



Executive Summary

To: Biederman Redevelopment Ventures
From: The Concord Group
Date: November 12, 2015
Re: Strategic Market Opportunity and Programming Analysis for the Downtown Redevelopment Area in Downtown Tempe, Arizona

Biederman Redevelopment Ventures (“BRV”) has been commissioned by the Downtown Tempe Authority to develop a long term public space strategy in aims of activating several smaller public spaces as well as the much larger Tempe Beach Park. As part of the BRV team on this engagement, The Concord Group (“TCG”) prepared a strategic market opportunity analysis to determine how future market conditions and development activities will enhance support for the public spaces and guide BRV’s long term public space activation strategies.

Given an evolving market in Tempe, TCG has assessed the future market realities that relate to creation of successful open spaces in Downtown Tempe. The following outlines the market forward view of how specific growth and development patterns in Tempe will change sense of place and the long term viability of active urban open spaces:

Current & Future Market Opportunity for Public Space Activation

- **Downtown Tempe Today** – Downtown Tempe is currently home to approximately 197K people, including the Arizona State University students who live the market. There are 208K jobs located in Downtown Tempe. Of the 208K jobs, 8% both live and work with Downtown Tempe; the remaining 92% commute from other valley locations into the market area. Current commuting dynamics offer a unique opportunity for Downtown Tempe to activate open spaces by drawing from a large in-commuter daytime workforce population. As Tempe continues to evolve into a more attractive residential market, large in-commuting population offers opportunity to capture new residents into “live/work” environment, allowing these individuals to become supporters of both day and evening open space programming.
- **Future New Jobs and Residents** – Given the pipeline of likely development to be built and additional development opportunities present in the market, Downtown Tempe will add approximately 13.8K new residents and 24K new jobs over the next 10 years. The new jobs and population additions offer an opportunity through place making strategies to activate open spaces and to create a more urban public environment. Refer to table below for further detail on the market area’s growth potential to 2027.

Downtown Future Development Potential to 2027

	Future Developments to 2020 (1)	 Plus Potential to 2027 (2)	
Housing	5,400 units	8,100 residents	3,800 units	5,700 residents
Office	4,450,000 sf	14,800 jobs	1,700,000 sf	5,600 jobs
Retail	523,000 sf	1,050	890,000 sf	1,700
Hotel	1,250 rooms	625	500 rooms	250
		<u>16,475</u>		<u>7,550</u>
	Total to 2027			
	13,800 residents			
	24,000 jobs			

1. Per TCG Survey
2. Per TCG Projections

Macroeconomic Context

- **Employment Trends** – Maricopa County experienced deep job loss during the Great Recession, approximately 225K jobs between 2008 and 2010. Recovery has been relatively sluggish and uneven, with a return to prior employment peak projected for early 2016. Importantly, future growth projections are strong, averaging over 3.5% annually over the next 4 years. Professional & Business Services, Education, Health Services, and Financial Activities are projected to be the largest contributors of future growth. Sector growth bodes well for continued office and residential additions in the local market which will serve as key activators for open spaces.

Apartment Market Summary

- **Market Performance** – Inventory is well occupied, averaging 94% across all institutional communities. While new communities have experienced successful lease-up periods (approximately 20 units/month absorbed on average), rental rates have been relatively flat across the market. Downtown Tempe communities achieve average rents range from \$1.54 to \$2.11 per square foot.
- **Development Pipeline** – There are over 7,300 units of market rate rental product in various stages of the development pipeline. Assessing projects based on construction timeline, entitlement status, and availability of financing, TCG projects a total of 5,200 new rental units will deliver by 2020.
- **Additional Development Opportunity** – TCG projects household growth driven demand will support delivery of an additional 2,200 units of market rate rental product over the next ten years.
- **Key Conclusion** – Given the current development pipeline and future demand driven additional development capacity, Downtown Tempe will add approximately 7,400 market rate rental units by 2027. These developments will add approximately 11,100 new residents to the market. Current and future development will largely be centered on the Downtown and Tempe Town Lake orientation, creating a large influx of potential open space activators to some of the larger spaces, including Tempe Beach Park.

For-Sale Housing Market Summary

- **Market Performance** – The for-sale housing market has experienced very few deliveries across the entire Phoenix Metro. Home prices were deeply hit from the economic downturn, and home price recovery has been sluggish and remains approximately 40% below peak pricing. Key resale communities' pricing ranges from \$217 to \$290 per square foot on average.
- **Development Pipeline** – There are only 189 units of attached for-sale product in any stage of the development pipeline. Based on construction timeline, entitlement status, and availability of financing, TCG projects a total of 171 units will deliver by 2020.
- **Additional Development Opportunity** – TCG projects household growth driven demand will support delivery of an additional 1,584 units of attached for-sale product over the next ten years, in the price band of \$465,000 to \$550,000.
- **Key Conclusion** – Market is significantly undersupplied relative to future demand. Given the current development pipeline and future demand driven additional development capacity, Downtown Tempe will add approximately 1,700 for-sale attached units by 2027. These developments will add approximately 2,700 new residents to the market. Current and future development will largely be centered on the Downtown and Tempe Town Lake orientation, creating a large influx of potential open space activators to some of the larger spaces, including Tempe Beach Park.

Retail Market Summary

- **Market Performance** – Tempe is largely made up of smaller scale strip/convenience/local serving retail tenants. Core retail clusters within Downtown Tempe are well occupied (Mill Ave at 96%, Rural Corridor 93%, etc). The majority of retail product was built before 2000, with the only major contemporary delivery being Tempe Town Marketplace. Monthly rental rates range from \$7/sf. NNN to \$24/sf NNN.
- **Development Pipeline** – There is over 500K sf of retail product in the development pipeline, of which TCG projects approximately 412K sf will delivery by 2020.
- **Additional Development Opportunity** – TCG projects consumer spending driven demand will support delivery of an additional 891K sf of retail development by 2027. The majority retail will deliver in strip centers and ground floor mixed use environments attached to larger office and residential developments.
- **Key Conclusion** – Given the development pipeline and additional carrying capacity for retail development, TCG concludes over 1.4M sf of new retail will be added to the Downtown Tempe market by 2027. These new development will bring approximately 2,750 new jobs to the local market. Retail has key opportunity to compliment mixed use environment given significant residential/office pipelines. Also, mixed use retail additions will help provide daytime activators to office and residential spaces and associated open spaces and parks.

Office Market Summary

- **Market Performance** – The majority of office product in both local and analogue office markets was built between 1970 and 1990 and is between 1 to 3 stories. There have been very few Class A office deliveries in Phoenix since 2005. Tempe has largely lead the way in new office development, with over 450K sf of new office product deliveries in 2014 and 2015. The majority of new office developments have been in mid- and high-rise buildings, several of which make up State Farm’s new corporate campus. Major office clusters and new buildings boast high occupancies (over 90%). High-rise product in local Tempe Market (Tempe Gateway, Hayden Ferry) is well occupied and earns top of region rents at over \$40 /sf FSG per year.
- **Development Pipeline** – There is over 5M sf of office product in the development pipeline, of which TCG projects approximately 4.5M sf will delivery by 2020. Office pipeline in Tempe is over five times that of any other market in the Phoenix metro area, including the Scottsdale and Central Phoenix submarkets.
- **Additional Development Opportunity** – TCG projects employment driven demand will support delivery of an additional 1.7M sf of office development by 2027.
- **Key Conclusion** – Given the current development pipeline and additional carrying capacity for office development, TCG concludes over 6M sf of new office will be added to the Downtown Tempe market by 2027. These new development will bring approximately 20,000 new jobs to the local market. Office development offers key opportunity to capture daytime open space activators. Given that a large number of these developments will be oriented along Rio Salado, these individuals will offer a key opportunity for Tempe Beach Park daytime open space activation.

Hotel Market Summary

- **Market Performance** – Current hotel inventory largely serves a weekday business oriented community, with low occupancies and ADRs on weekends. Current inventory on average is approximately 70% occupied. ADRs range from \$169/night to \$200/night on average. Occupancies and ADRs generally plummet during the summer months, and peak from January through March.

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- **Development Pipeline** – There is a relatively robust hotel pipeline, with approximately 1,200 rooms projected to deliver by 2020.
- **Additional Development Opportunity** – Given moderate current occupancy rates and limited demand, TCG projects an additional 500 hotel rooms can successfully be delivered to market by 2027.
- **Key Conclusion** – Current hotel development pipeline in conjunction with additional demand driven development opportunity will add approximately 1,700 hotel rooms to the Downtown Tempe market. These developments will add approximately 875 new jobs to the economy. Given that the hotel market demonstrates sluggish demand potential, these developments are likely to come late in the development cycle and will compliment additional activators to many of the smaller open spaces.

Summary Conclusion

- Given the current development pipeline and additional development opportunity, Downtown Tempe will add approximately 13,800 new residents and 24,000 new jobs to the market by 2027. Clustering of these developments in North Tempe and along Tempe Town Lake offers a key opportunity to encourage public space activation.
- The greatest opportunity for daytime activation of public spaces, particularly Tempe Beach Park, relies on the significant Class A office pipeline. Synergies between new employment and significant residential pipeline will continue to encourage a growing “live/work” environment in Downtown Tempe, deepening the pool of potential public space demand drivers both during the workday and on evenings/weekends.

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This assignment was completed by Jordan Kabbani and Fatema Alzeera under the direction of Richard M. Gollis. We have enjoyed working with you on this assignment and look forward to our continued involvement with your team.