

ECONOMIC DEVELOPMENT REPORTS



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DYNAMICS OF MASTER-PLANNED COMMUNITIES

By Laurie Volk and Todd Zimmerman

Density and a well-integrated mix of land uses in master-planned communities provide development efficiency and flexibility.

Density and a well-integrated mix of land uses are important principles of New Urbanism (NU), also known as traditional neighborhood development, that can lead to significant development advantages in new planned communities. Yet the potential advantages and disadvantages of NU remain largely misunderstood, not only by experienced builders, developers, and lenders, but also by many advocates.

The long-term value enhancement that is often at the core of the investment strategy of NU is antithetical to the trend toward standardization and securitization, in which the thinking on the debt side can be aggressively short term. Building the long-term residual value associated with NU requires, among other things, a long term, which is one thing for which many financing sources currently have no patience.

Master-planned communities have always been difficult to finance, as large developments lack a clear, near-term exit strategy at competitive rates of return. A greater understanding of NU would help investors and lenders make informed decisions.

The advantages of NU can be simply summarized: Density + Diversity = Efficiency + Flexibility. Density carries negative connotations for many citizens and planning officials. Yet density can be a virtue, creating the sorts of places that the public appreciates. Many of our most cherished historic tourist destinations were built at relatively high densities: Annapolis, Savannah, Charleston, New Orleans. However, to be a virtue, density must be responsive not only to market fundamentals, but also to location, climate, topography, and cultural heritage. Above all, density must be combined with a good design and a well-integrated mix of uses, building types, housing types, and lot sizes.

One of the best examples of an artful blend of housing types is a 1.4-acre block of a new planned community, Kentlands, in Gaithersburg, Maryland. The block includes 21 dwelling units: a few small accessory apartments at monthly rents between \$750 and \$900, rowhouses that sold for approximately \$250,000, and large detached houses that sold for up to \$500,000. The block's net density of 15 units to the acre is offset by alley-loaded parking and a location on one of the Kentlands town greens.

Development Advantages

A mixture of house types and market segments is one of the hallmarks of a well-executed NU property. The combination of density and diversity creates a number of development advantages: lower land cost per unit; lower infrastructure cost per unit; lower first-phase infrastructure cost; greater development flexibility; and lower costs for public services.

Lower land cost per unit

Since no buffers are required between housing segments, the close proximity of different residential types leads to more efficient land yields. In NU plans there are no collector roads without developable frontage; for that reason the street network also contributes to the lower land cost per unit.

Lower infrastructure cost per unit

Including tree-planting strips, sidewalks and alleyways, a NU community can have higher infrastructure cost per linear foot of street than the typical conventional subdivision. However, due to the higher density, the cost per dwelling unit is actually lower. In a study of costs conducted for the Canada Mortgage and Housing Corporation, a portion of Barrhaven, a master-planned community near Ottawa, was redesigned using NU principles (Essiambre-Phillips-Desjardins Associates Ltd. et al., *Conventional and Alternative Development Patterns; Phase I: Infrastructure Costs*, Canada Mortgage and Housing Corporation, 1997). The higher total infrastructure cost of the new plan was more than offset by the significantly higher unit yield, and resulted in a 24% lower infrastructure cost per dwelling unit.

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Lower first-phase infrastructure cost

A common perception is that NU properties require heavy up-front costs. Press accounts typically focus on the amenities that contribute to a “sense of community,” but ignore the fact that these amenities are common to most master-planned communities. In fact, first-phase infrastructure cost can be lower in an NU master-planned community. Conventional communities usually require the creation of entire pods and collector roads. In the first phase of an NU development, the only investment required is the completion of both sides of a single street. This street serves a variety of housing types in close proximity, perhaps including a small formal civic space such as a green or plaza. Not only are initial infrastructure costs reduced, but the virtue of density is demonstrated at the same time. Thus, the street itself functions as an amenity.

Greater development flexibility

Optimally designed streets and blocks can accommodate a range of housing types with the same lot depth, from small apartment buildings and rowhouses to low density, detached houses. If market demand shifts, housing types on any given street can shift in response without the need for elaborate changes. Conventional master-planned communities are based on separation of housing types in separate development “pods,” with road layouts specific to each type of pod. Changing just a portion of a pod is difficult. However, when blocks are designed with common lot depths, changes in market preferences can be accommodated simply by adjusting lot widths.

For example, the lots surrounding Nursery Park at Harbor Town in Memphis underwent such a transition. The relatively large lots surrounding the park were reduced in size when the developer realized that smaller lots were not only marketable but preferred by a number of buyers; utility lines were ripped out to accommodate the larger number of lots. The net gain justified the extra expense. Even though the smaller lots individually had a lower value than the larger ones they replaced, their aggregate value was greater after the replatting.

A similar development flexibility extends to buildings. For example, the “mansion” prototype – based on buildings that have made up the commercial fabric of American small towns – is often used in NU plans to accommodate a wide range of uses on a single lot type. One NU prototype is three floors with a total of 7,500 square feet that can be a small office building, office or housing over retail, or a small bed-and-breakfast inn. The essential point is that buildings are strictly regulated in form, but very flexible in use. They are an increment of development that the smallest development entities can easily manage, yet each prototype building supports the quality and character of the downtown fabric. Of course, flexible zoning and land-use regulations are required.

Lower costs for public services

The Canada Mortgage and Housing Corporation study examined life-cycle costs over a 75-year period (Hemson Consulting Ltd., *Conventional and Alternative Development Patterns; Phase II: Municipal Revenues*. Canada Mortgage and Housing Corporation, 1997). The public sector costs relating to non-residential uses were 48% lower in the NU plan compared to the conventional plan, with costs for residential uses 5% lower. The most significant savings related to roads, stormwater management, and water distribution. However, the study found that the NU plan was not always more efficient. For example, the cost of snow clearing was projected to be nearly five times higher in the NU plan because of the more numerous intersections.

DYNAMICS OF MASTER-PLANNED COMMUNITIES

The Revenue Side

Although the effect on cost due to density, diversity, efficiency, and flexibility is significant, NU developments can have an even greater effect on revenue. Analysis of several new communities that have generated sufficient performance data suggests three inter-related market advantages of a well-executed NU development: a housing value premium; a higher, long-term value for income property; and a location premium.

Housing value premium

A well-designed NU land plan can add value to residential development, either through unit price premiums, increased sales paces, or some combination of the two. A recent study of 1,850 sales in the Kentlands market area attributed a premium of approximately 12-13% of the purchase price of single-family houses in Kentlands directly to NU principles (C. Tu & M. Eppli. *Valuing the New Urbanism: The Case of Kentlands*, 1998). The analysis used a hedonic pricing model in which size, construction quality, and other variables were held constant. It identified a \$24,000 to \$30,000 price premium for Kentlands houses compared to the houses located in nearby conventionally designed communities.

At Seaside – the NU resort village on the Florida panhandle – the annual price escalation of the various lot types ranges from 9% for waterfront lots to 87% for interior lots. The market value of the waterfront lots was widely recognized at the outset. However, the value of the interior lots was created solely through the quality of the built environment. A 1982-1997 comparison of Seaside resales with an adjacent conventionally-planned property, Seagrove Beach, found an average annual appreciation rate of 40.4% for Seaside lots compared to 26.0% for Seagrove lots, and an average annual appreciation rate of 20.5% for Seaside houses compared to 17.9% for Seagrove houses. Seaside buyers have reaped similar rewards, with same-house resales showing a 20% annual appreciation and same-lot resales appreciating at a 40% annual rate.

The NU premium can add to land value. For example, the average 12,000-square-foot lots at Newpoint, near Beaufort, South Carolina, are half the size of typical lots in the area. Yet Newpoint's waterfront lots have sold for an average of \$10.10 per square foot, compared to \$3.77 per square foot for waterfront lots at Cottage Farm, a comparable, adjacent property. Interior lots at Newpoint sold for an average of \$3.36 per square foot, compared to \$1.77 per square foot for interior lots at Cottage Farm. Revenue per net acre is 84% higher at Newpoint, at \$193,000 compared with \$105,000 at Cottage Farm.

Higher long-term value for income property

A well-designed environment enhances the value of all income property. Once established, retail and office uses increase in value, benefiting from the synergy of uses. Institutional investors are beginning to target assets in locations that take advantage of this synergy. Decades of investment experience has shown that frequently a stand-alone "A"-quality apartment or retail property slips to "B" and then to "C," as the property ages and new development moves away. However, according to *Emerging Trends in Real Estate 1998* (Equitable Real Estate Investment Management, Inc., & Real Estate Research Corporation), real estate assets in mixed-use central business districts of healthy 24-hour cities are now considered to be less risky than single-use assets in their suburbs. Assets within NU communities are similarly expected to retain value.

Location premium

The residents of existing NU communities reflect the long-standing American dynamic of selecting neighborhood first and house second. ERE Yarmouth (now Lend Lease Real Estate Investments), the nation's largest manager of real estate for pension funds, has found that buyers are willing to pay more for houses in NU communities, explaining that "It's the age-old concept of living in a town setting, which suddenly has renewed attraction for an increasing number of American suburb dwellers."

In conclusion, to be effective, NU development must be approached as pragmatically as any real estate venture. Once the advantages inherent in the form are better understood by developers and investors, the New Urbanism will move more rapidly from the margins to the mainstream.

AN ANALYSIS OF RESIDENTIAL MARKET POTENTIAL BY DISTRICT

Prepared by: Zimmerman/Volk Associates, Inc. - February 2011

MARKET POTENTIAL FOR DOWNTOWN EL PASO AND THE CENTRAL DISTRICT

This analysis has determined the market potential over the next 5 years for new and existing market-rate and affordable housing units within Downtown El Paso and the Central District, an area approximately bounded by the Franklin Mountain State Park and Fred Wilson Road to the north; the Fort Bliss Military Reservation to the northeast and east and through the oil refineries to encompass Ascarate Park; the Rio Grande to the south; and Interstate 10 and Executive Center Boulevard to the west.

The Central District encompasses zip codes 79901, 79902, 79903, 79905, and 79930, an area which includes all or part of 34 neighborhoods, including the historic districts of Downtown El Paso, Austin Terrace, Chihuahuita, Magoffin, Manhattan Heights, Old San Francisco, and Sunset Heights. Downtown El Paso is the location of the cultural institutions of the city, including the Museum of Art, Science Museum, Museum of History, Railroad Museum, the Plaza Theatre, and the Main Public Library, as well as the Union Depot, the Convention and Performing Arts Center, and the Golden Horseshoe Shopping District, home to more than 300 shops and restaurants.

The Central District is also the location of major institutions—such as the University of Texas El Paso, Providence Memorial Hospital, Las Palmas Rehabilitation Hospital, El Paso Specialty Hospital, and the William Beaumont Army Medical Center—as well as numerous public parks, including the Chamizal National Memorial and Ascarate Park. Although the Central District has lost population over the past several years, the Census Bureau estimates it will begin to grow again over the next 5 years.

NOTE: For the purposes of this analysis, market-rate is defined as affordable to households with incomes above 80% of the El Paso Area Median Family Income (AMFI), which, in 2010, is \$40,900 for a family of four. Based on household size, the income limits to qualify for affordable housing would be \$26,050 for a one-person household; \$29,800 for a two-person household; \$33,500 for a three-person household; \$37,200 for a four-person household; and so on.

Where do the potential renters and buyers of new and existing housing units in Downtown El Paso and the Central District currently live?

As derived from migration, mobility and target market analysis, the draw area distribution of market potential (those households with the potential to rent or purchase new and existing housing units within Downtown El Paso and the Central District) is as follows:

Market Potential by Draw Area DOWNTOWN EL PASO & THE CENTRAL DISTRICT

City of El Paso:	54.7%
Balance of El Paso County:	1.8%
Don Ana, Maricopa, and Los Angeles Counties:	6.2%
Balance of US and Mexico:	37.3%
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

How many households have the potential to move within or to Downtown El Paso and the Central District each year over the next 5 years?

As derived by the target market methodology, up to 7,570 households represent the annual potential market for new and existing housing units in Downtown El Paso and the Central District. These households comprise 19.4% of the approximately 38,950 households that represent the annual potential market for new and existing housing units in the City of El Paso as a whole.

What are their housing preferences in aggregate?

The distribution of the tenure and housing preferences of the target households with incomes at or above 30% of the area median family income is shown on the following table.

**Annual Potential Market
For New and Existing Housing Units
DOWNTOWN EL PASO & THE CENTRAL DISTRICT**

Number Type	# of Households	% of Total
Multi-family for-rent*	1,250	22.6%
Multi-family for-rent† (lofts/apartments, leaseholder)	1,430	26.0%
Multi-family for-sale*	340	6.2%
Multi-family for-sale† (lofts/apartments, condo/co-op ownership)	780	14.2%
Single-family attached for-sale*	250	4.5%
Single-family attached for-sale† (townhouses/live-work, fee-simple/ condominium ownership)	570	10.3%
Single-family detached for-sale*	330	6.0%
Single-family detached for-sale† (houses, fee-simple ownership)	560	10.2%
Total	5,510	100.0%

* Affordable to households with incomes between 30% and 80% of AMI in 2010, calibrated by household size.

† Affordable to households with incomes above 80% of AMI in 2010, calibrated by household size.

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

The tenure preferences include more than 48% rental housing units, and 52% ownership housing units. Of the 2,830 households with preferences for ownership units, just under 40% represent the market for condominiums (multi-family for-sale), 29% represent the market for townhouses (single-family attached for-sale), and 31.4% represent the market for single-family detached houses.

Since there are so few residential units located in the Downtown, and a variety of underutilized or vacant buildings, it will be important to establish the Downtown residential option with market-rate rental and for-sale multi-family units created by adaptive re-use of existing vacant buildings. In addition to vacant buildings, the residential conversion of Class B office buildings, can have a salutary effect on the Downtown. These buildings are likely to yield a greater number of dwelling units than two- and three-story conversions, increasing the downtown population at a more rapid pace.

Focusing on households with incomes above 80% of the area median family income, the multi-family tenure preferences of the target households are shown on the following table.

**Annual Potential Market
For New Market-Rate Multi-Family Units
DOWNTOWN EL PASO & THE CENTRAL DISTRICT**

Number Type	# of Households	% of Total
Multi-family for-rent (lofts/apartments, leaseholder)	1,430	64.7%
Multi-family for-sale (lofts/apartments, condo/co-op ownership)	780	35.3%
Total	2,210	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

Focusing on households with incomes above 80% of the area median family income, the preferences of the target households for single-family attached and detached units are shown on the table on the next page.

**Annual Potential Market
For New Market-Rate Single-Family Attached and
Detached Units
DOWNTOWN EL PASO & THE CENTRAL DISTRICT**

Number Type	# of Households	% of Total
Single-family attached for-sale (townhouses/live-work, fee-simple/ condominium ownership)	570	50.4%
Single-family detached for-sale (houses, fee-simple ownership)	560	49.6%
Total	1,130	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

Who are those households that represent the potential Downtown and Central District housing market?

The household groups that comprise the potential market for new and existing market-rate and affordable housing units in Downtown and the District are:

- Younger singles and childless couples (63%);
- Empty nesters and retirees (25%); and
- Traditional and non-traditional families (12%).

It is important to note that, for the most part, younger singles and couples prefer to live in downtowns and in-town neighborhoods for their diversity, and for the availability of employment, entertainment, and cultural opportunities within walking distance of their residences. The continuing challenge in captur-

ing this potential market is to introduce units, either through adaptive re-use of existing non-residential buildings or through new construction that are attractive to young people (lofts, not suburban-style apartments), at rents and prices the majority can afford. Since land costs and the costs of construction and adaptive re-use in downtowns are typically higher than in other neighborhoods, this remains difficult to achieve without some form of development incentives.

How many new dwelling units could be leased or sold within the District over the next 5 years?

Based on the assumption that 15% of the potential market prefers newly-created housing units, whether through new construction or adaptive re-use, Downtown and the Central District should be able to support up to 827 new market-rate and workforce housing units per year over the next 5 years:

Annual Capture of Market Potential DOWNTOWN EL PASO & THE CENTRAL DISTRICT

Housing Type	# of Households	Capture Rate	# of New Units
Multi-Family For-Rent*	1,250	15%	187
Multi-Family For-Rent† (lofts/apartments, leaseholder)	1,430	15%	215
Multi-Family For-Sale*	340	15%	51
Multi-Family For-Sale† (lofts/apartments, condo/co-op ownership)	780	15%	117
Single-Family Attached For-Sale*	230	15%	37
Single-Family Attached For-Sale† (townhouses/duplexes/live-work, fee-simple ownership)	520	15%	86
Single-Family Detached For-Sale*	350	15%	50
Single-Family Detached For-Sale† (houses, fee-simple ownership)	640	15%	84
Total	5,510		827

* Affordable to households with incomes between 30% and 80% of AMI in 2010, calibrated by household size.

† Affordable to households with incomes above 80% of AMI in 2010, calibrated by household size.

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

Again, focusing only on those target households with annual incomes at or above 80% of the area median income, Downtown El Paso and the Central District could support up to 332 newly-created market-rate multi-family rental and for-sale housing units per year over the next 5 years, as detailed on the following

page. The majority of these units should be created through the adaptive re-use of existing Downtown buildings.

Annual Capture of Market Potential New Market-Rate Multi-Family Units DOWNTOWN EL PASO & THE CENTRAL DISTRICT

Housing Type	# of Households	Capture Rate	# of New Units
Multi-Family For-Rent (lofts/apartments, leaseholder)	1,430	15%	215
Multi-Family For-Sale (lofts/apartments, condo/co-op ownership)	780	15%	117
Total	2,210		332

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

From the market perspective, and limited to target households with incomes above 80% of the area median family income, Downtown El Paso and the Central District could support up to 170 new market-rate single-family attached and detached housing units per year over the next 5 years, as detailed on the following table. These are most likely to be created on infill sites in the neighborhoods surrounding the Downtown.

Annual Capture of Market Potential New Market-Rate Single-Family Attached and Detached Units DOWNTOWN EL PASO & THE CENTRAL DISTRICT

Housing Type	# of Households	Capture Rate	# of New Units
Single-Family Attached For-Sale (townhouses/duplexes/live-work, fee-simple ownership)	570	15%	86
Single-Family Detached For-Sale (houses, fee-simple ownership)	560	15%	84
Total	1,130		170

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

These numbers represents net new units, not net new households.

NOTE: Target market capture rates are a unique and highly-refined measure of feasibility. Target market capture rates are not equivalent to—and should not be confused with—penetration rates or traffic conversion rates.

The **target market capture rate** is derived by dividing the annual forecast absorption—in aggregate and by

housing type—by the number of households that have the potential to purchase or rent new housing within a specified area in a given year. The **target market capture rate** is a measure developed over nearly two decades of empirical, site-specific analysis that establishes the feasible percentages that can reasonably be applied to the potential market for each housing type.

The **penetration rate** is derived by dividing the total number of dwelling units planned for a property by the total number of draw area households, sometimes qualified by income. The **penetration rate** is largely an academic measure that establishes the percentage of households from within a defined area that must move to a housing project to achieve 100% occupancy.

The **traffic conversion rate** is derived by dividing the total number of buyers or renters by the total number of prospects that have visited a site. The **traffic conversion rate** is a measure of the effectiveness of sales and leasing efforts.

Because the prospective market for a location is more precisely defined, target market capture rates are higher than the more grossly-derived penetration rates. However, the resulting higher capture rates are well within the range of prudent feasibility.

What is the market currently able to pay for the new units?

—Rental Distribution—

Based on the target household mix and the incomes and financial capabilities of the target households, the distribution by rent ranges of the 402 new market-rate and affordable rental units that could be absorbed each year over the next 5 years within Downtown El Paso and the Central District would be as follows:

Rental Apartment Distribution by Rent Range DOWNTOWN EL PASO & THE CENTRAL DISTRICT

Monthly Rent Range	Units Per Year	Percentage
\$500–\$600	34	8.4%
\$600–\$700	36	9.0%
\$700–\$800	38	9.5%
\$800–\$900	43	10.7%
\$900–\$1,000	50	12.3%
\$1,000–\$1,100	45	11.2%
\$1,100–\$1,200	43	10.7%
\$1,200–\$1,300	32	8.0%
\$1,300–\$1,400	32	8.0%
\$1,400–\$1,500	27	6.7%
\$1,500 and up	22	5.5%
Total:	402	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

—For-Sale Distribution—

Based on the target household mix and the incomes and financial capabilities of the target households, the distribution by price ranges of the 168 new market-rate and affordable for-sale apartments that could be absorbed each year over the next 5 years within Downtown El Paso and the Central District:

For-Sale Apartment Distribution by Price Range DOWNTOWN EL PASO & THE CENTRAL DISTRICT

Price Range	Units Per Year	Percentage
\$150,000–\$200,000	16	9.5%
\$200,000–\$250,000	24	14.3%
\$250,000–\$300,000	36	21.5%
\$300,000–\$350,000	24	14.3%
\$350,000–\$400,000	20	11.9%
\$400,000–\$450,000	18	10.7%
\$450,000–\$500,000	16	9.5%
\$500,000 and up	14	9.3%
Total:	168	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

Based on the target household mix and incomes and financial capabilities of the target groups, the distribution by price ranges of the 123 new townhouses/duplexes (single-family attached) that could be absorbed each year over the next 5 years within Downtown El Paso and the Central District would be as follows:

**Townhouse/Duplex Distribution by Price Range
DOWNTOWN EL PASO & THE CENTRAL DISTRICT**

Price Range	Units Per Year	Percentage
\$150,000–\$200,000	6	4.9%
\$200,000–\$250,000	15	12.1%
\$250,000–\$300,000	24	19.5%
\$300,000–\$350,000	24	19.5%
\$350,000–\$400,000	16	13.0%
\$400,000–\$450,000	14	11.4%
\$450,000–\$500,000	12	9.8%
\$500,000 and up	12	9.8%
Total:	123	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

Based on the target household mix and incomes and financial capabilities of the target groups, the distribution by price ranges of the 134 new detached houses that could be absorbed each year over the next 5 years within Downtown El Paso and the Central District would be as follows:

**Detached House Distribution by Price Range
DOWNTOWN EL PASO & THE CENTRAL DISTRICT**

Price Range	Units Per Year	Percentage
\$150,000–\$200,000	14	10.5%
\$200,000–\$250,000	20	14.9%
\$250,000–\$300,000	26	19.4%
\$300,000–\$350,000	16	11.9%
\$350,000–\$400,000	16	11.9%
\$400,000–\$450,000	16	11.9%
\$450,000–\$500,000	14	10.5%
\$500,000 and up	12	9.0%
Total:	134	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

How many net new households could Downtown El Paso and the Central District expect to gain each year over a 5-year timeframe?

Based on the migration data and internal and external mobility rates, the production of 827 new units a year, and including households with incomes below 30% of AMI, Downtown El Paso and the Central District could experience an average increase of 420 additional households per year over the 5 year timeframe:

**Annual Net New Households
DOWNTOWN EL PASO & THE CENTRAL DISTRICT**

Housing Type	# of New Units	# of Net New HHs
Multi-Family For-Rent*	187	70
Multi-Family For-Rent† (lofts/apartments, leaseholder)	215	104
Multi-Family For-Sale*	51	20
Multi-Family For-Sale† (lofts/apartments, condo/ co-op ownership)	117	58
Single-Family Attached For-Sale*	37	12
Single-Family Attached For-Sale† (townhouses/duplexes/ live-work, fee-simple ownership)	86	44
Single-Family Detached For-Sale*	50	20
Single-Family Detached For-Sale† (houses, fee-simple ownership)	84	42
Total	827	370
Households with incomes below 30% AMI:		50
Total		420

*Affordable to households with incomes between 30% and 80% of AMI in 2010, calibrated by household size.

†Affordable to households with incomes above 80% of AMI in 2010, calibrated by household size.

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

NOTE: Net new households are the number of households that are new to Downtown El Paso and the Central District. The difference between the number of new market-rate and workforce units (827) and the number of units occupied by net new households with incomes above 30% of AMI (370) represents the number of new market-rate and workforce units occupied by existing or newly-formed Downtown El Paso and Central District households. In addition, approximately 50 households are new to the Central District, but with incomes below 30% AMI and therefore unable to afford newly-constructed dwelling units.

Based on the Team Bliss Task Force Next forecasts, citywide, an average annual increase of 1,500 military households is likely over the next 5 years, of which an average of approximately 200 households per year would be likely to live in Downtown El Paso and the Central District. Downtown El Paso and the Central District could therefore expect to gain approximately 620 new households per year over the next 5 years, and approximately 420 households per year over the following 5 years.

MARKET POTENTIAL FOR THE MISSION VALLEY DISTRICT

This analysis has determined the market potential over the next 5 years for new and existing market-rate and affordable housing units within El Paso's Mission Valley District, an area bounded by Interstate 10 to the northeast; just beyond the city limits to the southeast, incorporating the neighborhoods of Las Placitas del Rey, Richard Lee, and Vista del Prado; the Rio Grande to the southwest; and through the oil refineries and along the eastern edge of Ascarate Park to the west.

The Mission Valley District encompasses zip codes 79907, 79915, and portions of zip code 79927 (excluding Socorro), an area which includes 33 neighborhoods and the Historic Districts of Ysleta and Mission Trail; numerous strip shopping centers along Alameda Avenue, North Loop Drive and Interstate 10; a branch of El Paso Community College; the Del Sol Medical Center, Sierra Medical Center, and University Medical Center—and several public parks. At just under 2%, the Mission Valley District has the lowest projected growth rate over the next 5 years of any District in the city.

Where do the potential renters and buyers of new and existing housing units in the Mission Valley District currently live?

As derived from migration, mobility and target market analysis, the draw area distribution of market potential (those households with the potential to rent or purchase new and existing housing units within the Mission Valley District) is as follows:

Market Potential by Draw Area THE MISSION VALLEY DISTRICT

City of El Paso:	78.5%
Balance of El Paso County:	3.5%
Don Ana, Maricopa, and Los Angeles Counties:	3.1%
Balance of US and Mexico:	14.9%
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

How many households have the potential to move within or to the Mission Valley District each year over the next 5 years?

As derived by the target market methodology, over 4,800 households represent the annual potential market for new and existing housing units in the Mission Valley District. These households comprise 12.4% of the approximately 38,950 households that represent the annual potential market for new and existing housing units in the City of El Paso as a whole.

What are their housing preferences in aggregate?

The distribution of the tenure and housing preferences of the target households with incomes at or above 30% of the area median family income is as follows:

Annual Potential Market For New and Existing Housing Units THE MISSION VALLEY DISTRICT

Housing Type	# of Households	% of Total
Multi-family for-rent*	840	26.7%
Multi-family for-rent† (lofts/apartments, leaseholder)	370	11.8%
Multi-family for-sale*	220	7.0%
Multi-family for-sale† (lofts/apartments, condo/co-op ownership)	200	6.4%
Single-family attached for-sale*	110	3.5%
Single-family attached for-sale† (townhouses/live-work, fee-simple/ condominium ownership)	150	4.8%
Single-family detached for-sale*	560	17.8%
Single-family detached for-sale† (houses, fee-simple ownership)	690	22.0%
Total	3,140	100.0%

* Affordable to households with incomes between 30% and 80% of AMI in 2010, calibrated by household size.

† Affordable to households with incomes above 80% of AMI in 2010, calibrated by household size.

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

The tenure preferences include approximately 38.5% rental housing units, and 61.5% ownership housing units. Of the 1,930 households with preferences for ownership units, just under 22% represent the market for condominiums (multi-family for-sale), 13.5% represent the market for townhouses (single-family attached for-sale), and just under 65% represent the market for single-family detached houses.

Who are those households that represent the potential Mission Valley District housing market?

The household groups that comprise the potential market for new and existing market-rate and affordable housing units in the District are:

- Empty nesters and retirees (53%);
- Traditional and non-traditional families (40%); and
- Younger singles and childless couples (7%).

How many new dwelling units could be leased or sold within the Mission Valley District over the next 5 years?

Based on the assumption that 15% of the potential market prefers newly-constructed housing units, the Mission Valley District could support up to 473 new market-rate and workforce housing units per year over the next 5 years:

**Annual Capture of Market Potential
THE MISSION VALLEY DISTRICT**

Housing Type	# of Households	Capture Rate	# of New Units
Multi-Family For-Rent*	840	15%	126
Multi-Family For-Rent† (lofts/apartments, leaseholder)	370	15%	56
Multi-Family For-Sale*	220	15%	33
Multi-Family For-Sale† (lofts/apartments, condo/co-op ownership)	200	15%	30
Single-Family Attached For-Sale*	110	15%	17
Single-Family Attached For-Sale† (townhouses/duplexes/live-work, fee-simple ownership)	150	15%	23
Single-Family Detached For-Sale*	560	15%	84
Single-Family Detached For-Sale† (houses, fee-simple ownership)	690	15%	104
Total	3,140		473

* Affordable to households with incomes between 30% and 80% of AMI in 2010, calibrated by household size.

† Affordable to households with incomes above 80% of AMI in 2010, calibrated by household size.

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

This number represents net new units, not net new households.

What is the market currently able to pay for the new units?

—Rental Distribution—

Based on the target household mix and the incomes and financial capabilities of the target households, the distribution by rent ranges of the 182 new market-rate and affordable rental units that could be absorbed each year over the next 5 years within the Mission Valley District:

**Rental Apartment Distribution by Rent Range
THE MISSION VALLEY DISTRICT**

Monthly Rent Range	Units Per Year	Percentage
\$500–\$600	50	27.5%
\$600–\$700	40	22.0%
\$700–\$800	26	14.3%
\$800–\$900	12	6.6%
\$900–\$1,000	12	6.6%
\$1,000–\$1,100	12	6.6%
\$1,100–\$1,200	9	4.9%
\$1,200–\$1,300	9	4.9%
\$1,300–\$1,400	6	3.3%
\$1,400 and up	6	3.3%
Total:	182	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

—For-Sale Distribution—

Based on the target household mix and the incomes and financial capabilities of the target households, the distribution by price ranges of the 63 new market-rate and affordable for-sale apartments that could be absorbed each year over the next 5 years within the Mission Valley District:

**For-Sale Apartment Distribution by Price Range
THE MISSION VALLEY DISTRICT**

Price Range	Units Per Year	Percentage
\$100,000–\$150,000	9	14.3%
\$150,000–\$200,000	12	19.0%
\$200,000–\$250,000	16	25.4%
\$250,000–\$300,000	9	14.3%
\$300,000–\$350,000	9	14.3%
\$350,000 and up	8	12.7%
Total:	63	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

Based on the target household mix and incomes and financial capabilities of the target groups, the distribution by price ranges of the 40 new townhouses/duplexes (single-family attached) that could be absorbed each year over the next 5 years within the Mission Valley District:

**Townhouse/Duplex Distribution by Price Range
THE MISSION VALLEY DISTRICT**

Price Range	Units Per Year	Percentage
\$100,000–\$150,000	6	15.0%
\$150,000–\$200,000	6	15.0%
\$200,000–\$250,000	10	25.0%
\$250,000–\$300,000	9	22.5%
\$300,000–\$350,000	6	15.0%
\$350,000 and up	3	7.5%
Total:	40	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

Based on the target household mix and incomes and financial capabilities of the target groups, the distribution by price ranges of the 188 new detached houses that could be absorbed each year over the next 5 years within the Mission Valley District would be as follows:

**Detached House Distribution by Price Range
THE MISSION VALLEY DISTRICT**

Price Range	Units Per Year	Percentage
\$100,000–\$150,000	21	11.2%
\$150,000–\$200,000	39	20.7%
\$200,000–\$250,000	50	26.5%
\$250,000–\$300,000	24	12.8%
\$300,000–\$350,000	24	12.8%
\$350,000–\$400,000	18	9.6%
\$400,000 and up	12	6.4%
Total:	188	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

How many net new households could the Mission Valley District expect to gain each year over a 5-year timeframe?

Based on the migration data and internal and external mobility rates, the production of 473 new units a year, and including households with incomes below 30% of AMI, the Mission Valley District could experience an average increase of 168 additional households per year over the 5-year timeframe:

**Annual Net New Households
THE MISSION VALLEY DISTRICT**

Housing Type	# of New Units	# of Net New HHs
Multi-Family For-Rent*	126	25
Multi-Family For-Rent† (lofts/apartments, leaseholder)	56	17
Multi-Family For-Sale*	33	7
Multi-Family For-Sale† (lofts/apartments, condo/co-op ownership)	30	10
Single-Family Attached For-Sale*	17	3
Single-Family Attached For-Sale† (townhouses/duplexes/live-work, fee-simple ownership)	23	8
Single-Family Detached For-Sale*	84	17
Single-Family Detached For-Sale† (houses, fee-simple ownership)	104	31
Total	473	118
Households with incomes below 30% AMI:		50
Total		168

* Affordable to households with incomes between 30% and 80% of AMI in 2010, calibrated by household size.

† Affordable to households with incomes above 80% of AMI in 2010, calibrated by household size.

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

NOTE: Net new households are the number of households that are new to the Mission Valley District. The difference between the number of new market-rate and workforce units (473) and the number of units occupied by net new households with incomes above 30% of AMI (118) represents the number of new market-rate and workforce units occupied by existing or newly-formed Mission Valley District households. In addition, approximately 50 households are new to Mission Valley, but with incomes below 30% AMI and therefore unable to afford newly-constructed dwelling units.

Based on the Team Bliss Task Force Next forecasts, citywide, an average annual increase of 1,500 military households is likely over the next 5 years, of which an average of approximately 150 households per year would be likely to live in the Mission Valley District. The Mission Valley District could therefore expect to gain approximately 318 new households per year over the next 5 years, and approximately 168 households per year over the following 5 years.

MARKET POTENTIAL FOR THE EAST DISTRICT

This section of the analysis has determined the market potential over the next 5 years for new and existing market-rate and affordable housing units within El Paso's East District, an area bounded by and including El Paso International Airport and Montana Avenue to the north; Zaragoza Road and Joe Battle Road to the east, and including the neighborhoods of Sun Ridge South, Montwood Heights, Paseos del Sol, and Southview; Interstate 10 to the south; and the electric transmission lines to the west.

The East District encompasses zip codes 79925, 79935, 79936, and portions of zip code 79938, an area which includes 58 neighborhoods; the Las Palma Marketplace, Trevino Mall, Cielo Vista Mall, as well as extensive commercial and retail uses along Interstate 10; several hospitals—the Highlands Regional Rehabilitation Hospital, Del Sol Medical Center, East El Paso Medical Center, and the Fresenius Medical Center—and multiple public parks. It is the fastest-growing district in the city.

Where do the potential renters and buyers of new and existing housing units in the East District currently live?

As derived from migration, mobility and target market analysis, the draw area distribution of market potential (those households with the potential to rent or purchase new and existing housing units within the East District) is as follows:

Market Potential by Draw Area THE EAST DISTRICT

City of El Paso:	60.0%
Balance of El Paso County:	18.2%
Don Ana, Maricopa, and Los Angeles Counties:	5.7%
Balance of US and Mexico:	16.1%
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

How many households have the potential to move within or to the East District each year over the next 5 years?

As derived by the target market methodology, up to 12,200 households represent the annual potential market for new and existing housing units in the East District. These households comprise just over 31% of the approximately 38,950 households that represent the annual potential market for new and existing housing units in the City of El Paso as a whole.

What are their housing preferences in aggregate?

The distribution of the tenure and housing preferences of the target households with incomes at or above 30% of the area median family income is as follows:

Annual Potential Market For New and Existing Housing Units THE EAST DISTRICT

Housing Type	# of Households	% of Total
Multi-family for-rent*	2,210	28.3%
Multi-family for-rent† (lofts/apartments, leaseholder)	1,160	14.8%
Multi-family for-sale*	430	5.5%
Multi-family for-sale† (lofts/apartments, condo/co-op ownership)	320	4.1%
Single-family attached for-sale*	190	2.4%
Single-family attached for-sale† (townhouses/live-work, fee-simple/con- dominium ownership)	250	3.2%
Single-family detached for-sale*	1,580	20.2%
Single-family detached for-sale† (houses, fee-simple ownership)	1,680	21.5%
Total	7,820	100.0%

* Affordable to households with incomes between 30% and 80% of AMI in 2010, calibrated by household size.

† Affordable to households with incomes above 80% of AMI in 2010, calibrated by household size.

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

The tenure preferences include approximately 43% rental housing units, and 57% ownership housing units. Of the 4,450 households with preferences for ownership units, just under 17% represent the market for condominiums (multi-family for-sale), nearly 10% represent the market for townhouses (single-family attached for-sale), and just over 73% represent the market for single-family detached houses.

Who are those households that represent the potential East District housing market?

The household groups that comprise the potential market for new and existing market-rate and affordable housing units in the District are:

- Traditional and non-traditional families (60%);
- Empty nesters and retirees (28%); and
- Younger singles and childless couples (12%).

How many new dwelling units could be leased or sold within the area over the next 5 years?

Based on the assumption that 15% of the potential market prefers newly-constructed housing units, the East District should be able to support up to 1,173 new market-rate and workforce housing units per year over the next 5 years:

Annual Capture of Market Potential THE EAST DISTRICT

Housing Type	# of Households	Capture Rate	# of New Units
Multi-Family For-Rent*	2,210	15%	332
Multi-Family For-Rent† (lofts/apartments, leaseholder)	1,160	15%	174
Multi-Family For-Sale*	430	15%	64
Multi-Family For-Sale† (lofts/apartments, condo/co-op ownership)	320	15%	48
Single-Family Attached For-Sale*	190	15%	28
Single-Family Attached For-Sale† (townhouses/duplexes/live-work, fee-simple ownership)	250	15%	38
Single-Family Detached For-Sale*	1,580	15%	237
Single-Family Detached For-Sale† (houses, fee-simple ownership)	1,680	15%	252
Total	7,820		1,173

* Affordable to households with incomes between 30% and 80% of AMI in 2010, calibrated by household size.

† Affordable to households with incomes above 80% of AMI in 2010, calibrated by household size.

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

This number represents net new units, not net new households.

What is the market currently able to pay for the new units?

—Rental Distribution—

Based on the target household mix and the incomes and financial capabilities of the target households, the distribution by rent ranges of the 506 new market-rate and affordable rental units that could be absorbed each year over the next 5 years within the East District would be as follows:

Rental Apartment Distribution by Rent Range THE EAST DISTRICT

Monthly Rent Range	Units Per Year	Percentage
\$500–\$600	108	21.2%
\$600–\$700	100	19.7%
\$700–\$800	70	13.8%
\$800–\$900	62	12.3%
\$900–\$1,000	52	10.3%
\$1,000–\$1,100	44	8.7%
\$1,100–\$1,200	20	4.0%
\$1,200–\$1,300	15	3.0%
\$1,300–\$1,400	12	2.4%
\$1,400–\$1,500	12	2.4%
\$1,500 and up	11	2.2%
Total:	506	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

—For-Sale Distribution—

Based on the target household mix and the incomes and financial capabilities of the target households, the distribution by price ranges of the 112 new market-rate and affordable for-sale apartments that could be absorbed each year over the next 5 years within the East District:

For-Sale Apartment Distribution by Price Range THE EAST DISTRICT

Price Range	Units Per Year	Percentage
\$100,000–\$150,000	11	9.8%
\$150,000–\$200,000	30	26.8%
\$200,000–\$250,000	26	23.2%
\$250,000–\$300,000	23	20.5%
\$300,000–\$350,000	10	8.9%
\$350,000–\$400,000	6	5.4%
\$400,000 and up	6	5.4%
Total:	112	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

Based on the target household mix and incomes and financial capabilities of the target groups, the distribution by price ranges of the 66 new townhouses/duplexes (single-family attached) that could be absorbed each year over the next 5 years within the East District would be as follows:

**Townhouse/Duplex Distribution by Price Range
THE EAST DISTRICT**

Price Range	Units Per Year	Percentage
\$100,000–\$150,000	4	6.1%
\$150,000–\$200,000	12	18.2%
\$200,000–\$250,000	16	24.1%
\$250,000–\$300,000	12	18.2%
\$300,000–\$350,000	10	15.2%
\$350,000–\$400,000	6	9.1%
\$400,000 and up	6	9.1%
Total:	66	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

Based on the target household mix and incomes and financial capabilities of the target groups, the distribution by price ranges of the 489 new detached houses that could be absorbed each year over the next 5 years within the East District would be as follows:

**Detached House Distribution by Price Range
THE EAST DISTRICT**

Price Range	Units Per Year	Percentage
\$100,000–\$150,000	28	5.7%
\$150,000–\$200,000	77	15.7%
\$200,000–\$250,000	89	18.2%
\$250,000–\$300,000	120	24.6%
\$300,000–\$350,000	68	13.9%
\$350,000–\$400,000	68	13.9%
\$400,000 and up	39	8.0%
Total:	489	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

How many net new households could the East District expect to gain each year over a 5-year timeframe?

Based on the migration data and internal and external mobility rates, the production of 1,109 new units a year, and including households with incomes below 30% of AMI, the East District could experience an average increase of 619 additional households per year over the 5-year timeframe:

**Annual Net New Households
THE EAST DISTRICT**

Housing Type	# of New Units	# of Net New HHs
Multi-Family For-Rent*	332	115
Multi-Family For-Rent† (lofts/apartments, leaseholder)	174	78
Multi-Family For-Sale*	64	25
Multi-Family For-Sale† (lofts/apartments, condo/co-op ownership)	48	18
Single-Family Attached For-Sale*	28	10
Single-Family Attached For-Sale† (townhouses/duplexes/live-work, fee-simple ownership)	38	15
Single-Family Detached For-Sale*	237	90
Single-Family Detached For-Sale† (houses, fee-simple ownership)	252	118
Total	1,173	469
Households with incomes below 30% AMI:		150
Total		619

* Affordable to households with incomes between 30% and 80% of AMI in 2010, calibrated by household size.

† Affordable to households with incomes above 80% of AMI in 2010, calibrated by household size.

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

NOTE: Net new households are the number of households that are new to the East District. The difference between the number of new market-rate and workforce units (1,173) and the number of units occupied by net new households with incomes above 30% of AMI (469) represents the number of new market-rate and workforce units occupied by existing or newly-formed East District households. In addition, approximately 150 households are new to the East, but with incomes below 30% AMI and therefore unable to afford newly-constructed dwelling units.

Based on the Team Bliss Task Force Next forecasts, citywide, an average annual increase of 1,500 military households is likely over the next 5 years, of which an average of approximately 500 households per year would be likely to live in the East District. The East District could therefore expect to gain approximately 1,119 new households per year over the next 5 years, and approximately 619 households per year over the following 5 years.

MARKET POTENTIAL FOR THE NORTHEAST DISTRICT

This section of the analysis has determined the market potential over the next 5 years for new and existing market-rate and affordable housing units within El Paso's Northeast District, an area bounded by the Texas state line to the north; Railroad Drive to the east; Fred Wilson Avenue to the south; and the Franklin Mountains to the west.

The Northeast District encompasses zip codes 79904, 79924, and 79934, an area which includes 41 neighborhoods; the Kenworthy Crossing shopping center; the defunct Northpark Mall, and dozens of small strip shopping centers and commercial uses along Dyer Street; the Del Sol Medical Center—and several public parks. The Northeast District is sandwiched between the Fort Bliss Military Reservation to the east and the Fort Bliss Castner Range and the Franklin Mountains to the west.

Where do the potential renters and buyers of new and existing housing units in the Northeast District currently live?

As derived from migration, mobility and target market analysis, the draw area distribution of market potential (those households with the potential to rent or purchase new and existing housing units within the Northeast District) is as follows:

Market Potential by Draw Area THE NORTHEAST DISTRICT

City of El Paso:	44.8%
Balance of El Paso County:	4.6%
Don Ana, Maricopa, and Los Angeles Counties:	2.5%
Balance of US and Mexico:	48.1%
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

How many households have the potential to move within or to the Northeast District each year over the next 5 years?

As derived by the target market methodology, over 5,600 households represent the annual potential market for new and existing housing units in the Northeast District. These households comprise 14.41% of the approximately 38,950 households that represent the annual potential market for new and existing housing units in the City of El Paso as a whole.

What are their housing preferences in aggregate?

The distribution of the tenure and housing preferences of the target households with incomes at or above 30% of the area median family income is as follows:

Annual Potential Market For New and Existing Housing Units THE NORTHEAST DISTRICT

Housing Type	# of Households	% of Total
Multi-family for-rent*	920	22.7%
Multi-family for-rent† (lofts/apartments, leaseholder)	500	12.3%
Multi-family for-sale*	160	4.0%
Multi-family for-sale† (lofts/apartments, condo/co-op ownership)	200	4.9%
Single-family attached for-sale*	60	1.5%
Single-family attached for-sale† (townhouses/live-work, fee-simple/con- dominium ownership)	120	3.0%
Single-family detached for-sale*	830	20.5%
Single-family detached for-sale† (houses, fee-simple ownership)	1,260	31.1%
Total	4,050	100.0%

* Affordable to households with incomes between 30% and 80% of AMI in 2010, calibrated by household size.

† Affordable to households with incomes above 80% of AMI in 2010, calibrated by household size.

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

The tenure preferences include 35% rental housing units, and 65% ownership housing units. Of the 2,630 households with preferences for ownership units, just under 14% represent the market for condominiums (multi-family for-sale), 6.8% represent the market for townhouses (single-family attached for-sale), and 79.5% represent the market for single-family detached houses.

Who are those households that represent the potential Northeast District housing market?

The household groups that comprise the potential market for new and existing market-rate and affordable housing units in the District are:

- Traditional and non-traditional families (38%);
- Empty nesters and retirees (36%); and
- Younger singles and childless couples (26%).

How many new dwelling units could be leased or sold within the area over the next 5 years?

Based on the assumption that 15% of the potential market prefers newly-constructed housing units, the Northeast District

could support up to 608 new market-rate and workforce housing units per year over the next 5 years:

**Annual Capture of Market Potential
THE NORTHEAST DISTRICT**

Housing Type	# of Households	Capture Rate	# of New Units
Multi-Family For-Rent*	920	15%	138
Multi-Family For-Rent† (lofts/apartments, leaseholder)	500	15%	75
Multi-Family For-Sale*	160	15%	24
Multi-Family For-Sale† (lofts/apartments, condo/co-op ownership)	200	15%	30
Single-Family Attached For-Sale*	60	15%	9
Single-Family Attached For-Sale† (townhouses/duplexes/live-work, fee-simple ownership)	120	15%	18
Single-Family Detached For-Sale*	830	15%	125
Single-Family Detached For-Sale† (houses, fee-simple ownership)	1,260	15%	189
Total	4,050		608

* Affordable to households with incomes between 30% and 80% of AMI in 2010, calibrated by household size.

† Affordable to households with incomes above 80% of AMI in 2010, calibrated by household size.

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

This number represents net new units, not net new households.

What is the market currently able to pay for the new units?

—Rental Distribution—

Based on the target household mix and the incomes and financial capabilities of the target households, the distribution by rent ranges of the 213 new market-rate and affordable rental units that could be absorbed each year over the next 5 years within the Northeast District would be as follows:

**Rental Apartment Distribution by Rent Range
THE NORTHEAST DISTRICT**

Monthly Rent Range	Units Per Year	Percentage
\$500–\$600	28	13.1%
\$600–\$700	38	17.8%
\$700–\$800	32	15.0%
\$800–\$900	32	15.0%
\$900–\$1,000	24	11.3%
\$1,000–\$1,100	13	6.1%
\$1,100–\$1,200	12	5.6%
\$1,200–\$1,300	12	5.6%
\$1,300–\$1,400	10	4.7%
\$1,400–\$1,500	6	2.9%
\$1,500 and up	6	2.9%
Total:	213	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

—For-Sale Distribution—

Based on the target household mix and the incomes and financial capabilities of the target households, the distribution by price ranges of the 54 new market-rate and affordable for-sale apartments that could be absorbed each year over the next 5 years within the Northeast District:

**For-Sale Apartment Distribution by Price Range
THE NORTHEAST DISTRICT**

Price Range	Units Per Year	Percentage
\$100,000–\$150,000	3	5.6%
\$150,000–\$200,000	11	20.4%
\$200,000–\$250,000	12	22.2%
\$250,000–\$300,000	10	18.5%
\$300,000–\$350,000	6	11.1%
\$350,000–\$400,000	6	11.1%
\$400,000–\$450,000	4	7.4%
\$450,000 and up	2	3.7%
Total:	54	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

Based on the target household mix and incomes and financial capabilities of the target groups, the distribution by price ranges of the 27 new townhouses/duplexes (single-family attached) that could be absorbed each year over the next 5 years within the Northeast District would be as follows:

**Townhouse/Duplex Distribution by Price Range
THE NORTHEAST DISTRICT**

Price Range	Units Per Year	Percentage
\$100,000–\$150,000	2	7.4%
\$150,000–\$200,000	4	14.8%
\$200,000–\$250,000	4	14.8%
\$250,000–\$300,000	6	22.2%
\$300,000–\$350,000	4	14.8%
\$350,000–\$400,000	4	14.8%
\$400,000 and up	3	11.2%
Total:	27	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

Based on the target household mix and incomes and financial capabilities of the target groups, the distribution by price ranges of the 314 new detached houses that could be absorbed each year over the next 5 years within the Northeast District would be as follows:

**Detached House Distribution by Price Range
THE NORTHEAST DISTRICT**

Price Range	Units Per Year	Percentage
\$100,000–\$150,000	36	11.5%
\$150,000–\$200,000	49	15.6%
\$200,000–\$250,000	51	16.2%
\$250,000–\$300,000	50	15.9%
\$300,000–\$350,000	40	12.7%
\$350,000–\$400,000	36	11.5%
\$400,000–\$450,000	20	6.4%
\$450,000–\$500,000	18	5.7%
\$500,000 and up	14	4.5%
Total:	314	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

How many net new households could the Northeast District expect to gain each year over a 5-year timeframe?

Based on the migration data and internal and external mobility rates, the production of 608 new units a year, and including households with incomes below 30% of AMI, the Northeast District could experience an average increase of 535 additional households per year over the 5-year timeframe:

**Annual Net New Households
THE NORTHEAST DISTRICT**

Housing Type	# of New Units	# of Net New HHs
Multi-Family For-Rent*	138	69
Multi-Family For-Rent† (lofts/apartments, leaseholder)	75	47
Multi-Family For-Sale*	24	12
Multi-Family For-Sale† (lofts/apartments, condo/co-op ownership)	30	18
Single-Family Attached For-Sale*	9	6
Single-Family Attached For-Sale† (townhouses/duplexes/live-work, fee-simple ownership)	18	10
Single-Family Detached For-Sale*	125	69
Single-Family Detached For-Sale† (houses, fee-simple ownership)	189	104
Total	608	335
Households with incomes below 30% AMI:		200
Total		535

* Affordable to households with incomes between 30% and 80% of AMI in 2010, calibrated by household size.

† Affordable to households with incomes above 80% of AMI in 2010, calibrated by household size.

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

NOTE: Net new households are the number of households that are new to the Northeast District. The difference between the number of new market-rate and workforce units (608) and the number of units occupied by net new households with incomes above 30% of AMI (335) represents the number of new market-rate and workforce units occupied by existing or newly-formed Northeast District households. In addition, approximately 200 households are new to the Northeast, but with incomes below 30% AMI and therefore unable to afford newly-constructed dwelling units.

Based on the Team Bliss Task Force Next forecasts, citywide, an average annual increase of 1,500 military households is likely over the next 5 years, of which an average of approximately 500 households per year would be likely to live in the Northeast District. The Northeast District could therefore expect to gain approximately 1,035 new households per year over the next 5 years, and approximately 535 households per year over the following 5 years.

MARKET POTENTIAL FOR THE WEST DISTRICT

This section of the analysis has determined the market potential over the next 5 years for new and existing market-rate and affordable housing units within El Paso's West District, an area approximately bounded by the Texas state line to the north; Franklin Mountain State Park to the east; Executive Center Drive to the south; and the Texas/New Mexico border and the town Anthony, Village of Vinton, and Canutillo to the west.

The West District encompasses zip codes 79911, 79912, 79922, and 79933, an area which contains 43 neighborhoods; the Sunland Park Mall, the Airway Junction Shopping Center; the Outlet Shoppes at El Paso, and, like all districts in El Paso, dozens of small strip shopping centers and commercial uses; branches of the Del Sol Medical Center and Providence Memorial Hospital—and several public parks. The West District also includes the Upper Valley, the area of the city west of Interstate 10.

Where do the potential renters and buyers of new and existing housing units in the West District currently live?

As derived from migration, mobility and target market analysis, the draw area distribution of market potential (those households with the potential to rent or purchase new and existing housing units within the West District) is as follows:

Market Potential by Draw Area THE WEST DISTRICT

City of El Paso:	44.0%
Balance of El Paso County:	6.7%
Don Ana, Maricopa, and Los Angeles Counties:	8.3%
Balance of US and Mexico:	41.0%
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

How many households have the potential to move within or to the West District each year over the next 5 years?

As derived by the target market methodology, 7,350 households represent the annual potential market for new and existing housing units in the West District. These households comprise 18.9% of the approximately 38,950 households that represent the annual potential market for new and existing housing units in the City of El Paso as a whole.

What are their housing preferences in aggregate?

The distribution of the tenure and housing preferences of the target households with incomes at or above 30% of the area median family income is as follows:

Annual Potential Market For New and Existing Housing Units THE WEST DISTRICT

Housing Type	# of Households	% of Total
Multi-family for-rent*	940	16.5%
Multi-family for-rent† (lofts/apartments, leaseholder)	1,460	25.7%
Multi-family for-sale*	190	3.4%
Multi-family for-sale† (lofts/apartments, condo/co-op ownership)	520	9.2%
Single-family attached for-sale*	220	3.9%
Single-family attached for-sale† (townhouses/live-work, fee-simple/condominium ownership)	460	8.2%
Single-family detached for-sale*	740	13.1%
Single-family detached for-sale† (houses, fee-simple ownership)	1,140	20.0%
Total	5,670	100.0%

* Affordable to households with incomes between 30% and 80% of AMI in 2010, calibrated by household size.

† Affordable to households with incomes above 80% of AMI in 2010, calibrated by household size.

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

The tenure preferences include 42.2% rental housing units, and 57.8% ownership housing units. Of the 3,270 households with preferences for ownership units, 21.7% represent the market for condominiums (multi-family for-sale), 20.8% represent the market for townhouses (single-family attached for-sale), and 57.5% represent the market for single-family detached houses.

Who are those households that represent the potential West District housing market?

The household groups that comprise the potential market for new and existing market-rate and affordable housing units in the District are:

- Traditional and non-traditional families (42%);
- Younger singles and childless couples (37%); and
- Empty nesters and retirees (21%).

How many new dwelling units could be leased or sold within the area over the next 5 years?

Based on the assumption that 15% of the potential market prefers newly-constructed housing units, the West District could support up to 852 new market-rate and workforce housing units per year over the next 5 years:

Annual Capture of Market Potential THE WEST DISTRICT

Housing Type	# of Households	Capture Rate	# of New Units
Multi-Family For-Rent*	940	15%	141
Multi-Family For-Rent† (lofts/apartments, leaseholder)	1,460	15%	219
Multi-Family For-Sale*	190	15%	29
Multi-Family For-Sale† (lofts/apartments, condo/co-op ownership)	520	15%	78
Single-Family Attached For-Sale*	220	15%	34
Single-Family Attached For-Sale† (townhouses/duplexes/live-work, fee-simple ownership)	460	15%	69
Single-Family Detached For-Sale*	740	15%	111
Single-Family Detached For-Sale† (houses, fee-simple ownership)	1,140	15%	171
Total	5,670		852

* Affordable to households with incomes between 30% and 80% of AMI in 2010, calibrated by household size.

† Affordable to households with incomes above 80% of AMI in 2010, calibrated by household size.

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

This number represents net new units, not net new households.

What is the market currently able to pay for the new units?

—Rental Distribution—

Based on the target household mix and the incomes and financial capabilities of the target households, the distribution by rent ranges of the 360 new market-rate and affordable rental units that could be absorbed each year over the next 5 years within the West District would be as follows:

Rental Apartment Distribution by Rent Range THE WEST DISTRICT

Monthly Rent Range	Units Per Year	Percentage
\$600–\$700	66	18.3%
\$700–\$800	53	14.7%
\$800–\$900	49	13.6%
\$900–\$1,000	48	13.3%
\$1,000–\$1,100	36	10.0%
\$1,100–\$1,200	20	5.6%
\$1,200–\$1,300	20	5.6%
\$1,300–\$1,400	20	5.6%
\$1,400–\$1,500	18	5.0%
\$1,500–\$1,600	16	4.4%
\$1,600 and up	14	3.9%
Total:	360	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

—For-Sale Distribution—

Based on the target household mix and the incomes and financial capabilities of the target households, the distribution by price ranges of the 107 new market-rate and affordable for-sale apartments that could be absorbed each year over the next 5 years within the West District:

For-Sale Apartment Distribution by Price Range THE WEST DISTRICT

Price Range	Units Per Year	Percentage
\$150,000–\$200,000	10	9.3%
\$200,000–\$250,000	11	10.3%
\$250,000–\$300,000	19	17.8%
\$300,000–\$350,000	20	18.7%
\$350,000–\$400,000	20	18.7%
\$400,000–\$450,000	12	11.2%
\$450,000–\$500,000	9	8.4%
\$500,000 and up	6	5.6%
Total:	107	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

Based on the target household mix and incomes and financial capabilities of the target groups, the distribution by price ranges of the 103 new townhouses/duplexes (single-family attached) that could be absorbed each year over the next 5 years within

the West District would be as follows:

**Townhouse/Duplex Distribution by Price Range
THE WEST DISTRICT**

Price Range	Units Per Year	Percentage
\$150,000–\$200,000	6	5.8%
\$200,000–\$250,000	12	11.7%
\$250,000–\$300,000	26	25.3%
\$300,000–\$350,000	19	18.4%
\$350,000–\$400,000	12	11.7%
\$400,000–\$450,000	10	9.7%
\$450,000–\$500,000	9	8.7%
\$500,000 and up	9	8.7%
Total:	103	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

Based on the target household mix and incomes and financial capabilities of the target groups, the distribution by price ranges of the 282 new detached houses that could be absorbed each year over the next 5 years within the West District would be as follows:

**Detached House Distribution by Price Range
THE WEST DISTRICT**

Price Range	Units Per Year	Percentage
\$150,000–\$200,000	24	8.5%
\$200,000–\$250,000	26	9.2%
\$250,000–\$300,000	50	17.7%
\$300,000–\$350,000	51	18.1%
\$350,000–\$400,000	50	17.7%
\$400,000–\$450,000	33	11.7%
\$450,000–\$500,000	28	9.9%
\$500,000 and up	20	7.2%
Total:	282	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

How many net new households could the West District expect to gain each year over a 5-year timeframe?

Based on the migration data and internal and external mobility rates, the production of 852 new units a year, and including households with incomes below 30% of AMI, the West District could experience an average increase of 528 additional households per year over the 5-year timeframe:

**Annual Net New Households
THE WEST DISTRICT**

Housing Type	# of New Units	# of Net New HHs
Multi-Family For-Rent*	141	70
Multi-Family For-Rent† (lofts/apartments, leaseholder)	219	130
Multi-Family For-Sale*	29	15
Multi-Family For-Sale† (lofts/apartments, condo/co-op ownership)	78	46
Single-Family Attached For-Sale*	34	18
Single-Family Attached For-Sale† (townhouses/duplexes/live-work, fee-simple ownership)	69	42
Single-Family Detached For-Sale*	111	55
Single-Family Detached For-Sale† (houses, fee-simple ownership)	171	102
Total	852	478
Households with incomes below 30% AMI:		50
Total		528

* Affordable to households with incomes between 30% and 80% of AMI in 2010, calibrated by household size.

† Affordable to households with incomes above 80% of AMI in 2010, calibrated by household size.

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

NOTE: Net new households are the number of households that are new to the Northeast District. The difference between the number of new market-rate and workforce units (852) and the number of units occupied by net new households with incomes above 30% of AMI (478) represents the number of new market-rate and workforce units occupied by existing or newly-formed West District households. In addition, approximately 50 households are new to the West, but with incomes below 30% AMI and therefore unable to afford newly-constructed dwelling units.

Based on the Team Bliss Task Force Next forecasts, citywide, an average annual increase of 1,500 military households is likely over the next 5 years, of which an average of approximately 150 households per year would be likely to live in the West District. The Northeast District could therefore expect to gain approximately 678 new households per year over the next 5 years, and approximately 528 households per year over the following 5 years.

DOWNTOWN EL PASO COMMERCIAL MARKET ANALYSIS

Prepared by: W-ZHA, LLC - March, 2011

INTRODUCTION

Study Purpose

W-ZHA was retained to analyze the market for office and retail uses in El Paso's Downtown. The findings of the market analyses identify the potential quantity and character of such uses over the next 10 years. The market findings are intended to inform City planning processes and policies.

KEY FINDINGS

Office Market Analysis

Existing Conditions

With approximately 2 to 2.5 million square feet of private, multi-tenant office space, Downtown El Paso contains the largest single concentration of office space in the market. Tenants in Downtown's Class-A buildings include businesses serving corporate clientele as well as a substantial number of government agencies, nonprofits, and other businesses serving household clientele.

Vacancy rates in Downtown El Paso generally range from 15% to 20%. Downtown lease rates range from \$13-\$15 per square foot on a gross basis, which represents a net-equivalent of roughly \$6-7 per square foot. Most of the multi-tenant office buildings Downtown were built over 40 years ago.

Competitive Context

Suburban El Paso multi-tenant office buildings are located in the "east" or "west" submarkets. Each of these submarkets contains roughly 800,000 to 1 million square feet of multi-tenant office space. Most of the space is contained in buildings with 20,000 to 80,000 square feet. The largest multi-tenant buildings in the El Paso suburban market are approximately 100,000 square feet. While suburban office tenants include a broad range of professional service providers, contact center operators comprise a significant share of large suburban tenancies.

Suburban office lease rates are competitive with Downtown rates. However, suburban office rent includes free parking. Suburban office vacancy rates are similar to Downtown's -- 15 to 20%. As in Downtown, there has been very little recent office development activity in suburban locations.

Downtown's Competitive Assets and Constraints

Constraints

- Downtown's Mix of Uses and Environment Fails to Generate Significant Rent Premiums
- Low Rents Make Office Development and/or Renovation Economically Challenging
- Downtown's Lack of Convenient Parking and Parking Costs are a Competitive Disadvantage

Assets

- Downtown Courthouses and Government-Related Operations Generate Office Demand
- Downtown's Potential as a High-Quality Mixed-Use Center Make Downtown Unique in the Marketplace

Market Opportunities

Over ten years the market will likely support an additional 100,000 to 200,000 square feet of new Downtown office space. New office projects will serve existing tenants' demand for up-graded space and new office tenants generated by Metropolitan Area growth.

New office development Downtown will most likely take one of two forms:

1. New Small-Scale, Class-B Projects Located Outside the Existing Core Area

Such buildings will most likely occupy suburban-scale lots with sufficient space for surface parking lots. These buildings will likely be 20,000 – 50,000 square feet in size.

2. Existing Building Renovation

Such projects will update old and underutilized buildings Downtown. While such renovations will likely not constitute entire makeovers such as those undergone at the Mills and Central buildings, they may be able to profitably provide new marketable office space Downtown.

Retail Market Analysis

Existing Conditions

There are three distinct retail and entertainment districts in Downtown El Paso: the Golden Horseshoe, the Central Business District and Union Plaza. The Golden Horseshoe district is a unique retail environment that primarily caters to the Mexican national market and discount shoppers. The Central Business District services the employee market, but it is challenged by vacant buildings and a lack of critical mass. The Union Plaza district is primarily a weekend entertainment destination with a small, but important, cluster of eating and drinking establishments. While it is the economic center of the Region, Downtown El Paso is not a place where Metropolitan Area residents come to shop or dine on a regular basis.

The Golden Horseshoe district is an important economic engine supporting the City. The analysis of existing conditions suggests that Downtown retail, because it mostly caters to the Mexican national market, likely contributes a billion dollars in visitor retail sales to the City and region.

Eating and drinking sales are not as robust as retail sales Downtown. While Downtown appears to be a successful entertainment destination particularly for younger households, Downtown's capture of Metropolitan Area eating and drinking sales is well below its retail sales capture.

Competitive Context Conclusions

The area surrounding the Downtown is densely populated, not growing and relatively low income. Two major retail nodes are within an easy 10-minute drive from the Downtown. Demographics and competitive shopping centers will make it difficult for the Downtown to compete for conventional shopper's goods tenants.

There is no specialty retail destination in the City. Specialty stores either sell one-of-a-kind merchandise (like art galleries) or occupy a very specific retail niche (like vintage clothing). Because they are unique, these stores tend to be destinations -- patrons will pass-by chain retail to go to the specialty shop. Given the absence of a competitive specialty shopping environment, Downtown may be well positioned to pursue this retail niche.

The only significant non-suburban eating and drinking cluster is located on Cincinnati Street near the University of Texas El Paso. Downtown is well-positioned to increase its capture of resident eating and drinking expenditures.

Downtown's Competitive Strengths and Challenges

Strengths

- Established Super-Regional Shopping Center
- Well-Located Between the Ciudad Juarez and the El Paso Market Areas
- A Government and Professional Office Hub
- Cultural and Civic Center of El Paso
- Emerging as an Entertainment Destination for Young Adults
- Attractive Buildings, Is Pedestrian Friendly and Safe

Challenges

- Downtown's Retail is Narrowly Targeted to a) the Mexican National Market and b) the Discount Shopper
- The Mexican National Market is On the Decline
- Competitive Shopping Centers are Better Located to Capture A Majority of Resident Retail Demand
- There is Considerable Vacancy in Downtown's Central Business District which Deters Shoppers and Investors
- The Lack of Downtown Housing Limits the Cycle of Activ-

ity Downtown, Particularly the Central Business District

- There are Very Few Quality Restaurants Downtown Open During Weekday Nights
- Downtown's Public Spaces (Sidewalks, Parks, Plazas) Need to be Refreshed

Market Opportunities

The El Paso Metropolitan Area is projected to grow over the next ten years. If there is limited growth in the Mexican market, new shopper's goods sales Downtown will be driven by Metropolitan Area residents. Under this scenario, there will be less net new shopper's goods sales potential. If the Mexican market grows and continues to support shopper's goods sales Downtown, shopper's goods sales in the Metropolitan Area will be higher. Depending upon the Mexican national market, the Downtown can support between 125,000 and 225,000 square feet of new shopper's goods stores over the next 10 years.

Sales estimates indicate that Downtown captures approximately 4% of Metropolitan Area's eating and drinking sales. Strong Downtowns can capture 6% to 10% of Metro Area sales. Applying a 6% capture rate, the market can support an additional 63,000 square feet of eating and drinking space Downtown over the next 10 years.

Market Niches

A Shopping Center for the Mexican National Market and the Discount Shopper

Downtown El Paso's Golden Horseshoe area currently fulfills this role and contributes significantly to the City's economy. However, as increased security at the border and troubles in Juarez have demonstrated, this market is vulnerable to unforeseen market forces. Efforts need to be made to protect and fortify this unique market niche. Discount store and stores targeting the Mexican national market should be located in the Golden Horseshoe, not the Central Business District.

A Specialty Shopping Destination for the Metropolitan Area & Tourists

There is no specialty retail destination in the El Paso Metropolitan Area. Specialty retail can be successful in Downtown because of its central location, access to the El Paso and Juarez markets, and mix of uses. Art dealers, artist studios and galleries, home accessories stores, and specialty stores that sell unique apparel, jewelry and gifts are store-types to be targeted for the Downtown. These stores should target the middle- to upper-income household and younger households.

Because Downtown El Paso is already a strong retail center, one challenge to developing an arts and specialty store cluster is Downtown's relatively high rent. The Central Business District

(such as Texas Avenue) where rents are lower is the appropriate location for such a cluster of stores.

An Eating and Drinking Destination for the Region
Like specialty retail, restaurants and entertainment uses tend to cluster to create a “destination”. Eating and drinking establishments are best located in the Central Business District around San Jacinto Plaza or Texas Avenue and in the Union Plaza district.

OFFICE MARKET ANALYSIS
EXISTING CONDITIONS

Downtown Office Supply
Downtown El Paso contains approximately 2 to 2.5 million square feet of private, multi-tenant office space.¹ This comprises the largest single concentration of office space in the El Paso market. The largest and most prestigious among Downtown’s office buildings include the following: Kayser, Chase, Wells Fargo, Mills and Centre buildings. Generally regarded as “Class-A” properties, these buildings contain a total of approximately 1.4 million square feet.

Major Private Office Buildings, Downtown El Paso			
Building Name	Address	YOC	Gross Sq. ft.
Kayser	100 North Stanton	1979	415,100
Chase	201 E Main	1963	361,000
Wells Fargo	221 North Kansas	1971	332,300
Mills	303 North Oregon	2011	160,000
Centre	123 Pioneer Plaza	2010	139,000

Large tenants in the El Paso multi-tenant office market occupy 10,000 square feet. Tenants larger than this are rare.

Downtown lease rates generally range from \$13-\$15 per square foot on a gross basis, which represents a net-equivalent of roughly \$6-7 per square foot. A small number of leases have exceeded this range, with gross rates as high as \$18 and in excess of \$20 in some cases.²

1 No “official” supply estimate exists. In the absence of such figure, this general range is based on consultations with commercial real estate firms, including Best Real Estate, as well as visual inventories. The estimated total excludes government buildings, owner-occupied buildings, and buildings containing fewer than 15,000 square feet. Other informal supply estimates range from 3.4 to 3.9 million square feet, but these include government buildings, owner-occupied buildings, and inactively marketed spaces

2 Specific terms of these leases (involving allowances for parking, tenant improvement costs, etc.) make them difficult to compare on a “dollar-for-dollar” basis.

There is little differentiation among the various market tiers. While many lower-quality buildings maintain lease rates in a single-digit range, rents in the “Class-B” market tiers are often comparable to those in “Class-A” buildings. Vacancy rates are also comparable in various market tiers; commercial brokers informally estimate that among buildings being marketed for office, vacancy rates in Downtown El Paso as well as in suburban properties generally range from 15% to 20%.

Background Context
A number of important factors influence the existing Downtown office market. These include the following:

- **El Paso’s Economy:** The El Paso economy features strengths in manufacturing, military activity, and cross-border retail activity. Office sectors, however, play a relatively minor role in the local economy. In most markets, the major sources of demand for downtown office space include professional service providers engaged in legal, financial and insurance services, and well as other businesses such as advertising, design, technology and others. As shown in the following table, these industry sectors represent 10% of El Paso area employment. This share of total employment ranks below corresponding shares in the State of Texas and the nation, as well as four selected Texas metro areas, where the shares range from 17% to 19% of total regional employment.

Major Office Industry Sectors, Shares of Total non-Farm Employment, Selected Areas, 2007							
	Selected Metropolitan Areas						
	El Paso	Texas	U.S.	Austin	Dallas	Houston	San Antonio
Finance/Insurance	3.6%	5.3%	5.7%	5.8%	7.8%	4.9%	8.8%
Real Estate	1.8%	2.0%	1.9%	2.7%	2.4%	2.4%	2.1%
Professional/Sci/Technical Services	4.6%	6.2%	6.8%	10.1%	7.5%	9.4%	6.1%
Subtotal	10.0%	13.5%	4.4%	18.6%	17.7%	16.8%	17.0%

Source: U.S. Census Bureau

- **Historic:** Most of the major office buildings in Downtown El Paso were built more than 30 years ago. As shown in the following table, 36% of the current supply was built prior to 1950 (mostly prior to 1930). Then, more than half the current supply was added in the 1960s and 1970s.

Downtown Office Building Construction Periods

Period	Bldgs Sq. ft.	Share
1900-1950*	7 804,700	35.8%
1950s	1 202,000	9.0%
1960s	2 495,600	22.0%
1970s	2 747,400	33.2%
Total	12 2,249,700	100.0%

* Includes original Mills Bldg and Centre bldg, as well as Bassett Tower.

Source: Best Real Estate; W-ZHA, LLC.

The underlying support for this 1960s-70s construction was provided in large part by the presence of El Paso Natural Gas. With its national headquarters in El Paso, this tenant was the largest in Downtown El Paso; brokers informally estimate that it occupied well over 1 million square feet in several buildings, including the entire “Blue Flame” building. In addition, professional service providers (e.g., legal, financial) serving El Paso Natural Gas also accounted for a substantial share of Downtown occupancies.

Since that time, El Paso Natural Gas moved its operations out of El Paso, officially moving its headquarters to Houston in 1996. This left substantial office vacancies throughout the Downtown office core. Lacking new corporate influxes (see following paragraph), there was little fundamental demand for office space, and development activity fell dormant.

- **Recent Activity:** Since 2000, one broker’s records indicate that total city-wide multi-tenant office construction amounted to 103,000 square feet. This amount featured just one building with more than 15,000 square feet, and three buildings with more than 10,000 square feet; only two buildings were located in Downtown El Paso.

Two recent renovation projects comprise the most significant Downtown office development activity since the 1970s. The Centre Building re-opened after extensive renovations in 2007 and the adjacent Mills building is planned to re-open in early 2011. These buildings command the highest lease rates in Downtown El Paso. The Centre Building’s office space maintains roughly full occupancy. The Mills Building, while not full, has leased four

full floors to federal agencies moving to El Paso.

- **Corporate Presence:** The El Paso region currently contains relatively few headquarters offices. In other markets of comparable size, the presence of decision-making executives attracts office tenants providing services in law, finance, accounting, advertising, management, and a broad range of other professional occupations. The relatively minor presence of regional and national headquarters in El Paso limits multi-tenant office potential.
- **Tenant Profiles:** Tenants in Class-A buildings include corporations providing financial, legal, and other professional services, but they also include substantial presences of government agencies, nonprofits, and various businesses serving household (as opposed to corporate) clientele. While Class-A building tenancies are typically driven by image-related considerations, in El Paso they are driven by practical considerations involving cost and parking availability.
- **Tenant Sizes:** Even tenants occupying just 10,000 square feet are considered large in the El Paso market. Class-A buildings in other markets of comparable scale are likely to contain “anchor” tenants occupying 20,000 to 40,000 square feet.

COMPETITIVE CONTEXT

Suburban El Paso office buildings are categorized in “east” and “west” submarkets. Each of these contains roughly 800,000 to 1 million square feet of private multi-tenant office space.³ The very largest of these buildings contain roughly 100,000 square feet. Most of the space in these submarkets is contained in buildings with 20,000 to 80,000 square feet.⁴

The following table summarizes office supply in El Paso’s suburban and overall office markets. In the east submarket, office buildings are scattered, with minor concentrations on major corridors such as Geronimo Drive, Lee Trevino Drive and George Dieter Drive. In the west submarket, the largest concentration of office space is in the Executive Center Park, in the area off North Mesa Street and Executive Center Drive. This area contains more than 600,000 square feet of private usable space, comprising roughly 80% of the west submarket inventory.

3 As with Downtown supply estimates, no “official” figures exist. The estimated figures provided herein exclude government buildings, medical office buildings, owner-occupied buildings, office space in industrial buildings, and buildings containing less than 15,000 square feet.

4 Many of the larger suburban office buildings are owner-occupied contact centers, operated by corporations such as State Farm Insurance, Verizon Wireless, and various third-party service providers.

El Paso Office Market Supply

Submarket	Space(M sq. ft.)
Central/Downtown	1.95
East	0.80
West	0.95
Total	3.65

Source: Best Real Estate; W-ZHA, LLC.

Additional office space (excluded from the supply figures shown in the table) in suburban El Paso includes medical offices, government buildings, and industrial properties containing offices. With the exception of a concentration of medical buildings along North Mesa near the University of Texas-El Paso, these offices are located in scattered locations.

Suburban office lease rates are competitive with Downtown rates. While many suburban leases are quoted on a net basis, gross-equivalent rates for high-quality space range from \$15-\$16 per square foot. This rate, however, includes free parking; when parking costs are added to Downtown lease rates, Downtown tenant costs in many instances reach \$17 per square foot.

Vacancy rates are consistent with Downtown conditions, ranging from 15% to 20%.

As in Downtown, there has been very little recent office development activity in suburban locations. Since the mid-1980s, substantial suburban office developments have been primarily medical offices, a 55,000 square foot building on Hawkins Drive (1993), and owner-occupied buildings such as a facility for ADP (third-party back office operations) and the Helen of Troy headquarters building.

While suburban office tenants include a broad range of professional service providers, contact center operators comprise a significant share of large suburban tenancies. Such operators include a third-party call center service providers as well as in-house operations for corporations such as AT&T, State Farm, and others.

DOWNTOWN'S COMPETITIVE ASSETS AND CONSTRAINTS

Constraints

- **Downtown's Mix of Uses and Environment Fail to Generate Significant Rent Premiums:**

As mentioned previously, suburban lease rates are generally equal to Downtown lease rates. Even in its most visible and prestigious buildings, with the exception of parking cost, there is no significant premium for a Downtown El Paso location. The Downtown product is

not yet of a quality to achieve rent premiums.

- **Low Rents Make Office Development and/or Renovation Economically Challenging:**

While financial pro forma analysis is beyond the scope of this document, development costs for high-end Downtown buildings are likely to exceed \$200 per square foot – excluding costs for land and parking structures. At these cost levels, most developers would need to achieve net lease rates of at least \$20; prevailing net-equivalent rates approximate just \$6-7 per square foot. Under these circumstances, new development is likely to favor less costly suburban low-rise formats and locations.

- **Lack of Convenient Parking and Parking Costs are a Downtown Constraint:**

Various sources involved in office leasing and development identify a lack of convenient parking as a problem for Downtown offices. In addition to monthly costs, which present a competitive disadvantage vis-à-vis suburban office space, convenient locations are scarce. The Mills and Centre buildings will be connected to a new 838-space parking garage, and this garage will be able to serve other Downtown buildings as well. The other major parking facilities, however, are the Union Plaza and Civic Center parking garages. These facilities contain a combined total of nearly 1,400 spaces, but are situated more than five blocks away from most of the core area office buildings. If not addressed, this lack of convenient parking facilities will constrain leasing and development potential for many prospective Downtown tenants.

Assets

- **Downtown Courthouses and Government-Related Operations Generate Office Demand:**

These provide advantages for law firms and some other service providers that need convenient access to courts and various government offices. Even for such practitioners, however, visits to courts and government offices are infrequent, and are easily accessible from suburban offices.

- **Downtown's Potential as a High-Quality Mixed-Use Center Make Downtown Unique in the Marketplace:**

This is perhaps Downtown's strongest asset. Suburban locations rarely generate the synergies that can emerge from a downtown setting, where various types of activity and amenities can be concentrated in close proximity to one another. Where the City can provide and/or

upgrade amenities (e.g., San Jacinto Plaza, connections to Union Plaza), address constraints (e.g., parking), and present an achievable vision for revitalization, prospective tenants and developers may be induced to invest in Downtown locations. Relatively recent investments in the Centre Building and Mills Building, along with recent restaurant and entertainment successes in the Union Plaza district, provide initial grounds for optimism. If these lead to further investments and realized visions, Downtown El Paso may be able to regain its stature as a vibrant, premium location for office uses.

MARKET OPPORTUNITIES

Multi-tenant office demand is derived from growth in office employment, which in most instances is provided by growth in the “financial activities” and “professional services” industry sectors. Businesses in these sectors provide services involving law, finance, accounting, insurance, management, architecture, and others. Other office-inclined sectors encompass a broad range of business types, but these professional service providers furnish the major source of support for most Downtown office development.⁵

Forecasted growth in El Paso’s “office-inclined” sectors is shown as follows:

Step 1: Current Employment in Office Sectors

The following table shows 2008 office sector employment as estimated by Moody’s economy.com. It should be noted that these figures are derived primarily from the U.S. Bureau of Labor Statistics, which focuses on workers for whom employers pay unemployment insurance coverage (and which are most likely to need new office space).⁶

El Paso County Employment in Office Sectors: 2008

Sector Jobs	(in 000s)
Finance and Insurance	7.66
Real Estate and Rental and Leasing	4.50
Professional and Technical Services	8.35
Management of Companies and Enterprises	0.50
Subtotal	21.01

Source: Moody’s economy.com

Step 2: Projected Growth

Different sources provide a range of employment growth projections. Moody’s economy.com projects growth at an average annualized rate of 1.0% among the office sectors; the University of Texas at El Paso’s Institute for Policy and Economic Development presents a more aggressive (incorporating full consideration of ongoing growth anticipated for Fort Bliss) forecast of 2.2% annualized growth.

Office Sector Growth Rate Scenarios

Sector	2008 - 2020 CAGR*	
	Moody’s economy.com	UTEP IPED
Finance and Insurance	1.9%	0.0%
Real Estate and Rental and Leasing	1.0%	2.0%
Professional and Technical Services	0.1%	4.0%
Management of Companies and Enterprises	1.3%	1.5%
Subtotal	1.0%	2.2%

*CAGR = compounded average annual growth rate.

Source: Moody’s economy.com; University of Texas at El Paso Institute for Policy and Economic Development; W-ZHA, LLC.

Using these employment forecasts as a growth factor for occupied office space⁷, occupied office space would be projected to increase by roughly 200,000 to 400,000 square feet, as shown in the following table. Despite this increase in occupied space, however, currently vacant Downtown office space is estimated at 322,500 to 430,000 square feet (applying a vacancy rate of 15 to 20%). Allowing for stabilized vacancy rate of 8%, the supply of vacant space would range from 150,500 to 258,000 square feet. When these are subtracted from projected new demand, the market would support roughly 50,000 to 150,000 square feet of new office space over the next 10 years.

⁵ This analysis excludes health and “administrative/waste remediation” services. Health care offices are not typically included in general office statistics, and their location decisions are driven by considerations (proximity to hospitals, convenience for patients) that are not relevant to Downtown locations. Administrative/waste remediation services include contact center uses, which typically locate in lower-cost properties with large floorplates and ample parking availability. Contact centers comprise a significant source of employment in El Paso, but do not comprise a significant presence in Downtown office buildings.

⁶ Bureau of Labor Statistics shows “payroll employment.” Bureau of Economic Analysis figures, in contrast, include interns, temporary and part-time workers who are not included in payroll accounting.

⁷ Application of projected office sector employment growth as the growth factor for Downtown office occupancy implies that (1) current distribution between Downtown and suburban space would remain constant; and (2) the current space/worker ratio would remain constant.

10-Year Office Market Demand Projection for Downtown El Paso

	Scenario	
	A	B
Existing Market Supply (sq. ft.)	2,150,000	2,150,000
Current Occupancy (rate)	85%	80%
Current Occupancy (sq. ft.)	1,827,500	1,720,000
10-Yr. Avg. Annual Growth*	1.0%	2.2%
Projected Occupancy (sq. ft.)	2,025,020	2,131,760
Increase (projected occ. less current occ. in sq. ft.)	197,520	411,760
Existing Vacancy (rate)	15%	20%
Existing Vacancy (sq. ft.)	322,500	430,000
Existing Vacancy (sq. ft., with allowance for 8% vac.)	150,500	258,000
New demand less available space	47,020	153,760

*Lower growth rate provided by Moody's economy.com; higher growth scenario based on rate provided by UTEP IPED.

In addition to this projected demand for new space, development opportunities would be augmented by tenants' interest in upgraded offices. Currently available space, as well as a substantial amount of occupied space, is in aging buildings. Over a ten-year time frame, a portion of existing office tenants will seek to upgrade their offices.

Overall, over ten years the market would likely support an additional 100,000 to 200,000 square feet of new office space in Downtown El Paso. New office projects would serve existing tenants' demand for upgraded space and new office tenants.

Notwithstanding projected new demand, the requisite net lease rates of roughly \$20 per square foot would not be achievable. Consequently, new office development Downtown would most likely take one of two forms:

1. **Small-scale, Class-B projects located outside the existing core area:** Such buildings would most likely occupy suburban-scale lots with sufficient space for surface parking lots. Examples of such projects include the Morgan Stanley building at 641 Stanton and the State of Texas office building at 401 East Franklin.⁸ Under prevailing conditions, the market may support similar projects; most would contain roughly 20,000 – 50,000 square feet.

⁸ This 120,000 square-foot government property is not included in the supply figures reported earlier.

2. **Improvements to existing buildings:** Such projects would update old and underutilized buildings, satisfying building code requirements, replacing outdated infrastructure (e.g., elevators, HVAC, wiring), and replacing features such as windows, carpets, and fixtures. While such renovations would not constitute entire makeovers such as those undergone at the Mills and Central buildings, they may be able to profitably provide new marketable office space.

Overall, while Downtown El Paso would not likely support the development of large-scale Class-A office buildings, over the next ten years it could support up to 200,000 square feet of new low-rise or rehabilitated space in Downtown El Paso. Given the limited supply and small size of El Paso's "anchor" tenants, most new buildings would range from roughly 20,000 to 50,000 square feet in size. Consequently, the potential demand for new space would most likely accommodate about three to six buildings.

PLANNING ISSUES AND ACTION STEPS

From the development outlook, two planning issues emerge: (1) the need for Downtown amenities (including parking); and (2) the preservation of a compact Downtown core area.

- **Amenities:** Where Downtown provides a district of concentrated, mutually enhancing amenities (e.g., parks, parking facilities) and a mix of uses (e.g., eating & drinking, office uses, residential uses, retail uses, entertainment), the resulting vitality provides an advantage that cannot be replicated in suburban office environments. This gives Downtown a position as the prestigious location for high-end office tenants. This drives lease rates higher and ultimately leads to new development.
- **Compact Core:** There is a substantial gap between currently attainable lease rates and those that will support new high-end development. Consequently, the market tendencies would be to develop in locations at the fringes of the existing Downtown core. If this pattern of development emerges, it would limit the synergies derived from new development. Moreover, as new development occurs in a more scattered pattern, it would draw tenants from existing buildings, leaving vacancies – and possibly empty buildings – behind.

At the very least, zoning should require that all buildings abut the street and that parking be provided behind the building. To support Downtown revitalization and investment, the City should be prepared to develop public parking. Removing parking costs will reduce the rent required to make investment sense. Capital incentive programs will be necessary to make the renovation of older buildings financially feasible. In exchange for the subsidy, the City can influence the quality of the renovation.

RETAIL MARKET ANALYSIS

Definitions

This section analyzes the market for retail and eating and drinking establishments. The definition of “eating and drinking establishment” includes fast food, take-out and full-service restaurants as well as bars and clubs. Retail is defined by the following store-types:

- Motor Vehicle Dealerships
- Home Furnishings
- Electronics and Appliances
- Building Materials and Garden Supplies
- Food and Beverage (for consumption at home)
- Health and Personal Care
- Gasoline Stations
- Clothing and Accessories
- Sport/Hobby/Books
- General Merchandise
- Miscellaneous (like florists, gift and card shops)
- Non-Store Retail

Home furnishings, electronics and appliances, clothing and accessories, sport/hobby/books, general merchandise stores and miscellaneous retail stores are “shopper’s goods” stores. Shopper’s goods stores are the types of stores where people gather information about a particular product and comparison shop before purchasing. Because they rely on comparison shopping, these types of stores cluster to offer the breadth and depth of merchandise necessary to create a shopping destination. With suburbanization relatively few Downtowns have managed to retain sufficient shopper’s goods stores to remain shopping destinations.

Food and beverage stores, like supermarkets and liquor stores as well as drug stores (health and beauty products), are considered “convenience” retail. These store-types offer merchandise targeted to the day-to-day needs of the consumer. Convenience retail stores seek locations close to residential neighborhoods and employment clusters.

Building materials, garden supply stores, gas stations and auto dealerships are retail-types not typically found in Downtown environments.

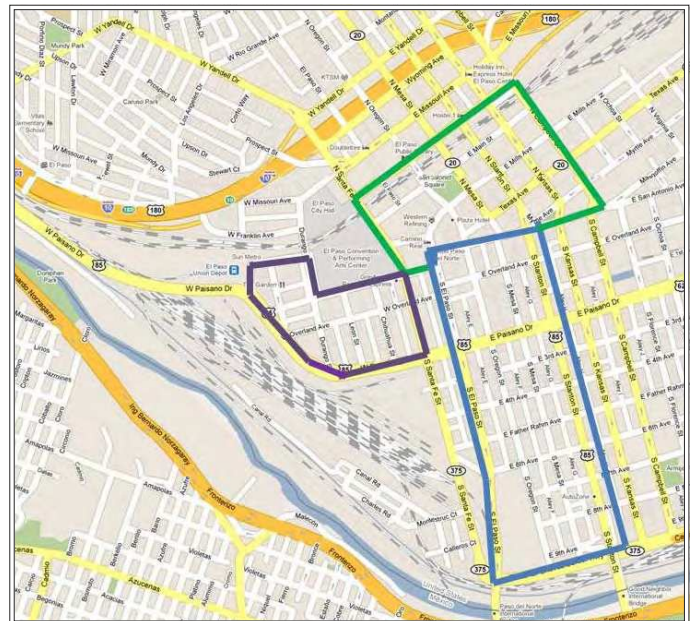
EXISTING CONDITIONS

Downtown Supply

From a market perspective there are three major retail and eating/drinking districts in the Downtown Area: the Golden Horseshoe, the Central Business District and Union Plaza.

Downtown retail is clustered in the “Golden Horseshoe”, an area bounded by El Paso Street to the west, San Antonio Avenue to the north and Stanton Street to the east and the Mexico border to the south. This district has very low vacancy and stores offer everything from apparel to electronics to duty-free products. El Paso Street is the strongest retail street with retail rents ranging from \$20 to \$30 per square foot in a mix of net leases and full service leases.

Downtown Retail and Eating and Drinking Districts



The Golden Horseshoe operates like an open-air bazaar. Low price merchandise is displayed within the store as well as on the sidewalk. Field work indicates a vast majority of the storefronts in the Golden Horseshoe District are shopper’s goods stores. The remaining storefronts are occupied by bank and finance establishments, tax preparation services, and convenience stores.

Retail in the Golden Horseshoe is targeted to the Mexican national market. Shoppers come from across the border to Downtown El Paso because quality products can be obtained for lower prices. Interviews suggest that anywhere from 70 to 90% of the retail sales in the Golden Horseshoe are generated from people crossing into El Paso from Mexico.

South of Paisano Street the Golden Horseshoe District is characterized by small “mom & pop” stores. The area from Paisano

Street to San Antonio Street contains larger floorplate stores like JC Penney, Fallas, and the Texas Store. While the physical character of the stores differs between these two areas, both cater to the Mexican national market.

The second Downtown district is the Central Business District. This zone is generally bounded by Santa Fe Street to the west, West Franklin Avenue to the north, Campbell Street to the east, and San Antonio Avenue to the south. This district incorporates San Jacinto Plaza, Pioneer Plaza, the Plaza Theatre, prominent Downtown hotels and Downtown's largest office buildings. Abutting this zone is the Williams Convention Center, the Abraham Chavez Theatre, the Visitor's Center and various museums.

The Central Business District storefront mix is not retail-oriented, but, instead, mostly consists of convenience and eating and drinking establishments. There is considerable storefront vacancy in this zone and many empty buildings.

The third district is Union Plaza bounded by West Paisano Street to the south and west, the railroad tracks to the north, and El Paso Street to the east. There are a number of restaurants and clubs in this district. The clubs in Union Plaza cater to young adults. There are very few shops in this district.

Downtown's shopper's goods stores target the Mexican national market and discount shoppers. Other than the large department stores, there are very few stores selling mid- to high-price-point merchandise. Except for near-in residents, Downtown is not a destination for conventional shopping.

Downtown eating and drinking establishments are supported by Downtown employees, the young adult market, and visitors.

Retail Sales

Households spend a certain amount in retail stores each year ("retail expenditure") and that amount is largely a function of household income. Comparing household retail expenditure potential to actual retail sales can reveal whether there is a surplus ("inflow") or shortage ("outflow") of retail sales in an area. When retail sales are higher than household expenditure potential, households from outside the area are coming to the area to shop. When retail sales are lower than household expenditure potential, either residents are leaving the area to shop or there is not sufficient supply retail to service the demand.

According to the Texas State Comptroller of Public Accounts the Metro Area's retail sales totaled \$7.65 billion in 2009. Approximately 90% of these sales (\$6.85 billion) occurred in the City of El Paso. City households (the spending unit for retail) comprised 85% total Metropolitan Area households.

Metropolitan Area sales data are available by store-type from the Texas State Comptroller of Public Accounts. 3rd quarter 2009 retail sales data was extrapolated to estimate total 2009 sales by store-type. The Metropolitan Area experienced a significant retail sales "surplus" among shopper's goods stores.

In shopper's goods alone (electronics, apparel, sporting goods et al, general merchandise, and miscellaneous retail), the Metropoli-

Retail Sales By Store Type Inflow and Outflow Analysis El Paso Metro Area 2009

	Expenditure Potential	Estimated Sales	Inflow/(Outflow) Amount Share of Sales	
Auto Sales and Gas/Service	\$1,913,038,000	\$1,987,916,000	\$74,878,000	4%
Furniture & Home Furnishings	\$149,261,000	\$157,636,000	8,375,000	5%
Electronics and Appliance	\$173,224,000	\$231,594,000	58,370,000	25%
Bldg Material, Garden Equipment	\$711,604,000	\$527,675,000	(183,929,000)	-35%
Food and Beverage	\$1,107,820,000	\$835,576,000	(272,244,000)	-33%
Health and Personal Care	\$490,165,000	\$421,302,000	(68,863,000)	-16%
Clothing and Accessories	\$371,814,000	\$521,474,000	149,660,000	29%
Sporting Goods, Hobby, Book, Music	\$144,891,000	\$159,670,000	14,779,000	9%
General Merchandise	\$1,089,666,000	\$1,986,961,000	897,295,000	45%
Miscellaneous	\$203,404,000	\$481,479,000	278,075,000	58%
Non-Store**	\$556,230,000	\$330,436,000	(225,794,000)	-68%
Shopper's Goods	\$2,132,260,000	\$3,538,814,000	1,406,554,000	40%

** Census 2007 data applied on non-store sales.

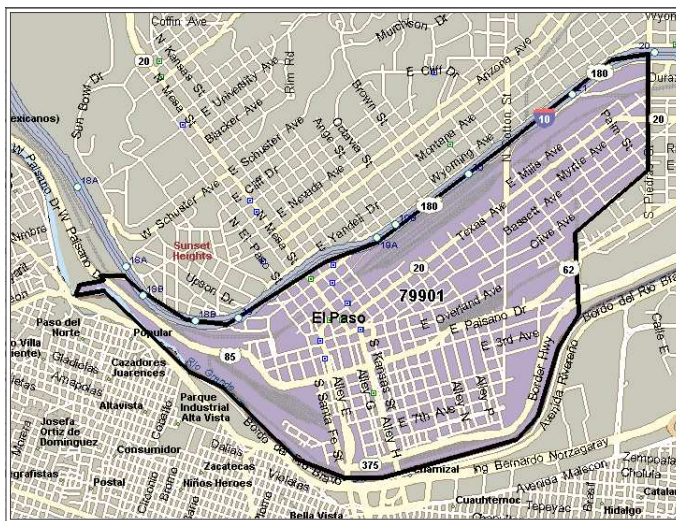
Source: Texas State Comptroller of Public Accounts, "State Sales and Use Tax Analysis: El Paso MSA"; 2010 Census; W-ZHA

tan Area experienced sales volumes 40% higher than what would be expected given the size and buying power of the market.

This “surplus” is likely driven by Mexican nationals coming to El Paso to shop. According to an analysis that measured Mexico’s impact on El Paso’s retail market, Mexicans contributed \$1.7 to \$1.8 billion to El Paso retail sales.⁹ The date of this study is unknown, but the 2009 data appear to corroborate the finding that the Mexican retail market is a significant economic engine for El Paso.

Most of this important economic activity is occurring in El Paso’s Downtown. The smallest geographic area for which reliable retail sales information is available is the zip code area. The Downtown is located in the 79901 zip code area. As the following map illustrates, the boundary of the 79901 zip code area is larger than the Downtown. However, the Downtown contains most of the retail in the 79901 zip code area.

79901 Zip Code Boundaries



With less than 2% of Metropolitan Area households, the Downtown Area accounted for 18% of the Metro Area’s retail sales and 20% of the City’s retail sales. This is a remarkable capture rate.

Retail Sales

Zip Code 79901, City of El Paso and the Metro Area 2009

	Metro	City
79901 Retail Sales	\$1,372,557,000	\$1,372,557,000
City Retail Sales in 2009	\$7,649,897,000	\$6,852,504,000
79901 Share of Sales	18%	20%

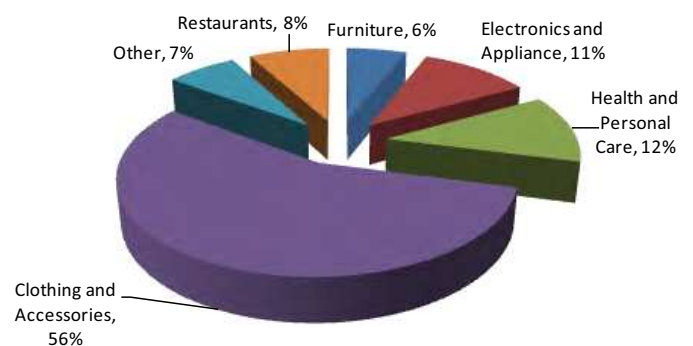
Source: Texas State Comptroller of Public Accounts website “Window on State Government”; WZHA

Retail sales in the 79901 zip code area totaled \$1.37 billion in 2009 which closely approximates the \$1.4 billion in shopper’s goods store sales “surplus”.

Retail sales by store-type are not available for zip code level geography, but the number of stores by store-type is available from the 2007 Economic Census. According to the 2007 Census approximately 78% of the retail stores in the 79901 zip code area were shopper’s goods establishments (as opposed to auto-oriented, health and beauty, food and beverage, building materials and non-store retailers). In 2007, the 79901 zip code contained 17% of all shopper’s goods stores in the Metro Area.

The chart below illustrates that 80% of the spending by persons from Mexico is in shopper’s goods stores, particularly clothing and accessories.

Spending Pattern Mexican Visitors



Eating and Drinking Sales

The Texas State Comptroller of Public Accounts combines sales in eating and drinking establishments with leisure and hospitality sales. Therefore, 2009 sales in eating and drinking establishments are not readily available for the City or the Metropolitan Area. Data from the 2007 Economic Census was used to estimate El Paso’s 2009 eating and drinking sales.

⁹ City of El Paso, Development Services Department, “Cross Border Retail Studies”.

In the 2007 Economic Census, eating and drinking sales in the Metro Area accounted for 87% of total leisure and hospitality sales.

**Eating and Drinking Sales
El Paso Metro Area 2007**

	Sales	
Leisure and Hospitality	\$1,031,298,000	100%
Accommodation	\$135,579,000	13%
Eating and Drinking	\$895,719,000	87%

Source: 2007 Economic Census; W-ZHA

There were \$1 billion in leisure and hospitality sales in the El Paso Metropolitan Area in 2009. Using 2007 share of sales as a proxy for 2009, Metropolitan Area sales in eating and drinking establishment are estimated to be approximately \$872.6 million. This sales volume is consistent with data from Sales Marketing and Management's "Survey of Buying Power" which estimated El Paso Metro's 2009 eating and drinking sales at \$871.5 million.

**Estimated Eating and Drinking Sales
El Paso Metro Area 2009**

	Sales	
Actual Leisure and Hospitality	\$1,004,687,000	100%
Estimated Accommodation	\$132,081,000	13%
Estimated Eating and Drinking	\$872,606,000	87%

Source: Texas State Comptroller of Public Accounts website "Window on State Government"; 2007 Economic Census; W-ZHA

Metropolitan Area eating and drinking sales closely approximate area's expenditure potential. Unlike shopper's goods where there was a considerable sales "surplus", there does not appear to be considerable visitor spending in eating and drinking establishments.

**Eating and Drinking Sales Compared to Household
Expenditure Potential
El Paso Metro Area 2009**

	Expenditure Potential	Estimated Sales	Inflow/(Outflow)	
			Amount	Share of Sales
Eating and Drinking Establish- ments	869,322,384	872,606,000	3,283,616	0.4%

Source: Texas State Comptroller of Public Accounts, "State Sales and Use Tax Analysis: El Paso MSA"; 2009 American Community Survey; W-ZHA

In the 2007 Economic Census, eating and drinking sales in the City accounted for 84% of total leisure and hospitality sales. Applying this share of sales to actual 2009 leisure and hospitality sales results in City eating and drinking sales of approximately \$795.8 million. Over 90% of the eating and drinking sales that occur in the Metro Area take place in the City.

**Estimated Eating and Drinking Sales
City of El Paso 2009**

	Sales	
Actual Leisure and Hospitality	\$948,021,825	100%
Estimated Accommodation	\$152,189,470	13%
Estimated Eating and Drinking	\$795,832,355	84%

Source: Texas State Comptroller of Public Accounts website "Window on State Government"; 2007 Economic Census; W-ZHA

The City does experience some inflow of eating and drinking sales.

**Eating and Drinking Sales Compared to Household
Expenditure Potential
City of El Paso 2009**

	Expenditure Potential	Estimated Sales	Inflow/(Outflow)	
			Amount	Share of Sales
Eating and Drinking Sales	737,497,465	795,832,355	58,334,890	7.3%

Source: Texas State Comptroller of Public Accounts, "State Sales and Use Tax Analysis: El Paso MSA"; 2009 American Community Survey; WZHA

Eating and drinking sales by zip code level are estimated by Claritas, Inc., a recognized national consumer research company. According to Claritas, Inc. sales in the 79901 zip code area totaled \$38.5 million in 2009. Therefore, the Downtown Area represented approximately 4% of the Metro Area's eating and drinking sales.

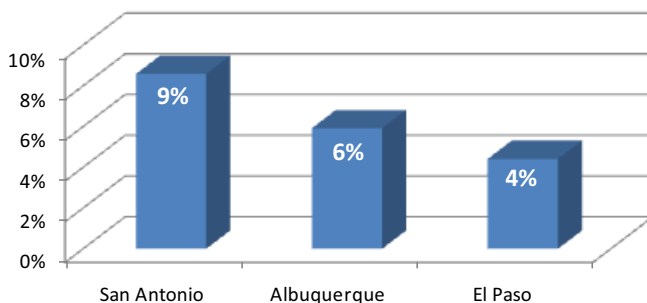
Downtown Area's Capture of Eating & Drinking Sales El Paso, Texas 2009

	City	
79901 Eat/Drink Sales	\$38,519,083	\$38,519,083
Eating and Drinking Sales	\$795,832,355	\$795,832,355
Downtown Area Capture	5%	5%
	Metro Area	
79901 Eat/Drink Sales	\$38,519,083	\$38,519,083
Eating and Drinking Sales	\$872,606,000	\$872,606,000
Downtown Area Capture	4%	4%

Source: Texas State Comptroller of Public Accounts website "Window on State Government"; W-ZHA

Successful downtowns can achieve capture rates of 6% to 10% of Metro sales. San Antonio's Downtown zip code area captures 9% of Metro Area eating and drinking sales. Downtown San Antonio is a major convention destination. Downtown Albuquerque's zip code area captures 6% of Metro Area eating and drinking sales.

Downtown Zip Code Share of Eating and Drinking Sales



At a 4% capture rate, El Paso's Downtown eating and drinking sales appear low given its retail power.

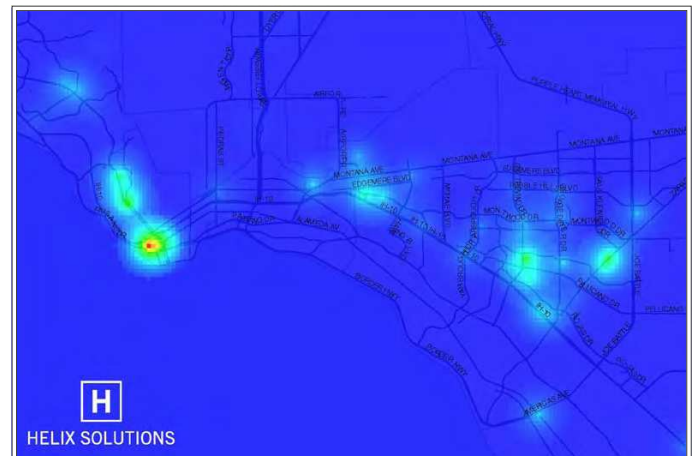
The following was assembled by Christopher Villa using State alcohol sales data as provided on alcoholsales.com. The data indicate that Downtown El Paso had higher alcohol sales in November 2010 than any other entertainment cluster in the

Metropolitan Area. This information suggests that Downtown is already an entertainment destination, particularly Union Plaza.¹⁰

November 2010 Alcohol Sales El Paso Entertainment Districts

District	Establishments	Alcohol Sales
El Paso Total	319	\$9,419,879
Downtown	34	11% \$1,237,236
University	29	9% \$1,081,000
Airport	27	8% \$928,400
Lee Trevino	19	6% \$804,942
Montwood-Zaragoza	17	5% \$694,706
Las Palmas Center	14	4% \$482,235
Mesa-Sunland Park	15	5% \$454,664

Source: Christopher Villa; alcoholsales.com



According to Claritas, Inc., a national consumer research company, sales in drinking establishments account for 22% of the 79901 zip codes area's total eating and drinking sales. As a point of reference, drinking establishments in San Antonio's Downtown zip code area accounted for 7% of eating and drinking sales and in Albuquerque 10% of Downtown eating and drinking sales.

¹⁰This analysis was conducted by Helix Solutions (www.helixeval.com) and was initially released on January 5, 2011.

Existing Conditions Conclusions

There are three distinct retail and entertainment districts in Downtown El Paso. The Golden Horseshoe district is unique retail environment that primarily caters to the Mexican national market and discount shoppers. The Central Business District services the employee market, but it is challenged by vacant buildings and a lack of critical mass. The Union Plaza or warehouse district is primarily a weekend entertainment destination with a small, but important, cluster of eating and drinking establishments. While it is the economic center of the Region, Downtown El Paso is not a place where Metropolitan Area residents come to shop or dine on a regular basis.

The Golden Horseshoe district is an important economic engine supporting the City. The analysis of existing conditions suggests that Downtown retail, because it mostly caters to the Mexican national market, likely contributes a billion dollars in visitor retail sales to the City and region.

Eating and drinking sales are not as robust as retail sales Downtown. While Downtown appears to be a successful entertainment destination particularly for younger households, Downtown's capture of Metropolitan Area eating and drinking sales is well below its retail capture.

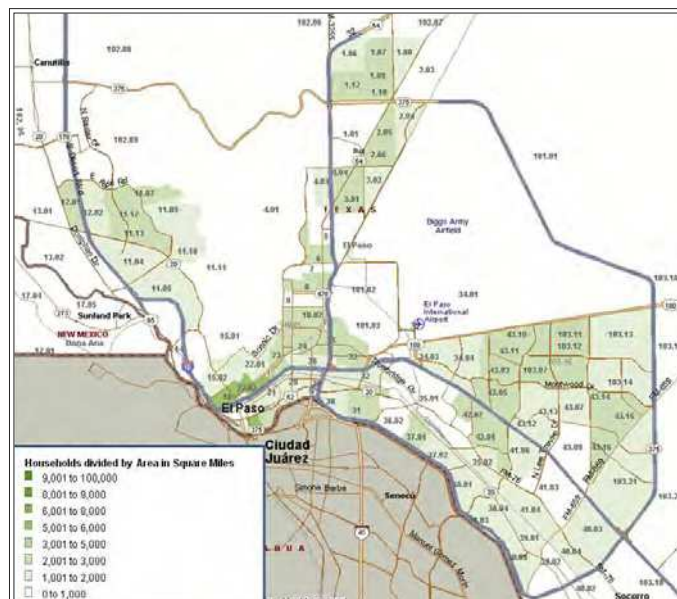
COMPETITIVE CONTEXT

Demographic Landscape

Downtown is strategically located in the center of the Ciudad Juárez and El Paso market. Accurate demographic information is not readily available for Ciudad Juárez at this time. However, with over a million people, the Ciudad Juárez is very large. Average income in Ciudad Juárez is likely below the average for El Paso. There were over 7.5 million pedestrian crossings over the bridge between El Paso and Juárez in 2009. While a massive market, the Juárez opportunity is being threatened by violence in that City and security intensification at the border.

Household density is high near the Downtown. The following map illustrates household density by census tract. The darker the color, the higher household density in the census tract.

Household Density (2007)



Source: Microsoft MapPoint; W-ZHA

The following map illustrates household growth in each census tract between 2000 and 2010. Darker colors represent more household growth. Census tracts near the Downtown have not experienced growth over the last ten years. Instead, most of the household growth has been occurring far west, north and east of Downtown. Many retailers seek locations where the market is growing.

Household Change 2000-2010



Source: Microsoft MapPoint; Claritas, Inc.; W-ZHA

The following map illustrates median income by census tract for the Metropolitan Area. The household median income near the Downtown is low. Median household income is highest west of the Downtown and north of Interstate 10 to the east.

Median Income 2007



Retail Supply

The premiere shopping center in the El Paso Metropolitan market is the Cielo Vista Mall. Owned by Simon Malls, Cielo Vista Mall is a traditional 1.2 million square foot enclosed mall anchored by Dillard's, JC Penney, Sears and Macy's. The Cielo Vista Mall is convenient to the Downtown and higher income neighborhoods to the north and east on Interstate 10 (see map of the 10-Minute drive time).

**Cielo Vista Mall
Median Income and 10-Minute Drive Time**



Source: MapPoint; W-ZHA

Near Cielo Vista is Bassett Place Mall, also located on Interstate 10. Bassett Place Mall is also a traditional, 920,000 square foot enclosed mall anchored by Target, Kohls, and Marshalls. Bassett Place Mall is within an eight minute drive from the Downtown. Bassett Place serves the same households as Cielo Vista Mall.

Within a 10-minute drive west of the Downtown is the Sunland Park Mall and Sunland Town Center retail node. Sunland Park Mall is a traditional enclosed mall with 918,000 square feet. Also owned by Simon Malls, Sunland Park Mall is anchored by Dillard's, Sears and Macy's.

**Sunland Park Mall
Median Income and 10-Minute Drive Time**



Sunland Town Center is a 303,000 square foot power center across the street from Sunland Park Mall. Sunland Town Center anchors include Target, Best Buy, K-Mart, Petsmart, and Bed Bath & Beyond.

None of the retail clusters in the Metropolitan Area are particularly distinctive with regard to ambiance, mix of uses, or store mix. There are no formidable specialty retail clusters (for example, arts, home accessories, specialty retail) within a 15-minute drive of the Downtown. As compared to the Downtown, the two major regional retail nodes within easy driving distance from the Downtown have better access to growth areas and neighborhoods with higher income households.

Competitive Positioning for Conventional Retail

Given the proximity of the large east and west retail nodes, to compete for the same kind of tenants found in these shopping centers, the Downtown's primary trade area is small (see map). The trade area illustrated on the map incorporates 15,000 households with a median household income of less than \$18,000.

Primary Trade Areas Conventional Shopper's Goods Stores



Convenience retail and discount retail establishments can work with this demographic profile. This demographic profile will not satisfy higher volume, shopper's goods stores that are typically found in a mall or lifestyle center.

Eating and Drinking Establishments

Most of the eating and drinking establishments in the Metropolitan Area are co-located with retail concentrations. Eating and drinking clusters occur in the malls and on Lee Trevino Drive, Montwood Drive-Zargoza Roads, Las Palmas Center, and around Sunland Mall. Except in cases where the eating or drinking establishment is part of the shopping center, the eating and drinking clusters are mostly comprised of stand-alone, chain restaurants.

The only significant non-suburban eating and drinking cluster is located on Cincinnati Street near the University of Texas El Paso. Only about two blocks in length, Cincinnati Street is a destination for residents and students. Albeit quite limited in terms of the number of establishments, Cincinnati Street is attractive, pedestrian friendly and memorable.

Competitive Context Conclusions

The area surrounding the Downtown is densely populated, not growing and relatively low income. Two major retail nodes are within an easy 10-minute drive from the Downtown. Demographics and competitive shopping centers will make it difficult for the Downtown to compete for conventional shopper's goods tenants.

There is no specialty retail destination in the City. Specialty stores either sell one-of-a-kind merchandise (like art galleries) or occupy a very specific retail niche (like vintage clothing). Because they are unique, these stores tend to be destinations -- pa-

trons will pass-by chain retail to go to the specialty shop. Given the absence of a competitive specialty shopping environment, Downtown may be well positioned to pursue this retail niche.

The only significant non-suburban eating and drinking cluster is located on Cincinnati Street near the University of Texas El Paso. Downtown is well-positioned to increase its capture of resident eating and drinking expenditures.

DOWNTOWN'S COMPETITIVE STRENGTHS AND CHALLENGES

Strengths

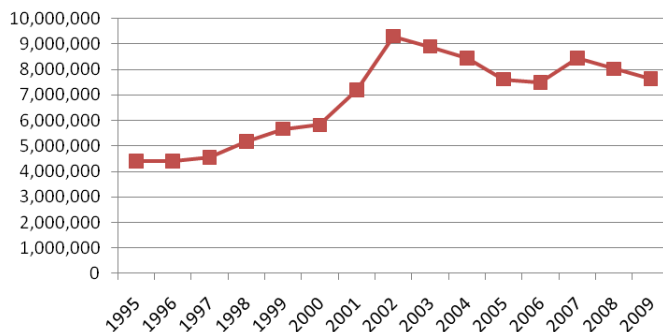
- **Downtown is an Established Super-Regional Shopping Center:** El Paso is fortunate to have maintained its function as a super-regional shopping center. There is a critical mass of retail available Downtown. The opportunity is to build on this economy and diversify the retail mix.
- **Downtown is Well-Located Between the Ciudad Juárez and the El Paso Market Areas:** Downtown is central and accessible to a very large consumer base. Ciudad Juárez and the El Paso Metropolitan Area represent a market of approximately 2 million people.
- **Downtown is a Government and Professional Office Hub:** City, the County and the Federal offices and functions are located in Downtown El Paso. Downtown contains the largest single concentration of office space in the market with 2 to 2.5 million square feet of multi-tenant office space. According to the Census, there were approximately 17,000 employees in the 79901 zip code area. These uses are important for retail and restaurants because they create a daytime market for goods and services.
- **Downtown is the Cultural and Civic Center of El Paso:** The Williams Convention Center, the Chavez Theater, the Plaza Theater and museums are located in Downtown. These uses are important activity generators that support both retail and eating and drinking establishments during the day, evening and night.
- **Downtown is Emerging as an Entertainment Destination for Young Adults:** Downtown is within a five- to ten-minute drive from the University of Texas El Paso. Students and younger households are often important early adopters of Downtown living and commerce.
- **Downtown has Attractive Buildings and is Pedestrian Friendly, and Safe:** Most of Downtown El Paso's historic buildings remain leaving blocks intact. Unlike many Downtowns that experienced considerable

demolition during urban renewal, El Paso's urban fabric and character remains. Downtown El Paso is also safe.

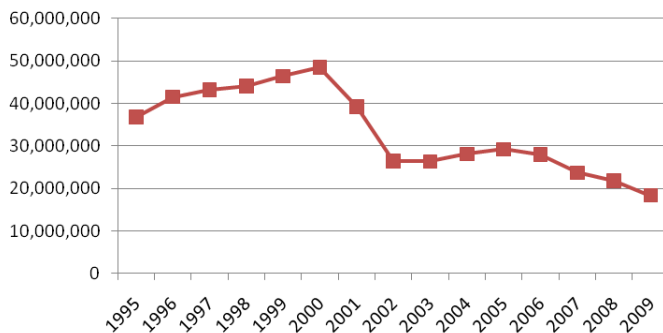
Challenges

- **Downtown's Retail is Narrowly Targeted to a) the Mexican National Market and b) the Discount Shopper:** While a retail powerhouse, the Golden Horseshoe District is narrowly focused on the Mexican National market and the discount shopper. There are very few stores oriented to the higher-end shopper. Downtown is not a shopping destination for most El Paso residents.
- **The Mexican National Market is On the Decline:** Increased security and Juarez violence have had an impact on the Mexican National market. Both pedestrian and vehicle crossings have declined over the last nine years.

Pedestrian Crossings /Year



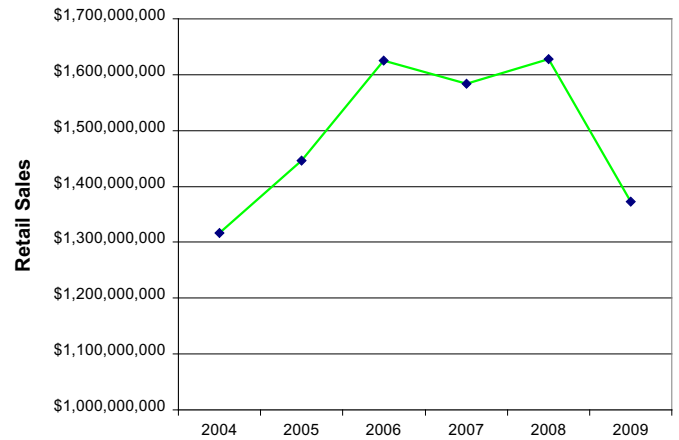
Personal Vehicle Passengers /Year



Source: U.S. Department of Transportation Bureau of Transportation Statistics; W-ZHA

Wait-times for bridge crossings have increased making El Paso less convenient to the Mexican national market. Juarez violence has narrowed the Mexican shopping window to mostly daylight hours. As the following chart illustrates, 2009 retail sales in the 79901 zip code area were below sales in recent years.

Retail Sales 79901 Zip Code Area



Source: Texas State Comptroller of Public Accounts; City of El Paso; W-ZHA

Thus, as important as it is to grow and diversify Downtown retail, efforts must also be made to maintain and support existing retail businesses in the Downtown. The market can be supported by recruiting more office tenants, developing more Downtown housing and expanding the Downtown visitor market.

Competitive Shopping Centers are Better Located to Capture A Majority of Resident Retail Demand: To diversify Downtown's offerings some suggest bringing higher-end retail chains into the Downtown. A real problem with this strategy is that the Metro Area's two strongest regional retail shopping nodes are within a 10-minute drive from Downtown. It is convenient for Downtown households and border crossers with cars to shop at these competitive locations. Household income within Downtown's primary trade area makes the concept of attracting mid- to high-end, chain retail to Downtown El Paso unlikely in the near term.

There is Considerable Vacancy in Downtown's Central Business District which Deters Shopper's and Investors: Highly visible, well-located Downtown properties are vacant. Vacancy signals market weakness which, in turn, translates into a perception of investment risk. Key vacant properties like the Kress Building on San Jacinto Plaza; the four vacant buildings at the intersection of Stanton Street and Texas Street; the American Furniture Building and the Caples Building represent real challenges to Downtown revitalization.

The Lack of Downtown Housing Limits the Cycle of Activity Downtown, Particularly the Central Business District: There are very few housing units located in the commercial core of the Downtown. Resident households are an

important market for Downtown retail. The residential market analysis suggests that over the next ten years, there is the potential for 3,300 Downtown housing units. Households extend Downtown activity through the evening and night as well as on weekends when offices are typically closed.

There are Very Few Quality Restaurants Open During Weekday Nights: With some exceptions, the restaurants in the Central Business District are mostly targeted to the daytime worker population. With the exception of the Garden Restaurant, the restaurants and clubs in the Union Plaza area mostly target the weekend market. The restaurants in the Golden Horseshoe area target the Mexican national market. There are relatively few restaurants that are open during weeknights and these restaurants cater to hotel visitors and event patrons. Downtown is not an eating and drinking destination for most El Paso residents.

Downtown's Public Spaces (Sidewalks, Parks, Plazas) Need to be Refreshed: Where building vacancy creates a perception that the Downtown is not a thriving private investment location, outdated public spaces symbolize that Downtown is not a public investment location either. Many cities initiate Downtown revitalization efforts by investing in streetscape and public spaces to signal the communities' commitment to Downtown revitalization.

MARKET OPPORTUNITIES

Projected Growth

The El Paso Metropolitan Area is projected to grow over the next ten years. Assuming no real increase in per capita income over time, population growth alone will result in over \$1.5 billion of net new retail expenditure potential and \$180 million of net new eating and drinking potential.

Metropolitan Area Projections 2009-2020

	2009	2020	New Expenditure Potential
Population	787,630	950,540	
Retail Sales Expenditure Potential	\$7,439,402,000	\$8,978,135,000	\$1,538,733,000
Eating & Drinking Expenditure Potential	\$869,322,000	\$1,049,129,000	\$179,807,000

Source: American Community Survey 2009; ITEP; Claritas, Inc.; W_ZHA

Shopper's Goods Stores

Downtown El Paso currently captures approximately 18% of Metropolitan Area retail sales. Most of the retail sales that occur in the Downtown are driven by Mexican residents, not Metropolitan residents. Population projections for Juarez are not available.

Currently, in the El Paso Metropolitan Area marketplace, shopper's goods stores account for 50% of all retail sales. Typically, shopper's goods stores account for 30% of a household's retail expenditure. El Paso's high share of shopper's goods sales is driven by the Mexico market.

Given the uncertainty related to the Mexico market, it seems reasonable for the Downtown to target a 10% capture rate of net new Metropolitan Area shopper's goods sales. If there is limited growth in the Mexican market, new shopper's goods sales Downtown will be driven by Metropolitan Area residents. Thus, there will be less net new shopper's goods sales. At a 10% capture rate, the market will support approximately 125,000 square feet of net new shopper's goods retail Downtown.

If the Mexican market grows and continues to support shopper's goods sales Downtown, shopper's goods sales in the Metropolitan Area will be higher. Assuming industry standard sales per square foot, at a 10% capture rate, the market will support approximately 225,000 square feet of shopper's goods retail.

Downtown Shopper's Goods Store Potential 2009-2020

	Resident Market Growth	Current Market Dynamic W/ Strong Mexico
Retail Sales Expenditure Potential	\$1,538,733,000	\$1,538,733,000
Shopper's Goods Share of Expenditure Potential/Sales	31%	51%
	\$474,739,000	\$787,903,000
Downtown Capture	10%	10%
New Downtown Shopper's Goods Sales Potential	\$47,473,900	\$78,790,300
Square Feet @ \$350 /Square Foot	136,000	225,000

Source: W-ZHA

Eating and Drinking Establishments

Sales estimates indicate that Downtown captures approximately 4% of Metropolitan Area's eating and drinking sales. This is low for any downtown and particularly El Paso with a million-plus market across the Border in Mexico. Strong downtowns can capture 6% to 10% of Metro Area sales.

Given the relative weakness of the Downtown's daytime office and visitor market, a reasonable capture rate for Downtown El Paso is 6% of Metro Area eating and drinking sales. At this capture rate, Downtown could support \$13.8 million additional eating and drinking sales or assuming industry standard sales per square foot, approximately 35,000 square feet. Given population and per capita income projections by ITEP, over the next ten years this capture rate would translate into an additional \$8.9 million in sales or another 27,000 square feet of eating and drinking space.

Eating and Drinking Potential Downtown El Paso 2009 to 2020

	2009	Net New 2020	Total
Metro Area Eating and Drinking Sales	\$872,606,000	\$179,807,000	\$1,052,413,000
Downtown Area Target Capture	6.0%	6.0%	6.0%
	\$52,356,000	\$10,788,000	\$63,144,000
Less: Existing Sales Estimate	(\$38,519,000)	\$0	(\$38,519,000)
Net New Sales Potential	\$13,837,000	\$10,788,000	\$24,625,000
Square Feet @ \$400 /sf	35,000	27,000	62,000

Source: Texas State Comptroller of Public Accounts website "Window on State Government"; W-ZHA

RETAIL NICHES AND PLANNING ISSUES

Given existing market conditions and Downtown's strengths and challenges from a market perspective, the Downtown is well-positioned to capitalize on the following niches:

- A Shopping Center for the Mexican National Market and the Discount Shopper
- A Specialty Shopping Destination for the Region and Tourists
- An Eating and Drinking Destination for the Region

A Shopping Center for the Mexican National Market and the Discount Shopper

Downtown El Paso's Golden Horseshoe area currently fulfills this role and contributes significantly to the City's economy. However, as increased security at the border and troubles in Juarez have demonstrated, this market is vulnerable to unforeseen market forces. Efforts need to be made to protect and fortify this unique market niche.

Information is power and there is relatively little information currently available on Golden Horseshoe establishments and their performance. Accurate data can be used to market to prospective shoppers as well as to prospective tenants and entrepreneurs. An up-to-date information regarding store mix, square footage and sales data would be valuable. Over time, this information can become an important source of data by which the character and performance of the Golden Horseshoe District can be measured.

Target tenants for the Golden Horseshoe may not be United States retail companies, but Mexican retail companies and entrepreneurs. There may be an opportunity for El Paso to recruit retailers and/or eating and drinking establishments that currently operate in Juarez. El Paso offers a safe environment that is relatively convenient to the Juarez market.

The Golden Horseshoe District and Downtown resources must be marketed to tourists and groups with similar tastes and preferences. Marketing this resource is of interest to the City, the Convention and Visitors Bureau, the Chamber of Commerce and the Central Business Association. Many Downtowns are inventing creative weekend packages that include shopping and entertainment as a way to draw markets to the Downtown.

Marketing has to be followed-up by human and physical infrastructure designed to serve the visitor. High amenity streetscape, wayfinding signs, well-designed walking maps and a visible and convenient Visitors Center are needed. From a human capital standpoint, those serving the visitor market (hotel employees, bus drivers) should be knowledgeable about Downtown resources.

The City and the Central Business Association must continue to advocate for smooth and efficient border crossing operations. Downtown's retail economy is negatively impacted each time the pedestrian crossing process becomes more burdensome.

A Specialty Shopping Destination for the Region and Tourists

There is no specialty retail destination in the El Paso Metropolitan Area. Specialty retail can be successful in Downtown because of its central location, access to the El Paso and Juarez markets, and mix of uses. Art dealers, artist studios and galleries, home accessories stores, and specialty stores that sell unique apparel, jewelry and gifts are store-types to be targeted for the Downtown. These stores should target the middle- to upper-income household and younger households.

Downtown El Paso offers a slightly different set of advantages to these types of tenants. Downtown El Paso offers a central accessible location and it offers a moderately strong mixed-use environment. Unlike other downtowns, however, Downtown El

Paso also offers an established retail trade that certain tenant-types should be able to capitalize on.

Because Downtown El Paso is already a strong retail center, one challenge to developing an arts and specialty store cluster is Downtown's relatively high rent. The Central Business District (such as Texas Avenue) where rents are lower is the appropriate location for such a cluster of stores.

As with most shopper's goods stores, these types of stores perform best when clustered in a geographic area. Because these types of stores are destinations clusters do not need to be as large as they are with conventional retail; clusters can be meaningful with only three stores. Some Downtown management corporations control a series of storefronts to facilitate tenant clustering. There are a number of opportunities in the Central Business District where clusters could be developed.

An Eating and Drinking Destination for the Region

Like specialty retail, restaurants and entertainment uses tend to cluster to create a "destination". Eating and drinking establishments are best located in the Central Business District around San Jacinto Plaza or Texas Avenue and in the Union Plaza district. San Jacinto Plaza is the emblem of the Central Business District and the Downtown, as a whole. In addition to refreshing San Jacinto Plaza itself, it is imperative that early eating and drinking establishment recruitment efforts target vacant storefronts surrounding this central plaza. Three to four new, destination restaurants on San Jacinto Plaza could effectively transform it into a dynamic urban destination.

Texas Avenue is a great urban, walkable street in the Central Business District. Texas Avenue between Oregon Street and Stanton Street has the potential to evolve into an arts and entertainment district. The re-use of Bassett Tower as residential and the Blue Flame as office space will anchor the east end of Texas Avenue. The re-use of the American Furniture building will anchor the west end. This two-block area is convenient to the Downtown's office core, cultural destinations, the convention center, hotels and the Golden Horseshoe District.

Socio-Economic Forecast Estimates: El Paso County through 2030

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Summary Table

Socio-Economic Forecast Estimates: El Paso County through 2030

	Year			Average Annual Growth Rate	
	2010	2015	2030	2010-15	2010-30
Population (in thousands)	775.8	878.6	1,025.7	2.7%	1.6%
% under 25 years	42.9%	44.0%	44.5%	X	X
Employment (in thousands)	407.4	476.0	495.6	3.4%	1.1%
Local Government	48.5	56.5	57.7	3.3%	0.9%
Retail Trade	44.0	48.9	51.1	2.2%	0.8%
Healthcare & Social Assist.	38.8	46.9	61.7	4.2%	3.0%
Admin. & Waste Management	32.9	40.9	42.6	4.9%	1.5%
Personal Income (billions of current dollars)	24.1	35.8	78.8	9.7%	11.3%
Gross Regional Product (billions of chained 2000 dollars)	19.7	26.6	37.1	7.0%	4.4%

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Socio-Economic Forecast Estimates for El Paso County through 2030

Introduction

The Institute for Policy and Economic Development (IPED) at the University of Texas at El Paso made a sub-consultant agreement with Dover, Khol & Partners to assist them in the combined effort of *CONNECTING EL PASO: Building Transit-Oriented Neighborhoods and Redeveloping ASARCO* and the El Paso Comprehensive Plan Update. IPED assistance is provided in the form of socio-economic forecast estimates for El Paso County that incorporated data with respect to the Fort Bliss expansion. These forecast estimates also included external employment data related to industry recruitment efforts within the county.

The present report describes the estimated forecasts for El Paso County through 2030. The following section provides a brief explanation of the methodology and data used in developing these estimates. Subsequently, socio-economic forecast estimates for population, employment (total and occupational), personal income, and gross regional product are presented and followed by the conclusion.

Methodology and Data

To develop socio-economic forecast estimates for El Paso County, IPED used its Regional Economic Modeling, Inc. (REMI) model. The REMI model is a dynamic forecasting and policy analysis tool that incorporates the strengths of four modeling approaches: **1) Econometrics**, **2) Input-Output**, **3) General Equilibrium**, and **4) Economic Geography**. More specifically, **Econometric** procedures are used to estimate the underlying equations and responses that quantify the structural relationships in the model. **Input-Output** techniques capture transactions between industries which in turn define the industry structure of a particular region. Moreover, **General Equilibrium** properties allow for the evaluation of policy changes that may have an effect on regional prices and competitiveness. Finally, **Economic Geography** features represent the spatial dimension of a given economy to account for transportation costs and labor accessibility.

The overall structure of the model consists of five major blocks interacting simultaneously: 1) Output and Demand, 2) Labor and Capital Demand, 3) Population and Labor Supply, 4) Wages, Prices and Costs, and 5) Market Shares. The last historical year incorporated in the REMI model data sets utilized for this project was 2007. Accordingly, the model was adjusted to account for demographic and employment data updates not captured by the 2007 data sets used to build the original REMI model. Data updates were obtained from the U.S. Census Bureau (2008-09) and the U.S. Bureau of Economic Analysis (2008). Once the model was adjusted with data updates, additional data from the Fort Bliss Transformation Office, El Paso Regional Economic Development Corporation, and IPED estimates, were integrated into the REMI model to develop the estimated forecasts. For instance, in addition to incoming troop and dependent estimates, data added to the model included external employment estimates from private industries that are likely to operate within the region in the near future. Also included in the model are employment figures for local capital improvement or expansion projects that have been approved for funding by UTEP, hospitals, and the State legislature.

Of particular importance in developing these forecasts, as well as in terms of regional economic development, is the expected influx of soldiers. Fort Bliss anticipates accommodating over 35,000 troops by 2012 (Table 1). Similarly, almost 49,000 dependents (19,386 spouses and 29,507 children) are estimated to accompany these troops, with the largest year-to-year increase in 2011. Over the next two years, military troops and dependents are estimated to rise by more than 24,000. No military deployments are expected after 2012, therefore, it is assumed that military troop and dependent levels will remain constant from 2012 onward.

Table 1. Fort Bliss Troops and Dependents

Fort Bliss Troops and Families	2009	2010	2011	2012	Net Growth (2010 - 2012)
Military Troops	21,113	25,382	31,876	35,663	10,281
Military Dependents	29,279	35,034	43,787	48,893	13,859
Military Spouses	10,947	13,423	17,189	19,386	5,963
Military Children	18,332	21,611	26,598	29,507	7,896
Children 0 - 5 Years	6,782	7,996	9,840	10,918	2,922
Children 6 - 12 Years	6,233	7,348	9,044	10,032	2,684
Children 13 - 18 Years	5,317	6,267	7,714	8,557	2,290
TOTAL	50,392	60,416	75,663	84,556	24,140

Source: Fort Bliss Transformation Office – FMWRC/MCEC Model with IPED estimates.

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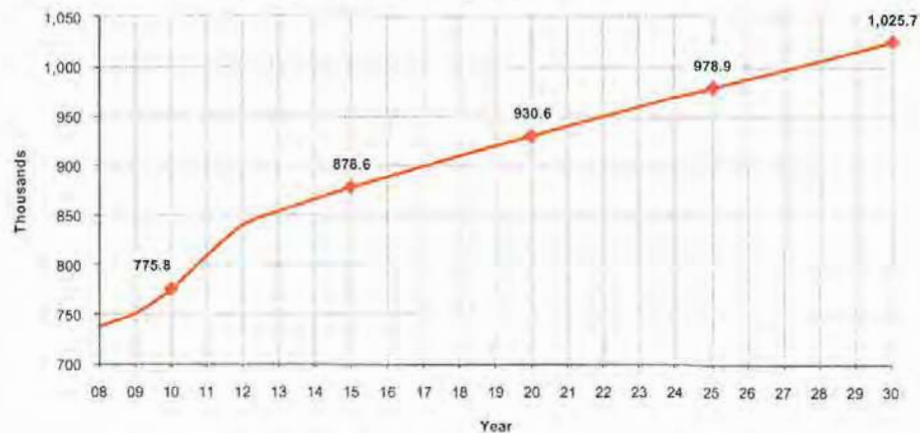
El Paso County through 2030

Forecast Estimates

Population

The projections for El Paso County population shown in Figure 1 anticipate an overall steady growth for the span of the forecast period. In particular, between 2010 and 2012, population is expected to increase over three percent per year. It is projected that this year (2011) will have the highest population increase compared to all other years, with an additional 34,221 people. This population increase is mostly attributed to the expected influx of military troops and their dependents expected to account for over 24,000 persons. After 2013, population in El Paso County is projected to increase on average about one percent per year. This translates to a forecasted total population of 1,025,661 by 2030.

Figure 1. El Paso County Population Forecast



Source: U.S. Census Bureau (2008-09); Institute for Policy and Economic Development, UTEP

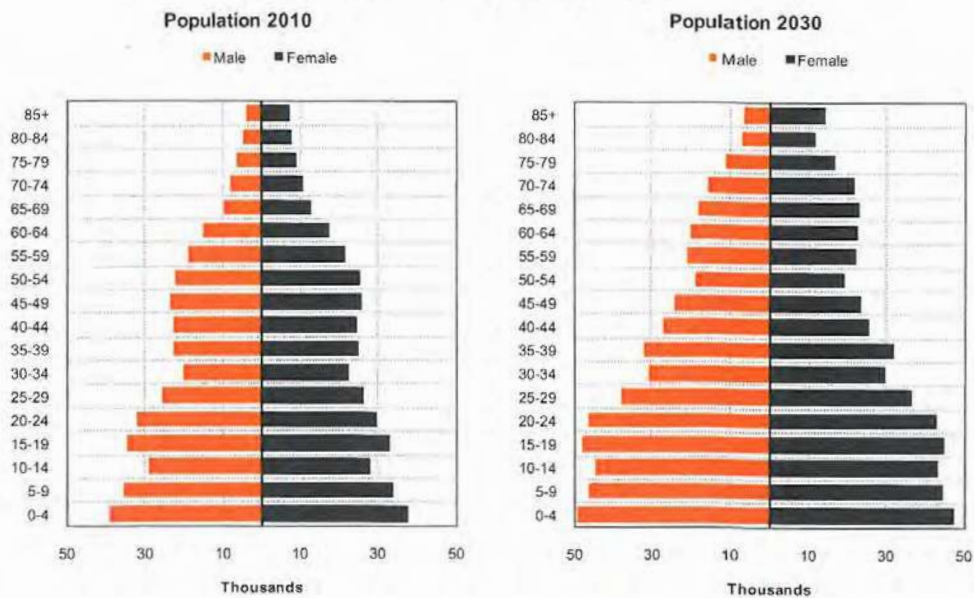
El Paso County is expected to continue to have a relatively young population base. Forty-three percent of the El Paso population is forecasted to be under 25 years old in 2010 (Figure 2). This percentage is expected to increase to 45 percent by 2030, implying that the El Paso population will become younger over time. A growing young population can have significant impacts on education over the short-term horizon; therefore, it is important to describe how certain age groups are expected to change over time. Accordingly, Figure 3 illustrates the anticipated growth of El Paso County's school age population. Specifically, population from 18 to 24 years old and children less than 12 years old are expected to experience the greatest growth between 2010 and 2014. This growth is mostly attributable to the additional troops and

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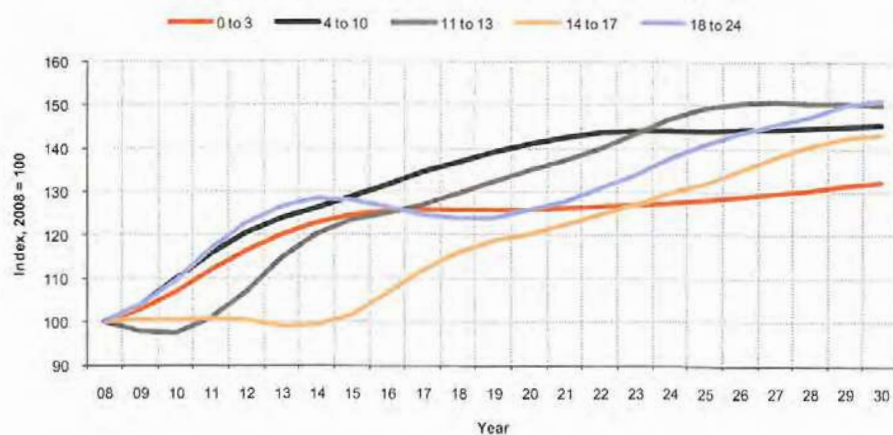
their dependents that are predicted to relocate within the county through 2012. Such considerable growth for those less than 12 years old is likely to noticeably increase the demand for child care and elementary education services within the region over the next few years.

Figure 2. El Paso County Population Age Cohorts



Source: Institute for Policy and Economic Development, UTEP

Figure 3. El Paso County School Age Population Growth



Source: Institute for Policy and Economic Development, UTEP

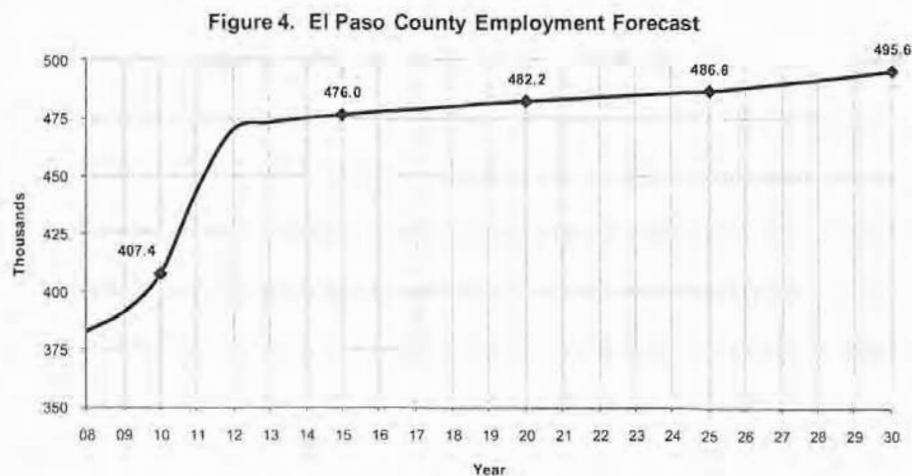
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Also depicted in Figure 3 is what might be called an “echo effect” of the baby boomers that creates a decline on some of the age cohorts. This echo effect is mainly caused by relatively smaller female cohorts during the late 1960s and early 1970s; this reduced the female population at child-bearing years in subsequent years, consequently, reducing some of the age cohorts afterward.¹ The first decline is observed in the 11 to 13 age group which is later reflected in the 14 to 17 age cohort and moves forward through succeeding age groups following national forecast trends.²

Employment

Total employment in El Paso is forecasted to grow from 382,591 in 2008 to 495,597 in 2030 (Figure 4); this represents an increase of almost 30 percent. The projected Fort Bliss expansion will be the main driver of this growth, especially in the short-term. For instance, employment in El Paso County is estimated to increase by nearly 23 percent between 2008 and 2012 when the last of the brigades is planned to relocate to the region. After 2012, employment continues to increase, but at a slower and relatively constant rate.



Source: U.S. Bureau of Economic Analysis (2008); Institute for Policy and Economic Development, UTEP

¹ Interview with Karl Eschbach, Ph.D., State Demographer of Texas, Director, Texas State Data Center, University of Texas at San Antonio. November 1, 2008.

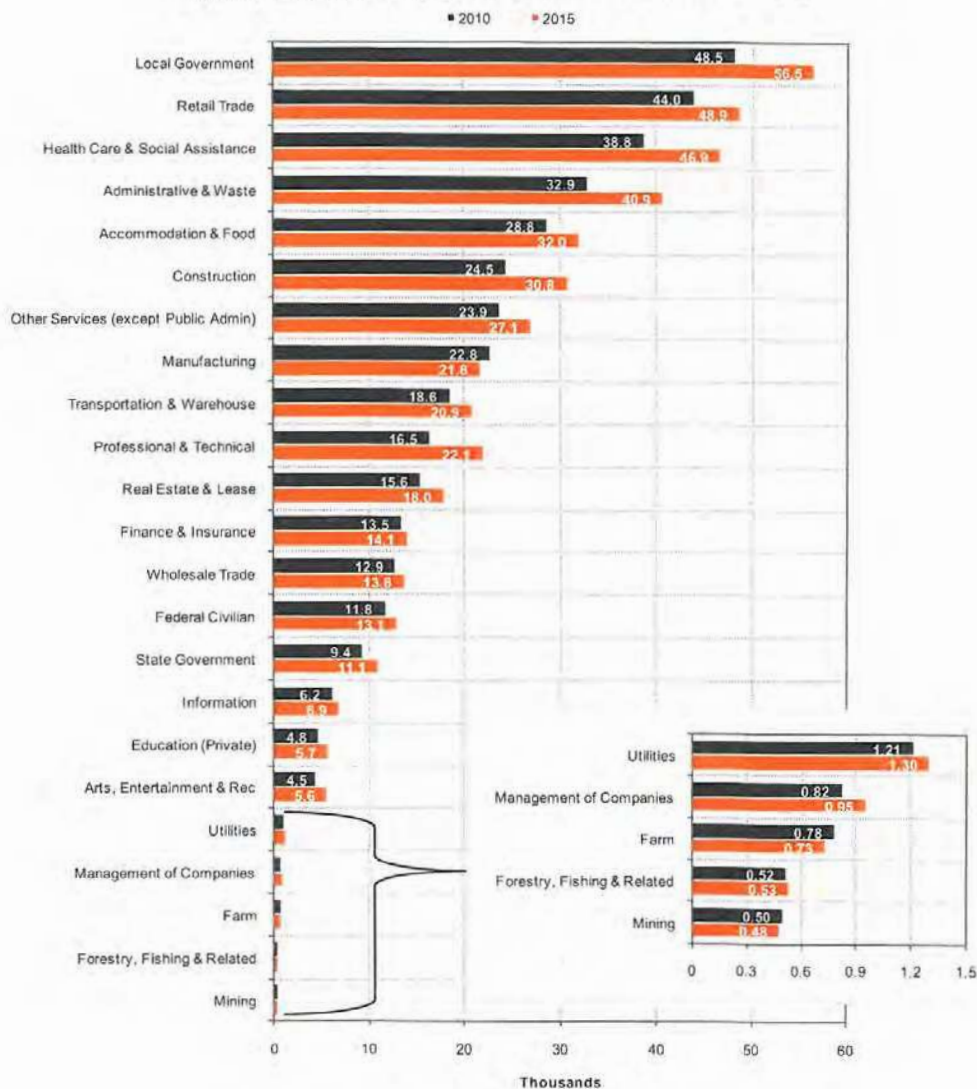
² U.S. Census Bureau, 2009 National Population Projections.

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It is estimated that the arrival of military troops and their dependents will increase the demand for goods and services offered within the El Paso region, thus increasing private and public-sector employment. Not surprisingly, the largest industry employment sectors in 2010 and 2015 are expected to be the local government and retail trade sectors followed by health care and social assistance (Figure 5), each of them critical to meet the needs of a growing population.

Figure 5. El Paso County Sector Employment in 2010 and 2015



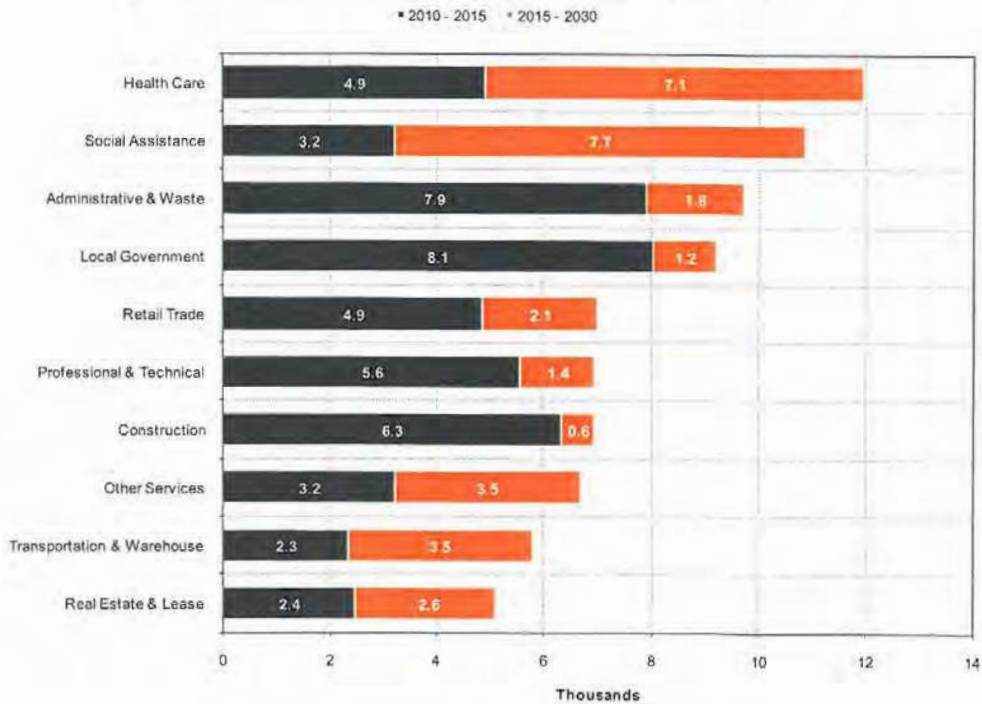
Source: Institute for Policy and Economic Development, UTEP

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In addition to being the largest sector, local government is forecasted to observe the highest employment growth over the next five years (Figure 6). Employment growth for administrative and waste services placed second, followed by construction with over 7,900 and 6,300 additional jobs projected by 2015, respectively. The health care and social assistance sectors gain the most jobs over the forecast period (2010-2030). However, the more significant increase for both sectors is expected to occur after 2015 with more than 14,700 additional jobs combined. These employment growth forecasts seem to reflect the El Paso short- and long-term needs with respect to public and support services, physical infrastructure, and health care access.

Figure 6. El Paso Top Employment Growth by Industry Sector, 2010-2030



Source: Institute for Policy and Economic Development, UTEP

Considering the above employment forecasts, it is expected that certain occupations will be more likely to exhibit considerable increases. Table 2 presents the top 50 occupations projected to observe the highest growth, in addition to the highest subsistence wages and transferable skills. Overall, education-related occupations are estimated to have the greatest

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job gains followed by healthcare support professions. Specifically, teachers at all schools levels, teaching assistants, and home health and nursing aides, are predicted to have significant employment growth. Healthcare practitioner and office and administrative support occupations have the third and fourth largest growth rates. Included in these groups are registered nurses and secretaries who account for most of the occupational increases.

Table 2. El Paso County Top 50 Occupations

SOC Code	Occupation Title	2009 Mean Annual Wage	2009 Employment	Employment Growth		
				2009-15	2009-30	% Change 2009-15
11-9021	Construction managers	69,420	580	224	269	38.6
11-9032	Education administrators, elem. & secondary school	80,860	700	196	423	27.9
11-9111	Medical & health services managers	79,270	390	114	193	29.3
13-1041	Compliance officers, exc ag, con, health, safe, trans	54,170	1,730	531	559	30.7
13-1111	Management analysts	58,670	500	222	275	44.4
13-2011	Accountants & auditors	54,210	1,380	424	466	30.7
15-1021	Computer programmers	55,700	530	195	216	36.8
15-1041	Computer support specialists	38,530	1,090	373	440	34.2
15-1051	Computer systems analysts	59,720	440	153	182	34.8
15-1071	Network & computer systems administrators	55,910	490	160	183	32.6
17-2051	Civil engineers	73,250	430	164	183	38.1
21-1021	Child, family, & school social workers	34,340	400	102	204	25.4
21-1093	Social & human service assistants	30,300	740	209	452	28.3
25-1042	Biological science teachers, postsecondary	119,730	250	81	190	32.3
25-1071	Health specialties teachers, postsecondary	119,770	310	100	236	32.3
25-1194	Vocational education teachers, postsecondary	44,410	550	177	419	32.3
25-2011	Preschool teachers, exc. special education	25,280	1,240	317	855	25.6
25-2012	Kindergarten teachers, exc. special education	49,670	440	112	303	25.6
25-2021	Elementary school teachers, exc. special education	51,640	5,760	1,444	3,048	25.1
25-2022	Middle school teachers, exc. special & vocational ed.	50,940	2,780	697	1,471	25.1
25-2031	Secondary school teachers, exc. special & voc. ed.	52,850	3,770	976	1,429	25.9
25-9041	Teacher assistants	24,060	2,090	592	1,493	28.3
29-1051	Pharmacists	113,500	470	135	216	28.7
29-1111	Registered nurses	60,850	4,610	1,300	2,244	28.2
29-1127	Speech-language pathologists	79,990	510	134	251	26.2

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Table 2. El Paso County Top 50 Occupations (Continued)

SOC Code	Occupation Title	2009 Mean Annual Wage	2009 Employment	Employment Growth		
				2009-15	2009-30	% Change 2009-15
29-2052	Pharmacy technicians	26,630	760	237	357	31.2
29-2061	Licensed practical & licensed vocational nurses	42,090	1,230	311	580	25.2
31-1011	Home health aides	18,330	2,340	784	2,074	33.5
31-1012	Nursing aides, orderlies, & attendants	19,600	2,300	606	1,355	26.4
31-9091	Dental assistants	25,330	510	113	213	22.2
31-9092	Medical assistants	21,970	1,450	322	606	22.2
33-9032	Security guards	24,420	3,390	905	1,201	26.7
39-5012	Hairdressers, hairstylists, & cosmetologists	20,320	660	150	217	22.8
39-9011	Child care workers	18,490	1,090	228	596	20.9
43-3011	Bill & account collectors	24,910	570	153	182	26.8
43-3021	Billing & posting clerks and machine operators	26,480	1,010	198	250	19.6
43-3031	Bookkeeping, accounting, & auditing clerks	28,540	2,950	647	791	21.9
43-4171	Receptionists & information clerks	20,240	1,410	329	454	23.4
43-6011	Executive secretaries & administrative assistants	37,060	2,760	512	526	18.5
43-6013	Medical secretaries	23,790	780	120	203	15.4
43-6014	Secretaries, except legal, medical, & executive	24,620	5,660	1,038	1,222	18.3
47-2031	Carpenters	25,660	970	295	328	30.4
47-2061	Construction laborers	20,150	3,070	938	1,062	30.6
47-2111	Electricians	38,060	960	257	277	26.7
49-3031	Bus & truck mechanics & diesel engine specialists	28,860	630	149	194	23.6
49-9021	Heating, air cond., & refrigeration mech. & installers	40,870	710	224	250	31.5
49-9042	Maintenance & repair workers, general	26,270	2,490	510	716	20.5
53-3022	Bus drivers, school	22,590	1,310	302	381	23.0
53-3032	Truck drivers, heavy & tractor-trailer	39,350	4,830	817	1,363	16.9
53-3033	Truck drivers, light or delivery services	23,900	1,830	310	517	16.9

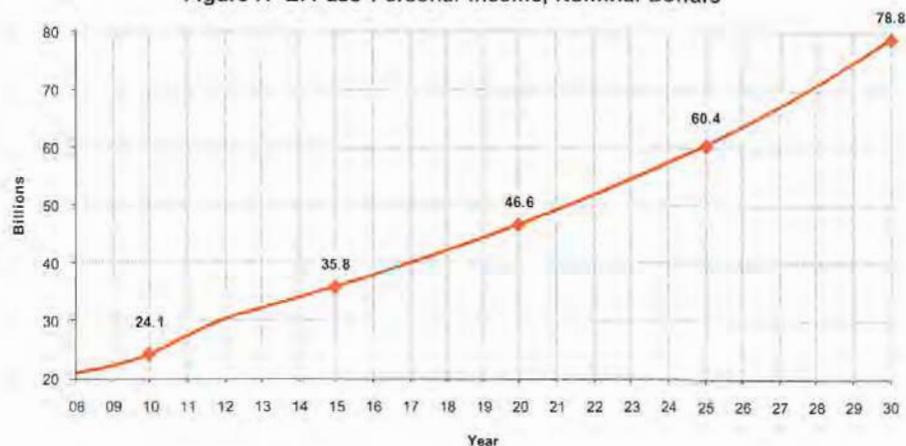
Source: Institute for Policy and Economic Development; 2009 Employment and Wages from Labor Market Information, Texas Workforce Commission and Occupational Employment Statistics, U.S. Bureau of Labor Statistics.

Note: SOC codes highlighted in orange denote occupations in the 2009 Targeted and Demand Occupations Lists used by Workforce Solutions Upper Rio Grande.

Personal Income

Figure 7 illustrates the El Paso County personal income projections through 2030. The anticipated increases in population and employment stimulated by the arrival of military troops and their dependents will translate to an increase in personal income. Between 2010 and 2015, personal income is forecasted to increase on average almost ten percent per year. During 2011, personal income is projected to exhibit the highest increase (about 13 percent); this is the same year that most of the military-related population is expected to relocate to El Paso. After 2015, personal income is estimated to increase at an annual average of about eight percent. By the end of the forecast period, personal income is predicted to exceed \$75 billion, representing a net gain of over \$50 billion.

Figure 7. El Paso Personal Income, Nominal Dollars



Source: Institute for Policy and Economic Development, UTEP

Gross Regional Product

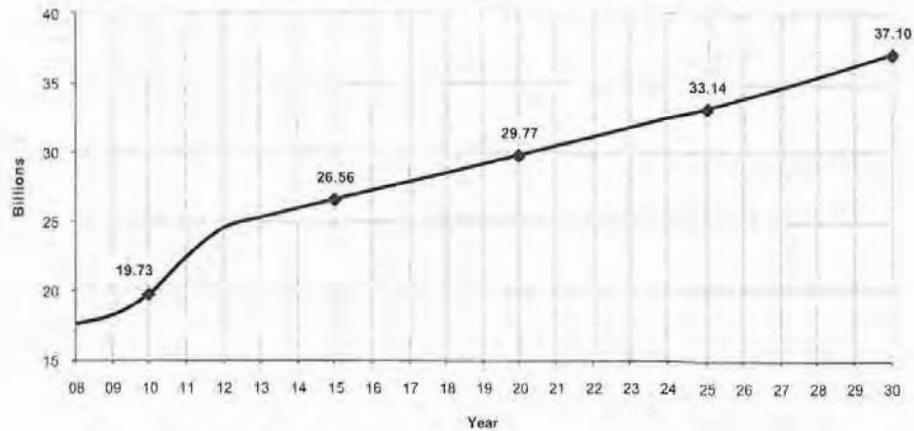
Gross regional product is estimated to increase by about \$6.8 billion over the next five years, after adjusting for inflation (Figure 8). This implies that the El Paso economy will increase on average over six percent per year between 2010 and 2015. In pace with personal income, 2011 is expected to observe the greatest economic expansion with a 13 percent increase in gross regional product. Yearly growth is anticipated to be stable after 2015, increasing at an average of over two and a half percent per year. This translates to steady economic growth for El Paso

Institute for Policy and Economic Development

El Paso County through 2030

County, with a gross regional product expected to reach over \$37 billion (Chained 2000 dollars) by 2030.

Figure 8. El Paso Gross Regional Product, Chained (2000) Dollars



Source: Institute for Policy and Economic Development, UTEP

Conclusion

The Institute for Policy and Economic Development (IPED) at the University of Texas at El Paso developed socio-economic forecast estimates for El Paso County incorporating data concerning the anticipated Fort Bliss expansion, in addition to external employment data related to industry recruitment efforts and data that accounts for capital improvement or expansion projects occurring or scheduled to occur within the county. All forecast estimates were developed using IPED's Regional Economic Modeling, Inc. (REMI) model. First, the model was calibrated to account for demographic and employment data updates not captured by the 2007 data sets used to build the original REMI model. Once the model was adjusted with data updates, data from the Fort Bliss Transformation Office, El Paso Regional Economic Development Corporation, and IPED estimates were integrated to develop the final estimated forecasts.

The overall projections for El Paso County predict steady growth. Most of this growth can be attributed to the expected influx of military troops and their dependents which are anticipated to account for over 24,000 additional persons between 2010 and 2012. This translates to a total

population estimate surpassing the one million mark by 2028. Similarly, total employment in El Paso is forecasted to grow from 382,591 in 2008 to 495,597 in 2030. For the most part, this growth is anticipated to occur during the coming years when the last of the military brigades is planned to relocate into the region. On average, local government, health and social assistance, and retail trade are predicted to be the largest industry employment sectors throughout the forecast period. Correspondingly, education-related occupations, healthcare support, and healthcare practitioner professions are estimated to have the greatest job gains.

The anticipated expansion of population and employment will in turn increase personal income forecasts from nearly \$21 billion in 2008 to over \$75 billion in 2030. In the same way, El Paso economic activity, measured by gross regional product, is predicted to increase from \$17.6 billion in 2008 to over \$37 billion by the end of the forecast period, with both figures adjusted for inflation in chained 2000 dollars. In general, these forecast estimates indicate a bright future for El Paso County. However, this outlook will also require developing timely and sound strategies that enhance the overall regional education, workforce and needed infrastructure to accommodate and take advantage of current and future opportunities mostly driven by the Fort Bliss expansion.