

RETAIL MARKET STUDY

The Mercato Project

Lawrence, Kansas
October 12, 2009
Revised November 16, 2009

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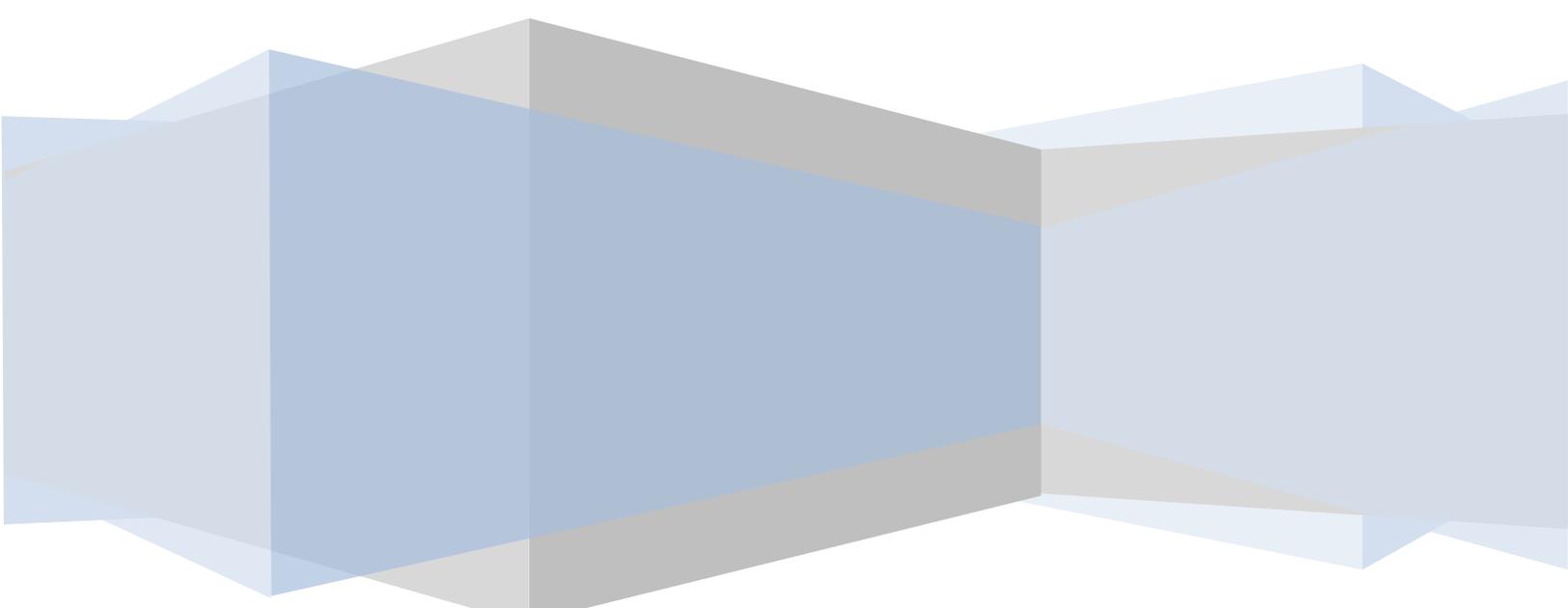


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The purpose of this retail market analysis is to provide an independent review and projection of demand for new retail development in Lawrence, Kansas. More specifically, this analysis has been prepared to assess the amount of additional retail demand to a project on the northeast corner of Sixth Street (U.S. Highway 40) and the South Lawrence Trafficway (K-10) known as the Mercato.

The Mercato is a 48+ acre site in northwest Lawrence seeking an additional retail square feet of net leasable space. The first phase of the retail development is planned to begin construction in 2010 and open in 2011 and the second phase is expected to open in 2014. This retail market study has been prepared in accordance with City of Lawrence Land Development Code Sec. 20-1107. The following factors and conditions were examined:

- Recent and projected population, income and employment trends for Lawrence
- Retail sales data and related trends in Lawrence and Douglas County
- Review of retail occupancy and vacancy rates in Lawrence

This retail market study is presented in four sections:

- I. Executive Summary
- II. Historic and Current Retail Market Conditions
- III. West 6th Street Retail Market Overview and Site Assessment
- IV. Projected Retail Demand and Conclusion

I. EXECUTIVE SUMMARY

There is an average annual demand for approximately 110,750 to 126,314 square feet of new retail development in the Lawrence over the next decade or a total of 664,500 to 757,900 square feet during the time frame in which the Mercato is planned to be built. The expanded Mercato development encompassing 361,000 square feet represents approximately 48 to 54 percent of this citywide projected demand during the next six years. This opportunity is further strengthened by the fact that there is no recorded final development plan for other retail development immediately south of the Mercato site.

The potential retail uses at the Mercato are discussed in the body of this market study. In addition to meeting the city's retail demand, Douglas County's increasing sales leakage evidenced by its 0.85 "pull factor" suggests that additional retail space targeted to overcome the county's leakage can is warranted.

Significant changes are occurring in the retail industry as a result of the current national recession. These changes will influence the construction and occupancy of new retail development for the foreseeable future, including the expanded Mercato. More specifically, construction of new retail development will be driven by either build-to-suit and/or owner-occupants seeking a new building as compared to the financing practices and construction of speculative retail space that occurred through the past decade. The result of this fundamental shift in the retail industry is that the majority of future retail development will occur where and when specific tenants are committed to occupy the new retail building(s).

In Lawrence, this change is illustrated by the recent construction of two national drugstore stores - one at the southwest corner of 23rd Street and Iowa Street and one under development at the northeast corner of 6th & Wakarusa Drive. Both of these retail projects were constructed to satisfy the specific space needs of each user. Consequently, the construction of new retail buildings at the Mercato site will not occur until or unless specific retail tenants are contractually committed to the site. This new retail development condition also means that upon completion of each phase of the Mercato, the total amount of occupied retail space in Lawrence will increase while the citywide retail vacancy rate will decline.

This analysis concludes that West Lawrence sub-market area can expect to accommodate a significant portion of Lawrence's projected retail demand. Given the amount of new residential development, approved residential subdivisions and pace of residential growth in the northwest Lawrence and West Lawrence's below average share of the citywide retail market, approximately one-half of this citywide demand may be absorbed by the West 6th Street sub-market area, at least 361,000 square feet of this projected demand notwithstanding Douglas County overcoming the current countywide sales leakage.

These absorption projections are based on the following findings and conclusions:

1. Lawrence has absorbed an annual average of 158,860 square feet of retail development since 1995.
2. Despite continued retail development, the Kansas Department of Revenue reports that Douglas County's "pull factor" continues to reveal sales leakage, and Lawrence's "pull factor" has declined by 14.3 percent in the past decade, reflecting the fact that the Lawrence retail market is not satisfying the needs of the city's growing population (See Table B – "Lawrence and Douglas County Retail Pull Factor 1998 – 2008"). Douglas County's "pull factor" has declined by 13.3 percent during this period. Therefore, there is the potential for Douglas County to capture greater retail sales with a retail center that attracts residents from outside of the Lawrence city limits and for the City of Lawrence's pull factor to reverse these declines in "pull factor" from the past decade.
3. The amount of commercial development planned in the original Horizon 2020 which influenced the amount of land zoned for commercial uses reflected a smaller population than Lawrence has realized. The latest version of Horizon 2020 projects a population for Lawrence of 95,178 (middle scenario) in 2010 and 110,404 in 2020. Given the 2008 U.S. Census of 90,520 residents for Lawrence, the latest version of Horizon 2020 substantiates continued demand for additional retail through the coming decade.
4. Lawrence's retail demand is underserved as evidenced by a below regional and national retail vacancy rate.

The proposed development is not expected to negatively impact the viability of Downtown Lawrence for a combination of the following reasons:

- The site is approximately 5.5 miles from Downtown Lawrence and serves a trade area to the west and north;
- Downtown Lawrence has increasingly become a one-of-a-kind specialty retail and entertainment district destination competing less and less with the city's other regional center, South Iowa Street;

- Downtown Lawrence’s vacancy rate of 1.8 percent is lower than the citywide vacancy rate reflecting strong demand and healthy retail market.
- The site can easily serve residents of northwest Lawrence and Douglas County, as well as Douglas County employees who reside in neighboring Jefferson and Shawnee Counties;
 - The development will be phased as the population of northwest Lawrence increases;
 - The Mercato site may accommodate larger tenants that cannot be physically contained in Downtown Lawrence where Downtown Lawrence’s vacant spaces average 3,000 to 5,000 square feet (See Table J – “Lawrence Retail Space and Vacancy by Sub-Market Area 2008”).

II. HISTORIC and CURRENT RETAIL MARKET CONDITIONS

This section of the study describes the prevailing conditions and factors that influence the retail market in Lawrence – retail sales, population, employment, income and retail occupancy and vacancy rates.

Recent Retail Sales Trends

The most accurate reflection of the Lawrence retail market condition can be seen in retail sales, population and retail square footage growth. Since 1995, retail sales tax collections in the City of Lawrence have grown at a faster rate than both city population and total retail square footage, although after adjusting for inflation, retail sales have increased 1.8 percent since 2000, less than population growth. This lower percentage is also reflected in the decline in the city’s retail pull factor from 1.13 in 2000 to 1.02 in 2007.

Lawrence has added an average of 152,046 square feet of new retail space since 2000. Since that time, retail sales have increased 24.6 percent while the population has grown approximately 13 percent overall and 1.8 percent after adjusted for inflation. (see Table A - “Lawrence Retail Development and Sales 1995 - 2008”). The following table summarizes the growth in these key indicators since 1995. Sales tax collections since 2006 have been flat reflecting the city’s sales leakage and decline in retail pull factor.

Table A
Lawrence Retail Development and Sales 1995 – 2008

| Year | Lawrence Population | Retail Square Feet | City Retail Sales Tax Collections | Adjusted Retail Sales Tax Collections – 2006/2008 \$ @ |
|-------------------------------------|---------------------|--------------------|-----------------------------------|--|
| 1995 | 74,748 | 4,209,000 | \$ 8,427,203 | \$10,959,907 |
| 2000 | 80,098 | 5,375,530 | \$10,348,071 | \$11,866,772 |
| 2001 | 83,495 | 5,424,030 | \$10,739,915 | \$11,995,391 |
| 2002 | 83,495 | 5,491,923 | \$10,789,837 | \$11,906,452 |
| 2003 | 85,282 | 5,671,364 | \$10,914,097 | \$11,813,913 |
| 2004 | 87,184 | 5,708,314 | \$11,438,872 | \$12,090,374 |
| 2005 | 88,664 | Est. 5,929,200 | \$11,841,727 | \$12,130,856 |
| 2006 | 89,690 | Est. 6,150,100 | \$12,260,437 | \$12,260,437 |
| 2007 | 90,475 | Est. 6,371,000 | \$12,453,791 | \$12,108,693 |
| 2008 | 90,520 | Est. 6,591,900 | \$12,898,143 | \$12,076,913 |
| 2000 – 2008 Total Change | 10,422 | 1,216,370 | \$2,550,072 | \$210,141 |
| 2000 – 2008: Average/ Year | 1,303 | 152,046 | \$318,759 | \$26,268 |
| Percent Increase 2000 – 2008 | 13.0% | 22.6% | 24.6% | 1.8% |

@ = U.S. Bureau of Labor Statistics inflation calculator through 2006 adjusted to 2006 dollars; 2007 and 2008 adjusted to 2008 dollars.

Source: U.S. Census; Lawrence/Douglas County Planning Department; City of Lawrence Finance Department; Grubb Ellis/Winbury Group.

Despite this population and retail development growth, Lawrence and Douglas County have declined in attracting the city's fair share of retail demand. Lawrence's retail sales data and "pull factor" reflect the fact that the Lawrence retail market serves a population base that extends beyond city residents. A "pull factor" is a measure of the market share captured in a community by all of the retail businesses and is used to compare the magnitude of sales activity to the level of business activity on a per capita basis. It is calculated by dividing city or county per capita sales tax collections by state per capita sales tax collections. A pull factor above 1.00 indicates that the community is attracting business while one that is below 1.00 indicates that the community is losing business to other places.

Lawrence's pull factor in 2007 was 1.02, according to Kansas Department of Revenue (See Table B – "Lawrence and Douglas County Retail Pull Factor 1998 – 2008"). This reflects a decline of 14.3 percent in the past decade for Lawrence. Douglas County has also declined over the past decade. As a result of these trends, **there remains potential for both Lawrence and Douglas County to recapture retail sales leakage.**

Table B
City of Lawrence and Douglas County Retail Pull Factor 1998 – 2008

| Year | City of Lawrence Pull Factor | Douglas County Pull Factor |
|---|------------------------------|----------------------------|
| 1998 | 1.19 | 0.98 |
| 1999 | 1.16 | 0.96 |
| 2000 | 1.13 | 0.93 |
| 2001 | 1.18 | 0.93 |
| 2002 | 1.13 | 0.92 |
| 2003 | 1.08 | 0.93 |
| 2004 | 1.11 | 0.96 |
| 2005 | 1.11 | 0.99 |
| 2006 | 1.12 | 0.97 |
| 2007 | 1.02 | 0.87 |
| 2008 | N / A | 0.85 |
| 1998 – 2007/08: Total Change | (0.17) | (0.10) |
| Percent Change | (14.3%) | (13.3%) |

Source: Kansas Department of Revenue.

Especially significant is the fact that Douglas County remains below 1.00, declining to 0.85 in 2008 from 0.99 in 2005, indicating retail sales dollars are increasingly leaving Douglas County, a condition that began to appear in the county’s retail pull factor data in 1998. The Lawrence pull factor figure illustrates the fact that the City of Lawrence is barely pulling retail activity from beyond its own population, the city’s pull factor is lower than eight Kansas cities nearest to Lawrence in population. (See Table C – “Major Kansas Cities Retail Pull Factor 2007”). Lawrence’s 1.02 pull factor is 9th among the 10 medium sized cities in Kansas with population between 30,000 and 120,000 persons.

Because Lawrence is the employment center for Douglas County, is located at the convergence of all major roads in Douglas County and houses approximately 80 percent of the county’s population, the city and county have the potential to grow its retail base and recapture this retail sales leakage.

Table C
Major Kansas Cities Retail Pull Factor 2007

| City | Retail Pull Factor |
|--------------------|---------------------------|
| 1. Lenexa | 1.58 |
| 2. Salina | 1.48 |
| 3. Topeka | 1.47 |
| 4. Hutchinson | 1.35 |
| 5. Manhattan | 1.28 |
| 6. Olathe | 1.28 |
| 7. Leawood | 1.26 |
| 8. Shawnee | 1.04 |
| 9. Lawrence | 1.02 |
| 10. Leavenworth | 0.79 |

Source: Kansas Department of Revenue.

The fact that Douglas County's pull factor has declined over the past decade and is below the 1.00 level for sales equilibrium further indicates an inadequate selection of goods within the county to satisfy all county consumers. The larger and more convenient the selection of goods that Lawrence can offer, the more likely Douglas County's retail sales leakage can be overcome.

Lawrence and Douglas County's potential to expand their pull factors can be attributed to a range of factors influencing the local retail market:

1. The city and county are projected to continue to expand their population and employment bases. However, population growth does not, by itself, influence a pull factor.
2. The site is located on the primary highway connecting Lawrence to Topeka. Many Lawrence residents employed in Shawnee County use West 6th Street (U.S. Highway 40) to commute to Shawnee County.
3. Douglas County has attracts 7,000 workers from outside Douglas County according to 2000 U.S. Census data (See Table D – Douglas County Work Force Place of Residency").

Lawrence and Douglas County have the ability to increase sales from Jefferson, Franklin and Shawnee Counties because of Douglas County's employment opportunities. More than 7,000 persons commute into Douglas County for employment. Jefferson and Shawnee Counties provide the largest number of workers. A majority of these will pass the proposed development to work in Lawrence.

Table D
Douglas County Work Force Place of Residency 2000

| County of Residence | Number of Douglas County Workers | Percent of Labor Force |
|----------------------------|----------------------------------|------------------------|
| Douglas County | 41,186 | 84.0% |
| <u>Non-Douglas County:</u> | <u>7,845</u> | <u>16.0%</u> |
| Jefferson County | 1,640 | 3.3% |
| Shawnee County | 1,317 | 2.7% |
| Franklin County | 961 | 1.9% |
| Leavenworth County | 785 | 1.6% |
| All Other | 3,142 | 6.5% |
| Total Employees | 49,031 | 100% |

Source: 2000 U.S. Census.

The amount space occupied exclusively by retail in Lawrence in 2008 is estimated to be 6,591,900 according to the local commercial real estate firm of Grubb/Ellis (Table E – “Lawrence Retail Square Feet 1998 - 2008”). There are alternative public and private sources for the amount of retail space depending, in part, on whether or not non-retail users located in retail centers are counted. Updating the City of Lawrence commercial figures to include new development on West 6th Street, there are an estimated 7,649,460 square feet.

Table E
Lawrence Retail Square Feet 1998 - 2008

| Year | Population | Total Retail Square Feet | Annual Change |
|------|------------|--------------------------|---------------|
| 1998 | 79,190 | 4,875,000 | N / A |
| 1999 | 79,644 | 5,163,677 | 288,677 |
| 2000 | 80,098 | 5,375,530 | 211,853 |
| 2001 | 83,495 | 5,424,030 | 48,500 |
| 2002 | 85,282 | 5,491,923 | 67,893 |
| 2003 | 86,040 | 5,671,364 | 179,441 |
| 2004 | 87,184 | 5,708,314 | 36,950 |
| 2005 | 88,664 | Est. 5,929,200 | 220,886 |
| 2008 | 90,520 | Est. 6,591,900 | N / A |

Source: City of Lawrence Finance Department; U.S. Census; Grubb & Ellis/Winbury Group.

Note: City of Lawrence total square footage includes office uses located within retail centers.

Projected Population

Population growth is one of the key factors influencing retail demand. In the past decade, Lawrence has added an average of 1,303 new residents per year since 2000. The most recent population figure reported by the U.S. Census Bureau in 2008 set the city’s population at 90,520.

Horizon 2020 projects the city’s population to increase to approximately 95,178 (the plan’s middle population scenario) by 2010 and over 110,400 by 2020 contributing to an on-going demand for additions to the city’s retail supply. New retail construction is predominantly planned in the two areas of Lawrence experiencing the most new residential growth – southeast and northwest Lawrence. Otherwise, the South Iowa Street commercial corridor is nearly built out. New retail in Downtown Lawrence will only occur only through redevelopment.

Table F
Lawrence Population 1990 - 2020

| Year | Estimated Lawrence Population |
|---------------------------------|--------------------------------------|
| 1990 | 65,608 |
| 2000 | 80,098 |
| 2007 | 90,475 |
| 2008 | 90,520 |
| Est. 2009 | 93,853 |
| Est. 2010 | 95,178 |
| Est. 2015 | 103,987 |
| Est. 2020 | 110,406 |
| 1990 - 2000 | 14,490 |
| 2000 - 2008 | 10,422 |
| 2000 - 2008 Avg./Year | 1,303 |
| 2000 - 2010 Total Change | 15, 444 |
| 2000 - 2010 Avg./Year | 1,544 |
| 2010 - 2020 Total Change | 15,228 |
| 2000 - 2020 Avg./Year | 1,523 |

Source: Lawrence/Douglas County Planning Department Horizon 2020; U.S. Census.

From 1990 to 2000, that section of Lawrence in the northwest quadrant of the city, the area located within the 66049 ZIP Code, experienced the largest increase in population growth. The 61.2 percent increase was almost triple the rate of the city’s 22 percent increase during the 1990’s. Northwest Lawrence contained 23 percent of the city’s population in 2000 and has

increased its share of the city since that time as a result of the amount of new residential development that has occurred in the area since 2000.

Table G
Lawrence Population by ZIP Code Area 1990 – 2000

| ZIP Code: Area of City | 66044 Central | 66046 Southern | 66047 Southwest | 66049 Northwest | TOTAL |
|-----------------------------------|--------------------------|---------------------------|----------------------------|----------------------------|--------------|
| 1990 | 30,021 | 16,345 | 9,194 | 12,615 | 68,608 |
| 2000 | 31,131 | 19,981 | 15,122 | 20,338 | 86,572 |
| Net Change | 1,110 | 3,636 | 5,928 | 7,723 | 17,964 |
| Percent Change | 3.7% | 22.2% | 64.5% | 61.2% | 27.0% |
| 2000 Percent of Total | 36% | 23% | 17% | 23% | 100% |

Source: U.S. Census.

Douglas County Employment

Cities with large concentrations of employment require retail support regardless of population trends. Employment growth in Douglas County is concentrated in Lawrence and further contributes to the growth in local sales tax collections and retail demand. The number of jobs in Douglas County increased from 36,544 in 2001 to 38,387 in 2007.

In 2005, the Kansas Department of Labor projected the Northeast Kansas region of the state, a 17 county area that includes Douglas County but excludes Johnson and Wyandotte County, to increase employment by approximately 20,500 jobs by 2010. As the second largest county in this 17 county northeast Kansas region, Douglas County will continue to attract its share of this expanded employment base.

Douglas County Per Capita Income

In addition to population growth, it is widely recognized that the amount of retail space in a community is a direct function of the amount of disposable income. In 2007, Douglas County had a per capita income of \$30,365 according to data published by the U.S. Department of Commerce Bureau of Economic Analysis. It is widely acknowledged that countywide income levels are influenced in Douglas County because of the number of college students factored into per capita income calculations. Douglas County's per capita income is 85 percent of the statewide average. Nevertheless, since 2000, Douglas County's per capita income has been stable after adjusting for inflation. (See Table H - "Douglas County Per Capita Income 2000 – 2007 (in 2007 consumer price index inflation adjusted dollars.)")

Table H
Douglas County per Capita Income 2000 – 2007

| Year | Douglas County Per Capita |
|---------------------------------------|---------------------------|
| 2000 | \$24,200 |
| 2007 Actual | \$30,365 |
| 2000 Inflation Adjusted to 2007 | \$30,257 |
| 2000 – 2007 Percent Change | 25.4% |
| 2000 – 2007 Inflation Adjusted Change | 0.3% |

Source: U.S. Department of Commerce Bureau of Economic Analysis; U.S. Department of Labor CPI.

III. WEST LAWRENCE MARKET OVERVIEW AND SITE ASSESSMENT

Northwest Lawrence is the fastest growing residential section of the city. A key indicator of the condition of a retail market and strength of retail demand are retail vacancy rates. The 2 West Lawrence retail submarkets contain approximately 1,136,000 square feet. This submarket area represents 20 percent of the total Lawrence retail market although the area has approximately one-fourth of the city’s population. The West Lawrence retail sub-market area includes two areas defined as 6th Street & Wakarusa and 6th & North areas.

A key indicator of the current condition of a retail market and influence on retail demand are retail vacancy rates. In 2008, the average retail vacancy rate for the nation’s 50 largest major metropolitan areas was 8.0 percent according to Integra Realty Resources, Inc. Viewpoint 2009. The metropolitan Kansas City area retail vacancy rate was 9.9 percent. In 2006, the City of Lawrence data reported a city-wide retail vacancy rate of 6.4 percent, lower than the region and the nation. Lawrence’s largest commercial real estate firm independently tracks retail vacancy in Lawrence as well. According to Grubb & Ellis data, Lawrence’s retail vacancy rate in 2008 was 5.3 percent. West Lawrence currently has a vacancy rate of approximately 6.5 percent (see Table J - “Lawrence Retail Space and Vacancy by Sub-Market Area”).

Table J
Lawrence Retail Space and Vacancy by Sub-Market Area 2008

| Sub-Market Area | Total Square Feet | Percent of Total Retail | Vacant Square Feet | Percent Vacant |
|--|-------------------|-------------------------|--------------------|----------------|
| Downtown Lawrence | 1,214,660 | 21.3% | 22,175 | 1.8% |
| <u>West Lawrence:</u> | | | | |
| 6 th St. & Wakarusa (Alvamar & West) | 420,300 | 7.4% | 46,225 | |
| 6 th & North | <u>715,700</u> | <u>12.6%</u> | <u>27,200</u> | |
| West Lawrence Total | 1,136,000 | 20% | 73,425 | 6.5% |
| All other Lawrence | 3,329,240 | 58.3% | 207,400 | 6.2% |
| TOTAL | 5,708,040 | 100% | 303,000 | 5.3% |

Source: Grubb & Ellis/The Winbury Group; RICHARD CAPLAN & ASSOCIATES.

Note: Total retail square feet excludes office uses located within retail centers.

The Mercato will capture a combination of sales of Douglas County residents now shopping in Topeka, as evidenced by Douglas County’s declining pull factor, new residential growth in northwest and west Lawrence and Lawrence commuters shopping in Topeka.

Mercato Site Description

The Mercato site offers direct access from West Sixth Street and George Williams Way. The site also offers excellent visibility from all directions and is well suited for expanded retail development because:

- It is located at the intersection of a principal arterial U.S. Highway 40 and state highway K-10;
- The site offers excellent visibility and access to passing automobiles;
- It will provide for the sale of goods and services to Northwest Lawrence as well as surrounding unincorporated parts of Douglas County and nearby Jefferson and Shawnee County persons employed in Douglas County; and
- The west Lawrence submarket has a disproportionately lower percentage of the city’s total retail inventory.

Proposed Commercial Uses

The expanded development proposes a combined total of 361,000 square feet. The proposed uses are intended to serve the West Lawrence. The site is zoned UR, Urban Reserve District, is a Special Purpose Base District primarily intended to provide a suitable classification for newly annexed land. Although contractual commitments about the specific companies have yet to be made, the following four uses/tenants and square footage to be occupied at the commercial development are anticipated:

**Table K
Proposed Mercato Commercial Mix of Uses**

| Phase | Planned Retail Use | Square Feet |
|--------------|---------------------------|------------------------|
| I | Home Improvement Center | 175,000 |
| II | Discount Department Store | 175,000 |
| | Convenience Store | \ } 11,000 / |
| | Fast food Restaurant | |
| TOTAL | | 361,000 Sq. Ft. |

Potential Impact on Downtown Lawrence

Each of the proposed commercial uses has other locations in and around Lawrence’s sub-markets and Downtown Lawrence. A review of the number of like business establishments in Lawrence and downtown in these categories and the number and percent located in Downtown Lawrence is presented in Table L – “Lawrence Business Inventory Comparisons 2009.” There are an estimated 75 existing Lawrence retail establishments offering similar products and services as the potential retail uses at the Mercato. The proposed uses within the Mercato and their numeric comparison to Downtown Lawrence are presented in the following Table M.

**Table L
Lawrence Business Inventory Comparisons 2009**

| Major Use | Total Existing Establishments in Lawrence | Establishments Located in Downtown Lawrence | Percent of Total in Downtown |
|--|--|--|-------------------------------------|
| Home Improvement Center / Hardware | 6 | 1 | 16% |
| Discount Department Store | 4 | 0 | 0% |
| Convenience Store | 23 | 2 | 9% |
| Fast Food Restaurant/ Sandwich Shop | 42 | 2 | 5% |
| Total | 75 | 5 | 7% |

Source: Lawrence Yellow Pages January 2009.

As the analysis in Table L reveals, the four retail categories have the vast majority of Lawrence locations beyond downtown. Therefore, these proposed uses are not expected to impact Downtown Lawrence and do not compete with downtown. One of the proposed uses, the discount department store, is not available Downtown while the other three uses have a limited in downtown. These proposed uses more commonly will locate in centers serving other parts of the community from downtown because their owners and/or operators seek locations easily served by neighborhood traffic and/or are along a major thoroughfare such as West 6th Street.

Projected Impact on Retail Vacancy Rate

The development of Phase I the Mercato will increase the city-wide vacancy rate in the unlikely event that the proposed project was fully constructed and not occupied. However, the commercial project is intended to be constructed to satisfy specific tenants and in two phases, the second phase will not be constructed unless and/or until tenants and/or owner-occupants are secured. Because of the size of the two large users, a home improvement center and a

discount department store each will not be built until or unless a pre-leasing commitment is secured. Therefore, there is no possibility that the proposed development would be constructed and completely unoccupied.

Upon occupancy of both phases of the project, the city-wide vacancy rate will decline by 0.3 percent to 6.3 percent. If the proposed commercial development is only 50 percent occupied, an unlikely scenario, the city-wide vacancy rate would increase by 0.9 percent and by 2.1 percent in the unlikely scenario that Phase I is constructed and not occupied. (See Table M - "Proposed Development Impact on Lawrence Vacancy Rate.") Phase II will not be constructed until after Phase I is completed and fully occupied.

Table M
Proposed Development Impact on Lawrence Vacancy Rate

| Project Occupancy Assumption | City of Lawrence | | | With Proposed Project | | City-wide Vacancy Rate |
|------------------------------|-------------------|----------------------------|--------------------------|------------------------------|----------------------------|------------------------|
| | Total Square Feet | Total Occupied Square Feet | Total Vacant Square Feet | Project Occupied Square Feet | Project Vacant Square Feet | |
| Total Retail Inventory (a) | 7,694,560 | 7,190,277 | 504,183 | N / A | N / A | 6.6% |
| <u>With Phase I:</u> | | | | | | |
| 100% Occupied | 7,869,460 | 7,365,277 | 504,183 | 175,000 | 0 | 6.4% |
| 50% Occupied | 7,869,460 | 7,277,777 | 591,683 | 87,500 | 87,500 | 7.5% |
| 0% Occupied | 7,869,460 | 7,190,277 | 679,183 | 0 | 175,000 | 8.6% |
| <u>With Phase II:</u> | | | | | | |
| 100% Occupied | 8,055,460 | 7,551,277 | 504,183 | 361,000 | 0 | 6.3% |
| 50% Occupied | 8,055,460 | 7,458,277 | 597,183 | 268,000 | 93,000 | 7.4% |
| 0% Occupied | 8,055,460 | 7,365,277 | 690,183 | 175,000 | 186,000 | 8.6% |

(a) Source: City of Lawrence Planning Department Retail Inventory adjusted to include approximately 112,800 square foot new Wal-Mart at 6th & Wakarusa and a new pharmacy located at the southeast intersection of 23rd and Iowa Streets; total includes some office uses within retail centers.

IV. PROJECTED RETAIL DEMAND IN LAWRENCE

The Lawrence retail trade area includes all of Douglas County since Lawrence is the major employment center for Douglas County. Approximately eighty percent of the county's population resides inside the city, and the city is geographically central within the county. Therefore, in evaluating the retail market in Lawrence, all of Douglas County's population must be considered.

Based on this analysis, there is a total projected unmet demand for approximately 1.1 to 1.2 million square feet of retail through 2019 in Lawrence. A six year analysis period was also used reflecting the proposed build out period for the Mercato and the first phase of the proposed retail development will not reach the market before 2011 (See Table O – "Projected Capture Rate for Expanded Mercato Development").

This retail demand projection averages two alternative demand scenarios (Table N – "Lawrence Retail Demand Projection 2010 – 2019"). The two alternative scenarios and the methodology used as a basis for this analysis are as follows:

Demand Alternative A: Population Growth from 2000 - 2008 – This projection assumes that Lawrence and Douglas County's population will increase over the next decade at the same level as experienced since 2000 and new retail per capita will remain at the level that currently exists. The projected population reflects an average of 1,304 persons per year (see Table F – "Lawrence Population 1990 – 2020").

Demand Alternative B: Horizon 2020 Moderate Population Growth – This scenario relies on is the city moderate population growth projection found in the Horizon 2020 Plan, or an annual average of 1,523 new residents over the next decade.

The result of these alternatives finds that there is an average annual demand approximately 110,000 to 129,000 square feet of retail space per year (See Table N – "Lawrence Commercial Demand Analysis 2009 – 2019"). Based on this average, there is an overall demand for approximately 664,500 to 757,900 square feet over the next six years to meet the retail demand for Lawrence.

This projected commercial demand maintains the current Lawrence market equilibrium based on the average population growth and amount of retail development that has been absorbed since 1995. To the extent that Douglas County seeks to "grow" its pull factor by capturing sales leakage and from Jefferson and Shawnee County residents employed in Douglas County, additional retail square feet is warranted.

Table N
Lawrence Commercial Demand Analysis 2009 – 2019

| Demand Factor | Persons / Square Feet |
|---|---|
| 2008 Population (a) Commercial Square Feet (b) = Square Feet per Capita | 90,520 persons 7,649,460 square feet 85 sq. feet per capita |
| <u>Alternative A: Based on 2000 – 2008 Actual Growth</u> @ 1,303 average annual population growth (c) since 2000 ((See Table F) <u>Average Annual Commercial Demand</u> 10 Year Total Demand: 2010 – 2019 Annual Average | 85 sq. ft. x 1,303 persons/year = <u>110,750 square feet</u> 1,107,590 square feet 110,759 square feet |
| <u>Alternative B: Horizon 2020 Moderate Growth</u> @ 1,523 projected average annual population increase (See Table F) <u>Average Annual Commercial Demand</u> 10 Year Total Demand: 2010 – 2019 Annual Average | 85 sq. ft. x 1,486 persons/year = <u>129,455 square feet</u> 1,294,550 square feet 129,455 square feet |
| <u>Mercato Capture Rate:</u> With 175,000 square feet (Phase I only) With 186,000 square feet (Phase I and II) | 14 - 16 percent of total sf demand 29 - 33 percent of total sf demand |

Notes to Table N:

- (a) Source: U.S. Census.
- (b) Source is the City of Lawrence Retail Market Report 2006; Amended to include 23rd and Iowa Street project.
- (c) Projected population is based on the fact that Lawrence has grown by an average of 1,303 since 2000 according to U.S. Census Bureau data. (See Table F).

Based on these demand projections, the Mercato will capture from 45 to 54 percent of the citywide demand through 2014. (See Table O – “Projected Capture Rate for Expanded Mercato Development”.) However, given the fact that the area is the fastest growing part of Lawrence and the area has a disproportionately lower share of retail space given the area’s population and the decline of available commercial land elsewhere in the city, this market share capture rate is realistic.

Table O
Projected Capture Rate for Expanded Mercato Development

| Year | Minimum Est. Demand (Sq. Ft.) | Maximum Est. Demand (Sq. Ft.) | Total Mercato Project (Sq. Feet) | Mercato Market Share of Demand |
|------|-------------------------------|-------------------------------|----------------------------------|--------------------------------|
| 2009 | 110,750 | 129,455 | 0 | N / A |
| 2010 | 221,500 | 258,910 | 0 | N / A |
| 2011 | 332,250 | 388,365 | 175,000 | 45 - 53% |
| 2012 | 443,000 | 505,250 | 0 | N / A |
| 2013 | 553,750 | 631,570 | 0 | N / A |
| 2014 | 664,500 | 776,730 | 361,000 | 46 - 54% |

In conclusion, there is sufficient commercial demand for expanded square feet at West 6th Street and K-10 in West Lawrence to absorb 361,000 square feet by 2014. This finding and conclusion is based on the following:

- The proposed development enjoys excellent access and visibility.
- The site is located in the fastest growing residential area of the city.
- The potential exists for Lawrence and Douglas County to support increased retail in West 6th Street by capturing Douglas County sales leakage.
- The retail market in West Lawrence is under represented in area in comparison to its population.
- Retail sales from rural Douglas County and Jefferson and Shawnee Counties will be attracted to the site.

Finally, the size of the parcel, the 5.5 mile distance from Downtown Lawrence and the location at the intersection of a state and federal highway make the project suited to satisfy additional commercial development.

This retail market study has been prepared exclusively in consideration of an expanded commercial development in Lawrence, Kansas. It may be used for deliberation by City of Lawrence officials in consideration of this proposed project. Otherwise, any use or reproduction of the material in this report without the expressed consent of RICHARD CAPLAN & ASSOCIATES is prohibited.

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November 16, 2009
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