APPLIED ECONOMICS

ECONOMIC AND REVENUE IMPACTS OF THE TRAILHEAD PEORIA, ARIZONA

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INTRODUCTION

Applied Economics was retained by the City of Peoria to perform an economic impact analysis of The Trailhead, a proposed mixed-use development at northeast corner of 83rd Avenue and Happy Valley Road. This analysis is intended to provide a framework for understanding the economic and revenue impacts that the project could generate during the construction period, and on an on-going basis.

Project Description

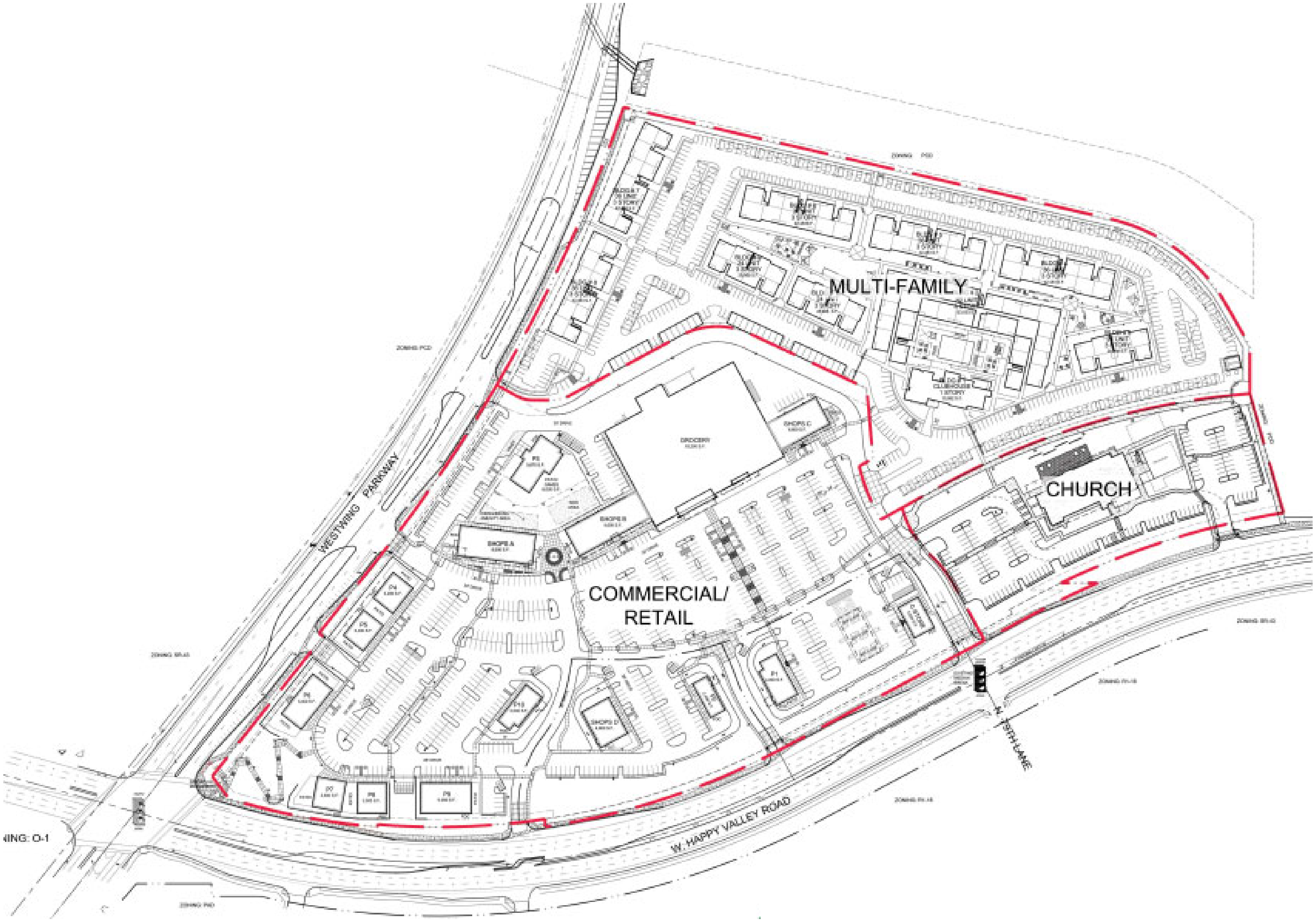
The 24.78 acre development includes 336 multi-family units on the northeast side of the site, about 136,000 square feet of retail and restaurants at the corner of 83rd Avenue and Happy Valley, and a 15,000 square foot church on the southeast corner of the site along Happy Valley Road (**Map 1**). Details on square feet by type, occupancy rates, lease rates, taxable sales and estimated jobs are shown in **Figure 1**. Construction costs, excluding site improvements, are estimated at $108.9 million. It is anticipated that development would occur in three one-year phases between 2023 and 2025.

The tenants in the development could support an estimated 430 jobs with a payroll of $12.5 million. Retail sales per square foot range from $250 for shops, PADs and the convenience store, to $400 for the grocery store, and $500 to $600 for restaurants. It is assumed that 11 percent of the commercial space would be occupied by service establishments that do not generate sales tax. Based on current retail lease rates in the northwest part of the metro area, it is assumed that the grocery space would lease for $16 per square foot, retail shops would lease for $21 per square foot, and restaurants would lease for $30 per square foot. The apartments could rent for average of $1,900 per month based on current market rates for comparable units in Peoria.

FIGURE 1
DEVELOPMENT CHARACTERISTICS

Development Type	Square Feet	Occupancy	Estimated Jobs	Taxable Sales per Sq Ft	Lease Rates per Sq Ft
Commercial					
Grocery	63,000	100%	66	$400	$16
Shops and PADs	18,000	94%	28	$250	$21
Restaurants-Full Service	21,970	100%	146	$600	$30
Restaurants-Limited Service	14,700	100%	147	$500	$30
Gas Station/C-Store	3,024	100%	6	$250	$21
Services	15,300	94%	24	$0	$21
Multi-Family (336 units)	432,234	96%	5	$0	$1,900
Church	15,000	100%	8	$0	$0
Total	**583,228**	**na**	**430**	**na**	**na**

MAP 1
PROPOSED SITE PLAN



IMPACT SUMMARY

The Trailhead proposed mixed-use development could provide a range of economic and revenue impacts to the city. These impacts are contingent on the mix of uses that have been proposed, including retail, restaurants and apartments.

- Based on estimated construction expenditures of $108.9 million, an estimated 1,175 direct construction jobs and 315 additional indirect jobs could be supported in Peoria during the three-year construction period. This level of construction activity could create a one-time economic impact of $154.9 million.

- Once the project is completed, the tenants in the development could generate an annual economic impact of $49.1 million. The retail, restaurant and religious uses in the development could directly employ an estimated 430 people, and could also support an additional 95 indirect jobs at *other local businesses* in Peoria. These indirect jobs are the result of business-to-business purchases made by the tenants, as well as local spending by their employees.

- An estimated $17.1 million in total annual labor income could be generated by the commercial tenants in the Trailhead development, creating the potential for significant local expenditures by employees and their families.

- In addition, apartment residents with estimated aggregate household income of more than $25.5 million per year. These residents have the potential to support an estimated $9.3 million in household spending on local and regional retail and services within the city, and elsewhere in the region.

- In terms of revenues to the city, this mixed-used development could generate an estimated $1.6 million in annual city taxes and state shared revenues, based on average revenues over the next ten years. In addition, there could be an estimated $1.3 million in one-time construction sales taxes.

FIGURE 3
IMPACT SUMMARY

Project Profile	
Multi-Family Units	336
Commercial Square Feet	150,994
Construction Impacts (millions)	
Hard Construction Costs	$108.9
Total Output	$154.9
Labor Income	$87.2
Jobs	1,490
Annual Economic Impacts (millions)	
Total Output	$49.1
Labor Income	$17.1
Jobs	525
Household Demand (millions)	
Total Annual Household Income	$25.5
Annual Household Spending	$21.5
Revenue Impacts to City of Peoria (millions)	
One-Time Revenues	$1.3
Average Annual Revenues	$1.6

ECONOMIC IMPACT ANALYSIS

The economic impacts resulting from the development of The Trailhead in Peoria include both the one-time construction impacts and on-going operations impacts. These impacts are quantified in terms of direct and indirect jobs, labor income and output that could be generated by the project. Indirect impacts are the result of the multiplier effect and capture supported supplier and consumer businesses and employees in the City of Peoria that could benefit from the new development.

Construction Impacts

Construction of The Trailhead would include a total of 161,000 square feet of nonresidential space and 336 apartments, and is anticipated to take place in three one-year phases (Figure 4).

- The first phase in 2023 would include 216 apartments along with the clubhouse and other amenities, the grocery store that would anchor the retail/commercial area, 3,300 square feet of shops and two full-service restaurants totaling 9,300 square feet. The church site is also expected to be built out in 2023.

- The second phase in 2024 would include the remaining 120 apartments, 17,600 square feet of shops and services, three additional full-service restaurants and three limited-service restaurants.

- The third phase would include the remaining 12,400 square feet of retail/service space, a gas station and convenience market, and the final limited-service restaurant PAD.

FIGURE 4
ABSORPTION PROJECTIONS

	Square Feet/Units Added by Year			
Type of Use	2023	2024	2025	Total
Apartments	216	120		336
Apartment Clubhouse	10,082			10,082
Grocery Store	63,000			63,000
Shops and PADs	3,300	8,300	6,400	18,000
Services		9,300	6,000	15,300
Gas Station/C-Store			3,024	3,024
Restaurants-Full Service	9,300	12,670		21,970
Restaurants-Limited Service		11,200	3,500	14,700
Church	15,000			15,000
Total Square Feet	**100,682**	**41,470**	**18,924**	**161,076**

The development could result in estimated construction expenditures, excluding land costs and site work, of about $108.9 million. The multiplier effects of this construction spending in Peoria could create an economic impact of $154.9 million over three years (**Figure 5**). The approximately 1,490 direct and indirect jobs created by this construction project could result in more than $87.2 million in additional labor income in the city during the construction period.

FIGURE 5
CONSTRUCTION IMPACTS

	Direct Impacts			Total Impacts		
Year	Estimated Construction Cost	Jobs	Labor Income	Ouput	Jobs	Labor Income
2023						
Residential	$55,090,570	620	$38,379,387	$78,696,787	783	$45,936,705
Commercial	$9,949,210	90	$5,432,388	$13,934,276	115	$6,701,420
2024						
Residential	$31,524,048	355	$21,961,538	$45,032,050	449	$26,286,003
Commercial	$8,395,762	76	$4,584,187	$11,758,609	97	$5,655,075
2025						
Commercial	$3,908,213	35	$2,133,931	$5,473,612	45	$2,632,427
Total	**$108,867,802**	**1,175**	**$72,491,431**	**$154,895,334**	**1,490**	**$87,211,630**

Source: Gordian, R.S. Means 2022 Square Foot Costs; IMPLAN.

Annual Economic Impacts

As each phase of the development is completed, it will begin to support new jobs and on-going economic impacts. Year by year cumulative impacts are shown in **Figure 6.** The project could support an estimated 146 direct jobs at the completion of the first phase in 2023, increasing to 430 jobs by 2025, based on typical employment densities for the types of uses that are envisioned in the site plan. This translates into an estimated $12.5 million in direct annual labor income or payroll once the project is complete, or $115.5 million cumulatively over the next ten years.

The multiplier effect of this increase in jobs and payroll could result in a total economic impact of $49.1 million annually by 2025. This figure represents the annual gross revenues created by the commercial development within the project, plus the increase in sales at local supplier businesses, as well as local purchases by employees. All total, the project could create $454.6 million in cumulative output impacts by 2031, directly and indirectly supporting an estimated 525 jobs and $158.3 million in labor income.

The new jobs generated by this project could also support a total local population of about 400 people in Peoria, not including the residents in the multi-family units. Supported population includes families of direct employees, as well as families of employees at related supplier and consumer businesses. This estimate assumes that about 37 percent of the employees who work in the city will also live there, based on local commuting data. However, these employees may or may not be new to the community.

FIGURE 6
ANNUAL ECONOMIC IMPACTS

	Direct Impacts			Total Impacts		
Year	Output	Jobs	Labor Income	Output	Jobs	Labor Income
2023	$13,886,571	146	$4,859,078	$19,120,541	180	$6,525,014
2024	$30,164,603	370	$10,840,779	$42,657,153	451	$14,836,775
2025	$34,559,730	430	$12,475,647	$49,099,111	525	$17,119,547
2026	$34,559,730	430	$12,475,647	$49,099,111	525	$17,119,547
2027	$34,559,730	430	$12,475,647	$49,099,111	525	$17,119,547
2028	$34,559,730	430	$12,475,647	$49,099,111	525	$17,119,547
2029	$34,559,730	430	$12,475,647	$49,099,111	525	$17,119,547
2030	$34,559,730	430	$12,475,647	$49,099,111	525	$17,119,547
2031	$34,559,730	430	$12,475,647	$49,099,111	525	$17,119,547
2032	$34,559,730	430	$12,475,647	$49,099,111	525	$17,119,547
Total	**$320,529,011**	**430**	**$115,505,035**	**$454,570,579**	**525**	**$158,318,163**

Source: IMPLAN, Applied Economics.

The differences between direct and total impacts are called multiplier effects. Multiplier effects are a way of representing the larger economic effects on the local economy. The multipliers effects translate an increase in output (loosely defined as sales, less inventory and transportation costs) into a corresponding increase in jobs and labor income. In essence, the multiplier effect represents the recycling of local spending. This recycling process creates new business opportunities.

Multipliers are measures of the degree to which the various businesses and households in an economy are interrelated. They measure the impact of a given external change, such as a new investment, operations of a new business or new household spending, on total economic activity in a given community though the re-spending of new dollars within that economy.

The multipliers used in this analysis are from IMPLAN, a national vendor of economic impact software, and are specific to the economic base of the City of Peoria. Industry-specific multipliers were used for the types of businesses in the development, and for commercial and multi-family construction. The average output multiplier for this mixed-use development is 1.42, which means that for every $1 million of gross revenues created by the commercial tenants, an additional $420,000 in economic activity and 3 indirect jobs are generated in the local economy. Additional indirect jobs and payroll could be supported outside the city.

Resident Household Spending

The development is expected to include a total of 336 new multi-family units. While households do not generate economic impacts in terms of creating jobs and output, it is possible to quantify the impacts of the residential development by looking at household spending. Estimated average rents of $1,900 per month can be translated into annual household income of about $76,000. Then, using data from the Census Consumer Expenditure Survey on household spending by type by income level and housing tenure, we can estimate the types of purchases made by those residents in terms of increased demand for goods and services. Note that spending patterns differ by income level, with lower income households spending proportionally more on necessities and higher income households spending proportionally more on discretionary items.

Given the contiguous nature of development in the Phoenix metropolitan area, it is difficult to determine exactly where residents would shop, although the location of this development makes it likely that some regional purchases, like vehicles, appliances or entertainment, could be made in neighboring cities, or elsewhere in the metro area. The data in **Figure 7** represents <u>total</u> annual household spending in Peoria, and elsewhere.

Household purchases can be divided into the following categories:

- ***Local retail and services*** – purchases such as groceries and household supplies typically made within a five-to-seven-mile radius from the consumer's home
- ***Regional retail and services*** –specialty and higher priced items such as vehicles, appliances, apparel and entertainment that are typically purchased from a regional mall or specialized provider within the metro area
- ***Non-local expenditures*** – items such as mortgages, insurance, income taxes and savings that do not impact local business establishments

The detailed information in Figure 7 shows household spending, *regardless of where items are purchased*. Annual household spending by the multi-family residents is estimated at $21.5 million once the development is complete. This includes $5.1 million in annual local retail and service spending and $4.2 million in regional purchases, as well as $12.2 million in spending potentially outside the region.

FIGURE 7
ANNUAL HOUSEHOLD SPENDING BY TRAILHEAD RESIDENTS

Local Retail & Services	**$5,069,806**
Groceries	$1,799,040
Restaurants & Bars	$1,029,503
Personal care products and services	$322,132
Housekeeping supplies	$236,889
Small appliances, misc housewares	$53,218
Household textiles	$38,618
Drugs	$138,460
Medical supplies	$43,799
Gasoline and motor oil	$598,110
Vehicle maintenance and repairs	$291,049
Other household expenses	$316,480
Tobacco products and smoking supplies	$171,898
Reading	$30,612
Regional Retail & Services	**$4,202,782**
Home maintenance services	$68,759
Furniture and floor coverings	$195,445
Major appliances	$72,527
Miscellaneous household equipment	$280,217
Apparel and shoes	$590,575
Cars and trucks, new	$451,173
Cars and trucks, used	$958,389
Other vehicles	$20,722
Medical services	$234,534
Entertainment fees and admissions	$92,307
Audio and visual equipment and svcs	$363,576
Pets, toys, hobbies, playground equip	$219,464
Other entertainment supplies and equip	$92,307
Education	$441,754
Public and other transportation	$121,035
Non-Local Expenditures	**$12,192,967**
Housing rent	$5,956,610
Other lodging	$143,641
Utilities	$1,349,751
Vehicle finance charges	$83,359
Vehicle insurance	$599,994
Vehicle rental, leases, licenses	$278,333
Health insurance	$996,065
Cash contributions	$456,824
Personal insurance and pensions	$2,095,269
Savings, income taxes and other	$233,122
Annual Household Spending	**$21,465,555**
Total Household Income	**$25,536,000**

REVENUE IMPACTS

In addition to supporting jobs and output at related businesses in the area through multiplier effects, the project could also generate new local tax revenues, including property tax, one-time and on-going sales taxes, and state shared revenues. All total, revenues from the development are estimated at $17.8 million over ten years. This includes only the portion of taxes paid to the City of Peoria.

In the first three years, there would be one-time construction sales taxes to the city estimated at $1.3 million, assuming estimated construction costs of $108.9 million with 65 percent of the cost representing materials (**Figure 8**). On-going sales taxes of $13.3 million over ten years include retail and restaurant sales from the tenants in the development, commercial and residential leases, and residential utilities. Retail sales and leases are taxed at 1.8 percent, restaurant sales are taxed at 2.8 percent, grocery store food sales at 1.6 percent, and utilities are taxed at 3.3 percent. Taxable sales and leases are increased at a rate of 2 percent per year as a conservative estimate of long-term inflation rates.

FIGURE 8
ANNUAL LOCAL REVENUE IMPACTS

Year	Construction Sales Tax	Annual Sales Tax	Property Tax	State Shared Revenues	Total Annual Revenues
2023	$760,965	$702,506	$1,315	$0	$1,464,787
2024	$467,062	$1,207,670	$69,487	$155,181	$1,899,399
2025	$45,726	$1,330,275	$111,091	$241,392	$1,728,484
2026	$0	$1,356,270	$121,271	$241,392	$1,718,934
2027	$0	$1,382,785	$124,303	$241,392	$1,748,481
2028	$0	$1,409,831	$127,411	$241,392	$1,778,634
2029	$0	$1,437,417	$130,596	$241,392	$1,809,406
2030	$0	$1,465,556	$133,861	$241,392	$1,840,809
2031	$0	$1,494,257	$137,208	$241,392	$1,872,856
2032	$0	$1,523,532	$140,638	$241,392	$1,905,562
Total	**$1,273,753**	**$13,310,098**	**$1,097,180**	**$2,086,319**	**$17,767,351**

Note: Annual sales tax includes leases and retail sales. A 2 percent annual inflation factor is applied to taxable sales and a 2.5 percent annual growth factor is applied to assessed value.

Property taxes over ten years are estimated at $1.1 million. There is typically a one-year lag, and so property taxes for 2023 represent current taxes on the vacant land. Estimated residential and commercial assessed value in future years is based on average limited property value per square foot for similar retail centers, grocery stores, convenience stores and apartments in the surrounding area. It is assumed that the church property would be occupied by a non-profit religious organization and would be exempt from taxes. Total residential limited property value is estimated at $50.9 million and commercial limited property value is estimated at $18.3 million. Limited property value is increased at 2.5 percent per year, which is half of the statutory maximum rate of increase. The current city property tax rate of 1.44

percent is applied to estimated limited property value with a 10 percent assessment ratio for residential and a 16 percent assessment ratio for commercial development.[1]

The new multi-family residents in the development could also generate additional state shared revenues for the city, including state shared income and sales tax, auto lieu and highway user revenues. Assuming a 96 percent multi-family occupancy rate and an average household size of 2.35 persons, the 336 apartment units could result in 758 new residents by 2025.[2] State shared revenues lag apartment development by one year. Based on the current per capita rate of state shared revenues in Peoria of $318, this could translate into $2.1 million of additional city revenue over ten years, assuming all of the residents are new to the city.

Summary

The proposed mix of uses for The Trailhead described in this analysis could create economic and revenue impacts for the city of Peoria. These impacts include the economic impacts of the construction phase, and the on-going operations impacts of tenant businesses. The development could create a sizeable number of new jobs; it could provide new rental housing options in the northern part of the city; it could generate new taxes and state shared revenues; and it could create additional demand at other local businesses based on new resident spending outside the development.

[1] The Class 1 assessment ratio applied to commercial property will be 17 percent in 2023 and will decline by 0.5 percent per year to 16 percent by 2025. This reduction is reflected in Figure 8.
[2] Average household size for renter-occupied households in Peoria, according to the Census American Community Survey, 2019 1-year data is 2.35.