

I. Project Overview

A. Background and Methodology

Strategy 5 was retained in September 2007 to assist the Louisville/Jefferson County Metro Economic Development Department in the preparation of a Retail Market Study of the entire geography of Louisville/Jefferson County. In effect, the study examines access to retail goods and services as necessary infrastructure on regional, community-wide, and neighborhood levels. The scope of work included the following tasks: stakeholder meetings and site reconnaissance; retail data collection and GIS mapping; consumer survey and analysis; retail market potential analysis; area growth analysis; identification of potential retail nodes and supportable development opportunities; financial analysis of selected development concepts; review of land code in the context of findings, and recommendations on updates, and; an implementation strategy.

At the outset of the project, Strategy 5 principals Taylor Yewell and Ernie Bleinberger conducted a site reconnaissance of the Louisville (Louisville/Jefferson County Metro) retail marketplace over the course of four days, with the assistance of key personnel in the Economic Development Department. Strategy 5 also met with representatives of local business and neighborhood associations in Louisville to explain the work program and elicit their perspectives on retail in their areas. Strategy 5 also met with senior staff of the Planning Department to discuss real estate regulatory policy and informational needs of the project at hand.

During a subsequent checkpoint meeting, Strategy 5 principal and project manager Taylor Yewell presented the findings to date to various public and private sector groups. These presentations were conducted jointly with John Talmage, President of Social Compact, who is conducting a concurrent “Drill Down” study in the western portion of the Metro.

The following report represents a portion of the final product that is the culmination of the Retail Infrastructure Analysis. Additional information is provided to the client in the form of geo-coded data on shopping centers and individual retailers in the Metro, as well as demographic and retail market data. This digitized information provides a tool to the Economic Development Department to analyze the Louisville retail market dynamic for demand gaps and surpluses, through desktop mapping in the iXPRESS market analysis software platform, provided by Claritas, a leading market research company. “Demand gap” is a term for unmet demand (need) in certain retail categories while “demand surplus” indicates that more retail exists than is needed to serve the indigenous population in the defined area for the retail categories in question.

B. Louisville/Jefferson County Retail Market Overview

The Louisville retail marketplace is characteristic of that of many major metropolitan areas in the U.S. Prior to 1950, most stores were located in downtown Louisville, until new highways facilitated a flight to the suburbs. New shopping centers were built in the suburbs to cater to the growing numbers of residents, while the general economic decline in the downtown forced the flight of most of its retailers as well. The 1960s and 1970s saw the introduction of regional malls into the marketplace, which in turn negatively impacted neighborhood “main street” retail in the older suburban neighborhoods.

From 1974 to 1987, Jefferson County lost population, but is now averaging around a 1,500 net gain in population per year. The population within the old city limits dropped by almost 100,000 from its peak in 1970, although its population has now stabilized, and the city has seen gentrification, especially in The Highlands, Old Louisville, and the Clifton and Crescent Hill areas. Main Street retail has returned to many of the old neighborhoods, which now boast popular entertainment and shopping destinations. Louisville’s successful downtown revitalization efforts, such as Waterfront Park and Fourth Street Live!, have created a momentum which will probably continue into the next decade, and herald the return of vibrant downtown retail. The growth in the northeast area of the county is well documented, and has stimulated the development of new retail “lifestyle” centers.



“Fourth Street Live!”

A brief summary of the current retail inventory in the Metro shows:

- 119 shopping centers consisting of:
 - 60 neighborhood centers
 - 51 community centers
 - 4 regional centers
 - 4 super regional centers
- 17.7 million plus square feet of rentable area
- Over 5,200 individual retail stores that include:
 - 197 supermarkets
 - 123 pharmacies and drugstores
 - 58 department stores
 - 231 clothing stores
 - 20 home centers
 - 32 hardware stores
 - 59 household appliance stores

- 105 radio, television, other electronic stores
- 115 sporting goods stores

The findings of this report confirm that Louisville does indeed serve as the regional retail hub for the Louisville-Elizabethtown-Scottsburg, KY-IN combined statistical area (CSA), which is comprised of sixteen counties with an estimated population of 1.36 million. Louisville contains eight of the top ten largest shopping centers in the CSA, five of which exceed 800,000 square feet of space.

Regional shopping centers are typically positioned as destinations that offer a wide variety of merchandise, dining, and entertainment for large geographical areas and populations. Community and neighborhood serving shopping centers may offer a limited variety of these things, but more importantly they offer the daily essentials such as foodstuffs, household goods, medicines, and other necessities required by the local populace



Old Brownsboro Crossing, a 450,000 SF shopping center in the northeast section of Louisville, is the newest regional shopping center in the Metro

A widely accepted measure of retail characteristics is the *Retail Market Potential*, a comparison of supply and demand to determine potential sources of revenue growth at any standard or user defined geographic level. An **opportunity gap** appears when household expenditure levels for a specific geography are higher than the corresponding retail sales estimates. This difference signifies that resident households are meeting the available supply and supplementing their additional demand potential by going outside of their own geography. The opposite is true in the event of an **opportunity surplus**. That is, when the levels of household expenditures are lower than the retail sales estimates. In this case, local retailers are attracting residents of other areas into their stores. As a whole, Louisville exhibits significant opportunity surpluses in most retail categories.

Table 1 shows a summary of the opportunity gaps for major retail categories under the headings *Essentials*, *GAFO* (general merchandise, apparel, furniture and other), and *Food Service*. Opportunity surpluses are signified by red numbers in parentheses. Opportunity gaps are signified by numbers in black type. Taken as a whole, Louisville has an oversupply of retail inventory in all categories except *Clothing and clothing accessories* and *Electronic and appliance stores*.

Table 1	
Metro-Wide Retail Market Potential	
Selected Categories	
Essentials	
Supermarkets	(\$92,496,487)
Pharmacies & drug stores	(\$88,074,861)
GAFO*	
General merchandise	(\$392,469,729)
Clothing and clothing accessories	\$38,389,278
Furniture and home furnishings store	(\$115,395,325)
Electronic and appliance stores	\$39,410,327
Sporting goods, hobby, book, music stores	(\$126,998,872)
Office supplies, stationary, gift stores	(\$3,734,075)
Food service	
Full-service restaurants	(\$5,988,114)
Limited service eating places	(\$133,199,319)

*GAFO (General merchandise, Apparel, Furniture and Other) - represents sales at stores that sell merchandise normally sold in department stores.

Source: Claritas; Strategy 5

As the following analysis will demonstrate, a different picture emerges when retail inventory is examined on a community and neighborhood level. While the Metro may possess an abundance of retail inventory on a macro level, it does not necessarily follow that it is distributed evenly, and that all areas are adequately served in all categories. Indeed, a closer analysis reveals opportunities for new retail development in some underserved areas in Louisville. In order to facilitate a more complete understanding of the analysis however, we will first define the key terms in this report as applied to shopping centers.

C. Shopping Centers Defined

The definition of a shopping center is standard. As formulated by the former Community Builders Council of the Urban Land Institute (ULI) in the 1950s and reaffirmed over time, a shopping center is a group of commercial establishments planned, developed, owned, and managed as a unit related in location, size, and type of shops to the trade area it serves. It provides on-site parking relating to the types and sizes of its stores.

As the shopping center evolved, five basic types emerged, each distinctive in its own function: the convenience, the neighborhood, the community, the regional, and the super regional. In all cases, a shopping center's type and function are determined by its major tenant or tenants and the size of its trade area; they are never based solely on the area of the site or the square footage of the structures.

(ULI) defines the types of shopping centers that comprise the majority of retail development in the United States. For purposes of understanding terms and characterizations used in this report, the types of retail centers contained in the iExpress database and categorized in the accompanying maps are summarized:

Neighborhood Shopping Center — This type of retail center provides for the sale of convenience goods (foods, drugs, and sundries) and personal services (e.g. laundry and dry cleaning, hair-styling, shoe repair and tailoring) for the day-to-day needs of the residents in the immediate area. It is built around a supermarket as the principal tenant and typically contains a **gross leasable area (GLA)** of about 60,000 square feet. In practice, neighborhood centers can range from 30,000 to 150,000 square feet.

Community Shopping Center — In addition to the convenience goods and personal services offered by the neighborhood center, a community center provides a wider range of soft lines (wearing apparel) and hard lines (hardware and appliances). The community center makes merchandise available in a greater variety of sizes, styles, colors, and prices. Many centers are built around a junior department store, variety store, super drugstore, or discount department store as the major tenant, in addition to a supermarket.

Although a community center does not have a full-line department store, it may have a strong specialty store or stores. Its typical size is about 150,000 square feet of gross leasable area, but in practice, it may range from 100,000 to 350,000 or more square feet. Centers that fit the general profile of a community center but contain more than 250,000 square feet are classified as super community centers. As a result, the community center is the most difficult to estimate for size and pulling power.



Stonybrook shopping center has expanded into a super community center over the years, offering a variety of stores and merchandise to its patrons.



Eastland Center typifies the conventional community shopping center.

A **power center** is a type of super community center that contains at least four category-specific, off-price anchors of 20,000 or more square feet. These anchors typically emphasize hard goods such as consumer electronics, sporting goods, office supplies, home furnishings, home improvement goods, bulk foods, health and beauty aids, and personal computer hardware/software.

Regional Shopping Center — This type of center provides general merchandise, apparel, furniture, and home furnishings in depth and variety, as well as a range of services and recreational facilities. It is built around two or more full-line department stores of generally not less than 50,000 square feet. Its typical size is about 500,000 square feet of gross leasable area, but in practice it may range from 250,000 square feet to more than 800,000 square feet. The regional center provides services typical of a business district yet not as extensive as those of the super regional center.



Summit Louisville is a regional center with a mix of national retailers.

Super Regional Shopping Center — A super regional center offers an extensive variety in general merchandise, apparel, furniture and home furnishings, as well as a variety of services and recreational facilities. It is built around three or more full-line department stores generally of not less than 75,000 square feet each. The typical size of a super regional center is about 1 million square feet of GLA. In practice the size can range from about 500,000 to more than 1.5 million square feet. Super regional centers have been typified by enclosed malls for over the past thirty years (such as the Mall St. Matthews and the Oxmoor Center shown left and right respectively, below), but have transitioned to outdoor “town centers” over the past decade or so.



Mall St. Matthews



Oxmoor Mall

Table 2 contains the criteria for the four types of shopping centers referred to in subsequent analysis, discussions, tables, maps, etc. contained in this report. Although shopping centers of one classification or another contain the majority of retail inventory in the Metro, it should be noted that free standing retail constitutes a significant amount as well. Older “main street” style shopping districts are typically comprised of a collection of single tenant buildings, and national chain pharmacies and grocery stores have increasingly embraced the stand alone building concept. For the purposes of this analysis, all identifiable retail inventory is accounted for, free standing and otherwise. See Table 2.

Table 2 Shopping Center Definitions					
Center Type	GLA Range	Acres	# of Anchors	% Anchor GLA	Type of Anchors
Neighborhood	30,000-150,000	3-15	1+	30-50%	Supermarket
Community	100,000-350,000	10-40	2+	40-60%	Discount, supermarket, drug, home improvement, large specialty discount
Regional	250,000-800,000	40-100	2+	50-70%	Full-line dept, jr dept mass merchant, discount dept, fashion apparel
Super Regional	800,000+	60-120	3+	50-70%	Full-line dept, jr. dept, mass merchant, discount dept, fashion apparel

Source: ULI, Claritas; Strategy 5



The Wal-Mart Neighborhood Market shown (above left) is a free standing grocery store near Camp Taylor. The image to the right shows neighborhood serving “main street” type retail on Portland Street.

The following maps show the distribution of shopping centers in the Louisville Metro.

Figure 2 — Distribution of Neighborhood Shopping Centers in Louisville/Jefferson County Metro



Figure 3 — Distribution of Community Shopping Centers in Louisville/Jefferson County Metro

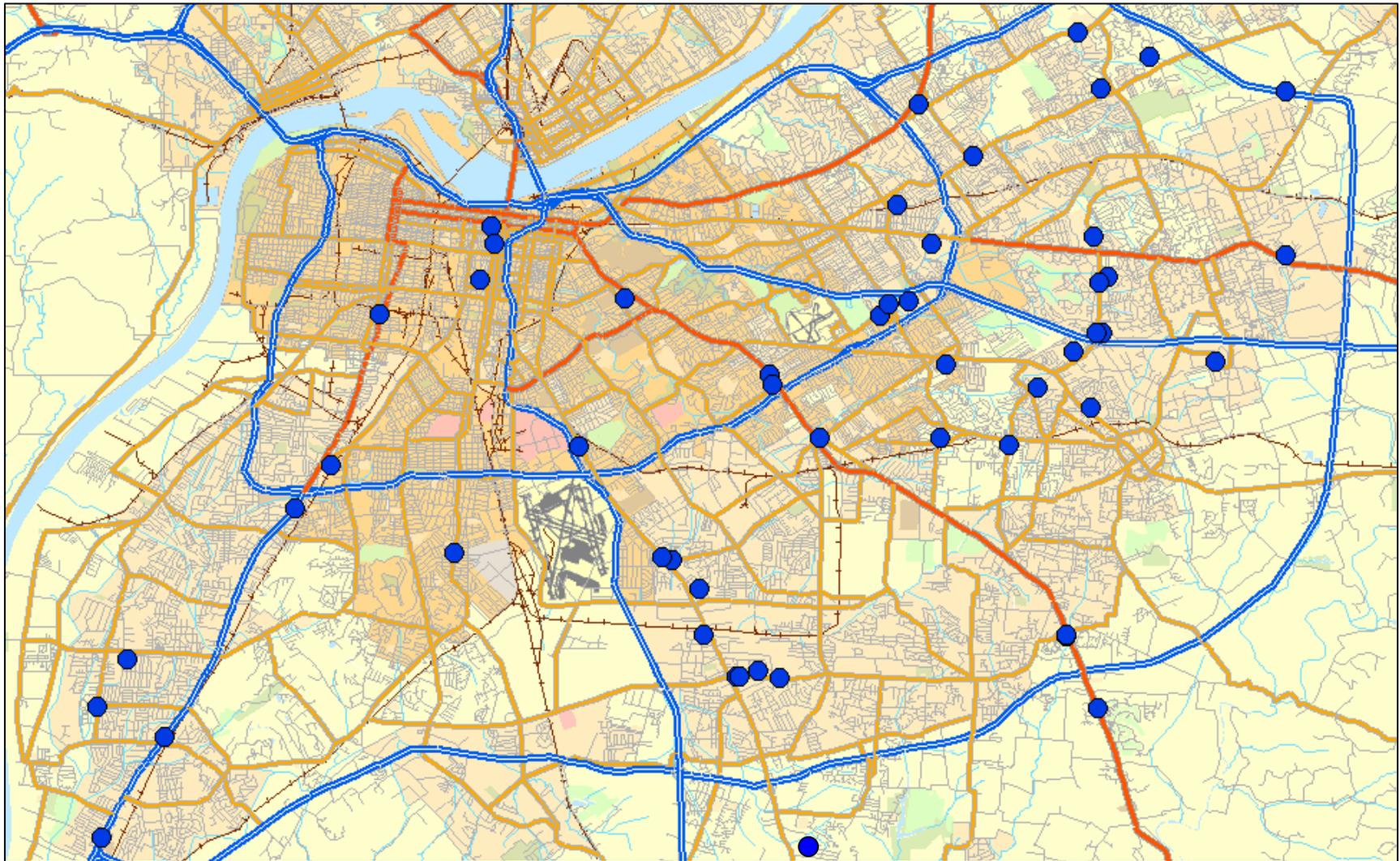


Figure 4 — Distribution of Regional (Blue) and Super Regional (Green) in Louisville/Jefferson County Metro



D. Minimum Neighborhood Retail Standards

The concept of establishing minimum retail standards for urban downtowns, communities and neighborhoods is a subjective one. What may be considered lacking or inconvenient to one person may be inconsequential or otherwise readily available to another, depending on a variety of factors including, but not limited to, mobility, income, personal taste or need, and perception. That being said, certain basic criteria or thresholds can be established to provide a framework for standards, which in turn can be refined through processes such as local market surveys, targeted supply analysis, etc. This section seeks to define minimum standards for the trade area of a neighborhood's commercial core (activity center) from the perspective of residents, rather than the perspective of a particular type of retail activity.

ULI has established minimum thresholds for market support for the aforementioned retail centers based on population, radius, and drive time. As a demonstration of the subjective nature of this type of analysis, it should be noted that ULI's criteria and thresholds for GLA and trade area size (and by inference minimum standards) differ slightly from the Claritas approach. Taking them all into account however can provide the client group with a balanced view of the topic and its implications on policy and planning decisions.

The ULI thresholds utilized in this section of the analysis are expressed in the following table.

Table 3			
Minimum Standard Guidelines - Shopping Center Thresholds			
Center Type	Min. Population	Trade Area Radius	Drive Time
Neighborhood	3,000-4,000	3 miles	5-10 minutes
Community	40,000-50,000	3-6 miles	10-20 minutes
Regional	150,000	5-15 miles	20 minutes
Super Regional	300,000	5-25 miles	30 minutes

Source: ULI; Strategy 5

Based on these thresholds, the Retail Market Potential Analysis, and the GIS retail mapping prepared by Strategy 5, much of Louisville Metro Area is served at, or beyond, these minimum thresholds when examining the market as a whole, and viewed in the context of required population support, accessibility, and conventional notions of convenience. They are still a valid guide from which to guide planning development policy at the broader level. What the ULI criteria minimally account for are such elements as persons without a car or those who would wish to walk to retail (ULI criteria is predicated on vehicular access only); smaller or niche retail such as local serving pharmacies, sit down restaurants, book stores, and the like which are grouped into the Neighborhood Center category.

As the focus on minimum standards for retail gets tighter, the subjectivity issues referenced in the first paragraph increases. Personal circumstances and preferences gain greater weight, and issues of market support for retail operational feasibility become more critical. Because an individual *wants* a particular store to be located on their block does not mean locating a store there makes economic sense for the owner/operator.

In the context of the Louisville Retail Infrastructure Analysis and its in-part purpose of identifying underserved neighborhoods, Strategy 5 has taken ULI's most locally serving retail type – Neighborhood Centers – and conducted further analysis on this grouping.

As a subset of retail types, Neighborhood Centers include most of the stores and businesses that consumers see as most essential to convenience, frequent patronage, and/or contributory to a good quality of life in their community. Strategy 5 asserts that the low end range of the ULI thresholds represent a reasonable set of minimum standards for retail in Louisville Metro communities. Therefore:

- **Minimum Population** – There should be a **population of at least 3,000** within a 1-5 mile radius of locally serving retail in order to ensure the necessary market support for operational feasibility.
- **Minimum Radius** - There should be a range of locally serving retail types **within 1 mile of a neighborhood** in order to ensure easy accessibility either by car or alternative transportation and/or walking. Strategy 5 suggests that it is reasonable to set a standard of **50% of store-types** included in the ULI Neighborhood Center classification to be located within this radius.
- **Minimum Drive Time** – There should be a range of locally serving retail types within a 5 minute drive of a neighborhood. This coincides with the 1 mile-or less radius set forth above. Again, Strategy 5 suggests that 50% of store types within this drive /walk time is a reasonable standard to set for development and planning purposes.

E. Retail Market Potential Summary

The Economic Development Department's staff has apportioned the Metro into five zones to efficiently administer their activities: Dixie, Central, Bardstown, Northeast, and Downtown (see Figure 5, page 18). In the interest of consistency the following summary of retail market potentials is conducted and presented by Retail Zone. The analysis utilizes the same methodology used to create Table 1 (Metro-Wide Retail Market Potential), but on a more refined basis using Zip Code as the defined geographic level. A detailed analysis of each Retail Zone is contained in the Methodology section of this report.

Dixie — The Dixie Retail Zone is primarily characterized by the preponderance of shopping centers and retail stores along Dixie Highway, running almost its entire length through Louisville. Data show opportunities for additional retail inventory in the general merchandise and clothing and clothing accessories categories, although the introduction of a new Super Wal-Mart to the area could close these gaps. The area also shows potential for new, full-service restaurants. Although the retail supply surpluses are not overly significant in this zone, competition and repositioning has created opportunities to reactivate abandoned sites.

The most significant retail opportunities (demand gaps) are evident in the northern section of the Dixie Zone, in the Portland and West Louisville areas. This bodes well for retail planned for the proposed **Newbridge Crossing** project, which is the redevelopment of the former Philip Morris site. This project is subject to additional analysis in Section G, Supportable Retail Development Opportunities.



Underutilized retail sites in the Dixie Retail Zone present opportunities for redevelopment

Central — Residents of the Central Zone benefit to a large degree from the proximity of the Dixie Highway corridor for their retail needs. Retail Market Potential data show the area as relatively well-served by retail in its own right. Nonetheless, data show demand gaps for the supermarket and pharmacy categories in the northern sector of this zone, pointing to potential opportunity in this area. The southern area of the zone (that which is bisected by I-265) shows potential for additional inventory in the GAFO (general merchandise, apparel, furniture and other) category, which could potentially locate along the I-265 corridor within the Central or Bardstown zones, and still effectively serve the local populace.



These before and after images of a property on Taylor Boulevard demonstrate the successful reactivation of an abandoned retail building.

Bardstown — The Bardstown retail zone is essentially a large transition area between the relatively underserved western part of the Metro and the retail-rich environment of the Northeast zone. The Bardstown zone contains the Jefferson Mall, a 1.12-million-square-foot regional mall with Dillard’s, JCPenney, Macy’s and Sears as its anchors, along with other major retailers such as Old Navy and Linens & Things. An adjoining site will soon be developed that is slated to include another big box anchor and specialty retail stores. A power center at the former Bashford Manor Mall that includes a Super Wal-Mart, Target, and Lowe’s as primary anchors will soon add another big box store, a Burlington Coat Factory, and a second bank. The area has experienced a renaissance along the commercial corridors of some of its older, established neighborhoods, particularly upper Bardstown Road, and therefore enjoys a surplus of eating and drinking establishments that draw from well outside the neighborhoods.

Retail Market Power data for the Bardstown Opportunity Zone reveal an interesting phenomenon: retail market gaps are consistent for practically all major retail categories within a band of Zip codes that traverses the breadth of the zone, and reside along the I-265 corridor similar to the underserved areas described in the Central Zone. This data underscores the premise that additional retail in the GAFO (general merchandise, apparel, furniture and other) category could be supported in the local marketplace.

Clearly, the demand/supply dynamic within a significant geographic swath of the Central and Bardstown Retail Zones points to market support for additional retail inventory, probably beyond what could be accommodated in existing space, or even in potential redevelopment sites such as the former Showcase Cinemas on Bardstown Road.

This former Showcase Cinemas on Bardstown Road could accommodate a significant retail redevelopment project to help alleviate the demand gaps for retail in the Bardstown Retail Zone.



Northeast — The Northeast Retail Zone could be considered the region’s retail Mecca simply based on the fact that it contains five of the area’s ten largest shopping centers. Additional new retail inventory planned for the area should help to close the relatively few opportunity gaps that exist, as many planned mixed-use projects contain their own retail components. Other shopping centers are repositioning and redeveloping to stay current with the latest trends in retailing such as Westport Village, shown below. Increases in population in this fast growing area could create demand gaps in the future, however, particularly in the supermarkets and pharmacies categories.



Westport Village is the old Camelot shopping center rebuilt in the new “town center” style.

Downtown — Not surprisingly, the Downtown retail zone shows retail surpluses in all categories, largely due to the high ratio of stores to resident population. Downtowns typically offer a concentrated mix of destination and specialty retail, men and women’s apparel, and food & beverage that cater to its residents and daytime worker population, as well as visitors attracted to cultural facilities, sporting events, and urban entertainment centers.

As the myriad of planned downtown development projects are brought online, its retail dynamic will be enhanced. Many of the major projects, such as the Arena, Iron Quarter, and Museum Plaza developments, will include retail components that can hopefully lure high-profile stores back to the downtown. The trend towards urban living is well documented, and Louisville is no exception, with a significant number of residential units in the pipeline.

Significant retail opportunity surpluses in an urban core are desirable and indicate a healthy retail environment that should be encouraged and maintained.



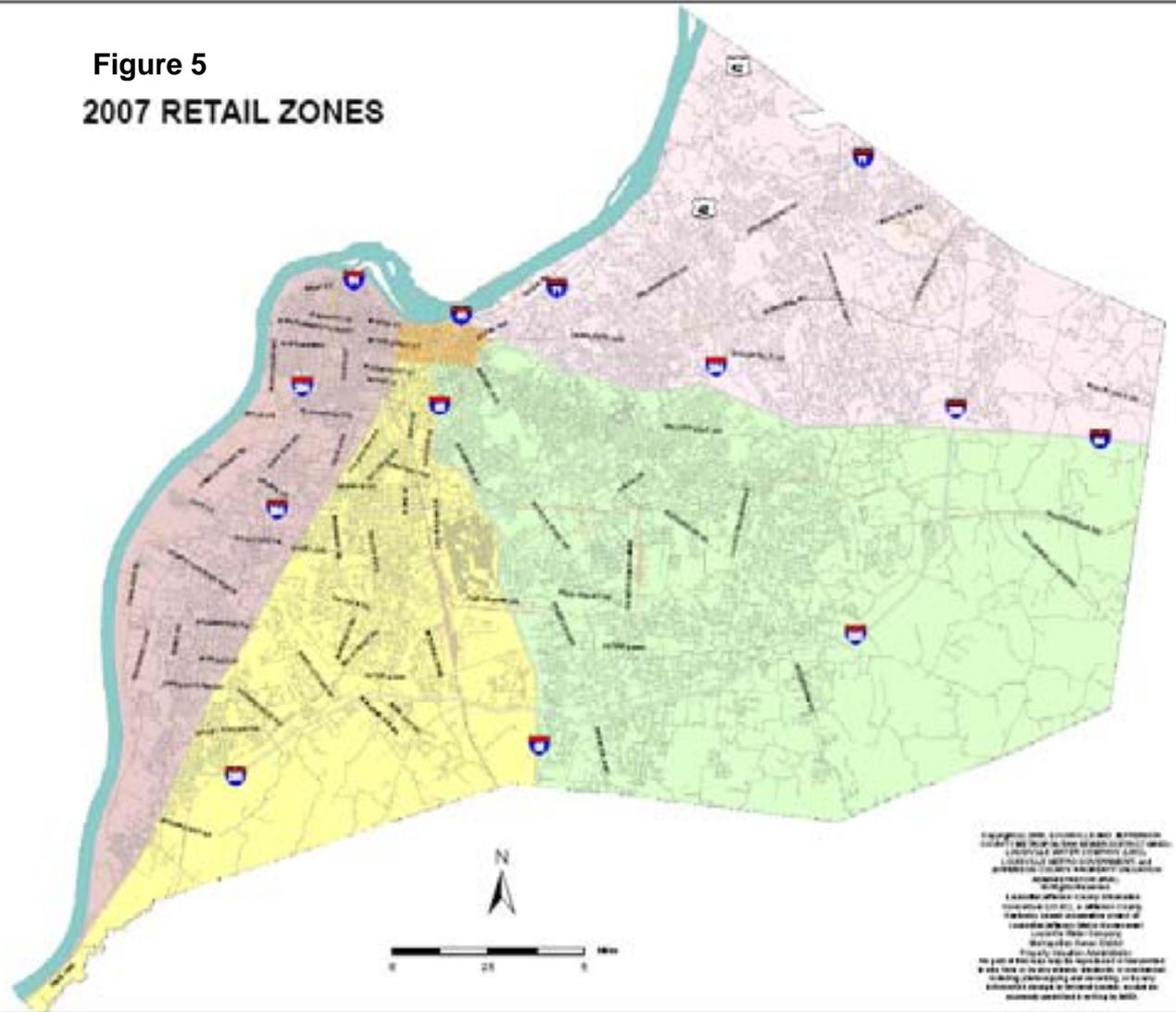
Downtown Louisville will be enhanced as a regional retail destination when projects such as Museum Plaza and the new arena are brought online, as depicted in this image.



Figure 5
2007 RETAIL ZONES

-  Bardonia Retail Zone
-  Central Retail Zone
-  Dixie Retail Zone
-  Downtown Retail Zone
-  Northeast Retail Zone
-  Jefferson Railroads
-  Jefferson Airports


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F. Louisville/Jefferson County Metro Growth Analysis

Population — Population growth indicates that an area is attracting new residents, workers and shoppers, generating demand for goods and services. Between 1990 and 2000, the Metro population increased a relatively modest 4.3 percent, from 664,937 to 693,604, or 28,667 persons. Population increased by 7,896 to an estimated 701,500 by 2006. The resident population of the Metro does not support its retail alone, however. The six surrounding Kentucky counties and three surrounding Indiana counties contained a combined population of 522,540 in 2006, an increase of approximately 114,604 persons since 1990. The retail inventory in the Louisville metropolitan area, particularly within the regional and super regional shopping centers, really draws from a primary trade area population of approximately 1.2 million persons.

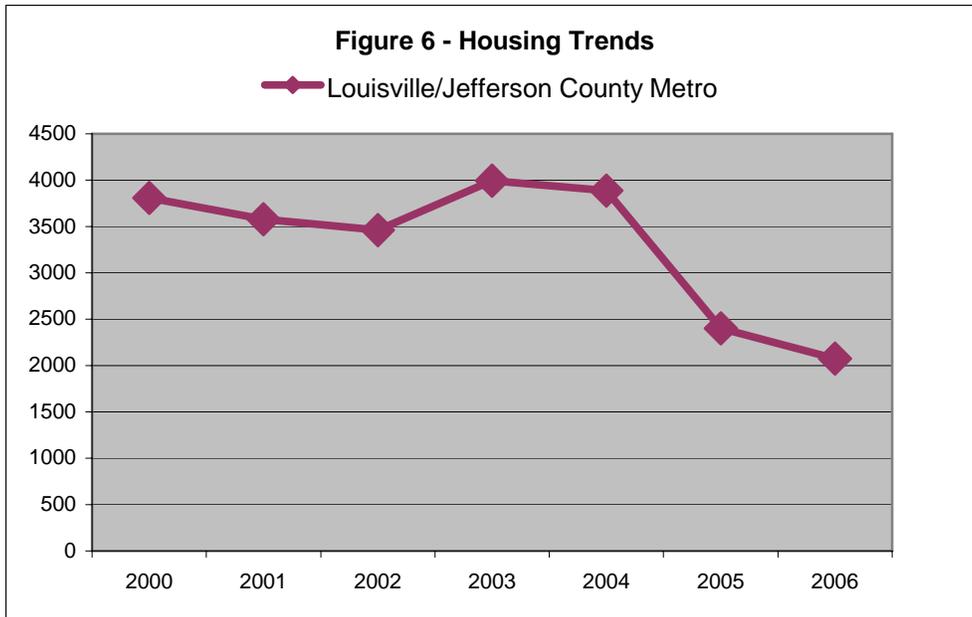
Residential Construction Activity — Residential construction activity is an important indicator of the growth patterns in a region, county, municipality, or specific area. There is a large measure of truth in the old adage that retail follows rooftops (along with vehicular traffic, access and visibility), as is readily evident in the new retail development patterns emerging in the Metro.

Table 1 shows residential permits issued from 2000 through August of 2007 for Jefferson County. As Table 4 and Figure 6 show, the number residential permits issued remained over 3,400 from the year 2000 to 2004, peaking to almost 4,000 in 2003, than dropping to 2,075 in 2006. Residential building permits issued year-to-date through August 2007 equal 1,964, suggesting that year end totals may exceed 2006. Nonetheless, it is reasonable to assume that housing starts in the Metro will be consistent with national trends, and may remain suppressed for some time to come.

Table 4									
Housing Units Permitted by Type and Year									
	2000	2001	2002	2003	2004	2005	2006	2007 YTD	Total
Single Family*	2833	3002	2,772	3,228	3,243	2,044	1,512	1,241	19,875
Multi-Family	975	575	690	767	643	356	563	723	5,292
Total	3808	3577	3,462	3,995	3,886	2,400	2,075	1,964	25,167

*Includes duplex and townhouse

Source: US Census; Strategy 5



Whether 2,000 or 4,000 residential units get built in any given year, it is important to project *where* this will occur in order to assess future retail demand. Two areas in particular stand out in terms of their growth potential: the area around the I-264/I-71 interchange in the Northeast Zone, and; the area south of the I-265/Bardstown Road interchange in the Bardstown Zone.

Northeast Zone — In the Northeast Zone, several projects of note are either currently in the development or predevelopment phases. Norton Commons, located on the north side of I-71 just east of I-264, will consist of 2,800 residential units, 365,000 square feet of office space, and its own retail inventory of 200,000 square feet at build-out.



Norton Commons' new urbanist design includes ground floor retail in its town center.

Two other projects in the development pipeline include:

- The Midlands, 4906 Brownsboro Road
 - 192 apartments
 - 117 condominiums
 - 119,500 square feet retail
 - 17,000 square feet restaurant
 - 104,200 square feet office
 - 150-room hotel

and,

- Providence Point, Lyndon Lane near Highway 22
 - 312 condominiums
 - 31,500 square feet retail
 - 28,400 square feet restaurant
 - 114,000 square feet office

As the information presented above clearly demonstrates, the increased demand for retail generated by new households has been factored into the development plans for these three projects. This is not the case in the next example, however, where new residential subdivisions are characterized by single use, and would require retail to be developed independently if warranted by increased demand.

Bardstown Zone — As previously discussed, the area south of I-265 at its Bardstown Road interchange is currently undergoing relatively significant residential development. Indeed, twenty-seven separate residential subdivisions are in active development or predevelopment, comprising a total of 6,459 units, 3,191 of which have been constructed.

Infill Development — Infill development, particularly in urban areas, creates opportunities not only for urban living, but for street-level pedestrian oriented retail as well. For example, the Villages of Park Duvalle, a 1,200-unit Hope VI residential mixed-use project, is one of the first of its kind offering retail space on the ground floor.



The Villages of Park Duvalle

Projects such as those on Frankfort Avenue in the following images also offer ground floor retail below housing, creating retail opportunities that otherwise may not be economically feasible. This type of retail serves a larger local trade area than just the residents within the same building.



Mixed-use redevelopment on Frankfort Avenue includes ground floor retail with upper floor residential.

Downtown — Housing units in downtown Louisville are expected to double between 2005 and 2010, from 1,800 to 3,600, after increasing by only 900 units from 1985 to 2005. This is both a result of new condominium construction and the adaptive reuse of older existing buildings into mixed usage. Key projects include:

- The Iron Quarter, a \$50 million development in the 100 block of West Main Street, will include a restoration of the properties' historic facades as part of a mixed-use development consisting of 110,000 square feet of retail space and 120,000 square feet of office space in a new multi-story tower.
- Center City, a \$445 million, 500,000-plus-square-foot mixed-use development that will include several hundred residential units, retail, restaurants, a cinema, and a boutique hotel.
- Museum Plaza is a planned 62-story, \$490 million complex of three towers that will contain a one-acre public plaza and park, 95 luxury condominiums, 108 lofts, a hotel, retail shops and a museum

G. Identification of Future Activity Centers

Different types of retailers must consider many factors when choosing a location including type of goods sold, space needs, competition and neighbors, zoning issues, accessibility, visibility, traffic, customer demographics, etc. For example, a **convenience store** requires easy access, allowing the customer to quickly make a purchase. This product is lower priced and purchased by a wide range of customers. **Specialty goods** are more unique than most products and customers won't generally mind traveling out of their way to purchase this type of product. This type of store may also do well near other shopping stores. A **shopping store** usually sells items at a higher price which are bought infrequently by the customer. Furniture, large appliances, and upscale clothing

are examples of goods found at a shopping store. Because the prices of these items are higher, this type of customer will want to compare prices before making a purchase. Therefore, retailers will do well to locate their store near like stores.

In the course of the site context survey conducted by the client group and Strategy 5, different opportunity sites were identified in the Dixie and Bardstown zones that could accommodate a variety of retail types. These opportunity sites range from vacant stores such as former Winn-Dixie groceries and Dillard's department stores to redevelopment projects such as the Park Duvalle Hope VI development and the former 26-acre Philip Morris site on Broadway and Dixie Highway. The Philip Morris site, now known as Newbridge Crossing, is planned for a mixed-use project that will include a significant retail component.



An opportunity site in Shively.

The identification of significant retail market opportunity gaps in certain areas suggests the potential for new retail inventory. In some areas, the unmet demand in specific retail categories could be addressed through the reactivation of vacant space. In other areas, the convergence of demand, or a “use looking for a site,” and a suitable property, or a “site looking for a use,” creates the potential for the development of a new retail node that fulfills demand from a number of retail categories. Based on the findings from the area reconnaissance, market analysis, growth analysis, and GIS analysis conducted during the course of the study, Strategy 5 evaluated various sites for more detailed financial analysis to assess the potential for retail development in the next development cycle, i.e. four to seven years. Evaluation criteria also included site availability and suitability for development, access and visibility, and amount of interest within the real estate development community.

Three sites in the study area were selected for additional analysis:

- Preston/Audubon site on Preston Highway opposite Audubon Park
- Newbridge Crossing (former Philip Morris site) at Broadway and Dixie Highway
- Southwest quadrant of I-265 and Bardstown Road

Preston/Audubon Site — The Preston/Audubon site is comprised of several parcels of improved and unimproved property located on the western side of Preston Highway, opposite the Audubon Park neighborhood. Existing uses include a limousine service, and are generally non-retail oriented. The property's attributes include siting on a well-traveled road, good visibility and access, and close proximity to a well-established and stable residential area.



The recommended development program for the site is street-oriented, neighborhood serving retail with a primary market orientation to local residents, including a full-service restaurant. Building design and exterior finishes should reflect the character of the adjacent neighborhood. Parking is situated in the rear, with an emphasis on attractive landscaping on the street front.

Based on an aggregate site area of approximately 200,107 square feet (4.6 acres), the site can support a gross building area of 80,000 square feet including a 10,000-square-foot restaurant. The program includes a generous parking allowance of 376 spaces, and 12,000 square feet of landscaped area. Parking estimates were derived from the Metro Land Development Code, and are based on 300 square feet per space. See Table 5.

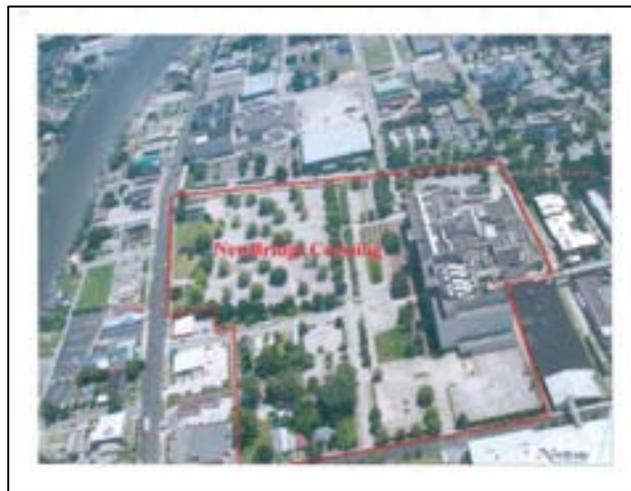


Views of the subject property

Table 5			
Preston/Audubon Retail Development Program			
Component	Square Feet	Parking Sq. Ft.	Parking Spaces
Retail Merchandise Stores	70,000	84,000	280
Food & Beverage	10,000	24,000	80
Landscape & Hardscape	12,000		
Subtotal Square Feet	92,000	108,000	
Total Project Square Feet	200,000		

Source: Strategy 5

Newbridge Crossing — The following financial analysis assesses the feasibility of a building concept proposed by the developer of this former Philip Morris site. The project is still in the conceptual planning stage, and therefore subject to considerable revision before a final development plan is decided on. Consequently, additional analysis is performed for a conceptual project that retains the retail component while solving for feasibility.



The proposed mixed-use development concept for Newbridge Crossing consists of three major components: 144,850 square feet of in-line retail in a “town center” configuration; a 160,000-square-foot free-standing anchor tenant; and 120,600 square feet of office space. This analysis examines the feasibility of the combined in-line retail and office components as a stand-alone project due to the peculiarities in lease arrangements associated with major anchors. See Table 6.

Table 6	
Newbridge Crossing Development Program	
Component	Square Feet
Retail	144,850
Anchor Tenant/Big Box Store	160,000
Office	120,600
Total Project Square Feet	425,450

Source: Strategy 5

A financial analysis contained in the Methodology section of this report suggests that Newbridge Crossing project would be economically feasible if the 144,850-square-foot retail component is retained, and a modest residential component of 20 townhouses and 100 condominiums replaces the office component.



Rendering of Newbridge Crossing

Bardstown Road & I-265 — The subject property is comprised of approximately 19.3 acres (841,137 square feet) located at the southwest quadrant of the Bardstown Road/I-265 interchange. The property is located within the Neighborhood Form District, limiting the building footprints and the amount of total square footage in improvements. Nonetheless, the financial analysis prepared for the property assumes project density allowable in a Town Center Form District.

A visual inspection of the aerial image shows an existing pond near the western edge of the parcel that could potentially restrict the developable area. It should also be noted that the Town Center Form District encourages mixed-use development that would include “shops, restaurants, offices and services as well as some residential uses”. For these reasons, the building program limits the developable area to 600,000 square feet, leaving 241,137 square feet undisturbed. The Town Center Form District also encourages vertical development, which would allow for inclusion of aforementioned other uses.



The conceptual development program is for a super community center comprised of 240,000 square feet of retail space consisting of a 150,000-square-foot anchor department store, 75,000 square feet of in-line space, and 15,000 square feet of restaurant space. Although it is understood that residential and other commercial space could be accommodated, only the retail elements are treated in this analysis. Based on the Metro Land Development Code parking requirements, 1,200 surface parking spaces have been factored into the project as well. See Table 7.

Table 7 Bardstown/I265 Retail Development Program				
Component	Building Sq. Ft.	Parking Sq. Ft.	Total Sq. Ft.	Parking Spaces
Net Available Land			841,137	
Anchor(s)	150,000	180,000	330,000	600
In-line Retail Tenants	75,000	90,000	165,000	300
Food & Beverage	15,000	90,000	105,000	300
Total Project Square Feet	240,000	360,000	600,000	
Residual Land			241,137	

Source: Strategy 5

H. Public Policy Discussion

The regulatory environment for real estate must be considered when assessing the potential for development or redevelopment of any type. Zoning code typically determines what type of land use can go in any given area or location. In June of 2000 the Louisville and Jefferson County Planning Commission adopted the *Cornerstone 2020 Comprehensive Plan* (effective March, 2003), to serve as the authoritative document to guide future development in what is now Louisville/Jefferson County Metro within a framework of smart growth. Cornerstone 2020 defines eleven separate form district types with their own rules for development, with the objective of ensuring that neighborhood character and patterns of development are reinforced to ensure results that will benefit the community now and into the future. Brief descriptions of the form districts (as presented in the Comprehensive Plan) are as follows:

Traditional Neighborhood: A residential area with compact development that supports shops and allows open space or greenways. Can include older urban neighborhoods as well as new neighborhoods. There is usually a significant range of housing opportunities, including multi-family dwellings. Traditional neighborhoods may contain civic uses as well as appropriately located and integrated neighborhood centers with a mixture of mostly neighborhood-serving land uses such as offices, shops, restaurants and services.

Village: A type of neighborhood with open space or farmland at the edge. A village center has shops, services and civic space.

Town Center: A community-serving center with retail, office, governmental, cultural and residential uses. The amount of floor space in town centers is usually between 100,000 and 400,000 square feet reflecting a market area designed to serve a population between 25,000 to 75,000.

Traditional Marketplace Corridor: Form found along a major roadway where the pattern of development is distinguished by a mixture of low to medium intensity uses such as neighborhood-serving shops, small specialty shops, restaurants and services. These uses frequently have apartments or offices on the second story. Buildings typically have 2-4 stories.

Neighborhood: The Neighborhood Form is characterized by predominantly residential uses that vary from high to low density and that blend compatibly into the existing landscape and neighborhood areas. High density uses will be limited in scope to minor or major arterials and to areas that have limited impact on the low to moderate density areas. The proposed *Preston/Audubon* redevelopment site is located within a Neighborhood District.

Traditional Workplace: A form characterized by predominantly small to medium scale industrial and employment uses. Traditional workplaces are often closely integrated with residential areas and allow a mixture of industrial, commercial, and office uses. New housing opportunities should be allowed as well as civic and community uses. The proposed *Newbridge Crossing* is located within this type of form district.

Regional Marketplace Center: A region-serving, mixed-use activity center characterized by shopping, offices, services, entertainment facilities and medium to high-density residential uses. The amount of floor space in regional centers usually exceeds 400,000 square feet, reflecting a market area designed to serve a population of at least 100,000.

Suburban Workplace: Large scale industrial and employment centers buffered from surrounding uses. Often contain a single large-scale use or a cluster of uses within a master planned development.

Downtown: The urban core of the city and the economic and cultural center of the region. Comprised of predominantly office, commercial, civic, medical, high-density residential and cultural land uses.

Campus: Master planned areas with a mix of office or educational uses, support services and a common square or plaza. Typically contain a mixture of uses that are clustered for a single or predominant function, often of regional importance such as a university, a hospital complex or an office development for corporate headquarters. A mixture of uses is encouraged and may include residential or commercial, but the uses primarily should serve the people whom work or live on the campus.

Comprehensive Plan guidelines encourage mixed land uses around compact **activity centers** that are existing, proposed, or planned. The Plan provides for activity centers to be located in the following form districts: Downtown, Town Center, Marketplace, Regional, Campus; and, Traditional Neighborhood,

Neighborhood, and Village Form Districts at street intersections with at least one of the intersecting streets classified as a collector or above, and one of the corners containing established non-residential uses.

Key provisions in the Plan stipulate that planned or proposed non-residential developments mainly serve residents within that development, and that **retail commercial development be located in activity centers** where it can be demonstrated that sufficient population supports it. Although this is subject to interpretation by the Planning Commission in most cases, more specific guidelines are set forth for the Neighborhood Form Districts, which could have implications for new development and redevelopment of shopping centers. Within the Neighborhood Form District, dimensional standards allow a maximum building footprint of 80,000 square feet for a non-residential structure, and a maximum aggregate footprint area of 150,000 square feet for non-residential improvements within a designated activity center. The Plan provides for and encourages some retail elements in all districts to the extent that they serve the resident and worker populations at a minimum.



Example of what a new activity center may look like

Form districts such as Village, Marketplace, Regional Campus, and Town Center encourage retail as one element of a mix of land uses and, in effect, serve as activity centers in their own right. Indeed, they are for the most part built out. However, practical considerations suggest that any significant new retail development occurring within a **Neighborhood Form District** (which comprises most of the undeveloped land mass in the Metro) be included as part of a mixed-use development within an activity center. This will ensure that future development within the low-density Neighborhood Form Districts adhere to “smart growth” principals, in the spirit of the guidelines contained in Cornerstone 2020. Therefore, existing activity centers should be inventoried and designated, while proposed new activity centers should be actively designated and utilized in Louisville land use planning, and specifically Cornerstone 2020 goals.

I. Survey Results

An online consumer survey was conducted as part of the analysis in order to assess the public's perceptions of the retail marketplace as it relates to convenience, quality of goods and services, and pricing for nine separate retail categories. A total of 319 residents responded to the survey representing twenty-five Zip Codes. Responses in two Zip Codes, 40203 and 40208 amounted to 100 and 111 respectively, accounting for 66 percent of the total. The next highest number of responses was 11, in Zip Code 40258. Full responses for all Zip Codes, and the individual Zip Codes 40203 and 40208 are located in Appendix B, starting on Page 74.

Zip Codes 40203 and 40208 are contiguous, located due south of downtown Louisville, and comprise the neighborhoods of Limerick, Old Louisville, Smoketown, Jackson and Shelby Park. Since their response rate offers the best statistical samplings, they are analyzed separately from the overall Metro. The results are interesting because, in some cases, the response rates are very similar, and in other cases they are very different.

For example, when responding to the question, "Do you consider the nearest grocery store to you to be very, somewhat, or not convenient?", the responses came out: *very*, 16 percent; *somewhat*, 51 percent; *not*, 31 percent. In both Zip Codes, respondents generally rated quality of their grocery store as poor, and pricing as fair. Pharmacies rated somewhat better in terms of convenience in 40203 than 40208, but did not rate particularly well in quality and pricing in either area.

Respondents in these Zip Codes generally rated convenience of home supply, department, and electronics and appliance stores to be poor, but were satisfied with quality and pricing overall. The convenience, quality, and pricing of "sit down" restaurants were also rated favorably by respondents from these areas.

Results for the Metro overall show general satisfaction with grocery stores, pharmacies, convenience stores, and fast food restaurants. Department stores were rated highly in convenience and pricing, but poorly in terms of quality. Electronics and appliance stores were rated poorly in terms of convenience, but were well rated in terms of quality and pricing. Full service restaurants rated well in convenience, quality, and pricing. See Appendix B.

J. Next Steps

- 1) The Louisville Retail Infrastructure Analysis provides a significant amount of information that can be used to further the economic and community development policies and programs. It identifies underserved areas, as well as the overall distribution and concentration of existing and planned retail development that serves the greater Louisville population. The information provided in this report can be used as a foundation for several next steps. Some key next steps identified by the consultant and the client group include the following:
 - A. The Louisville Retail Infrastructure Analysis is one of several analyses and planning efforts being undertaken by the public sector. This Study, its information, and recommendations should be merged with, and/or otherwise accounted for, within the context of the other work being undertaken to maximize the value to the greater community. Specifically, the drill-down study being undertaken by Social Compact should incorporate the conventional retail analysis undertaken herein, with their specialized look at the retail needs and demand of certain areas of the Louisville / Jefferson County Metro area.
 - B. Retail development, occupancy, and vacancy are fluid as any real estate market is as well. Therefore the consultant recommends that Metro government subscribe to CoStar, a fee-based data/information service that tracks net leasable space in identified market areas, vacancies, etc. This service can be a valuable tool in tracking real time retail store situations, which in turn can allow the Economic Development Department and other interested agencies to take proactive action geared toward maintaining occupancy, and thus service to the community. This action could include, but not be limited to, business recruitment and retention strategies that are developed over time and implemented accordingly.
- 2) Strategy 5 recommends that the Economic Development Department continue its proactive, hand-on approach to retail development by focusing efforts on opportunity sites that are identified herein. These include, but are not necessarily limited to the following:
 - A. The Philip Morris site has been the subject of ongoing redevelopment efforts. Next steps involving this site include incorporating observations and information contained in this Study in marketing and other materials required by the developer(s) in determining the final building program, mix of uses, and financing plan that will be accepted by other investors and/or lenders. The

needs of the community as well as gaps in retail supply could and should be taken into account as the Economic Development Department continues to foster redevelopment at this important site.

- B.** The Audubon Park site is comprised of several parcels of improved and unimproved property located on the western side of Preston Highway, opposite the main entrance to the neighborhood. The recommended development program for the site is street-oriented, neighborhood serving retail whose primary market orientation would be to the local community. Based on the aggregate site area of approximately 5 acres, this opportunity area represents a relatively manageable project for the Economic Development Department to undertake as an action item on its retail development agenda. Specific next steps should include:
- i. Gain control of for-sale property through option agreements held by the Economic Development Department or appropriate economic development corporation.
 - ii. Meet with other property owners to determine status of occupancy, tenancy, short and long term business plans etc.
 - iii. Put together a timeline / strategy for acquiring and assembling the property necessary for development of a new retail node.
 - iv. Begin soliciting developer interest in the project to enable an early public/private partnership that can facilitate the implementation of the acquisition and assembly strategy.
 - v. Conduct neighborhood “Town Hall” meetings to determine and refine the community’s needs and desires in terms of specific retail uses. This input, combined with information contained in the report can be used to augment the developer marketing / solicitation package that is ultimately used to attract an experienced and qualified retail, or mixed-use development company for the project.
 - vi. Consider what financial incentives may be available / appropriate to apply to the project in facilitating / marketing involvement by the private sector.
 - vii. Consider a formal developer solicitation process. Strategy 5 typically recommends a two step process consisting of a Request for Qualifications (RFQ) that is widely distributed

and is easy to respond to. This helps to establish a wide field of interested parties. Second, a more detail Request for Proposals (RFP) is issued to RFQ respondents that involve specific development plans, a financing plan, demonstration of experience and financial capacity etc.

- C.** The same basic steps should be followed for the opportunity sites identified at Newbridge Crossing site (three major components) and the Bardstown Road / I-265 property consisting of approximately 20 acres.
- 3)** Public policy covers a wide range of zoning, regulatory, and ordinance-based determinants that affect retail development and associated business activity. Next steps should include a review by the Planning Department of certain land use regulations and policies pursuant to identified gaps and underserved areas of the community. These include, but are not necessarily limited to, shopping center opportunity sites in the I-265 corridor. In short, the Planning Department should consider the creation of activity centers as various real estate sector demands converge, on a case by case basis. Additionally, mixed-use should be the preferred form of future development and redevelopment as recommended in Cornerstone 2020.
 - 4)** The Retail Infrastructure Analysis has established certain minimum standards for retail in terms of community serving capacity. The Economic Development Department should compare these minimum standards with specific neighborhoods in order to determine areas that may warrant additional hands-on development action. Underserved areas that warrant further site-specific analysis seeking opportunity sites include the Dixie Retail Zone, the Bardstown Retail Zone,
 - 5)** Continue to utilize the Retail Survey as a tool for understanding ongoing community needs and desires. The Economic Development Department may choose to re-use the survey on an annual basis to track changes in the retail / community environment. Findings from the survey as utilized in thi study can be used to establish a baseline on which future survey responses can be compared.
 - 6)** Coupled with the survey responses, data, and other information provided by the Retail Infrastructure Analysis, and the results of the Social Compact Study drill-down study, the Economic Development Department should establish benchmarking standards on which future retail development and implementation effectiveness can be judged.
 - 7)** Economic Development Officers and Coordinators (retail professionals) should familiarize themselves with the Retail Infrastructure Study,

particularly their individual Retail Zones. Specific attention should be paid to retail opportunity gaps in their respective zones.

- 8) As emerging retail projects are delivered, the opportunity gaps in certain retail categories will diminish. For example, the Westport Plaza Shopping Center (the redeveloped Camelot shopping center) will impact retail opportunity gaps identified in the Bardstown Zone as new tenants come on line. Retail professionals should communicate with the Planning Department to supply information on site plans, permit applications, etc., that signal the emergence of new retail development. Armed with real-time information on opportunity gaps, the retail professionals can assist shopping center owners with the targeting of tenants.
- 9) The Economic Development Department staff has done an excellent job of identifying abandoned retail properties as opportunity sites. We recommend that the Retail Division move forward with their plans to obtain *CoStar Retail Property Professional*, which is a fee-based data service that provides information on retail space for lease and sale, as well as property inventory including shopping centers, stand alone retail, main street retail and retail-zoned land. This will add an additional dimension to the Retail Division's arsenal of tools, that combined with the retail market potential information on hand, will enable the retail professionals to assist in targeting tenants.
- 10) We recommend that the Economic Development Department staff prioritize its business recruitment and retention activities in the following manner:
 - A. The reactivation of underutilized or abandoned properties and re-tenanting of vacant space should be the top priority. Nothing signals a neighborhood's decline like vacant properties. Retail opportunity gap information and the findings of the Social Compact study can be effectively brought to bear in this endeavor.
 - B. Infill development opportunities in areas showing significant retail gaps should be identified and ranked according to their development potential using the following criteria: market support; public support; availability and suitability (access, visibility; parking, etc.) of land, and; appropriate zoning, or likelihood of rezoning.
 - C. In instances where rezoning is required for new retail development, the Retail Division can provide support in the form of market data as the project moves through the process. The retail division should remain aware that this is a public process, and that in certain circumstances no amount of market data will overcome public opposition.

- 11)** The Economic Development Department staff should closely monitor the impact of new retail development on older shopping centers and stores. For example, the introduction of one of the new generation of big box discount department stores has the net effect of a new community shopping center on the marketplace. In a crowded marketplace, this can and does result in the demise of existing retailers. Although the pros and cons of this trend is debatable, it is nonetheless a reality in most markets in the U.S.
- 12)** The Louisville/Jefferson County Metro should see the delivery of a relatively significant amount of retail in 2007. It is important that the Retail division update the Retail Market Potential data when available to be able to reliably assess the retail environment.
- 13)** Louisville should explore the potential to revise State law to allow a “Local Option Sales Tax.”

II. Detailed Analysis

A. Retail Market Potential – Metro Retail Zones and Zip Codes

When Louisville is analyzed on a more detailed geographic level, disparities emerge in terms of how local residents are served by retail. This section examines Retail Market Opportunities within the five designated Metro retail zones (Dixie, Central, Bardstown, Northeast, and Downtown), and further refines the analysis to the Postal (Zip) Code level. The preceding Figure 7 shows the configuration of Zip Codes within the retail zones.

Dixie Retail Zone — Within this zone, opportunity surpluses occur in the *supermarkets* and *pharmacies and drug store* categories, as well as: *furniture and home furnishings*; *sporting goods, hobby, book and music stores*, and; *limited service eating places*. There is a significant opportunity gap in the *general merchandise* category in the amount of approximately \$100.9 million. *Clothing and clothing accessories* account for a \$38.9 million gap, while the opportunity gap for *office supplies, stationary and gift stores* is approximately \$7.4 million. It has been suggested, and is highly likely, that retail stores in close-by southern Indiana are fulfilling certain retail needs, particularly for residents in the northern sections of the Dixie retail zone. Indeed, the Green Tree Mall and River Falls Mall (primarily a giant Bass Pro Shop, with a Dick's Sporting Goods and Toys "R" Us) offer a combined 1.57 square feet of retail store space between them. Opportunity gaps exist in all zip codes for *full-service restaurants*, for a total of approximately \$36.1 million.

The Food Marketing Institute cites a median average weekly sales per supermarket in 2006 as \$327,823, or approximately \$17.0 million per year. Using this criterion, the 40258 zip code could potentially support a new supermarket. An adjacent zip code area, 40272, shows a *supermarkets* opportunity gap of 13.7 million (see Table 3), suggesting that both areas could potentially benefit from a new supermarket (see Table 8).

Table 8						
Retail Market Potential Opportunity Gap/Surplus - Dixie Retail Zone by Zip Code						
	40212	40211	40210	40216	40258	Total
Daily needs						
Supermarkets	(\$32,250,276)	\$3,158,920	\$13,555,297	(\$16,948,922)	\$22,924,444	(\$9,560,537)
Pharmacies & drug stores	\$8,009,635	(\$18,159,040)	\$2,850,959	\$3,396,277	(\$1,793,248)	(\$5,695,417)
GAFO						\$0
General merchandise	\$16,527,834	\$26,821,147	\$20,533,050	\$19,885,845	\$17,086,767	\$100,854,643
Clothing and clothing accessories	\$8,923,421	\$10,086,253	\$6,653,817	\$9,546,388	\$3,656,412	\$38,866,291
Furniture and home furnishings store	(\$10,333,960)	(\$329,925)	\$990,046	\$7,587,351	(\$4,462,384)	(\$6,548,872)
Electronic and appliance stores	\$4,182,921	\$5,531,731	\$3,917,544	\$3,203,738	\$1,646,434	\$18,482,368
Sporting goods, hobby, book, music stores	\$2,281,692	\$3,246,309	\$2,630,408	(\$13,251,733)	(\$11,098,008)	(\$16,191,332)
Office supplies, stationary, gift stores	\$1,342,358	\$1,787,778	\$924,707	\$3,512,789	(\$131,350)	\$7,436,282
Food service						\$0
Full-service restaurants	\$5,510,443	\$722,723	\$5,912,048	\$13,822,719	\$10,117,157	\$36,085,090
Limited service eating places	\$3,349,760	\$1,793,859	(\$2,352,780)	(\$8,248,120)	(\$960,258)	(\$6,417,539)

Source: Claritas; Strategy 5

Central Retail Zone — When assessing the retail market potential for a specific geography, the adjacent areas must be taken into account, and their own retail offerings and access must be factored in. In the case of the Central retail zone, fairly significant opportunity gaps are evident in a number of categories. For instance, *supermarkets* show a \$39.6 million gap. While some demand can be met from the Dixie retail zone's surplus (the Dixie and Central zones have 47 and 46 supermarkets, respectively – many of the Dixie zone's supermarkets reside on the Dixie Highway, near the border of the two zones), the Bardstown retail zone must be examined as well. The Bardstown retail zone (Table 4) shows an opportunity gap of \$133.9 million, which suggests that its *supermarkets* inventory cannot fill the needs of many of the Central Zone's residents. And although the Northeast retail zone (Table 13) carries an opportunity surplus of \$221.2 million in *supermarkets*, the distances and drive times are not practical for serving consumers residing in the Central zone.

The sizeable opportunity gaps in the *general merchandise* and *clothing and clothing accessories* categories of \$176.8 million and \$79.9 million, respectively, point to potential new supply opportunities, particularly in the context of gaps in both the Dixie and Bardstown zones. Although the opportunity surplus of \$827 million in *general merchandise* more than compensates for the deficit in the south and western sections of the Metro, clearly opportunities exist in these areas for general merchandise outlets that more conveniently serve their residents. In the *clothing and clothing accessories* category, the Dixie, Central, and Bardstown zones all show opportunity deficits contributing to an overall gap in the Metro, which suggests potential for additional new inventory.

Although all of the major retail zones in the Metro show opportunity gaps in the *electronic and appliance stores* category, the Central zone's is the greatest at \$33.9 million, making it a logical location for an outlet of this type. The Central also has the largest opportunity gap for *office supplies, stationary and gift stores* (which has only a \$3.7 million surplus Metro-wide), and again, is situated between two zones with deficits in the same category, creating potential for a new retail outlet.

The Central is the only retail zone in the Metro with opportunity gaps in both the *full-service restaurant* (\$43.3 million) and *limited service eating places* (\$17.6 million) categories (see Table 9).

Table 9
Retail Market Opportunity Gap/Surplus - Central Retail Zone by Zip Code

	40208	40215	40214	40272	40118	40209	40213	40203
Daily needs								
Supermarkets	(\$2,378,343)	\$29,752,357	(\$12,070,322)	\$13,723,169	\$9,312,420	\$590,047	(\$7,850,734)	\$8,485,809
Pharmacies & drug stores	(\$4,448,135)	\$10,161,066	(\$3,781,395)	\$6,907,684	\$6,724,999	\$384,096	(\$15,261,161)	(\$7,439,016)
GAFO								
General merchandise	\$18,263,246	\$26,959,598	\$67,246,769	\$26,495,398	\$14,546,394	(\$1,677,455)	\$11,354,376	\$13,590,167
Clothing and clothing accessories	\$5,557,428	\$11,341,870	\$22,548,886	\$21,563,858	\$5,614,083	(\$9,067)	\$7,867,335	\$5,382,500
Furniture and home furnishings store	(\$5,670,678)	\$3,985,354	\$14,394,787	\$10,882,760	\$1,992,904	(\$7,457,421)	(\$14,405,841)	(\$2,984,710)
Electronic and appliance stores	\$2,308,269	\$4,823,046	\$10,028,664	\$9,765,092	\$3,023,970	(\$1,442,297)	\$2,387,194	\$2,959,938
Sporting goods, hobby, book, music stores	(\$3,994,729)	\$3,802,622	\$7,803,411	\$5,447,460	\$1,488,433	(\$2,594,152)	(\$2,444,819)	\$1,700,432
Office supplies, stationary, gift stores	\$464,458	\$2,574,706	\$5,733,641	\$4,627,526	\$1,197,143	(\$823,329)	(\$2,080,668)	\$1,146,508
Food service								
Full-service restaurants	\$3,679,925	\$9,874,422	\$23,805,786	\$11,783,705	\$4,379,345	\$237,233	(\$10,787,605)	\$320,298
Limited service eating places	(\$1,759,361)	\$6,270,609	\$9,656,306	\$8,561,617	\$4,625,665	(\$4,838,259)	(\$3,029,472)	(\$1,861,852)

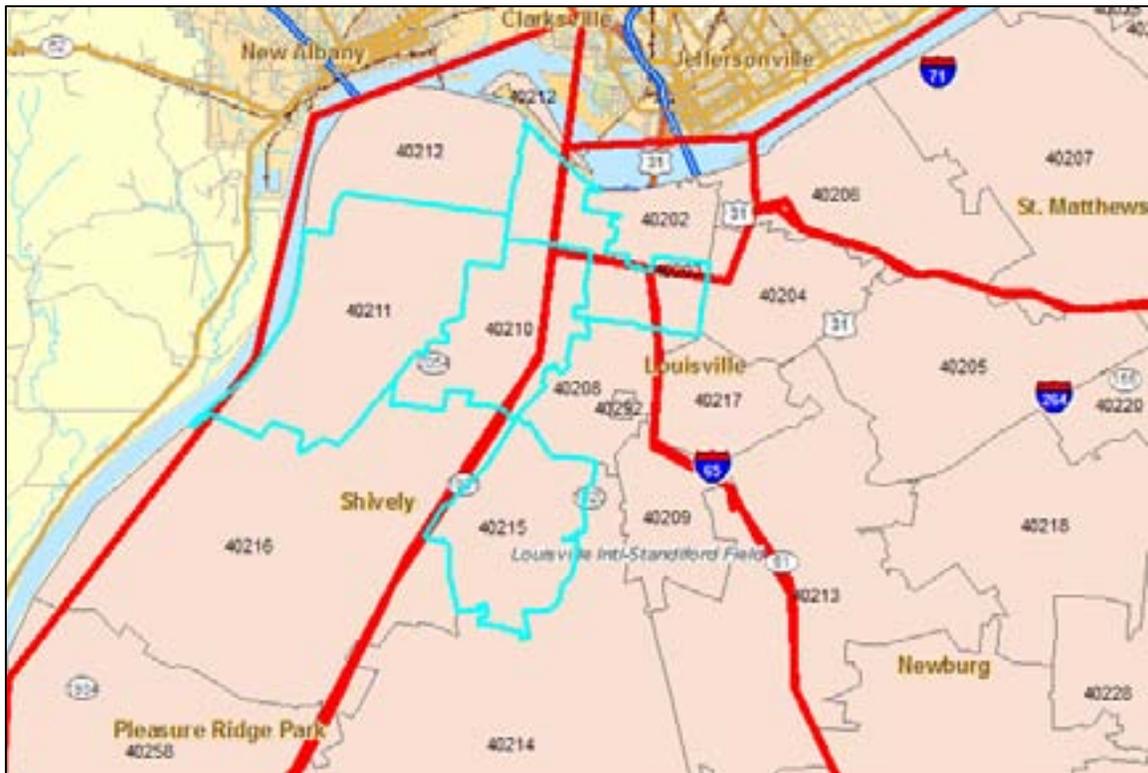
Source: Strategy 5

Dixie/Central Retail Zones Demand Analysis — Figure 8 shows four contiguous zip code areas (40203, 40208, 40210, 40211) within the upper Dixie and Central retail zones that show opportunity gaps in the *supermarkets* category, totaling approximately \$54.9 million in aggregate. The combined surpluses in *supermarkets* for zip codes 40212, 40214 and 40216 equal approximately \$61.3 million, however, indicating that they probably draw a portion of their customer base from the other zip codes. Nonetheless, this area could possibly support another grocer in a competitive environment.

Grocery stores come in a broad range of sizes, product and merchandise mixes, formats, etc. In order to more fully assess the variety of grocery options available to serve a given geography, *Food Market Institute* definitions are presented in Appendix A.

Supply and demand within the *pharmacies and drugstores* category appear to be in equilibrium in the Dixie and Central Zones, with no one large area showing significant opportunity gaps. Indeed, opportunity surpluses exist for both zones, at approximately \$5.7 million and \$6.8 million, respectively (see Figure 8).

Figure 8



There are significant across-the-board retail opportunity deficits in both the *general merchandise* and *clothing and clothing accessories* in both the Dixie and Central Retail Zones. Combined *general merchandise* and *clothing and clothing accessories* gaps total approximately \$277.6 million and \$118.7 million, respectively, for the two zones. Retail opportunity gaps also exist in the *electronics and appliance stores* (\$52.3 million) and *office supplies, stationary and gift stores* (\$20.3 million).

The opportunity gaps for *general merchandise, clothing and clothing accessories* and *electronics and appliance stores* point to a number of possibilities for responding to unmet demand. For instance, some major department stores (such as Sears) carry general merchandise, apparel, clothing accessories, electronics, appliances, stationary, gifts, and some office supplies. Other major department stores and discount department stores may carry all of the above with the exception of appliances. Supermarkets carry some general merchandise, but not typically apparel, electronics, or appliances. And certainly, stores specializing in any of the above categories or subsets thereof range from large, national chains to local small businesses.

Analysis shows a combined retail opportunity gap for full-service restaurants of approximately \$79.4 million in the Dixie and Central Retail zones, indicating market support for new full-service restaurants.

The Newbridge Crossing project (former Philip Morris site), located at the southwest quadrant of Broadway and Dixie Highway, is situated in a Traditional Workplace Form District (see Figure 9). Guidelines for this form district recommend support of a “full range of industrial, employment, and business uses and enhanced workplace districts by encouraging adaptive reuse and reinvestment.” Objectives of the district include providing for “commercial uses and services that serve workers and residents of adjacent districts.” This district also provides for new housing opportunities as well as civic and community uses, which would allow a truly mixed-use project to be developed at Newbridge Crossing comprising residential, retail, and other commercial components.

Bardstown Retail Zone — The Bardstown zone's opportunity gaps appear in a band of zip codes including 40229, 40228, 40291, and 40299 (See Figure 6 at end of section). Overall, the Bardstown zone shows deficits in *supermarkets* (\$62.5 million), and *pharmacies and drug stores* (\$17.7 million). Under the GAFO (General merchandise, Apparel, Furniture, and Other) heading, opportunity gaps appear in the *general merchandise* and *clothing and clothing accessories* categories, with small deficits in the *electronic and appliance stores* and *office supplies, stationary and gift stores* categories. Interestingly, the Bardstown retail zone shows significant retail opportunity surpluses in both the *full-service restaurants* and *limited service eating places* categories, likely enhanced by the preponderance of eating and drinking establishments along Bardstown Road (see Table 10).

From a geographical standpoint, the Bardstown zone's opportunities appear to lay in the center area of the zone, rather than the border areas with the Central and Northeast zones. The 40219 zip code area (home of the Jefferson Mall) shows surpluses, some significant, under the GAFO and *food service* headings, as does the 40220 zip code area in all but the *electronic and appliance stores* category. Also, the northern boundary of the zone derives some benefits from proximity to the Shelbyville/Saint Matthews/Oxmoor Malls cluster.

Figure 10 highlights the following Zip codes: 40229, 40228, 40291, 40299, and 40023, (as well as 40272 and 40118 in the Central Zone). The combined approximate retail market gaps for each category are as follows: *Supermarkets* - \$65.3 million; *General merchandise* - \$176.9 million; *Clothing and clothing accessories* - \$81.5 million; *Sporting goods, hobby, book, music stores* - \$17.8 million; *Office supplies, stationary, gift stores* - \$14.8 million; *Full-service restaurants* - \$40.0 million, and; *Limited service eating places* - \$16.8 million. It should be pointed out that the overall Bardstown retail zone has considerable opportunity surpluses of \$49.3 million in the *Full-service restaurants* category and \$45.2 million in the *Limited service eating places* category. There is also a market opportunity surplus of approximately \$48.6 million in the *Sporting goods, hobby, book, music stores* category.

Nonetheless, the retail market opportunity gaps in the aforementioned Zip code areas have important implications for future retail supply from a geographical standpoint, particularly in light of the fact that two other Zip codes in the Central Zone (40272 and 40118) extend the contiguous band of underserved areas (refer to Figure 10).

Figure 10

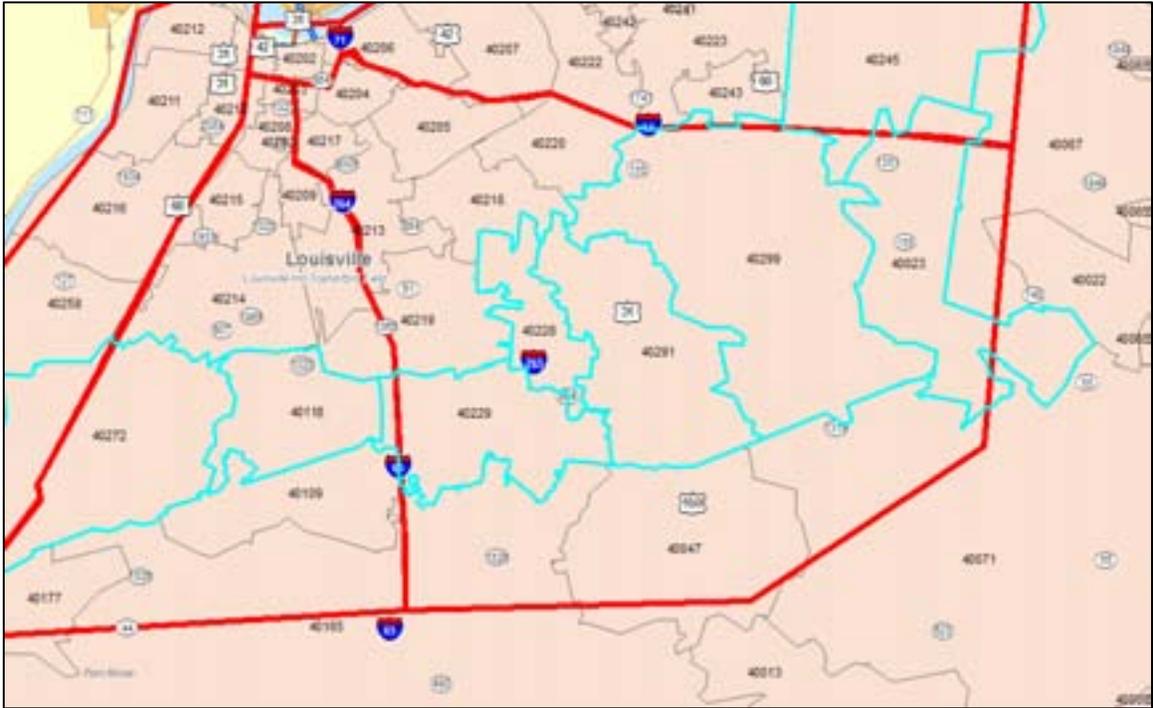


Table 10
Retail Market Opportunity Gap - Bardstown Retail Zone by Zip Code

	40204	40217	40219	40229	40205	40218
Daily needs						
Supermarkets	(\$6,582,661)	\$17,825,379	\$9,800,038	(\$6,265,021)	\$7,863,871	\$39,895,227
Pharmacies & drug stores	\$941,580	(\$2,349,592)	\$1,829,729	\$10,423,750	(\$5,191,749)	\$12,084,541
GAFO						
General merchandise	\$21,590,479	\$21,678,831	(\$94,092,704)	\$37,287,236	\$55,809,671	\$22,351,462
Clothing and clothing accessories	\$5,763,517	\$7,557,292	(\$41,171,977)	\$23,056,456	\$13,604,117	\$13,947,494
Furniture and home furnishings store	(\$4,652,544)	(\$2,600,407)	(\$16,250,212)	\$13,681,557	\$6,104,366	(\$719,599)
Electronic and appliance stores	(\$11,305,634)	\$2,927,108	(\$4,372,225)	\$10,526,662	\$7,390,879	(\$1,215,673)
Sporting goods, hobby, book, music stores	(\$5,959,725)	\$1,730,003	(\$37,771,825)	\$9,164,010	(\$14,422,109)	(\$1,333,664)
Office supplies, stationary, gift stores	\$647,957	\$1,247,197	(\$8,763,193)	\$5,261,988	\$4,049,367	\$2,482,926
Food service						
Full-service restaurants	(\$29,006,033)	\$109,747	(\$24,760,042)	\$9,743,930	(\$15,605,153)	\$10,254,821
Limited service eating places	(\$15,541,485)	\$1,472,538	(\$19,976,077)	\$4,266,607	(\$15,861,992)	\$457,767
	40220	40228	40291	40299	40023	Total
Daily needs						
Supermarkets	(\$196,999)	\$10,914,602	\$25,903,220	\$29,332,423	\$5,410,593	\$62,536,833
Pharmacies & drug stores	(\$19,201,601)	\$4,095,455	\$8,718,283	(\$34,354,073)	\$2,472,252	\$17,738,259
GAFO						
General merchandise	(\$1,058,097)	\$28,062,916	\$57,015,037	\$47,210,514	\$7,279,639	\$64,624,975
Clothing and clothing accessories	(\$4,040,405)	\$10,671,374	\$25,735,479	\$18,997,633	\$3,001,813	\$22,756,899
Furniture and home furnishings store	(\$1,897,051)	(\$8,204,082)	\$10,585,143	(\$34,974,532)	\$1,589,000	(\$4,436,839)
Electronic and appliance stores	\$10,146,816	\$4,915,965	\$13,438,448	(\$38,887,915)	\$1,443,437	\$3,951,117
Sporting goods, hobby, book, music stores	(\$4,676,309)	\$911,297	\$4,965,403	\$1,561,978	\$1,171,832	(\$48,593,310)
Office supplies, stationary, gift stores	(\$4,615,608)	\$2,429,050	\$4,175,028	\$2,266,636	\$632,597	\$4,926,242
Food service						
Full-service restaurants	(\$10,820,216)	\$9,716,424	\$4,042,945	\$14,253,860	\$2,248,773	(\$49,262,730)
Limited service eating places	(\$5,711,095)	\$5,863,434	\$5,666,353	(\$1,126,630)	\$2,159,901	(\$45,182,642)

Source: Claritas; Strategy 5

The introduction of new community center or super community center (centers that fit the general profile of a community center but contain more than 250,000 square feet) in a strategic location within the southern portion of the Bardstown Zone is one logical alternative for addressing unmet demand.

One area currently being eyed with great interest by the development community resides in the southern portion of the Bardstown Zone, at the southern half of the I-265/Bardstown Road interchange. Although the northern half of the interchange area is comprised of a Town Center Form District, which accommodates “a mixture of moderately intense uses”, the area at hand resides in the Neighborhood Form District.

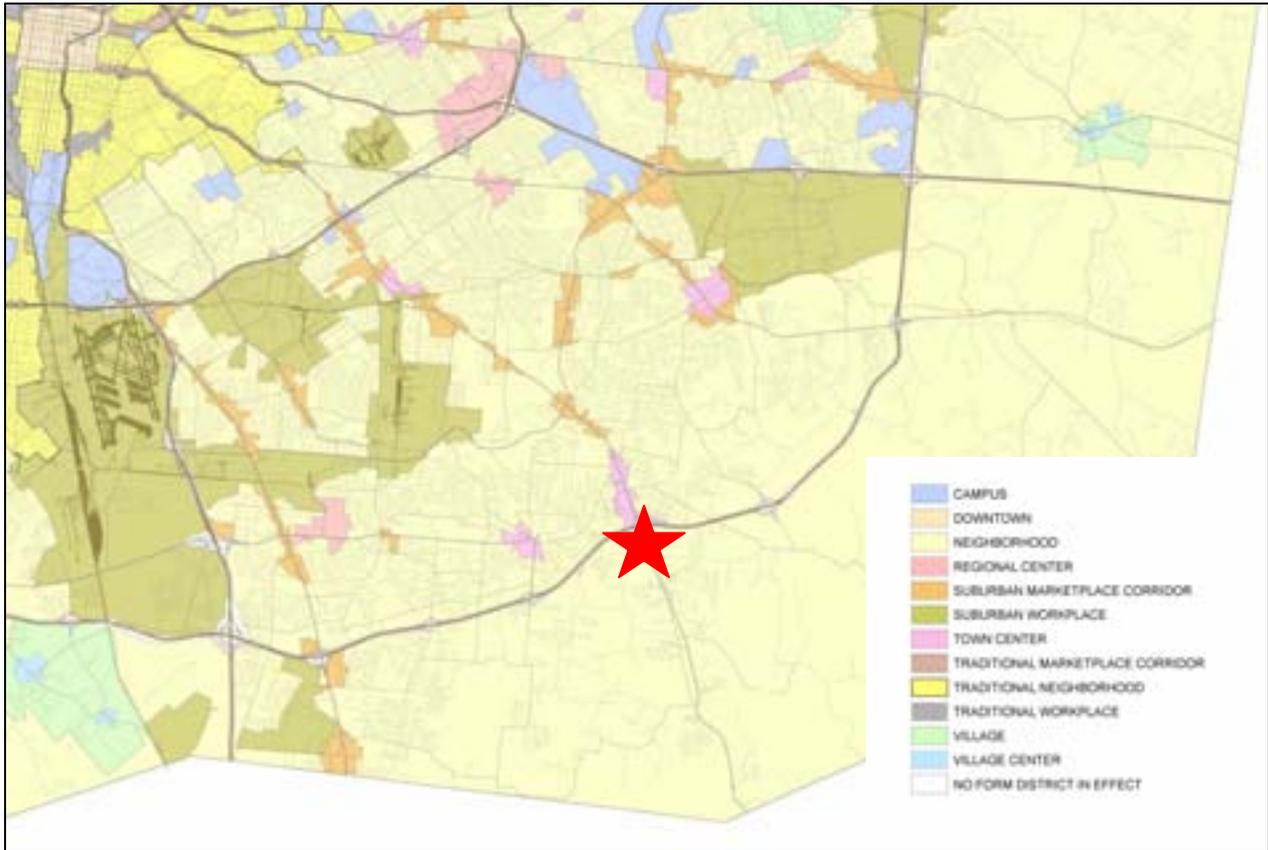
Figure 11 shows the form districts within the Bardstown Road Retail Zone, with a red star indicating the southern half of the I-265/Bardstown Road interchange. As the map shows, the area north of I-264 near Louisville’s urban core is primarily Traditional Neighborhood, with some Campus and Neighborhood. South of I-264 are large tracts of Suburban Workplace (including the airport, rail yards, and G.E.), as well as Suburban Marketplace Corridors along Preston Highway, Bardstown Road, and a short stretch of Poplar Level Road.

The area south of I-264 also contains six Town Center Form Districts encompassing at least one or more shopping centers apiece, the most notable being Jefferson Mall. The Town Center at Bardstown Road and I-265 contains two community shopping centers, while the southern half just outside I-265 contains a community Center (Glenmary Shopping Center) and a neighborhood center (Fern Creek Square) within the Neighborhood Form District. This area could qualify as a candidate for rezoning to an **activity center** for the following reasons:

- It is a growth area. Within the past five years, 3,191 new residential units have been added in the direct vicinity, with another 3,268 approved and in the pipeline.
- The area is very accessible from the band of under-retailed zip codes in the Central and Bardstown Retail Zones.
- Two retail projects slated for this area are in the pre-development stages:
 - A 113,348-square-foot shopping center with a Kohl’s department store
 - A 14,820-square foot Walgreen’s pharmacy

The addition of the aforementioned retail projects would help alleviate the retail market demand gap in the area, and serve the local residents for whom the retail clusters in the Northeast Zone are inconvenient.

Figure 11



Northeast Retail Zone — The Northeast retail zone encompasses five of the Louisville metropolitan area's (including southern Indiana) top ten largest shopping centers, contributing to retail opportunity surpluses in all but three selected categories: *supermarkets*, *general merchandise*, and *electronic and appliance stores*. Old Brownsboro Crossing is the area's latest addition and includes a Lowe's home improvement store, a Costco discount/membership store, and Olive Garden and Red Robin Restaurants. The 367,476-square-foot Summit Louisville was delivered as recently as 2001, and includes a Barnes & Noble book store, as well as J. Crew, Gap, and Ann Taylor Loft apparel stores.

The new urbanist Norton Commons mixed-use development will add an additional 200,000 square feet of retail to the Northeast zone, along with 365,000 square feet of office space and 2,800 residential units. The redeveloped and repositioned Camelot shopping center will be delivered in the Northeast Zone in late 2007. Called Westport Village, the center is being redeveloped in the open-air "town center" style with an emphasis on specialty retail and restaurants. The addition of this new inventory will enhance the Northeast Zone's opportunity surpluses and could likely help to close its opportunity gaps in several categories, depending on the final tenant make-ups (see Table 11).

The Northeast Zone contains a mix of Village, Campus, and Suburban Workplace form districts with a few fairly significant Town Centers and some Suburban Marketplace Corridors. A relatively small area near downtown Louisville is Traditional Neighborhood, while the balance of the land area is Neighborhood Form District. The largest Town Center form district is at the Shelbyville Road/I-264 interchange, and contains several shopping centers, including the Mall St. Matthews, the Oxmoor Center, and Shelbyville Road Plaza. Summit Retail Center, Summit at Louisville, Springhurst Town Center and the Shops at Springhurst are also located within Town Center form districts (see Figure 12).

In an area that is under active development such as the Northeast Zone, identifying opportunity sites is particularly challenging, especially in light of its current retail market opportunity surpluses. The previously discussed three key development projects (Norton Commons, the Midlands, Providence Point) will all contain their own retail components comprising 350,000 square feet of new space. Additional new retail inventory planned for the area should help to close the relatively few opportunity gaps that exist, as many planned projects contain their own retail components. Nonetheless, future residential development in this fast growing area could easily shift this dynamic over time to create new demand gaps, particularly in the supermarkets and pharmacies categories.

Table 11

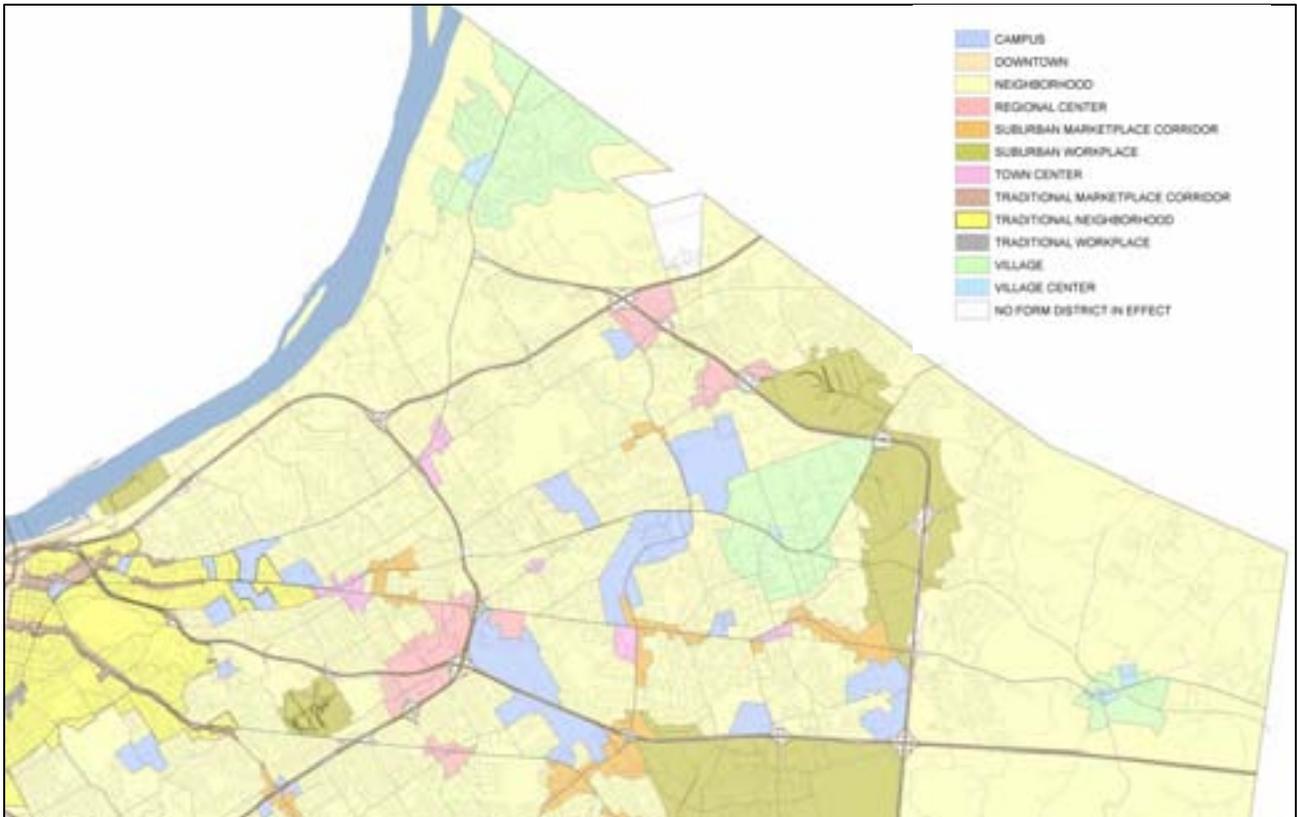
Retail Market Opportunity Gap/Surplus - Northeast Retail Zone

	40206	40207	40222	40243	40242	
Daily needs						
Supermarkets	(\$6,068,900)	(\$8,163,514)	\$9,403,039	\$1,897,343	\$19,264,062	
Pharmacies & drug stores	\$1,333,346	(\$17,033,015)	(\$7,769,622)	(\$3,103,775)	\$7,950,910	
GAFO						
General merchandise	\$32,505,227	\$12,281,439	(\$31,712,211)	\$16,672,760	\$23,993,628	
Clothing and clothing accessories	\$14,055,459	(\$65,182,590)	(\$87,898,329)	(\$3,482,561)	\$9,706,045	
Furniture and home furnishings store	(\$651,344)	(\$40,635,932)	(\$5,577,695)	(\$1,072,284)	\$5,746,104	
Electronic and appliance stores	\$6,676,169	(\$5,698,555)	\$3,917,355	(\$1,644,996)	\$4,705,511	
Sporting goods, hobby, book, music stores	(\$7,839,970)	(\$33,253,957)	\$1,436,669	(\$9,229,425)	\$3,816,839	
Office supplies, stationary, gift stores	\$2,874,270	(\$15,596,826)	(\$8,331,799)	\$178,142	\$1,836,901	
Food service						
Full-service restaurants	\$12,409,508	\$1,740,640	(\$47,545,068)	\$2,075,588	\$7,572,371	
Limited service eating places	(\$7,251,180)	(\$18,067,013)	(\$16,516,745)	(\$11,236,988)	\$5,871,194	
	40223	40241	40245	40025	40059	Total
Daily needs						
Supermarkets	(\$130,634,925)	(\$110,902,471)	\$3,900,085	\$388,985	(\$269,051)	\$16,332,030
Pharmacies & drug stores	(\$13,978,860)	\$3,504,536	\$4,288,944	\$205,571	(\$1,909,160)	(\$18,622,156)
GAFO						
General merchandise	\$55,335,096	(\$3,301,702)	\$58,388,703	\$586,063	(\$991,796,818)	\$53,740,843
Clothing and clothing accessories	\$13,694,815	(\$42,494,704)	\$26,830,368	\$272,278	\$16,631,654	(\$132,801,976)
Furniture and home furnishings store	(\$24,438,038)	\$7,836,566	\$13,873,119	\$176,017	\$9,990,402	(\$42,191,151)
Electronic and appliance stores	(\$21,560,982)	\$8,504,247	\$6,972,096	\$127,108	\$1,687,245	\$7,955,484
Sporting goods, hobby, book, music stores	(\$1,797,156)	(\$20,046,437)	\$9,812,775	\$103,284	\$5,301,541	(\$45,069,844)
Office supplies, stationary, gift stores	(\$3,569,585)	(\$2,184,252)	\$4,008,171	\$58,289	\$2,425,217	(\$19,039,312)
Food service						
Full-service restaurants	\$2,360,915	(\$13,791,244)	\$17,141,370	\$205,419	\$11,186,520	(\$23,746,961)
Limited service eating places	(\$12,493,942)	(\$14,368,660)	\$15,271,545	\$182,150	\$198,309	(\$47,200,732)

Source: Claritas; Strategy 5



Figure 12



Downtown Retail Zone — Not surprisingly, the Downtown retail zone shows retail surpluses in all categories, largely due to the high ratio of stores to resident population. Downtowns typically offer a concentrated mix of destination and specialty retail, men’s and women’s apparel, and food & beverage that cater to its residents and daytime worker population, as well as visitors attracted to cultural facilities, sporting events, and urban entertainment centers.

Downtown Louisville’s retail dynamic differs from the surrounding suburbs, and should be assessed in the context of the following factors (derived from the Louisville Downtown Management District):

- Its resident population totals an estimated 4,500 to 5,000
- Its daytime worker population is estimated at 63,780 in the Central Business District (CBD)
- The CBD contains approximately 1.9 million square feet of rentable retail space with a 37.3% vacancy
- Sources of business are: workers – 51%; residents – 35%; visitors – 14%

The Downtown Form District imposes few restrictions on the creation of retail space. Downtown Louisville’s challenge for the future will be twofold: to provide more in the way of retail offerings, particularly in apparel and accessories; and increase the number of visitors, thereby increasing visitors’ spending.

As the myriad of planned downtown development projects are brought online, its retail dynamic will be enhanced. Many of the major projects, such as the Iron Quarter and Museum Plaza developments, will include retail components that can hopefully lure high-profile stores back to the downtown. The trend towards urban living is well documented, and Louisville is no exception, with a significant number of residential units in the pipeline. One effect of this may be to turn the supermarkets opportunity surplus into an opportunity gap, creating the need for additional inventory.

Significant retail opportunity surpluses in an urban core indicate a healthy retail environment that should be encouraged and maintained (see Table 12).

Table 12	
Retail Market Opportunity Gap/Surplus	
Downtown Retail Zone	
40202	
Daily needs	
Supermarkets	(\$2,752,441)
Pharmacies & drug stores	(\$13,547,438)
GAFO	
General merchandise	(\$14,171,268)
Clothing and clothing accessories	(\$23,273,389)
Furniture and home furnishings store	(\$26,958,226)
Electronic and appliance stores	(\$7,721,447)
Sporting goods, hobby, book, music stores	(\$19,344,144)
Office supplies, stationary, gift stores	(\$11,786,771)
Food service	
Full-service restaurants	(\$42,455,126)
Limited service eating places	(\$39,024,154)

B. Retail Activity Centers Financial Analysis

The financial analyses of the following development concepts outlined in this report are comprised of various interrelated projections and assumptions. At the conceptual level, these assumptions are necessarily subject to certain unknowns and other factors that are difficult to forecast. The purpose of these analyses is to establish the basic parameters for financial feasibility and to estimate capital cost requirements so that a development strategy may be pursued.

Preston/Audubon — Table 13 shows general assumptions of capital costs and operational characteristics of the proposed shopping center. Although these assumptions are subject to certain unknowns at this time, every effort has been made to present reasonable and practical assumptions. Construction costs are based on available data for similar projects in the region, and price points and rental rates are derived from a scan of the local real estate market. Total building costs are projected to equal approximately \$10.8 million. Leases are \$18 per square foot for retail stores and \$16 per square foot for restaurants, triple-net (tenant pays utilities, taxes and insurance), (see Table 13).

Table 13	
Audubon Park Retail Development Assumptions	
Building Costs	
Square footage	80,000
Building and site improvements	\$135
Total Costs	\$10,800,000
Retail Merchandise Store	
Square Feet	70,000
Rent Rate NNN	\$18
Upscale Restaurant	
Square Feet	10,000
Rent Rate NNN	\$16

Source: Strategy 5

A ten-year cash flow pro forma for the shopping center assumes a 100% gross leasable area based on the in-line conventional shopping center nature of the development, reaching a stabilized average occupancy rate of 92 percent in year three of operations. Escalations in rent are estimated at 2.5 percent annually. Annual total revenue is projected to equal approximately \$1.42 million in Year Four at stabilization.

General and administrative expenses are estimated at five percent of annual gross revenue. Replacement reserve is estimated at 2 percent of annual gross revenue. Annual total expenses are estimated to equal approximately \$66,340 in Year Four at stabilization.

Based on total gross revenues of approximately \$1.34 million and total expenses of \$70,330 in Year Four, net operating income (NOI) is projected to equal approximately \$1.35 million (see Table 14).

Based on an NOI in Year Four of approximately \$1.35 million, and applying a debt coverage ratio of 1.4, the project could afford debt service of approximately \$964,503 annually. Assuming a 9 percent conventional loan at a term of thirty years, the supportable debt on the project would equal approximately \$9.99 million. Based on annual cash flow after debt service and a required developer return of 17 percent, the project could require an estimated minimum of \$1.25 million in private investment capital, with actual equity contributions likely to be higher (see Table 15).

Table 14
Audubon Park Retail Development Cash Flow Pro Forma

Net Operating Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues:										
Gross Building Area										
Retail Merchandise Space	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000
Upscale Restaurant	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Total	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000
Average Occupancy (Retail)	50%	75%	92%	92%	92%	92%	92%	92%	92%	92%
Occupied Space (RSF)										
Retail Merchandise Space	35,000	52,500	64,400	64,400	64,400	64,400	64,400	64,400	64,400	64,400
Rental Rate NNN, 2.5% Esc.	\$18.00	\$18.45	\$18.91	\$19.38	\$19.87	\$20.37	\$20.87	\$21.40	\$21.93	\$22.48
Upscale Restaurant	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Rental Rate NNN, 2.5% Esc.	\$16.00	\$16.40	\$16.81	\$17.23	\$17.66	\$18.10	\$18.56	\$19.02	\$19.49	\$19.98
Annual Total Revenue	\$790,000	\$1,132,625	\$1,385,985	\$1,420,634	\$1,456,150	\$1,492,554	\$1,529,868	\$1,568,114	\$1,607,317	\$1,647,500
Expenses										
General & Administrative	\$39,500	\$40,290	\$41,096	\$41,918	\$42,756	\$43,611	\$44,483	\$45,373	\$46,281	\$47,206
Reserve	\$15,800	\$22,653	\$27,720	\$28,413	\$29,123	\$29,851	\$30,597	\$31,362	\$32,146	\$32,950
Annual Total Expenses	\$55,300	\$62,943	\$68,815	\$70,330	\$71,879	\$73,462	\$75,081	\$76,735	\$78,427	\$80,156
Net Operating Income										
Total Annual Revenues	\$790,000	\$1,132,625	\$1,385,985	\$1,420,634	\$1,456,150	\$1,492,554	\$1,529,868	\$1,568,114	\$1,607,317	\$1,647,500
Total Annual Expenses	\$55,300	\$62,943	\$68,815	\$70,330	\$71,879	\$73,462	\$75,081	\$76,735	\$78,427	\$80,156
Net Operating Income	\$734,700	\$1,069,683	\$1,317,169	\$1,350,304	\$1,384,271	\$1,419,091	\$1,454,787	\$1,491,379	\$1,528,890	\$1,567,344

Source: Strategy 5

Table 15
Audubon Park Retail Development Supportable Debt/Equity

Project Cash Flow	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
NOI Restaurant & Retail	\$734,700	\$1,069,683	\$1,317,169	\$1,350,304	\$1,384,271	\$1,419,091	\$1,454,787	\$1,491,379	\$1,528,890	\$1,567,344
Annual Debt Service	\$964,503	\$964,503	\$964,503	\$964,503	\$964,503	\$964,503	\$964,503	\$964,503	\$964,503	\$964,503
Annual Cash Flow	-\$229,803	\$105,180	\$352,666	\$385,801	\$419,768	\$454,589	\$490,284	\$526,876	\$564,388	\$602,841
Supportable Funds										
Supportable Equity:										
Required Developer Return		17%								
Supportable Equity	\$1,251,370									
Supportable Debt:										
NOI YEAR 4	\$1,350,304									
Debt Coverage Ratio		1.4								
Debt Service	\$964,503									
Interest Rate	9%									
Loan Term	30									
Supportable Debt	\$9,989,182									
Total Supportable Funds										
Minimum Equity ¹	\$1,251,370	11%								
Supportable Debt ²	\$9,989,182	89%								
Total Supportable Funds	\$11,240,553	100%								

¹ The financial model employed in this table solves for a minimum equity requirement based on cash flow after supportable debt service. The actual financing package will likely include significantly greater developer equity which may be structured in the form of loaned capital equal to as much as 30% of the debt required.

² The financial model employed in this table uses conventional debt financing. The actual financing package would likely use a combination of short term construction loans and debt that could be structured at more favorable terms within the 30-year span.

Source: Strategy 5

Table 16 calculates the residual value of the project under the assumptions and parameters put forth in the preceding financial analysis. The residual property value essentially represents the amount that the project can afford to pay for the real estate on which it will reside, and should not be construed as a representation of market value. Based on total supportable funds of \$11.24 million and estimated project costs of \$10.8 million, the residual property value is estimated to equal approximately \$440,553 (see Table 16).

Table 16			
Audubon Park Retail Development Calculation of Residual Property Value			
Building Hard Costs		Supportable Funds	
Gross Building Area	80,000	Minimum Equity	\$1,251,370
Building Costs/SF	\$135	Conventional Debt	\$9,989,182
		Total Supportable Funds	\$11,240,553
Total Development Costs	\$10,800,000	Project Costs	\$10,800,000
Estimated Project Value	\$10,800,000	Residual Property Value	\$440,553

Source: Strategy 5

Newbridge Crossing — Table 17 shows general assumptions of capital costs and operational characteristics of the proposed mixed-use project. Retail leases are triple net, while office leases are full service, which typically means the landlord is responsible for expenses associated with utilities, taxes, and insurance, at a minimum (see Table 17).

Table 17	
Newbridge Crossing Development Assumptions	
Building Costs	
Square footage	265,450
Building and site improvements	\$110
Total per SF costs	\$110
Total Costs	\$29,199,500
Retail	
Square Feet	144,850
Rent Rate NNN	\$15
Office	
Square Feet	120,600
Rent Rate NNN	\$17

Source: Strategy 5

The ten-year cash flow pro forma for the project assumes a 90% gross leasable area, reaching a stabilized average occupancy rate of 95 percent in Year Three of operations. Escalations in rent are estimated at 2.5 percent annually. Annual total revenue is projected to equal approximately \$3.89 million in Year Four at stabilization.

Expenses are estimated at 25 percent of annual gross revenue. Replacement reserve is estimated at 2 percent of annual gross revenue. Annual total expenses are estimated to equal approximately \$581,926 in Year Four at stabilization.

Based on total gross revenues of approximately \$3.89 million and total expenses of \$581,926 in Year Four, net operating income (NOI) is projected to equal approximately \$3.30 million (see Table 18).

Based on an NOI in Year Four of approximately \$3.30 million, and applying a debt coverage ratio of 1.4, the project could afford debt service of approximately \$2.36 million annually. Assuming a 9 percent conventional loan at a term of thirty years, the supportable debt on the project would equal approximately \$24.46 million. Based on annual cash flow after debt service and a very conservative developer return of 17 percent, the project could require an estimated minimum of \$2.55 million in private investment capital, for a total of \$24.42 million in supportable funds (see Table 19).

Table 18
Newbridge Crossing Development Cash Flow Pro Forma

Net Operating Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues:										
Gross Leasable Area (90%)										
Retail	130,365	130,365	130,365	130,365	130,365	130,365	130,365	130,365	130,365	130,365
Office	108,540	108,540	108,540	108,540	108,540	108,540	108,540	108,540	108,540	108,540
Total	238,905	238,905	238,905	238,905	238,905	238,905	238,905	238,905	238,905	238,905
Average Occupancy	50%	75%	95%	95%	95%	95%	95%	95%	95%	95%
Occupied Space (RSF)										
Retail	65,183	97,774	123,847	123,847	123,847	123,847	123,847	123,847	123,847	123,847
Rental Rate NNN, 2.5% Esc.	\$15.00	\$15.38	\$15.76	\$16.15	\$16.56	\$16.97	\$17.40	\$17.83	\$18.28	\$18.73
Office	54,270	81,405	103,113	103,113	103,113	103,113	103,113	103,113	103,113	103,113
Full Service, 2.5% Esc.	\$17.00	\$17.43	\$17.86	\$18.31	\$18.76	\$19.23	\$19.71	\$20.21	\$20.71	\$21.23
Annual Total Revenue	\$1,900,328	\$2,921,754	\$3,793,410	\$3,888,245	\$3,985,451	\$4,085,088	\$4,187,215	\$4,291,895	\$4,399,193	\$4,509,172
Expenses										
Operating	\$475,082	\$484,584	\$494,275	\$504,161	\$514,244	\$524,529	\$535,019	\$545,720	\$556,634	\$567,767
Reserve	\$38,007	\$58,435	\$75,868	\$77,765	\$79,709	\$81,702	\$83,744	\$85,838	\$87,984	\$90,183
Annual Total Expenses	\$513,088	\$543,019	\$570,143	\$581,926	\$593,953	\$606,231	\$618,764	\$631,558	\$644,618	\$657,950
Net Operating Income										
Total Annual Revenues	\$1,900,328	\$2,921,754	\$3,793,410	\$3,888,245	\$3,985,451	\$4,085,088	\$4,187,215	\$4,291,895	\$4,399,193	\$4,509,172
Total Annual Expenses	\$513,088	\$543,019	\$570,143	\$581,926	\$593,953	\$606,231	\$618,764	\$631,558	\$644,618	\$657,950
Net Operating Income	\$1,387,239	\$2,378,735	\$3,223,267	\$3,306,320	\$3,391,498	\$3,478,857	\$3,568,451	\$3,660,338	\$3,754,575	\$3,851,222

Source: Strategy 5

Table 19
Newbridge Crossing Development Supportable Debt/Equity

Project Cash Flow	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
NOI Restaurant & Retail	\$1,387,239	\$2,378,735	\$3,223,267	\$3,306,320	\$3,391,498	\$3,478,857	\$3,568,451	\$3,660,338	\$3,754,575	\$3,851,222
Annual Debt Service	\$2,361,657	\$2,361,657	\$2,361,657	\$2,361,657	\$2,361,657	\$2,361,657	\$2,361,657	\$2,361,657	\$2,361,657	\$2,361,657
Annual Cash Flow	-\$974,418	\$17,078	\$861,610	\$944,663	\$1,029,842	\$1,117,200	\$1,206,794	\$1,298,681	\$1,392,918	\$1,489,565
Supportable Funds										
Supportable Equity:										
Required Developer Return	17%									
Supportable Equity	\$2,547,839									
Supportable Debt:										
NOI YEAR 4	\$3,306,320									
Debt Coverage Ratio	1.4									
Debt Service	\$2,361,657									
Interest Rate	9%									
Loan Term	30									
Supportable Debt	\$24,459,260									
Total Supportable Funds										
Minimum Equity ¹	\$2,547,839	9%								
Supportable Debt ²	\$24,459,260	91%								
Total Supportable Funds	\$27,007,100	100%								

¹The financial model employed in this table solves for a minimum equity requirement based on cash flow after supportable debt service. The actual financing package will likely include significantly greater developer equity which may be structured in the form of loaned capital equal to as much as 30% of the debt required.

²The financial model employed in this table uses conventional debt financing. The actual financing package would likely use a combination of short term construction loans, low-interest industrial or economic development loans, and debt that could be structured at more favorable terms within the 30-year span.

Source: Strategy 5

Table 20 shows a residual property value of -\$2.19 million, indicating that the project may not be economically feasible as programmed, based on developer's return on equity of 17% and no reversion at the end of ten years. A more modest return on equity, more favorable debt terms, and a reversion at the end of ten years would enhance the project's viability. Another alternative is a building program that includes a housing component that could provide the project with a higher cash flow in the initial stages of the project (assuming a stable housing market).

Table 20			
Newbridge Crossing Calculation of Residual Property Value			
Building Hard Costs		Supportable Funds	
Gross Building Area	265,450	Minimum Equity	\$2,547,839
Total Building Costs	\$29,199,500	Conventional Debt	\$24,459,260
		Total Supportable Funds	\$27,007,100
Total Development Costs	\$29,199,500	Project Costs	\$29,199,500
Estimated Project Value	\$29,199,500	Residual Property Value	-\$2,192,400

Source: Strategy 5

Alternative Development Program — This section examines the financial feasibility of Newbridge Crossing if the 144,850-square-foot retail component is retained, and a modest residential component of 20 townhouses and 100 condominiums replaces the office component (see Table 21).

Table 21	
Newbridge Crossing Development Program Retail & Residential Alternative	
Component	Square Feet
Retail	144,850
Anchor Tenant/Big Box Store	160,000
Townhouses	20
Condominiums	100

Source: Strategy 5

Based on the cash flow for the 144,850-square-foot retail component, the project could support \$1.31 million in equity and \$12.58 million in debt, for estimated total supportable funds of \$13.90 million (see Tables 22 and 23).

Table 22
Newbridge Crossing Alternative Retail Component Cash Flow Pro Forma

Net Operating Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues:										
Gross Leasable Area (90%)										
Retail	130,365	130,365	130,365	130,365	130,365	130,365	130,365	130,365	130,365	130,365
Total	130,365	130,365	130,365	130,365	130,365	130,365	130,365	130,365	130,365	130,365
Average Occupancy	50%	75%	95%	95%	95%	95%	95%	95%	95%	95%
Occupied Space (RSF)										
Retail	65,183	97,774	123,847	123,847	123,847	123,847	123,847	123,847	123,847	123,847
Rental Rate NNN, 2.5% Esc.	\$15.00	\$15.38	\$15.76	\$16.15	\$16.56	\$16.97	\$17.40	\$17.83	\$18.28	\$18.73
Annual Total Revenue	\$977,738	\$1,503,271	\$1,951,747	\$2,000,541	\$2,050,555	\$2,101,818	\$2,154,364	\$2,208,223	\$2,263,429	\$2,320,014
Expenses										
Operating	\$244,434	\$249,323	\$254,310	\$259,396	\$264,584	\$269,875	\$275,273	\$280,778	\$286,394	\$292,122
Reserve	\$19,555	\$30,065	\$39,035	\$40,011	\$41,011	\$42,036	\$43,087	\$44,164	\$45,269	\$46,400
Annual Total Expenses	\$263,989	\$279,388	\$293,344	\$299,407	\$305,595	\$311,912	\$318,360	\$324,943	\$331,662	\$338,522
Net Operating Income										
Total Annual Revenues	\$977,738	\$1,503,271	\$1,951,747	\$2,000,541	\$2,050,555	\$2,101,818	\$2,154,364	\$2,208,223	\$2,263,429	\$2,320,014
Total Annual Expenses	\$263,989	\$279,388	\$293,344	\$299,407	\$305,595	\$311,912	\$318,360	\$324,943	\$331,662	\$338,522
Net Operating Income	\$713,748	\$1,223,883	\$1,658,403	\$1,701,135	\$1,744,960	\$1,789,907	\$1,836,004	\$1,883,280	\$1,931,766	\$1,981,492

Source: Strategy 5

Table 23
Newbridge Crossing Alternative Retail Development Component Supportable Debt/Equity

Project Cash Flow	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
NOI Restaurant & Retail	\$713,748	\$1,223,883	\$1,658,403	\$1,701,135	\$1,744,960	\$1,789,907	\$1,836,004	\$1,883,280	\$1,931,766	\$1,981,492
Annual Debt Service	\$1,215,096	\$1,215,096	\$1,215,096	\$1,215,096	\$1,215,096	\$1,215,096	\$1,215,096	\$1,215,096	\$1,215,096	\$1,215,096
Annual Cash Flow	-\$501,348	\$8,787	\$443,307	\$486,038	\$529,864	\$574,811	\$620,908	\$668,184	\$716,670	\$766,396
Supportable Funds										
Supportable Equity:										
Required Developer Return	17%									
Supportable Equity	\$1,310,889									
Supportable Debt:										
NOI YEAR 4	\$1,701,135									
Debt Coverage Ratio	1.4									
Debt Service	\$1,215,096									
Interest Rate	9%									
Loan Term	30									
Supportable Debt	\$12,584,534									
Total Supportable Funds										
Minimum Equity ¹	\$1,310,889	9%								
Supportable Debt ²	\$12,584,534	91%								
Total Supportable Funds	\$13,895,423	100%								

¹ The financial model employed in this table solves for a minimum equity requirement based on cash flow after supportable debt service. The actual financing package will likely include significantly greater developer equity which may be structured in the form of loaned capital equal to as much as 30% of the debt required.

² The financial model employed in this table uses conventional debt financing. The actual financing package would likely use a combination of short term construction loans, low-interest industrial or economic development loans, and debt that could be structured at more favorable terms within the 30-year span.

Source: Strategy 5

As Table 24 shows, the retail component as a stand-alone project yields a residual property value of approximately -\$2.04 million assuming a ten year holding period with no reversion.

Table 24			
Newbridge Crossing Retail Development Calculation of Residual Property Value			
Building Hard Costs		Supportable Funds	
Gross Building Area	144,850	Minimum Equity	\$1,310,889
Unit Building Costs/SF	\$110	Conventional Debt	\$12,584,534
Total Building Costs	\$15,933,500	Total Supportable Funds	\$13,895,423
Total Development Costs	\$15,933,500	Project Costs	\$15,933,500
Estimated Project Value	\$15,933,500	Residual Property Value	-\$2,038,077

Source: Strategy 5

The residential analysis assumes for-sale housing. In order to assess the initial feasibility of residential development and sales in a manner that emphasizes the attraction of private investment capital, a required return of 50 percent is included, assuming initial developer equity of 25 percent. This also reflects the nature of cash flow in an environment where profit is unit-based and not driven by ongoing operations as in leased apartments or commercial space. Units are priced at \$325,000 for townhouses and \$275,000 for condos.

Residential unit sales are subject to absorption over time. The absorption rates of new residential units at Newbridge Crossing may be impacted by increased demand in urban environments and overall downtown redevelopment, changes in the local and national economy, and other market factors that are constantly in flux. Nonetheless, sales revenues indicated below should be supported with an assumed pre-opening marketing effort and sales campaign. It is anticipated that the for-sale units offered in any given phase of the building program would be absorbed in two to three years.

Home construction is based on short term loans, which are typically repaid in conjunction with sales. Therefore, we have factored in the short-term cost of money at 8 percent, added a 7 percent sales cost, and predicated further calculations on 25 percent developer equity and 50 percent return. As Table 13 shows, the total projected revenue from sales exceeds the developers required return on equity, yielding a residual value of approximately \$5.89 million, for a total project net residual value of \$3.19 million (see Tables 25 and 26).

It should be noted that the objective of this analysis is to demonstrate a conceptual development program that solves for financial feasibility.

**Table 25
Newbridge Crossing Alternative Residential Development Component**

	Units	Development Costs	Finance/Sales Costs @ 15%	Developer's Equity @ 25%	Required Return on Equity @ 50%	Total Return Required Development & Finance Cost Plus Return on Equity	Average Sales Price per Unit	Total Sales Revenue	Residual Land Value
Single Family	20	\$4,800,000	\$720,000	\$1,200,000	\$600,000	\$6,120,000	\$325,000	\$6,500,000	\$380,000
M/F	100	\$17,280,000	\$2,592,000	\$4,320,000	\$2,160,000	\$22,032,000	\$275,000	\$27,500,000	\$5,468,000
		\$22,080,000	\$3,312,000	\$5,520,000	\$2,760,000	\$28,152,000		\$34,000,000	\$5,848,000

Source: Strategy 5

**Table 26
Newbridge Crossing Mixed-Use Development
Calculation of Residual Property Value**

Development Costs	
Residual Property Value - Retail	-2,038,077
Residual Property Value - Residential	\$5,848,000
Project Residual Value	\$3,809,923

Source: Strategy 5

I-265/Bardstown Road — Table 27 shows general assumptions of capital costs and operational characteristics of the proposed shopping center. Construction costs are consistent with those used in the previous cases. Total building costs are projected to equal approximately \$26.4 million. Base rents are \$17 per square foot for retail stores and \$15 per square foot for restaurants, triple-net (tenant pays utilities, taxes and insurance), (see Table 27).

Table 27	
I-265/Bardstown Road Retail Development Assumptions	
Building Costs	
Retail square footage	225,000
Restaurant square footage	15,000
Total per SF costs	\$130
Total Costs	\$29,250,000
Retail Rent Rate NNN	\$17
Restaurant Rent Rate NNN	\$15

Source: Strategy 5

A ten-year cash flow pro forma for the shopping center shows a stabilized average occupancy rate of 92 percent in year three of operations. Escalations in rent are estimated at 2.5 percent annually. Annual total revenue is projected to equal approximately \$4.03 million in Year Four at stabilization. Annual total expenses are estimated to equal approximately \$194,054 in Year Four at stabilization.

Based on total gross revenues of approximately \$4.03 million and total expenses of \$194,054 in Year Four, net operating income (NOI) is projected to equal approximately \$3.84 million (see Table 28).

Based on an NOI in Year Four of approximately \$4.03 million, and applying a debt coverage ratio of 1.4, the project could afford debt service of approximately \$2.74 million annually. Assuming a 9 percent conventional loan at a term of thirty years, the supportable debt on the project would equal approximately \$28.39 million. Based on annual cash flow after debt service and a required developer return of 17 percent, the project could require an estimated minimum of \$3.44 million in private investment capital, with actual equity contributions likely to be higher (see Table 29).

Table 28
I-265/Bardstown Road Retail Development Cash Flow Pro Forma

Net Operating Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenues:										
Gross Building Area										
Retail Merchandise Space	225,000	225,000	225,000	225,000	225,000	225,000	225,000	225,000	225,000	225,000
Restaurant Space	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Total	240,000									
Average Occupancy (Retail)	50%	75%	92%	92%	92%	92%	92%	92%	92%	92%
Occupied Space (RSF)										
Retail Merchandise Space	112,500	168,750	207,000	207,000	207,000	207,000	207,000	207,000	207,000	207,000
Rental Rate NNN, 2.5% Esc.	\$17.00	\$17.43	\$17.86	\$18.31	\$18.76	\$19.23	\$19.71	\$20.21	\$20.71	\$21.23
Restaurant Space	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Rental Rate NNN, 2.5% Esc.	\$15.00	\$15.38	\$15.76	\$16.15	\$16.56	\$16.97	\$17.40	\$17.83	\$18.28	\$18.73
Annual Total Revenue	\$2,137,500	\$3,171,094	\$3,933,540	\$4,031,879	\$4,132,675	\$4,235,992	\$4,341,892	\$4,450,439	\$4,561,700	\$4,675,743
Expenses										
General & Administrative	\$106,875	\$109,013	\$111,193	\$113,417	\$115,685	\$117,999	\$120,359	\$122,766	\$125,221	\$127,726
Reserve	\$42,750	\$63,422	\$78,671	\$80,638	\$82,654	\$84,720	\$86,838	\$89,009	\$91,234	\$93,515
Annual Total Expenses	\$149,625	\$172,434	\$189,864	\$194,054	\$198,338	\$202,718	\$207,196	\$211,775	\$216,455	\$221,240
Net Operating Income										
Total Annual Revenues	\$2,137,500	\$3,171,094	\$3,933,540	\$4,031,879	\$4,132,675	\$4,235,992	\$4,341,892	\$4,450,439	\$4,561,700	\$4,675,743
Total Annual Expenses	\$149,625	\$172,434	\$189,864	\$194,054	\$198,338	\$202,718	\$207,196	\$211,775	\$216,455	\$221,240
Net Operating Income	\$1,987,875	\$2,998,659	\$3,743,676	\$3,837,824	\$3,934,337	\$4,033,274	\$4,134,696	\$4,238,665	\$4,345,245	\$4,454,503

Source: Strategy 5

Table 29
I-265/Bardstown Road Retail Development Supportable Debt/Equity

Project Cash Flow	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
NOI Restaurant & Retail	\$1,987,875	\$2,998,659	\$3,743,676	\$3,837,824	\$3,934,337	\$4,033,274	\$4,134,696	\$4,238,665	\$4,345,245	\$4,454,503
Annual Debt Service	\$2,741,303	\$2,741,303	\$2,741,303	\$2,741,303	\$2,741,303	\$2,741,303	\$2,741,303	\$2,741,303	\$2,741,303	\$2,741,303
Annual Cash Flow	-\$753,428	\$257,356	\$1,002,373	\$1,096,521	\$1,193,034	\$1,291,971	\$1,393,393	\$1,497,362	\$1,603,942	\$1,713,199
Supportable Funds										
Supportable Equity:										
Required Developer Return	17%									
Supportable Equity	\$3,440,383									
Supportable Debt:										
NOI YEAR 4	\$3,837,824									
Debt Coverage Ratio	1.4									
Debt Service	\$2,741,303									
Interest Rate	9%									
Loan Term	30									
Supportable Debt	\$28,391,189									
Total Supportable Funds										
Minimum Equity ¹	\$3,440,383		11%							
Supportable Debt ²	\$28,391,189		89%							
Total Supportable Funds	\$31,831,572		100%							

¹The financial model employed in this table solves for a minimum equity requirement based on cash flow after supportable debt service. The actual financing package will likely include significantly greater developer equity which may be structured in the form of loaned capital equal to as much as 30% of the debt required.

²The financial model employed in this table uses conventional debt financing. The actual financing package would likely use a combination of short term construction loans and debt that could be structured at more favorable terms within the 30-year span.

Source: Strategy 5

Table 30 calculates the residual value of the project under the assumptions and parameters put forth in the preceding financial analysis. The residual property value essentially represents the amount that the project can afford to pay for the real estate on which it will reside, and should not be construed as a representation of market value. Based on total supportable funds of \$11.24 million and estimated project costs of \$10.8 million, the residual property value is estimated to equal approximately \$440,553 (see Table 30).

Table 30			
I-265/Bardstown Road Retail Development Calculation of Residual Property Value			
Building Hard Costs		Supportable Funds	
Gross Building Area	240,000	Minimum Equity	\$3,440,383
Total Building Costs	\$29,250,000	Conventional Debt	\$28,391,189
		Total Supportable Funds	\$31,831,572
Total Development Costs	\$29,250,000	Project Costs	\$29,250,000
Estimated Project Value	\$29,250,000	Residual Property Value	\$2,581,572

Source: Strategy 5

Appendix A

Grocery Store Definitions

1. By Type of Store

Grocery Store — Any retail store selling a line of dry grocery, canned goods or nonfood items plus some perishable items.

Supermarket—Any full-line self-service grocery store generating a sales volume of \$2 million or more annually

Convenience Store— Any full-line, self-service grocery store offering limited line of high-convenience items. Open long hours and provides easy access. The majority sell gasoline with an annual sales of \$2 million or more.

Independent — An operator of fewer than 11 retail stores.

Chain — An operator of 11 or more retail stores.

2. By Store Format

Conventional Supermarket - The original supermarket format offering a full line of groceries, meat, and produce with at least \$2 million in annual sales. Conventional stores will realize 9% of their sales in general merchandise and health and beauty care (GM/HBC). These stores typically carry approximately 15,000 items, offer a service deli and frequently a service bakery.

Superstore - A larger version of the conventional supermarket with at least 40,000 square feet in total selling area and 25,000 items. Superstores offer an expanded selection of non-foods (at least 10% GM/HBC).

Food/Drug Combo - A combination of superstore and drug store under a single roof, with common checkouts. GM/HBC represents at least one-third of the selling area and approximately 15% of store sales. These stores also have a pharmacy.

Warehouse Store - A low-margin grocery store offering reduced variety, lower service levels, minimal decor, and a streamlined merchandising presentation, along with aggressive pricing. Generally, warehouse stores don't offer specialty departments, e.g., Xtra.

Super Warehouse - A high-volume, hybrid format of a superstore and a warehouse store. Super warehouse stores typically offer a full range of service departments, quality perishables, and reduced prices, e.g., Cub Foods.

Limited-Assortment Store - A "bare-bones," low-priced grocery store that provides very limited services and carries fewer than 2,000 items with limited-if any-perishables, e.g., Aldi and Save-A-Lot.

Other - The small corner grocery store that carries a limited selection of staples and other convenience goods. These stores generate approximately \$1 million in business annually.

Convenience Store (Traditional) - A small, higher-margin store that offers an edited selection of staple groceries, non-foods, and other convenience food items, i.e., ready-to-heat and ready-to-eat foods. The traditional format includes those stores that started out as strictly convenience stores, but might also sell gasoline.

Convenience Store (Petroleum-Based) - The petroleum-based stores are primarily gas stations with a convenience store.

Non-Traditional Grocery

Hypermarket - A very large food and general merchandise store with approximately 180,000 square feet of selling space. While these stores typically devote as much as 75% of the selling area to general merchandise, the food-to-general merchandise sales ratio is typically 60/40, e.g., Bigg's.

Wholesale Club - A membership retail/wholesale hybrid with a varied selection and limited variety of products presented in a warehouse-type environment. These 120,000 square-foot stores have 60% to 70% GM/HBC and a grocery line dedicated to large sizes and bulk sales. Memberships include both business accounts and consumer groups, e.g., Sam's Club, Costco, and BJ's.

Mini-Club - A scaled-down version of the wholesale club. The mini-club is approximately one-fourth the size of a typical wholesale club and carries about 60% of the SKUs, including all of the major food and sundry departments and a limited line of merchandise (soft goods, office supplies, and opportunistic, one-time buys), e.g., Smart & Final. Some of these stores do not have membership fees and often operate as a "cash & carry."

Supercenters - A large food/drug combination store and mass merchandiser under a single roof. The supercenters offer a wide variety of food, as well as non-food merchandise. These stores average more than 170,000 square feet and typically devote as much as 40% of the space to grocery items, e.g., Wal-Mart, Kmart, Super Target, Meijer, and Fred Meyer.

Deep-Discount Drug Store - A low-margin, GM/HBC store with approximately 28,000 square feet of selling space and 25,000 SKUs. These stores typically

carry fewer sizes but more GM/HBC brands than a supermarket. Food accounts for 20% of store sales, e.g., Phar-Mor and Drug Emporium.

Appendix B

Louisville/Jefferson County Metro Retail Study Consumer Survey – All Zip Codes

Grocery Store

Do you consider the nearest store to you to be:

Very convenient: 38% Somewhat convenient: 41% Not convenient: 12%

The quality of the store and goods are: Good: 41% Fair: 30% Poor: 27%

The pricing of goods is: Good: 39% Fair: 47% Poor: 12%

Pharmacy

Do you consider the nearest store to you to be:

Very convenient: 49% Somewhat convenient: 35% Not convenient: 12%

The quality of the store and goods are: Good: 52% Fair: 26% Poor: 20%

The pricing of goods is: Good: 43% Fair: 41% Poor: 19%

Convenience Store

Do you consider the nearest store to you to be:

Very convenient: 44% Somewhat convenient: 31% Not convenient: 17%

The quality of the store and goods are: Good: 24% Fair: 42% Poor: 25%

The pricing of goods is: Good: 17% Fair: 46% Poor: 28%

Home Supply

Do you consider the nearest store to you to be:

Very convenient: 30% Somewhat convenient: 30% Not convenient: 37%

The quality of the store and goods are: Good: 67% Fair: 23% Poor: 6%

The pricing of goods is: Good: 60% Fair: 29% Poor: 6%

Department Store

Do you consider the nearest store to you to be:

Very convenient: 60% Somewhat convenient: 29% Not convenient: 6%

The quality of the store and goods are: Good: 16% Fair: 28% Poor: 52%

The pricing of goods is: Good: 71% Fair: 17% Poor: 7%

Electronics / Appliances

Do you consider the nearest store to you to be:

Very convenient: 19% Somewhat convenient: 34% Not convenient: 40%

The quality of the store and goods are: Good: 62% Fair: 25% Poor: 7%

The pricing of goods is: Good: 51% Fair: 34% Poor: 7%

Dry Cleaners / Laundry

Do you consider the nearest store to you to be:

Very convenient: 52% Somewhat convenient: 29% Not convenient: 7%

The quality of the store and service are: Good: 51% Fair: 28% Poor: 8%

The pricing of the service is: Good: 42% Fair: 35% Poor: 10%

Fast Food Restaurant

Do you consider the nearest restaurant to you to be:

Very convenient: 40% Somewhat convenient: 54% Not convenient: 12%

The quality of the food is: Good: 40% Fair: 39% Poor: 12%

The pricing of the food is: Good: 48% Fair: 37% Poor: 6%

“Sit Down” Restaurant

Do you consider the nearest restaurant to you to be:

Very convenient: 63% Somewhat convenient: 25% Not convenient: 6%

The quality of the food is: Good: 73% Fair: 20% Poor: 2%

The pricing of the food is: Good: 61% Fair: 28% Poor: 4%

Louisville/Jefferson County Metro Retail Study Consumer Survey – Zip Code 40203

Grocery Store

Do you consider the nearest store to you to be:

Very convenient: 16% Somewhat convenient: 51% Not convenient: 31%

The quality of the store and goods are: Good: 10% Fair: 37% Poor: 51%

The pricing of goods is: Good: 15% Fair: 63% Poor: 18%

Pharmacy

Do you consider the nearest store to you to be:

Very convenient: 41% Somewhat convenient: 35% Not convenient: 20%

The quality of the store and goods are: Good: 27% Fair: 35% Poor: 34%

The pricing of goods is: Good: 24% Fair: 44% Poor: 27%

Convenience Store

Do you consider the nearest store to you to be:

Very convenient: 25% Somewhat convenient: 31% Not convenient: 31%

The quality of the store and goods are: Good: 10% Fair: 39% Poor: 37%

The pricing of goods is: Good: 4% Fair: 48% Poor: 34%

Home Supply

Do you consider the nearest store to you to be:

Very convenient: 17% Somewhat convenient: 23% Not convenient: 56%

The quality of the store and goods are: Good: 53% Fair: 34% Poor: 9%

The pricing of goods is: Good: 55% Fair: 29% Poor: 8%

Department Store

Do you consider the nearest store to you to be:

Very convenient: 1% Somewhat convenient: 19% Not convenient: 73%

The quality of the store and goods are: Good: 63% Fair: 21% Poor: 8%
The pricing of goods is: Good: 55% Fair: 29% Poor: 8%

Electronics / Appliances

Do you consider the nearest store to you to be:

Very convenient: 5% Somewhat convenient: 24% Not convenient: 63%
The quality of the store and goods are: Good: 58% Fair: 28% Poor: 5%
The pricing of goods is: Good: 49% Fair: 32% Poor: 7%

Dry Cleaners / Laundry

Do you consider the nearest store to you to be:

Very convenient: 58% Somewhat convenient: 26% Not convenient: 4%
The quality of the store and service are: Good: 36% Fair: 35% Poor: 15%
The pricing of the service is: Good: 27% Fair: 45% Poor: 14%

Fast Food Restaurant

Do you consider the nearest restaurant to you to be:

Very convenient: 21% Somewhat convenient: 48% Not convenient: 19%
The quality of the food is: Good: 26% Fair: 49% Poor: 15%
The pricing of the food is: Good: 38% Fair: 39% Poor: 10%

“Sit Down” Restaurant

Do you consider the nearest restaurant to you to be:

Very convenient: 77% Somewhat convenient: 14% Not convenient: 2%
The quality of the food is: Good: 69% Fair: 24% Poor: 7%
The pricing of the food is: Good: 56% Fair: 32% Poor: 4%

Louisville/Jefferson County Metro Retail Study Consumer Survey – Zip Code 40208

Grocery Store

Do you consider the nearest store to you to be:

Very convenient: 17% Somewhat convenient: 51% Not convenient: 31%
The quality of the store and goods are: Good: 23% Fair: 38% Poor: 40%
The pricing of goods is: Good: 33% Fair: 46% Poor: 20%

Pharmacy

Do you consider the nearest store to you to be:

Very convenient: 26% Somewhat convenient: 53% Not convenient: 17%
The quality of the store and goods are: Good: 35% Fair: 28% Poor: 35%
The pricing of goods is: Good: 34% Fair: 47% Poor: 39%

Convenience Store

Do you consider the nearest store to you to be:

Very convenient: 42% Somewhat convenient: 33% Not convenient: 15%

The quality of the store and goods are: Good: 12% Fair: 45% Poor: 34%
The pricing of goods is: Good: 8% Fair: 42% Poor: 39%

Home Supply

Do you consider the nearest store to you to be:

Very convenient: 12% Somewhat convenient: 32% Not convenient: 54%

The quality of the store and goods are: Good: 59% Fair: 27% Poor: 10%

The pricing of goods is: Good: 50% Fair: 34% Poor: 12%

Department Store

Do you consider the nearest store to you to be:

Very convenient: 4% Somewhat convenient: 19% Not convenient: 72%

The quality of the store and goods are: Good: 68% Fair: 16% Poor: 12%

The pricing of goods is: Good: 53% Fair: 29% Poor: 13%

Electronics / Appliances

Do you consider the nearest store to you to be:

Very convenient: 8% Somewhat convenient: 28% Not convenient: 58%

The quality of the store and goods are: Good: 59% Fair: 20% Poor: 14%

The pricing of goods is: Good: 51% Fair: 29% Poor: 12%

Dry Cleaners / Laundry

Do you consider the nearest store to you to be:

Very convenient: 51% Somewhat convenient: 32% Not convenient: 8%

The quality of the store and service are: Good: 50% Fair: 32% Poor: 11%

The pricing of the service is: Good: 37% Fair: 41% Poor: 14%

Fast Food Restaurant

Do you consider the nearest restaurant to you to be:

Very convenient: 27% Somewhat convenient: 41% Not convenient: 21%

The quality of the food is: Good: 33% Fair: 41% Poor: 15%

The pricing of the food is: Good: 44% Fair: 39% Poor: 6%

“Sit Down” Restaurant

Do you consider the nearest restaurant to you to be:

Very convenient: 68% Somewhat convenient: 23% Not convenient: 5%

The quality of the food is: Good: 69% Fair: 23% Poor: 5%

The pricing of the food is: Good: 56% Fair: 29% Poor: 7%