

PREFACE

This report was commissioned by the Jerde Partnership as part of their initiatives to assist the Downtown Phoenix Partnership in its Downtown Revitalization Strategies. It was completed in August 2004.

The figures for the report are based upon an evaluation of the current general level of the economy of the Phoenix region. This study does not take into account nor make provisions for the effect of any sharp rise or decline in local or general economic conditions. We do not warrant that the sales estimates and market share/impact projections will be achieved, but that they have been prepared conscientiously on the basis of information obtained during the course of this study and our experience in planning and development of many commercial real estate projects. Also, any retailer tenant profiles and names identified in the report are done so for illustrative purposes and it is by no way assumed that any of the mentioned retailers will ultimately choose to take-up occupancy in Downtown Phoenix.

A regional examination was carried out in conjunction with discussions with various information sources. The reference material for this report was provided obtained from private and public sectors, government publications and Thomas Consultants Inc. Specific tenant floorspace allocation may be subject to change during the development process.

Given the nature of market assessment studies, Thomas Consultants Inc. attempts to render objectively the most probable and realistic outcome resulting from the entry of the subject development based on all available market information gathered at the time of the study. This analysis was conducted by Thomas Consultants Inc. as an objective and independent party; and is not an agent of this development by virtue of this or any subsequent study to be conducted on this matter.

As is customary in an assignment of this type, neither our name nor the material submitted may be included in a prospectus, or any part of printed material, or used in offerings or representations in connection with sales of securities or participation interest to the public without the expressed permission of Thomas Consultants Inc.

EXECUTIVE SUMMARY

This Downtown Phoenix Retail Opportunity Assessment was prepared for the Jerde Partnership as part of their initiatives to assist the Downtown Phoenix Partnership in its Downtown Revitalization Strategies. A vision for downtown retail development was created that capitalizes upon opportunities presented by the renewed interest in Downtown, by its location, site and competitive environment as well as the demographic profile and retail expenditure opportunities.

LOCATION & SITE

Downtown Phoenix is centrally located within the rapidly growing Valley of the Sun Phoenix Metropolitan Region. The local transportation infrastructure makes the City Center highly accessible to a broad proportion of the metro region.

Downtown contains a number of existing major anchor destinations such as the Phoenix Civic Plaza, Bank One Ballpark, America West Arena, Hyatt Hotel and Symphony Hall, the traffic from which provides a foundation for Downtown retailing. As well as these major sports and cultural facilities, planned Light Rail Transit, a Central Intermodal Station, planned new Downtown Arizona State University campus and the nearby Phoenix SkyHarbor International Airport are also important assets for Downtown.

However, retail efforts in the past have failed and the current retail offering is weak in Downtown for various reasons. Challenges for retailing in Downtown Phoenix include a high degree of fragmentation between uses, lack of higher density residential base to support activity during off-peak hours, large streets that are difficult for pedestrians to cross and a lack of critical mass of retail and leisure activity.

Together with places to live and stay, shopping, dining and entertainment uses are regarded as key components of adding amenity to Downtown Phoenix. Retail is often the glue that holds together successful Downtown areas, and it creates the seamless integration both horizontally and vertically of the mixture of all uses.

Along with the integration of academic, office and residential uses into Downtown, retail functions can serve to round out the Downtown, providing the “sense of place” which is currently lacking. As part of the larger Downtown planning initiatives being prepared by the Jerde Partnership, the retail strategy at the “street level” will be an important component of stitching together Downtown Phoenix.

COMPETITIVE RETAIL ASSESSMENT

Shopping, dining and entertainment activity in Downtown Phoenix compete within a well-served regional suburban retail market. Development across the region has been largely automobile-oriented, resulting in a sprawling “edge city” land use pattern. Retail development has followed suit, with a clear preference for power center, lifestyle center and regional mall formats located at strategic highway and major road interchanges.

Being the missing hole in the middle of the donut, Downtown Phoenix could benefit from this historical trend of suburban-centric development. Trends across North America indicate that a significant frontier for retailers is shifting from the suburban fringe back to relatively undeveloped city centers with “street-oriented” retail. At the same time, a critical mass and diverse shopping and dining offering is what is necessary in Downtown Phoenix as an amenity to attract people to want to live or go to university in Downtown. These segments will provide the “round-the-clock” community that will propel Downtown Phoenix from being simply a 9 to 5 office center.

In addition, as Downtown Phoenix becomes fully realized as a 24-hour, multi-functional destination, it is anticipated that it will have competitive advantages over the region’s existing shopping infrastructure. In particular, it can benefit from being something different from the automobile-oriented, contrived shopping and leisure experiences that characterize most of these suburban places, by becoming a truly pedestrian-integrated mixed-use Downtown.

PROJECT TRADE AREA

Given Downtown’s location and future profile, the trade area from which it could draw patronage covers a wide area. Its population base exceeds one million people and its aggregate household income is \$17 Billion. The trade area population and income are slated to grow at nearly double the national average over the next decade.

Overall, the Downtown Phoenix trade area is considered a lower-middle income and such markets are typically highly value-oriented. The challenge will be to appeal to the upscale tastes of regional residents, new Downtown residents and tourists while providing a sufficient mass of value-oriented retailing for close-by trade area residents.

TRADE AREA EXPENDITURE

The trade area represents a market of \$6.87 Billion of retail and leisure spending. It is slated to grow at approximately 2.5% per annum over the forecast horizon, driven by increases in wages and population. Additional important potential sources of business include non-trade area residents, tapping into the \$2.3 Billion spent by tourists on retail and leisure, as well as the important Downtown office worker, ASU student and new Downtown resident groups.

WARRANTED FLOORSPEACE ANALYSIS

A market share analysis was conducted that demonstrated an overall market demand for 1.19 million sq ft in 2005 (including existing inventory). This figure represents the amount of shopping, dining and entertainment space demand that Downtown Phoenix could capture if it included all the other components of a vibrant Downtown (such as residential, cultural, educational, etc.) as has been demonstrated in other downtowns of similar sized urban areas across North America. Another way to look at this retail demand is to consider it as the amount that is currently available to Downtown but is largely being pulled away from Downtown and gravitating to the suburban shopping centers.

Recognizing the planned additions to Downtown (such as ASU, Phoenix Civic Plaza expansion, new hotel facilities and multi-family residential units) total retail floor area demand for Downtown is projected to grow to 1.37 million sq ft by 2015. The recommended breakdown by component categories is 49% Comparison Retail, 22% Convenience Retail and 29% Leisure (i.e. restaurants/food & beverage and entertainment). Further detailed breakdowns of the optimal and appropriate mix of retail functions for Downtown are contained in the report.

ALLOCATION & POSITIONING OF FLOOR AREA

In order to provide a complementary retail structure for Downtown Phoenix, that would effectively stitch together the various sub-areas of Downtown, the estimated total retail floor area demand was allocated by functions over several distinct clusters within Downtown. These “retail clusters” include a the City Center, Arizona Center, Central Corridor, City Square & Cultural Row, Warehouse District, Roosevelt Corridor and West Side (of 1st Avenue along Van Buren).

The overriding urban retail design philosophy in this strategic vision was to create a well-linked, street-oriented retail offering in Downtown Phoenix that adds energy and excitement to the entire area, distinguishes the various clusters from one-another and establishes a seamless and continuous street shopping and dining experience throughout Downtown.