



**Economics Research Associates**

Final Draft Report

**Market Potential Analysis -  
Merle Hay Road Corridor**

Prepared for:

**RDG Planning & Design  
City of Johnston, Iowa**

Submitted by

**Economics Research Associates**

**September 7, 2007**

**ERA Project No. 16955**

20 East Jackson Boulevard, Suite 1200  
Chicago, Illinois 60604  
312.427.3855 FAX 312.427.3660 [www.econres.com](http://www.econres.com)  
Los Angeles San Francisco San Diego  
Chicago Washington DC London New York

## Table of Contents

---

|   |           |
|---|-----------|
| <b>Introduction .....</b>                                   | <b>1</b>  |
| <b>Demographic &amp; Economic Trends .....</b>              | <b>2</b>  |
| Demographics .....  | 2         |
| Population Forecasts.....                                   | 6         |
| Regional Economic Trends.....                               | 7         |
| <b>Residential Market Discussion.....</b>                   | <b>10</b> |
| <b>Retail Market Analysis .....</b>                         | <b>13</b> |
| Regional Retail Markets .....                               | 13        |
| Johnston Retail Market .....                                | 15        |
| National Retail Trends.....                                 | 18        |
| Retail Market Implications .....                            | 21        |
| <b>Office / Industrial Real Estate Market Analysis.....</b> | <b>22</b> |
| Inventory and Vacancy Overview.....                         | 22        |
| <b>Analysis of Recent Sales .....</b>                       | <b>25</b> |
| <b>General &amp; Limiting Conditions.....</b>               | <b>33</b> |

---

## Introduction

---

Economics Research Associates (ERA) was engaged by RDG Planning and Design to provide market and real estate analysis support for the Merle Hay Corridor planning effort in the City of Johnston, Iowa. ERA's work efforts include:

- Interviews with key stakeholders in finance, planning, real estate, and policy.
- Analysis of background demographic and economic trends for Johnston, adjacent jurisdictions, and the city of Des Moines, with regional and national benchmarks for perspective.
- Analysis of retail, office, industrial, and flex real estate markets, both in Johnston, and across the Des Moines Metropolitan area
- Development of program recommendations for supportable near-term corridor real estate development.

The analysis relies on numerous sources, including:

- US Census
- City of Johnston
- Office of Social and Economic Trend Analysis (SETA)
- Environmental Systems Research Institute, Inc. (ESRI)
- Iowa Department of Revenue
- Des Moines Metropolitan Planning Organization
- Federal Reserve Bank of Chicago
- CB Richard Ellis

## Demographic & Economic Trends

This section reviews the demographic and economic trends of Johnston, especially as it compares to the Des Moines metropolitan area. Demographic and economic trends affect land values and the likelihood that land uses might change in the future. In most instances, ERA examines the city of Johnston, as well as the cities of Ankeny, Clive, Grimes, Des Moines, Urbandale and West Des Moines. In many cases, ERA also includes the Des Moines Metropolitan Statistical Area (MSA) and the state of Iowa.

Throughout this report, ERA will use the compound annual growth rate (CAGR) to measure rates of change. The CAGR measures the year-over-year growth rate of a given metric. In the same way that compound interest measures “interest upon interest”, the compound annual growth rate measures growth on growth. Therefore, if Johnston has experienced growth in population at a compound annual rate of 5.9% per year between 2000 and 2005, it means that each year, the population rose 3% annually between 2000 and 2005.

### Demographics

The most basic indicator of regional growth is population. The following table shows growth patterns from 1990 to 2005. The table shows that Johnston is the fastest-growing municipality among those considered—however it is ranked sixth out of seven in total population. So while it is a fast-growing municipality, it still represents just over a quarter of West Des Moines’ population and just less than 40% of Ankeny’s population.

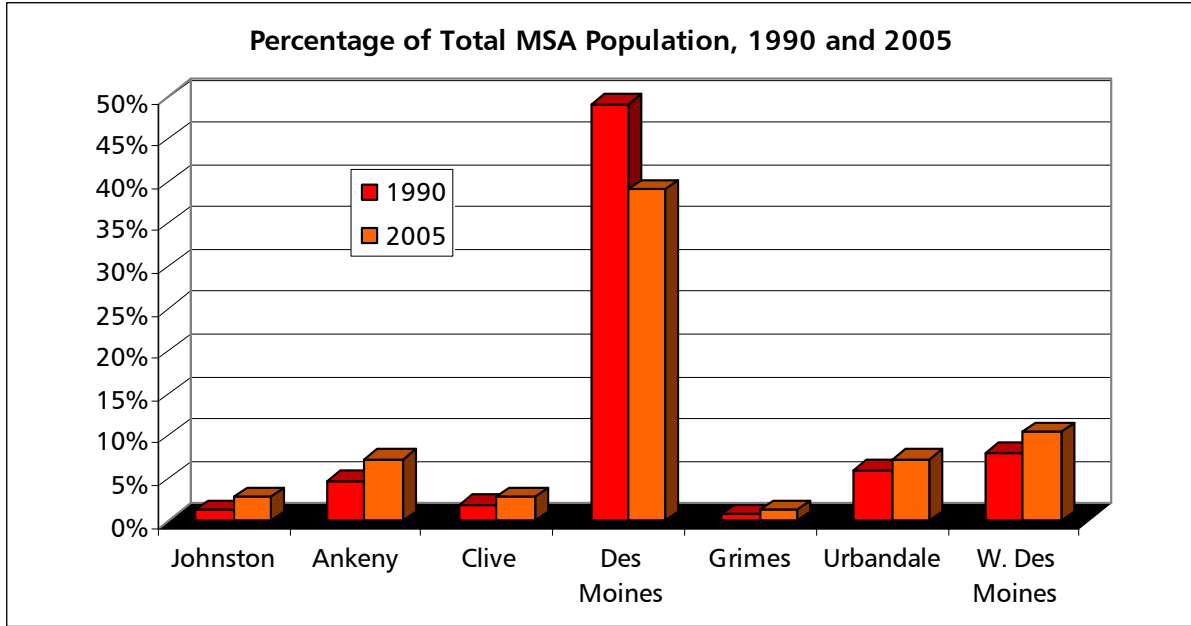
**Table 1. Population Change, 1990 to 2005**

| Jurisdiction      | 1990      | 2000      | 2005      | CAGR<br>90-05 | CAGR<br>00-05 | Total<br>Change |
|-------------------|-----------|-----------|-----------|---------------|---------------|-----------------|
| Iowa              | 2,776,755 | 2,926,324 | 2,965,524 | 0.4%          | 0.3%          | 188,769         |
| Des Moines MSA    | 392,928   | 456,022   | 496,799   | 1.6%          | 1.7%          | 103,871         |
| Johnston**        | 4,702     | 8,649     | 13,596    | 7.3%          | 9.5%          | 8,894           |
| Ankeny**          | 18,482    | 27,117    | 36,161    | 4.6%          | 5.9%          | 17,679          |
| Clive             | 7,462     | 12,851    | 13,851    | 4.2%          | 1.5%          | 6,389           |
| Des Moines        | 193,187   | 198,682   | 194,163   | 0.0%          | -0.5%         | 976             |
| Grimes            | 2,653     | 5,098     | 6,037     | 5.6%          | 3.4%          | 3,384           |
| Urbandale**       | 23,500    | 29,066    | 35,904    | 2.9%          | 4.3%          | 12,404          |
| West Des Moines** | 31,695    | 46,300    | 51,744    | 3.3%          | 2.2%          | 20,049          |

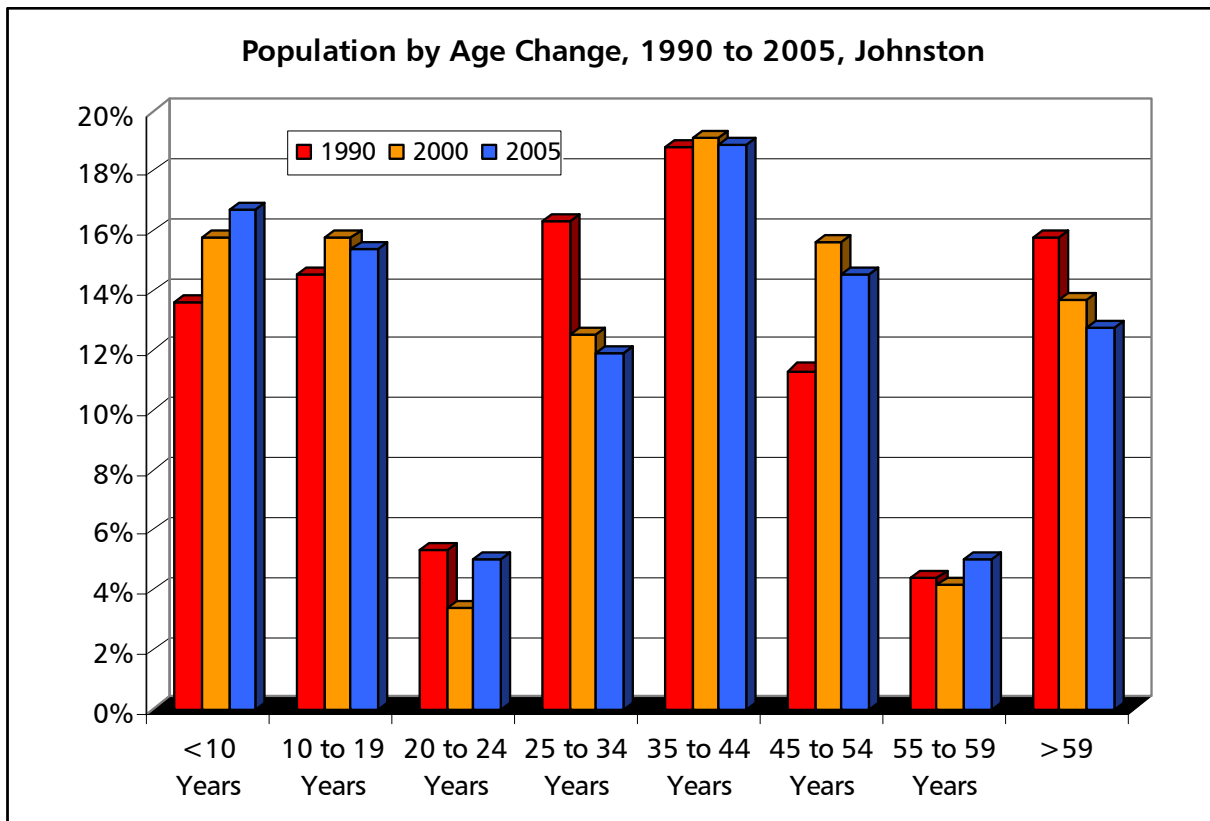
Source: U.S. Census (1990, 2000, and 2005 special census; annual population estimates)

\*\* Denotes 2005 special census

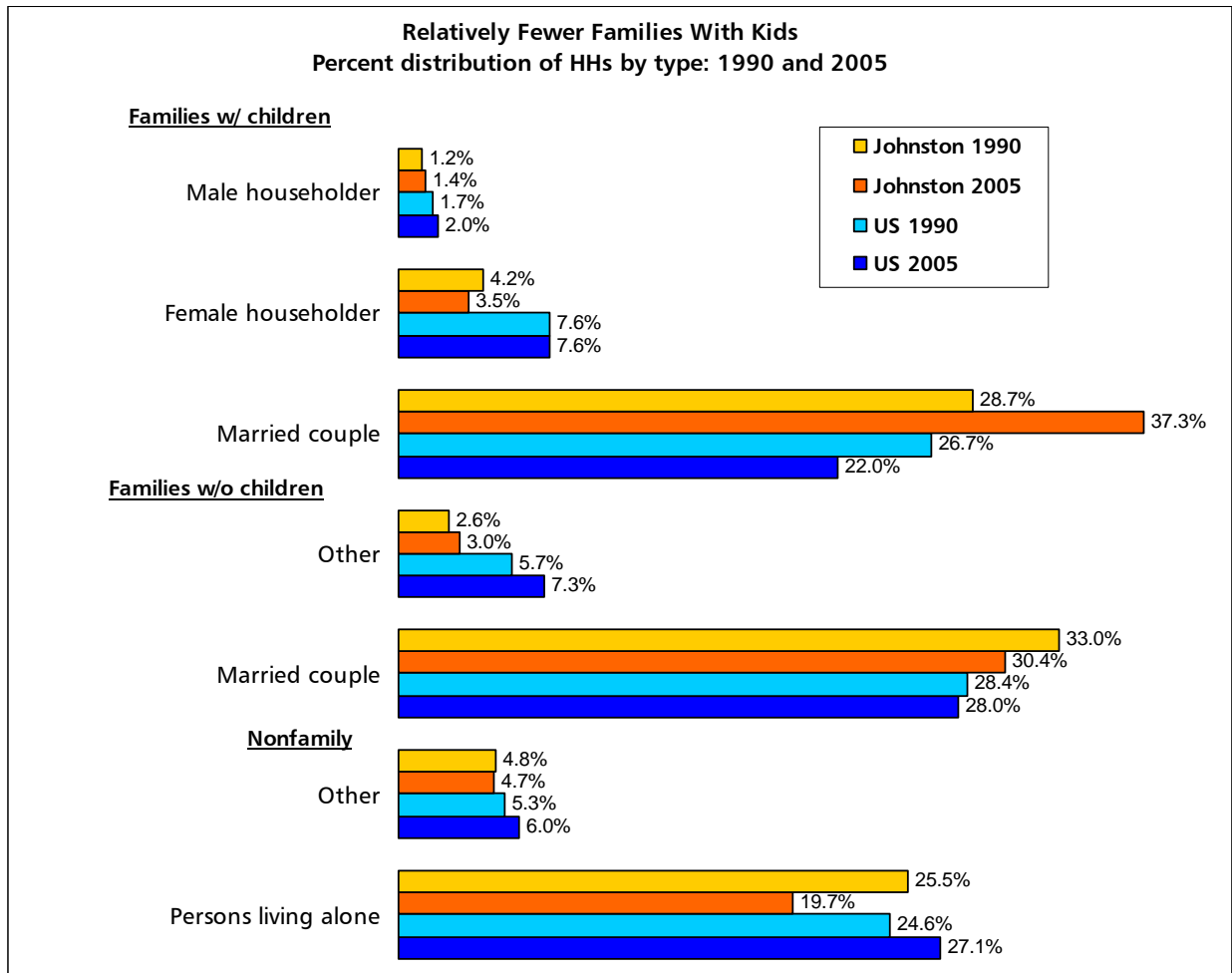
For Johnston, population growth in the most recent five year period, 2000 to 2005, was at a very strong 9.5% rate. By comparison, Des Moines has lost population in the last five years; since 1990, the city has gained just fewer than 1,000 residents—a negligible increase. The region’s population growth has been driven in the suburban areas, most notably the western suburbs. The three cities of Johnston, West Des Moines, and Urbandale represent fully 40% of the MSA’s population increase in the last fifteen years. The chart below emphasizes the character changes in the MSA. It shows the share of the MSA population represented by each municipality. Each suburban city considered represents a larger share of the MSA in 2005 than in 1990. Where Des Moines represented about half the MSA population in 1990, it now represents less than 40 percent of the metro area in terms of population. As a portion of the metro area, Johnston increased from 1.2% in 1990 to 2.7% in 2005. The suburban areas’ growth is also notable considering the modest statewide growth figure of 0.3%.



The following chart highlights a comparison of changes in percent of population by age for Johnston between 1990 and 2005. The chart shows that Johnston has significant percentages of total population in the under 10, 10 to 19, and 35 to 44 age groups, with notable decreases in population for the 25 to 34 and over 59 age groups. The chart speaks to the ongoing role of Johnston as a community with younger families with children, which is running contrary to national trends.



The following chart looks at the percentage of population by household type for Johnston compared to the US between 1990 and 2005, including families with children, people living alone, and other non-family households. The chart shows that Johnston is sustaining a significant increase in families with children from 1990 to 2005, with growth from 28% to 37% of households compared to the US level of 22%, which is a decrease from the 1990 level of 26.7%. As a growing younger community, Johnston has also seen a decrease in non-family households, with a notable decrease in persons living alone, which decreased from 25% to about 20% over the noted period.



The above chart highlights several notable points to ERA:

- As Johnston is still growing, the concentration of married couples with children is not surprising.
- By the same token, married couple households with children only represent 37% of total households, which is still well below historic rates in the US, at about 50% in the 1950's
- While Johnston is arguably younger than other Des Moines suburbs, it will soon face similar challenges, which include retiring boomers looking for smaller urban housing options, and retirees and seniors looking for maintenance free / senior living options.
- Lastly, within the context of higher gasoline and utility prices, a greater share of households are becoming aware of home sizes, and voicing interest in neighborhoods that have a level of walkability.

## Education

An educated labor force is also a key determinant of demand for office space in business parks, especially those that do not specialize in manufacturing. The tables that follow show the relative educational attainments in several nearby cities, as well as Iowa as a whole.

**Table 2. Educational Attainment, 1990**

| Educational Standing           | Iowa  | Johnston | Ankeny | Des Moines | Urbandale | W. Des Moines |
|--------------------------------|-------|----------|--------|------------|-----------|---------------|
| Less than High School          | 19.9% | 7.5%     | 6.1%   | 19.0%      | 4.2%      | 5.2%          |
| High School (inc. equivalence) | 38.5% | 31.4%    | 27.3%  | 35.3%      | 25.5%     | 21.3%         |
| Some College                   | 17.0% | 19.0%    | 24.5%  | 19.8%      | 23.5%     | 22.7%         |
| Bachelor's/Associate's Degree  | 19.4% | 30.0%    | 34.0%  | 19.9%      | 36.6%     | 38.4%         |
| Graduate/Professional          | 5.2%  | 12.1%    | 8.0%   | 6.0%       | 10.2%     | 12.3%         |

Source: U.S. Census

**Table 3. Educational Attainment, 2000**

| Educational Standing             | Iowa  | Johnston | Ankeny | Des Moines | Urbandale | W. Des Moines |
|----------------------------------|-------|----------|--------|------------|-----------|---------------|
| Less than High School            | 13.9% | 5.3%     | 4.5%   | 17.0%      | 3.8%      | 3.7%          |
| High School (inc. equivalence)   | 36.1% | 19.5%    | 22.8%  | 33.5%      | 21.4%     | 18.2%         |
| Some College                     | 21.4% | 18.3%    | 23.2%  | 21.5%      | 22.7%     | 22.1%         |
| Associate's or Bachelor's Degree | 22.1% | 41.6%    | 39.1%  | 21.5%      | 39.3%     | 41.9%         |
| Graduate or Professional Degree  | 6.5%  | 15.3%    | 10.5%  | 6.5%       | 12.8%     | 14.1%         |

Source: U.S. Census

The table shows that Johnston has a very educated labor force—a greater percentage of Johnston residents have at least an associate's or bachelor's degree compared to any other city considered above (57% in those two categories). In addition, between 1990 and 2000, the percentage with at least an associate's degree jumped from 42% to 57%—a fifteen percentage point increase. That increase is a greater increase than any other jurisdiction noted above.

The table below shows the increase in the number of households in each of the jurisdictions considered. It is useful to examine household growth as an indicator of the demand for housing units. The table shows how area jurisdictions have sustained slower decreases in average household size compared to the state of Iowa. Also, the table shows that according to current forecasts, West Des Moines has the lowest average household size.

**Table 4. Households and Average Household Size**

| Jurisdiction     | Number    |           |           |      | Average Size |      |      |
|------------------|-----------|-----------|-----------|------|--------------|------|------|
|                  | 1990      | 2000      | 2006      | CAGR | 1990         | 2000 | 2006 |
| Iowa*            | 1,064,325 | 1,149,276 | 1,199,762 | 0.8% | 2.6          | 2.5  | 2.4  |
| Johnston         | 1,801     | 3,216     | 4,897     | 6.5% | 2.6          | 2.6  | 2.6  |
| Ankeny*          | 6,756     | 10,339    | 12,221    | 3.8% | 2.7          | 2.6  | 2.5  |
| Clive            | 2,810     | 4,752     | 5,711     | 4.5% | 2.7          | 2.7  | 2.7  |
| Des Moines       | 78,453    | 80,504    | 82,017    | 0.3% | 2.5          | 2.5  | 2.3  |
| Grimes           | 981       | 1,887     | 2,862     | 6.9% | 2.7          | 2.7  | 2.7  |
| Urbandale*       | 9,013     | 11,484    | 12,568    | 2.1% | 2.6          | 2.5  | 2.5  |
| West Des Moines* | 12,974    | 19,826    | 23,270    | 3.7% | 2.4          | 2.3  | 2.3  |

Source: U.S. Census

## Household Income

ERA examines the median household income for the same jurisdictions in 1989, 1999, and 2006. Note that the 1990 and 2000 censuses measured 1989 and 1999 incomes respectively. The 2006 incomes are estimated from Environmental Systems Research Institute (ESRI) data. Johnston and Grimes both increased incomes at a compound annual rate of 4.6% between 1989 and 2006. Johnston also has the highest income of all the jurisdictions, at \$93,000, it is a full \$10,000 above Clive, which has the second-highest household income in the following table.

**Table 5. Median Household Incomes, 1989 to 2006**

| Jurisdiction    | 1989     | 1999     | 2006     | CAGR<br>89-06 |
|-----------------|----------|----------|----------|---------------|
| Iowa            | \$26,229 | \$39,469 | \$48,035 | 3.6%          |
| Des Moines MSA* | \$31,182 | \$46,651 | \$56,828 | 3.6%          |
| Johnston        | \$43,036 | \$76,094 | \$93,047 | 4.6%          |
| Ankeny          | \$36,582 | \$55,162 | \$67,888 | 3.7%          |
| Clive           | \$46,227 | \$74,127 | \$83,050 | 3.5%          |
| Des Moines      | \$26,703 | \$38,408 | \$47,180 | 3.4%          |
| Grimes          | \$35,444 | \$56,275 | \$76,692 | 4.6%          |
| Urbandale       | \$42,686 | \$59,744 | \$70,517 | 3.0%          |
| West Des Moines | \$41,045 | \$54,139 | \$68,717 | 3.1%          |

Source: U.S. Census (1989, 1999) and ESRI (2006)

## Population Forecasts

ERA evaluated several data sources to provide a context for demographic changes in the Des Moines region. The Des Moines Metropolitan Planning Organization is one entity that develops growth trend estimates for population and employment change. The table below details the population growth projected for select municipalities between 2000 and 2030:

**Table 6. Population Forecasts by City, 2000 to 2030**

| Jurisdiction               | 2000    | 2005    | 2010    | 2020    | 2030    |
|----------------------------|---------|---------|---------|---------|---------|
| Metro Population           | 395,174 | 441,369 | 506,480 | 579,536 | 650,715 |
| Johnston Population        | 9,669   | 13,880  | 19,881  | 24,716  | 28,737  |
| Johnston % of Metro        | 2%      | 3%      | 4%      | 4%      | 4%      |
| Ankeny Population          | 32,778  | 39,164  | 50,276  | 66,720  | 87,738  |
| Ankeny % of Metro          | 8%      | 9%      | 10%     | 12%     | 13%     |
| Des Moines Population      | 210,351 | 216,466 | 228,172 | 235,215 | 242,299 |
| Des Moines % of Metro      | 53%     | 49%     | 45%     | 41%     | 37%     |
| Urbandale Population       | 18,112  | 20,603  | 26,436  | 28,295  | 30,424  |
| Urbandale % of Metro       | 5%      | 5%      | 5%      | 5%      | 5%      |
| West Des Moines Population | 48,768  | 53,105  | 61,564  | 71,857  | 83,493  |
| West Des Moines % of Metro | 12%     | 12%     | 12%     | 12%     | 13%     |

Source: Des Moines MPO

The chart highlights MPO growth trend estimates for Johnston, as well as West Des Moines, Urbandale, and Ankeny. The chart indicates an expectation that West Des Moines could maintain their shares of the metro area—at 12% and 5% respectively—and for Johnston to increase slightly to about 4% of the metro area population. However, it forecasts a very large increase for Ankeny, and a substantial decrease for the city of Des Moines. It should be noted that RDG Planning and Design and the City of Johnston have developed a preliminary 2030 population estimate of 32,481 residents for Johnston. The city has not officially adopted either the MPO estimate or the RDG estimate.



## Regional Economic Trends

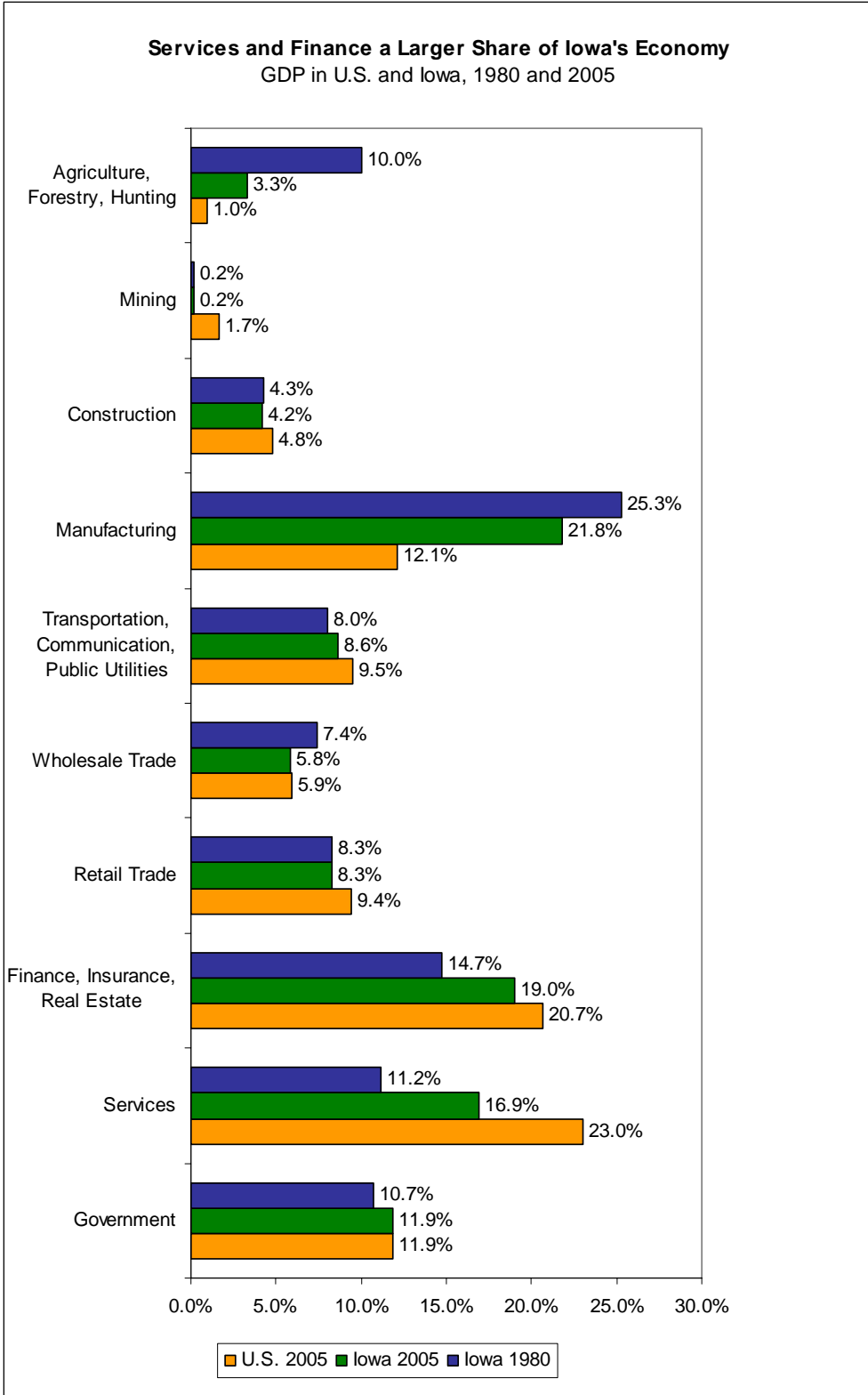
One of the broadest measures of an economy is gross domestic product. ERA examined gross domestic product for the U.S. and for Iowa. (What was formerly known as “gross state product” is now known officially as “GDP by state.”) This measures the dollar value of all economic activity. The Chicago-area Federal Reserve Board publishes GDP by State for the U.S. and all the states in its region, including Iowa. Typical of many Midwestern states, Iowa has seen a marked decline in the relative importance of manufacturing:

For Iowa, the chart shows that services and finance, insurance, and real estate categories gained the most in relative importance to Iowa, whereas agriculture services and manufacturing categories experienced a relative loss. It should be noted that although manufacturing has lost ground in a relative sense, it still represents 21% of the economy, as opposed to a national figure of 12%. As well, manufacturing jobs represent a key source of wage support in the economy. As many services and financial products are high-value-added products, ERA expects that services and finance will continue to drive the growth in Iowa’s economy. Therefore, even if manufacturing activity expands, it can still continue to lose ground in a relative sense.

For real estate projects, the growth is what is important. The eventual customers of a commercial project will by and large be customers locating to the Des Moines area or businesses expanding their operations. When tracking the commercial real estate market, it is important to emphasize those fields that are growing, as they will be the industries to demand new space. The following table shows that services and finance are the ones growing in importance, and therefore expected to need the most real estate. Finance-insurance-real estate businesses are likely to be office users; the catch-all “services” category uses office and flex space. Transportation firms are more likely to use warehousing and distribution space.

ERA also examined GDP growth in Iowa and the U.S. between 1997 and 2005. Iowa’s economy grew at a slower pace than the U.S. total (4.2 percent versus 5.3 percent annually) and that four of nineteen categories grew at a faster rate than the corresponding category nationwide. Those are: manufacturing, transportation/warehousing, finance and insurance, and management of companies. Nationwide, the key drivers of growth were real estate (rental and leasing); finance and insurance; health care and social assistance; and professional and technical services. In Iowa, the key drivers were manufacturing, finance and insurance, real estate (rental and leasing) and health care and social assistance.

While GDP figures are not available for the Des Moines metro area specifically, interviews with local real estate professionals and other officials strongly suggests that manufacturing growth is occurring outside the Des Moines area. Especially in industries that require large footprints and proximity to major markets, manufacturing, distribution, and warehousing functions tend to concentrate in the eastern part of the state. This is true for several reasons, but the biggest reason is cost. There are intense pressures for distribution and logistics systems to be as low-cost as possible and land values in Des Moines make that very difficult. For businesses that must be near suppliers or other key partners, the Des Moines market makes sense; however, for firms that are engaged primarily in shipping, logistics, and distribution, eastern Iowa is more attractive. Its land values are lower and it is closer to Chicago, Rochelle, and Joliet a major market and inter-modal transportation hub.



Source: Federal Reserve Bank of Chicago

---

Business growth in the Des Moines area will likely be concentrated in several areas, all of which are high-value-added activities:

- High-tech, research, or laboratory-oriented activities
- Activities that require a skilled/professional labor force, including finance and insurance
- Activities that require a flexible mix of office and warehouse, distribution, or light industrial space

ERA notes that it is unlikely that any users fitting the above profile would be likely to require rail access. The kind of high-volume production activity that makes rail transportation economical is likely to occur in eastern Iowa rather than in the Des Moines area.

## Residential Market Discussion

This section relates the demographic growth trends with the residential real estate market in Johnston. The approach includes discussion of changes in housing units and building permits. The housing unit discussion should also be viewed in connection with changes in household structure noted above.

### Housing Units

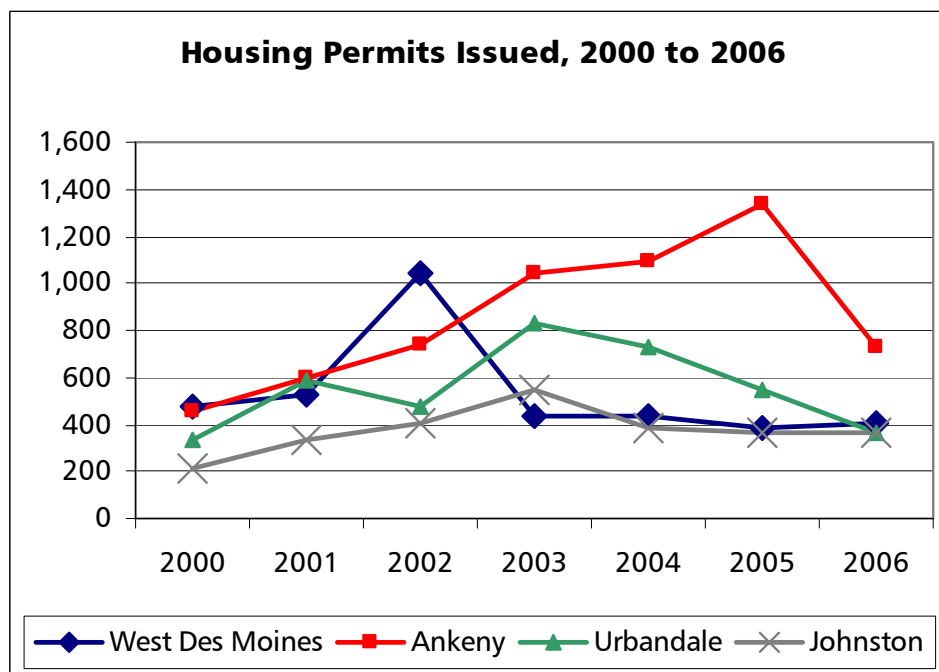
The table below shows the number of housing units in Johnston, Ankeny, Urbandale and West Des Moines. While Johnston's housing unit supply grew faster than Ankeny's or Urbandale's, those cities added more housing units in absolute terms.

**Table 7. Total Housing Units**

| Jurisdiction    | 2000   | 2005   | CAGR  |
|-----------------|--------|--------|-------|
| Johnston        | 3,456  | 5,462  | 9.59% |
| Ankeny          | 10,882 | 15,016 | 6.65% |
| Urbandale       | 11,869 | 15,018 | 4.82% |
| West Des Moines | 20,815 | 24,158 | 3.02% |

Source: U.S. Census

The following chart highlights how each community's share of permits has changed since 2000. While Ankeny has seen its share of permits increase dramatically through 2005, followed by a steep decrease for 2006, the other communities have seen generally more stable changes in permit activity. For Johnston, the chart shows a slight overall annual increase in permits, from around 200 per year to around 400 per year.



## Building Permits

The table below shows the number of building permits issued in Johnston, by residential property type. The analysis indicates that Johnston has sustained a somewhat balanced mix of single-family and multi-family housing construction, with about 62% of housing permits being issued for detached single-family construction, and about 37% being built for higher density housing. With only about 40% of Johnston households having kids, there would be an argument for an increase in the number of higher density residential units in the community.

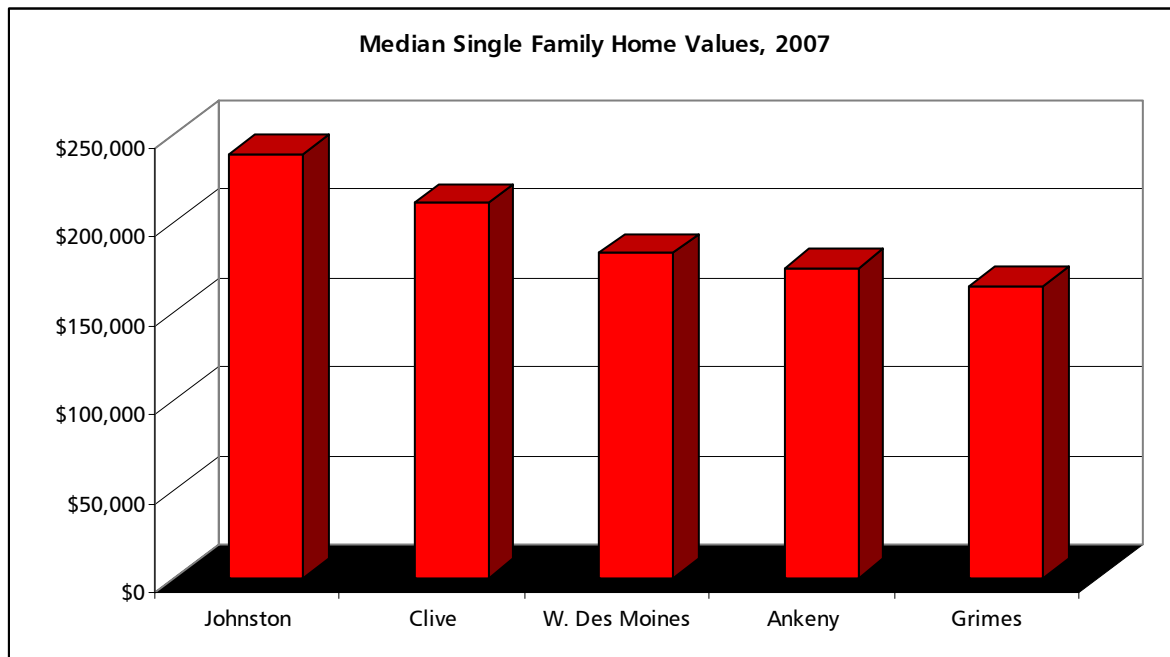
**Table 8. Residential Building Permits Issued in Johnston (units)**

| Segment       | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---------------|------|------|------|------|------|------|------|
| Single Family | 130  | 206  | 226  | 253  | 324  | 269  | 190  |
| Townhomes     | 78   | 98   | 30   | 90   | 65   | 100  | 175  |
| Multi-Family  | 0    | 32   | 152  | 204  |      |      | 0    |
| Total         | 208  | 336  | 408  | 547  | 389  | 369  | 365  |

Source: City of Johnston

## Home Values

The following chart highlights current median single family home values for noted jurisdictions in Polk County for 2007. The chart shows that Johnston supports the highest median home value of all noted suburbs, by a relevant margin.



---

## Housing Market Implications

ERA's assessment notes the following specific housing implications

- While over 60% of new housing permits in Johnston are single family homes, the number of families with children represent only about 40% of households, arguing for consideration of long-term increases in the share of higher density owner-occupied units in the community.
- While Johnston is still growing, with growth concentrated in younger families with children, the community will also see its share of baby boom retirements, as well as on-going needs for affordable senior housing.
- While the car will remain the dominant form of transportation, new housing projects that provide an element of walkability for some trips will see increased interest by buyers.

For the RDG Charrette process, ERA recommends consideration of two key thoughts:

- For Merle Hay, consideration should be given to broadening the array of housing options at higher densities, particularly north of 62<sup>nd</sup> Street. Higher densities would build support for retail development as well.
- As the retail element has included a town center concept, consideration should be given to upper floor residential in the town center area.

## Retail Market Analysis

This section of the report highlights local and regional retail trends, noting changes in retail inventories and sales levels, and vacancy trends. For Johnston, the analysis focuses on local inventories and supported retail sales, including calculation of income-adjusted pull factors, to measure levels of retail competitiveness. The analysis concludes with a review of national retail industry trends which are relevant to the local situation.

### Regional Retail Markets

The tables below summarize the retail inventory in the Des Moines metro area. (Inventory refers to the number of retail square feet.) This data is reported by C.B. Richard Ellis, a local real estate brokerage. It divides the metro area into several submarkets—Des Moines central business district (CBD), CBD fringe, Northeast Des Moines, Northwest Des Moines, South Des Moines, Ankeny, and the Western Suburbs. Johnston is included in figures for the western suburbs, which also includes Urbandale, Clive, West Des Moines, among other areas. This section concentrates on the regional markets. The next section will evaluate Johnston separately. CBRE segments retail stores into four categories: big box stores (stand alone, large footprint stores like Target, Best Buy, and Wal-Mart); regional shopping centers (anchored malls like Merle Hay Mall); community shopping centers (larger strip-mall formats) and neighborhood shopping centers (smaller retail formats). A map on the following page highlights key retail destinations.

**Table 9. Regional Shopping Center Inventory**

| Mall Name                | 2002      | 2003      | 2004      | 2005      | 2006      | 2007      |
|--------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Merle Hay Mall           | 1,230,000 | 1,230,000 | 1,230,000 | 1,037,000 | 1,163,000 | 1,163,000 |
| Southridge Mall          | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 | 891,000   |
| Valley West Mall         | 910,000   | 910,000   | 910,000   | 910,000   | 910,000   | 910,000   |
| Jordan Creek Town Center |           |           |           | 979,000   | 979,000   | 979,000   |
| Total                    | 3,140,000 | 3,140,000 | 3,140,000 | 3,926,000 | 4,052,000 | 3,943,000 |

Source: CBRE

**Table 10. Big Box Inventory**

| Submarket            | 2002      | 2003      | 2004      | 2005      | 2006      | 2007      |
|----------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Western Suburbs      | 3,425,849 | 3,516,617 | 3,566,791 | 3,999,838 | 4,117,404 | 4,370,366 |
| CBD Core             |           |           |           |           | -         |           |
| CBD Fringe           |           |           |           |           | -         |           |
| Northwest Des Moines | 540,655   | 575,346   | 575,346   | 575,346   | 575,346   | 428,431   |
| Northeast Des Moines | 1,158,659 | 1,158,659 | 1,158,659 | 1,428,517 | 1,382,796 | 1,382,796 |
| South Des Moines     | 1,308,948 | 1,308,948 | 1,302,093 | 1,302,093 | 1,302,093 | 1,302,093 |
| Ankeny               | 979,608   | 1,081,368 | 1,037,681 | 1,063,636 | 1,063,636 | 1,189,173 |
| Total                | 7,413,719 | 7,640,938 | 7,640,570 | 8,369,430 | 8,441,275 | 8,672,859 |

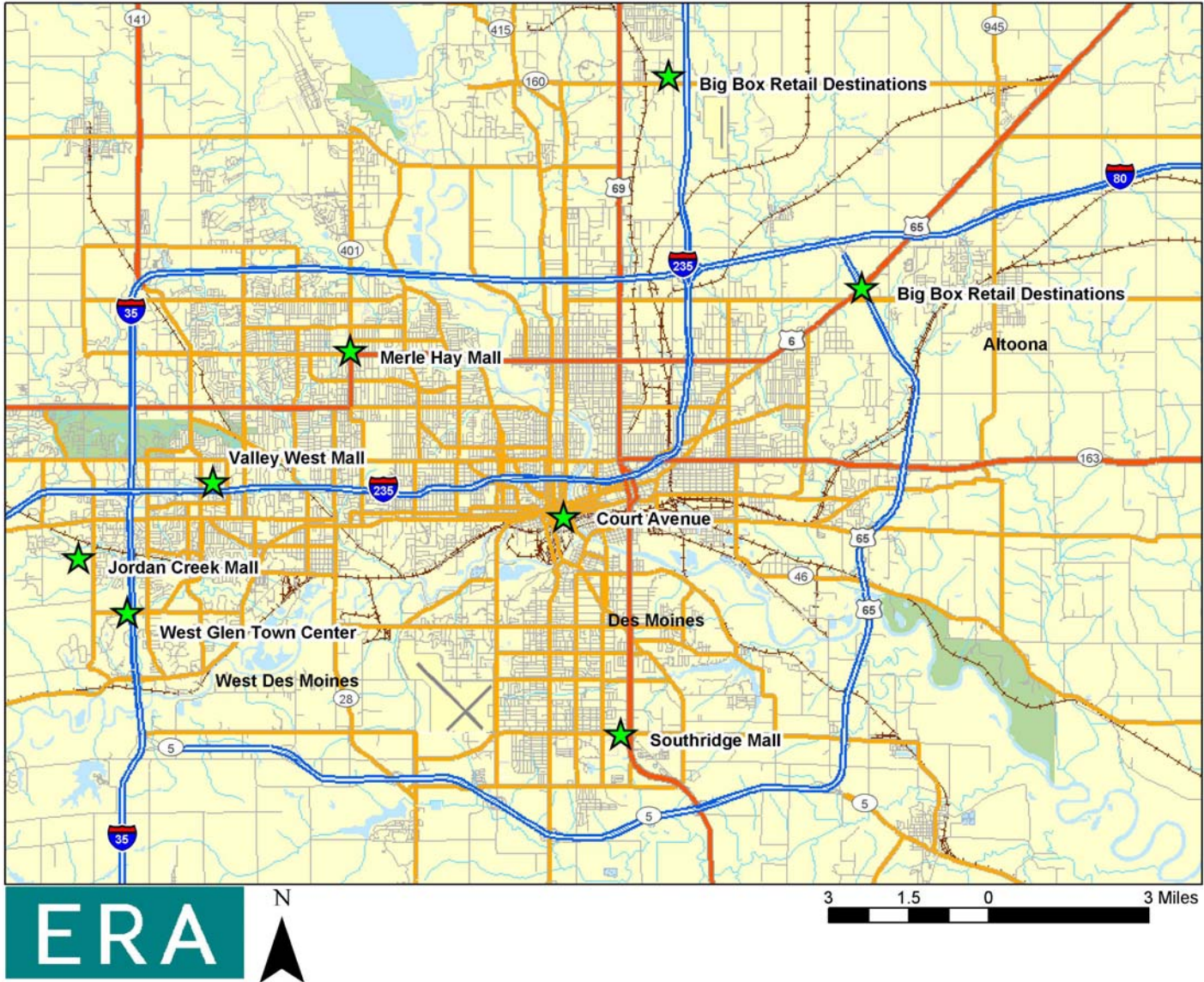
Source: CBRE

**Table 11. Neighborhood & Community Shopping Center Inventory**

| Submarket            | 2002      | 2003      | 2004      | 2005      | 2006      | 2007      |
|----------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Western Suburbs      | 2,296,183 | 2,367,179 | 2,484,815 | 2,656,909 | 2,930,036 | 3,158,167 |
| CBD Core             | 98,000    | 98,000    | 98,000    | 98,000    | 98,000    | 98,000    |
| CBD Fringe           |           |           |           |           | -         |           |
| Northwest Des Moines | 679,301   | 679,301   | 679,601   | 666,895   | 690,753   | 668,753   |
| Northeast Des Moines | 590,933   | 590,933   | 590,933   | 590,933   | 618,570   | 645,075   |
| South Des Moines     | 566,548   | 598,188   | 612,888   | 612,888   | 612,888   | 612,888   |
| Ankeny               | 321,629   | 408,173   | 388,208   | 458,325   | 516,950   | 540,293   |
| Total                | 4,552,594 | 4,741,774 | 4,854,445 | 5,083,950 | 5,467,197 | 5,723,176 |

Source: CBRE

# Greater Des Moines Retail Destinations





The region as a whole has added steadily to its retail stock, at an average of 4.7% per year for neighborhood & community shopping centers and an average of 3.2% per year in the big box category. In each case, the western suburbs have slightly outpaced the region as a whole. This corresponds with an income and population increase in the region. Suburban areas like Ankeny and western suburbs are capturing most of the retail growth. The opening of the Jordan Creek Mall in West Des Moines has further strengthened West Des Moines as the primary retail focus for the region. Although other shopping malls across Des Moines responded to the opening of Jordan Creek with renovations and different tenants, Southridge mall continues to experience leasing challenges; Although Merle Hay Mall went through considerable changes, with several new anchor stores, site assessments confirmed a surprising level of in-line tenant vacancies.

The above map does not show the beginnings of a big box retail cluster that will likely emerge at I-235 in Urbandale along Plum Drive, where a SuperTarget recently opened. There is a significant amount of interstate frontage along both sides of I-235, suitable for retail or office development. Full development of this area will relate to long-term plans to build a new interchange at NW 100<sup>th</sup> Street.

### Johnston Retail Market

ERA completed an overview of Johnston's two retail corridors—the Merle Hay Corridor and the 86th St. Corridor. The following table summarizes the retail inventory for 86<sup>th</sup> Street, highlighting an inventory of about 275,000 square feet. The table excludes additional inventory located on the west side of NW 86<sup>th</sup> Street in Urbandale. Commercial uses on the west side of the street include a Hilton Garden Inn, Starbucks, and other retail. The table includes the one significant big box format in Johnston, American TV and Electronics, with about 146,000 square feet of space.

**Table 12. Retail Inventory on 86th Street**

| Location                                   | Square Feet |
|--|-------------|
| SEC – 62nd & 86 <sup>th</sup>              |             |
| Mojo Restaurant                            | 3,000       |
| on 86th ... South of NW 54th to Interstate |             |
| American TV                                | 146,000     |
| Kum n Go                                   | 3,000       |
| Burger King                                | 4,000       |
| S/C - restaurant, bank, hair               | 22,500      |
| Village Inn                                | 4,400       |
| S/C - Restaurant, coffee, curves, Dominos  | 12,600      |
| Westfield NWC 54th & 86 <sup>th</sup>      |             |
| Quiznos                                    | 1,200       |
| Garage storage                             | 1,200       |
| Vine store                                 | 1,200       |
| Mexican Restaurant                         | 2,400       |
| Other NWC 54th & 86 <sup>th</sup>          |             |
| Johnston Bank                              | 3,700       |
| McDonalds                                  | 4,000       |
| Dahl's food                                | 67,000      |
| Sub-Total- 86 St Corridor                  | 276,200     |

Source: City of Johnston, ERA Surveys

The following table summarizes similar inventory data for the Merle Hay Road Corridor. The table points to an additional inventory of about 238,000 square feet, with retail space in the Village Square area being the key anchor. This area includes a HyVee grocery store and a small shopping center called Village Square. The analysis only shows 11,700 square feet of occupied space at Johnston Station, which remains about 50% leased in terms of retail space.

**Table 13. Retail Inventory on Merle Hay Road**

| Retail Location                   | Square Feet |
|-----------------------------------|-------------|
| Walgreens                         | 14,116      |
| Johnston Station                  | 11,725      |
| Strip - Johnston & Merle          | 12,500      |
| Strip - Merle & 55th (west) (1)   | 18,880      |
| Strip - Merle & 55th (west) (2)   | 18,994      |
| Strip - North of 57th (1)         | 10,200      |
| Strip - North of 57th (2)         | 8,040       |
| Strip - South of 62 <sup>nd</sup> | 10,636      |
| Restaurant - South of Johnst (1)  | 3,600       |
| Restaurant - South of Johnst (2)  | 5,402       |
| Restaurant - Acr from HyVee       | 4,319       |
| Restaurant - 60th                 | 572         |
| Village Square Area               |             |
| Hy-Vee                            | 50,884      |
| Village Square Area               | 52,923      |
| Outparcel -Bourbon Street         | 5,040       |
| Outparcel- Green Briar            | 7,060       |
| Picketts Restaurant               | 2,035       |
| Dairy Queen                       | 1,974       |
| Sum - Merle Hay Corridor          | 238,900     |

Source: City of Johnston, ERA Surveys

The table shows an estimated citywide total of 515,000 square feet of space. Within the context of a regional retail market of about 14.3 million square feet, Johnston would be supporting about 3 percent of metro area retail inventory. At first glance, this seems right, as it is roughly proportionate to Johnston's share of the metro area population (2.7%). However, within the context of Johnston's above average income levels, the current level of inventory and retail sales are below average. The following additional inventory points are also noted.

### Retail Sales Trends

The following table summarizes growth in retail sales for Johnston compared to its peer jurisdictions, between 1998 and 2006, using retail sales data for Polk County only. The table shows how Johnston has sustained dramatic annual growth in retail sales, at an annualized rate of 13% per year, ranking third in terms of overall growth. Grimes is notable in that it started 1998 behind Johnston in taxable sales (\$24 million), only to overtake it by 2006, with taxable sales of more than \$175.6 million. That the table includes only Polk County is significant, as the recently completed Jordan Creek Mall is located in Dallas County, where sales have increased by a reported \$300 million since 2004. As such, the overall retail sales increase for West Des Moines is significantly higher than the noted 3% growth rate.

**Table 14. Retail Sales Trends, Noted Jurisdictions, 1998 to 2006**

| Jurisdiction  | 1998          | 2006          | CAGR |
|---------------|---------------|---------------|------|
| W. Des Moines | \$704,030,575 | \$883,880,211 | 3%   |
| Urbandale     | \$257,706,550 | \$509,803,035 | 9%   |
| Altoona       | \$86,505,686  | \$326,328,358 | 18%  |
| Ankeny        | \$222,064,471 | \$514,316,083 | 11%  |
| Clive         | \$181,778,664 | \$324,306,255 | 8%   |
| Johnston      | \$48,160,189  | \$126,194,043 | 13%  |
| Grimes        | \$24,365,422  | \$175,645,546 | 28%  |

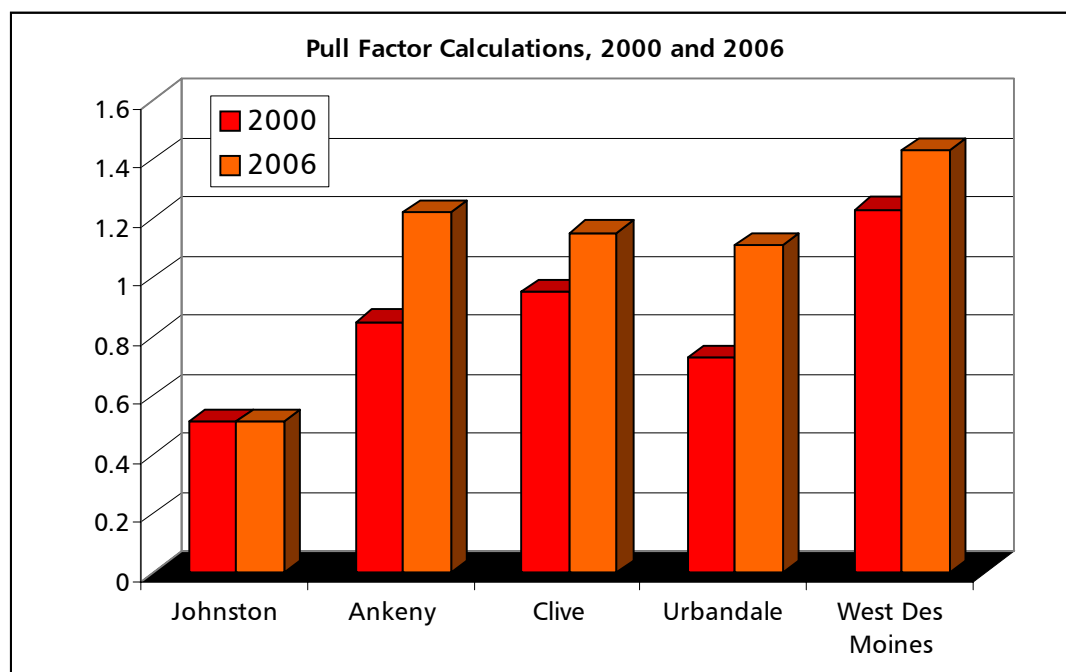
Source: Iowa Department of Revenue

## Pull Factor Approach

To place this statement in perspective, ERA evaluated historic retail “pull factor” ratios for Des Moines area communities to establish relative levels of retail attraction and drawing power. Pull factors are ratios that compare local and state per capita retail sales, with adjustments for population and income differences. ERA’s approach begins with Iowa Department of Revenue sales data, and then calculates pull factors, with an adjustment for differences in per capita income. The reader should note that ERA’s approach varies slightly from the Office of Social and Economic Trend Analysis (SETA), so resulting pull factor calculations will vary. The following is a guide to interpreting pull factors:

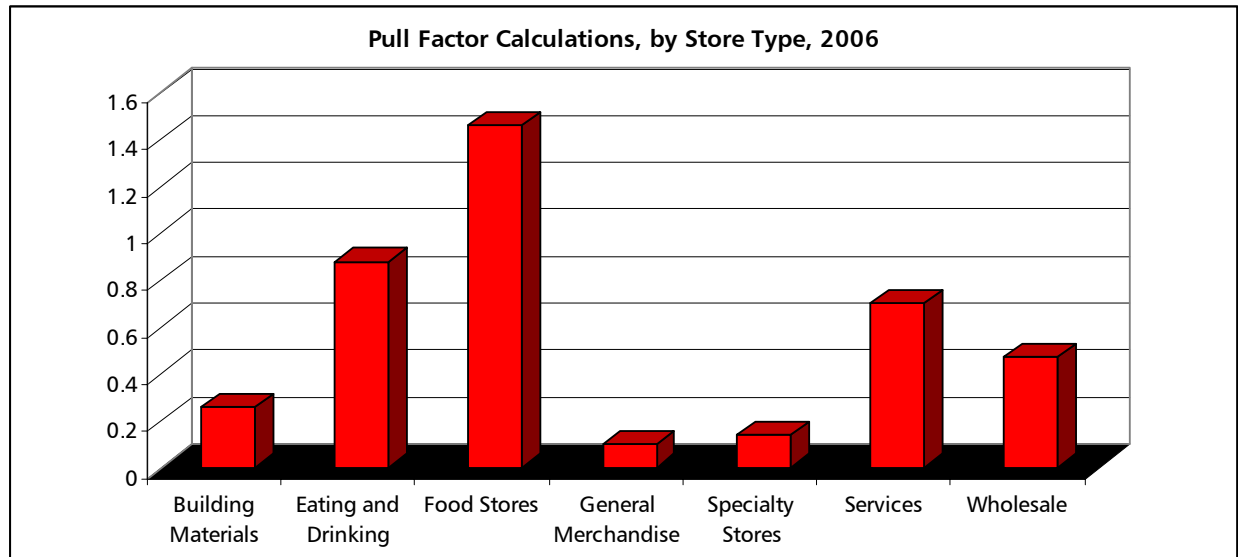
- Pull factor less than 1.0 = community losing retail sales to adjacent jurisdictions
- Pull factor of 1 = resident retail spending balances with store sales
- Pull Factor greater than 1 = the community is an importer of retail sales above what the resident market would support.

The table shows that between 2000 and 2006, the pull factor for West Des Moines increased as a result of the Jordan Creek Town Center and related development. Ankeny, Clive, and Urbandale went from being net exporters of retail sales to being net importers, with Ankeny’s shift most pronounced. Johnston was and remains a significant exporter of retail dollars. The city’s pull factor of .51 means that based on statewide sales trends, Johnston captures as much retail as would be spent by a city half its size. Put another way, it spends about half its total retail dollars in Johnston and the rest are spent in other cities. From another perspective, it should be noted that pull factors also correlate with increases in retail inventory (and retail sales); from experience, pull factor ratio shifts can be driven either by a significant increase in new inventory (more than 300,000 square feet), or by significant disparities in income. For Johnston, which supports a high per capita income in relation to its inventory (which is slightly above average), the approach yields a lower pull factor.



## Sector Analysis

It is also possible to calculate a retail pull factor by sector. The Iowa department of revenue reports revenues collected by retail stores in specific categories. Note that the categories describe the store, not the merchandise sold. Therefore, a gallon of milk purchased at Wal-Mart is considered “general merchandise” whereas household supplies purchased at Hy-Vee are considered “grocery”. Even so, the table below shows Johnston’s pull factor in several sectors.



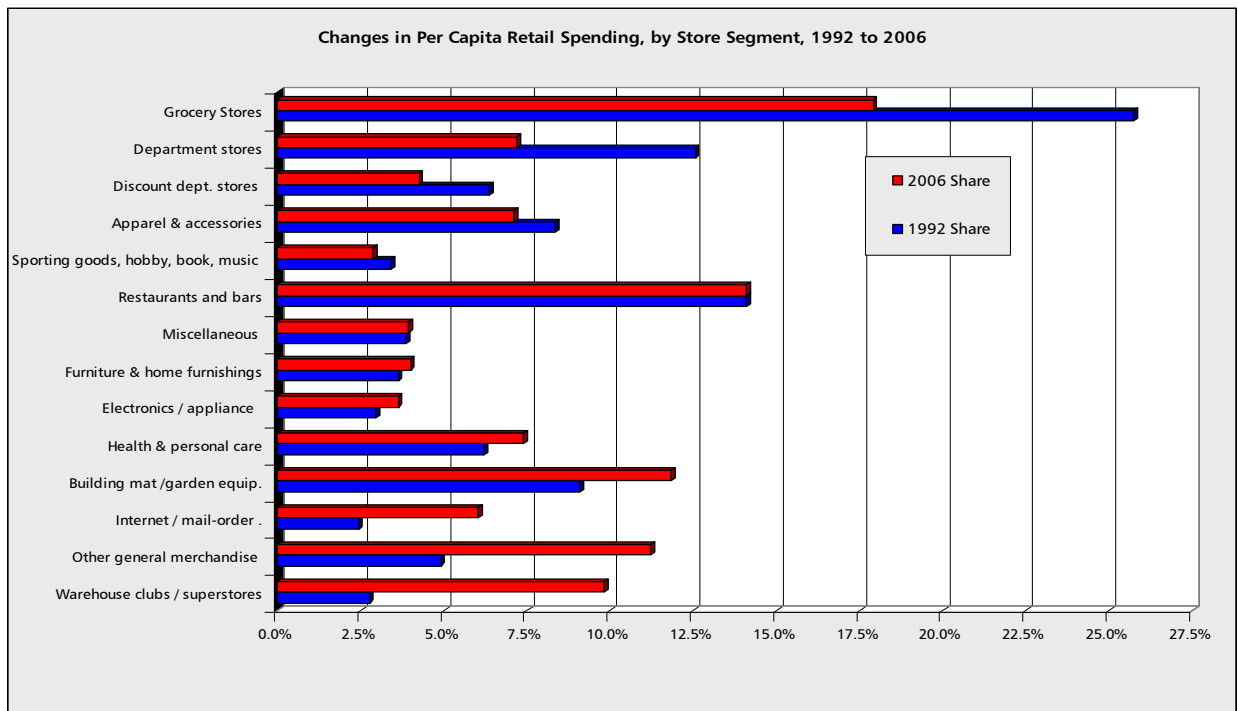
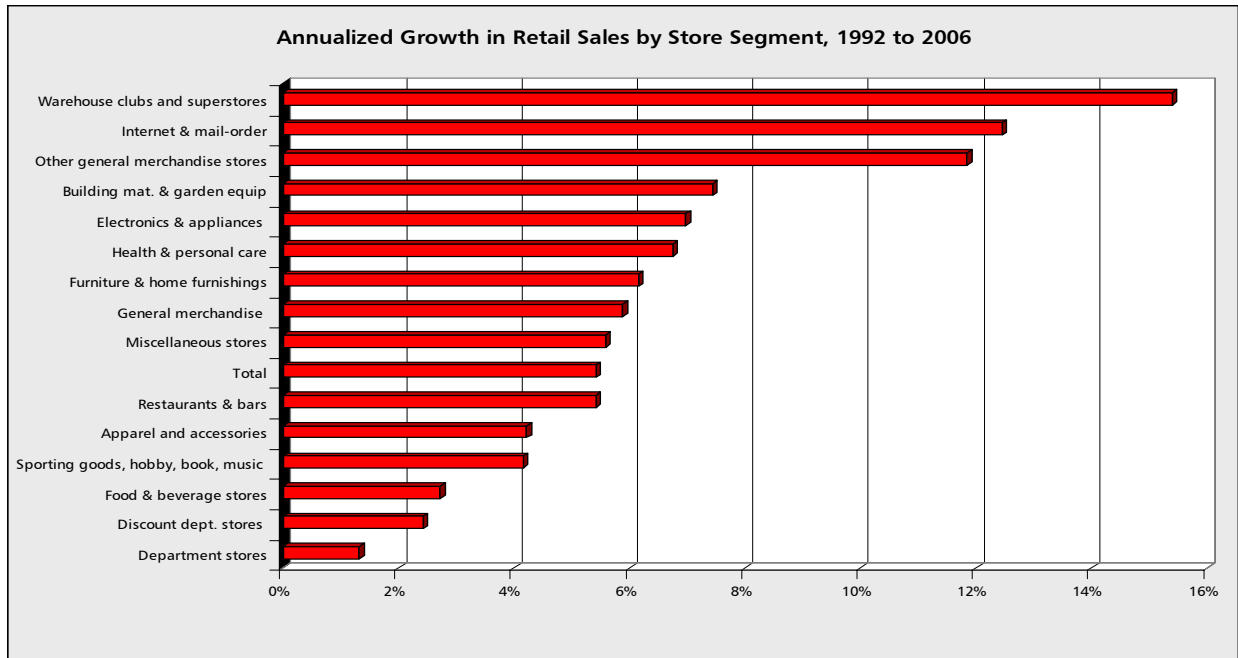
Data for apparel stores and home furnishings stores in Johnston are unavailable due to privacy restrictions, which would exclude the sales impact of American TV. Their values are unavailable, not necessarily zero. The table shows that Johnston is a net importer of grocery dollars and a net exporter in all other categories. The community’s general merchandise pull factor is notably low due to the fact that superstores do not have a presence in Johnston. (Such stores are the major players in general merchandise category).

According to the State of Iowa, Johnston’s total retail sales in 2006 were \$126 million, increasing from a year 2000 level of about \$77 million. The community’s inventory, as mentioned above, is approximately 515,000 square feet, which would relate to sales per square foot of \$245. Dollars and Cents of Shopping Centers, an industry benchmark produced by the Urban Land Institute, shows community shopping centers in the Midwest realized a median of \$235 per square foot in 2006 and neighborhood shopping centers realized \$263 per square foot in 2006. In Johnston, the retail base is either community or neighborhood-level, indicating that existing stores in Johnston are performing consistently with median figures for shopping centers of similar type in the Midwest.

## National Retail Trends

Changing competitiveness in retail across the Des Moines area reflects several national retail trends. First, the Jordan Creek Town Center is an example of the lifestyle center format that is popular among mall developers and customers today. It includes many specialty shops, as well as restaurants and entertainment options. The outdoor pond and walking trails provide a backdrop for outdoor summer concerts. Similarly, in Ankeny and West Des Moines there are new mixed-use projects coming online. These range in character from West Glen to Tallyn’s Reach to Prairie Trails.

To place local changes in a national perspective, the following two charts summarize key nationwide shifts in where and how people spend their retail dollars between 1992 and 2006. The tables highlight the tremendous growth in warehouse clubs and internet spending, as well as other general merchandise stores, which includes places such as Kohl's, offset by declines in market share for department stores and grocery stores. The first chart highlights comparisons in annualized growth in retail sales by store type since 1992; the second chart highlights the shift in share of per capita retail spending by store type over the same period.



Source: US Census

The following segment specific trends are also noted:

- Since 1992, while overall retail sales have increased at about 5% per year, warehouse club and superstore retail sales have grown by more than 15% per year. The strength and growth plans of Walmart, Target, and Meijer are notable, and will have very specific implications for traditional grocery store and department store formats.
- The Internet continues to absorb market share from traditional retail formats, including downtowns. Between 1992 and 2005, Internet retailing increased from 2.4% to 6% of total retail sales, representing growth from about \$35 billion in 1992 to more than \$180 billion in 2006. On a per capita basis, this shift reflects an increase in individual spending on the internet from \$138 per year to \$610 per year. While the re-allocation of retail sales to the Internet is of little concern to retail chains, the same cannot be said for communities that derive sales taxes from retail space in the community, and see sales dollars and taxes captured by internet formats.
- Reflecting the growth of superstores and warehouse clubs, traditional grocery stores and department stores have increasingly underperformed other segments. Over the noted period, the grocery store share of total per capita retail sales decreased from 26% to 18% of total sales, with overall growth on a per capita basis of 1.6% per year. For department stores, the decrease was from 13% down to 7% of total per capita retail sales, with overall growth in per capita sales of 0.2%; both estimates are well below inflation. While Department stores have only continued to struggle, grocery stores have responded, with formats either growing in size (80,000 sf and up) or getting smaller (Trader Joes at 15,000 sf). The traditional 40,000 sf grocery store appears to be competitively challenged in the current market.
- Growth of health and personal care stores reflects the increasing scale of products and services that drug stores and pharmacies now offer. Walgreens and CVS have been very aggressive in expanding across the Midwest.
- While larger format building material stores (Lowe's, Menards, and Home Depot) have dramatically altered the market for home improvement supplies, sales growth appears to have slowed, reflecting a likely level of saturation.

There are also several broader economic factors that are influencing retail spending patterns including:

- Recent and current energy cost increases for oil, natural gas, and gasoline tend to have the strongest impact on low to middle income residents, diverting a share of potential retail spending into energy. While historic spikes in energy prices have been short-lived, changing international economic conditions would tend to point to a future with higher energy prices. Since 1998, unleaded gasoline prices have increased at an annualized rate of 16%, while natural gas prices have increased at a 9.4% annualized rate.
- Retailers in general are also reacting to changing spending patterns driven by new technologies (broadband access and cell phones), which have in the past 2 to 3 years captured a significant share of disposable income, in the range of \$50 to \$150 per month. The emergence of services including TiVo, XM Satellite Radio, iTunes, and Netflix are examples. The impact of broadband access is expected to have a significant impact on the profitability of traditional video rental stores, a standard anchor of many neighborhood retail centers.
- Nationally, shopping center owners are awaiting the expected fallout from the recent May / Federated department store merger which is expected to result in a number of traditional department store anchors going vacant. The current rollout of Macy's as a national brand also highlights the disappearance of more than 10 regional department store brands, including Marshall Fields, Filene's,

Foley's, Hecht's, Famous-Barr, Kaufmann's, Robinsons-May, and L.S. Ayres. Furthermore, the recent Sears / Kmart merger also raises questions about the future of these two brand names.

- National chain retailers are increasingly engaging in battles for market share (Walmart versus Target, Kohl's versus JC Penney, and Lowes versus Home Depot and Menards, and Walgreens versus CVS). In all cases, the companies involved will choose to locate stores in close proximity to each other to pull sales from a competitor, even at the expense of cannibalizing existing store sales. In general, this level of competition has boosted retail inventories, lowered store sales per square foot, and created greater competitive pressures for independent store owners.

## **Retail Market Implications**

ERA analysis of the local retail market highlights several critical factors:

- Johnston is supporting above average factors for educational attainment and income, which should dictate support for higher levels of retail spending and inventory. However, currently a majority of retail sales are leaking to adjacent jurisdictions, with Merle Hay Mall and Jordan Creek Mall being related factors, as well as the reality that the community does not have a central destination for retail and services.
- Within the context of existing sales leakage, current forecasts show that the community will continue to grow in population and income, with a potential 2030 population of about 32,480 residents, suggesting that the community will double in size over the next 20 years.
- Looking to 2011, and the RDG Charrette process, assuming no changes in regional retail competition, ERA estimates that Johnston could support an additional 100,000 to 200,000 square feet of retail space. This estimate considers that current space is sustaining a low vacancy level, and that the community will continue to grow in both population and incomes. Any new projects will need to be well planned and tenanted.
- While the overall inventory projection is positive, project development will be contingent on identification of key anchor retailers to drive project success. While traditional anchor stores for neighborhood and community retail centers have tended to be grocery or pharmacy based, ERA has noticed new hybrid anchor combinations, which include, restaurants, pairings of smaller "category killers" such as Staples, PetSmart, or Michaels, and medical services.
- Growth in Johnston will push the community further to the north and west, toward vacant farmland along State Route 141, where the Johnston Comprehensive Plan has identified numerous intersections for new commercial, retail, and office development, with some sites that will be competitive for larger format retailers. While there are numerous sites that could be developed, ERA's key concern relates to identifying a key destination site for the community.
- The Merle Hay Corridor is challenged by significant farmland to the west (Pioneer) and open space to the east (Des Moines River), and Saylorville Lake and Camp Dodge to the north, which reduces the number of rooftops in immediate proximity to drive retail demand.
- Within the context of new development areas on the north and west side of Johnston, as well as limited rooftops to drive neighborhood and community retail, opportunities for the Merle Hay Corridor are limited, with retail opportunities focused on infill sites south of NW 62<sup>nd</sup> Road, and higher density residential uses northward.

## Office / Industrial Real Estate Market Analysis

This section is based on research published by CBRE/Hubbel real estate for the Des Moines market. It divides the Des Moines region into several submarkets:

- Western Suburbs – Including Johnston, West Des Moines, Urbandale, Clive, and Grimes
- Central Business District - Downtown Des Moines
- Northeast - Altoona, Pleasant Hill, and parts of Des Moines
- Northwest - Parts of Des Moines and other areas
- South - Parts of Des Moines and some unincorporated area,
- Ankeny – Treated as a separate submarket.

### Inventory and Vacancy Overview

This section presents several tables that show inventory and vacancy rates for different property types in the Des Moines market. Property types are grouped into several categories:

#### Office Market

Over 300,000 square feet of space was added in the western suburbs between 2004 and 2005; the next year, another 800,000 square feet was added (Part of this is the Wells Fargo addition). The western suburbs actually have almost as much inventory as the central business district core and fringe combined. Together, those three submarkets represent 92% of the region's office space. Johnston supports a modest share of the regional office market, and is included in the Western suburban totals shown below.

**Table 15. Total Office Inventory in Square Feet, 2002-2007**

| Submarket            | 2002       | 2003       | 2004       | 2005       | 2006       | 2007       |
|----------------------|------------|------------|------------|------------|------------|------------|
| Western Suburbs      | 9,465,689  | 9,684,674  | 9,865,708  | 10,219,215 | 11,165,869 | 11,462,387 |
| CBD Core             | 8,454,308  | 8,780,803  | 9,291,972  | 9,130,290  | 8,734,167  | 9,033,049  |
| CBD Fringe           | 2,511,319  | 2,471,205  | 2,463,288  | 2,524,585  | 2,453,585  | 2,498,774  |
| Northwest Des Moines | 908,429    | 908,429    | 908,429    | 908,429    | 808,429    | 908,429    |
| Northeast Des Moines | 384,482    | 384,482    | 384,482    | 384,482    | 376,532    | 376,532    |
| South Des Moines     | 372,371    | 378,131    | 378,131    | 402,040    | 402,040    | 408,245    |
| Ankeny               | 257,327    | 284,361    | 293,271    | 293,271    | 315,908    | 315,908    |
| Total                | 22,353,925 | 22,892,085 | 23,585,281 | 23,862,312 | 24,356,530 | 25,003,324 |

**Table 16. Office Occupancy, 2004-2007**

| Submarket            | 2004  | 2005  | 2006  | 2007  |
|----------------------|-------|-------|-------|-------|
| Western Suburbs      | 91.6% | 89.1% | 90.3% | 90.9% |
| CBD Core             | 91.1% | 92.5% | 95.1% | 94.5% |
| CBD Fringe           | 90.2% | 90.5% | 90.0% | 89.8% |
| Northwest Des Moines | 86.1% | 86.8% | 90.7% | 90.2% |
| Northeast Des Moines | 86.6% | 98.2% | 97.8% | 98.5% |
| South Des Moines     | 92.6% | 89.4% | 92.1% | 92.0% |
| Ankeny               | 88.6% | 91.0% | 90.1% | 90.8% |
| Total                | 90.9% | 90.6% | 92.2% | 92.2% |

Source: CB Richard Ellis



## Industrial & Flex Market

The tables below show the inventories and occupancy rates for warehouse, manufacturing, and flex space. Warehouse space has experienced growth in South Des Moines, where occupancy remains highest among all submarkets. There has also been some growth in Northeast Des Moines, which is the largest submarket for warehouse space. All submarkets except the CBD Fringe have posted occupancy rates over 85 percent in 2006. The occupancy in the western suburbs has improved from 82% to over 89% between 2005 and 2006. In that same period, the region saw an increase of about 200,000 square feet in warehouse space.

**Table 17. Warehouse Inventory in Square Feet, 2002-2007**

| Submarket            | 2002       | 2003       | 2004       | 2005       | 2006       | 2007       |
|----------------------|------------|------------|------------|------------|------------|------------|
| Western Suburbs      | 7,127,416  | 7,201,136  | 7,301,269  | 7,615,683  | 7,817,353  | 7,982,837  |
| CBD Core             | -          | -          | -          | -          | -          | -          |
| CBD Fringe           | 2,934,689  | 2,934,689  | 2,934,689  | 2,817,921  | 2,762,481  | 2,643,903  |
| Northwest Des Moines | 1,400,612  | 1,415,612  | 1,414,760  | 1,388,359  | 1,388,359  | 1,388,359  |
| Northeast Des Moines | 10,501,854 | 10,501,854 | 11,589,215 | 11,685,467 | 11,824,191 | 11,919,610 |
| South Des Moines     | 2,865,195  | 2,855,055  | 2,863,775  | 2,863,775  | 3,429,874  | 3,429,874  |
| Ankeny               | 2,557,678  | 2,660,278  | 2,660,278  | 2,735,004  | 2,781,525  | 2,814,085  |
| Total                | 27,387,444 | 27,568,624 | 28,763,986 | 29,106,209 | 30,003,783 | 30,178,668 |

**Table 18. Warehouse Occupancy, 2004-2007**

| Submarket            | 2004  | 2005  | 2006  | 2007  |
|----------------------|-------|-------|-------|-------|
| Western Suburbs      | 82.0% | 82.4% | 89.3% | 93.0% |
| CBD Core             | -     | -     | -     | -     |
| CBD Fringe           | 80.7% | 69.7% | 73.6% | 75.5% |
| Northwest Des Moines | 81.6% | 89.0% | 88.4% | 83.6% |
| Northeast Des Moines | 89.7% | 83.9% | 85.8% | 93.0% |
| South Des Moines     | 89.4% | 90.6% | 94.1% | 97.2% |
| Ankeny               | 96.6% | 99.6% | 92.0% | 91.6% |
| Total                | 87.0% | 84.5% | 87.2% | 91.4% |

**Table 19. Manufacturing Inventory in Square Feet, 2002-2007**

| Submarket            | 2002       | 2003       | 2004       | 2005       | 2006       | 2007       |
|----------------------|------------|------------|------------|------------|------------|------------|
| Western Suburbs      | 2,904,456  | 2,904,456  | 2,904,456  | 2,904,456  | 2,849,570  | 2,948,870  |
| CBD Core             | -          | -          | -          | -          | -          | -          |
| CBD Fringe           | 342,371    | 342,371    | 342,371    | 342,371    | 34,371     | 342,371    |
| Northwest Des Moines | 902,329    | 902,329    | 902,329    | 902,329    | 902,329    | 846,444    |
| Northeast Des Moines | 5,790,032  | 5,790,032  | 5,662,091  | 5,667,590  | 5,698,270  | 5,698,270  |
| South Des Moines     | 1,664,253  | 1,719,761  | 1,719,761  | 1,735,761  | 1,169,662  | 1,169,662  |
| Ankeny               | 1,461,705  | 1,461,705  | 1,461,705  | 1,461,705  | 1,461,705  | 1,461,705  |
| Total                | 13,065,146 | 13,120,654 | 12,992,713 | 13,014,212 | 12,423,907 | 12,467,322 |

**Table 20. Manufacturing Occupancy, 2004-2007**

| Submarket            | 2004   | 2005   | 2006   | 2007  |
|----------------------|--------|--------|--------|-------|
| Western Suburbs      | 98.6%  | 92.7%  | 94.3%  | 95.0% |
| CBD Core             | -      | -      | -      | -     |
| CBD Fringe           | 91.1%  | 100.0% | 100.0% | 81.7% |
| Northwest Des Moines | 100.0% | 98.7%  | 92.9%  | 94.0% |
| Northeast Des Moines | 95.8%  | 96.9%  | 99.3%  | 97.8% |
| South Des Moines     | 56.4%  | 74.9%  | 89.9%  | 84.1% |
| Ankeny               | 100.0% | 100.0% | 99.8%  | 99.8% |
| Total                | 91.9%  | 93.6%  | 96.9%  | 95.4% |

The region has seen a net loss of manufacturing space; the western suburbs also lost a little space. Occupancy remains strong, with all submarkets near or above 90%; the region's occupancy rate is 97%. The western suburbs have 94% occupancy. Several corridors are considered by real estate leaders to be frontiers in manufacturing, industrial or warehouse space. These are found in Grimes, Clive, and to some extent Ankeny.

**Table 21. Flex Inventory in Square Feet, 2002 to 2007**

| Submarket            | 2002      | 2003      | 2004      | 2005      | 2006      | 2007      |
|----------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Western Suburbs      | 2,764,750 | 2,844,374 | 2,906,372 | 3,083,758 | 3,209,048 | 3,242,864 |
| CBD Core             | -         | -         | -         | -         | -         | -         |
| CBD Fringe           | 699,803   | 699,803   | 699,803   | 735,885   | 735,885   | 735,885   |
| Northwest Des Moines | 99,161    | 99,161    | 99,161    | 99,161    | 99,161    | 99,161    |
| Northeast Des Moines | 475,434   | 475,434   | 475,434   | 475,434   | 509,034   | 509,034   |
| South Des Moines     | 204,840   | 204,840   | 237,370   | 237,370   | 237,370   | 237,370   |
| Ankeny               | 358,035   | 358,035   | 379,635   | 401,235   | 401,235   | 421,710   |
| Total                | 4,602,023 | 4,681,647 | 4,797,775 | 5,032,843 | 5,191,733 | 5,246,024 |

**Table 22. Flex Occupancy, 2004-2007**

| Submarket            | 2004  | 2005  | 2006  | 2007  |
|----------------------|-------|-------|-------|-------|
| Western Suburbs      | 89.5% | 87.0% | 82.6% | 85.4% |
| CBD Core             | 0.0%  | 0.0%  | 0.0%  |       |
| CBD Fringe           | 80.5% | 73.7% | 85.9% | 88.4% |
| Northwest Des Moines | 61.3% | 92.7% | 96.1% | 94.4% |
| Northeast Des Moines | 78.6% | 74.6% | 77.3% | 84.0% |
| South Des Moines     | 79.5% | 73.5% | 75.4% | 78.7% |
| Ankeny               | 79.4% | 82.3% | 79.2% | 82.7% |
| Total                | 85.2% | 83.1% | 82.3% | 85.4% |

The flex market has not been as strong as the manufacturing market; but this probably has to do with speculative space. Most real estate investors building industrial space speculatively will build flex space because it can attract the greatest number of tenants with the least amount of building customization.

## Implications

For Johnston, the office, industrial and flex markets reflect long-term opportunities, due to several realities:

- For the past several years, the regional office market has been driven by decisions by several large companies such as Wells Fargo, who have made considerable investments in new owner-occupied office space.
- Although Johnston has a number of well-located commercial development sites on the northwest side of town, there are other sites in Urbandale and Grimes that are better located, and will likely develop first.
- In particular, frontage along I-35 in Urbandale between NW 86<sup>th</sup> and NW 100<sup>th</sup> Streets will be the primary competitor to Johnston. This acreage will require a new interchange at NW 100<sup>th</sup> Street to maximize opportunities.
- Recent new office projects (Johnston Station and the Windsor Office Park) in Johnston have met with a slow market response.

For the RDG Charrette process, ERA views the office, service, and warehouse markets as long-term opportunities, offset by modest abilities to capture demand for neighborhood office / service uses, perhaps tied in with a new town center project.

---

## Analysis of Recent Sales

---

This section examines recent real estate sales in Johnston and in Polk County to provide some baseline estimates for property values along the Merle Hay corridor. Many factors go into the price of land, so the previous sales are not always a true reflection of value. However, taken together, the sales considered in this section provide a reasonable range of values. Among the many factors that would affect the price of land in a corridor like Merle Hay are.

- Entitlements and utilities: Land that is served by utilities, has zoning entitlements, and is ready for construction will come at a premium.
- Existing Site Improvements: If land contains an obsolete building that must be torn down in order for the land to be upgraded to a higher and better use, then the value will reflect the costs associated with the teardown.
- Access: High visibility corners at a signalized intersection provide the easiest access for all motorists. Parcels with restricted left-turn access or other difficult issues will have less value to retailers.
- Parcel shape and size: On a per-acre basis, larger parcels generally sell for less per acre. In addition, awkward parcel shapes make it difficult to use the parcel efficiently, and so may in some cases depress per-acre prices.
- Special circumstances: A key variable; In order for a sale to reflect the true market price of the real estate, several things must be true:
  1. Buyers and sellers have typical motivations. One party cannot be acting under duress or under unusual circumstances. (An estate sale would be an unusual circumstance.)
  2. Buyers and sellers have good local information and negotiate with each other in good faith.
  3. The property must have been on the market long enough for several interested buyers to consider it. (Properties that sell the week they are put for sale do not represent market price.)
  4. No out-of-the-ordinary concessions were made by the buyer or the seller.
  5. No extraordinary financing options were available to the buyer. (Buyers that get very favorable financing have the ability to overpay.)

No outside analyst can ever be sure that all these conditions apply because real estate contracts are not public information; however, ERA did take some appropriate precautions when analyzing real estate sales data from Polk County. ERA excluded from its analysis properties that were sold by any public authority or bank to indicate sellers under duress. ERA also eliminated estate sales because these are generally atypical. Sales at auction violate the third principle above, and so these are excluded. Finally, any sales between family members are excluded as well. The remaining sales provide a picture of the market, even if some individual sales may be unusual in some way.

ERA should also note here that market prices will fluctuate based on the nature of the buyers and sellers. A real estate sale can be a very complex transaction. The terms of the deal often matter as much as the price. For example, two identical parcels may sell on the same day. In one transaction, the buyer may bring cash to the table and close the deal within one week of the contract being written. For this, the buyer would expect to get a favorable price. In the other deal (for an identical parcel), the buyer has arranged several tiers of financing that could take up to six weeks to finalize. In exchange, the seller may request a favorable price. Although the two parcels may have been identical, the terms of the deal favored the buyer in the first instance and the seller in the second. The final price would probably reflect this advantage—and the two identical parcels would have different sales prices simply as a result of how the deals were structured.

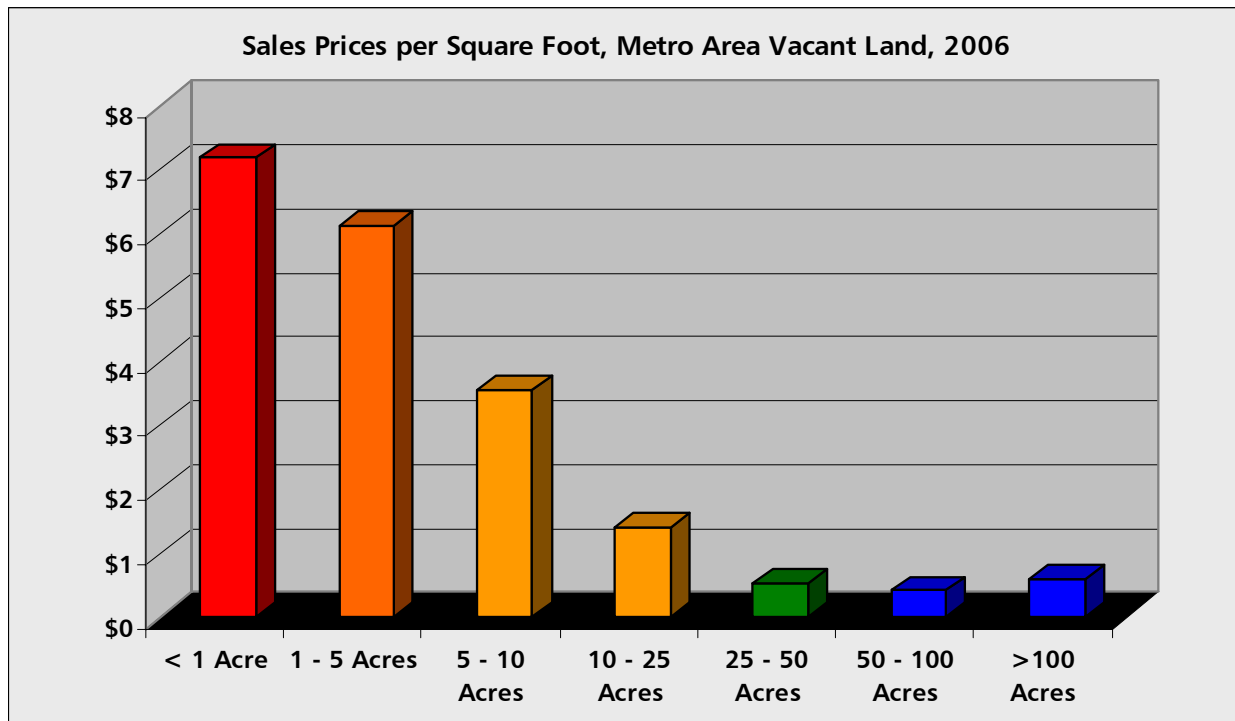
Zoning also plays a role in land values. Zoning restricts what uses a property owner (or buyer) may put on a given parcel. In this way, zoning functions as a restriction on supply. This can have pronounced effects on property markets. Local governments, therefore, have an indirect effect on land values through their zoning policies.

ERA would also reiterate that real estate is an illiquid asset, which means that there is no agreed-upon price for a given piece of land. Owners of real estate, unlike owners of liquid assets, cannot sell their assets for an agreed-upon “market” price in a short period of time. For this reason, many factors go into pricing a real estate sale, and past sales can give only a broad indicator of market values.

**Table 23. Average sale price per square foot—vacant land by size category (Polk County)**

| Parcel size (acres) | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---------------------|------|------|------|------|------|------|------|------|------|------|------|------|
| Less than 1         | 3.54 | 5.06 | 5.08 | 9.25 | 7.21 | 6.88 | 6.34 | 8.54 | 8.73 | 5.72 | 7.19 | 8.27 |
| Between 1 - 5       | 3.47 | 3.49 | 3.00 | 5.19 | 3.01 | 3.25 | 3.14 | 4.81 | 4.88 | 4.23 | 6.12 | 3.23 |
| Between 5 - 10      | 3.16 | 1.43 | 2.18 | 1.79 | 1.61 | 2.19 | 2.66 | 2.06 | 2.67 | 4.04 | 3.56 |      |
| Between 10 - 25     | 0.70 | 1.59 | 1.12 | 1.25 | 0.95 | 1.65 | 0.92 | 2.46 | 1.16 | 2.73 | 1.41 |      |
| Between 25 - 50     |      | 0.32 | 0.25 | 0.55 | 0.61 | 0.41 | 0.99 | 1.02 | 1.10 | 1.29 | 0.54 | 1.97 |
| Between 50 - 100    |      | 0.51 | 0.29 | 0.45 | 0.18 | 0.68 | 0.13 | 0.46 | 0.44 | 0.96 | 0.42 |      |
| More than 100       |      |      | 0.20 | 0.27 | 0.42 | 0.31 | 0.03 | 0.30 | 0.15 | 0.56 | 0.59 |      |
| Grand Total         | 3.30 | 3.73 | 2.97 | 4.96 | 3.87 | 4.16 | 3.71 | 5.19 | 4.94 | 4.20 | 5.22 | 5.21 |

Source: Polk County Records



The following table highlights sales prices by land use; only vacant land category includes unimproved sites. Other land use classifications include value of land and improvements. The vacant sales include residentially zoned parcels sold by individuals or for development of custom homes, and exclude lots sold for tract home construction.

**Table 24. Average Sale Price per Square Foot by Land Use, City of Johnston,**

| Land Use                    | 1996  | 1997 | 1998 | 1999  | 2000  | 2001  | 2002  | 2003 | 2004  | 2005  | 2006  | 2007  |
|-----------------------------|-------|------|------|-------|-------|-------|-------|------|-------|-------|-------|-------|
| Auto dealers                |       |      | 2.86 | 14.57 |       |       |       |      |       |       | 2.46  |       |
| Personal care / health care | 10.26 |      |      |       |       |       | 14.54 |      | 16.36 |       |       |       |
| Improved Hotel              |       |      | 9.53 |       | 1.39  | 3.06  |       |      |       |       |       |       |
| Vacant Land                 | 4.33  | 3.35 | 4.89 | 4.16  | 2.57  | 2.45  | 2.63  | 5.41 | 3.38  | 5.11  | 2.85  | 3.15  |
| Improved Office             | 1.87  |      |      |       | 11.85 |       | 9.05  | 7.11 | 7.17  | 20.85 | 28.72 | 15.77 |
| Recreation / Entertainment  |       |      |      |       | 20.29 | 5.89  |       |      |       |       |       |       |
| Improved Retail             |       |      | 2.41 | 15.30 | 8.18  | 15.71 | 17.50 |      | 23.85 |       | 20.29 |       |
| Warehouse                   | 5.15  | 2.74 |      | 7.94  | 7.15  | 10.33 | 6.80  | 0.68 | 3.43  | 1.76  | 6.48  |       |
| Grand Total                 | 4.97  | 3.23 | 4.90 | 6.63  | 4.88  | 5.41  | 4.98  | 5.24 | 5.58  | 7.17  | 10.46 | 9.46  |

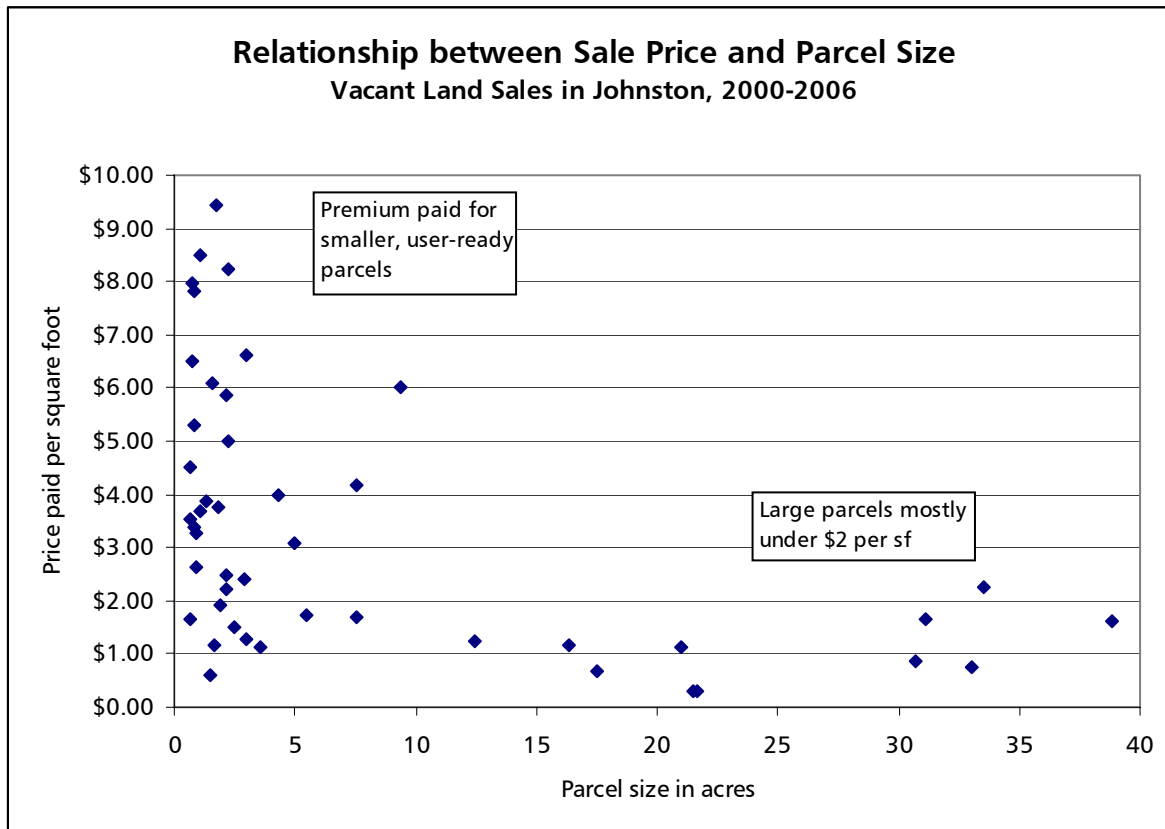
**Table 25. Average sale price per square foot, vacant land only (Polk County)**

| Jurisdiction    | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006  | 2007 |
|-----------------|------|------|------|------|------|------|------|------|------|------|-------|------|
| ALTOONA         | 2.97 | 4.59 | 1.61 | 0.40 | 2.34 | 2.33 | 3.84 | 3.90 | 4.36 | 2.60 | 4.94  |      |
| ANKENY          | 3.87 | 2.63 | 2.34 | 3.59 | 2.42 | 3.95 | 4.26 | 4.38 | 4.39 | 4.54 | 5.20  |      |
| BONDURANT       | 2.12 | 0.31 | 0.23 | 0.19 | 0.54 | 0.82 |      | 0.70 | 1.88 | 0.59 | 0.88  |      |
| CLIVE           | 4.70 | 2.79 | 3.62 | 7.62 | 3.14 | 5.12 | 5.21 | 8.53 | 6.84 | 7.94 | 12.61 |      |
| DES MOINES      | 2.26 | 4.11 | 3.89 | 5.18 | 6.70 | 6.06 | 4.81 | 8.51 | 7.57 | 4.10 | 5.63  | 6.78 |
| GRIMES          | 0.64 | 2.48 | 1.24 | 0.47 | 1.72 | 1.55 | 1.62 | 1.36 | 1.19 | 2.53 | 1.92  | 1.97 |
| JOHNSTON        | 4.33 | 3.35 | 4.89 | 4.16 | 2.57 | 2.45 | 2.63 | 5.41 | 3.38 | 5.11 | 2.85  | 3.15 |
| PLEASANT HILL   | 0.91 | 1.87 | 0.39 | 0.90 | 1.39 | 0.77 | 1.19 | 2.84 | 3.38 | 1.44 | 1.49  |      |
| URBANDALE       | 4.22 | 4.27 | 2.19 | 9.05 | 1.89 | 3.22 | 3.79 | 3.29 | 4.08 | 5.21 | 4.89  | 4.25 |
| WEST DES MOINES | 5.13 | 4.45 | 3.62 | 3.54 | 4.20 | 4.37 | 4.01 | 4.67 | 8.24 | 5.02 | 5.10  |      |
| Grand Total     | 3.30 | 3.73 | 2.97 | 4.96 | 3.87 | 4.16 | 3.71 | 5.19 | 4.94 | 4.20 | 5.22  | 5.21 |

ERA notes several things from the tables above:

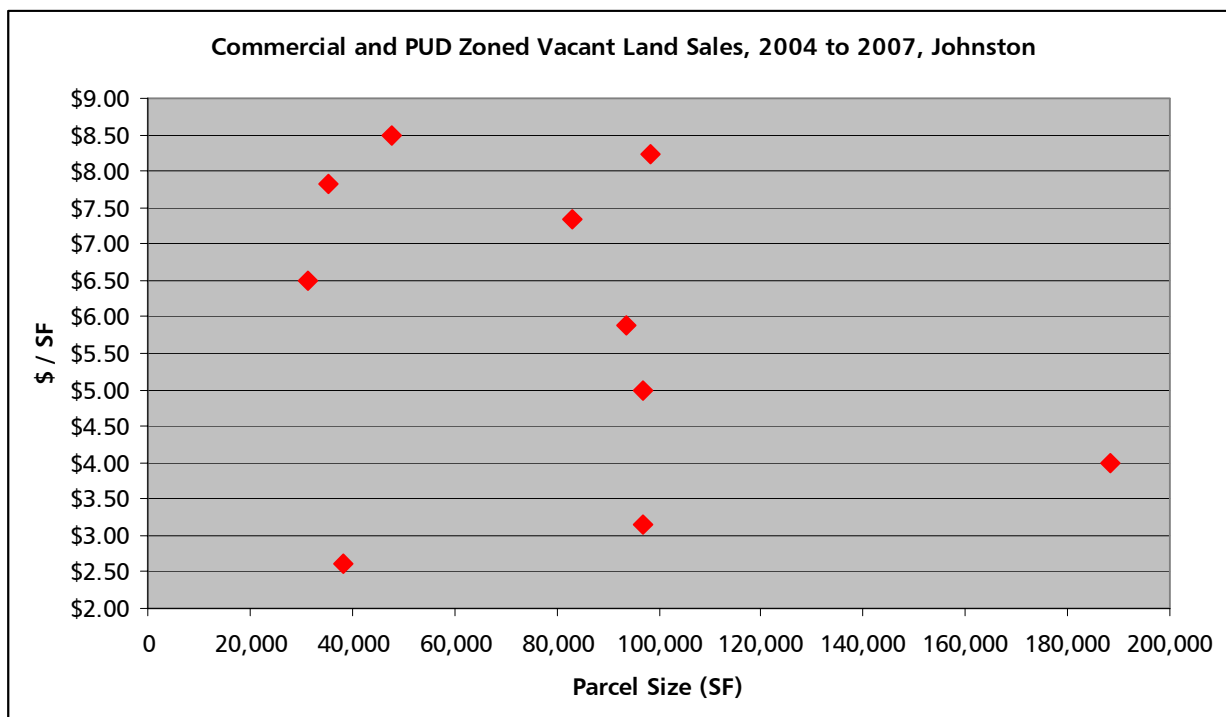
- The Walgreen’s sale was not included in the averages because it was tagged “Trade” in the Polk County Assessor’s database. This category is generally not good for analysis because it is an unusual transaction type. Its sale price of \$31.30 per square foot exceeds other recent retail transactions by a dramatic margin. The transaction did not involve Walgreen’s, but two private companies.
- The land uses that command the highest prices per square foot in Johnston are office and retail. In recent years vacant land has sold in the \$2.50 to \$5.00 per square foot range in Johnston. County-wide, Johnston fetches slightly below-average prices per square foot of vacant land.
- The price per square foot of smaller parcels is much higher than those of larger parcels. In 2006, vacant land in large parcels (over 25 acres) sold for less than 60 cents per square foot, whereas the smaller parcels (up to five acres) sold for \$6 to \$7 per square foot.
- Among all vacant land transactions in the county, Johnston land has fluctuated above and below the average for the county. Clive and West Des Moines have consistently come at a premium over the period studied. The same trend is not true for retail, however; West Des Moines has tended to do better than the county average in most years. Even so, none of the jurisdictions emerges as having a clear premium on retail sales prices. Retail land transactions are also very heavily influenced by site characteristics, including traffic counts, parcel size, availability of parking, and zoning.

Two charts show the relationship between sale price per square foot and parcel size for parcels with commercial zoning. Both charts present sales data from vacant parcels in Johnston between 2000 and 2006. The first chart is a scatterplot that shows the relationship between sale price per square foot and parcel size for individual sales. Each dot on the chart represents one sale (ERA scaled the chart to omit outliers). However, the outliers followed the same trend as the other sales).



The above chart shows that price premiums above \$2 per square foot were commanded almost exclusively by parcels under 10 acres in size, with most of them under 5 acres. Rather than showing a downward sloping plot, this chart shows there are two distinct categories of land sales: large and small. Large land sales mostly sell for less than \$2 per square foot; smaller plots can command a range of values up to about \$9 per square foot.

ERA also evaluated the premium that can be derived from smaller parcels with commercial (C-1 / C-2 / C-3) or planned unit development (PUD) zoning in place at the time of the sale. The following scatterplot highlights sales since 2005 broken down between parcel size and sales price per square foot. The chart highlights a considerable range in achieved unit sales prices, with parcels in the 80,000 to 100,000 square foot range selling for between \$3 and \$8.25 per square foot. Notably, smaller parcels in the 40,000-square-foot range are also selling in a similar pattern, although the preponderance of sales are more tightly focused between \$6.50 and \$8.50 per square foot, with one outlier at \$2.50 per square foot, which represented the sale of land behind American TV for a hotel, which was eventually built in 2006.



Source: Polk County Assessor

In addition, land purchases in 2006 and 2007 by Casey’s also provide an indication of value, with Casey’s acquiring property on Northglenn Drive (96,747 square feet at \$3.15 per sf) and on NW 100<sup>th</sup> Street (47,428 square feet at \$8.49 per sf). The two Casey’s transactions are notable in that they point to an apparent premium in unit values for NW 100<sup>th</sup> Street over Merle Hay Road.

A relevant sale benchmark for Merle Hay occurred in 2005 at 5340 Merle Hay Road, where a 35,191-square foot parcel was acquired at a cost of \$7.81 per square foot (\$275,000). The property was acquired and developed with a small strip retail center, covering about 3,600 square feet (Starbucks Coffee and Salsaritas are the tenants). The county assessor listed the construction cost of the improvements at about \$400,000 (\$116 per square foot). This project is notable for several reasons:

- The project is considered a prime retail site, south of NW 62nd Avenue, on Merle Hay Road.

- The developer included one “credit-worthy” tenant (Starbucks) in the mix
- The purchase of the site represents about 40% of the estimated construction budget (\$695,000), which appears high from ERA’s perspective.

To better understand how land values correlate with market driven lease rates for commercial space, ERA looked further into the project at 5340 Merle Hay Road, evaluating this retail project through an analysis tool called a discounted cash flow (DCF) analysis. The DCF approach models a series of annual revenue streams generated by leases in relation to operating expenses and construction costs to identify a rate of return generated by the investment over a defined holding period. In this specific instance, ERA is using the DCF approach to derive a supportable lease rates that correlate with minimum rate of return requirements expected by developers. For the 5340 Merle Hay Road project, ERA developed the following assumptions, based only on our experience with similar projects:

- Project size: 3,600 square feet
- Vacancy provision: 3% of gross income
- Operating expenses: \$3 per square foot – assumes most expenses are passed through to tenants.
- Asset holding period: 10 years
- Land costs of \$275,000 and improvement costs of \$420,060; total construction budget of \$695,060
- Terminal capitalization rate: 9%
- Minimum investment rate of return: 10% (unleveraged)

**Retail DCF Analysis**

| ASSUMPTIONS                | Stabilized | Year 1   | Year 2   | Year 3   | Year 4   | Year 5   | Year 6   | Year 7   | Year 8   | Year 9   | Year 10  | Year 11  |
|----------------------------|------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Inflation Factor           | 3.0%       | 1.03     | 1.06     | 1.09     | 1.13     | 1.16     | 1.19     | 1.23     | 1.27     | 1.30     | 1.34     | 1.38     |
| GLA Absorbed               | 3,600      |          | 3,600    | 3,600    | 3,600    | 3,600    | 3,600    | 3,600    | 3,600    | 3,600    | 3,600    | 3,600    |
| Vacancy Factor             | 3%         |          |          |          |          |          |          |          |          |          |          |          |
| Inflated Annual Lease Rate |            | \$ 19.57 | \$ 20.16 | \$ 20.76 | \$ 21.38 | \$ 22.03 | \$ 22.69 | \$ 23.37 | \$ 24.07 | \$ 24.79 | \$ 25.53 | \$ 26.30 |
| Net Lease Revenue per SF   | \$19.00    | \$ 19.60 | \$ 20.20 | \$ 20.80 | \$ 21.40 | \$ 22.00 | \$ 22.70 | \$ 23.40 | \$ 24.10 | \$ 24.80 | \$ 25.50 | \$ 26.30 |

**NET OPERATING INCOME**

|                                |         |           |           |           |           |           |           |           |           |           |           |           |
|--------------------------------|---------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Leasing Revenues               | \$ -    | \$ 70,538 | \$ 72,634 | \$ 74,729 | \$ 76,824 | \$ 79,268 | \$ 81,713 | \$ 84,157 | \$ 86,602 | \$ 89,046 | \$ 91,840 |           |
| Op. & Maint. Expenses (per SF) | \$ 3.00 | \$ -      | \$ 11,458 | \$ 11,801 | \$ 12,155 | \$ 12,520 | \$ 12,896 | \$ 13,283 | \$ 13,681 | \$ 14,092 | \$ 14,514 | \$ 14,950 |
| Net Operating Income           | \$ -    | \$ 59,081 | \$ 60,832 | \$ 62,573 | \$ 64,304 | \$ 66,373 | \$ 68,430 | \$ 70,476 | \$ 72,510 | \$ 74,532 | \$ 76,890 |           |

**DEVELOPMENT COSTS**

|                          |            |        |      |      |      |      |      |      |      |      |      |      |
|--------------------------|------------|--------|------|------|------|------|------|------|------|------|------|------|
| Hard Construction Costs  | \$420,060  | 60%    |      |      |      |      |      |      |      |      |      |      |
| Land Cost                | \$275,000  | 40%    |      |      |      |      |      |      |      |      |      |      |
| Total Construction Costs | \$ 695,060 |        |      |      |      |      |      |      |      |      |      |      |
| Percent Built by Year    |            | 100.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Development Costs        | \$ 695,060 | \$ -   | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |

**ANNUAL CASH FLOW**

|                      |              |           |           |           |           |           |           |           |           |           |           |
|----------------------|--------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Net Operating Income | \$ -         | \$ 59,081 | \$ 60,832 | \$ 62,573 | \$ 64,304 | \$ 66,373 | \$ 68,430 | \$ 70,476 | \$ 72,510 | \$ 74,532 | \$ 76,890 |
| Development Costs    | \$ 695,060   | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      |
| Net Cash Flow        | \$ (695,060) | \$ 59,081 | \$ 60,832 | \$ 62,573 | \$ 64,304 | \$ 66,373 | \$ 68,430 | \$ 70,476 | \$ 72,510 | \$ 74,532 | \$ 76,890 |

Internal Rate of Return:  
10.0%



For the 5430 Merle Hay project, using the above assumptions, ERA's analysis provides relevant insight:

- The project would require an effective lease rate of at least \$19 per square foot (triple-net basis) to generate the required minimum 10% un-leveraged rate of return.
- From discussions with area brokers and developers, the current top end of effective lease rates for shopping centers across metropolitan Des Moines fall in the \$18 per square foot range on a triple net basis. ERA understands that quoted lease rates for Johnston Commons are falling in the \$18 per square foot range; this project has been slow to lease up, which relates to the higher lease rates being quoted.

The analysis highlights the following implications regarding commercial land development:

- For priority commercial sites (retail or office) smaller than 4 acres south of NW 62nd Avenue, land values above \$8 per square foot would be achieved only within the context of lease rates above \$15 per square foot. Importantly, for multi-tenant retail projects to achieve these lease premiums, national retailers will be needed, as they are more tolerant of higher rents.
- Although land has sold in Johnston for more than \$9 per square foot, the transactions have been driven by owner users, such as drug stores, convenience stores, and banks, all of which are more tolerant of price premiums, as their business models are driven by higher traffic corner locations.

For the residential side of the analysis, in 2007, single family residential lots (10,000 sf in size) in Johnston tend to sell for between \$4.25 and \$4.75 per square foot. Larger lots in better locations can command premiums under single family zoning of up to \$5 per square foot. Larger residential parcels suitable for multi-family development (between 0.5 and 2.6 acres in size) have sold for an average price of \$3.25 per square foot, with recent transactions along Merle Hay Road north of NW 63<sup>rd</sup> Place happening for between \$2.90 and \$3.44 per square foot, with commercial or multi-family zoning. Supportable land values for multi-family are closely associated with achievable unit sales prices for townhomes or condominiums. The Triton Homes project laid the groundwork for town home values which sold in 2005 / 2006 for about \$125,000 for units with about 1,200 sf of living space. Given a median home value of about \$250,000, there would appear to be room to generate additional premiums in unit sales prices for projects with higher levels of urban design, and related amenities.

The following chart highlights ERA's initial estimate of value ranges for existing parcels. The values incorporate assumptions regarding highest and best used for each parcel, as well as ERA judgment and experience. The reader should understand that highest and best use incorporates political, legal, zoning and planning elements, as well as market considerations. The values have been presented as ranges to reflect several important variables:

- All parcels are not created the same. Within the identified sample there are variations in parcel size and condition of existing improvements. As such, developers will pay less for parcels that they have to do more work on to prepare for new development.
- Redevelopment timing is a critical factor in the development equation. For redevelopment sites that require considerable assemblage of property, increased time requirements directly translate into higher risk. For this reason, sites that are assembled and ready to go are more attractive compared to existing individual parcels.
- As mentioned in ERA's analysis, end users for a redeveloped site carry considerable weight in dictating land values. For mixed use commercial centers with credit worthy national tenants (Starbucks, circuit city, etc.) higher rent tolerances directly translate into higher land values.

- Land values are a function of risk and reward. If sites are being sold “as is”, the majority of the risk of redevelopment is in fact being transferred to the developer, who will be less motivated to pay a premium for the site.

**Table 26. Land Value Range Estimates, by Use, Johnston**

| # | Use                                    | Density / Lot Coverage % | Assembled Acres | Avg Existing Parcel Size | Land Value Ranges  |
|---|--|--------------------------|-----------------|--------------------------|--------------------|
| 1 | Mixed Use                              | 17%                      | 14.4            | 0.4 to 2.6 acres         | \$6 to \$10 per sf |
| 2 | High Density Residential               | 10.06                    | 6.96            | 0.86 to 1.2 acres        | \$2 to \$4 per sf  |
| 3 | High Density Residential               | 7.39                     | 4.33            | 0.86 acres               | \$2 to \$4 per sf  |
| 4 | Office I                               | 45%                      | 3.42            | 1 to 2 acres             | \$6 to \$8 per sf  |
| 5 | Bi-Attached Housing                    | 6.45                     | 4.34            | 0.64 to 1.37 acres       | \$2 to \$4 per sf  |
| 6 | Medium Density Detached Residential I  | 3.38                     | 9.47            | 0.8 to 1.8 acres         | \$4 to \$5 per sf  |
| 7 | Medium Density Attached Residential II | 13.10                    | 6.41            | one parcel               | \$2 to \$4 per sf  |
| 8 | Office II                              | 15%                      | 4.61            | one parcel               | \$6 to \$8 per sf  |

### Town Center Analysis

Use a discounted cash flow to estimate the level of investment that a developer would make in the town center project, given the assumption of a hurdle investment rate of 10% (un-leveraged) and a ten-year holding period for the asset. The approach builds in the following elements:

- Developer investment to assemble the site, demolish existing improvements, prepare the site, and develop new retail space.
- Operating cash flow after owner expenses over a 10-year period, with a sale of the asset at the end of the 10-year period, using a terminal capitalization rate.
- Estimation of a public incentive to insure that the developer achieves a minimum 10% rate of return (un-leveraged) over the holding period of the investment

#### Town Center Assumptions

- 108,900 SF of retail space
- Vacancy / credit loss factor of 5%
- Year 1 NNN lease rate of \$15 per sf
- Owner operating expenses of \$3 per sf
- A terminal capitalization rate applied to year 11 NOI of 9%, less 3% for costs of sale
- Developer land acquisition costs of \$1,931,700 (assessed value of \$1,287,800 + 50% premium).
- Residential property demo – 8 homes at \$35,000 per home
- Civic property demo – (40,000 sf at \$5 per sf)
- Hard construction costs of \$125 per sf
- Soft costs at 12% of hard costs
- Total developer investment of \$17.6 million

Based on the above approach, the project would generate an NOI before debt service of about \$1.3 million. Using the 10% hurdle rate, the project would appear to require an incentive of about \$2.5 million, which should be viewed in perspective with the estimated total construction budget of about \$17 million. ERA is assuming that the incentive is paid when the project has been occupied by tenants.

---

## **General & Limiting Conditions**

---

Every reasonable effort has been made to ensure that the data contained in this study reflect the most accurate and timely information possible. These data are believed to be reliable. This study is based on estimates, assumptions and other information developed by Economics Research Associates from its independent research effort, general knowledge of the market and the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent and representatives or any other data source used in preparing or presenting this study.

No warranty or representation is made by Economics Research Associates that any of the projected values or results contained in this study will actually be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Economics Research Associates" in any manner without first obtaining the prior written consent of Economics Research Associates. No abstracting, excerpting or summarizing of this study may be made without first obtaining the prior written consent of Economics Research Associates. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person, other than the client, without first obtaining the prior written consent of Economics Research Associates. This study may not be used for purposes other than that for which it is prepared or for which prior written consent has first been obtained from Economics Research Associates.

This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions and considerations.