsdale have also increased as much as that for the City and comprise over 60 percent of per capita sales generated for the City.

**ESTIMATE OF SALES LEAKAGE FROM
FROM SOUTHERN SCOTTSDALE HOUSEHOLDS AND WORKERS**

Table II-7 presents an estimate of the amount of sales lost in Southern Scottsdale due to expenditures by households and workers outside the study area. We used household and income estimates and employee estimates prepared by SitesUSA based on a 1.5 mile radius from the center of the study area. The 1.5 mile radius approximates the boundaries of the Southern Scottsdale study area.

TABLE II-7

Estimated Relationship Between Retail Demand and Retail Sales Within Southern Scottsdale Study Area

	2007
Total Non-Automotive Retail Sales[1]	$295,060,838
Total Households[2]	18,899
Average Household Income	$54,930
Total Household Purchasing Power	$1,038,122,070
Estimated Retail Expenditures @ 26-30 percent of Household Income[3]	$269,911,700 - $311,436,600
Total Number of Employees	32,444
Estimated Retail Expenditures[4]	$60,735,200
Total Household & Worker Retail Expenditures	$330,646,900-$372,171,800
Retail Sales Leakage Estimate[3]	$35,586,100-$77,111,000

1 2006 sales figure.
2 Number of households and average household income are 2007 estimates.
3 Figures have been rounded. Retail expenditures include: food at home, food away from home, household operations, housekeeping supplies, household furnishings and equipment, apparel and services, entertainment, personal products and services, reading, and tobacco products.
4 Figures have been rounded. Assumes each worker spends $8.00 per day for 260 working days per year. Assumes a 10 percent overlap between residents and workers.

Sources: City of Scottsdale; SitesUSA; U.S. Bureau of Labor Statistics, Consumer Expenditure Survey, 2004-2005 for the Phoenix Region; Gruen Gruen + Associates.

In 2006, total sales (adjusted for the effects of inflation and excluding automotive) in Southern Scottsdale approximated $295.0 million. Using an estimated range of retail expenditures of 26 percent to 30 percent of total household income, potential retail demand attributable to households in Southern Scottsdale totaled $270 million to $311 million in 2007. Using an estimate of a daily expenditure of $8.00 and a 260-workday year, total expenditures from workers in Southern Scottsdale approximates $60.7 million. This worker expenditure estimate has been lowered by 10 percent to account for potential resident and worker overlap in the study area. Total annual expenditures from households and workers in Southern Scottsdale are estimated to approximate $331 million to $372 million. Comparing the estimated expenditure potential to the estimated sales in 2006 suggests that approximately $36 million to nearly $77 million of potential retail expenditures by households and workers in Southern Scottsdale were not made within the study area. In other words, significant potential sales dollars leak out of the study area to other retail locations and formats.

CHAPTER III

THE COMPETITIVE POSITION OF SOUTHERN SCOTTSDALE

INTRODUCTION

To gain insight into the potential demand for retail space and the future of the automotive dealerships in Southern Scottsdale, GG+A staff interviewed representatives of property owners, developers, real estate brokers, merchants, and automotive dealers. We synthesized the results of the interviews and field inspections into the following sections:

- Factors that encourage demand or primary advantages;
- Factors that constrain demand or primary disadvantages; and
- Primary sources of demand and competing supply alternatives.

FACTORS THAT ENCOURAGE DEMAND OR PRIMARY ADVANTAGES

The interviews, site inspections, and review of sales trends indicate the main existing or potentially created comparative advantages of Southern Scottsdale as a retail and automotive dealership location include the following factors:

- A geographically central location within the region with good (but not superior) accessibility to Loop 101 and Loop 202;
- High traffic volumes (According to the City of Scottsdale and Maricopa Association of Governments, the McDowell Road corridor between 64th Street and Miller Road had an average daily traffic count of 107,300 in 2004 and is projected to increase to 138,000 by 2020);
- Proximity to a relatively large and dense household base in Southern Scottsdale that is beginning to include younger households and to a growing base of households in adjoining Downtown Scottsdale as well as proximity to a large employment base in these same locations; and
- The potential for additional housing to be created to serve as sources of demand for retail goods and services and as sources of labor for the educational, medical, public and private employers located in or near Southern Scottsdale.

FACTORS THAT CONSTRAIN DEMAND OR PRIMARY DISADVANTAGES

The factors most discouraging demand or primary disadvantages of Southern Scottsdale as a retail location include the following:

- Much of the growth in Scottsdale has occurred outside of Southern Scottsdale with a resulting shift in the major retail uses and consumer shopping patterns to the north;

- A relatively complete supply of community- and regional-serving retail formats and retailers, including non-essential specialty and big-box category-killer tenancies in accessible locations outside of Southern Scottsdale;

- A high proportion of smaller centers relative to larger centers capable of attracting tenants with wider draws and the ability to generate sales spillover to adjoining tenancies in corridors;

- A residential base with a higher proportion of lower-income, older, and less well educated households than other parts of Scottsdale;

- The shallowness of commercial parcels located for example south of Thomas and fragmented property ownership makes property assembly difficult to accommodate the larger-sizes and formats of contemporary retailers. Some automobile dealerships have been unable to expand because of an inability to secure additional land for their operations;

- Zoning constraints that limit combinations of residential and commercial uses at densities sufficient to offset high land prices; and

- A limited amount of spillover occurs between the automotive dealership uses and other uses. A larger base of contemporary restaurants and other services, including night-time and weekend activities, would help generate sales for the automobile dealerships, which in turn, would help support those activities as a result of greater visitation to the dealerships.

SOURCES OF DEMAND AND COMPETING RETAIL LOCATIONS

The interviews with developers, leasing agents, and others suggest the primary sources of current demand for retail space in the Southern Scottsdale study area include residents who live in or near the area and employees which work in Southern Scottsdale or nearby locations. Southern Scottsdale retail centers no longer serve as wide of trade area because of its relative accessibility to large population sources. Households from Tempe and Mesa are not as frequently drawn to Southern Scottsdale as in the past when these communities had not yet reached critical size thresholds to support their community-and regional-serving uses.

As reviewed below, new community-and regional shopping centers have been developed to serve the expanding populations of Tempe and Mesa as well as Downtown Scottsdale and North Scottsdale which have also attracted higher-end specialty tenancies.

The automotive dealers of luxury brands within the McDowell Road-Southern Scottsdale area attract customers from a relatively wide geographic area because of the centrality of McDowell Road-Southern Scottsdale, the cluster of other luxury automotive dealership brands, and because of limited supply alternatives. The luxury dealerships benefit from the prestige of a Scottsdale address and as well from the proximity to high income households of Scottsdale, Paradise Valley, Arcadia, and parts of Phoenix. In contrast, the domestic, non-luxury brands in particular have been adversely affected by the opening of automotive dealerships in locations in north Scottsdale, Mesa, Chandler, and Gilbert. As a consequence of both auto dealership supply additions with visibility and even better accessibility to freeways and shifts in other retail and population bases, the size and magnetism of the McDowell Road-Southern Scottsdale automotive dealership agglomeration has declined.

Overall, due to combinations of addition of automotive dealerships and new retail supply additions in competing locations, shifts in population distribution, and aging, smaller, less-consumer responsive, and in some cases obsolete, retail space, the penetration into demands by Southern Scottsdale retail and automotive dealership facilities has declined.

CHAPTER IV

RETAIL SUPPLY IN PRIMARY MARKET AREA INCLUDING SOUTHERN SCOTTSDALE STUDY AREA

INTRODUCTION

To gain insight into factors affecting the market area of Southern Scottsdale's retail base, GG+A inspected the study area and other retail locations within the surrounding area. We also conducted interviews with developers and real estate brokers of retail facilities in or near the study area. We also reviewed secondary data and the competing supply of retail space. We have synthesized the results of the research and analysis in order to define the primary market area from which consumers are attracted and within which retail space in Southern Scottsdale competes with other retail facilities for shoppers and tenants.

PRIMARY MARKET AREA DEFINITION

A primary market area is defined as the area from which most (i.e., 70 percent or more) customers of a shopping center or shopping area are drawn. The market area for any specific agglomerations or set of stores is a function of the size and tenant make-up of the agglomeration, its accessibility, and the scale and tenancies of competing agglomerations. Therefore, market areas are dynamic and tend to change as a function of the type and supply of competing shopping locations. The travel time people are willing to expend in order to visit a shopping or business location varies as a function of both the size of the shopping areas and the relative uniqueness of the tenancies and environments available at alternative destinations. The relative accessibility to the shopping area and ease of getting in-, about-, and out- of the shopping area also influence the market area. Uniqueness, attraction, and accessibility are not measured in the abstract, but are always relative to the specific competition in the area.

To estimate potential demand and supply conditions for convenience goods and services typically found in neighborhood shopping centers, we assumed an approximately five-minute drive time trade area from the center of the study area. We recognize that traveling a minute or two further in every direction would capture more residential households and increase the current and future population counts in the trade area but believe based on interviews with brokers and leasing agents of the existing supply of neighborhood centers that five-minutes is a good approximation of the distance the study area serves for neighborhood convenience and necessity goods and services.

To estimate potential demand for destination activities and comparison or shopper goods such as those found at community shopping centers, power centers, "category-killer, big-box" retail stores or regional malls, we assumed a trade area based on a drive time around the study area of approximately 12 minutes. SitesUSA provided the trade area maps based on the drive-time distances specified.

Five-Minute Drive Time Trade Area Definition

Based on interviews and a review of the location and make-up of retail space, the primary market area for neighborhood-serving retail uses in Southern Scottsdale is generally bounded by: (1) Interstate 101 to the east. (The Salt River Pima Maricopa Indian community east of State Route Loop101 limits population density from this area); (2) just south of Chaparral Road in Scottsdale; (3) State Route Loop 202 on the south; and (4) North 56th Street on the west. As indicated above, this primary market area definition approximates a five-minute drive time from the center of the Southern Scottsdale study area and approximates slightly less than a three-mile radius around the center of the study area. The five-minute drive time trade area includes Downtown Scottsdale in which more than 2,000 new housing units have or are expected to be developed in the near future. As indicated elsewhere in the report, the addition of households to the Downtown will increase demand for necessity and convenience-type goods and food service options.

12-Minute Drive Time Trade Area Definition

The primary market area that shopping-center type destination and comparison or shopper good uses in Southern Scottsdale are postulated to potentially serve if its magnetism to consumers improves is generally bounded by: (1) Indian Bend Road in Scottsdale to the north; (2) Mesa Drive in Mesa on the east; (3) Broadway Road in Tempe on the south; and Route 51 in Phoenix on the west. The primary trade area approximates an eight-mile radius from the center of the Southern Scottsdale study area.

CURRENT SUPPLY COMPETITON

Five-Minute Drive Time Trade Area

Table IV-1 and Map IV-1 identify the estimated supply of neighborhood retail centers in the five-minute drive time trade area. Appendix B presents a summary of the type of retail space by age of center and amount of space constructed by year for the City of Scottsdale and the Southern Scottsdale study area which is within the five-minute drive time trade area. The summary shows that a very small amount of space in the Southern Scottsdale study area is less than 10 years old. The only new retail space larger than 10,000 square feet built in the study area since 1997 is the Lowe's Plaza. All but two of the centers in the study area are over 20 years old as compared to about half of the centers for Scottsdale as a whole.

TABLE IV-1

Anchored Neighborhood Shopping Centers and Free-Standing Grocery Stores in Five-Minute Drive Time Trade Area

Map Key	**Center Name**	Location/ Jurisdiction	Year Built	Building Space # Square Feet	Anchors	Occupancy Rate %	Annual Rent $ per Square Foot
1	Walgreens-Staples Center	Osborn & Scottsdale / Scottsdale	1994	45,000	Walgreens, Staples		
2	Basha's/Walgreen's Center	Indian School & Hayden	1960 (rebuilt 2004)	64,110	Basha's, Walgreen's	100%	
3	Indian River Plaza	Hayden & Thomas / Scottsdale	1979	92,341	CVS, 99 Cent Only	90%	15-18
4	Office Max Plaza	Osborn & Hayden / Scottsdale	1981	76,435	Office Max, Big 5	96%	22
5	Sun Plaza	Scottsdale & McKellips / Tempe	1977	77,810	Sun Foods, Big Lots	92%	12-18
6	Fountain Plaza	McDowell & 77th St / Scottsdale	1980	105,991	Fry's, Dollar Tree, Hollywood Video, Rent-a-Center, Sherwin Williams, Post Office	95%	20-25
7	Scottsdale Crossings	Thomas & Scottsdale / Scottsdale	1991	119,467	Albertson's, Ace Hardware, Jamba Juice, Noodles, Great Clips, Jewelry Exchange, Play It Again Sports, Einstein Bagels, Blockbuster, Subway	100 %	25-29
8	Miller Plaza	Miller & Indian School/Scottsdale	1975	120,000	Fry's	83%	22-26
9	Los Arcos Crossing	74th St & McDowell / Scottsdale	1975	124,349	Basha's, Auto Zone	<100%	
10	Fry's	Thomas & 61st Place/Scottsdale	1977	45,000	freestanding	NA	
11	Camelback Miller Plaza	Miller & Camelback/Scottsdale	1979	178,271	Osco, TJ Maxx, Sunflower Market		
	TOTAL			**1,048,774**			

Sources: City of Scottsdale; Gruen Gruen + Associates.

The trade area includes approximately 1.05 million square feet of grocery, drug or other-anchored neighborhood-serving space. Occupancy rates range generally from 90 percent to 100 percent at the centers in the trade area. Six of the centers contain grocery stores as anchor tenants. The newest neighborhood center built in 1991 is the 119,000-square-foot Scottsdale Crossings located at Scottsdale and Thomas Roads. According to the leasing representative, Scottsdale Crossing draws customers from mainly within a three mile radius but its trade area extends to five miles of the center. The center is 100 percent occupied with little turnover. Rents have been increasing three percent annually at the center.

Fountain Plaza, a 27-year- old, 105,000-square-foot center with a 45,000-square-foot Fry's grocery store is 95 percent occupied. Rents have been increasing three to five percent annually with only one tenant vacating in the past three to four years. According to the leasing agent, Fry's would like to expand its store by another 10,000 square feet in order to maintain its market share and ability to compete with larger, more modern grocery stores for the expenditures of consumers. Fountain Plaza also draws customers from within a three to five-mile radius.

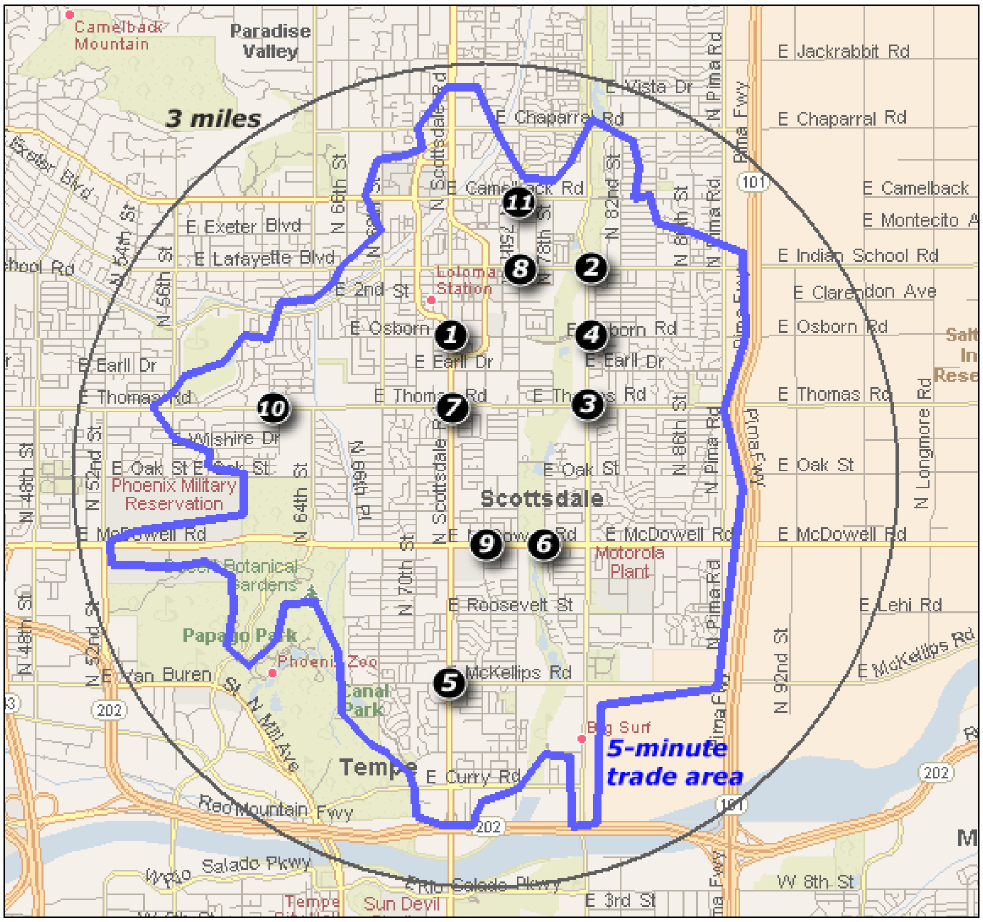
Miller Plaza is another older center at Miller and Indian School Roads. The center contains a Fry's grocery store anchor. According to the leasing agent, Fry's has done well despite its age. The grocery store, however, does not appeal to higher-income households in Southern Scottsdale and Downtown Scottsdale. The center's vacancy is increasing with the availability of 15,000 square feet of space in the next month. Fry's would also like to expand its store at this center but the landlord is keeping the vacant space available to obtain higher in-line rents. The landlord is trying to attract more small restaurants and bakeries that will appeal to Downtown households and shoppers. The center, however, primarily attracts older, lower-income age households coming from south and east of the Downtown.

Camelback Miller Plaza, an older 178,000-square-foot center contains a natural foods grocer, Sunflower Market. A representative with Sunflower Market reported the store has operated from the location for four years, having replaced an older ABCO grocery store. Sunflower Market is larger than a typical Trader Joe's but not as large as a Fry's grocery store. The Sunflower Market, however, contains deli and bakery sections. According to a manager of the Sunflower Market, the store draws many older, retired households who live in the immediate area as well as those seeking convenience purchases after exercising at nearby fitness facilities. According to the Sunflower Market representative, sales volume has not increased with the addition of new housing in Downtown.

The competition for expenditures of consumers on "natural foods" has increased within the trade area because Basha's rebuilt a 48,000-square-foot store in 2004 at Indian School and Hayden Roads and added a natural and organic foods section in the store. Originally opened in 1955, the Basha's was rebuilt in October 2004. According to the store manager, the store experienced a significant change in both the volume of sales and types of customers after the rebuild. Prior to redevelopment, the store served a large Native American, primarily lower to middle income customer base. After re-opening, the store attracted a higher proportion of younger age and middle- to upper-income shoppers. This was likely due to not only aesthetic improvements but also the addition of organic and natural foods in the expanded fresh foods section. The Basha's store provides covered parking which is an advantage during the summer months. The store attracts shoppers from about two to three miles in all directions but after the redevelopment the store attracted more shoppers from north of Indian School Road and Downtown Scottsdale than previously served.

MAP IV-1

Anchored Neighborhood Centers Within 5-Minute Drive Time Trade Area



In addition to the 1.05 million square feet of anchored shopping center space in the trade area, the Southern Scottsdale study area includes numerous smaller, older strip retail centers. Table IV-2 summarizes the characteristics of many of the larger of these smaller centers.

TABLE IV-2

Non-anchored Neighborhood Shopping Centers in Five-minute Drive Time Trade Area

Center Name	Location/ Jurisdiction	Year Built	Building Space # Square Feet	Occupancy Rate %	Annual Rent $ per Square Foot
Scottsdale Oak Plaza	Scottsdale & Oak / Scottsdale	1980	35,889	N/A	
Plaza del Rio	McDowell & Miller / Scottsdale	1985	37,200	94%	12-14
Scottsdale East Plaza	Hayden & Roosevelt / Scottsdale	1971	38,400	75%	6-13
Renaissance Center	NEC Camelback & Scottsdale	2005	38,550	N/A	
Wilshire Plaza	Scottsdale & Wilshire / Scottsdale	1979	40,028	90%	15
Plaza 777	Scottsdale & Earl / Scottsdale	1970	40,547	N/A	
Scottsdale Plaza	Scottsdale & Oak / Scottsdale	1962	43,958	N/A	
Hayden Park Center	Hayden & Thomas / Scottsdale	1971	59,524	78%	12
Papago Plaza	McDowell & Scottsdale / Scottsdale	1960	124,744	100%	12
TOTAL			**420,170**		

Sources: City of Scottsdale; Gruen Gruen + Associates.

Approximately 420,000 square feet of additional strip center or smaller neighborhood retail space is located in the trade area. This retail space is comprised of non-anchored convenience type tenants. Rents are much lower for space in these smaller, older, unanchored centers, while store turnover and vacancy rates are much higher than for anchored centers. Much of this space is competitively obsolete. Many of these centers are unable to attract contemporary, higher-rent paying tenants or larger tenancies that serve to extend the trade area and generate frequent visitation or multi-purpose trips.

12-Minute Drive Time Trade Area

Table IV-3 and Map IV-2 identify the estimated supply of community shopping, power center, category killer, big-box space, and regional mall space within the 12-minute drive time primary trade area.

TABLE IV-3

Supply of Community Centers, Power Centers, Regional and Super-Regional Malls and Free-standing Big-box Stores Within 12-Minute Drive Time Trade Area

Map Key	Name of Center or Store	Location/Community	Total Space # Square Feet	Occupancy Rate	Year Built	Anchor Tenants
1	Scottsdale Fashion Square	Camelback & Scottsdale/ Scottsdale	1,900,000	100%	1961, 1998	Dillard's, Macys, Nordstrom's, Neiman Marcus, Crate & Barrel
2	Scottsdale Waterfront	Camelback & Scottsdale/ Scottsdale	225,000	100%	2005	Borders (25,000 sf open 2005) + Others
3	Fifth Avenue District	Indian School & Scottsdale/Scottsdale	393,000	N/A	1950/ 1960s	Specialty/Tourist Retail
4	Main Street/Old Town District	Indian School & Scottsdale/Scottsdale	477,000	N/A	1950/ 1960s	Specialty/Tourist Retail
5	Scottsdale Pavilions	Indian Bend & I-101/Scottsdale	1,090,000	92%	1989	Target, Home Depot, Best Buy, Circuit City, Michael's, Jo-Ann Fabrics, Mervyn's, Ross Dress for Less, Sheplers Western
6	Tempe Marketplace	Loops 202 and 101/Tempe	1,300,000	95%	2007	Target, Linen N Things, Best Buy Sam's Club, JC Penney, Office Max, Michael's, PetsMart, Old Navy, Pier 1 Imports, Cost Plus
7	Mesa Riverview	I-202 & Dobson/Mesa	1,237,000	80-85%	2007	Bass Pro Shops, Super Wal-Mart, Home Depot, Bed Bath & Beyond, Petco, Jo-Ann Fabrics, Marshall's, Sheplers, Kirklands
8	Arcadia Crossing	44th and Thomas/ Phoenix	625,000	N/A Former Ultimate Electronics' Space Vacant	1995	Target, Home Depot, Costco, Ross Dress for Less, Office Max, Petco
9	Desert Palms Power Center	38th and Thomas/ Phoenix	450,000	99%		Wal-Mart, Home Depot, PetsMart, Staples, Dollar Tree, Walgreen's
10	Wal-Mart	Chaparral & Pima/Scottsdale	125,000	100%	1994	Wal-Mart
11	Lowe's	McDowell & Hayden/Scottsdale	171,000	100%	2007	Lowe's
12	Staple's	Osborn & Scottsdale/Scottsdale	17,000	100%	1994	Staples, Kyoto Bowl
13	OfficeMax Plaza	Osborn & Hayden/Scottsdale	22,000	100%	17+ years	Office Max, Big 5, Starbucks, Subway
14	Border's	Mill Avenue/Tempe	25,000	100%	2001	
	TOTAL		**8,057,000**			

Sources: City of Scottsdale; Gruen Gruen + Associates.

The wider trade area contains approximately 8.06 million square feet of community center, power center, free-standing big-box, and regional mall retail space. The two newest centers, Tempe Marketplace and Mesa Riverview, opened earlier this year and are located approximately three to four miles southwest of the center of the Southern Scottsdale study area. According to the leasing representative Tempe Marketplace is approximately 95 percent occupied and serves a trade area with a 20-minute drive time. This 20-minute drive time trade area extends north to Scottsdale Airport, south to Gilbert and Chandler, and east and west including parts of Phoenix and Mesa. According to the leasing representative for Tempe Marketplace, the agglomeration of restaurants (e.g., King's Fish House, Carino's Italian Grill, and Red Robin) and the 16-screen movie theater with stadium seating are unique draws in the region.

Mesa Riverview, a 1.2 million-square-foot center includes anchor tenancies such as Bass Pro Shops, Super Wal-Mart, Home Depot, Bed, Bath & Beyond, Jo-Ann Fabrics, Petco, Marshall's, and Shelpler's Western Wear. The Super Wal-Mart and Bass Pro Shops are expected to be the primary customer draws. Mesa Riverview, which opened earlier this year, is located approximately 2.5 miles southeast of the study area. According to the Mesa Riverview representative, customers will travel from two to three hours away to shop at Bass Pro Shops. The shopping center will also include an automotive dealership complex with three dealers. Rental rates for in-line shop space at Mesa Riverview range from $28 to $45 per square foot, with most small availabilities asking rents of $35 per square foot. Two auto dealerships are currently under construction, both of which have relocated from Scottsdale. A third dealer has signed but not released publicly. According to Mesa Economic Development Department, one dealer moving to the project is Scott Toyota from McDowell Road. The other dealer is Scottsdale Nissan, which has also relocated from McDowell/ Scottsdale Road. The dealerships are owned by one entity.

The Tempe Markeplace is about one mile from the Mesa Riverview development. Collectively, with about 2.5 million square feet of space, the projects will attract more shoppers to the Loops 101 and 202 intersections. Customers south of these projects are unlikely to bypass them to shop at the same kind of tenancies in Southern Scottsdale.

The Scottsdale Pavilions, an older 1.1 million-square-foot center, currently has three large vacancies ranging in size from 16,750 square feet to 45,086 square feet. Marshall's left the center about one year ago to relocate in a center at 90th Street and Shea Avenue due to spacing issues. Cost Plus vacated a 16,000-square-foot space because it could not sell alcohol on Indian land. Artrageous, an art/home furnishings store, went bankrupt and vacated a 45,000-square-foot space. The three spaces have not yet been re-leased but reportedly, new tenants not currently in the trade area, are considering locating in the vacant space at the center. According to the leasing representative, the Scottsdale Pavilions trade area overlaps with retail agglomerations to the north (i.e., Scottsdale Promenade and Scottsdale Pavilions) at Scottsdale Road/Frank Lloyd Wright and I-101 and the 101 and 202 Loop (i.e,. Tempe Marketplace) to the south. Rents for in-line shop space at Scottsdale

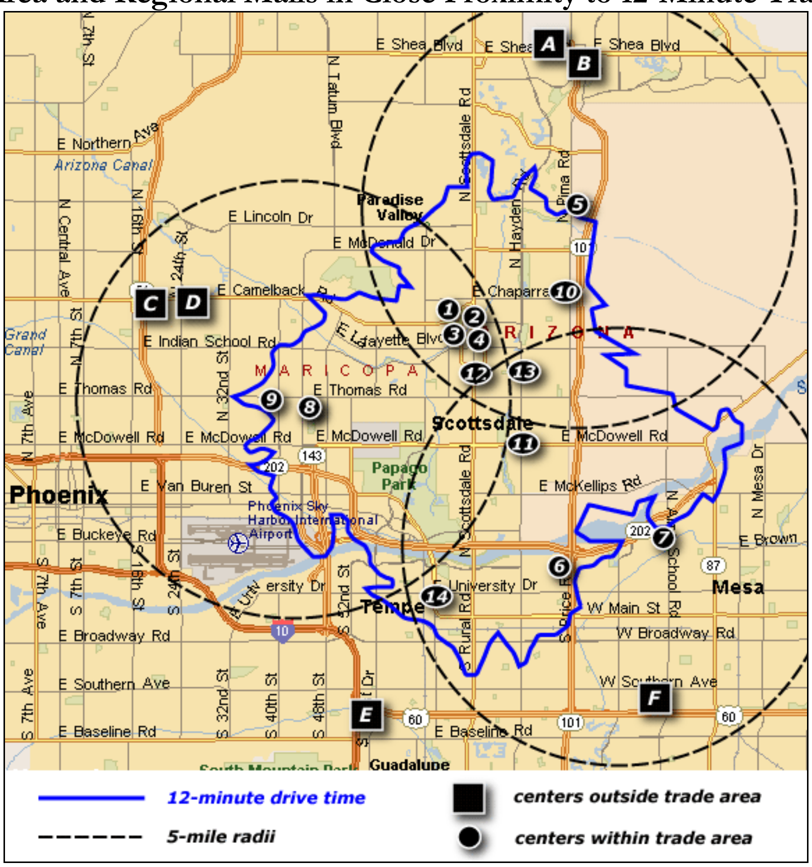
Pavilions averages $25 per square foot annually. Annual rents for larger space availabilities approximate $12 per square foot.

Lowe's opened a free-standing 171,000-square-foot store in the Southern Scottsdale study area at McDowell and Hayden Roads in January 2007. According to the developer of the Lowe's store, Lowe's serves households within a five-mile radius. Lowe's also attracts home remodeling contractors in the area.

Of the five shopping centers in the trade area, four contain a Home Depot store, and all five contain a Target or Wal-Mart store. In addition, the trade area contains a free-standing 125,000-square-foot Wal-Mart at Chaparral and Pima Roads and the new 171,000-square-foot Lowe's store at McDowell and Hayden. Most of the shopping center representatives with which we spoke indicated their centers serve a trade area of up to five-miles. Map IV-2 also shows a five-mile radius around each of the retail agglomerations that include Scottsdale Pavilions, Arcadia Crossing, Tempe Marketplace, and Mesa Riverview.

MAP IV-2

Major Regional and Power Centers Within the 12-Minute Drive Time Trade Area and Regional Malls in Close Proximity to 12-Minute Trade Area



The map illustrates that the three radius rings (of five miles each) around each of the major retail agglomerations[3] overlap the entire trade area outlined in blue. This suggests that competition for expenditures of shopping center-type goods and services will be intense.

Map IV-2 also shows the community, power, and regional retail centers outside of the 12-minute trade area but close to the boundaries of the postulated primary trade area. These centers are listed below on Table IV-4.

TABLE IV-4

Supply of Community Centers, Power Centers, Regional and Super-Regional Malls in Close Proximity to the 12-Minute Drive Time Trade Area

Map Key	Name	Location/ Jurisdiction	Total Space # Square Feet	Anchor Tenants
A	Pima Crossing	Pima and Shea/ Scottsdale	269,000	Stein Mart, Popular Outdoor, Pier 1 Imports
B	Scottsdale Fiesta	Pima and Shea/ Scottsdale	514,000	Home Depot, Barnes & Noble, CompUSA, Office Max, PetsMart, Linens'n'Things
C	Camelback Colonnade	20th and E. Camelback/Phoenix	626,000	Mervyn's, Old Navy, Best Buy, Staples, Michaels
D	Biltmore Fashion Park	24th and E Camelback/ Phoenix	595,000	Macy's, Saks Fifth Avenue, Border's
E	Arizona Mills Mall	I-10 and Route 60/ Tempe	1,200,000	Ross Dress for Less, Sports Authority, Sears, JC Penney Outlet, Neiman Marcus Outlet, Saks Fifth Avenue Outlet
F	Fiesta Mall	Route 60 and S. Alma School/ Mesa	1,037,000	Dillard's, Macy's, Sears, Target
	TOTAL		**4,241,000**	

Sources: City of Scottsdale; Kimco Development, Inc.; City of Tempe; Westcor Shopping Centers; Gruen Gruen + Associates.

An additional 4.2 million square feet of retail space including two large regional malls is located near the boundaries of the postulated primary trade area. We show these centers to indicate that a relatively small extension of the trade area definition would increase the supply of space by approximately 53 percent. These centers penetrate into some portions of the postulated wider primary trade area for comparison and shopper goods for Southern Scottsdale.

FUTURE SUPPLY OF RETAIL SPACE

Table IV-5 summarizes the planned future retail supply within the Southern Scottsdale trade area.

[3] Five-mile radii centered at Arcadia Crossing – Desert Palms Power Center (East Thomas and 42nd), Scottsdale Pavilions (Pima and East Indian Bend) and Mesa Riverview – Tempe Marketplace (202 and North Dobson).

TABLE IV-5

Future Supply of Retail Space in Southern Scottsdale

Name	# Square Feet	Status
SkySong McDowell & Scottsdale Rds.	135,000	Planned
Los Arcos Redevelopment McDowell & Scottsdale Rds.	80,000	Proposed
Total	205,000	
Sources: CB Richard Ellis; PDG; Gruen Gruen + Associates.		

SkySong is planning to add 135,000 square feet of retail space. According to a retail leasing agent for the project, 22,000 square feet of space is expected to be available in the fourth quarter, while another 22,000 square feet of space may be developed by March 2008. The space is expected to be leased by restaurants, other food-service uses, and convenience retail services geared to serving the demands of the SkySong employment base. Asking rents are $34 to $38 per square foot. No pre-leasing has been completed. The advantages include the high traffic volume location at the intersection of Scottsdale Road and McDowell Road and nearby day-time employment base. The primary disadvantage is the design and configuration of the project's retail space does not provide visibility to main arterial streets. In addition, the location between vibrant Downtown Scottsdale and Downtown Tempe and the Tempe Marketplace is considered a less desirable, less active location by prospective tenants.

PDG proposes to develop 80,000 square feet of neighborhood and convenience retail space as part of its proposed Los Arcos Crossing redevelopment that also is proposed to include 595 rental units and 70 for-sale townhomes. The proposal calls for the demolition of the existing and largely vacant Los Arcos Crossing shopping center on McDowell Road, between 74th Street and Miller Road. According to the developer, The Pavilions and Tempe Marketplace are likely to compete for consumers and reduce the depth of the potential trade area served. Target, Kohls, Petsmart, and Petco among other "category-killer" retailers have indicated a lack of interest in locating at the project.

While large developments such as an IKEA-anchored project in Tempe south of the study area are proposed, we have not identified any major developments proposed within the 12 minute drive-time trade area other than those shown on Table IV-5.

CHAPTER V

ESTIMATED POTENTIAL RETAIL DEMAND

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. 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 as shown above in Table II-7. This is called *leakage*. Conversely, retail sales in a trade area will be made to customers such as visitors and workers who live outside in the trade area. As described above, although *leakage* is likely to occur, in order to estimate the potential dollars available for retail expenditures in the study area if the retail facilities and uses were more competitive, the potential demand estimates are initially based on the estimated present and forecast future households and average household income within the smaller and wider trade areas. We then include estimates of the potential contributions made to sales by workers in the smaller and wider trade areas and visitors' expenditures in the wider trade area.

GG+A forecast the amount of potential dollars to be spent for convenience goods and service by residents and workers within the five-minute drive time trade area and the amount of potential dollars to be spent for convenience and shopper or destination-type goods within the 12-minute drive time 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.

ESTIMATE OF RESIDENTS, HOUSEHOLDS, AND INCOME WITHIN THE SMALLER AND WIDER TRADER AREAS

Five-Minute Drive Time Trade Area

Drawn from a forecast by demographic vendor SitesUSA provided by the City of Scottsdale Economic Vitality Department, Table V-1 presents the population, number of households and average household income and total available household income for 2000, 2007, and 2012 for the five-minute drive time trade area.

TABLE V-1

Demographic and Income Estimates for Residents in the Five-Minute Drive Time Trade Area: 2000-2012

	2000	2007	2012	2000-2007 % Change	2007-2012 % Change
Population	68,716	74,429	79,257	8.3	6.5
Households	31,964	34,319	36,384	7.4	6.0
Average Household Income	$51,992	$55,484	$59,618	6.7	7.5
Total Household Income	$1,661,872,288	$1,904,155,396	$2,169,141,312	14.6	13.9

Sources: City of Scottsdale Economic Vitality Department; SitesUSA; Gruen Gruen + Associates.

According to SitesUSA, in 2000, the five-minute drive time trade area included nearly 32,000 households with average income of nearly $52,000 for total household income of $1.7 billion. Between 2000 and 2007, the number of households in the trade area increased by 7.4 percent or 2,355 to over 34,300 households. Average household income is estimated to have increased by 6.7 percent to nearly $55,500 for total household income of $1.9 billion. This equates to a growth in total household income of 14.6 percent. Between 2007 and 2012, SitesUSA forecasts the five-minute drive time trade area will add 2,065 households to about 36,400 households. Average household income is forecast to increase by 7.5 percent to $59,600. Between 2007 and 2012, total household income is forecast to grow another 14 percent to $2.2 billion.

Within the trade area, a high proportion of the population is white and non-Hispanic. A majority of households (approximately 80 percent) do not have children living at home. The median age within the five-minute trade area approximates 36 years while about 27 percent of residents are between the ages of 20 and 34 years; 26 percent between 35 and 54 years; 10 percent between 55 and 64 years and 16 percent of residents are "seniors" at 65 years or older. Residents under the age of 20 account for roughly 21 percent of the population. The trade area includes a high proportion of lower-income households. Only 14 percent of households have annual incomes greater than $100,000. A much higher proportion, or approximately 23 percent, of trade area households have incomes of less than $25,000 per year.

The City of Scottsdale Economic Vitality Department provided a list of completed, under construction or planned residential units for the area south of Chaparral Road (the north boundary of the trade area). Approximately 3,000 units are in the process or have already been added to the trade area. In Downtown Scottsdale, nearly 2,200 units have been or will be added to the housing inventory. Some of the larger projects include the 750-unit Optima

Camelview Village with unit prices ranging from $300,000 to $4.0 million. The Scottsdale Waterfront project has added 366 units with unit prices ranging from $500,000 to $3.0 million. As more of these high priced luxury units are added in Downtown the average household income of the trade area will increase. In the portion of the trade area outside of Downtown Scottsdale, an additional nearly 900 units are planned or have been built. SkySong is slated to add 325 apartment units in 2009. PDG has proposed adding 595 apartment units and 70 for-sale townhomes as part of its proposed Los Arcos redevelopment. No time frame has been specified.

12-Minute Drive Time Trade Area

Table V-2 presents the population, number of households and average household income and total available household income for 2000, 2007, and 2012 for the 12-minute drive time trade area.

TABLE V-2

Demographic and Income Estimates for Residents in the 12-Minute Drive Time Trade Area: 2000-2012

	2000	2007	2012	2000-2007 % Change	2007-2012 % Change
Population	192,650	213,675	230,312	10.9	7.8
Households	83,792	91,383	97,626	9.1	6.8
Average Household Income	$52,430	$57,026	$60,849	8.8	6.7
Total Household Income	$4,393,214,560	$5,211,206,958	$5,940,444,474	18.6	14.0

Sources: City of Scottsdale Economic Vitality Department; SitesUSA; Gruen Gruen + Associates.

Between 2000 and 2007, the wider trade area is estimated to have increased by nine percent or 7,591 households to nearly 91,400 households. Average household income is estimated to have increased by nearly nine percent, from $52,430 in 2000 to $91,383. The average household income in the wider trade area is approximately three percent higher than the smaller trade area. Total household income in 2007 is estimated at $5.2 billion. Between 2007 and 2012, SitesUSA forecasts the wider trade area will add approximately 6,200 households for an increase of almost seven percent. Average household income is estimated to increase by almost seven percent to about $60,800. Between 2007 and 2012, total household income is forecast to increase by 14 percent to over $5.9 billion.

Within the larger trade area, one-third of the population is Hispanic. In addition to a more diverse ethnic make-up, the larger 12-minute trade area is comprised by a greater proportion of younger residents and family households than the smaller five-minute trade area. The median age within the larger 12-minute drive time trade area is 32.9 years. while about 28 percent of residents are between the ages of 20 and 34 years; 25 percent between 35 and 54 years; 9 percent between 55 and 64 years and 13 percent of residents are "seniors" at 65 years or older. Residents over the age of 65 comprise a smaller share of the larger trade area's population base than for the smaller five-minute trade area.

ESTIMATE OF EXPENDITURES FOR RETAIL GOODS

Expenditure Rate

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 2004-2005 Bureau of Labor Statistics Consumer Expenditure Survey ("CES") for the Phoenix Metropolitan Statistical Area ("MSA"). We also reviewed relevant past GG+A research.

As shown on Table V-3, the 2004-2005 BLS Consumer Expenditure Survey for the Phoenix MSA indicates that Phoenix region households expend approximately 24 percent of their before-tax income or nearly $14,700 on retail goods and services.

TABLE V-3

Phoenix-Mesa MSA Average Household Annual Expenditure on Retail Goods and Services: 2004-2005

Good/Service	Average Household Annual Expenditure $	Share of Average Household Income[1] %
Food at Home	3,599	5.9
Food Away from Home	2,835	4.7
Alcoholic Beverages	585	1.0
Housekeeping Supplies	605	1.0
Household Furnishings & Equipment	1,659	2.7
Apparel and Services	1,876	3.1
Personal Care Products and Services	666	1.1
Reading	132	0.2
Tobacco Products	373	0.6
Entertainment	2,355	3.9
TOTAL	14,685	24.2

[1] Phoenix-Mesa MSA average households income was $60,726 reported in the 2004-2005 Consumer Expenditure Survey. Average household income in 2000 for the five-minute trade area was $51,992; 12-minute drive time trade area average household income was $52,340.

Sources: Bureau of Labor Statistics, Consumer Expenditure Survey, 2004-2005; Gruen Gruen + Associates.

To estimate the purchasing power or expenditure potential within the five-minute drive time trade area, we assume approximately 15 percent of household income is spent on goods and services typically found in neighborhood centers including food at home, food away from home, alcoholic beverages, housekeeping supplies, personal care products and services and tobacco and reading materials. The estimated expenditure rate of 15 percent multiplied by the average household income within the five-minute trade area equates to expenditures per household of approximately $8,300 in 2007.

According to the 2005 CES, consumer units in the Western Region expend approximately 24 percent of their average household income on most retail goods and services. We also draw upon the expenditure rate of primary trade area households for retail goods and services as estimated by SitesUSA. SitesUSA estimates that primary trade area households expend approximately 36 of income on all retail goods and services. The expenditure estimates include retail goods and services such as groceries, food and beverages away from home, alcohol, drugs, household furnishings and appliances, apparel, personal care products and services, housekeeping supplies, reading material, tobacco, building materials and lawn and garden-center goods and entertainment (including items such as pet supplies, sporting goods, music and movies, etc). Expenditures on items such as apparel, luggage, home furnishings, and entertainment are most likely to be made in larger retail centers or agglomerations that have these types of shoppers or destination goods and eating and drinking establishments.

Based on the estimated range of retail expenditures, we use an average expenditure rate of 30 percent of household income to estimate demand for all types of retail goods and services in the wider trade area. The 30 percent expenditure rate assumption includes the 15 percent we have assumed is spent in the smaller trade area. This is because consumers also spend retail dollars in neighborhood centers or hybrid centers(centers including tenants and features common to neighborhood, community, and/or power centers) within the larger trade area where the same type of necessity and convenience goods and services are also found in larger community, power, and regional shopping centers. But in essence, we are double counting demand for neighborhood-type goods and services.

ESTIMATED EXPENDITURE POTENTIAL FROM HOUSEHOLDS WITH SMALLER AND WIDER TRADE AREAS

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 and to reflect the high reservation prices for properties in Southern Scottsdale, 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.

Table V-4 summarizes the sales per square foot productivity of differing shopping center formats and individual retailers.

TABLE V-4

Sales Per-Square-Foot Averages by Type and Size of Shopping Center and for Retailers/Restaurants[1]

	Average Store Size # Square Feet	Average Sales Per-Square-Foot
2006 Dollars & Cents of Shopping Centers [2]		
Neighborhood Center	66,851	$343
Community Center	225,878	$322
Regional Center	622,452	$300
Average		**$309**
Individual Retailers & Restaurants		
Target	129,000	$301
Kohl's	76,000	$256
Home Depot	105,000	$358
Lowe's	113,000	$300
Best Buy	45,000	$941
Barnes & Noble	24,800	$302
Wal-Mart Supercenter	187,000	$537
Staples	20,400	$356
Dicks Sporting Goods	49,000	$286
PetsMart	23,000	$208
Ross Dress for Less	23,300	$316
Average Big Box (excluding Best Buy)		**$355**
Walgreen's	14,500	$545
Safeway	44,000	$443
Rite Aid	12,700	$361
Long's Drug	23,000	$615
Chipotle	2,700	$530
Cosi	3,000	$490
Panera Bread	4,400	$418
Average Drug, Grocery and Restaurant		**$488**

[1] Average presented as weighted average within each category.
[2] Taken from the Urban Land Institutes 2006 Dollars and Cents of Shopping Centers survey. Figures are for the Western United States.

Sources: Urban Land Institute; National Research Bureau; CoStar; Annual 10-K Reports of Individual Retailers Listed; Gruen Gruen + Associates.

The shopping center size and sales productivity data are drawn from the Urban Land Institute's Dollars & Cents of Shopping Centers 2006 edition and annual reports for the individual retailers listed.

As shown above, according to the Urban Land Institute survey, neighborhood, community and regional centers in the Western United States obtain annual sales ranging from approximately $300 to $343 per square foot. As the size of the shopping center increases, overall sales decrease on a per square foot basis. This is likely attributable to the tenancies of neighborhood shopping centers which are often anchored by grocery and/or pharmacy retailers. Anchor grocery stores typically need to generate higher sales because of low per unit margins. Grocery and pharmacy retailers such as Safeway, Rite Aid, and Long's Drug obtain higher annual sales ranging from approximately $361 to $615 per square foot.

Table V-4 also presents estimates of the average store size and sales per square foot productivity for some of the major retailers already operating within the primary trade area as described in Chapter II. The major big box retail stores and restaurants generate sales ranging from $208 to $941 per square foot, averaging approximately $405 per square foot in total. The unusually high performance of retailers such as Best Buy, Walgreen's and Long's Drug, for example, inflate the average sales performance for the sample of retailers presented above in Table V-4. Excluding Best Buy and the grocery and drug stores and restaurants, the averages sales performance for major big box retailers approximates $355 per square foot. The sample of grocery and drug stores and national restaurant chains obtain higher sales averaging approximately $488 per square foot.

As previously described, the majority of existing retail space within the small primary trade area consists of older neighborhood shopping centers. As centers age, sales per square foot productivity tends to decline. Table V-5 shows this has occurred in Southern Scottsdale. Table V-5 presents estimated total sales per square foot (excluding automotive sales) from 2001 to 2006 in the Southern Scottsdale study area.

TABLE V-5

Retail Sales per Square Foot of Space in Southern Scottsdale Study Area: 2001-2006[1]

	2001 $	2002 $	2003 $	2004 $	2005 $	2006 $
Total Sales Per Square Foot (Excluding Automotive Sales)	295	287	280	291	283	278

[1]In 2006 constant dollars. Based on total square footage of 1,061,563 square feet of space consisting of 641,393 square feet of anchored shopping center space and 420,170 square feet of non-anchored strip retail space.

Sources: City of Scottsdale; Gruen Gruen + Associates.

In 2001, sales per square foot were $295. Sales per square foot have declined over the five-year period so by 2006, sales per square foot in the study area were $278.

However, the sales performance of centers located within the trade areas (but outside) of Southern Scottsdale are likely to be closer to the $350 per square foot average sales threshold. This estimate is also supported by rents for newer retail space within and surrounding the larger 12-minute trade area (which typically range from $25 to $34 per square foot). According to the ULI *Dollars and Cents of Shopping Centers*, rents for neighborhood, community and regional shopping centers in the West range from approximately 5.2 to 10.0 percent of sales. Typically, most retailers can pay from five percent to eight percent of sales in rent. A $25 per square foot rent rate would translate into potential sales of $313 (using an eight percent threshold) to $417 (using a six percent threshold).

ESTIMATED EXPENDITURE POTENTIAL AND THE ESTIMATED AMOUNT OF SUPPORTABLE SQUARE FEET OF SPACE IN THE SMALLER AND WIDER TRADE AREAS

Five-Minute Drive Time Trade Area

Table V-6 presents estimates of potential retail demand within the five-minute drive time trade area based on the estimated expenditure rate of 15 percent and the estimated number of trade area households and average household income in 2007 and 2012.

TABLE V-6

Estimate of Retail Demand from Residents and Supportable Square Feet of Retail Space in the Five-Minute Drive Time Trade Area: 2007 and 2012[1]

	2007	2012	Increase 2007-2012 $	Increase 2007-2012 %
Total Household Income	$1,904,155,396	$2,169,141,312	264,985,916	13.9
Potential Purchasing Power for Neighborhood Center Goods[2]	$285,623,309	$325,371,197	39,747,888	13.9
Total Supportable Space in Square Feet at $350per Square Foot Sales Assumption[2]	816,000	930,000	114,000	13.9

[1]Figures have been rounded.
[2] Assumes residents in five-minute drive time trade area expend 15 percent of average household income on neighborhood retail or convenience-type retail goods and services.

Sources: Bureau of Labor Statistics, *Consumer Expenditure Survey*; Urban Land Institute; City of Scottsdale Economic Vitality Department; SitesUSA; Gruen Gruen + Associates.

Multiplying the total household income within the five-minute trade area of $1.9 billion by the 15 percent expenditure rate produces an estimate of current retail demand of approximately $285.6 million. Due to the forecast growth in the number of households and the anticipated increase in average household income by 2012, potential expenditures or retail demand is forecast to increase by 13.9 percent or $39.8 million to $325.4 million.

Using the $350-per square-foot minimum sales threshold produces an estimate of currently supportable retail space of 816,000 square feet of space. The forecast increase in expenditure potential translates into additional space demand of 114,000 square feet. By 2012, approximately 930,000 square feet of space is estimated to be supportable in the primary five-minute trade area based on sales per square foot threshold requirements higher than currently averaged in Southern Scottsdale.

12-Minute Drive Time Trade Area

Table V-7 presents estimates for 2007 and 2012 of potential retail demand within the 12-minute drive time trade area based on the estimated expenditure rate of 30 percent and the estimated number of trade area households and average household income in 2007 and 2012.

TABLE V-7

Estimate of Retail Demand from Residents and Supportable Square Feet of Retail Space in the 12-Minute Drive Time Trade Area: 2007 and 2012[1]

	2007	2012	Increase 2007-2012 $	Increase 2007-2012 %
Total Household Income	$5,211,206,958	$5,940,444,474	729,237,516	14.0
Potential Purchasing Power for Shopping-Center Goods[1]	$1,563,362,087	$1,782,133,342	218,771,255	14.0
Total Supportable Space in Square Feet at $350- per Square Foot Sales Assumption[2]	4,467,000	5,092,000	625,000	14.0

Sources: Bureau of Labor Statistics, *Consumer Expenditure Survey*; Urban Land Institute; City of Scottsdale Economic Vitality Department; SitesUSA; Gruen Gruen + Associates.

Multiplying the total household income in 2007 within the 12-minute trade area of $5.2 billion by the 30 percent expenditure rate produces an estimate of current retail demand of approximately $1.6 billion. Due to the forecast growth in the number of households and the anticipated increase in average household income by 2012, potential expenditure or retail demand is forecast to increase by 14 percent or $218.8 million to $1.8 billion in 2012.

Using the $350-per square-foot minimum sales threshold produces an estimated of 4.5 million square feet of supportable space within an approximately 12-minute drive of Southern Scottsdale. The forecast increase in expenditure potential translates into additional space demand of 625,000 square feet. By 2012, approximately 5.1 million square feet of space is forecast to be supportable in the primary 12-minute drive time market area.

DEMAND FROM WORKERS WITHIN THE SMALLER AND WIDER TRADE AREAS

Demand will also originate from those who work in or near the Southern Scottsdale study area. According to SitesUSA, the five-minute and 12-minute trade areas contain a significant number of daytime workers. Two of Scottsdale's largest employers, General Dynamics and Scottsdale Healthcare, are located in both the small and wider trade areas. Table V-8 shows the estimates of sales contributions related to the potential purchasing power of those who currently work within the trade areas.

TABLE V-8

Estimate of Retail Demand from Daytime Workers and Supportable Square Feet of Space in Five-Minute and 12-Minute Drive Time Trade Areas: 2007

	Five-Minute Drive Time Trade Area	12-Minute Drive Time Trade Area
Estimate Number of Employees	60,172	137,674
Estimated Annual Sales[1]	$125,157,760	$286,361,920
Estimated Annual New Sales[2]	$112,641,984	$257,725,728
Range of Supportable Square Feet of Retail Space at $350 per Square Foot	321,834	736,359

[1] Assumes each worker spends $8.00 per day for 260 working days per year.
[2] Assumes a 10 percent overlap between residents and workers in trade area.

Sources: City of Scottsdale, Sites USA; Gruen Gruen + Associates.

We assume a 10 percent trade area overlap between the employee and household base with the smaller and wider trade areas. We further assume that each employee will generate $8.00 in daily expenditures for the estimated 260 work days per year, or $2,080 annually. This $8.00 daily expenditure estimate includes food, beverage, retail, and entertainment expenditures. The estimate reflects the finding that some of the large employers in the trade area such as General Dynamics have food service facilities in their complexes. Using these assumptions results in estimated annual sales from workers in 2007 of $112.6 million and supportable space of almost 322,000 square feet for the five-minute drive time trade area. Workers in the wider 12-minute drive time trade area are estimated to support annual sales of $286.4 million and supportable space of 736,000 square feet.

ESTIMATED VISITOR DEMAND FOR THE WIDER TRADE AREA

According to the City of Scottsdale's *2007 Visitor Statistics Report*, nearly 7.7 million people visited the Scottsdale/Paradise Valley area in 2006. Based on the estimated expenditure and travel characteristics, out-of-town tourists represent a significant source of demand for retail goods and services and eating and drinking establishments. Table V-9 presents estimates of demand for retail space attributable to visitation.

TABLE V-9

Estimated Visitation and Expenditure Characteristics Within the Scottsdale/Paradise Valley Area[1] and Estimated Volume of Retail Expenditures Made by Visitors Within the 12-Minute Drive Time Trade Area: 2006

	Overnight Visitors	Day Visitors	Total
Total Number of Visitors	1,299,000	6,375,000	7,674,000
Average Length of Stay (# Days)	5.4	1.0	1.7
Total Days Spent in Scottsdale Area by Visitors	7,016,000	6,375,000	13,391,000
Average Daily Retail Expenditures (Retail Goods and Eating and Drinking)	$96	$44	$71
Annual Visitor Retail Expenditures	$673,622,000	$280,500,000	$954,122,000
Total Annual Retail Expenditures Made by Visitors Within the 12-Minute Trade Area[2]	$336,811,000	$140,250,000	$477,061,000

Note: Figures are rounded.
[1] Scottsdale/Paradise Valley Area generally bounded by 48th Street to the west, 136th Street to the east, Scottsdale municipal boundary to the north, and the I-202 to the south.
[2] Assumes that approximately 50 percent of retail expenditures made by tourists are captured by shopping locations within the 12-minute trade area. The Scottsdale/Paradise Valley Area is estimated to include approximately 8.5 million square feet of specialty, regional and tourist-oriented retail space. Downtown Scottsdale accounts for approximately 35 percent or 3 million square feet, while other locations within the trade area such as the Scottsdale Pavilions and Arcadia Crossing account for an additional 20 percent or 1.7 million square feet of space. Based on the proportion of specialty and tourist-oriented retail space within the trade area as compared to the Scottsdale/Paradise Valley as a whole, we estimate that approximately 50 to 60 percent of tourist expenditures (on retail goods and dining) are likely to be captured within the 12-minute trade area, primarily by shopping locations and districts in the Downtown.
Sources: City of Scottsdale, Visitor Statistics Report; Gruen Gruen + Associates.

In 2006, Scottsdale attracted approximately 6.38 million day-trip visitors and approximately 1.3 million overnight visitors who stayed in the area for an average of approximately 5.4 days. Accordingly, out-of-town visitors spent a total of nearly 13.4 million days in Scottsdale last year. The City of Scottsdale, as summarized in the *2007 Visitor Statistics Report,* estimates that overnight ("hotel") visitors spent approximately $96 per day on retail goods and eating and drinking within the Scottsdale area during their stay. Daily visitors spent substantially less at approximately $44 per day. Based on the estimated number of total days spent in the Scottsdale area by visitors and their associated expenditure patterns, tourists spent approximately $954.1 million on retail goods and eating and drinking while visiting the Scottsdale area last year.

Because not all tourist expenditures are likely to be made within the 12-minute drive time trade area and survey data is not available, we reviewed the supply of specialty, tourist-oriented and regional-serving retail space within the Scottsdale/Paradise Valley area (as defined in the *2007 Visitor Statistics Report*) to estimate the proportion of total visitor expenditures likely to be captured by shopping locations within the trade area. We estimate that the Scottsdale/Paradise Valley area contains approximately 8.5 million square feet of specialty or destination retail space located in regional-serving malls and centers and Downtown Scottsdale (i.e., the Scottsdale Fashion Square, the Paradise Valley Mall in eastern Phoenix, the Kierland Commons lifestyle center, the Fifth Avenue and Old Town Districts, the Scottsdale Pavillions and Scottsdale Promenade, etc.). We estimate that approximately 4.5 million square feet of such space is located within the 12-minute drive time trade area, primarily in Downtown Scottsdale. Accordingly, we conservatively assume that about 50 percent of retail expenditures made by out-of-town tourists and visitors is captured within the trade area. This equates to approximately $477 million in total annual retail expenditures made by tourists within the trade area in 2006.

Table V-10 above presents the estimated amount of retail space within the 12-minute trade area supported by tourist visitation in 2007 and 2012 assuming a sales threshold of $350- to $425-per square-foot. Because the total number of visitors steadily increased at an annual rate of approximately 1.9 percent between 2001 and 2006, we assume that the visitor retail expenditure potential will continue to grow at a similar rate of 1.5 percent annually.

TABLE V-10

Estimate of Retail Demand from Visitors in 12-Minute Drive Time Trade Area: 2007 – 2012

12-minute trade area	2007	2012
Visitor Expenditure Potential[1]	$484,217,000	$521,639,000
Supportable Square Feet of Retail Space at $350-per Square Foot	1,383,500	1,490,400

[1] Assumes visitation increases at average annual rate of 1.5 percent.

Sources: City of Scottsdale, Visitor Statistics Report; Gruen Gruen + Associates.

The estimated visitor expenditure potential of $484.2 million in 2007 is estimated to support 1.4 million square feet of space in the wider trade area. This sales estimate reflects the assumption of a sales threshold of $350-per-square-foot. The estimated visitor expenditure potential of $521.6 million in 2012 is estimated to support 1.5 million square feet of space in the wider trade area in 2012.

ESTIMATE OF TOTAL RETAIL SPACE DEMAND FROM SMALLER AND WIDER TRADE AREA HOUSEHOLDS, WORKERS AND VISITORS

Table V-11 summarizes the total retail demand from households, daytime workers and visitors within the smaller and wider trade areas.

TABLE V-11

Estimated Retail Demand from Market Area Households, Workers, and Visitors: 2007 and 2012[1]

	2007		2012	
Retail Sales Demand	Five-Minute Drive Time Trade Area	12-Minute Drive Time Trade Area	Five-Minute Drive Time Trade Area	12-Minute Drive Time Trade Area
Households	$285,623,000	$1,563,362,000	$325,371,000	$1,782,133,000
Workers[2]	$112,641,984	$257,725,728	$115,137,984	$260,221,728
Visitors	N/A	$484,217,000	N/A	$521,639,000
Total	$398,264,984	$2,305,304,728	$440,508,984	$2,563,993,728
Retail Space Demand (# Square Feet)				
Households	816,000	4,467,000	930,000	5,092,000
Workers	321,800	736,400	329,000	743,500
Visitors	N/A	1,383,500	N/A	1,490,400
Total	1,137,800	6,586,900	1,258,600	7,325,700

[1] Figures have been rounded.
[2] Retail demand attributable to workers for 2012 has been increased by $2,496,000 to reflect the assumption that SkySong adds approximately 1,200 workers.

Sources: City of Scottsdale, SitesUSA; Gruen Gruen + Associates.

Within the five-minute drive time trade area, total retail space demand from households and workers is estimated to approximate over 1.1 million square feet of space in 2007 and almost 1.3 million square feet of space in 2012. Retail space demand from households, workers, and visitors in the larger 12-minute drive time trade area is estimated to approximate 6.6 million square feet of space in 2007 and 7.3 million square feet of space in 2012.

CHAPTER VI

RELATIONSHIP BETWEEN RETAIL SUPPLY AND DEMAND

Relationship Between Estimated Retail Demand and Supply in Five-Minute Drive Time 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 within the five minute drive-time trade area.

TABLE VI-1

Relationship Between Estimated Retail Demand and Supply of Retail Space Within Five-Minute Drive Trade Area[1]

	2007 # Square Feet	2012 # Square Feet
Estimated Supportable Space Demand from Residents and Workers	1,137,800	1,258,600
Estimated Supply of Retail Space[2]	1,048,800	1,263,800
Potential Excess Demand/ (Surplus) Space	89,000	(5,200)

[1] Figures are rounded.
[2] 2012 space supply estimate includes 215,000 square feet of planned/proposed space in SkySong and Los Arcos redevelopment projects. Excludes 420,000 square feet of older, smaller, competitively obsolete space.

Source: Gruen Gruen + Associates

In 2007, using an average sales threshold in the trade area of $350 per square foot produces a small positive unmet or excess demand balance of 89,000 square feet of space. In 2012, assuming the addition of 215,000 square feet of space due to the SkySong and Los Arcos redevelopment projects, the trade area will be in balance with a very slight surplus of space relative to potential demand of 5,200 square feet. The demand-supply model construct excludes the approximately 420,000 square feet of older, smaller, space much of which is competitively obsolete. Competitively obsolete centers are those smaller, older centers not sized, configured, maintained, tenanted to be well attuned to contemporary preferences).

Relationship Between Estimated Retail Demand and Supply in 12-Minute Drive Time 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 within the 12-minute, drive-time trade area.

TABLE VI-2

Relationship Between Estimated Retail Demand and Supply of Retail Space Within 12-Minute Drive Trade Area

	2007 # Square Feet	2012 # Square Feet
Estimated Supportable Space Demand from Residents, Workers, and Visitors	6,586,900	7,325,700
Estimated Supply of Retail Space	8,057,000	8,057,000
Potential Space Surplus	(1,470,100)	(731,300)
Source: Gruen Gruen + Associates		

In 2007, the existing supply of community, power and regional-center space within the 12-minute drive-time trade area is estimated to exceed the supportable space demand from residents, workers and visitors by approximately 1.5 million square feet of space. By 2012, the surplus of community shopping, power center, category killer, big-box space, regional mall and specialty retail space is estimated decrease by approximately 743,000 square feet to 731,000 square feet of space. The decline in the estimate of excess or surplus space relative to demand is attributable to the lack of identified future supply additions in the trade area and the expected growth in the expenditure potential of households, workers and visitors.

The results of the demand-supply analysis for both the smaller and wider trade area suggest market conditions are likely to be intensely competitive for the foreseeable future and that new retail space cannot succeed without siphoning off sales from existing centers.

CHAPTER VII

THE MARKET FOR OFFICE USES AND THE COMPETITIVE POSITION OF SOUTHERN SCOTTSDALE

THE RELEVANT PRIMARY GEOGRAPHIC MARKET

The Primary Geographic Area Within Which Southern Scottsdale Competes for Office Space Users

Interviews with knowledgeable real estate brokers, office space developers, and office building owners and the review of supply and tenanting trends indicate that Southern Scottsdale constitutes a relatively distinct submarket for office space uses. In other words, owners and managers of much of the smaller, older office space in Southern Scottsdale do not tend to compete with other submarkets for office space users in the Scottsdale region. Users considering office space options in Southern Scottsdale do not tend to search for office space in many other locations outside of Southern Scottsdale. Some smaller users look in both Downtown Scottsdale and Southern Scottsdale. The more price sensitive of these users will tend to opt for space in Southern Scottsdale.

SkySong, the newest and largest multi-tenant office space project in Southern Scottsdale, competes with developments along Loop 101 south to Chandler, and north to North Scottsdale. Locations in Downtown Scottsdale, Downtown Tempe/Tempe Town Lake, as well as the Airpark, 44th Street and Deer Valley have competed for users considering locations in SkySong. To date, larger users not affiliated with ASU have elected to remain in their present locations or have not chosen to move to SkySong. Smaller users have considered locations in Scottsdale, Tempe, and North Phoenix. One smaller user attracted to SkySong is moving from another location within Southern Scottsdale.

Geographic Origins and Types of Office Space Users

Users of office space in Southern Scottsdale tend to originate from within Southern Scottsdale or from other nearby locations. Office space users attracted to Southern Scottsdale include finance, insurance and real estate (FIRE) sectors, medical and other service, and government sectors. The largest financial or insurance-related office tenants located in Southern Scottsdale as of 2005 included the Motorola Credit Union (76 employees), Eaton & Associates (20 employees) and Joe Klein Enterprises (26 employees). Larger users related to professional services include firms such as PracticeMax (48 employees), Hill Top Research Incorporated (32 employees) and the Arizona Protection Agency (90 employees). A variety of medical office uses have also been attracted to Southern Scottsdale primarily due to presence of Scottsdale Healthcare and other health-care institutions.

SkySong has attracted units of Arizona State University (ASU), including a business incubator for small foreign firms or small local firms expanding their business activities internationally. ASU will occupy 80,000 square feet of space in the first building. Canon will occupy 13,000 square feet of space, while smaller tenants will occupy 37,000 square feet of the first building. The building is 93 percent leased with 20,000 square feet of space available. A second 150,000-square foot building on which construction has recently started will include Ticketmaster, which has signed a lease for 37,000 square feet of space. Ticketmaster will move from Deer Valley. Most prospective tenants have ranged in size from 5,000 to 8,000 square feet of space. Users attracted to SkySong do business with ASU or otherwise are supported by ASU.

COMPETITIVE POSITION OF SOUTHERN SCOTTSDALE FOR OFFICE SPACE USES

To help assess the competitive position of Southern Scottsdale as a location for office space, we conducted research to identify the comparative advantages and disadvantages of the Southern Scottsdale submarket.

Comparative Advantages

The following comparative advantages apply to Southern Scottsdale as an office location:

- Good accessibility to Loop 101 and Loop 202 and a central location from which to access other activity centers in the Phoenix region including Downtown Scottsdale, the Phoenix International Airport, the Tempe campus of Arizona State University, and Downtown Tempe;

- Access to a large pool of well educated workers; and

- The prestige of a Scottsdale address.

Primary Disadvantages

Our inspections and interviews suggest the following disadvantages apply to Southern Scottsdale as an office space location:

- Lack of a positive image and critical mass of office buildings and amenities and tenant base geared to the large-scale corporate or professional service users that export their services; and

- The functional obsolescence of some of the office space. Much of the office space inventory in Southern Scottsdale has been surpassed in quality and features by newer facilities in Downtown Scottsdale, North Scottsdale, Tempe, and on Indian lands.

CHAPTER VIII

OFFICE SPACE SUPPLY CONDITIONS

INTRODUCTION

Below we review the office space inventory and supply trends for the City of Scottsdale as a whole and the Southern Scottsdale study area. Growth in office employment and development has occurred substantially less in Southern Scottsdale than in other Scottsdale submarkets. Southern Scottsdale is not established as a preferred office space location.

SUPPLY TRENDS WITHIN SCOTTSDALE

Scottsdale as a Whole

Table VIII-1 shows the total amount of office space, vacant office space, and annual rents per square foot for the City of Scottsdale office market.

TABLE VIII-1

Total and Vacant Office Space, Vacancy Rate and Rent in Scottsdale: 2003-2007[1]

Year	Total Space # Square Feet	Vacant Space # Square Feet	Vacancy Rate %	Annual Rent $ per Square Foot
2003	19,540,303	2,568,857	13.1	23.27
2004	20,942,713	3,050,826	14.6	23.59
2005	22,024,925	2,384,350	10.8	25.90
2006	24,284,667	2,721,474	11.2	27.96
2007[2]	25,359,924	3,692,281	14.6	28.47

[1]Supply figures represent fourth quarter of each year.
[2] Second quarter.

Sources: CoStar Group; Gruen Gruen + Associates.

According to CoStar Group, the inventory of office space in the City of Scottsdale has increased by 5.8 million square feet from 19.5 million square feet in 2003 to 25.4 million square feet of space in 2007. The amount of vacant space has ranged from a low of 2.4 million square feet or a 10.8 percent vacancy rate in 2005 to a high of 3.7 million square feet of space for a vacancy rate of 14.6 percent in 2007. About 1.1 million square feet of office was added to the Scottsdale market from 2006 through 2007, while the amount of vacant space increased by almost 1.0 million square feet. Average rental rates have increased by over 20 percent from a low of $23.27 per square foot in 2003 to $28.47 per square foot in 2007.

Table VIII-2 shows the net absorption of office space, and inventory of office space delivered in the Scottsdale market from the fourth quarter 2003 through the second quarter 2007.

TABLE VIII-2

Office Space Absorbed and Constructed in Scottsdale: 2003-2007

Year	Total Space # Square Feet	Net Annual Absorption of Space # Square Feet	Office Space Completed # Square Feet
2003[1]	19,540,303	515,909	315,317
2004	20,942,713	920,441	932,590
2005	22,024,925	1,748,668	1,023,971
2006	24,284,667	1,942,618	2,259,742
2007[2]	25,359,924	104,450	1,075,257
Total	-----	5,232,086	5,606,877
Average Annual	------	1,308,022	1,401,719

[1]Third and fourth quarters only.
[2] First and second quarters only.

Sources: CoStar Group; Gruen Gruen + Associates.

From the last two quarters of 2003 through the first two quarters of 2007, approximately 5.6 million square feet of space was delivered in the Scottsdale office market. The amount of space added to the office inventory equates to 22 percent of the total supply. Net absorption of 5.2 million square feet equates to 93 percent of the office space completed. The increase in the vacancy rate described in Table VIII-1 is attributable to the amount of office space additions exceeding the amount of space absorbed. Over the past four years, an average of 1.3 million square feet of office space was absorbed annually while an average of 1.4 million square feet was delivered each year.

Inventory, Vacancy and Rents by Class of Space and Submarket

Table VIII-3 compares the amount of Class A, Class B, and Class C space and the vacancy rate by type of space in the City of Scottsdale as a whole and the three submarkets that comprise the Scottsdale market. Note that CoStar's definition of the "South Scottsdale" submarket is much larger than the geographic area encompassed by the Southern Scottsdale study area. The Southern Scottsdale submarket data presented below includes office space located in the Downtown and other locations generally south of East McDonald Drive.

TABLE VIII-3

Inventory, Vacancy and Asking Rents by Class of Space and Submarket Within Scottsdale: 2007

Submarket by Class of Space	Number of Buildings	Building Space # Square Feet	Vacancy Rate %	Average Asking Rental Rate $ Per Square Foot	Proportion of Total Space and Product Class in Scottsdale %
Class A	41	4,357,228	19.5	31.33	53
Class B	391	6,488,320	15.2	28.41	45
Class C	43	445,053	15.2	23.93	15
Total Airpark	**475**	**11,290,601**	**16.8**	**29.79**	**45**
Class A	24	2,363,343	22.2	28.00	29
Class B	249	5,017,417	14.3	27.39	35
Class C	75	489,287	5.7	27.25	17
Total Central Scottsdale	**348**	**7,870,967**	**16.1**	**27.66**	**31**
Class A	13	1,451,229	11.8	28.04	18
Class B	107	2,755,387	6.9	25.01	19
Class C	339	1,991,740	8.0	22.37	68
Total South Scottsdale (and Downtown)	**459**	**6,198,356**	**8.4**	**26.11**	**24**
Class A	78	8,172,800	18.9	29.81	32
Class B	747	14,261,124	13.3	27.64	56
Class C	457	2,926,000	8.7	23.34	12
TOTAL SCOTTSDALE	**1,282**	**25,359,924**	**14.6**	**28.47**	**100**

Sources: CoStar Group; Gruen Gruen + Associates.

Class B product comprises the largest share of space within Scottsdale at approximately 56 percent of the total office space inventory. Class A product comprises a smaller, but still significant share of the total inventory at approximately 32 percent, while Class C product comprises only 12 percent of the total inventory of office space within the Scottsdale market. According to CoStar, the 8.2 million square feet of Class A office product within Scottsdale currently includes approximately 1.5 million square feet of vacant space for a vacancy rate of 18.9 percent. Class B space, totaling nearly 14.3 million square feet, includes a proportionately smaller amount of vacant space and a lower vacancy rate of 13.3 percent. The 2.9 million square feet of Class C office space includes the smallest amount of vacant space (254,000 square feet) for a comparatively low vacancy rate of approximately 8.7 percent.

The Airpark submarket totaling approximately 11.3 million square feet of office space comprises the largest share, or approximately 45 percent, of Scottsdale's total inventory. Asking rental rates for all classes of office space within the Airpark are also the highest within the City, averaging approximately $29.79 per square foot. Class A asking rents are substantially higher than other office locations within the City, generally obtaining a $2.00 to $3.50 per square foot premium over the Central Scottsdale or South Scottsdale/Downtown submarkets. Nearly 53 percent of all Class A office space within the City is located in the Airpark submarket. The vast majority of new Class A construction this year has occurred in the Airpark with approximately 600,000 square feet of Class A space delivered. This may contribute to the relatively high vacancy rate as new space is still in the process of being leased. The Airpark contains a limited inventory of Class C space totaling less than 450,000 square feet, or approximately 15 percent of Scottsdale's total supply of Class C office space.

The Central Scottsdale submarket, totaling 7.87 million square feet, contains approximately 31 percent of all office space within Scottsdale. Central Scottsdale contains about a third of the City's total Class A and Class B office space at 29 and 35 percent respectively. Rents for Class A space in the Central Scottsdale submarket approximate $28.00 per square foot, while Class B asking rents are comparable to Class A rents at $27.39 per square foot. The vacancy rate for Class A office space within Central Scottsdale of 22.2 percent is higher than either the Airpark or South Scottsdale/Downtown submarkets. The recent construction of more than 160,000 square feet of Class A space combined with year-to-date negative absorption of 124,000 square feet of space, and therefore significant supply overhang, accounts for the small rent premium over Class B rents and the higher vacancy rate.

The South Scottsdale/Downtown submarket contains the smallest amount of office space within Scottsdale, totaling approximately 6.2 million square feet or approximately 24 percent of the City-wide inventory. However, the majority or 68 percent of Scottsdale's Class C office space inventory is located within the South Scottsdale submarket. Class C asking rents in South Scottsdale are about $1.50 per square foot below Class C rents in the Airpark while Class A rents in South Scottsdale, approximating $28.04 per square foot, are nearly $3.30 per square foot below Class A rents in the Airpark. The Class A inventory within South Scottsdale/Downtown is relatively limited, containing less than 1.5 million square feet of space or 18 percent of Scottsdale's total Class A office space inventory. Because the South Scottsdale/Downtown submarket contains a higher proportion of lower-class space and a smaller proportion of Class A space, the submarket has a lower average rent per square foot than the Airpark or Central Scottsdale. Note, however, this submarket has the lowest vacancy rate for Class A and Class B space as less than 75,000 square feet of new space has been delivered this year.

In total, the Scottsdale market contains the largest inventory of office space within the Phoenix metropolitan area. According to CoStar, average asking rental rates for office space in Scottsdale are also seven percent to 25 percent higher than any other market within the metro area. In the first two quarters of 2007, new office space construction and deliveries within Scottsdale have outpaced every other market in the region including the East Valley. However, as described in the following section, the Southern Scottsdale study area has not participated in the substantial growth and upgrading of office space inventory and rents compared to the City as-a-whole.

SUPPLY TRENDS WITHIN SOUTHERN SCOTTSDALE STUDY AREA

Table VIII-4 shows the supply trends for the Southern Scottsdale study area.

TABLE VIII-4

Total and Vacant Office Space, Vacancy Rate and Rent in Southern Scottsdale: 2004-2007[1]

Period	Total Space # Square Feet	Vacant Space # Square Feet	Vacancy Rate %	Annual Rent $ Per Square Foot
2004 4Q	788,736	162,668	21	16.35
2005 1Q	788,736	165,595	21	16.77
2005 2Q	788,736	142,122	18	16.95
2005 3Q	794,766	136,672	17	17.82
2005 4Q	794,766	133,624	17	18.35
2006 1Q	794,766	93,641	12	18.47
2006 2Q	794,766	83,496	11	24.18
2006 3Q	794,766	77,625	10	25.44
2006 4Q	794,766	93,153	12	25.65
2007 1Q	794,766	79,795	10	25.79
2007 2Q	794,766	84,862	11	25.95

[1] Does not include office space at SkySong as the project was still under construction in the second quarter of 2007.

Sources: CoStar Group; City of Scottsdale; Gruen Gruen + Associates.

The Southern Scottsdale study area contains less than 800,000 square feet of operating office space or only 3.1 percent of the multi-tenant office space in Scottsdale. The amount of vacant space has declined from about 163,000 square feet at year-end 2004 or a 21 percent vacancy rate to about 85,000 square feet of space in 2007 or a vacancy rate of 11 percent. The largest drop in vacancy occurred in the beginning of 2006 when approximately 40,000 square feet of additional office space was leased.

Between the fourth quarter of 2004 and first quarter 2006 the vacancy rate dropped from 21 percent to 12 percent and asking full-service rental rates increased by $2.12 per square foot from $16.35 to $18.47 per square foot. In the second quarter of 2006, the SkySong office project began construction. With the addition of future available Class A office product to the leasing market (the first and only Class A product option), average asking rental rates increased dramatically by nearly $5.30 per square foot from $18.47 to $24.18. However, as described in the following sections, asking rents for the majority of existing, older office space within the study area remain well below $24.00 per square foot.

The only new construction since 2004 has been one small Class B office building, completed in third quarter 2005 totaling 6,030 square feet of space, located at 2899 North 87th Street. The project reportedly 100 percent leased is located at Thomas and Pima Road.

Table VIII-5 shows the amount of space absorbed in the Southern Scottsdale study area as compared to the Scottsdale as-a-whole since 2005.

TABLE VIII-5

Office Space Absorption in Southern Scottsdale and Share of City-wide Absorption: 2005-2007

Year	Southern Scottsdale Study Area Net Absorption of Space # Square Feet	Total Scottsdale Net Absorption of Space # Square Feet	Share of Total Scottsdale Absorption Captured Within Southern Scottsdale Study Area
2005	35,074	1,570,583	2.2%
2006	40,471	1,905,831	2.1%
2007[1]	8,291	552,995	1.5%
Total	**83,836**	**4,029,409**	**2.1%**

[1] First and second quarters only. Does not include leasing activity at SkySong.

Sources: CoStar Group; Gruen Gruen + Associates.

Since 2005, the Southern Scottsdale study area has absorbed approximately 83,800 square feet of office space. Net absorption over the 2.5-year period equates to approximately 33,500 square feet of space absorption annually. While annual office space absorption was slightly higher in 2005 and 2006, net absorption in the first two quarters of 2007 has been lower totaling less than 8,300 square feet of space. As shown above on Table III-5, space absorption within the Southern Scottsdale study area has accounted for a minimal share of leasing activity and office space consumption within the larger Scottsdale market. The study area accounted for approximately 2.1 percent of all space absorption within Scottsdale between 2005 and second quarter 2007. While the supply located within the Southern Scottsdale study area accounts for a small proportion (3.1 percent) of Scottsdale's total inventory, recent absorption activity shows older, smaller and generally lower-level product located within the study area has captured a minimal share of recent demand growth.

Southern Scottsdale Office Inventory by Class of Space and Age

Table VIII-6 shows the inventory of office space (including the first two buildings of the SkySong project) by class of space.

TABLE VIII-6

Type of Office Space in Southern Scottsdale Study Area

Type of Space	Number of Buildings	Building Space # Square Feet	Proportion of Total %
Class A	2	300,000[1]	28
Class B	14	133,876	12
Class C	85	660,890	60
Total	101	1,094,766	100

[1] First two office buildings of SkySong mixed-use project.

Sources: CoStar Group; Gruen Gruen + Associates.

Of the 101 buildings included in the inventory of 1.1 million square feet of space, 85 buildings totaling nearly 661,000 square feet of space consist of Class C space. About 60 percent of the building space is Class C. Only 14 buildings containing about 134,000 square feet of space are classified as Class B. This equates to approximately 12 percent of the inventory. Including the under construction and recently completed building in the SkySong project of 300,000 square feet, 28 percent of the Southern Scottsdale inventory is considered Class A space.

Not including the recently completed and under construction buildings in SkySong, Table VIII-7 shows that much of the existing office inventory within Southern Scottsdale is aging. Only 11 percent of the inventory has been constructed or renovated within the past 17 years. The majority or 52 percent of space was constructed prior to 1980.

TABLE VIII-7

Age of Office Space in Southern Scottsdale Study Area

Year Built/Last Renovated	Total Space # Square Feet	Share of Existing Inventory
2000 – 2007	63,151	8%
1990 – 1999	21,331	3%
1980 – 1989	293,723	37%
1970 – 1979	201,190	25%
Pre – 1970	215,371	27%
Total	794,766	100%

Sources: Sources: CoStar Group; Gruen Gruen + Associates.

Asking Rental Rates by Class of Space in Southern Scottsdale Study Area

Table III-8 shows the quoted average rent by type of space in Southern Scottsdale.

TABLE VIII-8

Full-Service Rents by Class of Office Space in Southern Scottsdale Study Area: 2007

	Class A[1]	Class B	Class C
Range of Rent per Square Foot	\$27.00 - \$30.00	\$17.75 - \$23.30	\$8.59 - \$21.00[2]
Average Rent per Square Foot	\$27.50	\$22.56	\$15.57

[1]SkySong: 318,000 square feet.
[2] Three properties, which have unusually high rents for Class C space, have been excluded.

Sources: CoStar Group; City of Scottsdale; Gruen Gruen + Associates.

Class C space rents range from \$8.59 per square foot to \$21.00 per square foot and average approximately \$15.77 per square foot. Class B rents range from \$17.75 to \$23.30 per square foot with an average of \$22.56 per square foot. The SkySong project asking rents average \$27.50 per square foot.

As shown below in Table VIII-9, SkySong's office rents for comparable new Class A space are lower than alternative office projects located in Tempe, the Airpark and Downtown Scottsdale. Recently completed or under construction projects in Tempe such as the Gateway Tempe or Hayden Ferry Lakeside are quoting rental rates for new Class A office that are generally $5.00 per square foot above those at SkySong. Similarly, new Class A space in the Scottsdale Airpark tend to be approximately $4.00 to $6.00 per square foot or 15 to 20 percent higher than asking rents at SkySong. For example, the recently completed 210,000-square-foot building located adjacent to Kierland Commons, the Pinnacle at Kierland, is quoting rents of $34 to $35 per square foot.

TABLE VIII-9

Asking Rental Rates for New Class A Office Product Outside of Southern Scottsdale

Name (Location)	Year Built/Status	Office Space # Square Feet	Asking Rental Rate $ Per Square Foot
The Pinnacle at Kierland (Airpark)	2007	210,000	34 - 35
Promenade Corporate Center (Airpark)	2006	194,000	34
Max at Kierland (Airpark)	2008 delivery	257,000	35
McDowell Mountain Business Park (Airpark)	2007	127,785	31
SGA Corporate Centre (Airpark)	2007	175,000	34.50
Gainey Center (North Scottsdale Rd.)	1999	142,000	34
Galleria Corporate Center (Downtown)	2001	606,000	30
Portales Corporate Center (Downtown)		172,000	31.50
Gateway Tempe (Mill Ave - Tempe)	2008 delivery	260,000	32
Hayden Ferry Lakeside (Mill Ave – Tempe)	2007	503,000	34 - 36

Sources: Loopnet.com; CoStar Group; Gruen Gruen + Associates.

Based on the interviews, the lower rents for SkySong space reflect the less desirable image of the Southern Scottsdale location as well as the ability of the project to offer lower rents as the result of municipal subsidies that provide the project a necessary competitive advantage.

FUTURE SUPPLY

With the exception of the SkySong project, no significant office space development is planned in Southern Scottsdale. General Dynamics has land available for its own purposes, but has no current plans to develop office space on its campus and anticipates having enough on-site space to accommodate its own employment growth for at least five years.

CHAPTER IX

FORECAST EMPLOYMENT GROWTH, DEMAND FOR OFFICE SPACE AND ESTIMATED RELATIONSHIP BETWEEN SUPPLY AND DEMAND

INTRODUCTION

Our interviews and review of the relevant literature confirm the need for and use of office space, unlike industrial space consumption, tends to be associated with employment growth. The demand for office space tends to be closely associated with the need for labor in the finance, insurance, and real estate, and professional and technical services sectors. Therefore, in this chapter, we review current employment levels for the City of Scottsdale and Southern Scottsdale. We also review forecasts of employment by land use prepared by the Maricopa Association of Governments (MAG). We synthesize the analysis of current employment, the forecast of office-using employment growth within Southern Scottsdale and the results of the interviews to prepare an estimate of future office space demand for Southern Scottsdale. We then compare the forecast office space demand to the existing supply of vacant office space and planned future supply of office space (SkySong) to estimate the relationship between supply and demand.

EMPLOYMENT TRENDS

Table IX-1 shows employment estimates by economic sector for the City of Scottsdale for 2005. Table IX-1 also shows the estimated employment by economic sector within the Southern Scottsdale study area. Drawn from employer survey data provided by the Maricopa Council of Governments, the estimates of employment do not include employment attributable to firms smaller than five employees.

TABLE IX-1

Estimated Employment by Economic Sector For City of Scottsdale and the Southern Scottsdale Study Area: 2005[1]

Industry Sector	City of Scottsdale 2005 Employment #	Southern Scottsdale 2005 Employment #	Southern Scottsdale Share of City %
Mining, Utilities and Construction	9,013	922	10.2
Manufacturing	11,717	5,174	44.2
Wholesale Trade	4,628	436	9.4
Retail Trade	19,639	3,048	15.5
Transportation and Warehousing	3,532	227	6.4
Information	5,061	92	1.8
F.I.R.E	17,464	1,001	5.7
Professional and Business Services	23,922	877	3.7
Healthcare and Educational Services	14,931	2,171	14.5
Leisure and Hospitality	25,843	1,464	5.7
Other Services	4,759	533	11.2
Total Non-Farm Private Employment	**140,509**	**15,945**	**11.3**

[1] Includes only firms with five or more employees.

Sources: Maricopa Association of Governments, 2005 Employer Database; Gruen Gruen + Associates.

Total private employment within the City of Scottsdale is estimated to approximate 140,500 in 2005. The leisure and hospitality sectors (i.e., tourism industry) is estimated to comprise the largest share of total private employment within Scottsdale as it includes more than 25,800 jobs. Professional and business services and retail trade are the second and third largest industries, including approximately 23,900 and 19,600 jobs respectively. The finance, insurance and real estate ("F.I.R.E.") and healthcare and educational service sectors each comprise more than ten percent of the total employment base with approximately 17,500 and 14,900 jobs respectively.

As shown above in Table IX-1, the Southern Scottsdale study area accounts for a relatively small share or 11.3 percent of the City's total private employment base. As expected, due to the presence of General Dynamics, the manufacturing sector is by far the largest source of employment within the study area, including approximately 5,200 jobs or slightly less than one-third of the total employment base of Southern Scottsdale. The presence of General Dynamics has not created significant demand from suppliers or other firms wanting to locate their offices near the General Dynamics site. Largely attributable to Scottsdale Healthcare (formerly the Scottsdale Memorial Hospital) just on the north border of the Southern Scottsdale study area, the healthcare and educational services sector includes just less than 2,200 jobs or approximately 14 percent of employment within the study area.

The three primary industry sectors most closely associated with office space consumption – finance, insurance and real estate, professional and business services, and information –

account for the smallest share of City-wide employment in the Southern Scottsdale study area. Including approximately 1,000 employees, the finance, insurance and real estate sector comprises only 5.7 percent of total industry employment within the City of Scottsdale. With approximately 880 jobs in the study area, the professional and business services sector comprises an even smaller share of City-wide industry employment at 3.7 percent. Southern Scottsdale employment in the information sector includes fewer than 100 employees and accounts for less than two percent of the City. Collectively, the Southern Scottsdale study area comprises only 4.2 percent of all F.I.R.E, professional and business services and information employment throughout the City. This is consistent with Southern Scottsdale's small share of the total City-wide inventory of office space.

FORECAST EMPLOYMENT GROWTH FOR CITY OF SCOTTSDALE AND SOUTHERN SCOTTSDALE

Maricopa Association of Governments ("MAG") prepares employment forecasts by municipal planning area and regional analysis zone. Table IX-2 shows the employment forecasts for the City of Scottsdale as a whole and for the Regional Analysis Zone that encompasses Southern Scottsdale. The Regional Analysis Zone that encompasses Southern Scottsdale is much larger than the actual study area, extending from McKellips Road on the southern border to Chaparral Road on the northern border.

TABLE IX-2

Employment Forecast for City of Scottsdale and Southern Scottsdale: 2005-2020

	2005 #	2010 #	2020 #	Total Change 2005-2020 #	Annual Growth Rate %
Southern Scottsdale[1]	53,845	56,457	56,988	3,143	0.38
City of Scottsdale	181,652	208,073	232,832	51,180	1.67

[1] Forecast for Regional Analysis Zone #272 which is larger than Southern Scottsdale study area.

Source: Maricopa Association of Governments

Between 2005 and 2020, MAG forecasts that the City of Scottsdale will increase by over 51,000 jobs to nearly 233,000 jobs. This equates to an annual growth rate of 1.67 percent. The Southern Scottsdale area is forecast to increase it employment base by about 3,100 jobs or six percent of the total increase for the City as a whole. Southern Scottsdale total employment is forecast to grow annually by 0.4 percent from 53,834 jobs in 2005 to 56,988 employees in 2020.

MAG forecast that about 1,600 employees or nearly half of the 3,100 new employees will be in office space-using employment in Southern Scottsdale. According to a MAG representative, the SkySong development was included in the employment projections and projections for each regional analysis zone were reviewed by all member agencies. Table IX-3 shows the forecast employment growth within Southern Scottsdale by land use classification. Office-using jobs are forecast to grow at an annual rate of approximately 0.7 percent.

TABLE IX-3

Forecast Employment Growth by Land Use Within Southern Scottsdale: 2005-2020[1]

Land Use	Added Employment 2005-2010 #	Added Employment 2010-2020 #	Total Added Employment 2005-2020 #	Projected Average Annual Growth Rate 2005-2020 %
Retail	782	174	956	0.29
Office	**1,106**	**539**	**1,645**	**0.71**
Industrial	48	0	48	0.06
Public/Other	676	-182	494	0.27
Total	2,612	531	3,143	0.38

[1] Forecast for Regional Analysis Zone #272 which is larger than the Southern Scottsdale study area.

Source: Maricopa Association of Governments

The forecast growth in office-using employment equates to additional office space demand within Southern Scottsdale which includes the smaller study area of approximately 370,000 square feet of space between 2005 and 2020, assuming an office worker density of 225 square feet per employee. On average, the forecast employment growth equates to annual office space demand of 24,700 square feet of space.

ESTIMATED RELATIONSHIP BETWEEN FORECAST OFFICE SPACE SUPPLY AND DEMAND

Table IX-4 shows the relationship between forecast demand for office space and the future supply of office space within the Southern Scottsdale study area.

TABLE IX-4

Estimated Relationship Between Forecast Office Space Demand and Supply

	2007-2020 # Square Feet
Existing Amount of Vacant Class B Office Space in Study Area	12,000
Amount of Office Space Currently Available in SkySong Buildings 1 & 2[1]	125,000
Additional Office Space Planned at SkySong	300,000
Total Existing Amount of Vacant Class B Space and Space Currently Available or Likely to be Constructed at SkySong	437,000
Forecast Additional Office Space Demand (all of Southern Scottsdale south of Chaparral including the study area)	370,000
Surplus of Office Space in Study Area	67,000

[1] According to a project representative, building one is 93 percent leased. The second building has a lease with Ticketmaster for 35,000 square feet.

Sources: CoStar Group; CB Richard Ellis; MAG; Gruen Gruen + Associates.

Including the vacant Class B space within the study area, the available space within buildings one and two at SkySong, and the space planned for future construction at SkySong, the available future supply of office space totals 437,000 square feet of space. Between 2007 and 2020, total additional office space demand of 370,000 square feet compared to the identified supply of 437,000 square feet of space produces an estimate of available supply (space surplus) of approximately 67,000 square feet of space in the study area by 2020.

The relationship between forecast office space demand and office space demand suggests that SkySong will have the capacity to capture much of the obtainable demand from less price sensitive space users. The total future supply of space at SkySong exceeds the associated demand likely to originate from employment growth within a larger area than the Southern Scottsdale study area itself.

APPENDIX A

PROPORTION OF RETAIL SALES BY CATEGORY FOR CITY OF SCOTTSDALE AND SOUTHERN SCOTTSDALE STUDY AREA

TABLE A-1

Proportion of Scottsdale Total Sales by Category Excluding Auto Dealers: 2001-2006[1]

Category	2001 %	2002 %	2003 %	2004 %	2005 %	2006 %	Shift in Proportion 2001-2006 %
General Merchandise	52.1	52.4	51.6	51.2	51.2	50.5	-1.6
Apparel	5.2	4.8	4.9	5.2	5.6	5.9	0.8
Food Stores	15.9	15.9	16.2	15.2	14.6	14.7	-1.2
Eating & Drinking	16.4	16.6	17.0	17.5	17.5	18.1	1.7
Building Materials	1.4	1.1	1.2	1.3	1.4	1.5	0.1
Home Furnishings & Electronics	9.0	9.2	9.1	9.6	9.8	9.3	0.2
Total	100	100	100	100	100	100	

[1]In 2006 constant dollars.

Sources: City of Scottsdale; Gruen Gruen + Associates.

TABLE A-2

Proportion of Southern Scottsdale Total Sales by Category Excluding Auto Dealers: 2001-2006[1]

Category	2001 %	2002 %	2003 %	2004 %	2005 %	2006 %	Shift in Proportion 2001-2006 %
General Merchandise	45.3	42.7	40.9	42.1	41.4	39.6	-5.7
Apparel	0.7	0.6	0.5	0.5	0.6	0.8	0.1
Food Stores	24.2	26.4	27.2	25.3	24.1	25.0	0.7
Eating & Drinking	23.0	24.2	24.9	26.0	27.6	28.4	5.4
Building Materials	2.1	2.1	2.2	2.2	2.5	2.9	0.8
Home Furnishings & Electronics	4.8	3.9	4.2	4.0	3.9	3.5	-1.2
Total	100	100	100	100	100	100	

[1]In 2006 constant dollars.

Sources: City of Scottsdale; Gruen Gruen + Associates.

APPENDIX B

SUMMARY OF RETAIL SPACE BY TYPE AND AGE AND AMOUNT OF RETAIL PACE CONSTRUCTED IN SCOTTSDALE AND SOUTHERN SCOTTSDALE STUDY AREA

TABLE B-1

Square Footage of Shopping Centers by Type in Scottsdale

	Age (Number of Years)									
	0-9		10-19		20-29		30+		Total	
Type of Center	# of Square Feet	% of Total	# of Square Feet	% of Total	# of Square Feet	% of Total	# of Square Feet	% of Total	# of Square Feet	% of Total
Neighborhood	196,780	5	893,066	24	1,682,717	44	1,014,161	27	3,786,724	100
Community	725,400	23	1,594,973	50	892,292	28	0	0	3,212,665	100
Lifestyle	400,000	100	0	0	0	0	0	0	400,000	100
Power	1,467,061	48	1,604,827	52	0	0	0	0	3,071,888	100
Theme/Festival	225,000	16	0	0	100,000	7	1,050,000	76	1,375,000	100
Regional	1,900,000	76	0	8	1,350,000	7	0	9	3,250,000	100
Freestanding	1,251,222	58	125,000	0	112,000	42	148,347	0	1,636,569	100
Total	6,165,463	37	4,217,866	25	4,137,009	25	2,212,508	13	16,732,846	100

Sources: City of Scottsdale; Gruen Gruen + Associates.

TABLE B-2

Number of Shopping Centers by Type in City of Scottsdale

	Age (Number of Years)				
Type of Center	0-9 \#	10-19 \#	20-29 \#	30+ \#	Total \#
Neighborhood	5	12	24	13	54
Community	5	10	6	0	21
Lifestyle	1	0	0	0	1
Power	3	2	0	0	5
Theme/Festival	1	0	1	3	5
Regional	1	0	1	0	2
Freestanding	1	1	1	2	5
Total	17	25	33	18	93

Sources: City of Scottsdale; Gruen Gruen + Associates.

TABLE B-3

Square Footage of Shopping Centers by Type in Southern Scottsdale Study Area

	Age (Number of Years)									
	0-9		10-19		20-29		30+		Total	
Type of Center	# of Square Feet	% of Total	# of Square Feet	% of Total	# of Square Feet	% of Total	# of Square Feet	% of Total	# of Square Feet	% of Total
Neighborhood	0	0	164,467	18	387,884	41	509,332	41	1,061,683	100
Community	0	0	0	0	0	0	0	0	0	0
Lifestyle	0	0	0	0	0	0	0	0	0	0
Power	0	0	0	0	0	0	0	0	0	0
Theme/Festival	0	0	0	0	0	0	0	0	0	0
Regional	0	0	0	0	0	0	0	0	0	0
Freestanding	147,061	77	0	0	0	0	44,012	23	191,073	100
Total	147,061	12	164,467	13	387,884	31	553,344	44	1,252,756	100

Sources: City of Scottsdale; Gruen Gruen + Associates.

TABLE B-4

Number of Shopping Centers by Type in Southern Scottsdale Study Area

	Age (Number of Years)				
Type of Center	0-9 #	10-19 #	20-29 #	30+ #	Total #
Neighborhood	0	2	6	7	15
Community	0	0	0	0	0
Lifestyle	0	0	0	0	0
Power	0	0	0	0	0
Theme/Festival	0	0	0	0	0
Regional	0	0	0	0	0
Freestanding	1	0	0	1	2
Total	1	2	6	8	17

Sources: City of Scottsdale; Gruen Gruen + Associates.

TABLE B-5

Annual Amount of Retail Space Constructed in City of Scottsdale and Southern Scottsdale: 1997-2006

Year	City of Scottsdale # Square Feet	Southern Scottsdale # Square Feet
1997	156,636	0
1998	2,084,000	0
1999	40,000	0
2000	1,693,452	0
2001	292,400	0
2002	325,000	0
2003	600,000	0
2004	720,000	0
2005	263,550	0
2006	0	0
2007	147,061	147,061[1]
Annual Average	574,736	13,369

[1]Lowe's Plaza.

Sources: City of Scottsdale; Gruen Gruen + Associates.

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San Francisco:
(415) 433-7598
E-mail: sf@ggassoc.com

Deerfield:
(847) 317-0634
E-mail:midwest@ggassoc.com

www.ggassoc.com