

Commercial Market Analysis

E of NEC Guadalupe Road & Power Road

6912 E Guadalupe Road

Mesa, Arizona



Prepared for:

Excolo Development

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Prepared by:



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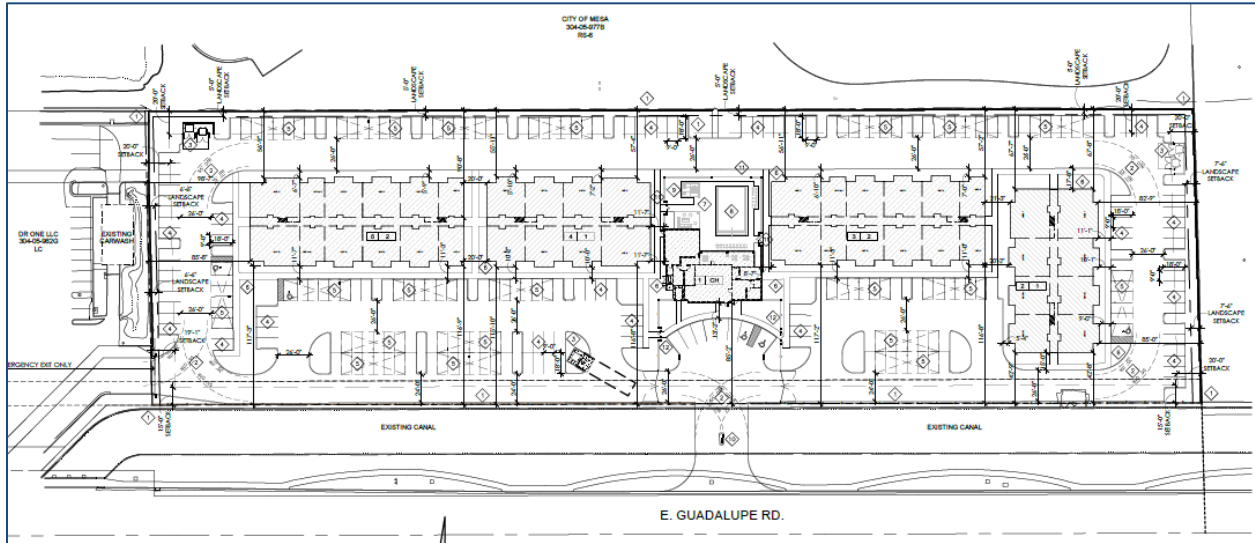
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Executive Summary

Elliott D. Pollack & Company was retained to conduct an economic analysis of a proposed rezoning of a vacant parcel totaling approximately 5.05 acres at the east of the northeast corner of Guadalupe Road and Power Road in Mesa, Arizona. The proposal includes rezoning the property to allow for multifamily residential totaling 120 homes. The scope of this engagement is to evaluate the various economic and real estate aspects of the proposed change and its impact on future neighborhood and local serving retail development.



Findings & Conclusions

The retail marketplace has been significantly impacted by recent recessions (both the Great Recession and COVID-19), e-commerce, and the rise of supercenters and warehouse clubs. For the Greater Phoenix area, the Great Recession resulted in slower population and employment growth and retailers have become much more cautious planning for new stores. Some 14 years after the end of the Great Recession, retail development has not returned to prior construction levels. This trend may continue for the foreseeable future, especially with the continued rise of e-commerce over brick and mortar stores.

The Primary Market Area is also well represented by a wide variety of local-serving and regional-serving retailers. Currently, the primary market area is over-retailed compared to local population and household incomes, indicating the presence of regional serving retail locations. Vacancy in the market area is also elevated relative to the Phoenix Metro average (7.8% versus 4.8%). There is currently 513,795 square feet of vacant retail space within existing centers.

Going forward, new neighborhood retail development will be induced by population growth. There is also retail development currently under construction, largely in the local-serving



neighborhood sector, totaling 247,600 square feet. These new developments, which are expected to be delivered by the end of 2024, will also mute future local serving retail supply for some time.

An important question related to the proposed zoning change is its potential impact on the inventory of land available for future retail development. The latest forecast for population growth in the Primary Market Area concludes that the demand for additional retail land will total approximately 517,100 square feet or the equivalent of 65.9 acres over the next 40 years (through 2060) which represents near buildout. Furthermore, the subject site can only accommodate local serving retail (non-grocery) and restaurants. The projected demand over the next few decades in these categories is 238,750 square feet (30.4 acres).

This compares favorably with the over 5.3 million square feet acres of available retail space and land within the Primary Market Area, the majority within the City of Mesa. **There is over 10 times the amount of available retail space than expected local resident demand through build out of the primary market area.** In fact, the expected retail demand over the next 40 years can nearly be entirely accommodated within currently vacant retail space in the market area. Compared to expected demand, commercial land in the area is considered oversupplied. Several sites will likely not have enough future market demand for commercial development.

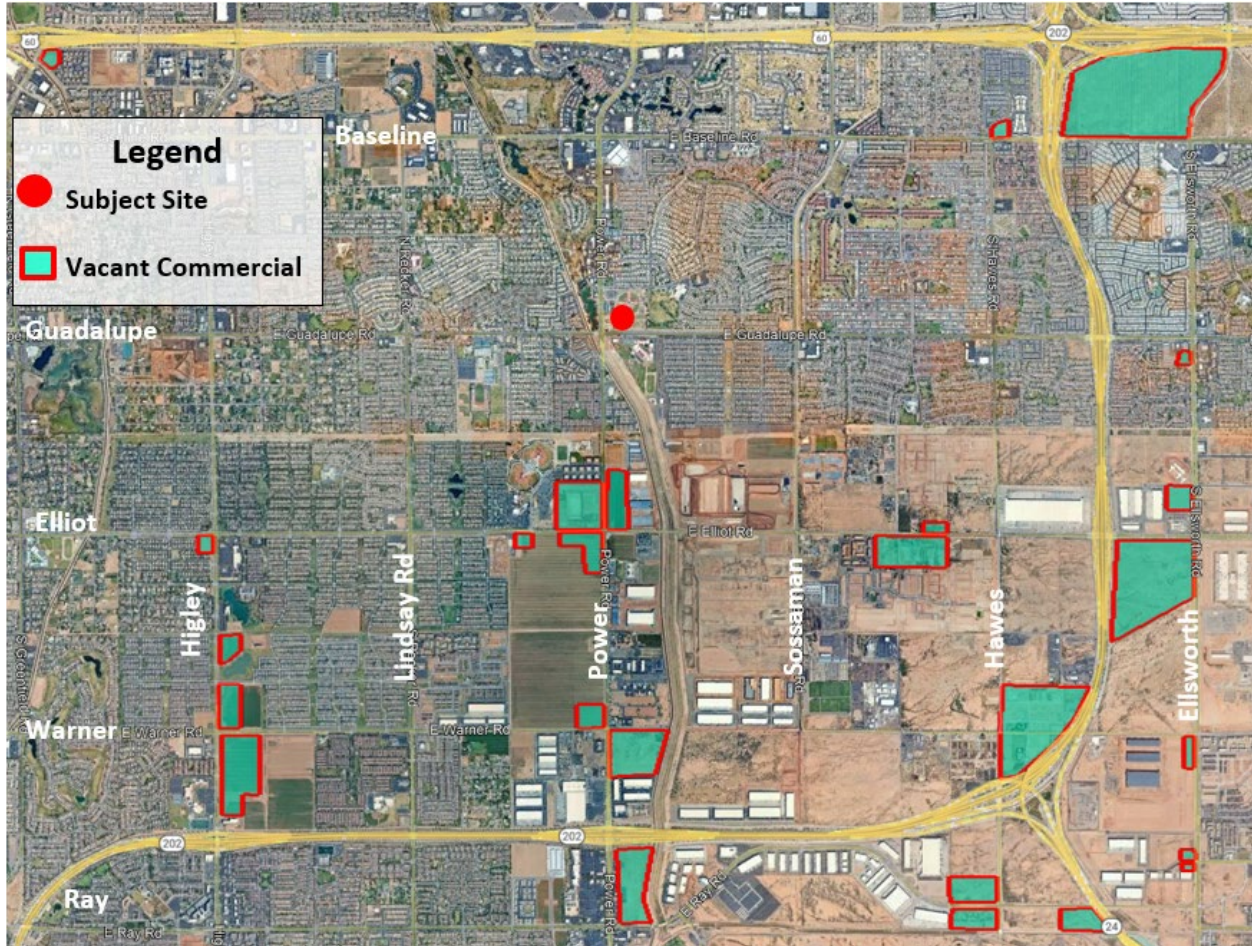
Retail Supply/Demand Forecast					
Primary Market Area					
	2030	2040	2050	2060	Total
Demand					
Household Growth	4,494	2,792	1,383	781	9,451
New Retail Demand (acres)	31.4	19.5	9.7	5.5	65.9
New Retail Demand (SF)	245,914	152,738	75,685	42,754	517,091
Supply (Available for Additional Retail Development)				Acres	SF
Existing Retail Vacancy					513,795
Under Construction					247,633
Proposed					604,329
Vacant Land				507	3,974,340
TOTAL					5,340,097
Sources: MAG, 2023; U.S. Consumer Expenditure Survey; AZ DOA; City of Mesa; Town of Gilbert; CoStar; Elliott D. Pollack & Company					

The following map displays future supply in proximity to the subject site. As the map illustrates, there are several commercial sites located to the south and east within a short driving distance



to the subject site. Any one of these sites are an equivalent substitute to the subject site property in terms of their ability to accommodate local or regional serving retail demand within a very short driving distance to residential homes in the area.

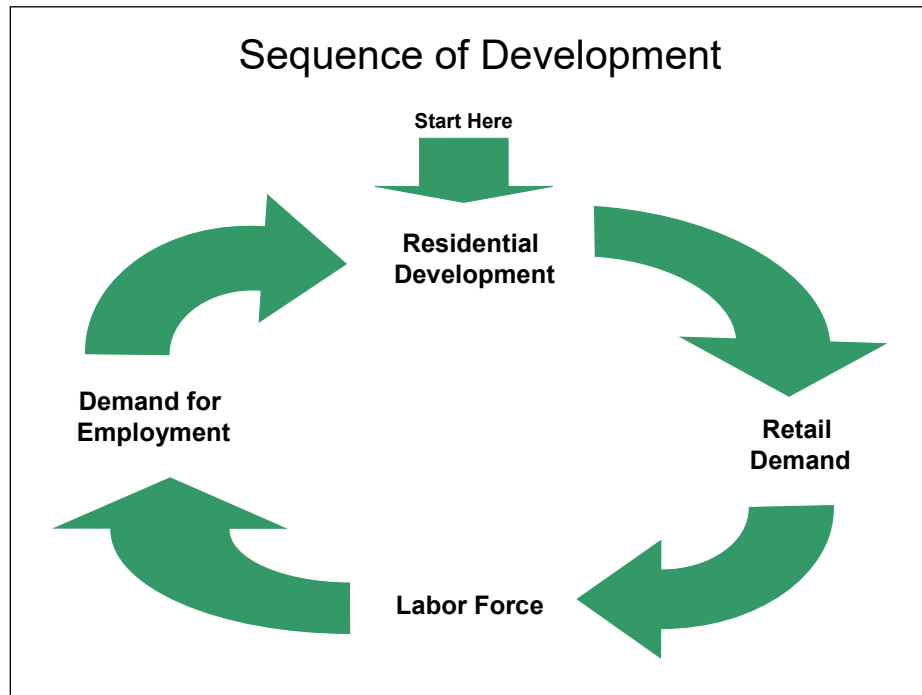
Retail Supply Map – Primary Market Area



The location of the subject site is not considered competitive for retail development. The site is not located on any of the hard corners at Power Road and Guadalupe, which are most attractive to retailers. There is also no visibility from the more highly trafficked Power Road. The site lacks critical ingress and egress access and is set 75 feet back from Guadalupe Road with fenced barriers created by the canal fronting Guadalupe Road.

There are numerous competing sites within the PMA that are considered more attractive for retail development. Not surprisingly, several of these sites have proposed retail development plans, though development timing is uncertain. By contrast, the subject site has received no identified interest for commercial development.

The proposed change to residential development will help to support the retail assets within the City of Mesa. Despite the surplus of development in most of the retail categories, each new additional resident will create demand for additional local serving retail. Continued residential development in all forms within the market area will be critical to the eventual success of existing retail assets and additional commercial development. As the following graphic helps to illustrate, local residents will be the main source of retail demand. Residential development must come first, before eventually building to a critical mass of residents to attract additional retailers.



In our opinion, the rezoning of the subject site to residential uses will not affect the City of Mesa's efforts to continue to attract new commercial to the community. The City has a significant inventory of commercial land that will provide for the long-term economic health of the community. Additionally, as a residential project, new residents will support existing and planned commercial development as well as provide additional local workforce for employers. Overall, the proposed change for residential uses:

- Is compatible for the site given its characteristics, neighboring developments, and location.
- Will accommodate new resident growth which will support existing and planned commercial development.
- Will not harm the city's efforts to continue to attract new commercial development to the community based on available land compared to expected demand.

1.0 Introduction & Background

The purpose of this analysis is to determine the current and future demand for commercial development (including restaurants) in the market area surrounding the subject site located east of the northeast corner of Power Road and Guadalupe Road. Our analysis will consist of evaluating the current size of the Primary Market Area, its potential development capacity, the supply of retail and available land, as well as the demand for commercial uses based on the surrounding market area population, the demographic characteristics of that population, and future growth.

1.1 Report Outline

Our study will consist of the following tasks.

1. Identification of the market area surrounding the subject site that would provide most of the demand for the project.
2. A summary of the demographic characteristics of the population in the market area.
3. Current and forecasted population growth estimates for the market area.
4. Supply of available retail space and land in the market area.
5. A forecast and summary of recommendations on the potential demand for commercial uses within the Primary Market Area based on market conditions.





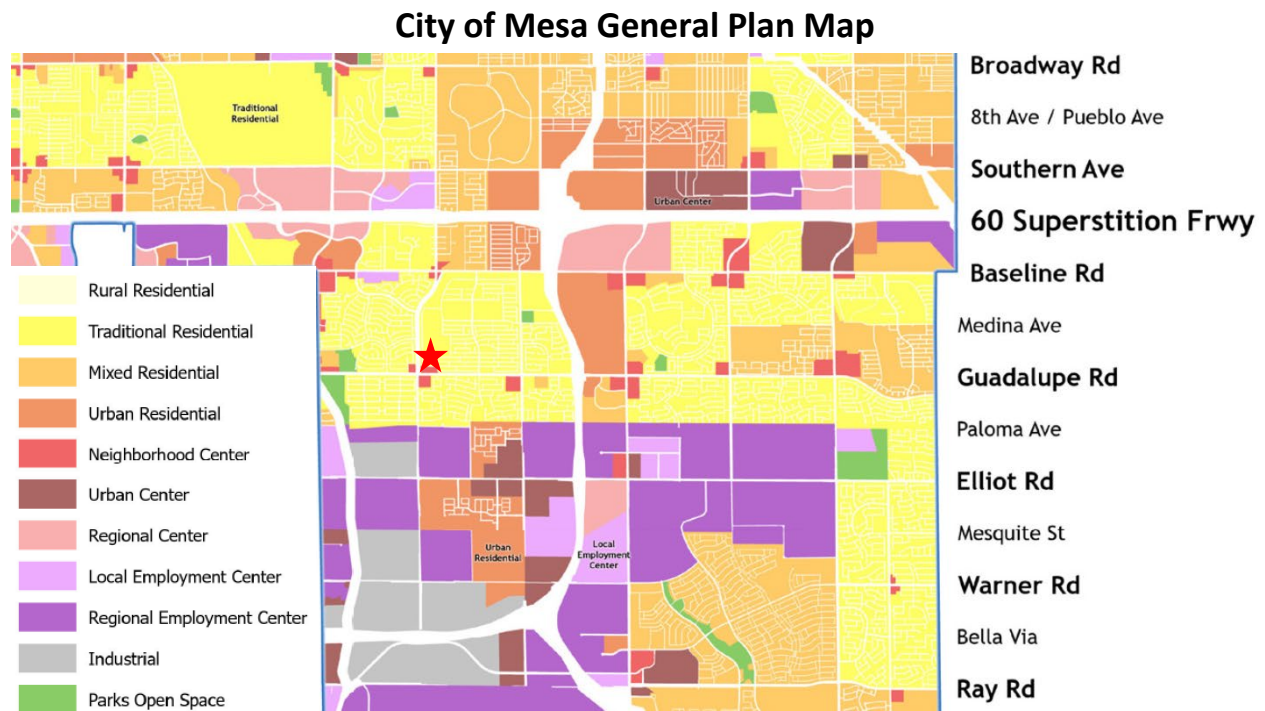
This has created a large commercial region. To the south is a large employment region consisting mainly of industrial properties. There are additional master planned residential communities in the region as well as a significant amount of well-established residential neighborhoods and neighborhood shopping centers.



1.3 General Plan & Zoning

City of Mesa has designated the subject site as “Neighborhood Center”. Neighborhood Center allows for local serving retail, personal services, eating and drinking establishments, office, multi-family residential, and public gathering space. Developments in these areas are envisioned as commercial and mixed-use nodes of activity that serve surrounding neighborhoods and also to become a gathering place for local residents.

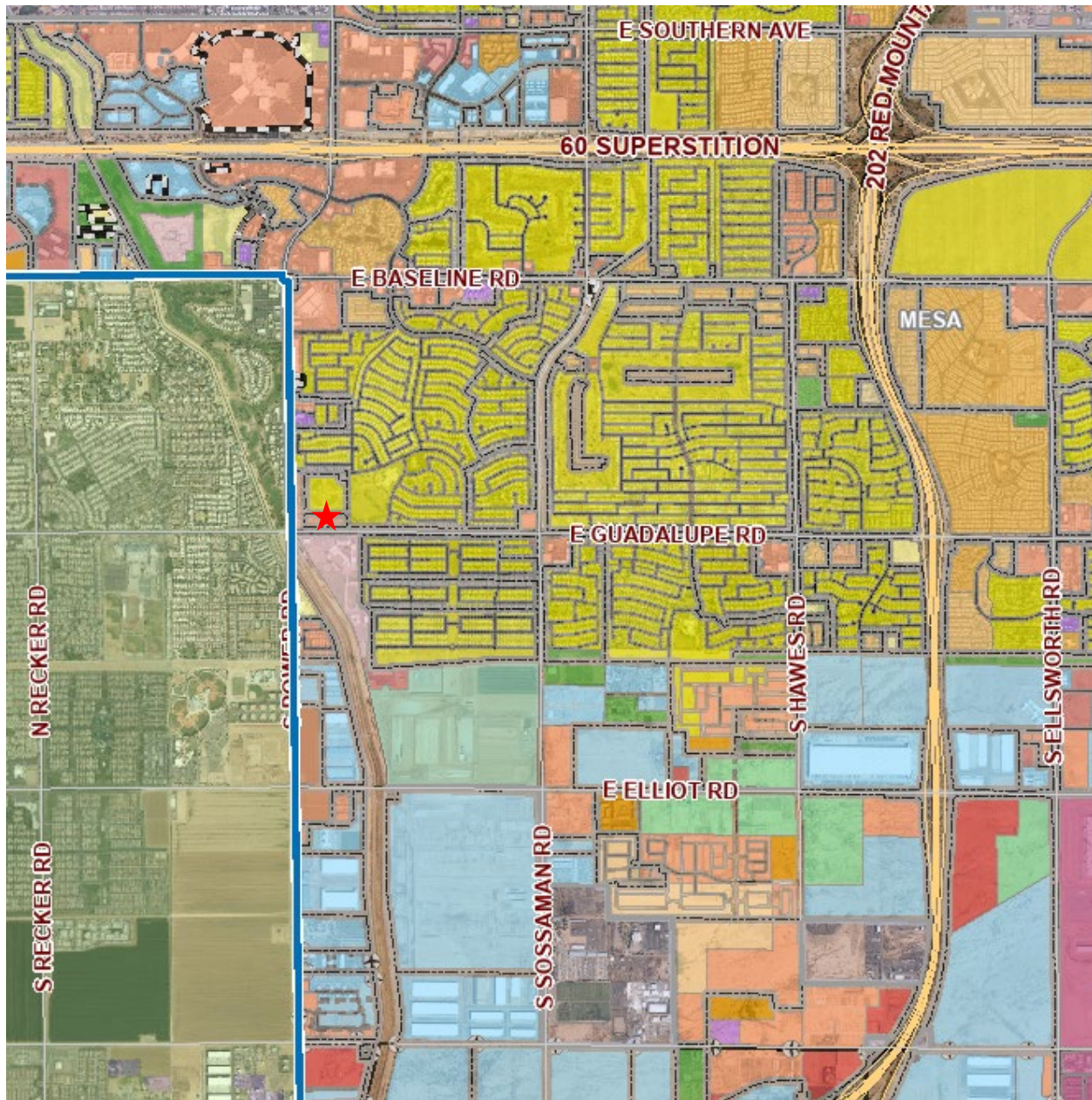
There are also several vacant parcels within the primary market area designated “Urban Center” and “Regional Center”. These are typically large parcels and serve the larger community. They are reserved primarily for retail, employment, and entertainment. Several of these districts are located three to five miles of the subject site strategically located along or near the Loop 202 corridor (Loop 202 and Baseline, Loop 202 and Elliot, Loop 202 and Hawes, Elliot and Hawes).



According to City of Mesa zoning records, the subject parcel is zoned LC – Limited Commercial with a PAD overlay. There are a number of deed restrictions assessed to the site prohibiting uses such as schools, agricultural operations, auto paint and body repair, vehicle storage, machine shops, fabrication and light assembly, animal boarding kennels, nursing and convalescent homes, outpatient care, rehabilitation centers, hospice, gasoline stations, massage, and alcohol sales.



City of Mesa Zoning Map



1.4 Market Area Description

The Primary Market Area (PMA) is defined as the geographic area from which demand for a particular real estate product will arise. It is also the area containing similar and, therefore, directly competitive real estate projects. For this analysis, the focus of the primary market area surrounding the subject site is for local-serving, neighborhood retail development. For purposes of this report, the competitive market area will be called the Primary Market Area (PMA).



When conducting a market study, one of the most important steps is defining the project's primary trade, or market area. The first step in evaluating an appropriate market area is to analyze the characteristics of the neighborhoods immediately adjacent to the subject property. Typically, the market area includes the property three to five miles from the subject site, adjusted for the real estate product (in this case local serving retail such as grocery, personal and households services, restaurants, etc.), geographic features, socioeconomic conditions or economic circumstances.

It is common to utilize major freeways, or roads near major freeways, as market area borders since they often define neighborhoods within which people reside, shop, and recreate. People become accustomed to residing in a particular part of the metro area and often do not stray far from those areas when relocating their place of residence. Natural topographic features are also a factor that affects people's living preferences and habits.

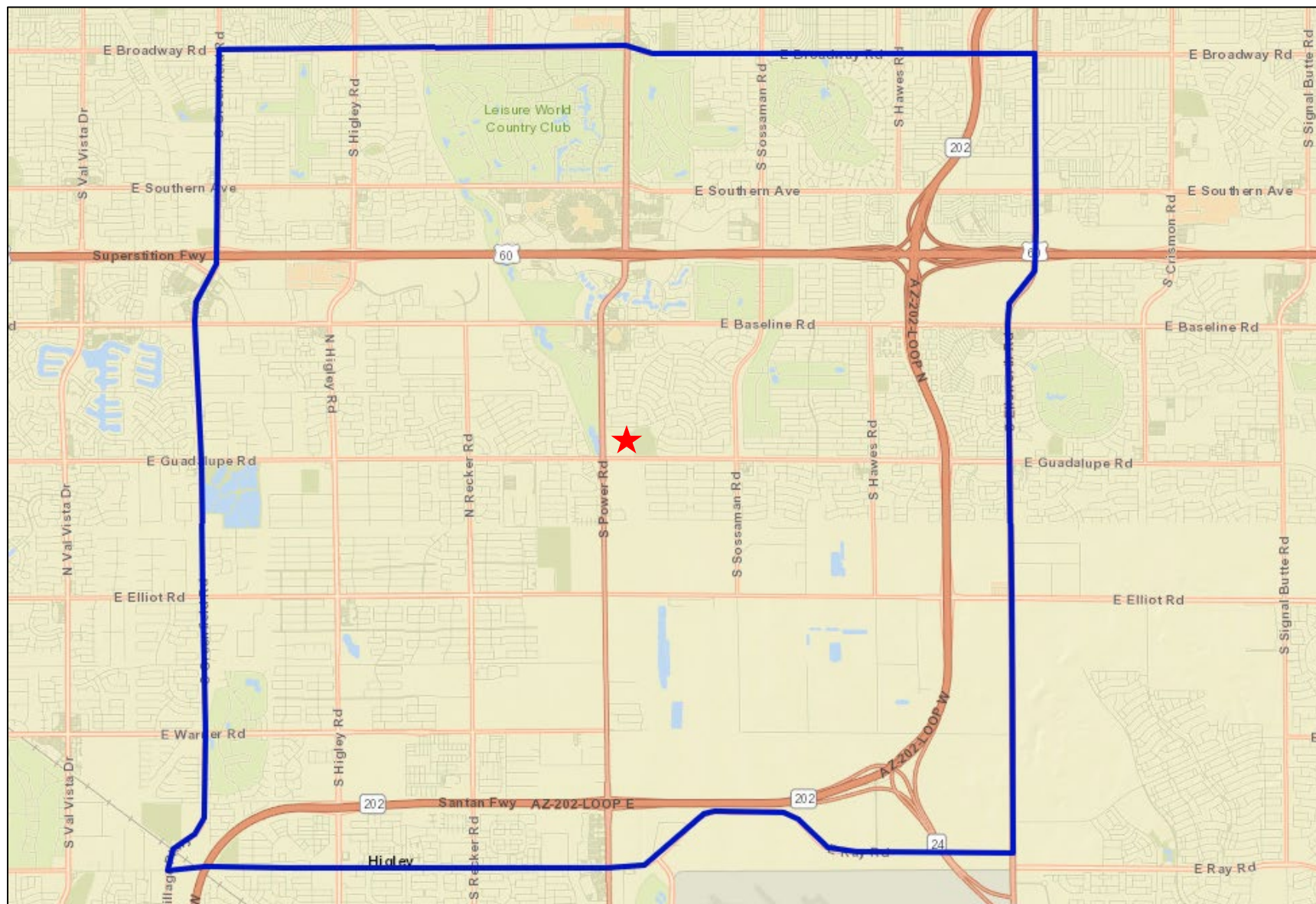
Based on analysis of the geographic features of the area and the layout of census tracts, existing neighborhood retail assets, preferable drive time, interviews with developers and economic development experts, as well as the experience of this firm in conducting market studies for neighborhood retail developments, it is the professional opinion of this firm that the primary market area is identified by the following: the Broadway Road to the north; Ellsworth Road to the east; Ray Road to the south; and Greenfield Road to the west.

This market area does not capture total resident spending, meaning residents likely spend a portion of their disposable income for goods outside of these boundaries. The boundary extends approximately 3.0 miles from the subject site in each direction.

The following map illustrates the PMA. Total area is approximately 35 square miles.



Primary Market Area



1.5 Limiting Conditions

This study prepared by Elliott D. Pollack & Company is subject to the following considerations and limiting conditions.

- It is our understanding that this study is for the client's due diligence and other planning purposes.
- The reported recommendation(s) represent the considered judgment of Elliott D. Pollack and Company based on the facts, analyses and methodologies described in the report.
- Except as specifically stated to the contrary, this study does not give consideration to the following matters to the extent they exist: (i) matters of a legal nature, including issues of legal title and compliance with federal, state and local laws and ordinances; and (ii) environmental and engineering issues, and the costs associated with their correction. The user of this study will be responsible for making his/her own determination about the impact, if any, of these matters.
- This study is intended to be read and used as a whole and not in parts.
- Our analysis is based on currently available information and estimates and assumptions about long-term future development trends. Such estimates and assumptions are subject to uncertainty and variation. Accordingly, we do not represent them as results that will be achieved. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved may vary materially from the forecasted results. The assumptions disclosed in this analysis are those that are believed to be significant to the projections of future results.



2.0 Commercial Market Overview

2.1 Retail

Market conditions existing today in the retail real estate sector have been severely affected by the growth of E-Commerce and the Great Recession. The latest business cycle exposed significant longer-term challenges for the brick-and-mortar retail market in Greater Phoenix and across the country. Future changes in shopping trends that will affect how the market performs over the long term. Following are some of those trends and challenges.

- **Domination:** The market has become dominated by big box retailers and power/community shopping centers. The retail market in the PMA illustrates a similar trend. There are numerous power centers and anchored shopping centers along the length of the I-10 with nearly every retail segment and brand found within the retail centers.
- **Obsolescence:** Retailing is constantly changing resulting in some companies going out of business as others are entering the marketplace. Part of the problem for companies that are experiencing difficulties is the inability to anticipate trends in shopping patterns and the impact of alternative methods of purchasing goods and services. Currently, restaurants and value-oriented retail such as Walmart, Target, Ross, TJ Maxx, and others are the most viable in the market and actively expanding. The list of retailers and restaurants that are in bankruptcy or have been in bankruptcy is extensive and include:

- | | |
|---------------------------------|--------------------|
| – Sears | – Pier One |
| – Toys “R” Us | – David’s Bridal |
| – Sport Authority | – Mattress Firm |
| – Aeropostale | – Gump’s |
| – Beauty Brands | – Brookstone |
| – Shopko | – Rockport |
| – Gymboree | – Nine West |
| – Charlotte Russe | – Claire’s |
| – Payless Shoe Source | – Winn-Dixie |
| – Diesel | – Bon-Ton |
| – Z Gallerie | – Rue21 |
| – Kona Grill | – BCBG Maxazria |
| – Perkins and Marie Callender’s | – Wet Seal |
| – Barneys New York | – The Limited |
| – Forever 21 | – Charming Charlie |
| – Destination Maternity | – FTD |
| – Avenue | |



The types of retailers that have experienced bankruptcies fall into a few categories. Bookstores long ago experienced significant declines in sales. More recently, clothing, and accessory retailers, including shoe retailers, have experienced the most difficulties along with department stores and grocery chains. Department store sales have been declining for decades with the growth of low-cost supercenters and warehouse outlets. Grocery stores have come under attack from a wide range of retailers that have moved into the grocery business.

The traditional department store will continue to likely see declining sales. Macy's and Kohl's have reported sales slumps. JC Penney is most vulnerable to changing shopping trends and has been hit with declining foot traffic for the past decade. It has been able to stay in business but has closed 20% of stores in recent years including 140 in 2018.

- **Greater Phoenix is Over-Retailed:** Because of the region's tremendous history of growth, virtually all national retail chains want to be here, resulting in more retail space than is demanded by the population. In the past, many national retail chains built stores in advance of growth to establish their market area. When growth slowed during the Great Recession, many planned stores were put on hold or abandoned.
- **Consolidation:** As retail market conditions change, consolidation of companies within the industry occurs. This trend has been particularly evident in the grocery store sector as chains try to compete with Walmart, Target, and Costco. Local grocer Bashas' has been through bankruptcy and is likely still vulnerable.
- **Internet or E-Commerce Sales:** The long-term threat to brick and mortar retailing is E-Commerce. Within the last 15 years, the market has seen seismic shifts in the manner in which people purchase retail goods and services. Certain segments of the retail market have been particularly hard hit. A later section of this report will provide further information on the E-Commerce trend.

In summary, there are two major trends that have had a significant impact the retail market.

1. E-Commerce and
2. The rise of off-price retailers and low-price supercenters and warehouse outlets.

2.2 E-Commerce

The U.S. Census defines E-commerce as:

“sales of goods and services where the buyer places an order, or the price and terms of the sale are negotiated, over an Internet, mobile device, extranet, Electronic Data

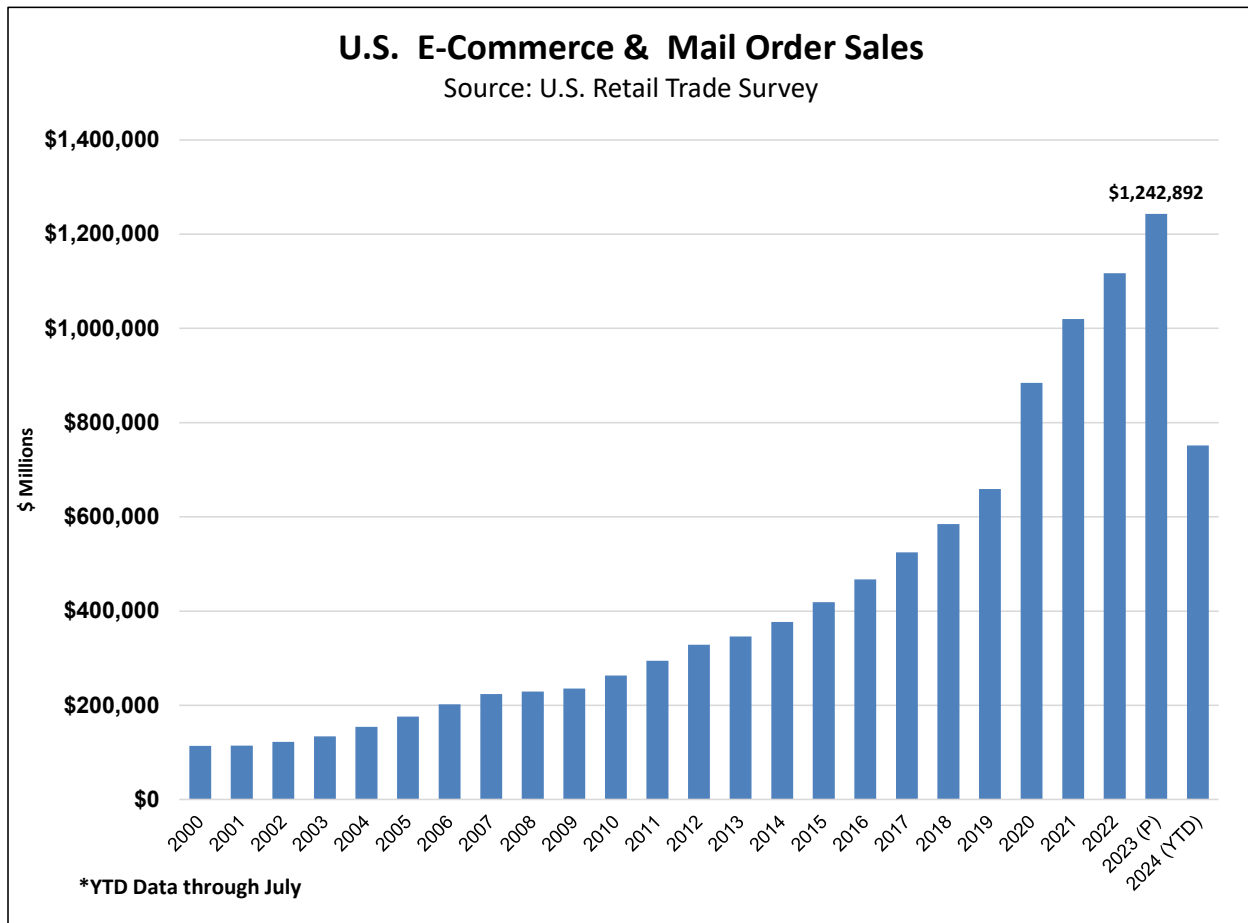


Interchange (EDI) network, electronic mail, or other comparable online system.
Payment may or may not be made online”.

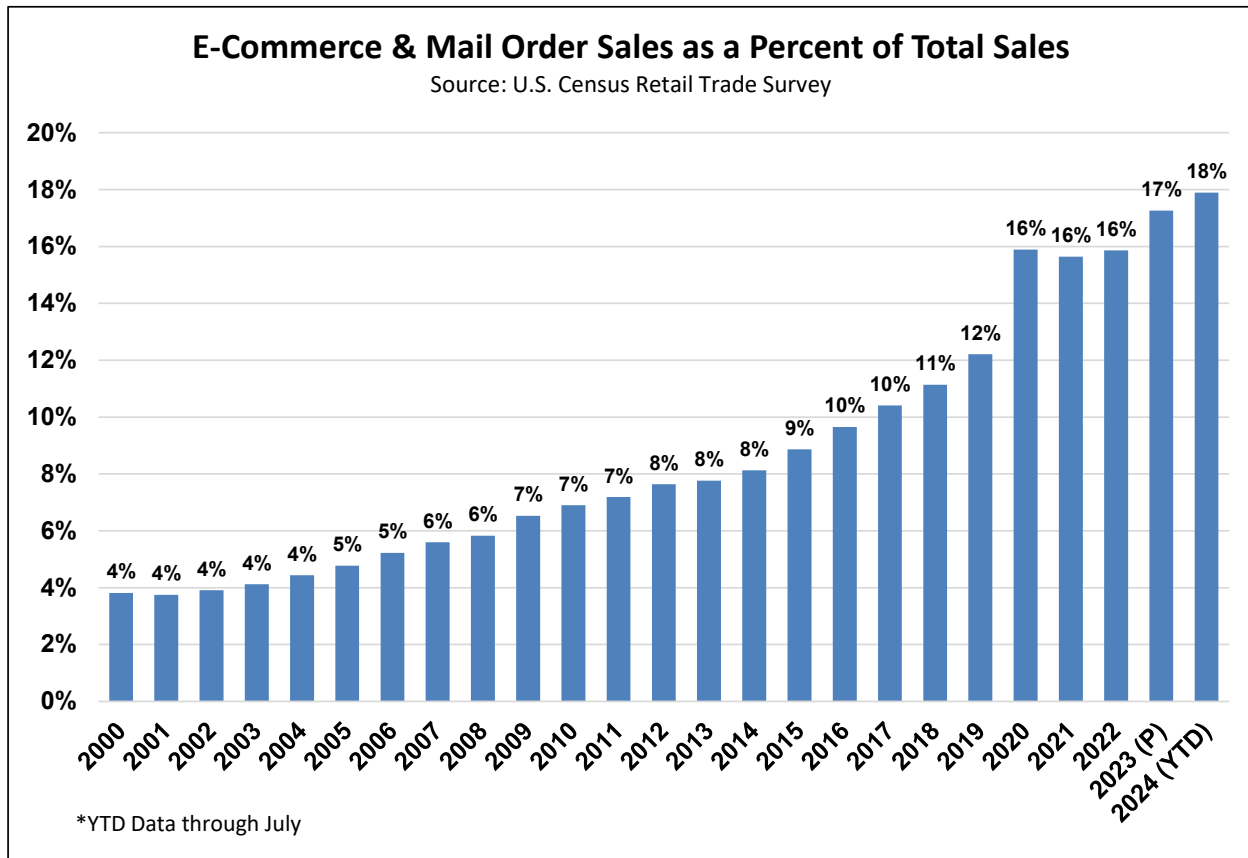
The above definition technically excludes mail order sales from catalogs or other mail-order businesses. It does not include such businesses as mail-order book clubs. However, most catalog and book club purchases today are made over the internet and should properly be categorized as E-Commerce. For this study, mail order sales will be included in E-Commerce sales data.

Between 2000 and 2019, E-Commerce sales grew over five-fold to \$659.2 billion, accounting for nearly 12.2% of all retail sales by 2019. The coronavirus pandemic had a significant impact on retail sales patterns pushing normal in-store purchases to online in 2020. Online sales grew by over 34% that year. In the ensuing years, online sales have continued to grow and gain market share. In 2021, online sales grew another 15%, followed by 9.5% growth in 2022. Online sales reported another 11.3% growth in 2023, surpassing \$1.2 trillion in sales.

2024 retail sales data is only available through July, but the latest data from the U.S. Census shows that YTD 2024 E-Commerce sales have increased by 10.2% over the same period in 2023.



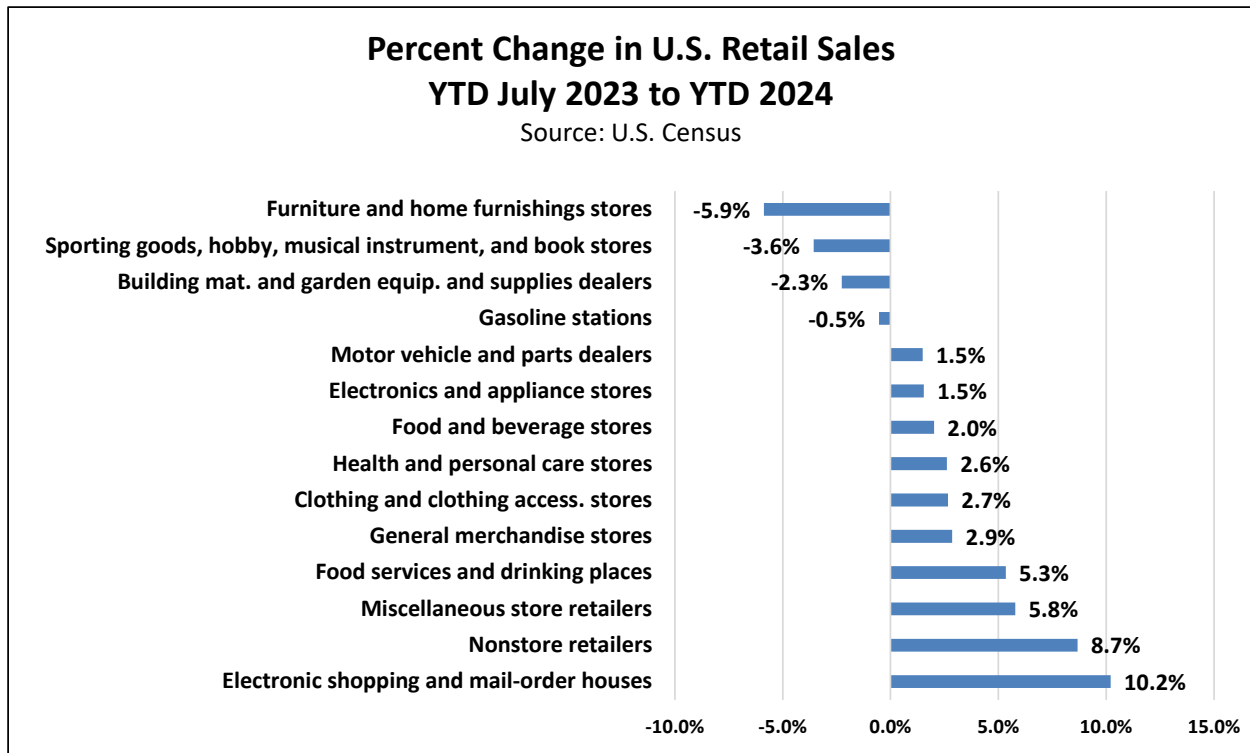
E-commerce sales as a percent of total retail sales grew gradually from 2000 at 4% to 9% in 2015. Market share then grew by nearly 1% per year from 2015 to 2019, then spiked to 16% of total retail sales in 2020. E-commerce market share now stands at nearly 18% of total retail sales.



The following table demonstrates where E-Commerce is having the most impact on retailers. The economic period that followed the economic shutdown brought the U.S. its highest inflation growth since the 1980s. The data does not account for the high levels of inflation and slowdown experienced over the last two years.

While total retail sales are up 2.6% through July 2024, the retail categories that are heavily influenced by inflation and price volatility have shown the smallest declines in sales including gasoline stations, furniture stores, building material stores, sporting goods, hobby, & bookstores and department stores. Many of these sectors of the retail market were already impacted by E-Commerce and by the rise of supercenters and warehouse clubs. By comparison, the retailers that continued to see growth in 2024 include e-commerce, food services and drinking places, health stores, other non-store retailers (direct selling), motor vehicle and parts, miscellaneous stores, food and beverages and clothing stores.





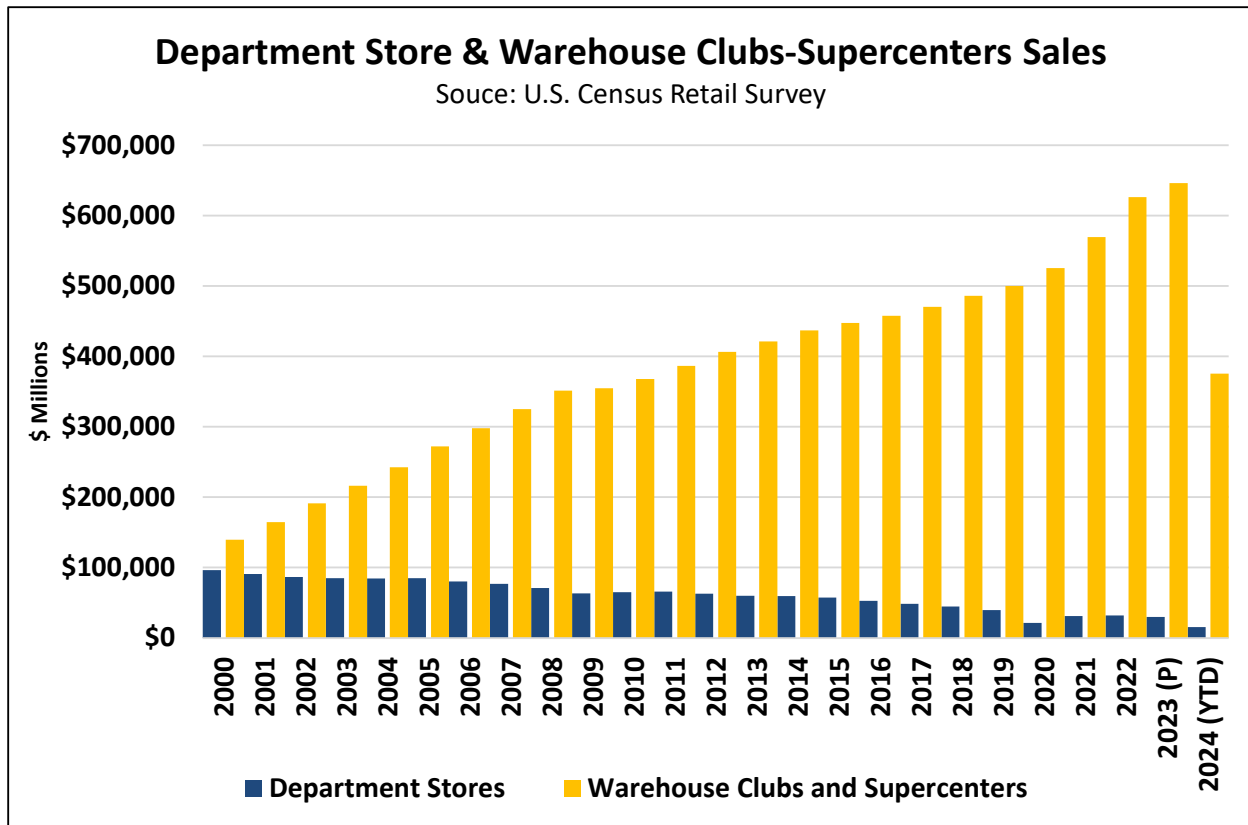
2.3 Impact of Superstores and Warehouse Clubs

In addition to the impact of E-Commerce on brick-and-mortar outlets, the expansion of superstores, such as Target and Walmart, and warehouse clubs, such as Costco, has resulted in a shift of retail spending from traditional department stores and small retailers. Off-price and value-oriented retailing has become the driving force in the retail sector. The following chart illustrates the shift in spending.

In 2000, spending at traditional department stores in the U.S. totaled more than \$96 billion. In 2023, that spending has declined to less than \$30 billion, resulting in the closure of many national and regional department store chains and bankruptcies such as Sears. By comparison, spending at supercenters and warehouse clubs ballooned from \$140 billion in 2000 to \$646 billion in 2023.

Through July 2024, total sales at the supercenters and warehouse clubs have reached \$375 billion so far. Power centers anchored by Walmart, Target, Home Depot, Lowes and similar big-box retailers have become the primary outlets for retail sales.





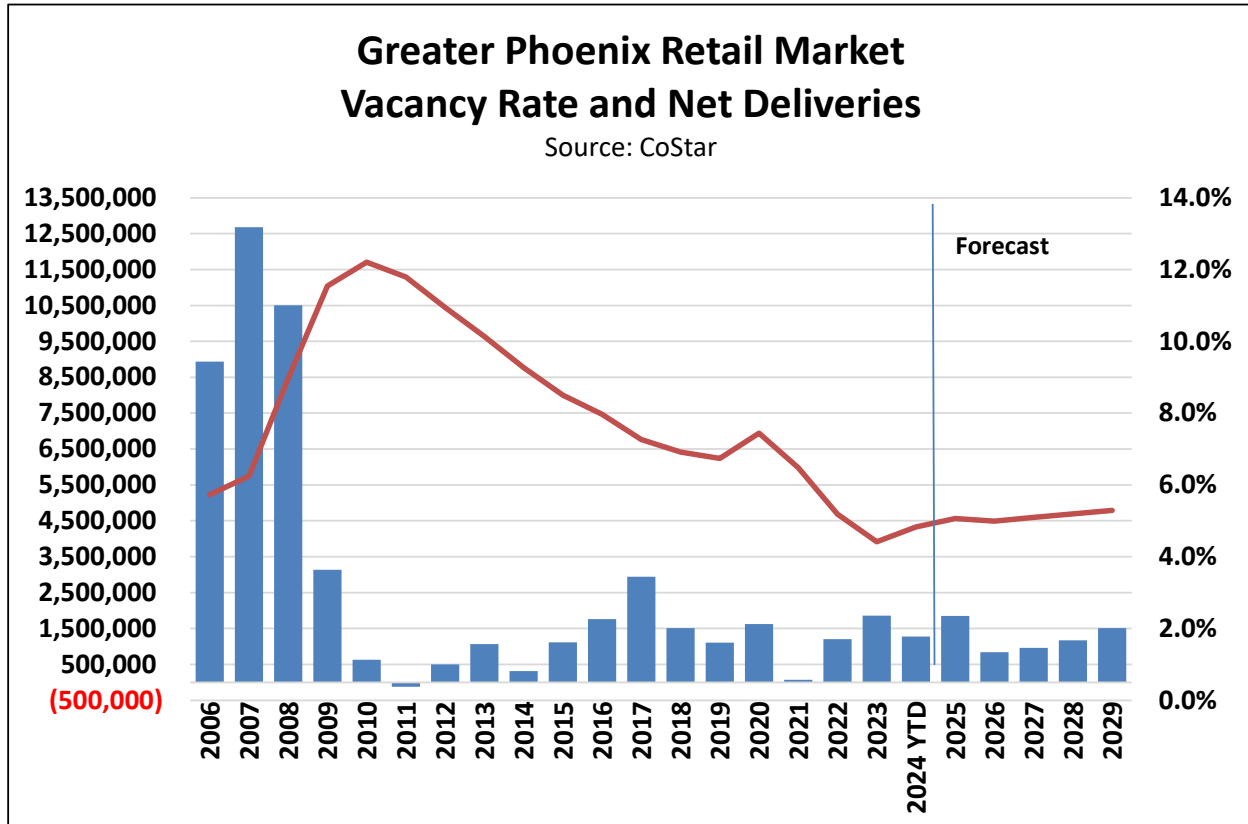
2.4 Greater Phoenix Retail Market

The Greater Phoenix retail market vacancy rate has been improving over the past 13 years from a previous peak of 12.4% in 2010 to a recent trough of 4.4% in the fourth quarter of 2023. The current vacancy rate is reported at 4.8%. Construction activity is dominated by grocery-anchored projects with Sprouts and Fry's as primary tenants. Power center development has been absent from the market until recently. Absorption in the overall retail market has been strong from 2021 through 2023 averaging 3.4 million square feet per year. However, 2024 absorption has been modest with only 222,800 square feet year to date

Even with the tightening of the market, new construction activity has been disciplined. Construction activity has been dominated by grocery-anchored projects with Sprouts, Fry's and Whole Foods as primary tenants. Power center development has largely been absent from the market with the exception of Prasada located in Surprise which was delivered in 2023 at nearly 100% pre-leased. There is currently 2.9 million square feet of retail space under construction with a reported 80% pre-lease rate. This shows that the market is not at risk of overbuilding currently.



Even with the population and employment growth of Greater Phoenix area over the past ten years, the retail market has not responded with significant construction activity. Greater Phoenix is in the top three metro areas in the country in job and population growth. Delivered retail space still is well below historic levels. E-Commerce and the popularity of supercenters and warehouse outlets is likely limiting extensive development of new retail space to some extent. However, the retail sector is a bright spot among commercial asset classes and development is likely to remain strong, commensurate with population growth.



2.5 Primary Market Area Retail Overview

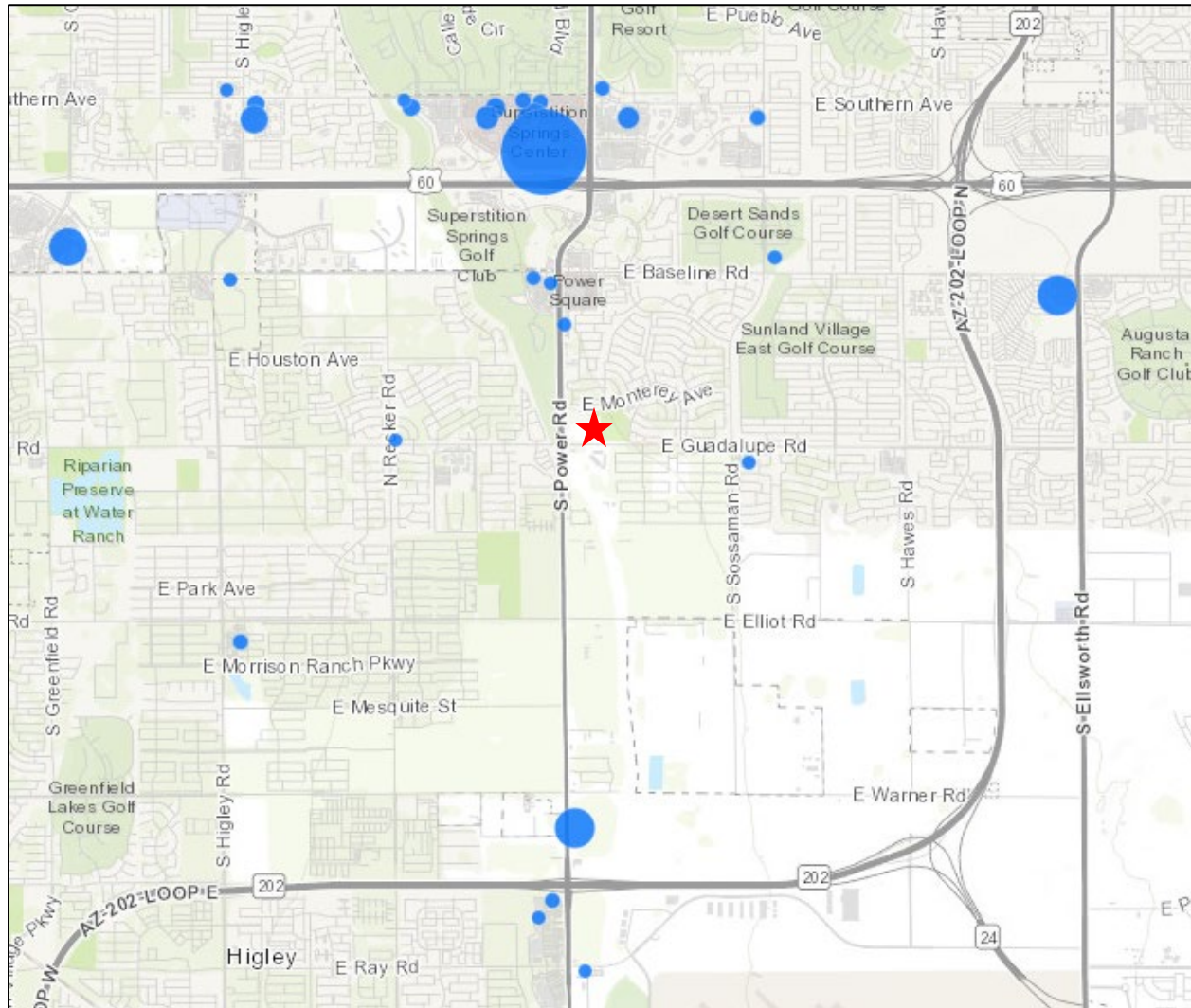
There is an estimated 6.6 million square feet of retail space in the Primary Market Area. Most retail space in the PMA is concentrated either along the U.S. 60 corridor between Southern and Baseline or south along the Loop 202 freeway. Additional retail space can be found at hard corner intersections throughout the PMA.

Vacancy is estimated at 7.8%, substantially above the Greater Phoenix average of 4.8%. There is no sublet space currently reported in the PMA. This equates to 513,795 square feet of vacant retail space. Of the vacant space, just over half (272,600 square feet) is located in and around the Superstition Springs regional mall. Other vacant spaces are located in scattered neighborhood



centers or freestanding buildings throughout the PMA or in newly delivered space near Cannon Beach Surf Park as illustrated on the following map.

Retail Vacancies – 513,795 SF



Source: CoStar

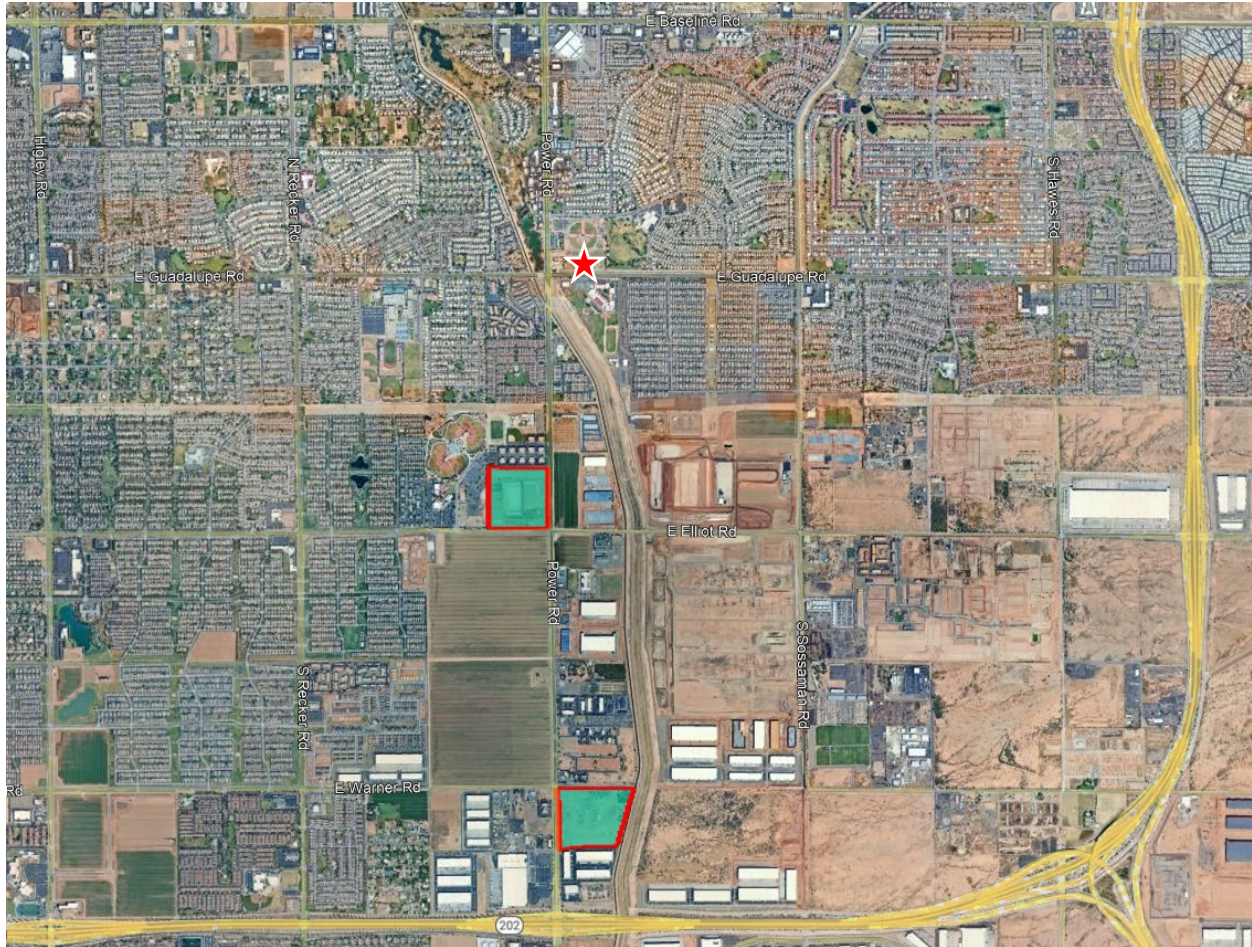
Construction activity was muted until 2020 when 180,800 square feet was delivered followed by 135,400 square feet in 2021. An additional 90,000 square feet was delivered in 2022 but 175,800 square feet was demolished in the same year east of the Superstition Springs Mall (currently being redeveloped as multifamily). In 2023, 72,300 square feet was delivered and 2024 is on pace to deliver approximately 85,000 square feet.

There is currently 247,600 square feet retail space under construction. This includes the Fry's Marketplace anchored neighborhood center located one mile south of the subject site (167,166 square feet) and the first phase of retail shops and restaurants surrounding the Cannon Beach



Surf Park located two miles south of the subject site (80,467 square feet). Both sites are expected to be delivered by the end of 2024.

Retail Under Construction – 247,600 SF



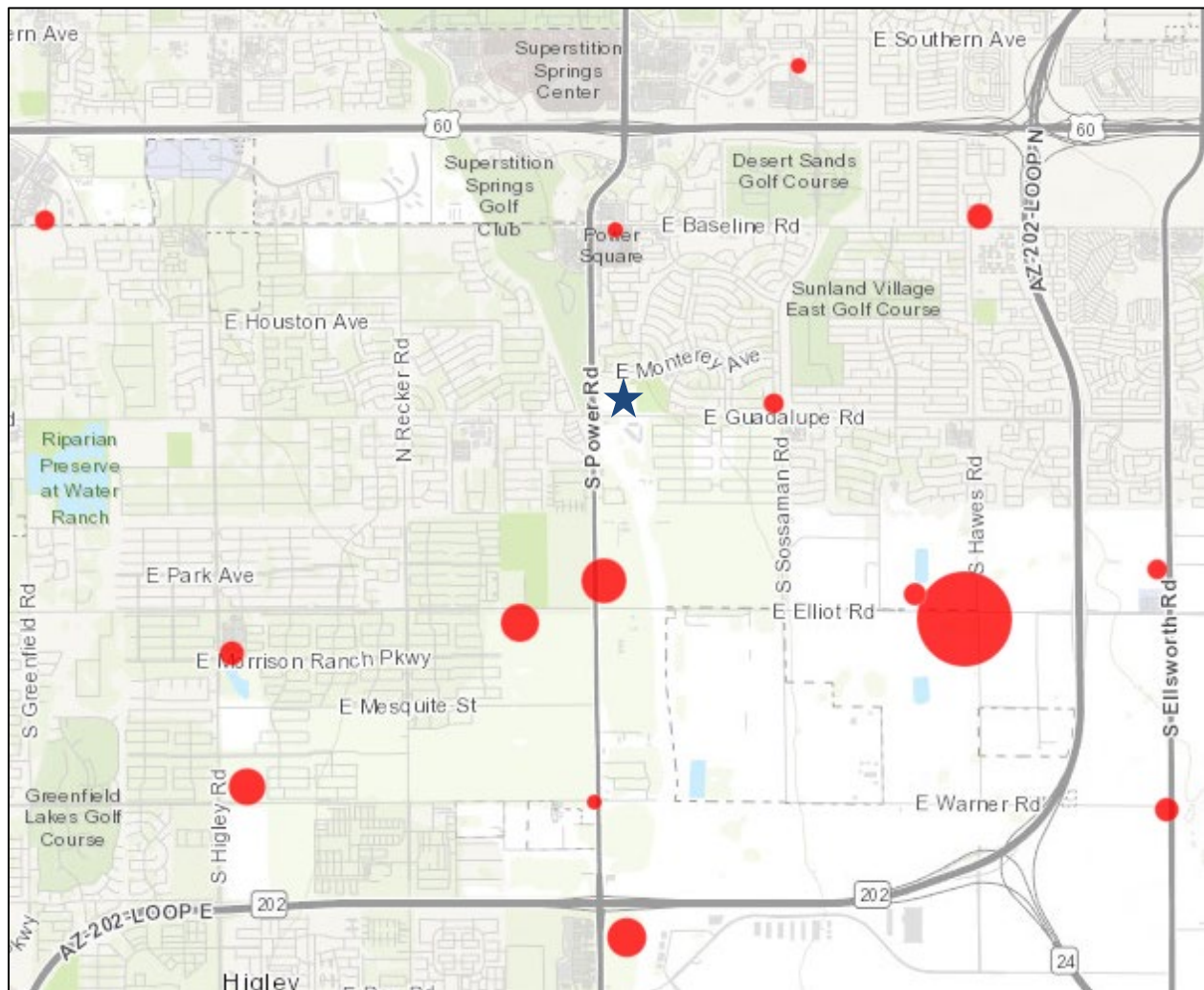
Source: CoStar

Despite new construction activity, net absorption over the past 12 months has been negative. There has been 217,000 square feet of net retail space vacated. Over the last four years, net absorption averaged 174,100 square feet.

There is currently 604,300 square feet of retail space proposed throughout the Primary Market Area at 15 different sites. The largest proposed project is the Hawes Crossing power center comprising 202,200 square feet at Hawes Road and Elliot, located just over two miles driving distance from the subject site. There are also two mid-size retail centers proposed one mile south of the subject site at Power Road and Elliot, totaling a combined 136,700 square feet. The following map illustrates all proposed retail developments in relation to the subject site.



Proposed Retail – 604,300 SF



Source: CoStar

The range of types of retail outlets and merchandisers in the PMA is extensive and provides for the daily needs of residents. Several grocery retailers are also located in the area. An aerial photo of the primary anchor tenants in relation to the subject site is provided on the following page.



Major Retailers



3.0 Market Area Overview

3.1 Population & Households

The following table shows the estimated population of the PMA, Mesa, Gilbert, and Maricopa County. From 2010 to 2020, the PMA has grown by an average rate of 2.1% per year compared to 1.4% growth per year in the entire City of Mesa, 2.6% in Gilbert, and 1.5% in the county. From 2020 to 2024, the PMA has grown by an average rate of 1.3% per year compared to 0.8% growth per year in Mesa, 1.9% in Gilbert, and 1.4% in the county. There are an estimated 2.64 persons per household within the Market Area.

Population Estimates								
	Market Area		Mesa		Gilbert		Maricopa County	
	Persons	Annual Percent Growth	Persons	Annual Percent Growth	Persons	Annual Percent Growth	Persons	Annual Percent Growth
2010	92,123		439,723		208,277		3,817,117	
2020	113,376	2.1%	504,353	1.4%	267,931	2.6%	4,420,568	1.5%
2024	119,343	1.3%	521,604	0.8%	289,260	1.9%	4,674,502	1.4%
Source: ESRI Business Analyst, U.S. Census Bureau, Census 2010, Census 2020, Esri forecasts for 2024.								

Income

Household incomes in the Primary Market Area are on par with Maricopa County incomes, higher than Mesa citywide averages, and lower than Gilbert as a whole. Median incomes are typically used to judge the well-being of a geographic area since they represent the mid-point of the range of incomes.

The overall Market Area median income is substantially higher than that of the entire City of Mesa. Median income in the PMA is an estimated \$90,249 per household versus \$79,614 for all of Mesa, \$121,543 in Gilbert, and \$88,096 across Maricopa County. This data still indicates there is healthy spending power and above average disposable incomes among the residents.



Household Income - 2024				
	Market Area	Mesa	Gilbert	Maricopa County
Total households	45,203	201,120	97,201	1,755,349
Less than \$15,000	4.9%	6.5%	3.0%	6.3%
\$15,000 to \$24,999	3.9%	5.3%	1.6%	4.5%
\$25,000 to \$34,999	5.2%	6.2%	2.7%	5.5%
\$35,000 to \$49,999	8.7%	10.9%	5.3%	9.3%
\$50,000 to \$74,999	17.4%	17.6%	11.6%	16.1%
\$75,000 to \$99,999	14.6%	14.7%	12.4%	14.2%
\$100,000 to \$149,999	22.1%	19.5%	24.5%	20.0%
\$150,000 to \$199,999	11.5%	9.6%	16.9%	11.0%
\$200,000 or more	11.6%	9.6%	21.8%	13.2%
Median Income	\$90,249	\$79,614	\$121,543	\$88,096
Mean Income	\$116,390	\$105,861	\$154,441	\$120,381
Source: ESRI Business Analyst, U.S. Census Bureau, Census 2020, Esri forecasts for 2024.				

3.2 Forecasts

Forecasts for the Primary Market Area from the Maricopa Association of Governments (MAG) are shown on the following table. The Primary Market Area population is expected to grow an additional approximately 20,000 persons until build out close to 2040. The PMA is only expected to grow by an additional 3,600 persons from 2040 to 2050 (1,400 new households) equating to a 0.3% annual growth rate. The current decade between 2020 and 2030 is expected to bring an additional 11,800 residents (4,600 new households), or 1.0% growth per year. A portion of that growth has already occurred.

Employment in the market area is anticipated to grow 3.7% per year from 2020 to 2030 which would add 13,140 new employees to the area. Jobs are expected to increase by another 14,860 over the following decade (2030-2040) and by an additional 15,100 jobs from 2040 to 2060.



Primary Market Area Forecasts 2020-2060					
	2020	2030	2040	2050	2060
Population					
Household Population	112,452	124,318	131,688	135,340	137,403
Households	43,591	48,191	51,048	52,463	53,263
HH Growth		4,600	2,857	1,416	800
Avg Annual Growth %		1.0%	0.6%	0.3%	0.3%
Employment					
Total Employment	29,622	42,759	57,619	64,319	72,719
Employment Growth		13,137	14,860	6,700	8,400
Avg Annual Growth %		3.7%	3.0%	1.1%	2.5%
Source: Maricopa Association of Governments Socioeconomic Projections, 2023					

3.3 Summary

The population of the Market Area today is estimated at 119,343 persons. The Market Area is expected to increase by 9,451 households between 2020 and 2060. Household incomes are above the County and City averages. Overall, we conclude that the Primary Market Area should continue to experience modest growth trends with a forecasted average annual increase in population averaging 1.0% per year over the next decade and declining to 0.3-0.6% per year in the longer term as the area reaches full build out.



4.0 Retail Supply & Demand Analysis

4.1 Market Area Retail Demand

The current population of the Primary Market Area is estimated at 119,343 persons (45,203 households). This population level is considered strong to provide support for an extensive array of commercial and retail development. This area has a large, well-established presence of retail space, bolstered by the presence of U.S. 60 and the Loop 202.

The Market Area is continuing to add retail space, most notably a new Fry's Marketplace neighborhood center and the Cannon Beach Surfpark entertainment, lodging, retail, and restaurant mixed use project. There are also numerous proposals for additional retail, ranging from freestanding buildings and pads to neighborhood centers, to regional power centers.

Grocery stores are an important anchor for local-serving retail shopping centers, drawing shoppers to the center, and creating foot traffic for smaller retailers who occupy the inline shops. From a demand perspective, across the Greater Phoenix area, there are approximately 22,200 persons for every traditional grocery chain (Fry's, Safeway, Bashas' and Albertson's). When natural food stores (Whole Foods and Sprouts) and specialty stores such as AJ's and Trader Joe's are added to the total, the demand level declines to 18,400 persons per store. The ratio of persons per grocery store has been growing over the last 20 years due to increased competition from major chains such as Walmart, Target, and Costco, to name a few. This has resulted in consolidation in the grocery industry, the latest of which is the purchase of the Safeway chain by Albertson's.

At a population of 119,343 persons, the Primary Market Area today can support approximately six grocery stores. Based on MAG forecasts through 2060, one to two additional grocery stores could be warranted in the market area. The nearly completed Fry's Marketplace will satisfy much of this demand.

When comparing these metrics to the Primary Market Area, there are already 10 grocery store options (Fry's Marketplace, Bashas, Walmart, Winco, Costco, Walmart Neighborhood Market, and Sprouts). Stores such as Walmart and Costco have a much broader reach than just the Primary Market Area, but the existing and future supply of grocery stores appears to satisfy future demand for decades.

Prior to the Great Recession, retailers were very aggressive in forward planning for store locations based on expectations of population growth. Greater Phoenix, with its tremendous history of



rapid growth, is one region that historically has seen retailers anticipate where demand will develop and then enter the market in advance of that demand. The impact of the Great Recession, however, has resulted in the delay or cancellation of planned retail centers. Many of these planned centers have still not come to fruition. Retailers are also much more cautious today given the impact of online sales and slower population growth across the country.

E-Commerce has had a significant impact on the development of brick-and-mortar retail centers. Through July 2024, E-Commerce accounted for nearly 18% of all retail sales in the U.S., up from just 1.1% in 2001. Since 2010, E-Commerce has been growing at an average rate of 13% per year. The country has witnessed the loss of traditional shopping center retailers such as bookstores, shoe stores, sporting goods stores, toy stores, and florists. The consolidation of businesses has also occurred in many segments of the market (groceries, office supplies, electronics). As a result, retailers have become much more cautious in planning for new outlets unless there are significant signs of demand and/or population growth.

Based on the ratios of persons per retail store, we can conclude that the demand for retail services in the Primary Market Area is likely satisfied by the current level of retail development in the community. The retail assets in the PMA appear to also rely on additional regional draw from a wider geographic area.

A second method of determining demand for commercial development is to evaluate the spending potential of the Primary Market Area population based on the U.S. Consumer Expenditure Survey (CES). The Survey is a long-term nationwide household survey conducted by the U.S. Bureau of Labor Statistics (BLS) to find out how Americans spend their money. It is the only federal government survey that provides information on the complete range of consumers' expenditures as well as their incomes and demographic characteristics. The CES is used by analysts to determine the demand for retail goods and services based on household income levels.

As noted previously, the 2024 median income of Primary Market Area residents is estimated at \$90,249 based on U.S. Census data. An economic model was prepared for this study to estimate the amount of retail and restaurant spending that may be derived from residents living in the Primary Market Area.

The following table outlines the spending that may be generated from the Market Area. Area residents would be expected to spend approximately 26.4% of gross income or \$23,782 per household on retail goods and services and restaurants, excluding spending on the purchase of a vehicle. Retail spending is then divided into two groups: local-serving retail spending and regional-serving retail spending. Local-serving spending includes groceries and other



convenience goods and services (medical prescriptions, household supplies, tobacco products, and personal care products and services). Regional-serving spending is related to big-ticket items that typically are sold in large-format retail centers such as furniture, electronics, appliances, flooring, and apparel.

The following table shows that the typical Primary Market Area household is expected to spend an estimated \$10,986 on local-serving retail items and \$9,104 on regional-serving items. The remaining \$3,692 is spent in restaurants and bars. Local-serving retail spending is then divided into grocery spending and non-grocery spending (household goods, day care, medical prescriptions and supplies, personal care products, etc.)

The lower part of the table converts the local-serving spending to potential retail square footage. For instance, grocery spending in the Primary Market Area is estimated at over \$254.1 million for the 45,203 households. At an average retail sales rate of \$500 per square foot for a supermarket, the Primary Market Area can justify 508,300 square feet of grocery store space. Likewise, non-grocery retail spending of \$5,364 per household will generate demand for 808,200 square feet of additional retail space at \$300 per square foot retail sales.

Demand from market area households for regional serving retail totals 823,000 square feet.

Restaurant spending supports another 333,755 square feet of space.

Together, approximately 2.5 million square feet of retail space can be supported in the Primary Market Area from the current population.



2024 Retail Spending Analysis Primary Market Area		
Income & Spending Assumptions	Dollars	% of Income
Market Area Median Household Income 2024	\$90,249	
Total Retail Spending/Hhld (Excluding vehicles)	\$23,782	26.4%
Local-Serving Retail Spending	\$10,986	12.2%
Grocery Spending/Hhld	\$5,622	6.2%
Other Non-Grocery Local-Serving Retail Spending/Hhld	\$5,364	5.9%
Regional-Serving Retail Spending/Hhld	\$9,104	10.1%
Restaurant Spending/Hhld	\$3,692	4.1%
2024 Population	119,343	
Households	45,203	
Supportable Local-Serving Retail Demand	Retail Demand	
Total Grocery Spending	\$254,144,317	
Supportable SF at \$500 Per SF in Sales	508,289	
Other Local-Serving Retail Spending (excluding Groceries)	\$242,463,046	
Supportable SF at \$300 Per SF in Sales	808,210	
Regional-Serving Retail	\$411,520,117	
Supportable SF at \$500 Per SF in Sales	823,040	
Restaurant Spending	\$166,877,615	
Supportable SF at \$500 Per SF in Sales	333,755	
TOTAL RETAIL DEMAND (Square Feet)	2,473,294	
Sources: U.S. Consumer Expenditure Survey; AZ DOA; Elliott D. Pollack & Company		

Today, retail space of approximately 6.6 million square feet far exceeds the local demand within the Primary Market Area, which indicates the presence of regional serving retail. This is also logical given proximity to U.S. 60 and the Loop 202 with access to larger populations. It may also explain the elevated vacancy rate relative to the metro-wide average (7.8% in the PMA versus 4.8% in the Phoenix Metro).

Given the mix of local serving retail, restaurants, and regional serving retail currently present in the market area, it appears that the area is essentially in equilibrium and potentially oversupplied. Future retail development will be dependent on new residential growth in the area.



4.2 Retail Demand Forecast

The most recent population forecast for the Primary Market Area is for growth of 4,500 new households over the next ten years (some of this growth has already occurred). In addition, the longer-term forecast anticipates 2,800 new households between 2030 and 2040 as well as 2,200 new households from 2040 to 2060. By 2060, the PMA is expected to be near buildout.

Based on the above analysis, a 40-year demand forecast for retail and restaurants was prepared for the Primary Market Area for the timeframe from 2020 to 2060. The forecast concludes that the demand for local serving retail within the Primary Market Area will total approximately 65.9 acres, or 517,100 square feet of commercial space through 2060.

Retail Supply/Demand Forecast Primary Market Area					
	2030	2040	2050	2060	Total
Demand					
Household Growth	4,494	2,792	1,383	781	9,451
New Retail Demand (acres)	31.4	19.5	9.7	5.5	65.9
New Retail Demand (SF)	245,914	152,738	75,685	42,754	517,091
Sources: MAG, 2023; U.S. Consumer Expenditure Survey; AZ DOA; City of Mesa; Town of Gilbert; CoStar; Elliott D. Pollack & Company					

4.3 Retail Supply

The supply of future available retail space can be found within existing retail or mixed-use developments as well as parcels of land currently planned for commercial uses. The following is a summary of available inventory located within the Primary Market Area.

Vacancy

There are 29 existing retail developments that have either vacant space, available pads, or both. The vacancies identified in this report total 513,795 square feet. This equates to 7.8% vacancy, substantially above the Greater Phoenix average of 4.8%.

As mentioned previously, of the vacant space, just over half (272,600 square feet) is located in and around the Superstition Springs regional mall. Other vacant spaces are located in scattered neighborhood centers or freestanding buildings throughout the PMA or in newly delivered space near Cannon Beach Surf Park.

The following table details current vacancies by location within the PMA.



Commercial Real Estate Assets Primary Market Area	
Existing Projects	Available SF
1555 N Higley Rd	2,300
1835-1847 S Greenfield Rd	52,500
2060 S Power Rd	2,000
2235 S Power Rd	1,500
4551 S Power Rd	57,000
4904 S Power Rd	3,995
5110 E Southern Ave	1,060
5215 E Southern Ave	9,490
5221 S Power Rd	1,082
5925 E Southern Ave	1,555
5959 E Southern Ave	9,480
6465 E Southern Ave	4,988
6505 E Southern Ave	40,534
6535 E Southern Ave	154,646
9101 E Baseline Rd	57,809
Best Buy	21,320
Fuddruckers	5,780
Gilbert Gateway Towne Center	1,500
Highland Corner	928
Lakeview Village	4,731
Monte Vista Village Center Shops	1,260
Sossaman Shops	5,019
Sossaman Square	2,400
Sprout's Center	30,990
Superstition Marketplace	3,714
Superstition Springs Albertsons Ctr	2,834
Superstition Springs Power Center	13,100
The Shops At Sossaman	2,280
Tuesday Morning	18,000
Total Vacant SF	513,795
Source: Elliott D. Pollack & Company; City of Mesa; Maricopa Association of Governments; Maricopa County Assessor; CoStar	



Pipeline – Under Construction and Proposed

Previous maps illustrated the location of retail developments currently under construction or proposed. All of these locations are within a short driving distance to the subject site, with some just one mile away. Total retail space under construction is approximately 247,600 square feet with an additional 604,300 square feet proposed. Combined the pipeline of future retail space totals 852,000 square feet.

Commercial Real Estate Assets Primary Market Area	
Under Construction	Available SF
Fry's Marketplace Neighborhood Center	167,166
4631 S Power Rd	41,947
Cannon Beach Park Retail	38,520
Total New SF	247,633
Proposed	Available SF
6901 E Baseline Rd	2,800
The Shops at Aviva	28,300
Gallery Park	62,050
2736 S Sossamon Rd	14,443
Hawes Crossing Power Center	202,174
New Eastmark Retail Shops	13,650
NWC of 82nd St & Elliot Rd	20,000
Sossaman & Hampton Ave	3,450
SWC Ellsworth Rd & Warner Rd	23,537
The Shops at Baseline	14,500
Parkview at Morrison Ranch	56,325
The Power Plant	76,670
Bashas' Pad Additions	25,000
SWC Power & Warner Rd	1,430
Power Ranch Retail	60,000
Total Pipeline SF	604,329
Source: Elliott D. Pollack & Company; City of Mesa; Maricopa Association of Governments; Maricopa County Assessor; CoStar	



Available Vacant Retail Land

In addition to existing centers with available space, parcels under construction, and parcels with proposed retail, 13 vacant retail parcels were located within the Primary Market Area, not including the subject site. Combined, these vacant parcels total 506.9 acres. Utilizing a 0.18 Floor Area Ratio (FAR), these parcels could accommodate nearly 4.0 million square feet of future retail or commercial development.

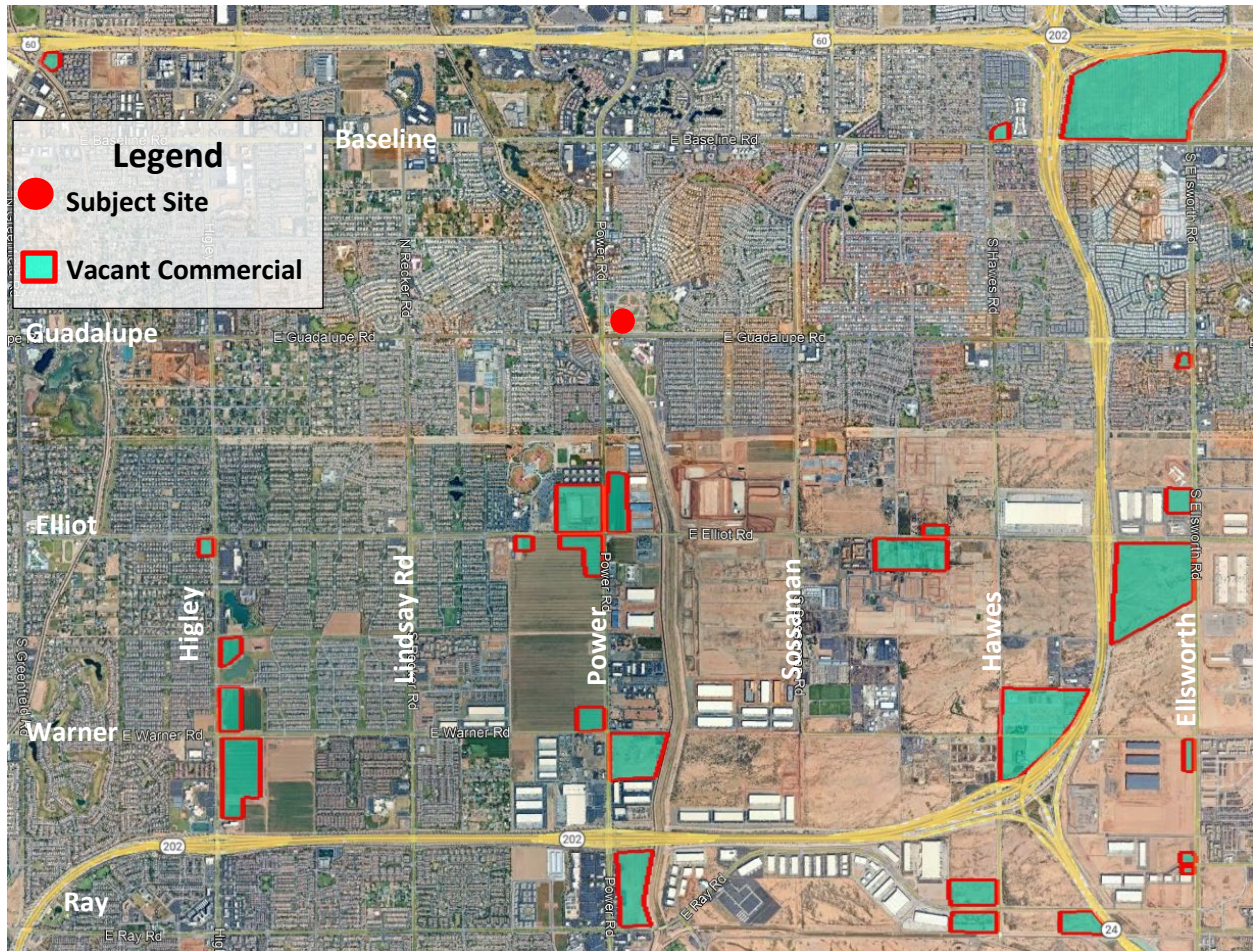
Commercial Real Estate Assets Primary Market Area	
Commercial Land Parcels	Acres
Mesa	
SWC Greenfield & U.S 60	4.4
NEC Old Greenfield & Banner Gateway Dr	10.4
SWC Ellsworth & U.S. 60	180.4
SWC Ellsworth & Elliot	106.0
NEC & SEC Warner & Hawes	84.0
NWC Ray & Hawes	20.0
SWC Ray & SR 24	15.0
NWC Ellsworth & Ray	4.2
SWC Ray & Hawes	16.0
Sub-Total Mesa	440.4
Gilbert	
SWC Higley & Elliot	4.5
NWC Power & Warner	10.0
SEC Higley & Mesquite	8.0
SEC Higley & Warner	44.0
Sub-Total Gilbert	66.5
Total Acres	506.9
Gross SF	22,079,688
Yield SF (0.18 FAR)	3,974,340
Source: Elliott D. Pollack & Company; City of Mesa; Town of Gilbert; Maricopa Association of Governments; Maricopa County Assessor; CoStar	

In total, there is over 5.3 million square feet of vacant space or land available for future retail development within the Primary Market Area.



The following map displays future supply in proximity to the subject site. As the map illustrates, there are several commercial sites located to the south and east within a short driving distance to the subject site. Any one of these sites are an equivalent substitute to the subject site property in terms of their ability to accommodate local or regional serving retail demand within a very short driving distance to residential homes in the area. Additionally, compared to expected demand, commercial land in the area is considered oversupplied. Many of the sites may not be needed for commercial development.

Retail Supply Map – Primary Market Area



4.4 Summary

The forecasted retail demand of 517,100 square feet (land demand of 65.9 acres) compares favorably with the estimated 5.3 million square feet of availability (combining 513,800 square feet of vacant space, 852,000 square feet of under construction or proposed square feet, and an additional 507 acres of vacant commercial land) within the Primary Market Area.

Retail Supply/Demand Forecast Primary Market Area					
	2030	2040	2050	2060	Total
Demand					
Household Growth	4,494	2,792	1,383	781	9,451
New Retail Demand (acres)	31.4	19.5	9.7	5.5	65.9
New Retail Demand (SF)	245,914	152,738	75,685	42,754	517,091
Supply (Available for Additional Retail Development)				Acres	SF
Existing Retail Vacancy					513,795
Under Construction					247,633
Proposed					604,329
Vacant Land				507	3,974,340
TOTAL					5,340,097
Sources: MAG, 2023; U.S. Consumer Expenditure Survey; AZ DOA; City of Mesa; Town of Gilbert; CoStar; Elliott D. Pollack & Company					



5.0 Conclusions & Recommendations

Currently, the primary market area is likely either at equilibrium or possibly over-retailed compared to local population and household incomes. Vacancy is elevated with 513,795 square feet of vacant retail space within existing centers. These shopping centers could be strengthened with new residents being added to the area. Going forward, new neighborhood retail development will be induced by population growth. Retail development currently under construction, largely in the local-serving neighborhood sector, totaling 247,600 square feet, will also mute future local serving retail development for some time.

The retail marketplace has been significantly impacted by recent recessions (both the Great Recession and COVID-19), e-commerce, and the rise of supercenters and warehouse clubs. For the Greater Phoenix area, the Great Recession resulted in much slower population and employment growth and retailers have become much more cautious planning for new stores. Some 14 years after the end of the Great Recession, retail development has not returned to prior construction levels. This trend may continue for the foreseeable future, especially with the continued rise of e-commerce over brick and mortar stores.

The latest forecast for population growth in the Primary Market Area concludes that the demand for additional retail land will total approximately 517,100 square feet or the equivalent of 56.9 acres over the next 40 years (through 2060). Furthermore, the subject site can only accommodate local serving retail (non-grocery) and restaurants. The projected demand over the next few decades in these categories is 238,750 square feet (30.4 acres).

This compares favorably with the over 5.3 million square feet acres of available retail space and land within the Primary Market Area, the majority within the City of Mesa. **There is over 10 times the amount of available retail space than expected local resident demand through build out of the primary market area.** In fact, the expected retail demand over the next 35 years can nearly be entirely accommodated within currently vacant retail space in the market area. Compared to expected demand, commercial land in the area is considered oversupplied. Several sites will likely not have enough future market demand for commercial development.

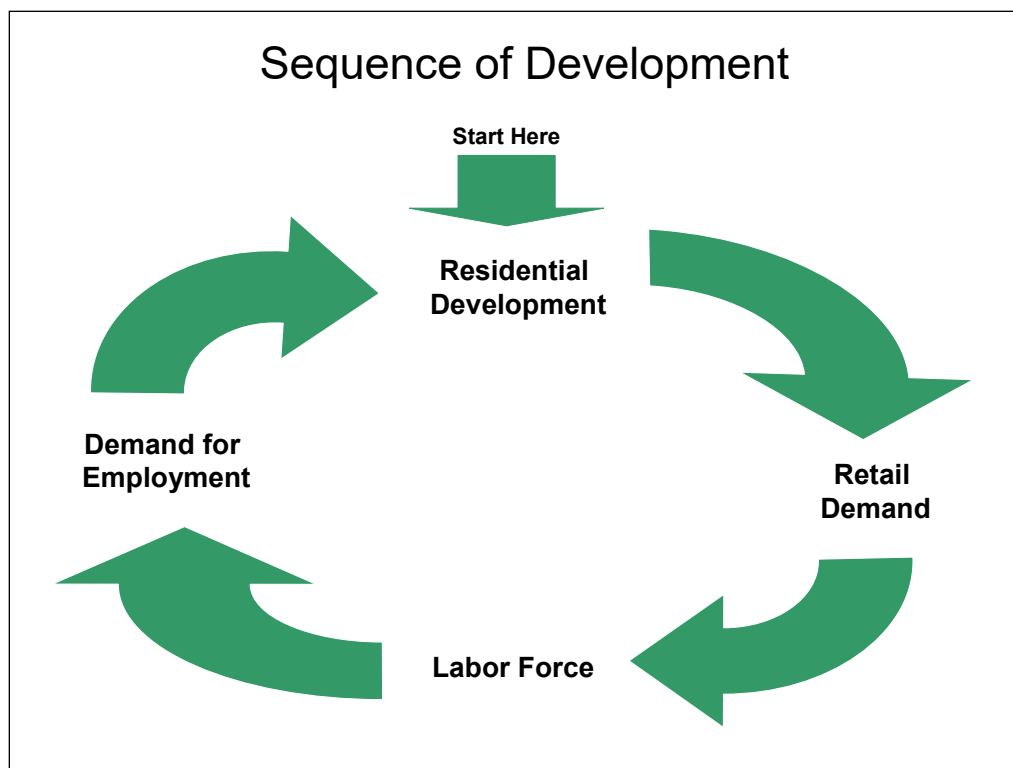
The location of the subject site is not considered competitive for retail development. The site is not located on any of the hard corners at Power Road and Guadalupe, which are most attractive to retailers. There is also no visibility from the more highly trafficked Power Road. The site lacks critical ingress and egress access and is set 75 feet back from Guadalupe Road with fenced barriers created by the canal fronting Guadalupe Road.



There are numerous competing sites within the PMA that are considered more attractive for retail development. Not surprisingly, several of these sites have proposed retail development plans, though development timing is uncertain. By contrast, the subject site has received no identified interest for commercial development.

The proposed residential development at the subject site will help to support the retail assets within the City of Mesa. Despite the obvious surplus in most of the retail categories, each new additional resident will create demand for additional local serving retail. Continued residential development in all forms within the market area will be critical to the eventual success of existing retail assets and additional commercial development.

As the following graphic helps to illustrate, local residents will be the main source of retail demand and also provide a local workforce for additional commercial development. This residential development must come first, eventually building to a critical mass of residents to attract additional retailers.



In our opinion, the rezoning of the subject site to residential uses will not affect the City of Mesa's efforts to continue to attract new commercial to the community. The City has a significant inventory of commercial land that will provide for the long-term economic health of the community. Additionally, as a residential project, new residents will support existing and planned commercial development.

