

# A5 | MARKET CONTEXT

## Market Context

An analysis of current and future market trends for various land uses was completed to provide both a baseline for the planning process and a roadmap for identifying future opportunities. The purpose of the market context analysis was to:

- Assess current and future market conditions in the DFW Metroplex;
- Evaluate the City of Frisco's current and future attractiveness for various land use types within the DFW Metroplex;
- Ensure planning and investment decisions for the City are grounded in market and economic reality; and
- Provide an independent, third-party story to tell potential developer and investor audiences.

The following sections include a discussion of:

- Current and future industry trends that may affect growth in Frisco;
- Demographic and psychographic trends in Frisco and its surrounding Trade Area; and
- Market supply and demand dynamics that will determine Frisco's share of future growth.

## Industry Trends

The Urban Land Institute (ULI), the lead membership organization representing real estate professionals nationally and internationally, issues an annual report based on input from its member developers, lenders and investors regarding prospects and product changes in the coming year. Much of the information presented here is based on the Urban Land Institute's *Emerging Trends in Real Estate 2014* publication will have impacts on new development, not only nationwide, but in North Texas specifically.

## Employment Space

- Warehousing stands out as the strongest prospect in both investment and development reflecting the expanding influence of e-commerce distribution networks, e.g., fulfillment centers.
- Industrial space is being designed and located where it can meet the needs of online retailers with ever faster delivery times, increasingly in flex-office space.
- Retailers and manufacturers have made the shortening of the supply chain their top priority.
- Investment and development prospects for research and development (R&D) are expected to improve, fueled by growth in the medical and technology industries.
- Telecom and computer innovations have made going to an office superfluous for many workers.

## Retail

- More on-line stores are reducing the number and size of their brick-and-mortar locations, modifying distribution models and reducing on-site warehouse needs.
- While demand for commercial space going forward will be at a lower space per capita ratio, the growth of the U.S. population will increase overall demand for commercial and non-commercial units.
- The U.S. population will increase by 100 million over the next 30 years (3 million annually).
- Growth in real estate will be a product of demographic and socioeconomic shifts and changes in development economics.
- Multi-branding and cross-branding will be essential, and health and wellness connections will be emphasized.
- Big box retailers will continue to rethink store sizes.
- Outlet malls will be well-positioned to capitalize on the new value-proposition.

- Malls will continue to solicit increasingly non-retail uses such as artist studios, theaters, junior colleges, medical facilities, museums and training facilities.
- High-end retail will hold up since it is less susceptible to internet competition.

## Residential

- Urbanity in the suburbs (not just walkable new urbanist designs, but programming of space to encourage active lifestyles) will continue to be in demand as many consumers continue to be priced out of inner-city locations.
- Shared amenities including parks, trails and open space trails and open spaced designed to accommodate people of all ages and physical abilities will continue to be seen as an increasingly palatable alternative to large yards.
- Smaller household sizes, former homeowners (who lost homes), the high mobility rate among younger generations and an expanding population base will continue to drive demand for market-rate rental housing units, both attached and detached.
- Garden-style apartment development prospects will begin to decline with supply peaking this year and next as units that are incomplete but in the system are delivered to the market.
- The demand for senior housing will see sustained growth as the population ages.
- Student housing will attract a larger development and investment audience given the fact that fewer institutions are building it themselves.

## Green Development

- Sustainable building concepts will become standard in next-generation projects and existing buildings will increase efficiencies and retrofit new systems in order to compete.
- “Green” is considered a right of entry into the market since many corporations and governments have established policies and regulations making it mandatory.
- Greener speculative buildings and proximity to transport options will continue to command higher rents.

## Demographics and Psychographics

Economic and demographic characteristics in the market are indicators of overall trends and economic health that may affect future development and redevelopment efforts. Future development and redevelopment in Frisco will likely serve and attract individuals from a broader geography. Economic and demographic indicators were, therefore, analyzed for both the City and Metroplex as a whole.

Key demographic and psychographic indicators that will likely inform future growth in the City include:

- Over the last 5 years, the City of Frisco has grown at a rate over twice that of the DFW Metroplex overall.
- The City’s average household size is larger than in the DFW Metroplex overall. Not surprisingly, the City has a lower share of one- and two-person households and a significantly lower share of renter-occupied households, but this will change over time.
- The City’s age profile skews significantly younger than the DFW Metroplex overall, with a higher degree of school-age children and a lower share of persons age 65 and over. Despite these characteristics, the City still has a median age similar to the Metroplex overall.
- The percentage of college-educated residents in Frisco is twice that of the Metroplex overall.
- Household incomes in the City are also more than twice that of the Metroplex.
- The City’s ethnic profile shows a higher degree of Asian-American residents and a lower degree of both Hispanic and African-American residents compared to the DFW Metroplex overall.
- The City of Frisco is dominated by upper class, family-centric psychographic segments, indicating high retail/entertainment spending and preferences (and resources) for higher-priced housing.

## Market Supply and Demand

The supply and demand analysis summarized herein focused on identifying market opportunities within project trade areas representative of various land uses. A trade area is the area from which a project(s) or area will draw the majority of its residents (housing), patrons (retail) and employees (office)—the area that will likely be a source of competition and demand. The boundaries of the trade area are often irregular as they are influenced by the following conditions:

### Physical Barriers

The presence of certain physical barriers including highways, arterials and significant structures which influence driving and shopping patterns.

### Location of Possible Competition

The inventory of potentially competitive developments which could diminish the market share available to the project.

## Proximity to Population and/or Employment Concentrations

Concentrations in an area which could translate into more population and households to support the project (density and “rooftops”).

### Zoning

A restrictive or favorable regulatory environment which will influence a developer’s interest in delivering projects in one location vs. another.

### Market Factors

Conditions which will set sale and lease prices, influence a developer’s interest or impact the project’s revenue potential (value).

### Drive Times, Spending and Commuting Patterns

Habits and patterns that have been established which could impact the project’s ability to capture market share (or require re-education).

## Residential Supply

- Among the larger communities in the Trade Area, Frisco and McKinney accounted for over 58% of the single-family detached building permits issued over the last 7 years.
- Single-family attached units comprised only 1% of total Trade Area permits, with Denton and Lewisville accounting for the majority of these.
- As with building permits, Frisco and McKinney dominated single-family home closings in the Trade Area last year, accounting for over 63% of Trade Area closings.
- Southlake, Allen and Frisco had the highest average sale prices among Trade Area communities, both in total price and on a per square foot basis.
- Of the nearly 800 active subdivisions in the Trade Area in 2013, only 30 were single-family attached projects, accounting for only 438 closings.
- Plano, Frisco and McKinney accounted for the highest shares of mixed-use and/or multi-family building permits, together comprising 78% of the Trade Area activity.

## Demand

- The Frisco Residential Trade Area has the opportunity to realize significant growth in residential development activity over the next 20 years, potentially reaching 342,000 new housing units in the Trade Area, approximately 28% of which could be rentals (primarily market rate apartments and/or mixed-use residential, but also some single-family units).
- The City of Frisco could capture a significant share of these new residential units, both ownership and rental products.



Figure A5-1: Residential Trade Area

## Retail Supply

- The Frisco/North Central Dallas Retail Submarket maintains approximately 13% of the total retail space in the Trade Area.
- Properties in this submarket are currently outperforming those in both the Trade Area and overall DFW Metroplex in terms of vacancy and rental rates, and they accounted for nearly 60% of total Trade Area net absorption year-to-date.
- The health of the submarket is likely attributable to its concentration of higher-end retail space.
- With the exception of the new Nebraska Furniture Mart in The Colony, there has been limited retail construction in the Metroplex during the last 24 months.
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## Demand

- Support for retail space is derived from two sources—the recapture of expenditures by residents of the Trade Area that occur outside the Trade Area (referred to as “leakage”) and expenditures by new residents of the Trade Area resulting from household growth.
- As shown here, there is a significant level of leakage among several retail categories, potentially supporting an additional 6.6 million square feet of space.
- Collectively, the recapture of lost dollars and the capture of new dollars could result in the addition of over 30 million square feet of retail space in the Trade Area over the next 20 years.
- The City of Frisco could capture a significant share of this new space, particularly among higher-end retailers.

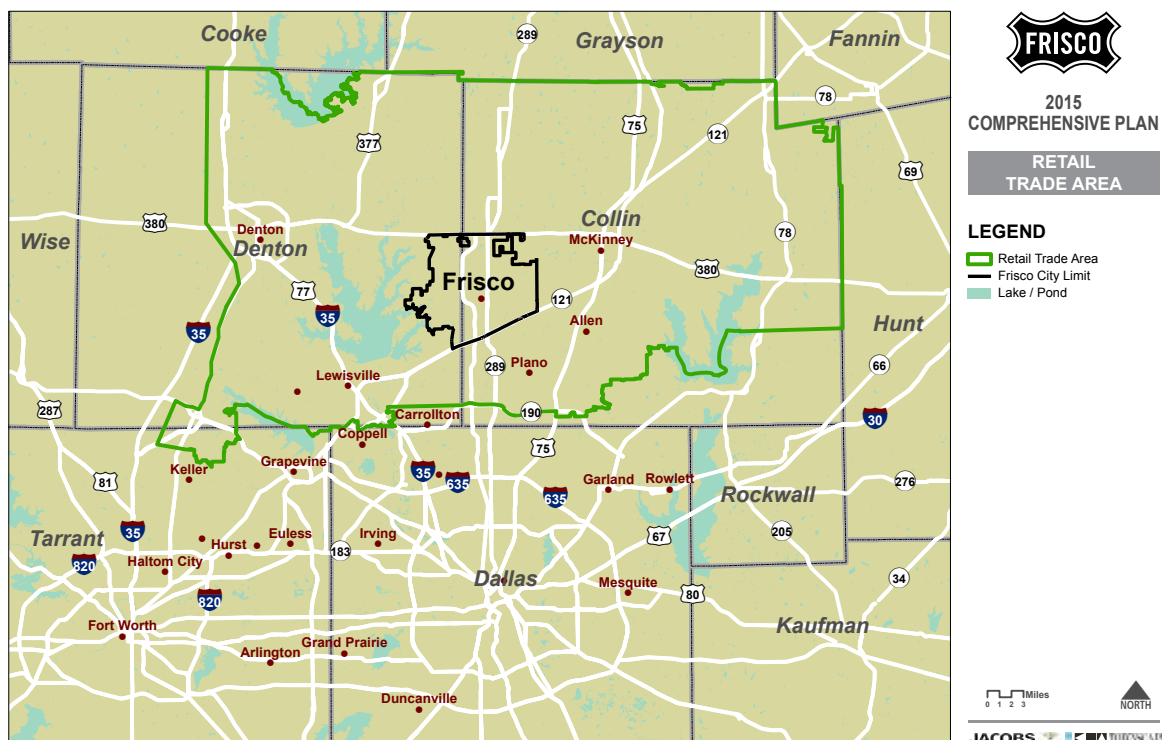


Figure A5-2: Retail Trade Area

## Office

### Supply

- Properties in the Frisco/The Colony Office Submarket continue to outperform properties in other submarkets as well as those in the Metroplex as a whole, particularly Class A projects.
- Within the Trade Area, these submarkets, which are located along the DNT (Quorum/Bent Tree, Upper Tollway/West Plano), continue to have the highest rents and lowest vacancy rates, conditions indicative of an established higher-end market.

### Demand

- Support for office space is derived from two sources—growth/expansion among existing users in the Trade Area and the relocation of new companies into the market. Based on annual employment growth of 2.37%, the Trade Area could support an additional 22.9 million square feet of new office space over the next 20 years.
- The City of Frisco could capture a significant share of new office space in the Trade Area, particularly among products that command a higher price point (rental rate), as well as those designed in line with evolving workforce trends (green construction, smaller work spaces, larger community spaces).



Figure A5-3: Office Trade Area



## Industrial

### Supply

- Frisco competes in the Plano Industrial Submarket, one of the largest submarkets in the Trade Area for both flex and warehouse space.
- While this submarket is outperforming the Metroplex as a whole in terms of rental rates, it is currently experiencing higher vacancies.
- New construction in the Trade Area is dominated by the Lewisville submarket, with development of the Valley Parkway Distribution Center and Majestic Airport Center.

### Demand

- Support for industrial space is derived from two sources—growth/expansion among existing users in the Trade Area; and the relocation of new companies into the market. Based on annual employment growth of 2.37%, the Trade Area could support an additional 29.2 million square feet of new office space over the next 20 years.
- The City of Frisco could capture a significant share of new industrial space in the Trade Area, but given land prices, only among products at the high-end of the product spectrum including R&D and high-end flex space.



## Market Share

A number of factors influence a community's ability to capture investment and reinvestment dollars. These factors can be categorized as top down considerations; bottom up considerations; external considerations; and others. Some of these can be controlled by the City (or stakeholder entities) and others cannot.

### Top Down Considerations

- Demand for certain land uses
- Demographic and psychographic conditions which support certain product types
- Untapped market niches (product voids)
- Competitive projects (proposed, planned and under construction)

### Bottom Up Considerations

- Physical capacity of the community or individual parcels to accommodate market-supported product types—in general, fewer physical constraints
- Vision and desire for certain uses and product types
- Size of parcels, parcel ownership (public and private), owner investment objectives
- Zoning and other regulations and the presence of easements

### External Considerations

- Delivery system—the builders/developers in the area and what they are willing and able to offer
- Financing markets—the availability of capital with reasonable funding terms for certain product types
- Market forces beyond those currently operating in the market (e.g., migration to the Metroplex by an estimated 78,000 persons annually over the next decade who do not reflect the existing profile of residents and consumers)

### Other Considerations

- Available resources to position and promote investment in the community
- Public support for a long-term vision

## Frisco Market Capture

Within all of the product Trade Areas serving the Frisco market, there is expected to be significant growth over the next 20 years among all of the primary land uses and many of the product types within them. Further, the City of Frisco is well-positioned to compete for a share of the market with potential capture rates ranging from 10% to 25% depending on the use and product type. Actual levels of development and absorption will ultimately be dictated by numerous factors, not the least of which include:

- The physical capacity of select locations within the city to accommodate development;
- The desires of individual property owners;
- The community's vision; and
- Available resources (financial, policy and regulatory) and City's ability to position itself for investment.

Land Use Type	Trade Area Demand (15-yr)	Market Share (High)	Absorption (High)
<b>Residential (Units):</b>			
Single Family*	163,400	17%	27,800
Urban Living	49,700	25%	12,400
<b>Non-Residential (Sq. Ft.):</b>			
Retail	20,475,000	28%	5,700,000
Office	14,885,000	30%	4,500,000
Industrial	18,980,000	20%	3,800,000

**Table A5.1: Market Demand Summary  
Frisco Comprehensive Plan Update (15-Year)  
January 2015**

*Attainable Frisco Market Share*

*\*includes detached and attached products.*

Source: Ricker, Cunningham



## Frisco Market Implications

The findings of the market analysis suggest several strategies for Frisco's future.

### Residential

- There is an opportunity to diversify the City's housing stock—higher-density, low maintenance products appeal to more demographic segments.
- A high-quality image should be maintained while addressing new market niches.
- Market pressure from expanding high-mobility groups can be accommodated in more urbanized mixed-use, live/work areas and held to a higher standard of quality and uniqueness.

### Retail

- DNT, SH 121 and US 380 frontages will attract attention from larger retailers, but caution should be used when considering requests by users of large format spaces.
- The challenge will be to concentrate retail near existing and new neighborhoods while still accommodating regional retail at key intersections (e.g., DNT and US 380).
- There is an opportunity to “prune” under utilized retail in select areas where the market has moved on (e.g., Preston Road).
- High levels of community character should be preserved in order to maintain higher-end retail product types.

### Office

- There is an opportunity to further concentrate products commanding higher rents along DNT and US 380—high-rise office with supporting uses (retail, restaurant, lodging, residential), mixed-use and multi-use campuses.
- There are opportunities for sustainable product types designed with evolving workforce trends and user values in mind (green construction, smaller work spaces,

larger community spaces) along SH 121 (again, with supporting uses).

- Higher-end and more sustainable office products can help protect against value deterioration.

### Industrial

- SH 121 frontage will attract attention from large-scale industrial users (transportation, warehousing) despite land prices and because of pent-up and emerging demand, but could provide long-term opportunities for higher-end alternative and flexible product types.
- Frisco's demographics can support a unique environment for the “creative class” or knowledge-based workers within hybrid mixed-use and multi-use employment centers.

### Land Use Mix

- While Frisco's demographics, psychographics and established higher-end real estate market offer the community a range of choices, the City should be encouraged to protect existing environments and pursue new ones that maintain quality levels and diversify product offerings, thereby appealing to a wide range of user groups (e.g., Gen X, Baby Boomers, Gen Y).
- Future land use decisions should carefully consider placemaking elements that ensure these environments support ever-changing market desires while holding their value.
- Flexibility in the development and design of live/work/shop/play/learn areas will foster uniqueness, spread risk and maintain property values.

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