Analysis and Recommendations For Development of Sites

Pursuant to the

Mesa Town Center Action Plan

Prepared for:

The City of Mesa

Prepared by:

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I. Executive Summary

- Hunter Interests Inc. was retained in January 2002 to assist with the implementation of the Mesa Town Center Action Plan, and the associated Mesa Town Center Concept Plan, or "Downtown Plan," with a focus on preparing financially feasible development programs for five key redevelopment sites. The scope of work also included the conduct of a series of stakeholder interviews, market analysis, site analysis, the inclusion of site plans and renderings, and a business recruitment strategy.

- During the six-month duration of the work, HII principals and other key personnel met with representatives of the Office of Redevelopment, the Office of Economic Development, and the Mesa Town Center Corporation, and conducted interviews with City officials, real estate brokers and developers, business owners and shopkeepers, and key stakeholders. This process allowed our firm to gain market insights, information on local business and resident issues, and an in-depth understanding of the project and work at hand.

- The demographic and economic overview conducted as part of the market analysis identified several positive trends and characteristics of the Mesa area. These included a population that has increased by 50% between 1990 and projected 2005 levels, a projected median household income of $45,860 in 2004, and a solid segment of wage-earners (38.7%) with incomes between $35,000 and $75,000. A review of the types of employment held by residents of the Phoenix-Mesa MSA indicates that the most common sectors are manufacturing, followed by services and transportation, communication, and public utilities. The unemployment rate declined from 3.7% in 1996 to 2.7% in 2000.

- An analysis of the real estate markets in Maricopa County indicated robust new construction activity from 1996 to 2000 in all of the five key sectors, which include single-family homes, apartments, office buildings, retail stores, and industrial. The Southeast residential housing market posted record-setting new construction activity in both single-family homes and apartments. For the period between 1990 and 2000, over 100,000 single-family units and 20,000 multi-family units were constructed, accounting for more than 40% of the metro total. The areas supporting the strongest levels of recent new construction include East Mesa and Gilbert. Maricopa County supported $508 million in office construction and $472 million in retail construction in 2000, the highest in five years.

- The City of Mesa had 14.7 million square feet of retail space in 2001, with another 390,000 square feet of new retail slated to be delivered in 2002. The adjacent cities of Tempe and Chandler/Gilbert account for an additional 21 million square feet of retail, with an additional 2.1 million square feet expected by the end of 2002. Vacancy rates in the metropolitan area run from about 7% in Chandler to just over 8% in Mesa and Tempe. Lease rates start at $4 per square foot in neighborhood centers, with new regional malls commanding up to $120 per square foot. Estimates of retail rents on downtown Mesa's Main Street range from $6 to $12 per square foot.

- Retail sales tax activity in Mesa increased 101% from 1995 to 1999, while an increase of 79% occurred in the restaurant and bars segment over the same period, indicating corresponding increases in consumer spending in these categories. The proportionately larger rise in sales tax revenue that occurred between 1998 and 1999 was due in part to a one-half cent increase enacted by the City, although net gains are still realized when adjusted for the additional tax. Increasing competition from suburban malls such as Superstition Springs, the Fiesta Mall, and the new Chandler Fashion Center will continue to challenge the Town Center for retail market share, as will the proliferation of strip centers in the area.

- Although the East Valley has experienced high levels of office construction during the last decade, Mesa has only recently figured as a participant in the office construction boom, posting its first new speculative office construction in a decade in 2000 with 150,000 square feet of Class A space, with an additional 485,000 square feet in 2001. All of this new space was built within the Superstition Freeway Corridor, where most of Mesa's existing inventory of 1.7 million square feet currently resides. Downtown Mesa has served as a secondary office location, maintaining less than 275,000 square feet of speculative office space and no Class A product. Vacancy rates for all product categories are currently around 2% to 3% however, which indicates that the Town Center should support additional new office space, particularly Class A type. In the year 2000, office vacancy rates in Mesa were 7.8%, with a median lease rate of $16.75 per square foot for all space, and $21.25 per square foot for Class A product.

- Downtown Mesa possesses a number of assets that are key to facilitating office development and/or redevelopment, the foremost being the availability of readily developable property served by an existing infrastructure. Other positives relative to office location in downtown Mesa include convenient freeway access, availability and access to fiber optics critical for modern office tenants, and the presence of county and city government agencies, which generates demand from service-related businesses. The ability of the City to package building sites and provide economic incentives to office developers, coupled with the addition of the Mesa Arts Center and the Aquatic Center, should serve to enhance the desirability of locating downtown.

- The City of Mesa possesses a total inventory of 65 hotel/motel properties comprising 4,961 rooms. Two of these are located downtown, the Sheraton Mesa Hotel & Convention Center with 273 rooms, and the Best Western Mezona with 136 rooms. Occupancy and average rates are the highest in Mesa during the months of February and March, with occupancy levels generally running above 80% and room rates averaging between $80 and $113. High-season occupancy rates for full service hotels fell 11.3% and 4.5% in February and March, respectively, from 2000 to 2001. Occupancy rates for all categories dropped about 4% during the same year.

- The considerable amount of population growth that has occurred in Mesa over the last five years is reflected in the statistics for new residential construction over the same period. Building permits for single-family homes surged from 2,171 houses in 1996 to 4,855 houses in 1999. Current data show that median values for single-family homes continue to rise in both the resale and new categories, indicating a stable or somewhat increasing demand. The rate of construction of multi-family dwellings rose dramatically as well, from 172 and 139 units in years 1992 and 1993, respectively, to 1,098 units in 1998 and 1,762 units in 1999, pointing to a response to the demand for rental housing. While much of the residential growth has been in east Mesa, the trend still signifies a positive environment for such development in or near downtown.

- Downtown Mesa is poised to become not only an attractive destination for the Valley populace as the Aquatic and Mesa Arts Centers are brought online, but could likely attract nationwide attention to both facilities if aggressive marketing plans are undertaken. The redevelopment of the former Bank One Office building could potentially add 250 to 300 workers to the daytime population, enhancing the appeal of downtown as a workplace and drawing the notice of prospective restaurateurs and retailers. As downtown's revitalization progresses, the question will not be whether any new housing is supportable, but how much.

- The Site Analysis and Recommendations sections of this report convey the technical analysis of the five designated sites and buildings and contains information pertinent to ownership patterns, square footage, street parameters, current uses, physical conditions, and other attributes and characteristics that may have a bearing on future uses and feasibility issues. The analyses provide the foundation for recommendations for supportable development in conjunction with conclusions drawn from the Demographic and Economic Analysis, Market Analysis, stakeholder interviews, and other tasks.

- Site A (also known as Site 7) encompasses the entire city block bounded by Main Street and E. 1st Avenue to the north and south and Mesa Drive and S. Hibbert to the east and west, respectively. The site is comprised of several commercial buildings, vacant lots, and surface and structured parking facilities. Unimproved, City-owned property accounts for approximately 132,500 square feet of developable land on Site A, whereas the City's paved surface lots could represent an additional 60,000 to 80,000 square feet of developable land if the Pomeroy Garage were to be fully utilized.

- Recommendations for the Site A building program include:

  - Area 1 — 276,000 square foot Class A office building (will require two new parking decks on the Pomeroy Garage, and/or dedicated surface parking.

  - Area 2 — 120-unit high-rise apartment building with parking on approximately 2 acres.

  - Area 3 — 30,000 square feet mixed use with parking on approximately 0.9 acres.

- Site B (also known as Site 17) is comprised of approximately 30 acres of vacant, raw land bordered by Centennial Way and Mesa Drive to the west and east, and University Drive and Second Street to the north and south, respectively.

- The building program as conceptualized for Site B is based in part on strong consideration given to the compatibility and synergistic relationship with existing land uses on the neighboring blocks. At 30+ acres, Site B represents a sizeable development parcel that is capable of supporting a mix of use types which can be strategically located to complement, and benefit from, their surroundings. For these reasons, we have separated the site into three areas, to accommodate different use types that will be developed in phases.

  Recommendations for the Site B building program include:

  - Area 1 — 72 garage townhouses and 400 garden apartments with parking, a clubhouse, pool, and tennis courts, on approximately 15 acres.

  - Area 2 — 50,000 square feet of office and 30,000 square feet of retail space on approximately 4.5 acres.

  - Area 3 — 200,000 square foot integrated residential/commercial space and a 25,000 square foot health club and spa on approximately 9.4 acres.

- Site C consists of 15,000 square feet of partially vacant retail space in a building located just west of the MesaBank building, on the same block as the proposed Mesa Arts Center. One issue is the architectural compatibility, or lack thereof, of the structure with the design features of the Arts Center. Plans call for offering short-term leases to generate revenue until the point in time when the Arts Center is constructed, then assessing alternatives for the ultimate disposition of the building. Options include demolition and redevelopment for upscale restaurant and/or retail, to complement the Arts Center both visually and functionally. As an alternative, the existing buildings could be retained, and added to if required, to accommodate a targeted tenant.

- The Site C conceptual building program, as envisioned, is predicated on completion of the Mesa Arts Center and is intended to complement the Center both in function and design compatibility. The concept for the site can be incorporated into the retail-oriented structure that currently occupies the property, or into a new building constructed to user specifications. The final product however, should contain approximately 30,000 square feet of floor space on two stories, and be able to accommodate both a destination restaurant and an arts-oriented specialty retail operation.

- Site D (also known as Site 21) is the 60,000 square foot former Bank One Building, at the northeast corner of Main and Macdonald Streets. The City of Mesa supports the adaptive reuse of the building for mixed use on floors 2-5, and encourages retail and restaurant use on the ground floor. The building will require entirely new mechanical and electrical systems, fire protection systems, elevators, and restroom facilities for tenants. Erection of a new exterior wall closure system and new window system will be required by the City as conditions for development of the building. Approximately 250 parking spaces are available in a City parking structure about 250 feet north of the building.

- The conceptual building program for Site D, the former Bank One Building, consists of the reconstruction of the five-story, 60,000-plus square foot building to accommodate Class A-type office space on the upper floors, and a mix of retail and office development on the ground floor. The 9,000 square foot basement could be leased as conditioned storage space, primarily for the convenience of building tenants and other neighboring office users.

- Site E consists of various parcels located within the city block bounded by Main Street and 1st Avenue to the north and south, and Macdonald and Center Streets to the east and west, respectively, and parcels located within the City block bounded by Main Street and 1st Avenue to the north and south, and Macdonald and Robson Streets to the east and west, respectively. The site is considered the prime location for a future parking reservoir to serve the

Tribune's expansion needs, the Mesa Arts Center and Aquatic Center. Location of a garage in the interior of either block would allow for additional development outward to Macdonald, as part of a City redevelopment effort.

- Site E has been looked upon as the potential location for a parking solution to a possible East Valley Tribune building expansion, along with providing spaces for MAC/Aquatics Center patrons and Tribune employees. The City of Mesa Redevelopment Office has developed a cost estimate of $9.5 million for an 800-space parking structure on the east block, straddling the existing City-owned Drew Lot and the Bank of America lot adjacent to it. The configuration of a parking structure on this site will allow for about 200 linear feet of frontage on South Macdonald Street, creating the opportunity to develop ground floor retail that could be integrated into the garage.

- The conceptual building programs for each of the five designated sites are very specific with regard to mix of uses, square footages, unit counts, parking solutions, and so forth. The building programs are of sufficient detail to allow projections of revenues and expenses, and other variables associated with the financial feasibility assessment. They are also useful in providing developers, investors and prospective tenants with clear indicators as to what is desirable and what is achievable on a given site. Finally, the programs allow for capital cost estimates, which, in turn, are useful for prospective developers.

- Financial analyses for the conceptual building programs contain estimates for development costs, as well as residual land values. Residual land values are meant as a feasibility tool, and do not represent fair market value for the real estate. However, residual land value estimates may be used as a guide in discussions with developers, and otherwise to provide an understanding of a project's viability and ability to pay something for the land on which it is located.

- The business recruitment strategy for the Mesa Town Center is considered in the context of the ongoing recruitment and retention initiatives carried out by the City of Mesa Office of Redevelopment, the Office of Economic Development, the Mesa Town Center Corporation (MTCC), and the recommendations by HII regarding redevelopment of the five key sites. The strategy assesses the current business recruitment procedures for the Mesa Town Center, and recommends how those efforts can be effectively channeled into ensuring the successful implementation of the development program for the five designated sites.

- The framework for assessing current business recruitment practices contains 10 benchmarks representing the basic "Best Practice" elements of an effective downtown business recruitment strategy, which include: Business Development Entity, Action Plan, Cultivate Development Opportunities, Retail Recruitment, Restaurant/Entertainment Recruitment, Office Recruitment, Targeted Marketing Materials, Streamline the Building Approval and Permit Process, Evaluate Parking Issues, and Public Events.

- The team that includes the Office of Redevelopment, the Office of Economic Development, and the Mesa Town Center Corporation currently employs an effective strategy that addresses all 10 of the key tasks essential for successful business retention and recruitment. The completion of major projects such as the Arts and Aquatic Centers, and Site D (Site 21) (former Bank One Building), coupled with the launching of proposed redevelopment projects, will present new business recruitment challenges and opportunities to the City.

- We recommend that the City and/or MTCC establish strategic alliances with the commercial real estate brokerage community to devise incentives to encourage the vigorous promotion of downtown real estate. In addition, we recommend that consideration should be given to the branding of the Town Center as a cultural and arts district, essentially setting the tone for developing an atmosphere that will support a more vibrant nightlife, and attract arts-oriented retailers to downtown.

- Based on our cost analysis, the redevelopment concepts for the five designated sites in the Mesa Town Center would result in approximately $134 million in private investment associated with development of projects including residential, office, retail, restaurant, and entertainment attractions. For every dollar invested by the public sector, $4.40 of private sector investment may be generated under the site development strategies put forth I this report. Public investment, including that which is associated with land acquisition, demolition, and various parking and infrastructure improvements on the sites will equal approximately $26 million.

- Projects associated with business retention and recruitment in the Mesa Town Center, and those that will continue the revitalization process, will continue to emerge. They will require creativity, hard work, cooperation, community support, and, in some cases, professional assistance to organize and implement. The City has proven that it has the resources and resolve to transform its downtown into one of the premier communities in the Valley of the Sun in which to live, work, shop, or visit.

II. Background and Methodology

Hunter Interests Inc. was retained in January 2002 to assist with the implementation of the Mesa Town Center Action Plan, and the associated Mesa Town Center Concept Plan, or "Downtown Plan," with a focus on preparing financially feasible development programs for five key redevelopment sites shown in Figure 1. The scope of work also included the conduct of a series of stakeholder interviews, market analysis, site analysis, the inclusion of site plans and renderings, and a business recruitment strategy. The study was conducted in the context of the future impact of two major civic projects on the local real estate development market, the Mesa Arts Center and the Mesa Aquatics Center, as well as continuing overall downtown revitalization.

The methodology employed in this feasibility study uses a combination of "top down" analysis, wherein market potentials are calculated and used to drive estimates of supportable development, and "bottom up" market analysis that takes into account site specifics, the nature of supply (how the facilities will be designed, outfitted, and operated), and surrounding real estate trends. This approach represents an additional element of the "developer style" market analysis.

In the course of our study, we thoroughly reviewed a wide range of documents, including the "Economic Impact Analysis of the Mesa Indoor Aquatics Center in Downtown Mesa, Arizona," "Price Waterhouse Cooper – Analysis for the Mesa Community and Conference Center," "Observations, Comments, Commentary—Mesa Town Center: Donovan D. Rypkema," "Action Plan: Mesa Town Center," "Retail Recruitment Plan for Mesa, Arizona," "Speculative Office Market Analysis: Mesa, Arizona," and the "Overview of Downtown Redevelopment Projects." We have also reviewed numerous other reports, plans, statistical and demographic abstracts, and other materials provided by the client, and gathered information from various other sources during the conduct of this study.

During the eight-month duration of the work, HII principals and other personnel made numerous trips to Mesa in order to meet with representatives of the Office of Redevelopment, Mesa Town Center Corporation, City officials, real estate brokers and developers, business owners and shopkeepers, and key stakeholders. This process of personal interviewing is one favored by our firm for gaining market insights, information on local business and resident issues, and otherwise an in-depth understanding of the project and work at hand. Along with more traditional research methods including the utilization of electronic data sources, application of demographic and economic information, and the review of past studies and reports that have been prepared for the City of Mesa, this approach lends itself to "developer style" market analysis, and practical recommendations that can be implemented.

The consulting team also conducted a repeated walking reconnaissance of the entire Town Center, assembled a photographic inventory of the five key development sites, inspected the buildings to assess their conditions, reviewed and evaluated previous development proposals, and interviewed designers, developers, and other parties possessing some background or knowledge of the key sites. Existing residential and commercial developments were examined and observations made relative to design, density, amenities, occupancy, access, parking, surrounding uses, and other factors relevant to the development of similar projects. Preliminary assessments were then made for the five assigned development sites, including use changes, requirements for new development opportunities, appropriateness for residential, commercial, retail and entertainment uses, appropriateness for food/beverage uses, relationships to tourism and meeting business segments, and relationships to commercial office and government uses.

Based on the conclusions of the sector-based market analysis and subsequent determination of market supportable development, conceptual building programs were prepared the five designated study sites. The concepts for each site are specific with regard to mix of uses, square footages, unit counts, parking solutions, and include capital cost estimates and financial feasibility assessments.

The financial feasibility assessments follow a sequential methodology that consists primarily of a 10-year cash flow pro forma, estimates of supportable debt and equity, capital cost projections, and a resulting residual land value estimate that is the difference between total supportable funds and total capital costs. This methodology is based on financial modeling designed to illustrate both how a project **can** be feasible, as well as how a project **must perform** to be feasible. The residual land value that the model produces is a measurement tool in real estate feasibility analysis, and should not be construed as fair market value for a particular parcel or site. However, these values may be used as a guide in determining project viability, discussions with prospective developers, and as an indicator of value that the City may seek to derive through private investment.

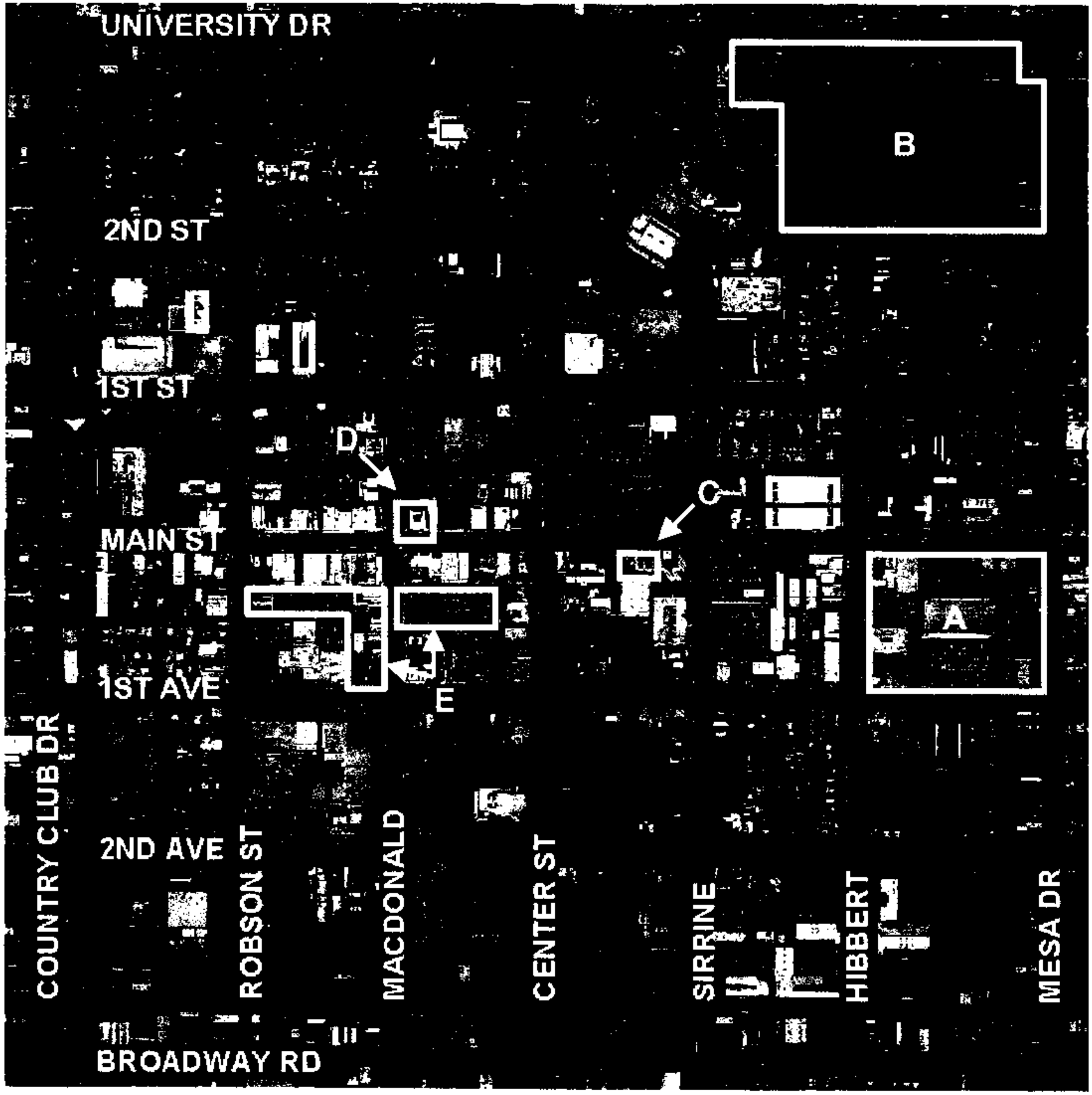
At the conclusion of each conceptual building program section, a brief discussion of public investment is presented. In many cases, the City has purchased land and assembled sites, or otherwise has a financing stake in a prospective development site. In addition, and depending on a negotiated development agreement, the City may opt to invest additional capital in site preparation, utilities or other infrastructure, and in these subsections we suggest likely parameters for such investment. In Section XII we provide a cost benefit analysis that illustrates how public dollars leverage private sector investment and results in a capitalized net fiscal gain.

Conceptual site plans and/or renderings were then prepared to illustrate the building programs on four sites where development will involve new construction. A fifth site is represented at the former Bank One building for which the City has plans and renderings as prepared by interested developers.

HII assessed the current business recruitment procedures in the City of Mesa based on a 10-point evaluation format, and made recommendations for increasing the effectiveness of these efforts. Practices that appear most useful to the Mesa Town Center were emphasized, with particular attention paid to the five designated sites. Finally, a phased implementation strategy was created to provide an outline for next steps associated with developing the five sites that were assigned to HII in our scope of work.

This report covers a wide range of market and other factors that influence the potential for continued revitalization of the Mesa Town Center, and there is a great deal of information provided that can be used by prospective businesses, interested developers, and City officials for evaluating future opportunities and tracking success. It has been our primary focus to develop building programs for the five designated redevelopment sites that best fulfill long-term revitalization objectives, to test their feasibility, and to package the programs for immediate action by qualified developers. We believe we have succeeded in this challenge, and encourage the City of Mesa and its residents to embrace the plan, and to begin implementation of the report's recommendations without delay.

Figure 1
Mesa Town Center
HII Assigned Redevelopment Sites



Map Key:

A- Pomeroy Garage Block

B- Site 17

C-Arts Center/Restaurant/Retail

D- Former Bank One Building

E- Future Parking Structure Site

III. Demographic and Economic Analysis

The first step in HII's market analysis is to understand certain demographic and economic characteristics in Mesa proper and the larger Phoenix-Mesa MSA. This analysis includes identification of trends that are impacting the Mesa market, and market characteristics that point toward niche opportunities that are supportable and also achieve the goal of capturing new demand, not just shifting demand from other areas or other business sectors. Market creation is an important dynamic to be considered in development strategies such as the one being undertaken here.

The analysis process uses demographic and economic trend information and comparisons of data within Mesa proper, a 15-mile ring around the intersection of Main and Center Streets in Mesa, the Phoenix-Mesa MSA, Maricopa County, the State of Arizona, and the United States as a whole. Certain tables contain data from one or some of these areas, based on the information available and its relevance to specific points in the market analysis. Data and trends revealed through a comparison of these areas over time give a good picture of baseline demographic and economic conditions affecting future development potential on the subject sites.

A. Population

The population within a 15-mile ring of the intersection of Main and Central Streets in Mesa increased 43.7% in the decade between 1990 and 2000, and is expected to increase an additional 11.4% by the year 2005. The population of Mesa proper increased 37.6% in the same decade, compared to 44.2% for the Phoenix-Mesa MSA and 40% for the State of Arizona, which has the distinction of being the second fastest growing state in the 1990s. By contrast, the U.S. population experienced a 13.3% increase during the same period, pointing out the exceptional growth that has occurred in Greater Phoenix and the state as a whole. See Table 1.

Table 1
Population Trends

	1990	2000	2005
Mesa	288,091	396,375	457,109
10-yr. % chg.		37.6%	13.3%
15-mile ring	947,806	1,362,437	1,539,554
10-yr. % chg.		43.7%	13.0%
Phoenix-Mesa MSA	2,130,000	3,072,000	3,385,344
10-yr. % chg.		44.2%	10.2%
Arizona	3,665,000	5,131,000	5,613,314
10-yr. % chg.		40.0%	9.4%
U.S.	248,709,000	281,422,000	293,241,724
10-yr. % chg.		13.2%	4.2%

Source: Claritas; Hunter Interests Inc.
Note: 2005 population U.S. Census projection.

Growth in the number of households in the 15-mile ring proceeded at about the same pace as the population, increasing 43.9% between 1990 and 2000, while the average household size remained stable at 2.55. The population and household trends in Mesa and the Phoenix-Mesa MSA can be mostly attributed to an in-migration of new residents to the area, a trend projected to continue through 2005, albeit at perhaps a somewhat slower pace.

B. Income and Employment

Data on median household income for Mesa and the Phoenix-Mesa MSA can be found in Table 2, along with figures for Arizona and the United States for comparison purposes. Growth in personal income for Mesa is projected at 9.6% for the five-year period from 1999 to 2004, compared to 10.2% for the State and 10.8% nationally. The Phoenix-Mesa MSA fares better, with a 12.0% increase in personal income forecasted for the same period.

Table 2
Median Household Income
& Income Distribution (1999)

	Median Household Income		
	1999	**2004**	**% Change**
Mesa	$40,047	$43,904	9.6%
Phoenix-Mesa MSA	$40,935	$45,860	12.0%
Arizona	$36,599	$40,329	10.2%
U.S.	$40,525	$44,916	10.8%

	Income Distribution (1999)			
	Mesa	**Phoenix-Mesa MSA**	**Arizona**	**U.S.**
Households	129,837	1,145,106	1,822,829	102,049,200
Less than $35,000	43.3%	42.5%	47.7%	43.6%
Between $35,000 and $75,000	38.7%	37.3%	35.4%	35.6%
Greater than $75,000	18.0%	20.2%	16.9%	20.8%

Source: Claritas; US Bureau of the Census; Hunter Interests Inc.

The percentage of households that fall into the range of income that is less than $35,000 is 43.3% for Mesa and 42.5% for the Phoenix-Mesa MSA, lower than the State of Arizona at 47.7% and the United States at 43.6%. Households with incomes between $35,000 and $75,000 comprise 38.7% and 37.3% of the total in the Mesa and the Phoenix-Mesa MSA, respectively, both somewhat higher than the 35.4% for Arizona and 35.6% nationally. In the over $75,000 category, the national average is 20.8% versus 16.9% for the State, 18.0% for Mesa, and 20.2% for the Phoenix-Mesa MSA.

Employment statistics for the Phoenix-Mesa MSA for the years 1996 through 2000 can be found in Table 3. The three employment sectors with the largest employment base for the year 2000 were, in order of size, services, wholesale and retail trade, and government. Based on the number of people employed, the top three sectors that posted the largest percentage increase during the period reviewed were construction (33.2%), services (29.6%), and transportation, communications, and public utilities (28.0%). The services sector realized the greatest increase in real numbers, followed by trade and construction. The strength of the services sector is evidenced through its representation by three major employers in Mesa: Banner Health System, AT&T, and Ampam/Riggs Plumbing. Tourism continues to boost employment in the service and trade sectors, importing millions of dollars annually. See Table 4.

Table 3 Employment by Industry (1996, 2000) Phoenix-Mesa MSA				
Industry Type	**1996**	**2000**	**Diff.**	**% Chg.**
Non-Farm Employment	1,272,600	1,544,700	272,100	21.4%
Mining and Quarrying	1,000	1,200	200	20.0%
Construction	88,500	117,900	29,400	33.2%
Manufacturing	151,600	162,200	10,600	7.0%
Transportation, Communication, Public Utilities	65,100	83,300	18,200	28.0%
Trade	317400	366,400	49,000	15.4%
Finance, Insurance, Real Estate	95,900	119,800	23,900	24.9%
Services	395,200	512,000	116,800	29.6%
Government	157,900	181,900	24,000	15.2%
Unemployment Rate	3.7%	2.7%		

Source: Arizona Department of Economic Security; Hunter Interests Inc.

Table 4 Major Employers, Mesa (2002)		
Company	**Product Description**	**Employees**
Banner Health System	Physicians & surgeons information bureau	6,100
Boeing Corporation	Military helicopters manufacture & research	4,300
AT&T Corporation	International education & training facility-communications	2,800
Wal-Mart	Retail,general	1,775
TRW Vehicle Safety Systems	Airbag/driver side manufacturing and gas generators	1,450
The Kroger Co.	Retail, general	1,080
Empire Southwest Machinery	Wholesale tractor dealers	1,000
Basha's	Local grocery chain	860
Target	Retail, general	750
Albertson's	Retail grocers	680
U.S. Postal Service	Government	670
Ampam/Riggs Plumbing	Service	575
Tribune Newspaper	Print journalism	550
NCS Pearson	Educational software creation	500
GM Desert Proving Grounds	Development, engineering & testing of advanced products	400
Phoenix Newspaper Inc.	Newspapers (manufacturers)	330

Source: City of Mesa; Hunter Interests Inc.

C. Consumer Data

Residents living within a 15-mile radius of central Mesa exhibited spending habits during the year 2000 indicative of the growing economy in the area. Statistics on expenditures by selected product types show the subject populace spending more than the national average in 20 out of 23 categories. In 11 of those categories local inhabitants outspent the average American consumer by 5% or more, figures demonstrating that local inhabitants have money and are willing to spend it. See Table 5.

Table 5
2000 Expenditures by Selected Product Categories
($000)

Subject	15-Mile Ring	US Index
Food at Home	$2,567,106	103
Food Away from Home	$2,362,487	106
Alcoholic Beverages at Home	$458,563	116
Alcoholic Beverages Away fr. Home	$444,692	115
Personal Care Products	$291,537	104
Personal Care Services	$164,494	103
Nonprescription Drugs	$92,145	99
Women's Apparel	$713,382	104
Men's Apparel	$416,868	103
Girls' Apparel	$160,120	105
Boys' Apparel	$121,079	102
Infants' Apparel	$73,545	105
Footwear (Excl. Infants)	$250,085	104
Housekeeping Supplies	$154,753	97
Lawn/Garden Supplies (Incl. Plants)	$76,140	90
Domestic Services	$111,076	127
Household Textiles	$324,622	107
Furniture	$397,399	108
Major Appliances	$199,060	105
Housewares	$366,348	109
Household Repair	$484,216	105
TV, Radio & Sound Equipment	$924,204	108
Transportation	$3,084,509	104

Note: In US Index, 100 is the national average.

Source: Claritas; Hunter Interests Inc.

D. Real Estate Markets

Employment usually drives population and household growth, as well as construction of new housing and commercial space. A large percentage increase in employment in the construction sector, as is evidenced in the Phoenix-Mesa MSA, usually points to a strong demand for new residential and commercial development. Table 6 contains data on permits issued and dollar value of construction in Maricopa County, which includes part of the Phoenix-Mesa MSA, for five key sectors: single family houses, apartments, office buildings, retail stores, and industrial buildings. Activity in all five categories remained robust from 1996 to 2000, the last three years being particularly strong for single family homes and office space.

Table 6
Key Sector Construction Activity
Maricopa County (1996-2000)

	1996	1997	1998	1999	2000
Single-family					
Number of Permits	28,319	30,466	35,574	35,430	33,107
Dollar Value (000)	3,370,667	3,795,520	4,598,226	4,855,261	4,574,437
Apartments					
Number of Permits	9,555	10,620	10,229	9,093	8,691
Dollar Value (000)	496,304	601,068	537,629	512,897	509,779
Office Buildings					
Number of Permits	232	244	334	347	344
Dollar Value (000)	154,619	268,739	592,201	418,532	507,570
Retail Stores					
Number of Permits	487	545	407	387	515
Dollar Value (000)	389,512	419,420	296,550	346,650	472,150
Industrial					
Number of Permits	356	243	264	198	209
Dollar Value (000)	788,083	234,666	378,141	210,676	253,472

Source: Arizona Real Estate Center; Hunter Interests Inc.

Mesa is located within Phoenix's southeast submarket, which consists of the suburban communities of Tempe, Mesa, Chandler, and Gilbert as well as the Ahwatuke/Foothills region of Phoenix. In response to strong population growth in the 1990s the southeast residential housing market posted record setting new construction activity in both single-family homes and apartments. For the decade, over 100,000 single-family units and 20,000 multi-family units were constructed, accounting for more than 40% of the metro total. The areas supporting the strongest levels of recent new construction include East Mesa and Gilbert.

Over the past two decades the East Valley has led the metropolitan area in population growth, stimulating the need for professional office space. The southeast submarket has proved to be one of the strongest sections for speculative office construction in the metro area within recent years. Consistent with historical trends, the bulk of space constructed is located within the Interstate 10 and Superstition Freeway corridors. Despite healthy market conditions in the southeast submarket, less than 200,000 square feet was constructed in Mesa in the last five years. As a result, lease rates have escalated, rising almost 30% from 1995 to 2000, creating the opportunity for feasible new development.

To service the growing population the southeast retail submarket experienced high levels of new construction during the past decade. The total inventory of space increased approximately 10 million square feet to a current level of 34.6 million. The area supports four regional malls, including Fiesta Mall and Superstition Springs Center in Mesa, Arizona Mills in Tempe, and the Chandler Fashion Center. The East Valley supports the largest share of retail space among the metropolitan area's five regions, with just over 40% of the total inventory operating at an occupancy rate of approximately 93%.

E. Conclusion

Virtually all demographic and economic indicators associated with the population that represents market support for new development in Mesa are positive. While certain national trends may be affecting consumer spending, investment in large capital projects, and other macro economic cycles, the local and sub-regional growth characteristics are expected to remain strong. Therefore, the underlying foundation for new development in Mesa is a solid one, and one that we believe can support a variety of individual business sectors as discussed in the following sections of the market analysis.

IV. Retail/Entertainment Market

A. Introduction

Downtown Mesa exhibits many of the characteristics that currently typify the condition of many of the remaining retail districts in American cities and towns—most of the large retailers fled to the suburban malls and shopping centers years ago, leaving downtown struggling to establish a new retail identity. Often this new identity becomes centered around restaurants, entertainment, specialty or niche retail, and is mixed with an emergence of arts, museums, and other cultural amenities that form a synergistic environment. Mesa appears poised to create its new identity with the introduction of the Mesa Arts Center, and the presence of antique shops and similar niche retail businesses should be encouraged.

Despite some vacancies, certain Main Street retail operations in downtown Mesa appear to be thriving, particularly in the specialty retail category. A number of businesses, such as Pomeroy's Men's Shop, Milano's Music Store, and Spencer's TV & Appliance, have operated in the same locations for decades, and are regarded as retail institutions in downtown Mesa. Milano's will become the largest music store in the state on completion of a recently undertaken expansion. West Main Street is also home to no less than eight antique stores, as well as five gift boutiques and two art and framing stores—all representative of the type of retail that has typically come to replace more conventional stores in the urban core of any number of cities and towns in the United States. Two Main Street restaurants, Mango's and the Picnic Company, by all appearances seem to be operating at capacity during the weekday lunch period.

The fact that downtown Mesa's central core does possess successful destination stores and eating establishments suggests that the potential exists for additional retail and restaurants to complement the current inventory.

B. Market Scan

The supply side of the metropolitan Mesa retail market has generally followed the national trend in retail expansion while responding to the population increases that have characterized the region over recent decades. Data in Table 7 shows approximately 14.7 million square feet of retail space in the City of Mesa at the second half of 2001, with another 390,000 square feet expected to come on line in 2002. The adjacent cities of Tempe and Chandler/Gilbert account for another 21 million square feet of retail space, with an additional 2.1 million square feet slated for completion by the end of 2002. Neighborhood and strip shopping centers currently comprise 63% of the total area retail, although regional malls continue to be developed, such as the recently opened 1.3 million square foot Chandler Fashion Center.

Retail vacancy rates in the metropolitan area run from about 7% in Chandler to just over 8% in Mesa and Tempe. Lease rates start at $4 per square foot in neighborhood centers, with new regional malls commanding up to $120 per square foot. Estimates of retail rents on downtown Mesa's Main Street range from $6 to $10 per square foot.

Table 7
Comparative Retail Market Trends
Second Half, 2001

	Total Built	Total Vacant	Vacancy Percent	Under Construction	Asking Rate Low-High
Mesa					
Regional	2,805,000	25,800	0.9%	0	$22-$100
Neighborhood	7,843,539	937,091	11.9%	180,000	$4-$25
Power	2,369,634	97,578	4.1%	210,000	$10-$25
Strip	1,706,646	171,285	10.0%	0	$5-$18
Subtotal	14,724,819	1,231,754	8.4%	390,000	
Tempe					
Regional	1,501,900	3,000	0.2%	0	$20-$90
Neighborhood	4,142,838	477,755	11.5%	310,000	$5-$20
Power	1,034,072	90,789	8.8%	0	$7-$21
Strip	870,365	51,927	6.0%	22,140	$8-$17
Specialty	313,100	10,715	3.4%	218,300	$20-$35
Subtotal	7,862,275	634,186	8.1%	550,440	
Chandler/Gilbert					
Regional	1,718,100	3,719	0.2%	0	$12-$120
Neighborhood	6,376,290	684,787	10.7%	964,015	$6-$17
Power	3,459,321	52,363	1.5%	500,932	$10-$35
Strip	1,357,313	145,444	10.7%	46,597	$7-$26
Subtotal	12,911,024	886,313	6.9%	1,511,544	

Source: Grubb & Ellis; Hunter Interests Inc.

Continued increases in population and employment would indicate that demand for retail and entertainment should remain robust into the foreseeable future. Figures 2 and 3 show overall sales tax activity and restaurant and bar tax activity, respectively, for the City of Mesa from 1995 to 1999. Sales tax activity is directly related to consumer spending in these categories, and therefore serves as a barometer for the market. As the charts illustrate, retail tax activity rose significantly over the five-year study period, increasing 101%, while restaurant and bar tax activity increased 79% during the same period. The proportionately larger rise in sales tax revenue that occurred between 1998 and 1999 was due in part to a one-half cent increase enacted by the City, although net gains are still realized when adjusted for the additional tax.

Figure 2
1995-1999 Total Sales Tax Activity
City of Mesa

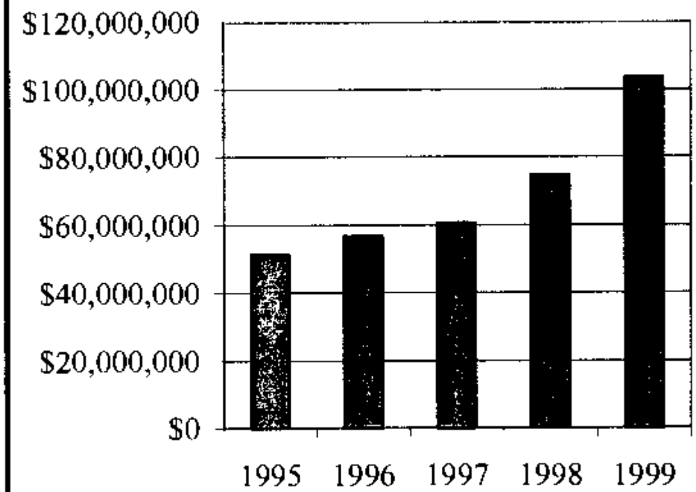
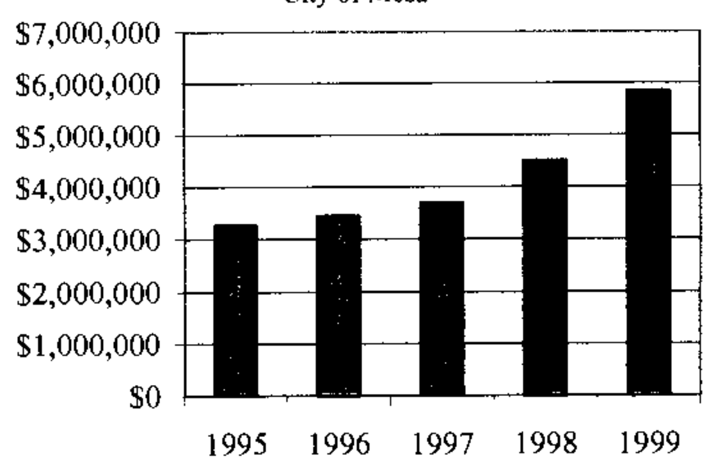
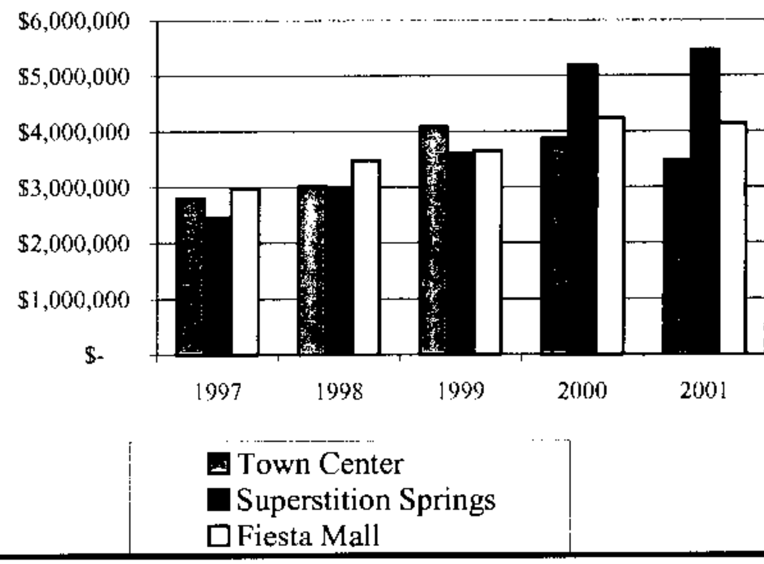


Figure 3
1995-1999 Restaurants & Bars Sales Tax Activity
City of Mesa



Increasing competition from suburban malls such as Superstition Springs, the Fiesta Mall, and the new Chandler Fashion Center will continue to challenge the Town Center for retail market share, as will the proliferation of strip centers in the area. Figure 4 compares tax revenues generated from the Town Center to the Superstition Springs and Fiesta Malls. As the graph illustrates, retail sales for the Town Center have declined since their peak in 1999, while those for Superstition Springs have steadily increased. The aging Fiesta Mall may have lost ground to the new Chandler Fashion Center in 2001, accounting for their dip in sales for that year.

Figure 4
Comparisons of Town Center Sales Tax Revenues to Malls



C. Conclusion

The success of certain retail operations in the Town Center would indicate that their location has not been a detriment—witness the pending expansion of Milano's Music—but, to the contrary, has served as an integral part of their identity. As the Town Center's new attractions begin to draw visitors, imaginative retailers and restaurateurs will start to realize the potential benefits of a downtown location. Rather than attempting to go head-to-head with strip centers and mall establishments, the downtown entrepreneur will appeal to people seeking unique stores and one-of-a-kind experiences. The presence of the new Mesa Arts Center should stimulate interest among artists and gallery operators into locating downtown, thereby complementing the existing music store and establishing the town center as a destination for the arts-oriented population.

V. Office Market

A. Introduction

At the outset of its work, HII reviewed two recent studies that analyzed the existing and speculative office market in Mesa: Canyon Research Southwest, Inc., *Speculative and Office Market Analysis, Mesa Arizona,* October 2000, and Ernst & Young LLP, *City of Mesa, Analysis of Existing Office and Industrial Land Supply and Demand Study,* March 19, 2001. Acknowledging the validity of these studies and the professional standing of the firms that conducted them, we first summarize those findings relevant to potential office development in downtown Mesa, then discuss the capacity of Mesa to draw some share of this potential as part of an overall redevelopment strategy.

B. Market Scan

Although the East Valley has experienced high levels of office construction during the last decade, Mesa has only recently figured as a participant in the office construction boom, posting its first new speculative office construction in a decade in 2000 with 150,000 square feet of Class A space, with an additional 485,000 square feet in 2001. All of this new space was built within the Superstition Highway Corridor, where most of the existing inventory currently resides. Downtown Mesa has served as a secondary office location, maintaining less than 275,000 square feet of speculative office space and no Class A product per se. Table 8 shows the historical operating data for the Mesa office market.

Estimates of potentially available vacant developable office and industrial acreage in the City of Mesa range from 11,000 to 12,000 acres. The Ernst & Young demand model estimates that only 7,860 acres of office and industrial land will be required to sustain residential build-out of East Valley cities, however, indicating that there is more future supply than demand appears to warrant, based upon estimated population and employment growth. In a market that appears to have an overabundance of future supply, location is key in the success of any one development.

Table 8
Mesa Office Market Historical Operating Data

Year	Inventory Sq. Ft.	Vacant Space	Vacancy Rate	Net Absorption	Median Lease Rate Total	Median Lease Rate Class A
1995	1,628,140	125,161	7.7%	64,973	$12.97	$16.57
1996	1,628,140	178,109	10.9%	(52,438)	$14.44	$19.29
1997	1,628,140	146,801	9.0%	31,308	$14.80	$20.00
1998	1,628,140	122,863	7.5%	23,938	$15.32	$19.70
1999	1,654,060	108,261	6.5%	40,522	$16.44	$20.67
2000	1,771,018	137,284	7.8%	87,935	$16.75	$21.25

Source: Canyon Research Southwest; Hunter Interests Inc.

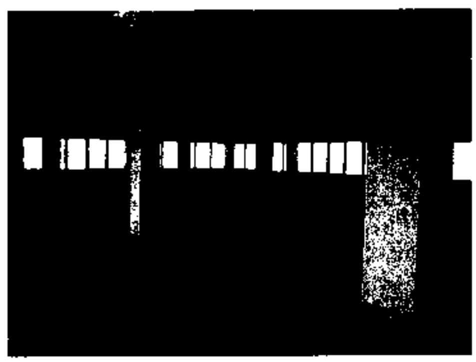
The viability of potential office building sites depends on a combination of characteristics including excellent location and access, proximity to labor and support business services, appropriate size and shape, compatible land uses, and the availability of utilities. Unique advantages to locating office space downtown may include pedestrian access to amenities like food and beverage establishments and other services, which may range from domestic applications such as dry cleaners, pharmacies, and hardware stores to professional services offered by accountants, doctors, or lawyers.

Downtown Mesa possesses a number of assets that are key to facilitating office development and/or redevelopment, the foremost being the availability of readily developable property served by an existing infrastructure. Other positives relative to office location in downtown Mesa include availability and access to fiber optics critical for modern office tenants and the presence of federal, state, county, and city government agencies, which generates demand from service-related businesses. The presence of a full-service hotel and conference space, structured parking in close proximity to development sites, and the ability of the City to package building sites and provide economic incentives to office developers are also important. Completion of the Mesa Arts Center and the Aquatic Center should also serve to enhance the desirability of locating downtown.

Although downtown Mesa enjoys relatively convenient freeway access, improvements in this area could potentially present more in the form of additional economic development benefits to the City. Inasmuch as recent office development tends to occur near freeway interchanges, the overall viability of the downtown business environment could be enhanced by the addition of a freeway interchange to serve the Town Center. Plans for an interchange at Mesa Drive and Red Mountain Freeway should be revisited, particularly in light of the recommendations for the development of Class A office space as contained in this report.

C. Conclusion

The City of Mesa is currently in the process of mitigating or otherwise attempting to address real or perceived weaknesses of downtown as a speculative office location. Although some services, such as restaurants and the office supply store are available to serve downtown tenants, the introduction of additional direct support services such as copy centers will be helpful to sustain new office development. The ground floor of the redeveloped Macdonald Center Building (formerly Bank One) represents an excellent location for this type of enterprise, which would fulfill the retail recommendation for the space.



The Former Bank One Building

Office space is an important land use for central business districts. It attracts a significant number of people to downtown during the daytime and positively impacts demand for urban housing, food and beverage establishments, and to a lesser extent, retail. The impact on other surrounding land uses is maximized when office space is incorporated into a pedestrian-friendly environment. The redevelopment of the former Bank One building will contribute to the overall revitalization of the Town Center, and may serve as a catalyst to attract additional new office development into downtown.

Under our scope of work, HII has assisted the City of Mesa with a competitive developer solicitation process that has included issuance of a Request for Qualifications and Request for Proposals. Seven qualified development teams are being evaluated for designation as master developer for the project.

To some degree, attracting new office tenants downtown is a "chicken or egg" situation. One cannot attract companies downtown without a supply of suitable space, nor will this type of Class A space necessarily materialize simply as a result of natural market forces alone. It is development strategies that match public and private objectives, which often succeed in solving the conundrum. We believe that there is market support for new office development in downtown Mesa, and the infrastructure summarized above, coupled with a viable site, will create the necessary environment for one or more successful office development projects in downtown Mesa.

VI. Hotel Market

A. Introduction

The analysis of prospects for future hotel development in downtown Mesa reviews the market situation in terms of the potential sources of demand and the health of existing facilities. We then discuss the potential for additional lodging and hospitality facilities that can be supported in the context of current proposed redevelopment projects and the recommendations contained herein.

B. Market Scan

The City of Mesa possesses a total inventory of 65 hotel/motel properties comprising 4,961 rooms. Two of these are located downtown, the Sheraton Mesa Hotel & Convention Center with 273 rooms, and the Best Western Mezona with 136 rooms. Table 9 shows the hotel/motel inventory for the City of Mesa by category.

Table 9
Mesa Hotel/Motel Mix

Limited Service			Full Service		
Budget Independent	Budget Affiliated	Economy	Mid Price	Upscale	Luxury
32 Properties 832 Rooms	11 Properties 1,038 Rooms	10 Properties 1,064 Rooms	7 Properties 847 Rooms	5 Properties 1,180 Rooms	0

Source: City of Mesa; Hunter Interests Inc.

Occupancy and average rates are the highest in Mesa during the months of February and March, with occupancy levels generally running above 80% and room rates averaging between $80 and $113. During the 2001 July/August off-season occupancy dropped below 40% in the full service category, while occupancy in the limited service and 100+ categories hovered under 45%. As Table 10 illustrates, occupancy and average rates have suffered a steady decline from 1999 through 2001. High-season occupancy rates for full service hotels fell 11.3% and 4.5% in February and March, respectively, from 2000 to 2001. Occupancy rates for all categories dropped about 4% during the same year.

In 2001, 28.4% of the typical lodging customers nationwide were transient business travelers, versus 25.3% composed of conference and meeting groups. According to principals associated with the Sheraton Mesa, a shift has occurred in their customer profile from a majority transient market segment to a majority group market segment, a trend well underway before the tragic events of

September 11. Maintaining a significant market share of group business will likely prove more challenging as the existing Centennial Center facilities age and other more high technology-oriented and up-to-date conference centers are brought on line in other locations.

Table 10
Mesa Hotel Occupancy & Average Daily Rate

Property Type	1999	2000	2001
Full Service	60.1%	59.1%	54.3%
	$83.76	$81.91	$81.45
Limited Service	61.7%	61.9%	57.7%
	$61.71	$62.31	$63.69
100+ Rooms	61.1%	60.8%	56.3%
	$70.89	$70.15	$70.79

Source: City of Mesa; Hunter Interests Inc.

C. Conclusion

Based on the market scan summarized herein, it is our conclusion that at the present time, an additional full service hotel in downtown Mesa would probably not be supportable, although a limited service product may be. There are numerous dynamics at work in Mesa that may alter this finding in the near to mid-term future and the hotel market should be analyzed periodically.

A vibrant convention business should not be overlooked in its importance as a hotel room generator. The City needs to consider adding to and upgrading public convention and conference facilities with flexible space to ensure the continued success of existing hotels and encourage new hotel development, so that downtown is competitive for attracting medium and larger group meetings. Although the addition of the Mesa Cultural Arts and Aquatic Centers should enhance downtown's attractiveness to conference and meeting planners, it is ultimately the amenities offered by the conference and meeting facilities themselves that determine the choice of venues. Furthermore, the increased demand for lodging generated by additional new conference space in the town center should not only improve the profitability of the existing hotel, but could likely leverage development of a new hotel or a substantial addition to the existing one. Without enhancement of meeting facilities in the downtown, our market scan indicates a new full-service hotel would not be supportable. However, the feasibility of the expansion of the existing conference center will ultimately depend on the where the new Cardinal's football stadium is located, and whether a convention center is part of the overall development program. Hotel development potential will be similarly impacted.

VII. Residential Market

A. Introduction

The residential market analysis of downtown Mesa is presented in terms of demand (population and household projections), supply factors, locational characteristics, and housing types. As with other potential development sectors, the nature of supply (location, quality, design, etc.) influences demand. In this section we again employ a combination of top down and bottom up analysis techniques to assess the potential for residential development in downtown Mesa, and to guide recommendations concerning a product mix that we believe to be supportable.

B. Market Scan

Housing and population growth trends both track and reflect the same phenomena—where people live. Our first observation is of historical population growth in the City of Mesa and projections for the future. Data from the year 2000 U.S. Census indicate a 37.6% increase in population from 1990 to 2000, a considerable amount of growth as compared to the national statistic of 13.2% for the same period. The Maricopa Association of Governments projects a more conservative growth rate of 13.3% from 2000 to 2005, representing a nonetheless significant growth rate of 2.7% per year. See Table 11.

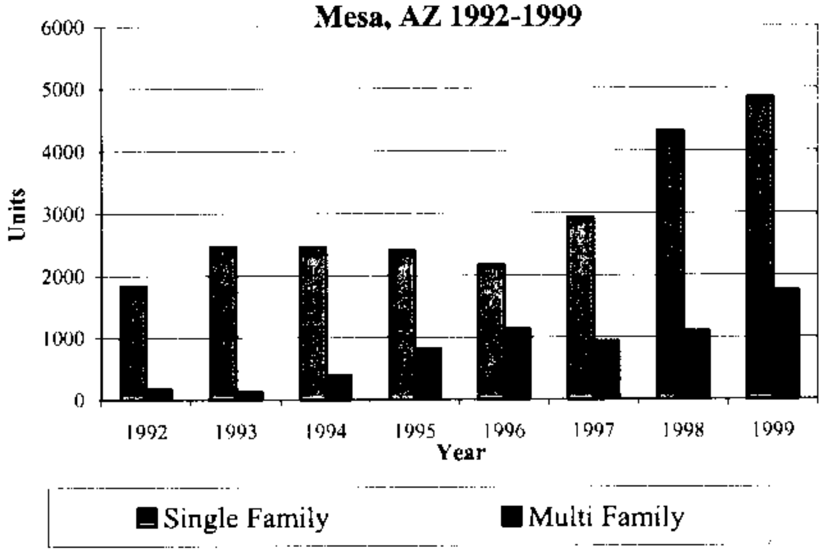
Table 11
Population Growth in Mesa, AZ

	1990	2000	2005
Population	288,091	396,375	457,109
% chg.		37.6%	13.3%

Source: U.S Census; Maricopa Association of Governments; Hunter Interests Inc.

Figure 5 illustrates residential construction trends in Mesa for single-family homes and multi-family dwellings from 1992 to 1999. As the figure shows, building permits for single-family homes surged from 2,171 houses in 1996 to 4,855 houses in 1999. The rate of construction of multi-family dwellings rose dramatically as well, from 172 and 139 units in years 1992 and 1993, respectively, to 1,098 units in 1998 and 1,762 units in 1999, pointing to a response to the demand for rental housing. Certain sections of the city may be currently experiencing market saturation in apartments, judging by the number of complexes offering incentives such as rent abatements.

Figure 5
Residential Construction
Mesa, AZ 1992-1999



Source: City of Mesa Planning and Zoning, Hunter Interests Inc.

In spite of the recent surges in residential construction, current data show that median values for single-family homes continue to rise in both the resale and new categories, indicating a stable or somewhat increasing demand. As Table 12 shows, resale values increased 6% from year 2000 to 2001, whereas new home values jumped 16% in the same year, after two years of steady increases.

Table 12
Median Home Values, Mesa AZ

	1998	1999	2000	2001
Resale	$107,051	$112,500	$119,900	$127,500
% Increase		5%	7%	6%
New	$123,996	$133,731	$140,950	$162,890
% Increase		8%	5%	16%

Source: Arizona University Real Estate Center; City of Mesa; Hunter Interests Inc.

Data on apartment rental costs in Mesa show steady increases in average rents for studio and one-bedroom apartments from 1998 to 2001, but only a slight increase in the average rent for two-bedroom apartments and a slight decrease for three-bedroom apartments. Indications are that there is a continuing or increasing demand for the smaller studio and one-bedroom apartments, while the market for two- and three-bedroom apartments is stahle or somewhat soft.

Table 13
Average Apartment Rental Costs
Mesa, AZ

	1998	2001	% Chg.
Studio	$405	$439	8.4%
1 Bedroom	$539	$595	10.4%
2 Bedroom	$663	$688	3.8%
3 Bedroom	$899	$869	-3.3%

Source: Great Locations; Executstay by Marriott; City of Mesa; Hunter Interests Inc.

Among the very few multi-family complexes in downtown, the most prominent is the 208-unit Cimarron Apartments, located on East 1st Street between Centennial Way and North Hibbert. Although rents for one-bedroom units fall within the citywide average at $520 to $605, the complex enjoys a 92% occupancy, and rents for the 15 fully occupied two-bedroom units are $725 per month, $37 higher than average.

Cimarron Apartments

C. Conclusion

Based on the findings of our market scan, and taking into account the downtown revitalization that is under way, we project that there will be sufficient demand to support the residential development components that are recommended in subsequent sections of this report, over a reasonable build-out period. Given development and implementation timelines the total number of units suggested in site conceptual plans would likely be built and absorbed over the next five to seven years.

Many cities are experiencing a resurgence in living downtown. Factors contributing to this trend include baby boomer households that are transitioning to empty nesters, reductions in crime and safety concerns in central cities, development of cultural and sports facilities in downtown areas, and brand re-establishment of downtown as an acceptable place to be for an increasingly urbane and affluent population.

Downtown Mesa is poised to become not only an attractive destination for the Valley populace as the Aquatic and Mesa Arts Center are brought online, but could likely attract nationwide attention to both facilities if aggressive marketing plans are undertaken. The redevelopment of the former Bank One Office building could potentially add 250 to 300 workers to the daytime population, enhancing the appeal of downtown as a workplace and drawing the notice of prospective restaurateurs and retailers.

Urban redevelopment continues to gain more popularity with developers as they come to the realization that infill sites possess a number of market advantages, including fewer competitors, existing transportation and other community services and facilities, and a pre-existing market—the residents of the surrounding communities. All of these factors work to the benefit of the downtown residential market.

VIII. Site A (Site 7): Analysis and Recommendations

A. Site Summary

Location: S. Hibbert Street east to S. Mesa Drive, E. Main Street south to E. First Avenue.

Area: 13.7 acres or 587,235 square feet in one contiguous block.

Current uses:
Wells Fargo Bank Building, four-story office
Tri-City Center, three-story building
Historic building
812-space Pomeroy parking garage
County health center, single-story building
Pete's Fish & Chips restaurant
Yesterday's Grill Restaurant
Bills Cylinder Head Service machine shop
Retail strip center, four businesses
Surface parking lot
City-owned park
Two vacant lots

Ownership: *Parcels 1, 2, 3, 4, 5, 6D, 7, 8, 10, 11A, 13, 15, `6, 19, 20, 21B, 22A, 23:* City of Mesa

Parcel 6B: Norwest Bank AZ Natl. Assoc., 100 West Washington, #1430, Phoenix, AZ 85003

Parcel 6C: Attn Robert Corley, Maricopa Co., 2601 E. Roosevelt St., Phoenix, AZ 85008

Parcel 14: Corey/Cathy Garrett Trust, 16717 East Yaqui Court, Fountain Hills, AZ 85268

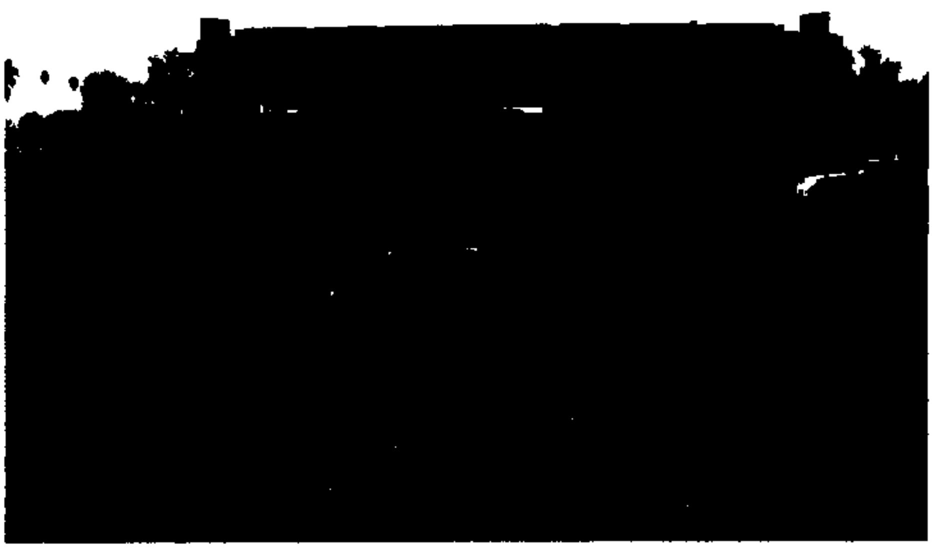
Parcel 17: ANPAR Living Trust, 2030 West Vermont, Los Angeles, CA 90027

Parcel 18: Bill's Cylinder Head Svs. Inc., 52 South Mesa Drive, Mesa, AZ 85210

Parcel 21A: GKP&B Partnership, 203 N. Macdonald, Mesa, AZ 85201

Site A encompasses the entire city block bounded by Main Street and E. 1^{st} Avenue to the north and south and Mesa Drive and S. Hibbert to the east and west, respectively. The site is comprised of several commercial buildings, vacant lots, and surface and structured parking facilities, as hitherto described moving clockwise from the northwest corner of the block: the multistory Tri-City Center and adjacent surface parking lot on the east side of the building; the four-story Wells Fargo Bank office building; a City-owned pocket park, approximately 19,000 square feet, on the northeast corner; Pete's Fish and Chips restaurant; a vacant city lot, approximately 36,000 square feet; a retail strip center on the southeast corner; a surface parking lot, 1+ acres; a small vacant city lot, 11,820 square feet, on the southwest corner; a Family Health Clinic; a surface parking lot located just south of the Tri-City Center; the 812-space Pomeroy garage, located in the geographic center of the block.

Unimproved, city-owned property accounts for approximately 132,500 square feet of developable land on Site A, whereas the city's paved surface lots could represent an additional 60,000 to 80,000 square feet of developable land if the Pomeroy Garage were to be fully utilized.



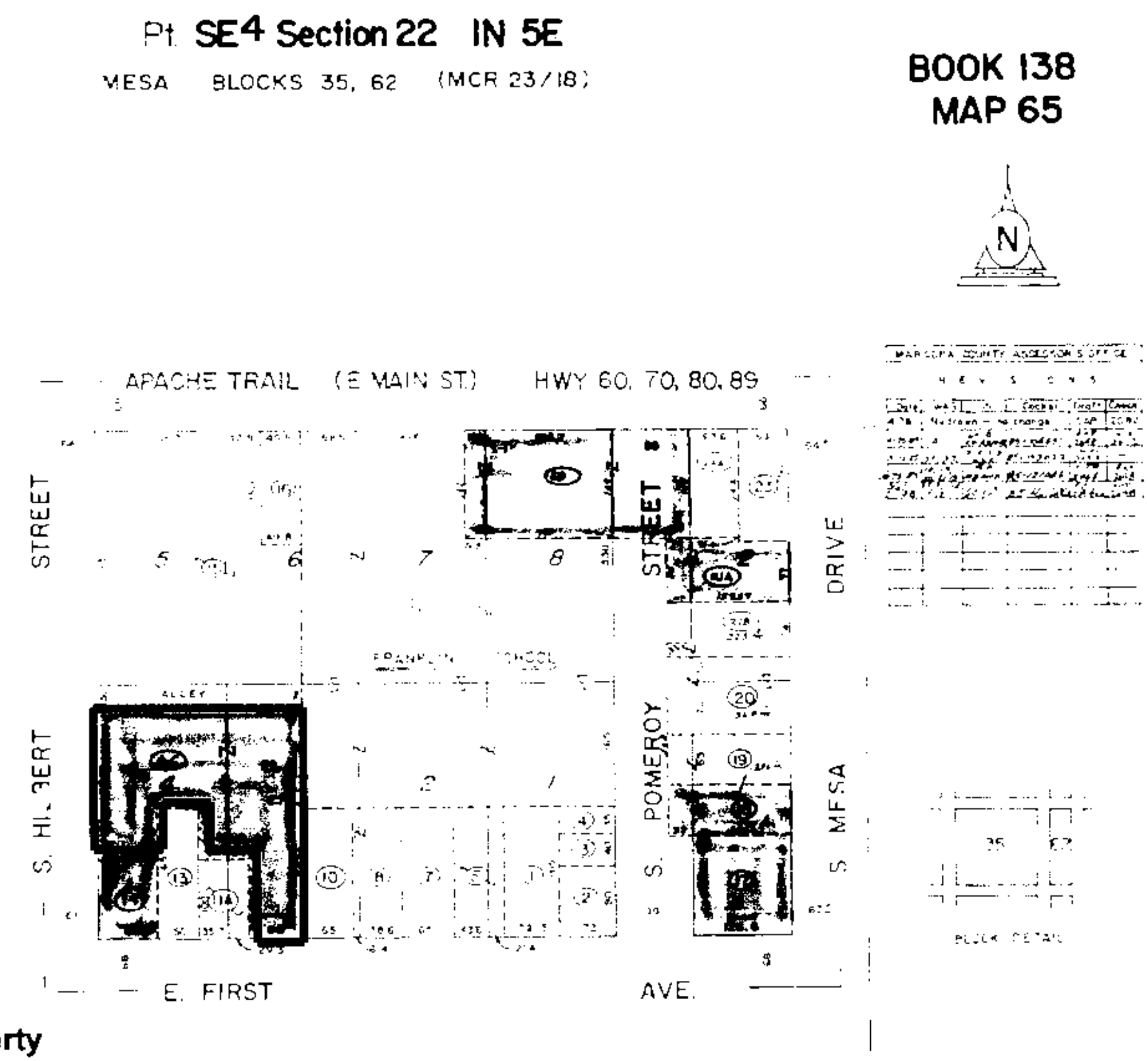
View westward of a city-owned 36,000 square foot vacant lot on Site A

Site A, View from S. Pomeroy and East 1st Ave.

Site A, Pomeroy Garage, Wells Fargo Bldg., Pete's Fish & Chips

Site A, Tri-City Center, Wells Fargo Bldg., Pomeroy Garage

Site A, Retail Strip Center from Mesa Drive



Private Property

City Property

County Property

Site A

Figure 6

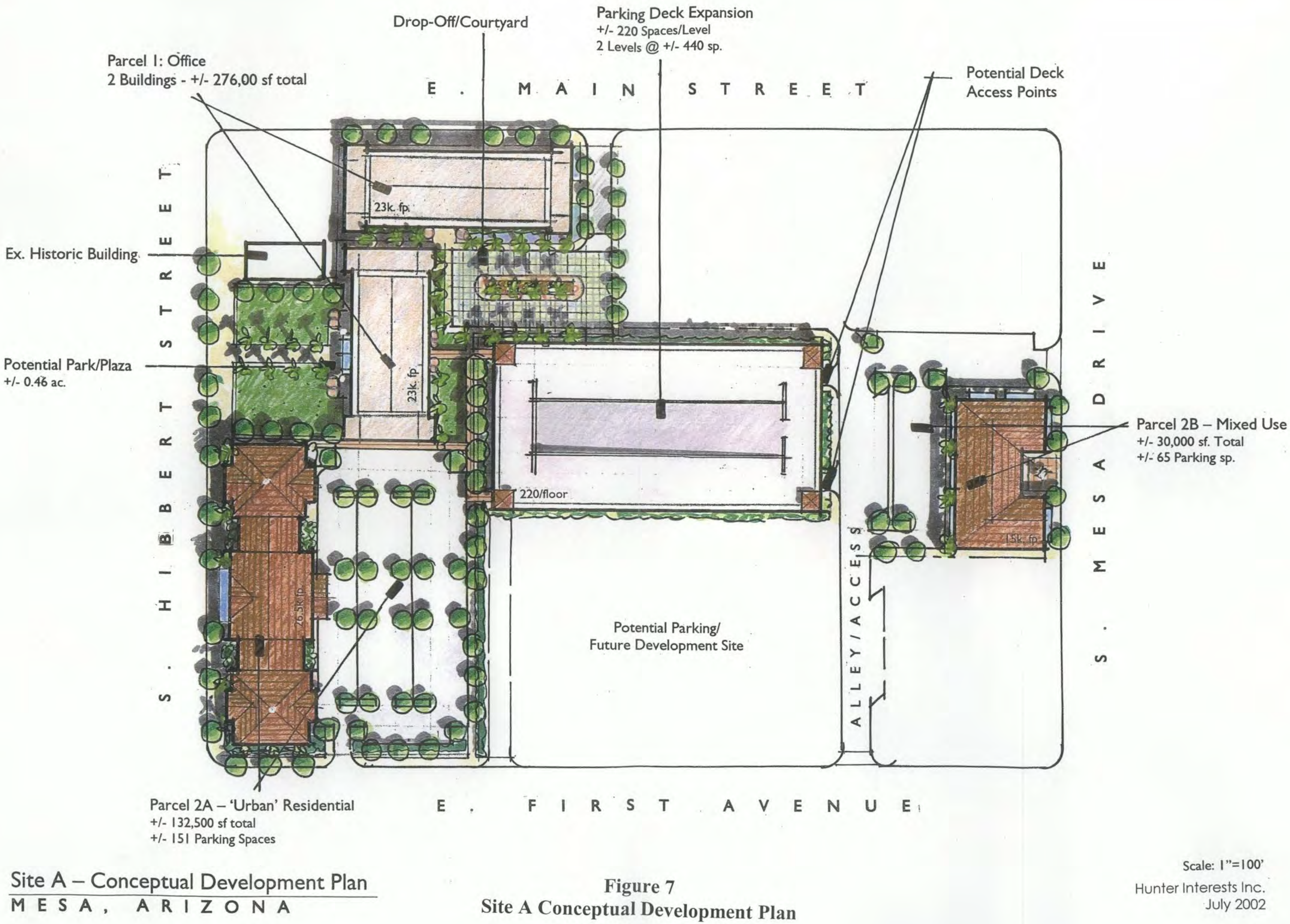


Figure 7
Site A Conceptual Development Plan

Figure 8
Site A — Class A Office Building/Residential Concept
View Southeast across Main at South Hibbert

Table 14
Site A (Site 7) Conceptual Building Program

Area 1	
Concept	276,000 square foot "Class A" office building Will utilize Pomeroy Garage for parking Will require construction of two new parking levels Net parking spaces, 1,218
Total Land Area	116,500 sf
Building Footprint	23,000 + 23,000
Building Height	6-story
Configuration	Twin buildings
Area 2	
Concept	High rise "urban lifestyle" apartments 120 units 1000 square foot average
Total Land Area	85,800 sf
Building Footprint	26,400 sf
Building Height	5-story
Parking	150 spaces, 45,000 sf
Area 3	
Concept	30,000 sf mixed use
Total Land Area	37,920 sf
Building Footprint	15,000 sf
Building Height	2-story
Parking	66 spaces, 19,800 square feet

Refer to Figure 7.
Source: Hunter Interests Inc.

B. Conceptual Building Program — Area 1 — Class A Office

Recent studies, including HII's market analysis and Canyon Research's October 2000 Speculative Market Analysis for Mesa, conclude that the short-term addition of new speculative office space in downtown may be feasible, particularly in light of the deficiency in supply of Class A space. The Area 1 building program for Site A proposes 276,000 square feet of new Class A office space at the corner of Hibbert and Main, plus the addition of two levels of parking to the Pomeroy Garage.

The building concept calls for two six-story Class A signature office buildings with 23,000 square foot floor plates, situated at right angles, on a site that incorporates a drop-off court at the front entrances, a plaza, and open space (see

Figure 7). A provision is included for the preservation of the existing historical building on site. The parking requirement of 1,200 spaces can be satisfied by the addition of two new levels of parking to the Pomeroy Garage and the dedication of the existing spaces as well. There remains some question as to the structural feasibility of adding decks, however most input received on the issue indicates that it is possible. If only one deck could be added, relative adjustments in surface lot requirements would have to be made.

The demolition and removal of the existing Tri-City Center will be necessary as part of the site development. The concept is dependent on the eventual relocation of City employees from the Tri-City Center, to a centralized City office campus, fulfilling one of the objectives of the City's Master Plan.

An engineering analysis to assess structural and other issues regarding the Pomeroy Garage will be necessary to determine the feasibility of this approach to delivering a parking solution to the project. In the event this approach is unworkable, the City-owned parcel to the south of the garage could serve as an alternative overflow parking reservoir. This could preclude any future development of that parcel however, and should be considered as a last resort. Although the costs for a garage addition may likely be borne by the public sector, the subject would be treated in the context of a development agreement that could result in private sector investment as well.

C. Financial Feasibility and Capital Cost Assessment

1. Cash Flow

Table 15 shows the projected cash flow for the proposed 276,000 square foot office building complex over a 10-year period. Revenue estimates are based on a full service rental rate of $20 in the first year at an 80% occupancy, with 3% annual escalations thereafter. Annual revenue is estimated at $3.9 million in the first year, increasing to $5.1 million in the fourth year at stabilization with a 95% occupancy. Operating expenses are calculated at $4 per square foot for a first year total of $971,520. Maricopa County property taxes are estimated to be approximately $868,565 in the first year, and an annual replacement reserve allowance of $10,000 is also included in expenses. Total expenses are estimated at $1.9 million in the first year, increasing to $2.0 million in the fourth year at stabilization with 95% occupancy. First year net operating income (NOI) is approximately $2.0 million, increasing to $3.2 million in year four.

2. Supportable Funds

Based on NOI in year four of $3.2 million and a debt coverage ratio of 1:4, the project could afford debt service of approximately $2.3 million annually. Assuming a 7% conventional loan and a term of 30 years, the supportable debt on the project would be approximately $28.4 million. Based on annual cash flow after debt service, and a required developer return of 17%, the project could generate a minimum of $3.8 million of private investment capital with actual equity contributions likely to be much greater. See Table 16.

3. Capital Costs

Table 17 shows the capital cost projections and assumptions used to calculate pro forma operating cash flows for the proposed office buildings. Construction costs are based on available data for similar projects in the region, and are estimated at $90 per square foot hard costs and $25 per square foot soft costs. Capital costs for the proposed addition to the Pomeroy Garage are treated in sub-section E. Total development costs for the project are estimated to be approximately $31.7 million. Based on a required developer's return of 17%, residual land value is estimated to be $477,750. Residual land value estimates are meant as a feasibility tool, and do not represent estimated fair market value for the real estate. However, residual land value estimates may be used as a guide in discussions with developers, and otherwise to provide an understanding of a project's viability and ability to pay something for the land on which it is located.

Table 15
Site A, Area 1 Office Concept Pro Forma

Net Operating Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues:										
Gross Building Area	276,000	276,000	276,000	276,000	276,000	276,000	276,000	276,000	276,000	276,000
Leasing Efficiency Factor	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%
Net Rentable Area	242,880	242,880	242,880	242,880	242,880	242,880	242,880	242,880	242,880	242,880
Average Occupancy	80%	90%	95%	95%	95%	95%	95%	95%	95%	95%
Occupied Office Space	194,304	218,592	230,736	230,736	230,736	230,736	230,736	230,736	230,736	230,736
Rental Rate	$20.00	$20.60	$21.42	$22.28	$23.17	$24.10	$25.06	$26.07	$27.11	$28.19
Annual Total Revenue	$3,886,080	$4,502,995	$4,943,288	$5,141,020	$5,346,660	$5,560,527	$5,782,948	$6,014,266	$6,254,836	$6,505,030
Expenses										
Operating Expenses	$971,520	$995,808	$1,020,703	$1,046,221	$1,072,376	$1,099,186	$1,126,665	$1,154,832	$1,183,703	$1,213,295
Real Estate Tax	$868,565	$868,565	$868,565	$911,993	$911,993	$911,993	$957,593	$957,593	$957,593	$1,005,473
Replacement Reserve	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
Annual Total Expenses	$1,850,085	$1,874,373	$1,899,268	$1,968,214	$1,994,370	$2,021,179	$2,094,258	$2,122,425	$2,151,296	$2,228,768
Net Operating Income										
Total Annual Revenues	$3,886,080	$4,502,995	$4,943,288	$5,141,020	$5,346,660	$5,560,527	$5,782,948	$6,014,266	$6,254,836	$6,505,030
Total Annual Expenses	$1,850,085	$1,874,373	$1,899,268	$1,968,214	$1,994,370	$2,021,179	$2,094,258	$2,122,425	$2,151,296	$2,228,768
Net Operating Income	$2,035,995	$2,628,622	$3,044,020	$3,172,805	$3,352,291	$3,539,348	$3,688,689	$3,891,841	$4,103,541	$4,276,262

Source: Hunter Interests Inc.

Table 16
Site A, Area 1 Office Concept, Supportable Debt/Equity

Project Cash Flow		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Net Operating Income		$2,035,995	$2,628,622	$3,044,020	$3,172,805	$3,352,291	$3,539,348	$3,688,689	$3,891,841	$4,103,541	$4,276,262
Annual Debt Service		$2,266,290	$2,266,290	$2,266,290	$2,266,290	$2,266,290	$2,266,290	$2,266,290	$2,266,290	$2,266,290	$2,266,290
Annual Cash Flow		-$230,295	$362,332	$777,730	$906,516	$1,086,001	$1,273,058	$1,422,400	$1,625,551	$1,837,251	$2,009,972
Supportable Funds											
Supportable Equity:											
Required Developer Return		17%									
Supportable Equity		$3,831,043									
Supportable Debt:											
NOI YEAR 4		$3,172,805									
Debt Coverage Ratio		1.4									
Debt Service		$2,266,290									
Interest Rate	7%										
Loan Term	30										
Supportable Debt		$28,386,707									
Total Supportable Funds											
Minimum Equity[1]		$3,831,043	12%								
Supportable Debt[2]		$28,386,707	88%								
Total Supportable Funds		$32,217,749	100%								

[1] The financial model employed in this table solves for a minimum equity requirement based on cash flow after supportable debt service. The actual financing package will likely include significantly greater developer equity which may be structured in the form of loaned capital equal to as much as 30% of the debt required.

[2] The financial model employed in this table uses conventional debt financing. The actual financing package would likely use a combination of short term construction loans, low-interest industrial or economic development loans, and debt that could be structured at more favorable terms within the 30-year span.

Source: Hunter Interests Inc.

Table 17 Site A, Area 1 Office Concept Capital Costs			
Building Hard Costs		**Supportable Funds**	
Gross Building Area	276,000	Minimum Equity	$3,831,043
Cost Per Square Foot	$90	Conventional Debt	$28,386,707
Construction Costs	$24,840,000	**Total Supportable Funds**	$32,217,749
Total Hard Costs	$24,840,000		
Building Soft Costs @ $25/ft	$6,900,000	**Project Costs**	$31,740,000
Total Development Costs	$31,740,000	**Residual Land Value**	$477,749

Source: Hunter Interest Inc.

D. Conceptual Building Program — Area 2 — Mid-rise Multifamily

To fulfill the vision of creating a unique and inviting downtown center, HII recommends development of a high quality, "urban lifestyle" apartment building, that is visually integrated with the proposed Class A office development to the north. The five-story, 120-unit building will front South Hibbert Street, and will include 151 surface parking spaces located at the rear, toward the interior of the block (see Figure 7). The building will offer spacious apartments averaging 1,000 square feet, and will feature high amenities and service facilities.

It will be necessary to ascertain the County's intentions on the future disposition of the existing health clinic before project timing can be fully addressed. Although the developer would likely bear the cost of acquiring the site, the City could assist by facilitating a land swap or some other arrangement to accommodate the County's needs. Site assembly will also require the acquisition of the privately owned Yesterday's Grill Restaurant, which could conceivably be relocated into the proposed new retail building on the same block, under a negotiated agreement.

E. Financial Feasibility and Capital Cost Assessment

1. Cash Flow

Table 18 shows the projected cash flow for the apartments over a 10-year period. Revenue estimates are based on a first year average annual rental rate of $10,838, with 3% annual escalations thereafter. Other receipts revenue is calculated at 4% of gross rental revenue, and may include furniture rental, laundry income, cleaning fees, etc. Total gross income is estimated at $1.6 million in the first year, increasing to $1.8 million in the fourth year at stabilization. Operating expenses include operations and management expenses calculated at 30% of gross income, estimated county property tax of $99,729 in the first year, and a $5,000 annual replacement reserve. Total expenses are estimated at $428,211 in the first year, increasing to $472,743 in the fourth year at stabilization. First year net operating income (NOI) is approximately $1,189,197, increasing to $1,385,735 in year four.

2. Supportable Funds

Supportable debt and equity is an issue for apartment construction and operation as there is an ongoing cash flow. Based on NOI in year four of $1,385,735 and a debt coverage ratio of 1:4, the project could afford debt service of approximately $989,811 annually. Assuming a 7% conventional loan and a term of 30 years, the supportable debt on the project would be approximately $12.4 million. Based on annual cash flow after debt service, and a required developer return of 17%, the project could generate a minimum of $1.8 million of private investment capital, with actual equity contributions likely to be much higher. See Table 19.

3. Capital Costs

Table 20 shows the capital cost projections and assumptions used to calculate pro forma operating cash flows for the proposed 120-unit apartment building. Construction costs are estimated at $90 per square foot hard costs and $15 per square foot soft costs. Total development costs for the high-rise multifamily building are estimated to be approximately $14.0 million. Given the caveats with regard to residual land value estimates as expressed in the capital cost sub-section associated with the office concept, such value for this element of the project is estimated to be approximately $263,268.

Table 18
Site A, Area 2 Apartment Concept Pro Forma

Net Operating Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues										
Units	120	120	120	120	120	120	120	120	120	120
Rental Occupancy	90%	95%	95%	95%	95%	95%	95%	95%	95%	95%
Net Occupancy	108	114	114	114	114	114	114	114	114	114
Average Rental Rate	$1,200	$1,236	$1,273	$1,311	$1,351	$1,391	$1,433	$1,476	$1,520	$1,566
Gross Rental Revenue	$1,555,200	$1,690,848	$1,741,573	$1,793,821	$1,847,635	$1,903,064	$1,960,156	$2,018,961	$2,079,530	$2,141,916
Other Receipts @ 4%	$62,208	$67,634	$69,663	$71,753	$73,905	$76,123	$78,406	$80,758	$83,181	$85,677
Total Gross Income	$1,617,408	$1,758,482	$1,811,236	$1,865,573	$1,921,541	$1,979,187	$2,038,562	$2,099,719	$2,162,711	$2,227,592
Expenses										
Residential Operations/Management	$323,482	$351,696	$362,247	$373,115	$384,308	$395,837	$407,712	$419,944	$432,542	$445,518
Real Estate / Property Tax	$99,729	$99,729	$99,729	$101,724	$101,724	$101,724	$103,758	$103,758	$103,758	$105,833
Replacement Reserve	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000
Annual Total Expenses	$428,211	$456,425	$466,976	$479,838	$491,032	$502,561	$516,471	$528,702	$541,300	$556,352
Net Operating Income										
Total Annual Revenues	$1,617,408	$1,758,482	$1,811,236	$1,865,573	$1,921,541	$1,979,187	$2,038,562	$2,099,719	$2,162,711	$2,227,592
Total Annual Expenses	$428,211	$456,425	$466,976	$479,838	$491,032	$502,561	$516,471	$528,702	$541,300	$556,352
Net Operating Income	$1,189,197	$1,302,057	$1,344,260	$1,385,735	$1,430,509	$1,476,626	$1,522,092	$1,571,017	$1,621,411	$1,671,241

Source: Hunter Interests Inc.

Table 19
Site A, Area 2 Apartment Concept, Supportable Debt/Equity

Project Cash Flow		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Net Operating Income		$1,189,197	$1,302,057	$1,344,260	$1,385,735	$1,430,509	$1,476,626	$1,522,092	$1,571,017	$1,621,411	$1,671,241
Annual Debt Service		$989,811	$989,811	$989,811	$989,811	$989,811	$989,811	$989,811	$989,811	$989,811	$989,811
Annual Cash Flow		$199,387	$312,246	$354,449	$395,924	$440,698	$486,815	$532,281	$581,207	$631,600	$681,430
Supportable Funds											
Supportable Equity:											
Required Developer Return		17%									
Supportable Equity		$1,860,263									
Supportable Debt:											
NOI YEAR 4		$1,385,735									
Debt Coverage Ratio		1.4									
Debt Service		$989,811									
Interest Rate	7%										
Loan Term	30										
Supportable Debt		$12,398,005									
Total Supportable Funds											
Minimum Equity[1]		$1,860,263	13%								
Supportable Debt[2]		$12,398,005	87%								
Total Supportable Funds		$14,258,268	100%								

[1] The financial model employed in this table solves for a minimum equity requirement based on cash flow after supportable debt service. The actual financing package will likely include significantly greater developer equity which may be structured in the form of loaned capital equal to as much as 30% of the debt required.

[2] The financial model employed in this table uses conventional debt financing. The actual financing package would likely use a combination of short term construction loans, low-interest industrial or economic development loans, and debt that could be structured at more favorable terms within the 30-year span.

Source: Hunter Interests Inc.

Table 20 Site A, Area 2 Apartment Concept, Capital Costs			
Building Hard Costs		**Supportable Funds**	
Gross Building Area	132,000	Minimum Equity	$1,860,263
Cost Per Square Foot	$90	Conventional Debt	$12,398,005
Construction Costs	$11,880,000	**Total Supportable Funds**	$14,258,268
Parking	$135,000		
Total Hard Costs	$12,015,000		
Building Soft Costs	$1,980,000	**Project Costs**	$13,995,000
Total Development Costs	$13,995,000	**Residual Land Value**	$263,268

Source: Hunter Interest Inc.

F. Conceptual Building Program — Area 3 — Mixed Use

The new urban neighborhood emerging from the mix of uses proposed for Site A professional could include a small retail/restaurant and possible office component to cater to the needs of its residents and daytime office population. The conceptual building program calls for a 30,000 square foot two story mixed use building on a one-acre parcel on the east side of the block, nestled between existing restaurant and retail uses. The ground floor will easily accommodate restaurant or retail, and the 15,000 square foot second floor could be leased as space that would be appropriate for law offices, accounting firms, real estate brokerages, medical professionals, etc. A 65-space surface parking lot will be located at the rear of the building.

G. Financial Feasibility and Capital Cost Assessment

1. Cash Flow

Table 21 shows the projected cash flow for the proposed 30,000 square foot mixed use building over a 10-year period. Revenue estimates are based on a full service rental rate of $18 in the first year at an 80% occupancy, with 3% annual escalations thereafter. Annual revenue is estimated at $380,160 in the first year, increasing to $502,926 in the fourth year at stabilization with a 95% occupancy. Operating expenses are calculated at $4 per square foot for a first year total of $84,480. Maricopa County property taxes are estimated to be approximately $72,244 in the first year. Total expenses are estimated at $156,724 in the first year, increasing to $166,832 in the fourth year at stabilization with 95% occupancy. First year net operating income (NOI) is approximately $233,436, increasing to $336,094 in year four.

2. Supportable Funds

Based on NOI in year four of $336,094 and a debt coverage ration of 1:4, the project could afford debt service of approximately $240,067 annually. Assuming a 7% conventional loan and a term of 30 years, the supportable debt on the project would be approximately $3.0 million. Based on annual cash flow after debt service, and a required developer return of 17%, the project could generate a minimum of $408,909 of private investment capital with actual equity contributions likely to be much higher. See Table 22.

3. Capital Costs

Table 23 shows the capital cost projections and assumptions used to calculate pro forma operating cash flows for the proposed mixed use building. Construction costs are estimated at $80 per square foot hard costs and $15 per square foot sofl costs. Total development costs for the office component are estimated to be approximately $3.0 million. Based on a required developer's return of 17%, residual land value is estimated to be $355,904, which is subject to various caveats as previously stated.

Table 21
Site A, Area 3 Mixed Use Concept Pro Forma

Net Operating Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues:										
Gross Building Area	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Leasing Efficiency Factor	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%
Net Rentable Area	26,400	26,400	26,400	26,400	26,400	26,400	26,400	26,400	26,400	26,400
Average Occupancy	80%	90%	95%	95%	95%	95%	95%	95%	95%	95%
Occupied Office Space (RSF)	21,120	23,760	25,080	25,080	25,080	25,080	25,080	25,080	25,080	25,080
Rental Rate	$18.00	$18.54	$19.28	$20.05	$20.85	$21.69	$22.56	$23.46	$24.40	$25.37
Annual Total Revenue	$380,160	$440,510	$483,583	$502,926	$523,043	$543,965	$565,723	$588,352	$611,886	$636,362
Expenses										
Operating Expenses	$84,480	$86,592	$88,757	$90,976	$93,250	$95,581	$97,971	$100,420	$102,931	$105,504
Real Estate Tax	$72,244	$72,244	$72,244	$75,856	$75,856	$75,856	$79,649	$79,649	$79,649	$83,631
Annual Total Expenses	$156,724	$158,836	$161,000	$166,832	$169,106	$171,437	$177,619	$180,069	$182,579	$189,135
Net Operating Income										
Total Annual Revenues	$380,160	$440,510	$483,583	$502,926	$523,043	$543,965	$565,723	$588,352	$611,886	$636,362
Total Annual Expenses	$156,724	$158,836	$161,000	$166,832	$169,106	$171,437	$177,619	$180,069	$182,579	$189,135
Net Operating Income	$223,436	$281,675	$322,582	$336,094	$353,937	$372,527	$388,104	$408,283	$429,307	$447,227

Source: Hunter Interests Inc.

Table 22
Site A, Area 3 Mixed Use Concept, Supportable Debt/Equity

Project Cash Flow		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Net Operating Income		$223,436	$281,675	$322,582	$336,094	$353,937	$372,527	$388,104	$408,283	$429,307	$447,227
Annual Debt Service		$240,067	$240,067	$240,067	$240,067	$240,067	$240,067	$240,067	$240,067	$240,067	$240,067
Annual Cash Flow		-$16,631	$41,607	$82,515	$96,027	$113,870	$132,460	$148,036	$168,216	$189,240	$207,159
Supportable Funds											
Supportable Equity:											
Required Developer Return		17%									
Supportable Equity		$408,909									
Supportable Debt:											
NOI YEAR 4		$336,094									
Debt Coverage Ratio		1.4									
Debt Service		$240,067									
Interest Rate	7%										
Loan Term	30										
Supportable Debt		$3,006,995									
Total Supportable Funds											
Minimum Equity[1]		$408,909	12%								
Supportable Debt[2]		$3,006,995	88%								
Total Supportable Funds		$3,415,904	100%								

[1] The financial model employed in this table solves for a minimum equity requirement based on cash flow after supportable debt service. The actual financing package will likely include significantly greater developer equity which may be structured in the form of loaned capital equal to as much as 30% of the debt required.

[2] The financial model employed in this table uses conventional debt financing. The actual financing package would likely use a combination of short term construction loans, low-interest industrial or economic development loans, and debt that could be structured at more favorable terms within the 30-year span.

Source: Hunter Interests Inc.

Table 23 Site A, Area 3 Mixed Use Concept, Capital Costs			
Building Hard Costs		**Supportable Funds**	
Gross Building Area	30,000	Minimum Equity	$408,909
Cost Per Square Foot	$80	Conventional Debt	$3,006,995
Construction Costs	$2,400,000	**Total Supportable Funds**	$3,415,904
Parking	$60,000		
Total Hard Costs	$2,460,000		
Building Soft Costs @$20	$600,000	**Project Costs**	$3,060,000
Total Development Costs	$3,060,000	**Residual Land Value**	$355,904

Source: Hunter Interest Inc.

H. Public Investment Discussion

The Pomeroy Garage addition could represent the principal public sector investment for Site A in terms of costs, which could be offset to some degree by monthly leases and developer contributions. Based on a cost of $10,000 per space, and the construction of 388 new spaces, we estimate a total cost of construction to be $3,880,000.

Public sector costs associated with the acquisition of the County and Yesterday's Grill properties should be addressed in the course of developer negotiations, and will ultimately depend on the purchase price of the real estate and the private sector investment. Demolition of the Tri-City Center would likely also carry some public costs, as would general site preparation.

The City's investment to date in Site A totals $6,000,000, which includes the acquisition and demolition of a residential house at 212 E. 1st Ave. in 1994, and the acquisition of the office building at 225 E. Main St. in 2001.

IX. Site B (Site 17): Analysis and Recommendations

A. Site Summary

Location:	N. Centennial Way east to N. Mesa Drive, E. University Drive south to E. Second Street
Area:	Approximately 30 acres
Current use:	Vacant
Ownership:	City of Mesa

View from Mesa Drive looking west to Sheraton Hotel

View from Sheraton Hotel looking east to Mesa Drive

Site B (Site 17) has been the subject of a redevelopment effort for some time and the City has successfully acquired, assembled, and prepared the area for a development project. The site is important for many reasons including its size, role as a transitional area between historic neighborhoods and the downtown, public investment, and the opportunity it represents in terms of a catalyst for revitalization. We have attempted to create a balanced building program for the site that recognizes both market realities and market potentials, attractiveness to developers and ability to attract private investment, economically sustainable uses, and uses that enhance and enliven the site as well as the surrounding areas.

B. Conceptual Building Program — Site B (Site 17) Refer to Figure 9

Area 1: Residential Community — A mix of residential products is recommended to provide a variety of home ownership and rental opportunities designed to appeal to the market segments seeking a unique and more high-end product than is currently available in downtown Mesa. Buildings should be designed with a harmonious but not homogeneous architectural theme that should be carried through the commercial component described below. Market orientation should be directed toward affluent seniors, empty nesters, and young professionals seeking an urban lifestyle with high amenities and adjacent services and support facilities. A "healthy lifestyle" sub-theme should be incorporated into the amenities and support facilities as an approach to promoting the new community.

Utilizing a "New Urbanism" or "Traditional Neighborhood Development" approach, the residential mix will include one- and two-garage townhomes of 1,500 to 1,800 square feet that will define the eastern and southern peripheries of the site while maintaining the residential character of the neighborhood. The townhomes may be configured as duplexes or otherwise configured in small clusters. They will be built on parcels fronting Mesa Drive and East Second Street, separated by a one-acre park located at the southeast corner, where the streets intersect. We envision lower density, higher end units on Second Street, with townhouse rental units on Mesa Drive set back from the road and buffered. Alleys will serve the rear of the buildings, and additional guest parking will be available. The building program allows for 20 townhomes at 1,800-square feet with two-car garages, and 52 townhomes at 1,500-square feet with one-car garages on approximately 4.6 acres.

The residential density increases closer to the core area of the site, where a 400-unit garden-style apartment complex is proposed, with attendant amenities such as a pool and clubhouse. Units will average 1,000 square feet, with a mix of one-, two-, and three-bedroom apartments, as well as studio lofts, which may be accommodated in three- or four-story structures. Parking for residents will be available in interior spaces as well as outdoor surface lots. The garden apartment component will cover approximately 10.6 acres.

Area 2: Village Retail/Office Center — The northern periphery of the site will be comprised of a village retail and office center that will front University Drive. The village center will consist of a 50,000 square foot three-story office building flanked by retail buildings of similar architectural style on either side. The ground floor of the office building should accommodate retail or restaurant use. Health food grocers or holistic health stores could be encouraged to lease retail space, in keeping with the underlying health, fitness, and sports concept associated with the community. All of the commercial buildings should be unique but consistent in design, reflecting the overall architectural theme of the development while retaining a signature appearance meant to create an identity for the new community.

The village center will account for 80,000 square feet of commercial space to be constructed on approximately 4.5 acres, with provisions for 316 surface parking spaces.

Area 3: Mixed Use, West Parcel — The conceptual building program as described so far utilizes the entire block as bounded by University Drive and East Second Street to the north and south and North Hibbert and Mesa Drive to the west and east, respectively. The plan respects existing uses in the adjacent blocks and neighborhoods, and responds by programming use types compatible with those in the vicinity, while recognizing the dynamics imposed by the real estate market in Mesa.

The portion of Site B (17) that is located between North Hibbert and Pasadena Street represents broader potential in terms of possible uses, by virtue of its proximity to the Centennial Center and Sheraton Hotel complex on one side and a possibly significant residential mixed use development on the other. The approximately 9.4-acre parcel is positioned to serve as a transition zone between the existing and proposed uses, and therefore lends itself to a number of development alternatives that can be leveraged by, and in turn provide a benefit to, the surrounding community. Therefore, we have incorporated a mix of urban residential and commercial office use in this area to create a live/work environment that promotes less dependence on the automobile, and includes a health-oriented recreational/leisure element.

The major development component of this site consists of three five-story buildings with ground floor parking, designed to accommodate integrated residential and office use. The combined floor area of the buildings will total 200,000 square feet on a 40,000 square foot footprint. The buildings will be configured in a "U" shaped pattern surrounding a landscaped plaza. Overflow parking will be available on surface lots on the north end of the site, along with curbside parking on Hibbert Street. The south end of the site will be the location for a 25,000 square foot health club and spa with surface parking.

Striking a workable balance between the residential and office aspects while making the project attractive to developers and prospective tenants can be accomplished by incorporating concepts that have already achieved a wide degree of market acceptance. A combination of some or all of the following building programs is recommended:

- Live/Work Space — Live/Work denotes the integration of living and office space into the same unit. The use of the term live/work indicates that the primary use is residential, and commercial activity is secondary. Conversely, the term work/live means that the work component takes precedence over the quiet enjoyment expectations of the tenants. Reversion to work only or live only may be acceptable, depending on surrounding users. Flexibility is key in this type.

- Executive Suites — Executive suites are spaces that provide shared services, usually to small or start-up companies seeking a corporate image at a low cost. Usually included in the rent are secretarial support and services, answering and copying services, and conference rooms. Flexible lease terms are commonly offered, such as month-to-month or yearly leases.

- Telecommuting Centers — Telecommuting centers are gaining popularity among workers whose commute lasts 30 minutes or more, and those who need or want a more flexible work schedule. These centers are generally furnished with modular workstations with lockable personal storage, and are equipped with computers, business software, data communications, telephones with private voice mail, printers, copiers, and fax machines. Amenities often include kitchenettes with refrigerators, coffee makers, and microwaves.

In addition to the live/work components of the project, we believe a health club and spa located at the south end of the site could be an operationally integrated element that adds additional viability to the development concept. As envisioned, the facility would provide weight and aerobic training facilities, an indoor pool, racquet courts, sauna and steam baths, showers, and locker rooms. The spa could offer health services such as exercise, nutrition, mind-body, touch therapy, hydrotherapy, and a variety of massage techniques, as well as cosmetic and personal care services. The amenities a health club and spa could afford hotel guests, conference attendees, office workers, neighborhood and Mesa residents, and visitors translate into potentially significant revenues.

Figure 9
Site B (17) Mixed Use Concept Plan

Scale: 1"=100'
Hunter Interests Inc.
July 2002

Figure 10
Site B — Residential Concept
View from South Side of Second Street Looking North at Townhouses

Figure 11
Site B — Retail/Office Concept
View from the Interior of the Site Looking Northwest Toward University

Table 24 Site B (17) Conceptual Building Program	
Area 1	
Concept	72 Townhouses 20 2-car garage, 1,800 sf units 52 1-car garage, 1,500 sf units Parking
Total Land Area	4.6 acres, 69,700sf
Density	16 Units per acre
Building Footprint	48,000 sf
Building Height	2-story
Concept	400 Garden Apartments Average, 1,000 sf Club house, pool, tennis courts Parking
Total Land Area	10.63 Acres, 463,000 sf
Area 2	
Concept	Office/Retail 50,000 sf office, 30,000 sf retail
Total Land Area	4.5 Acres, 197,000 sf
Density	38 Units per acre
Building Footprint	55,000 sf
Building Height	Office, 2-story Retail, 1-story
Parking	250 spaces @ 300 sf = 75,000 sf
Area 3	
Concept:	200,000 sf live/work space 25,000 sf health club & spa
Total Land Area:	9.37 acres, 408,150 sf
Building Footprint:	65,000 sf
Building Height:	Live/Work, 5 stories Spa, 1 story
Parking:	500 spaces @ 300 sf = 150,000 sf

See Figure 9

Source: Hunter Interests Inc.

C. Financial Feasibility and Capital Cost Assessment for Site B Components

1. Residential

Residential products vary considerably in hard and soft costs as the type of construction (frame, masonry, etc.), location (downtown, suburban, topography), and finish (synthetic, brick, etc.) is applied. We have made certain assumptions regarding these and other variables associated with the residential construction that have an impact on cost, marketability, sales price, and profit potential. Generally, we have assumed generous living spaces, mid- to high-grade materials, superior finishings, and amenities, which include enclosed parking, landscaping, a pool, and open space.

In order to assess the feasibility of residential development and sales in a manner that emphasizes attraction of private investment capital, we have included a required return on equity of 50%, assuming initial developer equity of 30%. This also reflects the nature of cash flow in a sales environment where profit is unit based and not driven by ongoing operations as in leased apartments or commercial space. We anticipate the for-sale units contained in the Site B program would be absorbed in two to three years.

2. Townhouses

a. Sales Prices & Revenue

Based on our residential market analysis, comparable sales, and the unique downtown location, we have projected sales prices per unit, in year 2002 dollars. The sale of homes is subject to absorption over time. The absorption rates of new homes in downtown Mesa may be impacted by substantially increased demand based on the location and overall downtown redevelopment, changes in the local and national economy, and other market factors, which cannot be determined at this time. Nonetheless, sales revenue as indicated below can be supported with an assumed pre-opening marketing effort and sales campaign. The relationship of revenues to other financial criteria is incorporated in subsequent sections of this analysis. See Table 25.

Table 25 Site B Townhouse Concept (Area 1)				
	Number of Units	Square Feet/Unit	Sales Price/Unit	Total Sales
Deluxe, 2-car garage	20	1,800	$165,500	$3,310,000
Standard, 1-car garage	52	1,500	$135,000	$7,020,000
	72			$10,330,000

Source: Hunter Interests Inc.

b. Supportable Funds

Home construction is based on short-term loans, which are generally repaid in conjunction with sales. Therefore, we have factored in the short-term cost of money at 9% for all home development, added a 5% finance/sales cost, and predicated further calculations on 30% developer equity and 50% return. See Table 26.

c. Capital Costs

The cost estimates for development are based on a range of hard and soft costs ranging from $65 per square foot hard costs and $5 per square foot soft costs for standard townhomes, to $70 per square foot hard costs and $5 per square foot soft costs associated with deluxe townhomes. Hard costs include those for materials, labor, site preparation, and exterior finish work such as driveways, garages, etc. Soft costs include design fees, insurance, permit fees, FF&E, professional fees, and other miscellaneous costs. The total development cost for the townhouse component development at build-out is projected to be approximately $8.6 million. See Table 27.

Table 26
Site B Townhouse Concept Financial Projections (Area 1)

			Equity		Total Return Required		
	Development Costs	Finance/ Sales Costs	Developer's Equity @ 30%	Required Return on Equity @ 50%	Development & Finance Cost Plus Return on Equity	Total Sales Revenue	Residual Land Value
Deluxe, 2-car garage	$2,700,000	$135,000	$810,000	$405,000	$3,240,000	$3,310,000	$70,000
Standard, 1-car garage	$5,460,000	$273,000	$1,638,000	$819,000	$6,552,000	$7,020,000	$468,000
Total	$8,160,000	$408,000	$2,448,000	$1,224,000	$9,792,000	$10,330,000	$538,000

Source: Hunter Interests Inc.

Table 27 Site B Townhouse Concept Capital Costs (Area 1)	Number of Units	Square Feet/Unit	Hard Costs Per SF	Soft Costs Per SF	Development Costs
Deluxe, 2-car garage	20	1,800	$70	$5	$2,700,000
Standard, 1-car garage	52	1,500	$65	$5	$5,460,000
Total Development Costs					$8,160,000

*Assumes 4.6 acres @ $100,000 per acre prorated by unit size

Source: Hunter Interests Inc

3. Garden Apartment Complex

a. Cash Flow

Table 28 shows the projected cash flow for the apartments over a 10-year period. Revenue estimates are based on a first year average annual rental rate of $10,838, with 3% annual escalations thereafter. Other receipts revenue is calculated at 4% of gross rental revenue, and may include vending machine income, clubhouse rentals, etc. Total gross income is estimated at $3,832,317 in the first year, increasing to $4,680,344 in the fourth year at stabilization. Operating expenses include operations and management expenses calculated at 30% of gross income, an estimated county property tax of $328,249 in the first year, and a $10,000 annual replacement reserve. Total expenses are estimated at $1,487,944 in the first year, increasing to $1,564,879 in the fourth year at stabilization. First year net operating income (NOI) is approximately $2,344,373, increasing to $3,115,465 in year four.

b. Supportable Funds

Supportable debt and equity is a variable relationship for apartment construction and operation as there is an ongoing cash flow. Based on NOI in year four of $3,115,465 and a debt coverage ratio of 1:4, the project could afford debt service of approximately $2,225,332 annually. Assuming a 7% conventional loan and a term of 30 years, the supportable debt on the project would be approximately $27.9 million. Based on annual cash flow after debt service, and a required developer return of 17%, the project could generate a minimum of $3.8 million of private investment capital, although the actual required equity contribution would likely be higher. See Table 29.

c. Capital Costs

Table 30 shows the capital cost projections and assumptions for the garden apartments component. Construction costs are based on available data for similar projects in the region, and are estimated at $60 per square foot hard costs and $10 per square foot soft costs. Total development costs for the 400-unit garden apartment component are estimated to be approximately $30.8 million.

Table 28
Site B Apartment Concept Pro Forma (Area 1)

Net Operating Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues										
Units	400	400	400	400	400	400	400	400	400	400
Rental Occupancy	85%	90%	95%	95%	95%	95%	95%	95%	95%	95%
Net Occupancy	340	360	380	380	380	380	380	380	380	380
Average Rental Rate	$10,838	$11,163	$11,498	$11,843	$12,198	$12,564	$12,941	$13,329	$13,729	$14,141
Gross Rental Revenue	$3,684,920	$4,018,730	$4,369,253	$4,500,331	$4,635,341	$4,774,401	$4,917,633	$5,065,162	$5,217,117	$5,373,630
Other Reciepts @ 4%	$147,397	$160,749	$174,770	$180,013	$185,414	$190,976	$196,705	$202,606	$208,685	$214,945
Total Gross Income	$3,832,317	$4,179,480	$4,544,023	$4,680,344	$4,820,754	$4,965,377	$5,114,338	$5,267,768	$5,425,801	$5,588,575
Expenses										
Residential Operations/Management	$1,149,695	$1,172,689	$1,196,143	$1,220,066	$1,244,467	$1,269,356	$1,294,743	$1,320,638	$1,347,051	$1,373,992
Real Estate / Property Tax	$328,249	$328,249	$328,249	$334,814	$334,814	$334,814	$341,510	$341,510	$341,510	$348,340
Replacement Reserve	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
Annual Total Expenses	$1,487,944	$1,510,938	$1,534,391	$1,564,879	$1,589,281	$1,614,170	$1,646,253	$1,672,148	$1,698,561	$1,732,332
Net Operating Income										
Total Annual Revenues	$3,832,317	$4,179,480	$4,544,023	$4,680,344	$4,820,754	$4,965,377	$5,114,338	$5,267,768	$5,425,801	$5,588,575
Total Annual Expenses	$1,487,944	$1,510,938	$1,534,391	$1,564,879	$1,589,281	$1,614,170	$1,646,253	$1,672,148	$1,698,561	$1,732,332
Net Operating Income	$2,344,373	$2,668,542	$3,009,632	$3,115,465	$3,231,474	$3,351,207	$3,468,085	$3,595,620	$3,727,240	$3,856,243

Source: Hunter Interests Inc.

Table 29
Site B Apartment Concept, Supportable Debt/Equity (Area 1)

Project Cash Flow		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Net Operating Income		$2,344,373	$2,668,542	$3,009,632	$3,115,465	$3,231,474	$3,351,207	$3,468,085	$3,595,620	$3,727,240	$3,856,243
Annual Debt Service		$2,225,332	$2,225,332	$2,225,332	$2,225,332	$2,225,332	$2,225,332	$2,225,332	$2,225,332	$2,225,332	$2,225,332
Annual Cash Flow		$119,041	$443,210	$784,300	$890,133	$1,006,142	$1,125,875	$1,242,753	$1,370,288	$1,501,908	$1,630,911
Supportable Funds											
Supportable Equity:											
Required Developer Return		17%									
Supportable Equity		$3,797,225									
Supportable Debt:											
NOI YEAR 4		$3,115,465									
Debt Coverage Ratio		1.4									
Debt Service		$2,225,332									
Interest Rate	7%										
Loan Term	30										
Supportable Debt		$27,873,685									
Total Supportable Funds											
Minimum Equity[1]		$3,797,225	12%								
Supportable Debt[2]		$27,873,685	88%								
Total Supportable Funds		$31,670,910	100%								

[1] The financial model employed in this table solves for a minimum equity requirement based on cash flow after supportable debt service. The actual financing package will likely include significantly greater developer equity which may be structured in the form of loaned capital equal to as much as 30% of the debt required.

[2] The financial model employed in this table uses conventional debt financing. The actual financing package would likely use a combination of short term construction loans, low-interest industrial or economic development loans, and debt that could be structured at more favorable terms within the 30-year span.

Source: Hunter Interests Inc.

Table 30
Site B Apartment Concept, Capital Costs (Area 1)

Building Hard Costs		**Supportable Funds**	
Gross Building Area	441,000	Minimum Equity	$3,797,225
Cost Per Square Foot	$60	Conventional Debt	$27,873,685
Construction Costs	$26,460,000	**Total Supportable Funds**	$31,670,910
Total Hard Costs	$26,460,000		
Building Soft Costs @$10	$4,410,000	**Project Costs**	$30,870,000
Total Development Costs	$30,870,000	**Residual Land Value**	$800,910

Source: Hunter Interest Inc.

4. Village Retail Center

a. Cash Flow

Table 31 shows the projected cash flow for the retail component over a 10-year period. Revenue estimates are based on a triple net rental rate of $15 in the first year at a 70% occupancy, with 3% annual escalations thereafter. Annual revenue is estimated at $283,500 in the first year, increasing to $420,427 in the fourth year at stabilization with a 95% occupancy. Operating expenses are based on $4 per square foot of unoccupied space plus the pro rata share of estimated county property taxes. Total expenses are estimated at $75,049 in the first year, decreasing to $31,625 in the fourth year at stabilization with 95% occupancy. First year net operating income (NOI) is approximately $208,451, increasing to $388,802 in year four.

b. Supportable Funds

Based on NOI in year four of $388,802 and a debt coverage ratio of 1:4, the project could afford debt service of approximately $277,716 annually. Assuming a 7% conventional loan and a term of 30 years, the supportable debt on the project would be approximately $3.5 million. Based on annual cash flow after debt service, and a required developer return of 17%, the project could generate a minimum of approximately $346,700 in private investment capital, although the actual equity contribution would likely be higher. See Table 32.

c. Capital Costs

Table 33 shows the capital cost projections for the proposed retail component. Construction costs are based on available data for similar projects in the region, and are estimated at $85 per square foot hard costs and $15 per square foot soft costs. Total development costs for the retail buildings are estimated to be approximately $3 million. Based on a required developer's return of 17%, residual land value is estimated to be $798,264, although the caveats stated previously still apply.

Table 31
Site B Retail Concept Pro Forma (Area 2)

Net Operating Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues										
Gross Building Area	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Retail Efficiency Factor	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Net Rentable Area	27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000	27,000
Average Occupancy	70%	80%	95%	95%	95%	95%	95%	95%	95%	95%
Occupied Space	18,900	21,600	25,650	25,650	25,650	25,650	25,650	25,650	25,650	25,650
Rental Rate (Triple Net)	$15.00	$15.45	$15.91	$16.39	$16.88	$17.39	$17.91	$18.45	$19.00	$19.57
Annual Total Revenue	$283,500	$333,720	$408,181	$420,427	$433,040	$446,031	$459,412	$473,194	$487,390	$502,011
Expenses										
Unoccupied Space (RSF)	11,100	8,400	4,350	4,350	4,350	4,350	4,350	4,350	4,350	4,350
Operating Expenses/RSF	$4.00	$4.12	$4.24	$4.37	$4.50	$4.64	$4.78	$4.92	$5.07	$5.22
Real Estate Tax (unoccupied space)	$30,649	$23,193	$12,011	$12,611	$12,611	$12,611	$13,242	$13,242	$13,242	$13,904
Annual Total Expenses	$75,049	$57,801	$30,471	$31,625	$32,195	$32,783	$34,019	$34,642	$35,284	$36,607
Net Operating Income										
Total Annual Revenues	$283,500	$333,720	$408,181	$420,427	$433,040	$446,031	$459,412	$473,194	$487,390	$502,011
Total Annual Expenses	$75,049	$57,801	$30,471	$31,625	$32,195	$32,783	$34,019	$34,642	$35,284	$36,607
Net Operating Income	$208,451	$275,919	$377,711	$388,802	$400,844	$413,248	$425,393	$438,552	$452,106	$465,404

Note: The real estate property tax calculation assumes a pass through to tenants on leased space.

Source: Hunter Interests Inc.

Table 32

Site B Retail Concept, Supportable Debt/Equity (Area 2)

Project Cash Flow		**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Net Operating Income		$208,451	$275,919	$377,711	$388,802	$400,844	$413,248	$425,393	$438,552	$452,106	$465,404
Annual Debt Service		$277,716	$277,716	$277,716	$277,716	$277,716	$277,716	$277,716	$277,716	$277,716	$277,716
Annual Cash Flow		-$69,264	-$1,797	$99,995	$111,086	$123,129	$135,532	$147,678	$160,837	$174,390	$187,689
Supportable Funds											
Supportable Equity:											
Required Developer Return		17%									
Supportable Equity		$346,701									
Supportable Debt:											
NOI YEAR 4		$388,802									
Debt Coverage Ratio		1.4									
Debt Service		$277,716									
Interest Rate	7%										
Loan Term	30										
Supportable Debt		$3,478,563									
Total Supportable Funds											
Minimum Equity[1]		$346,701	9%								
Supportable Debt[2]		$3,478,563	91%								
Total Supportable Funds		$3,825,264	100%								

[1] The financial model employed in this table solves for a minimum equity requirement based on cash flow after supportable debt service. The actual financing package will likely include significantly greater developer equity which may be structured in the form of loaned capital equal to as much as 30% of the debt required

Source: Hunter Interests Inc.

Table 33 Site B Retail Concept Capital Costs (Area 2)			
Building Hard Costs		**Supportable Funds**	
Gross Building Area	30,000	Minimum Equity	$346,701
Cost Per Square Foot	$85	Conventional Debt	$3,478,563
Construction Costs	$2,550,000	**Total Supportable Funds**	$3,825,264
Parking	$27,000		
Total Hard Costs	$2,577,000		
Building Soft Costs	$450,000	**Project Costs**	$3,027,000
Total Development Costs	$3,027,000	**Residual Land Value**	$798,264

Source: Hunter Interests Inc.

5. Village Office Space

a. Cash Flow

Table 34 shows the projected cash flow for the proposed 50,000 square foot office building over a 10-year period. Revenue estimates are based on a full service rental rate of $18 in the first year at an 80% occupancy, with 3% annual escalations thereafter. Annual revenue is estimated at $704,000 in the first year, increasing to $931,344 in the fourth year at stabilization with a 95% occupancy. Operating expenses are calculated at $4 per square foot for a first year total of $140,800. Maricopa County property taxes are estimated to be approximately $150,000 in the first year, and an annual replacement reserve allowance of $2,000 is also included in expenses. Total expenses are estimated at $293,308 in the first year, increasing to $311,659 in the fourth year at stabilization with 95% occupancy. First year net operating income (NOI) is approximately $340,293, increasing to about $620,000 in year four.

b. Supportable Funds

Based on NOI in year four of $619,685 and a debt coverage ratio of 1:4, the project could afford debt service of approximately $376,108 annually. Assuming a 7% conventional loan and a term of 30 years, the supportable debt on the project would be approximately $5.5 million. Based on annual cash flow after debt service, and a required developer return of 17%, the project could generate a minimum of $755,000 of private investment capital, although actual equity requirements would likely be higher. See Table 35.

Table 34
Site B Office Concept Pro Forma (Area 2)

Net Operating Income	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Revenues										
Gross Building Area	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Leasing Efficiency Factor	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%
Net Rentable Area	44,000	44,000	44,000	44,000	44,000	44,000	44,000	44,000	44,000	44,000
Average Occupancy	80%	90%	95%	95%	95%	95%	95%	95%	95%	95%
Occupied Office Space	35,200	39,600	41,800	41,800	41,800	41,800	41,800	41,800	41,800	41,800
Rental Rate	$20.00	$20.60	$21.42	$22.28	$23.17	$24.10	$25.06	$26.07	$27.11	$28.19
Annual Total Revenue	$704,000	$815,760	$895,523	$931,344	$968,598	$1,007,342	$1,047,635	$1,089,541	$1,133,123	$1,178,447
Expenses										
Operating Expenses	$140,800	$144,320	$147,928	$151,626	$155,417	$159,302	$163,285	$167,367	$171,551	$175,840
Real Estate Tax	$150,508	$150,508	$150,508	$158,033	$158,033	$158,033	$165,935	$165,935	$165,935	$174,231
Replacement Reserve	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000
Annual Total Expenses	$293,308	$296,828	$300,436	$311,659	$315,450	$319,335	$331,219	$335,301	$339,486	$352,071
Net Operating Income										
Total Annual Revenues	$704,000	$815,760	$895,523	$931,344	$968,598	$1,007,342	$1,047,635	$1,089,541	$1,133,123	$1,178,447
Total Annual Expenses	$293,308	$296,828	$300,436	$311,659	$315,450	$319,335	$331,219	$335,301	$339,486	$352,071
Net Operating Income	$410,693	$518,933	$595,088	$619,685	$653,148	$688,007	$716,416	$754,239	$793,637	$826,376

Source: Hunter Interests Inc.

Table 35
Site B Office Concept, Supportable Debt/Equity (Area 2)

Project Cash Flow		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Net Operating Income		$410,693	$518,933	$595,088	$619,685	$653,148	$688,007	$716,416	$754,239	$793,637	$826,376
Annual Debt Service		$442,632	$442,632	$442,632	$442,632	$442,632	$442,632	$442,632	$442,632	$442,632	$442,632
Annual Cash Flow		-$31,940	$76,300	$152,456	$177,053	$210,516	$245,374	$273,784	$311,607	$351,005	$383,744
Supportable Funds											
Supportable Equity:											
Required Developer Return		17%									
Supportable Equity		$755,020									
Supportable Debt:											
NOI YEAR 4		$619,685									
Debt Coverage Ratio		1.4									
Debt Service		$442,632									
Interest Rate	7%										
Loan Term	30										
Supportable Debt		$5,544,247									
Total Supportable Funds											
Minimum Equity[1]		$755,020	12%								
Supportable Debt[2]		$5,544,247	88%								
Total Supportable Funds		$6,299,268	100%								

[1] The financial model employed in this table solves for a minimum equity requirement based on cash flow after supportable debt service. The actual financing package will likely include significantly greater developer equity which may be structured in the form of loaned capital equal to as much as 30% of the debt required.

[2] The financial model employed in this table uses conventional debt financing. The actual financing package would likely use a combination of short term construction loans, low-interest industrial or economic development loans, and debt that could be structured at more favorable terms within the 30-year span.

Source: Hunter Interests Inc.

c. Capital Costs

Table 36 shows the capital cost projections for the proposed village office building. Construction costs are based on available data for similar projects in the region, and are estimated at $85 per square foot hard costs and $20 per square foot soft costs. Total development costs for the office component is estimated to be approximately $5.5 million.

Table 36 Site B (Site 17) Office Capital Concept Costs (Area 2)			
Building Hard Costs		**Supportable Funds**	
Gross Building Area	50,000	Minimum Equity	$755,020
Cost Per Square Foot	$85	Conventional Debt	$5,544,247
Construction Costs	$4,250,000	**Total Supportable Funds**	$6,299,268
Parking	$500,000		
Total Hard Costs	$4,750,000		
Building Soft Costs	$750,000	**Project Costs**	$5,500,000
Total Development Costs	$5,500,000	**Residual Land Value**	$799,268

Source: Hunter Interests Inc.

6. Mixed Use (Area 3)

a. Cash Flow

Table 37 shows the projected cash flow for the three residential/commercial buildings and health spa over a 10-year period. Revenue estimates for the live/work buildings are based on a rental rate of $20 in the first year at an 80% occupancy, with 3% annual escalations thereafter. Annual revenue is estimated at approximately $3.0 million in the first year, increasing to $4.0 million in the fourth year at stabilization with a 95% occupancy. Operating expenses are calculated at 30% of revenues for a first year total of $912,000, and an annual replacement reserve allowance of $10,000 is also included in expenses. Health spa revenues are based on information provided by the International Spa Association and data for comparable facilities. Annual revenue is estimated at approximately $2 million per year. Expenses are calculated at 70% of operating revenues, for a first year total of $1.4 million. Maricopa County property taxes are estimated to be approximately $738,855 in the first year for the combined properties. Total first year net operating income (NOI) is approximately $1.9 million, increasing to $2.6 million in year four.

b. Supportable Funds

Based on NOI in year four of $2.6 million and a debt coverage ratio of 1:4, the project could afford debt service of approximately $1.9 million annually. Assuming a 7% conventional loan and a term of 30 years, the supportable debt on the project would be approximately $23 million. Based on annual cash flow after debt service, and a required developer return of 17%, the project could generate a minimum of $3.3 million of private investment capital. See Table 38.

c. Capital Costs

Table 39 shows the capital cost projections and assumptions used to calculate pro forma operating cash flows for the proposed office building. Construction costs for the residential/commercial component are based on available data for similar projects in the region, and are estimated at $90 per square foot hard costs and $20 per square foot soft costs. Costs for construction of the health spa are estimated at $125 per square foot hard costs and $20 per square foot soft costs. Total project development costs are estimated to be approximately $26 million. Based on a required developer's return of 17%, residual land value is estimated to be $719,304.

Table 37
Site B (17), Area 3, Live/Work Space - Health Club and Spa Pro Forma

Net Operating Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues										
Gross Building Area	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Leasing Efficiency Factor	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%
Net Rentable Area	190,000	190,000	190,000	190,000	190,000	190,000	190,000	190,000	190,000	190,000
Average Occupancy	80%	90%	95%	95%	95%	95%	95%	95%	95%	95%
Occupied Live/work Space	152,000	171,000	180,500	180,500	180,500	180,500	180,500	180,500	180,500	180,500
Rental Rate	$20.00	$20.60	$21.42	$22.28	$23.17	$24.10	$25.06	$26.07	$27.11	$28.19
Revenue	$3,040,000	$3,522,600	$3,867,032	$4,021,713	$4,182,582	$4,349,885	$4,523,880	$4,704,836	$4,893,029	$5,088,750
Health Club & Spa (25,000sf@$80)	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000	$2,000,000
Annual Total Revenue	$5,040,000	$5,522,600	$5,867,032	$6,021,713	$6,182,582	$6,349,885	$6,523,880	$6,704,836	$6,893,029	$7,088,750
Expenses										
Operations/Management	$912,000	$1,056,780	$1,160,110	$1,206,514	$1,254,775	$1,304,966	$1,357,164	$1,411,451	$1,467,909	$1,526,625
Replacement Reserve	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
Health Club & Spa	$1,400,000	$1,400,000	$1,400,000	$1,400,000	$1,400,000	$1,400,000	$1,400,000	$1,400,000	$1,400,000	$1,400,000
Real Estate Tax	$738,855	$738,855	$738,855	$775,798	$775,798	$775,798	$814,588	$814,588	$814,588	$855,317
Annual Total Expenses	$3,060,855	$3,205,635	$3,308,965	$3,392,312	$3,440,572	$3,490,763	$3,581,752	$3,636,038	$3,692,496	$3,791,942
Net Operating Income										
Total Annual Revenues	$5,040,000	$5,522,600	$5,867,032	$6,021,713	$6,182,582	$6,349,885	$6,523,880	$6,704,836	$6,893,029	$7,088,750
Total Annual Expenses	$3,060,855	$3,205,635	$3,308,965	$3,392,312	$3,440,572	$3,490,763	$3,581,752	$3,636,038	$3,692,496	$3,791,942
Net Operating Income	$1,979,145	$2,316,965	$2,558,067	$2,629,402	$2,742,010	$2,859,122	$2,942,129	$3,068,797	$3,200,533	$3,296,808

Source: Hunter Interests Inc.

Table 38
Site B (17) Area 3, Supportable Debt/Equity

Project Cash Flow		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Net Operating Income		$1,979,145	$2,316,965	$2,558,067	$2,629,402	$2,742,010	$2,859,122	$2,942,129	$3,068,797	$3,200,533	$3,296,808
Annual Debt Service		$1,878,144	$1,878,144	$1,878,144	$1,878,144	$1,878,144	$1,878,144	$1,878,144	$1,878,144	$1,878,144	$1,878,144
Annual Cash Flow		$101,001	$438,821	$679,923	$751,258	$863,866	$980,978	$1,063,985	$1,190,653	$1,322,389	$1,418,664
Supportable Funds											
Supportable Equity:											
Required Developer Return		17%									
Supportable Equity		$3,319,366									
Supportable Debt:											
NOI YEAR 4		$2,629,402									
Debt Coverage Ratio		1.4									
Debt Service		$1,878,144									
Interest Rate	7%										
Loan Term	30										
Supportable Debt		$23,524,938									
Total Supportable Funds											
Minimum Equity[1]		$3,319,366	12%								
Supportable Debt[2]		$23,524,938	88%								
Total Supportable Funds		$26,844,304	100%								

[1] The financial model employed in this table solves for a minimum equity requirement based on cash flow after supportable debt service. The actual financing package will likely include significantly greater developer equity which may be structured in the form of loaned capital equal to as much as 30% of the debt required.

[2] The financial model employed in this table uses conventional debt financing. The actual financing package would likely use a combination of short term construction loans, low-interest industrial or economic development loans, and debt that could be structured at more favorable terms within the 30-year span.

Source: Hunter Interests Inc.

Table 39 Site B (17) Area 3 Live/Work Space and Health Club & Spa Capital Costs			
Building Hard Costs		**Supportable Funds**	
Gross Building Area	200,000	Minimum Equity	$3,319,366
Cost Per Square Foot	$90	Conventional Debt	$23,524,938
Construction Costs	$18,000,000	**Total Supportable Funds**	$26,844,304
Spa Building Area	25,000		
Cost Per Square Foot	$125		
Spa Construction Costs	$3,125,000		
Parking	$500,000		
Total Hard Costs	$18,500,000		
Building Soft Costs	$4,500,000	**Project Costs**	$26,125,000
Total Development Costs	$26,125,000	**Residual Land Value**	$719,304

Source: Hunter Interest Inc.

D. Public Investment Discussion

We recognize that a significant public investment (approximately $6 million) has been made to date in acquiring and packaging Site B (Site 17) for redevelopment, and that additional investment may be required in the form of infrastructure improvements and further acquisitions to implement the development strategy as conceptualized. The decision as to whether or not the two remaining privately held properties (the Circle K store and the condos on the east side) are redeveloped as suggested should ultimately rest with the master developer, who will likely bear the cost of acquisition, estimated to be approximately $1 million. alternatives for the existing condos include replacement, façade renovations, or to be left as is. In any case, the proposed project density should still be realized without the addition of the two properties by slight alterations to the conceptual plan.

Although most on-site infrastructure improvement costs are typically borne by the developer, the allocation of these costs and associated off-site costs can only be determined as part of a negotiated development agreement. Any subsequent investment by the City should be weighed against the fiscal and economic benefits that will be derived from the redeveloped property.

X. Site C: Analysis and Recommendations

A. Site Summary

Location: South side of E. Main Street between S. Center Street and S. Sirrine Street, Map 40, Parcels 40A and 36A.

Property type: Restaurant, vacant retail.

Ownership: City of Mesa

The Retail Buildings at Site C

The subject property on Site C consists of 15,000 square feet of partially vacant retail space in a building located just west of the Mesa Bank building, on the same block as the proposed Mesa Arts Center. One issue is the architectural compatibility, or lack thereof, of the structure with the design features of the Arts Center. Plans call for offering short-term leases to generate revenue until the point in time when the Arts Center is constructed, then assessing alternatives for the ultimate disposition of the building. Options include demolition and redevelopment for upscale restaurant and/or retail, to complement the Arts Center both visually and functionally.

Alternatively, the option exists to renovate the existing building, or use the shell as the basis for construction of the restaurant/retail center. The City's investment of approximately $1 million in this building so far could be recouped under a sale or lease arrangement given successful development and operation of the Mesa Arts Center, although a redevelopment approach would require even more public investment that may not be recoverable.

B. Conceptual Building Program

The Site C conceptual building program, as envisioned, is predicated on completion of the Mesa Arts Center and is intended to complement the Center both in function and design compatibility. The concept for the site, as delineated below, can be incorporated into the retail-oriented structure that currently occupies the property, or into a new building constructed to user specifications. As of this writing, construction on the Mesa Arts Center has commenced. Now is the time to begin testing the market to gauge developer interest, so that interested parties can begin to interact with Arts Center principals on design issues and appropriate mixes of uses. The site's marketability can be assessed, along with user demand and feasibility of development alternatives. In any case, short-term leases for the existing space should be procured to furnish some revenue stream from the property. The final product, however, should contain approximately 30,000 square feet of floor space on two stories, and be able to accommodate both a destination restaurant and an arts-oriented specialty retail operation.

HII recommends that a significant portion of space (10,000-plus square feet) be reserved for the type of signature, upscale bistro that would complement and enhance the Arts Center experience, featuring a separate nightclub/live entertainment venue offering après theater diversions such as jazz combos or swing bands. The retail component should reflect the same cultural themes as the Center, offering products ranging from art supplies to works by local artists, along with museum store-quality merchandise. This commercial element of the Center should be viewed as a destination within a destination, drawing on the appeal of the Mesa Arts Center, but possessing its own gravitational pull. The proposed combination of retail and entertainment uses in concert with the cultural attractions of the new Arts Center will provide a unique experience that cannot be found in the regional shopping malls or neighborhood retail districts.

C. Financial Feasibility and Capital Cost Assessment

1. Cash Flow

Table 40 shows the projected cash flow for the proposed 30,000 square foot building over a 10-year period. Revenue estimates are based on a triple net rent in the first year with a 70% occupancy, with 3% annual escalations thereafter. Annual revenue is estimated at $399,000 in the first year, increasing to $591,712 in the fourth year at stabilization with a 95% occupancy. Operating expenses are calculated at $4 per square foot of unoccupied space plus the pro rata Maricopa Property Tax obligation for the unoccupied space, for a first year total of $74,156.

Total expenses are estimated at $23,162 in the fourth year at stabilization with 95% occupancy. First year net operating income (NOI) is approximately $324,844, increasing to $568,550 in year four.

2. Supportable Funds

Based on NOI in year four of $568,550 and a debt coverage ratio of 1.4, the project could afford debt service of approximately $406,107 annually. Assuming a 7% conventional loan and a term of 30 years, the supportable debt on the project would be approximately $5.0 million. Based on annual cash flow after debt service, and a required developer return of 17%, the project could generate a minimum of approximately $531,967 of private investment capital, although actual equity would likely be higher. See Table 41.

3. Capital Costs

Table 42 shows the capital cost projections and assumptions for the proposed restaurant/retail building. Construction costs are based on available data for similar projects in the region, and are estimated at $150 per square foot hard costs and $25 per square foot soft costs. The cost associated with demolition and removal of the existing building is included. Total development costs for the project are estimated to be approximately $5.3 million.

D. Public Investment Discussion

The City's current investment in this site is approximately $1.2 million. Although all or a portion of this investment may be recoverable through a sale or lease of the property, we recommend that any additional investment in the property should be borne by the private sector. The presence of the Mesa Arts Center in such close proximity may serve to add value to the property however, particularly if the site ultimately serves a complementary purpose.

Table 40
Site C Retail/Restaurant Concept Pro Forma

Net Operating Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues										
Gross Building Area	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Retail Efficiency Factor	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%
Net Rentable Area	28,500	28,500	28,500	28,500	28,500	28,500	28,500	28,500	28,500	28,500
Average Occupancy	70%	80%	95%	95%	95%	95%	95%	95%	95%	95%
Occupied Space	19,950	22,800	27,075	27,075	27,075	27,075	27,075	27,075	27,075	27,075
Rental Rate (Triple Net)	$20.00	$20.60	$21.22	$21.85	$22.51	$23.19	$23.88	$24.60	$25.34	$26.10
Annual Total Revenue	$399,000	$469,680	$574,477	$591,712	$609,463	$627,747	$646,579	$665,977	$685,956	$706,535
Expenses										
Unoccupied Space (RSF)	10,050	7,200	2,925	2,925	2,925	2,925	2,925	2,925	2,925	2,925
Operating Expenses/RSF	$4.00	$4.12	$4.24	$4.37	$4.50	$4.64	$4.78	$4.92	$5.07	$5.22
Real Estate Tax (unoccupied space)	$33,956	$24,326	$9,883	$10,377	$10,377	$10,377	$10,896	$10,896	$10,896	$11,440
Annual Total Expenses	$74,156	$53,990	$22,295	$23,162	$23,545	$23,940	$24,866	$25,285	$25,717	$26,706
Net Operating Income										
Total Annual Revenues	$399,000	$469,680	$574,477	$591,712	$609,463	$627,747	$646,579	$665,977	$685,956	$706,535
Total Annual Expenses	$74,156	$53,990	$22,295	$23,162	$23,545	$23,940	$24,866	$25,285	$25,717	$26,706
Net Operating Income	$324,844	$415,690	$552,182	$568,550	$585,918	$603,807	$621,713	$640,692	$660,239	$679,828

Note: The real estate property tax calculation assumes a pass through to tenants on leased space.

Source: Hunter Interests Inc.

Table 41
Site C Retail/Restaurant Concept, Supportable Debt/Equity

Project Cash Flow		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Net Operating Income		$324,844	$415,690	$552,182	$568,550	$585,918	$603,807	$621,713	$640,692	$660,239	$679,828
Annual Debt Service		$406,107	$406,107	$406,107	$406,107	$406,107	$406,107	$406,107	$406,107	$406,107	$406,107
Annual Cash Flow		-$81,263	$9,582	$146,075	$162,443	$179,811	$197,700	$215,606	$234,584	$254,132	$273,721
Supportable Funds											
Supportable Equity:											
Required Developer Return		17%									
Supportable Equity		$531,967									
Supportable Debt:											
NOI YEAR 4		$568,550									
Debt Coverage Ratio		1.4									
Debt Service		$406,107									
Interest Rate	7%										
Loan Term	30										
Supportable Debt		$5,086,748									
Total Supportable Funds											
Minimum Equity[1]		$531,967	9%								
Supportable Debt[2]		$5,086,748	91%								
Total Supportable Funds		$5,618,716	100%								

[1] The financial model employed in this table solves for a minimum equity requirement based on cash flow after supportable debt service. The actual financing package will likely include significantly greater developer equity which may be structured in the form of loaned capital equal to as much as 30% of the debt required

Source: Hunter Interests Inc.

Table 42
Site C Retail/Restaurant Concept Capital Costs

Building Hard Costs		**Supportable Funds**	
Gross Building Area	30,000	Minimum Equity	$531,967
Hard Cost Per Square Foot	$150	Conventional Debt	$5,086,748
Total Hard Costs	$4,500,000	**Total Supportable Funds**	$5,618,716
Soft Costs (incl.demo)	$750,000	**Project Costs**	$5,250,000
Total Development Costs	$5,250,000	**Residual Land Value**	$368,716

Source: Hunter Interest Inc.

XI. Site D (Site 21): Analysis and Recommendations

A. Site Summary

Location: Former Bank One Building, Northeast corner of Main and Macdonald Streets (Site 21)

Property type: Vacant 60,000 square foot office building

Ownership: City of Mesa

The bank building, constructed in the early 1960s, was functional until the early 1990s. It was designed for Valley National Bank, and therefore the structural system is built to resist heavy loads and minimize traffic vibrations. The building is in sound structural condition, has undergone full asbestos abatement, and presently stands as a cold, dark shell.

The City of Mesa supports the adaptive reuse of the building for office on floors 2-5, and encourages retail and restaurant use on the ground floor. The building will require entirely new mechanical and electrical systems, fire protection systems, elevators, and restroom facilities for tenants. Erection of a new exterior wall closure system and new window system will be required by the City as conditions for development of the building.

Approximately 250 parking spaces are available in a City parking structure about 250 feet north of the building.

The project will coincide with the City's planned redevelopment of the surface parking lot immediately north of the building as well as the streetscape improvement project planned for Macdonald Street. The streetscape enhancement would calm vehicular flow north and southbound on Macdonald, add landscaping and canopy trees, and significantly widen the sidewalk on Macdonald enabling seating and general pedestrian usage.

B. Conceptual Building Program

The conceptual building program for the former Bank One Building consists of the reconstruction of the five-story, 60,000-plus square foot building to accommodate Class A-type office or mixed use space on the upper floors, and a mix of retail, restaurant, and office development on the ground floor. The 9,000 square foot basement could be leased as conditioned storage space, primarily for the convenience of building tenants and other neighboring office users.

Approximately 250 parking spaces are available for building tenants in a City facility about 250 feet north of the building.

The reconstruction would consist of erecting a new curtain wall and window system, a complete upgrade of the building electrical systems, new HVAC and fire protection systems, new elevators, and new restroom facilities for the tenants. A provision for tenant improvements is also included in the cost analysis for the building.

Development of the building will coincide with the City of Mesa's planned redevelopment of the surface parking lot just north of the building, which will create a pedestrian linkage to the City parking structure. Streetscape improvements are planned for Macdonald Street as well, which will restrict vehicular flow on Macdonald, add landscaping and canopy trees, and significantly widen the sidewalk enabling street vending, seating, and general pedestrian usage.

C. Financial Feasibility and Capital Cost Assessment

1. Cash Flow

Table 43 shows the projected cash flow for the redeveloped former Bank One Building over a 10-year period. Revenue estimates are based on a full-service rental rate of $20 in the first year at an 80% occupancy, with 3% annual escalations thereafter. Annual revenue is estimated at approximately $708,224 in the first year, increasing to $936,932 in the fourth year at stabilization with a 95% occupancy. Operating expenses are calculated at $4 per square foot for a first year total of $177,056. Maricopa County property taxes are estimated to be approximately $141,477 in the first year, and an annual replacement reserve allowance of $5,000 is also included in expenses. Total expenses are estimated at $323,533 in the first year, increasing to $344,221 in the fourth year at stabilization with 95% occupancy. First year net operating income (NOI) is approximately $384,691, increasing to $592,711 in year four.

2. Supportable Funds

Based on NOI in year four of $592,711 and a debt coverage ratio of 1.4, the project could afford debt service of approximately $423,365 annually. Assuming a 7% conventional loan and a term of 30 years, the supportable debt on the project would be approximately $5.3 million. Based on annual cash flow after debt service, and a required developer return of 17%, the project could generate a minimum of approximately $716,745 of private investment capital, although actual equity requirements would likely be higher. See Table 44.

3. Capital Costs

Table 45 shows the capital cost projections for the redeveloped former Bank One Building. Construction costs are based on previous estimates furnished by BPLW Architects and Engineers, plus a 5% inflation factor and a 5% contingency factor. Total development costs for the project are estimated to be approximately $5.4 million.

Table 43
Site D, Bank One Building Redevelopment Pro Forma

Net Operating Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues										
Gross Building Area	50,300	50,300	50,300	50,300	50,300	50,300	50,300	50,300	50,300	50,300
Leasing Efficiency Factor	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%
Net Rentable Area	44,264	44,264	44,264	44,264	44,264	44,264	44,264	44,264	44,264	44,264
Average Occupancy	80%	90%	95%	95%	95%	95%	95%	95%	95%	95%
Occupied Office Space	35,411	39,838	42,051	42,051	42,051	42,051	42,051	42,051	42,051	42,051
Rental Rate	$20.00	$20.60	$21.42	$22.28	$23.17	$24.10	$25.06	$26.07	$27.11	$28.19
Annual Total Revenue	$708,224	$820,655	$900,896	$936,932	$974,409	$1,013,386	$1,053,921	$1,096,078	$1,139,921	$1,185,518
Expenses										
Operating Expenses	$177,056	$181,482	$186,019	$190,670	$195,437	$200,323	$205,331	$210,464	$215,726	$221,119
Real Estate Tax	$141,477	$141,477	$141,477	$148,551	$148,551	$148,551	$155,978	$155,978	$155,978	$163,777
Replacement Reserve	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000
Annual Total Expenses	$323,533	$327,959	$332,497	$344,221	$348,988	$353,874	$366,309	$371,442	$376,704	$389,896
Net Operating Income										
Total Annual Revenues	$708,224	$820,655	$900,896	$936,932	$974,409	$1,013,386	$1,053,921	$1,096,078	$1,139,921	$1,185,518
Total Annual Expenses	$323,533	$327,959	$332,497	$344,221	$348,988	$353,874	$366,309	$371,442	$376,704	$389,896
Net Operating Income	$384,691	$492,695	$568,400	$592,711	$625,422	$659,512	$687,612	$724,636	$763,217	$795,622

Source: Hunter Interests Inc.

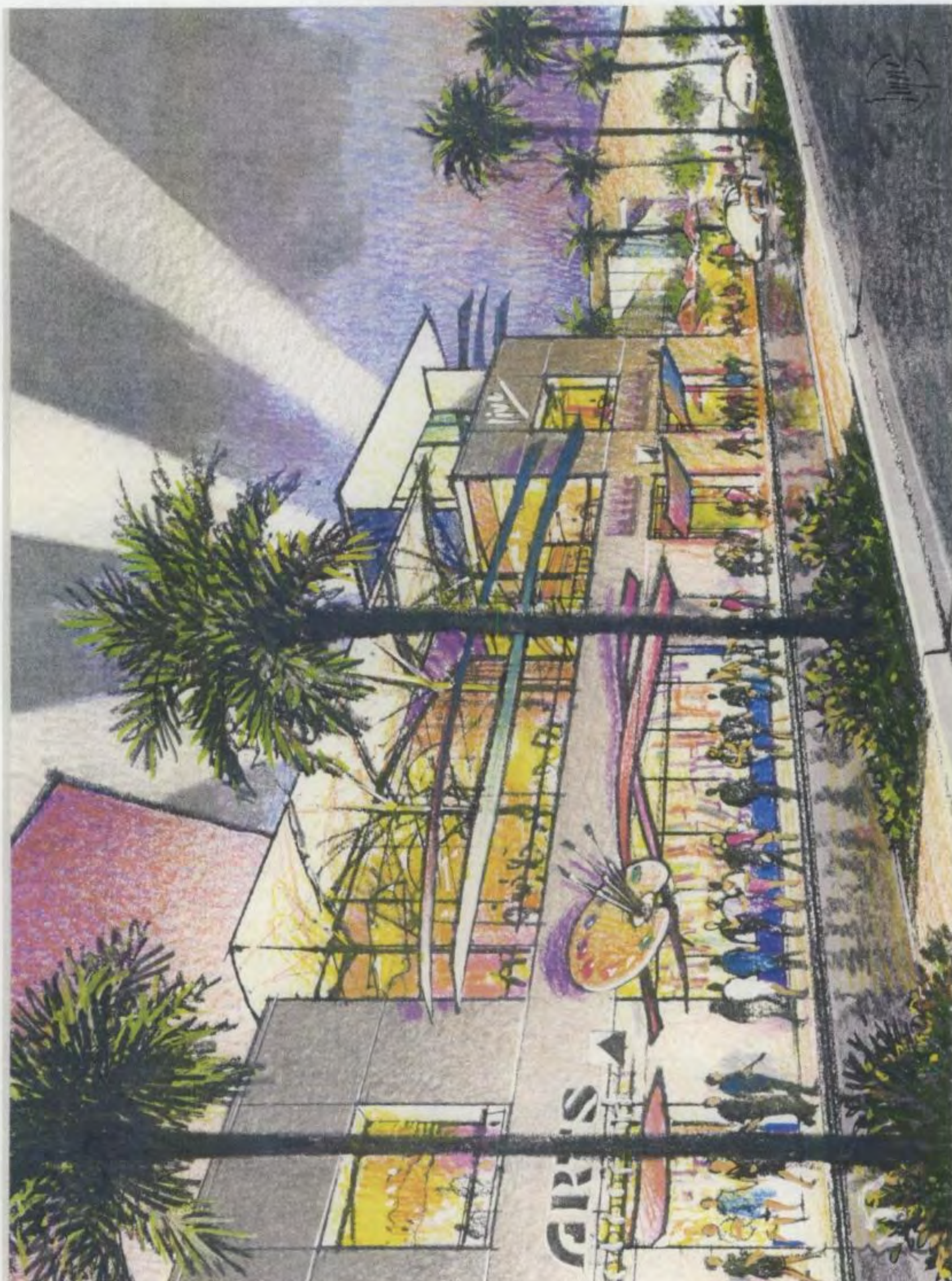


Figure 12
Site C — Restaurant/Retail Concept

Table 44

Site D, Bank One Building Redevelopment, Supportable Debt/Equity

Project Cash Flow		**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Net Operating Income		$384,691	$492,695	$568,400	$592,711	$625,422	$659,512	$687,612	$724,636	$763,217	$795,622
Annual Debt Service		$423,365	$423,365	$423,365	$423,365	$423,365	$423,365	$423,365	$423,365	$423,365	$423,365
Annual Cash Flow		-$38,674	$69,330	$145,035	$169,346	$202,057	$236,147	$264,247	$301,271	$339,852	$372,257
Supportable Funds											
Supportable Equity:											
Required Developer Return		17%									
Supportable Equity		$716,745									
Supportable Debt:											
NOI YEAR 4		$592,711									
Debt Coverage Ratio		1.4									
Debt Service		$423,365									
Interest Rate	7%										
Loan Term	30										
Supportable Debt		$5,302,917									
Total Supportable Funds											
Minimum Equity[1]		$716,745	12%								
Supportable Debt[2]		$5,302,917	88%								
Total Supportable Funds		$6,019,662	100%								

[1] The financial model employed in this table solves for a minimum equity requirement based on cash flow after supportable debt service. The actual financing package will likely include significantly greater developer equity which may be structured in the form of loaned capital equal to as much as 30% of the debt required.

[2] The financial model employed in this table uses conventional debt financing. The actual financing package would likely use a combination of short term construction loans, low-interest industrial or economic development loans, and debt that could be structured at more favorable terms within the 30-year span.

Source: Hunter Interests Inc.

Table 45 Site D, Bank One Bldg. Redevelopment Costs			
Building Hard Costs		**Supportable Funds**	
Gross Building Area	60,000	Minimum Equity	$531,967
Cost per Square Foot	$75	Conventional Debt	$5,086,748
Total Hard Costs	$4,500,000	**Total Supportable Funds**	$5,618,716
Building Soft Costs @$15sf	$900,000	**Project Costs**	$5,400,000
Total Development Costs	$5,400,000	**Residual Land Value**	$218,716

Source: Hunter Interest Inc.

D. Public Investment Discussion

The City of Mesa's investment to date in the former Bank One Building is approximately $2 million, which includes asbestos abatement and $300,000 for the public parking component. An additional public investment of $1.5 million is anticipated for streetscape improvements and pedestrian access improvements to link the building and parking garage. Any additional development costs are expected to be borne by the project's developer.

Figure 13
Site D — Former Bank One Building

XII. Site E: Analysis and Recommendations

A. Site Summary

Location: Various parcels located within the city block bounded by Main Street and 1st Avenue to the north and south, and Macdonald and Center Streets to the east and west, respectively. Various parcels located within the city block bounded by Main Street and 1st Avenue to the north and south, and Macdonald and Robson Streets to the east and west, respectively (also known as Site 25).

Area: Proposed garage footprint approximately 70,000 square feet.

Current uses: *East Block Subject Property:*
Drew parking lot, city owned, 130 spaces
Luce Press building and parking, commercial
Brandofino building, commercial
VFW Post 1760, lodge
Gowan building, commercial
Transitional Living Community building
Bank of America parking lot, 94 spaces

West Block Subject Property:
Amoco Building
Zeb Pearce parking lot, 30 spaces
Mahoney parking lot, city owned, 151 spaces
Various retail fronting Macdonald
Drug rehab center/halfway house
Tribune parking lot

Ownership: *East Block Subject Property:*

Parcels 17, 15, 13A: City of Mesa

Parcels 9A, 9B, 13B, 10: Luce Press Clippings Inc., 42 S. Center, Mesa, AZ 85210

Parcel 7: VFW Post 1760, 61 S. Macdonald, Mesa, AZ 85210

Parcel 8: Luule Brandofino, 923 South Seton, Mesa, AZ 85206

Parcel 6: Esperanza Gowan, 744 South Solomon Street, Mesa, AZ 85204

Parcel 11: Transitional Living Community, 104 West Main Street, Mesa, AZ 85201

Parcels 12A, 14B, 14A, 16C, 16B, 16A, 18A: Bank of America NT SA, 750 B Street Suite 1500, San Diego, CA 92101

West Block Subject Property:

Parcels 23 & 24: G.V. Partnership, 7330 N. 16th Street, Phoenix, AZ 85020

Parcel 26A: Pearce Development Co., P.O. Box 1239, Mesa, AZ 85211

Parcels 28, 32, 34, 45: City of Mesa

Parcels 42 & 7: Betty H. Mingrove, 307 N. Silverado Street, Gilbert, AZ 85234

Parcel 43: Lee & Francis Shipman, 4017 East Crescent, Mesa, AZ 85206

Parcel 40: Robert C. Wahl Trust, 660 W. 2nd Place, Mesa, AZ 85201

Parcel 39A, 13B: MACD 36, 101 E. 1st Avenue, Mesa, AZ 85210

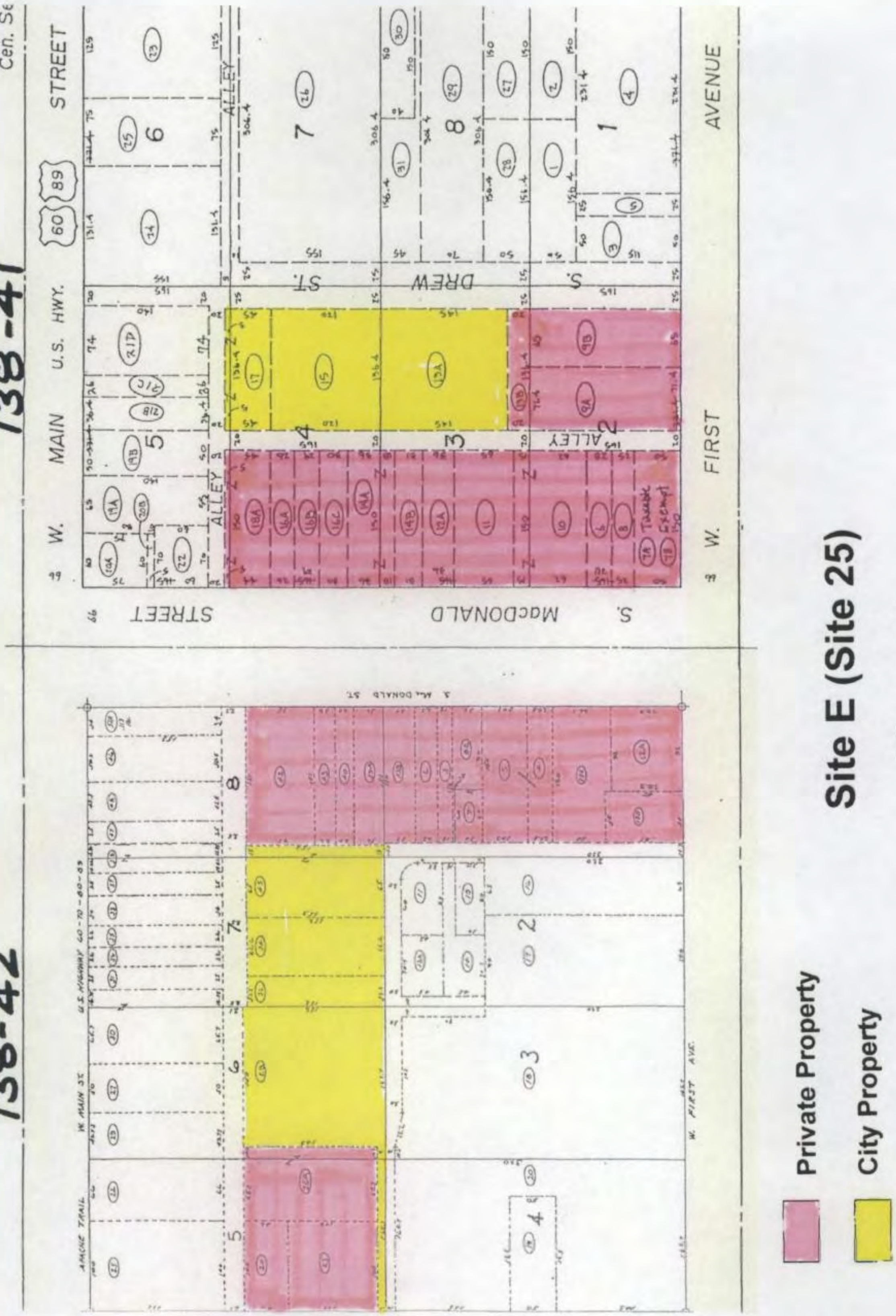
Parcel 6: First America Equity Management, P.O. Box 4006, Mesa, AZ 85211

Parcel 3: Charles & Mardell Sears, 160 E. McLellan, Mesa, AZ 85201

Parcels 8C, 4, 5: Desert Gold Custom Homes LLC, 307 N. Silverado Street, Gilbert, AZ 85234

Parcels 12A, 12C, 12D: Freedom Newspapers of Arizona, 120 1st Avenue, Mesa, AZ 85210

View of existing buildings on west side of Macdonald



Site E (Site 25)

Figure 14

Parking Garage Option

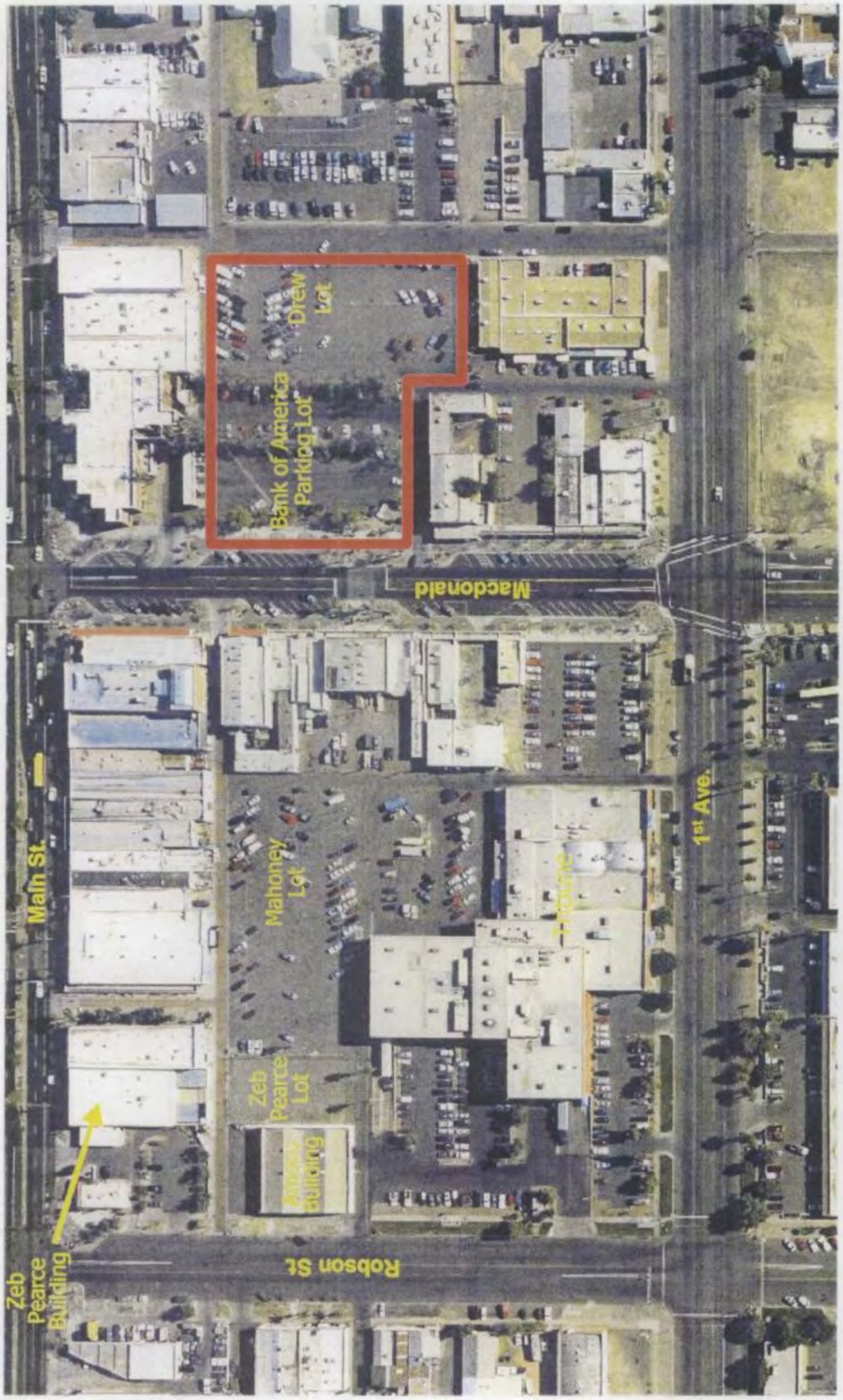


Figure 15
Site E — Parking Garage Option

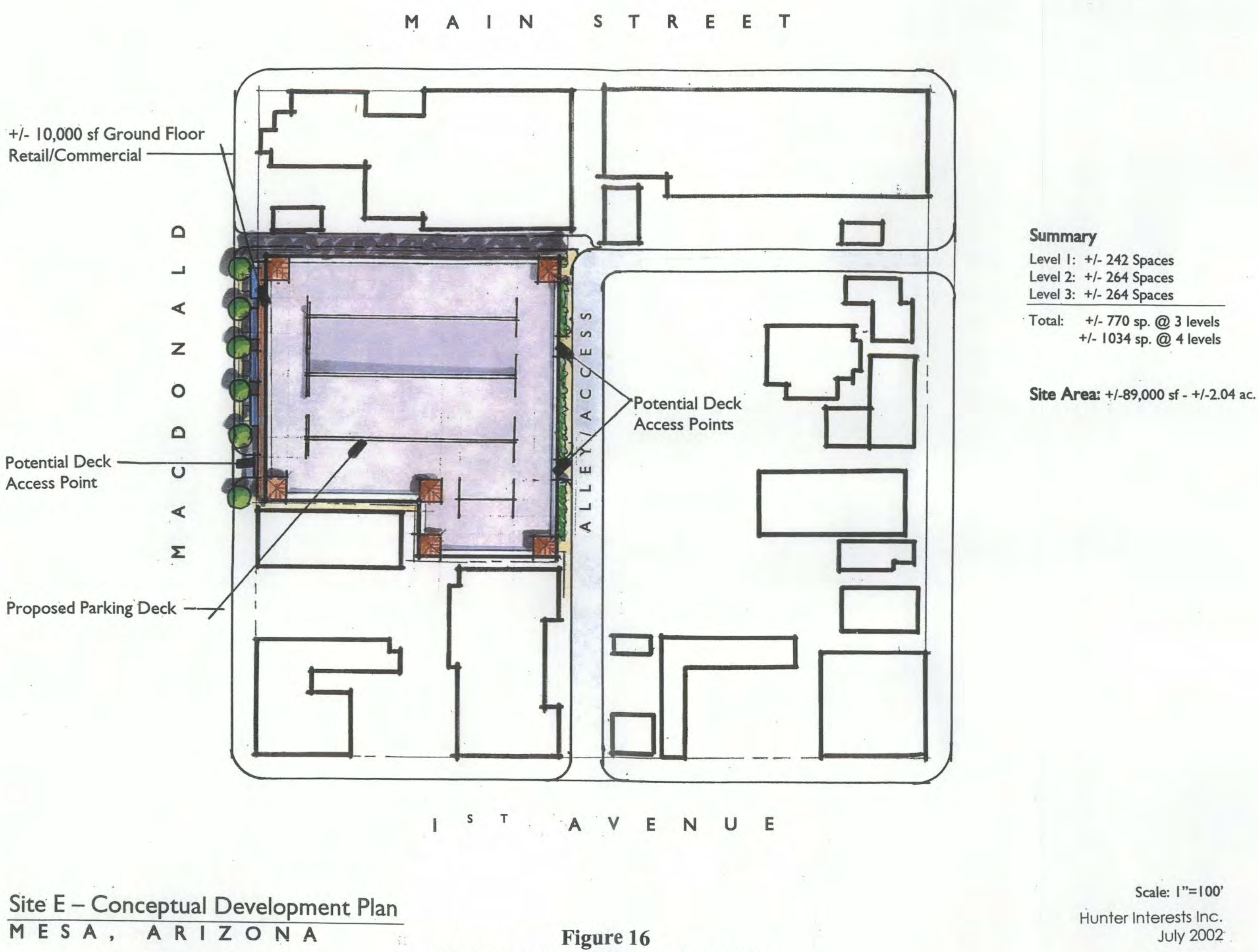


Figure 16
Site E Conceptual Development Plan

Site E (Site 25) is considered the prime location for a future parking reservoir to serve the Mesa Arts Center and Aquatic Center, as well as replace parking spaces lost to the Tribune facility expansion. Either of the city-owned lots on Site E could partially accommodate construction of a structured parking deck of between 1,000 to 1,500 new spaces, if additional land were acquired. Location of a garage in the interior of the either block would also allow for additional development outward to Macdonald, as part of a city redevelopment effort. Ten separate scenarios are currently under review, each possessing its own merits and drawbacks in the context of providing a parking solution for new civic facilities, while remaining consistent with the overall redevelopment objectives of the city.

Site E is comprised of portions of two city blocks, both bounded by Main Street and 1st Avenue to the north and south, respectively, and separated by South Macdonald Street. Site E has been looked upon as the potential location for a parking solution to an East Valley Tribune building expansion, along with providing spaces for MAC/Aquatics Center patrons. Pursuant to this, a number of proposals have been put forward by the City that present a variety of options for meeting the future parking needs of the Pedestrian Overlay Area. HII concurs with the Redevelopment Office that the most effective option from a cost/benefit standpoint would be to construct a garage on the east block, straddling the existing City-owned Drew Lot and the Bank of America lot adjacent to it.

B. Conceptual Building Program

The configuration of a parking structure on this site will allow for about 200 linear feet of frontage on South Macdonald Street, creating the opportunity to develop ground floor retail that could be integrated into the garage. Allocating for a 50-foot depth for the retail component, floor area would total approximately 10,000 square feet. The structure should be designed to accommodate the existing bank's drive-through teller operation. Incorporating street-front retail into the new garage not only affords a higher and better use for the South Macdonald Street frontage, but also presents a more attractive and pedestrian-friendly façade.

The City also owns the 151-space Mahoney Lot, located on the interior of the west block of Site E, just north of and adjacent to the East Valley Tribune facility. Although the Mahoney Lot represents an alternative garage site, acquiring additional land for street frontage on South Macdonald would be somewhat problematic due to multiple land ownership issues. Practical circumstances should therefore dictate that a "wait and see" approach be taken on the Tribune block, to ascertain what market effects the Arts Center and Aquatic facility will have on the surrounding real estate.

C. Financial Feasibility and Capital Cost Assessment

1. Cash Flow

a. Parking Garage

Estimated annual operating costs for the proposed parking garage are approximately $1 million, which could be offset by the addition of new monthly leases and imposition of hourly and/or special event fees. Table 46 demonstrates how the addition of 100 new monthly leases, and a special event rate of $5 can generate revenue for the proposed garage that will offset some operating costs.

Table 46
Site E Estimated Cash Flow

Estimated Annual Revenue			
	Supply	**Rate**	**Annual Revenue**
No Cost Leases[1]	119	0	$0
Tribune[2]	150	0	$0
New Leases	100	$39.00	$46,800
Special Events		$5.00	$265,720
Total Revenue			**$312,520**
Estimated Annual Costs[3]			
Operating & Maintenance Costs			$46,400
Utilities			$12,000
Parking Lot Attendants			$15,000
Debt Service			$930,000
Total Operating Costs			$1,003,400
Net Operating Loss			**-$690,880**

[1] Due to the land transfer agreement for the Drew Parking Lot.

[2] No cost parking as part of a business retention strategy.

[3] City of Mesa

Source: City of Mesa, Hunter Interests Inc.

b. Retail Space

Table 47 shows the projected cash flow for the proposed 10,000 square foot retail space over a 10-year period. Revenue estimates are based on a triple net rent in the first year with a 70% occupancy, with 3% annual escalations thereafter. Annual revenue is estimated at $69,300 in the first year, increasing to $102,771 in the fourth year at stabilization with a 95% occupancy. Operating expenses are calculated at $4 per square foot of unoccupied space plus the pro rata Maricopa Property Tax obligation for the unoccupied space, for a first year total of $23,913.

Total expenses are estimated at $10,088 in the fourth year at stabilization with 95% occupancy. First year net operating income (NOI) is approximately $45,387, increasing to $92,683 in year four.

2. Supportable Funds

Based on NOI in year four of $92,683 and a debt coverage ratio of 1.4, the retail aspect of the project could afford debt service of approximately $66,202 annually. Assuming a 7% conventional loan and a term of 30 years, the supportable debt on the project would be approximately $829,228. Based on annual cash flow after debt service, and a required developer return of 17%, the project could support approximately $77,145 of private investment capital. See Table 48.

3. Capital Costs

a. Parking Garage

The City of Mesa has developed a cost estimate of $9.5 million for an 800-space parking structure in this location, which includes approximately $8 million in construction costs ($10,000 per space), approximately $1 million in design and administration (soft costs), $350,000 for land acquisition, and $150,000 for improvements to the pedestrian access to the Mesa Arts Center and Aquatics Center. See Table 49.

b. Retail

Table 50 shows the capital cost projections and assumptions used to calculate pro forma operating cash flows for the proposed retail building. Construction costs are based on the integration of the retail component into the garage superstructure, and are estimated at $75 per square foot hard costs and $15 per square foot soft costs. Total development costs for the project are estimated to be approximately $900,000. Based on a required developer's return of 17%, residual land value is estimated to be $6,372.

Table 47
Site E Retail Concept Pro Forma

Net Operating Income	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**
Revenues										
Gross Building Area	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Retail Efficiency Factor	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Net Rentable Area	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000
Average Occupancy	70%	80%	95%	95%	95%	95%	95%	95%	95%	95%
Occupied Space	6,300	7,200	8,550	8,550	8,550	8,550	8,550	8,550	8,550	8,550
Rental Rate (Triple Net)	$15.00	$15.45	$15.91	$16.39	$16.88	$17.39	$17.91	$18.45	$19.00	$19.57
Annual Total Revenue	$94,500	$111,240	$136,060	$140,142	$144,347	$148,677	$153,137	$157,731	$162,463	$167,337
Expenses										
Unoccupied Space (RSF)	3,700	2,800	1,450	1,450	1,450	1,450	1,450	1,450	1,450	1,450
Operating Expenses/RSF	$4.00	$4.12	$4.24	$4.37	$4.50	$4.64	$4.78	$4.92	$5.07	$5.22
Real Estate Tax (unoccupied space)	$9,113	$6,896	$3,571	$3,750	$3,750	$3,750	$3,937	$3,937	$3,937	$4,134
Annual Total Expenses	$23,913	$18,432	$9,724	$10,088	$10,278	$10,473	$10,863	$11,070	$11,284	$11,702
Net Operating Income										
Total Annual Revenues	$94,500	$111,240	$136,060	$140,142	$144,347	$148,677	$153,137	$157,731	$162,463	$167,337
Total Annual Expenses	$23,913	$18,432	$9,724	$10,088	$10,278	$10,473	$10,863	$11,070	$11,284	$11,702
Net Operating Income	$70,587	$92,808	$126,336	$130,055	$134,069	$138,203	$142,275	$146,661	$151,179	$155,635

Note: The real estate property tax calculation assumes a pass through to tenants on leased space.

Source: Hunter Interests Inc.

Table 48
Site E Retail Concept, Supportable Debt/Equity

Project Cash Flow		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Net Operating Income		$45,387	$63,144	$90,053	$92,683	$95,576	$98,556	$101,438	$104,599	$107,855	$111,012
Annual Debt Service		$66,202	$66,202	$66,202	$66,202	$66,202	$66,202	$66,202	$66,202	$66,202	$66,202
Annual Cash Flow		-$20,815	-$3,058	$23,851	$26,481	$29,374	$32,354	$35,235	$38,397	$41,653	$44,810
Supportable Funds											
Supportable Equity:											
Required Developer Return		17%									
Supportable Equity		$77,145									
Supportable Debt:											
NOI YEAR 4		$92,683									
Debt Coverage Ratio		1.4									
Debt Service		$66,202									
Interest Rate	7%										
Loan Term	30										
Supportable Debt		$829,228									
Total Supportable Funds											
Minimum Equity[1]		$77,145	9%								
Supportable Debt[2]		$829,228	91%								
Total Supportable Funds		$906,372	100%								

[1] The financial model employed in this table solves for a minimum equity requirement based on cash flow after supportable debt service. The actual financing package will likely include significantly greater developer equity which may be structured in the form of loaned capital equal to as much as 30% of the debt required

Source: Hunter Interests Inc.

Table 49 Site E Garage Capital Costs	
Garage Hard Costs	
Parking Spaces	800
Hard Cost Per Space	$10,000
Construction Costs	$8,000,000
Total Hard Costs	$8,000,000
Garage Soft Costs @ 12%	$1,000,000
Land Acquisition	$350,000
Pedestrian Access Improvements	$150,000
Total Development Costs	$9,500,000

Source: Hunter Interest Inc.

Table 50 Site E Retail Concept Capital Costs			
Building Hard Costs		**Supportable Funds**	
Gross Building Area	10,000	Minimum Equity	$77,145
Hard Cost Per Square Foot	$75	Conventional Debt	$829,228
Construction Costs	$750,000	**Total Supportable Funds**	$906,372
Total Hard Costs	$750,000		
Building Soft Costs	$150,000	**Project Costs**	$900,000
Total Development Costs	$900,000	**Residual Land Value**	$6,372

Source: Hunter Interest Inc.

D. Public Investment Discussion

Although a new parking structure at this site will facilitate the needs of the Tribune should it expand its facilities, it will essentially be serving the City by providing parking to patrons of the Arts and Aquatic Centers. The total public investment for this facility is anticipated to be approximately $9.5 million. The garage should be designed and constructed to accommodate the proposed retail component.

XIII: Public/Private Investment Summary

Based on our cost analysis, the redevelopment concepts for the five designated sites in the Mesa Town Center would result in approximately $134 million in private investment associated with development of projects including residential, office, retail, restaurant, and entertainment attractions.

Public investment including that which is associated with land acquisition, demolition, and various parking and infrastructure improvements on the sites will equal approximately $26 million. The breakout of costs shown in Table 51 represents expenditures to date and reasonable expectations with regard to anticipated funding requirements, although the City could possibly reduce its costs through negotiations with developers.

However, it is clear that the City of Mesa's investment in redevelopment can realize a significant return. For every dollar invested by the public sector, $4.40 of private sector investment may be generated under the site development strategies put forth in this report.

In addition to the direct capital infusion represented by project development, the City of Mesa will receive ongoing economic benefits in the form of job creation, new worker, resident, and visitor spending in the local economy, and some fiscal revenues. The overall contribution to the future of the Mesa Town Center should also be recognized, and the total estimated $160 million investment will both create physical redevelopment, and leverage additional projects toward fruition in the downtown.

Table 51
Summary of Public and Private Investment

Development Component	Current Public Investment	Anticipated Additional Public Investment	Total Public Investment	Anticipated Private Investment	Total Investment Summary
Site A (Site 7)	$6,000,000	$3,880,000	$9,880,000	$48,795,000	$58,675,000
Site B (Site 7)	$6,019,000	$0	$6,019,000	$73,682,000	$79,701,000
Site C (MAC Retail)	$1,235,000	$0	$1,235,000	$5,250,000	$6,485,000
Site D (Site 21)	$2,000,000	$1,800,000	$3,800,000	$5,400,000	$9,200,000
Site E (Parking)	$0	$9,500,000	$9,500,000	$900,000	$10,400,000
Total	$15,254,000	$15,180,000	$30,434,000	$134,027,000	$164,461,000
Total Public Investment			**$30,434,000**		
Total Private Investment				**$134,027,000**	
Total Redevelopment Investment					**$164,461,000**

Source: City of Mesa Office of Redevelopment, Hunter Interests Inc.

XIV. Business Recruitment Strategy

A. Introduction

The business recruitment strategy for the Mesa Town Center is considered in the context of the ongoing recruitment and retention initiatives carried out by the City of Mesa Office of Redevelopment, the Office of Economic Development, the Mesa Town Center Corporation (MTCC), and the recommendations by HII regarding redevelopment of the five key sites. A review of primary foundation and follow-up documents pertaining to business recruitment, along with a series of stakeholder interviews conducted by HII, has revealed that intensive efforts have been underway to attract and retain businesses, particularly in the retail sector. This section of the report will assess the current business recruitment procedures for the Mesa Town Center, and will recommend how those efforts can be effectively channeled into ensuring the successful implementation of the development program for the five key redevelopment sites.

We have reviewed three of the documents that MTCC regards as the primary foundation documents that assisted in developing and fine tuning their current approach to retail recruitment for the Town Center. They are: *An Economic Development Strategy for Downtown Mesa*, MTCC, August 1997; *Retail Recruitment Strategy for Downtown Mesa, Arizona*, Marta Person, Square Foot LLC, November 1999; and *Concept Plan and Action Plans Mesa Town Center*, BRW, Inc. and LDR International, January 2000. A number of other documents related to retail recruitment were reviewed, including an October 17, 2001, memo generated from MTCC titled *MTCC's Retail Recruitment Strategies and Activities Report*, along with associated promotional material such as the *Moving Mesa Ahead* newsletter, the *Downtown Focus* publication, and the Mesa Town Center website.

Two studies pertaining to the commercial office market were reviewed: *City of Mesa, Analysis of Existing Office and Industrial Land, Supply and Demand Study*, Ernst & Young Real Estate Advisory Services, March 2001; and *Speculative Office Market Analysis, Mesa, Arizona*, Canyon Research Southwest, Inc., October 2000. Although neither report offered any insight into recruitment efforts geared toward office tenants, the suggestion that demand exists for Class A office space in the Town Center would lead one to conclude that fulfilling demand would be a recruitment effort in and of itself.

In assessing the current business recruitment practices for the Town Center, we utilize a series of benchmarks representing projects or tasks that would typically be employed in an effective business recruitment strategy. Current practices are matched to this format, and an evaluation is made based on the extent to which the tasks are carried out. Recommendations are then made pertaining to practices that appear most useful and practical to the Mesa Town Center, with particular attention paid to the five key development sites. The generative impact of new development on these sites is also evaluated relative to the overall business environment and attractiveness of the Town Center to prospective recruits.

B. Business Recruitment Procedure Assessment

The framework for assessing current business recruitment practices contains 10 benchmarks representing the basic elements of an effective downtown business recruitment strategy. A brief description of each component is described, along with an account and assessment of current procedures underway in the City of Mesa that apply to the subject category.

Business Development Entity — Often in the form of a Business Improvement District (BID) or Downtown Investment District, the entity is typically funded by a tax on property owners and is dedicated to safety, maintenance, and marketing, the objective being the revitalization of a specific geographic area. An alternative to the BID is the Main Street Manager, an individual dedicated to marketing downtown real estate. The Mesa Town Center Corporation, incorporated in 1984, currently provides promotion and marketing, business development, and public space management services for the Town Center. Advocacy partners include property and business owners, the City of Mesa Redevelopment Office, and the Downtown Development Committee. In our opinion, Mesa successfully fulfills this component of an effective business recruitment strategy.

Action Plan — An Action Plan identifies the tactics to be employed to ensure an effective strategy. The City of Mesa devised the Mesa Town Center Action Plan in 1999, as a guide in implementing measures and projects to fulfill the objectives of the Mesa Town Center Concept Plan. The Concept Plan describes objectives, issues, and physical design recommendations intended to enhance the attractiveness of the Town Center as a place to live, work, shop, and be entertained. Again, the City's endeavors in this regard are self-evident, and a number of recommended tasks contained in the Action Plan have been successfully carried out with positive implications for the Town Center.

Cultivate Development Opportunities — The generative impacts of new development can have a dramatic positive impact on the success of urban cores. Recognizing this, the City retained HII to assist the Office of Redevelopment with this task, and recommend market feasible development projects for five designated sites within the Town Center. The Mesa Arts Center and Aquatics

Center will help to generate momentum for the implementation of these proposed projects, which will, in turn, facilitate the creation of a neighborhood identity and sense of place in the Town Center, contributing to a healthier downtown business environment.

HII concurs with previous studies that indicate latent demand for Class A office space in the Town Center, and suggests that the completion of renovations at One Macdonald Center and the addition of new Class A space at Site A, combined with a vigorous marketing program, will attract office operations to the downtown. The addition of new residential stock as proposed for Sites A and C will contribute to achieving the critical mass of downtown residents so important to the success of retail and restaurant operations.

Retail Recruitment — The effort of the Office of Economic Development, the Office of Redevelopment, and the MTCC to recruit retailers to the Town Center cannot be overstated, particularly in light of the challenges imposed by less than ideal property conditions, regulatory hurdles, and competition from regional shopping centers and malls. As projects such as the renovation of One Macdonald Center and the MAC come on line, the increase in daytime and nighttime populations of the Town Center will present new opportunities to attract retailers to downtown. The presence of the Mesa Arts Center should be leveraged to establish an arts-oriented identity for the Town Center that can be promoted to attract galleries and art supply stores to Main Street and other locales. These in turn, will complement the existing music stores (Milanos), art galleries and framing stores (Los Milagros Studios, Mesa Art N' Framing Gallery, Uno Galleria, and Segura Art), and the numerous antique stores and gift boutiques.

Restaurant/Entertainment Recruitment — Building up the evening visitation to downtown Mesa will be the best tool for recruiting new restaurants, and other projects outlined herein will help to achieve that goal. In addition, building on the existing restaurants to establish a cluster or "restaurant row" will help the downtown reach a critical mass of dining options that will establish it as a destination within the regional marketplace. The MTCC can be instrumental in assisting Town Center restaurateurs with marketing efforts (include them in promotional materials, organize co-op advertising opportunities, etc.), and in identifying properties that are suitable for conversion to food and beverage establishments. Restaurant recruitment is usually the result of "trench work" that entails phone calls, meetings, personal attention, and some out-right convincing.

Office Recruitment — The success of any commercial office recruitment effort depends to a large degree on the current local market conditions, which at present remain relatively healthy in greater Mesa. The absorption of the 50,000 square feet of renovated space at the former Bank One building should serve as a specific barometer of the demand for downtown office space, and may provide a better sense of what the feasibility of new Class A space, as proposed, will be. Ultimately, it is the private developer who will assess the feasibility and assume the risk of any new office development. The packaging of redevelopment sites, as the City has done, and the availability of economic incentives will serve as inducements to developers and large office users. The continuing efforts of the Office of Economic Development coupled with an enhanced inventory of Class A and Class B downtown office space should serve to identify Mesa's downtown as a signature location for business.

Targeted Marketing Materials — A broad range of effective and informative marketing materials that promote the Town Center and greater Mesa are currently available. *Moving Mesa Ahead*, a newsletter from the Megacorp and the Office of Redevelopment, effectively keeps the local business community informed on the latest economic development initiatives, civic redevelopment projects, private commercial developments, real estate data and statistics, and other relevant information. The *Downtown Focus* publication provides information on existing businesses, amenities, activities, and events downtown, and the Town Center website carries an up-to-date directory of commercial property for sale or lease. The City publishes *A Guide to Opening a Business in Mesa*, which includes a list of business resources, information on zoning and permitting, public utilities, business licenses, and taxes. A packet containing comprehensive information on the Mesa Town Center Concept Plan is also available, with detailed maps and explanations of key concepts of the Plan. The City, its agencies, the MTCC, and other economic development advocacy organizations, seem to have a clear understanding and appreciation of the value of effective promotional and marketing materials. As downtown redevelopment enters the next phase, with commencement of construction on the Arts Center and development of One Macdonald Center, the distribution of informational literature will play a key role in the overall marketing and business recruitment endeavors. Consolidation of the aforementioned literature along with various other relevant information such as buying commercial real estate (list brokers), buying residential real estate (list brokers, describe neighborhoods, location of nearby schools, health services, etc.), historic attractions, entertainment, cultural arts and events, etc. These materials can be as simple as one-page printed information sheets, or full-color brochures.

Adoption of a Rehabilitation Code for Existing Buildings — The City of Mesa Building Safety Division is currently at work on revisions to allow for more flexibility in the existing building code to improve building conditions, in order to attract high quality retail businesses. A Rehab Code process will have a direct, positive effect on retention and recruitment success.

Evaluate Parking Issues — Much work has been completed recently on parking issues, including the *Mesa Town Center Parking Management Program Report,* June 2000, provided by the MTCC, along with various other reports and memoranda prepared by the Office of Redevelopment relative to impacts of the MAC and Aquatic Center on downtown parking. Parking is also treated in previous technical memoranda prepared by HII regarding site analyses and development recommendations at the five key redevelopment sites. Parking will continue to be an ongoing issue, but should not prove problematic given practical consideration at each stage of the redevelopment process.

Public Events — Public events are often utilized as a mechanism to attract pedestrians to downtown with the purpose of encouraging shopping and dining by event participants, while helping to improve retail atmosphere and image. The Town Center presently hosts an open-air market on Saturday mornings that offers fresh produce and arts and crafts. The seasonal Merry Main Street event continues to attract ever larger crowds, and has served to orient the public to the shops, restaurants, and other downtown amenities. Other public events include holiday lights, banner events, parades, and the Indian Powwow. While some merchants may not necessarily derive any direct benefits on event days, the events themselves are an effective means of exposing the downtown and its businesses to people who may not have been previously familiar with it. Therefore, merchants may likely benefit from return visits of event attendees. Consideration should be given to expanding the number of events held in the Town Center, as a means of promoting awareness not only to the general public, but also to potential future tenants from the business community.

C. Conclusion

The team that includes the Office of Redevelopment, the Office of Economic Development, and the Mesa Town Center Corporation comprise a potent and effective force for downtown business recruitment. The strategy that is currently employed addresses all 10 of the key tasks essential for a successful business recruitment strategy. The completion of major projects such as the Arts and Aquatic Centers, and One Macdonald Center, coupled with the launching of proposed redevelopment projects, which include housing and Class A office space, will present new business recruitment challenges and opportunities to the City. At this juncture, the public/private partnership will need to maintain the aggressive marketing and promotion effort that has characterized its methods thus far, while seeking creative new strategies in response to changing dynamics. In addition, we recommend that the City and/or MTCC establish strategic alliances with the commercial real estate brokerage community to devise incentives to encourage the vigorous promotion of downtown real estate. One such incentive could be a reward presented to a real estate broker who provides a tenant representing a desirable market segment targeted for a specific property. For instance, a high-end restaurateur is desired for the retail space adjacent to the proposed MAC. If a real estate broker delivered just such a tenant for that property, that broker would be entitled an incentive bonus, in addition to the regular commission.

As the MAC enters its operational phase, consideration should be given to the branding of the Town Center as a cultural and arts district, essentially setting the tone for developing an atmosphere that will support a more vibrant nightlife, and attract arts-oriented retailers to downtown. MAC literature and event schedules should consistently be included with any literature packets used to promote the Town Center.

Projects associated with business retention and recruitment in the Mesa Town Center, and those that will continue the revitalization process, will continue to emerge. They will require creativity, hard work, cooperation, community support, and, in some cases, professional assistance to organize and implement. The City has proven that it has the resources and resolve to transform its downtown into one of the premier communities in the Valley of the Sun in which to live, work, or visit.

XV. Phased Implementation Strategy and Next Steps

We have recommended 15 steps to a phased implementation strategy that focuses on the five designated redevelopment sites that are the subject of this study. They are presented in a general chronological order of precedence, however, several steps can be undertaken in parallel.

The implementation strategy recommended herein should retain a certain amount of flexibility to adapt to changing desires and circumstances. The local and national economy, market conditions, political considerations, and internal resource issues will ultimately affect the actual phasing of the strategy.

There is obviously flexibility in the development process recommended herein. The City may choose to alter or delay it for any number of reasons. The process recommended herein is a fairly typical one, and represents our best recommendation as to the summer of 2002 when it was prepared. If the City desires to maintain the momentum established by this feasibility analysis process, it may wish to move steadily forward into the implementation process as outlined below.

- **Developer Solicitation for Site 21, Former Bank One Building (Site D)** — Seven potential developers have responded to the recently issued Request for Qualifications to develop the former Bank One Building, and a follow-up Request for Proposals is scheduled for distribution during the summer of 2002. The renewed operation of this significant downtown landmark will send a clear signal to the business community that the City's Redevelopment Office is committed to transforming the Town Center into a vibrant nrban core, particularly in the context of other major projects. *Timeframe: Select developer fall 2002; negotiate/execute development agreement winter 2002/2003; begin redevelopment spring 2003.*

- **Developer Solicitation for Site 17 (Site B)** — RFQ and RFP documents should be prepared for the purpose of seeking a master developer through a competitive solicitation process. We would envision a national level approach, targeting companies that have experience in residential and mixed use projects. Several good firms have responded to the Bank One Project, and they should be encouraged to gain an interest in this development site as well. *Timeframe: Conduct developer solicitation RFQ/RFP process fall/winter 2002; select developer summer 2003; negotiate development agreement fall 2003; begin redevelopment winter 2003.*

- **Preliminary Work, Site 7 (Site A)** — The City needs to review and evaluate the disposition of the existing Tri City Center, in the context of relocating its functions to accommodate redevelopment of the site for Class A office space as recommended. The engineering feasibility of adding two new decks on the Pomeroy Garage should also be further explored at this juncture, as a means of providing adequate parking for the proposed development. The City should determine what additional investments will be required and what type of public/private partnership structure will be most effective for the public components of the site. Various financing strategies for the public finance elements in the project should be explored at this time. The future disposition of the health clinic and restaurant on the southwest corner should be resolved, to determine the viability of the urban residential component. *Timeframe: Evaluate future city needs—immediate; engineering feasibility on Pomeroy Garage—immediate; enter into discussions with health clinic to determine future location plans and willingness to relocate; and enter into negotiations with restaurant fall 2002; public policy decision on future needs winter 2002/2003.*

- **Developer Solicitation for Site 7 (Site A)** — Using the procedure recommended for Site 17, a qualified developer should be sought to build all or some of the components of the Site A conceptual building program, depending on the availability of parcels. The City may choose to assemble the remaining parcels of the land as delineated in the program and seek a master developer, or develop in phases as individual parcels are freed up. For instance, the vacant parcel on the east side facing Mesa Drive is vacant and ready for development. The disposition of properties on the west side of the block is more uncertain, however, as the County health clinic building is currently occupied. *Timeframe: Conduct developer solicitation RFQ/RFP process spring/summer 2003; select developer fall 2003; negotiate development agreement winter 2003/2004; begin redevelopment spring 2004; assist with relocation spring 2004.*

- **Developer Solicitation and Tenant Recruitment for Site C** — The close proximity of Site C to the Mesa Arts Center should make it a desirable location for a restaurant/retail/entertainment facility, and may have already attracted the interest of developers. Companies with experience in restaurant/retail development should be solicited to access their interest in the site, with an emphasis on firms who can recruit or assist in recruiting desirable tenants. *Timeframe: Mesa Arts Center ground-breaking represents trigger for proactive redevelopment; interface with Arts Center officials to determine space needs (retail) and desirable attributes (architecture, restaurant/entertainment mix, etc.) fall 2002; refine HII conceptual plan as necessary fall 2002; conduct developer solicitation RFQ/RFP process spring 2003; discuss tenant relocation options spring 2003; select developer fall 2003.*

- **Marketing Materials** — The City may wish to invest in additional graphics, image drawings, and/or a model of site development proposals in order to generate enthusiasm and support locally, as well as to assist the forthcoming solicitation process. In our experience, graphics and image drawings are an excellent way to communicate the type and quality of development envisioned on the site. This relatively minor investment usually pays big dividends, particularly when a consensus of community support is sought, and the City is attempting to induce higher levels of government and private parties to invest in the properties. *Timeframe: Use HII graphics immediately; consider additional sketches, renderings fall 2002 in anticipation of multiple developer solicitations.*

- **Proceed with City Process for Design/Build of Parking Garage on Site E** — The City should initiate the design/build process for the new parking garage proposed in the Site E conceptual building program, with an objective for delivery of the facility to coincide with completion of the Mesa Arts Center, Aquatics Center, and expansion of the Tribune. *Timeframe: Dependent on Tribune needs or determination of additional parking requirements for Mesa Arts Center and Aquatics Center.*

- **Tenant Solicitation for Site E Garage Retail Space** — The process to recruit tenants for the new retail space incorporated into the parking structure should commence prior to completion. *Timeframe: Begin solicitation when garage/retail space is 50% complete.*

- **Professional Services** — There will almost certainly be a need for subsequent technical feasibility analyses, assistance with the solicitation process, and professional representation within the regional and national development community. *Timeframe: Consider seamless transition into study/ redevelopment of additional sites.*

- **Public Support** — The City may wish to initiate a public information campaign to publicize development proposals and the forthcoming public/private development process. Additional graphics and/or a model would be helpful in this endeavor. *Timeframe: Immediate.*

- **Evaluation of Area North of Site 17 (Site B)** — The area north of Site 17 should be studied to assess its compatibility with the proposed redevelopment program, and its future relative to the Master Plan. The area should be considered in terms of existing uses, amenities, overall neighborhood character, City-owned parcels, and potential redevelopment opportunities. *Timeframe: Immediate.*

- **Evaluation of City Campus on South Center Street for Adaptive Reuse** — The proposed consolidation of City offices to the unit block of Main Street will effectively result in the buildings being vacated on the campus at 200 South Center Street. The City should further pursue the concept of reusing the vacated buildings as subsidized live/work space for artists, as a support facility for the Arts Center and an incubator for other arts-oriented establishments in the Town Center. *Timeframe: Fall/winter/spring 2002/2003.*

- **Plan Refinements** — The concept plans shown in this report are typical of preliminary plans that are prepared at the feasibility stage. Plan elements recommended herein may change considerably by the time buildings on the site are built out. For example, developer proposals may suggest changes that are reasonable, which the City may wish to entertain. Similarly, the public review and funding process may trigger changes in various plan elements and phasing. Buildings in our concept plan were purposely over-scaled somewhat to allow additional flexibility in final planning and siting. All parties associated with the process should understand that these plans need to be flexible and capable of refinement as the predevelopment process matures. *Timeframe: Immediate/ongoing.*