

DRAFT

Gateway East District Urban Renewal Planning

Market Assessment

Prepared for the CAPITAL CITY DEVELOPMENT CORPORATION | September 4, 2018



VISION
ECONOMICS
FINANCE
STRATEGY
IMPLEMENTATION

Outline

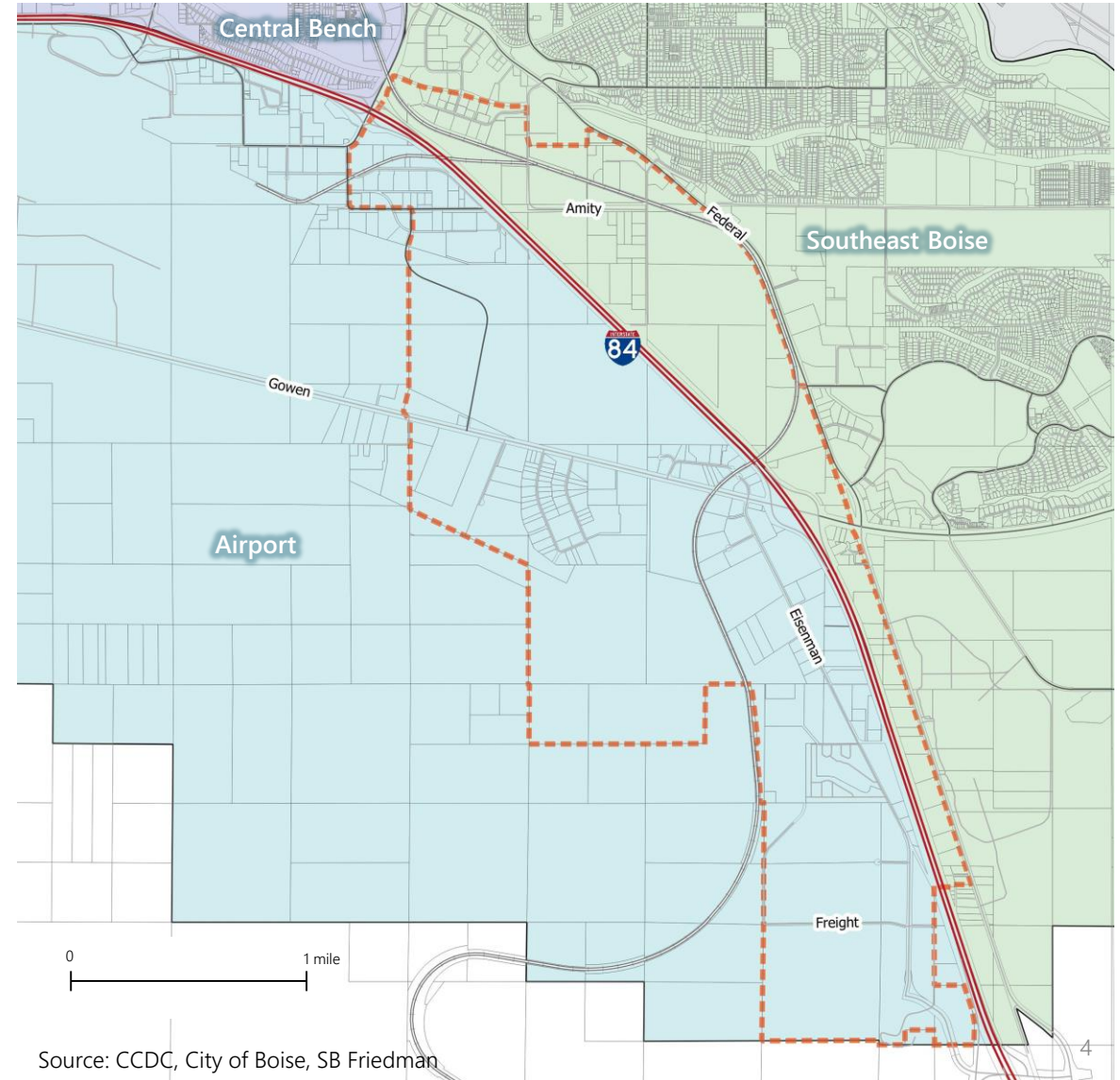
- 00 Background & Methodology
- 01 Existing Conditions
- 02 Industrial Analysis
- 03 Retail Analysis
- 04 Hotel Analysis
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00 Background & Methodology

Gateway East Proposed Urban Renewal Area

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- Gateway East District (Study Area) characteristics
 - 3,300 acres
 - 344 parcels, 178 buildings
 - Located within the Airport and Southeast Boise Planning Areas
- The proposed Gateway East District is roughly bound by:
 - South Federal Way to the north and east
 - The Boise Airport to the west
 - Undeveloped land to the south

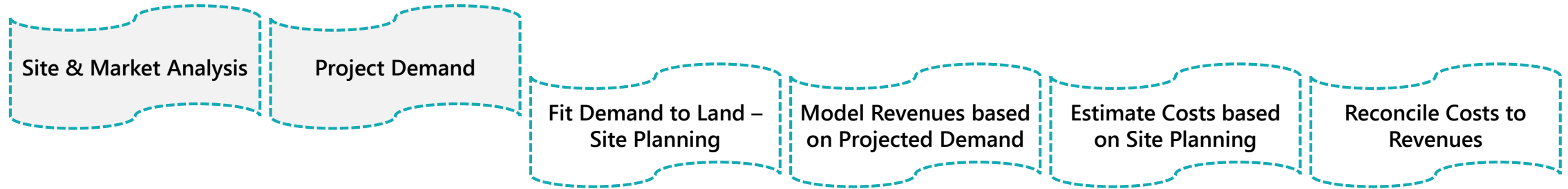


Urban Renewal Area Planning Process

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Urban Renewal Law requires a Feasibility Study confirm proposed project feasibility for the Study Area.

- A Feasibility Study is the output of the following processes:



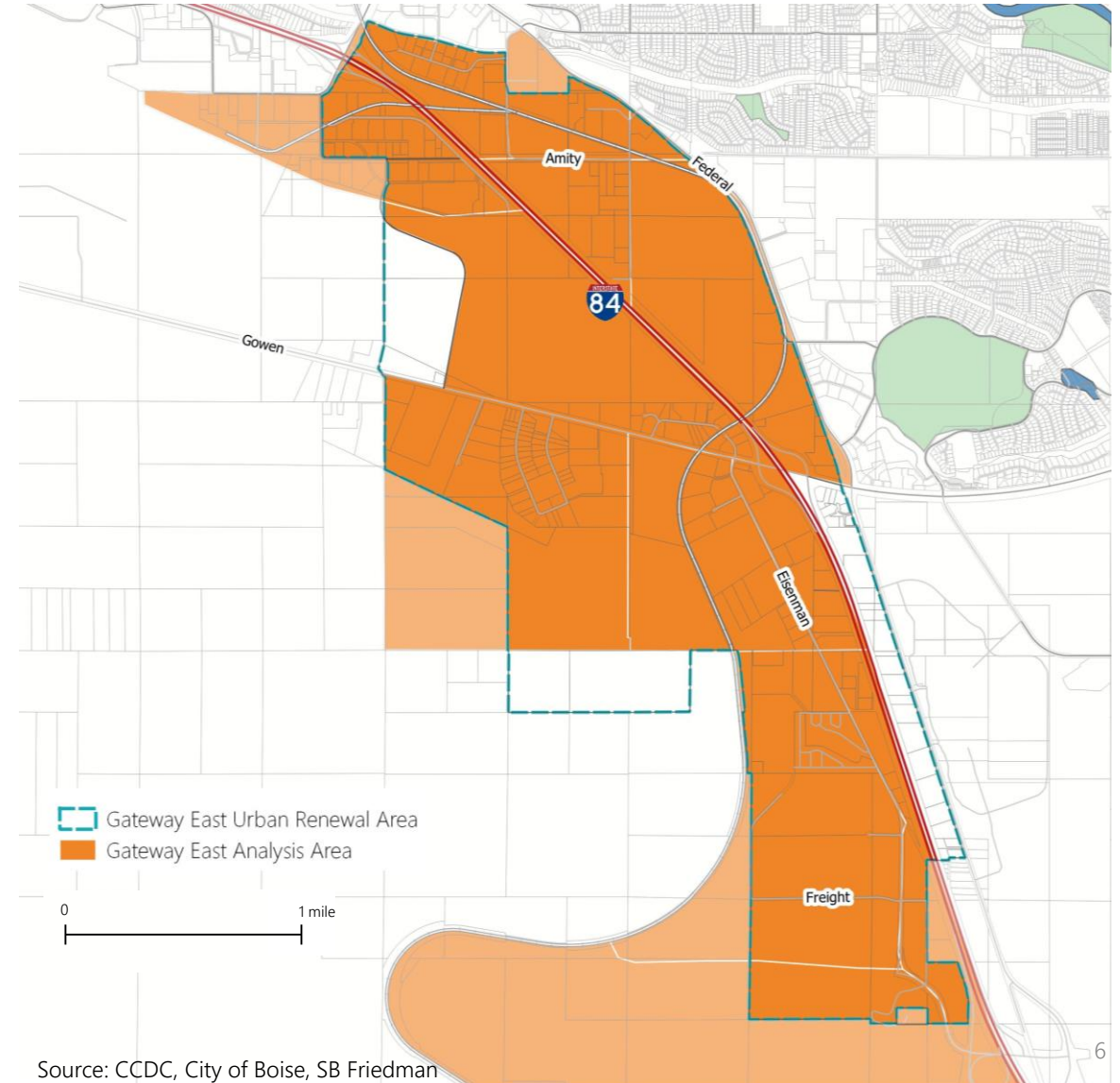
- After costs have been reconciled to revenues, the Feasibility Study must be drafted for inclusion in the Urban Renewal Plan

COMPASS Gateway East Analysis Area

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COMPASS projections are used to guide employment growth rates in the Study Area. COMPASS creates projections for the region. SB Friedman compared the Gateway East Analysis Area growth against Ada County growth for each land use to evaluate development capture rates.

- SB Friedman identified a "Gateway East Analysis Area" which includes 14 COMPASS-defined traffic analysis zones (TAZs)
- COMPASS data was used to help drive SB Friedman industrial and retail real estate models



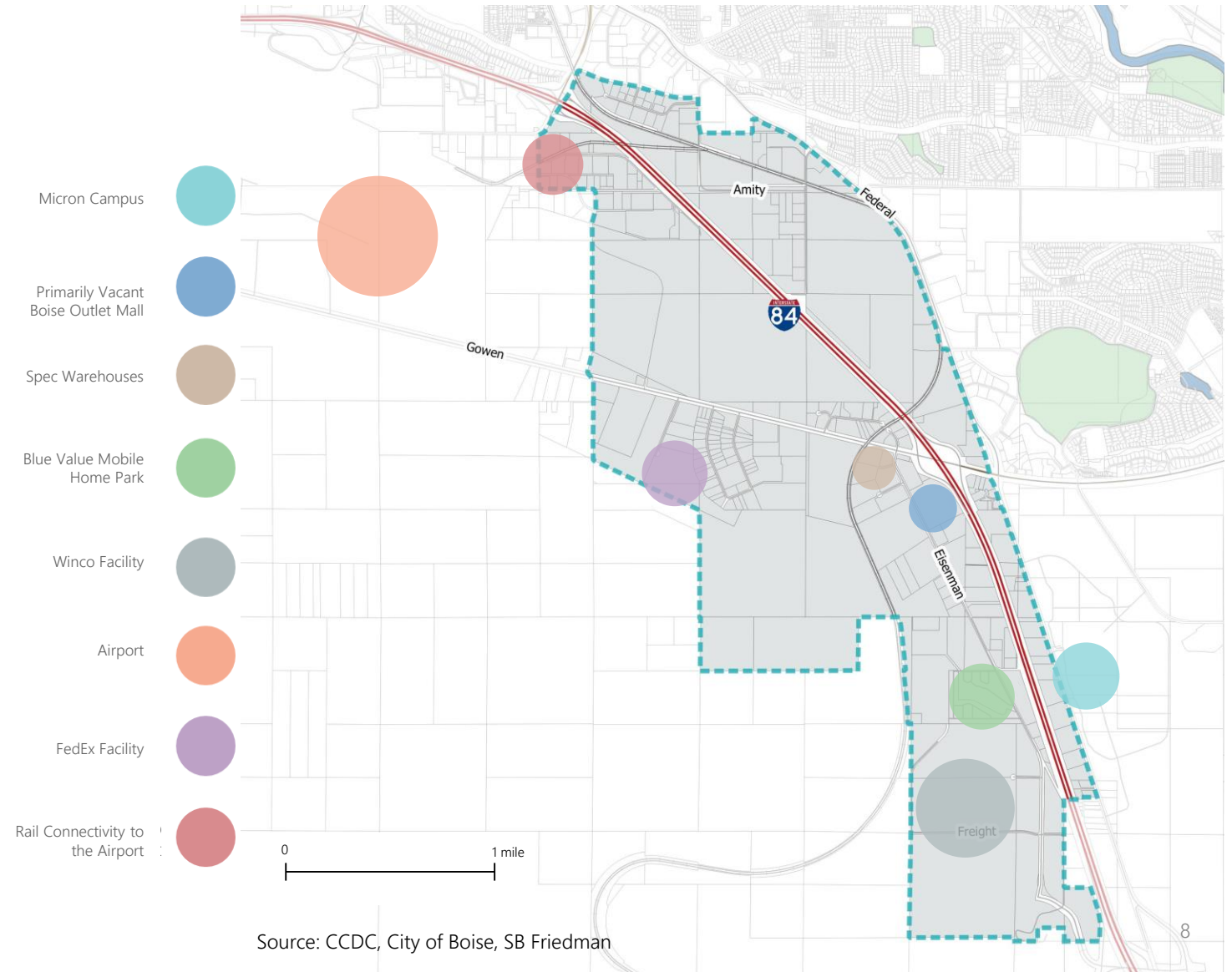
01 Existing Conditions

Existing Conditions: Context Map

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The Gateway East URA is primarily industrial, the area consists of both single-tenant and multi-tenant properties.

- Gateway East is split between two Blueprint Boise Planning Areas:
 - Southeast Planning Area
 - Airport Planning Area
- Development goals include:
 - Ensure future development is compatible with airport operations
 - Increase industrial development operations and associated employment

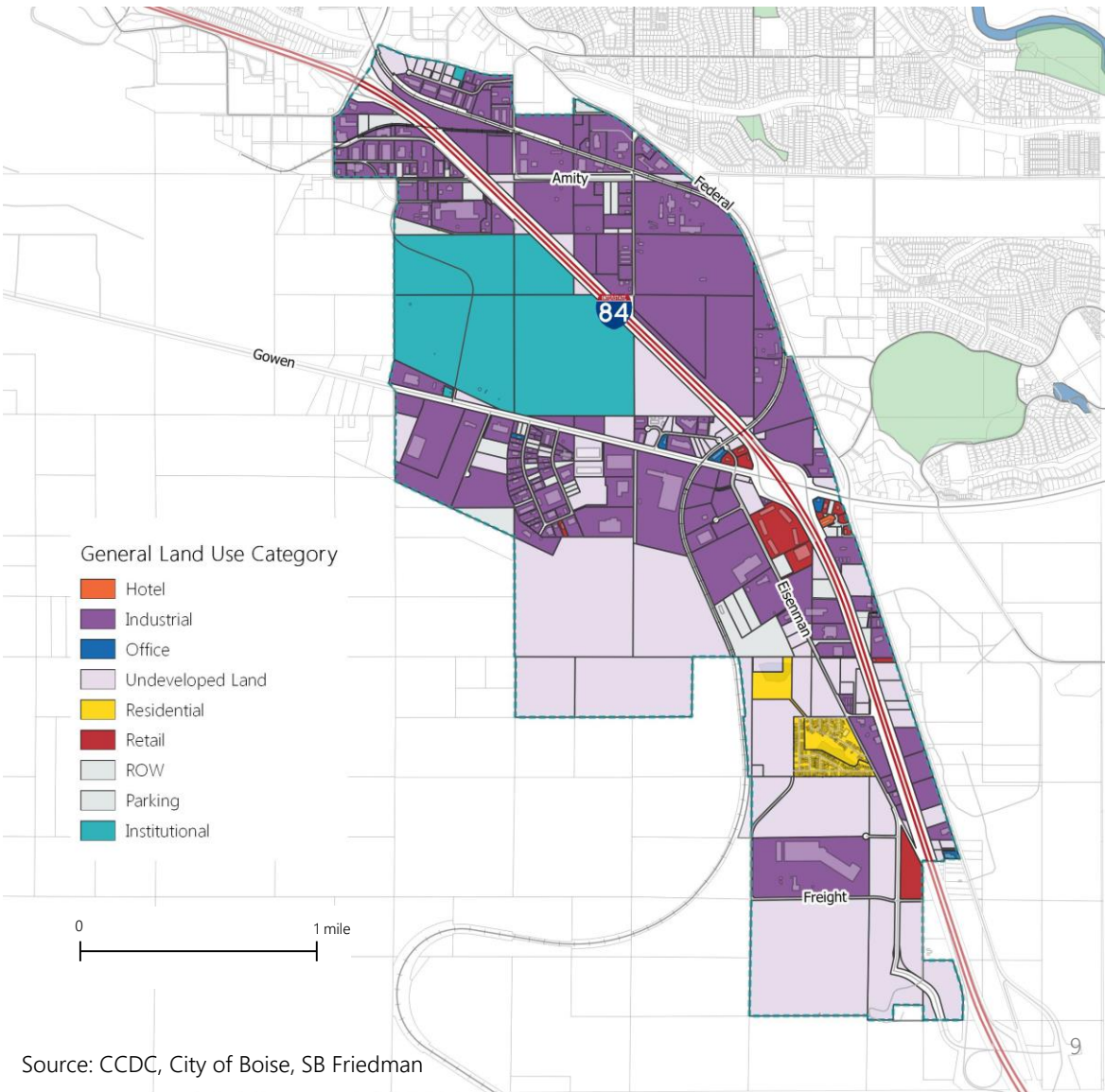
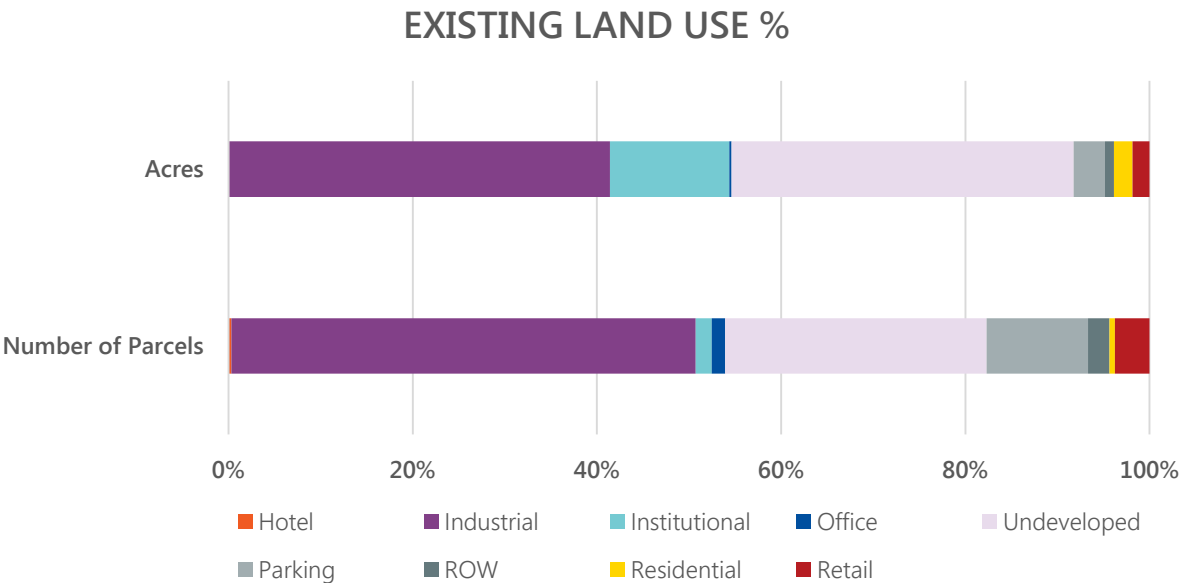


Existing Conditions: Land Use

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The majority of the Study Area is currently industrial or undeveloped land. Other common land uses include institutional, parking and retail.

- The Study Area land acreage is over 50% developed industrial
- Other dominant land uses include institutional and undeveloped lands, both of which have large clusters
- There is limited residential and retail in the Study Area

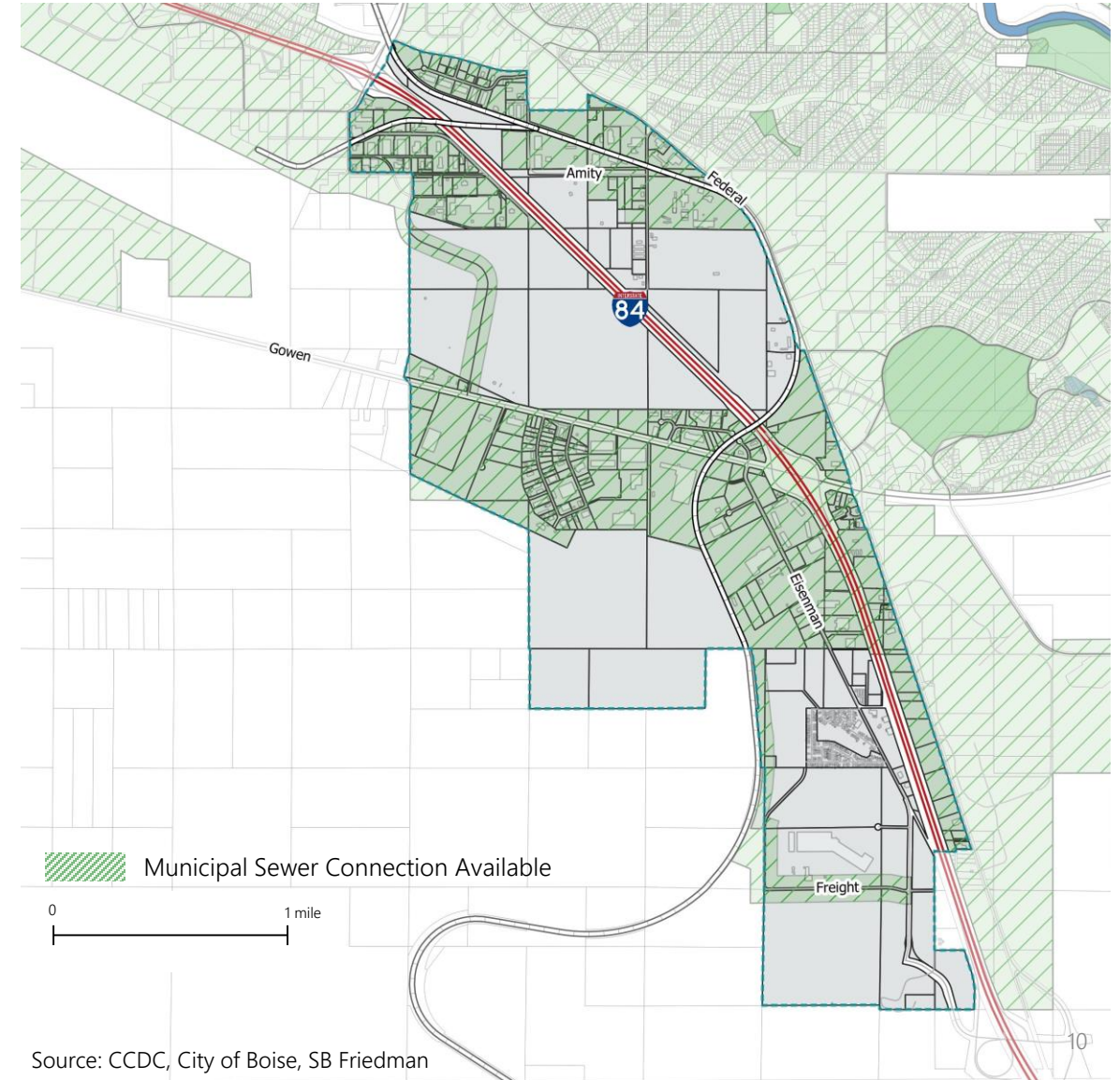


Existing Conditions: Utilities

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Existing utilities are a primary indicator of where development can occur in the near term. The following information was provided during calls with each entity.

- Municipal Sewer
 - Existing sewer is primarily along Gowen & Federal Way
 - Utilities are currently limited in undeveloped areas to the south and adjacent the Airport
- Idaho Power
 - There is existing additional capacity in the Study Area due to recent improvements near Gowen
 - Airport regulations limit improvements on State-owned property along Production
- Suez Water
 - The Analysis Area is entirely within the Suez Service Area
 - An existing water treatment plant has 14 million gallons in additional daily capacity (currently at 6 million gallons per day)
- Intermountain Gas
 - Additional capacity is currently available
 - Expansion limited near gravel pits along Production

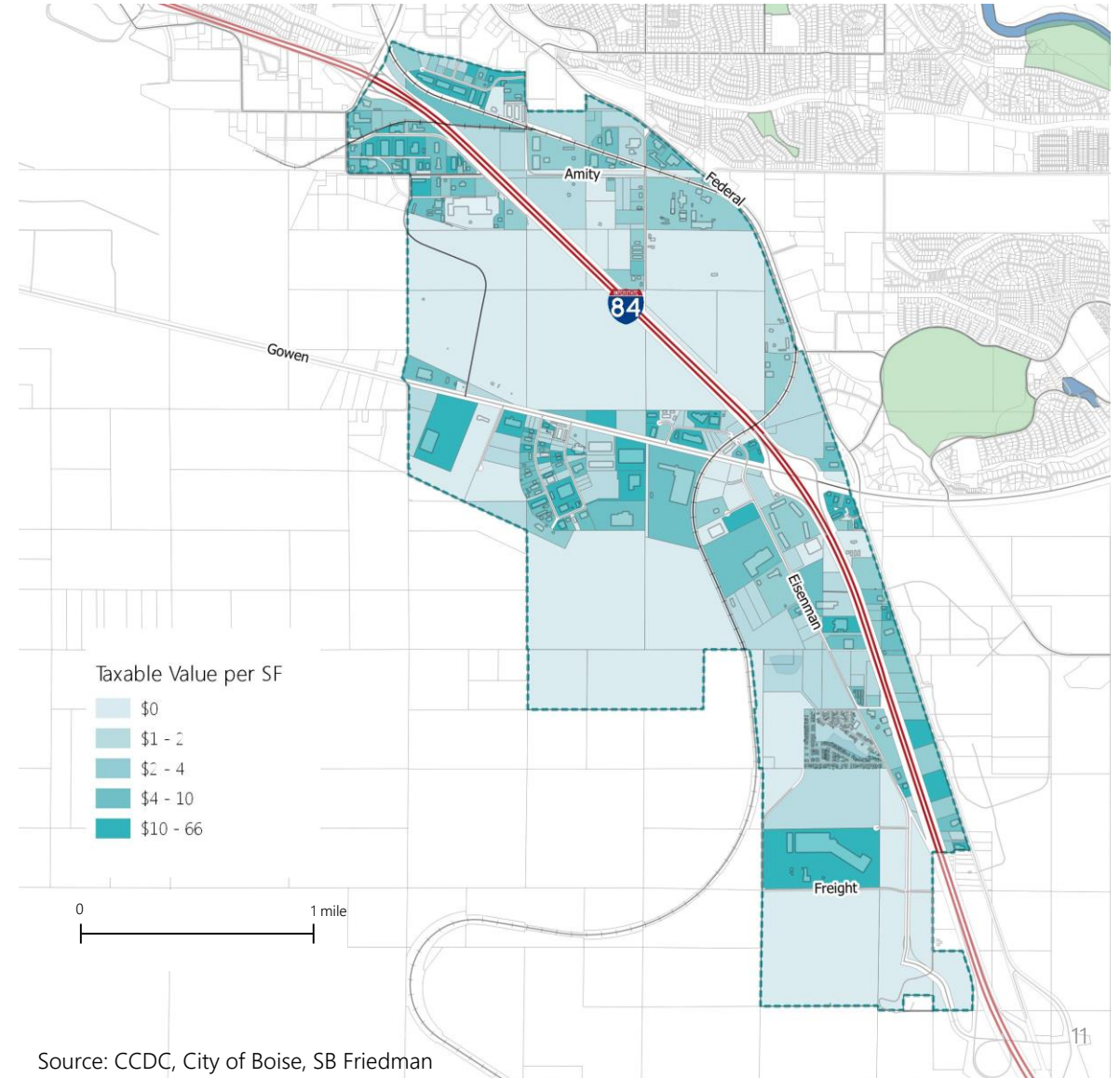


Existing Conditions: Taxable Value

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Taxable value varies across the Study Area; the properties near Enterprise Street and Federal Way typically have higher existing values on a per square foot (SF) basis.

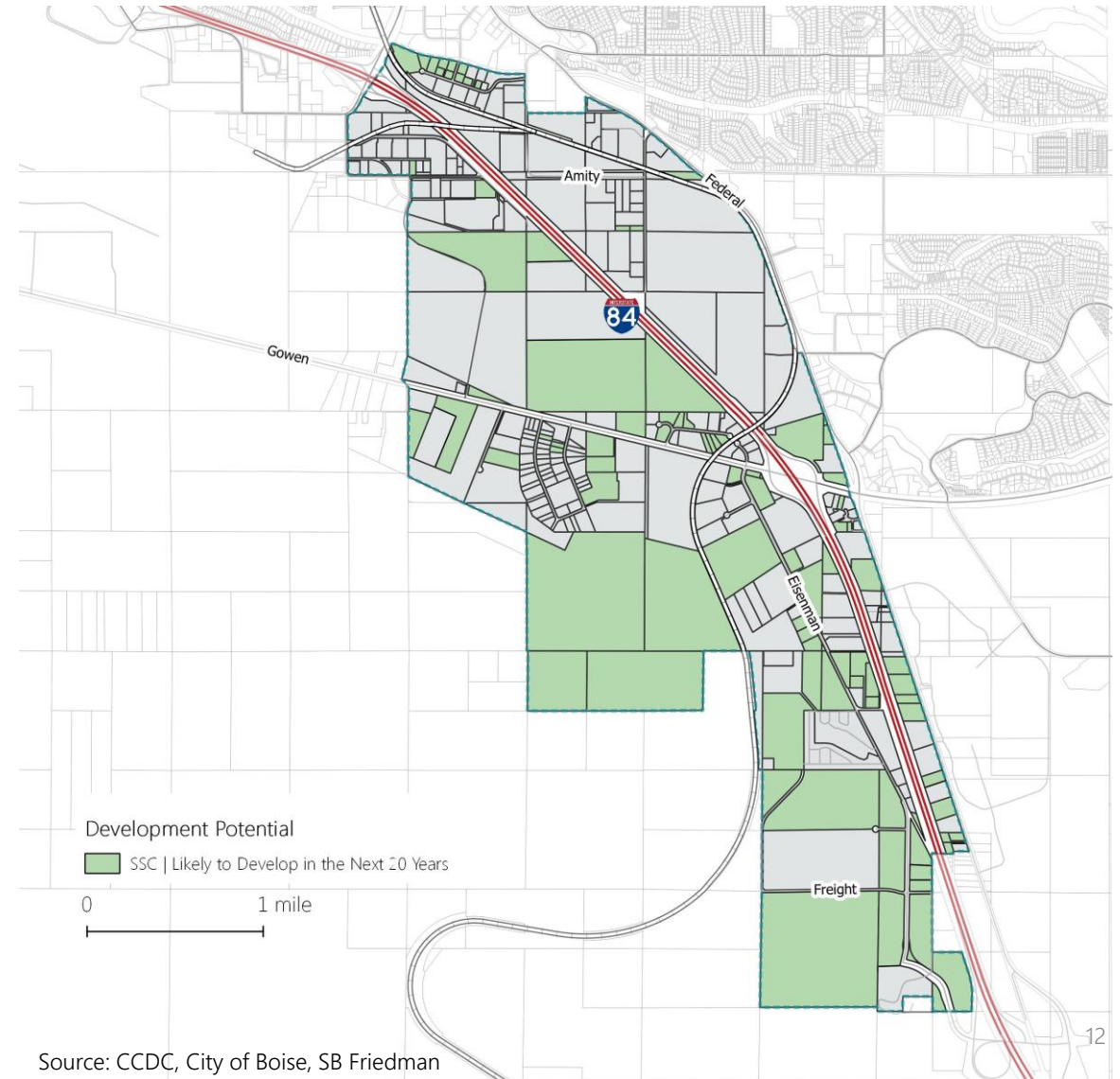
- Higher-value nodes
 - Gowen-adjacent property
 - Along Federal Way
 - Boeing Street/Enterprise
- Lower-value nodes
 - City-owned land, including parcels owned by the Airport
 - Gravel pits (owned by the City/State)



Existing Conditions: Preliminary Sites Susceptible to Change **DRAFT**

There are 97 sites (parcels or sub-parcels) within the Study Area susceptible to change (SSC). These sites are typically undeveloped, or not currently their highest and best use.

- Sites susceptible to change are commonly:
 - Undeveloped parcels within existing industrial corridors
 - Undeveloped parcels in open areas
 - Publicly-owned sites likely to transfer to private ownership or control in the near term
- Approximately 1,200 acres
- The majority of SSC are whole parcels
- A select number of SSC are partial-parcels, excluding segments of the full parcel which are:
 - Already developed
 - Unlikely to be developed in the near term (e.g., publicly owned gravel pits)



02 Industrial Analysis

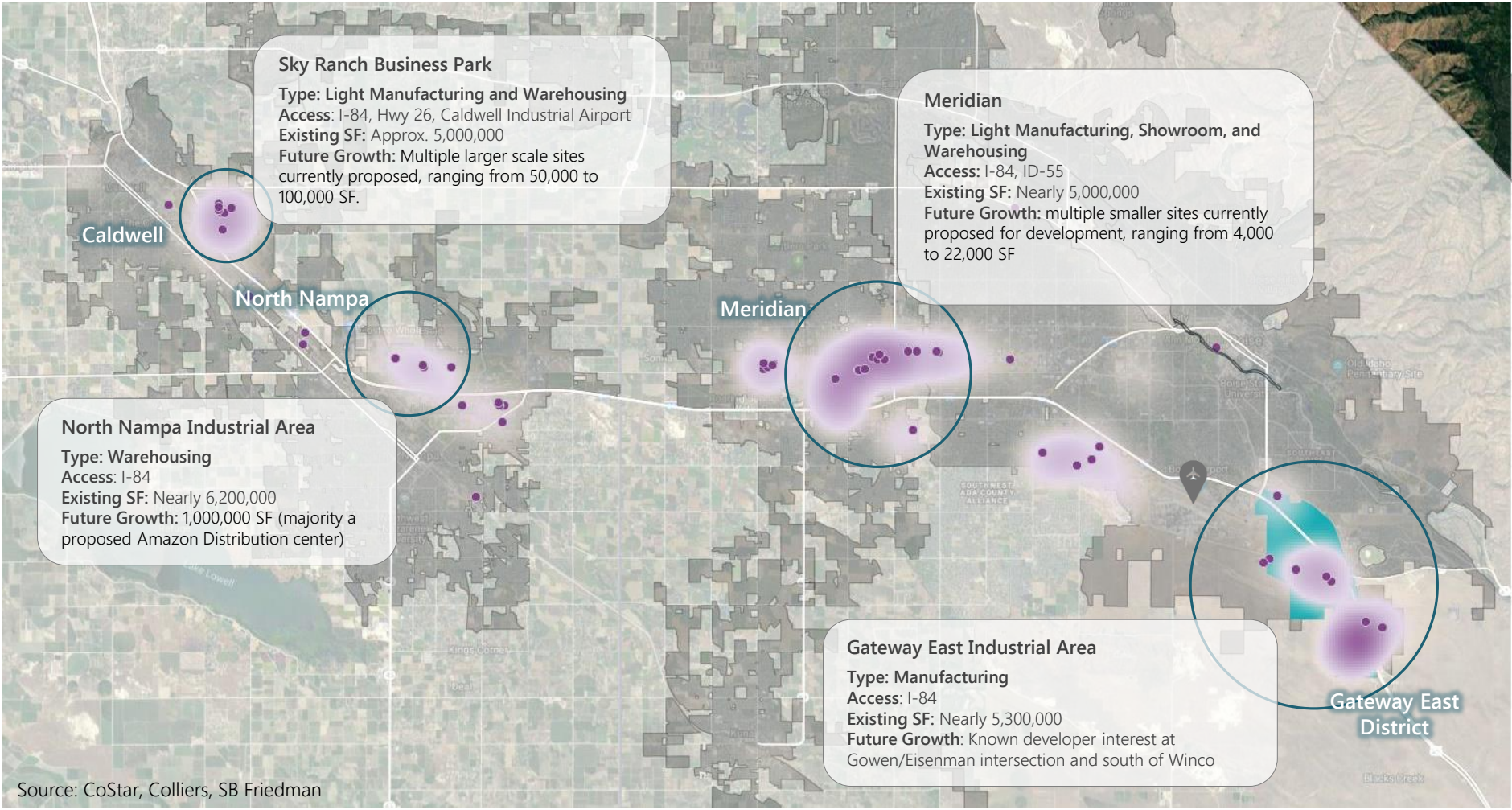
Industrial: Recent Regional Class A Industrial Clusters

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Industrial vacancy across the Treasure Valley is at an all-time low. There are four major industrial clusters in the region: Gateway East, Meridian, North Nampa and Caldwell. Recent development in Meridian is driven by warehouse tenants and showroom space and is not considered as competitive with Gateway East. The Caldwell and North Nampa clusters appear to be more competitive.

● Product built since 2010

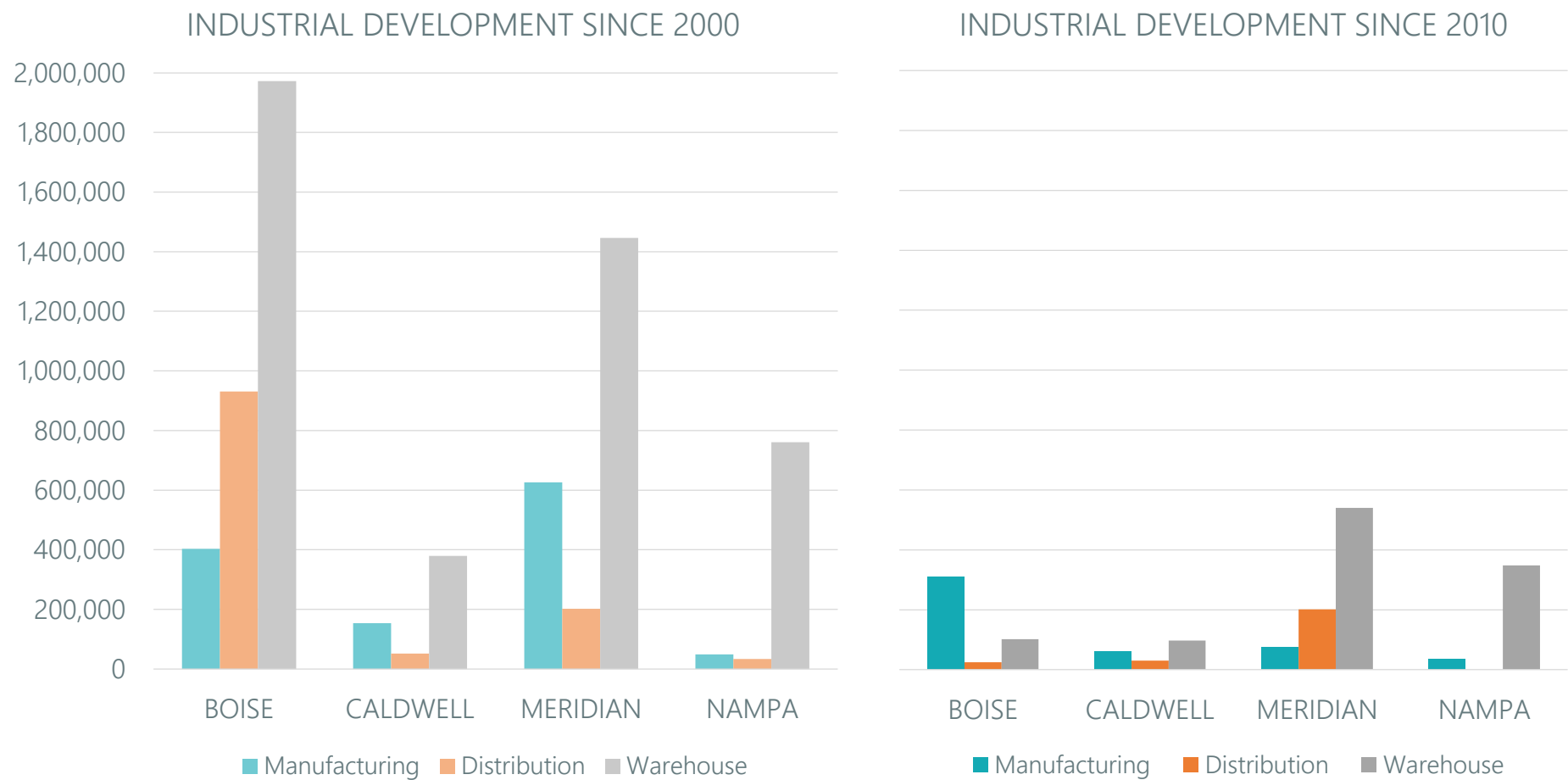
Heat map shows all industrial buildings built since 2000 weighted by Rentable Building Area (RBA)



Industrial: Recent Industrial Development by City

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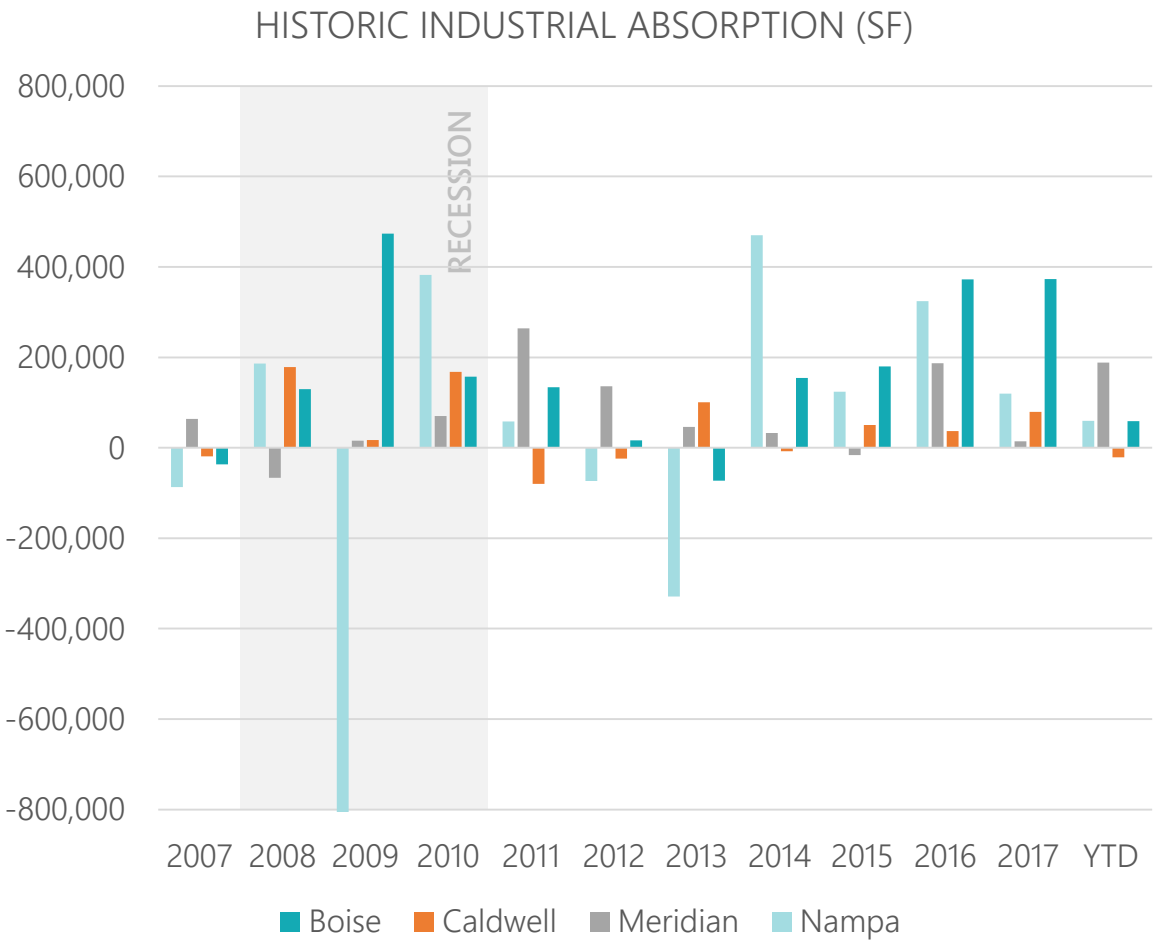
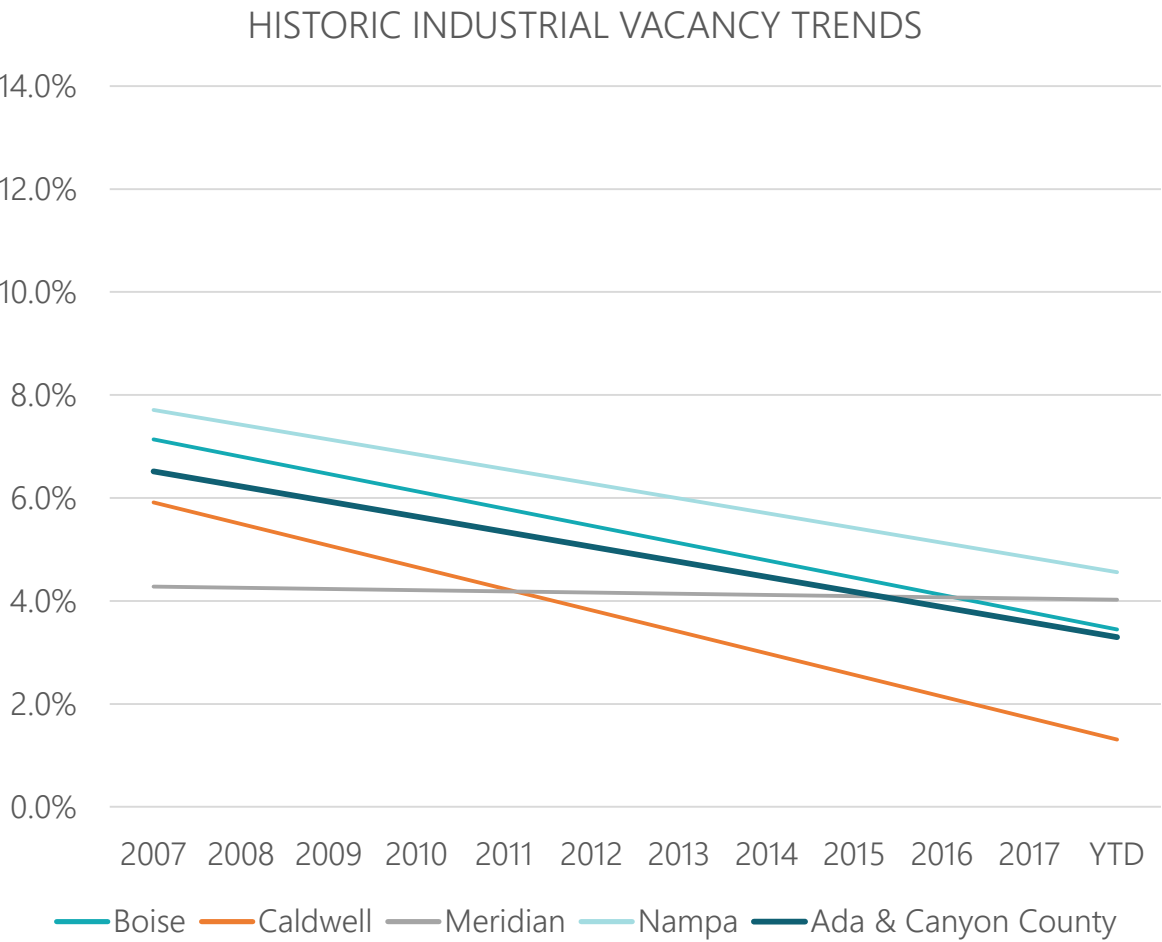
Boise has the largest concentration of distribution and warehouse facilities in the region, however Meridian has seen the largest share of distribution and warehouse development since 2010, in addition to the most Class A development across all types. Boise has experienced the largest share of new manufacturing development over the same period.



Industrial: Historic Real Estate Performance

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Industrial vacancy has trended down over the last 10 years in each of the major cities and in Ada and Canyon County overall. This downward trend has continued recently through peak post-recession absorption. Boise absorbed over 1.9 million square feet of industrial space since 2007, accounting for nearly half of the industrial space absorbed in the region.

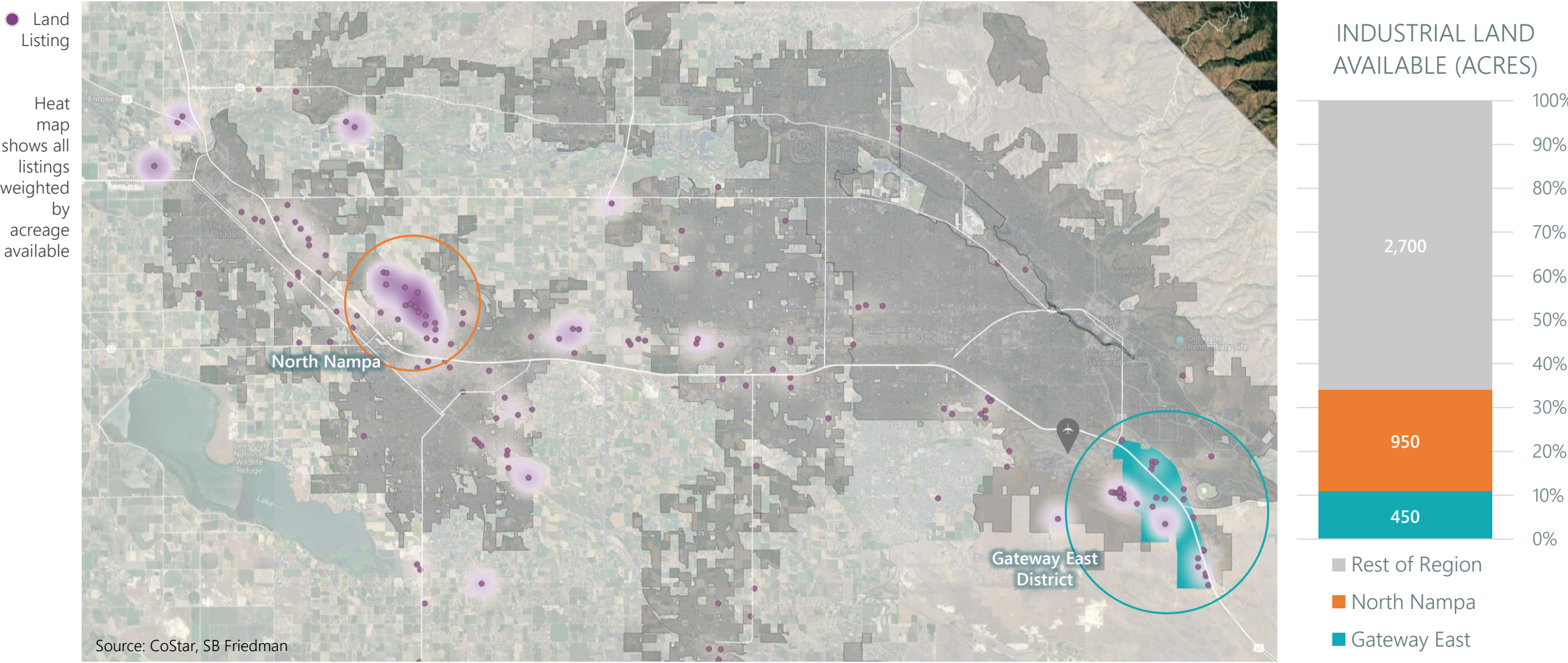


Source: CoStar, SB Friedman
SB Friedman Development Advisors

Industrial: Industrial Land Available

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Approximately 11% of the industrial land available and 19% of the land listings in the region are located in Gateway East. The total land available and the average size of land listings in Gateway East is smaller than listings in the North Nampa cluster and the region overall. The North Nampa industrial area could pose competitive challenges in the future.



Industrial: Character of Industrial in Gateway East

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New industrial product has ranged from 40,000 – 60,000 SF; typically around Gowen/Eisenman. New construction of each of the major industrial typologies (manufacturing/warehouse/distribution) has occurred in the last 10 years. Profiles of new construction within the Study Area are included below.



6895 S Eisenman Rd
52,500 SF
Warehouse
Delivered June 2017



Gowen & Eisenman Building C
51,840 SF
Manufacturing
Delivered August 2018



875 W Gowen
8,600 SF
Warehouse
Delivered January 2018



FedEx Boise
79,567 SF
Distribution
Delivered 2007

Type/Class	A/B Manufacturing & Warehouse
Tenants	New construction primarily divisible buildings to allow for multiple tenants
Clear Heights	24'-36'
Average RBA	40,000-60,000 SF (outliers in both directions)
Typical FAR	0.35 Net / 0.2 Gross
Average Site Size	9 acres
Square Feet per Employee	1,900 SF
Other Characteristics	Relatively high parking ratio, 2 per 1000 SF on average

Industrial: Stakeholder Feedback

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SB Friedman discussed development potential with developers and stakeholders, who collectively provided positive feedback about the potential of the Study Area. The following are a few of the highlights from the interviews.

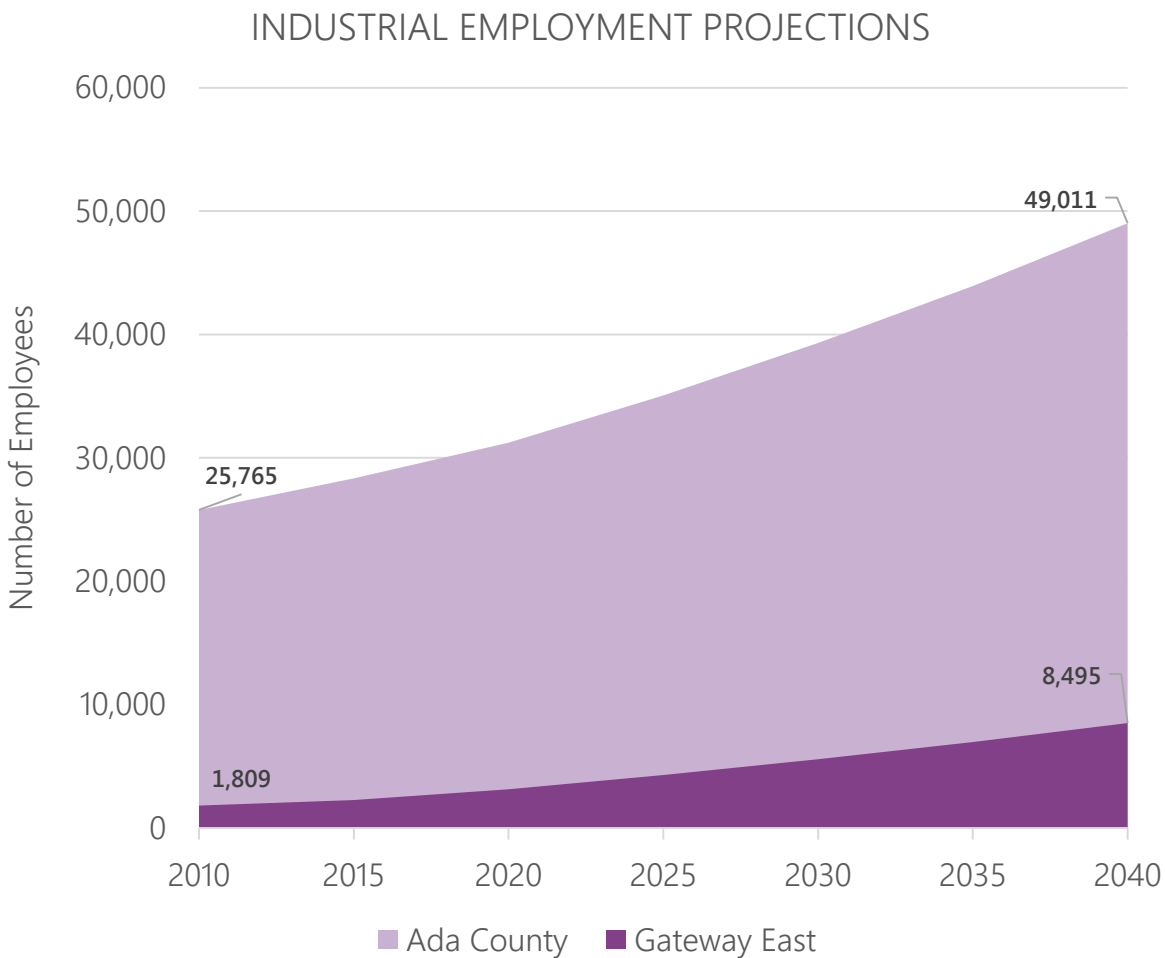
- Developer feedback
 - There is development demand for both build-to-suit and speculative construction
 - Relatively low land prices and high development values are driving developer interest
 - Building square footage is expected to increase in the near term, from 40,000 SF on average to closer to 100,000-150,000 SF

- Key takeaways
 - Site preparation adds time and costs to development schedules, but should not be considered an inhibitor
 - Developers are willing to assist in infrastructure improvements to the extent necessary for individual projects

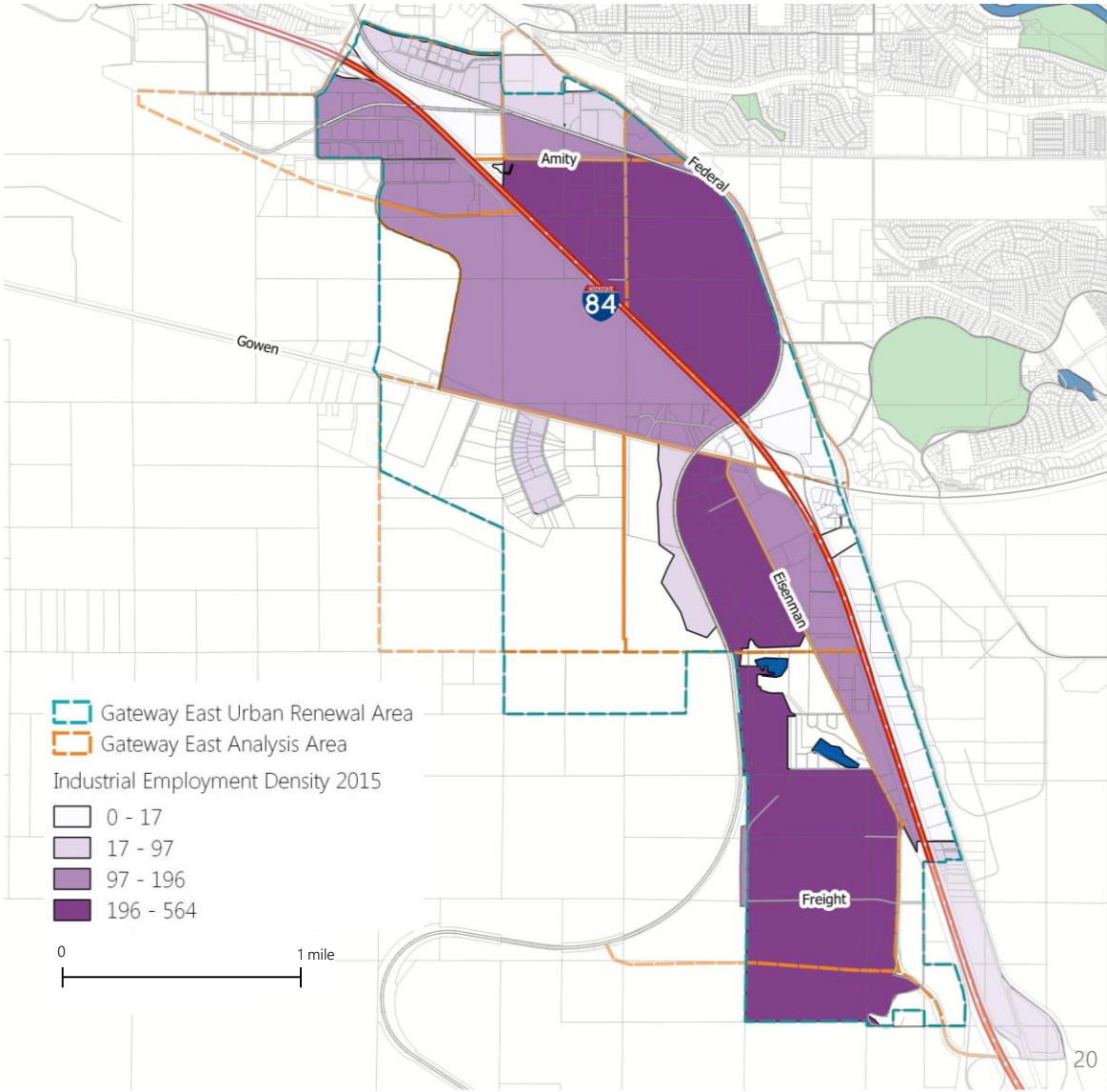
Industrial: Employment Projections

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Gateway East is projected to experience approximately 30% of the industrial employment growth county-wide. SB Friedman used COMPASS-projected growth rates and Longitudinal Employer-Household Dynamics (LEHD) data within the Study Area to estimate total new employees in 2038, which was then converted to industrial development square footage.



Source: COMPASS, LEHD, SB Friedman
SB Friedman Development Advisors

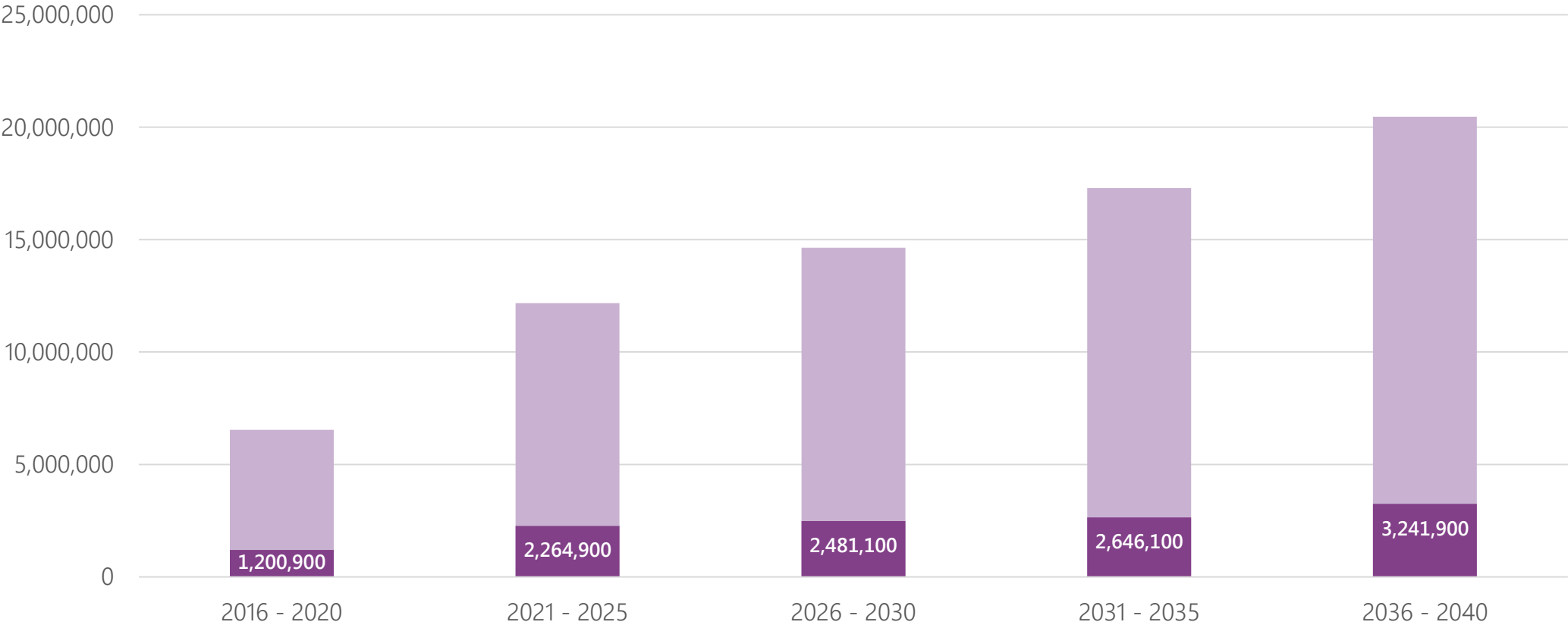


Industrial: Forecasted Demand

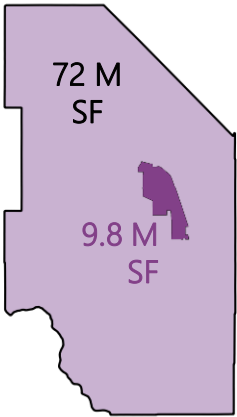
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Using COMPASS industrial employment projections, LEHD industrial employment data, and historic CoStar industrial and flex data, SB Friedman projects demand for approximately **9.8 million SF** of industrial development within the Gateway East Analysis Area over the next 20 years.

ADA COUNTY & GATEWAY EAST
PROJECTED INDUSTRIAL DEVELOPMENT



RBA added within the Gateway East District from 2019 to 2038 is estimated to represent about 15% of total growth in Ada County on an average annual basis.



Source: COMPASS, LEHD, SB Friedman
SB Friedman Development Advisors

■ Ada County RBA Added ■ Gateway East RBA Added

Industrial: Sites Susceptible to Change

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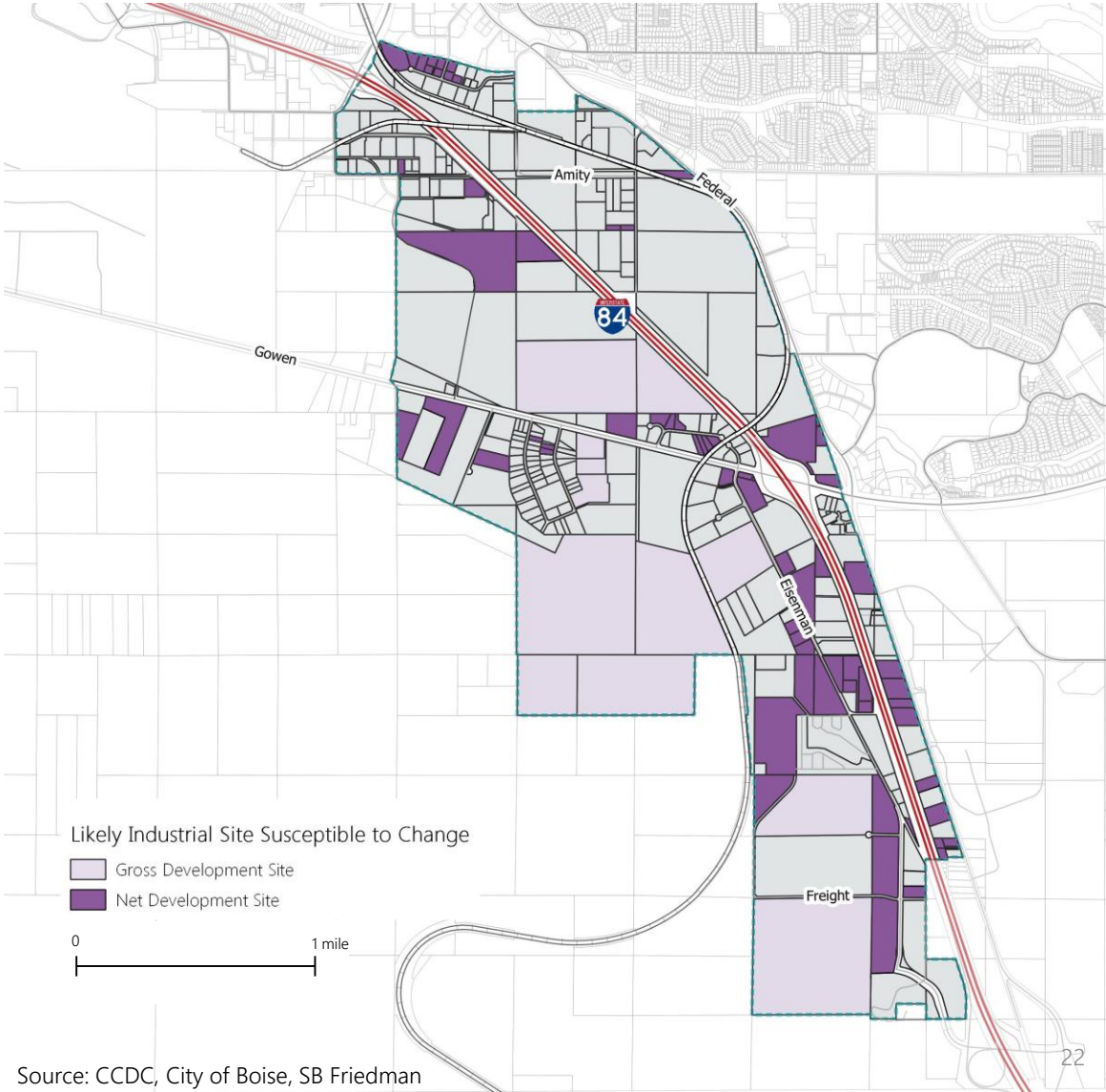
There are over 1,000 acres of land likely to be developed as industrial in the Study Area. Those acres converted to real estate potential provide land for roughly 12M square feet of industrial development.

- Development sites are split into two categories:
- Gross – A portion of the development site will be required to accommodate infrastructure improvements
 - Net – Development-ready parcels

	Net Parcels	Gross Parcels
Parcels	69	11
Land Available (acres)	351	745
FAR	0.35	0.2
RBA Capacity	5,358,903	6,490,688
Total Development Capacity (SF)		11,849,591

Industrial land appears to roughly exceed projected industrial demand, preliminarily indicating the full 9.8M square feet of industrial demand can be built.

Land capacity is subject to confirmation after land planning in the Industrial Development Planning phase.

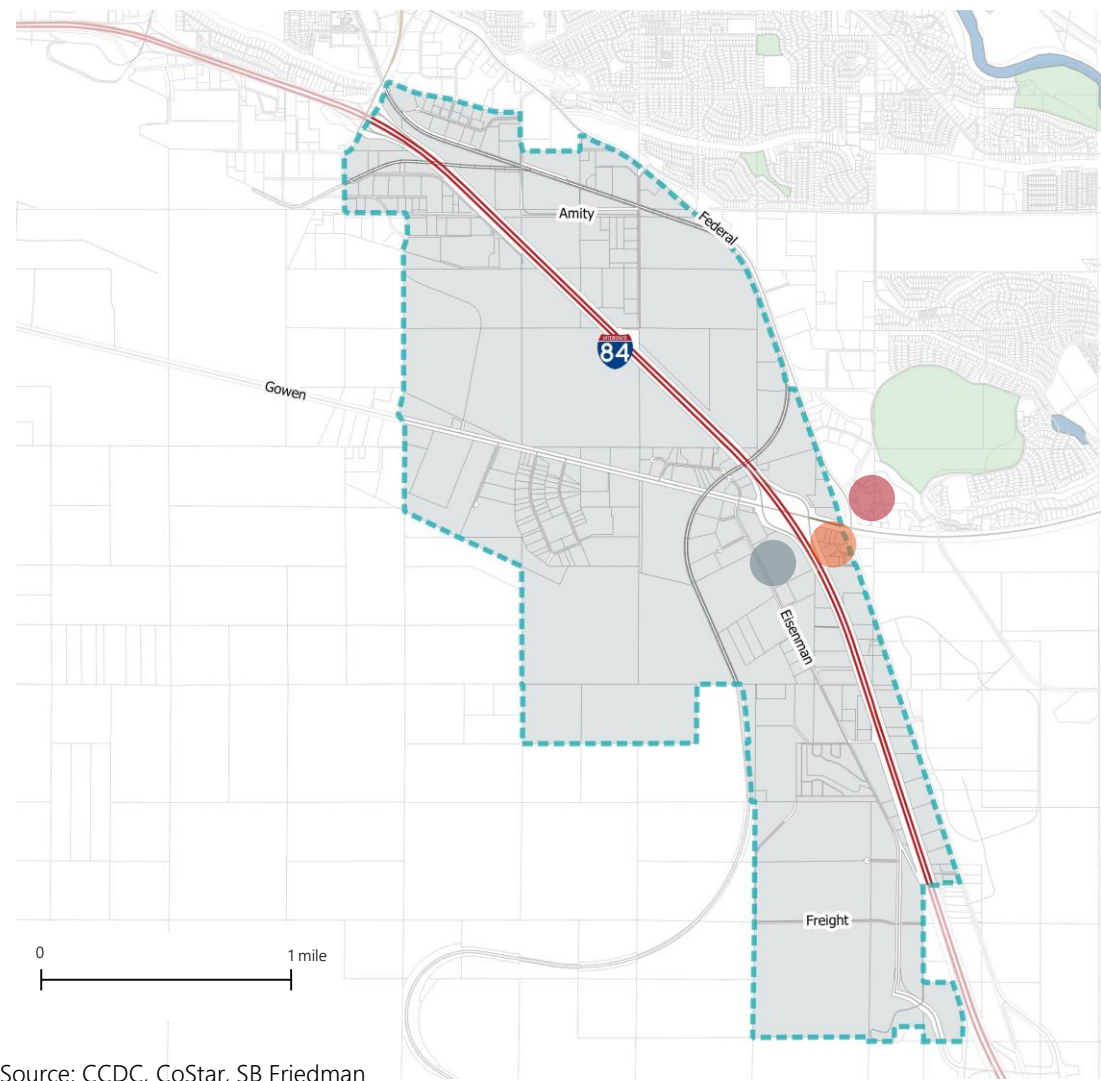


03 Retail Analysis

Retail: Retail Typologies

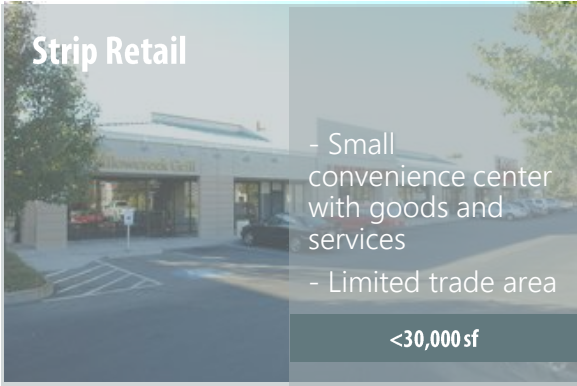
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Retail in the Study Area is likely to be neither of the major retail categories (Mall & Lifestyle Centers, Regional Retail Clusters); instead it is more likely to be one of three present common smaller retail typologies: Strip, Freestanding or Neighborhood Retail.



Source: CCDc, CoStar, SB Friedman
SB Friedman Development Advisors

Strip Retail



- Small convenience center with goods and services
- Limited trade area

<30,000 sf

Freestanding Retail



- Standalone stores
- Often owner-occupied

5,000-150,000 sf

Neighborhood Center



30,000-125,000 SF

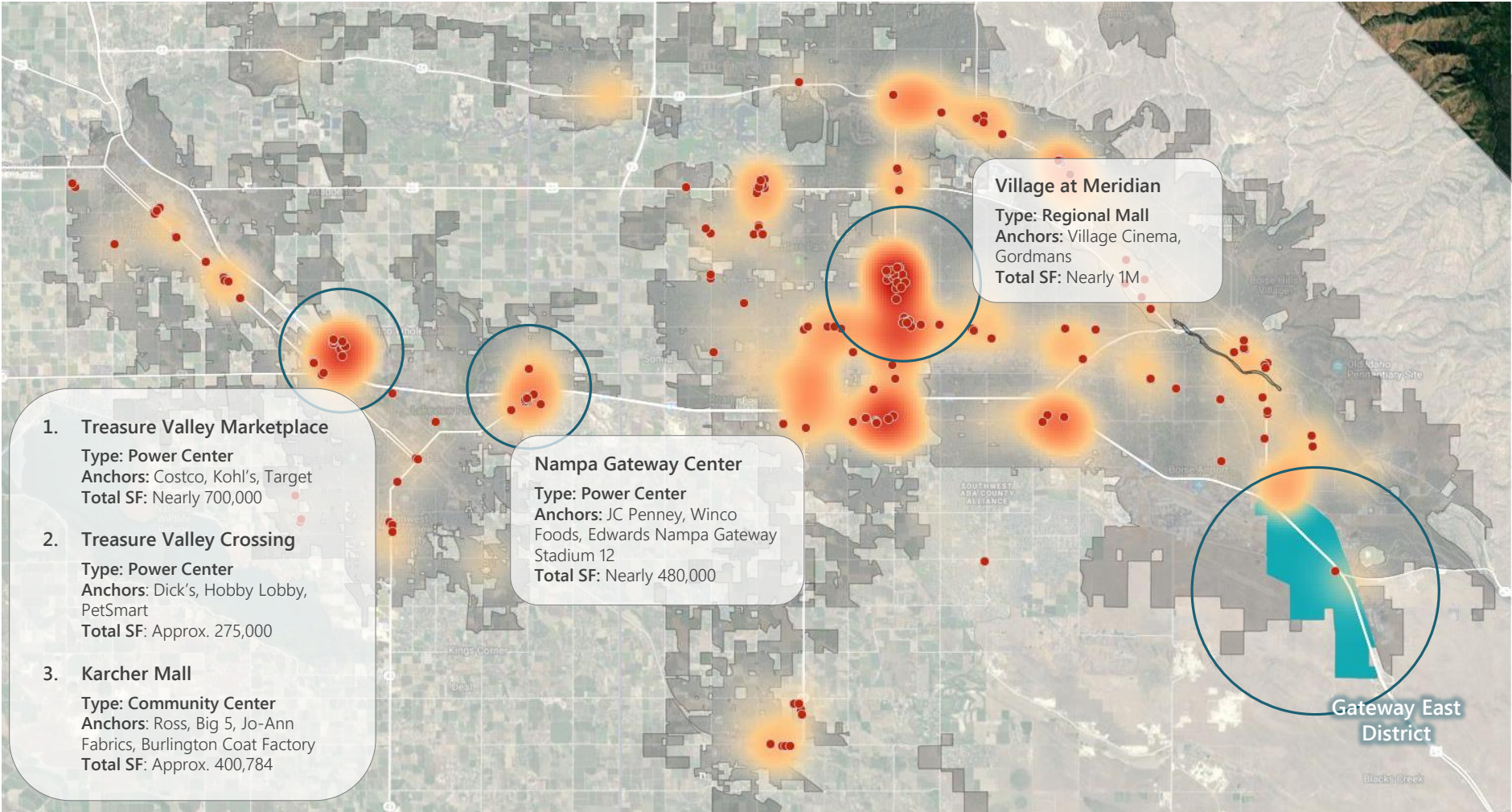
Retail: Recent Regional Retail Clusters

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Meridian and Nampa have outpaced Boise in retail development in recent years. New construction has concentrated in Meridian along Eagle Road (the Village at Meridian) and in Nampa along I-84 (Treasure Valley Marketplace and Nampa Gateway Center). Gateway East has a very minor retail footprint, although it is adjacent to a power center to the north on Federal.

● Product built since 2010

Heat map shows all retail built since 2000 weighted by RBA



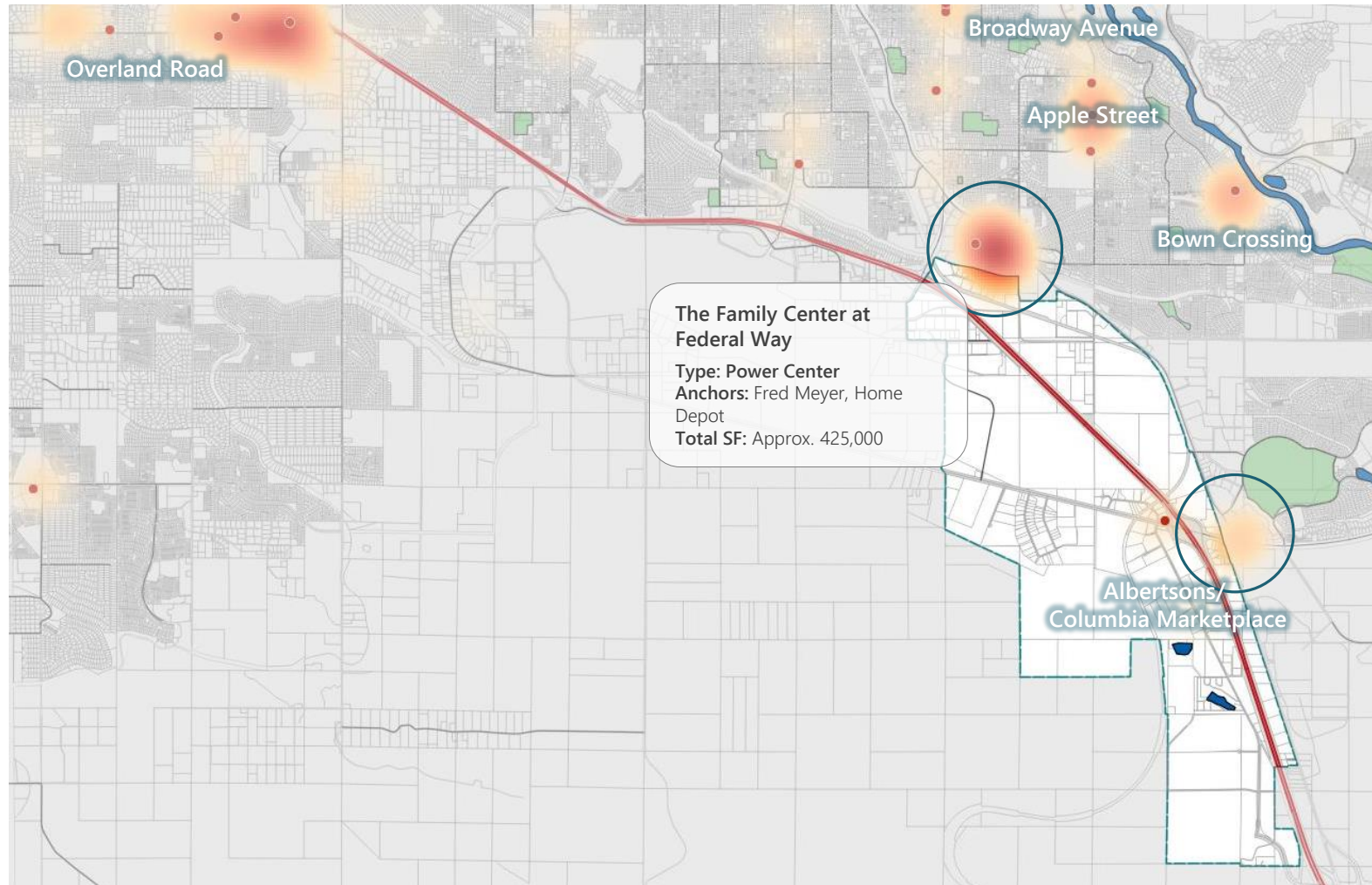
Retail: Southeast Boise Retail Nodes

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Retail in and near Gateway East tends to cluster around the Broadway and Gowen interchanges. Recent retail development in Boise has been predominately general retail, with no power center or community center retail development since 2010. Future retail development in Gateway East will likely be limited to accessory retail services intended to serve industrial traffic.

● Product built since 2010

Heat map shows all retail built since 2000 weighted by RBA



Retail: Typologies

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Retail typologies vary across the Study Area. Retail closest to Gowen and Federal are typically franchise standalone retailers. Retail along Eisenman is more likely to be auto-oriented, locally owned retail.



Boise Outlets
32,400 SF
Strip Retail
1993, Renovated 2004



Chevron Gas Station
4,000 SF
N/A
1997



6490 S Eisenman Rd
3,000 SF
Freeway-Oriented
2017



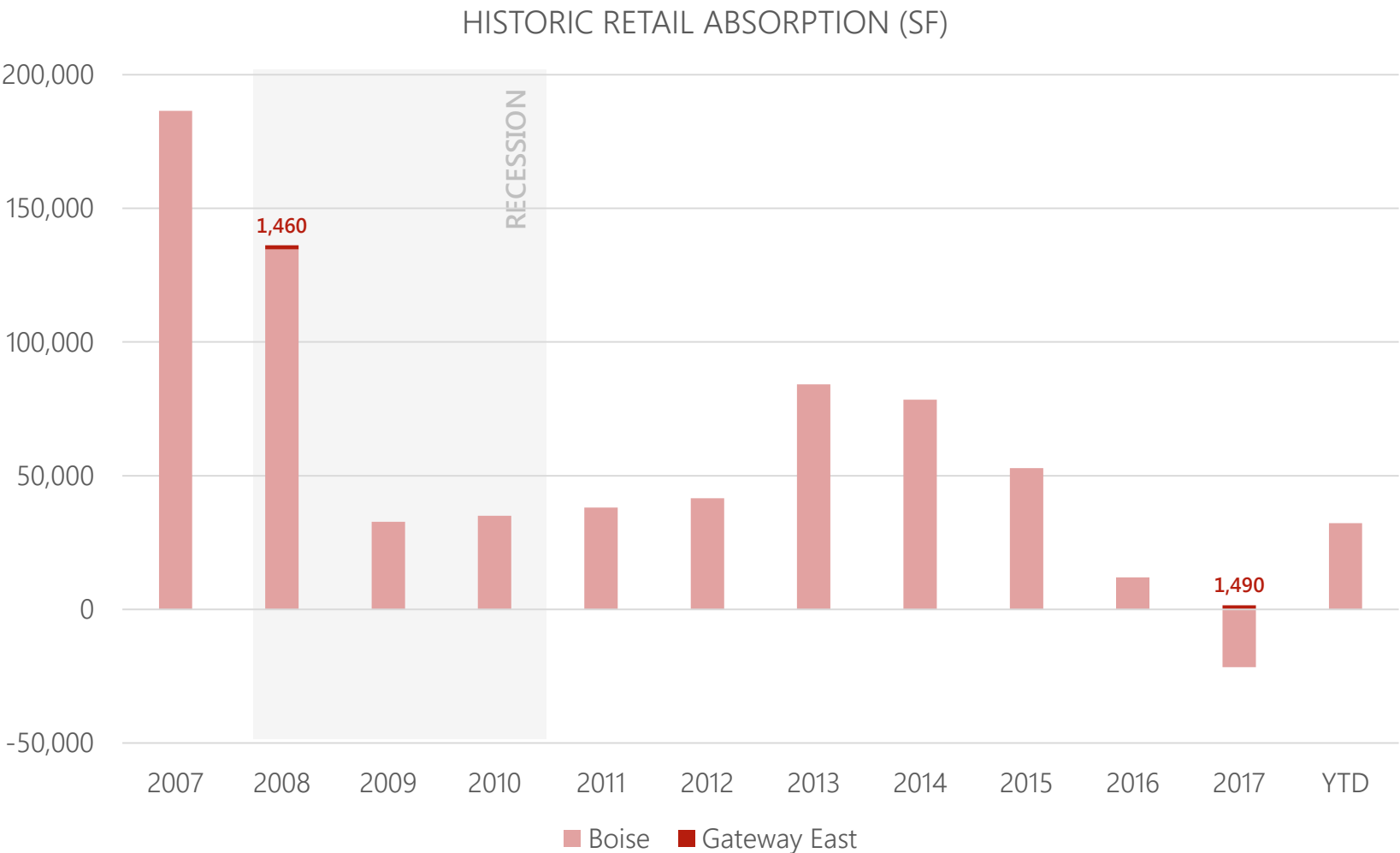
7545 S Eisenman
9,280 SF
Auto Repair
2007

Type/Class	Typically auto repair, fast food or service freestanding retail
Tenants	Auto repair retail are typically locally owned companies; freestanding franchise retail tenants are close to the freeway Single & multi-tenant retail
Average RBA	2,000-10,000 SF
Typical FAR	0.1-0.3 FAR
Average Site Size	0.5-4.0 acres
Square Feet per Employee	300-400
Other Considerations	New retail along S Eisenman slow to lease new space Boise Outlets recently changed ownership, future currently unknown but there is significant square footage that could absorb non auto-oriented retail demand

Retail: Boise Retail Real Estate Historic Performance

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Boise retail absorption peaked in the late 2000s. The annual peak in the last 10 years was 2013 when nearly 100,000 SF were absorbed. Less than 1% of the historic retail absorption seen in Boise City between 2007 and 2017 occurred in Gateway East.



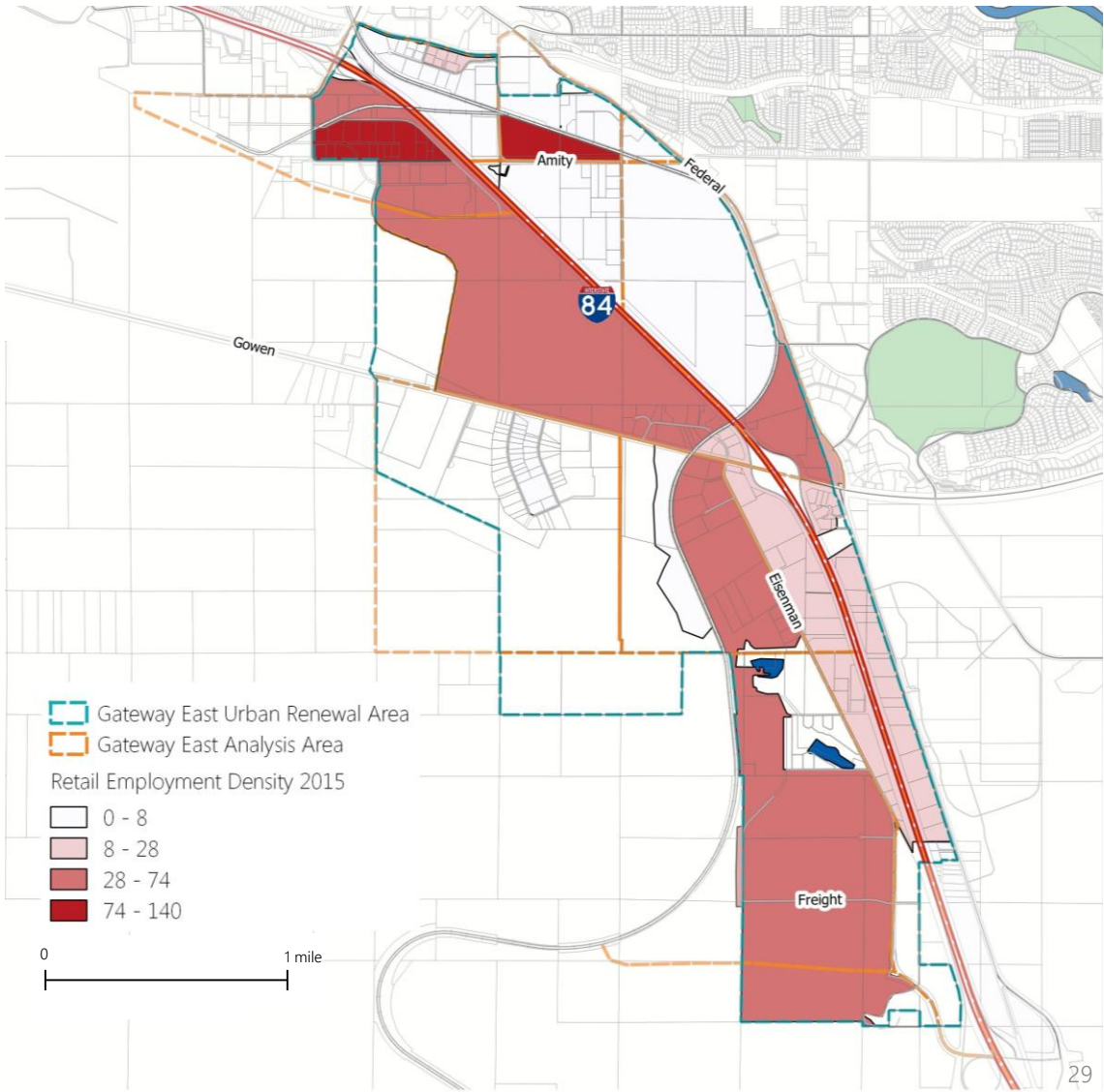
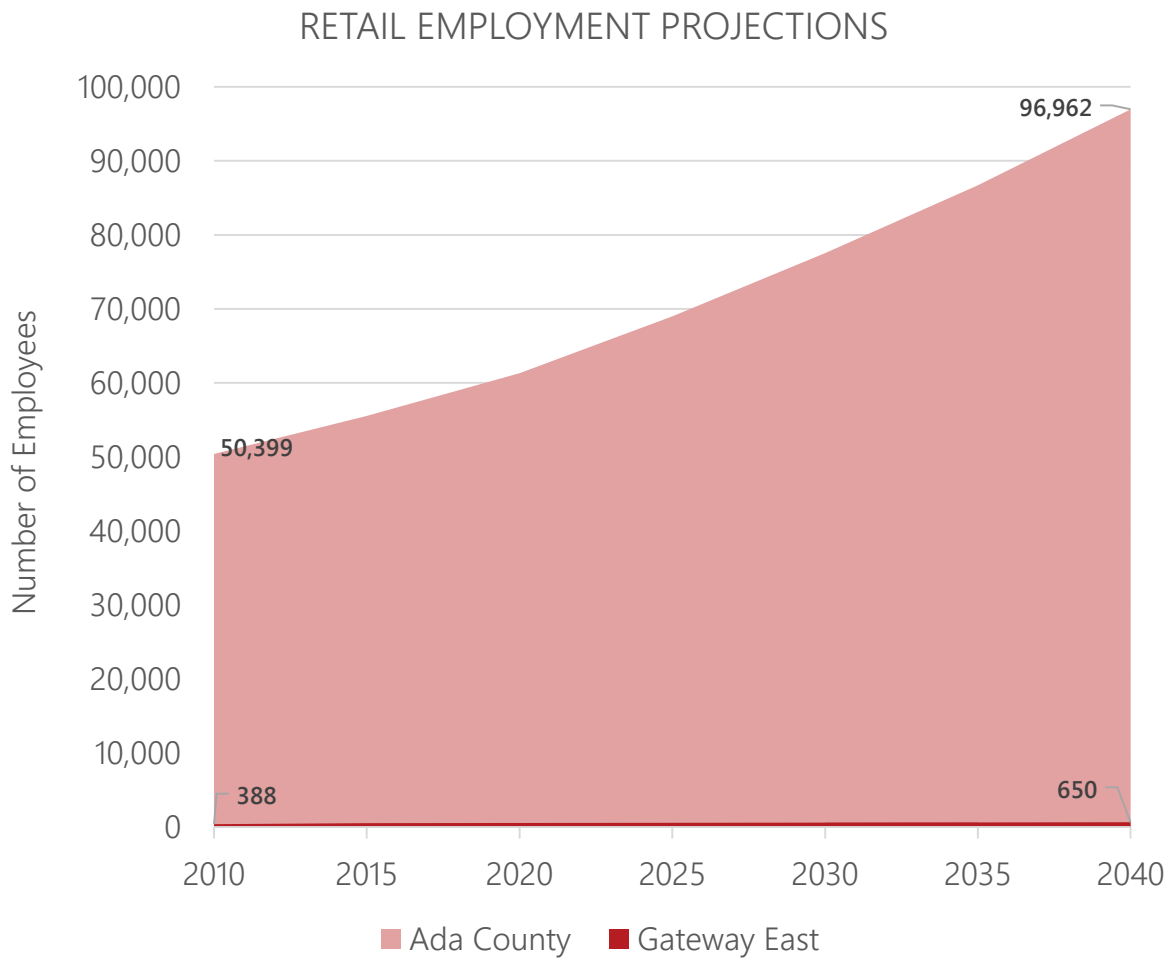
92 buildings, 700,000+ SF Net delivered in Boise over the last 10 years

2 buildings, 3,000 SF Net delivered in Gateway East over the last 10 years

Retail: Employment Projections

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Gateway East is projected to experience less than 1% of the retail employment growth county-wide. Using COMPASS growth rates and LEHD data, SB Friedman estimates an increase in nearly 125 retail employees in the Study Area over the next 20 years.



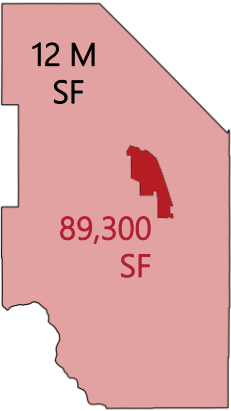
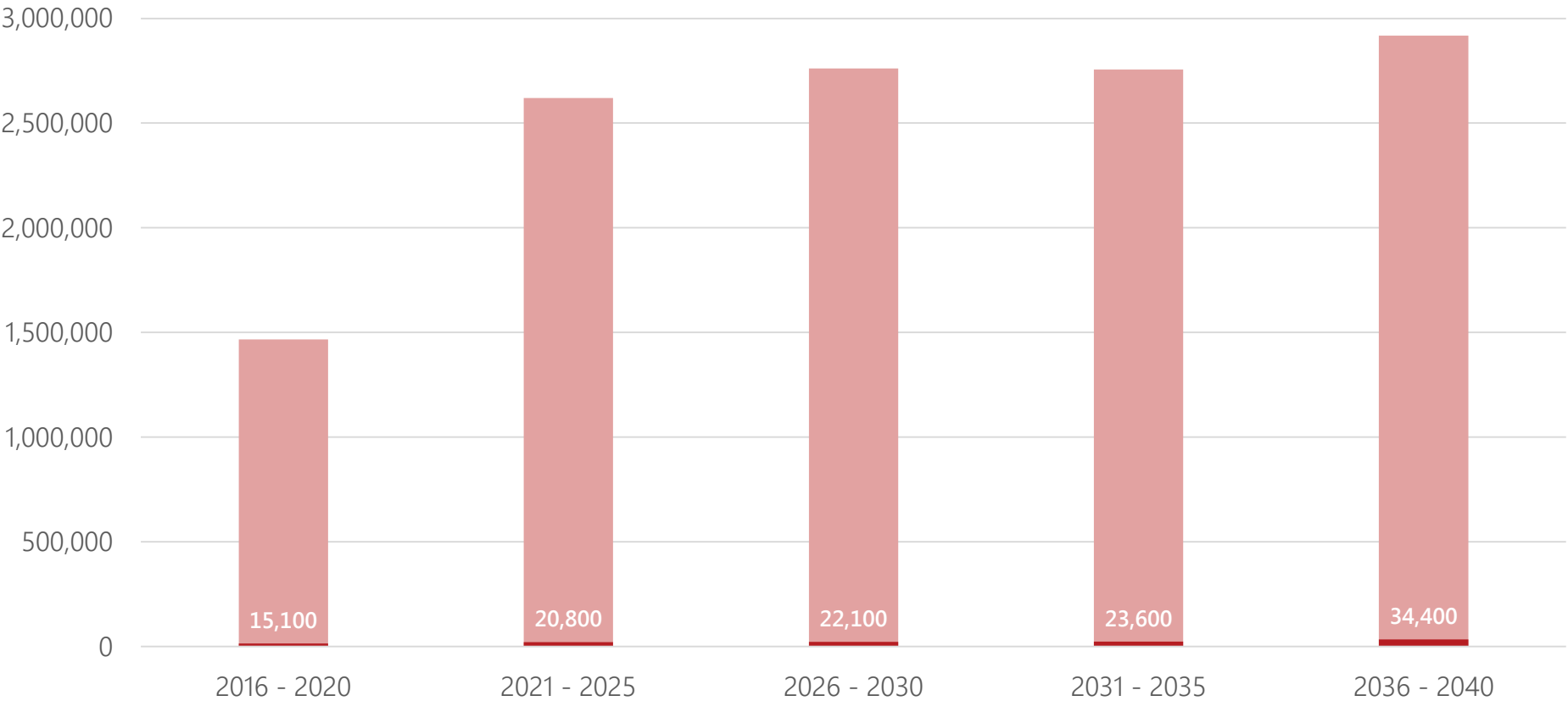
Source: City of Boise, COMPASS, LEHD, SB Friedman
SB Friedman Development Advisors

Retail: Forecasted Demand

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Using COMPASS retail employment projections and CoStar real estate data, SB Friedman projects demand for approximately **89,300 SF** of retail development within the Gateway East Analysis Area over the next 20 years. RBA added within the Gateway East District from 2019 to 2038 is estimated to represent less than 1% of total growth in Ada County.

ADA COUNTY & GATEWAY EAST
PROJECTED RETAIL DEVELOPMENT



Source: COMPASS, SB Friedman
SB Friedman Development Advisors

Retail: Sites Susceptible to Change (non-industrial)

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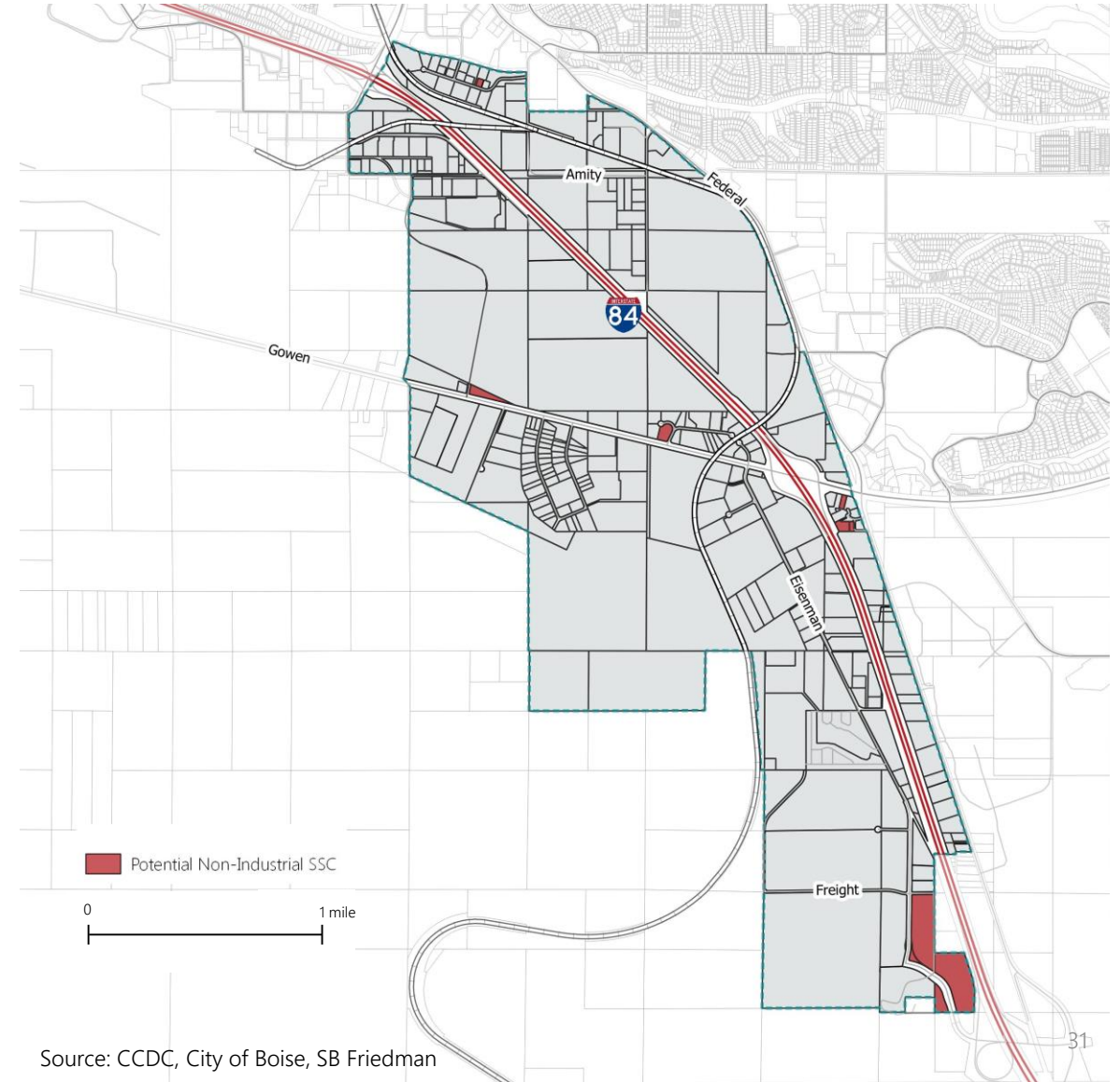
There are 10 sites within the Study Area which are more prone to develop/re-develop as retail. Those sites are primarily along Gowen, Hospitality Lane and South Eisenman.

Sites are considered likely to develop as a non-industrial use if the site is undeveloped and –

- Along a road with high traffic counts
- Within an existing retail cluster
- Adjacent to a highway intersection

There are 10 parcels likely to be developed with non-industrial uses. The parcels combined total nearly 50 acres and provide space for over 400,000 SF of retail or hospitality demand.

As retail demand does not exceed retail land supply, SB Friedman preliminarily projects the full 89,300 SF of development may occur within the next 20 years. Land capacity is subject to confirmation after land planning in the Industrial Development Planning phase.

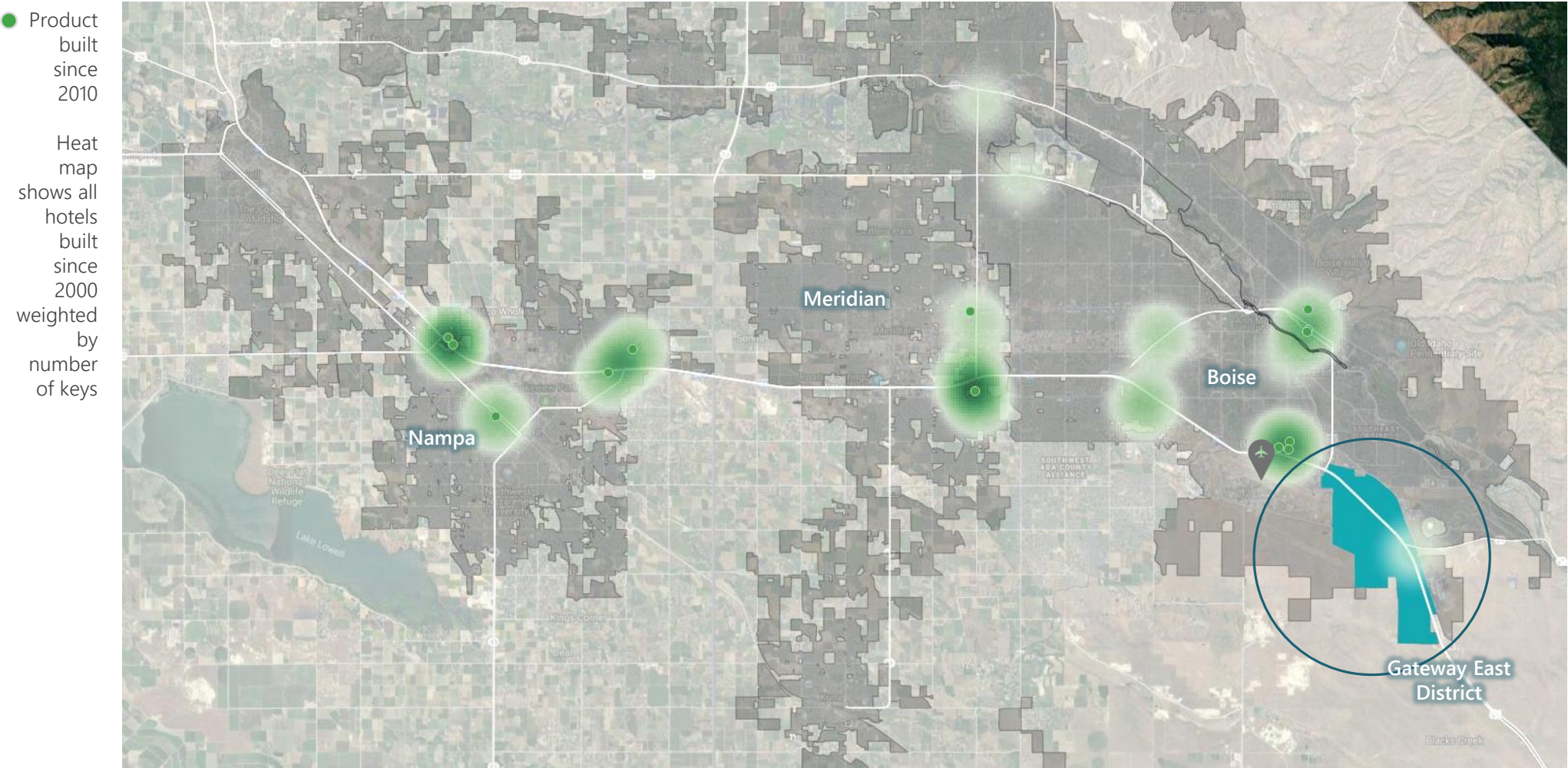


04 Hotel Analysis

Hotel: Recent Regional Hotel Development

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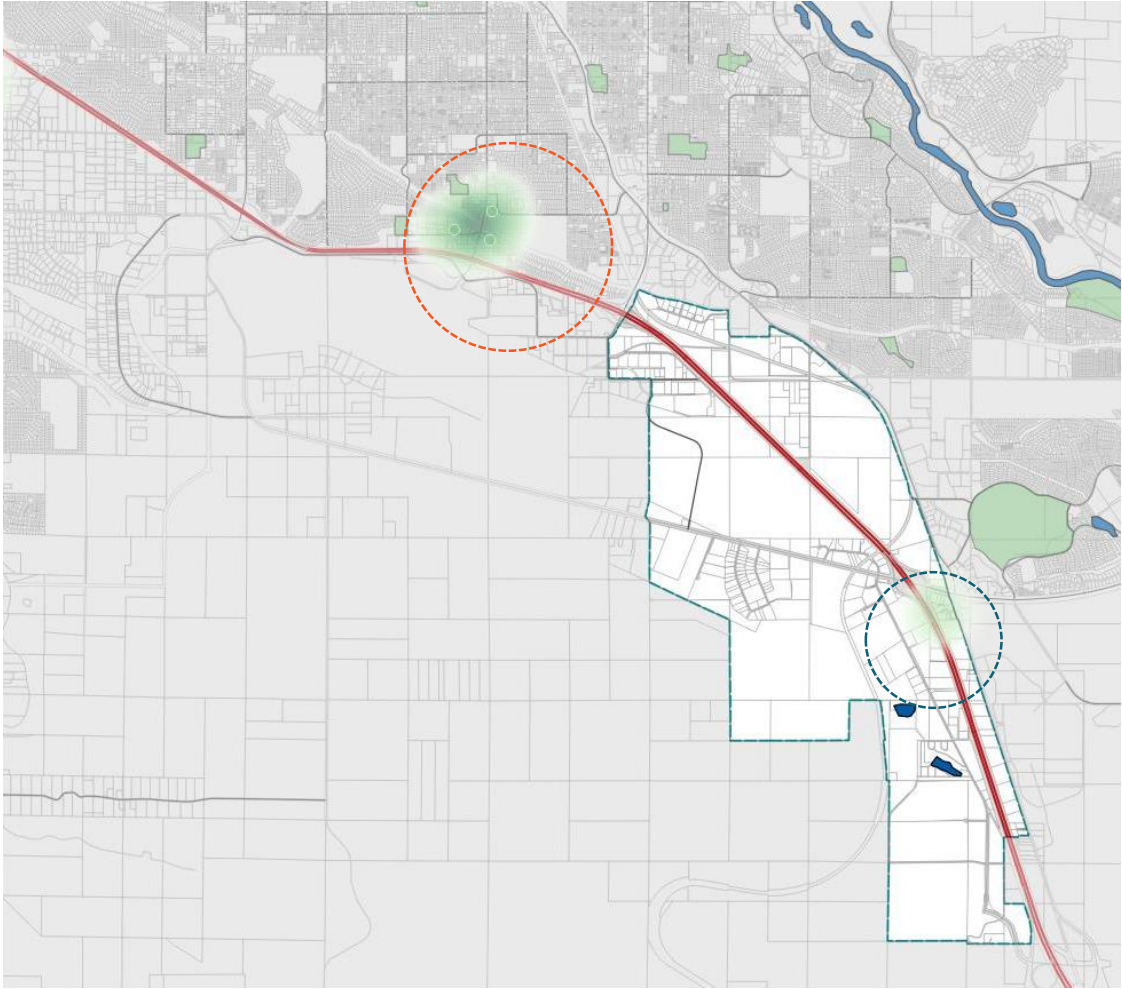
Six of the eight hotels built since 2010 in Ada and Canyon County were built in Boise City. All eight hotels have come online in the last three years, as there were no new hotels developed between 2010 and 2015. Three of the six hotels built in Boise are proximate to both the Interstate and the Airport.



Hotel: Southeast Boise Hotel Nodes

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Hotels near the Study Area are typically 35,000-75,000 SF and tend to be older product. There are relatively few recently developed hotels outside of downtown Boise, although a few have been renovated in the last 10 years. The only hotel in the Study Area is a 69-key Best Western built in 2001.



Airport



Holiday Inn
2970 W Elder Street
119 keys
78,219 SF
Built in 2008



Shilo Inn
4111 Broadway Ave
125 keys
65,605 SF
Built in 1988

Study Area



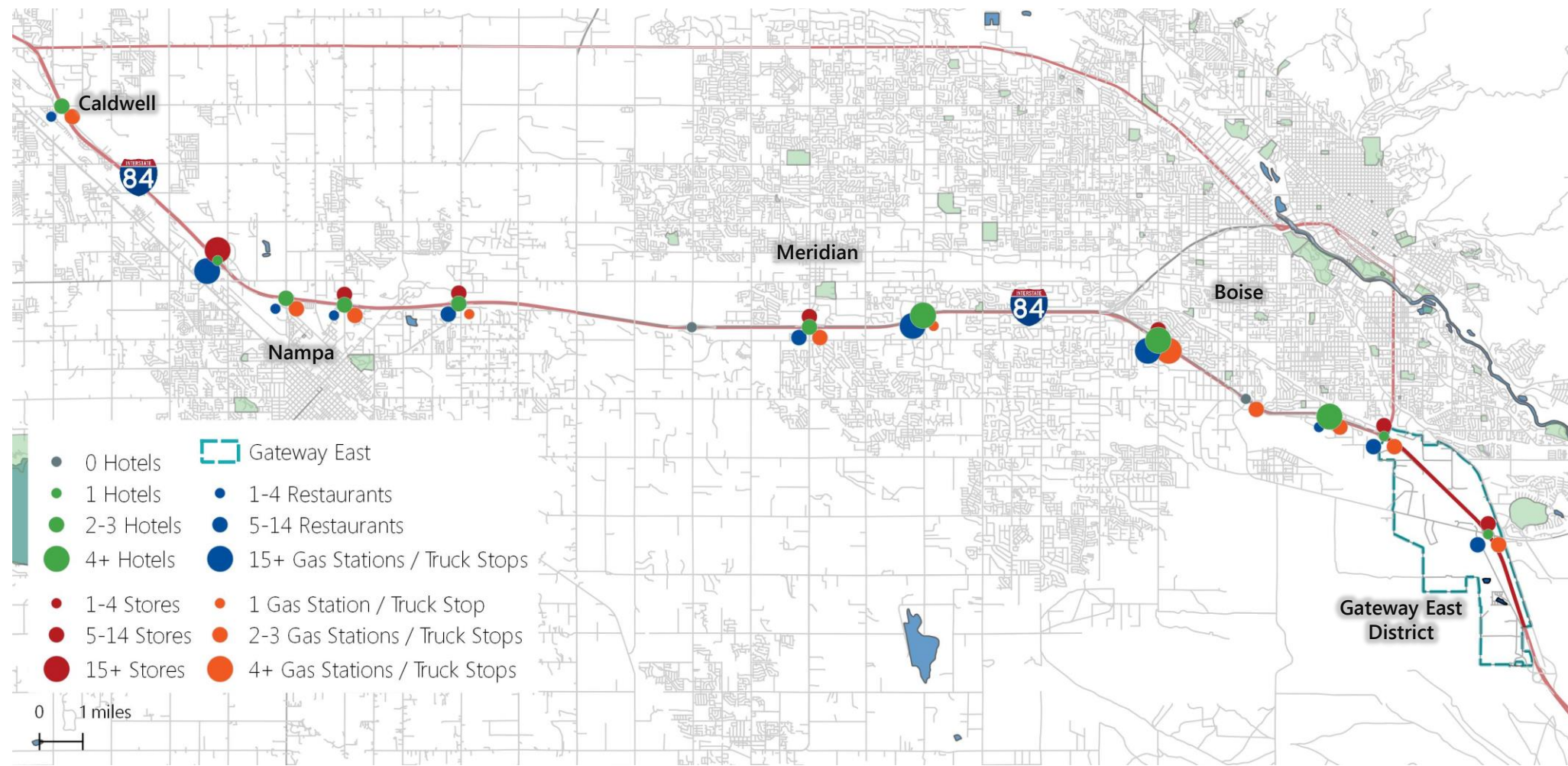
Best Western
6989 S Federal Way
69 keys
43,422 SF
Built in 2001

Hotel: Adjacent Retail Typography

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Of the 13 interchanges in the Ada and Canyon County region, 11 have at least one hotel. Those interchanges with one or more hotel appear to also have higher levels of complementary retail, particularly restaurants and gas stations (and/or truck stops). Future hotel development in Gateway East will therefore likely follow freeway-serving retail development.

Given the demand for retail development in the area, **1-2 new hotels** are anticipated in the next 20 years.



Source: Google Maps, SB Friedman

05 Conclusions

Conclusions: SB Friedman Projections by Land Use

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The Study Area is projected to see rapid growth over the next 20 years in the event a URA exists and facilitates development.

The following is the projected program by land use.

- Industrial
 - 9.8 million square feet of industrial is projected to develop within the Study Area
 - Building sizes are likely to increase over time, shifting from a history of smaller manufacturing buildings to larger single-tenant distribution facilities
- Retail
 - 89,300 square feet of retail is projected within the Study Area
 - Retail is likely to continue to occur along existing retail corridors in the near term and adjacent the new highway interchange at Eisenman in the long term
- Hotel
 - One to two hotels are projected to develop within the Study Area
 - Hotels are likely to occur later in the lifespan of the URA, after retail and industrial development occurs

Overall Market Conclusions

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Irrespective of the URA, development trajectory within the Study Area appears to be strong. Industrial demand remains high within the Treasure Valley and property values continue to increase. However, the program projected in this market assessment is dependent upon the existence of a URA for the following reasons:

- In the absence of a URA, development is likely going to be limited to pad-ready sites until another funding source can be secured to provide the necessary infrastructure improvements.
- Without infrastructure on (gross) undeveloped parcels in place, there is likely not enough easily developable land to accommodate industrial demand over the next 20 years in the Study Area; this could result in development locating in alternative competitive clusters within the region.
- The holistic growth of the Study Area, as a thriving industrial corridor with complementary retail and hospitality uses, is dependent upon the City's initiative to create a cohesive corridor that serves as a "Gateway" from the southeast.



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