

Apache Junction Market and Demand Analysis

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Disclaimer

All direct and indirect written information supplied by the client, its agents and assigns, concerning the community is assumed to be true, accurate and complete; additionally, information identified as supplied or prepared by others is believed to be reliable. However, no responsibility for the accuracy of such information is assumed.

While we realize this analysis is subject to public disclosure laws, neither our letter, nor its contents, nor any of our work were intended to be included and, therefore, may not be referred to or quoted in whole or in part, in any registration statement, prospectus, public filing, private offering memorandum, loan agreement or other agreement or document without our prior written approval, which may require that we perform additional procedures, nor can it be used for any purpose other than as expressly stated in this report.

This analysis is for the sole purpose of assisting the City of Apache Junction in assessing retail, office and housing demand to aid in the creation of the downtown redevelopment plan. This market analysis is intended to be read and used as a whole and not in parts.

ESI Corp makes no claim that this study may be used for a specific development and makes no claims that any business sited will be financially successful. This analysis is not intended to be a specific market study for a specific type of retail, office or housing development and should not be viewed as such. Any entity that seeks to invest in, develop or redevelop any retail, office or residential project should undertake their own detailed and specific market study for the exact intended type of development. ESI Corp takes no responsibility for any results or consequences resulting from using this study in any way, intended and, or unintended.

1. EXECUTIVE SUMMARY

The objective of this market analysis is to provide an understanding of the potential square feet of space for retail and office and the number of residential dwelling units that can be supported in Apache Junction by 2020, which can then be translated into acres of land use for the Downtown Apache Junction Redevelopment Plan. In doing so, ESI reviewed multiple reports provided by the City and assessed market conditions including current demographics, potential retail spending and real estate market demand that exists in Apache Junction and the surrounding Trade Area.

Three consumer segments were analyzed (resident, employee and visitor) and a demand analysis was prepared for retail, office and residential uses. Below are the key findings.

RESIDENT MARKET SEGMENT FINDINGS

Three study areas were identified which include the City of Apache Junction, the Downtown area and the Primary Market Area (PMA). A socioeconomic profile was created for each area over a five year period. As part of the planning process, it is critical to understand the demographic profiles, consumer expenditure, and real estate trends which ultimately influence demand for residential, retail and office space.

- The population in the three study areas is expected to continue growing, but the PMA, which has a population of 75,582, will experience the strongest overall growth. The Downtown Area population growth will be more aggressive than it has been in previous years. Household sizes in all three study areas hover around 2 people per household, which are likely indicative of the large retiree population and the absence of children within area households.
- The core Downtown has the lowest median income, highest median age and the highest residential vacancy rate.
- A little over half of the homes in Apache Junction, the PMA, and the Downtown Area are owner occupied. Due to the seasonal influx of population in Apache Junction during the winter months, 33.1 percent of the housing stock is classified as vacant, but a portion of those homes are expected to be second homes owned by winter residents. Data from the Salt River Project (SRP), the local electric utility provider, indicates that 18 percent of the active residential accounts in Apache Junction are winter residents.
- The median household income for the Downtown Area and Apache Junction is \$36,138 and \$40,475, respectively, which is lower than the PMA at \$49,723. Each of the three geographies falls short of the median incomes in Maricopa County at \$58,741.
- The PMA has the highest percentage of educated people with over 89 percent of its population possessing a high school diploma or higher. Median ages for all three geographies range from 41-47 and the area is expected to trend toward an even older median age.
- Apache Junction residents are primarily employed in Education, Health, Social Services, Retail Trade, and Construction. Only 12 percent of Apache Junction residents both live and work in the City. The remaining employed population commutes primarily to Mesa, Tempe, and Scottsdale to work.
- Based on estimates by Retail Coach, in 2008, the total retail spending by residents in the Apache Trail Trade Area was \$356 million. Potential spending topped \$1.1 billion, although there is believed to be a leakage of over \$800 million. Some of the retail categories that display the largest trade

leakage include general merchandise, lumber and building materials, new and used cars, radio, TV and computer stores and restaurants.

EMPLOYEE MARKET SEGMENT FINDINGS

There are 5,880 people working in Apache Junction today, of which 80 percent are commuting from outside the city. These jobs are concentrated primarily within education, health care, social service entertainment, accommodations and food services. The spending potential of the employee population is calculated at \$9.1 million annual and could be significant to support future retail in the downtown area.

VISITOR POPULATION FINDINGS

There are two components to the visitor segment population. First there are the winter residents who reside in Apache Junction for part of the year and then there are visitors or tourists who pass through the community. Both contribute to the City's economy through their spending.

Winter residents have a significant impact on Apache Junction's economy, however, quantifying the exact number of winter residents and their impact is challenging, due to the fact that little data is available. To estimate the number of winter residents, ESI reviewed data from the Salt River Project (SRP), the local electric provider. This data revealed that the peak months for active residential accounts is January through March. Taking a 12 month average there are 29,442 active residential accounts, of which 5,466 or 18.4 percent are classified as winter residents. This figure does not include those residents who keep their accounts active, so the percentage of winter residents is probably understated.

The City's Visitor Center keeps track of tourists/visitors that stop by their office for information. Based on the 2008 data, there were 28,353 visitors that requested information. However, these figures do not distinguish between winter residents (who may have requested information) and tourists.

RETAIL, OFFICE AND RESIDENTIAL DEMAND FINDINGS

A demand analysis was conducted utilizing population and employment projections from the Central Arizona Council of Governments (CAAG) for the Apache Junction Metropolitan Planning Area (MPA). The demand analysis is for the years 2010, 2015, and 2020. Summarized below are key findings and a table that shows the projected demand for each product type.

- Overall, the Apache Junction Municipal Planning Area (MPA) has seen a 7.6 percent increase to the existing retail inventory, absorption has been moderate, and vacancies have trended down to the current rate of 8.6 percent.
- The demand for retail space is 243,947 square feet growing to nearly 1.2 million square feet by 2020.
- The office market in the Apache Junction MPA has typically been undersupplied; extremely low vacancy rates of 0.0% between 2001 and 2007 have since spurred considerable office construction.
- Apache Junction MPA ended the second quarter of 2009 with an office vacancy rate hovering at 18.8 percent. Based on conservative office employment projections, the estimated demand for office space is nearly 130,000 square feet growing to 373,000 by 2020.
- Over 50 percent of the existing housing stock in Apache Junction is mobile homes, boats, RV's or vans. The vacancy rates within the housing stock are 30 percent, which is reflective of the seasonal residents.

- Based on the housing demand analysis, Apache Junction MPA will not need any additional units in 2010 given the surplus of 481 units; however by 2020 an additional 7,971 units will be needed. Housing demand could be greater as housing units in the market are replaced, and residents and winter residents seek newer alternatives to mobile homes.

| Table 1 – Apache Junction Demand Summary | | | |
|---|-------------|-------------|-------------|
| Retail Square Feet | | | |
| | 2010 | 2015 | 2020 |
| Conservative | 243,947 | 635,535 | 1,186,761 |
| Moderate | 257,016 | 707,924 | 1,374,082 |
| Office Square Feet | | | |
| | 2010 | 2015 | 2020 |
| Conservative | 129,935 | 246,209 | 372,737 |
| Moderate | 163,843 | 350,521 | 556,859 |
| Housing Units | | | |
| | 2010 | 2015 | 2020 |
| Conservative | -481 | 3,013 | 7,971 |
| Moderate | -223 | 4,297 | 11,015 |

Source: ESI Corp and demand analysis tables

GENERAL CONCLUSIONS

- Winter residents contribute significantly to the economy, but little data is available to understand to what extent. Quantifying this demographic segment would be valuable.
- There is a significant amount of retail leakage taking place and the majority of retail expenditures are flowing to surrounding communities.
- Apache Junction currently lacks the population and housing density needed to attract and sustain new retail.
- Based on historical vacancy and absorption, Apache Junction is likely to have a strong appetite for office space once the market rebounds.
- Apache Junction’s housing stock is largely composed of mobile homes, a portion of which may be in need of replacement. Housing demand findings do not distinguish between housing types or potential desire for redevelopment.
- In the short term, there is very limited or no demand in retail, office and housing, however our projections expect that there will eventually be a rebound in the market and a healthy demand for each product type.

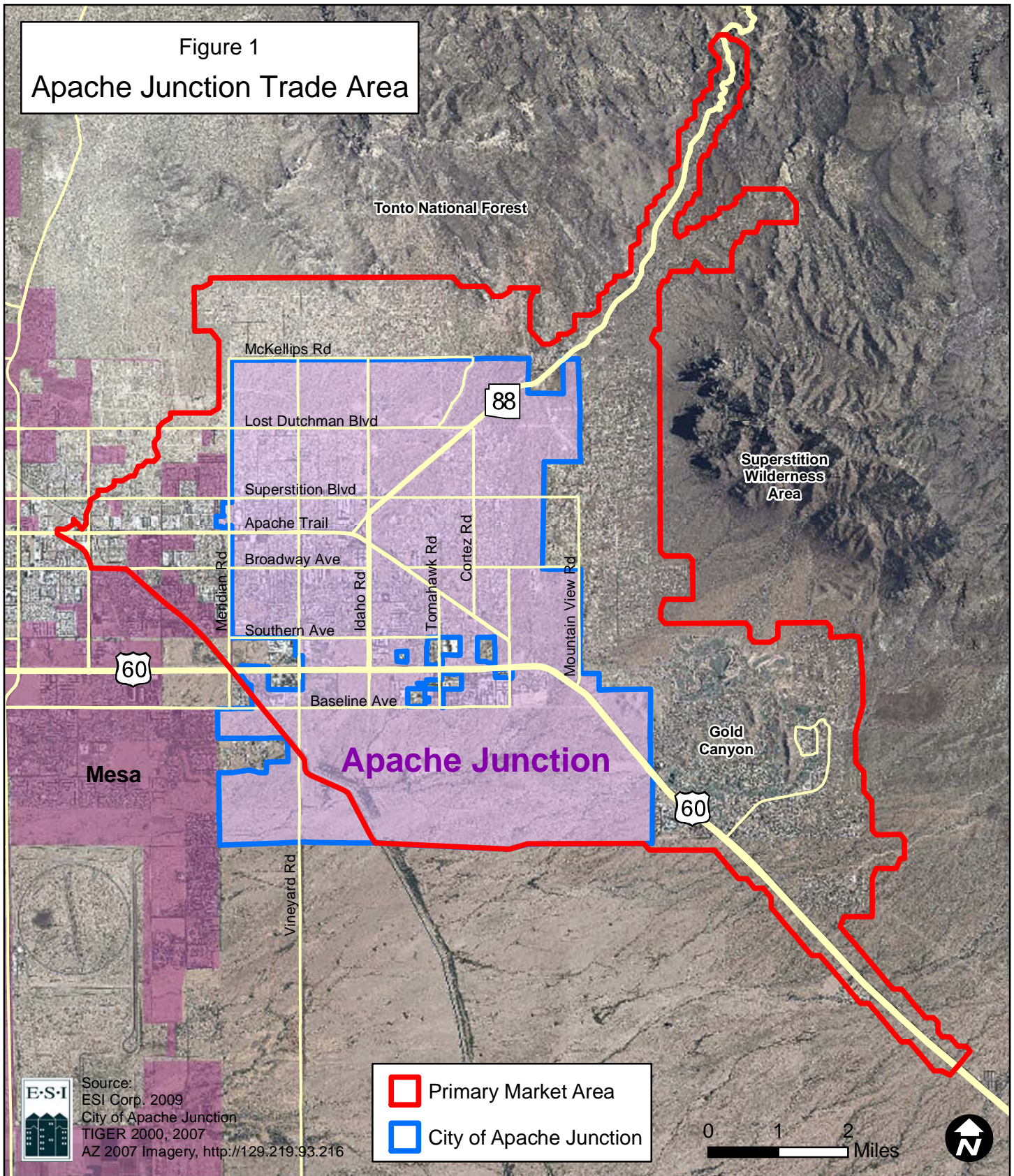
2. RESIDENT MARKET SEGMENT

TRADE AREA IDENTIFICATION

The first step in conducting a market analysis is to define the trade area. A trade area is the geographic region from which the majority of customers for commercial districts or establishments come from. Defining the size and shape of the trade area is based upon a combination of travel time, commute patterns, location of competitive retail, natural or man-made barriers, and the like. To begin defining the Apache Junction market trade area, a 5 and 15 minute drive time analysis was conducted, which was then modified to reflect the presence of natural barriers, competitive retail and other characteristics. The resulting Primary Market Area (PMA) is depicted in Figure 1 and consists of 67 square miles.

The economic potential of a geographic area is based on the socio-economic mix of the population, including characteristics such as age, income, educational attainment and the like. Data utilized in this demographic and socio-economic analysis comes from AGS, a nationally recognized purveyor of data and covers the years 2008 and 2013. Table 3 provides a side by side comparison of the population and socio-economic mix for Apache Junction, the Downtown and the PMA, while Figure 1 depicts the three geographies. Following is a summary of the findings.

Figure 1
Apache Junction Trade Area



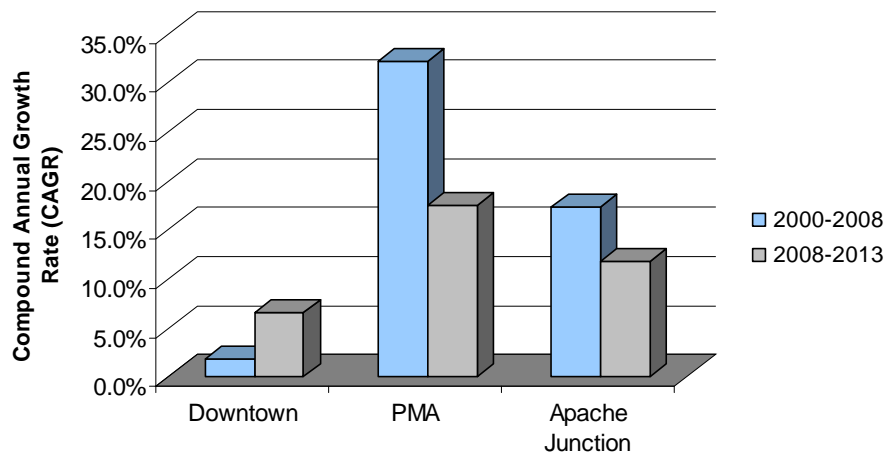
Source:
ESI Corp. 2009
City of Apache Junction
TIGER 2000, 2007
AZ 2007 Imagery, <http://129.219.93.216>

POPULATION AND HOUSEHOLDS

Apache Junction’s population is currently 37,334 and is projected to grow steadily with a compound annual growth rate (CAGR) of 2.2 percent between 2008 and 2013, while the Downtown area is expected to grow 1.3 percent per year. The PMA, which has a population of 75,582, will experience the strongest population growth of 3.3 percent CAGR. Compared to population growth rates for 2000-2008; Apache Junction and the PMA growth remains relatively steady while the Downtown Area population growth will be slightly stronger than previous years.

Overall, Apache Junction’s population will experience a total of 11.7 percent growth, the Downtown Area 6.6 percent, and the PMA 17.5 percent, between 2008 and 2013. Again, it is important to note that although the PMA will see the greatest overall gains, the Downtown area’s projected growth will outpace growth seen between 2000 and 2008.

Chart 1 – Population Growth, 2000-2013



Source: U.S. Census Bureau 2000; AGS 2008/2013

Household growth in the PMA is the strongest with a compound annual growth rate of 5.0 percent between the years 2000 to 2008 and 3.9 percent between the years 2008 to 2013. Apache Junction demonstrates slightly lower CAGR of 3.8 percent between the years 2000 to 2008 and 2.9 percent for 2008 to 2013. The Downtown area shows the slowest household growth with 2.0 percent CAGR between 2000 and 2008 and 1.9 percent expected each year between 2008 and 2013. Household growth remains positive for all three trade areas but demonstrates a slight decrease from the previous timeframe of 2000 to 2008.

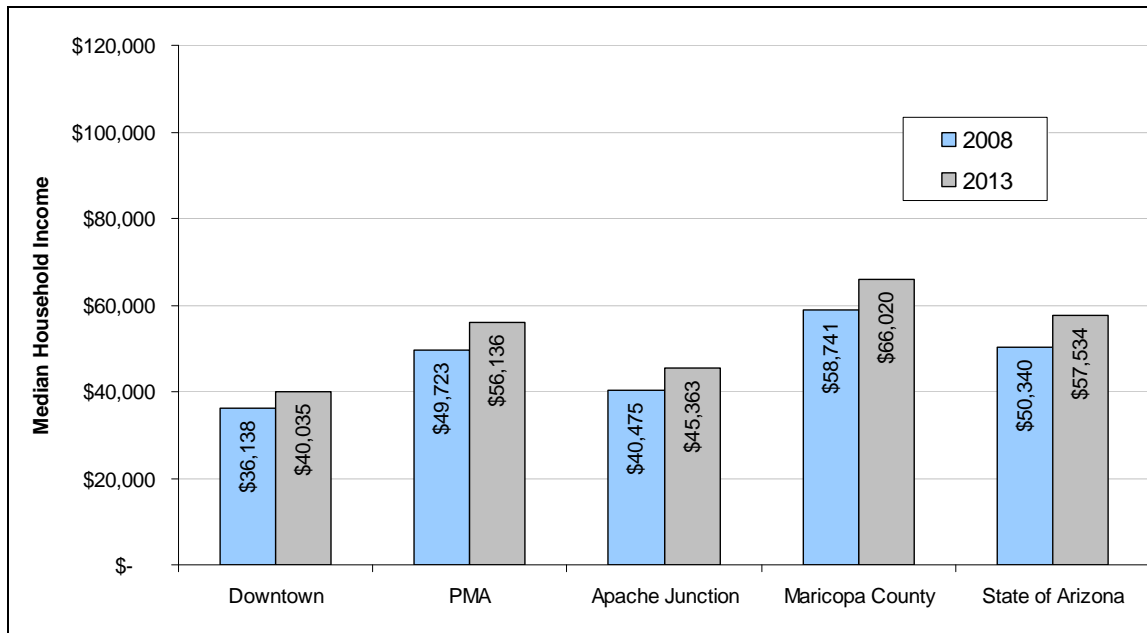
The average household size in Apache Junction is 2.01 persons, with the Downtown at 1.80, and the PMA at 2.10. This smaller household size is indicative of the large retiree population and the absence of children within households. By 2013 it is estimated that household size will trend downward, which is consistent with Pinal County as a whole. The household size in Apache Junction, by 2013, is projected at 1.94, Downtown at 1.75 and the PMA at 2.04.

Owner occupied homes in Apache Junction comprise 54.6 percent of the units, with renter occupied at 12.3 percent. Due to the seasonal population who live in Apache Junction during the winter months, 33.1 percent of the housing stock is classified as vacant. The PMA shows a higher level of owner occupied housing at 59.1 percent and 10.4 percent renter occupied. Much like Apache Junction, there is a high level of vacancy at 30.5 percent in the PMA. The Downtown area shows the lowest level of owner occupancy at 44.3 percent, with 42.3 percent of the housing stock considered to be vacant. By 2013, homeownership in Apache Junction and the two trade areas is projected to grow by 55.8 percent, with the downtown growing at 45.3 percent and 60.7 percent for the PMA. Likewise, the percentage of vacant units is projected to trend downward to 40.7 percent in the Downtown, 28.8 percent in the PMA, and 31.8 percent in Apache Junction.

INCOME AND AGE

The median household income for the Downtown Area and Apache Junction is \$36,138 and \$40,475 respectively, which is lower than the PMA and Maricopa County which stand at \$49,723 and \$58,741, respectively. By 2013 the median household income in the Downtown Area and Apache Junction is expected to rise to \$40,035 and \$45,363, while the PMA and Maricopa County will increase to \$56,136 and \$66,020. The three geographies' median household income is expected to grow by an average of 11 percent between 2008 and 2013. The number of households earning over \$60,000 per year is projected to increase within all three geographies, as compared to the lower income households which will make up a smaller part of the overall number of households. Interestingly, Apache Junction is expected to experience the most growth in \$60,000+ households, with a change of 9.5 percent from the baseline year of 2008. The Downtown Area is expected to show an increase of 5.4 percent in the number of households earning over \$60,000, and the PMA will likely see a rise of 5.7 percent. Comparatively, households earning less than \$30,000 per year are expected to decrease by 5.4 percent in the Downtown and 5.7 percent in the PMA, while Apache Junction will see no change. Generally, all 3 geographies demonstrate an overall trend toward higher incomes and greater spending power.

Chart 2 – Median Household Income, 2008-2013



Source: U.S. Census Bureau, AGS, 2008/2013.

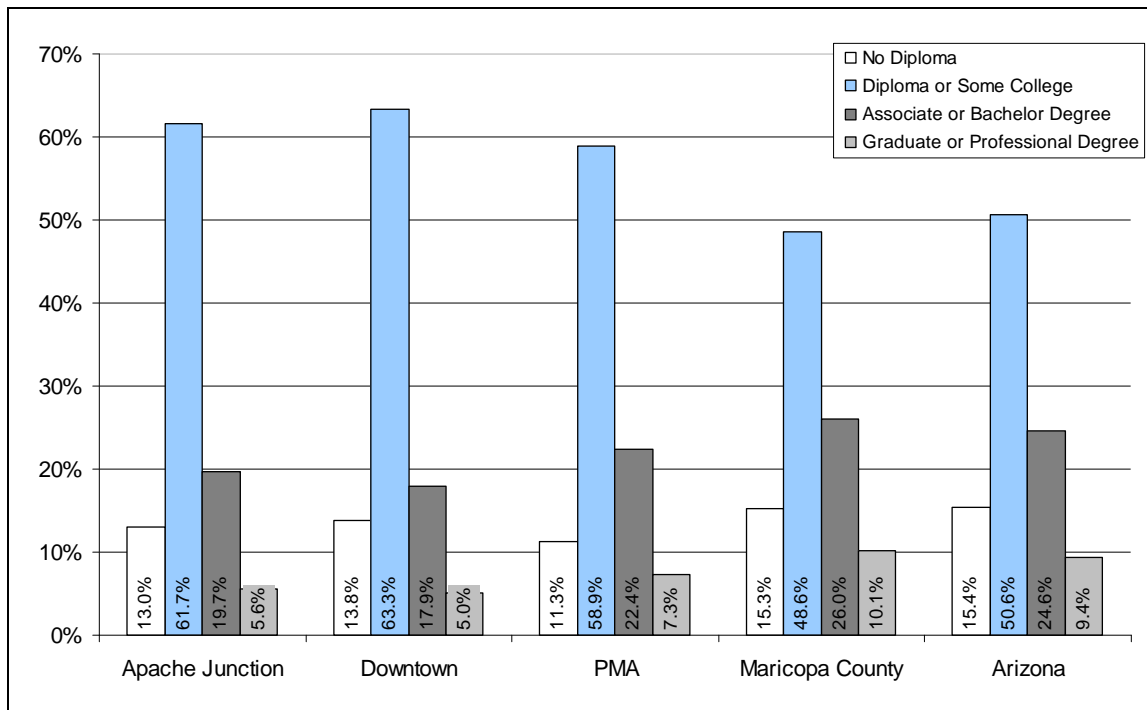
The median age of residents in Apache Junction is 41 years old, which is higher than Pinal County with 34.6 or the State of Arizona at 35.1. The Downtown area has the highest median age at 47 years old, with the PMA at 44 years of age. By 2013, the median age for all three geographies is projected to increase with Apache Junction at 41.9, Downtown at 49.2 and the PMA at 45.5 years of age.

Also interesting to note is that by 2013, 62 percent of Apache Junction’s population will be under the age of 55, compared to Downtown at 56 percent and the PMA at 63 percent. These numbers illustrate that there is a significant contingent of people living in all three geographies which are not yet retired. However, it is important to note that the age group expected to see the most growth by 2013 in each of the trade areas is the 85+ category with an average growth of over 60 percent. Overall, the projected growth of the 55+ age group is expected to outpace that of the 55 and under population by leaps and bounds. On the whole, each of the trade areas are getting older and seeing more growth in the 55+ age categories, which is primarily due to the area’s popularity as a retirement destination.

EDUCATIONAL ATTAINMENT

Educational attainment levels are a way to determine the socio-economic status of an area. With higher levels of educational attainment comes an increase in disposable income. Residents in the Downtown Area have the lowest level of overall educational attainment when compared with those living in the PMA and Apache Junction as a whole. Only 23 percent of Downtown Area residents hold an Associate’s degree or higher, compared to 25 percent in Apache Junction, and 30 percent in the PMA. Overall, the PMA has the highest percentage of educated people with over 89 percent of its population possessing a high school diploma or higher, followed by 87 percent of Apache Junction and 86 percent of the Downtown Area.

Chart 3 – Educational Attainment 2008



Source: U.S. Census Bureau, AGS, 2008.

By 2013, educational attainment levels within the three study areas are expected to increase considerably. Each of the three study areas can expect to see an average of 7 percent growth in the number of people holding an Associate’s degree or higher. The number of high school graduates is also expected to increase by 3 percent in the PMA, 2 percent in Apache Junction, and 1 percent in the downtown area. Each of the three study areas examined are projected to increase the number of educated people in their population.

INDUSTRY AND OCCUPATIONS

According to the U.S. Census Bureau 86.8 percent of Apache Junction residents are civilian employed persons, while 12.9 percent are government workers, and less than 1 percent are unpaid family workers. Overall, workers in Apache Junction are predominantly employed within four industries:

- Educational, Health and Social Services (17.3%)
- Retail Trade (16.3%)
- Construction (13.4%)
- Arts, Entertainment, Recreation, Accommodation and Food Services (10.7%)

Table 2 – Resident Workers by Industry

| | Apache Junction | |
|--|-----------------|-------------|
| | Number | Percent |
| Agriculture, forestry, fishing and hunting, and mining | 150 | 0.9% |
| Construction | 2,371 | 13.4% |
| Manufacturing | 1,326 | 7.5% |
| Wholesale trade | 562 | 3.2% |
| Retail trade | 2,883 | 16.3% |
| Transportation and warehousing, and utilities | 1,102 | 6.2% |
| Information | 168 | 1.0% |
| Finance and insurance, and real estate and rental and leasing | 1,468 | 8.3% |
| Professional, scientific, and management, and administrative and waste management services | 1,415 | 8.0% |
| Educational services, and health care and social assistance | 3,054 | 17.3% |
| Arts, entertainment, and recreation, and accommodation, and food services | 1,882 | 10.7% |
| Other services, except public administration | 596 | 3.4% |
| Public administration | 664 | 3.8% |
| Total | 17,641 | 100% |

Source: U.S. Census Bureau, AGS, 2008; ESI Corp, 2009.

Predominant occupational sectors in Apache Junction include:

- Sales and Office (30.7%)
- Management (25.2%)
- Service (15.1%)
- Construction, Extraction, Maintenance, Repair (14.0%)

Table 3 – Resident Workers by Occupation

| | Apache Junction | |
|--|-----------------|-------------|
| | Number | Percent |
| Management, professional, and related occupations | 4,447 | 25.2% |
| Service occupations | 3,197 | 18.1% |
| Sales and office occupations | 5,413 | 30.7% |
| Farming, fishing, and forestry occupations | 28 | 0.2% |
| Construction, extraction, maintenance and repair occupations | 2,468 | 14.0% |
| Production, transportation, and material moving occupations | 2,088 | 11.8% |
| Total | 17,641 | 100% |

Source: U.S. Census Bureau, AGS, 2008; ESI Corp, 2009.

The unemployment rate in Apache Junction is currently at 8.4 percent, which is slightly higher than the Phoenix MSA at 8.2 percent. Dating back to the year 2000, Apache Junction has typically had a lower unemployment rate than Phoenix, but in 2007 Apache Junction’s unemployment rate began outpacing that of the Phoenix MSA which is likely due to the area’s heavy reliance on retail, hospitality, food service, and construction sectors. It is also important to note that only 12 percent of Apache Junction residents both live and work in the City. The remaining employed population commutes primarily to Mesa, Tempe, and Scottsdale for employment¹.

RACE AND ETHNICITY

In all three geographies, Whites and Hispanics tend to dominate the race and ethnicity categories. Whites comprise the largest percentage of any race category in all three geographies at 89 percent. The PMA contains the highest percentage of Hispanics at 9 percent of the population, followed by Apache Junction at 8 percent and the Downtown at 7 percent.

The largest projected growth increase in any race or ethnicity category is expected in the Asian and African American populations. Asians and African Americans make up less than 1.8 percent of the total population of all three geographies, but are showing a growth increase of between six to eight percent depending on the geography. Comparatively, the Hispanic population is expected to grow no more than two to four percent by 2013 and the White population no more than three percent in any given geography.

¹ U.S. Census Bureau, LED Origin-Destination Data Base, 2006.

Table 4 - Population Demographics

| | 2008 | | | | | 2013 | | | | |
|---|-----------------|------------|----------|------------|--------|-----------------|------------|----------|------------|--------|
| | Apache Junction | % of Total | Downtown | % of Total | PMA | Apache Junction | % of Total | Downtown | % of Total | PMA |
| Population | | | | | | | | | | |
| Male | 37,334 | 100.0% | 8,178 | 100.0% | 75,582 | 41,704 | 100.0% | 8,716 | 100.0% | 88,773 |
| Female | 18,108 | 48.5% | 4,011 | 49.0% | 36,932 | 20,206 | 48.5% | 4,268 | 49.0% | 43,360 |
| | 19,226 | 51.5% | 4,167 | 51.0% | 38,651 | 21,498 | 51.5% | 4,448 | 51.0% | 45,413 |
| Population by Age | | | | | | | | | | |
| Less than 10 | 4,596 | 12.3% | 843 | 10.3% | 9,053 | 4,968 | 11.9% | 844 | 9.7% | 10,041 |
| Ages 10 - 19 | 3,465 | 9.3% | 686 | 8.4% | 7,336 | 3,729 | 8.9% | 704 | 8.1% | 8,425 |
| Ages 20 - 29 | 5,259 | 14.1% | 980 | 12.0% | 9,399 | 5,037 | 12.1% | 861 | 9.9% | 9,366 |
| Ages 30 - 39 | 4,984 | 13.3% | 986 | 12.1% | 9,971 | 5,684 | 13.6% | 1,060 | 12.2% | 11,754 |
| Ages 40 - 49 | 3,793 | 10.2% | 848 | 10.4% | 8,654 | 4,520 | 10.8% | 968 | 11.1% | 10,871 |
| Ages 50 - 59 | 4,382 | 11.7% | 938 | 11.5% | 10,022 | 4,584 | 11.0% | 932 | 10.7% | 11,490 |
| Ages 60 - 69 | 4,098 | 11.0% | 1,005 | 12.3% | 9,162 | 5,006 | 12.0% | 1,157 | 13.3% | 11,985 |
| Ages 70 - 79 | 4,062 | 10.9% | 1,117 | 13.7% | 7,641 | 4,567 | 11.0% | 1,183 | 13.6% | 9,051 |
| Ages 80 and Over | 2,695 | 7.2% | 775 | 9.5% | 4,345 | 3,607 | 8.6% | 1,007 | 11.6% | 5,792 |
| Median Age | 41.0 | | 47.0 | | 43.8 | 42.9 | | 49.2 | | 45.5 |
| Population by Race and Ethnicity | | | | | | | | | | |
| White | 33,189 | 88.9% | 7,344 | 89.8% | 67,700 | 37,098 | 89.0% | 7,850 | 90.1% | 79,520 |
| African American | 493 | 1.3% | 95 | 1.2% | 1,064 | 654 | 1.6% | 119 | 1.4% | 1,463 |
| Am. Indian/Alaskan | 574 | 1.5% | 114 | 1.4% | 1,045 | 642 | 1.5% | 124 | 1.4% | 1,239 |
| Asian | 476 | 1.3% | 111 | 1.4% | 1,073 | 657 | 1.6% | 148 | 1.7% | 1,546 |
| Hawaiian/Pacific Islander | 21 | 0.1% | 5 | 0.1% | 57 | 28 | 0.1% | 6 | 0.1% | 81 |
| Other | 1,575 | 4.2% | 257 | 3.1% | 2,863 | 1,631 | 3.9% | 243 | 2.8% | 3,060 |
| Two or More Races | 1,006 | 2.7% | 252 | 3.1% | 1,779 | 993 | 2.4% | 226 | 2.6% | 1,864 |
| Hispanic/Latino | 3,045 | 8.2% | 580 | 7.1% | 6,792 | 3,439 | 8.2% | 627 | 7.2% | 8,300 |
| Education Attainment Ages 25+ | | | | | | | | | | |
| Less than 9th grade | 960 | 3.6% | 277 | 4.5% | 1,665 | 821 | 2.7% | 224 | 3.3% | 1,592 |
| Some H.S., no diploma | 2,557 | 9.5% | 579 | 9.3% | 4,595 | 1,953 | 6.4% | 427 | 6.3% | 3,817 |
| H.S. Grad. (or GED) | 9,116 | 33.8% | 2,292 | 37.0% | 17,692 | 9,824 | 32.0% | 2,370 | 35.1% | 20,159 |
| Some College, no degree | 7,527 | 27.9% | 1,632 | 26.3% | 14,798 | 8,587 | 28.0% | 1,804 | 26.7% | 17,209 |
| Associate Degree | 2,374 | 8.8% | 508 | 8.2% | 4,830 | 3,187 | 10.4% | 668 | 9.9% | 6,614 |
| Bachelor's Degree | 2,954 | 10.9% | 600 | 9.7% | 7,544 | 4,165 | 13.6% | 823 | 12.2% | 10,761 |
| Grad. or Prof. Degree | 1,504 | 5.6% | 312 | 5.0% | 4,038 | 2,139 | 7.0% | 431 | 6.4% | 5,849 |
| Total | 26,992 | 100.0% | 6,200 | 100.0% | 55,162 | 30,676 | 100.0% | 6,747 | 100.0% | 66,000 |

Source: AGS, 2008; ESI Corp, 2009

| | | 2008 | | | | | | 2013 | | | | | |
|-------------------------------|--|-----------------|------------|----------|------------|----------|------------|-----------------|------------|-----------|------------|----------|------------|
| | | Apache Junction | % of Total | Downtown | % of Total | PMA | % of Total | Apache Junction | % of Total | Downtown | % of Total | PMA | % of Total |
| Households | | 18,619 | 100.0% | 4,534 | 100.0% | 35,943 | 100.0% | 21,500 | 100.0% | 4,989 | 100.0% | 43,421 | 100.0% |
| Average HH Size | | 2.01 | | 1.80 | | 2.10 | | 1.94 | | 1.75 | | 2.04 | |
| Households by Size | | | | | | | | | | | | | |
| 1 Person | | 4,850 | 26.0% | 1,507 | 33.2% | 8,356 | 23.2% | 5,376 | 25.0% | 1,600 | 32.1% | 9,776 | 22.5% |
| 2 Persons | | 9,713 | 52.2% | 2,258 | 49.8% | 18,876 | 52.5% | 11,684 | 54.3% | 2,578 | 51.7% | 23,528 | 54.2% |
| 3 Persons | | 2,596 | 13.9% | 511 | 11.3% | 4,778 | 13.3% | 3,175 | 14.8% | 596 | 11.9% | 5,972 | 13.8% |
| 4 Persons | | 753 | 4.0% | 122 | 2.7% | 2,052 | 5.7% | 654 | 3.0% | 101 | 2.0% | 2,151 | 5.0% |
| 5 Persons | | 419 | 2.3% | 77 | 1.7% | 1,146 | 3.2% | 365 | 1.7% | 66 | 1.3% | 1,210 | 2.8% |
| 6 Persons | | 174 | 0.9% | 33 | 0.7% | 440 | 1.2% | 150 | 0.7% | 26 | 0.5% | 465 | 1.1% |
| 7 Persons + | | 114 | 0.6% | 26 | 0.6% | 296 | 0.8% | 96 | 0.4% | 22 | 0.4% | 320 | 0.7% |
| Median HH Income | | \$40,745 | | \$36,138 | | \$49,723 | | \$ 45,363 | | \$ 40,035 | | \$56,163 | |
| Household Income | | | | | | | | | | | | | |
| Less than \$10,000 | | 1,215 | 6.5% | 363 | 8.0% | 2,001 | 5.6% | 1,177 | 5.5% | 342 | 6.9% | 2,040 | 4.7% |
| \$10,000 to \$14,999 | | 1,007 | 5.4% | 331 | 7.3% | 1,521 | 4.2% | 1,005 | 4.7% | 320 | 6.4% | 1,569 | 3.6% |
| \$15,000 to \$19,999 | | 1,398 | 7.5% | 408 | 9.0% | 2,056 | 5.7% | 1,416 | 6.6% | 421 | 8.4% | 2,146 | 4.9% |
| \$20,000 to \$24,999 | | 1,562 | 8.4% | 400 | 8.8% | 2,298 | 6.4% | 1,380 | 6.4% | 347 | 7.0% | 2,050 | 4.7% |
| \$25,000 to \$29,999 | | 1,301 | 7.0% | 357 | 7.9% | 2,175 | 6.1% | 1,494 | 6.9% | 382 | 7.7% | 2,388 | 5.5% |
| \$30,000 to \$34,999 | | 1,410 | 7.6% | 314 | 6.9% | 2,304 | 6.4% | 1,443 | 6.7% | 362 | 7.3% | 2,485 | 5.7% |
| \$35,000 to \$39,999 | | 1,222 | 6.6% | 348 | 7.7% | 2,077 | 5.8% | 1,459 | 6.8% | 282 | 5.7% | 2,432 | 5.6% |
| \$40,000 to \$44,999 | | 1,302 | 7.0% | 366 | 8.1% | 2,310 | 6.4% | 1,279 | 5.9% | 384 | 7.7% | 2,303 | 5.3% |
| \$45,000 to \$49,999 | | 1,284 | 6.9% | 300 | 6.6% | 2,299 | 6.4% | 1,329 | 6.2% | 346 | 6.9% | 2,431 | 5.6% |
| \$50,000 to \$59,999 | | 1,896 | 10.2% | 465 | 10.3% | 3,665 | 10.2% | 2,731 | 12.7% | 563 | 11.3% | 5,116 | 11.8% |
| \$60,000 to \$74,999 | | 2,355 | 12.6% | 458 | 10.1% | 4,676 | 13.0% | 2,568 | 11.9% | 583 | 11.7% | 5,213 | 12.0% |
| \$75,000 to \$99,999 | | 1,499 | 8.1% | 201 | 4.4% | 4,086 | 11.4% | 2,306 | 10.7% | 324 | 6.5% | 5,882 | 13.5% |
| \$100,000 to \$124,999 | | 614 | 3.3% | 93 | 2.1% | 2,057 | 5.7% | 968 | 4.5% | 142 | 2.8% | 3,045 | 7.0% |
| \$125,000 to \$149,999 | | 243 | 1.3% | 70 | 1.5% | 939 | 2.6% | 436 | 2.0% | 80 | 1.6% | 1,731 | 4.0% |
| \$150,000 to \$199,999 | | 191 | 1.0% | 43 | 0.9% | 822 | 2.3% | 296 | 1.4% | 76 | 1.5% | 1,364 | 3.1% |
| \$200,000 and over | | 120 | 0.6% | 17 | 0.4% | 659 | 1.8% | 213 | 1.0% | 35 | 0.7% | 1,227 | 2.8% |
| Housing Unit Occupancy | | | | | | | | | | | | | |
| Owner-occupied | | 15,187 | 54.6% | 3,483 | 44.3% | 30,540 | 59.1% | 17,607 | 55.8% | 3,813 | 45.3% | 37,034 | 60.7% |
| Renter-occupied | | 3,432 | 12.3% | 1,051 | 13.4% | 5,402 | 10.4% | 3,893 | 12.3% | 1,176 | 14.0% | 6,387 | 10.5% |
| Vacant | | 9,213 | 33.1% | 3,321 | 42.3% | 15,763 | 30.5% | 10,038 | 31.8% | 3,425 | 40.7% | 17,563 | 28.8% |
| Total | | 27,832 | 100.0% | 7,855 | 100.0% | 51,706 | 100.0% | 31,538 | 100.0% | 8,414 | 100.0% | 60,984 | 100.0% |

Source: AGS, 2008; ESI Corp, 2009

GOLD CANYON RESIDENTS

An important consumer segment within the PMA is the residents living in Gold Canyon. These residents comprise 15 percent of the total population within the PMA and have a household income of \$70,711 compared to residents in Apache Junction at \$40,475. This high median household income indicates a significant amount of discretionary income on behalf of Gold Canyon residents.

Harnessing the spending power of Gold Canyon residents should be a priority for the City of Apache Junction. With Gold Canyon's limited retail offerings, residents are likely driving outside of Gold Canyon to shop and eat. Given the quick access to shopping destinations along Highway 60, it is critical that Apache Junction find a way to intercept Gold Canyon residents and attract them into the Downtown area. There are a number of routes which Gold Canyon residents can access the Downtown, but a critical juncture is the exit from the 60 to Goldfield Rd and the Old Highway. It is at these access points that Apache Junction should consider roadway improvements and directional signage to the downtown.

LIFESTYLE DATA

Lifestyle segmentation data is an important data source commonly used in retail site selection and in determining appropriate retail and housing product type mix. In this analysis, Claritas Prizm lifestyle segmentation database was used. Claritas Prizm is a geo-demographic segmentation system that classifies census tracts, block groups, zip codes and households into sixty-six segments on the basis of a wide range of demographic characteristics. The basic premise of geo-demographic segmentation is that people tend to gravitate towards communities with other people of similar backgrounds, interests and means. This data identifies how people's lifestyles influence what they purchase and how they spend their leisure time. Households are grouped into clusters based on demographic similarities such as age, income, education, ethnicity, occupation, housing type and the presence of children.

For Apache Junction, the area of study was predetermined by Retail Coach and the resulting L profiles were provided to ESI by the City. The study area extends south from Lost Dutchman Blvd to Ocotillo Rd and east from Queen Valley and Florence Junction West to Ellsworth Rd. Within this study area there are six predominate market segments which include:

1. Big fish Small Pond
2. God's country
3. Domestic Duos
4. Sunset City Blues
5. American Classics
6. Hometown Retired

Of the six predominant segments, the American Classics group is the most prevalent. This group is 65 years or older, make less than \$35,000/yr, have a high school level education, own their own homes and like to eat at Sizzler. Similarly, four out of the six segments are dominated by seniors, but the God's Country segment (and several other smaller segments which aren't discussed here), represent a younger contingent of 35-64 years old. The majority of the lifestyle segments tend to be households without children. Two of the segments make more than \$80,000/yr while most make less than \$50,000/yr. The affluent segments likely represent a strong contingent from the Gold Canyon area.

The following is the description of each lifestyle segment and highlights age, income, education level and lifestyle characteristics.

Big Fish, Small Pond

Older, upper-class and college-educated professionals, the members of Big Fish, Small Pond are often among the leading citizens of their small-town communities. These upscale, empty-nesting couples enjoy the trappings of success, including belonging to country clubs, maintaining large investment portfolios and spending freely on computer technology.

- Median Income: \$83,872
- Age Ranges: 45-64
- Presence of Kids: HH w/out kids
- Home Ownership: Mostly Owners
- Education Level: Grad Plus
- Belong to a country club
- Own a motor home
- Own a motor home
- Enjoy 1960's nostalgia music
- Drive a Lexus LS430

God's Country

When city dwellers and suburbanites began moving to the country in the 1970s, God's Country emerged as the most affluent of the nation's exurban lifestyles. Today, wealthier communities exist in the hinterlands, but God's Country remains a haven for upscale couples in spacious homes. Typically college educated Baby Boomers, these Americans try to maintain a balanced lifestyle between high power jobs and laid back leisure.

- Median Income: \$84,851
- Age Ranges: 35-54
- Presence of Kids: HH w/out kids
- Home Ownership: Mostly Owners
- Education Level: College Grad
- Travel for business
- Take golf vacations
- Read Skiing magazine
- Watch Outdoor Life Network
- Drive a Toyota Land Cruiser SUV

Domestic Duos

Domestic Duos represents a middle-class mix of mainly over-65 singles and married couples living in older suburban homes. With their high-school educations and fixed incomes, segment residents maintain an easy-going lifestyle. Residents like to socialize by going bowling, seeing a play, meeting at the local fraternal order or going out to eat.

- Median Income: \$48,271
- Age Ranges: 65+
- Presence of Kids: HH w/out kids
- Home Ownership: Mostly Owners
- Education Level: High School Grad
- Order from Reader's Digest
- Belong to a veterans' Club
- Watch ABC World News
- Watch the Hallmark Channel
- Drive a Chevy Cobalt

Sunset City Blues

Scattered throughout the older neighborhoods of small cities, Sunset City Blues is a segment of lower-middle-class singles and couples who have retired or are getting close to retirement. These empty-nesters tend to own their homes but have modest educations and incomes. They maintain a low-key lifestyle filled with newspapers and television by day and family-style restaurants at night.

- Median Income: \$38,280
- Age Ranges: 55+
- Presence of Kids: HH w/out kids
- Home Ownership: 90%+ Own
- Education Level: High School Grad
- Belong to a veterans' club
- Eat at casual/buffet restaurants
- Watch CBS Sunday Night Movie
- Enjoy domestic travel by motor home
- Drive a Mercury Grand Marquis

American Classics

They may be older and retired, but the residents of American Classics are still living the American Dream of home ownership. Few segments rank higher in their percentage of home owners, and that fact alone reflects a more comfortable lifestyle for these predominantly white singles and couples with deep ties to their neighborhoods.

- Median Income: \$34,304
- Age Ranges: 65+
- Presence of Kids: HH w/out kids
- Home Ownership: Mostly Owners
- Education Level: High School Grad
- Eat at Sizzler
- Belong to a veterans' club
- Watch Antique Roadshow
- Frequently use coupons
- Drive a Buick LaCrosse

Hometown Retired

With three-quarters of all residents over 65 years old, Hometown Retired is one of the oldest segments. These racially diverse seniors tend to live in aging homes--half were built before 1958--and typically get by on social security and pensions. Because most never made it beyond high school and spent their working lives at blue-collar jobs, their retirements are extremely modest.

- Median Income: \$26,682
- Age Ranges: 65+
- Presence of Kids: HH w/out kids
- Home Ownership: Mostly Owners
- Education Level: Some High School
- Eat at Golden Corral
- Watch soap operas
- Watch CBS Sunday Night Movies
- Eat at Church's Chicken
- Drive a Chrysler Sebring

3. EMPLOYEE MARKET SEGMENT

The number of people employed within the City of Apache Junction is an important consumer component that will contribute to market demand for retail goods and services. During 2000, Apache Junction contained approximately 5,880 workers regardless of their place of residence². Of the people who work in Apache Junction on a daily basis, 80 percent of them commute from outside the City’s borders. Of the workers who are commuting into the City, the largest portion are traveling from Mesa (15.2%) while others commute from Phoenix (5.5%), Gold Camp Census Designated Place (CDP) (Gold Canyon) (4.7%), and as far away as Casa Grande (4.5%), Coolidge (4.3%), and Eloy (2.5%)³. Additionally, 46.6 percent of the area’s workers are between the ages of 25-44, with 33.3 percent between the ages of 45-64, and less than seven percent over the age of 64.

Apache Junction’s work force is comprised of 73 percent civilian employed persons and 27 percent employed by local, state, and federal governments. Apache Junction’s workforce is employed in four primary industries:

- Educational, Health and Social Services (19.6%)
- Entertainment, Accommodation and Food Services (14.5%)
- Retail Trade (14.3%)
- Construction (11.1%)

Table 6 – Daytime Workers by Industry

| | Apache Junction | | PMA | |
|---|-----------------|-------------|--------------|-------------|
| | Number | Percent | Number | Percent |
| Agriculture, forestry, mining | 70 | 1.2% | 115 | 1.3% |
| Construction | 655 | 11.1% | 1210 | 12.1% |
| Manufacturing | 365 | 6.2% | 675 | 6.8% |
| Wholesale trade | 84 | 1.4% | 129 | 1.3% |
| Retail trade | 840 | 14.3% | 1675 | 16.5% |
| Transportation, warehousing, utilities | 210 | 3.6% | 290 | 2.9% |
| Information | 140 | 2.4% | 235 | 2.4% |
| Finance, insurance, real estate | 370 | 6.3% | 605 | 6.1% |
| Professional, management, administrative services | 320 | 5.4% | 680 | 6.8% |
| Educational, health and social services | 1155 | 19.6% | 1745 | 17.8% |
| Entertainment, accommodations, food services | 850 | 14.5% | 1550 | 15.5% |
| Other services (except public) | 360 | 6.1% | 503 | 5.0% |
| Public administration | 435 | 7.4% | 544 | 5.4% |
| Armed forces | 4 | 0.1% | 4 | 0.0% |
| Total | 5,880 | 100% | 9,985 | 100% |

Source: U.S. Census Bureau, Census Transportation Package 2000; ESI Corp 2009.

² Census Transportation Planning Package (CTPP 2000).²

³ U.S. Census Bureau, LED Origin-Destination Data Base, 2006

Likewise, 73 percent of workers in the PMA are civilian employed, and 27 percent are employed by the local, state, and federal government. Workers in the PMA are primarily employed in the four following industries:

- Educational, Health and Social Services (17.8%)
- Retail Trade (16.5%)
- Entertainment, Accommodation and Food Services (15.5%)
- Construction (12.1%)

Table 7 – Daytime Workers by Occupational Sector

| | Apache Junction | | PMA | |
|--|-----------------|-------------|--------------|-------------|
| | Number | Percent | Number | Percent |
| Management | 470 | 8.0% | 870 | 8.7% |
| Farmers, farm managers | 8 | 0.1% | 12 | 0.1% |
| Business, financial operations | 174 | 3.0% | 303 | 3.0% |
| Computer, mathematical | 19 | 0.3% | 38 | 0.4% |
| Architecture, engineering | 89 | 1.5% | 179 | 1.8% |
| Life, physical, social science | 14 | 0.2% | 28 | 0.3% |
| Community, social service | 79 | 1.3% | 114 | 1.1% |
| Legal | 4 | 0.1% | 14 | 0.1% |
| Education, training, library | 310 | 5.3% | 529 | 5.3% |
| Arts, design, entertainment, sports, media | 130 | 2.2% | 230 | 2.3% |
| Healthcare practitioners, technicians | 315 | 5.4% | 389 | 3.9% |
| Healthcare support | 210 | 3.6% | 260 | 2.6% |
| Protective service | 94 | 1.6% | 179 | 1.8% |
| Food preparation, serving related | 510 | 8.7% | 845 | 8.5% |
| Building, grounds cleaning, maintenance | 235 | 4.0% | 435 | 4.4% |
| Personal care, service | 230 | 3.9% | 370 | 3.7% |
| Sales, related | 685 | 11.8% | 1340 | 13.4% |
| Office, administrative support | 865 | 14.7% | 1435 | 14.4% |
| Farming, fishing, forestry | 25 | 0.4% | 50 | 0.5% |
| Construction, excavation | 490 | 8.3% | 860 | 8.6% |
| Installation, maintenance, repairs | 375 | 6.4% | 554 | 5.5% |
| Production | 250 | 4.3% | 439 | 4.4% |
| Transportation, material moving | 280 | 4.8% | 480 | 4.8% |
| Armed forces | 0 | 0.0% | 0 | 0.0% |
| Total | 5,880 | 100% | 9,985 | 100% |

Source: US Census Bureau, Census Transportation Package 2000; ESI Corp 2009.

The largest occupational sectors that Apache Junction workers are employed in are Office and Administrative Support (14.7%), sales (11.8%), food preparation and service (8.7%), and

construction/excavation (8.3%). As for the PMA, the largest occupational sectors are office and administrative support (14.4%), sales (13.4%), management (8.7%) and construction/excavation (8.6%).

Comparing the City and PMA study areas there are more people working in retail and sales related fields in the PMA and a management contingent that is higher in the PMA than Apache Junction.

In the City of Apache Junction the daytime workforce earned considerably less than the resident population; those earning less than \$29,999 per year totaled 63 percent for area workers and 34.8 percent for area residents. Additionally, only 11 percent of the daytime workforce makes more than \$50,000 per year versus 37.2 percent of residents. These numbers are clearly indicative of the fact that the City of Apache Junction has very few high paying jobs to offer the area workforce, which in turn affects disposable income and spending power.

Race and ethnicity of the worker population also shows contrast to the resident population. Roughly 79.2 percent of the workforce is White and 16.0 percent is Hispanic, while Apache Junction residents were more predominantly White at 88.9 percent and 8.2 percent Hispanic.

SPENDING POTENTIAL OF IN-COMMUTING WORKFORCE

When considering expanding or locating a new retail establishment, proprietors not only consider the spending potential of the resident population within the trade area, but also the employees that commute into the area on a regular basis for work. An analysis conducted by the International Council of Shopping Centers (ICSC) shows that office workers patronize local establishments and not only spend money on dining out; they also spend money on convenience goods. The lunch and convenience item spending of these workers can be a substantial part of local retailers' revenue. Table 7 assumes a daily expenditure of \$6.00 per worker for an estimated 260 work days per year, or \$1,560 annually on lunch and convenience items. Additional spending may be occurring in the PMA and Apache Junction by workers who choose to shop locally, to avoid rush hour traffic, for regularly needed items. Table 7 shows that utilizing these assumptions, the workforce spending potential in Apache Junction and the PMA is significant.

Table 8 – Workforce Spending Potential

| | Apache Junction |
|----------------------------------|------------------------|
| Workers | 5,880 |
| Daily Expenditure per worker | \$6 |
| Total Daily Expenditures | \$35,280 |
| Total Annual Expenditures | \$9,172,800 |

Source: U.S. Census Bureau, LED Origin-Destination Data Base, 2006; ICSC, 2008; ESI Corp 2009.

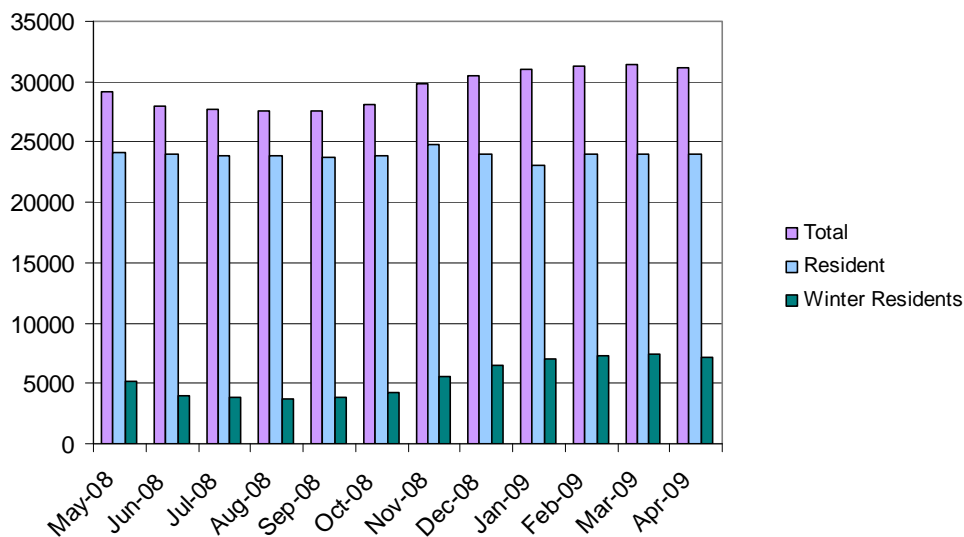
4. VISITOR MARKET SEGMENT

Tourism has long been a major economic driver of Arizona’s economy. In particular, winter residents have had a profound impact on the State’s communities and are believed to contribute over \$1 billion to the local economy each year.⁴ Although many often conflate winter residents with the overall tourist population, a distinction must be made between tourists and winter residents. Tourists essentially visit the state for a short period of time. Winter residents on the other hand, are not year round residents, but live in Arizona for at least one month during the winter season, and are a part of the flow of retirement migration to Arizona.⁵

WINTER RESIDENTS

To gain an understanding of the winter resident population in Apache Junction, the most recent data from the electric utility provider, Salt River Project (SRP), was obtained. SRP tracks active residential accounts in the City of Apache Junction and can distinguish winter residents from year round residents. Data in the following chart shows the fluctuations between the winter and summer months. As the graph suggests, the winter months of January through March are the peak months for winter residents. The data suggests that there are 29,442 active residential accounts, of which, 5,466 are classified as winter residents. This means that 18.4 percent of year round active accounts in Apache Junction are winter residents. There is also a percentage of accounts that go dormant in the summer, these accounts are not represented in the chart below and could indicate an even higher number of winter residents. This influx of people is not represented in the year round population figure provided by the U.S. Census; however they certainly contribute to the tax base of the community.

Chart 4 – Apache Junction Active Residential SRP Accounts – Fiscal Year 2009



Source: SRP, September 2009

⁴ Happel, Dr Stephen and Hogan, Dr Timothy. “Snowbird households add \$1 billion to the economy.” *Arizona Business Newsletter*, (Volume 51, Number 5, May 2004). Page 5.

⁵ Happel, Dr Stephen and Hogan, Dr Timothy. “State ‘snowbird’ count estimated at 300,000 or more.” *Arizona Business Newsletter*, (Volume 50, Number 6, June 2004). Page 1.

In 2002, ASU's Center for Business Research initiated an Arizona winter visitor survey to estimate the impact that winter residents have on the state's economy. While this study is fairly dated, there is no current ASU study to glean information from. The study was conducted by surveying mobile home, RV, and trailer parks throughout the state of Arizona. Of the Phoenix area parks that were surveyed, the Center for Business Research estimates that there were approximately 41,900 winter resident households in the area during the winter months during the years 2002 to 2003. Previous research conducted by ASU has indicated that most winter resident households contain at least two people, which means that there could be approximately 83,000 winter residents living part-time in metropolitan Phoenix. What the 2002-03 study did not explore however, was the number of winter residents choosing other types of accommodations such as second homes, staying with friends, or renting accommodations. The study estimated that 50 percent of Arizona's winter residents are living in RV/trailer parks, while the other 50 percent are choosing more permanent dwellings. If the ratio of winter residents living in mobile accommodations versus more permanent dwelling types is correct, the total number of winter residents in the Phoenix metro could be estimated at 166,000 people. As noted earlier, this is a fairly dated study and recent anecdotal information suggests that winter residents are not traveling in RV's.

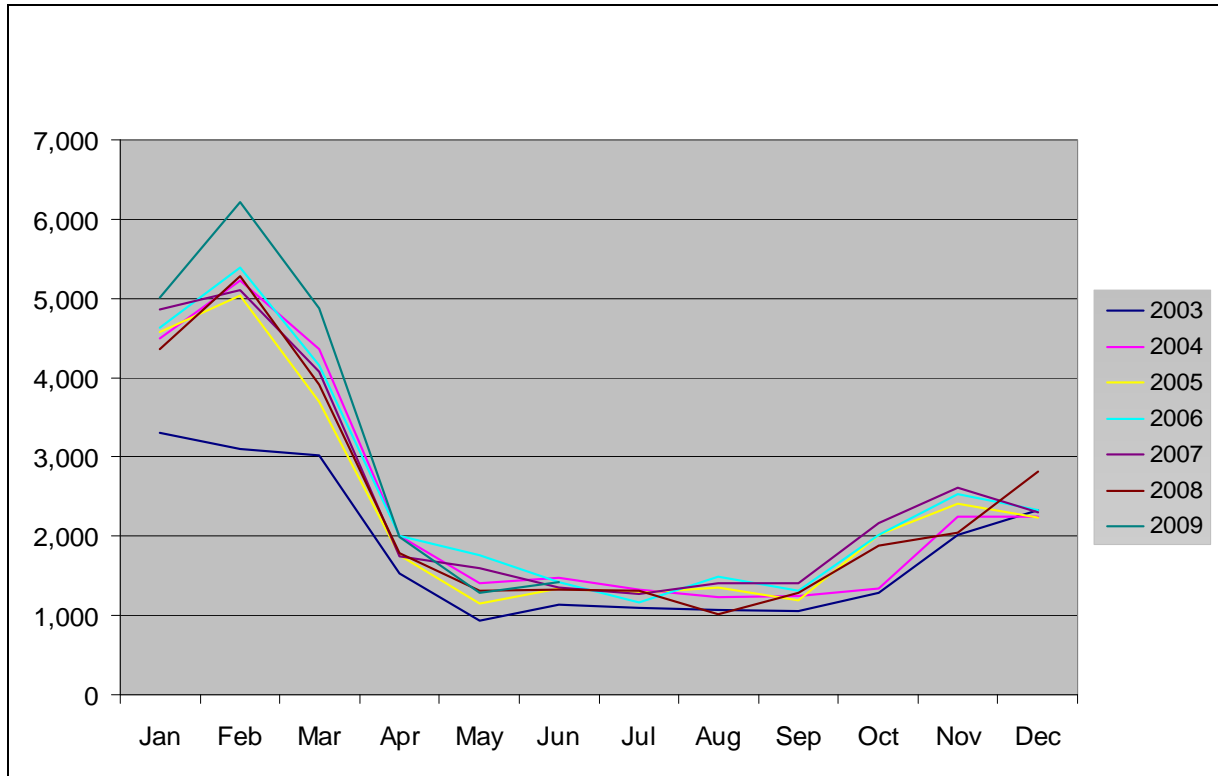
Retail Coach conducted a similar survey that focused exclusively on the City of Apache Junction in which 20 RV parks were surveyed and 11 reported their winter resident numbers. The total number of reported seasonal visitors was a headcount of 8,221. Given that only half of the parks were surveyed; this only represents a small portion of the total potential winter residents in Apache Junction. It should be noted that this survey does not reflect the numbers of winter residents living in accommodations other than RV parks. According to estimates by the Arizona Winter Visitor Association, 40 percent of Apache Junction's winter residents are living in RV parks while the remaining 60 percent are living in houses during the winter months. Applying the Arizona Winter Visitor's ratio to the Retail Coach's partial winter resident numbers might suggest that the winter visitor population is closer to 20,500 people. As a word of caution, estimating the influx of winter residents relies heavily upon questionable methodology and inconsistent data.

TOURISTS/VISITORS

The only other source of available data that is specific to Apache Junction is the City's Visitor Center head counts. These numbers show a clear spike in visitation beginning in November and tapering off in April. The peak month for visitor center counts is February, which totaled 6,216 visitors in 2009. In 2008, there were a total of 28,353 visitors that requested information from the Apache Junction Visitor Center. These numbers do not, however, distinguish between tourists and winter residents. Nor do these numbers indicate the average length of stay in Apache Junction, or the average daily amount spent. The Visitor Center numbers show that of the people, who visit the Center, seven percent are local, nine percent are Arizona residents, 69 percent are from out of state, and 15 percent are foreign.⁶ Of these four visitor categories, the out of state visitors are most likely to contain a percentage of winter residents, however determining that number is impossible without more detailed data.

⁶ Based on six months of Apache Junction Visitor Center headcounts.

Chart 5 – Apache Junction Visitor Center Headcount



Source: Apache Junction Visitor Center, 2003-2009.

5. CONSUMER EXPENDITURES AND TRADE LEAKAGE

CONSUMER EXPENDITURES

Analyzing consumer expenditures is useful in quantifying the potential for expanding the retail mix in an area, and in determining what kind of trade leakage is taking place in the market. Additionally, the strength of a retail market is gauged by existing and projected spending by area consumers. The consumer expenditure numbers for the Apache Trail Submarket were produced by Retail Coach in 2008 using a system which models sales volume data from a national sampling of business sales reports and is calculated at the four digit Standard Industrial Classification (SIC) code level. Therefore, all sales volumes in the Apache Trail trade area are estimated based on national numbers and not based on actual recorded sales tax collections within the City. This information was provided by Retail Coach and the City of Apache Junction and will be analyzed in order to gauge the consumption of resident households, their potential demand for goods and services and finally the trade leakage that is occurring in the marketplace.

The trade area being analyzed was predefined by Retail Coach and extends south from Lost Dutchman Blvd to Ocotillo Rd and east from Queen Valley and Florence Junction west to Ellsworth Rd. The area population in 2008 was 82,393 and contained 36,141 households. Population projections for 2013 are expected to rise to 99,887 and 43,685 households within the Apache Trail submarket trade area.

Based on estimates by Retail Coach, in 2008 the total retail spending by residents in the Apache Trail trade area was estimated at \$356 million. This averages out to \$9,853 of estimated actual spending per household. The term “retail spending” includes an assortment of categories ranging from motorcycle dealers to women’s clothing and furniture stores to bakeries. Of the retail subcategories, the largest expenditures were in grocery stores which equated to approximately \$70.8 million. Other significant categories of spending were new and used car dealers with \$50.5 million; general merchandise stores \$49.8 million and eating places at \$36.8 million. Some notable but not so robust categories include home furniture and furnishings, producing an estimated \$11.5 million in sales, lumber and building materials with \$11.2, motor cycle dealers with \$17.8 and gas stations with \$17 million,0 in estimated actual spending. Taking into account the population and household projections made by Retail Coach, and assuming average spending per household remains consistent, the total estimated actual retail spending in the trade area could increase to \$430.4 million by 2013.

TRADE LEAKAGE

Trade leakage identifies spending that might be taking place outside of a trade area that could potentially be captured by the local market. Retail Coach calculates this by measuring the difference between the estimated actual sales for an area and the potential sales. The potential sales are indicative of what could be spent in the area on goods and services if no leakage was taking place. According to Retail Coach’s calculations there is a total retail spending potential of \$1.1 billion within the Apache Trail trade area, as noted in Table 8. This equates to roughly \$32,173 of potential retail spending per household annually. However, a review of the current mix of retail businesses within Apache Junction suggests that the area does not offer a diversified supply of retail goods and services which the resident population demands, and thus cannot capture a greater share of the potential retail consumer spending. This is resulting in a total estimated leakage of \$806.6 million. The outflow of spending from the City is likely happening through resident shopping in other valley communities, as well as mail-order catalogs and online retailers. There is an abundance of retail developments along Highway 60 including the new

Superstition Gateway Center and Superstition Springs Mall in Mesa which likely competes directly with retail offerings within the trade area.

Table 9 – Trade Leakage, City of Apache Junction

| | |
|------------------------------------|----------------------|
| Total Potential Sales | \$1,162,770,000 |
| Total Estimated Actual Sales | \$356,100,000 |
| Trade Leakage Per Household | \$22,320 |
| Trade Leakage Estimates | \$806,669,800 |

Source: The Retail Coach, Apache Trail Submarket Retail Gap Analysis, 2008.

A retail trade area is characterized by the farthest distance a consumer is willing to travel in order to procure goods and services. In most cases, consumers are willing to travel further to purchase big ticket items, such as automobiles, furniture and recreational vehicles, than they are to purchase clothing, drugs, groceries and gasoline items.⁷ Apache Junction’s proximity to competing retail in Mesa and along the US 60 influences the volume of trade leakage and which categories are seeing the greatest leakage.

The categories showing the greatest amount of leakage for the Apache Trail trade area include New and Used Car Dealers with \$175.9 million of leakage and Eating Places estimated at \$107.2 million of leakage. Understandably, Apache Junction residents are travelling outside the trade area to buy cars and the high dollar amount is impacted by the average price point of a vehicle. Interestingly, Apache Junction is somewhat limited in the availability of full service restaurants, so area residents are potentially driving outside the trade area to take advantage of a broader range of dining options. Other categories exhibiting significant leakage are Grocery Stores with potentially \$86.9 million, Hardware stores with \$18.7 million and General Merchandise stores with \$53.7 million. Each of these spending categories contains goods that are generally purchased within close proximity to resident households and should be captured by the immediate trade area. For every 1% of retail sales leakage that the City captures, the City will gain approximately \$177,647 in additional sales tax per year; therefore if the City of Apache Junction were successful in capturing 25 percent of the total retail sales leakage it would stand to gain \$4,436,684 annually.⁸ The full list of retail categories and leakage is included in Appendix A.

⁷ The Retail Coach. *Strategies for Retail Recruitment, City of Apache Junction*, pg 17. (2008)

⁸ Based on a TPT rate of 2.2%

6. MARKET DEMAND

The purpose of this market study is to assess current real estate market conditions, available supply and determine the residual demand for additional residential, retail and office space in Apache Junction for 2015 and 2020. The resulting demand analysis is intended to be incorporated into an overall redevelopment and implementation strategy for downtown Apache Junction. This chapter details ESI Corporation’s analysis of residential, retail and office demand in Apache Junction.

Given the available data sets and nature of our methodologies, the primary geography examined was the Apache Junction Municipal Planning Area (Apache Junction MPA), which is depicted in Figure 2. We also reviewed the general market conditions in the Phoenix Metro to serve as a barometer for the current market cycle and to illustrate the uniqueness of Apache Junction’s market. The Apache Junction Municipal Planning Area was selected due to the availability of CoStar data and Central Arizona Association of Governments (CAAG) population, employment, and housing projection data. Although it does not follow the boundaries of our Primary Market Area exactly, it closely resembles the PMA and extends from McDowell Rd, South to Ray Rd and from Meridian East to Alameda. The Apache Junction MPA includes all of Apache Junction and some parts of Gold Camp.

DATA SOURCES

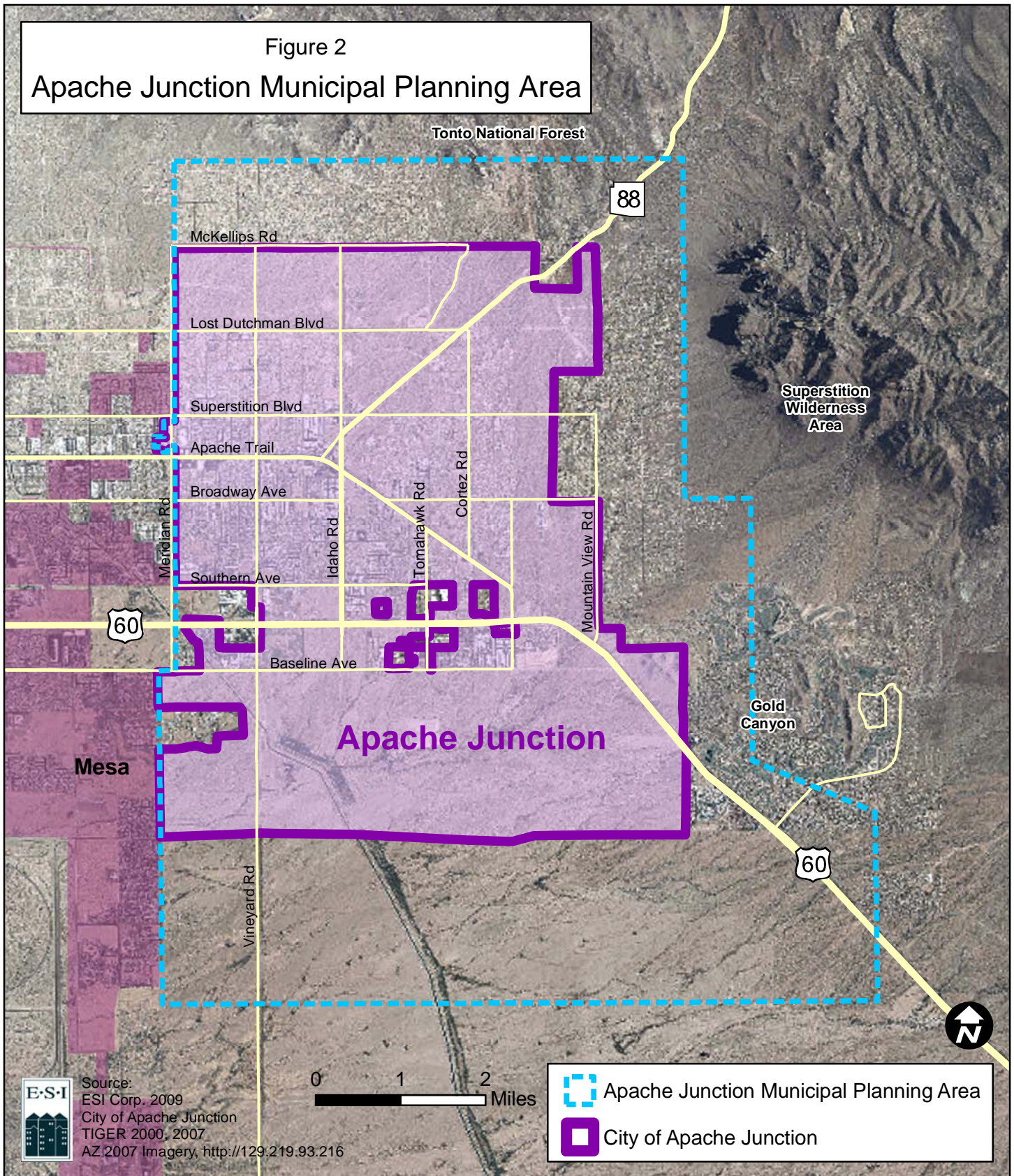
In analyzing residential, retail and office demand, the methodologies and data employed vary by market focus. Below is a summary of the geographies studies and the associated data sources utilized.

Each of the demand methodologies utilized in this study are based on preliminary population projections from the Central Arizona Association of Government’s (CAAG). Apache Junction projections are based on the geography of the city’s metropolitan planning area (MPA) which is denoted in Figure 2, and is not directly comparable to the trade area in the demographic write-up. The supply analysis was sourced from the CoStar Group, which is a national data provider of retail, office and industrial space.

| Market Sector | Geography Studied | Data Sources |
|---------------|---------------------|--|
| Retail | Apache Junction MPA | CAAG Population and Household Preliminary Projections, US Census Bureau, Consumer Expenditure Data, ICSC, Retail Coach, and CoStar |
| Office | Apache Junction MPA | CAAG Employment Preliminary Projections, ICSC, and CoStar |
| Residential | Apache Junction MPA | U.S. Census, CAAG Population Preliminary Projections |

RETAIL MARKET OVERVIEW

The Phoenix Metro retail market ended the second quarter of 2009 with a total of 198 million square feet of base inventory, of which, 22 million square feet sits vacant and vacancy rates hover at 11.1 percent. Retail inventory in Phoenix Metro has increased substantially in the past 3 years, as have vacancy rates. Absorption in the second quarter continued to be negative (1,054,682) square feet, as it has been for the previous three quarters. Although there is a significant excess of supply, an additional 545,300 square feet of new retail space was delivered in the last quarter and 808,688 additional square feet are currently under construction. Generally speaking, as retail inventory has increased, absorption has slowed and vacancy rates have consistently been on the rise.



Similarly, the Apache Junction MPA ended the second quarter of 2009 with a total of 1,507,686 square feet of retail inventory, 141,896 square feet is sitting vacant and a vacancy rate of 8.6 percent. Retail inventory in the Apache Junction MPA has increased since the first quarter of 2006, but at a more tempered pace than Phoenix Metro. In 2006 the Apache Junction MPA added 33,684 square feet of retail to the existing base, 51,106 square feet in 2007 and 30,050 square feet in 2008, thus increasing the overall supply by 7.6 percent. According to CoStar and the City of Apache Junction, there is not currently any retail space under construction in the Apache Junction MPA. In 2006 the market experienced negative absorption of (27,036) square feet, negative (13,653) square feet in 2007 and positive absorption of 56,241 in 2008. Consequently, absorption in the Apache Junction has been positive the last four quarters.

Vacancy rates between in the Apache Junction MPA, between 2001 and the present have tended to be lower than Phoenix Metro except in years when a large addition to Apache Junction’s retail base was made. For example, in 2007 there was a spike in retail deliveries which drove the vacancy rates up as high as 13.5 percent during third quarter of 2007. Rates have since trended downward, but it was during this same time that Metro Phoenix experienced some of its lowest vacancy rates. What this illustrates is that the Apache Junction MPA market is on such a small scale that it is extremely sensitive to new additions to the retail supply. Overall, the Apache Junction MPA has seen a 7.6 percent increase to the existing retail inventory, absorption has been moderate and vacancies have trended down, but remain high, likely reflecting current economic conditions.

Table 10 – Total Apache Junction Retail MPA Market Statistics (2005-2009)

| Period | Total GLA | Total SF | Vacancy | Net Absorption | Under Construction |
|---------|-----------|----------|---------|----------------|--------------------|
| 2009 2Q | 1,507,686 | 129,876 | 8.6% | 2,695 | - |
| 2009 1Q | 1,507,686 | 132,571 | 8.8% | 11,797 | - |
| 2008 4Q | 1,507,686 | 144,368 | 9.6% | 3,409 | - |
| 2008 3Q | 1,507,686 | 147,777 | 9.8% | 73,318 | - |
| 2008 2Q | 1,510,822 | 224,231 | 14.8% | (5,795) | - |
| 2008 1Q | 1,473,822 | 181,436 | 12.3% | (14,691) | 37,000 |
| 2007 4Q | 1,473,822 | 166,745 | 11.3% | 70,890 | 37,000 |
| 2007 3Q | 1,429,822 | 193,635 | 13.5% | (31,259) | 81,000 |
| 2007 2Q | 1,422,716 | 155,270 | 10.9% | (73,554) | 88,106 |
| 2007 1Q | 1,422,716 | 81,716 | 5.7% | 20,270 | 7,106 |
| 2006 4Q | 1,407,246 | 86,516 | 6.1% | 1,600 | 15,470 |
| 2006 3Q | 1,407,246 | 88,116 | 6.3% | 27,380 | 15,470 |
| 2006 2Q | 1,394,666 | 102,916 | 7.4% | (60,016) | 28,050 |
| 2006 1Q | 1,392,666 | 40,900 | 2.9% | 4,000 | 30,050 |
| 2005 4Q | 1,380,366 | 32,600 | 2.4% | 5,700 | 22,035 |
| 2005 3Q | 1,376,866 | 34,800 | 2.5% | 1,300 | 15,800 |
| 2005 2Q | 1,376,866 | 36,100 | 2.6% | 6,100 | 3,500 |
| 2005 1Q | 1,362,466 | 27,800 | 2.0% | (2,400) | 14,400 |

Source: CoStar Second Quarter 2009

RETAIL DEMAND ANALYSIS

Calculations for retail demand in the Apache Junction MPA are based on conservative and moderate CAAG forecasts. Conservative CAAG projections predict population in the MPA to grow from 61,739 in 2010 to 78,358 in 2020. Total household income is expected to grow from a \$1.1 billion in 2010 to \$1.7 billion in 2020.⁹ Consumer expenditure analysis suggests that households in the Apache Junction MPA spend 63 percent of household income on retail expenditures, which is slightly higher than the Phoenix Metro.¹⁰ Also, according to Retail Coach's retail leakage analysis, only 31 percent of area retail expenditures are being retained in the trade area. However, given the fact that the results of this market study are intended for future land use planning, ESI has chosen to assume a capture rate for Apache Junction of 50 percent, which is more indicative of the trade area's potential capture and potential demand. Given these factors, there is a potential of \$348 million in retail sales by 2010 and \$534 million by 2020. The International Council of Shopping Centers puts out a yearly report called "The Dollars and Cents of Shopping Centers" which details operating data from retail centers across the country and suggests that retail space requires an average of \$300 in sales per square foot. However, considering the lack of regional shopping centers and malls in the area and a generally smaller scale of retail, \$250 sales/sf was used to calculate square foot demand.

⁹ Based on median household income data from U.S. Census Bureau, 2008 AGS Data, median household income adjusted for inflation multiplied times the number of households in the trade area

¹⁰ See Appendix 3 for Consumer Expenditure Analysis of Phoenix Metro and Apache Junction

Table 11 – Apache Junction MPA Retail Residual Demand Analysis

| (Conservative) | | | |
|--|------------------|------------------|------------------|
| | 2010 | 2015 | 2020 |
| CAAG Population Projections (Conservative Projections) | 61,739 | 68,941 | 78,358 |
| Average Household Size | 2.34 | 2.37 | 2.38 |
| Total Number of Households (Conservative Projections) | 26,206 | 28,876 | 32,694 |
| Median Household Income | \$42,193 | \$46,812 | \$51,938 |
| Total Household Income in the MPA | \$1,105,714,986 | \$1,351,752,406 | \$1,698,091,403 |
| Percent of Income Spent on Retail | 63% | 63% | 63% |
| Total Retail Spending Potential | \$696,600,441 | \$851,604,016 | \$1,069,797,584 |
| Potential Retention of Retail Expenditures | 50% | 50% | 50% |
| Retail Sales Potential From Resident Households | \$348,300,221 | \$425,802,008 | \$534,898,792 |
| Sales Required per sq. ft. | \$250 | \$250 | \$250 |
| Supportable sq. ft. of Retail Space from Households in Apache Junction | 1,393,201 | 1,703,208 | 2,139,595 |
| Plus Demand from Secondary Trade Area and/or Non-Residents | 278,640 | 340,642 | 427,919 |
| Total occupied retail demand from primary and secondary trade area | 1,671,841 | 2,043,850 | 2,567,514 |
| Plus frictional vacancy @ 5% | 87,992 | 107,571 | 135,132 |
| Total forecast demand (sq. ft.) in primary trade area | 1,759,833 | 2,151,421 | 2,702,647 |
| Supply of Existing Retail SF | 1,515,886 | 1,515,886 | 1,515,886 |
| Less Under Construction SF | 0 | 0 | 0 |
| Residual Demand of Retail Space (Excess)/Shortage | 243,947 | 635,535 | 1,186,761 |

Source: CAAG Projections October 2, 2009; Bureau of Labor Statistics Consumer Expenditure Survey 2008; ICSC Dollars and Cents of Shopping Centers 2008; CoStar, 2Q09; ESI Corp, 2009.

The total supportable square feet of retail space from area households was increased by 20 percent to include demand from winter residents and tourists. The total expected supportable square footage in the Apache Junction MPA is expected to be 1.7 million square feet in 2010, 2.2 million in 2015 and 2.7 million in 2020. Subtract from that the supply of existing square footage of 1.5 million and what is currently under construction and a total residual demand suggests that the Apache Junction MPA is in need of 243,947 square feet in 2010, 635,535 square feet in 2015 and over 1.2 million in 2020. Moderate CAAG projections indicate a potential need for 257,016 square feet in 2010 and 1.4 million

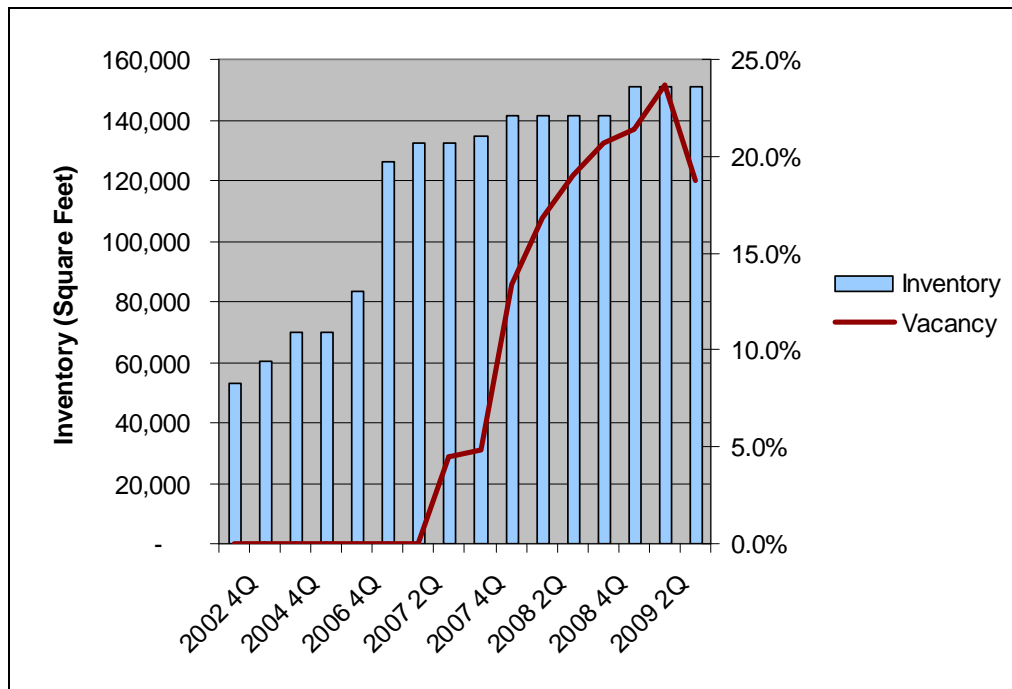
square feet in 2020, which effectively doubles the existing inventory. These numbers assume no other additions are made to the current retail supply and are factored on a vacancy rate that represents a balanced market. The current model suggests a definite shortage of retail space in the area, but does not consider the current economic climate or any projects that may currently be in planning stages within the City of Apache Junction. The most recent development update suggests that Simon's Superstition Plaza is planning 3,750 square feet of restaurant, 51,615 of retail and Apache Town Plaza is proposing two retail buildings (no square footage available). In addition, another potential project in downtown Apache Junction is planning for over 140,000 square feet of retail space. Given the current economy and no reliable way to predict the actual completion of these projects and their subsequent addition to the retail base, they were not factored into the supply.

OFFICE MARKET OVERVIEW

The Phoenix Metro office market ended the second quarter of 2009 with a total of 150 million square feet of base inventory, roughly 31 million square feet sitting vacant and vacancy rates hovering at 20.5 percent. Office inventory in Phoenix Metro has increased substantially in the past 3 years; absorption has been negative for three consecutive quarters, vacancies have been increasing since early 2007 and close to 2.5 million more square feet are currently under construction. Generally speaking, the office market is in a state of hyper supply and is considered one of the worst office markets in the country.

The Apache Junction MPA ended the second quarter of 2009 with a total of 150,948 square feet of office inventory, 28,358 square feet is sitting vacant and a vacancy rate of 18.8 percent. Office inventory in the Apache Junction MPA has increased since the first quarter of 2006, but at a more tempered pace than Phoenix Metro. In 2006 the Apache Junction MPA added 42,941 square feet of office to the existing base, 8,620 square feet in 2007 and 9,800 square feet in 2008. To date, the overall supply has increased by 41 percent. According to CoStar and the City of Apache Junction, there currently is not any office space under construction in the Apache Junction MPA. In 2006 the market experienced positive absorption of 42,828 square feet, negative (4,200) square feet in 2007 and positive absorption of (3,559) in 2008. Consequently absorption rate for the past two quarters is proving to be positive with 3,947 square feet.

Chart 6 – Inventory and Vacancy Office Trends in Apache Junction MPA



Source: Second Quarter 2009

Vacancy rates in the Apache Junction MPA, between 2001 and the present have tended to be much lower than Phoenix Metro except in years when a large addition to Apache Junction’s office base was made. According to CoStar data, office vacancy was zero percent between 2001 and the first quarter of 2007 due to a very low base of inventory. In 2005 a wave of office development started taking place. In 2005 19,000 square feet was added to the base and quickly absorbed by the market maintaining a zero

percent vacancy. As mentioned above, additions to the office base continued 2006-2008 forcing vacancies up to 13.4 in the 4th quarter of 2007 and 21.8 in the 4th quarter of 2008. Again, what this illustrates is the Apache Junction MPA market sensitivity to new additions to the base. Overall, the Apache Junction MPA has seen substantial increases (41 percent) to the existing office inventory, absorption has been moderate and vacancies have trended upward and remain high, likely reflecting current economic conditions and the need for existing supply to absorb into the market.

OFFICE DEMAND ANALYSIS

Office demand in the Apache Junction MPA is based on the conservative and moderate projections by CAAG for office related employment in 2010, 2015, and 2020. On the conservative end, the number of employees in the MPA is expected to grow from 9,149 in 2010 to 13,188 in 2015 and 17,326 in 2020. Similarly, those employed in office sectors in the Apache Junction MPA are expected to comprise 17 percent of the workforce in 2010, 16 percent in 2015 and 16 percent in 2020. Assuming each office employee needs an average of 175 square feet of office space¹¹, there is expected to be a total supportable demand of 280,883 square feet of office in 2010, 397,157 in 2015 and 523,685 square feet in 2020. Subtracting from the gross estimate of demand the current supply of 150,948 square feet of existing office space and what is currently under construction, it is expected that the Apache Junction MPA could have a residual demand of 129,935 square feet in 2010, 246,209 square feet by 2015 and 372,737 by 2020. Moderate employment projections indicate a residual demand for 163,843 square feet in 2010, 350,521 in 2015 and 556,859 in 2020.

| Table 12 – Apache Junction MPA Residual Office Demand Analysis | | | |
|--|----------------|----------------|----------------|
| (Conservative) | | | |
| | 2010 | 2015 | 2020 |
| Total citywide employment | 9,149 | 13,188 | 17,326 |
| Percentage occupying office space | 17% | 16% | 16% |
| Total employed in office space | 1,525 | 2,156 | 2,843 |
| Average sq. ft. per employee | 175 | 175 | 175 |
| Total citywide occupied office demand in sq. ft. | 266,839 | 377,299 | 497,501 |
| Plus frictional vacancy @ 5% | 14,044 | 19,858 | 26,184 |
| Gross estimate of total citywide office demand in sq. ft. | 280,883 | 397,157 | 523,685 |
| Less current competitive sq. ft. | 150,948 | 150,948 | 150,948 |
| Less estimate new construction | - | - | - |
| Apache Junction MPA Residual Demand of Office (Excess) / Shortage | 129,935 | 246,209 | 372,737 |

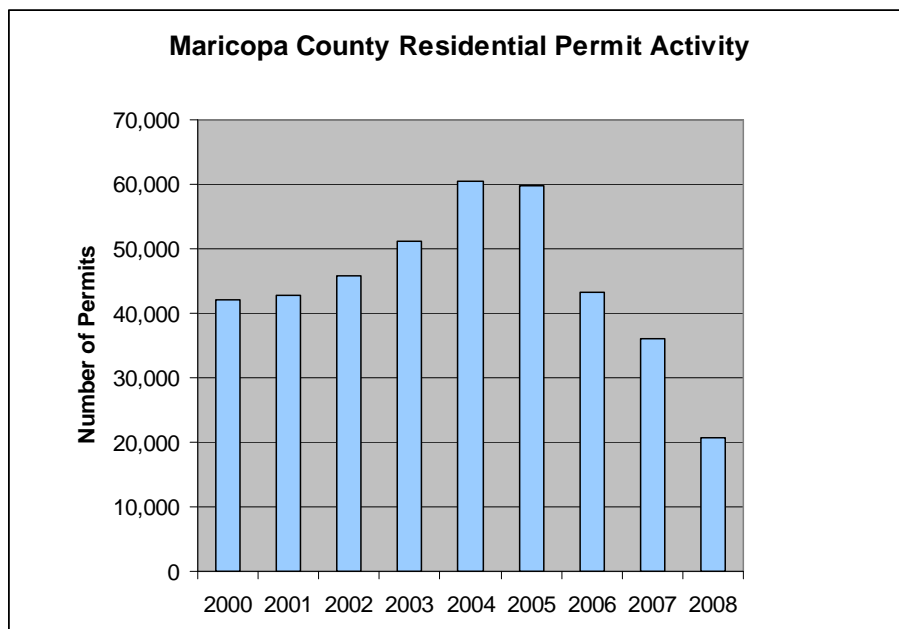
Source: CAAG Projections October 2, 2009; BOMA, 2007; CoStar 2Q09; ESI Corp, 2009.

¹¹ Building Owners and Managers Association (BOMA)

RESIDENTIAL

Over the last several years the greater Phoenix area experienced a housing boom driven by low interest rates, strong job growth, population growth and investor speculation. The housing boom spurred considerable increases in construction of both single and multifamily residential units while, inflating home values to historic levels. Between 2002 and 2005 Maricopa County saw a jump in the number of residential permits issued. During 2004 those permits topped 60,000 which was an increase of over 30 percent compared to the 42,000 issued in 2000. More recently, the housing market has slowed. Home values have plummeted and residential permits are far more tempered. Similarly, Apache Junction, residential permits have decelerated from a high in 2006 of 745 permits to 256 in 2008 and 54 were issued in the first quarter of 2009.

Chart 7 – Maricopa County Residential Permit Activity (2000-2008)



Source: Arizona Construction Report, ASU Realty Studies

Examination of the existing housing stock in the City of Apache Junction casts an interesting light on the housing situation in the area. According to the U.S. Census Bureau 48.2 percent of the housing units are mobile homes and 3.3 percent of the housing units are a boat, van or RV. Only 48.5 percent of the homes in Apache Junction are either stick built or block homes. Comparatively, 97 percent of homes in the City of Phoenix are either stick built or block. Although this data is not specifically referencing the Apache Junction MPA, it is safe to say that the trends likely to be consistent throughout the area with the exception of Gold Canyon, where homes are primarily stick built.

| Table 13 – Housing Units By Type | | | | |
|---|------------------------|--------|----------------|--------|
| Apache Junction vs. City of Phoenix | | | | |
| | Apache Junction | | Phoenix | |
| Total | 24,525 | | 543,568 | |
| Mobile Home | 11,819 | 48.19% | 17,368 | 3.20% |
| Boat/RV/Van | 805 | 3.28% | 223 | 0.04% |
| All Others | 11,901 | 48.53% | 525,977 | 96.76% |

Source: U.S. Census Bureau, American Community Survey 2005-2007

In addition, 27.4 percent of Apache Junction’s housing stock is valued at less than \$50,000 and 14.8 percent is valued at less than \$99,999.¹² Only 3.4 percent of housing in the City of Phoenix is worth less than \$50,000 and 5.7 percent is valued at less than \$99,999. Correspondingly, 25.8 percent of the housing in Apache Junction was built before 1980. What this data could indicate is that the condition of the housing stock in the Apache Junction could be in need of rehabilitation or replacement. It is important to note that if some of the housing is beyond repair those units should be subtracted from the supply of homes in the area.

Although we cannot make an exact qualitative assessment of the housing stock in the area, we do know that there will be approximately 26,186 households in the Apache Junction MPA by 2010. That number is expected to increase to 28,856 by 2015 and 32,646 by 2020. The vacancy rate of those households is currently at 30.8 percent. The high vacancy rate is likely due to a sizeable trend of second home ownership by the winter visitor population. Given the current state of the housing market, this vacancy number could be even higher, but 30.8 percent was the most recent and reliable data.

| Table 14 – CAAG Preliminary Housing Projections | | | |
|--|-------------|-------------|-------------|
| (Conservative) | | | |
| | 2010 | 2015 | 2020 |
| Household Population | 61,274 | 68,389 | 77,697 |
| Average Household Size | 2.37 | 2.36 | 2.35 |
| Projected Households | 26,186 | 28,856 | 32,646 |
| Existing Number of Units | 34,742 | 34,742 | 34,742 |
| Vacancy Rate | 30.8% | 30.8% | 30.8% |

Source: CAAG Projections October 2, 2009; AGS, 2008; and ESI Corp, 2009.

Based on CAAG’s conservative population projections, the Apache Junction MPA is expected to demand 34,261 units in 2010 rising to 42,713 by 2020. However, there are currently 34,742 existing housing units currently available. Subtracting this supply from the overall housing demand, suggests that the Apache Junction MPA will not need any additional units in 2010 given the surplus of 481 units, but in five years, 3,013 units will be required and 7,971 units by 2020. Moderate CAAG population projections suggest that the MPA currently has an excess of 223 units, but will demand 4,297 new units in 2015 and 11,015 in 2020. If we consider the fact that over 50 percent of the existing housing stock is comprised of mobile homes and boats, vans and RV’s the demand could be greater as housing units are replaced and new residents seek alternatives to mobile homes.

¹² U.S. Census Bureau, 2005-2007 American Community Survey

Table 15 – Apache Junction Housing Demand Projection (Conservative)

| | 2010 | 2015 | 2020 |
|---|-------------|--------------|--------------|
| Projected Population (Conservative) | 61,739 | 68,941 | 78,358 |
| Number of Persons in Group Quarters | 464 | 552 | 662 |
| Household Population | 61,274 | 68,389 | 77,697 |
| Average Household Size | 2.34 | 2.37 | 2.38 |
| Projected Households | 26,186 | 28,856 | 32,646 |
| Vacancy Rate (AGS 2008) | 30.8% | 30.8% | 30.8% |
| Vacancy Rate | 1.308 | 1.308 | 1.308 |
| Projected Number of Housing Units Needed | 34,261 | 37,755 | 42,713 |
| Projected Community Housing Available (Supply) | | | |
| Total Housing Units (AGS 2008) | 34,742 | 34,742 | 34,742 |
| Demand for Additional Community Housing Units | | | |
| Projected Number of Housing Units Needed | 34,261 | 37,755 | 42,713 |
| Projected Number of Housing Units Available | 34,742 | 34,742 | 34,742 |
| Projected Number of Additional Units Needed | -481 | 3,013 | 7,971 |

Source: CAAG Draft Projections October 2, 2009; AGS, 2008; ESI Corp, 2009.

APPENDIX A – RETAIL EXPENDITURES AND LEAKAGE

Appendix A - Apache Junction Retail Expenditures and Leakage

| SIC | Retail Sector | Potential Sales | Estimated Actual Sales | Leakage |
|--------------|--|------------------------|------------------------|-----------------------|
| 521 | Lumber and Other Building Materials | \$57,228,110 | \$11,200,000 | -\$46,028,110 |
| 523 | Paint, Glass and Wallpaper | \$14,373,770 | \$3,500,000 | -\$10,873,770 |
| 525 | Hardware Stores | \$26,719,780 | \$8,000,000 | -\$18,719,780 |
| 526 | Retail Nurseries and Garden | \$11,034,530 | \$3,800,000 | -\$7,234,527 |
| 527 | Mobile Home Dealers | \$9,313,117 | \$0 | -\$9,313,117 |
| 53 | General Merchandise Stores | \$103,551,500 | \$49,800,000 | -\$53,751,540 |
| 541 | Grocery Stores | \$157,764,300 | \$70,800,000 | -\$86,964,260 |
| 542 | Meat and Fish Markets | \$1,693,692 | \$0 | -\$1,693,692 |
| 543 | Fruit and Vegetable Markets | \$16,649,530 | \$0 | -\$16,649,530 |
| 544 | Candy, Nut and Confection Stores | \$1,037,222 | \$100,000 | -\$937,222 |
| 545 | Dairy Products Stores | \$80,235 | \$0 | -\$80,235 |
| 546 | Retail Bakeries | \$1,620,751 | \$0 | -\$1,620,751 |
| 549 | Miscellaneous Food Stores | \$14,211,840 | \$6,600,000 | -\$7,611,841 |
| 551 | New and Used Car Dealers | \$226,407,700 | \$50,500,000 | -\$175,907,700 |
| 552 | Used Car Dealers | \$17,167,410 | \$9,400,000 | -\$7,767,413 |
| 553 | Auto and Home Supply Stores | \$44,190,620 | \$16,000,000 | -\$28,190,620 |
| 554 | Gasoline Service Stations | \$22,789,710 | \$17,000,000 | -\$5,789,712 |
| 555 | Boat Dealers | \$3,614,960 | \$300,000 | -\$3,314,960 |
| 556 | Recreational Vehicle Dealers | \$10,866,760 | \$4,400,000 | -\$6,466,763 |
| 557 | Motorcycle Dealers | \$7,022,768 | \$17,800,000 | -\$10,777,230 |
| 559 | Automotive Dealers, NEC | \$14,718,050 | \$4,100,000 | -\$10,618,050 |
| 561 | Men's and Boys' Clothing Stores | \$2,376,421 | \$0 | -\$2,376,421 |
| 562 | Women's Clothing Stores | \$4,450,865 | \$0 | -\$4,450,865 |
| 563 | Women's Accessory and Specialty Stores | \$707,529 | \$0 | -\$707,529 |
| 564 | Children's and Infants' Wear | \$708,987 | \$0 | -\$708,987 |
| 565 | Family Clothing Stores | \$3,857,125 | \$0 | -\$3,857,125 |
| 566 | Shoe Stores | \$5,467,664 | \$700,000 | -\$4,767,664 |
| 569 | Miscellaneous Apparel and Accessory | \$2,701,738 | \$100,000 | -\$2,601,738 |
| 571 | Home Furniture and Furnishing | \$50,218,480 | \$11,500,000 | -\$38,718,480 |
| 572 | Household Appliance Stores | \$5,526,017 | \$1,200,000 | -\$4,326,017 |
| 573 | Radio, TV, and Computer Stores | \$56,691,270 | \$9,700,000 | -\$46,991,270 |
| 5812 | Eating Places | \$144,055,700 | \$36,800,000 | -\$107,255,700 |
| 5813 | Drinking Places | \$4,675,524 | \$1,200,000 | -\$3,475,523 |
| 591 | Drug Stores and Proprietary | \$22,964,770 | \$7,700,000 | -\$15,264,770 |
| 592 | Liquor Stores | \$1,098,493 | \$700,000 | -\$398,493 |
| 593 | Used Merchandise Stores | \$6,462,580 | \$600,000 | -\$5,862,580 |
| 5941 | Sporting Goods, Bicycle and Gun Stores | \$5,772,557 | \$700,000 | -\$5,072,557 |
| 5942 | Book Stores | \$2,679,855 | \$0 | -\$2,679,855 |
| 5943 | Stationery Stores | \$6,153,310 | \$1,800,000 | -\$4,353,310 |
| 5944 | Jewelry Stores | \$2,983,290 | \$500,000 | -\$2,483,290 |
| 5945 | Hobby, Toy and Game Shops | \$3,124,796 | \$1,000,000 | -\$2,124,796 |
| 5946 | Camera and Photography Supply Stores | \$609,787 | \$0 | -\$609,787 |
| 5947 | Gift, Novelty and Souvenir Shops | \$6,480,086 | \$1,400,000 | -\$5,080,086 |
| 5948 | Luggage and Leather Goods Stores | \$177,976 | \$200,000 | -\$22,024 |
| 5949 | Sewing, Needlework and Craft Stores | \$650,634 | \$0 | -\$650,634 |
| 596 | Non-store Retailers | \$13,708,550 | \$1,200,000 | -\$12,508,550 |
| 598 | Fuel and Ice Dealers | \$468,282 | \$0 | -\$468,282 |
| 5992 | Florists | \$1,906,680 | \$600,000 | -\$1,306,680 |
| 5993 | Tobacco Stores and Stands | \$711,905 | \$500,000 | -\$211,905 |
| 5994 | News Dealers and Newsstands | \$450,776 | \$0 | -\$450,776 |
| 5995 | Optical Goods Stores | \$1,563,857 | \$0 | -\$1,563,857 |
| 5999 | Miscellaneous Retail Stores, NEC | \$41,307,990 | \$4,700,000 | -\$36,607,990 |
| TOTAL | \$1,162,770,000 | \$1,162,770,000 | \$356,100,000 | -\$806,669,800 |

Source: Source: The Retail Coach: Apache Trail Submarket Retail Gap Analysis, 2008.

APPENDIX B – DEMAND METHODOLOGY

Retail

The retail demand analysis is primarily driven by consumer retail expenditures and the capture of those expenditures within the given market. The model utilizes CAAG's most recent draft of conservative population and household projections for 2010, 2015 and 2020. Based on the number of households in the market area and the projected median household income, a grand total for household income in the area is calculated. A consumer expenditure analysis is conducted, using data from the Department of Labor's Consumer Expenditure Survey, in order to ascertain the percent of income that households spend on retail in the area. The percentage spent on retail is then extracted out of the area income and considered to be the total retail spending potential for the area. Given the fact that no market completely captures all potential retail spending, a capture rate must be applied to the total potential retail spending. In this case, Retail Coach indicates that only 31 percent of area's retail expenditures are being captured in the market. However, given that the results of this market study are intended for future land use planning, ESI has chosen to assume a capture rate of 50 percent. A capture rate of 50 percent is a reasonable capture rate for other municipalities and representative of what Apache Junction eventually hopes to capture. The net result is the total potential retail spending from area households in the market area.

In order to translate spending potential into square footage demand, data from the International Council of Shopping Centers is used to determine the required sales per square foot needed to sustain retail space. By applying this number to the total retail sales potential, the forecast demand of supportable retail square footage in the market area is reached. The analysis however, cannot stop at determining demand; current supply must also be factored into the equation. The final step in determining residual demand is to subtract the existing competitive inventory and under construction retail space in order to reveal an excess or shortage of retail space in the area.

Office

The methodology for office demand analysis is similar in that CAAG and MAG employment projections are used to determine what percentage of employees are likely working in stand alone office buildings. An average amount of office space, in this case 175 sf, is then allocated to each office worker. Based on the office employment projections and the amount of office space required by each employee, a gross estimate of supportable office space can be determined. Similar to the methodology for determining residual retail demand, the existing inventory and under construction office space is subtracted from the gross demand to make conclusions regarding a need for office space in the area.

Residential

The process of analyzing Apache Junction's housing demand takes into consideration current inventory, the condition of housing stock in the area and trends in the supply of new housing. ESI's methodology in evaluating housing demand is again founded on CAAG's conservative population projections and combined with the Census Bureau's assessment of Apache Junction's current housing stock. Based on CAAG's population projections for 2010-2020 and their assessment of the average household size, a total number of households and resulting housing units demand is deduced. The final step is to subtract the Census Bureau's survey of existing housing units from the gross estimate of demand, which reveals the residual housing demand for 2010, 2015, and 2020.

APPENDIX C – CONSUMER EXPENDITURE ANALYSIS

| 2008 Household Consumer Expenditures | | |
|--|----------------------|----------------|
| | Phoenix Metro | AJ |
| Number of Households | 1,493,814 | 18,619 |
| Median Household Income | \$57,229 | \$40,745 |
| Household Expenditures by Category | | |
| Aggregate Annual Expenditure | \$ 85,058,661,215 | \$ 900,071,334 |
| Food | \$ 11,264,349,453 | \$ 123,823,330 |
| Food at home | \$ 5,922,833,664 | \$ 66,916,346 |
| Cereals and bakery products | \$ 745,653,096 | \$ 8,458,462 |
| Meats, poultry, fish, and eggs | \$ 1,386,874,054 | \$ 15,678,290 |
| Dairy products | \$ 670,131,511 | \$ 7,645,663 |
| Fruits and vegetables | \$ 1,038,025,728 | \$ 11,878,568 |
| Other foods at home | \$ 2,084,999,399 | \$ 23,291,573 |
| Food away from home | \$ 5,350,160,709 | \$ 56,774,463 |
| Alcoholic Beverage | \$ 1,090,739,877 | \$ 11,766,747 |
| Housekeeping supplies | \$ 1,236,962,735 | \$ 13,274,733 |
| Household furnishings and equipment | \$ 3,434,779,505 | \$ 35,878,810 |
| Apparel and services | \$ 3,206,813,674 | \$ 33,835,548 |
| Transportation | \$ 17,439,931,760 | \$ 185,560,656 |
| Vehicle purchases (net outlay) | \$ 8,543,118,020 | \$ 88,707,165 |
| Gasoline and motor oil | \$ 3,496,073,380 | \$ 38,278,107 |
| Other vehicle expenses | \$ 4,504,284,752 | \$ 48,498,982 |
| Entertainment | \$ 4,206,479,723 | \$ 42,604,455 |
| Personal care products and services | \$ 1,040,914,763 | \$ 11,048,362 |
| Tobacco products and smoking supplies | \$ 622,482,301 | \$ 7,696,749 |
| Miscellaneous | \$ 1,443,778,775 | \$ 15,618,598 |
| Total Retail Expenditures | \$ 44,987,232,565 | \$ 481,107,988 |
| Percentage of Total Expenditures on Retail | 53% | 53% |
| Total Retail Expenditures Per Household | \$30,116 | \$25,840 |
| Percentage of Median Income Spent on Retail | 53% | 63% |

Source: AGS 2008; Consumer Expenditure Survey, U.S. Dept of Labor, Bureau of Labor Statistics, 2005-2006; U.S. Census 2000; ESI Corp 2009.