



**Economic &
Planning Systems**

*Public Finance
Real Estate Economics
Regional Economics
Land Use Policy*

FINAL EXECUTIVE SUMMARY

ORACLE AREA REVITALIZATION PLAN: MARKET ANALYSIS

Prepared for:

City of Tucson

Prepared by:

Economic & Planning Systems, Inc.

April 2008

EPS #17088

BERKELEY

2501 Ninth Street, Suite 200
Berkeley, CA 94710-2515
www.epsys.com

phone: 510-841-9190
fax: 510-841-9208



SACRAMENTO

phone: 916-649-8010
fax: 916-649-2070

DENVER

phone: 303-623-3557
fax: 303-623-9049

I. EXECUTIVE SUMMARY

INTRODUCTION

The purpose of the Oracle Area Revitalization Plan (OARP) is to establish policies and procedures to encourage the overall improvement of the area through the development of employment options, services to meet residents' needs, social and recreational opportunities, and a variety of housing options. Building on previous real estate market work in Tucson, Economic & Planning Systems, Inc. (EPS) has been retained by the City of Tucson (City) to conduct a market analysis of the OARP area to assist the City in identifying opportunities for the real estate development that can aid local revitalization. Given that revitalization efforts tend to occur over extended time periods, EPS has aimed to assess the opportunities for such real estate through the year 2030, with indications of the level and type of development that may be supportable in incremental time periods as well.

BACKGROUND

Oracle Road was once a main route for stagecoaches and cattle drives. The roadway was bordered by ranches and homesteads, which evolved into residential neighborhoods over time. As the area grew, businesses began locating along the roadway to serve residents and travelers. In the late 1930s, Oracle Road was transformed into the only "safety-plus thoroughfare" in the West and became the gateway to downtown Tucson. As the City grew and Interstate 10 siphoned traffic away from Oracle Road, the vitality of the area as a major thoroughfare lined with motels and other traveler accommodations began to diminish. Today the corridor has issues with high levels of crime, defunct motor hotels, property maintenance problems, and some substandard housing.

Neighborhood concerns about stability, the underutilization of land along Oracle Road, and the close proximity of Pima Community College's Downtown Campus, downtown Tucson, and The University of Arizona have spurred interest in revitalization of the area. This interest has manifested itself through current efforts such as the City's reconfiguration of the Oracle/Main/Drachman roundabout into a "T" intersection, a proposed six-story, mixed-use development at the northeast corner of this new intersection, the conversion of a large historic hotel along Oracle Road into full service student housing, and the proposed rehabilitation of the historic Ghost Ranch Lodge on Miracle Mile into senior housing. In addition, some preliminary public meetings over the past several years generated a range of ideas for improvement. Several repeated ideas included mixed uses along Oracle, including neighborhood services and housing, and transformation of Drachman Street between Stone Avenue and Oracle/Main as a pedestrian-friendly area with services catering to Pima Community College students, Tucson House residents, and nearby neighborhoods.

MARKET STUDY AREA DESCRIPTION

The boundaries of the OARP project area are north to Miracle Mile, south to Speedway Boulevard, east to Stone Avenue, and west to Fairview Avenue. This area encompasses about 2.6 square miles. However, areas just beyond these official OARP project boundaries reveal interesting real estate and demographic trends that also affect prospects for the OARP area. Thus, for the purposes of this analysis the area of interest extends beyond the OARP project area to include portions north of Miracle Mile, south of Speedway Boulevard, and east of Stone Avenue, as shown in **Figure 1**. This area will be referred to as the Market Study Area.

The range of uses in the Market Study Area includes residential, retail, industrial, parks, and institutional uses. Commercial uses dominate along Oracle Road, with residential dominating the interior blocks behind Oracle Road. The commercial uses tend to be small, local businesses. The southern part of Oracle Road has more industrial and warehousing uses. Some of the buildings in this area are used to showcase products during the Annual Gem Show. Industrial uses are also located on the western edge of the Market Study Area along Fairview Avenue.

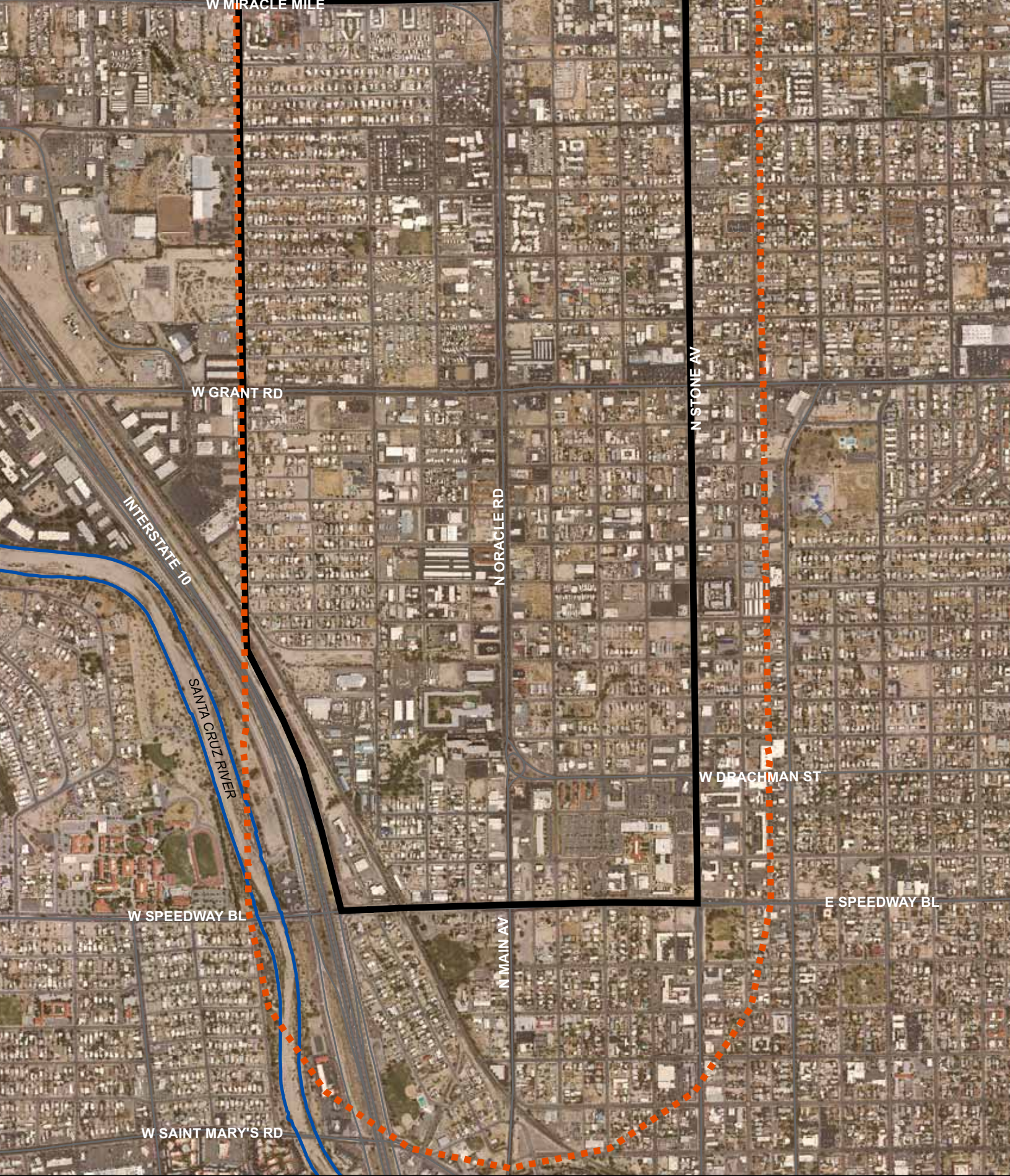
There are a large number of motels along Oracle Road and Miracle Mile. As Oracle Road ceased to be the primary thoroughfare because of the construction of the interstate, the strength of the motels and other traveler accommodations diminished, resulting in the number of defunct motels seen today.

In addition, there are community-serving institutions in the Market Study Area, the largest of which is Pima Community College. The Pima Community College Downtown Campus is located in the southeast portion of the Market Study Area, on Speedway Boulevard and Stone Avenue.

SUMMARY OF FINDINGS

GENERAL MARKET OVERVIEW

- The Tucson region has been and is expected to continue to be one of the fastest-growing metropolitan regions in the country. The City of Tucson's population grew 33 percent from 1990 to 2006, an average of 8,400 additional residents annually. Population is expected to increase another 38 percent by 2030, an average of 8,500 additional residents annually. The continued rapid population growth suggests that there will be future demand for all types of housing. With young professionals and empty nesters accounting for close to half of expected growth, smaller housing product types, such as apartments, condominiums and lofts, will likely become more prevalent in the market.



Oracle Area Revitalization Plan (OARP) Demographic Analysis Area Map

- Tucson's economy has also expanded significantly and provides a diversified breadth of jobs serving the local population as well as national and international markets. Pima County's industries have gained 128,400 jobs since 1990, representing an average annual growth rate of 2.6 percent. The government sector forms the foundation of the economy, comprising 20 percent of employment, and includes major military and educational employers, as well as local and regional government jobs. The job base is expected to continue to grow, generating additional demand for office development as well as retail space. It is projected that employment growth will continue at an average annual growth rate of 2 percent, adding a total of 226,700 jobs by 2030.
- Tucson is a favorite destination for travelers, providing beautiful landscapes; world-renowned recreation opportunities for leisure travel; the well-attended Annual Gem, Mineral, and Fossil Showcase; and the University Medical Center El Tour de Tucson bicycle race. The strength of the regional hotel market has increased over the past five years. The occupancy and average daily rates have increased since 2002 and hotel revenues have increased 40 percent over the same time period. These factors already make Tucson a prime hotel location, and future growth projections for the Leisure and Hospitality industry indicate that hotel demand will continue to be strong. The Leisure and Hospitality industry in the Tucson region is expected to almost double by 2030, an average increase of 1,640 jobs per year.

MARKET STUDY AREA FINDINGS

- The OARP area has not experienced the same rapid population and employment growth experienced by the Tucson Metro Area. Population growth is expected to continue at 0.6 percent per year, compared to 1.3 percent per year for the City of Tucson. Employment growth is expected to continue at 0.8 percent per year, compared to 2 percent for the City. The Market Study Area has low incomes (\$21,940 median household income vs. \$36,095 for the City overall) and relatively high rates of crime. Once serving as the gateway to downtown Tucson, the Market Study Area – with a number of defunct motels, vacant or underutilized parcels, and substandard buildings – is struggling to regain its vitality.
- The residential market in the Market Study Area is weak for single-family homes but is stronger for multifamily rentals. The average sales price for single-family homes is \$148,200, compared to \$260,196 in the Tucson Metro Area. The strength of the rental market is a function of the current national real estate market and the proximity of the Market Study Area to The University of Arizona and Pima Community College. The students represent a strong and growing base for housing demand that yield higher than average apartment prices. Based on general population growth projections, EPS estimates that as many as 1,760 new housing units could be in

demand in the Market Study Area through 2030. The majority of these would be rental units, approximately 60 percent or 1,056 units, including many for student housing, although support for for-sale housing is possible in the longer term.

- The Market Study Area has a limited supply of office properties, with social service organizations representing a significant proportion of office tenants. Given the small amount of current office properties and the lack of nearby amenities (e.g., proximity to strong retail, concentrations of other offices, affluent neighborhoods, etc.), the Market Study Area currently is not an ideal location for most office tenants. Yearly lease rates range from \$12.00 to \$21.96 per square foot, with a weighted average of \$14.88. This is much lower than the \$21 per square foot average asking lease rate for the Tucson Metro Area. However, based on employment growth projections, EPS estimates potential demand for as much as 192,500 square feet of office through 2030, with the majority of this office development likely to be supported in the longer term after revitalization has gained momentum. Tenants will likely continue to include social services, locally-serving businesses, and potentially medical offices, rather than major regional or national employers.

- With a location in reasonable proximity to downtown Tucson, the Convention Center, The University of Arizona, and other travel destinations, the Market Study Area has the potential to support some hotel development. Additionally, many of the display areas associated with the Annual Gem and Mineral Show, the world's largest marketplace of its kind, are located in or near the OARP area. The estimated 50,000 out-of-town visitors that come for the Gem Show create additional demand for hotels. Consistent with the regional hotel market trends, the strength of the local hotel market has increased over the past five years. Occupancy and average daily rates have increased since 2002. In 2007, the Market Study Area occupancy rate was 62 percent and average daily rates were \$87, improvements since 2002 but still below the region's average. Several defunct motel properties create opportunity for hotel redevelopment. Hoteliers have expressed interest in developing additional properties in and around the OARP area. Approximately 300 hotel rooms may be supportable in the Market Study Area. The hotel projects may consist of smaller mid-priced hotels (80 to 100 rooms), similar to current hotels in the area.

- Oracle Road is a major thoroughfare connecting southern and central Tucson with the northern suburbs. While the retail along Oracle Road within the Market Study Area is limited and consists mainly of small, locally-serving retailers, there are a number of chain retailers just north of the Market Study Area, within and around the Tucson Mall, a significant regional shopping center. Yearly lease rates in the Market Study Area range from \$9.96 to \$20.04 per square foot with a weighted average of \$12.30, which is far less than the average asking lease rate for the broader Tucson area, approximately \$18.00. These low lease rates reflect the fact that demand for retail in the Market Study Area is driven largely by the local population, which is primarily composed of low-income households. The future population growth is projected to support between roughly 20,000 and 50,000 square feet of general, non-grocery retail through 2030.
- The number of grocery retailers in the Market Study Area is limited, as an Asian supermarket at Grant and Stone is the only large grocery store. As a result, residents have expressed the desire for a local grocery store. The expected growth in the number of households will only further increase the desire for a grocery store in the Market Study Area. However, the expected amount of supportable grocery retail space from current and future households (40,600 square feet) demand is insufficient to support a typical grocery store (50,000 square feet or more) in addition to the Asian supermarket. Instead, the Market Study Area may have greater potential in attracting smaller specialty groceries, which can take advantage of the area's diversity while serving the grocery demands of the community.

The table below summarizes EPS's estimation of development potential in the Market Study Area:

Use	Potential Through 2030	Comments
Residential	1,760 units	<ul style="list-style-type: none"> • Roughly 60% multifamily rental units or student housing (~1,060 units) • Roughly 40% single-family homes and for-sale townhomes and condominiums (~700 units)
Office	192,500 square feet	<ul style="list-style-type: none"> • Majority of development likely to be supported in the longer term after revitalization has gained momentum • Likely tenants are social services, local services, and medical services
Hotel	Up to 300 rooms	<ul style="list-style-type: none"> • Smaller mid-priced hotel projects (80-100 rooms) • Similar in size to current "name brand" hotels in the area

Use	Potential Through 2030	Comments
Non-Grocery Retail	20,000 to 50,000 square feet	<ul style="list-style-type: none"> • Retail will be local services (e.g., dry cleaners, salon, etc.) • Unlikely to attract a large national retailer
Grocery-Retail	40,600 square feet	<ul style="list-style-type: none"> • Insufficient demand for a typical grocery store (50,000 square feet) • Can attract smaller grocers

- While EPS projects that the viability of development in the Market Study Area will be strongest in the longer term (after a general market recovery), several factors can spur development in the shorter term. As previously discussed, there has been recent investment and development interest in the Market Study Area, such as reinvestment in College Place and the La Siesta motel, a proposed six-story, mixed-use development at the northeast corner of Oracle Road and Drachman Street, and the proposed rehabilitation of the historic Ghost Ranch Lodge on Miracle Mile into senior housing. If successful, these projects can signal the area’s potential to other investors. Additionally, the completion of surrounding projects such as the revitalization of downtown and the Grant Road Improvement Plan, as well as the possibility of the Modern Streetcar extending to the Market Study Area, will further enhance the development opportunities in the Market Study Area. Similarly, growth in the Study Area’s student population can accelerate development opportunities and revitalization of the OARP area.

PRELIMINARY STRATEGIC RECOMMENDATIONS

- Revitalization efforts should focus on the activity center near Pima Community College. The southern portion of the Market Study Area, which includes Pima Community College, has a few commercial businesses that serve the students and faculty, as well as housing and hotels. Close proximity to The University of Arizona and downtown also benefits the area. There have also been recent developments and improvements close to Pima Community College, such as the reconfiguration of the Oracle/Main/Drachman roundabout into a “T” intersection, a proposed six-story, mixed-use development at the northeast corner of this new intersection, and the redevelopment of a large hotel into full-service student housing. Revitalization efforts should build on the developments and improvements occurring around Pima Community College.
- Housing should be the initial focus of revitalization efforts. There is current demand for student housing and multifamily rental units in the Market Study Area, and the addition of residents can enhance support for local businesses as well as improve security issues and property conditions. As such, initial efforts should concentrate

on building on the strength of the rental residential market in the area. Once the real estate market recovers and revitalization is under way, additional for-sale housing will be more feasible.

- Commercial development opportunities will increase as residential development occurs and the local population grows. The expenditure potential from the additional households will support new commercial development. Commercial development should be encouraged on major streets, such as Oracle Road, Speedway Boulevard, Grant Road, Drachman Street, and Stone Avenue.
- To enhance the financial feasibility of new development, zoning in the OARP area should encourage mid-rise densities along major corridors (roughly six to seven stories). Allowing such densities can incentivize the redevelopment of existing uses and can create sustained activity and security along the major corridors. Interior blocks can continue to be considered for lower-density development, to preserve the important neighborhood character and housing stock for the existing population.
- The Plan may consider various incentives to encourage desired development, such as density bonuses for projects that include mixed uses, income-restricted affordable housing, community facilities, etc. Developers can elect to provide such community amenities and benefits while realizing higher development values themselves.
- Increased transit connections can enhance development opportunities. As such, the City should pursue the OARP area's connection to the Modern Streetcar service, which can increase residential development opportunities through improved accessibility to The University of Arizona and other amenities, such as the 4th Avenue Shopping District. Office development opportunities are also enhanced through improved accessibility and connections to downtown.
- Streetscape and landscaping improvements can enhance the pedestrian environment and property values. Currently, the Market Study Area's public realm is fairly bleak, with little vegetation and landscaping. Streetscape improvements, such as trees, planters, and street furniture, can provide shade and improve the pedestrian environment, thereby increasing foot traffic in the area and enhancing both security and vitality.
- A number of properties throughout the Market Study Area are in disrepair, and crime is often cited as an issue in the area. These conditions deter investment in new development, as well as reinvestment in existing development. The City's efforts to enhance code enforcement and improve security through crime prevention should continue to be a high priority throughout the OARP area.