

Market Analysis & Retail Sales Shift Projections

PROPOSED EMPORIA PAVILIONS
By Emporia Land Development, LLC
Emporia, Kansas

Prepared for the City of Emporia

September 2015



TABLE OF CONTENTS

1.0 EXECUTIVE SUMMARY 2

2.0 PROJECT OVERVIEW 5

 2.1 ANALYSIS OF THE SUBJECT SITE..... 8

 2.2 COMPETITIVE RETAIL ENVIRONMENT 9

 2.3 SUMMARY OF LOCAL COMPETITION..... 12

3.0 TRADE AREA DEFINITION16

 3.1 DEMOGRAPHIC OVERVIEW..... 18

4.0 ESTIMATING SALES POTENTIAL AT THE PROPOSED PROJECT21

5.0 MARKET CONTEXT AND FORCES23

 5.1 RETAIL GAP ANALYSIS..... 23

6.0 SALES TRANSFER ANALYSIS.....27

 6.1 COMPARABLE CITIES RETAIL SALES ANALYSIS 27

 6.2 SALES TRANSFER ANALYSIS..... 28

 6.3 OTHER POTENTIAL RETAILERS..... 29

 6.4 SALES TRANSFER CONCLUSION..... 30

APPENDIX A – ASSESSED VALUATION33

APPENDIX B – TIF PROJECTIONS34

1.0 EXECUTIVE SUMMARY

The real estate development firm of Emporia Land Development, LLC has proposed the construction of a shopping center that would incorporate a total 258,300 square feet of retail and related space on the northwest side of Emporia, Kansas, at Industrial Road and West 24th Avenue just north of Interstate 35. The anchor of the project would be a large apparel or soft goods retailer with two junior anchors including a large hobby/craft store and another soft goods retailer. Hobby Lobby has signed a letter of intent to locate within the development.

The City of Emporia requested an independent study of this proposed project focused on a market study to determine the current performance of Emporia in the regional retail market, gauge the anticipated impact of new businesses created by the Project on existing businesses of similar types, and estimate the project's effect on the City's net retailers' sales tax revenues, as received from the proposed new businesses.

The site is well located about 0.3 mile north of the Industrial Road interchange with Interstate 35. This is the most developed interchange in Emporia with a Walmart, and the proposed shopping center will benefit from the existing traffic in the area. The site lacks visibility from the interstate, and access to the site is largely limited to Industrial Road, which is already lined with uses similar to those proposed for the development's out-lot parcels. The larger anchors would not be significantly impacted by these limitations. Existing retail development near the interchange appears to be under performing with noticeable vacancies. The new development should improve traffic to the area, and could shore up the existing vacant retail spaces.

Emporia serves as the retail center for surrounding communities, not only within Lyon County, but also neighboring counties on all sides. One measure of local competitiveness is the "Pull Factor" measured by Kansas State University and the Kansas Department of Revenue. Pull factor values greater than 1.00 indicate that local businesses are pulling in trade from beyond their home city border. A pull factor value less than 1.00 indicates more trade is being lost than pulled in. Emporia currently has a pull factor of 1.08, which indicates that the city is capturing sales from surrounding cities. But, it lags well behind other First Class cities in Kansas with an average Pull Factor of 1.16. Furthermore, the city's Pull Factor has decreased over the past ten years, suggesting the local retail environment has become less competitive. Retail options in the city are generally older and less attractive than those in nearby larger cities, so local shoppers and residents of the larger trade areas are increasingly willing to travel to find a more desirable shopping experience. Adding new and larger retail stores such as those planned for Emporia Pavilions should attract and retain more shoppers in the city.

We have utilized drive-time, competitive, and gravity analysis to determine which shoppers in the surrounding rural areas are most likely to travel to Emporia on a regular basis. Our trade area generally encompasses communities located within a 35 minute drive of Emporia. We estimate about half of the support for the project will come from within Emporia, with the other half coming from the surrounding rural communities in the larger trade area.

Emporia and the surrounding trade area are located in a low income portion of the state. Median household incomes in Emporia are about \$14,000 below the state median, though projected income growth is consistent with

that of the state. Recent and projected population growth also lags well behind the state with projected declines in population over the next five years. Thus, strong demographics are not a driving factor for a retailer seeking to enter the market. And, new excess demand (generated by population and income growth) in Emporia and the trade area will offer only limited support for the new business. Thus, the best opportunity for new retailers is to take advantage of the aging retail infrastructure to introduce more competitive offerings and capture sales from inferior competitors, or provide retail options that are not currently available in the market.

Based on industry data and our review of the project, site and local demographics we have estimated overall sales for the project of \$187 per square foot, or \$48.2 million. About 95 percent of these sales would be subject to local taxes, for an annual total of \$45.6 million in taxable sales. Based on the anticipated mix of stores, about 10 percent of anticipated sales will occur in the hobby/sporting goods category, and 74 percent will occur within the apparel category. The remaining 15 percent of sales would largely come from restaurant sales, with a small portion coming from convenience and other miscellaneous retailers. The estimated sales for Emporia Pavilions would increase the total retail supply of the city by about 12 percent.

Examining retail gaps in associated spending categories reveals some opportunities to capitalize on under-supplied retail sectors. The largest gaps in the trade area are found within the general merchandise, apparel, home electronics/appliances, miscellaneous goods, and restaurant categories. The hobby/sporting goods¹ category shows a large surplus of retail supply on both the local and trade area levels.

The trade area gap in apparel categories would support roughly half of the proposed stores. However, Emporia lacks a direct competitor in the apparel sector. Other competitors are generally larger department stores (Walmart, JC Penney) or smaller mall or boutique stores.

While data suggests there is a large surplus in the hobby/sporting goods sector, Emporia lacks a large hobby/craft store such as Hobby Lobby, At Home, or Michaels. A handful of small niche hobby and craft stores are located in the city, but due to their location and specific offerings they would not be directly affected by a new large store. The largest competitor in the sector is Walmart.

Looking at other proposed stores and restaurants, gasoline has a large surplus of supply in both Emporia and the larger trade area. And, smaller uses, such as drive-thru and sit-down restaurants, small shops and services, could likely be supported by existing gaps in the market.

We conclude that the development would generate \$34.2 million in net new and recaptured sales to the city, but at the same time transfer \$14.0 million in sales from existing businesses within Emporia. The transfer of sales is due in large part to new anchor stores (apparel and hobby). These stores would not be fully supported by a reasonable capture of the excess demand within the market. Of the net new and recaptured sales, about 98 percent, or \$33.5

¹ Retail stores in the hobby and sporting goods sectors share a similar NAICS code

million will be subject to local sales taxes. The \$33.5 million of net new and recaptured sales would increase Emporia's Pull Factor from 1.08 to 1.18. This increase is reasonable and consistent with the experience of some other small cities with new large retail developments. It could also reverse the recent decreases in Pull Factor, and bring Emporia to the average of First Class cities in Kansas.

The transferred sales support roughly 75,000 square feet of retail space. The new development will not necessarily result in the vacancy of retail space, since there are no direct competitors. Any sales losses would be spread over a large number of stores with Walmart and JC Penney being the closest competitors. JC Penney has struggled nationally and has an inferior location on the back side of FlintHills Mall. The store could very reasonably close without Emporia Pavilions' entry to the market and leave residents with even fewer apparel options.

Emporia is in need of new and more attractive retail development to remain competitive in the region. There is a significant opportunity for more hobby, apparel and soft goods retailers in the city, and there are no direct competitors in these shopping categories.

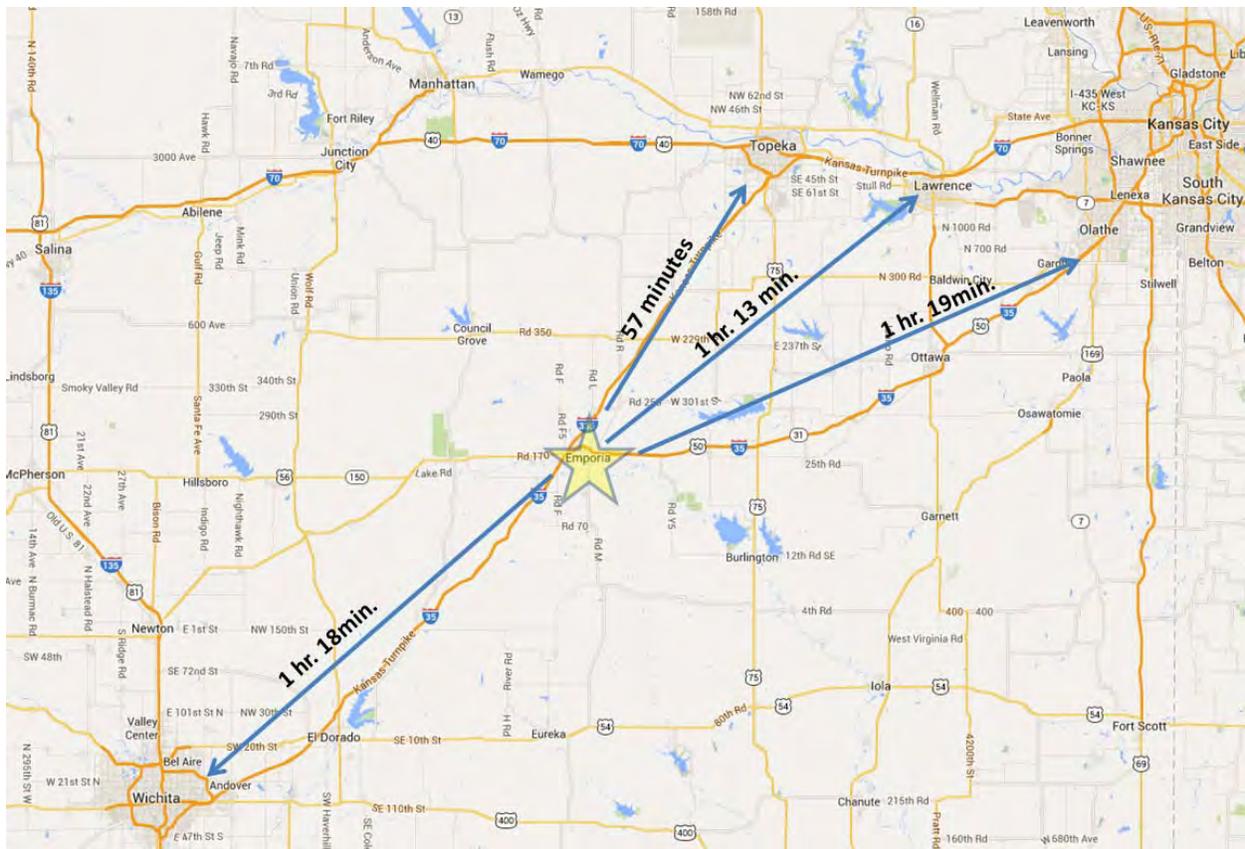
Overall, the development would generate an estimated \$48.2 million in sales, of which \$34.2 million (71 percent) would be net new and recaptured sales to the city. The remaining \$14.0 million in estimated sales would be transferred from existing businesses within Emporia. The transfer is due in large part to new anchor stores that would not be fully supported by excess demand that currently exists within the market. Of the net new and recaptured sales, about 98 percent, or \$33.5 million will be subject to local sales taxes.

2.0 PROJECT OVERVIEW

The real estate development firm of Emporia Land Development, LLC has proposed the construction of a shopping center that would incorporate a total 258,300 square feet of retail and related space on the northwest side of Emporia, Kansas, at Industrial Road and West 24th Avenue just north of Interstate 35. The City of Emporia has requested an independent market study of this proposed project focused on the following subject matters:

- The population areas (trade areas) that the Project will draw from;
- A demographic overview of Emporia and the trade areas,
- Assess the current performance of Emporia in the regional retail market using “pull factor” data from the Kansas Department of Revenue and retail gap analysis,
- Identify existing businesses in the City of similar types that will compete with new business created by the Project,
- Estimate the anticipated impact of new businesses created by the Project on existing businesses of similar types, and
- Estimate anticipated effect on the City’s net sales tax revenues, as received from the proposed new businesses in the District and from existing businesses of similar types located in the City.

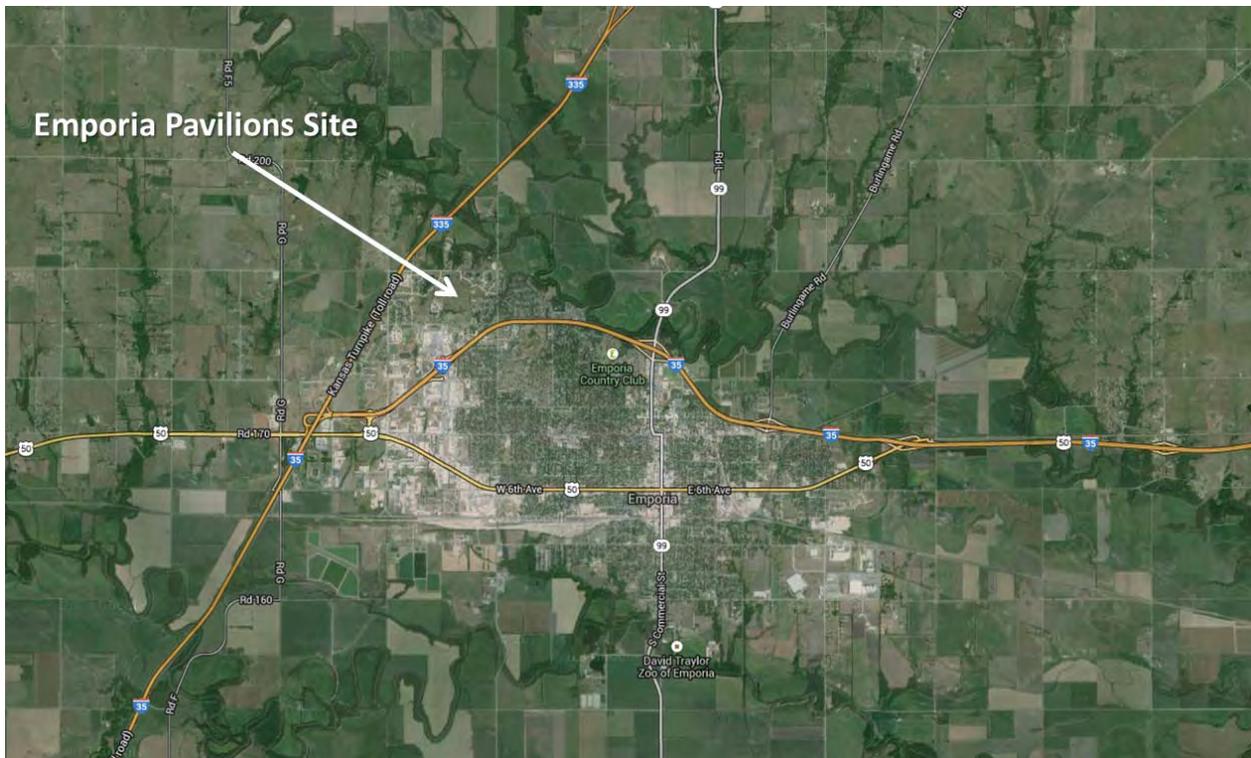
Emporia is located in the east-central portion of Kansas and is generally located about an hour’s drive from larger cities such as Topeka (50 miles northeast), Lawrence (60 miles northeast), Wichita (70 miles southwest), and Kansas City suburbs (80 mile northeast). The following map illustrates Emporia and rough driving times to these communities.



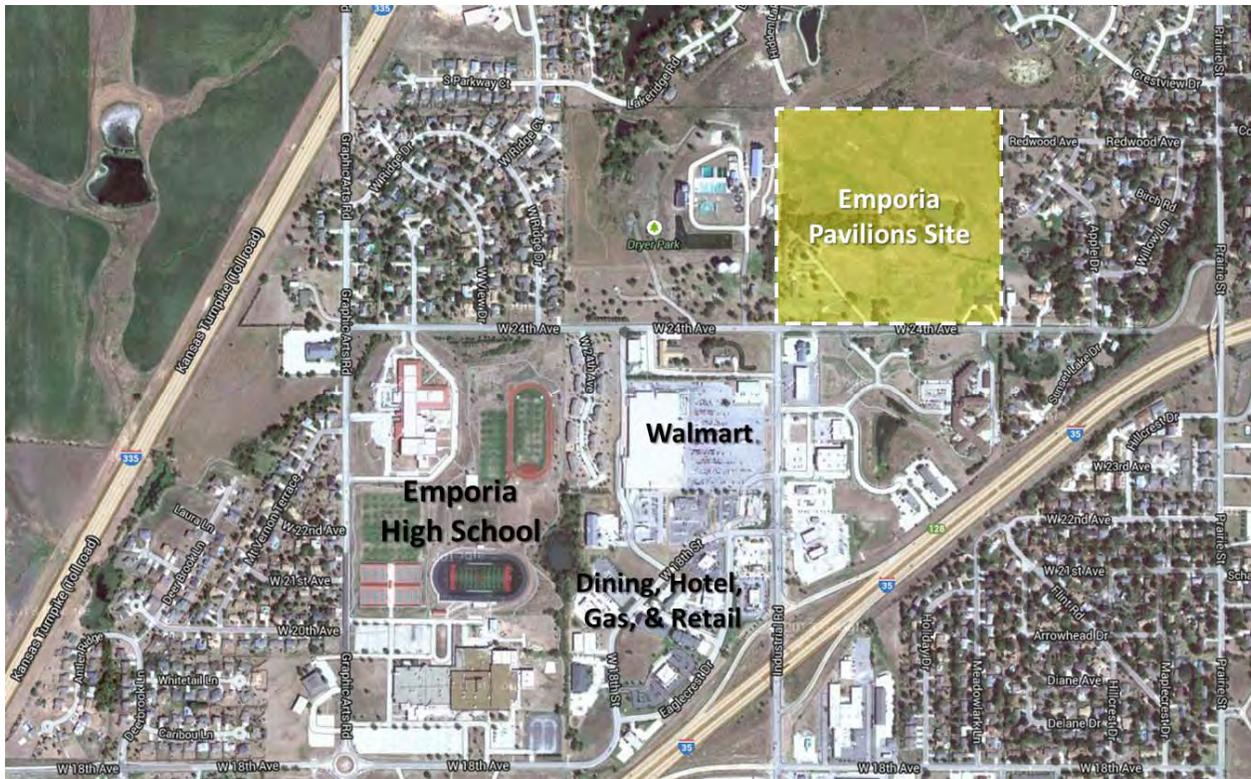
Map 1: Location of Emporia & Driving Distances to Larger Cities

With a population of about 25,000 Emporia is significantly smaller than both Topeka (125,000 pop.) and Wichita (385,000 pop.). These large markets offer a wider variety of shopping and dining, and Emporia residents are accustomed to driving long distances to take advantage of these options. That said, Emporia is the commercial center of rural Lyon County and surrounding counties, most of which contain less than 10,000 residents. These counties have very limited retail and dining options, and their residents will regularly travel to Emporia.

The following two aerial maps show a wide overview of Emporia and the surrounding countryside. The Emporia Pavilions site is indicated.



Map 2: Emporia Location and Surrounding Countryside



Map 3: Proposed Retail Location in Emporia

The project would be anchored by two large big box anchor stores, anticipated to include apparel/soft goods retailers or possibly a large sporting goods store. Three additional junior anchors would include a hobby/craft store and additional apparel stores. Another 26,300 square feet would be reserved for various other uses including a gas/convenience store, drive-thru and sit-down restaurants, and in-line retail space. Construction would likely begin in 2016 with stores being phased in over a four-year period.

As described further in this report, Development Strategies would expect the entire retail project to be able to generate around \$46.6 million in annual sales, in 2015 dollars, when fully operational. This equates to sales of about \$187 per square foot. The report describes the derivation of this sales potential, conditions for success, and potential impacts on the rest of the retail business climate in Emporia.

2.1 ANALYSIS OF THE SUBJECT SITE

The proposed site of Emporia Pavilions is roughly square in shape and contains 38.97 acres of land which is largely undeveloped with the exception of a few homes on large lots. Adjacent uses are residential to the north, south, and east, with a water treatment plant to the west. A concentration of retail, anchored by Walmart, is located just southwest of the site along Industrial Road. The site is well located about 0.3 mile north of the Industrial Road interchange with Interstate 35. This is the most developed interchange in



View of the proposed development site (left) looking east along 24th Street

Emporia with the Walmart and several restaurants and hotels located north of the interstate and FlintHills Mall and other adjacent retail located south of the interstate. Development at the site will benefit from the existing traffic in the area, and a cluster of big box uses in a small area can catalyze further development.

However, there are some concerns about the site from a retail perspective. First, the site lacks visibility from the interstate. Our inspection of the site suggests that none of the uses would be visible from drivers travelling east or west along the interstate due to location, topography, and surrounding uses. This should only be a minor issue for the large anchor stores, but typically interstate visibility would be preferable. Access to the site is limited to Industrial Road. West 24th Avenue, which runs along the southern edge of the site is a small residential road which terminates about a half mile east and west of the site, so through traffic is very limited. We understand that 24th Avenue would be upgraded as it runs adjacent to the site to accommodate increased traffic to the site, but the limitations of the street beyond the site will likely remain. These limitations will mainly impact the non-anchor

users, since competing uses are more conveniently located near the interchanges and along Industrial Road between the interstate and 24th Avenue. The larger anchor and junior anchor stores would generate a significant amount of traffic to the site, which should benefit all tenants in the center. Furthermore, the location benefits from the proximity to Walmart which attracts a large amount of traffic to the area, and local shoppers will clearly recognize the new shopping options.

City planning and development officials have indicated that there are development sites available proximate to the Interstate 35 interchange with the Kansas Turnpike and US Highway 50 (Sixth Street) that would be appropriate for big box retail. This other potential development area has the advantage of accessibility and visibility from major highways, but lacks the adjacency to a major concentration of retail with Walmart as an anchor. This site has yet to attract any retail development.

2.2 COMPETITIVE RETAIL ENVIRONMENT

In the following section we examine the competitive retail environment in Emporia. The competitive market for each anchor is examined along with the competitive environment for additional uses planned for the out-lot and in-line spaces proposed. Generally, Emporia serves as the retail center for surrounding communities, not only within Lyon County, but also neighboring counties on all sides. Anecdotally, this can be seen on a daily basis by noting license plates² in the parking lots of Walmart and Bluestem Farm and Ranch Supply. Even on a weekday, about half of the vehicles had license plates from outside of Lyon County, some from as far away as three hours. It is not unusual for shoppers in these rural communities to travel 30 minutes to an hour to shop and dine. Thus, Emporia is well positioned (about an hour away from four much larger urban areas) to capture this demand. Conversely, residents in these surrounding communities are less hesitant to travel long distances to even larger communities that offer a wider variety of goods and services. Even Emporia residents will regularly travel to larger cities to take advantage of these opportunities.

A quantitative measure of the city and county's ability to attract and retain its shoppers is known as a "retail pull factor." Kansas State University tracks pull factors for the state's cities and counties very closely, and has an excellent time series database for tracking pull factor changes. The data is available from the Kansas Department of Revenue.

As defined by KSU,³ the pull factor is a location quotient of retail trade that measures the relative strength of the retail business community. The pull factor is computed by dividing the per capita sales tax⁴ of a city by the statewide per capita sales tax. A pull factor of 1.00 is a "perfect balance of trade." The purchases of city residents

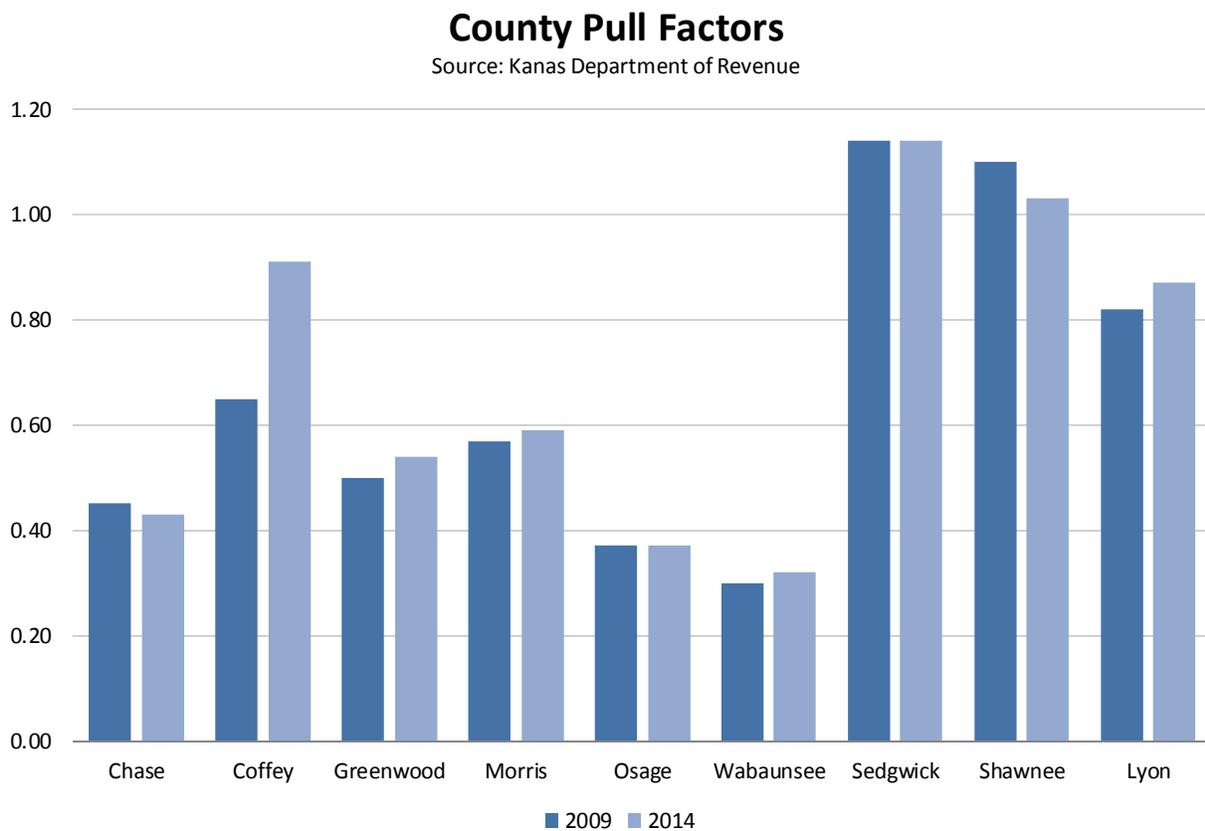
² Kansas includes a county code on license plates.

³ Kansas Department of Revenue, Office of Policy and Research. *An Annual Report of Trade Pull Factors and Trade Area Captures: Annual Report for Fiscal Year 2014*. Issued December 2014.

⁴ Note that the basis for pull factors is the state and local sales tax, while the ratios derived from the ESRI data rely on estimates of actual buying power and retail sales.

who shop elsewhere are offset by the purchases of out-of-city customers. Pull factor values greater than 1.00 indicate that local businesses are pulling in trade from beyond their home city border. Thus, the balance of trade is favorable. A pull factor value less than 1.00 indicates more trade is being lost than pulled in. This is an unfavorable balance of trade.

The following chart compares the Pull Factor of Lyon County to those of bordering counties, as well as those of two nearby counties with significantly larger urban areas (Wichita in Sedgwick County and Topeka in Shawnee County). It also shows the change in Pull Factor for each county over the past five years.



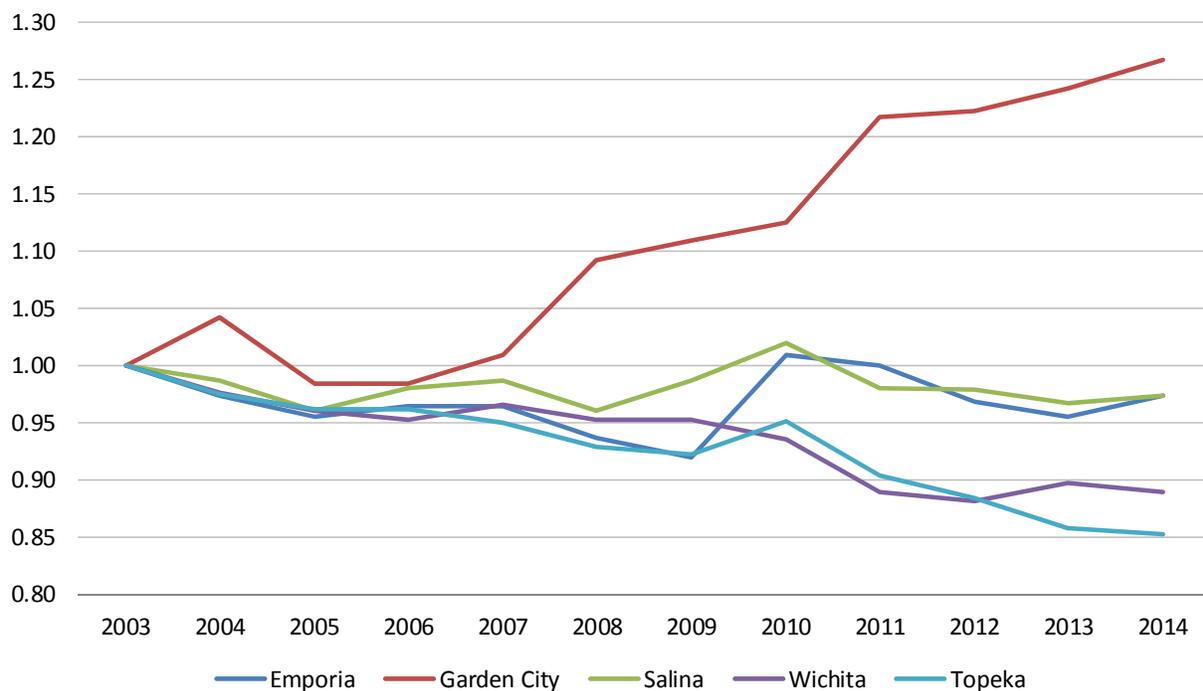
While Lyon County has a significantly higher Pull Factor compared to most of the surrounding counties, its pull factor of 0.87 in 2014 indicates that it still loses sales to other counties. A good portion of these sales are likely lost to Sedgwick and Shawnee given their size and proximity to Lyon and adjacent counties, and their Pull Factors of greater than 1.00. Interestingly, Lyon and all but one of the surrounding rural counties have seen small improvements in their Pull Factors of the past five years, while the two larger counties have seen slight declines. This suggests the retail environment in these more rural counties is improving and/or that shoppers are more willing to shop closer to home.

However, the story is somewhat different if we look specifically at Emporia. Emporia currently has a pull factor of 1.08, which indicates that the city is capturing sales from surrounding communities.⁵ But, it lags well behind the average of other First Class cities in Kansas with an average pull factor of 1.16.

From 2003 to 2014, Emporia's Pull Factor rank among Kansas's first class cities has dropped from 13 to 15 (out of 25). At the same time other small cities such as Garden City and Salina have seen their ranks increase (Garden City 9 to 2, Salina 5 to 3). During this time the nearby larger cities of Wichita (11 to 13) and Topeka (3 to 7) have also seen their ranks drop. The following graph shows the changes in Pull Factors among these five cities indexed to 2003.

Indexed Pull Factor, 2003-2014

Source: Kansas Department of Revenue



Emporia and Salina see slight decreases over the period, while Garden City sees a dramatic increase, and the larger cities see decreases of over 10 percent. Even Lenexa, the top-ranked city by Pull Factor, has seen the factor decrease from 1.96 in 2003 to 1.55 in 2014, a 21 percent decrease. Similar to the county level changes, this seems to indicate that smaller communities are becoming more competitive or are more likely to retain local shoppers. As a smaller rural city, this provides both a risk and opportunity for Emporia.

⁵ If Emporia is excluded from the outlying areas of Lyon County, the remainder of the county has a pull factor of only 0.28. This indicates households living in Lyon County but outside of Emporia are doing a large majority of their shopping in Emporia or other cities outside of the county.

2.3 SUMMARY OF LOCAL COMPETITION

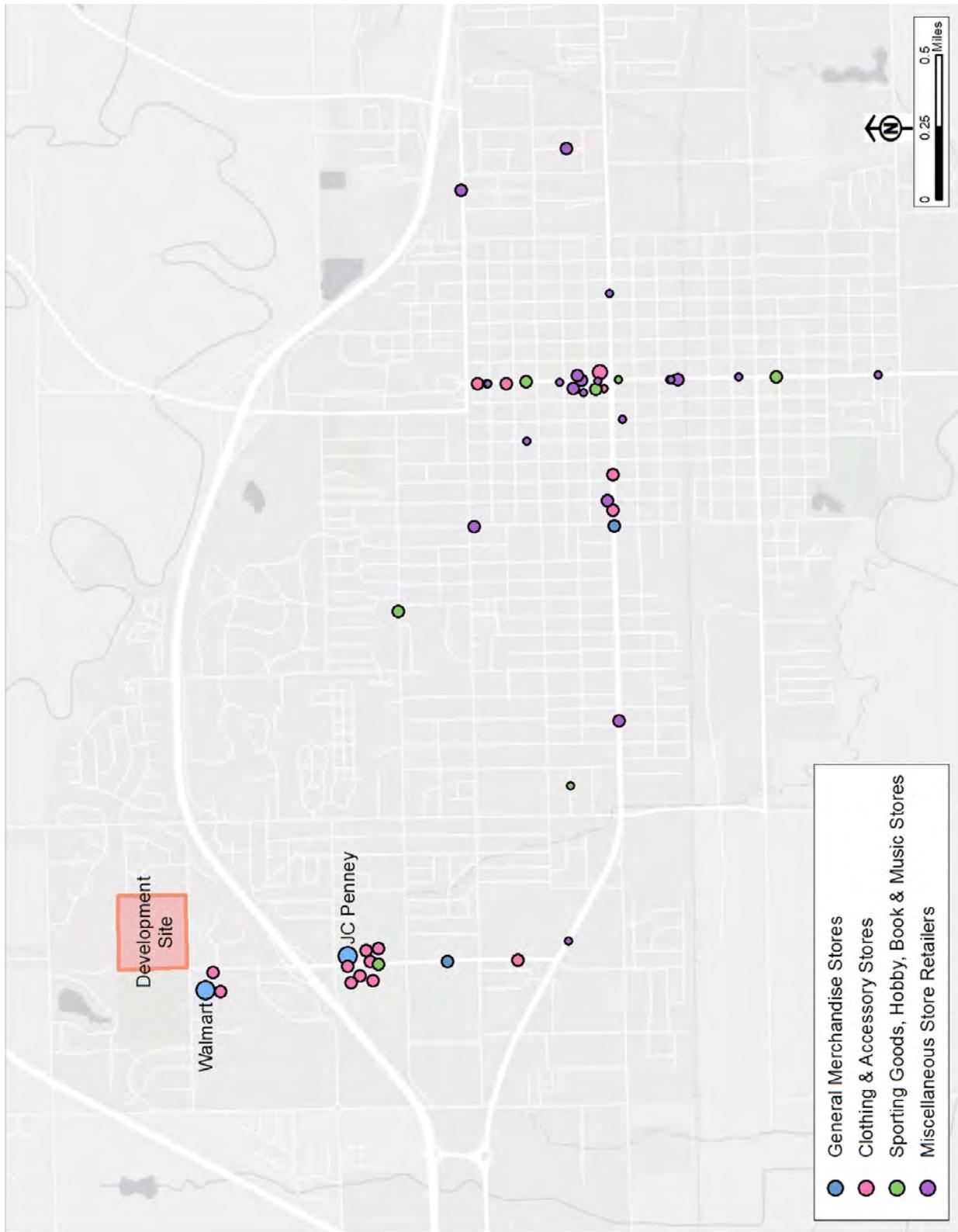
Our search of business listings for Emporia has identified 196 businesses by NAICS code within retail and restaurant categories. Looking specifically at retail sectors targeted by the proposed development, 18 businesses fall within apparel category, 10 were classified as sporting goods and hobby stores, 26 businesses fall within a variety miscellaneous niche retail categories, and 51 were restaurants. Another four businesses (Walmart, JC Penny and two Dollar General stores) are classified as general merchandise stores which partially cross-over into the identified sectors.

Anchor Competitors (Apparel, Hobby, General Merchandise)

During our visit to Emporia we did not identify any business that would compete directly with larger apparel stores or a hobby and craft store. Competition in these sectors comes mainly from the large department stores (Walmart and JC Penny) and smaller mall or boutique stores. The small mall and boutique stores tend to serve niches in the larger categories and would not be significantly impacted. JC Penney has struggled nationally and has an inferior location on the back side of FlintHills Mall. The store could very reasonably close without Emporia Pavilions' entry to the market and leave residents with even fewer apparel options. Emporia Pavilions could provide a reasonable option should JC Penney decide to upgrade and relocate. Currently, no such option exists.

However, if the large anchor space was occupied by a sporting goods store, Hibbett Sports would be directly impacted by the new competition. This smaller sporting goods chain is common in many smaller cities and is located in the FlintHills Mall just south of the proposed development site. Based on available data for the chain, we estimated the store generates sales of about \$1.5 million annually. A new store, such as Dick's Sporting Goods, would offer a wider variety of products at lower prices with the marketing power of a national brand. We would expect sales of about \$9 million. Entry of this type of competitor into a smaller market such as Emporia would likely threaten a smaller direct competitor such as Hibbett Sports. Given the size of Emporia, below average incomes, and the location of similar stores in surrounding larger cities, a sporting goods anchor is less likely.

The locations of stores within these competing sectors are shown on the following map in relation to the proposed development site.



Other Shopping and Dining

Other retail businesses are mainly clustered in three areas: along Sixth Street, along Commercial Street in Downtown, and along Industrial Road.

The Downtown cluster of stores is about 2.5 miles from the subject site. The uses are mainly independent stores, service businesses, and small offices. It benefits from its central location within the city and close proximity to Emporia State University. We would anticipate very little overlap between Downtown businesses and those likely to locate in the out-lots of Emporia Pavilions, and there will be limited if any competition from these smaller stores.

The Sixth Avenue commercial corridor includes mainly older independent and chain stores and restaurants, but there is no suburban-style shopping center along the corridor.

The most directly relevant retail competition is located on Industrial Road just north and south of the Interstate 35 interchange. This includes the cluster of development north of the interstate anchored by Walmart, and south of the interstate anchored by FlintHills Mall.

Likely out-lot uses on the Emporia Pavilions site would include a gas/convenience store, drive-thru restaurant, sit-down restaurants and strip center retail space. The location of the site and performance of surrounding retail centers does present some concerns in regard to these accessory uses. Early in the description of the site we noted that visibility and access to the site is limited. The vast majority of the shoppers will access the site by passing similar uses along Industrial Road that are more visible and conveniently located. Most notably a gas/convenience store would be at a significant disadvantage to the Phillips 66 Short Stop located directly at the interchange with visibility from the interstate. A Shell station with convenience store located just off of Industrial Avenue in a less convenient location has been closed for a couple of years with no new user. A variety of drive-thru restaurants are located on Industrial Road prior to arriving at the subject site, so it is not an advantageous location for this type of use. Sit-down restaurants may be another prospective use for the site, but we note Applebees has a more visible and convenient location at the interchange and a Cracker Barrel restaurant at the interchange closed, which is a rarity for the chain. The location has reopened as a Montana Mikes steakhouse. Finally, two small strip shopping centers have noticeable vacancies and appear to be about 80 percent occupied. Similar in-line retail space at the subject site would be at a disadvantage to these spaces with direct visibility and access along Industrial Road. The



Downtown Emporia



Retail along Industrial Road

location on the northwest edge of the city also limits the number of households convenient to the property who would frequent the convenience businesses on the site.

The FlintHills Mall south of the interchange is 80 percent occupied. This is partially indicative of the overall demand for retail shopping within Emporia, but also speaks to the lack of competitiveness of the existing retail available to shoppers. The mall is clearly aged and not attractive, so local shoppers would prefer to shop at larger, newer, and more attractive options in cities such as Wichita, Topeka, Lawrence and the Kansas City suburbs.

A new cluster of larger apparel stores and a hobby and craft store would generate a significant amount of traffic to the site, but it is likely that the accessory uses would be almost solely dependent on this traffic, rather than local and interstate generated demand. The addition of new anchors to this area would likely improve the overall performance of this concentration of interstate retail and service.

3.0 TRADE AREA DEFINITION

The primary trade area is briefly defined as the smallest geographic area that is typically expected to generate between 70 to 80 percent of the support for the proposed project. The primary trade area is separated from adjacent market areas by natural and manmade barriers such as rivers, highways, railroads, major arteries, or a marked difference in the socioeconomic makeup of the neighborhood or area. Typically, the largest retail anchor (in this case a large apparel retailer or sporting goods store) will be used to determine the trade area of a shopping center. In this rural environment, the city itself would constitute the primary trade area with local residents largely located within a roughly 10 minute drive. We would expect most residents of Emporia would make regular trips to the stores of Emporia Pavilions, given their size, attractiveness, and uniqueness in the market.

A wider trade area has been determined using GIS analysis with data from ESRI, a commercial provider of demographic and economic data regularly used in the commercial real estate industry. We have utilized drive-time, competitive, and gravity analysis to determine which shoppers in the surrounding rural areas are mostly likely to travel to Emporia on a regular basis (though less frequently than residents of Emporia) to shop. Given, two equally attractive stores we would expect a shopper to choose the one most convenient (shorter drive-time) to them, thus defining the market area. In this case we have assumed the shopping center is built, drawing shoppers from surrounding communities. However, cities such as Topeka, Wichita, and suburban Kansas City have a wider variety of shopping options and would be viewed by most shoppers as more attractive. In this case, some shoppers that live closer to Emporia would be willing to drive further to shop in a store such as Kohl's or Dick's Sporting Goods. These factors have been considered in determining the wider trade area shown in the map on the following page. While the city of Emporia makes up only a very small percentage of the land area, it accounts for roughly a third of the population and retail demand, yet about 60 percent of the retail supply.

In cooperation with the economics department of Emporia State University, Downtown Emporia has also developed a trade area map for Emporia. These two trade areas are similar, but ours is slightly larger, which could be due in part to the assumption of the new shopping center. Our trade area generally encompasses communities located within a 35 minute drive of Emporia.

Overall, we estimate about half of the support for the project will come from within Emporia, with the other half coming from the surrounding rural communities in the larger trade area. The typical market area for a large chain store in this type of rural location could extend for 30 to 50 miles.⁶ Therefore, for the purpose of analyzing the trade area buying power and opportunity gaps as well as estimating the sales potential of Emporia Pavilions retailers we apply data for the entire trade area.

⁶ The SMA we chose (30 minute drive) is equivalent to approximately 25 miles.

3.1 DEMOGRAPHIC OVERVIEW

Emporia is the largest city in Lyon County and serves as the economic focal point of the county. Of the 33,123 people living in Lyon County, about 73 percent live in the city of Emporia. The population in Emporia has been in decline since 2000 and is expected to decrease 1.4 percent between 2015 and 2020. The population in Lyon County decreased at a slightly slower rate than Emporia between 2000 and 2015; these regional declines contrast with the state, which has experienced steady growth (2.4 percent) since 2010.

The number of households in Emporia and Lyon County is likewise expected to decrease, though at a slightly slower rate. The average household sizes in the study areas are also projected to decrease between 2015 and 2020, albeit slightly. The following chart summarizes the population trends in Emporia, the Secondary Trade Area, the Total Trade Area, Lyon County, and Kansas.

Demographic Trends

Description	Emporia	Secondary Trade Area	Total Trade Area	Lyons County	Kansas
Population					
2020 Projection	23,928	43,095	66,420	32,800	2,999,980
2015 Estimate	24,266	43,299	66,942	33,123	2,922,110
2010 Census	24,916	43,315	67,594	33,690	2,853,118
Annual Growth 2015-2020	-0.3%	-0.1%	-0.2%	-0.2%	0.5%
Annual Growth 2010-2015	-0.5%	0.0%	-0.2%	-0.3%	0.5%
Households					
2020 Projection	9,517	18,243	27,468	13,092	1,173,550
2015 Estimate	9,614	18,264	27,579	13,165	1,141,779
2010 Census	9,812	18,149	27,658	13,303	1,112,096
Annual Growth 2015-2020	-0.2%	0.0%	-0.1%	-0.1%	0.6%
Annual Growth 2010-2015	-0.4%	0.1%	-0.1%	-0.2%	0.5%
Average Household Size					
2020 Projection	2.36	2.33	2.34	2.40	2.49
2015 Estimate	2.38	2.33	2.35	2.41	2.49
2010 Census	2.39	2.35	2.37	2.42	2.49

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Emporia's population is younger than that of the state, with a larger *College Age* cohort than in the outlying areas in the Secondary Trade Area and the state. Median age is lowest in Emporia (29.9 years) and highest in the Secondary Trade Area (45.9 years), where there is a large proportion of *Empty Nesters* (nearly one in four residents). In Emporia, the number of older residents is expected to increase over the next five years, with a 20 percent increase in the population over age 65, while the population between 18 and 34 years of age is expected to decrease by ten percent. The following table summarizes the age distribution for Emporia, the trade areas, Lyon County, and Kansas.

Age Distribution Comparison

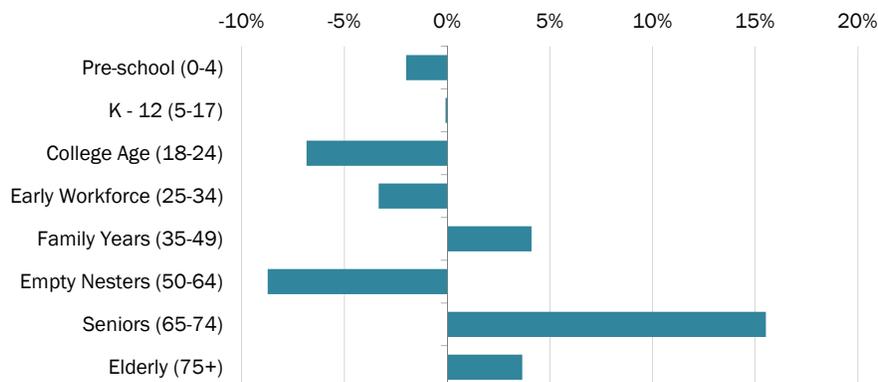
Age Cohort	Secondary		Total Trade	Lyons County	Kansas
	Emporia	Trade Area	Area		
Total population:	24,266	43,299	66,942	33,123	2,922,110
0 - 4 (Pre-school)	7%	5%	6%	7%	7%
5 - 17 (K-12)	17%	16%	16%	17%	18%
18 - 24 (College Age)	16%	8%	11%	14%	10%
25 - 34 (Early Workforce)	16%	10%	12%	15%	13%
35 - 49 (Family Years)	15%	17%	16%	15%	18%
50 - 64 (Empty Nesters)	16%	24%	21%	18%	20%
65 - 74 (Seniors)	6%	12%	10%	8%	8%
75+ (Elderly)	6%	9%	8%	6%	6%
Median Age	29.9	45.9	39.6	33.3	36.6

© ESRI, 2015

Projected Population Growth

Emporia: 2015-2020

Source: ESRI, 2015



Emporia's median household income is approximately 28 percent less than the median household income in the state. This disparity is expected to continue; however, all areas are projected to experience between 2.8 and 3.5 percent annual income growth through 2020. The median household income in Emporia is \$37,158, and the largest income groups in Emporia are households earning less than \$15,000 and between \$50,000 and \$74,999, who each make up 18 percent of all households. Of all of the study areas, Emporia has the largest proportion of households earning less than \$25,000 per year (32 percent).

Income Trend and Distribution Comparison

<i>Description</i>	<i>Emporia</i>	<i>Secondary Trade Area</i>	<i>Total Trade Area</i>	<i>Lyons County</i>	<i>Kansas</i>
Median Household Income					
2020 Projection	\$42,778	\$52,533	\$50,083	\$47,939	\$59,137
2015 Estimate	\$37,158	\$45,765	\$42,275	\$40,453	\$51,423
2009-2013 ACS	\$36,235	\$44,890	\$41,343	\$38,981	\$51,332
Annual Growth 2015-2020	2.9%	2.8%	3.5%	3.5%	2.8%
Annual Growth 2010-2015	0.6%	0.5%	0.6%	0.9%	0.0%
2015 Income Distribution					
Total households:	9,614	18,264	27,579	13,165	1,141,779
<\$15,000	18%	13%	15%	16%	12%
\$15,000 - \$24,999	14%	12%	13%	13%	10%
\$25,000 - \$34,999	14%	13%	14%	14%	11%
\$35,000 - \$49,999	17%	15%	16%	17%	15%
\$50,000 - \$74,999	18%	22%	20%	20%	19%
\$75,000 - \$99,999	9%	14%	12%	11%	13%
\$100,000 - \$149,999	6%	7%	7%	7%	12%
\$150,000 - \$199,999	2%	2%	2%	2%	4%
\$200,000 +	1%	2%	2%	1%	4%

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Gross income in the trade area is expected to increase by about \$326 million over the next five years at a rate of 3.5 percent annually, slightly faster than the increase at the state level, and the 1.5 percent inflation rate. Looking specifically at the anchor stores proposed for Emporia Pavilions, demand for those products will increase by \$2.7 million above the rate of inflation.

The following table compares the median income and income growth of Lyon County with that of other similar cities in largely rural counties with state universities.

Income Trend and Distribution Comparison

<i>Description</i>	<i>Lyon County</i>	<i>Riley County</i>	<i>Crawford County</i>	<i>Ellis County</i>	<i>Douglas County</i>
Median Household Income					
2020 Projection	\$47,939	\$59,641	\$49,462	\$41,793	\$53,332
2015 Estimate	\$40,453	\$50,454	\$41,353	\$36,591	\$45,594
2009-2013 ACS	\$38,981	\$49,508	\$43,085	\$37,378	\$43,962
Annual Growth 2015-2020	3.5%	3.4%	3.7%	2.7%	3.2%
Annual Growth 2010-2015	0.9%	0.5%	-1.0%	-0.5%	0.9%

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Lyon County lags behind all but Ellis County in terms of median income, but recent and projected growth is at or above the pace of these other counties.

4.0 ESTIMATING SALES POTENTIAL AT THE PROPOSED PROJECT

The developer of the proposed project cannot reveal anticipated stores nor specific sales projections for the project. It is up to the market analyst, therefore, to make a reasoned and rational estimate of the likely sales to be generated by such a project based on the kinds and sizes of stores that are anticipated. However, the developer has indicated that Hobby Lobby has signed a letter of intent and will be one of the center's anchors.

It is wise to remain conservative in such projections. Overstating the projections can lead to serious problems with economic development incentive programs and city budgeting if actual sales, and resulting sales taxes, fall far from the expectations. But it is also important not to be too conservative, especially in an analysis which seeks ultimately to define the potential "shift effects" from existing retailers to the new stores. If the projections are too low, existing businesses might not adjust their competitive positions sufficiently to withstand the shifts. If the projections are too high, existing businesses might over-react to potential losses in sales and thereby cause more damage—or even going out of business—than is necessary.

That said, the developers have provided financial information about the projected performance of the project, including sales, but these projections were not used in the development of our sales estimates. Rather, they were used after the fact to check for reasonable consistency between the two estimates. Our conclusion of annual sales generated by Emporia Pavilions is about 9.3 percent lower than the developer's.

To determine reasonable sales projections—all of which are made in constant 2015 dollar values at this time—the following methodology was employed:

1. Based on discussions with the developer, city officials, and an inspection of the types and sized of retail buildings proposed in the site plan, we have made reasonable assumptions about the types of retailers that will occupy the space. And, based on existing uses within Emporia and shopping centers in small to medium-sized Midwestern cities we have assigned a likely brand-name retailer for each use.
2. For each retailer and/or store type we referenced industry reports including *RetailSails 2014 Chain Store Productivity Report*, Nielson's *Retail Tenant Directory: 2014*, and Plunkett's *Retail Almanac, 2014*, as well as publically available corporate information and media reports to determine sales on a per square foot basis.
3. The sales from the data sources mentioned are typically national averages. We have made adjustments to our estimates based on the demographics and competitive environment in Emporia. Generally, these adjustments were minor since local demographics are below national averages, but the new stores should perform very well since the local retail market lacks similarly competitive stores.
4. These sales per square foot values for each representative retailer was multiplied by the number of square feet projected by the developer for each space within the shopping center using the developer's total of 258,300 square feet as the ultimate constraint on size. The weighted average of these calculations for the entire projects is \$187 per square foot, as shown below, for annual sales of about \$48.2 million when fully built out and fully operational, assuming no vacancy rates. This also assumes a portion of the in-line retail space will be

occupied by service business (hair salons, nail salons, tanning salons, tax preparation, insurance, etc.) and not generate taxable sales revenue. Again, all values are expressed in 2015 dollars. There is no adjustment that allows for inflation based on anticipated opening dates.

Table 1: Sales Assumptions for Proposed Emporia Pavilions

<i>Use</i>	<i>Space</i>	<i>Sale/SF</i>	<i>Sales</i>	<i>% Taxable*</i>	<i>Taxable Sales</i>
Hobby/Crafts	55,000 SF	\$80	\$4,400,000	100%	\$4,400,000
Apparel/Soft Goods	94,500 SF	\$200	\$18,900,000	100%	\$18,900,000
Apparel/Soft Goods	60,000 SF	\$150	\$9,000,000	100%	\$9,000,000
Apparel/Soft Goods	16,000 SF	\$250	\$4,000,000	100%	\$4,000,000
Apparel/Soft Goods	8,500 SF	\$240	\$2,040,000	100%	\$2,040,000
Gas/Convenience	2,000 SF				
Gas Station	N/A		\$2,000,000	0%	\$0
Convenience Store	1,500 SF	\$450	\$675,000	100%	\$675,000
Coffee Drive-Thru	2,000 SF	\$500	\$1,000,000	100%	\$1,000,000
Sit-down Dining	5,400 SF	\$425	\$2,295,000	100%	\$2,295,000
Sit-down Dining	5,400 SF	\$425	\$2,295,000	100%	\$2,295,000
Small Shop Service	4,000 SF	\$160	\$640,000	0%	\$0
Small Shop Retail	6,000 SF	\$160	\$960,000	100%	\$960,000
TOTAL	258,300 SF	\$187	\$48,205,000		\$45,565,000

Note: These assumptions are by Development Strategies only and do not represent projections or assumptions provided by the developer or the City of Emporia.

This is not to say that such stores and spaces will actually perform at these values. The dollar amounts shown above are simply well-informed assumptions for a project of this sort in a location like Emporia. These values should not be relied upon by other parties as representing actual projections or expectations by or for the retailers that are intended to become part of the development. The projected sales from the Table 1, above, are for planning and analytical purposes only.

5.0 MARKET CONTEXT AND FORCES

5.1 RETAIL GAP ANALYSIS

Development Strategies utilized retail supply and demand statistics⁷ provided by the demographics and mapping firm of ESRI. The most recent estimates by ESRI indicate that Emporia retailers attract over \$360 million in annual sales (see the “Supply” column, below). At the same time, ESRI estimates that the “Demand” for retail sales, generated by Emporia residents alone, is much less at almost \$192 million per year.

Table 2: Retail Marketplace Profile: Emporia

<i>Industry Summary</i>	<i>NAICS</i>	<i>Demand (Retail Potential)</i>	<i>Supply (Retail Sales)</i>	<i>Retail Gap</i>	<i>% of Demand From Emporia</i>
Total Retail Trade and Food & Drink	44-45,722	\$191,774,412	\$362,198,038	(\$170,423,626)	53%
Total Retail Trade	44-45	\$171,445,311	\$326,686,223	(\$155,240,912)	52%
Total Food & Drink	722	\$20,329,101	\$35,511,815	(\$15,182,714)	57%
In-Store Retail*		\$144,922,438	\$252,383,167	(\$107,460,729)	57%

* Excludes automobile and parts sales, and "non-store" retail sales

The identified secondary trade area has more than twice the demand of Emporia (\$452 million), but 32 percent less supply (\$245 million). So, clearly the excess retail supply in Emporia is serving the surrounding rural communities of Lyon County and other adjacent counties.

The following table shows the retail gap for the entire retail trade area identified for Emporia Pavilions.

Table 3: Retail Marketplace Profile: Combined Retail Trade Area

<i>Industry Summary</i>	<i>NAICS</i>	<i>Demand (Retail Potential)</i>	<i>Supply (Retail Sales)</i>	<i>Retail Gap</i>	<i>Excess Demand % of Supply</i>
Total Retail Trade and Food & Drink	44-45,722	\$644,013,867	\$606,855,224	\$37,158,643	6%
Total Retail Trade	44-45	\$581,510,894	\$553,052,701	\$28,458,193	5%
Total Food & Drink	722	\$62,502,973	\$53,802,523	\$8,700,450	16%
In-Store Retail*		\$479,300,884	\$422,800,759	\$56,500,125	13%

* Excludes automobile and parts sales, and "non-store" retail sales

When demand from other residents (and supply of other stores) of the trade area are considered, there remains a significant retail gap. This indicates that about six percent of trade area residents' sales are occurring outside of the trade area, or “leaking” from the trade area. If the automobile and parts sectors are excluded this figure more than doubles to 13 percent, or about \$56.5 million. These are sales that could potentially be captured by more competitive retail options within Emporia. For example, a shopper in nearby Osage County could choose to shop at a new store in Emporia rather than travel to a similar store in Topeka.

⁷ Unless otherwise specified in this report, all references to “retail” or “retail sales” is inclusive of retail stores, restaurants, and bars. Retail incorporates North American Industrial Classification System (NAICS) codes 44 and 45 (two-digit level) while restaurants and bars incorporate NAICS code 722 (three-digit level). Retail data provided by ESRI is fairly consistent with overall retail sales data provided by the Kansas Department of Revenue. ESRI reports total retail sales of \$333 million in 2012 compared to DOR reported sales of \$358 million, a discrepancy of 7.5 percent.

Earlier, we estimated total sales for Emporia Pavilions of \$48.2 million. This would fill about 85 percent of the existing gap within the trade area (the gap exists entirely in communities outside of Emporia), even assuming that the shopping center could recapture all of these leaking sales. With this assumption, all of the sales generated at the new development would be recaptured as net new sales to Emporia. However, this assumption is unlikely for two reasons. First, it is unlikely that an individual store or development could recapture 100 percent of leaked demand, because consumers shopping habits are long established and can be difficult to break. Further, we can expect some of the stores to adapt and become more competitive in the face of new competition. A 50 percent recapture rate will typically provide a good baseline estimate. Second, the indicated leakage is across all categories and a single store or development will typically focus on only a few spending categories. In the case of Emporia Pavilions, three anchor stores two larger in-inline stores will account for approximately 84 percent of total sales—74 percent in the apparel category and 10 percent in the hobby/sporting goods category. The shift of one anchor space from apparel to sporting goods would have little to no impact on overall sales, but would shift about \$9 million of apparel/soft goods sales to the hobby/sporting goods category.

Restaurant and General Uses (Out-lot Parcels)

The 15 percent of sales generated by strip center retail and restaurants (\$6.6 million) can be readily absorbed within the trade area economy with minimal impact. The exact tenant mix is unknown, but with a mix of dining, small shops and services, it falls well within the \$56.5 million overall retail gap for in-store retail.

Gasoline/Convenience Store

The \$2.7 million generated by the gas/convenience store will be entirely captured from the existing supply within Emporia. This is a reasonable assumption since these purchases are almost entirely driven by convenience. It is unlikely that the new store will pull new customers from the fringes of the market area, keep Emporia residents from spending outside of Emporia, or attract additional travelers off of the interstate.

Apparel

The following table looks specifically at gaps within the Apparel sector of the larger trade area and Emporia.

Table 4: Retail Marketplace Profile, Apparel Stores

Combined Retail Trade Area	<i>NAICS</i>	<i>Demand (Retail Potential)</i>	<i>Supply (Retail Sales)</i>	<i>Retail Gap</i>	<i>Excess Demand % of Supply</i>
Apparel (Clothing and Clothing Accessory Stores)	448	\$26,031,743	\$11,562,445	\$14,469,298	125%
Emporia Only					
Apparel (Clothing and Clothing Accessory Stores)	448	\$8,885,935	\$9,132,337	(\$246,402)	-3%

Currently the supply and demand within Emporia is almost perfectly balanced with a slight surplus serving shoppers from outside the city. The demand for apparel and accessories within the market area is \$26 million with total apparel supply of only \$11.6 million. This means that 44 percent of apparel spending from Emporia and

trade area residents is occurring outside of the trade area. This suggests there is significant potential to recapture this demand within Emporia if new competitive stores were added.

The addition of 179,000 square feet of apparel and soft goods retailers with estimated sales of about \$33.9 million would more than double the trade area supply. In Emporia alone it would increase the supply of apparel by over four times. This is consistent with our findings examining the competitive supply of existing stores which is limited to a few smaller mall and boutique shops. However, the current supply does not account for general merchandise stores such as Walmart and JC Penney which do a significant amount of sales in this category. Currently, most apparel shopping from Emporia and trade area residents is occurring within these two stores or is leaking to other nearby markets. Therefore, the additional supply would fill a significant gap in the market.

Due to the cross over between apparel and general merchandise stores we have examined the supply and demand in this sector as well. About seven percent of Walmart sales are for apparel and the majority of JC Penney sales are for apparel.

The following table looks specifically at gaps within the General Merchandise sector of the larger trade area and Emporia.

Table 5: Retail Marketplace Profile, General Merchandise Stores

Combined Retail Trade Area	<i>NAICS</i>	<i>Demand (Retail Potential)</i>	<i>Supply (Retail Sales)</i>	<i>Retail Gap</i>	<i>Excess Demand % of Supply</i>
General Merchandise Stores	452	\$114,957,041	\$70,243,403	\$44,713,638	64%
Emporia Only					
General Merchandise Stores	452	\$34,792,460	\$62,024,192	(\$27,231,732)	-44%

The general merchandise gap is about three times larger than the apparel gap at the trade area level, but the surplus is also more substantial at the local level with almost half of the Emporia supply supported by shoppers from outside the city. Given the potential mix of stores within the apparel category at we anticipate 26 percent of sales will come from general merchandise categories⁸. This portion of sales would total \$8.5 million and fall well within the existing retail gap at the trade area level.

If the entire existing apparel retail gap (\$14.5 million) were added to the anticipated general merchandise sales (supported by the existing general merchandise gap), roughly \$23 million of the projected \$33.9 million in projected sales from apparel/soft goods retailers would be net new sales to Emporia, or about 68 percent of projected sales generated by these stores.

⁸ A store such as Kohl's does 20 percent of its sales in home goods items, furthermore we assume another of the smaller junior anchor stores will focus more on home furnishings and/or other general merchandise.

Hobby/Crafts

Hobby/crafts and sporting goods falls within the same retail NAICS code when examining supply and demand for goods. The following table looks at gaps within the sporting goods/hobby sector of the larger trade area and Emporia.

Table 6: Retail Marketplace Profile, Sporting Goods/Hobby/Musical Instruments

Combined Retail Trade Area	<i>NAICS</i>	<i>Demand (Retail Potential)</i>	<i>Supply (Retail Sales)</i>	<i>Retail Gap</i>	<i>Excess Demand % of Supply</i>
Sporting Goods/Hobby/Musical Instr Stores	448	\$8,948,877	\$15,485,577	(\$6,536,700)	-42%
Emporia Only					
Sporting Goods/Hobby/Musical Instr Stores	448	\$2,670,222	\$12,563,812	(\$9,893,590)	-79%

There is a large surplus of retail supply for these types of stores within both Emporia and the larger trade area. However, a look at other hobby/craft businesses within Emporia reveals that there are very few direct competitors. Only three small niche stores occupy the hobby sector: a bead store and two quilting/needlepoint stores. Combined we estimate sales of about \$1 million. The city lacks a large hobby/craft store such as a Hobby Lobby, Michael's, At Home or even a small hobby/toy store. Currently, most of these purchases occur within Walmart or leak to surrounding cities. Thus, the proposed Hobby Lobby store should fill a noticeable gap in the market.

6.0 SALES TRANSFER ANALYSIS

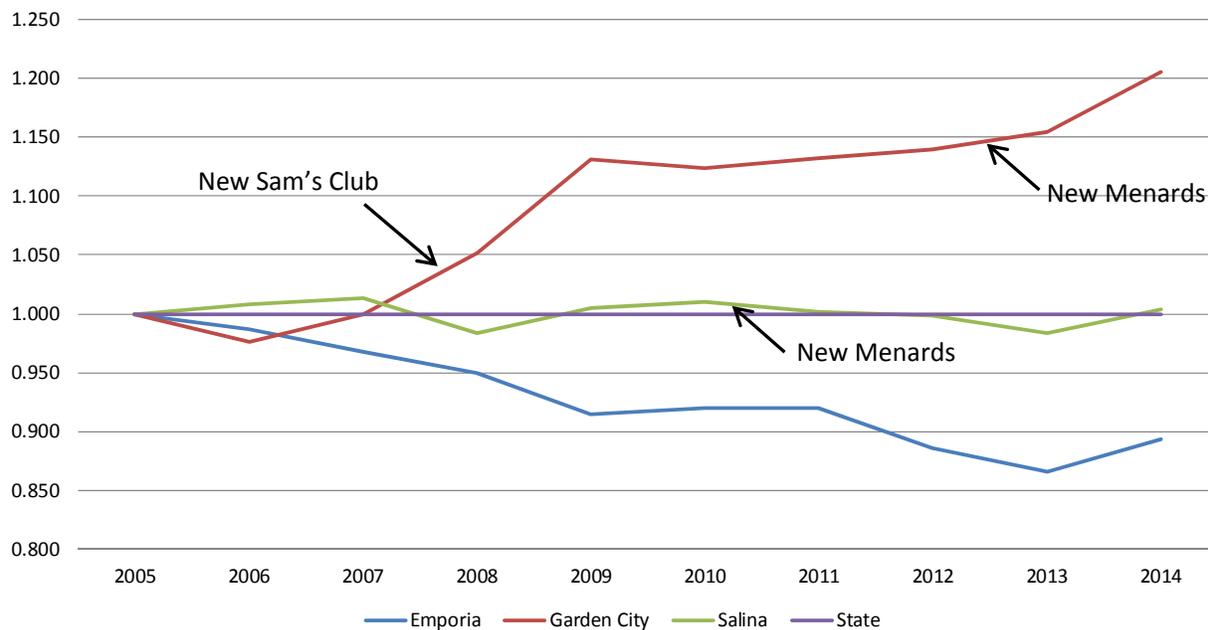
6.1 COMPARABLE CITIES RETAIL SALES ANALYSIS

We have looked at local retail sales to provide a quantitative measure of the impact of new large retailers and/or shopping centers entering a small to mid-sized retail market. We would expect a new large store or shopping center entering a local retail market to have a noticeable impact on overall retail sales of the city, in other words “move the needle” or “bump” sales to a new level. The impact of new smaller stores could fade into the background, but these stores can be a major addition to the retail supply of these smaller cities. When opened, a new large store in Garden City accounted for about five percent of total retail sales, in Salina three percent. Emporia Pavilions would account for about 12 percent of all retail sales in Emporia.

The following graph shows retail sales for Emporia, Garden City, and Salina indexed to overall retail sales for the state. The entry of new major retailers to these cities is indicated on the graph. The state establishes a straight line expectation of sales increase for comparison. So if state sales increased 5.0 percent year over year, a similar increase for a city would generate a flat line, a 3.0 percent increase would show a declining line (lagging expectations set by the state), and a 7.0 percent increase would generate an increasing line (exceeding expectations).

Retail Sales, Indexed to State

Source: Kansas Department of Revenue



The graph illustrates a few points:

- Compared to the state, sales in Emporia have declined over the past decade. This is evidence of the lack of competitiveness of the local retail market
- Salina saw no significant impact from a new Menards home improvement store, sales have only kept even with the state baseline
- Garden City saw a positive impact from its new stores. The impact of the new Sam's Club opening in 2008 is clearly visible with about a 14 percent increase over the state baseline from 2007 to 2009. During this period sales growth doubled from the previous two-year period (annual growth increased from 4.3 percent to 8.1 percent). At the time, the sales would have accounted for 15 percent of total retail sales in Garden City. A similar bump was seen with the new Menards opening in late 2013.

This “bump” in sales is the profile we would expect for a major retail addition to a small city that creates a significant amount of net new sales (recapture of demand gap). If we assumed city sales would have continued to rise at the “pre-Sam’s” rate and compare it to actual sales the difference is about \$60 million or about 92 percent of a typical annual sales of a Sam’s Club. Similarly, sales in Garden City grew at a rate about three times higher than the state in from 2012 to 2014, compared to similar sales growth in the period from 2010 to 2012. The excess additional sales total about \$31 million, similar to the sales of a large Menards store. But, the closest Sam’s Clubs and Menards are over three hours away in Wichita and Colorado Springs, so these stores were very well positioned to recapture demand from a very large area.

If the new shopping center in Emporia was fully supported by net new or recaptured sales we would expect to see a similar and noticeable bump in indexed retail sales. But in the case of Salina no bump occurred.

6.2 SALES TRANSFER ANALYSIS

Earlier in the report we estimated that new apparel stores would generate sales of \$33.9 million. The gap analysis suggests there is a gap of about \$14.5 million in the apparel sectors that are available for recapture. A 50 percent capture rate of those available sales is reasonable considering that some Emporia and other trade area shoppers will continue to shop outside of the trade area and/or prefer other apparel options not provided in Emporia Pavilions. Thus, \$7.2 million of previously leaked apparel sales would be captured by new stores within Emporia Pavilions. The remaining \$26.7 million of sales would be transferred from within the trade area. However, a portion of those transferred sales would be occurring outside of Emporia. Twenty-one percent of trade area retail supply for apparel is located outside of Emporia, thus another \$5.6 million ($\26.7×0.21) could be recaptured to Emporia from elsewhere in the trade area. This results in total net new and recaptured apparel sales of \$12.85 million.

We have also estimated that 26 percent of the sales generated by these stores (\$8.8 million) would fall within the general merchandise category and would be fully supported by the large gap in the general merchandise sector.

Demand for apparel is expected to grow by \$2.7 million in the trade area in excess of inflation. Applying the same 50 percent capture rate, suggests an additional \$1.4 million in sales would be net new to the city.

Adding the original net new apparel sales to the market area (\$7.2 million), net new apparel sales to Emporia (\$5.6 million), net new general merchandise sales (\$8.8 million), and captured sales growth (\$1.4 million) results in total net new sales to Emporia of \$23.0 million, or 67.8 percent of estimated sales from the new apparel stores. The remaining 32.2 percent of sales or \$10.9 million would be transferred from other stores located within Emporia.

Although there is no existing gap for hobby/craft sales, there are no directly competing stores within Emporia and the potential for sales transfer is minimal. Some overlap might be seen with indirect competitors such as Walmart, Walgreen, CVS, and other identified niche craft stores. Thus, we have estimated 90 percent of the estimated \$4.4 million, or \$3.96 million in sales would be net new to Emporia.

There is no existing gap for gas and convenience purchases in Emporia or the market area. There are a large number of similar businesses in Emporia, including some within the immediate area. Market areas are typically very small. Thus, a new gas/convenience store would very likely see 100 percent of its sales transferred from within Emporia, with no net new revenue generated.

Due to large gaps in restaurant categories and other miscellaneous store retailers within the trade area, we estimate that all of the sales from proposed restaurant and small store uses located on out-lot parcels would be net new to Emporia.

The following table summarizes our estimate of net new and recaptured sales to Emporia and sales transferred from within Emporia due to the development of Emporia Pavilions.

Table 7: Sales Transfer Conclusions for Proposed Emporia Pavilions

Use	Space	Sale/SF	Sales	Recaptured Sales	Transferred from within Emporia	Net New or Recaptured		% Taxable	Taxable Net New or Recaptured Sales
						Sales	Transferred from within Emporia		
Hobby/Crafts	55,000 SF	\$80	\$4,400,000	90%	10%	\$3,960,000	\$440,000	100%	\$3,960,000
Apparel/Soft Goods	94,500 SF	\$200	\$18,900,000	68%	32%	\$12,823,000	\$6,077,000	100%	\$12,823,000
Apparel/Soft Goods	60,000 SF	\$150	\$9,000,000	68%	32%	\$6,106,000	\$2,894,000	100%	\$6,106,000
Apparel/Soft Goods	16,000 SF	\$250	\$4,000,000	68%	32%	\$2,714,000	\$1,286,000	100%	\$2,714,000
Apparel/Soft Goods	8,500 SF	\$240	\$2,040,000	68%	32%	\$1,384,000	\$656,000	100%	\$1,384,000
Gas/Convenience	2,000 SF								\$0
Gas Station	N/A		\$2,000,000	0%	100%	\$0	\$2,000,000	0%	\$0
Convenience Store	1,500 SF	\$450	\$675,000	0%	100%	\$0	\$675,000	100%	\$0
Coffee Drive-Thru	2,000 SF	\$500	\$1,000,000	100%	0%	\$1,000,000	\$0	100%	\$1,000,000
Sit-down Dining	5,400 SF	\$425	\$2,295,000	100%	0%	\$2,295,000	\$0	100%	\$2,295,000
Sit-down Dining	5,400 SF	\$425	\$2,295,000	100%	0%	\$2,295,000	\$0	100%	\$2,295,000
Small Shop Service	4,000 SF	\$160	\$640,000	100%	0%	\$640,000	\$0	0%	\$0
Small Shop Retail	6,000 SF	\$160	\$960,000	100%	0%	\$960,000	\$0	100%	\$960,000
TOTAL	258,300 SF	\$187	\$48,205,000	71%	29%	\$34,177,000	\$14,028,000		\$33,537,000

6.3 OTHER POTENTIAL RETAILERS

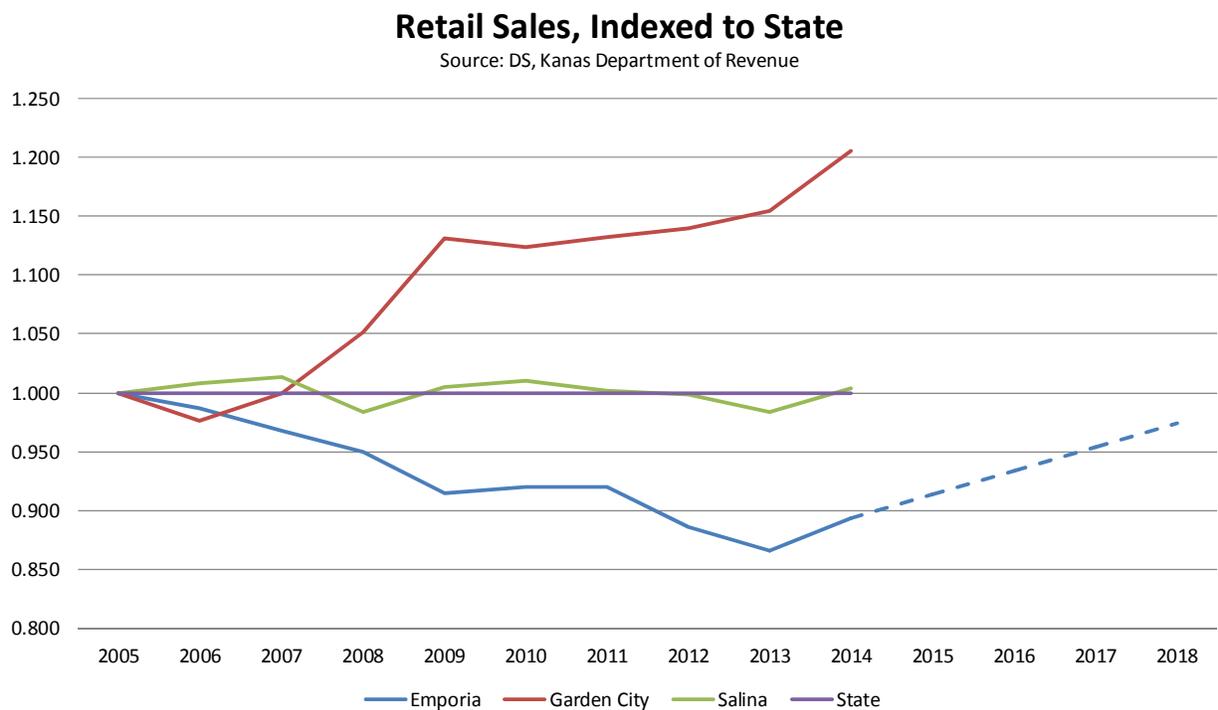
Although the developer has clearly state the focus of Emporia Pavilions will be apparel and hobby, only Hobby Lobby has committed to the project. Other retailers locating within the larger anchor spaces could impact the amount of sales transfer. The developer indicated that a large sporting goods store could replace an apparel store as one of the anchors within Emporia Pavilions. We see this as unlikely for several reasons. First, Emporia does

not fit the demographic profile of other cities with prototype large stores such as Dicks Sporting Goods or Academy Sports, and mid-size cities in the wider region such as Topeka, Salina, Manhattan and Lawrence already have these large stores.

Nevertheless, a new large sporting goods retailer would threaten the existing Hibbett Sports, and we calculate that this alternative scenario would reduce the total amount of net new sales by about eight percent. Other potential big box anchors such as a toy store or pet supply store would face very limited competition other than Walmart. These stores would have a sales transfer similar to a large apparel store.

6.4 SALES TRANSFER CONCLUSION

The following graph recreates an illustration of retail sales indexed to the state, but adds an additional post-development period to illustrate what the impact of net new and recaptured sales for Emporia Pavilions could look like for Emporia. The developer has projected a four year build-out period, and for the purposes of this illustration we have phased in the projected sales evenly over a four-year period beginning in 2015.

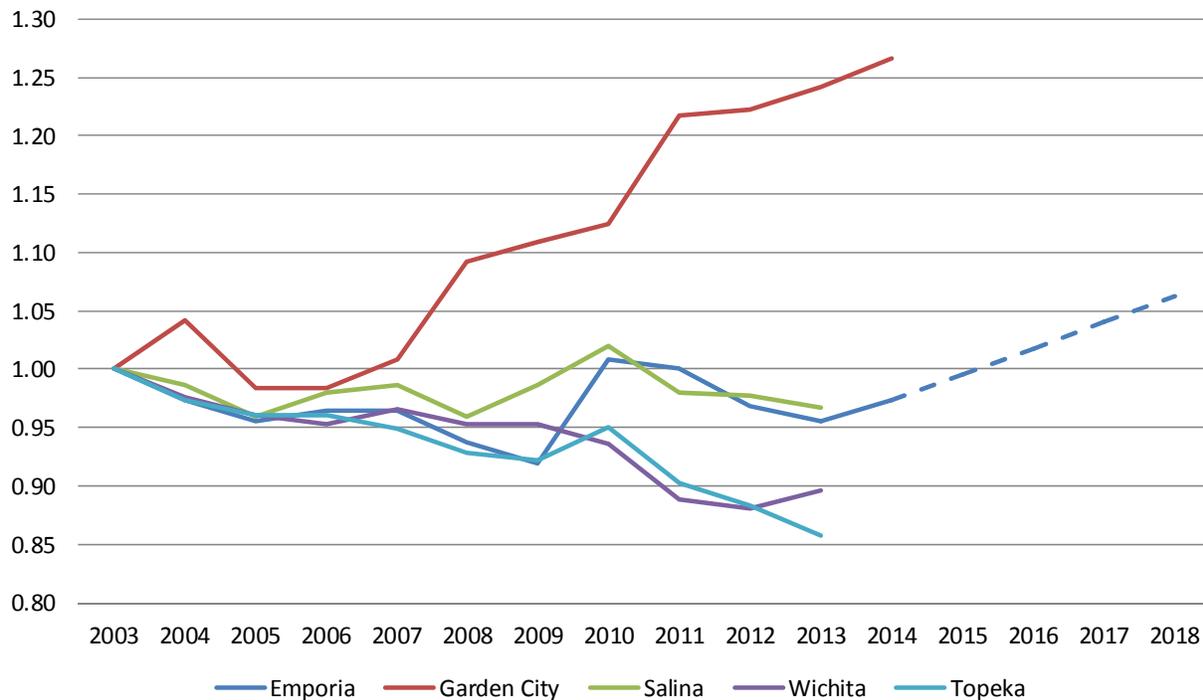


The impact would almost return indexed sales in Emporia to a pre-recession level, and would have about half the impact of the new Sam’s Club and Menards in Garden City. Thus, our estimate falls within the reasonable boundaries indicated by the best case and worst case scenarios concluded through our research. It is also consistent with the recent uptick in indexed sales growth from 2013 to 2014.

Our concluded sales recapture and transfer rate supports a reasonable, but significant improvement in the competitiveness of Emporia, suggesting an increase in pull factor from 1.08 in 2013 to about 1.18 after the completion of Emporia Pavilions. By comparison Garden City increased its pull factor from 1.21 to 1.33 with the addition of its Sam's Club in 2008. This projected change in Pull Factor is illustrated in the following graph.

Indexed Pull Factor, 2003-2014, 2018 projected

Source: DS, Kansas Department of Revenue



Due in part to stagnant growth, small size and aging retail infrastructure, Emporia competitiveness within the region has slowly declined over the past decade, losing sales to larger and more competitive cities in eastern and central Kansas. Emporia Pavilions would increase the overall competitiveness of Emporia's retail environment and provide shopping options that are desired by most residents. As a result, residents would keep more of their shopping dollars within the city and the city could attract more shoppers from within the trade area.

We conclude that the development would generate \$34.2 million in net new and recaptured sales to the city, but at the same time transfer \$14.0 million in sales from existing businesses within Emporia. The transfer of sales is due in large part to new anchor stores (apparel and hobby). These stores would not be fully supported by a reasonable capture of the excess demand that currently exists within the market. Of the net new and recaptured sales, about 98 percent, or \$33.5 million will be subject to local sales taxes. If an apparel store anchor were replaced by a large sporting goods store, the amount of net new taxable sales would fall to about \$30.9 million, since no retail gap exists within the sporting goods category.

The transferred sales support roughly 75,000 square feet of retail space. The new development will not necessarily result in the vacancy of retail space, since there are no direct competitors. Any sales losses would be spread over a large number of stores with Walmart and JC Penney being the closest competitors. If a large sporting goods store were introduced into the tenant mix, Hibbett Sports would be a direct competitor and at threat for closure.

Emporia is in need of new and more attractive retail development to remain competitive in the region. There is a significant opportunity for more hobby, apparel and soft goods retailers in the city, and there are no direct competitors in these shopping categories.

APPENDIX A – ASSESSED VALUATION

The assessed value of the property determines the amount of the real property taxes that will be generated from the development. The assessed value is based on the annual market appraisal performed by the County Assessor's office. However, since the project has not yet been built, an estimate must be made for the purpose of projecting the real property taxes available for TIF. We have estimated the value of the property at completion based on the assessed values of properties with similar uses in the vicinity of Emporia Pavilions. Once the appraised value of the property is established, commercial property is assessed at a rate of 25 percent of this value. Our estimate of the appraised and assessed value is summarized in the table below.

Estimated Appraised Value of Emporia Pavilions

Property	Estimated Opening Date	Size (Square Foot)		Appraised Value per SF		Est. Appraised Value			Estimated Assessed Value
		Building	Land	Building	Land	Building	Land	Total	
Hobby/Crafts	Feb-17	55,000	361,457	\$60.00	\$1.75	\$3,300,000	\$632,550	\$3,932,550	\$983,137
Apparel/Soft Goods	Oct-17	94,500	621,049	\$60.00	\$1.75	\$5,670,000	\$1,086,835	\$6,756,835	\$1,689,209
Apparel/Soft Goods	Oct-17	60,000	394,317	\$60.00	\$1.75	\$3,600,000	\$690,054	\$4,290,054	\$1,072,514
Apparel/Soft Goods	Feb-17	16,000	105,151	\$60.00	\$1.75	\$960,000	\$184,014	\$1,144,014	\$286,004
Apparel/Soft Goods	Oct-17	8,500	55,862	\$60.00	\$1.75	\$510,000	\$97,758	\$607,758	\$151,939
Gas/Convenience	Oct-17	1,500	9,858	\$150.00	\$3.50	\$225,000	\$34,503	\$259,503	\$64,876
Coffee Drive-Thru	Oct-17	2,000	13,144	\$125.00	\$6.25	\$250,000	\$82,149	\$332,149	\$83,037
Sit-down Dining	Oct-16	5,400	35,488	\$125.00	\$6.00	\$675,000	\$212,931	\$887,931	\$221,983
Sit-down Dining	Oct-17	5,400	35,488	\$125.00	\$6.00	\$675,000	\$212,931	\$887,931	\$221,983
Small Shop Service	Apr-18	4,000	26,288	\$75.00	\$6.25	\$300,000	\$164,299	\$464,299	\$116,075
Small Shop Retail	Apr-18	6,000	39,432	\$75.00	\$6.25	\$450,000	\$246,448	\$696,448	\$174,112
Total		258,300	1,697,533	\$64.32	\$2.15	\$16,615,000	\$3,644,471	\$20,259,471	\$5,064,868

In 2014, the total property tax rate for the property was \$160.964 per \$1,000 of assessed value. This would result in an estimated real estate tax bill of \$815,261, assuming the property was completed and the tax rate remained constant.

The property currently has an assessed value of \$83,569, thus the incremental value of the property at completion would be \$4,981,299.

APPENDIX B – TIF PROJECTIONS

The Emporia Pavilions shopping center TIF district is eligible to capture 100 percent of incremental increase in property taxes and half of incremental increase in retail sales taxes generated in the TIF district over a 20-year period.

However, not all taxes are eligible to be captured by the TIF district. The state sales tax (5.3%) and county sales tax (0.5%) cannot be captured by local TIF. Additionally, the state property levy (1.50 mills) and the school district property tax levy (20.00 mills) cannot be captured by TIF.

The following tables summarize the total tax rates that can be captured by the TIF district.

2014 Sales Tax				Property Tax (per \$1,000 of AV)		% Share	TIF
	<i>Tax Rate</i>	<i>TIF</i>	<i>City Cont.</i>				
State of Kansas	6.15%	0.00%	0.00%	State of Kansas	1.500	0%	-
Lyon County	1.00%	0.00%	0.00%	Lyon County	56.501	100%	56.501
City of Emporia - General	1.00%	0.50%	0.50%	City of Emporia	41.582	100%	41.582
TOTAL	8.15%	0.50%	0.50%	School District - General	20.000	0%	-
				School District - Supplemental	41.381	100%	41.381
				TOTAL	160.964	87%	139.464

As the sales tax table indicates, the city has pledged to contribute its half of the local sales tax not captured by the TIF in years 1 through 9 of the TIF. Effectively, 1.0 percent of all sales will be captured by the TIF district in year 1 through 9 and 0.5 percent will be captured in years 10 through 20.

In order to project the tax revenue stream generated by the proposed shopping center, Development Strategies assumed a number of variables. These assumptions are summarized in the following table.

Emporia Pavilions Assumptions Summary

<i>Project</i>	
Phase I - Restaurant	
Sq Ft	5,400
Open Date	Oct-16
Phase II - Hobby/Crafts, Soft Goods	
Sq Ft	71,000
Open Date	Feb-17
Phase III - Apparel, Gas/Convenience, Restaurant	
Sq Ft	171,900
Open Date	Oct-17
Phase IV - Out-lot Retail	
Sq Ft	10,000
Open Date	Apr-18
<i>Incremental Sales Taxes</i>	
Total Taxable Sales	\$45,565,000
% Transferred from within Emporia	26.4%
Net New Sales	\$33,537,000
Annual Increase	2.0%
Delay in receipt of funds	3 months
Base Sales Tax	\$0
TIF Eligible Sales Tax Rate	1.0%
TIF Capture	50%
City pledges its half of the 1.0% tax to the TIF in years 1-9	
<i>Incremental Property Taxes</i>	
Estimated Assessed Value (2015\$)	\$5,064,868
Annual increase in property taxes	1.0%
Assessment	Annual on Jan. 1
Delay in receipt of funds	15 months
Base Assessed Value	\$83,569
TIF Eligible Property Tax Rate	\$139.464
<i>Other</i>	
Administrative Fee	1.0%
Inflation	0.0%

These assumptions and the analysis and information outlined in this report form the basis for projecting the total TIF revenue the project can generate. The tables on the following pages show the annual cash flows that could be generated for TIF. The numbers at the bottom of the final two tables indicate that Emporia Plaza could generate a net present value of approximately \$11.3 million in TIF revenue over the twenty-year TIF period.⁹ If we factor in the shift of sales from within Emporia and only consider the net new sales, the projected net present value of tax revenue eligible for capture by the TIF district is reduced to \$10.2 million.

⁹ This assumes a 6% discount rate and a debt coverage ratio of 1.20. These assumptions may not reflect actual financing conditions.

Projected Annual Real Estate Property Tax Revenues Available for TIF Obligations with 15 Month Lag: Emporia Pavilions, Emporia, Kansas (Same for All Sales and Net New Sales Calculations)										
TIF Year	Calendar Year	Est. Assessed Valuation @ Completion	Percent Completed	Est. Assessed Valuation	Base Valuation	Assessed Valuation for TIF (as of 1-1)	Taxes Due for Year @ \$139.4640 per \$1,000 A.V.	Less 2% Admin Fee	Available Revenues at (as of 4-1)	
-1	2015	\$ 5,064,868	0%							
0	2016	5,115,516	1%							
1	2017	5,166,672	49%	\$ 2,537,330	\$ 83,569	\$ 2,453,761	\$ 342,211	\$335,367	\$ -	
2	2018	5,218,338	98%	5,117,325	83,569	\$ 5,033,756	702,028	687,987	335,000	
3	2019	5,270,522	100%	5,270,522	83,569	\$ 5,186,953	723,393	708,925	688,000	
4	2020	5,323,227	100%	5,323,227	83,569	\$ 5,239,658	730,744	716,129	709,000	
5	2021	5,376,459	100%	5,376,459	83,569	\$ 5,292,890	738,168	723,404	716,000	
6	2022	5,430,224	100%	5,430,224	83,569	\$ 5,346,655	745,666	730,753	723,000	
7	2023	5,484,526	100%	5,484,526	83,569	\$ 5,400,957	753,239	738,174	731,000	
8	2024	5,539,371	100%	5,539,371	83,569	\$ 5,455,802	760,888	745,670	738,000	
9	2025	5,594,765	100%	5,594,765	83,569	\$ 5,511,196	768,613	753,241	746,000	
10	2026	5,650,713	100%	5,650,713	83,569	\$ 5,567,144	776,416	760,888	753,000	
11	2027	5,707,220	100%	5,707,220	83,569	\$ 5,623,651	784,297	768,611	761,000	
12	2028	5,764,292	100%	5,764,292	83,569	\$ 5,680,723	792,256	776,411	769,000	
13	2029	5,821,935	100%	5,821,935	83,569	\$ 5,738,366	800,295	784,290	776,000	
14	2030	5,880,154	100%	5,880,154	83,569	\$ 5,796,585	808,415	792,247	784,000	
15	2031	5,938,956	100%	5,938,956	83,569	\$ 5,855,387	816,616	800,283	792,000	
16	2032	5,998,345	100%	5,998,345	83,569	\$ 5,914,776	824,898	808,400	800,000	
17	2033	6,058,329	100%	6,058,329	83,569	\$ 5,974,760	833,264	816,599	808,000	
18	2034	6,118,912	100%	6,118,912	83,569	\$ 6,035,343	841,713	824,879	817,000	
19	2035	6,180,101	100%	6,180,101	83,569	\$ 6,096,532	850,247	833,242	825,000	
20	2036	6,241,902	100%	6,241,902	83,569	\$ 6,158,333	858,866	841,688	833,000	
TOTAL									\$14,104,000	
Net Present Value		6.0%								\$ 8,004,000
Debt Coverage at		1.2								\$ 6,670,000

Projected Annual Sales Tax Revenues Available for Tax Increment Financing Obligations: Emporia Pavilions, Emporia, Kansas (All Sales)										
TIF Year Start: 2017 End: 2036	Calendar Year	Taxable Sales Potential	Economic Occupancy	Effective Sales	TIF Eligible Sales Tax w/city contrib.	Net TIF Elig. Sales Taxes	Base Sales Taxes	Incremental Taxes	Less 2% Admin Fee	Available for TIF Debt (3-month lag)
-1	2015	\$45,565,000								
0	2016	46,476,300								
1	2017	47,405,826	41%	\$19,218,206	1.0%	\$192,182	\$ -	\$192,182	\$188,338	\$ 141,000
2	2018	48,353,943	99%	48,099,253	1.0%	480,993	-	480,993	471,373	401,000
3	2019	49,321,021	100%	49,321,021	1.0%	493,210	-	493,210	483,346	480,000
4	2020	50,307,442	98%	49,301,293	1.0%	493,013	-	493,013	483,153	483,000
5	2021	51,313,591	98%	50,287,319	1.0%	502,873	-	502,873	492,816	490,000
6	2022	52,339,862	98%	51,293,065	1.0%	512,931	-	512,931	502,672	500,000
7	2023	53,386,660	98%	52,318,927	1.0%	523,189	-	523,189	512,725	510,000
8	2024	54,454,393	98%	53,365,305	1.0%	533,653	-	533,653	522,980	520,000
9	2025	55,543,481	97%	53,877,176	1.0%	538,772	-	538,772	527,996	527,000
10	2026	56,654,350	97%	54,954,720	0.5%	274,774	-	274,774	269,278	334,000
11	2027	57,787,437	97%	56,053,814	0.5%	280,269	-	280,269	274,664	273,000
12	2028	58,943,186	97%	57,174,891	0.5%	285,874	-	285,874	280,157	279,000
13	2029	60,122,050	96%	57,717,168	0.5%	288,586	-	288,586	282,814	282,000
14	2030	61,324,491	96%	58,871,511	0.5%	294,358	-	294,358	288,470	287,000
15	2031	62,550,981	96%	60,048,941	0.5%	300,245	-	300,245	294,240	293,000
16	2032	63,802,000	96%	61,249,920	0.5%	306,250	-	306,250	300,125	299,000
17	2033	65,078,040	95%	61,824,138	0.5%	309,121	-	309,121	302,938	302,000
18	2034	66,379,601	95%	63,060,621	0.5%	315,303	-	315,303	308,997	307,000
19	2035	67,707,193	95%	64,321,833	0.5%	321,609	-	321,609	315,177	314,000
20	2036	69,061,337	95%	65,608,270	0.5%	328,041	-	328,041	321,481	320,000
TOTAL										\$7,342,000
Net Present Value		6.0%								\$ 4,894,000
Debt Coverage at		1.2								\$ 4,078,000

Projected Annual Sales Tax Revenues Available for Tax Increment Financing Obligations: Emporia Pavilions, Emporia, Kansas (Net New Sales, Only)										
TIF Year Start: 2017 End: 2036	Calendar Year	Taxable Sales Potential	Economic Occupancy	Effective Sales	TIF Eligible Sales Tax w/city contrib.	Net TIF Elig. Sales Taxes	Base Sales Taxes	Incremental Taxes	Less 2% Admin Fee	Available for TIF Debt (3-month lag)
-1	2015	\$33,537,000								
0	2016	34,207,740								
1	2017	34,891,895	43%	\$14,892,690	1.0%	\$148,927	\$ -	\$148,927	\$145,948	\$ 109,000
2	2018	35,589,733	99%	35,335,043	1.0%	353,350	-	353,350	346,283	296,000
3	2019	36,301,527	100%	36,301,527	1.0%	363,015	-	363,015	355,755	353,000
4	2020	37,027,558	98%	36,287,007	1.0%	362,870	-	362,870	355,613	356,000
5	2021	37,768,109	98%	37,012,747	1.0%	370,127	-	370,127	362,725	361,000
6	2022	38,523,471	98%	37,753,002	1.0%	377,530	-	377,530	369,979	368,000
7	2023	39,293,941	98%	38,508,062	1.0%	385,081	-	385,081	377,379	376,000
8	2024	40,079,819	98%	39,278,223	1.0%	392,782	-	392,782	384,927	383,000
9	2025	40,881,416	97%	39,654,973	1.0%	396,550	-	396,550	388,619	388,000
10	2026	41,699,044	97%	40,448,073	0.5%	202,240	-	202,240	198,196	246,000
11	2027	42,533,025	97%	41,257,034	0.5%	206,285	-	206,285	202,159	201,000
12	2028	43,383,686	97%	42,082,175	0.5%	210,411	-	210,411	206,203	205,000
13	2029	44,251,359	96%	42,481,305	0.5%	212,407	-	212,407	208,158	208,000
14	2030	45,136,386	96%	43,330,931	0.5%	216,655	-	216,655	212,322	211,000
15	2031	46,039,114	96%	44,197,550	0.5%	220,988	-	220,988	216,568	216,000
16	2032	46,959,896	96%	45,081,501	0.5%	225,408	-	225,408	220,899	220,000
17	2033	47,899,094	95%	45,504,140	0.5%	227,521	-	227,521	222,970	222,000
18	2034	48,857,076	95%	46,414,222	0.5%	232,071	-	232,071	227,430	226,000
19	2035	49,834,218	95%	47,342,507	0.5%	236,713	-	236,713	231,978	231,000
20	2036	50,830,902	95%	48,289,357	0.5%	241,447	-	241,447	236,618	235,000
TOTAL										\$5,411,000
Net Present Value		6.0%								\$ 3,609,000
Debt Coverage at		1.2								\$ 3,008,000

Projected Revenue from TIF Emporia Pavilions, Emporia, KS (All Sales)				Projected Revenue from TIF Emporia Pavilions, Emporia, KS (Net New Sales, Only)			
Calendar Year	Real Estate Property Taxes	Sales Taxes	TOTAL	Calendar Year	Real Estate Property Taxes	Sales Taxes	TOTAL
2017	\$ -	\$ 141,000	\$ 141,000	2017	\$ -	\$ 109,000	\$ 109,000
2018	335,000	401,000	736,000	2018	335,000	296,000	631,000
2019	688,000	480,000	1,168,000	2019	688,000	353,000	1,041,000
2020	709,000	483,000	1,192,000	2020	709,000	356,000	1,065,000
2021	716,000	490,000	1,206,000	2021	716,000	361,000	1,077,000
2022	723,000	500,000	1,223,000	2022	723,000	368,000	1,091,000
2023	731,000	510,000	1,241,000	2023	731,000	376,000	1,107,000
2024	738,000	520,000	1,258,000	2024	738,000	383,000	1,121,000
2025	746,000	527,000	1,273,000	2025	746,000	388,000	1,134,000
2026	753,000	334,000	1,087,000	2026	753,000	246,000	999,000
2027	761,000	273,000	1,034,000	2027	761,000	201,000	962,000
2028	769,000	279,000	1,048,000	2028	769,000	205,000	974,000
2029	776,000	282,000	1,058,000	2029	776,000	208,000	984,000
2030	784,000	287,000	1,071,000	2030	784,000	211,000	995,000
2031	792,000	293,000	1,085,000	2031	792,000	216,000	1,008,000
2032	800,000	299,000	1,099,000	2032	800,000	220,000	1,020,000
2033	808,000	302,000	1,110,000	2033	808,000	222,000	1,030,000
2034	817,000	307,000	1,124,000	2034	817,000	226,000	1,043,000
2035	825,000	314,000	1,139,000	2035	825,000	231,000	1,056,000
2036	833,000	320,000	1,153,000	2036	833,000	235,000	1,068,000
TOTAL	\$14,104,000	\$7,342,000	\$21,446,000	TOTAL	\$14,104,000	\$5,411,000	\$19,515,000
Net Present Value	6.0%		\$14,128,000	Net Present Value	6.0%		\$12,775,000
Debt Coverage at	1.2		\$11,773,000	Debt Coverage at	1.2		\$10,646,000