

RETAIL MARKET STUDY

Bauer Farm

Lawrence, Kansas

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Prepared by

RICHARD CAPLAN & ASSOCIATES

609 W. 70th Street

Kansas City, MO 64113

(816) 237-1986

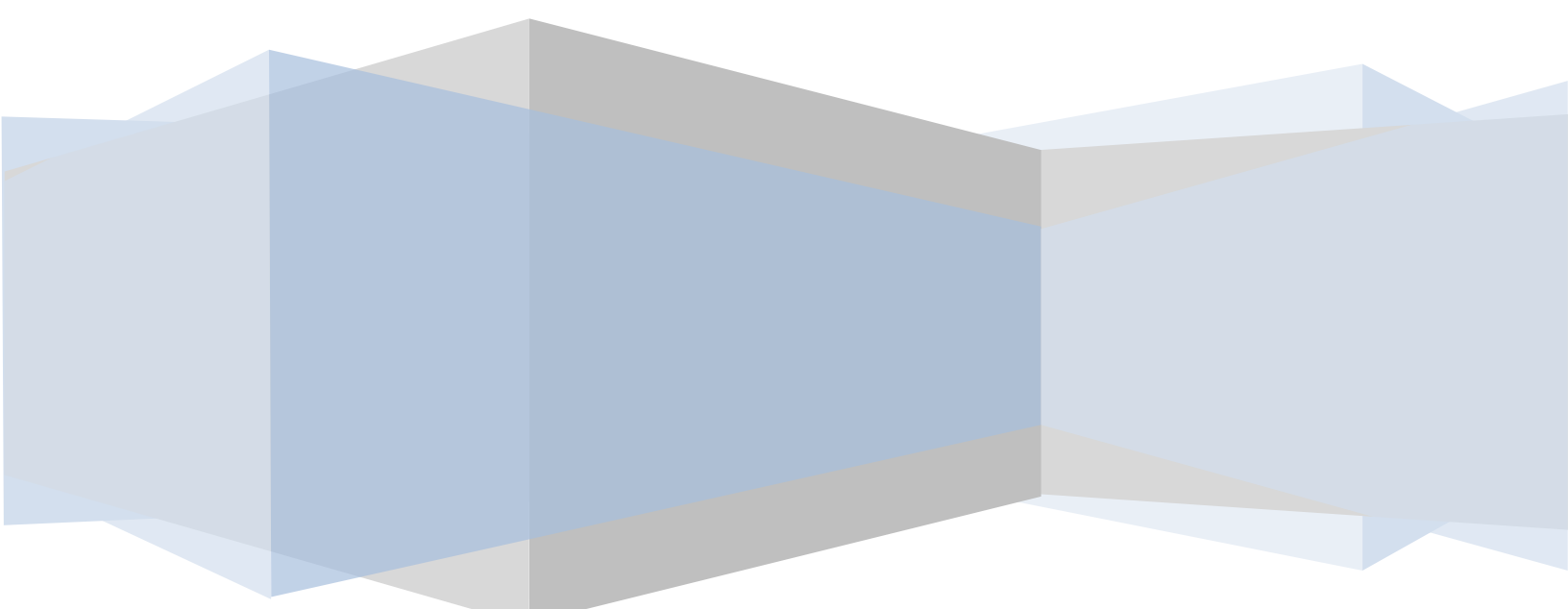


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The purpose of this retail market analysis is to provide an independent review and projection of demand for new retail development in Lawrence, Kansas. More specifically, this analysis has been prepared to assess an addition to the allowable retail uses and demand on the northeast corner of Sixth Street (U.S. Highway 40) and Wakarusa Drive known as the Bauer Farm.

The Bauer Farm is a 43.88 acre mixed use development in northwest Lawrence seeking additional retail square feet of net leasable space. The initial 25,455 square feet of retail development opened in 2009. 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, pull factors 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 Lawrence 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 Bauer Farm is planned to be built. The expanded Bauer Farm retail development would encompass an increase of 145,551 square feet above the 72,000 square feet already approved by the City of Lawrence for the site. This net increase represents approximately 21 to 25 percent of this citywide projected demand during the next five years or 11 to 13 percent of the citywide project demand during the next 10 years. (See Table O – “Projected Capture Rate for Expanded Bauer Farm Development.”)

The potential retail use, a home improvement store, at the Bauer Farm is discussed in the body of this retail market study. In addition to meeting the city’s retail demand, Lawrence and Douglas County’s increasing sales leakage evidenced by the City of Lawrence falling below 1.00 in 2008 and Douglas County’s 0.85 “pull factor” indicates 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 Bauer Farm. 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 in 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 at Bauer Farm. Both of these retail projects were constructed to satisfy the specific needs of each retail user. Consequently, the construction of a large retail building at the Bauer Farm site will not occur until or unless a specific retail tenant is contractually committed to the site. This new retail development condition also means that upon completion of this proposed addition at Bauer Farm, the total amount of occupied retail space in Lawrence will increase while the citywide retail vacancy rate will decline. (See Table M – “Proposed Development Impact on Lawrence Vacancy Rate.”)

This analysis further 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 recent pace of residential growth in 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 not withstanding Lawrence overcoming the current city and countywide sales leakage.

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

1. Lawrence has absorbed an annual average of 152,046 square feet of retail development since 2000.

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 16.8 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 2.9 percent in the past year. Therefore, there is the potential for Lawrence 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 this decline 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 and 116,383 for Douglas County in 2009, 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 rates.

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 4 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;
- 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; and
- The Bauer Farm 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 Change 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 has 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 2008 was 0.99, according to Kansas Department of Revenue (See Table B – "Lawrence and Douglas County Retail Pull Factors 1998 – 2008"). This reflects a decline of 16.8 percent in the past decade for Lawrence. This is the first time in the last Department of Revenue pull factor reporting that Lawrence has fallen below 1.00. 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 Factors 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	0.99	0.85
1998 – 2008: Total Change	(0.20)	(0.13)
Percent Change	(16.8%)	(13.3%)

Source: Kansas Department of Revenue.

It is also significant is the fact that Douglas County remains below 1.00, declining to its lowest level, 0.85 in 2008, from a peak of 0.99 in 2005, indicating retail sales dollars are increasingly leaving Douglas County. The latest Lawrence pull factor figure illustrates the fact that the City of Lawrence is now losing 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 - 2008”.) Lawrence's 0.99 pull factor is 9th among the 10 medium sized cities in Kansas with population between 30,000 and 120,000 persons and declined by 2.9 percent over the past year, the 8th highest rate of decline among the 10 cities measured.

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 Factors 2007 - 2008

City	Retail Pull Factor 2007	Retail Pull Factor 2008	Percent Change 2007 - 2008
1. Lenexa	1.58	1.69	7.0%
2. Salina	1.48	1.44	-2.7%
3. Topeka	1.47	1.44	-2.0%
4. Hutchinson	1.35	1.36	0.7%
5. Manhattan	1.28	1.25	-2.3%
6. Olathe	1.28	1.21	-5.5%
7. Leawood	1.26	1.23	-2.4%
8. Shawnee	1.04	0.98	-5.8%
9. Lawrence	1.02	0.99	-2.9%
10. Leavenworth	0.79	0.77	-2.5%

Source: Kansas Department of Revenue.

The fact that Lawrence and Douglas County pull factors have declined over the past decade and are below the 1.00 level for sales equilibrium further indicates an inadequate selection of goods within the city to satisfy all consumers. The larger and more convenient the selection of goods that Lawrence can offer, the more likely Lawrence and Douglas County's retail sales leakage can recover from this trend and 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 populations, although 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 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. Over 3,000 of Douglas County’s workers are from Shawnee and Jefferson Counties entering Lawrence from the northwest portion of the city.

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 City of Lawrence has not updated its retail base in several years. However, the amount space occupied exclusively by retail in Lawrence in 2008 was 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 for this study to include recent Bauer Farm retail development, there is an estimated 7,649,460 square feet.

Table E
Lawrence Retail Square Feet 1998 - 2008

Year	Population	Total Retail Square Feet	Annual Change / Annual Average
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	220,900

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. The most recent population figure reported by the U.S. Census Bureau in 2008 set the city's population at 90,520.

The most recent version of Horizon 2020 projects the city's population to increase to approximately 95,178 (the plan's middle population scenario) by 2010 and approximately over 110,400 by 2020 contributing to an on-going demand for additions to the city's retail supply. Although the pace of residential development has declined since 2008, Northwest Lawrence continues to be the most active area of the city for new residential development. New retail construction is predominantly planned in the two areas of Lawrence experiencing the most new residential growth – northwest Lawrence followed by a lesser amount in southeast Lawrence. 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 Northwest Lawrence 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 Lawrence	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 Population	36%	23%	17%	23%	100%

Source: U.S. Census.

Douglas County Employment and Unemployment Rates

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 by 4.8 percent, or 2,749 jobs, from 56,816 in 2000 to 59,565 in 2008 according to the most recent data published by the Bureau of Labor Statistics. Despite the recent economic recession, Douglas County's unemployment rate in February 2010 was 5.6 percent, lower than Kansas' 6.8 percent unemployment rate and significantly lower than the U.S. unemployment rate.

Douglas County Per Capita Income

In addition to population growth, 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 weighted lower due to the influence in Douglas County 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 RETAIL MARKET OVERVIEW

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 1,161,455 square feet which includes the existing 25,455 square feet at Bauer Farm. This submarket area represents 20.2 percent of the total Lawrence retail market although the area has approximately 23 percent of the city's population in 2000. 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 2009, the average retail vacancy rate for the nation's 50 largest major metropolitan areas was 9.8 percent according to Integra Realty Resources, Inc. Viewpoint 2009. The metropolitan Kansas City area retail vacancy rate was 13.9 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 updated retail vacancy rate in 2009 was estimated to be 5.4 percent. West Lawrence currently has a vacancy rate of approximately 6.8 percent (see Table J - "Lawrence Retail Space and Vacancy by Sub-Market Area 2009").

Table J
Lawrence Retail Space and Vacancy by Sub-Market Area 2009

Sub-Market Area	Total Square Feet	Percent of Lawrence Total Retail	Vacant Square Feet	Percent Vacant
Downtown Lawrence	1,214,660	21.7%	22,175	1.8%
<u>West Lawrence:</u>				
6 th St. & Wakarusa (a)	445,755	7.9%	51,873	
(Alvamar & West)				
6 th & North	<u>715,700</u>	<u>12.1%</u>	<u>27,200</u>	
West Lawrence Total	1,161,455	20.2%	73,425	6.8%
All other Lawrence	3,329,240	58.1%	207,400	6.2%
TOTAL	5,733,495	100%	308,648	5.4%

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

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

(a) Includes 25,455 square feet completed at Bauer Farm including 5,648 currently vacant.

Bauer Farm will capture a combination of sales of Douglas County residents now shopping in Topeka, as evidenced by Lawrence and Douglas County's declining pull factors, new residential growth in northwest and west Lawrence and Lawrence commuters shopping in Topeka.

Bauer Farm Site Description

The Bauer Farm site offers direct access from West Sixth Street, Folks Road and Wakarusa Drive. The site also offers excellent visibility and is well suited for expanded retail development because:

- It is located on a principal arterial U.S. Highway 40;
- 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 to have a total of 145,551 square feet at Bauer Farm. The proposed uses are intended to serve the West Lawrence sub-market. The site is zoned PCD, Planned Commercial Development, intended to provide a mix of retail, office and related commercial uses. Although contractual commitments about the specific companies have yet to be made, the planned use is for a home improvement center.

Potential Impact on Downtown Lawrence

The proposed commercial use has five 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 K – "Lawrence Business Inventory Comparisons 2010." There are an estimated 75 existing Lawrence retail establishments offering similar products and services as the potential retail uses at the Bauer Farm. The proposed uses within the Bauer Farm and their numeric comparison to Downtown Lawrence are presented in the following Table M.

**Table K
Lawrence Business Inventory Comparisons 2010**

Major Use	Total Existing Establishments in Lawrence	Establishments Located in Downtown Lawrence	Percent of Total in Downtown
Home Improvement Center / Hardware Stores	6	1	16%

Source: Lawrence Yellow Pages January 2010.

Table K reveals, the five of the six like establishments are not in Downtown Lawrence. Therefore, the proposed use is not expected to impact Downtown Lawrence and does not compete with downtown. The proposed use commonly locates in neighborhood 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

This proposed addition to the Bauer Farm 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 a specific tenant and will not be constructed unless and/or until the tenant and/or owner-occupant is committed to the Bauer Farm site. Because of the size of the user, the home improvement center will not be built until or unless a pre-leasing commitment is secured. Therefore, there is no possibility that the proposed development would be partially constructed or completely unoccupied.

Upon occupancy of the building, the city-wide vacancy rate will decline by 0.1 percent to 6.5 percent. If the proposed development is only 50 percent occupied, an unlikely scenario as noted above, the city-wide vacancy rate would increase by 0.8 percent and by 1.7 percent in the unlikely scenario that center is built but not occupied. (See Table L - "Proposed Development Impact on Lawrence Vacancy Rate.")

Table L
Proposed Development Impact on Lawrence Vacancy Rate

	City of Lawrence			With Proposed Project		City-wide Vacancy Rate
Project Occupancy Assumption	Total Square Feet	Total Occupied Square Feet	Total Vacant Square Feet (b)	Project Occupied Square Feet	Project Vacant Square Feet	
Total Retail Inventory (a)	7,720,015	7,210,184	509,831	N / A	N / A	6.6%
<u>With Addition:</u> 100% Occupied	7,865,566	7,355,755	509,831	145,551	0	6.5%
50% Occupied	7,865,566	7,283,960	582,606	72,775	72,775	7.4%
0% Occupied	7,865,566	7,210,184	655,382	0	145,551	8.3%

(a) Source: City of Lawrence Planning Department Retail Inventory adjusted to include approximately 112,800 square foot new Wal-Mart at 6th & Wakarusa, 25,455 square feet constructed at Bauer Farm and a new pharmacy located at the southeast intersection of 23rd and Iowa Streets; total includes some office uses within retail centers.

(b) Vacant includes office space from recently completed 5,658 square feet of vacant retail space at Bauer Farm.

Discussion of the Existing and Maintaining a Commercial Inventory

In most growing cities with a similar or larger population than Lawrence, it is common planning practice and reflects good economic development policy to have an inventory of sites that provides for a choice of commercial development options. It serves a community's interest to maintain an inventory of residential subdivisions, office, industrial and retail sites to stimulate and attract new private investment. Offering multiple sites also prevents inflating real estate asking prices that occurs where and when there is a shortage of or constraint of development opportunities.

Historically, Lawrence has maintained an inventory of approved commercial space that exceeds development activity. For example, since at least 2006 there has been an inventory or more than 600,000 square feet of approved commercial development in no less than four projects across the city. In practice, an average of 152,046 square feet of new retail space has been constructed since 2000. (See Table A - "Lawrence Retail Development and Sales 1995 - 2008"). Despite this added development, there remain more than 600,000 of approved but not constructed commercial development in 2010. This indicates that an annual average of approximately 25 percent of the approved commercial inventory was constructed since 2006. This level of new construction is likely to decline in the future given the more stringent financing standards imposed on real estate development as a result of the national recession and imposed by recent federal financial reform legislation.

Three of the projects in Lawrence where a sizable amount of approved commercial but not constructed space exists and their relevance to Bauer Farm are analyzed as follows:

- Balance of Bauer Farm - The balance of the approved but not constructed retail uses at the Bauer Farm is expected to complement the home improvement center at the site. It is common for a major national retail anchor to attract a range of small, ancillary tenants commercially compatible with a national anchor.
- Mercato - The 359,640 square feet of commercial development plans to include a home improvement center. This use competes with one of the proposed uses at Bauer Farm. The size of the Lawrence and Douglas County retail markets may not be sufficient to absorb both of these competing uses in the short term. However, as stated above, by Lawrence offering alternative sites, the city benefits from attracting the strongest, most economically feasible business.
- Fairfield Farms - There are 200,000 square feet of commercial space approved at Fairfield Farms located on East 23rd Street at O'Connell Road in East Lawrence. The planned development is located within the East Lawrence retail sub-market and is intended to serve the retail needs of East Lawrence residents. Therefore, the project will not compete with the Bauer Farm expansion or other West Lawrence commercial businesses.

In conclusion, local and national financial institutions, the pace of local population and employment growth and retail market conditions will significantly influence the amount of new commercial development in Lawrence. Maintaining a choice of development options endures that the city will attract the most viable businesses.

IV. PROJECTED RETAIL DEMAND ANALYSIS AND CONCLUSION

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 1.3 million square feet of retail through 2019 in Lawrence. A five year projection period was also used reflecting the proposed additional retail development will not reach the market before 2011 (See Table N – "Projected Capture Rate for Expanded Bauer Farm Development").

This retail demand projection averages two alternative demand scenarios (Table M – "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 Projection – 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 two methodologies finds that there is a projected average annual demand approximately 110,750 to 129,500 square feet of retail space per year (See Table M – "Lawrence Commercial Demand Analysis 2010 – 2019"). Based on this average, there is an overall demand for approximately 553,750 to 631,750 square feet over the next five 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 Lawrence and Douglas County seek to "grow" their pull factors by capturing sales leakage from Jefferson and Shawnee County residents employed in Douglas County, additional retail square feet is warranted.

Table M
Lawrence Commercial Demand Analysis 2010 – 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 = 110,750 square feet 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 = 129,455 square feet 1,294,550 square feet 129,455 square feet
<u>Bauer Farm Addition Capture Rate:</u> With 145,551 square feet: Over 10 year period With 145,551 square feet: Over 5 year period	11 - 13 percent of total sf demand 22 - 25 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 expansion of Bauer Farm will capture from 22 to 25 percent of the citywide demand through 2014. (See Table N – “Projected Capture Rate for Expanded Bauer Farm 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 N
Projected Capture Rate for Expanded Bauer Farm Development

Year	Minimum Est. Demand (Sq. Feet)	Maximum Est. Demand (Sq. Feet)	Total Bauer Farm Existing (25,545 Sq. Feet)	Total Bauer Farm Projected Addition (145,551 Sq. Ft.)	Bauer Farm Market Addition Share of Demand
2010	110,750	129,455	25,545	0	N / A
2011	221,500	258,910	25,545		
2012	332,250	388,365	25,545		
2013	443,000	505,250	25,545		
2014	553,750	631,570	25,545	145,551	22 – 25 percent

Conclusion

In conclusion, there is sufficient commercial demand for expanded square feet at West 6th Street between Folks Road and Wakarusa Drive in West Lawrence to absorb the 145,551 square feet. This finding and conclusion is based on the following:

- The proposed development enjoys excellent 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 four (4) miles distance from Downtown Lawrence 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.

Rich Caplan

July 1, 2010

RICHARD CAPLAN & ASSOCIATES