



Downtown Sterling June 2010

Section 2

MARKET ANALYSIS

The market analysis that assesses potential for residential, retail, restaurant, entertainment and office uses in the riverfront redevelopment area. The assessment includes a comprehensive inventory of existing and planned development within the defined market area for each respective use as well as a detailed analysis of demographic data and projections.

Analysis includes the identification of land availability and examination of trends in vacancy rates, land prices, rents, and price points. Market observations and findings have been supplemented with input from local real estate brokers and other members of the development community to evaluate the potential future mix of uses within the redevelopment area.

The market analysis concludes with a discussion of the suitability of uses by type and location that assesses compatible uses and demand projections based on a stabilized economy. This analysis will be used to inform development concepts and riverfront redevelopment plans. The market analysis will also be used to develop implementation strategies that identify tools and incentives designed to facilitate development.

Market Areas

Markets behave differently dependent upon use so separate market areas have been defined and analyzed with regard to residential and commercial uses. The market analysis utilizes data from several geographies including the city of Sterling, surrounding communities, and areas within a 5 to 15 minute drive of Sterling's riverfront area.

Demographic Data & Retail Market Area

Changes in population, households and demographic composition will influence the potential development of a range of uses within the riverfront area. Demographic data has been collected for two areas, a primary market area and a secondary market area. The Primary Market Area (PMA) represents the local area from which the majority of the population would be likely to utilize the riverfront on a regular basis, thus serving as the greatest source of market support for redevelopment. The Secondary Market Area (SMA) is the larger area from which riverfront redevelopment could draw additional market support.

For the purposes of this analysis, the PMA is defined as the area within a 5 minute drive of the intersection of 1st Avenue (IL Route 40) and 2nd Street. The SMA is defined as the area within a 15 minute drive of this same intersection. The boundaries of the PMA are similar in extent to the city limits of Sterling and Rock Falls. In addition to demographic data, retail demand estimates and the attributes of competing commercial development within the PMA and SMA have also been examined to assess the potential for commercial development including office uses, retail, restaurants and entertainment.

Figure 3 illustrates the boundaries of the primary and secondary market areas. As shown in Figure 3, Downtown Dixon and Morrison are both approximately 25 to 30 minutes from the Riverfront area. This further supports the use of a 15 minute drive time to represent the SMA as there is little overlap with the similar sized market areas of these neighboring commercial districts.

Residential Market Area

Where possible, data from the PMA and SMA have been used to characterize and document trends in residential development. However, due to the availability of data sources, data regarding housing stock characteristics has been collected for the City of Sterling and the City of Rock Falls, and data related to home sales has been collected from ZIP codes.

Demographic Overview

Demographic data has been assessed to document any anticipated growth or change within the primary and secondary market area populations. This overview examines anticipated population and household growth, shifts in age and changes in the number of households by age and income.

Data has been provided regarding current estimates for the year 2010 (the most recent year for which data is available) as well as five year projections. Projections have not been made beyond this time frame as the degree of accuracy in which market potential can be assessed would be reduced. Potential implications regarding demand for residential and commercial development have also been assessed using this data.

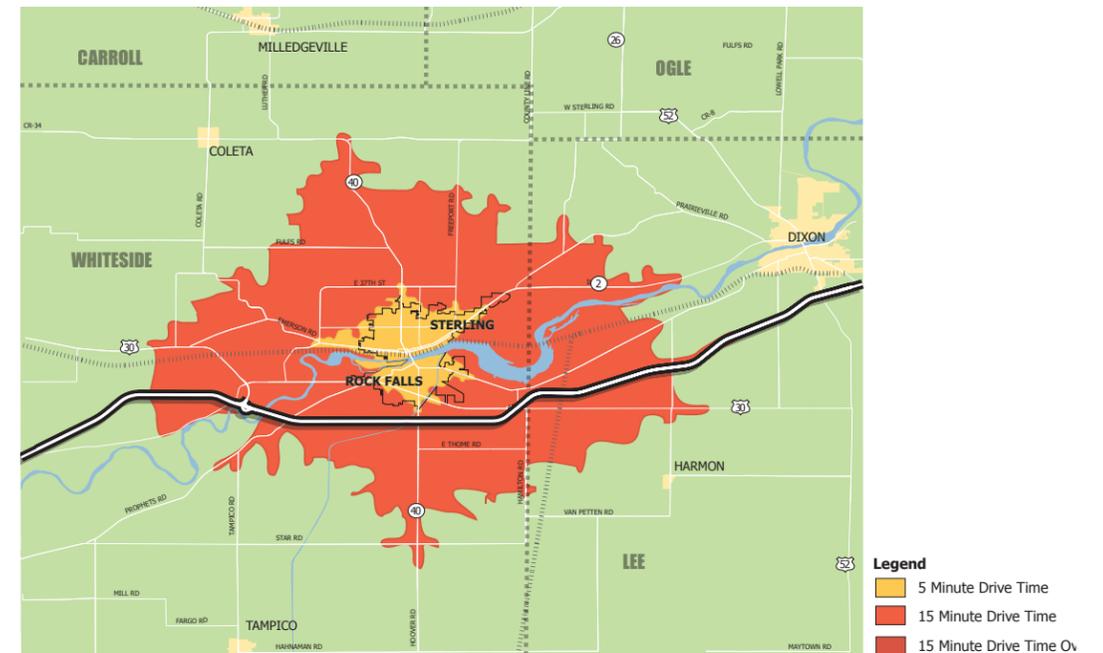
Market data for this analysis were obtained from ESRI Business Analyst, a nationally recognized provider of market and demographic data.

Population & Household Growth

Table 1 summarizes projected changes in population, number of households, and income within the primary and secondary market areas over the five year period between 2010 and 2015. Data indicate that both market areas will experience a moderate decrease in population accompanied by an increase in household and per capita incomes.

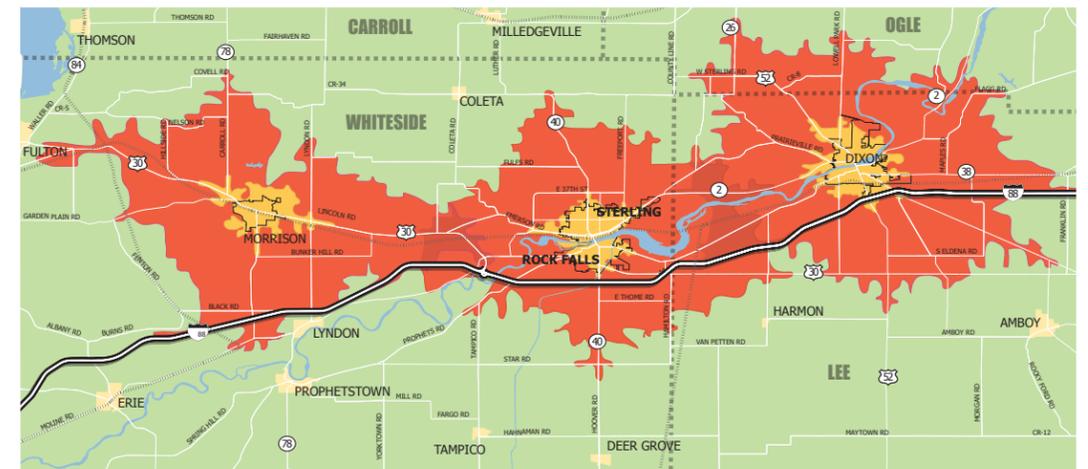
- ◇ The population within the PMA is projected to decrease by 392 individuals (a 1.8% decrease) to 21,277 in 2015.
- ◇ The SMA population is projected to decrease by 501 (a 1.4% decrease) over the same period to 34,616 in 2015.
- ◇ Between 2010 and 2015, the number of households in the PMA is projected to decrease by 136, or -1.5%, to a total of 8,749.
- ◇ It is anticipated that the number of households within the SMA will decrease by 146, a decrease of 1.0%, to 13,977 households in 2015.
- ◇ Median household income is projected to increase by 14.9% to \$54,518 in 2015 among PMA households. SMA median household income is projected to increase by 15.6% to \$57,490 over the same five year period.

Figure 3. Retail Market Areas



	2010		2015		Total Change 2010 - 2015	
	Primary Market Area	Secondary Market Area	Primary Market Area	Secondary Market Area	Primary Market Area	Secondary Market Area
Population	21,669	35,117	21,277	34,616	-392 (-1.8%)	-501 (-1.4%)
Households	8,885	14,123	8,749	13,977	-136 (-1.5%)	-146 (-1.0%)
Median Age	36.8	39.3	37.2	39.7	0.4 (1.1%)	0.4 (1.0%)
Median Household Income	\$47,428	\$49,726	\$54,518	\$57,490	\$7,090 (14.9%)	\$7,764 (15.6%)
Average Household Income	\$55,502	\$58,971	\$63,276	\$67,652	\$7,774 (14.0%)	\$8,681 (14.7%)
Per Capita Income	\$23,005	\$23,931	\$26,302	\$27,557	\$3,297 (14.3%)	\$3,626 (15.2%)

Source: ESRI Business Analyst; Houseal Lavigne Associates



Population Age Profile

Charts 1 and 2 illustrate projected population change by age cohort within the PMA and SMA populations. The PMA and SMA populations are experiencing similar age profile shifts. Between 2010 and 2015, in general, projections indicate that both areas will experience moderate decreases in most age cohorts. The population aged 44 and under is projected to decrease slightly while it is anticipated that the population aged 45 to 54 will experience a more significant decrease. Significant growth projected to occur among those aged 55 and older is expected to offset the majority of population loss in younger cohorts.

- ◇ Within both the PMA and SMA, no age cohort below the age of 45 is projected to decrease by more than 7.1%. The PMA population under the age of 45 is projected to decrease by 307, or 2.7%, between 2010 and 2015. The SMA population under the age of 45 is projected to decrease by 2.4% over the same period.
- ◇ The largest decrease in both the PMA and SMA is anticipated to occur among those aged 45 to 54. This age cohort is projected to decrease by 451, or 13.9% within the PMA and by 700, a 14% decrease, within the SMA.
- ◇ Between 2010 and 2015, significant increases are projected to occur among those aged 55 to 64 and 65 to 74. Within the PMA, these two age cohorts are projected to grow by 542, an increase of 12%. The SMA population between 55 and 74 is projected to increase by 790, or 10.8%, over the same period.

Chart 1. Change in Population by Age
Primary Market Area, 2010 - 2015

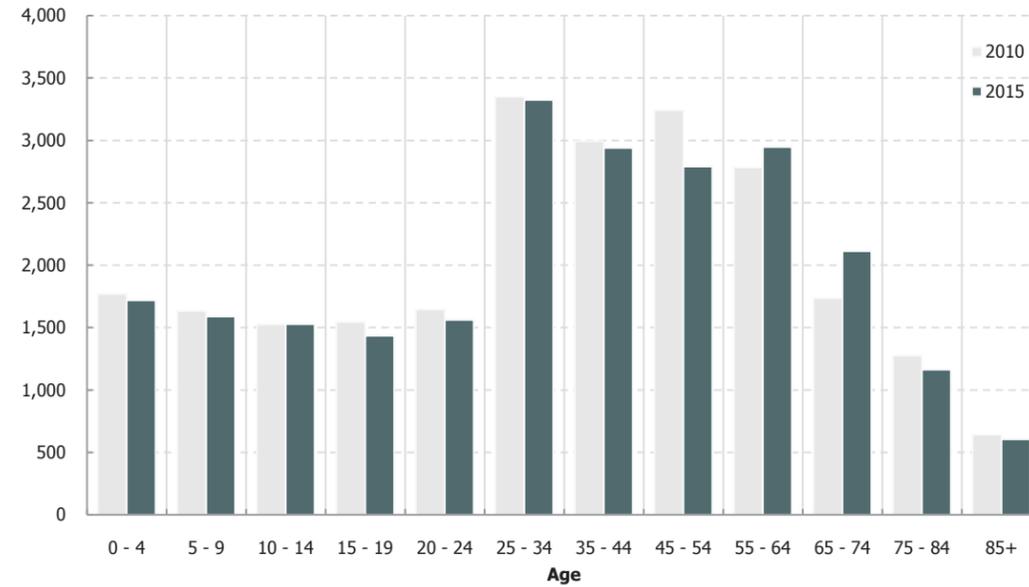
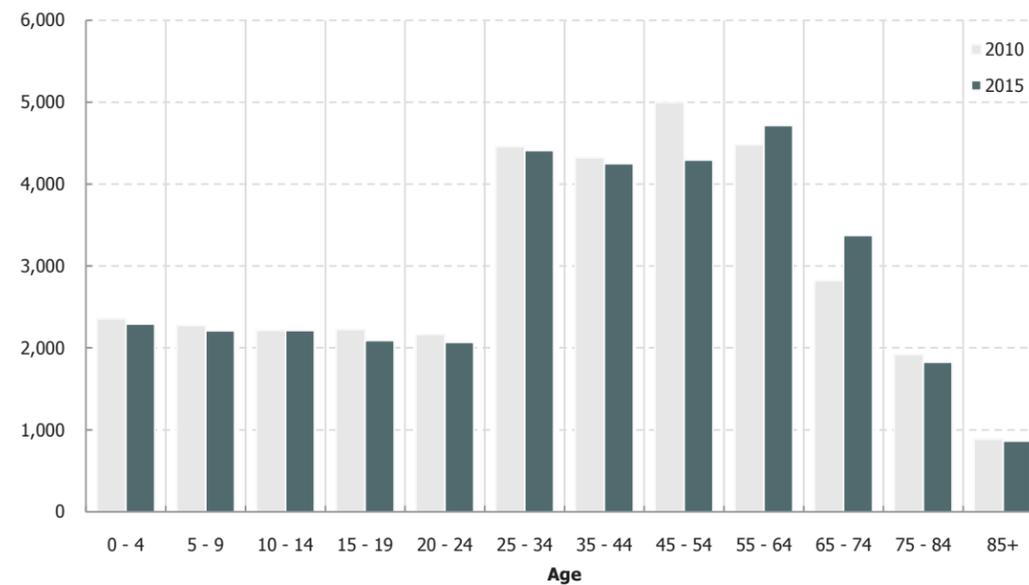


Chart 2. Change in Population by Age
Secondary Market Area, 2010 - 2015



Statue at Central Memorial Park





Household Income

Charts 3 and 4 illustrate projected change in the number households by income group within the primary and secondary market areas. Within both the PMA and SMA, it is projected that lower income households will decrease in number while the number of middle and upper income households is expected to increase. Despite an anticipated overall decrease in the number of households within the PMA and SMA, it is anticipated that the buying power of both areas will increase over the next five years.

- ◇ The number of PMA households earning less than \$50,000 per year is projected to decrease by 830, or -17.6%, between 2010 and 2015. The SMA is projected to lose 1,325 households (an 18.7% decrease) within this income group over the same period.
- ◇ Over the next five years, it is anticipated that the PMA will gain 694 households (a 16.6% increase) earning more than \$50,000 per year. The SMA is projected to gain 1,178 households (a 16.8% increase) in this income group over the same period.
- ◇ Between 2010 and 2015, based on average household income and total number of households, the total income generated by households within the PMA and SMA is projected to increase by 12.3% and 13.5% respectively.

Sterling Theater, Downtown Sterling • June 2010

Chart 3. Change in Households by Income
Primary Market Area, 2010-2015

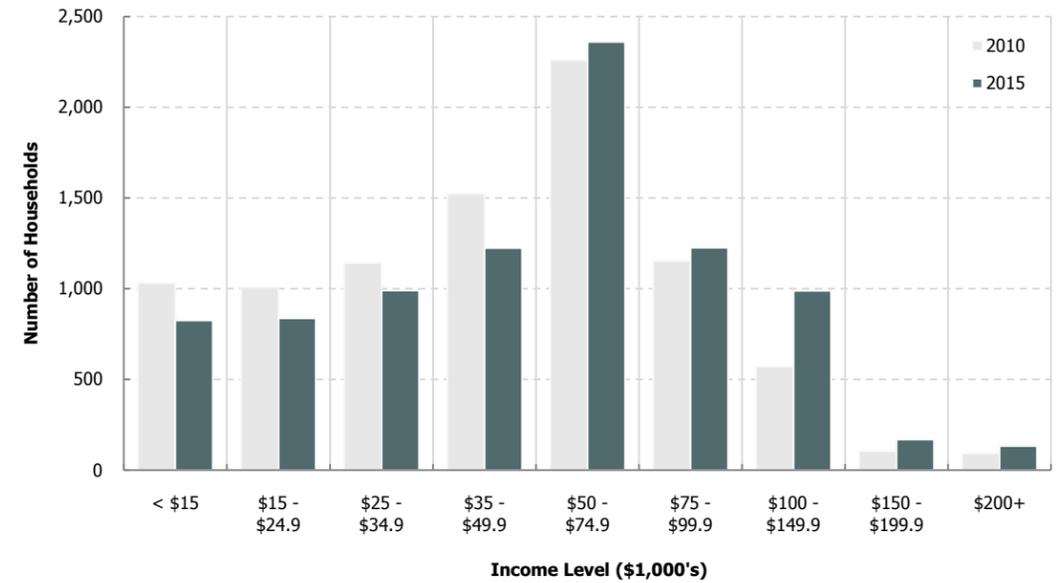


Chart 4. Change in Households by Income
Secondary Market Area, 2010-2015

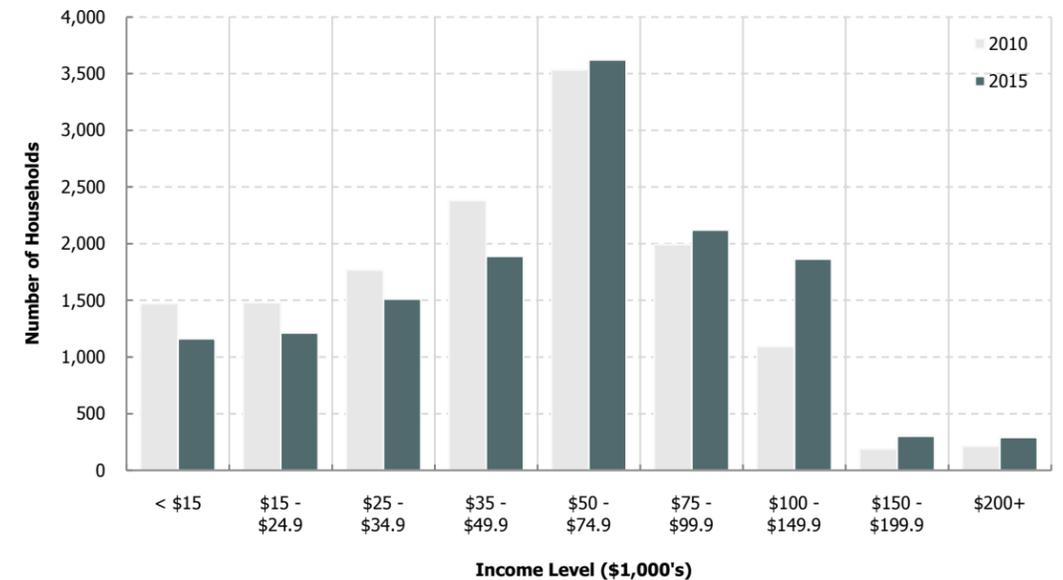


Chart 5. Households by Age and Income Level
Primary Market Area, 2010 - 2015

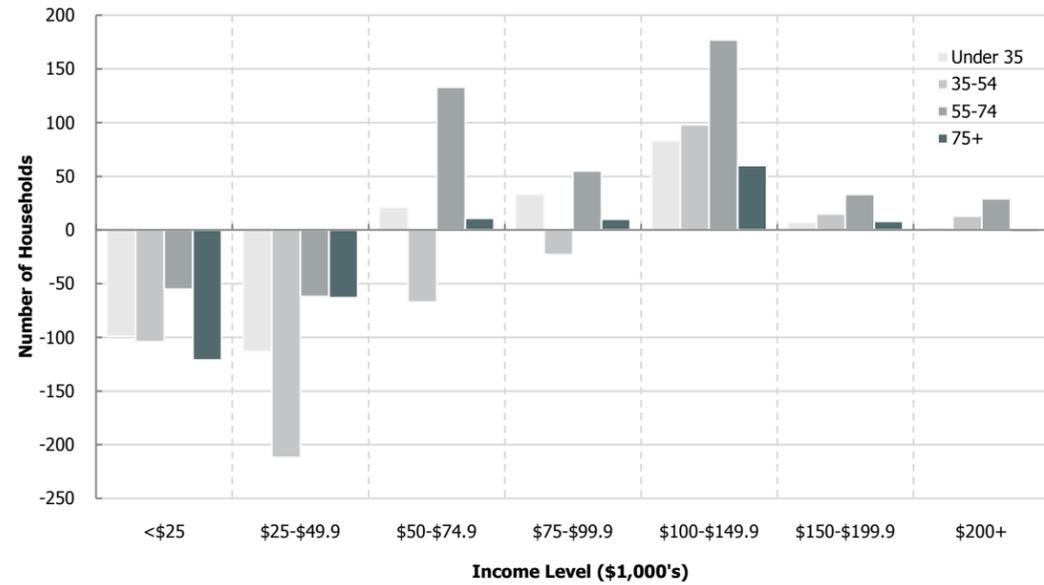
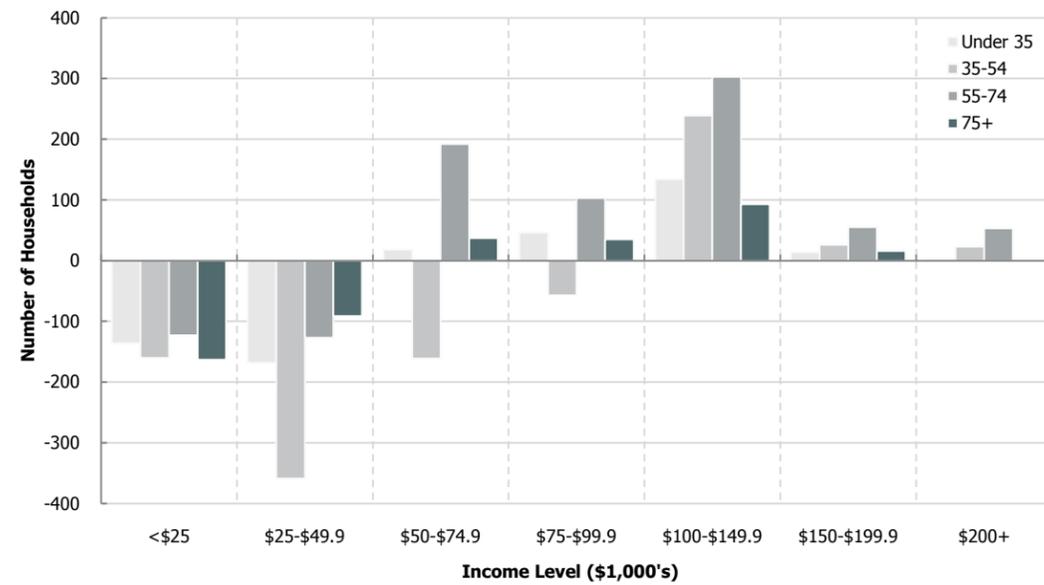


Chart 6. Households by Age and Income Level
Secondary Market Area, 2010 - 2015



Age by Income

Charts 5 and 6 illustrate the projected change in number of households according to the age of the head of household and household income. Changes projected to occur between 2010 and 2015 are shown as they pertain to each respective household age cohort within both the PMA and SMA. For example, the dark blue columns indicate change within the market area householder population over the age of 75. A bar for this age group is shown in each income bracket. A dark blue bar located above the zero line of the graph indicates growth, while a dark blue bar below the zero line indicates decline.

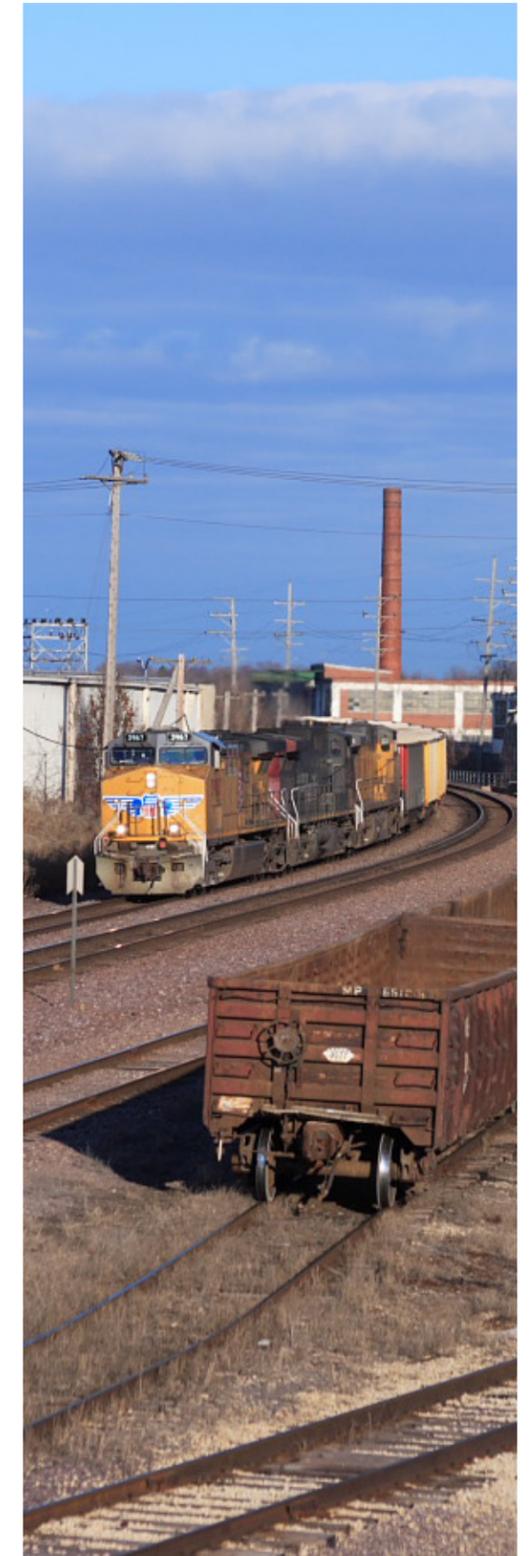
Overall, both market areas are experiencing significant decline among lower income households with significant increases among upper income households. Shifts in household income are projected to occur uniformly across all age cohorts with no single age group deviating significantly from the larger pattern of growth or decline. As a result, market area populations are becoming more affluent on average with limited change in overall age composition.

- ◇ For both market areas, the number of households earning less than \$50,000 is projected to decrease across all age cohorts. Projected decreases in these lower income households are relatively uniform, ranging from -10% and -30% in any given age cohort.

- ◇ Changes among middle income households earning between \$50,000 and \$100,000 will be moderate among age cohorts in both market areas, ranging between a decrease of -10% and an increase of 24%.
- ◇ Within both the PMA and SMA, the number of households earning more than \$100,000 is projected to increase across all age cohorts. Projected increases in upper income households are most significant among householders aged 55 to 74, which are expected to increase by 84.8% within the PMA and 86.9% within the SMA.

Implications of Demographic Trends

Demographic projections indicate that the population and number of households within both the primary and secondary market areas will experience moderate decline between 2010 and 2015. In general, similar changes in population are occurring across all age cohorts, but patterns differ significantly between lower, middle income households, and upper income households. Despite a net decrease in population, the purchasing power of the PMA and SMA is expected to increase. Increases among upper income, 'empty nester' households may also be indicative of increased demand for multi-family residential development.



Union Pacific Railroad adjacent to Riverfront Redevelopment Sites

Labor & Employment

Employment by Industry

As shown in Table 2, it is estimated that over 6,800 people are employed within the City of Sterling. Employment estimates indicate that the City of Sterling has a diverse economic base and employment is spread throughout several industries. This diversity is also reflected in the variety of major employers highlighted in Table 3. The largest employers within the City of Sterling represent a range of industries including warehousing and distribution, health services, advertising services, and a variety of manufacturing businesses.

- ◊ Despite an overall decline in manufacturing throughout the nation and region, the Manufacturing sector businesses employ nearly 23% of the civilian employment base in Sterling. Wahl Clipper employs approximately 700 at its Sterling facility, representing nearly half of all manufacturing employment in the city.
- ◊ The Health Care and Social Assistance sector employs approximately over 1,300 (19% of total employment). Nearly all of these jobs are located at the CGH Medical Center and Sterling-Rock Falls Clinic.
- ◊ An estimated 12% of Sterling jobs are in the Retail Trade industry. Major employers in this industry include retailers such as Walmart, K-Mart, Menards and businesses at Northland Mall Shopping Center.

Employment Projections

While detailed employment projections are not available for the City of Sterling, data at the regional scale has been assessed to identify general trends in employment growth. Table 4 provides 2006 estimates and 2016 projections (the most current data available) for employment by industry within the Sauk Valley Community College District. This area comprises the majority of Whiteside and Lee Counties, the southern portion of Carroll and Ogle Counties, and the northern portion of Bureau County.

- ◊ Total employment within the region is projected to grow by nearly 1,200 jobs, or 3.0%, during the ten year period from 2006 to 2016.
- ◊ It is estimated that the Health and Social Assistance industry will have experienced the most growth over this period, gaining 741 jobs, a 13.0% increase. Given the significance of this sector in Sterling, a large proportion of this growth may occur locally.
- ◊ Employment within Administrative & Waste Management Services is projected to grow by 15.0% (256 jobs) between 2006 and 2016. Establishments in this sector specialize in performing routine support activities for the day-to-day operations of other organizations. Activities performed by these businesses include office administration, hiring and placing of personnel, document preparation and similar clerical services, solicitation, collection, security and surveillance services, cleaning, or waste disposal services.
- ◊ It is anticipated that the Educational Services sector and the Accommodation and Food Services sector will both grow by approximately 12%, gaining 339 jobs and 269 jobs respectively.
- ◊ Manufacturing is projected to lose 957 jobs, a decrease of 14.1%, between 2006 and 2016.

Table 2. Employment by Industry (Employed Civilians, Age 16+)
City of Sterling, 2010

Total	6,861	100.0%
Manufacturing	1,544	22.5%
Health Care/Social Assistance	1,310	19.1%
Retail Trade	830	12.1%
Accommodation/Food Services	542	7.9%
Educational Services	467	6.8%
Other Services	412	6.0%
Construction	274	4.0%
Finance/Insurance	268	3.9%
Public Administration	213	3.1%
Professional, Scientific, and Technical Svcs	199	2.9%
Admin., Support, and Waste Mgmt. Svcs.	178	2.6%
Transportation/Warehousing	151	2.2%
Wholesale Trade	117	1.7%
Information	103	1.5%
Real Estate/Rental/Leasing	103	1.5%
Arts/Entertainment/Recreation	62	0.9%
Utilities	55	0.8%
Agriculture, Forestry, Fishing & Hunting	41	0.6%
Management of Companies/Enterprises	0	0.0%
Mining	0	0.0%

Source: ESRI Business Analyst

Table 3. Major Employers
City of Sterling, 2010

Business	Employees
Wal-Mart Distribution Center	1000+
CGH Medical Center	900
Wahl Clipper Corporation	700
Stanley National Hardware	500
Sterling - Rock Falls Clinic	391
Self Help Enterprises	310
Sterling Steel Corporation	300
Lee Wayne / Halo Corporation	150
Frantz Manufacturing Company	125
Astec Mobile Screens	80

Source: Illinois Department of Commerce; Greater Sterling Development Corporation

Table 4. Employment Projections by Industry
Sauk Valley Community College District, 2006 & 2016

Industry (NAICS Code)	2006		2016		Change		
	Jobs	Percent	Jobs	Percent	Jobs	Percent	CAGR
TOTAL, ALL INDUSTRIES	39,983	100.0%	41,169	100.0%	1,186	3.0%	0.29%
Self Employed and Unpaid Family Workers (10)	2,089	5.2%	2,210	5.4%	121	5.8%	0.56%
Agricultural Production (11)	1,871	4.7%	1,734	4.2%	-137	-7.3%	-0.76%
Natural Resources and Mining (21)	77	0.2%	75	0.2%	-2	-2.6%	-0.26%
Construction (23)	1,161	2.9%	1,251	3.0%	90	7.8%	0.75%
Manufacturing, Total (31-33)	6,808	17.0%	5,851	14.2%	-957	-14.1%	-1.50%
Food Manufacturing (31)	433	1.1%	422	1.0%	-11	-2.5%	-0.26%
Leather and Allied Products (31)	31	0.1%	18	0.0%	-13	-41.9%	-5.29%
Wood Product Manufacturing (32)	48	0.1%	47	0.1%	-1	-2.1%	-0.21%
Paper Manufacturing (32)		0.0%		0.0%	0	-	-
Printing & Related Support Activities (32)		0.0%		-	0	-	-
Petroleum and Coal Products Mfg. (32)		0.0%		0.0%	0	-	-
Chemical Manufacturing (32)		0.0%		-	0	-	-
Plastics and Rubber Products Mfg. (32)	46	0.1%	44	0.1%	-2	-4.3%	-0.44%
Nonmetallic Mineral Product Mfg. (32)	167	0.4%	157	0.4%	-10	-6.0%	-0.62%
Primary Metal Mfg. (33)	328	0.8%	147	0.4%	-181	-55.2%	-7.71%
Fabricated Metal Product Mfg. (33)	2,747	6.9%	2,435	5.9%	-312	-11.4%	-1.20%
Machinery Mfg. (33)	761	1.9%	627	1.5%	-134	-17.6%	-1.92%
Computer and Electronic Product Mfg. (33)	284	0.7%	234	-	-50	-17.6%	-1.92%
Electrical Equip, Appliance & Comp. Mfg. (33)	914	2.3%	772	1.9%	-142	-15.5%	-1.67%
Transportation Equipment Mfg. (33)	517	1.3%	496	1.2%	-21	-4.1%	-0.41%
Furniture and Related Product Mfg. (33)	12	0.0%	10	0.0%	-2	-16.7%	-1.81%
Misc. Manufacturing (33)	33	0.1%	28	0.1%	-5	-15.2%	-1.63%
Wholesale Trade (42)	2,269	5.7%	2,329	5.7%	60	2.6%	0.26%
Retail Trade (44)	4,728	11.8%	4,888	11.9%	160	3.4%	0.33%
Transportation & Warehousing & Utilities (46)	1,150	2.9%	1,203	2.9%	53	4.6%	0.45%
Information (51)	345	0.9%	300	0.7%	-45	-13.0%	-1.39%
Finance and Insurance, Total (52)	873	2.2%	909	2.2%	36	4.1%	0.40%
Real Estate and Rental and Leasing (53)	213	0.5%	220	0.5%	7	3.3%	0.32%
Professional, Scientific & Tech. Services (54)	740	1.9%	770	1.9%	30	4.1%	0.40%
Management of Companies and Enterprises (55)	56	0.1%	59	0.1%	3	5.4%	0.52%
Administrative & Waste Mngmnt. Services (56)	1,705	4.3%	1,961	4.8%	256	15.0%	1.41%
Educational Services, Private & Public (61)	2,751	6.9%	3,090	7.5%	339	12.3%	1.17%
Health Care & Social Assistance (62)	5,720	14.3%	6,461	15.7%	741	13.0%	1.23%
Arts, Entertainment and Recreation (71)	353	0.9%	409	1.0%	56	15.9%	1.48%
Accommodation and Food Services (72)	2,296	5.7%	2,565	6.2%	269	11.7%	1.11%
Personal & Other Services (81)	1,676	4.2%	1,840	4.5%	164	9.8%	0.94%
Federal Government, exc. US Post Office (91)	65	0.2%	54	0.1%	-11	-16.9%	-1.84%
State Government, exc. Educ. & Hosp. (92)	1,456	3.6%	1,374	3.3%	-82	-5.6%	-0.58%
Local Government, exc. Educ. & Hosp. (93)	1,580	4.0%	1,617	3.9%	37	2.3%	0.23%

Source: Illinois Department of Employment Security; Houseal Lavigne Associates

Stanley National Hardware

Stanley National Hardware is a significant manufacturing employer in the Sterling-Rock Falls area. Stanley National recently announced plans to close down its operations by mid-year 2011 following the merger of its parent company Stanley Works' with hardware maker Black & Decker in the spring. Approximately 250 jobs will be lost in the region as they are relocated to other Black & Decker plants throughout the US.

Prior to announcing a merger and the closure of facilities, Stanley National had indicated intentions to relocate its Sterling operations to a more modern facility in Rock Falls. So, while the relocation of Stanley National jobs will have an impact on the local labor force and economy, it also has implications for the riverfront area. Stanley National Hardware owns a large, centrally located component of Sterling's riverfront and plans for comprehensive redevelopment of the riverfront will rely heavily on redevelopment of these properties.

Labor & Commute Shed

Figure 4 depicts where people who work in the City of Sterling live within the region as measured by the number of jobs per square mile (See 'Labor Shed'). The labor shed data discussed here is from 2008 which is the most recent year for which data is available. The City's labor shed is relatively concentrated within the Sterling-Rock Falls area and in nearby Dixon. In 2008, nearly 26% of the City's estimated 7,245 primary jobs were performed by workers who also live within Sterling. It is estimated that 10.9% of jobs in Sterling, in 2008, were performed by residents of nearby Rock Falls and another 5.6% of local jobs were performed by residents who live in Dixon. No other communities within the region have a significant proportion (2% or greater) of residents who work in Sterling. The majority of Sterling workers lived within Whiteside County while another 10.6% resides in Lee County to the east.

Figure 4 also highlights where residents of the City of Sterling work within the region as measured by the number of jobs per square mile (See 'Commute Shed'). The commute shed data discussed here is from 2008 and is the most recent year for which this data is available. As with the labor shed, the City's commute shed is concentrated in the Sterling-Rock Falls and Dixon areas. In 2008, an estimated 6,017 Sterling residents held a primary job in the region. Over 31% of these people worked within the City while another 9.3% were employed in the City of Dixon. In 2008, Rock Falls businesses employed 5.4% of Sterling's labor force. No other location has a significant proportion (2% or greater) of Sterling's labor force working within its boundaries. It is estimated that approximately 52.2% of the City's labor force had jobs located within Whiteside County and another 14.0% were employed in Lee County.

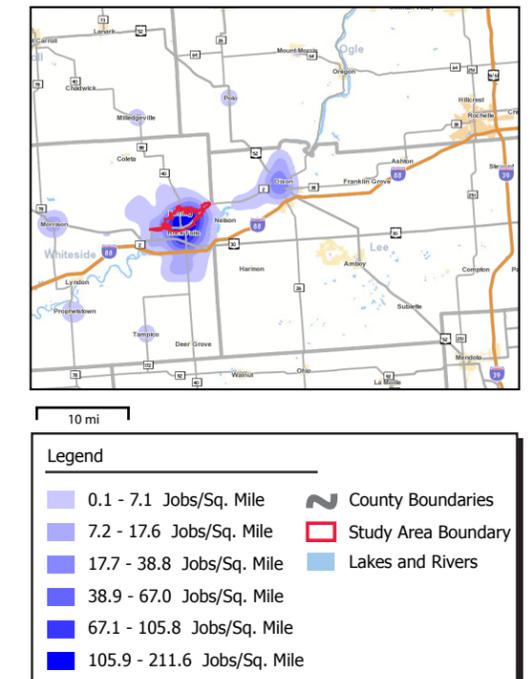
Market Implications

While the overall regional labor force is stable and growing, employment projections indicate that manufacturing employment will continue to decline through the year 2016. This trend is evidenced by the pending closure of Stanley National operations in Sterling and Rock Falls. Despite a decline in manufacturing, the City of Sterling has maintained a diverse economic base with significant employers in several industries. Moreover, both the labor and commute shed data highlight the City of Sterling's significance within the region as an employment center and economic engine.

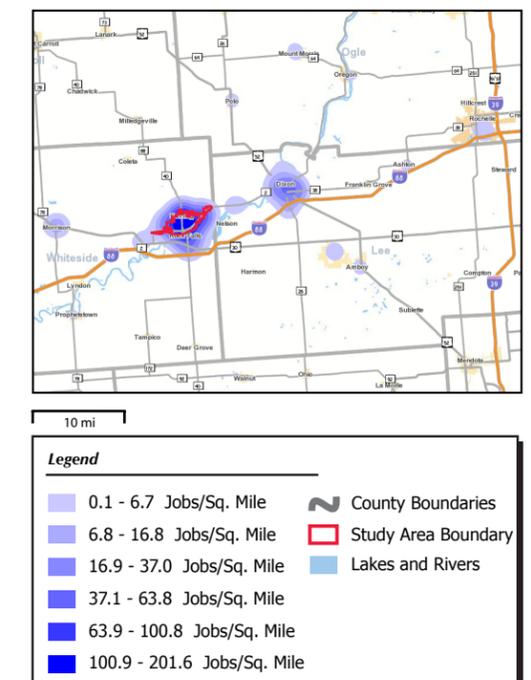
The economic shifts occurring within the local economy, and the closure of Stanley Nation facilities, will facilitate redevelopment of Sterling's riverfront area. While the riverfront was previously a hub of industrial activity, given the City's prominence in the region, the riverfront area may now have the potential to serve as a new type of destination for retail, dining and entertainment.

Figure 4. Labor Shed & Commute Shed City of Sterling (2008)

Labor Shed



Commute Shed





Residential Market

Housing Characteristics

Table 5 summarizes select housing characteristics for the combined housing stock of the cities of Sterling and Rock Falls. As discussed previously, the boundaries of these two communities are very similar to that of the primary market area. Data is from the 2000 Census and is the most current information available regarding the local housing stock. Information on building permit activity (discussed later in this section) indicate that new construction has been minimal in Sterling and Rock Falls since the 2000 Census and that this data still largely reflects the existing housing stock in these two communities.

Overall, the most prominent type of housing in the PMA communities of Sterling and Rock Falls is an owner-occupied, single family home with two to three bedrooms. Rental units comprise a sizable portion of the local housing stock and are typically in multi-family structures.

- ◇ Approximately two-thirds of all housing units in the PMA are owner occupied.
- ◇ An estimated 98% of all owner occupied housing units were single family detached homes.
- ◇ Approximately 32% of rental units are in single family detached homes while another 49% are in multi-family structures.
- ◇ Over 51% of owner occupied units have three bedrooms while rental units typically have one bedroom (33%) or two bedrooms (38%).
- ◇ Units in multi-family structures make up approximately 18% of all housing units the market area.

Paul W. Dillon Home near Downtown Sterling

Housing Age

As indicated in Table 6 and Chart 7, the housing stock within the PMA is composed of structures whose construction dates to periods throughout the last century. A diverse age range within the local housing stock is typically indicative of a wider range of home prices and affordability.

- ◇ Over one-quarter of all housing structures in Sterling and Rock Falls were constructed prior to 1939.
- ◇ Between 14% and 19% of the local housing stock was constructed each decade between 1940 and 1979.
- ◇ Less than 10% of housing structures in Sterling and Rock Falls were constructed between 1980 and 2000.
- ◇ New construction permits issued between 2000 and 2009 (the most recent data available), indicate that approximately 277 units were permitted in the PMA. If it is assumed that all of these units have been constructed, then approximately 2.7% of the local housing stock was built over the last decade.

Table 5. Housing by Tenure, Type & Number of Bedrooms
Cities Sterling and Rock Falls, Illinois, 2000

Occupied Housing Units			Number of Bedrooms by Tenure		
Owner Occupied	6,400	63.2%	Owner Occupied		
Renter Occupied	3,731	36.8%	Studio	0	0.0%
			One Bedroom	174	2.7%
			Two Bedrooms	1,713	26.8%
			Three Bedrooms	3,274	51.2%
			Four Bedrooms	1,059	16.5%
			Five+ Bedrooms	180	2.8%
			Renter Occupied		
			Studio	167	4.5%
			One Bedroom	1,219	32.7%
			Two Bedrooms	1,406	37.7%
			Three Bedrooms	772	20.7%
			Four Bedrooms	108	2.9%
			Five+ Bedrooms	59	1.6%

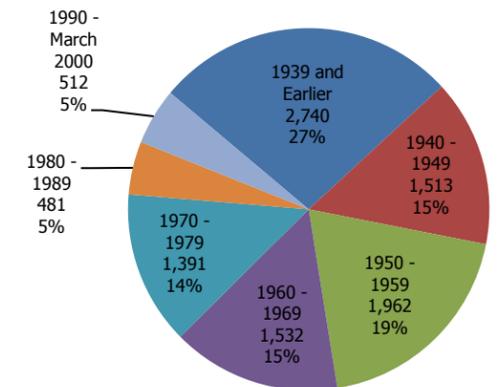
Source: 2000 US Census; Houseal Lavigne Associates

Table 6. Age of Housing Structure
Cities of Sterling and Rock Falls, Illinois, 2000

Year Built	Number	Percent
1939 and Earlier	2,740	27.0%
1940 - 1949	1,513	14.9%
1950 - 1959	1,962	19.4%
1960 - 1969	1,532	15.1%
1970 - 1979	1,391	13.7%
1980 - 1989	481	4.7%
1990 - March 2000	512	5.1%
Total	10,131	100%

Source: US Census 2000

Chart 7. Age of Housing Structure
Cities of Sterling and Rock Falls, 2000



Source: US Census 2000



The Coliseum

Building Activity

Data for new construction permits for residential units were gathered for the PMA communities of Sterling and Rock Falls. Data was also collected for nearby communities within a 15 mile radius of the riverfront area, referred to as SMA communities, which include Dixon, Lyndon, Milledgeville, Morrison, Polo, and Prophetstown. Table 7 compares permitting activity for both single family detached and multi-family (including single family attached) units in the PMA and SMA communities.

As shown in Chart 8, while permitting activity for single family homes has fluctuated over the last five years, overall activity has experienced a negative trend between 2005 and 2009 (the most recent time for which data is available). Permitting activity for multi-family units, which make up approximately 30% of all units permitted, has experienced a similar trend, but makes up a small portion.

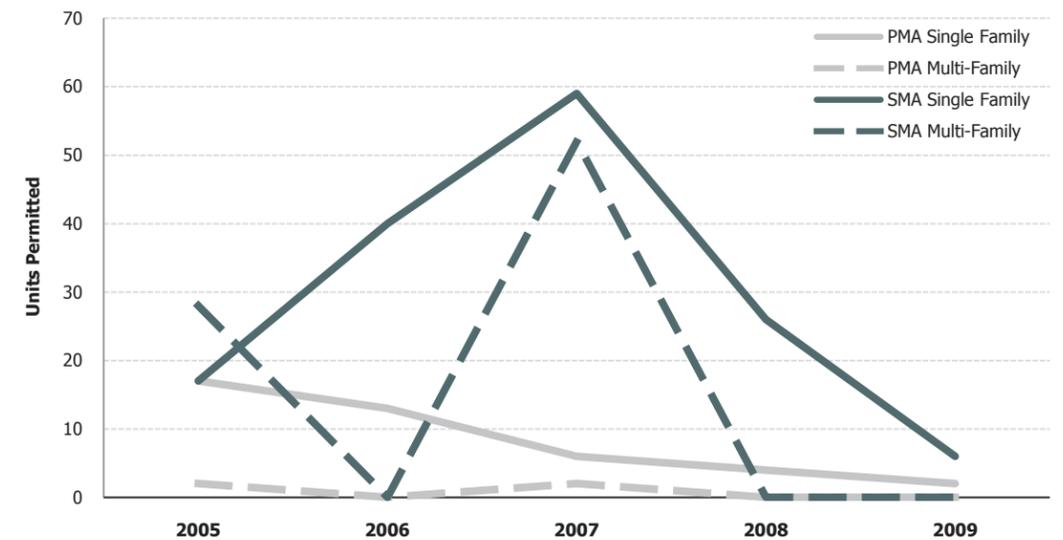
PMA Communities

- ◇ Permitting activity within Sterling and Rock Falls has fallen 89% from 19 units in 2005 to 2 units in 2009.
- ◇ Permitting activity slowed significantly between 2006 and 2007, declining by 53.8% to 6 units in 2007.
- ◇ Multi-family permitting within Sterling and Rock Falls has been minimal with a total of four units permitted between 2005 and 2009.

SMA Communities

- ◇ The total number of permits issued among SMA communities has declined by 87% from 45 in 2005 to 6 in 2009.
- ◇ Permitting activity increased by almost 178% between 2006 and 2007. In addition to a five year high of 59 single family homes, 2007 also experienced the period's highest number of multi-family permits (52).

Chart 8. New Construction Building Permits
PMA & SMA Communities, 2005 - 2009



Source: US Census; Houseal Lavigne Associates

Home Sales

In a healthy, stable market the characteristics of new development such as size, unit mix, and pricing serve as the best gauge for assessing housing affordability and demand within the local market. As demonstrated by permitting activity, new residential development has been very limited in both PMA and SMA communities. Currently, there are a large number of homes available in the market and the gap between the sales prices of new homes and existing homes has decreased significantly. Given the current downturn in the housing market, the resale of existing homes provides a basis for understanding housing costs and near term demand for residential development in the riverfront area.

Whiteside and Lee Counties

While long term home sales data for the PMA and SMA are not available, data on home sales within surrounding Whiteside and Lee Counties can provide context to recent trends in the PMA and SMA housing market. Table 8 and Chart 9 illustrate change in home sales over the six year period between the 2004 and 2009. Sales information for the second quarter 2010 (the most recent date for which data is available) has also been provided. While both single family home and condominium sales are included in the data, condominiums made up less than 3% of all sales on average in any given year within either county.

- ◇ Between 2004 and 2009, the number of home sales increased by 13% and 45% in Whiteside and Lee Counties respectively.
- ◇ Since 2004, the median home sale price in Whiteside County increased 6.7% to \$79,950 in 2009. Over the same period, the median sales price has decreased 3.9% to \$86,000 in Lee County.
- ◇ The most significant decrease in year-over-year sales in either Whiteside or Lee Counties occurred between 2007 and 2008 when sales dropped by 24% and 20% respectively.
- ◇ The most significant increase in year-over-year sales in either Whiteside or Lee Counties occurred between 2008 and 2009 when sales rose by 39% and 43% respectively.
- ◇ Since 2004, median sales prices in either county have not experienced year-over-year increases or decreases greater than 8%.

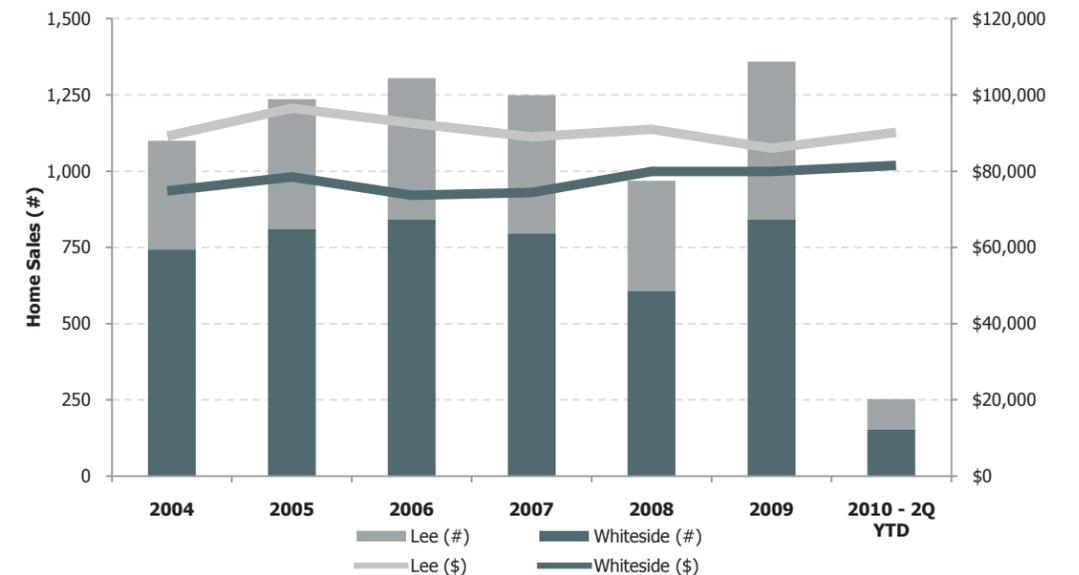
Overall, the Sterling market can be characterized as stable with no sustained upswings or downswings over the last several years. Homes sales data over the last six years indicate that the housing market within Sterling and the surrounding region has been relatively insulated from the downturn that has occurred at the national level. Within Whiteside and Lee Counties, sales volume has increased since 2004 and sales prices have remained relatively stable. It is not clear why sales volume increased so significantly in 2009 over the previous year, but information from local real estate professionals indicate that no significant projects have come on line in the past two years.

Table 8. Condominiums Sales Statistics
Primary & Secondary Market Area Communities, 2008 - 2010

	Homes Sales		Average Sale Price		Median Sale Price	
	Whiteside County	Lee County	Whiteside County	Lee County	Whiteside County	Lee County
2004	743	357	\$84,487	\$107,015	\$74,958	\$89,500
2005	811	425	\$93,086	\$114,098	\$78,500	\$96,500
2006	842	463	\$85,611	\$111,707	\$73,689	\$92,555
2007	796	453	\$89,082	\$109,100	\$74,375	\$89,000
2008	608	361	\$92,008	\$111,490	\$79,950	\$91,000
2009	842	517	\$135,911	\$104,176	\$79,950	\$86,000
2010 - 2Q YTD	152	100	\$100,912	\$99,389	\$81,450	\$90,000

Source: OnBoard Informatics; Houseal Lavigne Associates

Chart 9. Single Family Home Sales Information
Whiteside & Lee Counties, 2004 - 2Q 2010



Sterling-Rock Falls-Dixon Area

Data for home sales within market area communities have also been analyzed to assess whether the local housing market is reflecting patterns in the larger housing market. Table 9 and Chart 10 illustrate change in home sales over the two year period between the 2008 and first quarter 2010 (the most recent date for which data is available) in the City of Sterling and the surrounding market area communities of Rock Falls and Dixon. Due to the structure of available data sources, ZIP codes have been used to approximate community boundaries.

The local housing market appears to be reflecting the trends of the larger markets in Whiteside and Lee Counties. Over the past two years, the housing market in the Sterling-Rock Falls-Dixon area has been relatively stable with moderate decreases in home sales and moderate increases in sales prices.

◇ In Sterling, year-to-date sales in second quarter 2010 are 53% lower than at the same point in time in 2008 and 50% lower than in 2009. Compared to 2009, year-to-date sales within Rock Falls and Dixon are approximately 55% and 68% lower respectively.

◇ Given the low number of sales in the first quarter of 2010, the year-end average sales price for 2009 is likely the most reflective of current market conditions. Within Sterling, the 2009 average sales price of \$95,386 was 6% more than the 2008 average.

◇ The 2009 average sales price in Rock Falls was 13% greater than the year before, while the 2009 average sales price in Dixon was 10% lower than in 2008.

◇ The number of homes sales within Sterling was approximately 6% higher in 2009 than in 2008. Sales in Rock Falls and Dixon, conversely, were down 7% and 6% respectively.

NOTE: No multi-family home sales, including single family attached, were reported for these communities between 2008 and first quarter 2010.

Riverfront Development

While median home prices provide a general gauge for market activity and pricing, home buyers typically pay a higher price for new construction. Furthermore, residential developments along waterfront also typically command a premium over comparable inland properties. Given that home prices are very affordable within the Sterling-Rock Falls area, it is likely that new residential development within the riverfront area would consist of a higher-end product at above average market prices.

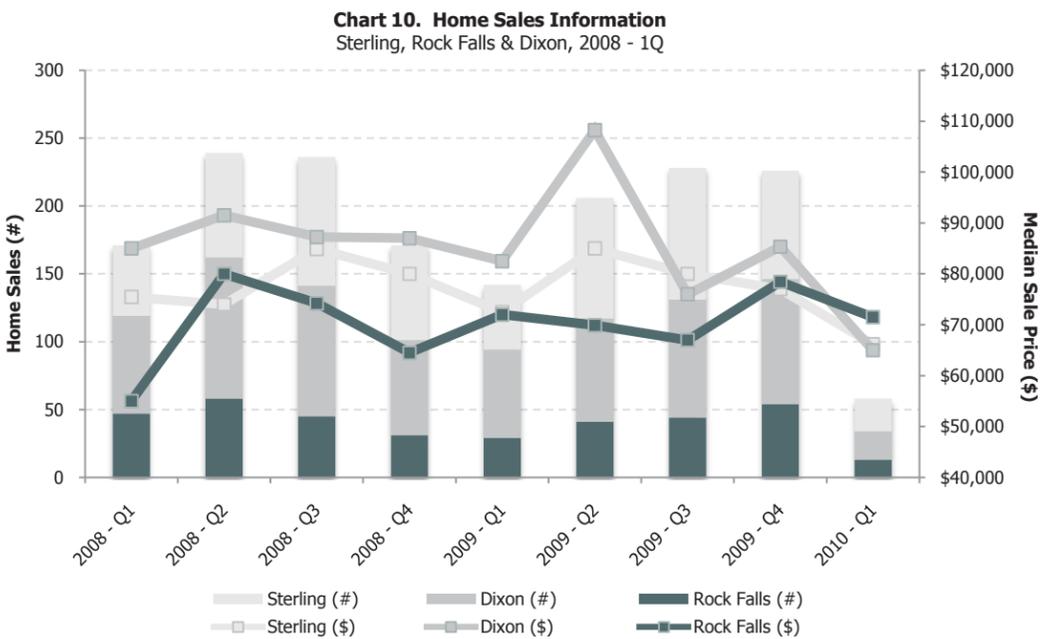
Although markets differ, recently built projects along riverfronts in other communities offer a means of estimating the relative price premium home buyers could reasonably be expected to pay for new development in the riverfront area. While redevelopment and new construction has been limited throughout the Rock River corridor, communities in the Fox River corridor to the east have experienced significant redevelopment in recent years. Developments in Elgin, St. Charles and Batavia, Illinois have all completed residential riverfront projects within the last two years. Current home prices at these projects range between 35% and 60% higher than the average home price for the ZIP code within which they are located.

A price premium on the higher end of this range is used in estimating sale prices for new construction redevelopment within Sterling's riverfront area. A higher sales price estimate avoids overstating market demand by limiting the estimated number of households that can afford to purchase a unit.

Table 9. Home Sales Statistics
Primary & Secondary Market Area Communities, 2008 - 2010

	Homes Sales			Average Sale Price			Median Sale Price		
	Sterling (61081)	Rock Falls (61071)	Dixon (61021)	Sterling (61081)	Rock Falls (61071)	Dixon (61021)	Sterling (61081)	Rock Falls (61071)	Dixon (61021)
2008 Total	294	181	342	\$90,069	\$73,749	\$110,607	\$78,950	\$68,000	\$87,250
Q1	52	47	72	\$81,084	\$66,181	\$107,283	\$75,450	\$55,000	\$85,000
Q2	77	58	104	\$86,015	\$91,294	\$125,840	\$74,000	\$80,000	\$91,500
Q3	95	45	96	\$93,888	\$79,083	\$98,856	\$84,900	\$74,225	\$87,250
Q4	70	31	70	\$96,021	\$71,284	\$107,509	\$80,000	\$64,500	\$87,000
2009 Total	314	168	320	\$95,386	\$83,238	\$99,874	\$79,150	\$70,000	\$85,000
Q1	48	29	65	\$89,129	\$84,686	\$95,368	\$72,500	\$72,000	\$82,500
Q2	89	41	76	\$100,091	\$78,228	\$118,870	\$85,000	\$69,900	\$108,250
Q3	97	44	87	\$98,204	\$81,038	\$91,598	\$80,000	\$67,000	\$76,000
Q4	80	54	92	\$90,488	\$88,058	\$95,193	\$77,000	\$78,439	\$85,333
2010 Q1	24	13	21	\$83,840	\$73,749	\$110,761	\$66,150	\$71,500	\$65,000

Source: OnBoard Informatics; Houseal Lavigne Associates



Residential Demand

The next step in analysis of the residential market is assessing the number of households that would be “eligible” to purchase or rent units in the riverfront area based on household income and age of householder. Put simply, the demand for housing will be determined by lease rates or sales price of residential units and the types of product offered. Traditionally, young professionals (under 35) and empty nester (age 55 and over) households are the predominant occupants of multi-family units while families (age 35 to 54) are the predominant buyer of single family homes. By examining how many householders fall into various age and income cohorts, the demand for units of a given type of housing can be estimated.

Home Pricing & Minimum Income Requirements

Condominiums

Within the Sterling market, the average home sales price reached a recent high of \$100,000 in 2009. Applying a new construction, riverfront premium of 60% to this price results in a base price of \$160,000 for condominium units in the riverfront area. As shown in Table 10, it is estimated that a home price of \$160,000 requires a minimum household income of approximately \$60,000 to afford a market supportable condominium unit.

Minimum income requirements consider the ability to put at least 15% down toward the purchase of a home, various housing expenses in addition to a mortgage payment, and acceptable benchmarks of percentage of income allocated toward housing (30%). As well as minimum income requirements, a maximum income threshold of \$250,000 was also used so as not to overstate the market. Those households earning greater than \$250,000 may still be attracted to a unit located in the riverfront area, but most will likely seek the opportunity to purchase a single family home or more expensive unit elsewhere.

Apartments

Table 10 also estimates minimum income requirements for households who rent their homes. Typical rent for a two bedroom unit is near \$500 per month within Sterling and Rock Falls. Assuming an annual rent increase of 3%, typical rents in 2015 would be near \$580. Adding the 60% premium for new construction, riverfront development results in a base rent of approximately \$925. Affording this rent would require a minimum household income of approximately \$40,000.

Market Area Demand

Age Cohort

This “pool” of potential buyers and renters is further refined to exclude those households that do not meet the probable age cohort of someone seeking a condominium or apartment unit in the defined market area. Multi-family units in downtown locations are typically purchased by a combination of first-time home buyers looking for a more affordable means of building equity, empty nester households looking to downsize and those individuals who want to own their own home without the maintenance responsibilities. These buyers are typically aged between 25 to 34 and 55 and older respectively.

Mobility Index

After establishing a base line of those households able to afford and likely to purchase or rent a unit, a “mobility index” is then used to ascertain the percentage of households moving each year within given age cohorts. This index is derived and further refined from historic patterns recorded by the US Census. It identifies the propensity for a household in a given age bracket to move from their current residence. For the purposes of this analysis, it was determined that 16.4% of young (under 25) households would be likely to move while 20.5% of households aged 25 to 34 would be likely to move. Lastly, it is estimated that only 3% to 4% of those households aged 55 and over would be likely to move in any given year.

Home Ownership Rates

The next step of the analysis is to determine what proportion of households, of those deemed eligible, are homeowners or renters. In other words, of those meeting age and minimum income requirements who are moving, which households are in the financial position to obtain a mortgage and finance a home? According to 2009 census data for the Midwest, approximately 45% of 25 to 34 year old cohort, 80% of the 55 to 64 year old cohort, and 82% of the 65 to 74 age cohort have the propensity to purchase a home. Regardless of reported home ownership rates, it is also assumed that no households over the age of 74 who are moving will choose to purchase a new home.

To establish rental demand, the proportion of renters was estimated using the inverse of the home ownership rate. So, for example, since 45% of households between the age 25 and 34 are home owners it is estimated that 55% of those households are renters. The home ownership and rental rates are used to further refine the market and potential buyers and renters of units in each respective market area.

Sterling Market Share

It is assumed that approximately 69% of the eligible households in the PMA and 43% of the SMA will purchase or rent a home in the City of Sterling. These market share estimates are based on the proportion of households in Sterling compared to the number of households in the larger primary and secondary market areas. This percentage is applied to the pool of potential qualifying home buyers and renters to estimate the annual demand for similarly priced housing in the City of Sterling as a whole. Given this market share, it is estimated that there is potential annual demand for between 79 and 82 rental unit transactions per year and 36 to 53 condominium transactions per year.

Capture Rate

While there is raw demand for housing, a project in the riverfront area would have to compete for potential buyers with the significant number of existing homes currently for sale as well as any new homes being offered elsewhere in Sterling. The ability for a project to compete for potential occupants is typically described as a capture rate. A capture rates represents the likelihood of a qualifying household to buy or rent a unit at a new project within a given market area. Tables 11 and 12 show a range of potential capture rates and resulting estimates of annual demand for for-sale or rental units in the riverfront area.

Census estimates indicate that fewer than 100 owner-occupied duplex and multi-family units exist within the Cities of Sterling and Rock Falls combined, representing less than 2% of the local housing stock. As such, there is not an established precedent for this type of product or a previous capture rate for a condominium project within the PMA and SMA. While new housing in a downtown environment may be attractive to potential buyers, given that for-sale multi-family housing is rare within the market, a capture rate greater than 10% would be unlikely. Table 11 estimates annual demand for condominiums based on capture rates of 3%, 5% and 10%.

Duplex and multi-family apartments make up approximately 25% of the local housing stock in Sterling and Rock Falls. Given the significance of the rental market within the local housing stock, higher capture rates approaching 15% are considered reasonable. Table 12 estimates annual demand for new upscale rental units based on capture rates of 5%, 10% and 15%.

Table 10. New Home Pricing
Housing Demand Income Requirements

Condominium Pricing	
Asking Price	\$160,000
Downpayment	15%
Interest Rate	7.00%
Monthly Mortgage Payment	\$905
Annual Mortgage Payment	\$10,858
Annual PMI	\$517
Annual Assessments	\$2,400
Annual Property Taxes	\$4,500
Housing Costs as % of Income	30%
Minimum Income Required	\$60,915
Apartment Pricing	
Monthly Rent	\$925
Annual Rent	\$11,100
Housing Costs as % of Income	30%
Minimum Income Required	\$40,083

Source: ESRI Business Analysts; Houseal Lavigne Associates

Preliminary Feasibility

Based on the capture rates, household projections and the methodology described above, the potential buyer pool for condominiums in the combined PMA and SMA is between 1 and 6 units per year. This amounts to a total of 5 and 30 condominium transactions over the next five years (2010-2015). For apartment units in the PMA and SMA, the annual occupant pool is 4 and 13 which could amount to between 20 and 65 rental unit leases over a five-year period.

Table 11. Household Demand & Affordability - Condominiums
Primary & Secondary Residential Market Areas, 2010 - 2015

Primary Market Area - Condominium Demand								
Age Cohort	< 25	25-34	35-44	45-54	55-64	65-74	75+	TOTAL
2010 Income Qualifying Households	-	243	-	-	352	169	-	764
2015 Income Qualifying Households	-	342	-	-	491	308	-	1,141
Mobility Index = Income Qualifiers x	16.4%	20.5%	11.1%	7.1%	3.9%	3.0%	4.0%	
2010 Movers	-	50	-	-	14	5	-	69
2015 Movers	-	70	-	-	19	9	-	99
Ownership Rate = Movers x	21.8%	44.7%	66.8%	74.5%	79.9%	82.2%	78.5%	
2010 Home Buyers	-	22	-	-	11	4	-	37
2015 Home Buyers	-	31	-	-	15	8	-	54
Sterling Market Share = Buyers x	68.7%							
	-	15	-	-	8	3	-	26
	-	22	-	-	11	5	-	37
Secondary Market Area - Condominium Demand								
Age Cohort	< 25	25-34	35-44	45-54	55-64	65-74	75+	TOTAL
2010 Income Qualifying Households	-	134	-	-	313	95	-	542
2015 Income Qualifying Households	-	199	-	-	424	188	-	811
Mobility Index = Income Qualifiers x	16.4%	20.5%	11.1%	7.1%	3.9%	3.0%	4.0%	
2010 Movers	-	28	-	-	12	3	-	43
2015 Movers	-	41	-	-	17	6	-	63
Ownership Rate = Movers x	21.8%	44.7%	66.8%	74.5%	79.9%	82.2%	78.5%	
2010 Home Buyers	-	12	-	-	10	2	-	24
2015 Home Buyers	-	18	-	-	13	5	-	36
Sterling Market Share = Buyers x	43.2%							
	-	5	-	-	4	1	-	11
	-	8	-	-	6	2	-	16
Condominium Capture Rate								
Income & Age Qualifying Households			3%	5%	10%			
Primary Market Area Demand	26	- 37	1 - 1	1 - 2	3 - 4			
Secondary Market Area Demand	11	- 16	0 - 0	1 - 1	1 - 2			

Source: ESRI Business Analysts; Houseal Lavigne Associates

Table 12. Household Demand & Affordability - Apartments
Primary & Secondary Residential Market Areas, 2010 - 2015

Primary Market Area - Rental Demand								
Age Cohort	< 25	25-34	35-44	45-54	55-64	65-74	75+	TOTAL
2010 Income Qualifying Households	-	719	-	-	640	364	469	2,192
2015 Income Qualifying Households	-	690	-	-	665	422	533	2,310
Mobility Index = Income Qualifiers x	16.4%	20.5%	11.1%	7.1%	3.9%	3.0%	4.0%	
2010 Movers	-	148	-	-	25	11	19	202
2015 Movers	-	142	-	-	26	13	21	202
Rental Rate = Movers x	78.2%	55.3%	33.2%	25.5%	20.1%	17.8%	21.5%	
2010 Renters	-	82	-	-	5	2	4	93
2015 Renters	-	78	-	-	5	2	5	90
Sterling Market Share = Renters x	68.7%							
	-	56	-	-	3	1	3	64
	-	54	-	-	4	2	3	62
Secondary Market Area - Rental Demand								
Age Cohort	< 25	25-34	35-44	45-54	55-64	65-74	75+	TOTAL
2010 Income Qualifying Households	-	293	-	-	426	331	354	1,404
2015 Income Qualifying Households	-	268	-	-	411	370	430	1,479
Mobility Index = Income Qualifiers x	16.4%	20.5%	11.1%	7.1%	3.9%	3.0%	4.0%	
2010 Movers	-	60	-	-	17	10	14	101
2015 Movers	-	55	-	-	16	11	17	99
Rental Rate = Movers x	78.2%	55.3%	33.2%	25.5%	20.1%	17.8%	21.5%	
2010 Renters	-	33	-	-	3	2	3	41
2015 Renters	-	30	-	-	3	2	4	39
Sterling Market Share = Renters x	43.2%							
	-	14	-	-	1	1	1	18
	-	13	-	-	1	1	2	17
Apartment Capture Rate								
Income & Age Qualifying Households			5%	10%	15%			
Primary Market Area Demand	62	- 64	3 - 3	6 - 6	9 - 10			
Secondary Market Area Demand	17	- 18	1 - 1	2 - 2	3 - 3			

Source: ESRI Business Analysts; Houseal Lavigne Associates



Existing commercial retail uses in Downtown Sterling

Retail Market

Downtown Sterling

As shown in Chart 11, a total of 49 retail businesses were inventoried within Downtown Sterling. Nearly half (49%) of these businesses are retailers, 22% are service providers, and 29% are restaurants. Given the size of the Downtown Sterling area, the total number of businesses is comparatively low to similar sized communities. The number of businesses in Downtown Sterling is much smaller than that of Downtown Dixon to the east which has an estimated 83 businesses in total. Even when considering the 22 businesses in Downtown Rock Falls as a component of the downtown area surrounding the Sterling riverfront, the combined total of 71 businesses is still 14.4% smaller in an area of nearly twice the size.

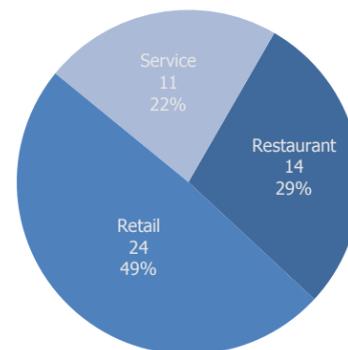
Despite having a proportionately smaller number of businesses, the mix of service providers, retailers, and restaurants is similar to other nearby downtowns. Downtown Dixon has a slightly larger proportion of restaurants (33%), with similar shares of retailers and service providers.

Available Properties in Downtown Sterling

There are several commercial properties currently being marketed within Downtown Sterling and nearby Downtown Rockford. The majority of properties inventoried (see Table 13) are for sale with only four properties for lease.

- ◇ Rental properties range in size from 910 to 3,200 square feet with net asking rents ranging from \$0.66 to \$1.09 per-square-foot.
- ◇ There are 15 properties for sale in Downtown Sterling and Downtown Rock Falls. The typical for sale, commercial property is 5,000 and 13,000 square feet in size with a 3,500 to 6,000 square foot, single story commercial building.
- ◇ The median asking price is \$19.70 per-square-foot and the majority of properties are asking between \$14.30 and \$23.80 per-square-foot.
- ◇ A 93,000 square foot former industrial property located at 112 3rd Avenue is the largest commercial property for sale within Downtown Sterling. The \$500,000 asking price for the parcel equates to a per-square-foot asking price of \$5.39.

Chart 11. Business Inventory
Downtown Sterling, 2010



Source: ESRI Business Analyst; Houseal Lavigne Associates

Table 13. Available Commercial Properties
Downtown Sterling, August 2010

For Lease				
Property	Location	Size (sf)	Net Asking Rent (per mo.)	Net Asking Rent PSF
205 E 2nd St	Sterling	910	\$600	\$0.66
410 Locust St	Sterling	1,104	\$825	\$0.75
300 1st Ave	Rock Falls	1,131	\$1,131	\$1.00
412 Locust St	Sterling	3,201	\$3,500	\$1.09

For Sale						
Property	Location	Estimated Lot Size (sf)	Building Size (sf)	Asking Price	Asking Price Building PSF	Asking Price Lot PSF
112 3rd Ave	Sterling	92,829	43,513	\$500,000	\$11.49	\$5.39
608 W 4th St	Sterling	33,496	13,052	\$249,900	\$19.15	\$7.46
205 E 2nd St	Sterling	26,708	6,000	\$200,000	\$33.33	\$7.49
203 E 2nd St	Sterling	6,722	1,200	\$96,000	\$80.00	\$14.28
502 E 2nd St	Sterling	5,709	1,250	\$83,000	\$66.40	\$14.54
202 4th Ave	Sterling	14,003	8,272	\$235,000	\$28.41	\$16.78
312 E 4th St	Sterling	13,655	6,000	\$249,900	\$41.65	\$18.30
611 E 3rd St	Sterling	7,625	3,900	\$165,000	\$42.31	\$21.64
110 2nd Ave	Sterling	6,831	6,700	\$159,000	\$23.73	\$23.28
416 Locust St	Sterling	1,050	1,050	\$36,000	\$34.29	\$34.29
611 1st Ave	Rock Falls	7,100	3,100	\$99,000	\$31.94	\$13.94
804 1st Ave	Rock Falls	10,650	6,600	\$225,000	\$34.09	\$21.13
221 1st Ave	Rock Falls	2,500	1,125	\$59,900	\$53.24	\$23.96
209-211 1st Ave*	Rock Falls	5,000	9,250	\$225,000	\$24.32	\$45.00
102 W 2nd St*	Rock Falls	5,000	10,000	\$178,000	\$17.80	\$35.60

* Two-story, mixed-use building with residential/office above ground floor commercial

Source: Loopnet; Re/Max Sauk Valley; Houseal Lavigne Associates

Retail Competition

The majority of potential customers for retailers located in the riverfront area will come from within the surrounding communities of Sterling and Rock Falls. In addition to the businesses located within Downtown Sterling, the primary retail concentrations in the market area consist of the businesses and shopping centers located to the east along IL Route 2 and to the south in Downtown Rock Falls and along IL Route 40.

IL Route 2

Businesses in Downtown Sterling have experienced growing competition from retail centers located on the periphery of the community along IL Route 2 to the northeast (Northland Mall, Walmart, Kmart, Menards), and, to some extent, from retailers in Rock Falls to the south.

- ◇ A 202,000 square foot **Walmart Supercenter** located at 43rd Avenue and Lincolnway (IL Route 2) is the largest single retailer in the both the primary and secondary market areas.
- ◇ **Pine Tree Plaza** is the 56,209 square foot shopping center located adjacent to the Walmart Supercenter. The center is anchored by Staples and other tenants include Fashion Bug, Radio Shack, Cost Cutters, Payless Shoe, and Sally Beauty Supply. Outlot tenants include Fast Stop and Murphy Oil with two outlots currently for sale.

- ◇ **Sterling Plaza** is a 140,000 square foot center whose tenants include Menards and Applebee's. Sterling Plaza is located southwest of the Sterling Walmart at the southwest corner of Polo Road and IL Route 2.
- ◇ **Northland Mall**, located at 2900 E Lincolnway, is the only enclosed shopping center within a 50 mile radius of the Sterling riverfront area. The 304,000 square foot center, which was renovated in 1999, is anchored by Bergner's and JC Penney. Other significant tenants include Pet Supplies Plus, Bath & Body Works, Christopher & Banks, and Maurices. A 33,300 square foot anchor space is currently available for lease.
- ◇ **Kmart Plaza** is located across the street from Northland Mall. The center is 105,000 square feet and anchored by Kmart. Other tenants include Rent-A-Center, Shark's Cove, Affinity Credit Services, and Kidder Music. Approximately 14,600 square feet of space in a free standing building is currently available for lease at \$8 per square foot.

Rock Falls

Commercial activity in Rock Falls is concentrated along IL Route 40 with the largest retailers located to the south near Rock Falls Road (US Highway 30).

- ◇ **Rock Falls Plaza** is a 62,000 square foot center near 10th Street in Rock Falls. It is anchored by Sav-A-Lot. Another neighborhood strip center is located immediately to the south at **1100 – 1118 1st Avenue**. Anchor tenants at this center include Grummert's Hardware and Color of Country Antique Mall.
- ◇ Another **Walmart** is also located south of US 30 in Rock Falls approximately 1.5 miles southeast of the riverfront area.
- ◇ There are some small retail spaces currently for sale or lease near **Downtown Rock Falls**. These properties are being offered for lease at \$12 per square foot and for sale at \$55 per square foot.

Traffic Counts

National retailers outline a very specific set of standards when evaluating a potential site. One determining factor is a location's minimum Average Daily Traffic (ADT). The ADT figure measures the average amount of traffic on a street on any given day. Larger retailers typically look for an ADT count of between 20,000 and 30,000 when deciding if a particular site is well suited for future development. In a neighborhood retail setting, lower thresholds near 15,000 ADT can also be considered. Given these criteria, key intersections and corridors with significant traffic counts are also the current location of major retail centers throughout the market primary and secondary market areas.

- ◇ **IL Route 40 (1st Avenue/Locust Street)**, which is the primary through street in Downtown Sterling and would likely serve as the primary source of traffic for riverfront retailers, has an ADT of approximately 24,300 as it enters Sterling. The bridge of the Rock River forms a natural bottle neck for all traffic entering and leaving Downtown Sterling from the south. This is the most highly travelled segment of roadway in both the PMA and SMA. Travelling north to Lefevre Road, IL Route 40 maintains traffic volumes of between 8,800 and 10,300 ADT.
- ◇ **IL Route 2 (3rd Street/Lincolnway)** is the primary east-west route through Downtown Sterling and the second most travelled roadway in the PMA and SMA. Daily traffic counts in Downtown Sterling range between 9,400 and 11,400 and increase to 19,800 and 20,500 ADT near 23rd Street.
- ◇ **US Highway 30 (Rock Falls Road)** forms a commercial corridor in Rock Falls and is a primary point of entry into the community from the east. ADT along US 30 approach 15,000 as it intersects with IL Route 40.

Hotel Development

Hotels near the study area tend to be economy or budget properties within relatively close proximity to the interstate. The riverfront does not have direct access or proximity to interstate traffic or a large activity generator to support a flagship hotel. Longer term, the opportunity for a boutique hotel with good exposure and accessibility may be feasible if integrated into a riverfront destination environment. The term "boutique" is used because these tend to be properties that do not carry the chain flagship names and are often retrofitted within older existing structures. They tend to be smaller and offer more personal accommodations. A hotel would need to be positioned to capitalize on destination components such as dining, entertainment and ecotourism as well as existing development (such as Westwood Sports Complex and various businesses) that may not currently create enough demand to support a property on their own.

While a separate feasibility analysis would be needed to identify actual number of rooms, room rates, amenities and other issues, boutique hotels in similar environments typically do not compete directly with the type of hotels currently in the market. An additional benefit could be provided if the hotel were to be positioned to accommodate receptions with outdoor space overlooking the river.

As with other options, a hotel will not succeed without the riverfront first establishing an identity as a destination environment. Simply retrofitting an existing structure or building a standalone hotel property will not be sufficient to generate and capture demand. It must complement and be part of a synergistic riverfront environment.

Retail Gap Analysis

The following analysis uses a comparison of projected spending by market area households to the existing supply of retail space to assess the potential for retail development in the riverfront redevelopment area and the primary and secondary market areas. This 'gap' analysis provides an indication of "surplus" or "leakage" within a given retail category. The presence of a surplus within a given retail category suggests that there is at least enough retail space to accommodate demand for the range of goods and services provided by stores in that category. Conversely, leakage indicates that demand exceeds supply and consumers are spending dollars outside of the market area.

This leakage could potentially be recaptured and may represent a commercial opportunity within the market area. It is important, however, to distinguish between support in the market and development potential of a specific site or location. As outlined previously, retail competition is significant within both the primary and secondary market areas. Access, visibility, traffic counts, competition, specifications of particular retailers, and related issues dictate whether market potential can be successfully translated to development potential at the site.

Primary Market Area

As shown in Table 14, in analyzing existing retail supply and demand within a 5 minute drive time (the primary market area), it is estimated that there is currently a surplus of retail space totaling approximately \$18.7 million. The primary market area has an estimated 8,885 households in 2010. With an estimated retail demand of \$191.5 million, this equates to a potential expenditure per household of \$21,553, with a current supply of only \$23,652 per household. This figure includes all retail, eating and drinking establishments.

Secondary Market Area

In analyzing existing retail supply and demand within a 15 minute drive time (the secondary market area), there is currently a surplus of retail space totaling approximately \$8.5 million. Within the secondary market area, there are approximately 14,123 households contributing to a current retail demand of \$326.3 million. This demand equates to a potential expenditure per household of \$23,107, with a current supply of \$23,708 per household. This figure also includes all retail, eating, and drinking establishments.

Development Potential

Annual sales-per-square-foot can be utilized to equate consumer expenditures to a preliminary indication of development potential. While sales-per-square-foot revenues vary by individual retailer and industry sources, including the Urban Land Institute (ULI) and Costar, general assumptions of supportable square footage can be made by using a benchmark average. A generally accepted range for national retailers is \$200 to \$400 per-square-foot. The use of a per-square-foot amount on the higher end of this range allows for a more conservative approach so as not to overstate retail potential. As shown in Table 14, when a per-square-foot amount of \$400 is applied, demand is effectively translated to a potential number of square feet that could be supported within both the primary and secondary market areas.

The typical market area for each retail tenant type is also indicated in Table 14. The customer base for the majority of store types within these retail categories is composed of the population within a 15 minute drive of their location. There are some store types, mostly convenience oriented, that will serve residents located within a shorter drive time of near 5 minutes. Retail uses with a smaller market area, including restaurants, are the most likely targets for retail space within the riverfront area or elsewhere in surrounding Downtown Sterling.

Table 14. Retail Gap Analysis Profile
Primary & Secondary Market Areas, 2010

	5 Minute Drive	15 Minute Drive			
Summary Demographics					
2010 Population	21,669	35,117			
2010 Households	8,885	14,123			
2010 Median Disposable Income	\$37,582	\$39,029			
2010 Per Capita Income	\$23,005	\$23,931			
Retail Gap by Market Area (\$M)					
	5 Minute Drive (PMA)		15 Minute Drive (SMA)		
Summary					
Total Retail Trade and Food & Drink	(\$18.7)		(\$8.5)		
Total Retail Trade	(\$25.9)		(\$22.6)		
Total Food & Drink	\$7.3		\$14.1		
	5 Minute Drive (PMA)		15 Minute Drive (SMA)		Typical Market Area
Industry Group	Retail Gap (\$M)	Potential ¹	Retail Gap (\$M)	Potential ¹	
Motor Vehicle & Parts Dealers	\$18.9	47,302	\$17.6	44,008	
Furniture & Home Furnishings Stores	\$1.7	4,259	\$4.5	11,358	SMA
Furniture Stores	\$1.1	2,695	\$2.8	7,057	
Home Furnishings Stores	\$0.6	1,565	\$1.7	4,301	
Electronics & Appliance Stores	(\$0.3)	(819)	\$0.8	1,891	SMA
Bldg Materials, Garden Equip. & Supply Stores	\$4.5	11,312	\$3.2	7,887	
Building Material and Supplies Dealers	\$3.6	8,943	\$1.4	3,528	
Lawn and Garden Equipment and Supplies Stores	\$0.9	2,369	\$1.7	4,359	
Food & Beverage Stores	\$10.1	25,180	\$23.4	58,473	PMA-SMA
Grocery Stores	\$10.5	26,269	\$22.8	57,069	SMA
Specialty Food Stores	\$0.6	1,507	\$1.2	2,976	SMA
Beer, Wine, and Liquor Stores	(\$1.0)	(2,596)	(\$0.6)	(1,572)	PMA
Health & Personal Care Stores	(\$0.1)	(311)	\$0.4	893	PMA
Gasoline Stations	\$3.6	8,909	\$14.7	36,655	
Clothing and Clothing Accessories Stores	\$1.5	3,754	(\$26.3)	(65,761)	PMA-SMA
Clothing Stores	\$1.2	2,978	(\$27.1)	(67,733)	PMA-SMA
Shoe Stores	(\$0.0)	(108)	\$0.1	155	PMA-SMA
Jewelry, Luggage, and Leather Goods Stores	\$0.4	884	\$0.7	1,817	PMA-SMA
Sporting Goods, Hobby, Book, and Music Stores	\$0.2	569	\$0.7	1,646	PMA-SMA
Sporting Goods/Hobby/Musical Instrument Stores	(\$0.1)	(296)	(\$0.0)	(94)	SMA
Book, Periodical, and Music Stores	\$0.3	865	\$0.7	1,740	PMA
General Merchandise Stores	\$17.4	43,538	\$16.3	40,858	SMA
Department Stores Excluding Leased Depts.	\$5.2	13,045	(\$4.4)	(11,012)	SMA
Other General Merchandise Stores	\$12.2	30,493	\$20.7	51,870	PMA-SMA
Miscellaneous Store Retailers	(\$0.5)	(1,311)	(\$0.4)	(1,053)	PMA
Florists	(\$0.3)	(821)	(\$0.4)	(961)	PMA
Office Supplies, Stationery, and Gift Stores	(\$0.1)	(297)	(\$0.3)	(626)	PMA
Used Merchandise Stores	(\$0.5)	(1,163)	(\$0.3)	(672)	PMA
Other Miscellaneous Store Retailers	\$0.4	970	\$0.5	1,205	PMA
Nonstore Retailers	(\$82.9)	(207,218)	(\$77.4)	(193,379)	
Food Services & Drinking Places	\$7.3	18,207	\$14.1	35,288	PMA-SMA
Full-Service Restaurants	\$2.1	5,239	\$4.8	12,042	PMA-SMA
Limited-Service Eating Places	\$4.3	10,657	\$6.9	17,338	PMA
Special Food Services	\$0.8	1,932	\$1.5	3,856	SMA
Drinking Places - Alcoholic Beverages	\$0.2	378	\$0.8	2,052	PMA

¹ Potential based on an average annual sales per-square-foot of \$400.

Source: ESRI Business Analyst ; ULI; and Houseal Lavigne Associates

Unmet Demand

Data indicate that both the primary and secondary market areas are relatively saturated. As highlighted in Table 14, there are a few categories that demonstrate potential market support for additional retail development within the PMA and SMA. While leakage is marginal in most retail categories, there are two retail categories that exhibit potentially significant unmet demand: Food and Beverage Stores and Full- and Limited-Service Restaurants.

The ability to capture unmet demand depends on the needs of individual retailers, such as minimum traffic counts and minimum frontage requirements, and the availability of suitable retail space. While there is potential for destination retailers and fine dining restaurants in the market, tenants must be identified within each retail category that would consider locating to the riverfront area.

Food & Beverage Stores

This retail category comprises three groups of retailers: Grocery Stores, Specialty Food Stores, and Beer, Wine & Liquor Stores. Grocery stores are the only retail type with significant leakage, with an estimated gap of between \$11 and \$23 million. This translates to an unmet demand for between approximately 26,000 and 57,000 square feet of retail space. Among national chains, the typical grocery store ranges in size from 43,000 to 58,500 square feet. Given this typical size, there may be sufficient market support for one additional grocery store within the SMA. Regardless of raw retail demand, potential tenants would be sensitive to the riverfront area's proximity to competition located nearby in Downtown Sterling such as La Laguna Market and County Market.

Full-Service Restaurants

The retail gap analysis indicates potential for full-service restaurants in both the primary and secondary market areas. Full-service restaurants have a typical footprint of between 3,000 and 5,000 square feet and require frontage along main thoroughfares and prominent end cap locations within retail centers. Given these two requirements, a highly visible location near IL Route 40 (1st Avenue and Locust Street) would be most desirable for this use. With a retail gap of between \$2 and \$5 million, there is currently market support for one or two full-service restaurants within the PMA and SMA.

Limited-Service Restaurants

Potential has also been indicated for limited-service eating places in both the primary and secondary market areas. Limited service restaurants include a wide variety of eateries such as deli and sandwich shops, cafes, pizza parlors, and fast food restaurants. These eateries have a typical size of between 1,500 and 3,000 square feet. Leakage in this category is estimated at between \$4 and \$7 million within the PMA and SMA. This is indicative of market support for between two and five limited-service eateries.

Niche and Specialty Retailers

Niche and specialty retailers are those that do not typically fall into a specific retail category or can be easily measured in terms of supply and demand. Most often, they are independently owned and operated by a sole proprietor or family run businesses. These retail types are typically a component of a larger retail program in destination environments such as a riverfront district or downtown. They do not, in and of themselves, support an area but tend to "fill in" smaller store fronts and less prominent locations. They are, however, an important component of a visitor's experience. Examples include boutique clothing, small gift stores, jewelry, antiques and related formats.

Development Program

Residential Demand

The costs of quality new construction in an urban environment such as Downtown Sterling would likely require home prices and lease rates at the top of the market. Given the affordability of the local housing stock and the differing buying habits of age cohorts, target households for condominium or rental units in the riverfront area would be young-professional and empty nester households in the upper income brackets. As such, the success of a condominium or apartment project in the riverfront area will likely require marketing the units as luxury homes with a unique location and amenities that are not typically found in the local housing stock.

Condominiums

Data regarding local housing stock characteristics and a lack of market activity indicate that condominiums are a relatively untested market within the Sterling-Rock Falls area. Success of the residential component will ultimately be dependent on marketing and attracting buyers from a larger market area than that of the conventional housing market for Sterling. The unique nature of the residential units in and of themselves will not be sufficient to create demand. The housing units must be part of a more synergistic environment that incorporates the riverfront, recreation, shops, restaurants and entertainment.

Rental Units

Multi-family rental units are common within the Sterling-Rock Falls area and there appears to be some level of support for additional rental product within the market area. Achieving higher end rents, however, may be challenging initially. Although demand exists, it may not be sufficient to support large scale development in the near term.

While the current level of demand cannot support a standalone project with a large number of units, it may be sufficient enough to support a smaller scale, phased development in multiple structures or a mixed use environment with residential above retail/restaurants. As with for sale condominium product, demand for rental housing in the riverfront area will be linked to successful, non-residential redevelopment efforts.

While mixed-use development should be encouraged in the riverfront area, residential components of such projects should be secondary to their commercial counterparts. Condominiums and apartments should be seen as means of enhancing commercial development at the site, not as vital to their success.

Commercial Demand

Businesses in Downtown Sterling have experienced growing competition from retail centers located on the periphery of the community on Route 2 (Northland Mall, Walmart, Kmart, Menards), and, to some extent, from retailers along Route 40 in Rock Falls to the south. The riverfront area is well positioned to take advantage of high traffic volumes passing through Downtown Sterling along IL Route 40 and IL Route 2 and redevelopment could serve to complement revitalization efforts in the larger downtown area. The influx of new residents, visitors and workers to the Riverfront area would not only provide support for new businesses and development, but also provide a base from which the downtown can draw.

Retail development that has occurred and continues to expand along IL Route 2 may provide competition for future retail development, but opportunities appear to exist for the riverfront area. Although the retail market is fairly saturated, there appears to be sufficient demand to support additional establishments within the Food & Beverage Stores and Limited- and Full-Service Restaurant retail categories. The riverfront area may also be able to capitalize and expand upon the base of niche retailers within Downtown Sterling. Regardless of this raw market potential, development cannot occur within the riverfront area if downtown visitors and passing vehicles cannot easily view and access the site. Issues regarding visibility, access and circulation in the riverfront area will need to be addressed to better connect future development to the existing downtown and facilitate commercial development.

