Market Analysis

Downtown | McKinney, TX







catalyst

MCKINNEY, TX

Table of Contents

I. Introduction

BACKGROUND

Catalyst Commercial was retained to complete a market analysis to explore the viability in creating a mixed-use district known as the Collider Project in McKinney, Texas. The study area is bounded by Tennessee Street. to the West, Highwya 5 to the East, Davis Street to the North, and Anthony St. to the South. The vision for Collide District is a mixed-use development which expands the vertical footprint of Downtown McKinney. This project will enhance public and private investment to establish a new mixed-use destination and an extension of the already successful downtown McKinney.

Catalyst has been tasked with exploring the capacity for additional retail, office, and multi-family in the local market and potential relocation and integration of Mckinney's Collider business incubator project. This market analysis is an initial assessment of local and regional market trends and projections. The purpose of this analysis is to understand current market conditions and provide a fact-based/market-based approach for future planning. Our internal goals are to identify uses that can support long-term sustainability, and use supporting data to find new opportunities which can compliment the historic downtown and local Mckinney market.

As part of this process it is important to evaluate the historic, current, and projected demographic and employment conditions in the region, city, and the study area. The composition of the demographic base and employment base will greatly shape the propensity for additional growth in retail, office and residential. Dominant variables include population and household income, age distribution, ethnicity, commuter patterns, migration patterns, workforce population, and visitor generators.

RETAIL DEVELOPMENT OPPORTUNITY

Retail demand can be traced to five distinct drivers. A majority of retail demand stems from the local residential population base. An often coined phrase is "retail follows rooftops." Residential provides demand for approximately 80% of local retail demand. Commuter traffic is also a source of retail demand. Commuter demand is generated by commuters that pass throught the study. A certain percentage of commuters are likely to shop, subject to appropriate merchandising. Area workforce is also a source of retail demand. Recent studies calculated the weekly spending patterns of workforce, specifically convenience items, dining and workforce related purchases. Visitors can also be a strong source of retail demand. Visitor demand would come from local, or non-local visitors that could provide additional retail demand. Other sources of demand would be from institutional uses, such as military bases, hospitals, schools, and airports.

RESIDENTIAL DEVELOPMENT OPPORTUNITY

Catalyst estimated the projected annual demand for higher density multi-family housing products in the city of McKinney. The analysis included a review of the performance and characteristics of existing and planned supply of multi-family development in order to forecast the market capture, product mix, and recommended price range.

OFFICE DEVELOPMENT OPPORTUNITIES

Catalyst examined the general market outlook and potential for additional office inventory in the study area. The analysis included recent trends in inventory, vacancy, absorption, and pricing. The performance of existing office, planned inventory, and recent transactions were included in the assessment.

COMPARABLE MIXED-USE DEVELOPMENT

Catalyst evaluated the characteristics and performance of several lifestyle centers in Dallas-Fort Worth. These comparable developments include Legacy Town Center (Plano), West 7th (Fort Worth), and Watters Creek (Allen). In addition, Catalyst will explore other incubator projects and determine potential synergies with this use, to be integrated with the local market demand.

MULTI-FAMILY

Multi-family developments built in the last 10 years within the city of McKinney have had consistent occupancy rates at 90% or greater, and average monthly rents of $1.10 per square foot. Multi-family demand is strongest for higher density housing products over the next 7 years positioned for “Millennials” aged 25 to 34. The projected demand for these groups of buyers is nearly 900 units annually for rents $750 and greater. The demand for renters aged 35 to 54 is projected to be over 700 units annually, and the demand for renters aged 55 to 64 is projected to be 218 units annually.

Based on the planned developments and multi-family demand analysis, there is a growing market for mixed-use developments with multi-family options that include higher end amenities and access to common areas that encourage social interaction and create a neighborhood atmosphere. Well executed projects in the area are achieving average monthly rents that range from $800 up to $1,900.

RETAIL

The retail analysis examined the potential retail expenditures in the study area among residents, the workforce population, and commuter traffic flows. The city of McKinney has a workforce population of over 49,000 workers, and many of the largest employers in the city are located within 3 miles of the study area. The study area has the potential to capture $1.9M in workforce based restaurant and retail demand annually.

Currently, there is a combined traffic flow of over 81,000 vehicles per day along the major thoroughfares surrounding the study area. With appropriate access and gateway features to identify the development, the study area has the potential to capture $2.1M in commuter retail spending. Improved access and a potential transit oriented development location near the study area may greatly increase both pedestrian and vehicle induced demand for the study area.

Existing retail leakage (the total unmet retail demand of current residents) and demand from net new residential retail demand also impacts the potential for retail. There is an unmet demand for $193M of retail and that is projected to grow to over $396M over the next 10 year.

Aggregate retail demand from existing and planned residential, workforce, and commuters equals an estimated 380,000 SF of retail. Sixty percent of the demand is for amenity retail, services, restaurants, and other food related services. The cumulative square foot retail demand is estimated to increase to 921,000 square feet over the first 10 years of the development. Greater density of residential housing, more workforce, and additional traffic can increase these projections.

OFFICE

The city of McKinney has nearly 4M square feet of office inventory, and the largest concentration of existing space is located along the US Highway 75 corridor just south of US Highway 380. The current vacancy rate for office space is nearly 9% and is projected to decrease to below 7% by 2015. Historically, McKinney has absorbed 109,000 SF of office annually. Our estimates show that the subject area may reasonably capture approximately 7,500 SF of net new small office space given a quality development and access to nearby retail and restaurants. There is also potential to capture an additional 6,000 SF of office relocations within the existing market. Therefore, there is potential of up to 13,000 SF of office demand within the study area annually.

BACKGROUND

Catalyst Commercial was retained to complete a market analysis to explore the viability in creating a mixed-use district known as McKinney Town Center in McKinney, Texas. The study area is bounded by Church St. to the West, Airport Drive to the East, US Highway 380 to the North, and Anthony St. to the South. The vision for McKinney Town Center study area is to leverage an underutilized area adjacent to the existing award winning historic downtown. This project shall be a mix of public and private investment to establish a new mixed-use destination and an extension of the already successful downtown McKinney.

Catalyst has been tasked with exploring the capacity for additional retail, office, and multi-family in the local market. In order to do so, this market analysis is an initial assessment of local and regional market trends and projections. The purpose of this analysis is to understand current market conditions and provide a fact based/market based approach for future planning. Our internal goals are to identify uses that can support long-term sustainability, and use supporting data to find new opportunities which can compliment the historic downtown and local market.

As part of this process it is important to evaluate the historic, current, and projected demographic and employment conditions in the region, city, and the study area. The composition of the demographic base and employment base will greatly shape the propensity for additional growth in retail, office and residential. Dominant variables include population and household income, age distribution, ethnicity, commuter patterns, migration patterns, workforce population, and visitor generators.

RETAIL DEVELOPMENT OPPORTUNITY

We have found that retail demand can be traced to five distinct drivers. A majority of retail demand stems from the local residential population base. An often coined phrase is “retail follows rooftops.” Typically, the residential provides demand for up to 80% of local retail demand. Commuter traffic is also a source of retail demand. This demand is generated by commuters that pass by a location and a certain percentage of these commuters are potential consumers. Area workforce is also a source of retail demand. Recent studies calculated the weekly spending patterns of workforce, specifically convenience items, dining and workforce related purchases. Visitors can also be a strong source of retail demand. This would come from local, or non-local visitors that could provide additional retail demand. Other sources of demand would be from institutional uses, such as military bases, schools, and airports.

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Catalyst estimated the projected annual demand for higher density multi-family housing products in the City of

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OFFICE DEVELOPMENT OPPORTUNITIES

Catalyst examined the general market outlook and potential for additional office inventory in the study area. The analysis included recent trends in inventory, vacancy, absorption, and pricing. The performance of existing office, planned inventory, and recent transactions were included in the assessment. Currently, our estimates based upon McKinney absorption and small-office growth, the office demand is approximately 16,000 square feet per year.

COMPARABLE MIXED-USE DEVELOPMENT

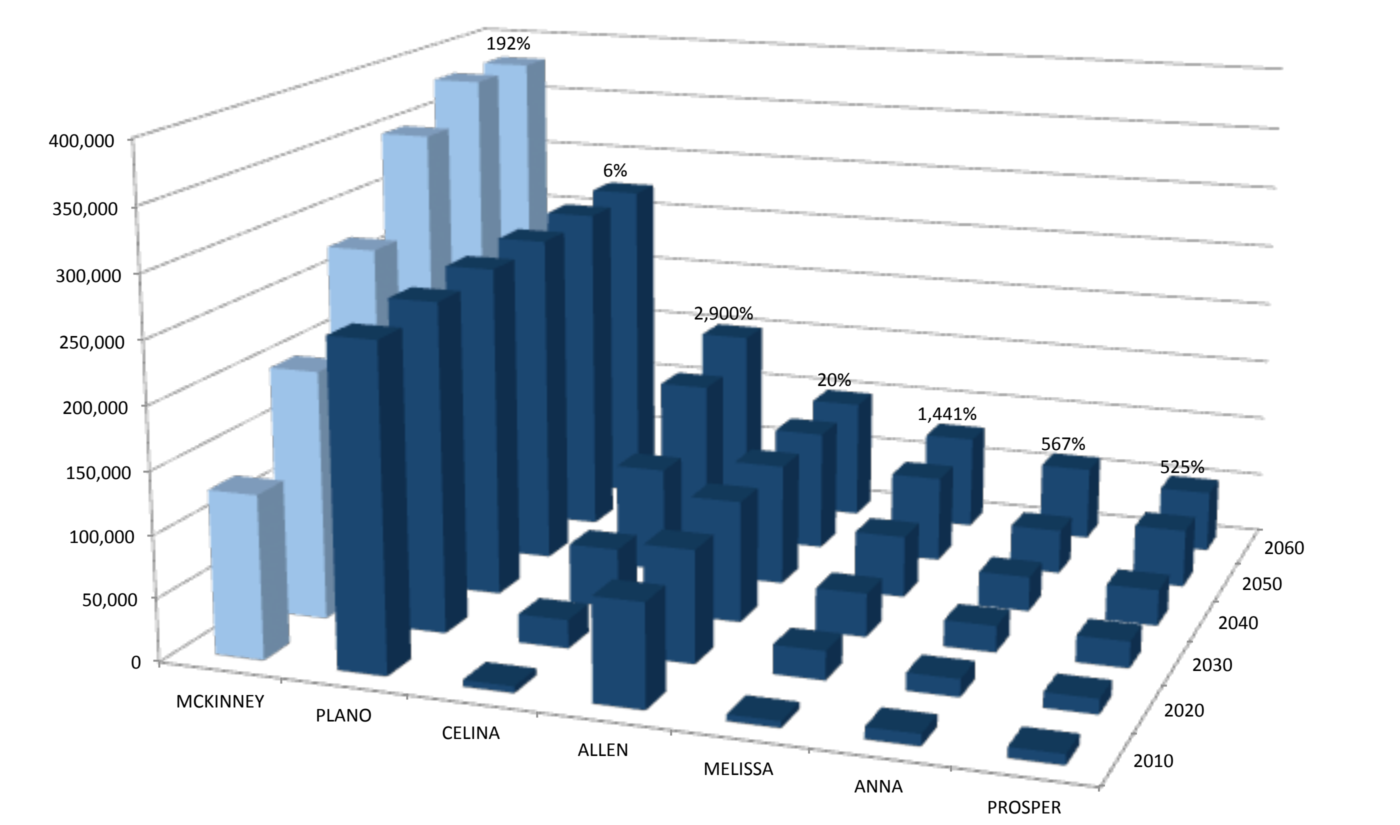
Catalyst evaluated the characteristics and performance of several lifestyle centers in Dallas-Fort Worth. These comparable developments include Legacy Town Center (Plano), West 7th (Fort Worth), and Watters Creek (Allen).

II. Existing Conditions

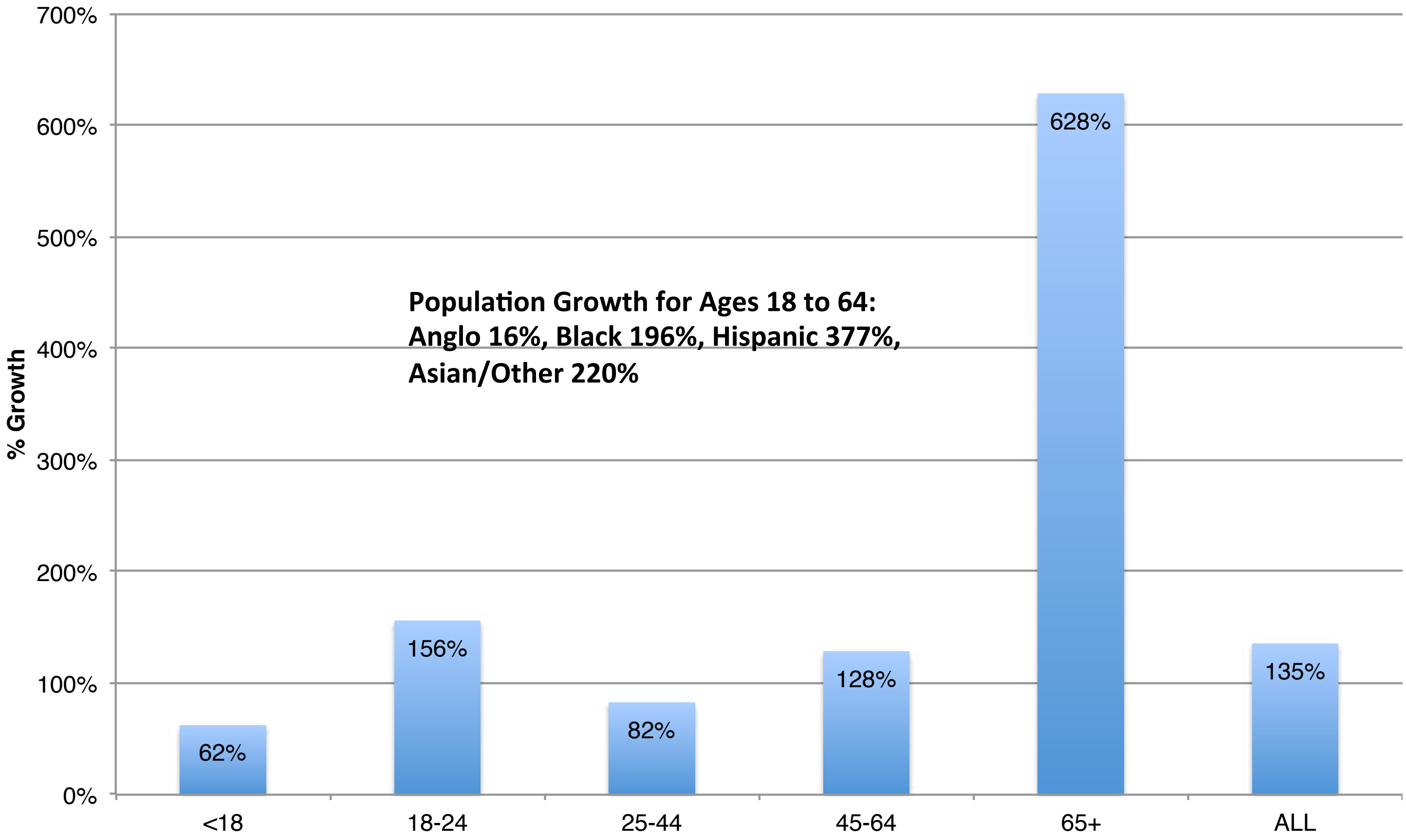
POPULATION

Texas has become a major center for domestic migration. Texas increased by 4 million residents (21%) between 2000 and 2010, and is projected to expand by an additional 30 million (120%) by 2050. The Dallas/Fort Worth metro area is expected to increase by more than 160% from 6 million in 2010 to nearly 17 million by 2050. Collin County is one of the fastest growing populations in the state, and is projected to expand from 782,000 to 3.9 million between 2010 and 2050 (400%). The city of McKinney is expected to expand to 275,000 over the next 15 years and double in size to 380,000 by 2060. This growth will have a substantial impact on demand for a variety of housing, retail goods and services, and office space.

Population Growth by City (2000-2060)



Collin County Population Growth by Age Group (2010-2050)



Source: Texas State Data Center

Texas will undergo substantial racial and ethnic growth among both the Hispanic and Asian populations. The Hispanic population is projected to increase by 20 million (over 200%) between 2010 and 2050, and will increase from 38% to 56% of the total population. Over this same time period, the Asian population is projected to increase by 6 million (nearly 500%), and will rise from 5% to 13% of the total population. In Collin County, the Hispanic population will surpass the Anglo Population by 2040, and the Asian population will surpass the Anglo Population after 2045.

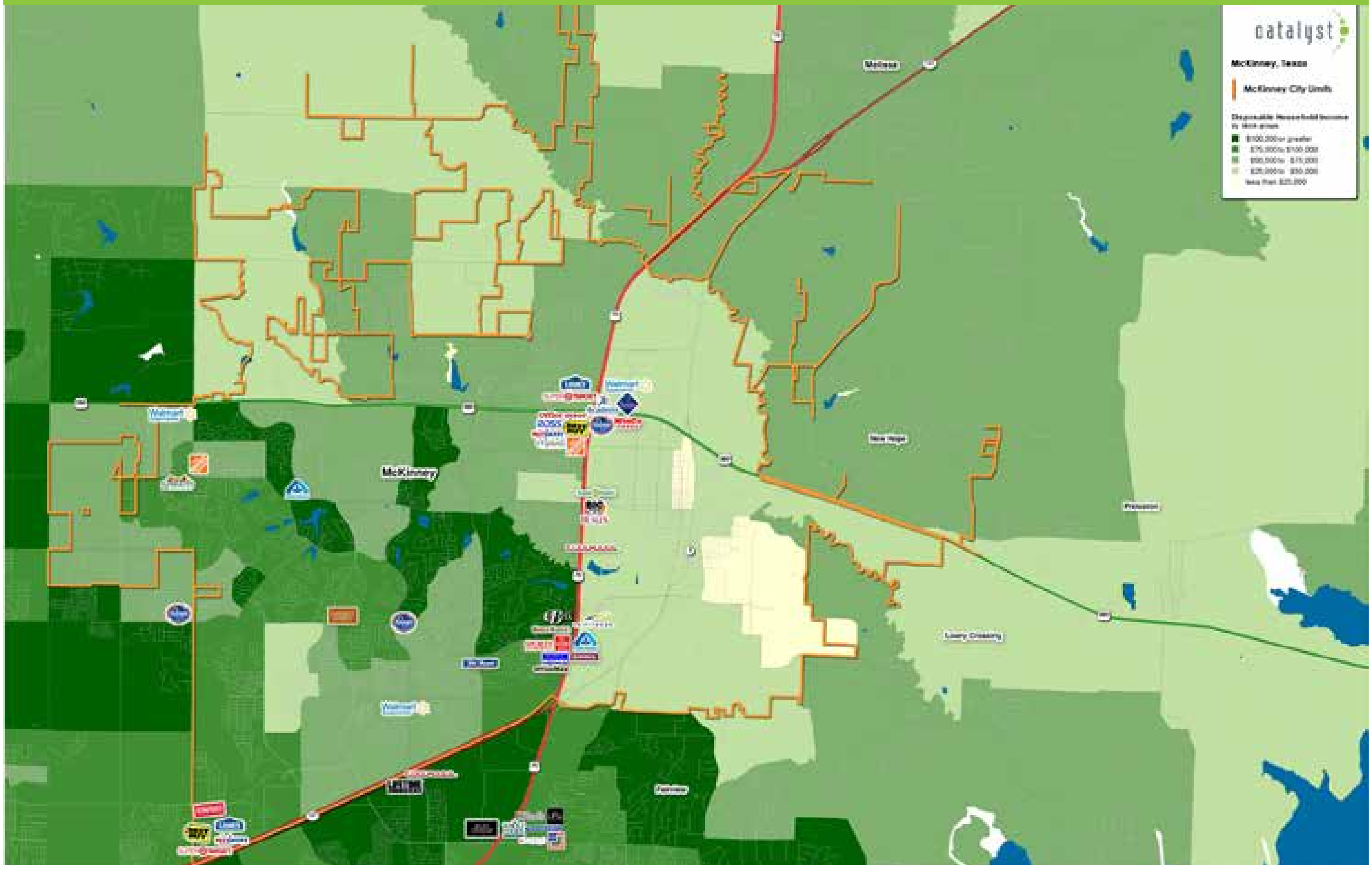
The shift toward Hispanic and Asian/Other will across all of the major age groups. Between 2010 and 2050, the largest population growth in Collin County will occur among the 65 and older age group. This age group will expand over 600% between 2010 and 2050. The smallest growth, 62%, will occur among the under 18 age group. This demographic growth will impact preferences for housing, retail consumption patterns, municipal services, and local taxes.

INCOME

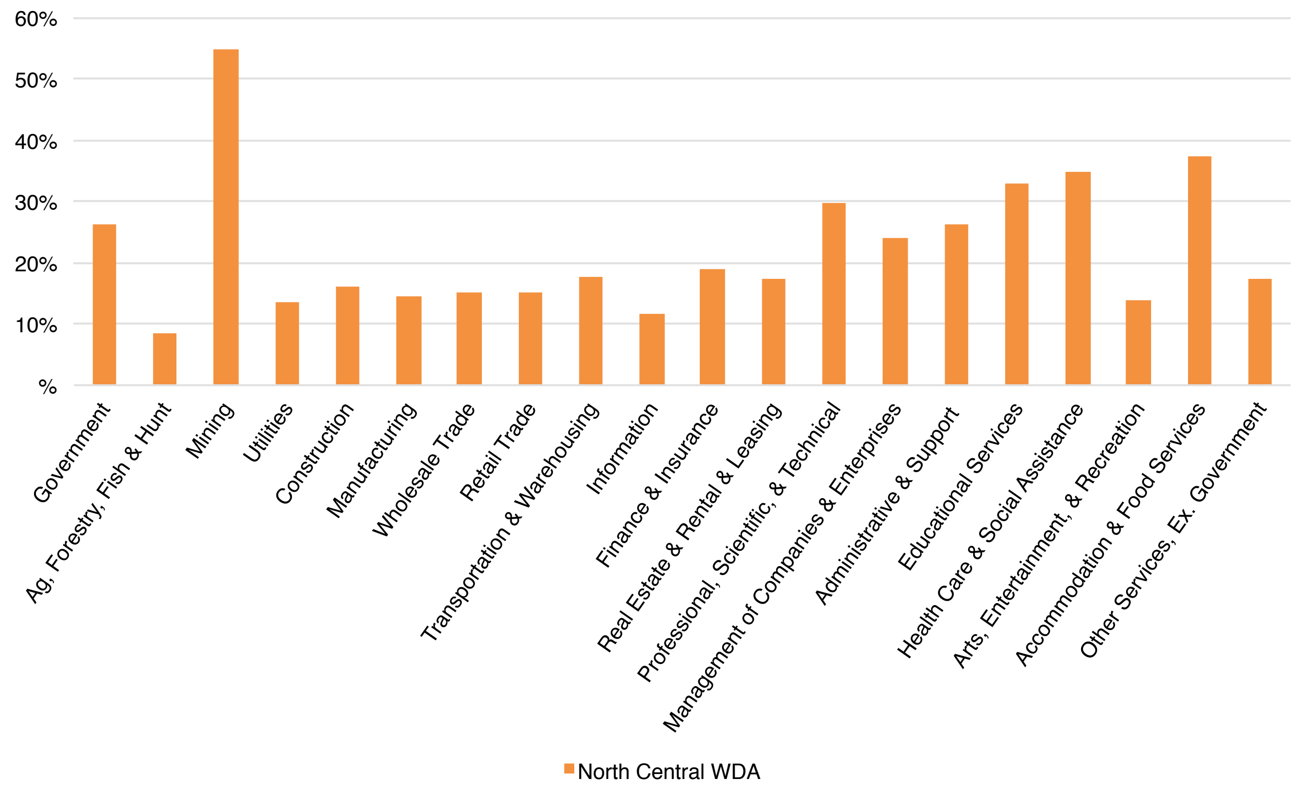
There are approximately 34,000 households with an average disposable income of $71,800 within a 5-mile radius of the study area. This is an aggregate disposable income of $2.44B, and over $986M in annual retail expenditures.

The McKinney Disposable Income Map on the following page shows the disposable household income by block group. The distribution of household income is relatively evenly distributed with approximately 30% of household have a disposable income less than $35,000, 15% with a disposable income ranging from $35,000 to $50,000, 34% from $50,000 to $100,000, and 23% with a disposable income greater than $100,000.

McKinney Disposable Income



North Central Texas Projected Job Growth by Industry (2010-2020)



Texas experienced job growth in 11 major industries in 2013, and led the nation in job growth for the fourth consecutive year. Over 641,000 jobs were created between September 2011 and December 2013. The unemployment rate fell from 6.7% in 2012 to 6.3% in 2013, and has been out or below the national average for the past seven year.

The economy surpassed pre-recession levels in September 2011, and created an additional 641,000 jobs between September 2011 and December 2013. The state economy gained 255,000 job in 2013 at an annually growth rate of 2.3% compared to a national average of 1.6%. The unemployment rate fell from 6.7% to 6.3% from 2012 to 2013, and has been at or below the national unemployment rate for 84 consecutive months.

The DFW Metro Area contained nearly 28% of all Texas jobs in December 2013, and employment grew at 1.9% in 2013. North Central Texas is projected to experience substantial job growth over the next several years. Employment is projected to increase by nearly 1M between 2010 and 2020. The industries with the largest projected job growth include: Mining (55%), Accommodation and Food Services (37%), Healthcare (35%), Educational Services (33%), Professional, Scientific, and Technical Services (30%). The Industries projected to add the most jobs are: Educational Services (32,300), Health Care (29,200), Accommodation and Food Services (25,000), Retail Trade (14,500), and Professional, Scientific, and Technical Services (11,400). The Map on page 10 shows the North Terxas Projected Job Growth by Industry.

COMMUTER

The study area is bounded by Tennessee Street to the West, Highway 5 to the East, Davis Street to the North, and Anthony St. to the South. There is a strong traffic flow along the major thoroughfares within close proximity to the study area. There are 15,700 vehicles per day (VPD) on SH 5 and East Davis; 15,400 VPD at SH 5 and East Hunt; 7,800 at Louisiana St. and Tennessee St., 9,200 at Virginia St. and Kentucky St.; 27,500 at US 380 and SH 5.

With over 75,000 VPD passing in close proximity of the study area, these commuters create an additional market opportunity. The average weekly expenditures of commuters traveling to and from work is $131. The retail expenditures from commuters that the study area may capture varies on whether commuters are likely to spend their money near their place of work or near their place of residence, and the quality and location of goods and services along their route.

A low capture rate of 1% of commuter expenditures will create nearly $5M in annual retail expenditures. A medium capture of 5% of commuter expenditures will create nearly $24M in annual retail expenditures. Excluding transportation related spending, the largest portion of commuter expenditures is on soft retail goods and services (26%), followed by restaurants and fast food (14%), grocery related items (13%).

McKinney Traffic Counts

Road	Intersection	VPD
SH 5	E. Davis	15,740
SH 5	E. Hunt	15424
Lousiana St.	Tennessee St.	7831
Virginia St.	Kentucky St.	9281
US 380	SH 5	27510
Total		**75,786**

WORKFORCE

McKinney is located 31 miles from Downtown Dallas, 33 miles from Dallas Fort Worth International Airport. McKinney is situated along three major regional thoroughfares: US 75, SH 121, and US 380. The majority of the residents work outside the city limits. The city of McKinney has a workforce population of 49,000, and a total daytime population of 117,000 during business hours. The daytime population includes both the city of McKinney workforce population and all residents living in the McKinney that are not included in the labor force.

There is a strong flow of workers both into and out of the McKinney each day. There are 26,400 workers that live outside the City and commute into McKinney each day for work, and an additional 22,600 workers that are also residents. Of the total McKinney residents that participate in the labor force, 40,000 travel outside McKinney each day for work.

McKinney is home to several regional employers including Raytheon (3,600 employees), Torchmark Corp. (1,100 employees), Encore Wire Corp. (1,000 employees), and Medical Center of McKinney (938 employees). Other major employers include Watson & Chalin Manufacturing (800 employees), Baylor Medical Center (550 employees), Timber Blind & Shutter (500 employees), Performance Food Group (200 employees, Simpson Strong Tie Co. (240 employees), and Emerson Process Management (140 employees).

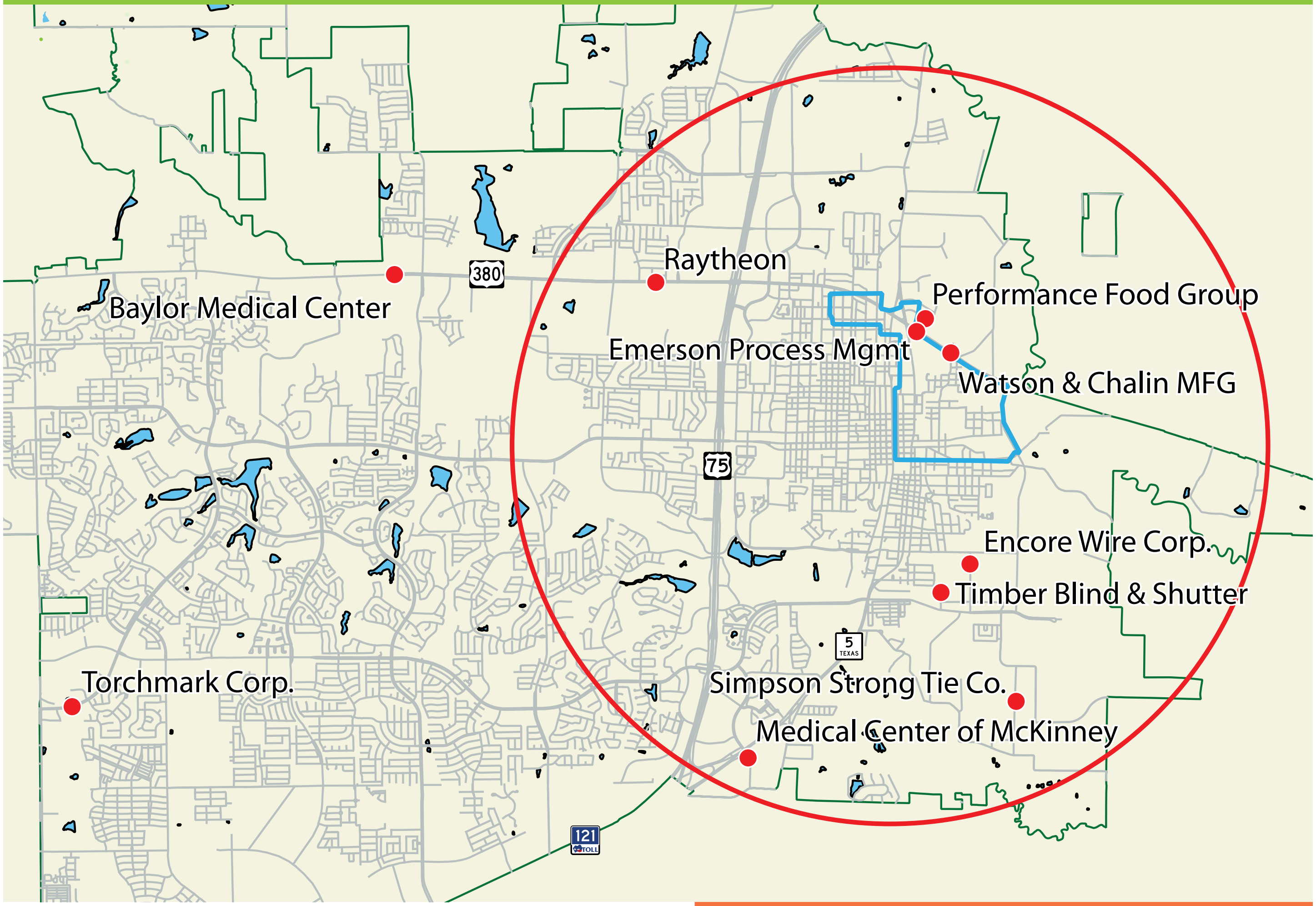
Within a 5-minute drive of the study area there are over 1,300 businesses with 11,300 employees. Research of workforce spending patterns indicates that workers spend approximately $195 per week on various daily expenditures. Therefore, there is a potential $2.2M in weekly workforce expenditures on retail and restaurants within a 5-minute drive of the study area. Excluding transportation, the largest portion of spending is for restaurants and fast-food eating establishments, which collectively account for 16% of weekly expenditures. Among goods and services, grocery stores capture the largest portion at 9% of weekly expenditures.

Inflow/Outflow Analysis	
Employed in Selection Area But Living Outside	26,409
Employed and Living in Selection Area	22,636
Living in Selection Area But Working Outside	40,313

Major Employers in McKinney, Texas

Company	Employees
Raytheon	3600
Torchmark Corp	1100
Encore Wire Corp	1000
Medical Center of McKinney	938
Watson & Chalin MFG	800
Baylor Medical Center	550
Timber Blind & Shutter	500
Performance Food Group	200
Simpson Strong Tie Co.	240

City of McKinney Major Employers Map



SOURCES: *City of McKinney, Catalst Commercial*

City Limits

3 Mile raidus

Company	Employees
Emerson Process Management	140

III. Multifamily Market

EXISTING CONDITIONS

The Dallas Fort Worth Area multifamily residential market has an overall occupancy rate of 92.8% and effective rents of $1.03 per square foot. Effective rents have increased every year since 2010 and are up 5.6% year-over-year since April 2014. The market experienced positive net absorption f 16,800 units year-over-year. Currently, 33% of existing properties offer concessions, which is down 21% since April 2013.

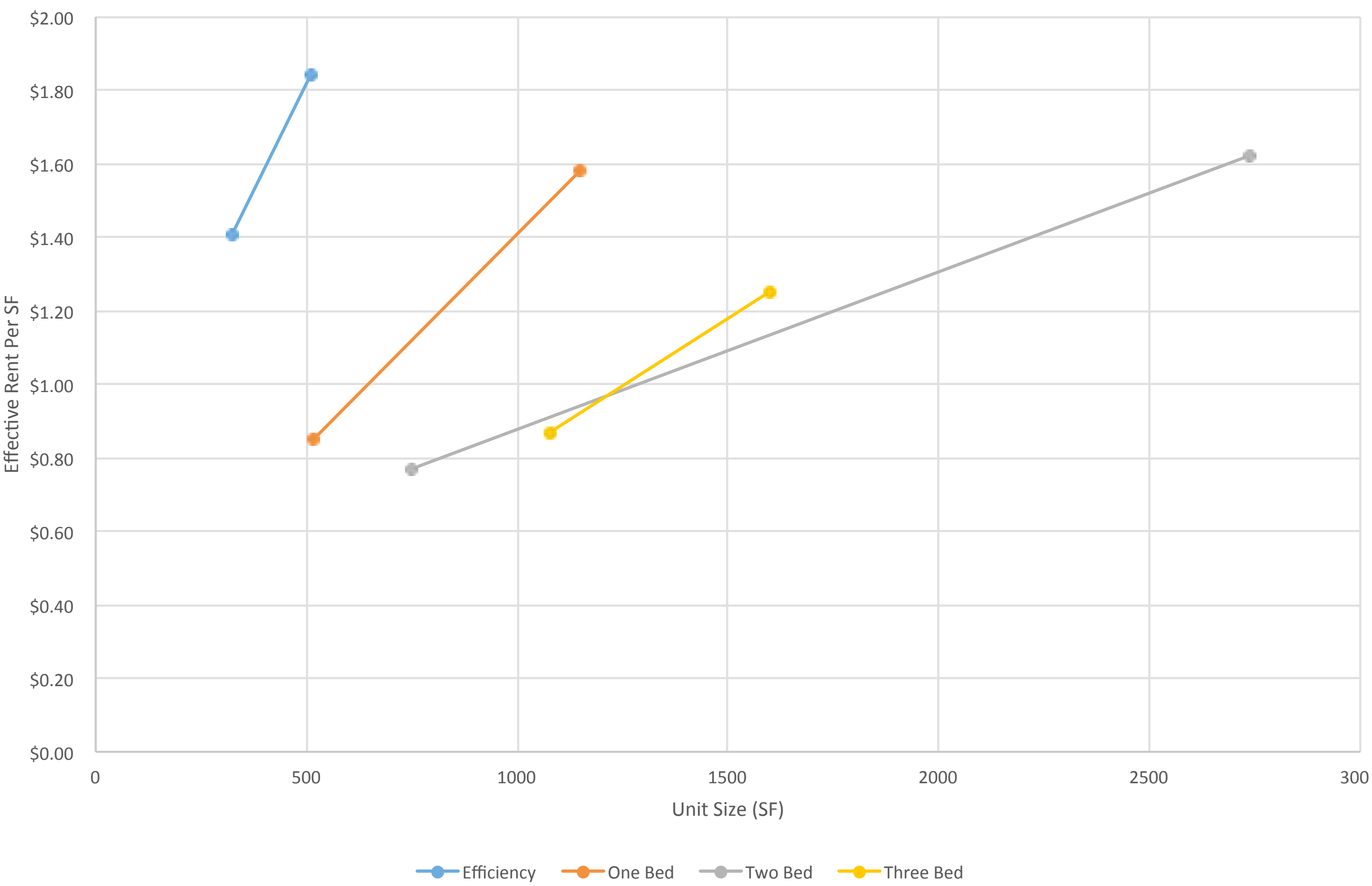
There are 31 multi-family developments with over 8,800 units in the McKinney submarket. The average unit size is 937 SF with average effective rents of $1.07 per SF. The average city occupancy for all properties in McKinney is 86%, and for properties built within the last 10 years the average occupancy is 95%.

The average age of existing multifamily developments is 16 years old within McKinney. Twelve of the existing development have been built in the last 10 years. Recent developments include the Avenues at Craig Ranch, Discovery at Rowlett Creek, Heights at Lake Forest, and Parkside at Craig Ranch. Each of these development achieve average market rents ranging from $1.15 to $1.36.

There are several planned multifamily projects planned for McKinney. St. Paul Square Apartments is a 220 unit development currently under construction. The St. Paul Square Apartments will offer luxury units ranging from 700 to 1,600 SF in the heart of the Adriatica Village. Platinum Skyline is a 212 unit multifamily development planned for McKinney. Additional projects are also being contemplated east of downtown McKinney.

Catalyst reviewed current multifamily trends to determine the relationshiop of unit size to rent. This provides insight into the current multifamily demand and competitive price points. The relationship between unit size and effective rents was examined for efficiency, one-bedroom, two-bedroom, and three-bedroom apartments. Efficiency units are typically 500 SF with effective rents ranging from $1.40 per SF to $1.80 per SF. One-bedroom units range form 500 SF to 1,200 SF with effective rents from $.85 per SF to $1.60 per SF. Two-bedroom units range from 750 SF to 2,736 SF with rents from $.77 per SF to $1.62 per SF.

Effective Rent to Unit Size Relationship

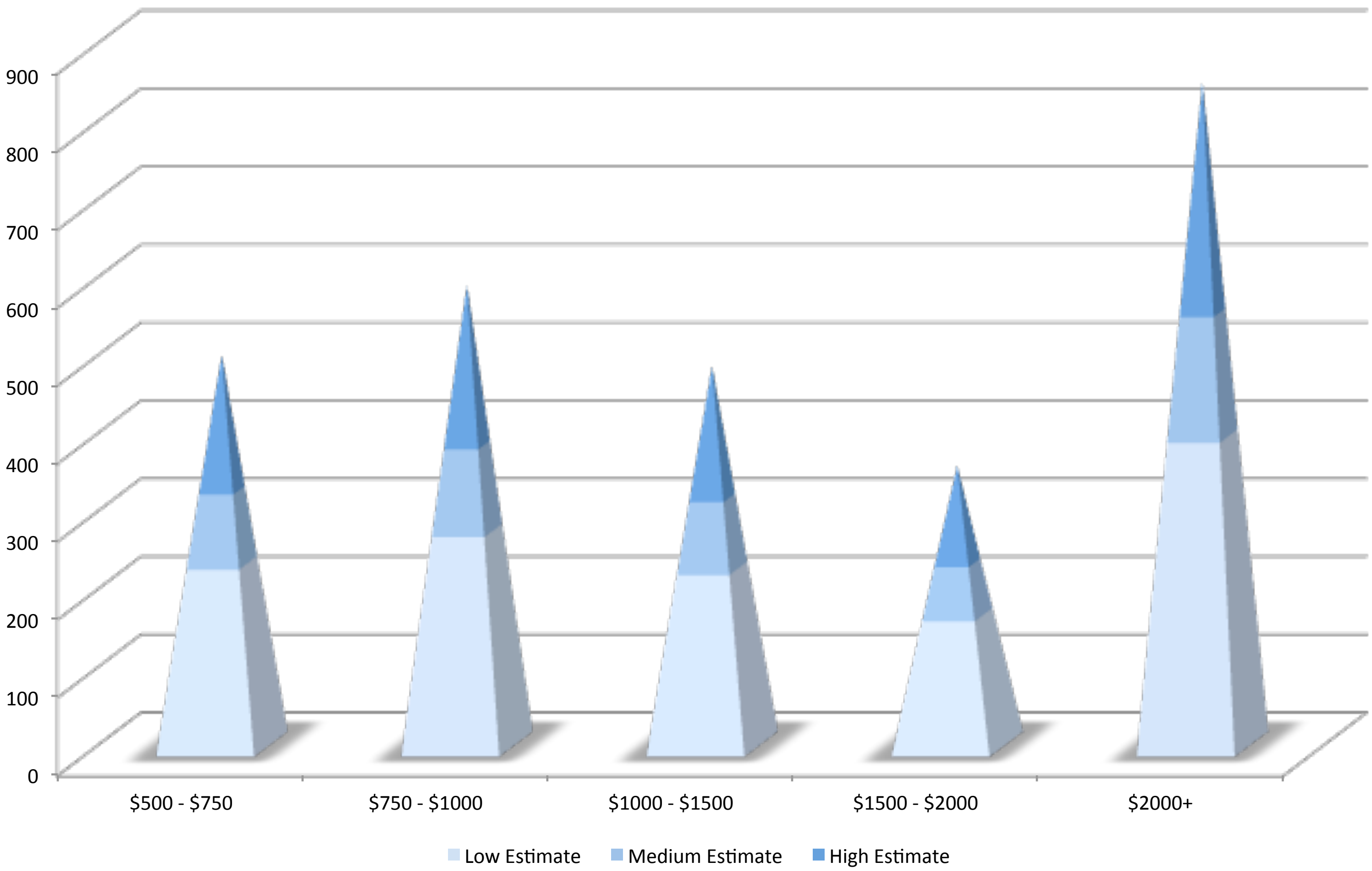


Mckinney Multifamily Statistics

Total Matching Properties:	31
Average Occupancy:	86
# Units (Average/Total):	286 / 8,869
Ave Unit Size:	937
Ave Market Rent:	$1,027
Ave Market Rent/Sqft:	$1.10
Ave Effective Rent:	$999
Ave Effective Rent/Sqft:	$1.07

McKinney Existing Multifamily Properties

Property	Address	Zip	#Units	Avg. Size	Year Built	MARKET RENT Avg.	MARKET RENT $/SF	EFFECTIVE RENT Avg.	EFFECTIVE RENT $/SF	Occ. Rate
Ashton Oaks	2003 Skyline Dr	75071-2822	168	775	1988	$786	$1.01	$776	$1.00	95.8
Aspire McKinney Ranch	4700 S Ridge Rd	75070-2195	339	933	2009	$1,031	$1.10	$1,030	$1.10	97
Avana El Dorado	4690 W Eldorado Pkwy	75070-5764	276	1,082	2006	$1,062	$0.98	$1,037	$0.96	92
Avana McKinney Ranch	5500 McKinney Place Dr	75070-2294	343	1,107	2008	$1,193	$1.08	$1,151	$1.04	94
Avenues at Craig Ranch	8700 Stacy Rd	75070-2434	334	1,006	2013	$1,143	$1.14	$1,098	$1.09	74.2
Bent Creek	123 S Wilson Creek Blvd	75069-7802	200	862	1984	$862	$1.00	$862	$1.00	91
Brookwood Fourplexes	1904 W White Ave	75069-3280	60	855	1970	$848	$0.99	$848	$0.99	99
Cedar Creek Village	600 S Graves St	75069-4986	250	772	1986	$902	$1.17	$843	$1.09	95
Cliffs of Eldorado	1300 Eldorado Pkwy	75069-7984	208	876	1997	$921	$1.05	$845	$0.96	93
Discovery at Rowlett Creek	4101 S Custer Rd	75070-6252	366	981	2012	$1,154	$1.18	$1,154	$1.18	95
El Lago	3400 Craig Dr	75070-4548	351	990	1998	$1,053	$1.06	$1,053	$1.06	94
Fairways at Wilson Creek	3191 Medical Center Dr	75069-1761	576	918	2003	$970	$1.06	$970	$1.06	93
Gables of McKinney	1500 W Eldorado Pkwy	75069-7903	220	772	1987	$813	$1.05	$813	$1.05	95
Grand Estates of McKinney	2580 Collin McKinney Pkwy	75070-4541	453	978	2009	$1,209	$1.24	$1,209	$1.24	93
Greenhaven	8690 Virginia Pkwy	75071-5774	216	887	2009	$1,056	$1.19	$1,056	$1.19	92
Heights at Lake Forest	5201 Collin McKinney Pkwy	75070-5180	334	1,067	2013	$1,229	$1.15	$1,135	$1.06	47
Heritage Place	1600 Heritage Dr	75069-5001	200	693	1987	$878	$1.27	$878	$1.27	94
Lamar Plaza	500 W Lamar St	75069-3847	40	730	1966	$765	$1.05	$765	$1.05	98
McKinney Orchid	2700 N Brook Dr	75070-3651	260	873	1997	$688	$0.79	$688	$0.79	98
Parkside at Craig Ranch	6150 Alma Road	75070	418	828	2014	$1,124	$1.36	$1,030	$1.24	0.48
Parkview Legends	1701 Park Central Dr	75069-7943	208	946	1999	$927	$0.98	$902	$0.95	92
Regency at Stonebridge Ranch	2305 S Custer Rd	75070-7902	300	1,280	2002	$1,438	$1.12	$1,438	$1.12	94
Retreat at Stonebridge Ranch	1920 Grassmere Ln	75071-4772	464	959	2009	$918	$0.96	$842	$0.88	92
Saxon Woods	4490 Eldorado Pkwy	75070-3870	510	900	2001	$1,076	$1.20	$1,051	$1.17	79
Soho Parkway	6653 McKinney Ranch Pkwy	75070-2168	379	966	2008	$1,018	$1.05	$976	$1.01	93
Stonegate	2521 Wolford St	75071-4961	68	881	1983	$752	$0.85	$752	$0.85	100
Times Square at Craig Ranch	7951 Collin McKinney Pkwy	75070-4572	313	1,057	2009	$1,122	$1.06	$1,101	$1.04	95
Venue at Stonebridge Ranch	6530 Virginia Pkwy	75071-5550	247	854	2001	$961	$1.13	$932	$1.09	92
Villas at Stonebridge Ranch	7101 Virginia Pkwy	75070-5723	280	932	1999	$982	$1.05	$982	$1.05	95
Villas of El Dorado	3250 Hudson Crossing	75070-6472	248	778	2003	$818	$1.05	$818	$1.05	95
Westcreek Ranch	2301 W White Ave	75071-3119	240	853	1997	$965	$1.13	$834	$0.98	88



MULTIFAMILY DEMAND

Potential demand for multifamily residential was analyzed by examining current and future household demand for new multifamily rental units across multiple income categories in the metro area. Trends were then analyzed to estimate the capture of new rental demand for the City of McKinney. Approximately, 7,600 annual new households are projected for the Collin County over the next five years. Based on income and recent demand trends over 1,500 (29%) of new household growth is expected to live in for-rent housing. Of existing households, approximately 177,000 reside in owner-occupied homes and 73,000 households reside in for-rent homes in the Collin County. Of the existing owner households, 12,400 (7%) are estimated to move to a new residence each year, and of these movers, 4,800 (39%) will choose to rent upon moving. Of the existing renter households, 29,300 (40%) are expected to move each year, and of these movers, 20,700 (71%) of these current renter households will rent upon moving.

The combined annual demand of new households, existing renter households, and existing owner households in Collin County for new multi-family housing is projected to be a total of 6,400 units. Based on recent trends, the city of McKinney has the potential to capture approximately 1,200 to 2,200 units annually. The largest portion of this demand will be for high rent developments with numerous amenities. The map on page 22 shows land uses in the ciity of McKinney. Currently, there is limited land use for multifamily developments in McKinney. Therefore, there may be opportunity for the study area to capture a large portion of multifamily demand in the city of McKinney.

Estimated Annual Demand Potential for Multifamily Residential - Part 1 *Based on 2013-2018 Demographic Trends for Collin County*						
	Total	**Age 25-34**				
2013 Households	302,751	56,448				
2017 Households	340,953	64,070				
Avg. Annual Growth Rate	7,640	14%				
Monthly Rent		$500	$750	$1,000	$1,500	$2,000
		$750	$1,000	$1,500	$2,000	And Up
Qualifying Income		Less Than	$35,000	$50,000	$75,000	$100,000
		$35,000	$50,000	$75,000	$100,000	And Up
		Age 35 - 54				
2013 Households	302,751	147,239				
2017 Households	340,953	157,650				
Avg. Annual Growth Rate	7,640	7%				
Monthly Rent		$500	$750	$1,000	$1,500	$2,000
		$750	$1,000	$1,500	$2,000	And Up
Qualifying Income		Less Than	$35,000	$50,000	$75,000	$100,000
		$35,000	$50,000	$75,000	$100,000	And Up
		Ages 55-64				
2013 Households		48,674				
2017 Households		57,065				
Avg. Annual Growth Rate		17%				
Monthly Rent		$500	$750	$1,000	$1,500	$2,000
		$750	$1,000	$1,500	$2,000	And Up
Qualifying Income		Less Than	$35,000	$50,000	$75,000	$100,000
		$35,000	$50,000	$75,000	$100,000	And Up
		Total Age Groups				
2013 Households		252,361				
2017 Households		278,785				

Estimated Annual Demand Potential for Multifamily Residential - Part 2

Ages 25-34

New Household Growth					
Total Annual New Households1	1,524	1,524	1,524	1,524	1,524
% Income Qualified2	22%	18%	20%	16%	23%
# Income Qualified	331	280	303	248	356
Renter Propensity3	87%	69%	61%	35%	20%
Qualified New Households	**289**	**192**	**186**	**87**	**71**
Existing Owner Households Turnover					
Total Households (DFW)1	56,448	56,448	56,448	56,448	56,448
% Income Qualified2	22%	18%	20%	16%	23%
Owner Propensity3	13%	31%	39%	65%	80%
Total Owner Households	1,592	3,216	4,380	5,976	10,547
Annual Turnover Rate4	5%	20%	20%	13%	16%
Qualified Owners in Turnover	84	636	874	758	1730
Estimated % Rent vs. Purchase5	83%	85%	52%	44%	33%
Estimated Owners in Turnover that Rent	**69**	**541**	**454**	**333**	**571**
Existing Renter Households					
Total Households (DFW)	56,448	56,448	56,448	56,448	56,448
% Income Qualified2	22%	18%	20%	16%	23%
Renter Propensity3	87%	69%	61%	35%	20%
Total Renter Households	10,657	7,158	6,851	3,218	2,637
Annual Turnover Rate4	45%	45%	55%	46%	43%
Qualified Renters in Turnover	4,831	3,186	3,778	1,490	1,131
Estimated % Rent vs. Purchase5	91%	78%	64%	64%	48%
Estimated Renters in Turnover that Rent	**4,396**	**2,485**	**2,418**	**953**	**543**
Income Qualified Households					
Total Potential Demand	4,755	3,218	3,059	1,374	1,185
Percent New Renters	8%	23%	21%	31%	54%
Total Potential Demand for New Units	**359**	**733**	**641**	**420**	**642**
City Capture Rate (Low)	**20%**	**20%**	**20%**	**20%**	**20%**
Potential New Multifamily Demand (Low)	**72**	**147**	**128**	**84**	**128**
City Capture Rate (Medium)	**28%**	**28%**	**28%**	**28%**	**28%**
Total New Multifamily Demand (Medium)	**100**	**205**	**179**	**118**	**180**
City Capture Rate (High)	**35%**	**35%**	**35%**	**35%**	**35%**
Total New Multifamily Demand (High)	**126**	**257**	**224**	**147**	**225**

Ages 35-54					
New Household Growth					
Total Annual New Households1	2,082	2,082	2,082	2,082	2,082
% Income Qualified2	14%	9%	15%	15%	46%
# Income Qualified	283	192	310	316	968
Renter Propensity3	59%	50%	29%	21%	8%
Qualified New Households	**167**	**96**	**89**	**67**	**76**
Existing Owner Households Turnover					
Total Households (DFW)1	147,239	147,239	147,239	147,239	147,239
% Income Qualified2	14%	9%	15%	15%	46%
Owner Propensity3	41%	50%	71%	79%	92%
Total Owner Households	8,199	6,783	15,572	17,656	62,967
Annual Turnover Rate4	7%	10%	5%	6%	6%
Qualified Owners in Turnover	550	650	853	1075	3971
Estimated % Rent vs. Purchase5	81%	71%	34%	27%	25%
Estimated Owners in Turnover that Rent	**445**	**462**	**290**	**290**	**993**
Existing Renter Households					
Total Households (DFW)	147,239	147,239	147,239	147,239	147,239
% Income Qualified2	14%	9%	15%	15%	46%
Renter Propensity3	59%	50%	29%	21%	8%
Total Renter Households	11,798	6,783	6,360	4,693	5,475
Annual Turnover Rate4	30%	40%	27%	36%	49%
Qualified Renters in Turnover	3,488	2,699	1,715	1,686	2,672
Estimated % Rent vs. Purchase5	85%	78%	65%	44%	54%
Estimated Renters in Turnover that Rent	**2,964**	**2,105**	**1,115**	**742**	**1,443**
Income Qualified Households					
Total Potential Demand	3,577	2,663	1,494	1,099	2,511
Percent New Renters	17%	21%	25%	32%	43%
Total Potential Demand for New Units	**613**	**558**	**379**	**357**	**1,068**
City Capture Rate (Low)	20%	20%	20%	20%	20%
Potential New Multifamily Demand (Low)	**123**	**112**	**76**	**71**	**214**
City Capture Rate (Medium)	28%	28%	28%	28%	28%
Total New Multifamily Demand (Medium)	**172**	**156**	**106**	**100**	**299**
City Capture Rate (High)	35%	35%	35%	35%	35%
Total New Multifamily Demand (High)	**214**	**195**	**133**	**125**	**374**

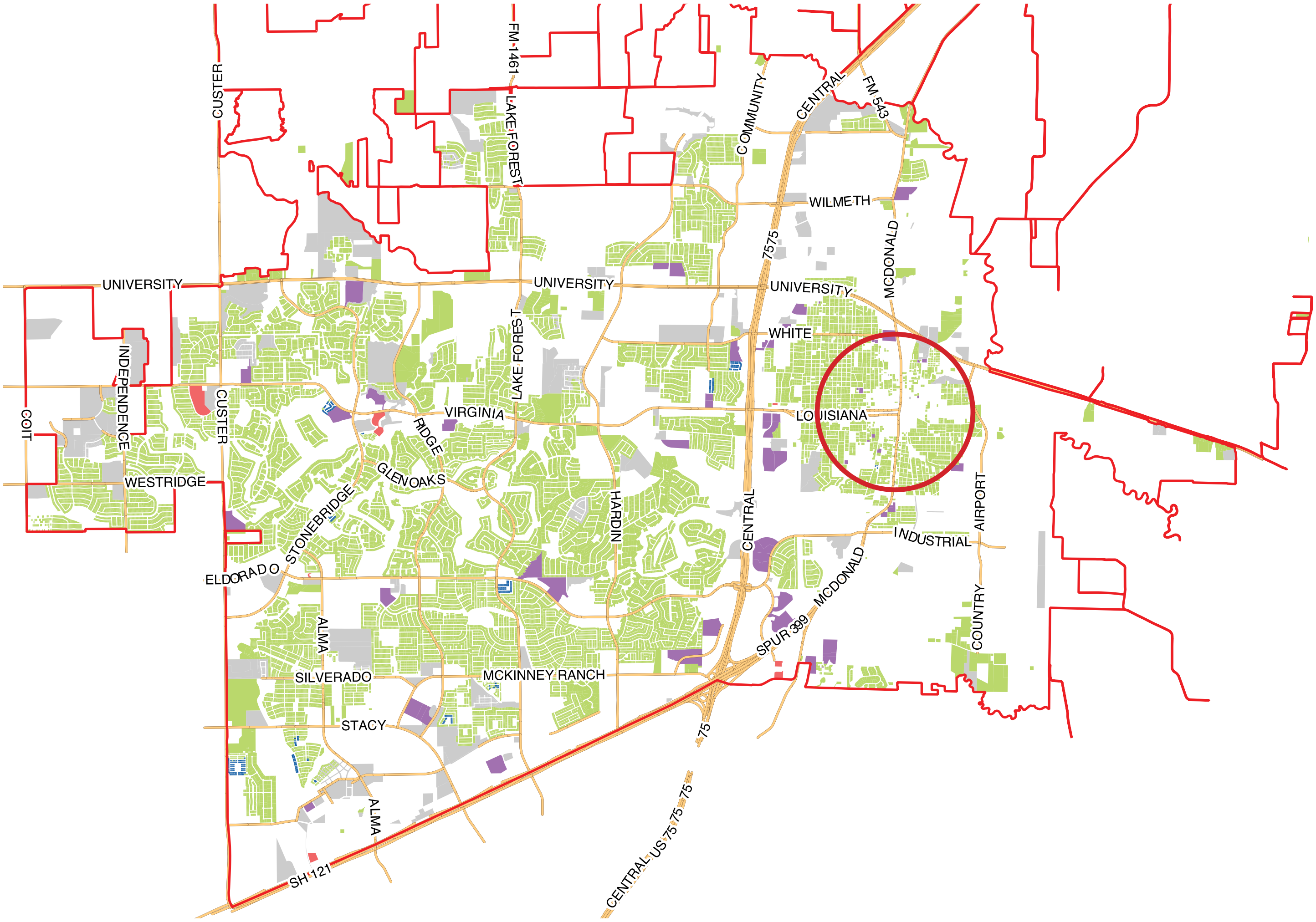
Ages 55-64					
New Household Growth					
Total Annual New Households1	1,678	1,678	1,678	1,678	1,678
% Income Qualified2	15%	10%	15%	15%	44%
# Income Qualified	248	170	253	244	737
Renter Propensity3	44%	24%	20%	11%	5%
Qualified New Households	**108**	**42**	**52**	**27**	**34**
Existing Owner Households Turnover					
Total Households (DFW)1	48,674	48,674	48,674	48,674	48,674
% Income Qualified2	15%	10%	15%	15%	44%
Owner Propensity3	56%	76%	80%	89%	95%
Total Owner Households	4,034	3,748	5,877	6,310	20,309
Annual Turnover Rate4	3%	2%	4%	1%	4%
Qualified Owners in Turnover	116	61	226	57	853
Estimated % Rent vs. Purchase5	71%	60%	25%	46%	27%
Estimated Owners in Turnover that Rent	**82**	**37**	**57**	**26**	**230**
Existing Renter Households					
Total Households (DFW)	48,674	48,674	48,674	48,674	48,674
% Income Qualified2	15%	10%	15%	15%	44%
Renter Propensity3	44%	24%	20%	11%	5%
Total Renter Households	3,170	1,184	1,469	780	1,069
Annual Turnover Rate4	32%	29%	32%	14%	66%
Qualified Renters in Turnover	1,006	339	471	109	708
Estimated % Rent vs. Purchase5	94%	62%	57%	57%	11%
Estimated Renters in Turnover that Rent	**946**	**210**	**268**	**62**	**78**
Income Qualified Households					
Total Potential Demand	1,136	289	377	115	343
Percent New Renters	17%	27%	29%	46%	77%
Total Potential Demand for New Units	**190**	**78**	**108**	**53**	**265**
City Capture Rate (Low)	**20%**	**20%**	**20%**	**20%**	**20%**
Potential New Multifamily Demand (Low)	**38**	**16**	**22**	**11**	**53**
City Capture Rate (Medium)	**28%**	**28%**	**28%**	**28%**	**28%**
Total New Multifamily Demand (Medium)	**53**	**22**	**30**	**15**	**74**
City Capture Rate (High)	**35%**	**35%**	**35%**	**35%**	**35%**
Total New Multifamily Demand (High)	**67**	**27**	**38**	**18**	**93**

City of McKinney Residential Land Uses

SOURCES: *City of McKinney, Collin CAD, Catalst Commercial*

City Limits
Major Roads

Residential Land Use
Condominium
Multi-Family
Townhome
Single Family Residential
Undevelopmed Land



IV. Retail Market

Mckinney Retail Area Map

SOURCES: *National Center for Education Statistics, Catalyst Assumption*

RETAIL

The study area is located along Highway 5 in McKinney, Texas. The retaill along Highway 5 is primarily convenienced oriented retail. The strongest node of existing retail lies just north of the proposed Collider Village and contains high-quality niche destination retail, boutiques, retail and office. McKinney has over 28 niche destination restaurants, and several antique stores, art galleries, boutique class-a hotel, city hall, apparel, health and beauty, 38 service oriented uses, and is surrounded by a strong residential core. The average rent for retail in downtown McKinney is $16.00 for second generation space and $25 for first generation space. Mckinney overall has over 6.9M square feet of retail. Currently vacancy rate is 6.4%, which is one of the lowest in the Dallas/Fort Worth Metroplex. The average quoted rate is $17.81. According to Costar, there has been over 66,000 square feet of absorption year-to-date, and 116,000 square feet of new retail space added this year.

STUDENT GENERATED RETAIL DEMAND

There are over 27,000 students enrolled at the Collin College Campus located in McKinney. The campus is located on SH 5 about 5-minute drive from the subject area.

Recent studies on student discretionary spending find that the average student spends over $5,500 annually on retail goods and services. Catalyst estimated the potential capture of student retail expenditures based on study area distance from the campus and the percent of expenditures spent off campus for each retail category. There is potential for the subject area to capture over $9M in student retail expenditures annually, which may support nearly 21,000 SF of retail and restaurants. Food accounts for the largest portion of student demand. Approximately 36% of total discretionary spending is spent on groceries, full-service restaurants, and fast-food. The next largest categories are automotive (15%), clothing and shoes (11%), entertainment (9%), personal care and cosmetics (12%).

Assuming a 1% increase in student enrollment annually (which is 50% of the recent trend), student retail expenditures at the proposed development may increase from $9.5M to $10.5 over the first ten years of the developments. Such an increase in retail expenditures would support an additional 275 SF annually.

Mckinney Area College

Collin College - McKinney, TX

27,424 Students

Enrollment

Capture (%) *10%* **Capture (#)** *2,742 Students*

Student Potential Annual Expenditures (1-5 years)					
Category	Year 1	Year 2	Year 3	Year 4	Year 5
Grocery Stores	$2,529,367	$2,554,661	$2,580,208	$2,606,010	$2,632,070
Limited-Service Eating Places	$905,840	$914,898	$924,047	$933,288	$942,620
Full-Service Restaurants	$1,416,743	$1,430,910	$1,445,219	$1,459,671	$1,474,268
Auto Parts, Accessories, & Tire Stores	$2,166,224	$2,187,886	$2,209,765	$2,231,862	$2,254,181
Clothing Stores	$415,350	$419,504	$423,699	$427,936	$432,215
Shoe Stores	$415,350	$419,504	$423,699	$427,936	$432,215
Jewelry, Luggage, & Leather Goods	$415,350	$419,504	$423,699	$427,936	$432,215
Electronincs & Appliance Stores	$239,750	$242,148	$244,569	$247,015	$249,485
Health & Personal Care Stores	$1,058,681	$1,069,267	$1,079,960	$1,090,760	$1,101,667
Entertainment	$92,842	$93,770	$94,708	$95,655	$96,612
Total Demand (SF)	$9,562,655	$9,658,282	$9,754,865	$9,852,413	$9,950,937

Student Potential Annual Expenditures (6-10 years)					
Category	Year 6	Year 7	Year 8	Year 9	Year 10
Grocery Stores	$2,658,390	$2,684,974	$2,711,824	$2,738,942	$2,766,332
Limited-Service Eating Places	$952,047	$961,567	$971,183	$980,895	$990,704
Full-Service Restaurants	$1,489,011	$1,503,901	$1,518,940	$1,534,129	$1,549,471
Auto Parts, Accessories, & Tire Stores	$2,276,723	$2,299,490	$2,322,485	$2,345,710	$2,369,167
Clothing Stores	$436,537	$440,903	$445,312	$449,765	$454,262
Shoe Stores	$436,537	$440,903	$445,312	$449,765	$454,262
Jewelry, Luggage, & Leather Goods	$436,537	$440,903	$445,312	$449,765	$454,262
Electronincs & Appliance Stores	$251,980	$254,500	$257,045	$259,615	$262,212
Health & Personal Care Stores	$1,112,684	$1,123,811	$1,135,049	$1,146,399	$1,157,863
Entertainment	$97,578	$98,554	$99,539	$100,535	$101,540
Total Demand (SF)	$10,050,447	$10,150,951	$10,252,461	$10,354,985	$10,458,535

Student Incremental Supportable Retail by Square Foototage										
Category	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Grocery Stores	5,325	53	54	54	55	55	56	57	57	58
Limited-Service Eating Places	3,019	30	30	31	31	31	32	32	32	33
Full-Service Restaurants	3,334	33	34	34	34	35	35	35	36	36

Student Incremental Supportable Retail by Square Foototage										
Auto Parts, Accessories, & Tire Stores	4,332	43	44	44	45	45	46	46	46	47
Clothing Stores	1,510	15	15	15	16	16	16	16	16	16
Shoe Stores	2,769	28	28	28	29	29	29	29	30	30
Jewelry, Luggage, & Leather Goods	1,319	13	13	13	14	14	14	14	14	14
Electronincs & Appliance Stores	799	8	8	8	8	8	8	8	9	9
Health & Personal Care Stores	3,529	35	36	36	36	37	37	37	38	38
Entertainment										
Total Demand (SF)	**25,936**	**259**	**262**	**265**	**267**	**270**	**273**	**275**	**278**	**281**

WORKFORCE GENERATED RETAIL DEMAND

There are over 1,300 business that employee nearly 11,300 workers within a 5-minute drive of the study area. Research of workforce spending patterns indicate that workers spend approximately $195 per week. A quality development with national and regional brands, convenient parking, and a wide array of retail and restaurant options may easily capture 10% of potential retail expenditures from the local workforce, which is over $7.6M in retail expenditures, excluding transportation and online spending. These expenditures may support an additional 25,000 SF of retail.

Potential Annual Workforce Expenditures	
Workforce Employees	11,335
Total Weekly Expenditures	$195
Percent Capture	10%
Total Annuall Expenditures *(Expenditures exclude transportation & online spending)*	**$7,691,931**

Share of Average Workforce Spending in Urban Markets

NAICS	Category	Percent	Weekly Expenditures	Annual Expenditures	Sales Per SF	Demand (SF)
447,4471	**Gasoline Stations**	21.9%	$48,406.12	$2,420,305.88	300	
4541	**Electronic Shopping & Mail-Order Houses**	8.4%	$18,566.73	$928,336.50	-	-
7221	**Full-Service Restaurants**	8.1%	$17,903.63	$895,181.63	425	2,106
7222	**Limited-Service Eating Places**	7.7%	$17,019.50	$850,975.13	300	2,837
4521	**Department Stores**	3.9%	$8,620.27	$431,013.38	300	1,437
4529	**Other General Merchandise Stores**	12.0%	$26,523.90	$1,326,195.00	200	6,631
446,4461	**Health & Personal Care Stores**	11.7%	$25,860.80	$1,293,040.13	300	4,310
4451	**Grocery Stores**	9.6%	$21,219.12	$1,060,956.00	475	2,234
4481	**Clothing Stores**	2.0%	$4,420.65	$221,032.50	275	804

Share of Average Workforce Spending in Urban Markets						
4482	**Shoe Stores**	1.5%	$3,315.49	$165,774.38	150	1,105
4511	**Sporting Goods/Hobby/Musical Instr Stores**	1.3%	$2,873.42	$143,671.13	300	479
4431	**Electronics & Appliance Stores**	2.9%	$6,409.94	$320,497.13	300	1,068
4483	**Jewelry, Luggage & Leather Goods Stores**	2.4%	$5,304.78	$265,239.00	315	842
4532	**Office Supplies, Stationery & Gift Stores**	4.4%	$9,725.43	$486,271.50	300	1,621
	Entertainment	2.1%	$4,641.68	$232,084.13	-	-
	Total	**99.9%**	**$220,811.47**	**$11,040,573.38**		**25,473**

COMMUTER GENERATED RETAIL DEMAND

Over 75,700 vehicles per day pass within close proximity of the study area. The ability of the study area to capture commuter retail spending will vary based on several factors including visibility of store fronts, convenient hours, recognizable national and regional retail brands, convenient parking, and a critical mass of retail shopping and other businesses that make a stop more convenient for the commuter.

Assuming a medium capture rate of 0.5% and average weekly spending of $131, the subject site may reasonably capture $24.8M in annual retail expenditures by commuters. There is potential to capture $3.2M in grocery sales, $3.4M in full-service restaurants and fast food, and $1.3M in other retail categories. Currently, there is potential commuter demand to support nearly 41,600 SF in additional retail goods and services. Population growth projected in the region will create additional demand over time. Assuming a 1.25% annual growth rate, commuter generated workforce demand will increase from $24.8M to $27.7M over the first ten years of the development. Such growth would support an additional 500 SF of retail annually.

Retail Expenditures		
Percent	**Weekly Expenditures**	**Annual Expenditures**
38%	$189,465	$9,473,250
4%	$18,947	$947,325
13%	$64,418	$3,220,905
14%	$68,207	$3,410,370
26%	$128,836	$6,441,810
5%	$26,525	$1,326,255
100%	$496,398	$24,819,915

Retail Expenditures						
NAICS	**Category**	**%**	**Weekly Expenditures**	**Annual Expenditures**	**Sales Per SF**	**Demand (SF)**
447,4471	Gasoline Stations	38%	$189,465	$9,473,250	300	
Total		**100%**	**$496,398**	**$24,819,915**		**41,632**

Retail Expenditures						
NAICS	Category	%	Weekly Expenditures	Annual Expenditures	Sales Per SF	Demand (SF)
4413	Auto Parts, Accessories, & Tire Stores	4%	$18,947	$947,325	500	
4451	Grocery Stores	13%	$64,418	$3,220,905	475	6,781
7221	Full-Service Restaurants	7%	$34,104	$1,705,185	425	4,012
7222	Limited-Service Eating Places	7%	$34,104	$1,705,185	300	5,684
4521	Department Stores	3%	$14,315	$715,757	300	2,386
4529	Other General Merchandise Stores	3%	$14,315	$715,757	200	3,579
446,4461	Health & Personal Care Stores	3%	$14,315	$715,757	300	2,386
4481	Clothing Stores	3%	$14,315	$715,757	275	2,603
4482	Shoe Stores	3%	$14,315	$715,757	150	4,772
4511	Sporting Goods/Hobby/Musical Instr Stores	3%	$14,315	$715,757	300	2,386
4431	Electronics & Appliance Stores	3%	$14,315	$715,757	300	2,386
4483	Jewelry, Luggage & Leather Goods Stores	3%	$14,315	$715,757	315	2,272
4532	Office Supplies, Stationery & Gift Stores	3%	$14,315	$715,757	300	2,386
	Other	5%	$26,525	$1,326,255	-	-
Total		**100%**	**$496,398**	**$24,819,915**		**41,632**

5.4 RESIDENTIAL GENERATED RETAIL DEMAND

The total unmet retail demand was examined across retail categories for residents living 0 to 3 miles from the study area, 3 to 5 miles from the study area, and 5 to 10 miles from the study area. The potential capture of unmet retail demand was estimated based on average distance traveled for each retail category.

Different capture rates were based on different distances by retail category in order to calculate total residential demand for the Study Area. There are 14,000 households with aggregated retail expenditures of $400M within 3 miles of the study area. Of the total retail expenditures there is an unmet demand of $35M across retail categories. After applying the potential capture of unmet retail demand, the residents living within this geography may support an additional 5,300 SF of retail space.

There are 19,000 households that reside 3 to 5 miles from the study area, and an additional 74,000 households 5 to 10 miles from the study area. Combined, these two geographies spend nearly $4.1B on retail goods and services annually. After examining the unmet demand for retail and applying capture rates based on average drive time for each category of retail purchases, there is potential for the study area to capture $1.9M in annual retail expenditures. The residents living with 3 to 5 miles may support an additional 72,000 SF of retail space, and residents living within 5 to 10 miles may support 88,000 SF.

Therefore, there is potential for the study area to capture 166,000 SF of retail goods and services. A mixed use development with multifamily housing, along with residential growth in the region will generate additional retail demand. An additional 100 multifamily units may generate $2.3M in retail expenditures, which will support an additional 7,800 SF of retail. An annual population growth of 1.25% may support an additional 4,300 SF of retail. Therefore, the current residential supported retail demand may increase from 166,000 SF to 235,000 SF of retail over the first with the construction of 100 units of multifamily over the first four years of the development in addition to a 1.25% annual growth rate.

Demand by Range

NAICS	Category	0 - 3 Miles	3 - 5 Miles	5 - 10 Miles	Total (SF)
4411	Automobile Dealers	-	-	-	-
4412	Other Motor Vehicle Dealers	-	-	-	-
4413	Auto Parts, Accessories & Tire Stores	-	-	-	-
4421	Furniture Stores	-	-	-	-
4422	Home Furnishings Stores	-	-	1,057	1,057
4431	Electronics & Appliance Stores	-	1,939	2,742	4,681
4441	Bldg Material & Supplies Dealers	-	4,278	1,883	6,161
4442	Lawn & Garden Equip & Supply Stores	-	178	560	739
4451	Grocery Stores	-	-	7,202	7,202
4452	Specialty Food Stores	-	694	2,300	2,994
4453	Beer, Wine & Liquor Stores	1,799	1,617	2,255	5,672
446,4461	Health & Personal Care Stores	1,340	-	-	1,340
447,4471	Gasoline Stations	-	-	-	-
4481	Clothing Stores	-	-	3,279	3,279
4482	Shoe Stores	-	-	-	-
4483	Jewelry, Luggage & Leather Goods Stores	-	-	851	851
4511	Sporting Goods/Hobby/Musical Instr Stores	-	1,983	1,755	3,738
4512	Book, Periodical & Music Stores	1,182	896	1,822	3,900
4521	Department Stores Excluding Leased Depts.	-	729	5,098	5,827
4529	Other General Merchandise Stores	-	38,010	29,483	67,493
4531	Florists	-	214	302	516
4532	Office Supplies, Stationery & Gift Stores	-	710	265	975
4533	Used Merchandise Stores	-	2,006	3,604	5,610
4539	Other Miscellaneous Store Retailers	-	2,660	4,440	7,101
7221	Full-Service Restaurants	-	2,994	4,042	7,035
7222	Limited-Service Eating Places	-	11,137	12,330	23,467
7223	Special Food Services	743	613	866	2,221
7224	Drinking Places - Alcoholic Beverages	286	1,653	2,797	4,736
	Total Demand (SF)	**5,350**	**72,311**	**88,934**	**166,596**

Incremental Demand Over Time by Square Footage										
Category	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Automobile Dealers	-	1,278	1,278	1,278	1,278	-	-	-	-	-
Other Motor Vehicle Dealers	-	83	83	83	83	-	-	-	-	-
Auto Parts, Accessories & Tire Stores	-	73	73	73	73	-	-	-	-	-
Furniture Stores	-	108	108	108	108	-	-	-	-	-
Home Furnishings Stores	1,057	102	102	103	103	31	32	32	33	33
Electronics & Appliance Stores	4,681	371	373	375	377	157	159	161	163	165
Bldg Material & Supplies Dealers	6,161	386	388	390	392	165	167	169	171	174
Lawn & Garden Equip & Supply Stores	739	45	45	45	46	19	19	20	20	20
Grocery Stores	7,202	1,061	1,065	1,069	1,073	327	331	335	340	344
Specialty Food Stores	2,994	158	159	160	161	90	91	92	93	94
Beer, Wine & Liquor Stores	5,672	114	115	116	116	61	61	62	63	64
Health & Personal Care Stores	1,340	546	833	836	840	298	302	305	309	313
Gasoline Stations	-	844	844	844	844	-	-	-	-	-
Clothing Stores	3,279	523	525	527	529	161	163	165	167	170
Shoe Stores	-	112	112	112	112	-	-	-	-	-
Jewelry, Luggage/Leather Goods Stores	851	101	101	101	102	31	31	32	32	33
Sporting Goods/Hobby/Musical Instr Stores	3,738	277	278	280	282	133	135	137	138	140
Book, Periodical & Music Stores	3,900	88	88	89	89	42	43	43	44	44
Dept. Stores Excluding Leased Depts.	5,827	823	827	831	835	349	353	358	362	367
Other General Merchandise Stores	67,493	2,483	2,498	2,514	2,530	1,314	1,330	1,347	1,364	1,381
Florists	516	17	17	17	17	9	9	9	9	9
Office Supplies, Stationery & Gift Stores	975	96	96	97	98	51	51	52	53	53
Used Merchandise Stores	5,610	167	168	169	170	88	89	91	92	93
Other Miscellaneous Store Retailers	7,101	294	296	298	299	156	158	160	162	164
Full-Service Restaurants	7,035	349	351	352	354	123	125	127	128	130
Limited-Service Eating Places	23,467	860	866	871	877	455	461	467	472	478
Special Food Services	2,221	44	45	45	45	21	22	22	22	22
Drinking Places - Alcoholic Beverages	4,736	121	122	123	124	64	65	66	67	68
Total Demand (SF)	**166,596**	**11,522**	**11,854**	**11,904**	**11,955**	**4,147**	**4,199**	**4,251**	**4,304**	**4,358**

5.5 AGGREGATE RETAIL DEMAND

Retail demand for the study area will be impacted by each of the demand drivers discussed above, which include commuters, workforce, students, and the residential population. The table below shows the potential currently of each of these demand drivers and the cumulative supportable square footage by each retail category. Based on current demand, the study area has the potential to support over 255,000 SF of retail across all retail categories. Additional multifamily development and projected population growth will fuel additional demand over time. An additional 5,000 SF to 10,000 SF of retail may be supported annually due to natural growth in the region.

Potential Supportable Retail Square Footage By Retail Category

Category	NAICS	Year 1	Year 2	Year 3	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Automobile Dealers	4411	-	-	-	-	-	-	-	-	-
Other Motor Vehicle Dealers	4412	-	-	-	-	-	-	-	-	-
Auto Parts, Accessories & Tire Stores	4413	-	-	-	-	-	-	-	-	-
Furniture Stores	4421	-	108	108	108	-	-	-	-	-
Home Furnishings Stores	4422	1,057	102	102	103	31	32	32	33	33
Electronics & Appliance Stores	4431	8,934	409	411	416	197	200	202	205	207
Bldg Material & Supplies Dealers	4441	6,161	386	388	392	165	167	169	171	174
Lawn & Garden Equip & Supply Stores	4442	739	45	45	46	19	19	20	20	20
Grocery Stores	4451	21,542	1,199	1,204	1,216	472	477	483	489	495
Specialty Food Stores	4452	2,994	158	159	161	90	91	92	93	94
Beer, Wine & Liquor Stores	4453	5,672	114	115	116	61	61	62	63	64
Health & Personal Care Stores	4461	11,565	611	899	907	366	370	375	379	384
Gasoline Stations	4471	-	-	-	-	-	-	-	-	-
Clothing Stores	4481	8,196	571	573	578	211	214	216	219	222
Shoe Stores	4482	8,646	199	200	202	91	93	94	95	96
Jewelry, Luggage/Leather Goods Stores	4483	5,284	142	143	145	75	75	76	77	78
Sporting Goods/Hobby/Musical Instr Stores	4511	6,603	307	309	313	165	167	169	171	173
Book, Periodical & Music Stores	4512	3,900	88	88	89	42	43	43	44	44
Dept. Stores Excluding Leased Depts.	4521	9,650	853	857	866	380	385	390	395	400
Other General Merchandise Stores	4529	77,703	2,527	2,543	2,576	1,361	1,378	1,395	1,413	1,430
Florists	4531	516	17	17	17	9	9	9	9	9
Office Supplies, Stationery & Gift Stores	4532	4,981	126	127	129	82	83	84	85	86
Used Merchandise Stores	4533	5,610	167	168	170	88	89	91	92	93
Other Miscellaneous Store Retailers	4539	7,101	294	296	299	156	158	160	162	164
Full-Service Restaurants	7221	16,487	433	435	440	211	213	216	219	221
Limited-Service Eating Places	7222	35,007	961	968	982	561	568	575	582	589
Special Food Services	7223	2,221	44	45	45	21	22	22	22	22
Drinking Places - Alcoholic Beverages	7224	4,736	121	122	124	64	65	66	67	68
Total Demand (SF)		**255,305**	**9,981**	**10,22**	**10,440**	**4,918**	**4,979**	**5,041**	**5,103**	**5,167**

V. Office Market

The overall DFW office market demonstrated strong performance in the first quarter of 2014 with both declining vacancy rate and positive net absorption. Total inventory for the overall DFW market area was 340.9M SF in 10,895 buildings at the end of the fourth quarter 2014.

The office vacancy rate decreased to 14.7% at the end of the first quarter in 2014. The vacancy rate was 15.1% at the end of the fourth quarter 2013, 15.2% at the end of the third quarter, and 15.7% at the end of the second quarter 2013. Class-A projects reported a vacancy rate of 15.1%, Class-B 16.1%, and Class-C 9.3% at the end of the first quarter 2014. The vacancy rate in the suburban market decreased from 14.5% at the end of the second quarter 2013 to 13.5% in the first quarter of 2014.

The overall DFW office market experienced positive net absorption of 1.6M SF in the first quarter of 2014. That compares to 373,000 SF in the fourth quarter 2013, 2.3M SF in the third quarter 2013, and 154,000 in the second quarter 2013. The Class-A, Class-B, and Class-C office market all recorded positive net absorption in the first quarter 2014. Net absorption for the suburban markets was positive 1.3 M SF in the first quarter of 2014.

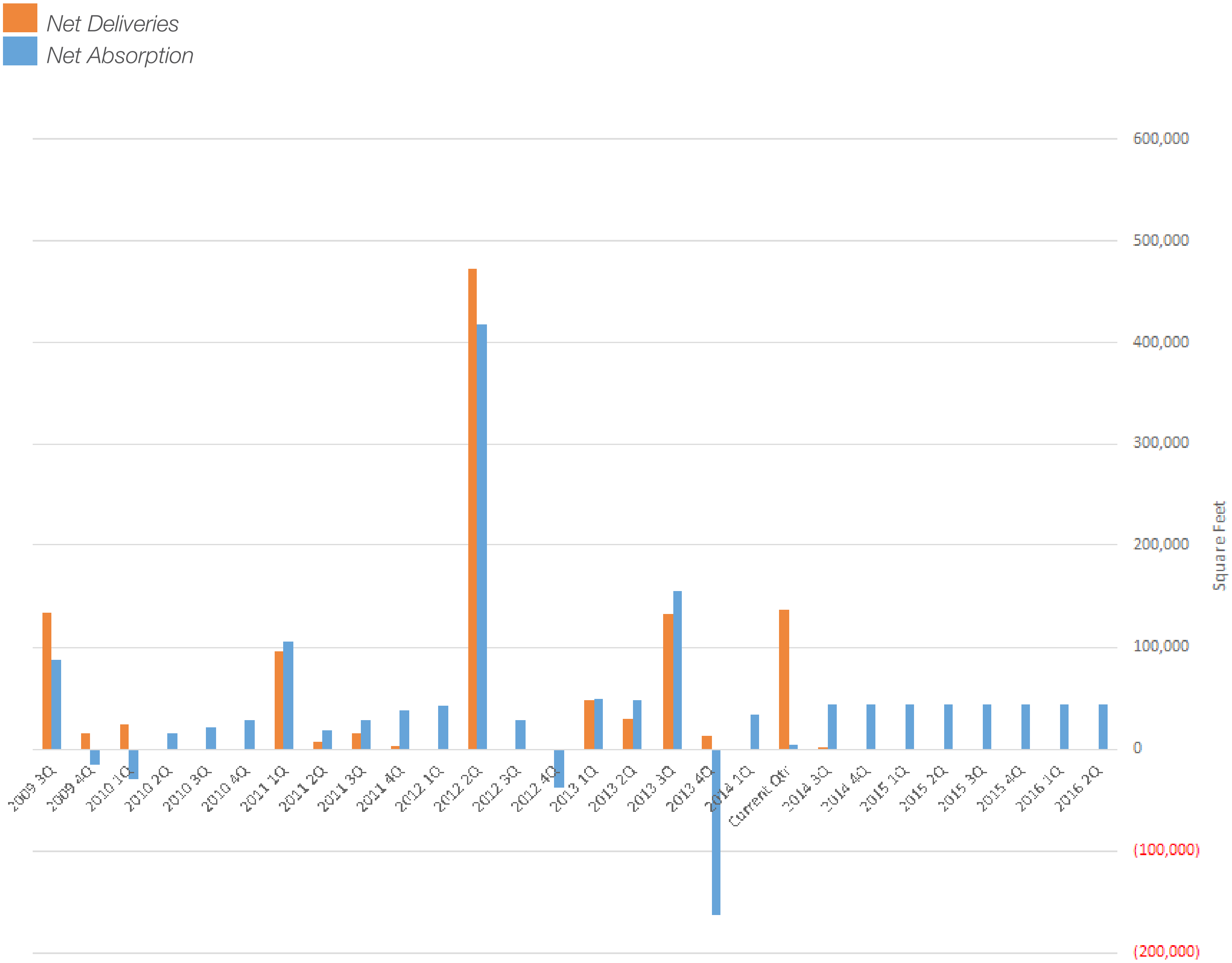
The average rental rate for available office space in the overall DFW market for all classes was $20.89 per SF, a 1.8% increase from the fourth quarter of 2013. The average quoted rate for Class-A space was $24.05 at the end of the first quarter 2014, while rates for Class-B space stood at $18.5, and Class-C rates at $15.49.

Twenty-three new buildings were delivered to the DFW market area adding 397,000 SF of retable building area. There was 6.1M SF is still under construction at the end of the first quarter 2014. The largest projects underway are the Future State Farm Campus, a 1.5M SF building with 100% of its space pre-leased.

The Allen/McKinney submarket is one of the tops performing in the overall DFW market with some of the highest rents of the submarkets in the DFW market. Net absorption in the Allen/McKinney submarket was 59,000 SF. The quoted asking rate was $23.08, compared to the highest rate $31.74 at the Preston Center Submarket.

In Class an office space, the Allen/McKinney submarket had 2,000 SF of net absorption at the end of the first quarter 2014. Rental rates were quoted at $25.38. There was 124,000 SF of office space under construction at the end of first quarter 2014.

City of Mckinney Office Net Absorption & Net Deliveries



The city of McKinney has 4.8M SF of rentable building area. The vacancy decreased to 6.6% in the first quarter 2014 from 8.2% in the first quarter of 2013. The City absorbed 35,000 SF of office space in the first quarter 2014, and nearly 91,000 year-over-year since first quarter 2013. The chart above shows the historical and projected net absorption and net deliveries to the city of McKinney Office Market. Based on recent trends McKinney is projected to absorb 180,000 SF of office space annually over the next two years.

Currently, an estimated 63,500 SF (36%) of existing office space is small office space. Based on these trends, nearly 63,000 SF of net absorption will be for small office space. The proximity of the subject site to Downtown McKinney, SH 5, and US 380 may enable such a development to capture 12,700 SF (20%) of small office net absorption. Small business relocation from existing space may create additional demand. Based on historical office space turnover trends and average vacancy rates, the subject site may capture an additional 4,000 SF of annual office demand for a total of 16,600 SF of annual absorption.

McKinney Submarket Small Office Firms			
	Firms	**Employees**	**Employees/ Firm**
Finance & Insurance	419	2,048	5
Real Estate	294	930	3
Professional, Scientific, and Technical Services	1,275	3,065	2
Management of Companies and Enterprises	45	99	2
Health Services	54	322	6
Arts & Entertainment	128	581	5
Total	**2,215**	**7,045**	**3**
Average Square Foot per Employee	250		
Total Small Office Square Footage	1,761,250		
Total Office Square Footage	4,960,3660		
Small Office Portion of Office Space	36%		
Average Submarket Class A + B SF Absorption	179,048		
Potential Small Office Class A + B SF Absorption	63,574		
Estimated Subject Site Capture Rate	20%		
Potential Capture SF from Absorption	**12,715**		
Potential Turnover	5%		
Potential Turnover Square Footage	88,063		
Average Vacancy Rate	10%		
Total Occupancy from Turnover	79,256		
Estimated Subject Site Cature Rate	5%		
Potential Capture Square Footage from Turnover	**3,963**		
Total Potential Square Footage	**16,678**		

SOURCES: *ESRI Business, COSTAR*