Economics Research Associates

Final Draft Report

Downtown Market Analysis

Prepared for:

The Downtown Development Authority
Traverse City, Michigan

Submitted by:

Economics Research Associates

March 9, 2007

ERA Project No. 16876

20 East Jackson Boulevard, Suite 1200
Chicago, Illinois 60604
312.427.3855 FAX 312.427.3660 www.econres.com
Los Angeles San Francisco San Diego
Chicago Washington DC London New York

Table of Contents

Chapter 1 - Introduction

Approach

ERA was engaged by the Downtown Development Authority (DDA) to conduct a real estate market analysis of Downtown Traverse City, to evaluate current trends regarding retail, residential and office development that will shape near-term prospects for the downtown business district. ERA's approach included the following steps:

- Examination of existing market demographics and associated trends. This included an analysis of migration patterns since 1997.
- Discussion of the retail market, highlighting national trends in retail sales, regional and sector-specific pull factors and trends in Traverse City's retail and entertainment environment.
- A discussion of the office market, looking at trends in employment sectors.
- A discussion of the residential market including recent home sale trends, prices and amenities for the region, as well as discussion of housing demand potentials for the downtown area.
- A discussion of current downtown real estate fundamentals, barriers to reuse of existing buildings, and methods to overcome them.

Sources

Data for this analysis was collected from a host of sources, including:

- The U.S. Census Bureau and Bureau of Labor Statistics
- GIS based data from ESRI
- The Northwest Michigan Council of Governments (NMCOG)
- The Downtown Development Authority (DDA), the City of Traverse City, Grand Traverse County, and Townships of Acme, Garfield, and East Bay.
- Traverse City Area Convention and Visitors Bureau
- Downtown business owners
- Retail, residential, and office real estate developers

Acknowledgments

The following entities are noted for their financial support to the process:

- Grand Traverse County Economic Development Corporation
- Michigan State Housing Authority
- The Downtown Development Authority of Traverse City

Perceptions, Issues and Opportunities

As part of the initial project kick off for this assignment, ERA interviewed a range of individuals in the Traverse City area. The interviewees included local merchants, building owners, real estate developers, and government officials. The interview comments reflected a range of opinions and perspectives about the current situation in Traverse City. The comments were considered in light of ERA's national experience to help frame key perceptions, issues, and realities about the community, its economic position, and near-term implications:

- The downtown area supports a strong mix of retail, including apparel and accessories, books, gifts, galleries, restaurants and cafes. The downtown has recently seen the arrival of two national retailers, Talbot's and Cold Stone Creamery.

- Downtown retailers contacted for initial interviews spoke of average sales for 2006, offset by a generally positive outlook for the community, with a consistent sense that the glass is half full, rather than half empty. Broader concerns related to ongoing softness in the Michigan economy continue, driven primarily by down-state issues with the automotive industry.

- While current retail occupancies in the city and suburbs remain strong (about 95%), related growth in building values and lease rates are beginning to exert pressure on tenants. Interviews also highlighted concerns that building values are increasingly out of step with underlying lease rates, pointing to the presence of speculative interest in the market. Interviews specifically mentioned the impact of property transactions driven by the need to defer capital gains and income taxes, otherwise called 1031 exchanges.

- The surprising level of office-related employment growth has also fueled related increases in office rents, which, according to interviews, generally fall in the $19 to $21 per square foot range (NNN) for defined Class A office buildings in the downtown area. Upward growth in office rents appears to be influencing retail rents.

- Interviews pointed to potential concerns regarding downtown merchants, including issues relating to inconsistent / unpredictable store hours, and occasional lapses in customer service. Ongoing comments also referred to the perceived lack of public bathrooms and parking in the downtown.

- Interviews also pointed to debate and concerns about summer traffic congestion in Traverse City, which relates to discussion for a bypass around the city, which has been debated for many years.

- The State Theater was viewed as a critical element in the future of downtown, with ideas focused on use of the venue for an arts cinema and other related activities, with the intent of supporting more evening activity in the downtown area.

- The City and DDA have instituted a focused policy to favor new urbanist development principles and greater walkability. While developers have forwarded several mixed use projects in response to the policy, market response to higher-end residential condominiums has been modest. As a result, several projects endured reported financial difficulties.

- The community is still dealing with the after effects of the recent referendum for the West End / Federated Properties project, which was voted down by the community by a significant margin. While next steps for this development are unclear, debate continues regarding the need for additional structured parking in the downtown area, as well as the related question of higher development densities.

- The Grand Traverse County office market has gone through a period of considerable expansion, with the reported delivery of about 350,000 sf of new space since 2000. Site visits pointed to a significant number of vacancy signs for a market the size of Traverse City.
- There was discussion of three potential new suburban destination retail projects in the region. Several projects were identified, including the proposed Village at Grand Traverse in Acme Township, which could include 800,000 sf of retail on 182 acres. Other significant projects are reportedly being considered by the Grand Traverse Band of Indians, focusing on 145 acres in Acme and Whitewater Townships. A third project is rumored in the Chum's Corners area.
- The Traverse City State Hospital is going through an extensive renovation, with a vision in place to convert the large campus into the "Village at Grand Traverse Commons", complete with retail, residential, and office elements. The main building, known as Building 50, covers about 380,000 sf. Numerous tax incentives have been brought to bear to facilitate the redevelopment plan.
- The 700 to 800-seat City Opera House recently re-opened, and is expected to support an active schedule of events, including orchestra, plays, concerts, and other events. The venue will add to downtown activity.
- The downtown area supports a significant inventory of office space, with several key anchor tenants. Discussions focused specifically on Hagerty Insurance, which supports over 450 positions and has been expanding operations consistently in recent years.

Moving into the analysis section of the report, ERA will focus attention on several key elements:

- Understanding demand and supply relationships for retail across the county, and in the DDA District.
- Evaluating the apparent level of softness in area office markets.
- Understanding visitor market dynamics, balanced between summer and fall / winter tourists, and seasonal residents.
- Assessing the market for residential development in the DDA District, to understand the level of price sensitivity on the part of potential home buyers.
- Understanding growth implications for the regional economy, with implications for area office and retail markets.

Chapter 2 - Demographic and Economic Base Assessment

ERA used a variety of data sources to evaluate the demographic and economic characteristics of the Traverse City market. The analysis examines data at several levels of geography to gain an overall understanding of regional conditions. In addition to Traverse City and Grand Traverse County, ERA analyzed data from the NMCOG five-county area which includes Grand Traverse, Antrim, Benzie, Kalkaska, and Leelanau Counties. ERA also used the US Census Bureau four-county definition for the Traverse City Micropolitan Area, which Grand Traverse, Benzie, Leelanau, and Kalkaska Counties. As market activities generally do not follow jurisdictional boundaries due to consumer choice regarding where to work / shop, but are generally driven by distance and transportation infrastructure, ERA also examined circular market areas radiating from Traverse City. ERA analyzed market areas defined by 0-10 mile, 10-25 mile, and 25-50 mile radius rings from downtown Traverse City.

Demographic Perspectives

The population of Traverse City experienced a modest decline from 1990 to 2000 while Grand Traverse County saw a significant population increase. Additionally, the surrounding counties experienced population increases that exceeded state and national growth rates. For the five-county region, population increased at an annualized or Compound Annual Growth Rate (CAGR) of 2% per year, reflecting the addition of about 3,000 new residents per year over the noted period.

Table 1. Population Trends, 1990 and 2000

Jurisdiction	Population 1990	Population 2000	CAGR (1990-2000)	Annual Increase
United States	248,709,873	281,421,906	1.24%	3,271,203
Michigan	9,295,297	9,938,444	0.67%	64,315
Antrim County	18,185	23,110	2.43%	493
Benzie County	12,200	15,998	2.75%	380
Grand Traverse County	64,273	77,654	1.91%	1,338
Kalkaska County	13,497	16,571	2.07%	307
Leelanau County	16,527	21,119	2.48%	459
Traverse City	15,155	14,532	-0.42%	-62
Total Five-County Region	124,682	154,452	2%	2,977

Source: ERA, U.S. Census

The following table highlights current population estimates and projected future population for Grand Traverse County, the five-county region, and state and national benchmarks. The table also includes estimates for ring areas defined by radiuses of 10 miles, 25 miles, and 50 miles extending from downtown Traverse City. As the table indicates, all of these areas are expected to see moderate population growth over the next five years.

Table 2. Population Projections

Market	Population 2006	Population 2011	CAGR	Annual Increase
0-10 Miles	76,267	81,603	1.36%	1,067
10-25 Miles	70,860	76,598	1.57%	1,148
25-50 Miles	158,600	167,760	1.13%	1,832
Grand Traverse County	86,413	92,540	1.38%	1,225
Five-County Area	172,073	185,460	1.51%	2,677
Michigan	10,317,569	10,605,939	0.55%	57,674
United States	303,582,361	323,785,827	1.30%	4,040,693

Source: ERA, ESRI Business Solutions

The most rapid growth is expected to occur in the area between 10 and 25 miles from downtown Traverse City. ERA compared the 2006 to 2001 forecasts shown above with independent estimates presented in NMCOG's 2006 Economic Forecast Report. The comparison indicated that ERA's forecast is generally consistent with NMCOG's expectations for near-term growth for the region.

Age Cohorts

Overall, residents of the Traverse City area tend to be older than residents of Michigan and the U.S. as a whole. The population of the Traverse City region has a below average percentage of children compared with state and national averages and above average percentages of residents over 60.

Table 3. 2005 Age Bracket Populations

Age	United States	Michigan	Grand Traverse County	Micropolitan Area
0-14	21%	21%	19%	19%
15-29	20%	20%	19%	18%
30-44	22%	21%	20%	20%
45-59	21%	21%	24%	23%
60-74	11%	11%	11%	12%
75+	6%	6%	7%	7%

Source: ERA, U.S. Census

The following table shows population growth rates by age bracket from 1990 to 2005. As the table indicates, Grand Traverse County and the Traverse City Micropolitan Area are experienced the most rapid growth among the 45-59 age group and among the 75 and older age group. This growth among the older age groups follows national trends of the aging boomer population, however, the trend in more pronounced in the Traverse City area. The table also speaks to significant growth in the 15 to 29 age group, with growth rates dramatically higher than state and national levels.

Table 4. CAGR (1990-2005) for Age Group Populations

Age	United States	Michigan	Grand Traverse County	Micropolitan Area
0-14	0.82%	0.00%	0.23%	0.46%
15-29	0.01%	-0.63%	1.06%	1.20%
30-44	0.36%	-0.36%	-0.15%	0.30%
45-59	3.41%	3.00%	5.41%	5.17%
60-74	0.59%	-0.03%	1.82%	1.71%
75+	1.49%	1.81%	2.89%	3.52%

Source: ERA, U.S. Census

These findings correspond to those highlighted in NMCOG's 2006 Economic Forecast which notes that, by 2010, residents aged 45 and older will represent approximately 40% of the regional population.

Household Income

According to 2006 estimates, median household incomes in Grand Traverse County and the five-county area are slightly below the state and national medians. The 0-10 mile area, which includes all of the City of Traverse City as well some surrounding areas, has a higher median income than other parts of the region while more distant areas have lower incomes.

Table 5. Household Income Projections

Market	2006	2011	CAGR
0-10 miles	$52,935	$61,339	2.9%
10-25 miles	$46,852	$52,654	2.4%
25-50 miles	$42,457	$47,934	2.5%
Traverse City	$45,324	$53,608	3.4%
Grand Traverse County	$51,641	$59,564	2.9%
Five-County Area	$48,896	$55,562	2.6%
Michigan	$53,860	$62,411	2.9%
U.S.	$51,546	$60,704	3.3%

Source: ERA, ESRI Business Solutions

Household Makeup

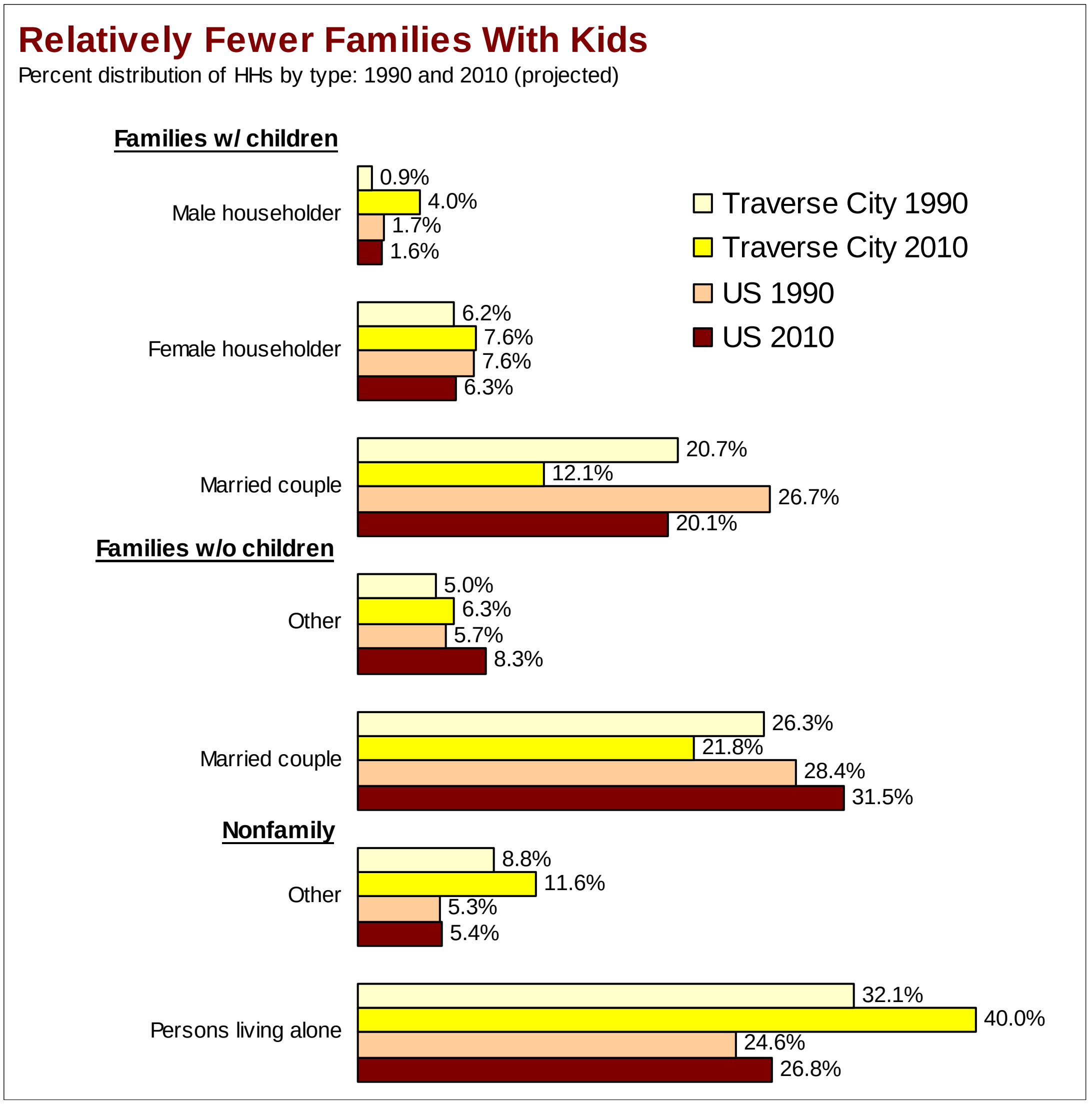
As illustrated in the following tables, the share of non-family households is generally increasing across the region, particularly in Traverse City. This trend is significant, especially in light of the national context, which points to considerable growth in non-family households rather than family households, and growth in families without children. For Traverse City the shift is particularly significant, with non-family households increasing from 41% to 46% of total households since 1990. For clarification, the US Census defines a family household as a group of people living together who are related by birth, marriage, or adoption; a non-family household includes people living alone or with other non-relatives.

Table 6. Percent Household Type, 1990-2000

	% Family HH's		% Non-Family[1] HH's	
Jurisdiction	1990	2000	1990	2000
United States	70%	68%	30%	32%
Michigan	71%	68%	29%	32%
Antrim County	75%	73%	25%	27%
Benzie County	73%	71%	27%	29%
Grand Traverse County	71%	68%	29%	32%
Kalkaska County	76%	72%	24%	28%
Leelanau County	76%	74%	24%	26%
Traverse City	59%	54%	41%	46%

[1]Includes 1-person households
Source, ERA, U.S. Census

According to the US Census Bureau, nationally, the percent of childless households will reach 72% by 2010 and 73% by 2020, a steady increase from 53% in 1950. Meanwhile, as the following chart illustrates, the distribution of married households with children is expected to fall both nationally and locally. Other indications of this trend include a projected increase in the percentage of persons living alone. For Traverse City, the chart speaks to the community's continued concentration in non-family households, which correlates with demand for urban housing options in the community, including higher density downtown condominiums and apartments. As the following chart illustrates, projections for 2010 suggest an increasing share of households without children and a noticeable increase in the share of single households, indicating larger shares of young single professionals and older empty-nesters / retirees.



Source: Adapted from US Census Bureau, Dept. of Commerce, Projections of the Number of Households and Families in the US: 1995 to 2010.

Educational Attainment

Adult residents (aged over 25 years) of Grand Traverse County are more likely to have a college degree than residents of other parts of the five-county area, as well as Michigan and the U.S. as a whole. The following table shows that county residents who had completed college and or graduate school represented 31% of the population over 25, while the US average is 27%. From ERA experience, income growth tends to closely correlate with higher levels of educational attainment.

Table 7. Educational Attainment, 2005 (Population 25+)

Segment	United States	Michigan	Grand Traverse County	Micropolitan Area
No HS Diploma	15.8%	12.9%	8.6%	10.5%
HS Diploma	29.6%	31.4%	27.5%	30.5%
Some College	20.1%	22.9%	23.8%	22.6%
Associates	7.4%	8.00%	8.5%	7.9%
Bachelors	17.2%	15.1%	20.2%	18.5%
Post-Graduate	9.9%	9.5%	11.4%	9.9%

Source, ERA, U.S. Census

Tapestry Analysis

To further understand the demographic, economic, and cultural characteristics of Traverse City and the region, ERA utilized an analysis tool called Community Tapestry, developed by Environmental Systems Research Institute (ESRI). Tapestry is a tool that divides households into 65 categories or segments based on several key factors, including a variety of demographic characteristics of households and geographic characteristics of their neighborhoods. These segments correspond to certain age groups, income brackets, and education levels, as well as lifestyle choices, neighborhood housing preferences, and consumer spending habits. The following table highlights relevant concentrations of defined segments in the five-county area and Grand Traverse County.

Table 8. Tapestry Segments in the 5-County Area and Grand Traverse County

Segment	Households	% in 5-County Area	% in Grand Traverse	% in Michigan	% in U.S.
Rural Resort Dwellers	16,444	23.75%	5.99%	2.51%	1.60%
Midland Crowd	**10,336**	**14.93%**	**16.87%**	**3.12%**	**3.63%**
Green Acres	**7,954**	**11.49%**	**16.46%**	**6.82%**	**3.11%**
Rooted Rural	4,095	5.91%	-	1.89%	2.45%
Up and Coming Families	3,929	5.67%	8.73%	1.77%	3.21%
Midlife Junction	3,676	5.31%	8.15%	2.25%	2.50%
Senior Sun Seekers	2,691	3.89%	4.38%	1.18%	1.18%
Old and Newcomers	2,499	3.61%	7.28%	2.32%	1.97%
Silver and Gold	2,373	3.43%	1.33%	0.25%	0.93%
In Style	2,099	3.03%	6.11%	2.56%	2.48%
Metropolitans	1,943	2.81%	5.66%	1.49%	1.19%
Southern Satellites	1,691	2.44%	-	1.57%	2.76%
Crossroads	1,366	1.97%	3.98%	2.67%	1.48%
Milk and Cookies	1,167	1.69%	3.40%	1.06%	1.90%
Exurbanites	1,086	1.57%	1.50%	2.93%	2.45%
Salt of the Earth	985	1.42%	-	5.57%	2.77%
Rustbelt Traditions	955	1.38%	1.15%	7.01%	2.87%
Simple Living	880	1.27%	2.56%	1.26%	1.45%
Home Town	871	1.26%	-	1.78%	1.50%
Connoisseurs	777	1.12%	2.26%	0.98%	1.40%
Prosperous Empty Nesters	754	1.09%	2.20%	1.67%	1.84%
Cozy and Comfortable	366	0.53%	1.07%	7.54%	2.84%
Retirement Communities	313	0.45%	0.91%	1.94%	1.49%
Total	**69,250**	**100%**	**100%**	**62.14%**	**49.00%**

Source: ERA, ESRI Business Solutions

Of the 65 tapestry segments, 23 are represented in the five-county area and identified in the above table. Slightly fewer, 19 segments, are represented in Grand Traverse County. The above table lists the number of households in each segment in the region. As the table shows, the "Rural Resort Dwellers" segment is by far the most common (approximately 25% of all households in the five-county area fall within this category) while the "Midland Crowd" is the most represented in Grand Traverse County. Definitions for the core segments follow:

- **Rural Resort Dwellers** – These households live in scenic, rural, but non-farming areas throughout the U.S. Their communities typically consist of smaller houses with a large contingent of seasonal units. Most of these households are older married couples with no children living at home. Many of these residents are still working but are generally are in the process of transitioning from full-time employment to retirement.

- **Midland Crowd** – Households in this segment are generally located in rural areas and they are close to nationwide averages in terms of age, income, and household size. Most of their housing units were built after 1990 and 95% of households in this segment live in owner-occupied, single-family homes. The preferred vehicle for this segment is a used American made pickup truck. For leisure, this segment goes hunting and fishing and watches television. They tend to be politically conservative, devoted pet lovers, and interested in domestic travel.

- **Green Acres** – This is an upscale market and households in this segment typically reside on the fringes of mid-sized but rapidly growing urban areas. This segment is generally found in the Midwest. Most families are blue-collar baby boomers and many households have children between 6-17 years old, some are empty-nesters, but few of these households have younger children. They are do-it-yourselfers who engage in home improvement projects such as painting and installing decks, patios, etc. They are also enthusiastic gardeners and diligent lawn care workers. For leisure, they watch Home and Garden television, NASCAR, and pro football games.

Grand Traverse County Tapestry

Using the previous table to compare household characteristics in the five-county area to those in Grand Traverse County reveals several notable differences:

- Two of the segments that comprise a combined 9% of households in the five-county area, Silver and Gold and Rooted Rural, only capture 1 percent of Grand Traverse County households. This is a reflection of Traverse City's more urban nature with higher density living options attractive to younger, single professionals.

- Additional segments found in the top 10 of Grand Traverse County include **Metropolitans** – residents of older city neighborhoods who travel frequently and enjoy participating in civic activities, listening to classical music and jazz on the radio, refinishing furniture, and yoga, rollerblading, and hiking – and **Crossroads** – young families living in mobile homes or small single-family dwellings who are employed in manufacturing, construction, retail trade, and service industries and enjoying owning a dog, fishing, auto races, and playing the lottery.

- Nearly 9%, the third highest share behind "Midland Crowd" and "Green Acres," of Grand Traverse County households were classified as **Up and Coming Families**. This segment is significant because it is the second highest household growth market in the country. Households in these neighborhoods are defined as young, affluent families with young children.

The tables on the following page highlight basic characteristics of the top ten tapestry segments in the market. The analysis reveals that people in Grand Traverse County and the five-county region tend to be older, middle to upper income households, many of which are retirees or seasonal residents.

Table 9. Top 10 Tapestry Segments in the Five-County Area and (Grand Traverse County)

Segment	% 5-Cty HHs	% Grand Traverse-Cty HHs	Income	Median Age	Housing Preferences	Consumer Choices	Demographic / Socioeconomic
1 (7) Rural Resort Dwellers	24%	5.99%	43K	48	Single Family Homes. Some seasonal housing	Gardening, boating, medications	Empty-nesters & older couples
2 (1) Midland Crowd	15%	16.87%	47K	36	Single Family Homes.	Gardening products, children's products	Married Couples. Half with children, half without
3 (2) Green Acres	11%	16.46%	61K	39	Single Family Homes	Home improvements	College educated married couples
4 Rooted Rural	6%	0.00%	36K	40	Single Family and Mobile Homes	Electric tools, gardening equipment	Mostly married couples.
5 (3) Up and Coming Families	6%	8.73%	67K	32	Single Family Homes	Children-related products. Pet Products. Lawn care Fast food.	Young Families with Children.
6 (4) Midlife Junction	5%	8.15%	43K	40	Single Family and Multi-Unit	Restaurants, electronics	Married & single; Older but not yet retired
7 (9) Senior Sun Seekers	4%	4.38%	34K	52	Seasonal Housing	Boating, golfing, books, newspapers	Retired "snowbirds"
8 (5) Old and Newcomers	4%	7.28%	40K	36	Multi-Unit Rental	Books, sports	Non-family households
9 Silver and Gold	3%	0.00%	66K	58	Single Family. Some Seasonal Homes	Books, newspapers, golf, boating	Retired Professionals
10 (6) In Style	3%	6.11%	66K	38	Single Family and Townhomes	Computers and Electronics. Exercise equipment. Travel	Professional couples and singles, generally no children

Source: ERA, ESRI

Table 10. Additional Top 10 Tapestry Segments in Grand Traverse County

Segment	% 5-Cty HHs	% Grand Traverse -Cty HHs	Income	Median Age	Housing Preferences	Consumer Choices	Demographic / Socioeconomic
(8) Metropolitans	**2.81 %**	**5.66%**	**55K**	**37**	Single Family and multiunit structures	Travel, yoga, rock concerts, foreign videos, radio,	Prosperous Gen-X-ers and retirees.
(10) Crossroads	1.97 %	3.98%	38K	32	Mobile Homes and small single Family	Children's goods, groceries at discount stores, used vehicles	Married-couple and single-parent families

Source: ERA, ESRI

Of these three segments, the "Rural Resort Dweller" has by far the greatest number of households in the region with the "Midland Crowd" and "Green Acres" segments second and third. The tapestry distribution of the five-county area is unusual in that such a large percentage of the area's households are in a small number of segments and that the top segment is one that is relatively uncommon nationwide, which suggests to ERA that the region is relatively unique across Michigan. The table further highlights some of the key characteristics of the top ten tapestry segments. Over 50% of the households in the five-county region are in one of the area's top three tapestry segments, while only 40% of households in Grand Traverse County fall into these top three segments. Bolded typeface indicates a segment that also falls into Grand Traverse County's top ten segments. The county shares eight of the top ten segments in the regional analysis, as well as the additional Metropolitan and Crossroads segments.

Economic Base Perspectives

The following table summarizes unemployment from 1996 to 2005 for the county, the region, and state and national benchmarks. The table shows how unemployment rates for Grand Traverse County have increased, particularly since 2001, from 3.4% in 2000 to 5.5% by 2002. Significantly, while county unemployment rates are above US averages, they are below state averages.

Table 11. Unemployment Trends, Noted Jurisdictions

Year	U.S.	Michigan	Micropolitan Area	Grand Traverse County
1996	5.4%	4.9%	5.1%	4.5%
1997	4.9%	4.3%	4.4%	3.9%
1998	4.5%	4%	3.9%	3.4%
1999	4.2%	3.8%	3.7%	3.3%
2000	4%	3.7%	3.6%	3.4%
2001	4.7%	5.2%	4.9%	4.6%
2002	5.8%	6.2%	5.8%	5.5%
2003	6%	7.1%	6.4%	6.1%
2004	5.5%	7%	6.5%	6.4%
2005	5.1%	6.7%	5.9%	5.6%

Source: ERA, Bureau of Labor Statistics

Although unemployment in the five-county area is generally lower than in the state, there is variation in unemployment among the area counties. From 1996 to 2005, Grand Traverse and Leelenau Counties have enjoyed unemployment rates that are lower than those of other counties.

Table 12. Unemployment Trends for the Five-County Area

Year	Antrim	Benzie	Kalkaska	Leelenau	Grand Traverse
1996	6.7%	6.9%	7.5%	4.4%	4.5%
1997	5.4%	6.2%	6.3%	3.9%	3.9%
1998	5.8%	5.6%	6.2%	3.2%	3.4%
1999	5.7%	5%	5.6%	3%	3.3%
2000	4.5%	4.5%	4.6%	3%	3.4%
2001	6.2%	5.8%	7.1%	3.6%	4.6%
2002	7%	6.8%	7.6%	4.7%	5.5%
2003	8.3%	7.8%	8.1%	5.5%	6.1%
2004	7.8%	7.4%	7.7%	5.2%	6.4%
2005	7.3%	7.4%	7.2%	4.8%	5.6%

Source: ERA, Bureau of Labor Statistics

Employment Trends

Total employment in Grand Traverse County and across the five-county area has declined over the last five years, with a total decrease of 1,588 positions. The rate of employment loss has been particularly high in Kalkaska and Leelanau Counties where employment has declined at 3% to 4% per year. Although total employment in the region has declined, the population is increasing and the unemployment rate is relatively stable, which would suggest that a significant share of new residents are not labor market participants and are most likely retirees. The following tables summarize overall employment data, as well as sector analysis for manufacturing, retail, and accommodations and food service.

Table 13. Total Employment

Year	Antrim	Benzie	Grand Traverse	Kalkaska	Leelanau	Five-County Area
2000	4,835	3,565	41,111	3,475	5,155	58,141
2001	4,694	3,578	40,178	3,298	3,834	55,582
2002	4,810	3,696	40,804	2,992	3,831	56,133
2003	4,612	3,601	41,278	3,018	3,817	56,326
2004	4,930	3,798	41,679	3,052	3,895	57,354
2005	4,769	3,714	40,903	2,989	4,178	56,553
Total	-66	149	-208	-486	-977	-1,588
CAGR	-0.3%	0.8%	-0.1%	-2.9%	-4.1%	-0.5%

Source: ERA, Michigan Department of Labor and Economic Growth

The decline in Michigan's manufacturing sector is a well-known issue and the Traverse City area is not immune to this decline. As the table below indicates, Grand Traverse County and the five-county area have been losing manufacturing jobs at rates of over 4% per year, for a net decrease of 1,760 positions across the five-county region. It is significant that while the area lost 1,588 overall jobs, it would appear that the decline was entirely driven by manufacturing, suggesting that other segments of the economy are growing.

Table 14. Manufacturing Employment

Year	Antrim	Benzie	Grand Traverse	Kalkaska	Leelanau	Five-County Area
2000	1,377	568	6,195	838	259	9,237
2001	1,215	521	5,830	741	237	8,544
2002	1,141	515	5,508	402	210	7,776
2003	1,199	484	5,417	382	223	7,705
2004	1,262	577	5,215	337	195	7,586
2005	1,108	633	5,036	476	222	7,475
Total	-269	65	-1,159	-362	-37	-1,762
CAGR	-4.25%	2.19%	-4.06%	-10.70%	-3.04%	-4.14%

Source: ERA, Michigan Department of Labor and Economic Growth

According to 2005 data, the five-county region has approximately 10,320 retail positions compared to 10,071 in 2000, for an overall increase of about 250 positions. However, this growth in retail is distributed somewhat unevenly around the region with Benzie County showing the greatest percentage increases and Antrim County losing retail jobs.

Table 15. Retail Employment

Year	Antrim	Benzie	Grand Traverse	Kalkaska	Leelanau	Five-County Area
2000	704	559	7,716	459	633	10,071
2001	752	589	7,613	425	646	10,025
2002	753	603	7,859	426	619	10,260
2003	716	605	7,984	444	599	10,348
2004	714	656	8,386	450	638	10,844
2005	692	643	7,854	464	667	10,320
Total	-12	84	138	5	34	249
CAGR	-0.34%	2.84%	0.36%	0.22%	1.05%	0.49%

Source: ERA, Michigan Department of Labor and Economic Growth

For accommodation and food services, the following table shows that overall employment has decreased across the region, with particular decreases in Grand Traverse County. The modest increase in retail and restaurant employment is notable given the surge in new retail inventories that will be noted later in the analysis.

Table 16. Accommodation and Food Service

Year	Antrim	Benzie	Grand Traverse	Kalkaska	Leelanau	Five-County Area
2000	1,205	920	5,308	352	883	8,668
2001	1,178	924	5,084	312	833	8,331
2002	1,326	1,018	5,138	343	882	8,707
2003	1,142	965	5,534	330	894	8,865
2004	1,206	982	5,503	287	889	8,867
2005	1,207	924	4,807	249	922	8,109
Total	2	4	-501	-103	39	-559
CAGR	0.03%	0.09%	-1.96%	-6.69%	0.87%	-1.32%

Source: ERA, Michigan Department of Labor and Economic Growth

Related employment data for office-using employment sectors, including finance, insurance, information, and real estate, is covered later in this report in the office market analysis. ERA notes that growth in office employment was significant in offsetting decreases in other sectors noted above.

Wage Growth

The following table summarizes average annual wage growth for noted counties. The table shows how wage growth in Grand Traverse County exceeded growth rates in adjacent counties as well as the statewide benchmark. At the same time, consistent with other noted data, wage growth lagged behind US averages. Growth in wages is a key factor when considering related growth in retail sales.

Table 17. Average Annual Wage Growth by County

Year	U.S.	Michigan	Antrim	Benzie	Grand Traverse	Kalkaska	Leelanau
2001	$36,219	$37,391	$22,973	$22,627	$29,020	$29,921	$24,450
2002	$37,428	$38,135	$23,225	$23,817	$29,616	$30,405	$24,926
2003	$38,678	$39,433	$24,177	$24,216	$30,514	$29,943	$25,862
2004	$39,970	$40,373	$24,512	$25,024	$31,817	$31,517	$26,337
2005	$41,304	$41,214	$24,775	$23,933	$32,484	$32,031	$26,426
CAGR	3.34%	2.46%	1.91%	1.41%	2.86%	1.72%	1.96%

Source: ERA, Bureau of Labor Statistics

Tourism Overview

The Traverse City area is one of the state's leading tourism destinations. The success of future downtown development in the retail, entertainment, lodging, and other sectors will link with the region's ability to remain a strong tourism destination and attract more visitors in the future. ERA notes the following analyses, which summarize key aspects of tourist visitation and impact on the area economy.

- The number of visitors to Grand Traverse County has increased steadily from an estimated 1.2 million in 1990 to 1.9 million in 2005. This increase of more than 717,000 visitors represents an increase of 60 percent from 1990 to 2005 and compound annual growth of 3.2 percent since 1990.

- 44 percent of Grand Traverse County visitors are overnight hotel guests, 20 percent are overnight seasonal guests who stay in seasonal housing, 12 percent are day trip visitors and 24 percent are overnight visitors who stay with friends, relatives or camp.

- Grand Traverse County receives 77.5 percent of its visitors for leisure purpose, while the remaining 22.5 percent visit for business purposes. Other counties within the 5-county area have an even greater percentage of their visitation generated by leisure rather than business visitors.

- Nearly 90 percent of all visitors to Grand Traverse County come from within Michigan and most of the remaining visitors come from within the U.S. Not surprisingly, the vast majority (97%) of visitors to the Grand Traverse area travel by car.

- Of those visiting Grand Traverse County for leisure purposes, the largest group is families with children, totaling 51.5 percent of all visitors. Within this group are families ages 18-34 with at least one child at 31.9 percent and families aged 35-54 with at least one child at 19.6 percent. The next largest group is those with no children aged 18-54, which account for 30.8 percent of visitors. Those over 55 with no children make up 17.7 percent of those who visit for leisure purposes.

Additional Findings from the 2006 Economic Forecast

- The construction industry experienced high growth in employment between 1999 and 2004 nationwide and in the five-county region. However, over the next five years, construction employment is projected to decline in the area. The historic growth trend is consistent with related development of new office and retail space that occurred across Traverse City and Grand Traverse County since 1997.

- Manufacturing employment has decreased significantly over the last five years in the five-county area, statewide, and in the U.S. as a whole. The rate of decline in the region was less pronounced than in Michigan as a whole and area manufacturing employment is expected to remain essentially flat over the next several years.

Demographic and Economic Implications

- While population growth across the five-county region area is similar to that of the U.S. as a whole, local growth rates are significantly above statewide averages. Growth rates link with demand for housing and retail sales.

- There is relevant concern about broader economic conditions across Michigan, particularly in the auto industry. As Traverse City generates a significant level of visitation from the metro Detroit area, near-term performance for GM, Ford, and Daimler-Chrysler will be watched.

- Wage growth since 2000 has been significant at the state level, and when combined with notable rates of population growth, appears to be driving demand for retail spending.

- The Tapestry segmentation approach highlights how five-county area residents are relatively unique in comparison with the US as a whole, with a surprising concentration of households in relatively few segments.

- Importantly, US Census and Tapestry data also do not fully account for the impact of a sizeable seasonal resident / second home market. Interviews would suggest that across the five-county region, a relevant share of seasonal residents are quite affluent.

- Residents of the Traverse City market tend to be older than state and national averages. Compared to the state of Michigan, Grand Traverse County and the five-county area have lower percentages of residents under 35 and higher percentages of residents over 50. At the same time, ERA notes how Grand Traverse County has seen a significant increase in people aged 15 to 29, which is well above state averages.

- Reflective of increases in median age, average household sizes are decreasing across the region. For Traverse City, the decrease in average household size is significant, falling from a 1990 level of 2.32 people per household to a 2000 level of 2.15 people per household, an annualized rate of 0.74% per year. The decrease in household size has direct implications for shifting demand for housing, and a decrease in city population.

Chapter 3 - Retail Market Assessment

The retail market assessment combines multiple research efforts, including:

- Analysis of retail inventories for the DDA District, Traverse City, and Grand Traverse County
- Evaluation of historic and current retail sales trends for noted jurisdictions
- Calculation of income based retail sales pull factors for the City of Traverse City and Grand Traverse County for 2006. Pull factors are ratios that compare local and state percapita spending in comparison with wages. Resulting pull factor ratios reflect the relative strength of communities as retail destinations.
- Specific Analysis of DDA specific retail inventory and store performance factors
- Discussion of preliminary outputs from a survey of downtown business-owners, conducted in November and December of 2006, with linkage back to a similar survey completed in 2002.

Inventory Analysis

ERA estimated current retail inventories for the DDA District, the City of Traverse City, and Grand Traverse County though a multi-step process which included:

- Meetings with DDA staff to evaluate and update DDA inventories by store type and vacancy.
- Collection of Grand Traverse County GIS data and related property records, including reported square footage, and year of construction.
- 2003 / 2005 aerial photography for the city and county
- ERA experience with retail store types, classifications, and typical store sizes, which was used in situations to allocate inventory into the appropriate category.
- The analysis managed with variability in formats, with retail buildings that have office tenants, office buildings that have retail tenants, and medical office buildings that have both retail and office tenants.
- The bottom line goal for the retail analysis was to link sf of store space in specific retail segments with identified sales in those segments.
- The inventory has an effective date of February 1, 2007

The following table highlights current inventories and vacancy for noted submarkets. The table highlights an overall inventory of about 4.9 million sf of retail space with a 4.9% vacancy rate. The DDA District supports about 460,000 sf, with a very low vacancy of 2.4%, while the City of Traverse City overall supports 1.3 million sf, with a more significant vacancy level of 8.3%.

Table 18. County Retail Market Inventory Summary, 2006

Sub-Market	Inventory	Vacant Space	Vacancy	SF Per Capita
DDA	458,745	10,870	2.4%	89
Rest of Traverse City	836,314	69,515	8.3%	89
Total Traverse City	1,295,059	80,385	6.2%	89
Grand Traverse County	3,652,696	159,545	4.4%	43
Total	4,947,755	239,931	4.85%	50

Source: ERA Analysis

When population levels across the county are related to current county inventory, the resulting sf per capita level (50 sf per person), reflects the role of the county as a regional center for a five-county area. When this inventory is related to the overall five-county population, a benchmark of about 28 sf per capita is the result, which is generally consistent with national averages.

The following table highlights growth in retail inventories for noted submarkets since 1996. The table shows that while the DDA District and the City of Traverse City have captured a modest share of inventory growth (about 5%), county inventories have grown dramatically, with the addition over about 1.1 million sf of new retail space, representing about 95% of overall new construction. Key additions to inventory all fall in the "big box" category, including Menards, Lowes, Kohl's, Bed Bath and Beyond, and Michaels (combined representing under 50% of total additions since 1996). Within the context of regional growth, it is significant that downtown was able to add new retail inventories over the same period.

Table 19. Sub-Market Retail Inventory Growth Trends, 1996 to 2006

Sub-Market	1996	2001	2006	Growth	Share of Growth
Downtown Inventory	451,825	451,825	458,745	6,920	1%
Rest of Traverse City	779,992	779,992	836,314	56,322	5%
Sub-Total – Traverse City	1,231,817	1,231,817	1,295,059	63,242	5%
Grand Traverse County	2,525,152	3,126,147	3,652,696	1,127,543	95%
Total City + County	3,756,970	4,357,965	4,947,755	1,190,785	100%

Source: ERA Analysis

The above table also includes three core retail projects that anchor the region. These projects include the Grand Traverse Mall, covering more than 500,000 sf; Cherryland Center (350,000 sf); Grand Traverse Crossing (415,000 sf); and one Meijer superstore, covering about 260,000 sf.

The following table highlights overall inventory growth rates for noted submarkets, with the county supporting a growth rate of about 4%, well above rates for the City of Traverse City. It is notable that, despite the delivery of about 1.1 million sf of space since 1997, overall vacancy levels remain rather low, suggesting that the regional market is capable of absorbing additional inventory.

Table 20. County Annualized Inventory Growth Rates

Sub-Market	1996 to 2001	2001 to 2006	1996 to 2006
Downtown Inventory	0.0%	0.3%	0.2%
Rest of Traverse City	0.0%	1.4%	0.7%
Sub-Total – Traverse City	0.0%	1.0%	0.5%
Grand Traverse County	4.4%	3.2%	3.8%
Total City + County	3.0%	2.6%	2.8%

Source: ERA Analysis

As a result of the surge in suburban inventories since 1996, the City of Traverse City and the DDA District have seen their share of retail inventory decrease. While the county share of inventory increased from 66% to 74%, the city share suffered a corresponding decrease.

Table 21. Change in Share of Total Inventory, 1996 -2006

Sub-Market	1996	2001	2006
Downtown Inventory	12%	10%	9%
Rest of Traverse City	21%	18%	17%
Sub-Total – Traverse City	33%	28%	26%
Grand Traverse County	67%	72%	74%
Total City + County	100.0%	100.0%	100.0%

Source: ERA Analysis

Traverse City Retail Sales Trends

To understand recent retail sales trends for Grand Traverse County and the City of Traverse City, ERA started with US Economic Census data for retail segments and restaurants, collected in 1997 and 2002. The US Census data was used, as it is survey-based and considered reliable. To the historic data, ERA developed two approaches to derive 2006 sales levels. For the city, ERA started with surveys and interviews of downtown businesses. About 50% of DDA businesses returned a survey and indicated a relative level of store sales. The sales levels from respondents were used to derive sales estimates for other businesses that did not respond. The overall sales levels, calculated in terms of store sales per square foot by store type, were then applied to other existing inventory in the city limits, again on a sales-per-square-foot by store-type basis. This approach was used in part because the character of retail uses is generally consistent between the DDA and other parts of the city, with a majority of smaller stores, rather than big box formats.

The following table reflects the results of the above described approach for the City of Traverse City. The table shows how overall sales have decreased from a 1997 level of $528.5 million, to a 2006 estimate of about $208 million, for an overall decrease of $320 million in sales. The strongest decrease occurred in general merchandise, which decreased from an estimated $146 million, down to about $2 million. This decline reflects the closure of several general merchandise stores, such as Witmark, Ben Franklin, and Milliken's, and the general shift in general merchandise sales to significantly larger suburban big box formats. Moreover, with suburban general merchandise stores also selling groceries, the departure of two Oleson's from the City of Traverse City is notable.

Table 22. Retail Sales Trends, City of Traverse City, 1997 to 2006, Rounded

Retail Segment	1997	2002	2006	Cumulative Change
Furniture & Home Furnishings	$27,615,000	$17,231,000	$16,135,500	-$11,479,500
Electronics & Appliances	$21,535,000	$28,381,000	$6,707,400	-$14,827,600
Building Materials, Garden Equipment	$68,581,000	$26,618,000	$6,869,100	-$61,711,900
Food & Beverage Stores	$58,438,000	$89,226,000	$56,575,600	-$1,862,400
Health & Personal Care Stores	$27,504,000	$46,208,000	$14,566,100	-$12,937,900
Apparel, Shoes, Accessories, & Jewelry	$28,338,000	$24,072,000	$27,366,400	-$971,600
Sporting Goods, Hobby, & Music & Books	$29,708,000	$21,079,000	$12,890,700	-$16,817,300
General Merchandise Stores	$146,716,000	$14,827,500	$2,705,600	-$144,010,400
Miscellaneous Stores	$50,859,000	$44,482,500	$16,928,300	-$33,930,700
Restaurants and Bars	$69,247,640	$58,740,000	$47,432,800	-$21,814,840
Total	$528,541,640	$370,865,000	$208,177,500	-$320,364,140

Source: US Census, Claritas, ERA Analysis

Grand Traverse County Retail Sales Trends

To develop retail sales estimates for Grand Traverse County, ERA began with historic US Census retail sales data for 1997 and 2002. As the US census has not yet generated 2006 retail sales estimates, ERA evaluated three alternative data sources generated by Woods and Poole, Claritas, and Info USA. Broader benchmarks for economic performance were also measured to judge the ability of the regional economy to generate sales growth. The following two tables highlight these points. The first table below highlights three independent sources for 2006 retail sales. The table shows that the Claritas estimates are the highest of the noted approaches. Based on methodologies behind each approach, the Claritas numbers should be more accurate.

Table 23. Grand Traverse Co. Estimated Retail Sales by Data Source, 2006

Retail Segment	Info USA	Claritas	Woods & Poole
Furniture & home furnishings stores	$92,660,000	70,868,991	$111,058,000
Electronics & appliance stores	$104,186,000	73,785,004	
Building material & garden equip	$324,006,000	380,817,026	$116,391,000
Food & beverage stores	$275,609,000	190,048,969	$129,906,000
Health & personal care	$65,675,000	94,917,992	
Clothing & clothing accessories	$93,989,000	136,763,000	$85,841,000
Sporting goods, book, & music	$74,454,000	61,698,975	$389,587,000
General merchandise stores	$220,698,000	471,465,965	
Miscellaneous store retailers	$81,892,000	64,381,933	$209,879,000
Restaurant	$207,622,000	149,357,997	$134,741,000
Total	$1,540,791,000	$1,694,105,852	$1,177,403,000

Sources: U.S. Census, Claritas, Woods and Poole, ESRI Business Solutions

The table below shows yearly trends for several statistics that are likely to have some bearing on retail sales. As the table indicates, with the exception of total employment, all of these benchmarks grew between 2000 and 2006.

Table 24. Grand Traverse County Retail Growth Benchmarks

Year	Population	Employment	Wages	Median HH Income	Tourism Volume	Airport Passengers
2000	77,654	41,111	$1,280,053,807	$43,260	1,632,291	197,060
2001	79,050	40,178	$1,319,131,000	$44,556	1,656,564	188,456
2002	80,470	40,804	$1,364,434,000	$45,890	1,680,605	197,366
2003	81,917	41,278	$1,421,848,000	$47,265	1,803,531	191,166
2004	83,389	41,679	$1,490,774,000	$48,681	1,798,727	198,189
2005	84,887	40,903	$1,526,441,000	$50,139	1,906,594	198,472
2006	86,413	40,862	$1,526,441,000	$51,641	1,980,364	198,756
CAGR	1.80%	-0.10%	2.98%	3.00%	3.27%	0.14%

Sources: ERA, U.S. Census, BLS, MI DLEG, ESRI, Michigan State Extension, FAA

Of the options, the Claritas approach was judged to be the most reasonable, albeit aggressive, of the three. The following table reflects ERA's estimate of county-wide retail sales growth by sector since 1997. The table highlights overall growth in sales from about $900 million to about $1.7 billion, with an annualized growth rate of about 6% per year, or a cumulative increase of about $780 million.

Table 25. Retail Sales Trends, Grand Traverse County, 1997 to 2006

Retail Segment	1997	2002	2006	Cumulative Change
Furniture & Home Furnishings	$40,937,000	$55,461,000	$70,869,000	$29,932,000
Electronics & Appliances	$42,723,000	$67,503,000	$73,785,000	$31,062,000
Building Materials, Garden Equipment	$111,246,000	$173,304,000	$380,817,000	$269,571,000
Food & Beverage Stores	$112,842,000	$143,725,000	$190,049,000	$77,207,000
Health & Personal Care Stores	$36,378,000	$63,161,000	$94,918,000	$58,540,000
Apparel, Shoes, Accessories, & Jewelry	$77,537,000	$98,607,000	$136,763,000	$59,226,000
Sporting Goods, Hobby, & Music & Books	$45,768,000	$60,854,000	$61,699,000	$15,931,000
General Merchandise Stores	$272,806,000	$354,369,000	$471,466,000	$198,660,000
Miscellaneous Stores	$67,813,000	$66,609,000	$64,381,900	-$3,431,100
Restaurants and Bars	$96,342,000	$124,366,000	$149,358,000	$53,016,000
Total	$904,392,000	$1,207,959,000	$1,694,105,900	$789,713,900

Source: US Census, Claritas, ERA Analysis

The county level retail sales estimates for 2006, while aggressive, need to be reflective of the fact that across the five-county area, there have been no significant competitive retail destinations developed outside of Grand Traverse County. As such, the county remains the core retail hub for a significant resident market. From ERA experience, it is surprising that larger big box formats (Walmart, Target, and Meijer) have not penetrated the five-county market, outside of Grand Traverse County. The nearest concentration of large format stores is located in Cadillac, where Meijer and Walmart both have large format superstores. Other concentrations of big box retail include Mt. Pleasant, Gaylord, and Petoskey.

The following table reflects the significant loss in share of retail sales between the city and county. While the city has managed to sustain relevant shares of restaurant, grocery, and miscellaneous (gift shops, etc.), the loss in share for general merchandise, building materials, and related segments is notable. It is relevant to note that of the 12% share of retail sales that the City is currently sustaining, ERA estimates that downtown is capturing about 50% of overall city-wide retail sales.

Table 26. City Retail Sales as a Percentage of County Retail Sales

Retail Segment	1997	2002	2006
Furniture & Home Furnishings	67%	31%	23%
Electronics & Appliances	50%	42%	9%
Building Materials, Garden Equipment	62%	15%	2%
Food & Beverage Stores	52%	62%	30%
Health & Personal Care Stores	76%	73%	15%
Apparel, Shoes, Accessories, & Jewelry	37%	24%	20%
Sporting Goods, Hobby, & Music & Books	65%	35%	21%
General Merchandise Stores	54%	4%	1%
Miscellaneous Stores	75%	67%	26%
Restaurants and Bars	72%	47%	32%
Total	58%	31%	12%

Source: ERA Analysis

Pull Factor Analysis

The relative effectiveness of a community as a retail destination can be assessed using a “pull factor” which establishes the relative levels of retail attraction and drawing power. Pull factors are ratios that compare local and state retail sales, with adjustments for population and income differences. In the analysis, the following benchmarks have been used:

- Pull factor less than 1.0 = community losing retail sales to adjacent counties
- Pull factor of 1.0 = resident retail spending balances with existing store sales
- Pull factor greater than 1.0 = the community is an importer of retail sales above what the resident market would support.

The following table highlights pull factor calculations for 1997 and 2006 for the City of Traverse City. Reflective of the strength of the DDA District as a focused destination for retail and restaurants, overall pull factors remain positive, although they have decreased.

Table 27. City of Traverse City, Pull Factor Calculations

Retail Segment	1997	2006	CAGR
Furniture & Home Furnishings	6.60	3.31	-8.3%
Electronics & Appliances	5.74	1.45	-15.8%
Building Materials, Garden Equipment	5.13	0.25	-31.5%
Food & Beverage Stores	3.10	2.63	-2.1%
Health & Personal Care Stores	3.91	1.25	-13.3%
Apparel, Shoes, Accessories, & Jewelry	4.19	3.19	-3.4%
Sporting Goods, Hobby, & Music & Books	7.92	3.27	-10.5%
General Merchandise Stores	6.39	0.09	-41.2%
Miscellaneous Stores	10.74	2.62	-16.2%
Restaurants and Bars	5.28	2.72	-7.9%
Total	5.37	1.52	-14.6%

Source: ERA Analysis

For Grand Traverse County, related pull factors appear to reflect the ability of the county maintain its share of a growing retail market is notable. The table shows that overall pull factors have increased slightly, from 1.89 to 2.02. Again, the pull factor reflects growth in incomes as well as population. Notable increases in building materials reflect the arrival of Lowes and Menards in this market. The table reinforces the sense that Grand Traverse County is the primary retail center for a significant region.

Table 28. Grand Traverse County Pull Factor Calculations

GT County	1997	2006	CAGR
Furniture & Home Furnishings	2.01	2.36	2.06%
Electronics & Appliances	2.34	2.60	1.34%
Building Materials, Garden Equipment	1.71	2.23	3.38%
Food & Beverage Stores	1.23	1.44	1.94%
Health & Personal Care Stores	1.06	1.32	2.77%
Apparel, Shoes, Accessories, & Jewelry	2.36	2.59	1.18%
Sporting Goods, Hobby, & Music & Books	2.51	2.54	0.19%
General Merchandise Stores	2.44	2.58	0.70%
Miscellaneous Stores	2.94	1.62	-7.19%
Restaurants and Bars	1.51	1.39	-0.97%
Total	1.89	2.02	0.84%

Source: ERA Analysis

Downtown Retail Perspectives

ERA worked with DDA staff to develop a survey to assess perspectives about downtown, as well as clarify current inventories. The following table summaries key retail performance benchmarks for downtown, noting estimates sales per square foot for store types, as well as related inventory in each use. As stores tend to open and close throughout the year, inventory will obviously shift from category to category. Overall, the table highlights a significant inventory of retail space, almost 500,000 sf, with a vacancy rate of only 2%. The table highlights the lack of inventory in two key segments, building materials and general merchandise. The table also shows that while the restaurant and bar and apparel, shoes, jewelry, and accessories segments are generating sales levels above their respective shares of inventory, the miscellaneous store segment appears to be supporting sales levels below the related share of inventory (14% of sales, 18% of inventory). This point is significant, as the miscellaneous segment is one of four core anchor segments for downtown Traverse City.

Table 29. DDA Retail Sales and Inventory by Retail Segment

Total DDA sales, Aggregated	Total Sales (Rounded)	Inventory	% of Sales	% of Inventory
Restaurants / Bars	$23,669,800	106,712	27%	23%
Apparel, Shoes, Jewelry, and Accessories	$22,266,000	83,342	25%	18%
Miscellaneous	$12,303,000	83,583	14%	18%
Home Furnishings, Electronics, Appliances	$8,075,600	61,973	9%	14%
Sporting goods, Music, Video, Books	$6,767,300	43,465	8%	9%
Personal Services	$5,883,100	30,300	7%	7%
Food and Beverage	$5,090,800	16,792	6%	4%
Health and Personal Care	$3,808,300	14,509	4%	3%
Non-Retail	$1,050,000	7,200	1%	2%
Building Materials	$0	0	0%	0%
General Merchandise	$0	0	0%	0%
Vacant	0	10,870	0%	2%
Total	$88,913,900	458,745	100%	100%

Source: ERA Analysis

Business Survey

To understand perspectives of downtown retailers, ERA worked with DDA staff to develop a survey instrument, which was delivered to business owners beginning in November of 2006, and collected through December and January. Of 170 distributed surveys, a total of 90 were returned for a response rate of 53%. Survey questions focused on practical concepts regarding the downtown shopping environment including store names and sizes, sales ranges, rent costs, and employment. The survey was designed to match with a similar survey issued in 1991 and 2002 to evaluate how perceptions and trends have evolved.

The following table below highlights key summary statistics for the top four identified segments in the sample, highlighting factors for store sales per square foot, store rent per square foot, and the ratio of rent to sales, which is an important measure of store performance. The table highlights an average level of $211 per-square-foot in store sales, against an average rent level of about $17 per sf for a ratio of 8%, which is slightly above national averages. At the same time, the miscellaneous store segment (which includes gift shops) appears to have greater challenges, with rents representing about 11% of sales. Nationally, ERA would expect the rent to sales ratio to fall in between 2% and 8%.

Table 30. Ratio of Annual Rent to Annual Store Sales per Square Foot

Segment	Sales per SF		Rent Per SF		Rent to Sales Ratio	
	Average	Median	Average	Median	Average	Median
Overall	$211	$162	$17.30	$15.60	8%	10%
Restaurants / Bars	$299	$250	$18.71	$17.45	6%	7%
Miscellaneous	$136	$108	$14.80	$13.20	11%	12%
Apparel and Accessories	$233	$263	$19.75	$18.00	8%	7%

Source: ERA Analysis

Other notable points from the survey include:

- Average rent paid per month increased from $1,270 to $2,282 – an annualized increase of 16%.
- Store size has increased, with a 2006 average of 1,826 sf, up from a 2002 level of 1,440 sf.
- The number of respondents who rated parking as “Poor” decreased.

- The number of respondents who felt that business hours were "Poor" increased.
- The number of respondents who rated downtown cleanliness as "Good" increased. At the same, time, a greater share of respondents identified improving downtown cleanliness as very important.
- Interest in downtown public restrooms was unchanged, with a majority interested.
- Respondents who identified increasing public security as "Very Important" increased.
- The number of respondents who felt that more festivals were needed decreased slightly.
- Snow removal was also noted as a key issue, which may relate to timing, as the 2006 survey was completed in December 2006, while the 2002 survey was completed in the fall.

The survey responses are generally consistent with ERA expectations. The analysis reinforces ERA's sense that while the Grand Traverse County regional market continues to grow, Traverse City is seeing a smaller and smaller share of growth. Before discussing specific market analysis implications and conclusions, ERA highlights the implications of national retail industry trends.

National Retail Trends

The following table summarizes recent annual changes in per capita retail spending since 1992. The approach takes annual retail sales as reported by the Department of Commerce along with annual population estimates to arrive at per capita spending factors by noted segment for each defined year. The table is sorted by compound annual growth rate (CAGR) between 1992 and 2005 to reflect segments that grew at rates faster than inflation, and segments that did not keep up.

Table 31. National Per Capita Retail Spending Shifts, 1992, 2000, 2005

Retail Segment	1992	2000	2005	CAGR 1992 2005
Warehouse clubs and superstores	$157	$496	$914	14.5%
Electronic shopping and mail-order houses . . .	$138	$405	$545	11.1%
Other general merchandise stores	$278	$611	$1,049	10.8%
Building mat. and garden equip. and supplies	$515	$815	$1,103	6.0%
Electronics and appliance stores	$168	$293	$339	5.6%
Health and personal care stores	$352	$552	$703	5.5%
Furniture and home furnishings stores	$206	$325	$375	4.7%
General merchandise stores	$972	$1,437	$1,774	4.7%
Miscellaneous store retailers	$219	$384	$374	4.2%
Food services and drinking places	$798	$1,085	$1,338	4.1%
Clothing and clothing access. stores	$472	$597	$680	2.9%
Sporting goods, hobby, book, music stores .	$193	$270	$276	2.8%
Discount dept. stores	$360	$484	$441	1.6%
Food and beverage stores	$1,457	$1,584	$1,752	1.4%
Department stores	$711	$853	$743	0.3%
Total Retail Sales	**$5,659**	**$8,809**	**$9,555**	**4.1%**

Source: US Census & ERA

The table shows that overall retail sales grew on a per capita basis at 4.1% per year between 1992 and 2005. Notably looking at the 1992 to 2000 and 2000 to 2005 segments, overall growth rates shift noticeably, with pre-2000 growth occurring at a robust 5.7% annualized rate, and growth since 2000 slowing dramatically, to an annualized rate of 1.6% per year, for an overall rate of 4.1% over the entire period. Core retail segments for downtown Traverse City are highlighted in grey for perspective.

The following table highlights comparable shifts in spending, analyzed in terms of each segment's percentage share of annual per capita spending. The table shows how some sectors, such as warehouse clubs and the internet have seen their share of sales increase significantly, while other sectors have seen dramatic decreases in sales. As before, core downtown segments are highlighted in grey, reflecting the reality that nationally, on a per capita share of spending basis, spending patterns have not changed significantly since 1992, and may have decreased slightly.

Table 32. National Per Capita Spending, Percentage of Annual Spending

Retail Segment	1992 Share	2000 share	2005 Share
Warehouse clubs and superstores	3%	6%	10%
Electronic shopping and mail-order houses . . .	2%	5%	6%
Other general merchandise stores	5%	7%	11%
Building mat. and garden equip. and supplies	9%	9%	12%
Electronics and appliance stores	3%	3%	4%
Health and personal care stores	6%	6%	7%
Furniture and home furnishings stores	4%	4%	4%
General merchandise stores	17%	16%	19%
Miscellaneous store retailers	4%	4%	4%
Food services and drinking places	14%	12%	14%
Clothing and clothing access. stores	8%	7%	7%
Sporting goods, hobby, book, and music stores .	3%	3%	3%
Discount dept. stores	6%	5%	5%
Food and beverage stores	26%	18%	18%
Department stores	13%	10%	8%
Total Retail Sales	100%	100%	100%

Source: US Census & ERA

The following segment specific trends are also noted:

- Since 1992, while overall retail sales have increased at about 4% per year, warehouse club and superstore retail sales have grown by more than 14% per year. The strength of Meijer is notable in this market, as Walmart and Target do not offer superstore formats.

- The Internet continues to absorb market share from traditional retail formats, including downtowns. Between 1992 and 2005, Internet retailing increased from 2.4% to 5.7% of total retail sales, representing growth from about $35 billion in 1992 to more than $160 billion in 2005. On a per capita basis, this shift reflects an increase in individual spending on the internet from $138 per year to $545 per year, which is significant. While the allocation of retail sales to the Internet is of little concern to national retailers, the same cannot be said for communities that support retail space, and see sales dollars and taxes flow elsewhere.

- Reflecting the growth of superstores and warehouse clubs, traditional grocery stores and department stores have increasingly underperformed other segments. Over the noted period, the grocery store share of total per capita retail sales decreased from 25% to 18% of total sales, with overall growth on a per capita basis of 1.4% per year. For department stores, the decrease was from 13% down to 8% of total per capita retail sales, with overall growth in per capita sales of 0.3%; both estimates are well below inflation.

- Growth of health and personal care stores reflects the increasing scale of products and services that drug stores and pharmacies now offer. Walgreens in particular has been very aggressive in expanding across the Midwest.

There are also several broader economic factors that are influencing retail spending patterns including:

- Recent and current energy cost increases for oil, natural gas, and gasoline tend to have the strongest impact on low to middle income residents, diverting a share of potential retail spending into energy. While historic spikes in energy prices have been short-lived, changing international economic conditions would tend to point to a future with higher energy prices. Since 1998, unleaded gasoline prices have increased at an annualized rate of 16%, while natural gas prices have increased at a 9.4% annualized rate.

- Retailers in general are also reacting to changing spending patterns driven by new technologies (broadband access and cell phones), which have in the past 2 to 3 years captured a significant share of disposable income, in the range of $50 to $150 per month. The emergence of services including TiVo, XM Satellite Radio, ITunes, and Netflix are examples. The impact of broadband access is expected to have a significant impact on the profitability of traditional video rental stores, a standard anchor of many neighborhood retail centers.

- Nationally, shopping center owners are awaiting the expected fallout from the recent May / Federated department store merger which is expected to result in a number of traditional department store anchors going vacant. The current rollout of Macy's as a national department store brand also highlights the disappearance of more than 10 regional department store brands, including Marshall Fields, Filene's, Foley's, Hecht's, Famous-Barr, Kaufmann's, Robinsons-May, and L.S. Ayres. Furthermore, the recent Sears / Kmart merger is also raising questions about the future of these formats.

Retail Market Implications

The market assessment highlights several key factors that will impact downtown Traverse City moving forward:

- Across the five-county region, population and income growth have continued at rates above statewide averages. Current regional forecasts point to annual growth of about 2,600 new residents per year through 2011, with additional demand created by seasonal residents and tourists.
- While the region continues to grow, the City of Traverse City has sustained only a modest share of county population growth. As retail sales tend to follow new rooftops, limited population growth in the city is having an impact on city retail sales levels.
- While overall income levels for new residents and tourists are generally consistent with state averages, interviews noted the presence of a significant base of affluent seasonal residents who do not appear in Census estimates because their permanent residence is elsewhere. During the annual Traverse City Film Festival, the emergence of this specific segment was noted by downtown store owners.
- While overall retail sales levels for the City of Traverse City have continued to decline since 1997, the nature of decline relates in large measure to national retail trends, specifically the emergence of larger format retailers in general merchandise and home improvement across Grand Traverse County, where about 1 million sf of new space was added since 1997. As Traverse City is largely built out, its ability to provide the larger 25 to 100-acre sites expected by these retailers is difficult.
- Within the context of considerable growth in inventories across the county, enviably low overall vacancy levels, combined with continued population growth and retail sales growth will feed developer interest in new projects.
- Within the context of overall sales decreases for Traverse City as a whole, vacancy levels for downtown are enviably low (about 2%) across a significant inventory of about 470,000 sf. The low vacancy levels reflect the strength of downtown Traverse City as a regional destination for residents and tourists, and the hard work of the DDA and its partner organizations to identify tenants, support parking initiatives, and serve as an advocate for downtown.
- Key near-term concerns for downtown relate to apparent imbalances between rents and store sales, particularly for stores in the miscellaneous store segment, including gift shops, card shops, candle shops, etc. The imbalances appear closely linked to rent increases driven by construction of new space, demand for office space, as well as speculation as to perceptions regarding demand.

Moving forward, elements that will need to be addressed in the recommendations include:

- Recognition of the Old Town Playhouse and Opera House, resolving issues around the State Theater, and identifying expanded evening entertainment opportunities to increase downtown attendance.
- Parking inventory, supply, and demand
- Discussion of ways that the DDA can build off of current successes, to sustain the long-term future of downtown.

Chapter 4 - Residential Market Assessment

Housing Permits

The following table highlights growth in new housing permits for noted submarkets since 2000. The table highlights a relevant peak in the market for 2005, when a total of 1,082 permits were issued. Permit levels for 2006 show a significant decrease. While Garfield Township accounted for about 35% of new residential permits since 2000, Traverse City accounted for about 5% of new permits.

Table 33. Housing Unit Growth, 2000 to 2006

Sub-Market	2000	2001	2002	2003	2004	2005	2006	Total	% of Total
Acme	40	27	22	29	20	20	26	184	3%
Blair	48	58	61	94	102	124	108	595	11%
East Bay	74	66	74	109	93	85	57	558	10%
Fife Lake	8	13	10	1	3	0	1	36	1%
Grant	12	8	12	14	16	9	9	80	1%
Green lake	0	32	61	59	67	60	52	331	6%
Long Lake	73	76	109	119	104	86	71	638	12%
Mayfield	11	13	16	24	14	18	14	110	2%
Paradise	35	44	37	26	47	44	40	273	5%
Peninsula	61	38	55	46	43	48	27	318	6%
Union	3	1	1	2	5	2	4	18	0%
Whitewater	28	11	27	23	30	32	15	166	3%
Garfield Twp	351	195	133	229	267	506	209	1,890	35%
City	15	26	24	57	48	48	28	246	5%
Total	759	608	642	832	859	1082	661	5,443	100%

Source: Grand Traverse County and Garfield Township

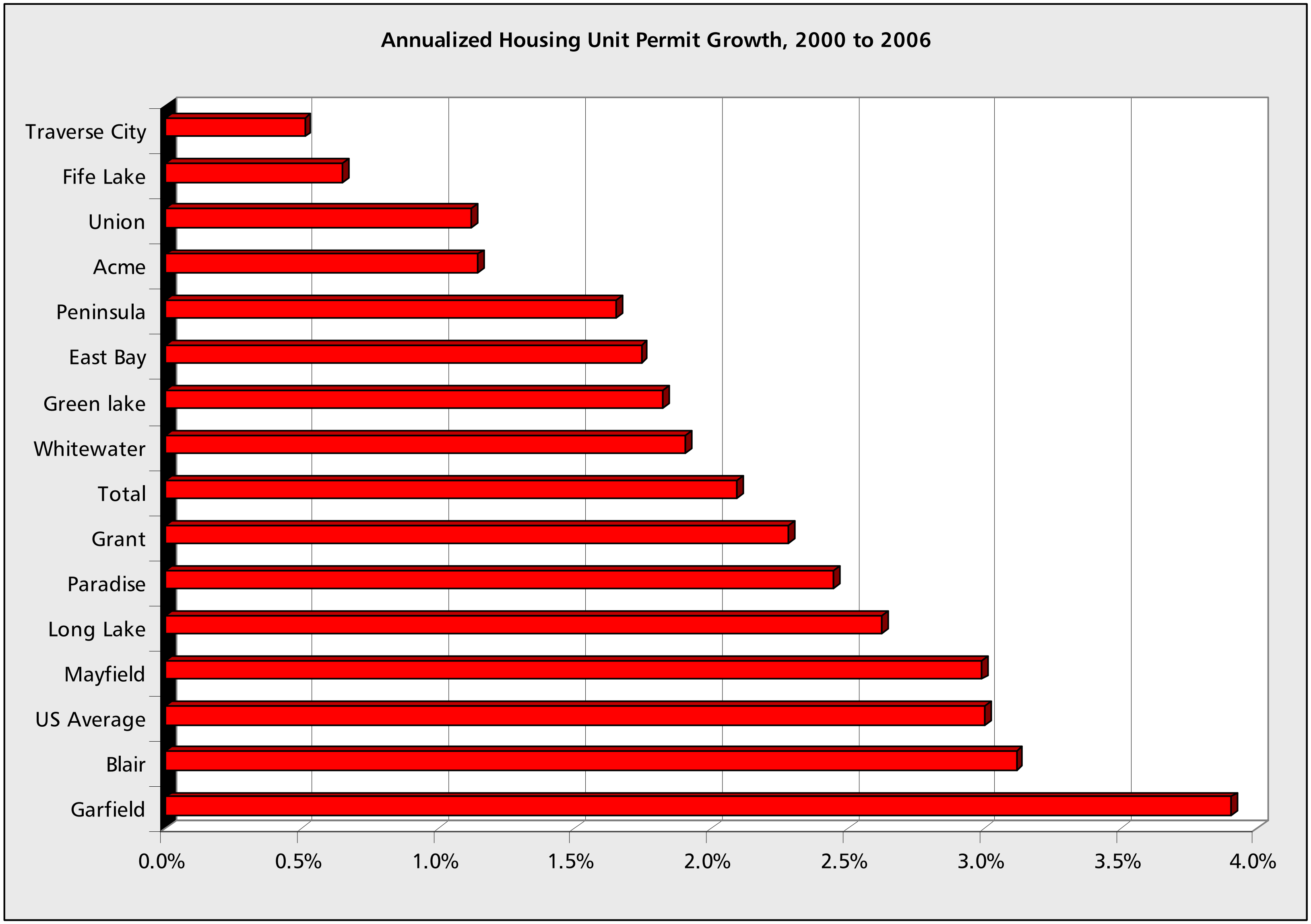
The following table highlights a comparison of each jurisdiction's share of housing units in 2000, compared to each jurisdiction's share of growth in housing units since 2000. The table shows that while most townships appear to be maintaining their share of the overall market, Garfield Township is sustaining a more significant rate of growth, with an 18% share of existing housing units in 2000, and a 35% share of new housing units permitted since 2000.

Table 34. Comparison of Housing Unit Share and Growth in Share

Jurisdiction	% Share of Housing Units in 2000	% Share of Growth in Housing Units Since 2000
Acme	6%	3%
Blair	7%	11%
East Bay	12%	10%
Fife Lake	2%	1%
Grant	1%	1%
Green lake	7%	6%
Long Lake	9%	12%
Mayfield	1%	2%
Paradise	4%	5%
Peninsula	7%	6%
Union	1%	0%
Whitewater	3%	3%
Garfield	18%	35%
City	19%	5%
Total	100%	100%

Source: Grand Traverse County and Garfield Township

The above table also shows that while Traverse City supported 19% of county housing units in 2000, it has sustained only a modest share of new construction, about 5%, since 2000.


Annualized Housing Unit Permit Growth, 2000 to 2006
Traverse City
Fife Lake
Union
Acme
Peninsula
East Bay
Green lake
Whitewater
Total
Grant
Paradise
Long Lake
Mayfield
US Average
Blair
Garfield
0.0%
0.5%
1.0%
1.5%
2.0%
2.5%
3.0%
3.5%
4.0%

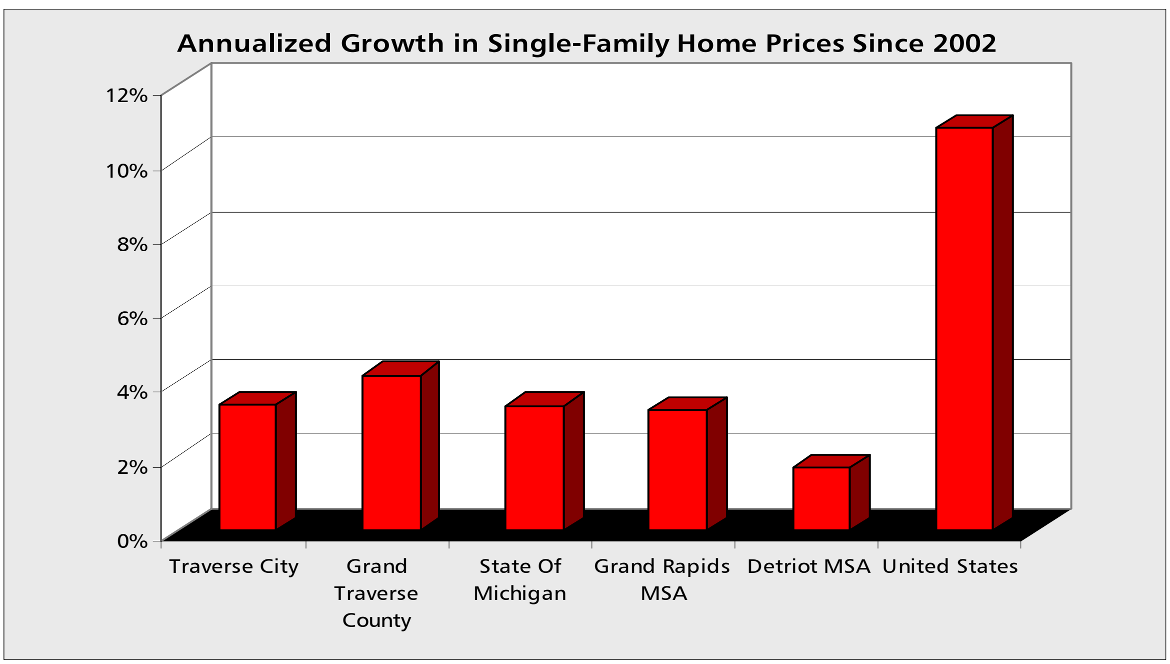
The preceding chart highlights annualized growth in housing permits by jurisdiction since 2000. The chart indicates that while Garfield, Blair, and Mayfield Townships sustained permit growth rates of 3% to 4% per year, the other townships sustained significantly lower growth rates. The City of Traverse City sustained the lowest growth rate of all noted jurisdictions, at about 0.5% per year since 2000. That Traverse City has seen growth of only 0.5% per year is important for several reasons:

1. About 35 housing units in the city have been demolished since 2000, suggesting that the net gain in housing units for the city is 211, not 246, for an annualized growth rate of about 0.4%.
2. Assuming that the average household size in the city has continued to decrease at the historic 10-year average rate of 0.74% per year, it would appear that the city is not developing housing units fast enough to sustain current population levels.
3. For the city to sustain current population levels, there would appear to be a need for at least 50 new housing units per year.

A 50-permit-per-year trend could be sustainable within the city's new urbanist vision; however, it would clearly require a conscious choice for infill residential development at higher densities.

Home Sales Trends

The following chart highlights annualized growth rates for single-family home prices for Traverse City and Grand Traverse County to other jurisdictions since 2002. The chart shows that while rates of price growth are generally consistent with other places across the State of Michigan, they fall well below national averages.



The following tables highlight sales data for existing single-family homes and condominiums in the City of Traverse City and Grand Traverse County. The first table summarizes single family home sales data for the city, pointing to a modest overall increase in sales through 2005, with a slight decrease for 2006.

The table shows that the vast majority of single family homes have sold for less than $300,000 (about 90%) since 2002.

Table 35. Traverse City Single-Family Home Sales

Year	Up to $100K	$100-$200K	$200-$300K	$300-$400K	Over $400K	Total
2002	20	111	21	8	3	163
2003	14	113	23	4	7	161
2004	6	116	38	8	6	174
2005	12	95	43	15	10	175
2006	3	75	20	13	4	115
Total	55	510	145	48	30	788
% of Total	7%	65%	18%	6%	4%	100%

Source: Traverse City MLS

The following table highlights comparable trends for condominium sales, showing a notable increase in unit sales since 2002. As with single family home sales, units priced above $300,000 represent a very small segment of the market (about 4%, since 2002). Specifically for condominium sales, the table below only highlights sales of existing units through the local MLS system. As several new condominium projects have also delivered units since 2002, the following table undercounts overall sales trends.

Table 36. Traverse City Condominium Sales, 2002 to 2006

Year	Up to $100K	$100-$200K	$200-$300K	$300-$400K	Over $400K	Total
2002	9	9	4	1	0	23
2003	15	15	4	1	0	35
2004	17	16	10	1	0	44
2005	13	26	14	3	2	58
2006	26	24	8	4	2	64
Total	80	90	40	10	4	224
% of Total	36%	40%	18%	4%	2%	100%

Source: Traverse City MLS

The following table summarizes comparable trends for Grand Traverse County for single-family home sales. The table shows that the county has seen a relatively consistent level of home sales since 2002, with between 1,200 and 1,400 homes sold per year. Overall, it appears that homes sold above $300,000 are slowly becoming a relevant share of the market, about 14% of total sales, slightly above levels in Traverse City. Homes sold above $400,000 represent about 6% of the overall market.

Table 37. Grand Traverse County Single-Family Home Sales

Year	Up to $100K	$100-$200K	$200-$300K	$300-$400K	Over $400K	Total
2002	205	717	164	75	45	1,206
2003	175	719	221	77	74	1,266
2004	144	742	255	94	77	1,312
2005	146	722	308	116	99	1,391
2006	123	651	222	121	84	1,201
Total	793	3551	1170	483	379	6,376
% of Total	12%	56%	18%	8%	6%	100%

Source: Traverse City MLS

The following table highlights similar trends for the county condominium market, showing how overall sales have grown at a significant pace since 2002. As before, sales of condominiums priced above $400,000 account for about 2% of the county condominium market. About 90% of total sales since 2002 have occurred in segments below $300,0000, which is significant.

Table 38. Grand Traverse County Condominium Sales

Year	Up to $100K	$100-$200K	$200-$300K	$300-$400K	Over $400K	Total
2002	47	108	25	7	2	189
2003	53	115	35	9	3	215
2004	51	101	40	7	3	202
2005	49	120	49	11	5	234
2006	44	126	36	16	10	232
Total	244	570	185	50	23	1072
% of Total	23%	53%	17%	5%	2%	100%

Source: Traverse City MLS

Migration Patterns

ERA analyzed IRS data to better understand recent patterns of migration into Grand Traverse County. The Internal Revenue Service (IRS) collects data from two consecutive household tax returns. Households that file a return from one county one year, and another county the next year are classified as "migrants" while households that file in the same county are classified as "non-migrants" or residents. The following table shows annual tax returns from Grand Traverse County, separated into migrant and resident returns from 1995 to 2003. The total number of migrants and non-migrants increased during this period but new migrants decreased as a percentage of the total populace. As the table shows, Grand Traverse County consistently attracts over 2,000 new migrants per year.

Table 39. In-Migration to Grand Traverse Co, 1995-2003

Year	Migrants	Non-Migrants	Migrant % of Non-Migrants
1995-1996	2,284	27,404	7.69%
1996-1997	2,300	27,467	7.73%
1997-1998	2,490	28,034	8.16%
1998-1999	2,544	29,516	7.94%
1999-2000	2,572	30,275	7.83%
2000-2001	2,653	31,058	7.87%
2001-2002	2,559	31,890	7.43%
2002-2003	2,450	30,405	7.46%

Source: ERA, IRS

The next table breaks down migration into Grand Traverse County according to the previous place of residence of the new Grand Traverse inhabitants. Most of the migrants to Grand Traverse County come from within the United States and about 70% are migrating from within Michigan.

Table 40. Origins of Migrants to Grand Traverse County

Year	Total In Migration	Migration from within U.S.	Migration from within MI	Other States	Foreign
1995-1996	2,284	2,259	1,627	632	25
1996-1997	2,300	2,284	1,702	582	16
1997-1998	2,490	2,466	1,857	609	24
1998-1999	2,544	2,523	1,875	648	21
1999-2000	2,572	2,557	1,854	703	15
2000-2001	2,653	2,639	1,978	661	14
2001-2002	2,582	2,559	1,830	729	23
2002-2003	2,450	2,429	1,798	631	21
Total (1996-2003)	19,875	19,716	14,521	5,195	159

Source: ERA, IRS

The following table further examines migration from within Michigan and shows the top 15 counties of origin of for people moving into Grand Traverse County. As the table shows, the top counties for producing in-migration to Grand Traverse are neighboring counties in the region and more urbanized counties to the south, particularly the Southeast.

Table 41. Top 15 Counties of Origin for Michigan Migrants

County	Number of Incoming Migrants (1996-2003)	Percent of Total In-State In Migration
Leelanau County	1,310	9.0%
Benzie County	1,173	8.1%
Antrim County	872	6.0%
Oakland County	822	5.7%
Kent County	706	4.9%
Kalkaska County	637	4.4%
Wayne County	632	4.4%
Wexford County	566	3.9%
Ingham County	391	2.7%
Genesee County	295	2.0%
Macomb County	293	2.0%
Manistee County	287	2.0%
Saginaw County	276	1.9%
Washtenaw County	248	1.7%
Ottawa County	202	1.4%
Total Migration from Top 15 Counties	8,710	60.0%
Total In-State Migration	14,521	100.0%

Source: ERA, IRS

Approximately 34% of all in migration to Grand Traverse County from within Michigan comes from within the region. Between 1996 and 2003 Leelanau County produced the greatest amount of migration with Benzie county a close second.

Table 42. Migration to Grand Traverse from within Region

County	Number of Incoming Migrants	Percent of Total In-State Migration to County
Leelanau County	1,310	9.0%
Benzie County	1,173	8.1%
Antrim County	872	6.0%
Kalkaska County	637	4.4%
Manistee County	287	2.0%
Missaukee County	96	0.7%
Wexford County	566	3.9%
Total Migration from the Region	4,941	34.0%
Total In-State Migration	14,521	100.0%

Source: ERA, IRS

Outside of the neighboring counties in the region, the greatest concentration of in migration origination in the state is in southeast Michigan. Oakland County is the county of origin for the greatest number of migrants to Grand Traverse County from outside the five-county region with over 800 people moving to Grand Traverse County between 1996 and 2003. The other counties in Southeast Michigan were also among the top counties in the state in terms of origin of migrants to Grand Traverse. Overall, the Detroit area produced 2,179 migrants to Grand Traverse County between 1996 and 2003.

Table 43. Metro Detroit Migration to Grand Traverse County

County	Number of Incoming Migrants	Percent of Total In-State Migration to County
Oakland County	822	5.7%
Wayne County	632	4.4%
Macomb County	293	2.0%
Washtenaw County	248	1.7%
Livingston County	118	0.8%
St Clair County	66	0.5%
Total Migration from Metro-Detroit	2,179	15.0%
Total In-State Migration	14,521	100.0%

Source: ERA, IRS

The following tables show data representing the median adjusted gross incomes (AGI) for each migrant group as well as non-migrant residence of Grand Traverse County. AGI is essentially a measure for gross income minus deductions. As the table shows, on average, new migrants to Grand Traverse County have lower incomes than non-migrants. Among migrant groups, those moving to Grand Traverse from other states within the U.S. typically have higher incomes than in-state migrants or migrants from foreign countries.

Table 44. AGI of Migrants to Grand Traverse County

Year	Migrants	U.S.	In-State	Other State	Foreign	Non-Migrants
1995-1996	$18,204	$18,270	$18,312	$18,178	$12,499	$23,397
1996-1997	$19,151	$19,250	$18,278	$22,499	$8,332	$24,596
1997-1998	$20,493	$20,599	$20,430	$21,223	$10,624	$25,966
1998-1999	$22,151	$22,211	$22,148	$22,384	$17,916	$27,719
1999-2000	$22,206	$22,276	$21,907	$23,405	$13,332	$28,903
2000-2001	$22,734	$22,803	$22,403	$24,619	$11,249	$29,974
2001-2002	$22,542	$22,618	$22,068	$24,297	$10,832	$29,665
2002-2003	$21,064	$21,167	$20,488	$23,317	$15,499	$29,444
CAGR	2.1%	2.1%	1.6%	5.0%	3.1%	3.3%

Source: ERA, IRS

Although the average AGI of migrants to Grand Traverse County tends to be below that of current residents, the AGI for migrants originating in the Detroit region have incomes that are significantly above other migrants as well as residents. The following table shows AGI for people who moved to Grand Traverse from counties in Southeast Michigan. The average 2003 AGI for this group from was $33,607 compared with $21,064 for all migrants, and $29,444 for residents.

Table 45. AGI of Migrants from the Detroit Metro Area

Year	Livingston	Macomb	Oakland	St Clair	Washtenaw	Wayne	Average
1996	$34,999	$25,832	$32,221	$18,124	$18,332	$28,499	$28,425
1997	$22,499	$34,999	$30,832	$11,249	$19,999	$23,610	$27,020
1998	$32,499	$21,666	$43,749	NA	$24,999	$30,499	$32,868
1999	$49,999	$36,666	$35,249	$23,749	$33,332	$31,499	$34,584
2000	$60,416	$29,999	$34,499	$15,832	$38,749	$28,928	$33,600
2001	$48,749	$33,124	$38,749	$24,374	$14,999	$29,285	$32,651
2002	$41,249	$33,332	$36,999	$24,999	$26,249	$27,916	$32,515
2003	$37,499	$27,499	$31,943	NA	$37,142	$39,999	$33,607
CAGR	1.0%	0.9%	-0.1%	5.5%	10.6%	5.0%	2.4%

Source: ERA, IRS

Grand Traverse County is experiencing a steady influx of new residents. Most of these migrants are coming from within Michigan. The top areas producing migrants are the adjacent counties in the region.

Downtown Housing Comparison and Demand Analysis

To evaluate the potential of downtown housing in Traverse City, ERA conducted interviews and examined downtown residential development in several cities in Michigan and nationwide with characteristics somewhat similar to Traverse City. The following summaries provide information on downtown housing units, recent housing developments, and retail trends in several comparable downtowns. The cities selected for comparison were communities identified by the client as places with downtowns that Traverse City could emulate, or were selected by ERA as cities with characteristics similar to Traverse City. For comparative purposes, the DDA district currently has 252 housing units.

Holland

City officials in Holland estimate that the downtown area contains approximately 100 to 150 housing units. According to the city, 70-75 of these units are apartments located above storefronts in mixed-use buildings. Most of these are rental units and are the oldest of the downtown's housing stock. The remaining downtown units are newer, condominium developments that have been added to the downtown within the last several years. The most notable recent downtown housing developments in the area are the Terraces at Town Center and Downtown Place. Downtown Place is a 28-unit condo development with one and two bedroom units ranging from $199,000 and up. The Terraces at Town Center is a 12-unit condo development with units ranging from 1,500 to 2,900 sf, and selling for $370,000 and up.

Frankenmuth

Downtown Frankenmuth is known for its German-themed restaurants and its quaint, tourist-friendly Main Street. Because of major streetscaping investments and the presence of well-known restaurants, Frankenmuth's downtown has developed into a regional tourism destination. Most of the shopping opportunities in the downtown are entertainment-retail establishments such as boutique gift shops, antiques, and snack shops. Frankenmuth's downtown has no notable housing and functions more as an entertainment destination for visitors rather than a utilitarian downtown meeting the needs of residents.

Bay City

Like much of Michigan, the Bay City area has suffered from the decline in the prominence of the automotive industry as a provider of jobs in the state. However, the City's downtown has seen some significant investment in recent years with several significant housing developments. In total, city officials estimate that Bay City's downtown includes approximately 200 housing units. The most notable downtown housing projects in Bay City are the Jennison Hardware building, the Boathouse Condominiums, and the Shearer Building. The Jennison building is located on the riverfront and was redeveloped about 10 years ago into 30 condos with a first floor art gallery. The condo currently sell for between $250,000 and $500,000. The Boathouse is another riverfront redevelopment that includes 37 condos ranging from 1,760 to 3,260 sf. The Shearer Building is also a recent rehab that now includes condominiums. However, this building is not on the waterfront and has achieved limited success compared to Bay City's other downtown housing developments.

Ann Arbor

The housing and retail dynamics of downtown Ann Arbor are obviously greatly influenced by the presence of the University of Michigan. The University not only brings thousands of renters to the downtown housing market and customers to the retail establishments, the presence of a major research university also creates high-wage jobs, supports downtown cultural amenities, and adds to the overall economic vitality of the area. Therefore, there is a very high demand for downtown housing in Ann

Arbor and the condos and apartments in the downtown commands much higher rents and prices than those seen in other similarly-sized cities in Michigan. According to the Ann Arbor DDA, the downtown area has a total of approximately 1,700 housing units and 85% of these are renter occupied. However, though the downtown housing market is dominated by student renters, Ann Arbor has recently added new, high-end condos to the downtown.

Galena, Illinois

Downtown Galena is regionally well-known for its quaint, historic character and scenic surroundings. Many of the buildings in the downtown area are listed on the National Register of Historic Buildings and the Main Street has a variety of specialty retail and dining opportunities. According to City officials, Galena has a total of approximately 230 apartment units in the city and about 2/3 of these are located downtown. Overall, these units tend to be located in older, mixed-use buildings along main street and they typically have low rents. Most of the units rent to younger people with some senior housing downtown. The renovation of the Coatsworth Building created 35 units of senior housing in a historic downtown building. Galena's downtown housing stock does not include any high-end condominiums and appeals primarily to renters looking for low-cost housing.

Bar Harbor, Maine

Bar Harbor sustains a year-round population of roughly 5,000 people. In the summer, the resident population balloons to 18,000 due to a large influx of recently retired second home owners and family vacationers. The City estimates that it absorbs roughly one to three million visits per year; in the fall, cruise ship traffic can result in as many as 5,000 visits in a two-day period. At the same time, two recent condominium development efforts failed to materialize. There were 36 high-end condominiums planned for development just outside the downtown district, but the developer eventually pulled out of the deal due to a lack of pre-construction sales. Another similar project consisting of 20 planned condominiums was abandoned during the permitting process due to political reasons and an apparent lack of market demand. Historically, there are slight changes in retail tenanting, but no new retail development.

Housing Density Discussion

In addition to examining total downtown housing and recent significant downtown residential developments in comparable cities, ERA conducted an analysis of housing units by neighborhood density. One of the fundamental characteristics of downtown residential development is significantly higher housing unit densities than surrounding areas. In addition to simply being housing located in the center of a city, downtown housing refers to a specific form and pattern of development that is characterized by a walkable environment with concentrated activity and compact residential development. The market for downtown housing is largely driven by the level of interest in living in higher density neighborhoods.

The following table compares Traverse City with the comparable cities in terms of housing unit density by census block group. The table identifies the number of units in block groups with various levels of gross housing unit density. As the table indicates, most comparable cities, with the exception of Ann Arbor, have little or no housing located in high-density block groups. However, it is important to note that these are gross densities aggregated to the block group level. It is possible and likely that these cities have individual developments that are higher density but do not have enough concentrated units to be reflected in overall density at the block group level.

Table 46. Housing Units by Block Group Gross Density

Market	Total Units	Mid-size / Large Lot Detached SF Homes		SF & Some MF	Higher Density, MF Units Typically in or near Downtown Area	
		< 4 units / acre	4-6 units / acre	6-8 units / acre	8-10 units / acre	10+ units / acre
Traverse City	6,140	5,285	855	-	-	-
Royal Oak	30,107	10,096	18,084	1,927		
Ann Arbor	46,882	26,884	10,570	2,118	3,101	4,209
Bar Harbor	472	472	-	-	-	-
Bay City	16,491	11,679	3,074	780	958	-
Galena	1,693	1,693	-	-	-	-
Holland	13,254	9,560	3,694	-	-	-

Source: ERA, ESRI Business Solutions

In addition to evaluating Traverse City and comparable communities in terms of their existing and planned supply of downtown housing, ERA also analyzed the potential demand for downtown housing in comparable cities by examining the market-area populations of each city. A variety of factors including age, income, education, and family status will impact housing choices of individuals and households. Similar to the demographic section, ERA used the Tapestry segmentation system to estimate demand for downtown housing. As was discussed in the earlier section, Tapestry segmentation divides households into groups based on age cohorts, income brackets, and education levels, spending habits, etc. and some of these segments are identified as being more likely to choose to live in a downtown or near downtown neighborhood. The following table highlights the number of households within 15 miles of downtown Traverse City and the comparable cities that fall into the segments that are identified as likely to reside in dense urban environments.

Table 47. Households in Segments Likely to Live Downtown (0-15 Miles from Downtown)

Segment	Traverse City	Ann Arbor	Holland	Bar Harbor	Bay City	Galena
Laptops and Lattes	0	513	0	0	0	0
Trendsetters	0	1,258	0	0	0	0
Metro Renters	0	4,404	0	0	0	0
City Commons	0	543	0	0	722	0
Social Security Set	0	400	0	0	810	300
Top Rung	0	461	0	0	0	0
Connoisseurs	774	3,248	0	0	210	0
Wealthy Seaboard Suburbs	0	1,312	0	0	0	0
Urban Chic	0	4,859	0	0	0	0
Pleasant-Ville	0	2,329	0	0	0	0
Enterprising Professionals	0	7,829	378	0	9	0
Milk and Cookies	1,153	2,259	2,099	0	277	0
Metropolitans	1,940	12,648	18	1,065	0	0
Aspiring Young Families	0	6,160	2,519	0	1,392	5
Retirement Communities	313	4,459	641	528	464	1,885
Family Foundations	0	856	0	0	2,438	0
Old and Newcomers	2,496	4,489	17	0	3,348	15
Young and Restless	0	12,491	1	0	0	0
Inner City Tenants	0	4,097	0	0	55	0
City Dimensions	0	0	0	0	4,985	895
Dorms to Diplomas	0	10,482	0	0	0	0
Total Households in Segments With Downtown Housing Interest	6,675	85,098	5,673	1,593	14,711	3,100
Total Downtown Housing Units	252	2,300	125	0	200	150
Penetration	3.78%	2.70%	2.20%	0%	1.36%	4.95%

As the table shows, the Traverse City 15-mile market contains approximately 6,675 households with characteristics that indicate a propensity for downtown living. These household primarily come from five segments:

- **Connoisseurs** – This is an upper-income market segment with households that tend to locate in neighborhoods with very high median home values. Adult residents of these households are generally still employed but tend to be older and nearing retirement. These households enjoy travel and spend a great deal on vacations.

- **Milk and Cookies** – These are young, affluent married couples and tend to be family households with children in the home. Most of the homes in these neighborhoods are older and located within moderately dense communities. Leisure interests in these households are family-oriented and include movies, theme parks, and sports.

- **Metropolitans** – Households in this segment favor city living in older neighborhoods populated by singles or childless couples. These neighborhoods are an eclectic mix of single and multifamily structures, with median home values of $183,000. Residents include both young adult households as well as retirees. This market participates in yoga, visits museums, attends rock concerts, and enjoys travel.

- **Retirement Communities** – As the name implies, these neighborhoods contain concentrations of older, retired households. These households generally live in high density congregate housing facilities in urban areas. These households have modest incomes but a high net worth. Generally, these households live in rental housing which often includes meals and other service, but some live in owner-occupied units.

- **Old and Newcomers** – These are neighborhoods in transition, populated by renters who are starting their careers or retiring. Many householder in this segment are in their twenties and others are in their seventies or older, but few are in between. Housing units are typically mid-raise or high-rise buildings constructed in the 1970's.

The following table highlights the reality of how the Tapestry segmentation approach positions similar resort locations such as Traverse City. The table highlights a comparison of total households with the identified share of households which have a predisposition to favor housing in urban locations. The table shows that there about 6,700 households in the defined Traverse City market that have an interest in downtown.

Table 48. Percent of Households in Segments Likely to Live Downtown

Jurisdiction	Total Households in the Defined Market	Total Households in Downtown Segments	Percentage
Holland	62,992	5,673	9%
Galena	29,462	3,100	11%
Bar Harbor	11,589	1,593	14%
Bay City	97,356	14,711	15%
Traverse City	41,446	6,675	16%
Michigan	3,982,308	844,663	21%
United States	114,046,892	39,938,395	35%
Ann Arbor	186,683	85,098	46%

Source: ERA, ESRI Business Solutions

Second Home Market

The Traverse City region has become a significant area for second home development, which is reflected in home sales and residential permit strength, particularly between 2000 and 2003. Understanding the nature of seasonal housing markets is complicated, as many units can be owner occupied, but used on a seasonal basis. The following tables reflect US Census data for 1990 and 2000, to highlight an effective baseline in terms of demand for seasonal units. The tables highlight the significant share of seasonal units across the region as of 2000, with about 26% of all units considered seasonal for the five-county region, and about 11% in Grand Traverse County, both increasing over 1990 levels.

Table 49. Seasonal and Recreational Housing Units (1990)

Jurisdiction	Total Housing Units	Seasonal / Recreational Housing Units	Percent of Total
United States	102,263,678	3,081,923	3.0%
Michigan	3,847,926	223,549	5.8%
Five-County Area	70,764	18,774	26.5%
Antrim County	13,145	4,695	35.7%
Benzie County	8,557	3,145	36.8%
Grand Traverse County	28,740	3,296	11.5%
Kalkaska County	9,151	3,466	37.9%
Leelanau County	11,171	4,172	37.3%
Traverse City	6,557	81	1.2%

Source: ERA, U.S. Census

Table 50. Seasonal and Recreational Housing Units (2000)

Jurisdiction	Total Housing Units	Seasonal / Recreational Housing Units	Percent of Total
United States	115,904,641	3,578,718	3.1%
Michigan	4,234,279	233,922	5.5%
Five-County Area	84,363	19,297	22.9%
Antrim County	15,090	5,152	34.1%
Benzie County	10,312	3,181	30.8%
Grand Traverse County	34,842	3,026	8.7%
Kalkaska County	10,822	3,827	35.4%
Leelanau County	13,297	4,111	30.9%
Traverse City	6,842	117	1.7%

Source: ERA, U.S. Census

Residential Market Implications

- Garfield Township has sustained a significant rate of housing growth, with an 18% share of existing housing units in 2000, and a 35% share of new housing units permitted since 2000. By comparison, while Traverse City supported about 19% of county housing units in 2000, it has sustained only a modest share of new housing permits, about 5%, since 2000.

- Interviews with area brokers also suggest that a significant number of condominium sales in Traverse City since 2002 have been for seasonal use, which is significant.

- Interviews and analysis clearly point to a level of price sensitivity by a majority of home buyers across Grand Traverse County and Traverse City. Analysis shows that more than 90% of existing homes sold across the region were for prices below $300,000.

- Since 2002, home prices across Traverse City and Grand Traverse County have appreciated at annualized rates of 3.5% to 4% per year, consistent with statewide levels, but well below national trends.

- The downtown housing demand approach identified over 6,600 households in the region that would have an interest in downtown housing options. This identified market opportunity is reflective of noted changes in household size and structure, which are driving greater interest in housing options other than the traditional single family home. This market is also price sensitive.

- While Traverse City added about 245 housing units since 2000, it also demolished 35, for a net gain of 210 housing units, or an annualized growth rate of about 0.4% per year. Given noted decreases in the average household size for city households since 1990, it would appear that the city is not adding new housing units fast enough to offset the impact of smaller household sizes.

While the City has forwarded a clear vision in favor of new urbanism, the full implementation of this vision will require the community to recognize the need for infill residential development, at urban density levels.

Chapter 5 - Office Market Assessment

As part of the downtown market analysis process, ERA also evaluated overall trends in the Grand Traverse area office market. Analysis efforts were directed at several key elements:

- Understanding growth in competitive office inventory for the DDA, the City of Traverse City, and Grand Traverse County since 1997.
- Interviewing developers active with office development to ascertain current trends and perspectives
- Evaluating growth in inventory in comparison with growth in office-using employment

Office-Using Employment Discussion

The following table highlights growth in office-using employment sectors since 2000 for Grand Traverse County. The table shows that overall office employment has grown at a relevant rate (2.1% per year) since 2000, with growth concentrated in finance, insurance, and health care. The table highlights an overall growth of 1,681 jobs over the five-year period, with the majority of net growth driven by health related employment. In simplistic terms, this level of employment growth could correlate with demand for between 375,000 and 450,000 sf of office space, assuming a ratio of 225 to 275 sf space per employee. The net gain in office employment is notable in that it is completely opposed to statewide trends, where overall office-using employment increased at a total rate of about 0.25% per year, with a net gain of about 17,800 positions statewide over the same period.

Table 51. Grand Traverse County Office Sector Employment, 2000 to 2005

Employment Segment	2000	2001	2002	2003	2004	2005	CAGR
Information	1,051	895	918	921	890	930	-2.42%
Finance and insurance	1,581	1,710	2,008	2,092	2,098	2,095	5.79%
Real estate and rental and leasing	570	583	565	567	579	573	0.11%
Professional and technical services	2,124	2,119	2,068	2,160	2,161	2,059	-0.62%
Management of companies	79	72	72	85	79	74	-1.30%
Health care and social assistance	6,227	6,467	6,911	7,074	7,154	7,436	3.61%
Administrative and support services	1,416	1,219	1,196	1,179	1,314	1,557	1.92%
Total	15,048	15,066	15,740	16,081	16,279	16,729	2.14%

Source: ERA, Michigan Department of Labor and Economic Growth

Importantly, when health care related jobs are excluded from the analysis, overall office-using job growth drops significantly, to an annualized rate of about 1.3%, with net job growth concentrated entirely in finance and insurance, which added about 500 positions over the six-year period, all by 2003. While administration and support services saw an increase in employment, the gain was concentrated after 2003, with only a net gain of about 140 positions. The employment data is significant in that while medical office demand is likely to continue to grow, demand in other sectors is more sensitive to economic cycles.

Office Inventory Analysis

The office inventory analysis was built around several key steps:

- Initial site visits / windshield surveys of existing office buildings in noted submarkets, to identify vacant space
- Analysis of county property information records (building size and year of construction) and 2003 / 2005 aerial photography
- Interviews with building managers and developers

- Analysis of vacant space reports provided by local commercial brokerage companies
- ERA experience in allocating existing buildings into competitive / non-competitive classes
- A majority of medical office space built around the hospital is not included in the analysis, primarily because most medical office space is purpose built, with significantly different build-out requirements.
- Renovated office space in Grand Traverse Commons (Building 50) is included.
- Office inventories in the DDA reflect updated vacancy levels, as well as a determination of retail versus office use by building address.
- Many buildings listed by the county assessor as being office buildings were noted in surveys to be industrial, flex, or business service related, and were excluded.
- Buildings in non-office locations, particularly industrial parks, were excluded

The approach identified an overall county inventory of about 1.75 million sf of competitive office space, with a vacancy level of 11.9%. Within defined submarkets across the county, it was noted that the DDA supports a current level of about 745,000 sf, with a lower vacancy level of 7.5%. When the DDA sub-market and the rest of the City of Traverse City are combined, the resulting inventory of about 1.26 million sf represents 73% of area office space. At the same time, the table shows how neighborhoods within the City of Traverse City are seeing a significant increase in office market vacancy, with an identified rate of 17% on a noted inventory of 524,928 sf of space.

Table 52. Grand Traverse Co. Office Market

Submarket	Inventory	Vacant Space	Vacancy
DDA	743,761	55,873	7.5%
Rest of Traverse City	524,928	89,584	17.1%
Grand Traverse County	485,849	63,205	13.0%
Total	1,754,538	208,662	11.9%

Source: ERA Analysis

The following table highlights changes in the share of overall office inventories since 1997. The table shows that the DDA's share of inventory has decreased from about 47% in 1997 to an estimated 43% in 2006.

Table 53. Office Sub-Market Market Share Analysis

Sub-Market	1997	2001	2006
DDA	47%	46%	43%
Rest of Traverse City	31%	30%	30%
Total Traverse City	78%	76%	73%
Grand Traverse County	22%	24%	27%
Total Traverse City	100%	100%	100%

Source: ERA Analysis

The following table reflects the overall nature of inventory growth since 1997, with almost 500,000 sf of new inventory built, and 58% being concentrated within the City of Traverse City. The county saw an increase of almost 200,000 sf over the same period, representing 42% of overall inventory growth.

Table 54. Inventory Growth Since 1997

Sub-Market	Square Feet Developed	Share of New Inventory
DDA	143,244	30%
Rest of Traverse City	131,591	28%
Total Traverse City	274,835	58%
Grand Traverse Co.	197,414	42%
Total	472,249	100%

Source: ERA Analysis

While the city captured the largest share of new construction, the rate of growth in office development across Grand Traverse County was more significant, as shown in the following table. While inventory growth across the City of Traverse City increased at an annualized rate of 2.7%, county inventories grew at 6.2% per year. For the overall county market, ERA identified an annualized growth rate of 3.6%. Given the overall vacancy levels noted above, it should be apparent that with office employment growth of about 2% per year versus inventory growth of almost 4%, that there would be a relevant vacancy issue in the market.

Table 55. Annualized Growth in Office Inventory, 1997 to 2006

Sub-Market	1997 to 2002	2002 to 2006	1997 to 2006
DDA	2.8%	1.9%	2.4%
Rest of Traverse City	2.9%	3.8%	3.3%
Total Traverse City	2.8%	2.6%	2.7%
Grand Traverse County	5.9%	6.6%	6.2%
Total Traverse City	3.5%	3.6%	3.6%

Source: ERA Analysis

Several key projects have driven office demand factors:

- Copper Ridge has delivered several Class A office buildings, each with more than 28,000 sf, with heated parking.
- The county has seen a significant number of single-story professional office parks being developed, with projects south of Airport Road, and along Garfield Avenue.
- In Traverse City, recent projects include Plante Moran, 830 East Front Street, and 13919 SW Bay Shore Drive.
- DDA projects include Radio Center I and II, as well as Rivers Edge, and Harbor View Center.
- The current renovation of one of the largest building in the market, the 60,000-square-foot 10850 E Traverse Hwy is also impacting vacancy levels. Interviews with building management would suggest that the renovation is attracting tenant interest, after having seen vacancy levels increase significantly in recent years.

Given employment decreases in other sectors noted in this report, recent growth in office using employment has been a key driver of growth for the City of Traverse City. Specific office market implications are discussed in the next section.

Chapter 6 - Strategy Recommendations

Core Market Findings

When placed in perspective with other Midwestern downtown markets evaluated by ERA, downtown Traverse City is significant for several reasons:

- Downtown supports a regionally significant inventory of retail space (about 470,000 sf) and office space (743,700 sf), with low vacancy levels.
- Downtown supports a strong and unique mix of retail, with specific concentrations in restaurant, gift, and apparel segments. As well, downtown has successfully incorporated significant national retailers, such as Talbot's, Orvis, and Coldstone Creamery.
- Quoted retail lease rates, at $15 to $25 per square foot, are above similar Midwestern destinations, and have helped drive new construction of new downtown office and retail space.

Demographic / Economic / Housing: The analysis identified rapid population growth in the Traverse City region (by Michigan standards), with growth in the 15 to 29 and over 55 age segments. Growth in the retiree segment is driving increases in the median age and reductions in the average household size. Other factors include:

- New residents continue to target the five-county area as a desirable place to live, work, and retire. Given the rate of regional population growth, pressures on the City of Traverse City to accommodate a share of this growth will only increase. While the city is built-out, opportunities remain for infill housing development, in a fashion consistent with the city's declared vision for new urbanism. ERA stresses that a key reality of this vision is an appropriate increase in density, linked with the availability of more diverse housing options, including affordable ones.
- Analysis of incomes reflects several significant splits in the market, with a core resident population with incomes that are generally consistent with State and US averages. In addition, the market supports a significant base of tourists, which can generally be divided into three general groups:
    1. Summer tourists, mostly families, who are driving to Traverse City, and are generally budget conscious.
    2. Fall visitors, mostly couples without families, who are generally more affluent
    3. Seasonal residents, who appear to be significantly more affluent, but tend to favor suburban / rural home sites with lake frontage. As Traverse City is not the permanent residence for these people, they do not appear in Census data.
- For residents that have been interested in Traverse City and Grand Traverse County, there appears to be a relevant level of price sensitivity, with few homes sold above the $350,000 price level.
- ERA analysis of median household size trends since 1990 would suggest that Traverse City is not adding housing units at a rate sufficient to offset estimated decreases in the average household size. Analysis suggests that the city needs to see annual development of about 50 net new housing units per year to offset the impact of smaller household sizes. While development of 50 new units per year for the city may seem excessive, it remains a very small share of overall five-county housing demand. Growth in city population will also lend support to downtown retailing.

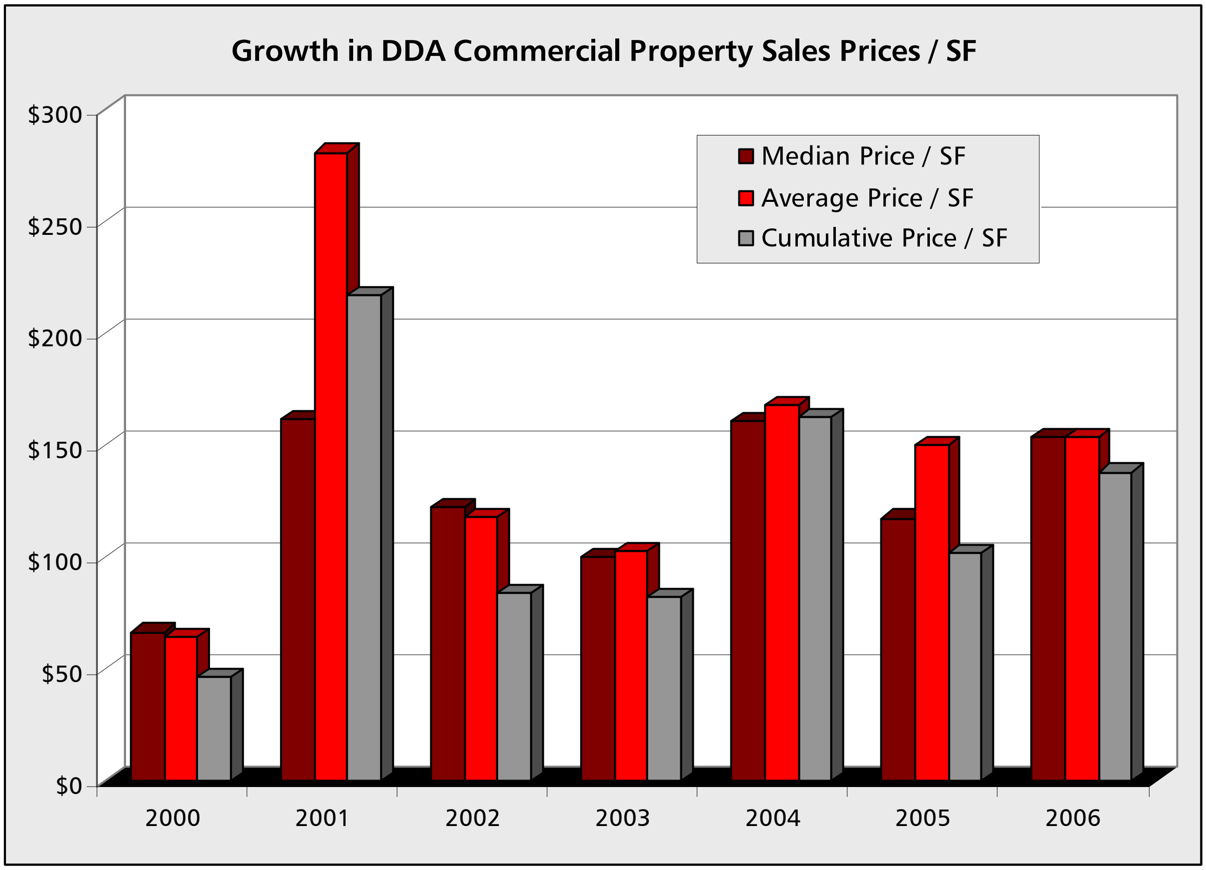
Retail Market: While the DDA district supports an enviable vacancy rate (2.4% as of February 1, 2007), the low rate conceals a significant level of turn over which occurs annually between September and January. The noted swing in rates, from about 7% down to 2% reflects a shift in inventory of about 15,000 to 20,000 sf, or about ten new businesses every winter. The inventory shift appears to relate in part to apparent imbalances between current rents and sales levels, more so in the miscellaneous / gift store segment, which is one of the anchor segments for downtown. The analysis also highlights other relevant considerations:

- Population and income growth across the five-county region has allowed the area to sustain significant increases in retail inventory (over 1 million sf new since 1997) with low vacancy levels, suggesting that additional retail development is likely. While additions in general merchandise are of lesser concern, proposed development of “lifestyle”-focused shopping centers at potentially three suburban sites in the region are of concern, as they would compete more directly with downtown.
- Increases in suburban retail inventories reflect national trends, with the surge in big box stores competing for general merchandise and grocery sales with traditional formats. As Traverse City does not possess the large 20+acre sites that these retailers typically require, the city’s ability to regain market share in general merchandise is unlikely.
- While the Old Town Playhouse and the recently re-opened Opera House bode well for generating increased retail activity in downtown, additional evening demand generators are critically needed.
- Perceived strength in the area office market may have helped boost DDA rent rates to current levels. The strength of the DDA office market reflects both opportunities and constraints. Positives relate to demand for retail and restaurants driven by day-time office workers, while challenges relate to individual property owners being predisposed to favor the tenant who can pay the highest rent. In the long run, a downtown that becomes too office focused will tend to lose its retail strength, a characteristic which allowed it to become a desirable office destination in the first place.

Office Market: The analysis found that the regional office market has grown considerably since 1997, fueled by significant growth in office-using employment sectors, such as finance, insurance, administration, professional services, and medical services. While overall growth rates are significant, further analysis indicated relevant splits in the market, with a majority of traditional office-related employment growth occurring by 2003, offset by ongoing growth in medical-related employment, which was more consistent over the noted period. Other relevant points include:

- Traverse City and the DDA District continue to support the majority of office inventory (70%) in the market, anchored by key employers such as Hagerty Insurance. At the same time, since 1997, suburban office locations have seen significant new construction and a corresponding increase in vacancy (13%). Suburban projects are catering to convenience, with heated parking and other amenities.
- While DDA vacancy levels are low (about 7.5%), neighborhood office locations in Traverse City appear to have born the impact (vacancy of 19%) of competitive suburban projects (Copper Ridge).
- While statewide economic trends are of concern, recent history would suggest that Traverse City continues to be an attractive destination for smaller office companies in professional services and financial services, which are not location sensitive.
- Renovations at the Commons are expected to deliver additional office and retail space to the market. As this project benefits from a 12-year property tax freeze, a number of tenants have relocated, some from downtown in response to the lower operating costs.

Downtown Price Appreciation: The analysis process noted concern about DDA district commercial property price appreciation. Discussions with the Traverse City Assessors Office led to a clearer picture of growth in sales prices per square foot for DDA commercial property, shown in the chart below. The chart highlights growth in calculated median, average and cumulative sales prices for all commercial property by year since 2000. While the median and average calculations are a reflection of the level of variability in sales prices (a greater difference between median and average points to greater variation in the sample), the cumulative approach divides the total value of property sold by the total square footage of floor area sold; of the three measures, it is the true average.



Several trends can be discerned from the above analysis:

- The number of sales transactions has varied over the noted period, with 5 sales in 2000, 10 in 2001, 7 in 2002, 8 in 2003, 8 in 2004, 15 in 2005, and 2 in 2006.
- 2001 was the highest year (over $11.5 million) for total value of transactions, followed by 2005, with $10.3 million in transactions. In 2001, three specific transactions accounted for the majority of the surge in prices noted for this year. When removed, the cumulative sales price per square foot for 2001 drops to $88.26, which is more in line with the long-term trend.
- Looking at a 2000 to 2005 trend, cumulative prices per square foot have grown at a 37% annualized rate; the 2000 to 2006 trend is reflective of dramatic annualized growth, with a 20% annual increase.

While overall area economic fundamentals remain attractive, they are clearly not sufficient to sustain the above noted commercial property sales prices in the long run, as rents, while high in relation to store sales, are still not sufficient to justify building sales prices. The table speaks to notable speculative influence in the market, with rent levels that are inconsistent with building values.

Policy Framework: The interview process highlighted considerable variation in public opinion regarding tolerance for new commercial development and growth, as well as considerable discontent with high property taxes. Given levels of regional population growth, it is clear that growth pressures will continue. Thankfully, the city's established new urbanist vision has the potential to allow for appropriate infill development, which will enhance the tax base. From ERA's perspective, the vision needs to be forwarded, with linked discussion of innovative approaches to encourage housing development at prices that are more consistent with local expectations, and consideration of more specific strategies for affordable / workforce housing. Growth in city populations will also have specific benefits for downtown retail trade.

Core Strategy Recommendations

Discussion of final project recommendations begins with ERA's conclusion that Downtown Traverse City is facing several clear challenges:

- Downtown is increasingly a victim of its own success, with rents that are high in relation to store sales, linked with notable annual tenant turnover and vacancy levels that are arguably too low.
- The reality that regional population and income growth will encourage additional demand for retail space, including more competitive lifestyle-oriented retail projects in suburban locations.
- Downtown is anchored by stores in the restaurant, miscellaneous and apparel segments, which account for 73% of overall inventory. Even so, there are critical needs to expand downtown entertainment options, including cinema, to boost evening activity levels.
- While the DDA has achieved considerable success in advocating downtown revitalization, working with tenants, building owners, and the City, ERA experience clearly suggests that, moving forward, the DDA's role will need to evolve, in order to sustain current successes.

A key reason why adjustments are needed is the reality that nationally, downtown retail districts face very specific and increasing competitive disadvantages compared to suburban "lifestyle"-oriented retail centers, which are under single ownership and benefit from sophisticated marketing, branding, and convenient parking. While traditional downtowns do benefit from their more unique tenant offerings and distinct historic architecture, these benefits tend to be quickly outweighed by the benefit of having one entity responsible for management, tenanting, leasing, rents, and strategy. For most downtowns, these responsibilities are almost entirely borne by individual building owners who are either unwilling or unable to see the bigger picture. With these realities in mind, ERA developed the following set of strategy recommendations for downtown Traverse City. Overall recommendations focus on three core segments:

1. DDA Operational Focus
2. Downtown Infrastructure Improvements
3. Market Opportunities and Positioning

The ranking of categories reflects ERA's sense of priorities both overall, and within each segment.

DDA Operational Focus

If downtown is to respond to current challenges and move to the next level, the DDA's role in downtown will need to evolve. Recommended elements include:

Develop a Non-Profit Foundation: In Michigan and across the Midwest, private non-profit foundations and development corporations have taken more active roles in facilitating downtown revitalization. Key foundation roles can vary considerably, from fundraising and real estate transaction support to tenant identification, attraction, and retention. Across Michigan, Downtown Kalamazoo Incorporated (DKI) is one example of a private, non-profit entity that works with the City of Kalamazoo and the Downtown Development Authority to facilitate downtown residential and commercial development. DKI was involved in the recent development of a new downtown multi-screen Cineplex project in downtown Kalamazoo. For Traverse City, foundation support will particularly helpful in incubating and supporting new local businesses and job creation efforts. In considering the level of success achieved by downtown Traverse City, it is surprising to ERA that the downtown has not developed non-profit / foundation support.

Nationally there are an increasing number of examples of local and regional private foundations participating in publicly motivated real estate development in downtown renewal programs. This is a small, but growing trend, particularly in provision of affordable and/or workforce housing projects in which the 'gap' between market-based financing and below market affordability limitations would otherwise make inclusion of lower-cost housing financially infeasible. In Albuquerque, a local foundation committed a portion of its endowment into a long-term equity position in a neighborhood redevelopment project near the downtown area because the project was considered too risky for normal development financing approaches. The foundation board considered its financial participation to be a program-related investment rather than a loan or grant, and was used to write down the effective financing rate of affordable/workforce housing for potential purchasers at below-market interest levels. The foundation still receives a return on its investment (as if it had retained securities and stocks as its endowment principal), but the effective yield is below the rate that would be required by a developer and/or a commercial equity participant, both of whom would need higher internal rates of return to justify funding. The 'spread' between the lower-than-market rate of return committed to the foundation is its contribution to the social benefit provided by development of affordable housing in an otherwise market-rate project.

In Providence, Rhode Island, a group of smaller ($3-15 million) family foundations which had previously paid their own staffs individually or hired law firms and trust departments in financial institutions to manage their investments, restructured to combine and consolidate their staffs into a single smaller program staff serving all of the foundations. Each foundation retained its own Board and programmatic focus areas, but the reduced operating costs generated additional funding to be made available for 'public purposes'. The new consortium, known as the Rhode Island Foundation, has committed several million dollars to establishment of the Downcity Fund, a low interest revolving loan fund used to improve vacant and deteriorated historic commercial buildings in downtown Providence. Funds can be committed to storefront improvements, upper floor renovations, tenant fit-up costs, systems upgrades, or other building improvements at below market rates. Eligible structures must follow design and construction guidelines that will both guarantee practical preservation of the structures and to restore their architectural integrity as well as (in many cases) qualifying the commercial buildings for Federal Historic Preservation Tax Credits reviewed and approved by the National Park Service and the Internal Revenue Service. Interest rates are below prime, and can be negotiated according to the amount of the loan, the level of risk involved and availability of other guarantees.

As a fourth example, ERA notes the city of Springfield, Illinois, with a county population of 198,400 residents. The downtown area is overseen by a 501C3 organization called "Downtown Springfield, Inc." The organization is governed by a board of trustees and a board of directors. The organization has several volunteer sub-committees that cover parking, safety, business retention, promotion, and image and design. Perhaps most importantly, Downtown Springfield, Inc. includes a subsidiary non-profit organization called the Heritage Foundation which is responsible for grant writing and fundraising to support building acquisition and renovation, governed by a separate volunteer board of trustees. For comparative purposes, downtown retail rents in Springfield are at around $9 per sf (nnn), well below levels in Traverse City.

Reduce Tenant Turnover: ERA experience shows that it is in the DDA and building owners' long-term best interest to both meet with prospective tenants to discuss elements of their merchandise mix, business plan, and target markets before a lease is signed. Ideally, this process may help the tenant understand potential overlaps with other downtown stores, and clarify likely store performance levels in relation to rent. If current turnover levels remain un-checked, the trend will encourage more building owners to maximize rent at the expense of tenant stability, to the detriment of downtown. This recommendation carries with it a specific assumption that the DDA (or a non-profit foundation) will develop a more formalized approach to working with building owners to facilitate tenant identification, attraction, and retention.

Consistent Store Hours: Work with the DTCA and tenants to develop consistent evening store hours, particularly during core retailing seasons. Across the Midwest, this approach focuses on targeting one weekday for evening hours, which are observed by all stores. Store participation will need to be linked with the development of additional evening entertainment and cultural opportunities.

Identify Priority Infill Development Sites: Within the context of very low vacancy levels across the downtown area and strong regional demand, as well as the availability of surface parking lots, vacant development sites, and one-story buildings, there are clear opportunities for infill real estate development. ERA would advocate development of street level retail uses, along with upper floor residential use as a first priority. Given high land costs, as well as general premiums for infill development, the City / DDA will need to consider incentives to facilitate desired development goals. Typical incentives used by other cities include:

- Use of density bonuses,
- Provision of public parking / reduced parking requirements,
- Funding for streetscape improvements and infrastructure,
- Direct incentive payments to developers, tied to the achievement of certificates of occupancy as well as long-term property tax generation.

Importantly, the DDA and City are already using density bonuses, public parking and streetscape funding. To the extent that existing state law prevents the city from playing a larger role, there would appear to be a clear opportunity for a non-profit entity to participate.

Real Estate Intermediary: In addition to any role that a foundation might play in downtown, the DDA should have the ability to buy and sell land in specific circumstances, acting as an intermediary to facilitate downtown revitalization, but not to be a final or permanent land owner.

Expand Regional Marketing Support: Given the historic role of downtown as key tourist destination, ERA suggests that the DDA and city continue to work with the regional convention and visitor's bureau to expand marketing in key regional markets outside of Michigan, such as Chicago. From ERA's national perspective, given the notably low current hotel tax rate in the area, there would appear to be opportunity to increase taxes, with proceeds targeted to support further advertising efforts in new markets. This effort reflects a basic belief by ERA that additional visitors need to be attracted to downtown.

Additionally, there has been interest in the Principal Shopping Center Act, which allows local governments to establish special tax assessment districts for downtown to generate additional revenue to support downtown marketing, maintenance, and operations. From ERA's perspective, these special assessment districts can be effective, if business owners perceive that they are gaining incremental value from the special assessment district.

Downtown Infrastructure Improvements

More Parking: The downtown area supports about 458,700 sf of retail space and 743,800 sf of office space, for a total of about 1,202,500 sf. To support this inventory, there are 1,480 metered parking spaces, 737 permit parking spaces, and about 1,750 private parking spaces, for a total of about 3,970 spaces, or a ratio of about 1 space per 300 sf. Within the context of current downtown zoning, where building owners are not required to provide on-site parking, the current ratio of 300 sf per space is of concern, falling at the lower end of ERA's national expectations, where overall parking ratios of 250 to 300 sf per space are typical in cities with limited public transportation. During the summer tourist season, downtown visitation clearly exceeds "normal" levels, and the current 3 spaces per 1,000 sf ratio is not sufficient. Using a ratio of 4 spaces per 1,000 square feet, downtown would be under-parked by about 840 spaces. Given that Traverse City is built-out, pressures to develop existing vacant surface parking lots for mixed use development will only increase. The current city / DDA strategy of building parking decks is a clear step in the right direction.

Wayfinding and Gateway Improvements: DDA and city officials should consider the development of expanded wayfinding and gateway features across downtown. An expanded wayfinding strategy is needed to help direct visitors to available parking areas and other existing public amenities. Gateway elements are needed to help reinforce the sense of arrival in downtown. While changes in building height and density reflect a debatable sense of arrival, there are no developed gateway features that reinforce downtown as a specific destination.

Streetscape Improvements: Compared to other Midwestern downtowns familiar to ERA which suffer from dated streetscape elements, continued efforts by City and DDA officials to sustain reinvestment in downtown are significant. ERA experience clearly points to the annual need for reinvestment in streetscape elements including cross walks, waste receptacles, planters, landscaping, signage, and street furniture, with the consistent goal of improving the pedestrian experience. Specific considerations include:

- **Outdoor Dining** – Assessments noted a minimal number of sidewalk cafés and outdoor dining opportunities. Discussions focused on local concern about sidewalk widths, which may not be wide enough to support pedestrian traffic and outdoor dining facilities. While ERA would be concerned about any loss of convenient street parking, individual opportunities for expanded outdoor dining need to be considered.

- **Public Art** – Cities across the country have developed a broad array of public art programs, exhibits and sculptures, ranging from smaller touring outdoor art exhibits to the development of major public sculptures such as *Cloud Gate* in Chicago. Many cities have recognized the value of public art, identifying special funding support for downtown art investments. The City of Albuquerque developed a public art program ordinance, which sets aside 1% of city construction funds derived from the general obligation and revenue bond programs to fund acquisition and commissioning of major works of art; the City of Chicago has a similar program, that requires a percentage of costs for public buildings to be dedicated to the acquisition of public art. As well, cities have developed urban parks with the specific ability to host and support outdoor art exhibitions, such as *Earth from the Air*.

Evaluate Two-Way Streets: Across the country, many downtowns adopted one-way street pairs as a means to deal with perceived traffic congestions, and advised that one-way couplets would improve traffic efficiency and improve the rate of flow through downtown areas. However, it has more recently been recognized that maximizing traffic flow and speed by designating one-way streets through downtown areas is inconsistent with creation of a balanced, safer pedestrian environment (which benefits from slower traffic movement) and successful retailing (which benefits from the improved visibility of stores, restaurants and other businesses by slower traffic movement). A number of leading traffic engineers have begun to re-think the underlying logic of one-way streets, unless there is such great traffic volume that street capacities and wait times at traffic signals have reached intolerable levels. ERA is aware that the summer traffic volume in downtown Traverse City is considerably higher than in the off-season, but we believe that the City could benefit by re-examining whether one-way streets are really warranted now and in the future. From a retailing and circulation standpoint, two-way streets may provide other benefits for downtown retail businesses.

Bayfront Park Connections: ERA's national practice highlights the growing importance of urban parks across the country as specific amenities that encourage people to visit and live downtown, while driving premiums in land and development value. While Traverse City benefits from considerable lakefront parkland across Grandview Parkway from downtown, there is no clear connection between downtown and the bayfront. ERA understands that the Bayfront Planning Committee and DDA are actively discussing potential connections. In general, linkage to the lakefront is important in driving premiums in real estate value and property taxes.

Market Opportunities and Positioning

Recommendations discussed above as part of the **DDA Operational Focus** and **Downtown Infrastructure** sections are key building blocks for discussion of additional market-related recommendations. For all three identified elements, the key underlying theme relates to decisions that expand the potential market for downtown, offering new amenities that will extend the stay of visitors, strengthen the performance of existing merchants, and support opportunities for new local business development. To this end, ERA has identified several elements that have realistic potential to build on downtown's current strengths, with the specific goal of increasing market share. Considerations include:

Entertainment: More evening entertainment and cultural outlets in the downtown are a critical need, building off of the 2007 re-opening of the Opera House. Efforts should focus initially on a strategy for the State Theater tied to second run / arts movies and community performing arts. Looking beyond the State Theater, other Midwestern downtowns have attracted multiplex cinemas, using direct or indirect subsidies to facilitate desired projects. From ERA's perspective, expanded evening entertainment is critical in increasing downtown pedestrian activity and store sales. As market analysis indicates that a majority of the cinema screens in the region do not offer stadium seating and enhanced sound quality, it is likely that someone will try to build a new cinema project somewhere in the region.

Residential Development: The market analysis highlighted concerns about population levels in Traverse City, driven in part by decreases in the average household size. Given that retail development is highly correlated with new residential rooftops, a focused city policy goal for residential development within walking distance of the downtown core will be critical in building support for retail in the downtown area. Such a policy is consistent with national trends relating to increasing utility expenses and public health issues, which are beginning to influence a greater desire for walkability. Across the Midwest, cities are using tax, parking, and density incentives to encourage specific urban residential goals in response to these challenges.

The Farmers Market: The existing farmers market has a role to play in the broader context of expanding on downtown's role as a destination. Markets offer interesting opportunities to incubate new businesses and can evolve into strong tourist destinations in their own right. ERA views Pike Place Market in Seattle as the best example, serving as a tourist destination, and being responsible for the creation of at least two national retailers – Starbucks and Sur La Table. Pike Place is also notable in that it is managed by a private non-profit corporation with notable social service goals. For the Traverse City Farmers Market, efforts should focus on the development of a permanent heated building to serve as a public market hall. Market halls are a logical outgrowth of farmers markets, offering secure and controlled space for small merchants who can sell anything from art and clothes to prepared foods, coffee and tea, cheese, wine, baked goods, meat, poultry, and fish. As unique local destinations, they can also attract tourist spending. A local downtown non-profit foundation would be a logical partner in such an effort.

Downtown Store Mix: The current downtown store mix is anchored by concentrations in four segments, including restaurants and bars (25% of inventory), gift shops (19% of inventory), apparel & accessories (15% of inventory), and furniture and home furnishings (12% of inventory). As noted previously, while the restaurant, furniture, and apparel segments appear to be solid performers, sales performance in the miscellaneous store segment appears softer. Given the array of tenant options already in these segments, ERA's approach focuses on efforts to increase downtown sales capture as the main priority. Based on space availability, additional retail clustering suggestions include:

- Home Renovation Cluster: Tenant mix could include showrooms for plumbing and electrical supplies, as well as kitchen and bathroom cabinets and furnishings, specialty fixtures (historical moldings and treatments). These operations have the capability to serve both wholesale and retail markets, which has notable appeal for a building layout that offers parking in front and back. ERA also notes that these types of clusters tend to prefer accessible locations that are less expensive, as the related uses tend to be more space intensive.

- Art Gallery Cluster: The arts-related components provided by galleries could be strengthened by locating / clustering additional gallery-type businesses in lower-priced locations on side streets, or combining galleries and arts display with other complementary uses, such as wine bars, florists, one-of-a-kind home gifts, garden equipment and art pieces, etc.

Both of these cluster ideas would require lower cost space to be successful.

New Tenant Ideas: Given the dynamic nature of retailing, there are always new store ideas emerging around the country, some trendy and more-short term than others. Ideas include:

- Wine / wine tasting and cheese stores

- Specialty stores selling olive oil, marinades, and spices. Oliver & Company is an example

- New grocery formats tailored to urban areas, blending fresh / organic produce and prepared foods. While Fresh Market, Whole Foods, and Trader Joes are national models for these store formats, there are opportunities for locally-developed alternatives.
- Fair-trade stores, such as Ten Thousand Villages
- Cereality Cereal Bar & Cafè – Popular with younger people, particularly in college towns

National Chain Stores: With the arrival of Talbot's and Orvis in downtown, and rumors that Starbucks Coffee is evaluating area sites, it is clear that as national retailers continue to search for growth markets, Traverse City is becoming a more visible market opportunity. National retailers benefit from strong corporate branding and national advertising, and can tolerate higher core area retail rents. Talbot's in particular, relies extensively on catalogue sales trends to identify new markets such as Traverse City. Given the general pack mentality of retailers, as well as more specific co-tenancy requirements, it is not surprising that Chico's evaluated Traverse City at the same time as Talbot's; Coldwater Creek and Ann Talyor are other examples that tend to follow as well. These store examples are also seeking out lifestyle center formats, as well as downtown sites. Other interesting national options could include Smith & Hawken for garden equipment. As downtown already has several strong locally-owned stores in key segments (woman's apparel, books, kitchen equipment) that national brands also target, care should be taken to ensure that new downtown entrants strengthen the overall competitive position of downtown. To the extent that key national chains can be attracted to downtown, it may preempt suburban lifestyle projects from occurring.

Street Level Office / Financial Uses: Building owners will need to appreciate the critical balance of office and retail uses along Front Street, particularly at street level. From ERA's perspective, non-activating / non-retail uses create discontinuity along the streetscape, and should be very carefully considered before signing / renewing leases.

Festivals and Special Events: Consistent with the theme of increasing market share, consideration should be given to the development of additional smaller weekend niche festivals, building from success with the National Cherry Festival and the Traverse City Film Festival. Typically, successful festivals appeal to at least two of the five senses (taste, smell, sight, touch, hear), and have a local connection. Potential theories include sailing-related events planned before or after the Mackinaw Island boat race. Other concepts include art festivals linked with wine and cheese tastings, children, dogs, and antiques. Given the short duration of the summer season, additional large scale festivals are not recommended.

Appendix A

Relevant Tapestry Definitions

ESRI's definitions for the 23 tapestry segments that comprise the five-county area (includes the 19 segments comprising Grand Traverse County) are provided below, in alphabetical order:

Connoisseurs – Connoisseurs residents are well educated and somewhat older, with a median age of 45.4 years. Although residents appear closer to retirement than child rearing age, many of these married couples have children who still live at home. Residents spend money for nice homes, cars, clothes, and vacations. Exercise is a priority; they work out weekly at a club or other facility, ski, play golf, snorkel, play tennis, practice yoga, and jog. Active in the community, they work for political candidates or parties, write or visit elected officials, and participate in local civic issues.

Cozy and Comfortable – Cozy and Comfortable residents are settled, married, and still working. Many couples are still living in the pre-1970s, single-family homes in which they raised their children. The median age is 41 years, and the median home value is $164,000. Home improvement and remodeling are important to Cozy and Comfortable residents. They play softball and golf, attend ice hockey games, watch science fiction films on VHS/DVD, and gamble at casinos. Television is significant; many households have four or more sets.

Crossroads – Young families living in mobile homes typify Crossroads neighborhoods, growing communities with married-couple and single-parent families. The median age is 31.9 years. Homeownership is at 77 percent, and the median home value is $60,300. More than half of the householders live in mobile homes; 36 percent live in single-family dwellings. Employment is chiefly in the manufacturing, construction, retail trade, and service industries. Residents generally shop at discount stores but also frequent convenience stores. They prefer domestic cars and trucks, often buying and servicing used vehicles. Residents go fishing, attend auto races, and play the lottery.

Exurbanites – Empty nesters comprise 40 percent of these households; married couples with children occupy 32 percent. Half of the householders are between the ages of 45 and 64 years. The median age is 43.6 years. Approximately half of those who work hold professional or managerial positions. The median home value is approximately $255,900; the median household income is $83,200. Financial health is a priority for the Exurbanites market; they consult with financial planners and track their investments online. Residents work on their homes, lawns, and gardens. Leisure activities include boating, hiking, kayaking, playing Frisbee, photography, and bird-watching. Many are members of fraternal orders and participate in civic activities.

Green Acres – This is an upscale market and households in this segment typically reside on the fringes of mid-sized but rapidly growing urban areas. Most families are blue-collar baby boomers and many households have children between 6-17 years old, some are empty-nesters, but few of these households have younger children. They are do-it-yourselfers who engage in home improvement projects such as painting and installing decks, patios, etc. They are also enthusiastic gardeners and diligent lawn care workers. For leisure, they watch Home and Garden television, NASCAR, and pro football games.

Home Town – These low-density, settled neighborhoods, rarely change and Home Town residents stay close to their home base. Although they may move from one house to another, they rarely cross the county line. Household types are a mix of singles and families. The median age is 33.7 years. Single-family homes predominate in this market. Homeownership is at 61 percent, and the median home value is $61,800. The manufacturing, retail trade, and service industries are the primary sources of employment. Residents enjoy fishing and playing baseball, bingo, backgammon, and video games. When shopping, Belk and Wal-Mart are favorite stops, but residents also purchase items from Avon sales representatives.

In Style – More suburban than urban, In Style residents nevertheless embrace an urban lifestyle. Townhome ownership is more than double that of the national level; however, more than half of the households live in traditional single-family homes. Labor force participation is high, and professional couples predominate. The median household income is $67,800. Nearly one-third of these households include children. The median age is 39.3 years. In Style residents are computer savvy; they use the Internet daily to research information, track investments, or shop. They own a diverse investment portfolio, contribute to retirement savings plans, and hold long-term care and life insurance policies. They enjoy going to the beach, snorkeling, playing golf, casino gambling, and domestic travel.

Metropolitans – Metropolitans residents favor city living in older neighborhoods. Approximately half of the households are composed of singles who live alone or with others. However, married-couple families are 40 percent of the households. The median age is 37.1 years. Half of employed persons hold professional or management positions. Residents lead busy, active lifestyles. They travel frequently and participate in numerous civic activities. They enjoy going to museums and zoos and listening to classical music and jazz on the radio. Refinishing furniture and playing a musical instrument are favorite hobbies. Exercise includes yoga, roller blading, and hiking/backpacking.

Midland Crowd – Households in this segment are generally located in rural areas and they are close to nationwide averages in terms of age, income, and household size. Most of their housing units were built after 1990 and 95% of households in this segment live in owner-occupied, single-family homes. The preferred vehicle for this segment is a used, American-made pickup truck. For leisure, this segment goes hunting and fishing and watches television. They tend to be politically conservative, devoted pet lovers, and interested in domestic travel.

Midlife Junction – Residents are phasing out of their child-rearing years. Approximately half of the households are composed of married-couple families; 31 percent are singles who live alone. The median age is 40.5 years; the median household income is $43,600. One-third of the households receive Social Security benefits. Nearly two-thirds of the households are single-family structures; most of the remaining dwellings are apartments in multiunit buildings. These residents live quiet, settled lives. They spend their money prudently and do not succumb to fads. They prefer to shop by mail or phone from catalogs such as J.C. Penney, L.L. Bean, and Lands' End. They enjoy yoga, attending country music concerts and auto races, refinishing furniture, and reading romance novels.

Milk and Cookies – *Milk and Cookies* households are composed mainly of young, affluent married-couple families. Approximately half of the households include children. The median age for this market is 33.5 years. Residents prefer single-family homes in suburban areas, chiefly in the South, particularly in Texas. Smaller concentrations of households are located in the West and Midwest. The median home value is $131,900. Families with two or more workers, more than one child, and two or more vehicles is the norm for this market. Residents are well insured for the future. The presence of children drives their large purchases of baby and children's products and timesavers such as fast food. For fun, residents play video games, chess, backgammon, basketball and football, or fly kites.

Old and Newcomers – Old and Newcomers neighborhoods are in transition, populated by those who are starting their careers or retiring. The proportion of householders in their 20s or aged 75 years or older is higher than the national level. Many residents have moved in the last five years. Sixty percent of households are occupied by renters; approximately half live in mid-rise or high-rise buildings. Residents have substantial life insurance policies and investments in certificates of deposit, bonds, and annuities. Leisure activities include roller skating, roller blading, playing golf, gambling at casinos, playing bingo, and attending college ball games. They listen to classic hits on the radio. Many residents are members of fraternal orders or school boards.

Prosperous Empty Nesters – Prosperous Empty Nesters neighborhoods are well established, located throughout the United States; approximately one-third are on the eastern seaboard. The median age is 47.2 years. Forty percent of household types are married couples with no children living at home. Residents place a high value on their physical and financial well-being and take an active interest in their homes and communities. They travel extensively, both at home and abroad. Leisure activities include refinishing furniture, playing golf, attending sports events, and reading mysteries. Civic participation includes joining civic clubs, engaging in fund-raising, and working as volunteers.

Retirement Communities – Congregate housing, which commonly includes meals and other services in the rent, is a trait of this segment dominated by singles who live alone. This educated, older market has a median age of 50.7 years. Although the median household income is a modest $45,100, the median net worth is $172,000. Good health is a priority; residents visit their doctors regularly, diet and exercise, purchase low-sodium food, and take vitamins. They spend their leisure time working crossword puzzles, playing bingo, gardening indoors, canoeing, gambling, and traveling overseas. They like to spend time with their grandchildren and purchase toys for them.

Rooted Rural – Households are dominated by married-couple families, approximately one-third of who already receive Social Security benefits. The median age is 41.0 years. Housing is predominantly single-family dwellings, with a strong presence of mobile homes and some seasonal housing. Stable and settled, residents tend to move infrequently. They are do-it-yourselfers, constantly working on their homes, gardens, and vehicles. Many families have pets. Residents enjoy hunting, fishing, target shooting, boating, and country music.

Rural Resort Dwellers – These households live in scenic, rural, but non-farming areas throughout the U.S. Their communities typically consist of smaller houses with a large contingent of seasonal units. Most of these households are older married couples with no children living at home. Many of these residents are still working but are generally are in the process of transitioning from full-time employment to retirement.

Rustbelt Traditions – Most residents own and live in modest single-family homes that have a median value of $97,000. Households are primarily a mix of married-couple families, single-parent families, and singles. The median age is 35.9 years; the median household income is $45,300. Residents prefer to use a credit union and invest in certificates of deposit. They use coupons regularly, especially at Sam's Club, work on home remodeling or improvement projects, and buy vehicles. Favorite leisure activities include hunting, bowling, fishing, and attending auto races, country music shows, and ice hockey games.

Salt of the Earth – A rural or small-town lifestyle best describes the Salt of the Earth market. Households are dominated by married-couple families who live in single-family dwellings, with homeownership at 86 percent. Twenty-eight percent of the households own three or more vehicles. Residents are settled, hardworking, and self-reliant, taking on small home projects as well as vehicle maintenance. Families often own two or more pets, usually dogs or cats. Residents enjoy fishing, hunting, target shooting, attending country music concerts and auto races, and flying kites.

Senior Sun Seekers – In the case of Traverse City, this segment consists of "snowbirds" who move south for the winter. Most residents are retired or are anticipating retirement. Most households are single-family dwellings or mobile homes with a median value of $107,500. There is a high proportion of seasonal housing. Residents own high-paying insurance policies and consult with financial advisors. Leisure activities include dining out, reading (especially boating magazines), watching TV, fishing, playing backgammon and bingo, working crossword puzzles, and gambling at casinos.

Silver and Gold – Silver and Gold residents are the wealthiest seniors, with a median age of 58.5 years; most are retired from professional occupations. Neighborhoods are exclusive, with a median home value of $326,600 and a high proportion of seasonal housing. Residents enjoy traveling, woodworking, playing cards, bird-watching, target shooting, saltwater fishing, and power boating. Golf is more a way of life than a mere leisure pursuit; they play golf, attend tournaments, watch golf on TV, and listen to golf programs on the radio.

Simple Living – Half of Simple Living households are singles who live alone or share housing, and 32 percent consist of married-couple families. Housing is a mix of single-family dwellings and multiunit buildings of varying stories. Some seniors live in congregate housing (assisted living). Fifty-five percent of households are occupied by renters. Approximately 40 percent of households receive Social Security benefits. Younger residents enjoy going out dancing, whereas seniors prefer going to bingo night.

Southern Satellites – Married-couple families dominate this market. The median age is 37.1 years, and the median household income is $37,700. Most housing is newer, single-family dwellings or mobile homes with a median value of $81,400, occupied by owners. Residents listen to gospel and country music on the radio and attend country music concerts. They participate in fishing, hunting, and auto racing. Satellite dishes are popular in these rural locations. Households own older, domestic vehicles, particularly trucks and two-door sedans. Residents invest time in vegetable gardening, and households are likely to own riding mowers, garden tractors, and tillers.

Up and Coming Families – Up and Coming Families represents the second highest household growth market. The profile for these neighborhoods is young, affluent families with young children. Neighborhoods are located in suburban outskirts of midsized metropolitan areas. The homes are newer, with a median value of $185,500. Because family and home priorities dictate their consumer purchases, they frequently shop for baby and children’s products and household furniture. Leisure activities include playing softball, going to the zoo, and visiting theme parks.

Appendix B

General & Limiting Conditions

Every reasonable effort has been made to ensure that the data contained in this study reflect the most accurate and timely information possible. These data are believed to be reliable. This study is based on estimates, assumptions and other information developed by Economics Research Associates from its independent research effort, general knowledge of the market and the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent and representatives or any other data source used in preparing or presenting this study. No warranty or representation is made by Economics Research Associates that any of the projected values or results contained in this study will actually be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Economics Research Associates" in any manner without first obtaining the prior written consent of Economics Research Associates. No abstracting, excerpting or summarizing of this study may be made without first obtaining the prior written consent of Economics Research Associates. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person, other than the client, without first obtaining the prior written consent of Economics Research Associates. This study may not be used for purposes other than that for which it is prepared or for which prior written consent has first been obtained from Economics Research Associates. This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions and considerations.