



Economics Research Associates

Final Report

**DOWNTOWN REAL ESTATE  
MARKET ANALYSIS**

Prepared for the

**CITY OF PROVO, UTAH**

Submitted by

**Economics Research Associates**

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**ERA Project No. 16665**

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## **General Limiting Conditions**

Every reasonable effort has been made to ensure that the data contained in this study reflect the most accurate and timely information possible, and they are believed to be reliable. This study is based on estimates, assumptions and other information developed by Economics Research Associates from its independent research effort, general knowledge of the industry, and consultations with the client and the client's representatives. No responsibility is assumed for inaccuracies in reporting by the client, the client's agent, and representatives or any other data source used in preparing or presenting this study.

No warranty or representation is made by Economics Research Associates that any of the project values or results contained in this study will actually be achieved.

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This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions and considerations.

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## **SECTION I: INTRODUCTION AND EXECUTIVE SUMMARY**

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This section provides a brief introduction outlining the assignment, staffing, and organization of the report. In addition, ERA summarizes principal findings of the market analysis for Downtown Provo.

### **INTRODUCTION**

The City of Provo Redevelopment Agency contracted with Economics Research Associates (ERA) to prepare a real estate market study for Downtown Provo. In preparing this study, ERA's objectives were:

- To have this study serve as a guide as to how much and what types of real estate development is realistic over the next 20 years in order to facilitate effective land use planning;
- To provide input for the City to pursue economic development strategies which are supported by market forces;
- To recommend strategies for the City to enhance its long-term fiscal position; and
- To provide in one convenient place, the market data and insight required by the national professional real estate development community when evaluating the opportunities presented by downtown Provo.

ERA's San Francisco office completed this study in September 2006. Steven E. Spickard, Senior Vice-President, was Principal-in-Charge of this project. Sujata Srivastava, Senior Associate, assisted with research, analysis and report preparation. Ian Larue, Research Analyst, contributed research and senior ERA staff contributed strategic advice in specific areas.

This report is organized in five sections. The first section presents an executive summary of key study findings and recommendations. The second section reviews long-term demographic and economic trends for Utah County and Provo. In the third section, the study evaluates downtown housing development potential. The fourth section presents the office market analysis, and the final section addresses retail and dining development potential.

### **DOWNTOWN RESIDENTIAL POTENTIAL**

ERA analyzed the potential for housing in Downtown Provo. Due to the higher density development required in the downtown district, ERA focused its analysis on multi-family housing, including both rental and ownership product types.

### *Ownership Housing*

Because of the scarcity of developable land and the higher development costs of doing infill development in Provo, the vast majority of new single-family homebuilding in recent years has occurred in large, greenfield subdivisions located in Lehi, Pleasant Grove, Eagle Mountain, and Saratoga Springs. However, much of the new construction of multi-family units in the county continues to be concentrated in Provo. The heavy student population in Provo, as well as a substantial number of family renter households in the city, have contributed to a relatively low owner-occupancy rate in comparison to the county and neighboring cities.

Provo, like Utah County, has experienced a steady rise in home prices over the last few years, as natural household growth and in-migration have continued to drive demand for new housing. Provo has seen the development of two major multifamily housing projects recently, including the Wells Fargo Center condominiums located downtown. Despite the slow absorption of units at the Wells Fargo Center, there is reason to believe that there is increasing demand for condominiums in Provo. Sales prices for units in both projects have escalated over time, reaching average per-square-foot prices ranging from \$200 to \$400 .

The buyer profile for condominiums is diverse, including empty-nester households, retirees, and young families. As the home of BYU, Provo has emotional and cultural significance for many LDS members and BYU alumni, and is able to retain and attract residents on that basis. This has an important implication for the housing market, as potential buyers of condominiums in Provo include out-of-state residents longing to return to Provo for cultural and religious reasons, or eager to purchase an investment property to be occupied by their children while attending BYU.

Most of the condominium projects in planning and construction stages are more than half sold out. Prices range from \$150 to \$200 per square foot for projects targeting primarily young families and young professionals. Higher-end products targeting empty-nesters and retirees are averaging prices between \$250 and \$300 per square foot.

### *Rental and Student Housing*

Demand for rental and student housing is strong in Provo, given the abundance of college students from BYU and UVSC. The majority of multifamily rental housing in the city targets students, although there are many family renter households occupying multifamily and single-family units in Provo. There is a lack of upscale multifamily rental units for families, empty nester, and retiree households. Based on recent trends and continuing demographic shifts, the market for upscale multifamily rentals is projected to grow at a rate of three to five percent over the next few years. This type of product could provide a new opportunity for downtown Provo.

### *Residential Demand Analysis*

Based on ERA's market analysis, there is significant market potential for multifamily housing development in Provo. Within the next ten years, there is potential for between 230 and 770 rental housing units and between 150 and 290 multifamily ownership units, beyond the new development projects already on the drawing boards. In the following ten-year period, there is demand for 260 to 860 rental housing units and 280 to 560 ownership multifamily units.

The target market for the rental housing in Downtown Provo will likely include BYU and UVSC students, both single and married, as well as young professional singles and couples. The ownership products will most likely attract a combination of retired/empty nester households, young professional singles, and young married couples. It is ERA's opinion that multifamily housing in Downtown Provo will be less attractive to established family households.

### **OFFICE MARKET POTENTIAL**

Historically, Provo has been the epicenter of the Utah County economy, accounting for more than 40 percent of the region's office space. Most of the current Class "A" and Class "B" office inventory is concentrated in Downtown Provo and in the Riverwoods Business Park. Provo's office market has remained strong, even through the recession, and its share of the county's office space has continued to increase over the years. In addition, Provo's office vacancy rate has been steadily declining, while overall lease rates have been on the rise. Already home to the county's courts, a new justice court complex is being added downtown, and there is potential of attracting a federal court complex as well. ERA forecasts a strong regional office market over the next three to five years.

Based on employment projections, ERA estimated total office demand for the county, and for the city of Provo. ERA then calculated the development potential in Downtown Provo by using low and high capture rates. Based on this analysis, ERA estimates that Downtown Provo could absorb approximately 550,000 to 1.4 million square feet of new office development in the next ten years. Downtown Provo has the potential for another 620,000 to 1.6 million square feet of office space in the following decade. This reflects an average annual absorption of between 60,000 and 150,000 square feet.

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## RETAIL AND DINING POTENTIAL

ERA assessed the potential demand for retail and dining in Downtown Provo. Retail is defined as stores selling apparel, home furnishings, general merchandise, etc., while dining includes all food and beverage establishments.

### *Retail Stores*

Based on taxable retail sales data, Provo's retail sales increased significantly during the last ten years, especially with the additions of Provo Towne Centre and Shops at Riverwoods. However, the environment for retail development in Utah County has become increasingly competitive. Whereas in the late 1990s Provo and Orem were in intense competition for anchor tenants, today the competition has extended beyond the two cities to include smaller suburban towns along the I-15 corridor, which have captured much of the region's recent big-box retail development. As a consequence, whereas Provo used to capture 30 percent of Utah County's taxable sales, it now holds about 22 percent of the county's store sales. Two major shopping centers planned in Northern Utah County will likely amplify this trend, adding 2.5 million square feet of "lifestyle retail" space within the next five years.

Due to these factors, ERA concluded that Downtown Provo should not attempt to compete directly with these major retail centers. Rather, Downtown Provo can capitalize on its unique historic character and pedestrian-scale streets to attract specialty retail such as small boutiques, jewelry stores, antique furniture shops, art galleries, and specialty food stores. Our analysis indicates that Downtown Provo has the potential to capture from 50,000 to 90,000 square feet within the next ten years, and an additional 110,000 to 210,000 square feet in the following ten-year period.

### *Dining*

Downtown Provo has several very successful restaurants catering to residents and visitors. Taxable retail sales show that spending on dining in Provo has grown over the last ten years, and shows no sign of slowing. However, many of the newer eating and drinking establishments, particularly chain restaurants, have chosen to locate in areas with greater freeway visibility and access, such as the I-15 corridor and on State Street in Orem. However, it is ERA's opinion that Downtown Provo has excellent potential to add more dining establishments in the future given the popularity of existing restaurants and the potential for a growing pool of customers downtown. The support for restaurants downtown will be boosted by additional residents as more multifamily housing is built in the area, and as additional employees occupy new downtown office space. Over the next 20 years, ERA estimates that Downtown Provo could capture between 40,000 and 90,000 square feet of dining uses.

## SUMMARY OF MARKET DEMAND

The following table provides a summary of market demand by land use:

<b>Land Use</b>	<b>2006-2015</b>	<b>2016-2025</b>	<b>Total</b>
Housing (units)	380-1,060	540-1,410	920-2,470
Rental	230-770	260-860	490-1,630
Ownership	150-290	280-560	430-850
Office (gross sf)	550,000-1,380,000	620,000-1,560,000	1,170,000-2,940,000
Retail (gross sf)	50,000-90,000	110,000-210,000	160,000-300,000
Dining (gross sf)	14,000-33,000	29,000-59,000	43,000-92,000

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## **SECTION II: ECONOMIC AND DEMOGRAPHIC OVERVIEW**

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In this section, ERA presents the history of Downtown Provo, and key economic drivers and demographic trends in the Wasatch Front and in the Utah County region. This includes data on employment by industry, historical and projected population, and residential building permits.

### **BACKGROUND AND HISTORY OF PROVO**

The city of Provo was founded in 1849 by Mormon pioneers from Salt Lake City in their first excursion outside Salt Lake Valley. Initially, Provo was an agriculture-based economy. By the beginning of the 20<sup>th</sup> century, mining had become a significant economic activity, and together with the construction of the transcontinental railroad, fostered the establishment of a financial center in Provo. Downtown Provo is characterized by historic buildings named after mining and railroad magnates (such as the Knight Building). The presence of the railroads led to the establishment of Columbia Steel factory in 1920 in the southernmost extent of the city, an area dubbed Ironton. Another steel mill, called Geneva, was built in the 1940's by the U.S. military and operated by U.S. Steel. Both facilities are now out of service due to changing economic realities as well as concerns about air pollution in the Utah Valley. Since the 1980's the mining industry in Utah Valley has collapsed, which hastened a restructuring of the local economy away from heavy industry and towards services.

Today, Provo is the second most populated city in Utah. The city is home to Brigham Young University, while Utah Valley State College is located in neighboring Orem, for a combined student enrollment of nearly 60,000. Founded in 1875 a few blocks north of Downtown Provo, BYU is the largest religious university in the United States with more than 30,000 students. BYU is also home to the Church of Jesus Christ of Latter-Day Saints' (LDS) largest Missionary Training Center (MTC), where volunteer Mormon missionaries train for three to ten weeks of classes before beginning their service. About 500 missionaries pass through the Provo MTC each week, which maintains an average enrollment of 2,700 to 3,000 students. BYU attracts an international student population thanks to the extensive worldwide recruitment efforts of the LDS Church. The Provo LDS Temple is located just above the hillside from the BYU campus. The dominance of LDS institutions in Provo has very strong appeal for BYU alumni and other members of the LDS community.

In 1968 the city of Provo established its first "General Plan," anticipating strong commercial and housing growth going forward. However, the establishment of the University Mall in Orem dented Provo's ability to attract new retail development. In 1977, the General Plan was revised to focus on economic development and growing the city's tax base. Older neighborhoods in the Downtown area were rezoned for higher density development. This strategy resulted in a decrease in owner-occupancy for housing in the up-zoned areas. Former single-family dwellings were converted to or replaced by rental housing filled by university students and family renters. This dynamic,

coupled with a lack of investment by property owners, has led to substandard conditions in some of the city's central "Pioneer" neighborhoods.

Down-zoning was attempted in 1983, but with limited effect. In the 1990s, the Municipal Council embarked on a strategy to rezone and upgrade the "Pioneer" neighborhoods. The City of Provo has partnered with non-profit Neighborhood Housing Services to rehabilitate substandard properties and sell them to low- and moderate-income families with a substantial subsidy, in order to boost owner-occupancy in these neighborhoods.

Downtown Provo has been the seat of Utah County since 1850, and several court and government buildings are still located within Downtown Provo. As in many other cities in the United States, Downtown Provo has declined as retailers have left the city center in favor of the University Mall in Orem. This situation was further exacerbated with the addition of Riverwoods and Provo Town Centre in 1998, and the renovation of the University Mall in the same year. However, Downtown Provo remains the legal, cultural and financial center of Utah County.

## REGIONAL ECONOMIC OVERVIEW

ERA's review of economic trends includes an analysis of the greater Wasatch Front region, focusing on trends in Utah County to determine the outlook for the city of Provo.

### *Employment Trends in Wasatch Front*

The state of Utah is dominated by the five counties along the I-15 corridor on the Wasatch Front (Utah, Salt Lake, Davis, Weber, and Box Elder). Tooele County, a rural county west of the I-15 corridor, is rapidly growing to become a "bedroom community" for employees on the Wasatch Front. However, the county's share of the region's population and jobs is relatively small at present, although that may change in the coming decade. Therefore, Tooele County was not included in our definition of the Wasatch Front region.

The unemployment rate for the Wasatch Front counties was only 3.3 percent at the peak of the economic boom in 2000 (see **Table II-1**). The subsequent recession brought the unemployment rate up to 5.8 percent, but it quickly declined again to reach 4.6 percent in 2005. Total non-farm employment on the Wasatch Front has increased from 604,000 in 1990 to 914,000 in 2005, at an annual average rate of 2.8 percent. This is equivalent to the addition of 310,000 jobs in a 15-year period. Much of the employment growth occurred during the mid to late 1990s. Some job losses occurred on the Wasatch Front from 2001 to 2003, but the economy soon recovered and non-agricultural employment in 2005 surpassed the number of jobs in 2000.

In 2005 major employment sectors on the Wasatch Front included services (22 percent); trade, transportation and utilities (20 percent); information and business/professional services (17 percent); and government (17 percent). Sectors such as mining, construction and manufacturing made up only 18 percent of employment (see Figure II-1).

Table II-1. Employment Growth on Wasatch Front Counties, 1990-2005

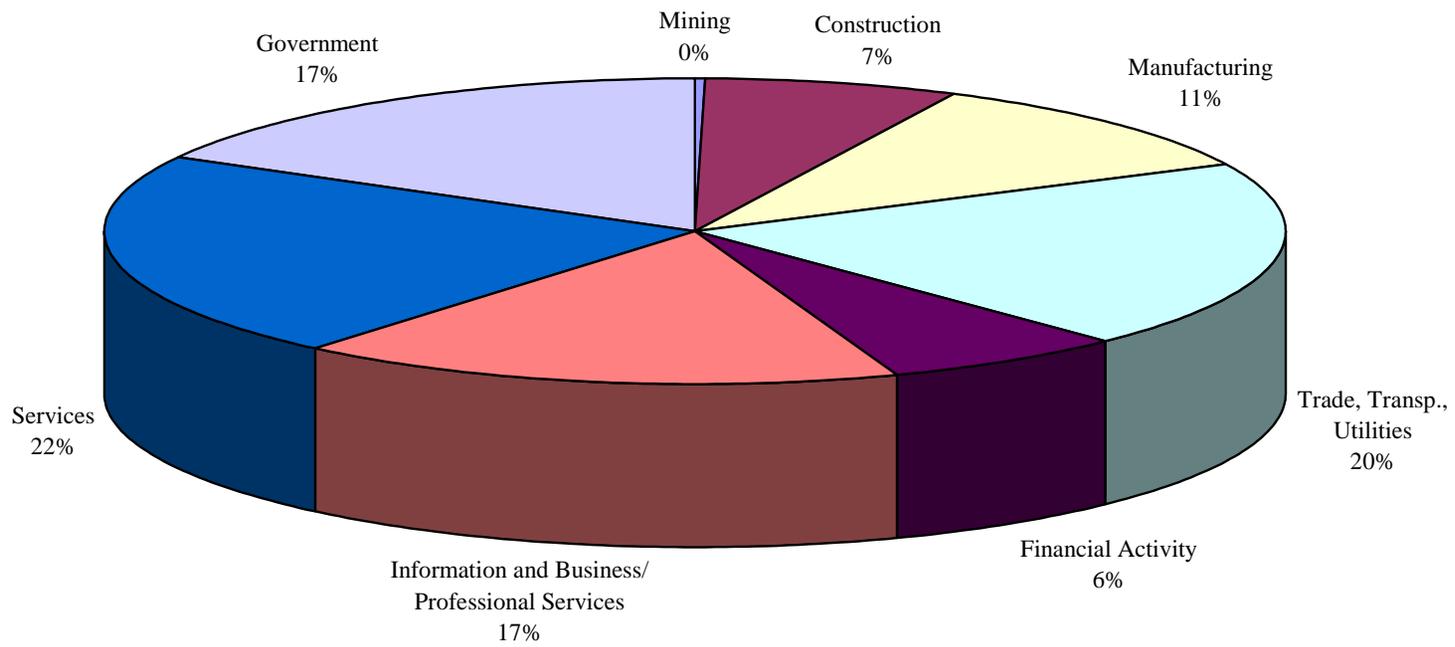
	1990	1995	2000	2001	2002	2003	2004	2005	Ann. Rate of Growth 1990-2005
Civilian Labor Force	668,189	820,845	901,833	911,907	923,933	931,319	939,456	964,138	2.5%
Civilian Unemployment Rate	4.1%	3.2%	3.3%	4.3%	5.8%	5.7%	5.3%	4.6%	1.7%
<b>NON-FARM EMPLOYMENT</b>									
Mining	2,606	2,870	2,597	2,341	2,009	1,853	1,908	2,445	-0.4%
Construction	23,284	45,282	61,332	57,645	53,630	53,429	56,331	62,499	6.8%
Manufacturing	90,098	100,939	108,848	104,062	96,520	94,774	96,569	98,302	0.6%
Trade, Transp., Utilities	130,164	161,419	183,404	180,990	176,551	174,831	178,299	182,929	2.3%
Financial Activity	31,398	43,253	53,597	56,311	56,675	57,924	57,889	59,371	4.3%
Information and Business/Prof Services	80,066	112,371	157,380	146,924	139,249	137,493	142,749	152,178	4.4%
Services <sup>1</sup>	123,221	155,480	177,689	188,644	188,688	191,088	195,801	201,254	3.3%
Government	122,735	130,048	143,944	145,368	149,825	150,549	151,851	154,657	1.6%
<b>TOTAL NON-FARM EMPLOYMENT</b>	<b>603,572</b>	<b>751,662</b>	<b>888,791</b>	<b>882,285</b>	<b>863,147</b>	<b>861,941</b>	<b>881,397</b>	<b>913,635</b>	<b>2.8%</b>

<sup>1</sup> Industry employment and wage data is collected through the Quarterly Census of Employment and Wages (QCEW) program. The primary source for QCEW data are the reports submitted by employers to the Utah Unemployment Insurance program.

<sup>2</sup> Services category includes Education Services, Health Care/Social Assistance, Food Services and Accommodation, Leisure, and Other Services

Source: Utah State Department of Workforce Services

Figure II-1. Wasatch Front Employment by Industry, 2005



Source: Utah State Department of Workforce Services

The majority of jobs on the Wasatch Front (60 percent) are concentrated in Salt Lake County. However, Utah County is also an important employment center, holding approximately 18 percent of all of the non-farm jobs on the greater Wasatch Front.

### *Utah County*

Over the past 15 years, total non-farm employment in Utah County has increased from 95,000 to 166,000, a net gain of 71,000 jobs, as shown in **Table II-2**. The county's employment has grown more rapidly than the greater Wasatch Front region, at an average annual rate of 3.8 percent. By comparison, Salt Lake County's employment grew by 1.9 percent annually over the same period. Unemployment in Utah County has consistently been lower than the unemployment rate of the state as a whole going back to 1995. Immediately following the events of September 11, the county's economy suffered a setback, as did the entire Wasatch Front region. Unemployment reached a peak of 5.7 percent in 2002 but fell back to a much healthier level of 4.2 percent by 2005. **Figure II-2** compares the county's unemployment rate to the nation from 1998 to 2006. As shown, Utah County has maintained an unemployment rate significantly below the national average throughout the period.

The growth in employment in Utah County from 1990 to 2000 was dominated by the various industry sectors including construction; financial activity; information and business/professional services; and services. The remarkable growth in construction is at least partly due to the 2002 Salt Lake Olympic Games, and also reflects steady growth in housing demand. As a share of total employment, manufacturing has fallen from 18 percent to 13 percent while construction has jumped from accounting for 4 percent of total employment in 1990 to just over 10 percent in 2005.

From 2000 to 2002, Utah County's employment loss totaled 2,500 net jobs, with the greatest job losses occurring in high-technology dominated sectors (information and business/professional services), and in traditional sectors (manufacturing and trade, transportation, and utilities). Since 2002, the county has been growing in employment steadily. By 2005, the region had more jobs than in 2000.

Current employment by industry in Utah County is illustrated in **Figure II-3**. As shown the most important industry in the county is services, accounting for 31 percent of total employment. This is largely due to presence of two major universities, BYU and USVC, providing many jobs in education services. The influence of the technology sector in Utah County is evidenced by the high number of jobs in information and business/professional services, accounting for 17 percent of all jobs. Other major employment sectors in the county are trade, transportation and utilities, and government.

Top employers in the County are listed in **Table II-3**. The largest private employers include Wal-Mart, Brigham Young University, Nestle USA, Clyde Companies, and Nu Skin.

Table II-2. Utah County Employment Growth, 1990-2005.

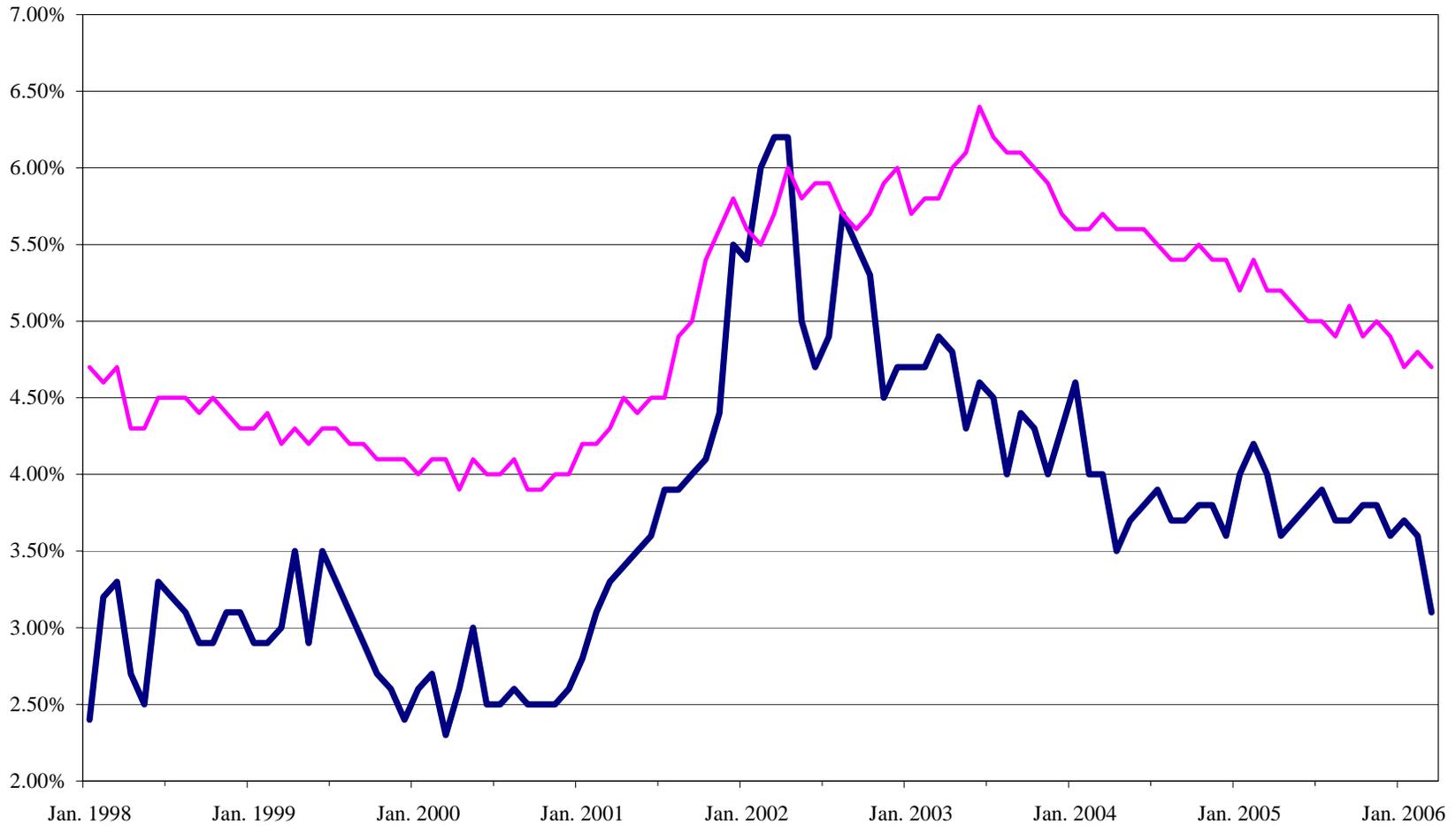
	1990	1995	2000	2002	2005	Ann. Rate of Growth 1990-2005	Ann. Rate of Growth 1990-2000	Absolute Growth 2000-2002	Absolute Growth 2002-2005
Civilian Labor Force	116,997	149,301	179,830	184,289	198,646	3.6%	4.4%	4,459	4,680
Civilian Employment	111,760	145,037	174,517	173,862	190,226	3.6%	4.6%	-655	2,397
Civilian Unemployment	5,237	4,264	5,313	10,427	8,420	4.1%	0.1%	5,114	2,283
Civilian Unemployment Rate	4.5%	2.9%	3.0%	5.7%	4.2%				
<b>NON-FARM EMPLOYMENT</b>									
Mining	28	97	75	45	93	8.3%	10.4%	-30	48
Construction	3,138	8,986	10,397	10,605	13,132	10.0%	12.7%	208	2,527
Manufacturing	13,656	16,831	18,878	16,954	17,287	1.6%	3.3%	-1,924	333
Trade, Transp., Utilities	16,314	21,932	26,354	24,903	26,876	3.4%	4.9%	-1,451	1,973
Financial Activity	2,798	3,643	4,663	5,384	6,055	5.3%	5.2%	721	671
Information and Business/Prof Services	14,900	20,456	28,136	24,311	29,069	4.6%	6.6%	-3,825	4,758
Services <sup>2</sup>	24,748	31,587	43,634	45,870	49,927	4.8%	5.8%	2,236	4,057
Government	19,388	19,411	20,562	22,147	23,707	1.3%	0.6%	1,585	1,560
<b>TOTAL NON-FARM EMPLOYMENT</b>	<b>94,970</b>	<b>122,943</b>	<b>152,699</b>	<b>150,219</b>	<b>166,146</b>	<b>3.8%</b>	<b>4.9%</b>	<b>-2,480</b>	<b>15,927</b>
<b>SHARE OF WASATCH FRONT</b>	<b>15.7%</b>	<b>16.4%</b>	<b>17.2%</b>	<b>17.4%</b>	<b>18.2%</b>				

<sup>1</sup> Industry employment and wage data is collected through the Quarterly Census of Employment and Wages (QCEW) program. The primary source for QCEW data are the reports submitted by employers to the Utah Unemployment Insurance program.

<sup>2</sup> Services category includes Education Services, Health Care/Social Assistance, Food Services and Accommodation, Leisure, and Other Services

Source: Utah State Department of Workforce Services

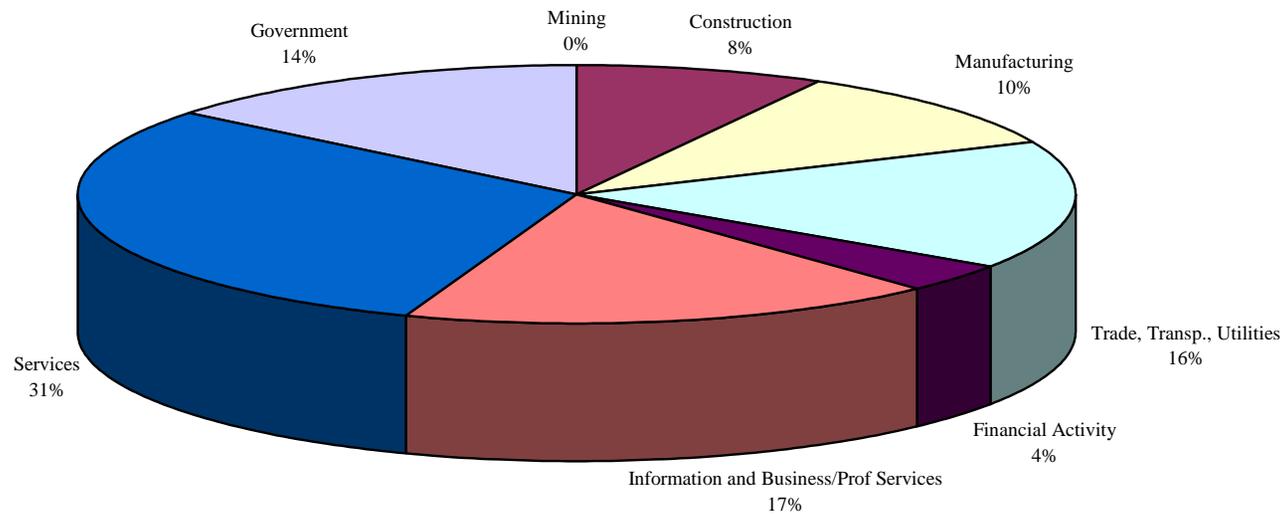
**Figure II-2. Unemployment Rate in Utah County Compared to U.S. Average**



Source: Utah State Department of Workforce Services

— Utah County — U.S. Average

**Figure II-3. Utah County Employment by Sector, 2005**



Source: Utah State Department of Workforce Services

**Table II-3. Utah County Major Employers, 2004**

<b>Employer</b>	<b># Employees</b>
Wal-Mart District Office	4,500
Alpine School District	4,280
Brigham Young University	4,092
Utah Valley Regional Medical Center	2,700
Provo School District	1,700
Nestle USA Food Group, Inc.	1,600
Clyde Companies, Inc.	1,500
Nebo School District	1,318
Nu Skin Enterprises	1,300
Modus Media International	1,200

Source: Economic Development Corporation of Utah

### *Employment Projections*

Employment from 2005 to 2025 for each of the Wasatch Front Counties is summarized in **Table II-4**. Unlike the employment figures presented in Table II-1 and Table II-2, these projections take into account all wage and salary jobs, including self-employment. According to the Governor's Office of Planning and Budget, Wasatch Front regional employment is projected to grow at an annual average rate of 2.3 percent over the next decade, and 1.7 percent from 2015 to 2025. Utah County is projected to have stronger employment growth, at an annual rate of 3.1 percent in the 2005-2015 period and 2.4 percent in the 2015-2025 period. Utah County's share of total regional employment is forecast to increase from 19.5 percent in 2005 to 22.2 percent in 2025.

## **DEMOGRAPHIC TRENDS**

### *Historical Population Trends*

**Table II-5** presents historical population estimates for all of the counties on the Wasatch Front. As shown, the counties have had strong population growth in the last 15 years, increasing steadily at an average annual rate of 2.4 percent to reach 1.96 million in 2005. The fastest growing county was Utah County, where population increased from 266,000 in 1990 to 454,000 in 2005 at a rate of 3.6 percent annually. Utah County now accounts for 23 percent of the population on the Wasatch Front.

The city of Provo has also experienced population growth during this period, increasing from 87,000 in 1990 to nearly 116,000 in 2005. The average annual rate of growth was 1.9 percent. However, Provo's population as a share of the Utah County population has declined over this period from 33 percent to 25 percent. Therefore, much of Utah County's population growth has been occurring in other cities and unincorporated areas.

Table II-4. Projected Employment on Wasatch Front, 2005-2025<sup>1</sup>

County	2005	2010	2015	2020	2025	Rate of Growth '05-'15	Rate of Growth '15-'25
Box Elder	23,761	26,267	29,217	32,353	35,691	2.1%	2.0%
Davis	136,174	152,866	165,272	174,133	182,292	2.0%	1.0%
Salt Lake	687,439	775,094	855,282	934,300	1,007,739	2.2%	1.7%
Utah	231,985	278,125	313,497	349,972	396,106	3.1%	2.4%
Weber	113,112	126,291	139,169	150,864	162,076	2.1%	1.5%
<b>Total Wasatch Front</b>	<b>1,192,471</b>	<b>1,358,643</b>	<b>1,502,437</b>	<b>1,641,622</b>	<b>1,783,904</b>	<b>2.3%</b>	<b>1.7%</b>
<b>Utah County Share of Region</b>	<b>19.5%</b>	<b>20.5%</b>	<b>20.9%</b>	<b>21.3%</b>	<b>22.2%</b>		

<sup>1</sup>Employment in a given year is computed as the annual average of 12 monthly observations and is the number of wage and salary jobs plus the numbers of sole proprietorships and of members of partnerships except for limited partners.  
Source: Governor's Office of Planning and Budget, Economics Research Associates.

Table II-5. Wasatch Front Population Growth, 1990-2005<sup>1</sup>

	1990	1995	2000	2005	Ann. Rate of Growth 1990-2005
City of Provo	87,136	96,137	105,439	115,957	1.9%
Provo Share of County	32.8%	31.2%	28.4%	25.5%	
<b><u>Wasatch Front Counties</u></b>					
Box Elder	36,500	38,830	42,884	45,142	1.4%
Weber	159,000	175,150	197,452	212,707	2.0%
Davis	188,000	214,994	240,306	276,374	2.6%
Salt Lake	728,000	806,280	900,651	970,748	1.9%
Utah	266,000	308,607	370,862	453,977	3.6%
<b>Total Wasatch Front</b>	<b>1,377,500</b>	<b>1,543,861</b>	<b>1,752,155</b>	<b>1,958,948</b>	<b>2.4%</b>
<b>Utah County Share of Region</b>	<b>19.3%</b>	<b>20.0%</b>	<b>21.2%</b>	<b>23.2%</b>	

Source: Bureau of Census, Governor's Office of Planning and Budget, Economics Research Associates.

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### *Population Projections*

The Governor's Office of Planning and Budget has projected population for all of the state's counties, shown in **Table II-6**. According to the projections, the Wasatch Front's population will increase to 2.4 million in 2015 and almost 2.8 million by 2025. Utah County will continue to be the fastest growing county in the region, with forecasted population of 595,000 in 2015 and reaching up to 731,000 in 2025. Utah County's share of the Wasatch Front population will increase to over 26 percent in 20 years.

The projections for the state of Utah compared to Utah County are illustrated in **Figure II-4**. Historical and projected population for the city of Provo is presented in **Figure II-5**. Finally, compounded growth rates by five-year increments for Utah County, Provo, and the state are compared in **Figure II-6**. It should be noted that the projected growth rates are quite conservative going forward. Whereas the compounded average annual growth rate for Provo was 1.7 percent from 2000 to 2005, the projections for the period between 2010 and 2015 show an average growth rate of 0.5 percent. In the same way, Utah County's population grew at an annual average rate of 4.3 percent from 2000 to 2005, but is projected to grow at a rate of 2.4 percent from 2010 to 2015.

Table II-6. Projected Population on Wasatch Front, 2005-2025.

<b>County</b>	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2020</b>	<b>2025</b>	<b>Rate of Growth '05-'15</b>	<b>Rate of Growth '15-'25</b>
Box Elder	45,142	49,254	55,212	61,675	68,038	2.0%	2.1%
Davis	276,374	304,502	330,833	352,320	369,206	1.8%	1.1%
Salt Lake	970,748	1,053,258	1,145,337	1,230,817	1,309,168	1.7%	1.3%
Utah	453,977	527,502	594,511	661,319	730,897	2.7%	2.1%
Weber	212,707	230,145	251,528	271,339	289,584	1.7%	1.4%
<b>Total Wasatch Front</b>	<b>1,958,948</b>	<b>2,164,661</b>	<b>2,377,421</b>	<b>2,577,470</b>	<b>2,766,893</b>	<b>2.0%</b>	<b>1.5%</b>
<b>Utah County Share of Region</b>	<b>23.2%</b>	<b>24.4%</b>	<b>25.0%</b>	<b>25.7%</b>	<b>26.4%</b>		

Source: Bureau of Census, Governor's Office of Planning and Budget, Economics Research Associates.

Figure II-4. Population Projections for Utah County and State of Utah

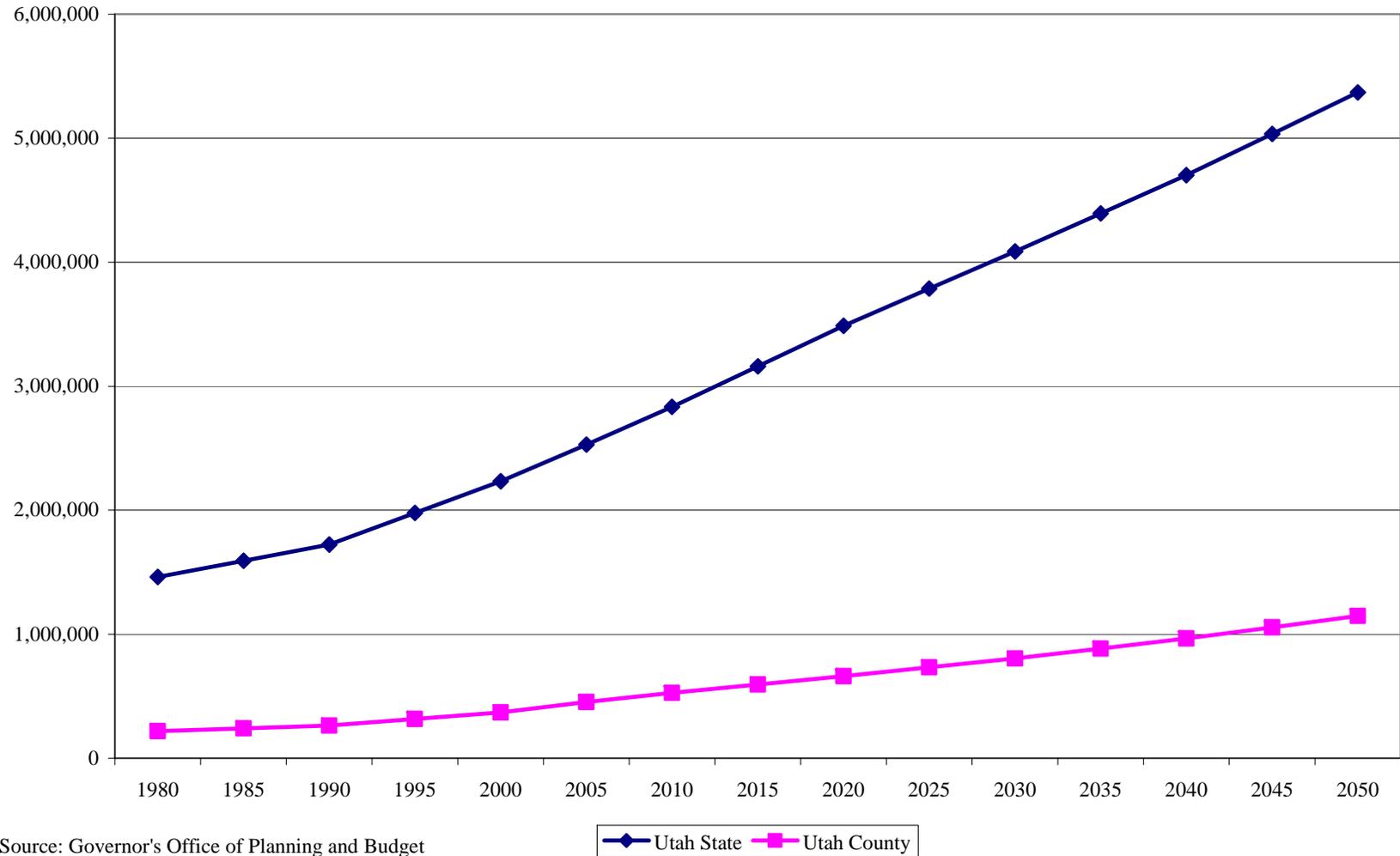


Figure II-5. Historical and Projected Population in Provo

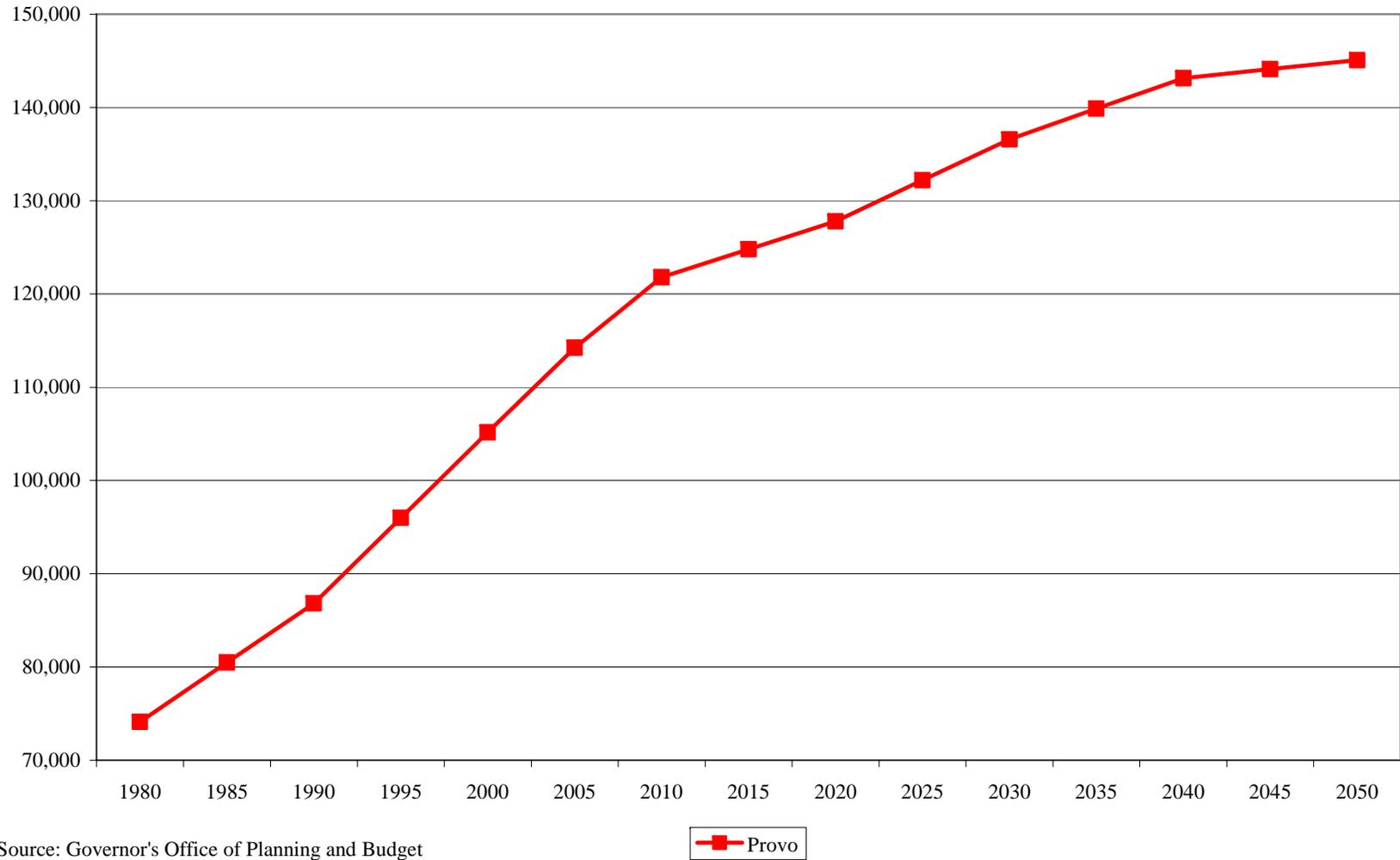
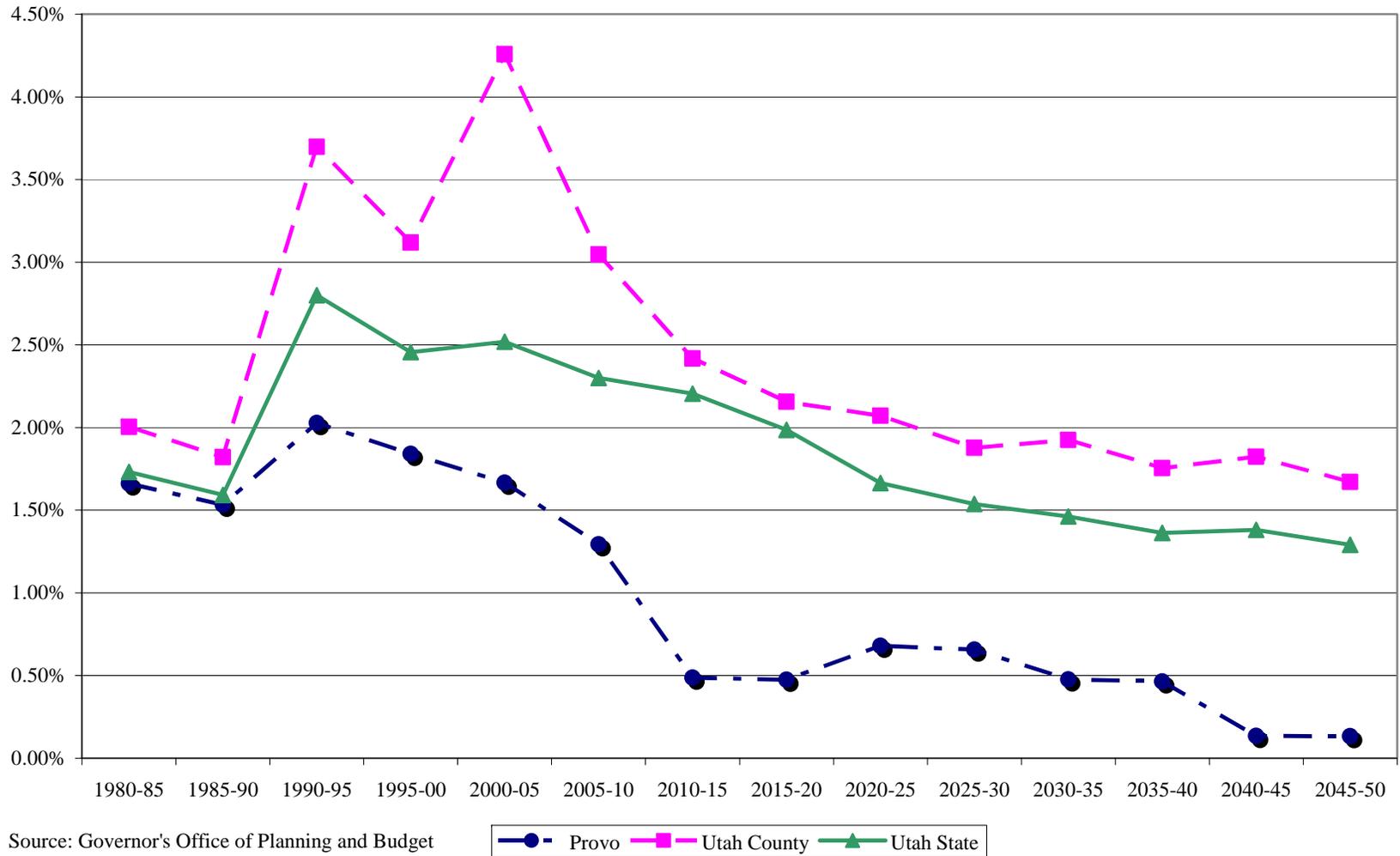


Figure II-6. Population Growth Rates by Five-Year Periods



## CHARACTERISTICS OF DOWNTOWN PROVO

ERA analyzed the demographic characteristics of Downtown Provo in relation to the downtown districts of other comparable cities. The cities selected included Albuquerque, Boulder, Palo Alto, and Ogden. Using GIS software program ESRI Business Analyst, ERA evaluated population, households, race, and household income within a one-mile radius of the downtown center. In the case of Provo, the downtown center was defined as the corner of University Avenue and Center Street. The data is summarized in **Table II-7**, and the following are the key conclusions:

- Provo has 32,000 residents in the downtown center, considerably more than is found in any of the other cities' centers. This is partly due to the much higher average household size (population per household) in Provo compared to other cities, with the exception of Ogden.
- Provo has less ethnic diversity in its downtown than other cities, with the exception of Boulder. Approximately 82 percent of residents in central Provo are White, and 20 percent are of Hispanic origin.
- Provo's downtown has lower owner-occupancy than other cities, at approximately 29 percent. Palo Alto's downtown has an owner-occupancy rate of 43 percent by contrast.
- The population of Provo's downtown is very young compared to Albuquerque, Boulder and Palo Alto. About 20 percent of its population is under 14 years old.
- There is a high presence of young adults in downtown Provo. About 55 percent of the population is between the ages of 20 and 34. Downtown Boulder also has a significant number of young adults, composing 46 percent of its total population. For both cities, this is partly due to the location of a large university within a mile of the downtown center.
- The median household income in downtown Provo is \$32,000. This is higher than the median household income of downtown Albuquerque and Ogden, but considerably lower than Palo Alto and Boulder.

Table II-7. Characteristics of Downtown Districts

	Albuquerque	Boulder	Ogden	Palo Alto	Provo
<b><u>Population</u></b>	13,094	27,201	18,399	16,387	32,109
<b><u>Households</u></b>	5,916	11,123	5,881	8,292	10,455
<b><u>Average Pop/ HH</u></b>	2.2	2.4	3.1	2.0	3.1
<b><u>Race</u></b>					
White	64.0%	88.1%	61.1%	80.2%	82.4%
Black	3.5%	1.3%	4.5%	2.3%	0.6%
Am. Indian, Eskimo	5.5%	0.4%	1.9%	0.2%	1.3%
Asian, Pacific Islander	1.1%	4.7%	1.5%	11.7%	2.9%
Other	21.2%	3.0%	27.0%	1.6%	9.9%
Two or More Races	4.8%	2.5%	4.0%	4.0%	2.9%
Hispanic Origin	57.9%	7.4%	49.0%	5.4%	19.7%
<b><u>Median Household Income</u></b>	\$28,629	\$41,066	\$29,524	\$104,489	\$32,337
<b><u>Housing Units</u></b>					
Owner-occupied	40.0%	35.2%	36.3%	43.1%	28.5%
Renter-occupied	60.0%	64.8%	63.6%	56.9%	71.5%
<b><u>Population by Age</u></b>					
0-14	14.1%	7.3%	28.0%	13.4%	20.4%
15-19	5.9%	17.1%	7.1%	5.1%	6.7%
20-24	10.3%	26.6%	9.6%	5.4%	30.8%
25-34	18.3%	19.4%	19.8%	15.4%	24.2%
35-44	15.9%	9.9%	13.6%	18.7%	6.8%
45-54	13.8%	8.4%	10.1%	14.0%	4.5%
55-65	9.7%	5.3%	5.5%	10.9%	2.7%
65+	12.0%	6.0%	6.3%	17.2%	3.9%
<b><u>Household Income</u></b>					
Less than \$19,999	35.4%	25.6%	34.5%	9.6%	27.1%
\$20,000-\$29,999	16.5%	11.7%	16.1%	6.0%	18.9%
\$30,000-\$39,999	12.6%	11.7%	15.6%	5.8%	16.6%
\$40,000-\$49,999	8.2%	8.5%	10.8%	4.5%	12.7%
\$50,000-\$59,999	6.4%	7.3%	7.0%	4.5%	7.6%
\$60,000-\$74,999	7.2%	7.7%	6.9%	6.3%	6.7%
\$75,000-\$99,999	6.4%	8.2%	5.0%	11.3%	5.6%
\$100,000-\$149,999	3.9%	10.9%	2.8%	18.1%	3.8%
\$150,000 and Above	3.3%	7.5%	1.4%	33.9%	1.0%

Source: ESRI Business Analyst; ERA

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## SECTION III: RESIDENTIAL REAL ESTATE MARKET POTENTIAL

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This section provides an overview of residential real estate market trends in the Utah County region. In this section, ERA also projects demand for residential products over the next twenty years.

### RESIDENTIAL CONSTRUCTION

Residential building permits issued from 1994 to 2005 in Provo and in Utah County are presented in **Table III-1**. Highlights are as follows:

- From 1994 to 2005, Utah County issued permits for more than 50,000 new housing units, at an annual average rate of almost 4,200 units per year.
- Over the last five years, the pace of residential construction has accelerated, and Utah County has averaged about 4,700 building permits annually.
- Approximately 30 percent of all permits issued in the county from 1994 to 2005 were for multi-family units.
- In the 1994 to 2005 period, Provo issued an average of 600 residential building permits annually.
- The majority of the new housing construction in the county has occurred in suburban communities outside of Provo. From 1994 to 2005, Provo accounted for 14 percent of new housing permits in Utah County. From 2000 to 2005, Provo's share of permits was less than ten percent.
- Much of the new construction of multi-family units in the county is concentrated in Provo, while new single-family homes are being built in other communities. Provo accounts for nine percent of single-family construction permits, but more than 26 percent of multi-family permits. This is largely due to the development of apartment buildings targeting students in the Provo area.
- Because of the scarcity of developable land and the high development costs in Orem and Provo, more than 90 percent of single-family homebuilding from 2000 to 2005 occurred outside these cities in subdivisions located in Lehi, Pleasant Grove, Eagle Mountain, and Saratoga Springs.

Table III-1. Residential Building Permits, 1994-2005.

Year	Provo				Utah County				Provo Share of County		
	SF	MF	Total	% MF	SF	MF	Total	% MF	SF	MF	Total
1994	303	498	801	62%	2,307	1,268	3,575	35%	13.1%	39.3%	22.4%
1995	311	403	714	56%	2,568	1,663	4,231	39%	12.1%	24.2%	16.9%
1996	461	838	1,299	65%	2,217	1,578	3,795	42%	20.8%	53.1%	34.2%
1997	297	187	484	39%	2,046	1,157	3,203	36%	14.5%	16.2%	15.1%
1998	217	370	587	63%	2,458	1,639	4,097	40%	8.8%	22.6%	14.3%
1999	161	376	537	70%	2,999	1,075	4,074	26%	5.4%	35.0%	13.2%
2000	164	155	319	49%	3,139	731	3,870	19%	5.2%	21.2%	8.2%
2001	163	419	582	72%	3,287	959	4,246	23%	5.0%	43.7%	13.7%
2002	276	314	590	53%	3,213	1,074	4,287	25%	8.6%	29.2%	13.8%
2003	250	196	446	44%	3,375	1,272	4,647	27%	7.4%	15.4%	9.6%
2004	177	156	333	47%	3,404	1,282	4,686	27%	5.2%	12.2%	7.1%
2005	274	104	378	28%	4,319	1,486	5,805	26%	6.3%	7.0%	6.5%
<b>Total Units</b>	3,054	4,016	7,070	57%	35,332	15,184	50,516	30%	8.6%	26.4%	14.0%
<b>Avg. 1994-2005</b>	255	335	589	57%	2,944	1,265	4,210	30%	8.6%	26.4%	14.0%
<b>Avg. 2000-2005</b>	217	224	441	51%	3,456	1,134	4,590	25%	6.3%	19.8%	9.6%

Source: University of Utah Bureau of Economic and Business Research; ERA.

## CHARACTERISTICS OF HOUSING STOCK

**Table III-2** summarizes housing characteristics for Utah County and for the cities of Provo and Orem. As shown, owner-occupancy rates have increased in Provo from 39.9 percent in 1990 to 42.6 percent by 2000. However, owner-occupancy in Provo in 2000 remained significantly lower than in the county or in Orem, where nearly two-third of households were owner-occupied (see **Figure III-1**). This dynamic is largely attributed to the heavy student population in Provo, as well as a substantial number of immigrant renter households. It is estimated that 44 percent of Provo families with children under 18 are renters.

Provo's housing stock contains a much larger proportion of multi-family units than Orem or the county as a whole. About 50 percent of Provo's housing units are in multi-family structures, compared to 26 percent in the county and 27 percent in Orem.

## OWNERSHIP PRODUCT OVERVIEW

Utah County's real estate, following national trends, has enjoyed healthy price appreciation during the last few years. Natural household growth and in-migration have contributed to rapid housing development in the larger cities in the county like Provo and Orem, as well as smaller cities in Utah County.

**Table III-3** presents the trend in average home prices for single-family homes in Utah County over the last seven years. During the period, prices for single-family homes have increased at an average annual rate of 4.8 percent. Prices for single-family homes in Utah County have grown to nearly the levels of Salt Lake County. The number of home sales has also increased steadily during this period, with no evidence of a market slowdown up to 2005.

The Utah County Association of Realtors presents multiple listing service data by city or community. **Table III-4** shows median single-family home prices by area. As shown, Provo's median home price rose from \$138,500 in 2003 to \$153,000 in 2005. The number of home sales also grew from 946 to 1,205 during this two year period. Provo homes are similar in pricing to Eagle Mountain, Orem, Spanish Fork, and Payson. More high-end homes can be found in Alpine, Highland, and Woodland Hills, where median prices are over \$370,000.

Average prices for condos in Utah County have also grown steadily from 1998 to 2005, at an average rate of 4.3 percent annually. Details on pricing and absorption of the most recent condominium projects are summarized below.

Table III-2. Housing Characteristics in Provo, Orem and Utah County, 1990-2000.

	<u>Utah County</u>		<u>Provo</u>		<u>Orem</u>	
	1990	2000	1990	2000	1990	2000
Total Housing Units	72,820	104,315	24,578	30,374	17,965	24,166
Occupied Units	70,168	99,937	23,805	29,192	17,584	23,382
Owner-Occupied Units	43,990	66,786	9,501	12,440	11,934	15,685
Renter-Occupied Units	26,178	33,151	14,304	16,752	5,650	7,697
Owner-Occupancy Rate	62.7%	66.8%	39.9%	42.6%	67.9%	67.1%
Vacant Units	2,652	4,378	773	1,182	381	784
Vacant for Rent	578	1,091	269	412	100	273
Vacant for Sale	502	1,142	168	279	110	191
Other Vacant <sup>1</sup>	1,572	2,145	336	491	171	320
Vacancy Rate	3.6%	4.2%	3.1%	3.9%	2.1%	3.2%
Single Family Units	49,299	74,473	10,921	14,497	12,891	16,879
Multifamily Units	19,792	26,892	12,339	15,092	4,175	6,613
% Multifamily Units	27.2%	25.8%	50.2%	49.7%	23.2%	27.4%

<sup>1</sup> Includes units that are rented or sold but not occupied; units for seasonal, recreational or occasional use; units for migratory workers; and other vacant units.

Source: U.S. Census Bureau, ERA.

Figure III-1. Owner-Occupancy Rate by Jurisdiction

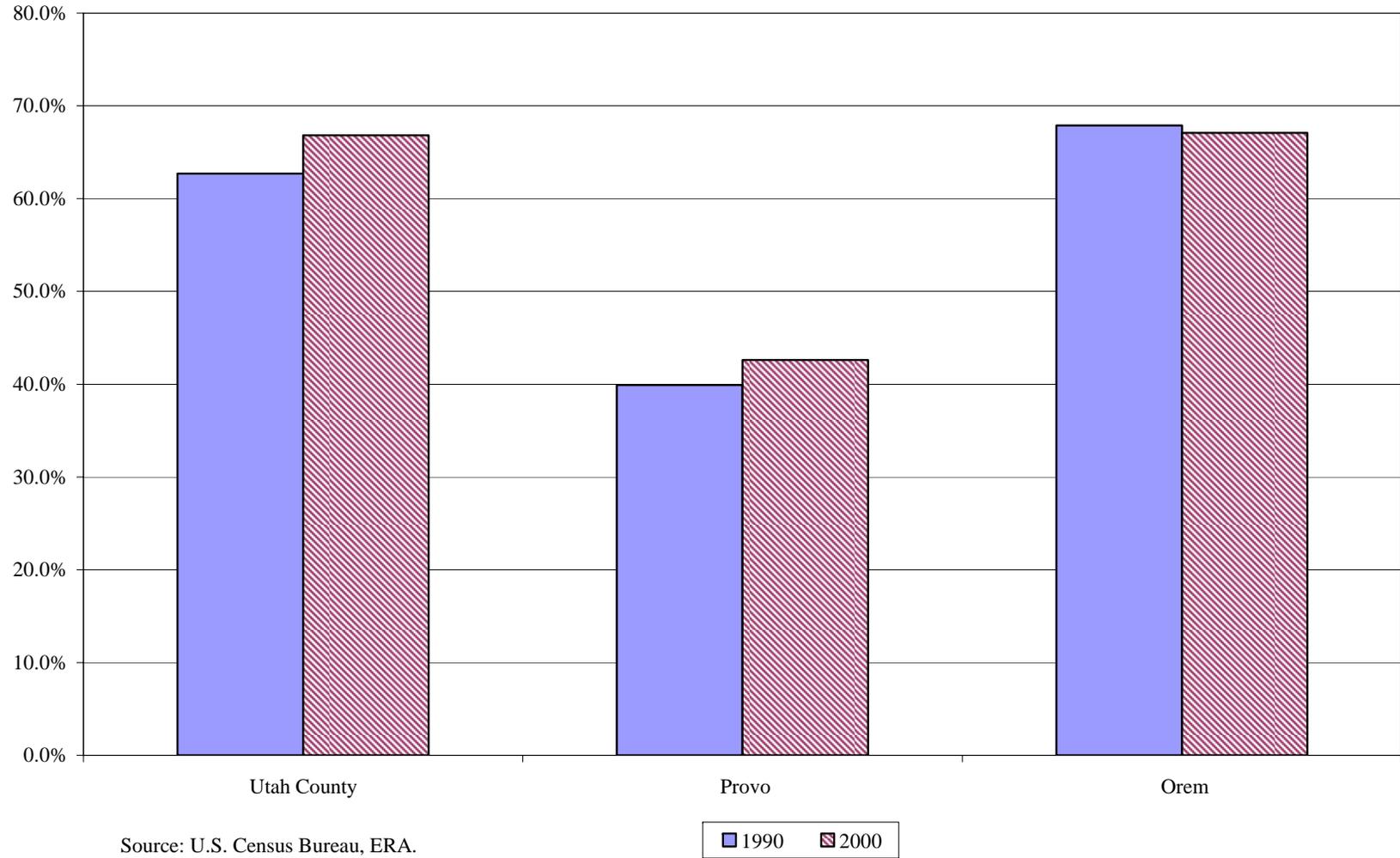


Table III-3. HOME SALES AND AVERAGE PRICES IN UTAH COUNTY AND SALT LAKE COUNTY, 1998-2005.

Submarket	1998	1999	2000	2001	2002	2003	2004	2005	Avg Ann Growth 1998-05
<b>NUMBER HOME SALES</b>									
Utah County									
Single Family	2,828	2,537	2,659	3,015	3,501	3,772	4,416	5,381	9.6%
Condos	118	609	681	743	769	835	1,059	1,310	41.0%
Total	2,946	3,146	3,340	3,758	4,270	4,607	5,475	6,691	12.4%
Salt Lake County									
Single Family	9,618	9,663	10,801	10,975	11,274	12,781	13,019	15,415	7.0%
Condos	1,452	1,462	1,564	1,800	1,935	2,098	2,376	3,182	11.9%
Total	11,070	11,125	12,365	12,775	13,209	14,879	15,395	18,597	7.7%
<b>AVERAGE HOME PRICE</b>									
Utah County									
Single Family	\$156,515	\$166,083	\$174,039	\$175,881	\$181,237	\$182,220	\$189,994	\$216,998	4.8%
Condos	\$103,560	\$110,144	\$117,858	\$118,718	\$121,932	\$128,218	\$132,774	\$138,702	4.3%
Salt Lake County									
Single Family	\$166,048	\$172,829	\$173,934	\$181,801	\$184,780	\$188,645	\$196,665	\$224,641	4.4%
Condos	\$130,148	\$120,517	\$123,141	\$132,244	\$132,831	\$130,565	\$140,888	\$147,929	1.8%

Source: Utah Association of Realtors; Economics Research Associates.

Table III-4. HOME SALES AND MEDIAN PRICES IN UTAH COUNTY, BY CITY

Area/City	2003		2004		2005	
	# Sold	Median Price	# Sold	Median Price	# Sold	Median Price
Alpine	125	\$375,725	85	\$433,625	110	\$479,000
Highland	164	\$295,539	171	\$340,969	161	\$377,000
Woodland Hills	8	\$268,575	8	\$232,125	19	\$374,697
Lindon	66	\$250,475	88	\$230,750	91	\$306,800
Mapleton	45	\$208,729	53	\$228,500	73	\$286,475
Cedar Hills	132	\$219,960	164	\$212,130	192	\$260,925
Elk Ridge	24	\$198,600	24	\$222,000	34	\$253,441
Salem	53	\$158,823	65	\$207,850	72	\$210,875
Saratoga Springs	130	\$167,025	175	\$168,248	280	\$184,395
Lehi	424	\$149,075	651	\$153,450	824	\$175,101
Pleasant Grove	288	\$160,275	316	\$173,573	375	\$173,000
American Fork	329	\$154,375	292	\$158,250	335	\$170,750
Goshen	11	\$105,250	14	\$125,750	11	\$163,125
Orem	721	\$141,570	824	\$151,525	916	\$158,000
<b>Provo</b>	<b>946</b>	<b>\$138,500</b>	<b>1,068</b>	<b>\$143,450</b>	<b>1,205</b>	<b>\$153,000</b>
Eagle Mountain	195	\$136,898	290	\$139,250	419	\$150,513
Spanish Fork	339	\$136,500	410	\$141,225	534	\$149,250
Payson	259	\$125,250	323	\$133,500	358	\$147,925
Santaquin	82	\$128,213	87	\$138,718	144	\$147,400
Springville	292	\$136,173	398	\$137,000	487	\$145,051

Source: Utah County Association of Realtors; Wasatch Front Regional Multiple Listing Service; ERA.

### *Recently Completed Condominium Projects*

ERA is only aware of three recently-completed multi-family ownership projects in Provo, one of which was located in Downtown Provo. As shown in **Table III-5**, the Wells Fargo Center, completed in 2005, contains 24 condominium units. The condominiums are located in the fifth, sixth and seventh floors of the new mixed-use building, which also includes office and retail space. Penthouse units are on the building's top floor, while three-bedroom and two-bedroom units are on the fifth and sixth floors. The two-bedroom units range in size from 1,100 to 1,450 square feet. The corner three-bedroom units are about 1,600 to 1,800 square feet. Prices for two-bedroom units are between \$255,000 and \$295,000 (\$176 to \$268 per square foot) while three-bedroom units are priced from \$375,000 to \$430,000 (\$208 to \$269 per square foot). Penthouse units are about \$750,000 (shell only), or \$300 per square foot. There is secured, reserved parking on the bottom floor garage. Each unit is given three parking spaces and underground storage.

Table III-5. Pricing and Sales of Recently Completed Condominium Projects in Provo

	Units			Total
	2 BR	3 BR	4BR/PH	
<b>Wells Fargo Building</b>				
No. Units	12	8	4	24
Units sold	6	7	2	15
Units remaining	6	1	2	9
% Sold	50%	88%	50%	63%
Absorption (units/year)	4	5	1	10
Size	1,100-1,450	1,600-1,800	2,500	
Price	\$255,000-\$295,000	\$375,000-\$430,000	\$750,000	
Price/sf	\$176-\$268	\$208-\$269	\$300	
<b>Village at Riverwoods II</b>				
No. Units	32	30	30	92
Units sold	32	30	30	92
Units remaining	0	0	0	0
% Sold	100%	100%	100%	100%
Absorption (units/year)	32	30	30	92
Size	1,200	2,400	3,700	
Price	\$250,000 and up	\$325,000 and up	\$400,000 and up	
Price/sf		\$250-\$400		
<b>Trellis on the Green</b>				
No. Units	30	13	-	43
Units sold	n/a	n/a	-	20
Units remaining	n/a	n/a	-	23
% Sold	n/a	n/a	-	47%
Absorption (units/year)	n/a	n/a	-	20
Size	1,750	2,100-2,400	-	
Price	\$335,000	\$735,000	-	
Price/sf	\$191	\$300-\$350		

Source: Individual Project Sales Teams, August 2006; ERA.

As of August 2006, there were 9 condominium units remaining at Wells Fargo Center. Absorption of the units was slow at about 10 units per year. This is due a combination of factors including:

- Pioneer project – Wells Fargo Center was the first new multifamily ownership product to be built in Downtown Provo in many years.
- The price points of the project were significantly high, targeting an upscale buyer market.
- Sales and marketing efforts were somewhat weak at the beginning of the sales program.

According to sales staff, the buyers of the condominium units have included empty-nester households, young urban professionals, and young married couples. The prices have already appreciated with resales (five to ten percent), showing demand for this type of product in Provo.

Phase II of the Village at Riverwoods entailed an addition of 92 units to the 142-unit development, including townhomes, flats, and lofts. Condominiums ranged in size from two-bedroom to four-bedroom units. The units were reportedly sold out within a year. According to brokers, two-bedroom units started at \$250,000, while three-bedroom units were priced at \$325,000 and higher, and four-bedroom units were \$400,000 and up. Average per-square-foot prices ranged from \$250 to \$400 for the units. Resale prices are likely significantly higher. The buyer profile is diverse, including empty-nester households, retirees, and young families.

Trellis on the Green is a 43-unit project located near the BYU campus, currently under construction. The development targets empty-nester and retiree households. According to the developer, half of the units have been pre-sold, at an average square-foot price of nearly \$200 for two-bedroom units and between \$300 and \$350 for three-bedroom units.

#### *Planned Condominium Projects*

**Table III-6** summarizes several planned and proposed condominium projects in Provo and Orem. These include the following:

- Arbors on the Avenue is a 110-unit condominium project located across from Riverwoods on North University Avenue. The first phase is currently under construction, while the second phase has received preliminary approval. According to the sales team, these units are 40 percent sold, and range in price from \$150 to \$200 per square foot.
- Huntington Condominiums, a 61-unit condominium development, is nearing final approval. The two-bedroom units are priced at \$165,000, or \$150 per square foot. According to the sales staff, more than half of the units are already sold, primarily to single professionals, small families, and empty-nesters.

**Table III-6. Planned and Proposed Multifamily Ownership Projects in Provo and Orem.**

Project Name	Year Completed	Number of Units				PH	Total	Units Sold	Percent Sold
		1 BR	2BR	3BR					
Arbors on the Avenue	2006/2007	4	60	46		110	46	42%	
Huntington Condos	2007		61			61	34	56%	
Country Club Villas II	2006/2007		18	18		36	18	50%	
Midtown Village	2007	64	57	152	10	283	175	62%	

Project Name	Size of Units (sq. ft.)				PH	Sales Price				PH	Price per sq. ft.			
	1 BR	2 BR	3BR			1 BR	2BR	3BR			1 BR	2BR	3BR	
Arbors on the Avenue	1,200-1,400	1,300-1,600	1,500-1,700			n/a	\$239,000	\$269,000					\$150-\$180	\$170-\$200
Huntington Condos		1,072					\$165,000						\$154	
Country Club Villas II		1,750	2,070				\$295,000	\$360,000 - \$395,000					\$169	\$170-\$180
Midtown Village	861	1,197	1,358-2,220	2,600-3,600		\$249,000	\$349,000	\$549,000		n/a		\$289	\$292	\$247-\$250

Source: Individual Project Sales Teams, August 2006; ERA.

- Phase II of Country Club Villas is close to final approval. According to sales staff, half of the units have already been sold, at prices ranging from \$170 to \$190 per square foot. Buyers include widows, retirees, and young married couples.
- Midtown Village is the largest proposed condominium project in Utah County. The project, which has already begun construction, is a large mixed-use development containing 283 ownership units. Due for completion next year, developers of Midtown Village say that they have already sold more than half of the units for approximately \$250 to \$300 per square foot. Buyers are diverse, including seniors, young professionals, and families.

## RENTAL HOUSING

The rental housing market in Utah County is heavily influenced by demand from students of BYU and UVSC. It is estimated that students from both of the universities account for 12,200 family and single-student households, or 35 percent of total renter households in the county. The large majority of these students are accommodated by housing in Provo, and to a lesser degree, Orem. Most of the existing rental multifamily properties were built over 20 years ago. Some are traditional student apartments, while others are condominium units that have gradually been transformed into student rental units. Because of an insufficient multifamily housing inventory in the county, many students are housed in single-family structures in Provo's "Pioneer Neighborhoods" in close proximity to Downtown Provo. Large single-family homes that had previously been occupied by families have gradually transitioned to serve as housing for up to five or six single students.

In the last decade, Utah County saw the construction of Class A/B apartments for the first time in many years.<sup>1</sup> The county's current supply of "upscale" apartment units of this category, as defined by Hendricks and Partners, is summarized in **Table III-7**. Approximately 1,540 units were added between 1996 and 2006, at a rate of 154 units per year. As shown, there are approximately 1,600 Class A/B apartment units in Utah County, located in the cities of Pleasant Grove, Orem, and Lehi. In the last few years, the trend has been towards rising rents and declining vacancies and concessions, indicating a strengthening rental market. The vacancy rates for these apartments range from no vacancy at Pleasant Springs and Country Springs to 14 percent at Mayflower Harbor. Concessions are offered at several of the developments, with the maximum concession at Mayflower Harbor for one month's rent.

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<sup>1</sup> Class A and Class B apartments are defined as newer properties in very good locations, with good visibility and access, high-quality construction and various amenities in the units and in the buildings.

Table III-7. Upscale Apartment Properties in Utah County.

<b>Property</b>	<b>Location</b>	<b>No. Units</b>	<b>Vacancy</b>	<b>Yr. Built</b>	<b>Concessions (months)</b>	<b>Amenities and Quality<sup>1</sup></b>
Pleasant Springs	Pleasant Grove	252	0.0%	2004	0.0	B+
Country Springs	Orem	164	0.0%	1996	0.0	B+
Oakhurst	Orem	128	2.3%	1998	0.2	B+
Thorneberry	Pleasant Grove	180	2.8%	1998	0.1	B+
Village Park	Orem	192	3.1%	1998	0.3	B-
Pinnacle Canyon View	Orem	288	3.1%	1998	0.0	A
Village	Orem	96	7.3%	1972	0.5	A-
Cortland Ridge	Orem	144	9.7%	1997	0.0	A-
Mayflower Harbor	Lehi	192	14.1%	1999	1.0	A-
<b>Total Upscale Apt Units</b>		<b>1,636</b>				

<sup>1</sup> Evaluation based on the following factors: area location/quality of neighborhood; visibility and access; access to services; property condition; "curb appeal" and attractiveness; and unit and building amenities.

Source: Hendricks & Partners; Economics Research Associates.

Rental rates by unit types are presented in **Table III-8**. One-bedroom apartment rents range from \$520 to \$744, and \$0.76 to \$1.00 per square foot. Two-bedroom units are more abundant, and range in price from \$653 to \$935, or \$0.63 to \$0.94 per square foot. Finally, three-bedroom apartment rents are between \$695 and \$1,075, with square-foot prices between \$0.59 and \$0.92. Hendricks & Partners estimates that rents for this class of apartments will grow by three to five percent over the next year, providing a good opportunity for the construction of this type of product in Provo.

## HOUSING PREFERENCES

An opinion poll commissioned by the City of Provo in 2005 identified the types of households that would be most attracted to living in Downtown Provo. Residents of the Utah Valley and the city of Provo, as well as BYU alumni, were surveyed. According to the results of the survey, the demographic groups most likely to purchase a home in Downtown Provo, if it met their desired style and price, included:

- **Adventurous Minglers** – This demographic cluster includes people with college or advanced degrees, who frequently visit Downtown Provo. They would like to see small, specialty stores, restaurants, a performing arts center, parks and plazas in Downtown Provo. This group would also be swayed if special financing were made available to purchase housing Downtown.
- **Young Pragmatists** – This cluster tends to include people under 35, with an ideal home price of under \$200,000. This group is less likely to participate in social events and activities, and is less interested in amenities and services like recreation centers, public transportation, and schools. This demographic group is very interested in financing tools to purchase a home Downtown.

In order to better attract these types of households to Downtown Provo, the following amenities and services will be important: adequate parking, parks and plazas, festivals and farmer's markets. These groups placed less emphasis on amenities such as: nightlife, movie theaters, and a recreation center. Finally, both groups felt that Downtown Provo would be less attractive if it featured large retail stores, nightlife, or a senior center.

The results of the poll support the comments made by brokers and developers in Utah County, which indicate that the target markets for multifamily housing in Downtown Provo include empty-nester/retiree households, young professional singles, and young married couples. It is ERA's opinion that the Downtown district could be especially successful in attracting BYU alumni interested in buying home near their alma mater, where they could immerse themselves in the LDS faith and culture. The creation of a unique retail and dining district in Downtown Provo will further enhance the district's ability to attract new households.

Table III-8. Operating Characteristics of Comparable Apartment Projects, September 2006

Property	<u>1 Bdrm</u>				<u>2 Bdrm</u>				<u>3 Bdrm</u>			
	# Units	Size (sf)	Rent (\$)	\$/sf	# Units	Size (sf)	Rent (\$)	\$/sf	# Units	Size (sf)	Rent (\$)	\$/sf
Pleasant Springs	72	758	\$744	\$0.98	144	993	\$859	\$0.87	36	1,137	\$960	\$0.84
Country Springs	26	675	\$660	\$0.98	138	980	\$775	\$0.79				
Oakhurst					92	817	\$708	\$0.87	36	1,012	\$853	\$0.84
Thorneberry	36	800	\$609	\$0.76	72	1,160	\$729	\$0.63	72	1,400	\$829	\$0.59
Village Park					108	770	\$725	\$0.94	84	1,300	\$832	\$0.64
Pinnacle Canyon View	120	783	\$688	\$0.88	112	1,045	\$840	\$0.80	56	1,174	\$980	\$0.83
Village	18	580	\$520	\$0.90	18	860	\$620	\$0.72	60	1,090	\$695	\$0.64
Cortland Ridge	52	739	\$735	\$1.00	74	1,011	\$935	\$0.92	18	1,172	\$1,075	\$0.92
Mayflower Harbor					62	921	\$653	\$0.71	112	1,102	\$723	\$0.66

Source: Hendricks & Partners; Economics Research Associates.

## PROVO HOUSING DEMAND

In order to estimate housing demand for Downtown Provo, ERA first examined projected growth in population. According to the Wasatch Front Regional Council, the population of Utah County will grow from 454,000 in 2005 to nearly 731,000 in 2025 (see **Table III-9**). ERA assumed slightly declining average household sizes for each five-year period from 2005 to 2025 in order to estimate household growth. As shown, the number of households in Utah County is projected to grow from 123,000 in 2005 to 200,200 by 2025, a net gain of 77,600 households. Single-family housing growth is expected to be highest in the North Utah County cities where there is more availability of land at lower values than in Orem and Provo. On the other hand, much of the multi-family housing growth is likely to occur in Orem and Provo as infill development or redevelopment projects.

Based on the population and household projections, ERA forecast housing demand (single-family and multi-family) for the county as a whole and then estimated the potential capture in downtown Provo, taking into consideration future supply based on proposed and approved projects within the county.

The methodology for estimating housing demand is as follows:

- Based upon projected households in 2005, 2010, 2015, 2020, and 2025, ERA calculated growth in housing units assuming a vacancy rate of 5 percent at equilibrium.
- ERA then divided total housing demand during these periods into demand for single-family (70 percent) and multi-family (30 percent). This was based on historic inventory and recent building patterns, as well as demographic trends in the projected new population.
- The demand for multi-family units was then further segmented into rental and ownership types. Rental multi-family housing includes apartments, and student housing. Ownership multi-family housing includes a variety of housing designs, such as rowhouses, townhouses, condominium flats, and lofts.
- ERA then applied these percentages to calculate total housing demand over the next 20 years by housing type.

As shown in Table III-9, using this methodology resulted in countywide demand of approximately 81,600 housing units from 2006 to 2025. Between 2006 to 2015, we estimate demand for approximately 29,600 single-family units, and 11,800 multifamily units. In the 2016 to 2025 period, there is an estimated demand for 28,200 single-family units, and 12,000 multi-family units.

Table III-9. Estimated Housing Demand in Utah County, 2005-2025.

<b>Growth in Households by Type</b>	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2020</b>	<b>2025</b>
Total Population	453,977	527,502	594,511	661,319	730,897
Avg. Household Size	3.70	3.68	3.67	3.67	3.65
Total Households	122,696	143,343	161,992	180,196	200,246
Incremental Households	22,759	20,646	18,649	18,204	20,050
Total Housing Units	129,154	150,887	170,518	189,680	210,785
Vacancy Rate at Equilibrium	5%	5%	5%	5%	5%
<b>New Housing Units by Type</b>	<b>2006-10</b>	<b>2011-15</b>	<b>2016-20</b>	<b>2021-25</b>	
<b><i>Incremental Housing Units</i></b>					
Single Family Units (%)		72%	71%	70%	70%
Multifamily Units (%)		28%	29%	30%	30%
Rental Multifamily		69%	67%	65%	65%
Ownership Multifamily		31%	33%	35%	35%
<b><i>New Housing Units</i></b>					
Single Family Units		15,648	13,938	13,413	14,774
Multifamily Units		6,085	5,693	5,749	6,332
<b>Total New Housing Units</b>		<b>21,733</b>	<b>19,631</b>	<b>19,162</b>	<b>21,105</b>

Source: Wasatch Front Regional Council; U.S. Census; Economics Research Associates.

Based on Provo's historical share of multifamily housing units in Utah County, as well as recent building permit activity, ERA estimates that the city will capture approximately one-third of new multifamily housing in Utah County for the next two decades. Of this new multifamily housing, about 65 percent is estimated to be rental and student housing, and 35 percent is expected to be ownership housing (including condominiums, townhouses, lofts, etc.)

However, there are several major multifamily residential projects planned in the city, which are expected to come online in the next few years. As shown in **Table III-10**, there are approximately 1,344 multifamily units forecast to be completed within the next five years. These projects include 669 rental and housing units and 675 ownership units.

In addition to planned construction, it is ERA's understanding that BYU is planning to demolish seven buildings that currently provide on-campus housing to approximately 1,800 students. Two of the seven Deseret Towers are scheduled for demolition following the 2006-2007 academic year. The demolition of the older dormitories, built in the 1960s and 1970s, is one part of the university's new housing strategy, which has gradually shifted from providing on-campus housing towards forming relationships with private developers to build off-campus apartment-style housing (such as the Alpine Village project). The razing of the two Deseret Towers will result in the loss of approximately 400 student housing units. The remaining five towers will also likely be demolished as well, although the timing of that has not yet been announced. For the purposes of our demand analysis, we estimated a net loss of 400 student rental units in the short term.

In **Table III-11**, ERA subtracts the projected supply from the overall demand for housing units in order to determine unmet housing demand in Provo. Using this unmet housing demand, ERA then estimated a low and high percentage capture rate in Downtown Provo for each of the built product types. The low capture rate assumes that the city will not provide any incentives to encourage that product type in the downtown district. A high capture rate assumes that the city will undertake policy actions to encourage that specific use downtown.

As shown, ERA estimates that in the next ten years, there is unmet demand for between 230 and 770 rental and student housing units and between 150 and 290 multifamily ownership units. In the following ten-year period, there is demand for 260 to 860 rental and student housing units and 280 to 560 ownership multifamily units.

The target market for the rental housing in Downtown Provo will likely include BYU and UVSC students, both single and married, as well as young professional singles and couples. The ownership products will most likely attract a combination of retired/empty nester households, young professional singles, and young married couples. It is ERA's opinion that multifamily housing in Downtown Provo will be less attractive to family households.

Table III-10. Planned Multifamily Residential Development in Provo

<b>Project</b>	<b>Location</b>	<b>Housing Type</b>	<b>No. Units</b>	<b>Status</b>
<b><u>Rental and Student Housing</u></b>				
Timpanogos Gateway	1900 North Canyon	Apartments	15	Under construction
Cirac Apartments	855 North University	Apartments	80	Concept Review
Meridian Apartments	300 North 900 East	Apartments	120	Recommended to Proceed
Maeser School	150 South 500 East	Senior housing	36	Under construction
Joaquin Village	500 North 500 East	Student condos	256	Concept Review
Alpine Village	1350 North University	Student condos	<u>162</u>	Under construction
<b><i>Planned Rental and Student Units</i></b>			<b>669</b>	
<b><i>Planned Demolition</i></b>		Deseret Towers, BYU	<b>-400</b>	Demolition Planned
<b><i>Net New Rental and Student Units</i></b>			<b>269</b>	
<b><u>Multifamily Ownership Housing</u></b>				
Huntingdon Condominiums	156 West 200 South	Family condos	61	Approved
Arbors on the Avenue, Phase I	5200 North University	Family condos	50	Under construction
Arbors on the Avenue, Phase II	5100 North University	Family condos	60	Approved
Brentwood Condominiums	905 North University	Family condos	31	Pending approval
Riverwoods Residential Condos	100 West 4800 North	Family condos	168	Pending approval
Jacobsen Townhomes	320 North 2050 West	Family condos	50-100	Pending approval
Canyon Village Townhomes	400 South State Street	Family condos	38	Under construction
Trellis on the Green	200 West 2280 North	Family condos	43	Under construction
Independence Avenue Townhomes	820 North Independence	Family condos	156	Approved
Country Club Villas Phase II	2600 North University	Family condos	<u>18</u>	Approved
<b><i>Subtotal Multifamily Ownership Units</i></b>			<b>675</b>	
<b>Total Net New Units in Pipeline</b>			<b>944</b>	

Source: City of Provo, ERA.

Table III-11. Analysis of Residential Market Potential in Downtown Provo

<b>New Housing Units by Type</b>	<b>2006-15</b>	<b>2016-25</b>	<b>Total</b>
Projected Demand for Housing in Utah County			
Single Family Units	29,586	28,187	57,773
Multifamily Units	<u>11,778</u>	<u>12,080</u>	<u>23,858</u>
Total New Housing Units	41,364	40,267	81,631
Provo Capture of MF Demand	35%	33%	33%
% Rental Multifamily	65%	65%	65%
% Ownership Multifamily	35%	35%	35%
Provo's Share of MF Demand			
Rental Multifamily	2,600	2,591	5,192
Ownership Multifamily	<u>1,400</u>	<u>1,395</u>	<u>2,795</u>
Total Demand MF Units in Provo	4,001	3,986	7,987
Units in Pipeline in Provo			
Rental/ Student Housing Units	269	0	269
Ownership Units	<u>675</u>	<u>0</u>	<u>675</u>
Total MF Units in Pipeline	944	0	944
Unmet Demand in Provo			
Rental/ Student Housing Units	2,331	2,591	4,923
Ownership Units	<u>725</u>	<u>1,395</u>	<u>2,120</u>
Total Multifamily Units	3,057	3,986	7,043
<b>Downtown Provo Capture Rate</b>			
Rental/ Student Housing Units			
Low Capture Rate	10%	10%	
High Capture Rate	33%	33%	
Ownership Units			
Low Capture Rate	20%	20%	
High Capture Rate	40%	40%	
<b>Downtown Provo Housing Demand</b>			
<b>Rental/Student Housing Units</b>			
Low Capture	233	259	492
High Capture	769	855	1,624
<b>Ownership Multifamily Units</b>			
Low Capture	145	279	424
High Capture	290	558	848
<b>Total Multifamily Units</b>			
Low Capture	378	538	916
High Capture	1,059	1,413	2,473

Source: Wasatch Front Regional Council; U.S. Census; Economics Research Associates.

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## SECTION IV: OFFICE MARKET POTENTIAL

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This section reviews key trends in the office market in Utah County and evaluates the potential demand for office in Downtown Provo.

### REGIONAL OFFICE MARKET TRENDS

As discussed in Section II, current employment in Utah County is dominated by the educational services sector, the business and professional services sector, and the information sector. This is largely due to presence of two major universities, BYU and USVC, and the influence of the technology sector. Although employment dipped slightly in the 2000 to 2002 period, the Utah County economy has quickly recovered jobs to surpass employment levels in 2000.

Historical office inventory in Utah County by submarkets is summarized in **Table IV-1**. As shown, Utah County's inventory of office space has grown from 5.4 million in 2001 to 7.3 million in 2006, an increase of nearly 2 million square feet. The majority of the inventory increase during this period has occurred in the Provo/South Utah County submarket, which has added 1.2 million square feet of office space. Provo's market share of the county's office supply has increased from 37 percent to 44 percent in five years (see **Figure IV-1**).

The county's inventory of office space is dominated by Class A and Class B space, constituting 84 percent of the total supply.<sup>1</sup> In North County, Class A and Class B space make up almost all of the existing office space, while in Orem, they compose 76 percent of the space. In Provo/South County, there is approximately 1.3 million square feet of Class A space and almost 1.5 million square feet of Class B space, composing 87 percent of the submarket's office space. Provo contains 37 percent of the county's Class A space, 56 percent of the county's Class B space, and 37 percent of Utah County's office condo space.

**Figure IV-2** shows steady gains in the supply of office in Utah County from 2001 to 2004. From 2004 to 2005, the inventory of Class B office space declined slightly while the inventory of Class A space increased. There have been no supply additions in Utah County from 2005 to the second quarter of 2006.

Provo's inventory, as illustrated in **Figure IV-3**, has also increased from 2001 to 2006. Class A buildings have been added to this submarket for an inventory increase of 560,000 square feet during this period. Much of this growth has occurred in the recently completed Riverwoods Business Park.. Vacancy rates by submarket and class are presented in **Table IV-2**. From 2002 to 2006, Utah County's vacancy rates have been

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<sup>1</sup> Class A office space can be defined as buildings with excellent location and access, which attract high quality tenants, and are managed professionally. Building materials are high quality and rents are competitive with other new buildings. Class B buildings have good locations, management, and construction, but are typically older buildings with less prestige than Class A buildings.

steadily declining as the economy has strengthened. **Figure IV-4** illustrates the trend towards decreasing vacancy rates in all submarkets. Whereas Utah County's office vacancy rate in 2002 was nearly 25 percent, it is now just 8.8 percent. Vacancy rates for all building types have declined, though currently the office condo market is the tightest. However, as the economy continues to improve, the demand for Class A office space is once again increasing.

During the recession, Provo had the strongest office market, maintaining vacancy rates below 19 percent compared to nearly 30 percent in Orem. Currently, Provo has a vacancy rate of 10.6 percent, higher than the other submarkets, due to the increased inventory within the submarket. North Utah County has the tightest office supply, with vacancy rate at just three percent currently. Additions to the supply in North Utah County have not been sufficient to meet the strong demand for office in that submarket.

Net absorption trends from 2002 to 2006 are summarized in **Table IV-3** and in **Figure IV-5**. Net absorption in Utah County overall has been positive, at an annual average of 486,000 square feet. The strongest year was 2004, when the market absorbed 886,000 square feet of office space. Net absorption has been positive for all office types in the county.

The Orem submarket has been the weakest over the last four years. Net absorption was negative in 2002 (due to the recession and supply additions) and again in 2005. When averaged over the five-year period, net absorption in Orem was 101,000 square feet annually. By contrast, Provo was the strongest submarket in terms of net absorption from 2002 to 2006, at an average of 272,000 square feet annually. Net absorption has been positive throughout this period. North Utah County has also seen gains in net absorption from 2002 to 2006, as this submarket has become increasingly popular.

Table IV-1. Historical Trends in Office Inventory in Utah County, 2001-2006.

Submarket	2001	2002	2003	2004	2005	Q2 2006	Change 2001-06
Orem							
Class A	1,166,021	1,276,457	1,297,808	1,297,808	1,294,985	1,294,985	128,964
Class B	482,158	596,289	606,279	875,583	670,931	670,931	188,773
Condo	545,718	598,078	619,078	623,082	618,941	618,941	73,223
<b>Overall</b>	<b>2,193,897</b>	<b>2,470,824</b>	<b>2,523,165</b>	<b>2,796,473</b>	<b>2,584,857</b>	<b>2,584,857</b>	<b>390,960</b>
Provo/ Utah County South							
Class A	734,316	917,987	917,987	955,987	1,290,800	1,290,800	556,484
Class B	1,040,613	1,141,012	1,211,520	1,462,799	1,474,488	1,474,488	433,875
Condo	227,880	292,100	292,100	270,560	431,404	431,404	203,524
<b>Overall</b>	<b>2,002,809</b>	<b>2,351,099</b>	<b>2,421,607</b>	<b>2,689,346</b>	<b>3,196,692</b>	<b>3,196,692</b>	<b>1,193,883</b>
Utah County North							
Class A	717,743	823,035	850,871	893,671	885,780	885,780	168,037
Class B	346,800	499,124	499,124	536,744	518,254	518,254	171,454
Condo	97,620	97,620	97,620	168,620	127,220	127,220	29,600
<b>Overall</b>	<b>1,162,163</b>	<b>1,419,779</b>	<b>1,447,615</b>	<b>1,599,035</b>	<b>1,531,254</b>	<b>1,531,254</b>	<b>369,091</b>
Total County							
Class A	2,618,080	3,017,479	3,066,666	3,147,466	3,471,565	3,471,565	853,485
Class B	1,869,571	2,236,425	2,316,923	2,875,126	2,663,673	2,663,673	794,102
Condo	871,218	987,798	1,008,798	1,062,262	1,177,565	1,177,565	306,347
<b>Overall</b>	<b>5,358,869</b>	<b>6,241,702</b>	<b>6,392,387</b>	<b>7,084,854</b>	<b>7,312,803</b>	<b>7,312,803</b>	<b>1,953,934</b>
Provo's Market Share							
Class A	28.0%	30.4%	29.9%	30.4%	37.2%	37.2%	-
Class B	55.7%	51.0%	52.3%	50.9%	55.4%	55.4%	-
Condo	26.2%	29.6%	29.0%	25.5%	36.6%	36.6%	-
<b>Provo Share of County</b>	<b>37.4%</b>	<b>37.7%</b>	<b>37.9%</b>	<b>38.0%</b>	<b>43.7%</b>	<b>43.7%</b>	<b>-</b>

Source: Commerce CRG; ERA

Figure IV-1. Utah County Office Inventory by Submarket

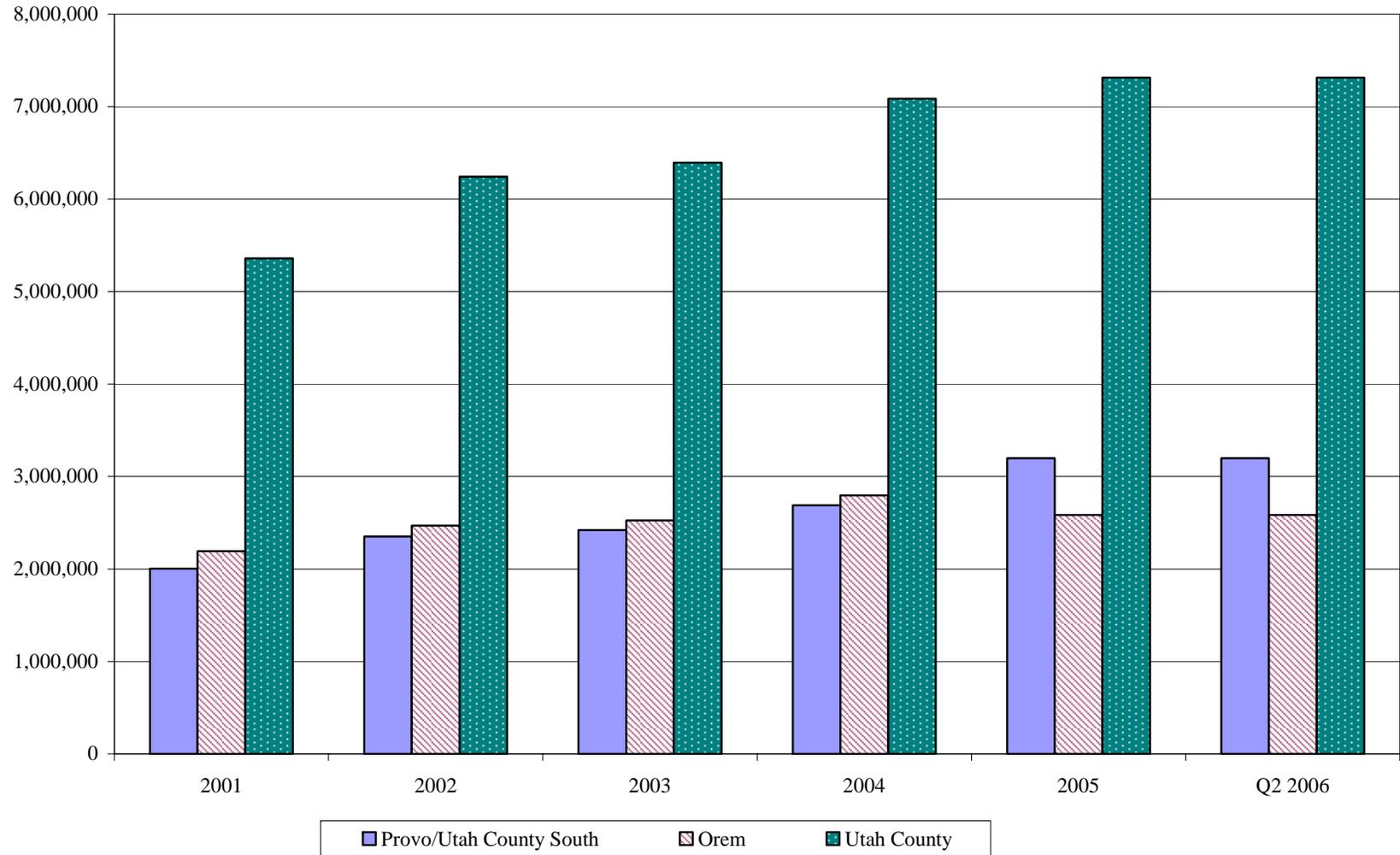


Figure IV-2. Utah County Office Space by Class

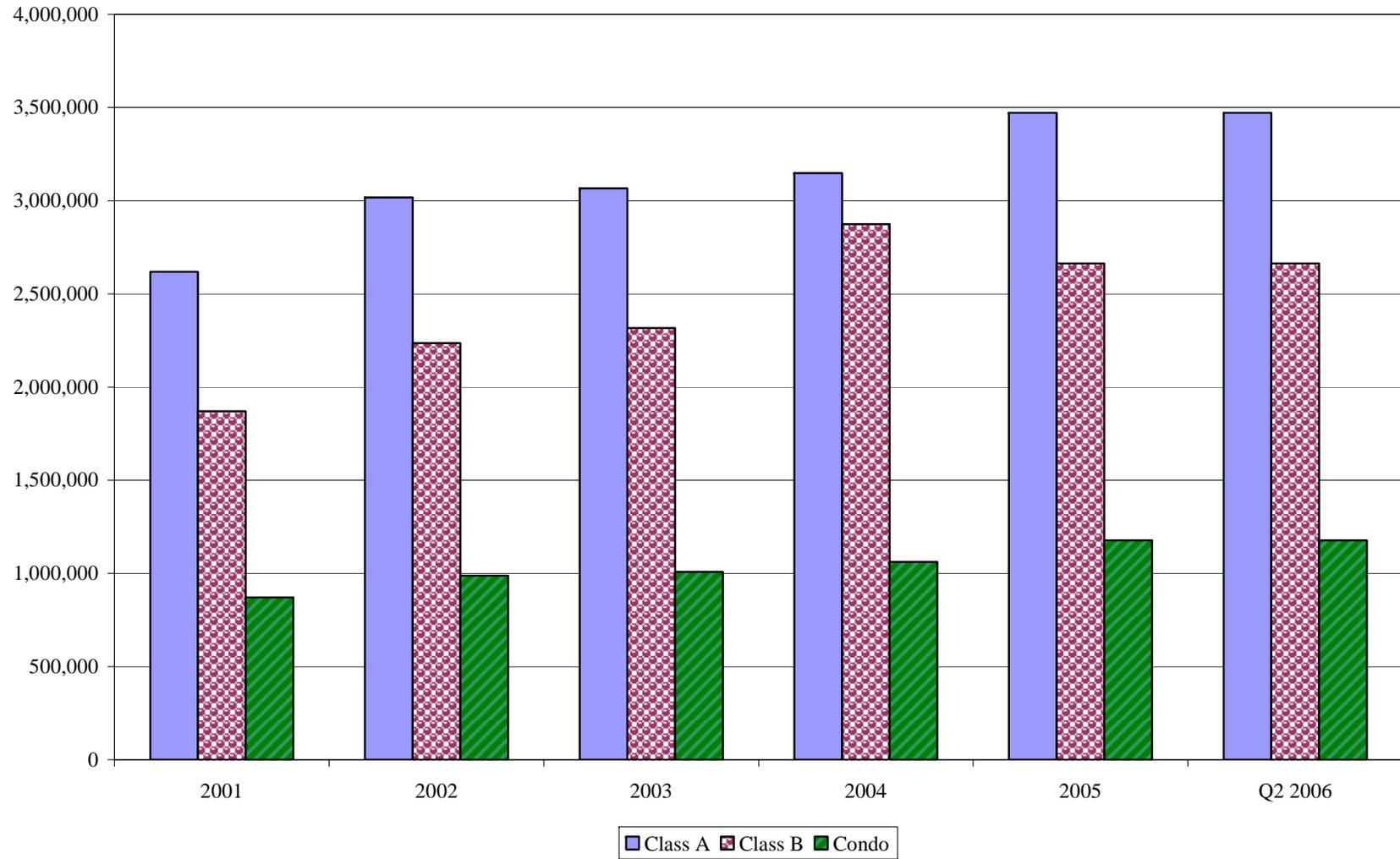


Figure IV-3 Office Inventory in Provo/Utah County South by Class

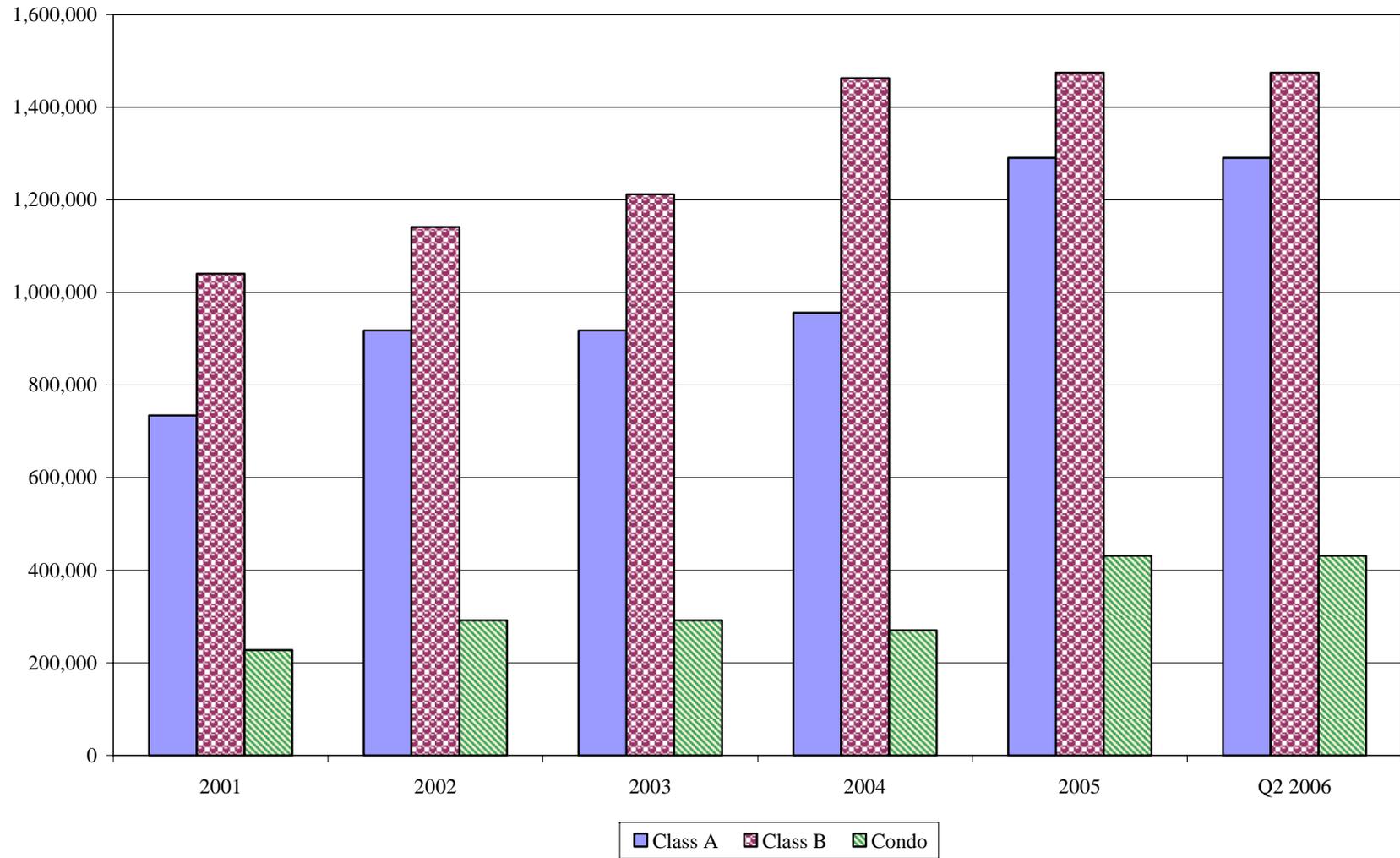


Table IV-2. Historical Office Vacancy Trends in Utah County, 2001-2006

<b>Submarket</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Orem						
Class A	12.45%	37.92%	19.65%	15.02%	13.31%	10.66%
Class B	17.73%	26.15%	17.71%	15.21%	13.29%	12.39%
Condo	20.75%	15.37%	7.29%	12.58%	11.25%	5.83%
<b>Overall</b>	<b>15.68%</b>	<b>29.62%</b>	<b>16.16%</b>	<b>14.54%</b>	<b>12.81%</b>	<b>9.95%</b>
Provo/ Utah County South						
Class A	19.19%	21.07%	20.04%	6.80%	13.05%	13.57%
Class B	8.94%	19.48%	12.75%	11.51%	11.41%	9.96%
Condo	8.60%	9.95%	11.04%	4.67%	5.53%	3.75%
<b>Overall</b>	<b>12.66%</b>	<b>18.92%</b>	<b>15.31%</b>	<b>9.14%</b>	<b>11.28%</b>	<b>10.58%</b>
Utah County North						
Class A	17.71%	32.79%	25.58%	15.92%	17.20%	2.73%
Class B	39.95%	17.46%	12.24%	13.55%	8.90%	3.03%
Condo	25.57%	4.34%	9.18%	2.86%	6.47%	5.29%
<b>Overall</b>	<b>25.01%</b>	<b>25.45%</b>	<b>19.87%</b>	<b>13.75%</b>	<b>13.50%</b>	<b>3.04%</b>
Total County						
Class A	15.78%	31.40%	21.41%	12.78%	14.21%	9.72%
Class B	16.96%	20.81%	13.94%	13.02%	11.39%	9.23%
Condo	18.11%	12.68%	8.56%	9.02%	8.64%	5.01%
<b>Overall</b>	<b>16.57%</b>	<b>24.64%</b>	<b>16.68%</b>	<b>12.31%</b>	<b>12.29%</b>	<b>8.78%</b>

Source: Commerce CRG; ERA

Figure IV-4. Office Vacancy Rate by Submarket

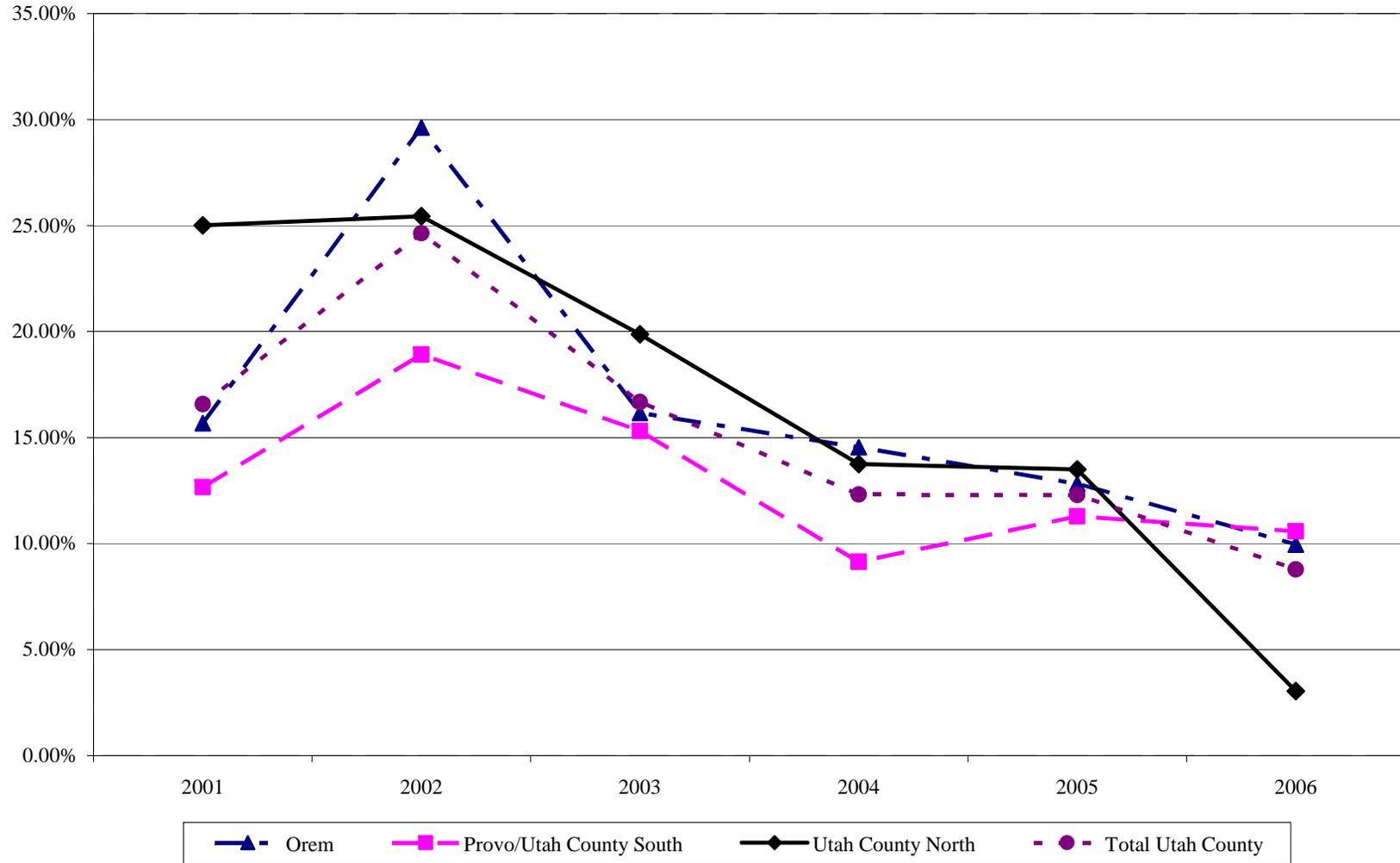


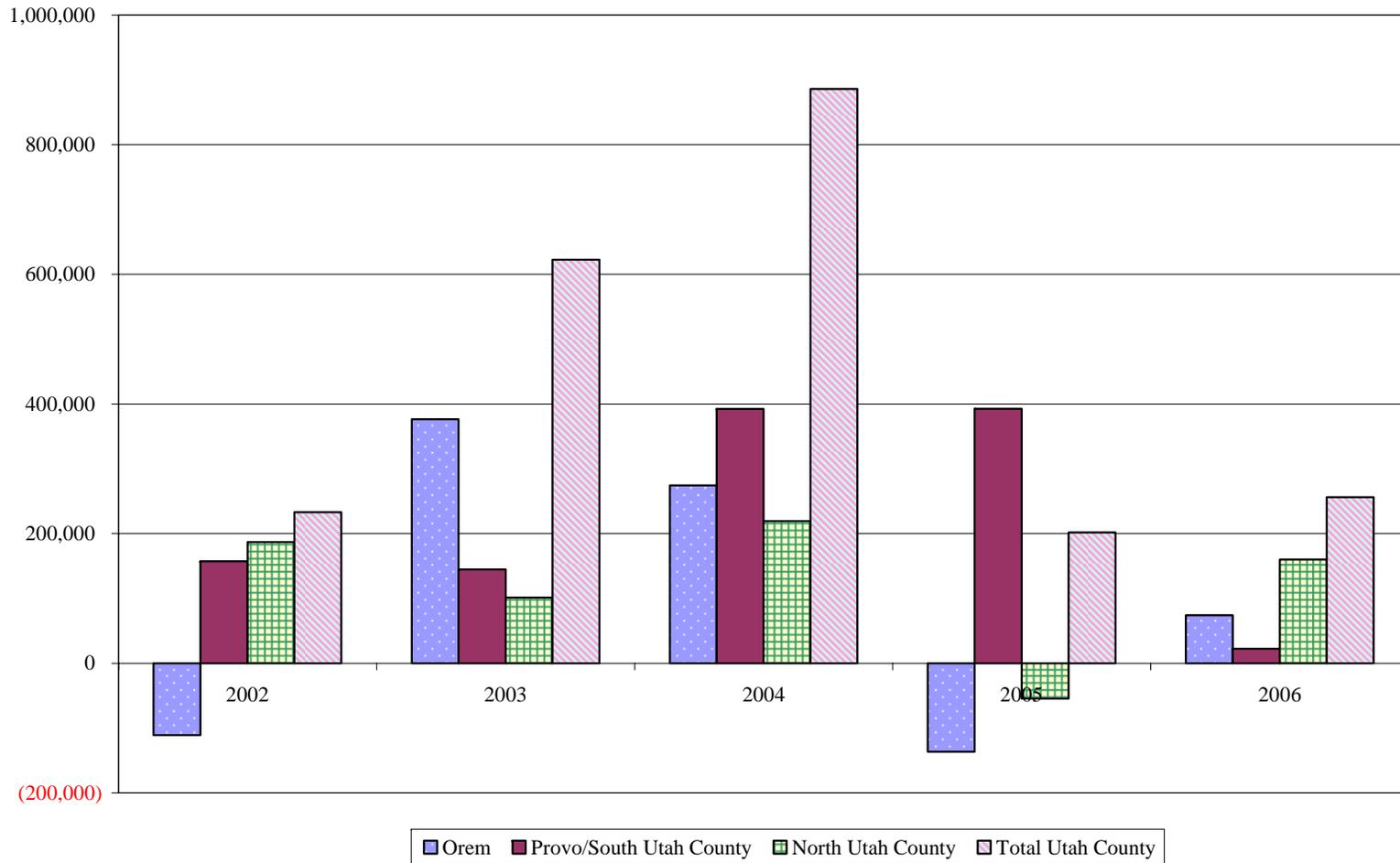
Table IV-3. Net Absorption in Utah County, 2002-2006<sup>1</sup>

Submarket	2002	2003	2004	2005	2006	Ann Avg.
Orem						
Class A	(228,427)	250,355	60,166	19,678	34,370	25,443
Class B	43,696	58,532	243,503	(160,628)	6,040	46,276
Condo	73,673	67,779	(29,254)	4,613	33,591	29,203
<b>Overall</b>	<b>(111,058)</b>	<b>376,666</b>	<b>274,415</b>	<b>(136,337)</b>	<b>74,001</b>	<b>100,922</b>
Provo/ Utah County South						
Class A	131,204	9,437	157,002	231,321	(6,706)	132,241
Class B	(28,829)	138,283	237,407	11,818	21,314	89,670
Condo	54,744	(3,177)	(1,914)	149,600	7,699	49,813
<b>Overall</b>	<b>157,119</b>	<b>144,543</b>	<b>392,495</b>	<b>392,739</b>	<b>22,307</b>	<b>271,724</b>
Utah County North						
Class A	(37,484)	80,055	118,148	(17,963)	128,205	35,689
Class B	203,719	26,060	25,967	8,155	30,408	65,975
Condo	20,720	(4,720)	75,140	(44,813)	1,500	11,582
<b>Overall</b>	<b>186,955</b>	<b>101,395</b>	<b>219,255</b>	<b>(54,621)</b>	<b>160,113</b>	<b>113,246</b>
Total County						
Class A	(134,707)	339,847	335,316	233,036	155,869	193,373
Class B	218,586	222,875	506,877	(140,655)	57,762	201,921
Condo	149,137	59,882	43,972	109,400	42,790	90,598
<b>Overall</b>	<b>233,016</b>	<b>622,604</b>	<b>886,165</b>	<b>201,781</b>	<b>256,421</b>	<b>485,892</b>

<sup>1</sup> Estimated based on change in occupied space from previous year.

Source: Commerce CRG; ERA

Figure IV-5. Net Absorption Trends in Utah County by Submarket, 2002-2006



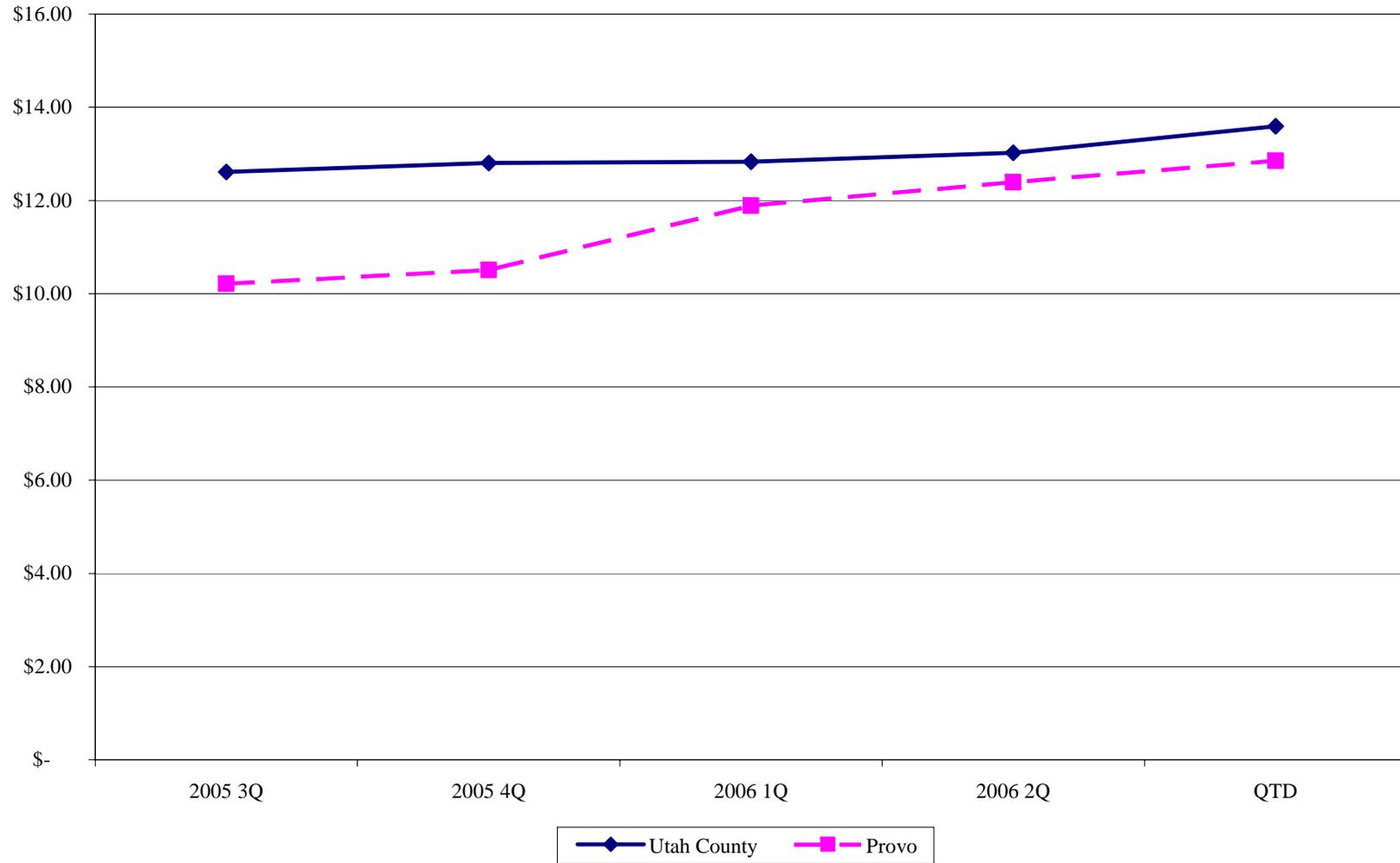
Lease rates in Utah County have increased from an average of \$12.61 per square foot in 2005 to \$13.59 per square foot currently, as occupancy rates have strengthened (**Table IV-4** and **Figure IV-6**). Office brokers report that average lease rates continue to rise in Utah County, as demand grows and vacancy rates continue to decline. In Provo, the average lease rate climbed from \$10.21 to \$12.85 during the same period.

**Table IV-4. Lease Rates in Provo and Utah County**

<b>Period</b>	<b>Utah Co.</b>		<b>Provo</b>	
2005 3Q	\$	12.61	\$	10.21
2005 4Q	\$	12.80	\$	10.51
2006 1Q	\$	12.83	\$	11.89
2006 2Q	\$	13.02	\$	12.39
QTD	\$	13.59	\$	12.85

Source: Costar; ERA

Figure IV-6. Lease Rates for Utah County and Provo



## PLANNED OFFICE DEVELOPMENT

**Table IV-5** provides a summary of planned office projects in Provo. As shown, there is approximately 88,000 square feet of office development in the pipeline. All of these projects have been approved, and can be expected to be completed within the next five years.

## OFFICE MARKET DEMAND

In order to estimate potential demand for office use in Downtown Provo, ERA first examined Utah County employment projections for the next 20 years. A summary of employment projections by industry as developed by the Governor's Office of Planning and Budget is shown in **Table IV-6**. As indicated, total employment is expected to grow from 232,000 in 2005 to 313,000 in 2015. By 2025, Utah County's employment is forecast to reach 396,000. The employment categories expected to experience the highest increases in jobs include health and education services; professional and business services; and government.

The calculation of future demand for office space between 2005 and 2015 and 2015 and 2025 is shown in **Table IV-7**. ERA used the following methodology:

- Using official employment projections, ERA calculated the change in employment by major industry sector.
- For each industry sector, ERA estimated the percentage of the new employment that would use office space.
- The demand for employment space was translated into square footage using industry standards for the ratio of net occupied square feet per employee (225 square feet per office employee).
- The resulting amount of square footage was then adjusted to account for a 95 percent occupancy rate at equilibrium.
- ERA then estimated the share of Utah County future demand that could be captured by the city of Provo.
- Planned office development was subtracted from the office development potential.
- From the balance of potential office demand, ERA estimated the development potential in Downtown Provo by using low and high capture rates.

It is ERA's opinion that Downtown Provo can capture between 20 percent and 50 percent of the citywide office development potential. The expansion of the court complex in Downtown Provo, with the addition of a new Justice Court and a possible federal court, will create demand for more office space.

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Based on this analysis, ERA estimates that Downtown Provo could absorb approximately 550,000 to 1.4 million square feet of new office development in the next ten years. Downtown Provo has the potential for another 620,000 to 1.6 million square feet of office space in the following decade. This reflects an average annual absorption of between 60,000 and 150,000 square feet.

Table IV-5. Summary of Planned Office Projects in Provo

<b>Project</b>	<b>Location</b>	<b>Commercial Land Use</b>	<b>Size (SF)</b>	<b>Status</b>
Comer Office Building	124 North 900 East	Professional offices	9,752	Approved
Halestorm Studio	5132 North 300 West	Office/ soundstage	40,674	Approved
ESG at Riverside	300 West 4800 North	Professional offices	<u>37,350</u>	Approved
Total Planned Office Space			87,776	

Source: City of Provo, ERA.

Table IV-6. Projected Office Employment in Utah County, 2005-2025<sup>1</sup>

Employment by Sector	Employment			Change in Jobs		% Office Users	Office Emp Change	
	2005	2015	2025	2005-15	2015-25		2005-15	2015-25
Natural Resources and Mining	3,802	3,612	3,612	(190)	-	0%	-	-
Construction	17,792	24,926	28,577	7,134	3,651	0%	-	-
Manufacturing	21,164	24,890	30,112	3,726	5,222	5%	186	261
Trade, Trans., Utilities	35,917	44,688	51,023	8,771	6,335	5%	439	317
Information	8,449	11,206	12,491	2,757	1,285	90%	2,481	1,157
Financial Activity	18,341	23,497	27,997	5,156	4,500	95%	4,898	4,275
Professional & Business Services	31,571	45,600	59,768	14,029	14,168	95%	13,328	13,460
Education & Health Services	37,247	56,224	86,010	18,977	29,786	10%	1,898	2,979
Leisure & Hospitality	17,426	23,614	28,176	6,188	4,562	10%	619	456
Other Services	13,582	18,346	23,122	4,764	4,776	5%	238	239
Government	26,694	36,894	45,218	10,200	8,324	25%	2,550	2,081
Total	231,985	313,497	396,106	81,512	82,609		26,637	25,224

<sup>1</sup>Employment projections take into account all wage and salary jobs, including self-employment.

Source: 2005 Baseline Projections, Governor's Office of Planning and Budget; ERA

Table IV-7. Estimated Potential Demand for Office Development in Downtown Provo

	2005-2015	2015-2025	Total Demand 2005-2025
<b><u>Employment Growth</u></b>			
Change in Total Employment in Utah County (jobs)	81,512	82,609	164,121
Change in Office Employment	26,637	25,224	51,860
<b><u>Office Demand Growth</u></b>			
Office Demand Growth (sq.ft.) @ 225 sf per new employee	5,993,235	5,675,299	11,668,534
Total Vacant Office Inventory (sq. ft.)			
Total Excess Supply (sq. ft.)	(284,058)		
Office Occupancy in Equilibrium (%)	95%	95%	
Net Office Demand in Utah County (sq. ft.)	5,709,177	5,675,299	11,384,475
Provo Share of New Office Development	50.0%	55.0%	52%
Provo Office Potential	2,854,588	3,121,414	5,976,003
Planned Office Development in Provo	87,776	0	0
Net Supportable Office Development in Provo	2,766,812	3,121,414	5,976,003
<b>DOWNTOWN PROVO POTENTIAL</b>			
Low Capture Rate	20%	20%	20%
High Capture Rate	50%	50%	50%
<b>OFFICE DEMAND IN DOWNTOWN PROVO</b>			
Low Capture (sq. ft.)	553,362	624,283	1,177,645
High Capture (sq. ft.)	1,383,406	1,560,707	2,944,113

Source: ERA

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## SECTION V: RETAIL AND DINING POTENTIAL

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In this section, ERA assesses the potential demand for retail and dining in Downtown Provo. Retail is defined as stores selling apparel, home furnishings, general merchandise, etc. Dining includes all food and beverage establishments.

### TAXABLE RETAIL SALES TRENDS

#### *Retail Stores*

Historical taxable retail sales by category (excluding food and beverage) for Utah County are shown in **Table V-1**. As shown, retail sales have grown at an average annual compounded rate of 6.9 percent from 1994 to 2004. Taxable retail sales of general merchandise, apparel and accessories, and miscellaneous retail increased at the highest rate, while taxable retail sales in furniture and food stores grew at the slowest rate. Per capita sales for Utah County totaled \$9,050 in 2004, and grew at an average compounded rate of 2.5 percent annually over the ten-year period (see **Table V-2**).

Taxable retail sales for Provo from 1994 to 2004 are presented in **Table V-3** and **Figure V-1**. Provo's retail sales increased significantly in 1998 when the 950,000-square-foot Provo Towne Centre opened, and again in 1999 with the opening of the 190,000-square-foot Shops at Riverwoods. The average annual rate of growth for taxable retail sales in the city has been 3.6 percent over the past decade. The retail category leading the sales growth during this period is apparel and accessories, largely due to retail additions at the new shopping centers.

#### *Dining*

Utah County's taxable sales on dining have increased steadily from 1994 to 2004 at an annual compounded rate of eight percent, as shown in **Table V-4**. Per capita spending on dining also grew from \$437 to \$710 at an average annual rate of five percent during this period. In Provo, taxable sales on dining grew from \$57 million in 1994 to \$87 million in 2004, at an average annual growth rate of 4.3 percent (**Table V-5**). The growth in spending on dining in Utah County and Provo is illustrated in **Figure V-2**.

Table V-1. Utah County Taxable Retail Store Sales, 1994-2004 (in thousands of dollars)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Rate of Growth <sup>1</sup>
Apparel & Accessory Stores	\$58,661	\$62,763	\$71,047	\$72,968	\$93,434	\$109,927	\$118,407	\$115,824	\$127,396	\$126,901	\$140,696	9.14%
Gen. Merchandise	272,143	281,784	303,167	362,267	392,495	436,184	488,010	550,677	588,600	615,252	723,694	10.27%
Food Stores	357,801	382,189	431,602	446,352	467,166	485,156	501,927	481,910	465,019	455,140	438,532	2.06%
Furniture	143,265	157,061	183,170	189,126	206,047	208,187	223,722	204,904	213,246	213,098	228,336	4.77%
Bldng & Garden	146,764	167,651	186,237	187,746	207,017	238,286	226,012	218,682	217,862	240,195	312,958	7.87%
Motor Vehicles	296,512	325,086	366,727	367,965	396,251	431,618	467,669	508,259	530,028	557,028	597,801	7.26%
Miscellaneous	140,690	171,155	192,246	212,287	235,482	243,238	253,847	271,262	281,878	298,067	309,416	8.20%
<b>Total County</b>	<b>\$1,415,836</b>	<b>\$1,547,689</b>	<b>\$1,734,196</b>	<b>\$1,838,711</b>	<b>\$1,997,892</b>	<b>\$2,152,596</b>	<b>\$2,279,593</b>	<b>\$2,351,519</b>	<b>\$2,424,030</b>	<b>\$2,505,680</b>	<b>\$2,751,432</b>	<b>6.87%</b>
Annual Growth	-	9.3%	12.1%	6.0%	8.7%	7.7%	5.9%	3.2%	3.1%	3.4%	9.8%	

<sup>1</sup> Compounded annual average from 1994 to 2004

Source: Utah State Tax Commission; ERA

Table V-2. Utah County Per Capita Taxable Retail Store Sales, 1994-2004

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Rate of Growth
Utah County Population	302,125	311,031	321,171	329,386	339,904	346,997	370,862	382,482	391,569	397,170	403,352	2.93%
<b>Per Capita Sales</b>												
Apparel & Accessory Stores	\$194	\$202	\$221	\$222	\$275	\$317	\$319	\$303	\$325	\$320	\$349	6.03%
Gen. Merchandise <sup>1</sup>	928	933	972	1133	1189	1295	1355	1483	1548	1596	1848	7.13%
Food Stores <sup>2</sup>	3553	3686	4032	4065	4123	4194	4060	3780	3563	3438	3262	-0.85%
Furniture	474	505	570	574	606	600	603	536	545	537	566	1.79%
Bldng & Garden	486	539	580	570	609	687	609	572	556	605	776	4.79%
Motor Vehicles	981	1045	1142	1117	1166	1244	1261	1329	1354	1402	1482	4.21%
Miscellaneous	466	550	599	644	693	701	684	709	720	750	767	5.12%
<b>Total County</b>	<b>\$7,082</b>	<b>\$7,461</b>	<b>\$8,116</b>	<b>\$8,325</b>	<b>\$8,661</b>	<b>\$9,038</b>	<b>\$8,893</b>	<b>\$8,711</b>	<b>\$8,611</b>	<b>\$8,647</b>	<b>\$9,050</b>	<b>2.48%</b>
Annual Growth	-	5.4%	8.8%	2.6%	4.0%	4.3%	-1.6%	-2.0%	-1.2%	0.4%	4.7%	

<sup>1</sup> Adjusted from taxable sales by 3% to reflect non taxable drug sales

<sup>2</sup> Adjusted taxable sales by 3 times to reflect total food store sales

Source: Utah State Tax Commission; ERA

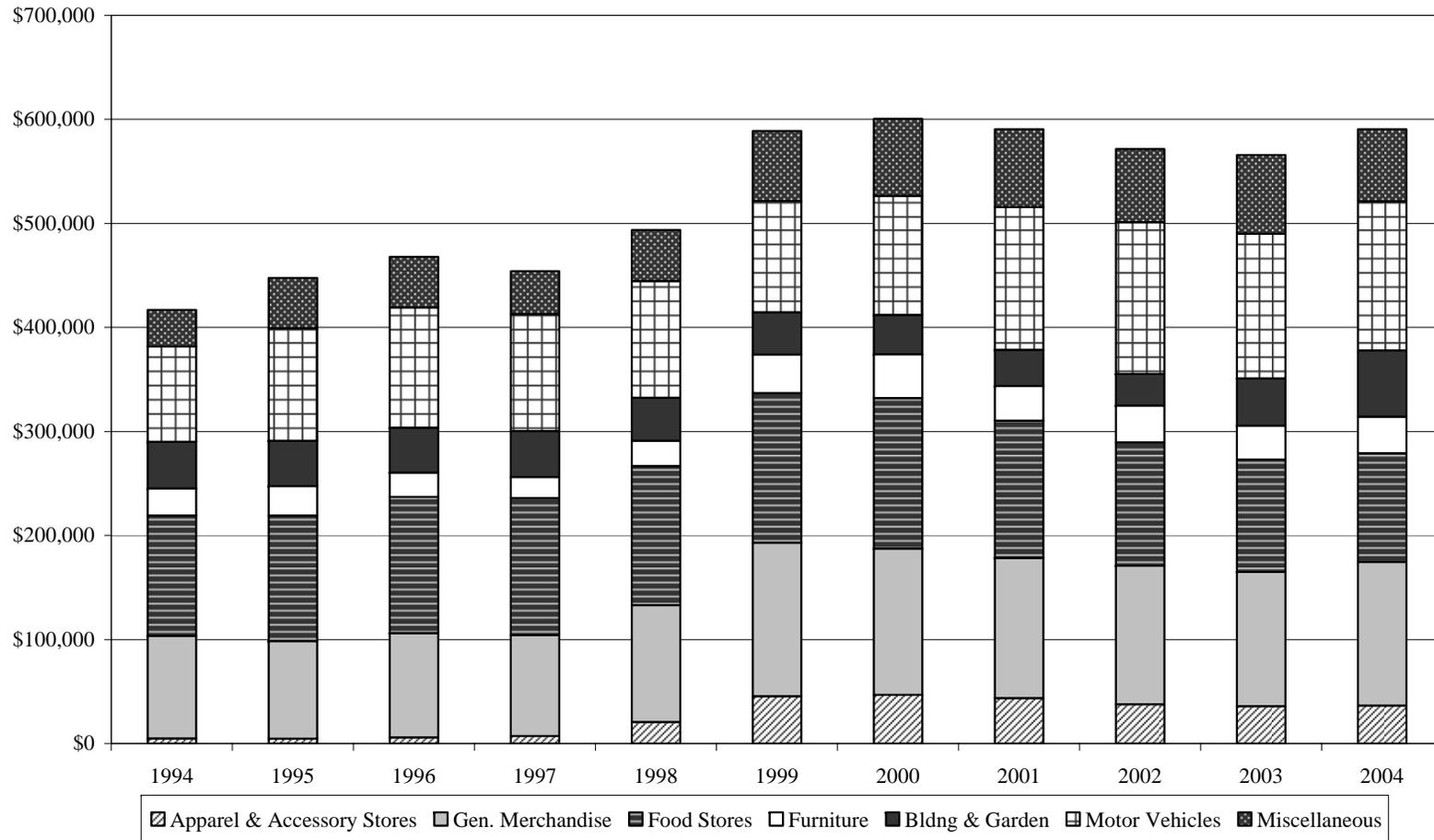
Table V-3. Provo Taxable Retail Store Sales, 1994-2004 (in thousands of dollars)

Retail Category	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Rate of Growth <sup>1</sup>
Apparel & Accessory Stores	\$4,911	\$4,843	\$5,982	\$7,274	\$20,675	\$45,440	\$46,885	\$43,817	\$37,816	\$35,946	\$36,660	22.3%
Gen. Merchandise	\$98,717	\$93,879	\$100,111	\$97,067	\$112,505	\$147,541	\$140,520	\$134,773	\$133,257	\$128,955	\$137,863	3.4%
Food Stores	\$115,665	\$120,658	\$131,109	\$131,630	\$133,824	\$144,022	\$144,897	\$131,883	\$118,599	\$108,161	\$104,569	-1.0%
Furniture	\$26,027	\$28,339	\$23,381	\$20,287	\$24,216	\$36,941	\$41,994	\$33,278	\$35,292	\$32,646	\$35,061	3.0%
Bldng & Garden	\$44,936	\$43,332	\$43,128	\$44,268	\$41,146	\$40,637	\$37,816	\$34,908	\$30,308	\$45,382	\$63,778	3.6%
Motor Vehicles	\$91,558	\$108,161	\$115,729	\$112,231	\$112,299	\$106,899	\$114,337	\$137,110	\$145,960	\$139,181	\$143,330	4.6%
Miscellaneous	\$35,096	\$48,398	\$48,566	\$41,339	\$48,998	\$67,394	\$74,044	\$74,749	\$70,342	\$75,578	\$69,345	7.0%
<b>Total City of Provo</b>	<b>\$416,910</b>	<b>\$447,610</b>	<b>\$468,006</b>	<b>\$454,096</b>	<b>\$493,663</b>	<b>\$588,874</b>	<b>\$600,493</b>	<b>\$590,518</b>	<b>\$571,574</b>	<b>\$565,849</b>	<b>\$590,606</b>	<b>3.5%</b>
Annual Growth	-	7.4%	4.6%	-3.0%	8.7%	19.3%	2.0%	-1.7%	-3.2%	-1.0%	4.4%	
Total Utah County	\$1,547,933	\$1,697,424	\$1,899,973	\$2,016,412	\$2,196,368	\$2,375,786	\$2,514,036	\$2,592,198	\$2,675,039	\$2,769,559	\$3,037,854	7.0%
<b>Provo Share of County</b>	<b>26.9%</b>	<b>26.4%</b>	<b>24.6%</b>	<b>22.5%</b>	<b>22.5%</b>	<b>24.8%</b>	<b>23.9%</b>	<b>22.8%</b>	<b>21.4%</b>	<b>20.4%</b>	<b>19.4%</b>	<b>23.2%</b>

<sup>1</sup> Average annual growth rate from 1994 to 2004

Source: Utah State Tax Commission; ERA

Figure V-1. Provo's Taxable Retail Sales by Category, 1994-2004



Source: Utah State Tax Commission, ERA.

Table V-4. Utah County Dining Taxable Retail Sales

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Rate of Growth <sup>1</sup>
Taxable Sales (thousands of \$)	132,097	149,735	165,777	177,701	198,476	223,190	234,443	240,679	251,010	263,879	286,423	8.0%
Annual Growth	-	13.4%	10.7%	7.2%	11.7%	12.5%	5.0%	2.7%	4.3%	5.1%	8.5%	
Per Capita Sales (\$)	437	481	516	539	584	643	632	629	641	664	710	5.0%
Annual Growth	-	10.1%	7.2%	4.5%	8.2%	10.2%	-1.7%	-0.5%	1.9%	3.6%	6.9%	

<sup>1</sup> Compounded annual average from 1994 to 2004

Source: Utah State Tax Commission; ERA

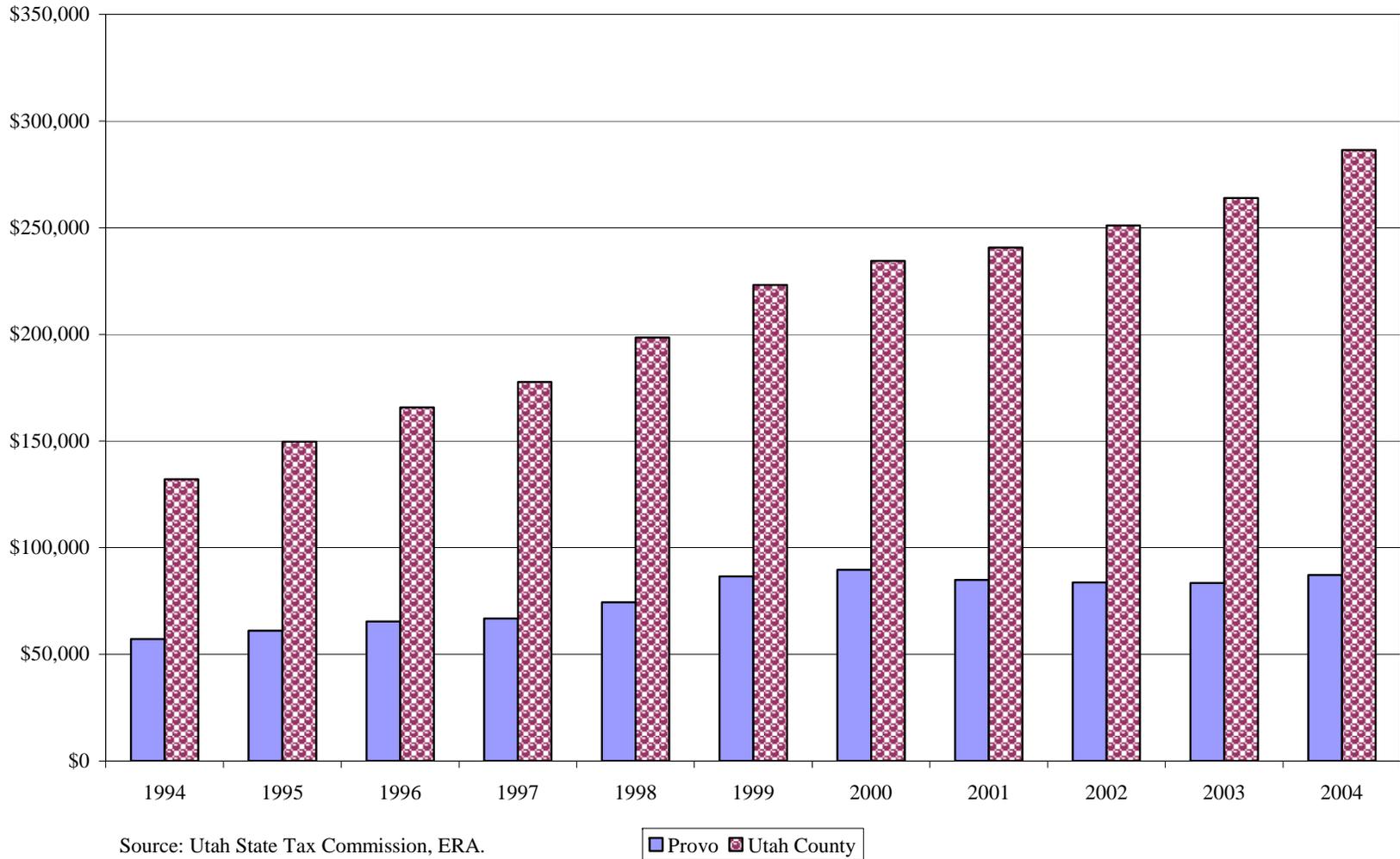
Table V-5. Provo Dining Taxable Retail Sales

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Rate of Growth <sup>1</sup>
Provo Taxable Sales	\$57,138	\$61,081	\$65,344	\$66,837	\$74,404	\$86,524	\$89,696	\$84,940	\$83,687	\$83,537	\$87,201	4.3%
Annual Growth		6.9%	7.0%	2.3%	11.3%	16.3%	3.7%	-5.3%	-1.5%	-0.2%	4.4%	
Utah County Taxable Sales	\$132,097	\$149,735	\$165,777	\$177,701	\$198,476	\$223,190	\$234,443	\$240,679	\$251,010	\$263,879	\$286,423	8.0%
<b>Provo Share of County</b>	<b>43.3%</b>	<b>40.8%</b>	<b>39.4%</b>	<b>37.6%</b>	<b>37.5%</b>	<b>38.8%</b>	<b>38.3%</b>	<b>35.3%</b>	<b>33.3%</b>	<b>31.7%</b>	<b>30.4%</b>	<b>53.7%</b>

<sup>1</sup> Average annual growth rate from 1994 to 2004

Source: Utah State Tax Commission; ERA

Figure V-2. Taxable Dining Sales, 1994-2004



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## COMPETITIVE RETAIL ENVIRONMENT

### *Retail Stores*

The environment for retail development in Utah County has become increasingly competitive. In the late 1990s, the two largest enclosed shopping centers in the county, University Mall in Orem and Provo's Town Centre, were in intense competition for anchor tenants. More recently, the competition has extended beyond the two cities to include smaller suburban towns along the I-15 corridor, which have captured much of the region's recent big-box retail development.

In 1994, 29.4 percent of the county's taxable retail sales occurred in Provo. By 2004, 21.5 percent of Utah County's taxable retail sales were captured in Provo (see **Table V-6**). This dynamic is pronounced in retail categories like general merchandise, building and garden, motor vehicles, and miscellaneous retail. Similarly, the percentage of county retail sales captured in Orem has declined from 44 percent in 1994 to 38 percent in 2004 (see **Table V-7**). This data confirms that much of the new households and retail spending is occurring outside of Provo and Orem.

A comparison of Provo and Orem's capture of Utah County taxable sales is presented in **Table V-8**. Provo's total taxable retail sales in 2004 were \$590 million, compared to over \$1 billion in Orem. Orem holds 38 percent of the county's taxable sales, while Provo has nearly 22 percent. In nearly every retail category, Orem has a larger share of the county's retail spending than Provo (with the exception of food stores). The difference in market share is particularly pronounced in the categories of apparel and accessories, furniture, general merchandise, and miscellaneous retail.

### *Dining*

Like retail, over the last ten years, many new dining establishments in Utah County have been located in areas of the county outside of Provo. Whereas Provo held 43 percent of the county's taxable dining sales in 1994, in 2004, this share dropped to 30.4 percent (see **Table V-5**). On the other hand, Orem's share of the county's dining sales has climbed from 29 percent in 1994 to 33 percent in 2004, as shown in **Table V-9**. This can probably be attributed to the proliferation of chain theme restaurants along State Street in recent years.

Table V-6. City of Provo's Share of Taxable Retail Sales in Utah County, 1994-2004.

Retail Category	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Change 1994-04
Apparel & Accessory Stores	8.4%	7.7%	8.4%	10.0%	22.1%	41.3%	39.6%	37.8%	29.7%	28.3%	26.1%	17.7%
Gen. Merchandise	36.3%	33.3%	33.0%	26.8%	28.7%	33.8%	28.8%	24.5%	22.6%	21.0%	19.0%	-17.2%
Food Stores	32.3%	31.6%	30.4%	29.5%	28.6%	29.7%	28.9%	27.4%	25.5%	23.8%	23.8%	-8.5%
Furniture	18.2%	18.0%	12.8%	10.7%	11.8%	17.7%	18.8%	16.2%	16.5%	15.3%	15.4%	-2.8%
Bldg & Garden	30.6%	25.8%	23.2%	23.6%	19.9%	17.1%	16.7%	16.0%	13.9%	18.9%	20.4%	-10.2%
Motor Vehicles	30.9%	33.3%	31.6%	30.5%	28.3%	24.8%	24.4%	27.0%	27.5%	25.0%	24.0%	-6.9%
Miscellaneous	24.9%	28.3%	25.3%	19.5%	20.8%	27.7%	29.2%	27.6%	25.0%	25.4%	22.4%	-2.5%
<b>Total Share of County</b>	29.4%	28.9%	27.0%	24.7%	24.7%	27.4%	26.3%	25.1%	23.6%	22.6%	21.5%	-8.0%

Source: Utah State Tax Commission; ERA

Table V-7. City of Orem's Share of Taxable Retail Sales in Utah County, 1994-2004.

<b>Retail Category</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>Change 1994-04</b>
Apparel & Accessory	80%	82%	84%	114%	66%	53%	54%	56%	64%	66%	66%	-14%
Gen. Merchandise	46%	49%	49%	51%	49%	44%	50%	48%	48%	47%	41%	-6%
Food Stores	30%	30%	30%	29%	28%	27%	25%	25%	24%	23%	24%	-6%
Furniture	73%	74%	78%	67%	71%	67%	67%	68%	69%	68%	65%	-8%
Bldng & Garden	41%	50%	55%	61%	50%	46%	43%	40%	36%	33%	32%	-9%
Motor Vehicles	41%	36%	37%	32%	31%	36%	37%	31%	30%	29%	29%	-12%
Miscellaneous	56%	52%	54%	44%	49%	42%	41%	44%	43%	43%	43%	-13%
<b>Total City of Orem</b>	<b>42%</b>	<b>42%</b>	<b>43%</b>	<b>42%</b>	<b>40%</b>	<b>38%</b>	<b>38%</b>	<b>37%</b>	<b>37%</b>	<b>36%</b>	<b>34%</b>	<b>-7%</b>

Source: Utah State Tax Commission

Table V-8. Share of County Taxable Sales Analysis, 2004 (in thousands of dollars)

	Provo		Orem		Utah County	
	Taxable Sales	Share of County	Taxable Sales	Share of County	Taxable Sales	Share of County
<b>RETAIL STORES</b>						
Apparel & Accessory Stores	\$36,660	26.1%	\$93,533	66.5%	\$140,696	100.0%
Gen. Merchandise	137,863	19.0%	\$294,213	40.7%	\$723,694	100.0%
Food Stores	104,569	23.8%	\$103,608	23.6%	\$438,532	100.0%
Furniture	35,061	15.4%	\$149,256	65.4%	\$228,336	100.0%
Bldng & Garden	63,778	20.4%	\$99,553	31.8%	\$312,958	100.0%
Motor Vehicles	143,330	24.0%	\$172,353	28.8%	\$597,801	100.0%
Miscellaneous	69,345	22.4%	\$133,507	43.1%	\$309,416	100.0%
<b>Total Retail Stores</b>	<b>\$590,606</b>	<b>21.5%</b>	<b>\$1,046,023</b>	<b>38.0%</b>	<b>\$2,751,432</b>	<b>100.0%</b>
<b>DINING</b>	<b>87,201</b>	<b>30.4%</b>	<b>\$94,210</b>	<b>32.9%</b>	<b>\$286,423</b>	<b>100.0%</b>

Source: Utah State Tax Commission

**Table V-9. City of Orem's Share of Taxable Dining Sales, 1994-2004.**

<b>Retail Category</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>Rate of Growth<sup>1</sup></b>
Orem Taxable Sales	\$37,968	\$45,594	\$52,138	\$54,679	\$62,201	\$68,048	\$70,525	\$78,671	\$83,376	\$89,241	\$94,210	8.6%
Annual Growth		20.1%	14.4%	4.9%	13.8%	9.4%	3.6%	11.6%	6.0%	7.0%	5.6%	
Utah County Taxable Sales	\$132,097	\$149,735	\$165,777	\$177,701	\$198,476	\$223,190	\$234,443	\$240,679	\$251,010	\$263,879	\$286,423	
<b>Orem Share of County</b>	<b>28.7%</b>	<b>30.4%</b>	<b>31.5%</b>	<b>30.8%</b>	<b>31.3%</b>	<b>30.5%</b>	<b>30.1%</b>	<b>32.7%</b>	<b>33.2%</b>	<b>33.8%</b>	<b>32.9%</b>	

<sup>1</sup> Average annual growth rate from 1994 to 2004

Source: Utah State Tax Commission; ERA

## DOWNTOWN PROVO RETAIL AND DINING

Downtown Provo's share of the city's taxable retail sales in 2002 is presented in **Table V-10**. As shown, the Downtown district holds a very small percentage of total sales in apparel and accessory stores, general merchandise, and building and garden supplies. However, Downtown Provo is very strong in the category of food stores, with supermarkets within the district, as well as furniture stores (probably due to the presence of the RC Willey store). Downtown retail stores in those categories account for 23 percent and 36 percent of citywide sales, respectively. Dining is another strength of Downtown Provo. Downtown dining establishments contribute more than nine percent of the city's taxable food and beverage sales.

**Table V-10. Downtown Provo's Share of City Retail and Dining Sales (in thousands of \$)**

<b>Retail Category</b>	<b>Downtown Taxable Sales (\$000)</b>	<b>City of Provo Taxable Sales (\$000)</b>	<b>Downtown Share of City (%)</b>
Apparel & Accessory Stores	\$983	\$37,816	2.6%
General Merchandise	\$400	\$133,257	0.3%
Food Stores	\$26,685	\$118,599	22.5%
Furniture	\$12,705	\$35,292	36.0%
Bldng & Garden	\$636	\$30,308	2.1%
Miscellaneous	\$7,034	\$70,342	10.0%
<b>Total Retail Stores</b>	<b>\$48,444</b>	<b>\$425,614</b>	<b>11.4%</b>
<b>Dining</b>	<b>\$7,783</b>	<b>\$83,687</b>	<b>9.3%</b>

Source: Downtown Business Alliance of Provo; Economics Research Associates.

## REGIONAL RETAIL AND DINING MARKET

Utah County's inventory of retail and dining space by type is presented in **Table V-11**. As shown, the county currently has more than 8.8 million square feet of retail and dining, equivalent to approximately 22 square feet per capita. Nearly half of the retail supply is composed of community centers, while 25 percent of the retail is in regional malls. The county also contains more than one million square feet of anchorless strip retail, and 1.6 million square feet of neighborhood retail. The highest vacancy rate is for anchorless strip retail, while mall space is almost fully occupied (see **Table V-12**). ERA estimates that Downtown Provo's retail falls into two major categories: neighborhood shopping centers (including the Albertsons and Smith grocery stores), and anchorless strip centers.

Historical retail inventory by submarkets is shown in **Table V-13**. From 2001 to 2006, the greatest gains in retail inventory have occurred in the communities of North Utah County. During this period, American Fork, Lehi, and other towns added a number of big-box retail tenants, including Home Depot, Cabelas, Target, and Walmart Supercenters. A new Costco and Lowe's are expected to be completed in the North County submarket by the end of the year. Provo's retail additions in this period totaled 322,000 square feet, including a new Home Depot store near the Provo Towne Centre Mall. Orem's retail inventory additions totaled 462,000 square feet and included the new Nordstrom anchor at University Mall. Finally, South Utah County also added 428,000 square feet of retail in the last five years. Provo's share of inventory has declined in the same way as its share of the county's taxable retail sales, from 33 percent in 2001 to 28 percent in 2006.

Retail vacancy rate varies by submarket, as shown in **Table V-14**. Provo's vacancy rate has declined steadily over the last five years, and the city now has the lowest vacancy rate of all the submarkets at only 4.3 percent. Orem has a vacancy rate of 10.5 percent, while South Utah County has a vacancy rate of 18.6 percent. Despite all of its new inventory, North Utah County has maintained high occupancies, and has a current vacancy rate of 5.7 percent.

Average lease rates in Utah County and Provo have risen over the past year. As shown in **Figure V-3**, the average lease rate for retail space in Utah County is currently over \$15, up from \$11 in late 2005. Provo has also seen an increase in lease rates from \$10.62 to \$12.70 during this period.

**Table V-11. Retail Inventory in Utah County by Type, 2001-2005.**

<b>Retail Type</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006 2Q</b>	<b>Share 2006</b>
Anchorless Strip	529,782	750,383	763,528	1,238,648	1,081,030	1,081,025	12.3%
Neighborhood Center	2,509,371	2,534,089	2,644,089	3,068,148	1,569,738	1,569,758	17.8%
Community Center	1,260,915	1,249,064	1,249,064	1,430,238	3,955,948	3,955,948	44.9%
Mall Space	2,201,297	2,201,297	2,201,297	2,396,297	2,201,297	2,201,297	25.0%
<b>Total Inventory</b>	<b>6,501,365</b>	<b>6,734,833</b>	<b>6,857,978</b>	<b>8,133,331</b>	<b>8,808,013</b>	<b>8,808,028</b>	<b>100.0%</b>

Source: Commerce CRG; ERA

Table V-12. Retail Vacancy Rate in Utah County by Type, 2001-2005.

<b>Retail Type</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006 2Q</b>
Anchorless Strip	17.0%	13.5%	18.3%	18.8%	40.5%	21.1%
Neighborhood Center	4.0%	4.9%	15.1%	7.1%	8.8%	9.0%
Community Center	4.5%	18.2%	15.3%	17.9%	4.0%	8.3%
Mall Space	8.8%	10.0%	4.1%	6.9%	4.3%	2.3%
Total Inventory	6.8%	10.0%	12.0%	10.7%	9.4%	8.5%

Source: Commerce CRG; ERA

**Table V-13. Retail Inventory in Utah County by Submarket, 2001-2005.**

<b>Submarket</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>Q2 2006</b>	<b>Change 2001-06</b>
Orem	3,342,782	3,398,457	3,551,602	3,888,886	3,804,853	3,804,843	462,061
Provo	2,135,030	2,182,193	2,182,193	2,536,932	2,457,037	2,457,037	322,007
Utah County North	709,679	761,609	761,609	1,187,119	1,804,119	1,804,114	1,094,435
Utah County South	313,874	362,574	362,574	520,394	742,044	742,044	428,170
Total County	6,501,365	6,704,833	6,857,978	8,133,331	8,808,053	8,808,038	2,306,673
<b>Provo Share of County</b>	<b>32.8%</b>	<b>32.5%</b>	<b>31.8%</b>	<b>31.2%</b>	<b>27.9%</b>	<b>27.9%</b>	<b>-</b>

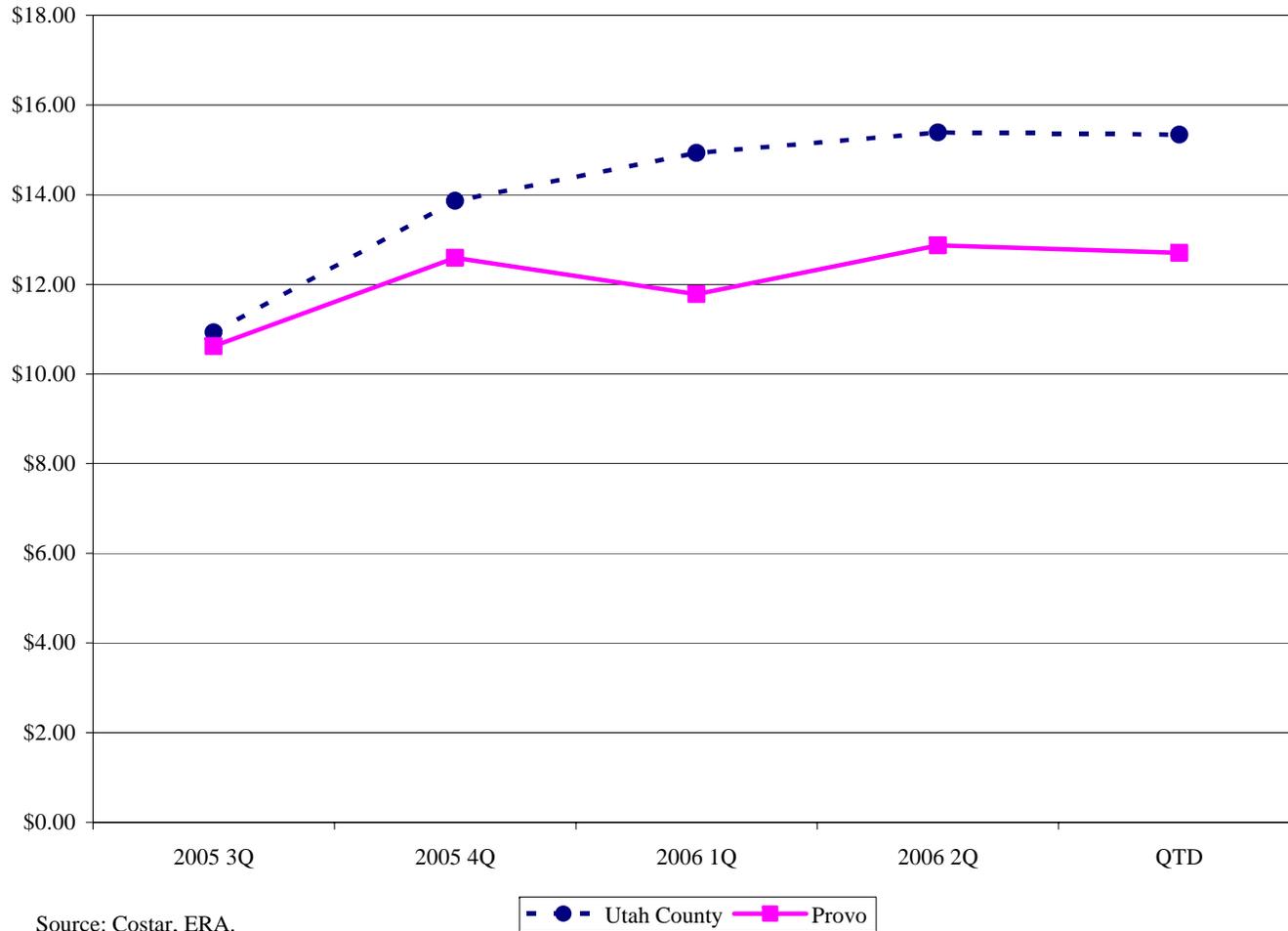
Source: Commerce CRG; ERA

**Table V-14. Retail Vacancy Rate in Utah County by Submarket, 2001-2005.**

<b>Submarket</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>Q2 2006</b>	<b>Change 2001-06</b>
Orem	6.0%	13.6%	13.1%	11.2%	11.5%	10.5%	4.5%
Provo	9.1%	7.2%	9.4%	8.7%	5.6%	4.3%	-4.8%
Utah County North	4.9%	5.1%	10.3%	9.1%	8.8%	5.7%	0.7%
Utah County South	3.8%	3.5%	19.8%	20.8%	12.7%	18.6%	14.8%
Total Utah County	6.8%	10.0%	12.0%	10.7%	9.4%	8.5%	1.7%

Source: Commerce CRG; ERA

Figure V-3. Retail Lease Rates, 2005-2006.



## PLANNED RETAIL DEVELOPMENT

There are two major retail developments in planning stages in Utah County, summarized in **Table V-15**. The characteristics of each project are outlined below:

- **Terrace at Traverse Mountain** is a 1.2 million square-foot mixed-use project by Forest City Development, planned in a 130-acre area in Lehi, just west and south of the Cabela's store. The project, modeled after Gateway in Salt Lake City, would include approximately 120 to 150 stores and restaurants. Planned as an outdoor "lifestyle center", the design incorporates a central town square, parks, and water features. Construction is expected to start in 2008, with completion in 2009.
- **Sundance Commons**, a 105-acre business and retail center planned in Pleasant Grove, will include over one million square feet of outdoor "lifestyle" retail to compete with Terrace at Traverse Mountain. A mixed-use development, with office, retail, restaurants, water features, amphitheater, and other amenities, this project will be located at the interchange of the new Mountain View Corridor and I-15. Groundbreaking is scheduled for early next year, with completion estimated in 2010.

In Provo, there are no large-scale retail projects planned or proposed in the short term.

## RETAIL DEMAND

Growth in retail property demand is a function of the number of people in a given market area and the amount the average person spends within the different retail sectors. Some sites possess competitive advantages over others in capturing the demand growth due to their location, size, retail concentration, visibility and other attributes. ERA's retail demand analysis for the city of Provo consists of the following steps:

- The projection of Utah County population growth provides the basic input into the demand forecast.
- Estimates of per capita retail spending by retail category were then determined based upon actual Utah County taxable sales experience, which includes the contribution of visitors and shoppers from outside the primary market area.
- We then adjusted for the impact of real income growth considering both macro economic conditions, such as business cycles, and micro economic changes, such as the recent climb in home prices driving up the average income of future residents.

**Table V-15. Planned Retail Developments in Utah County**

<b>Project</b>	<b>Location</b>	<b>Retail Deveopment</b>	<b>Size (sq.ft.)</b>	<b>Status</b>
Terrace at Traverse Mountain	Lehi	Lifestyle Center	1.2 million square feet	Proposed
Sundance Commons	Pleasant Grove	Lifestyle Center	<u>1.3 million square feet</u>	Proposed
Total Planned Retail Developments			2.5 million square feet	

Source: City of Provo, City of Orem, Utah County, ERA.

- The aggregate retail demand growth is then calculated by multiplying the market area population growth by the expected per capita retail sales.
- The growth in retail demand, expressed in sales difference between years, is then converted to retail square footage demand based upon an estimated sales per square foot per year factor for each retail category.
- ERA then estimates Provo's potential market share in each sector based upon the city's historical retail strengths, trends in capture rate changes and our knowledge of site opportunities.

This analysis is detailed in **Tables V-16** and **V-17** for the 2005 to 2015 and 2015 to 2025 time periods respectively. This analysis indicates that on a gross basis, Provo is able to support more than 2.5 million square feet of additional retail development over the next 20 years. However, because the retail opportunities are very different within the Downtown as compared to South Provo, urban infill in one case versus more typically suburban in the other, ERA analyzed the potential still further in **Table V-18**. High and low capture rates were applied to the city's new supportable retail potential to determine the minimum and maximum new retail development supportable in Downtown Provo.

The capture rates for each of the retail sectors shown in Table V-18 reflect the following assumptions:

- Comparison shopping for new apparel and accessories has moved from traditional downtowns to regional malls nationwide, and Provo is no exception.. Therefore, the percentage of new apparel and accessory space captured downtown ranges from five to ten percent over the next 20 years.
- Downtown Provo already holds two large grocery stores, Smith's and Albertsons. It is unlikely that the district can support a third major grocery store. However, it is ERA's opinion that Downtown Provo could attract one or two small specialty food/gourmet food stores.
- The presence of the destination store RC Willey in Downtown Provo gives it strength in furniture retail sales. This strength could be further enhanced with the addition of new smaller furniture stores (such as antique or custom-made furniture), to complement RC Willey and create a furniture/home furnishings cluster in Downtown Provo. ERA estimates that Downtown Provo could capture between 13 percent and 20 percent of new furniture store space in the city.
- The community does not support large floor-plate retail stores in Downtown Provo, and ERA does not recommend "big box" retail for this district. Rather, the emphasis should be on small specialty stores that make the area unique. Therefore, ERA has estimated a capture rate of between 23 and 38 percent of citywide potential for miscellaneous/specialty retail stores in Downtown Provo.

Table V-16. Provo Citywide Retail Demand Forecast, 2005-2015 (Dollars are in thousands)

		<u>2005</u>	<u>2015</u>	<b>Growth in Demand from 2005 to 2015</b>				
				<b>Market Area Demand Growth and Provo Capture</b>				
Utah County Population		453,977	594,511	Gain in	Annual	Gain in	Provo	
Real Income Adjustment		1.030	1.161	Sales	Sales/SF	Sq Ft	Market Share	Sq Ft
	Spending Per Capita	Total Market Area Demand						
Apparel & Accessory Stores	0.349	\$163,105	\$240,667	\$77,562	\$360	215,450	25%	53,863
General Merchandise	1.848	864,129	1,275,052	410,923	300	1,369,743	20%	273,949
Food Stores	3.262	1,525,139	2,250,395	725,256	500	1,450,511	25%	362,628
Furniture	0.566	264,704	390,580	125,876	310	406,051	15%	60,908
Bldng & Garden	0.776	362,805	535,331	172,526	400	431,315	20%	86,263
Motor Vehicles	1.482	693,016	1,022,569	329,553	NA	NA	25%	164,776
Miscellaneous	0.767	358,698	529,272	170,573	700	243,676	20%	48,735
<b>Total Retail Stores</b>	<b>\$9.050</b>	<b>\$4,231,597</b>	<b>\$6,243,866</b>	<b>\$2,012,269</b>		<b>4,116,747</b>	<b>26%</b>	<b>1,051,121</b>
<b>Total Retail Demand in Provo- 2005 to 2015</b>								

Source: Economics Research Associates

Table V-17. Provo Citywide Retail Demand Forecast, 2015-2025 (Dollars are in thousands)

		<u>2015</u>	<u>2025</u>	Growth in Demand from 2015 to 2025					
				Market Area Demand Growth and Provo Capture					
Utah County Population		594,511	730,897						
Real Income Adjustment		1.161	1.347						
	Spending Per Capita	Total Market Area Demand		Gain in Sales	Annual Sales/SF	Gain in Sq Ft	Provo Market Share	Sq Ft	
Apparel & Accessory Stores	0.349	\$240,667	\$343,379	\$102,712	\$360	285,310	30%	85,593	
General Merchandise	1.848	1,275,052	1,819,218	544,166	\$300	1,813,885	25%	453,471	
Food Stores	3.262	2,250,395	3,210,816	960,421	\$500	1,920,843	30%	576,253	
Furniture	0.566	390,580	557,271	166,691	\$310	537,714	25%	134,428	
Bldng & Garden	0.776	535,331	763,799	228,468	\$400	571,170	30%	171,351	
Motor Vehicles	1.482	1,022,569	1,458,981	436,411	NA	NA	30%	N/A	
Miscellaneous	0.767	529,272	755,154	225,882	\$700	322,689	35%	112,941	
<b>Total Retail Stores</b>	<b>\$9.050</b>	<b>\$6,243,866</b>	<b>\$8,908,617</b>	<b>\$2,664,751</b>		<b>5,451,610</b>	<b>28%</b>	<b>1,534,038</b>	
<b>Total Retail Demand in Provo- 2015 to 2025</b>									

Source: Economics Research Associates

Table V-18. Downtown Provo Retail Demand

Retail Category	Citywide Demand for New Retail Development (square feet)			Downtown Provo's Capture of New Development Potential					
	2005-15	2015-25	Total	Downtown Capture -Low			Downtown Capture -High		
				2005-15	2015-25	Total	2005-15	2015-25	Total
Apparel & Accessory Stores	53,863	85,593	139,456	5%	5%	5%	10%	10%	10%
General Merchandise	273,949	453,471	727,420	5%	5%	5%	10%	15%	13%
Food Stores	362,628	576,253	938,881	3%	3%	3%	5%	5%	5%
Furniture	60,908	134,428	195,336	10%	15%	13%	20%	20%	20%
Bldng & Garden	86,263	171,351	257,614	10%	10%	10%	15%	20%	18%
Miscellaneous	48,735	112,941	161,676	20%	25%	23%	35%	40%	38%
<b>Total Retail Stores</b>	<b>886,345</b>	<b>1,534,038</b>	<b>2,420,382</b>	<b>6%</b>	<b>7%</b>	<b>7%</b>	<b>11%</b>	<b>14%</b>	<b>13%</b>

Retail Category	New Supportable Retail Space in Downtown Provo (Square Feet)					
	Downtown Share -Low			Downtown Share -High		
	2005-15	2015-25	Total	2005-15	2015-25	Total
Apparel & Accessory Stores	2,693	4,280	6,973	5,386	8,559	13,946
General Merchandise	13,697	22,674	36,371	27,395	68,021	95,416
Food Stores	10,879	17,288	28,166	18,131	28,813	46,944
Furniture	6,091	20,164	26,255	12,182	26,886	39,067
Bldng & Garden	8,626	17,135	25,761	12,939	34,270	47,210
Miscellaneous	9,747	28,235	37,982	17,057	45,176	62,234
<b>Total Retail Stores</b>	<b>51,734</b>	<b>109,775</b>	<b>161,509</b>	<b>93,091</b>	<b>211,725</b>	<b>304,816</b>

Source: Economics Research Associates

- Currently, there is a lack of general merchandise stores in Downtown Provo. If new housing is built Downtown, there will be demand for drugstores and pharmacies in the district. ERA estimates that Downtown Provo could attract five to 13 percent of the city's new general merchandise retail space.
- There is also strong potential to attract more garden/building supply stores in Downtown Provo, especially with the addition of households in the area. ERA estimates that the district has the potential of capturing ten to 18 percent of the total citywide demand in this category over the next two decades.

In total, Downtown Provo could attract between 160,000 and 300,000 additional square feet of retail stores from now to 2025.

## **DINING DEMAND**

The same methodology described above was applied to determine dining demand in Downtown Provo, as shown in **Table V-19**. The analysis indicates that citywide, Provo could support additional dining development totaling 95,000 square feet within the next ten years. From 2015 to 2025, Provo could support the development of nearly 150,000 square feet of new dining establishments citywide.

There are several projects planned downtown that would help to support dining. The new performing arts theater, set to open early next year, will bring more people downtown to dine. In addition, Provo may soon have a new conference/convention facility downtown, which would attract many more visitors to dine in the area. The addition of these amenities and services, along with new housing units, will bring much more pedestrian activity into the district. Downtown Provo has the potential to capture between 18 percent and 38 percent of the citywide dining potential over the next two decades. As indicated in **Table V-20**, ERA estimates that Downtown Provo could capture between 40,000 and 90,000 square feet of dining uses. On the high end, this is roughly equivalent to 20 restaurants with an average size of 4,000 square feet, or one moderately sized restaurant per year.

**Table V-19. Provo Citywide Dining Demand, 2005-2025** (Dollars are in thousands)

	<u>2005</u>	<u>2015</u>	<b>Growth in Demand from 2005 to 2015</b>				
			<b>Market Area Demand Growth and Provo Capture</b>				
	<b>Spending Per Capita</b>	<b>Total Market Area Demand</b>	<b>Gain in Sales</b>	<b>Annual Sales/SF</b>	<b>Gain in Sq Ft</b>	<b>Provo Market Share</b>	<b>Sq Ft</b>
Utah County Population		453,977					
Real Income Adjustment		1.030					
Dining	0.710	\$332,043	\$157,898	\$500	315,795	30%	94,739
<hr/>							
	<u>2015</u>	<u>2025</u>	<b>Growth in Demand from 2015 to 2025</b>				
			<b>Market Area Demand Growth and Provo Capture</b>				
	<b>Spending Per Capita</b>	<b>Total Market Area Demand</b>	<b>Gain in Sales</b>	<b>Annual Sales/SF</b>	<b>Gain in Sq Ft</b>	<b>Provo Market Share</b>	<b>Sq Ft</b>
Utah County Population		594,511					
Real Income Adjustment		1.161					
Dining	0.710	\$489,940	\$209,096	\$500	418,193	35%	146,367
<b>Total Dining Demand in Provo- 2005 to 2025</b>							<b>241,106</b>

Source: Economics Research Associates

**Table V-20. Downtown Provo Dining Demand**

	<b>2005-15</b>	<b>2015-25</b>	<b>Total</b>
New Supportable Dining Development in Provo (sq. ft.)	94,739	146,367	241,106
Downtown Capture of Citywide Dining Potential			
Low	15%	20%	18%
High	35%	40%	38%
Downtown Share of Citywide Dining Potential (sq. ft.)			
Low	14,211	29,273	43,484
High	33,159	58,547	91,705

Source: ERA