

Final Presentation
Downtown Market Analysis



Presented to:
**The Downtown Development
Authority**



Presented by:
Economics Research Associates



March 12, 2007



Acknowledgements



- Grand Traverse County Economic Development Corporation
- Grand Traverse County GIS
- Acme Township
- Michigan State Housing Authority
- The Downtown Development Authority of Traverse City
- City of Traverse City, Assessors Department
- Key Stakeholders

Approach

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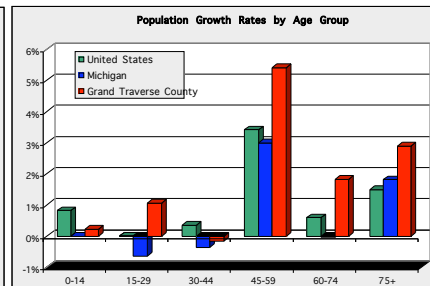
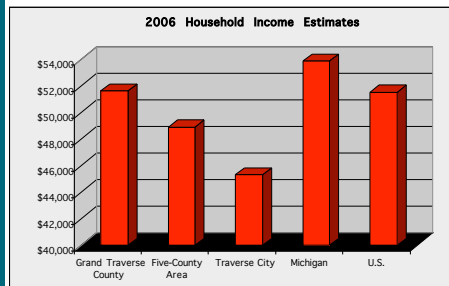
- Stakeholder Interviews
- Economic & Demographic Context
- Retail & Office Market Analysis
 - Downtown, City-wide, and region
 - Inventory and vacancy assessment
 - Demand and supply
- Residential Market Analysis
 - Recent sales trends
 - Demand for downtown housing
- Strategy Recommendations

Demographic Context

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Annual Population Change, 1990 to 2000:

- Regional growth rates above state levels
- Grand Traverse County: 1,338 new residents/year
- Traverse City: Decrease of 62 residents per year
- Forecast expectations in line with historic growth

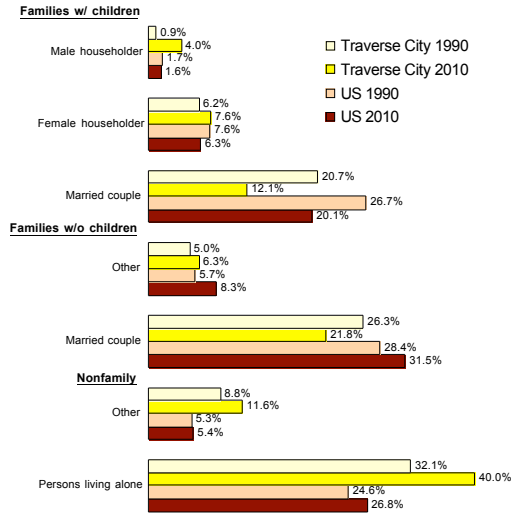


Demographic Context



Relatively Fewer Families With Kids

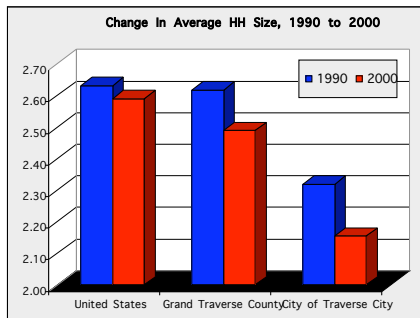
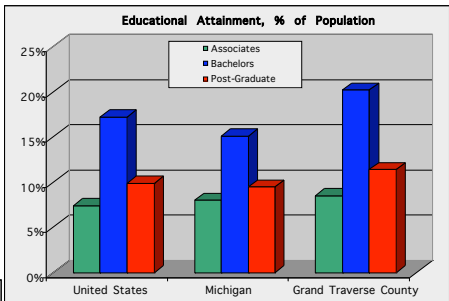
Percent distribution of HHs by type: 1990 and 2010 (projected)



Demographic Context



- Local educational attainment is above US and State averages.
- Close link between educational attainment and income

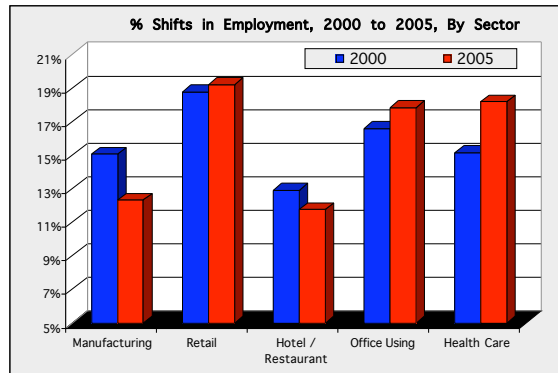


- Nationally the average household size is decreasing
- For Traverse City, the rate of decrease is significant

Economic Context

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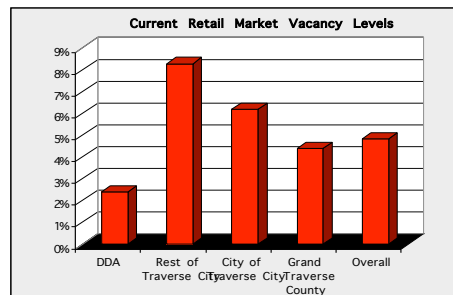
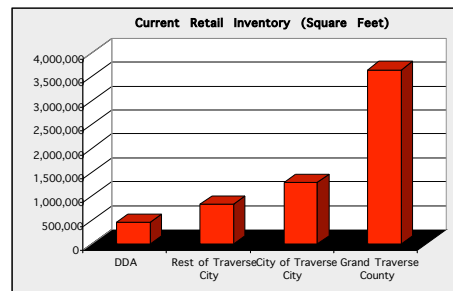
- Employment Growth in office-using sectors is critical to the local economy
- Wage growth has been above state levels, but below national levels
- Tourism is the critical third leg of the economy



Retail Market Assessment

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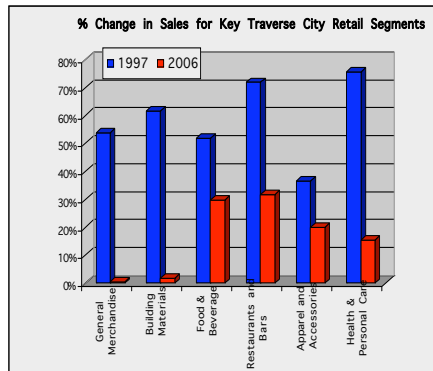
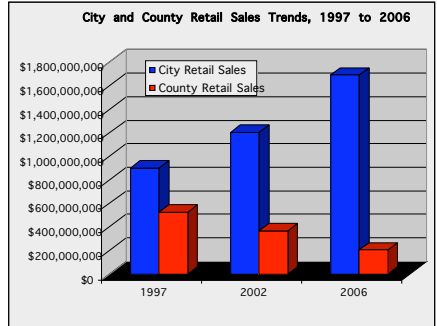
- The DDA supports about 9% of a 4.9 million-sf county retail market
- Since 1997, the DDA has added about 6,900 sf of new retail space
- Since 1997, county retail inventories have increased by over 1.1 million sf
- Annual regional inventory growth rate of 3.8%
- Menards, Lowes, Home Depot, Best Buy, etc.
- Despite the increase, overall county vacancy levels are low (about 5%)



Retail Market Assessment



- County retail sales have grown at a 6% annual rate
- Traverse City's share of retail sales has decreased from 58% to 12% of total sales

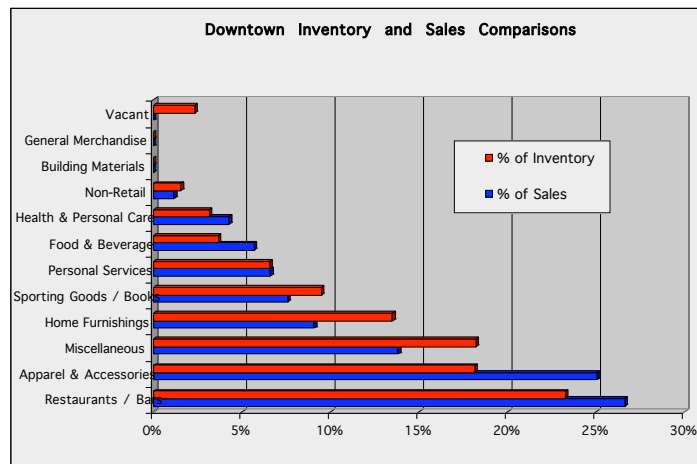


- Growth in general merchandise & building materials represented 59% of county sales growth.
- Loss of key general merchandise stores in city

Retail Market Assessment



- Downtown supports 458,745 square feet
- Downtown generates sales of \$88.9 million
- Four segments account for 73% of sales & 75% of inventory



Retail Market Assessment

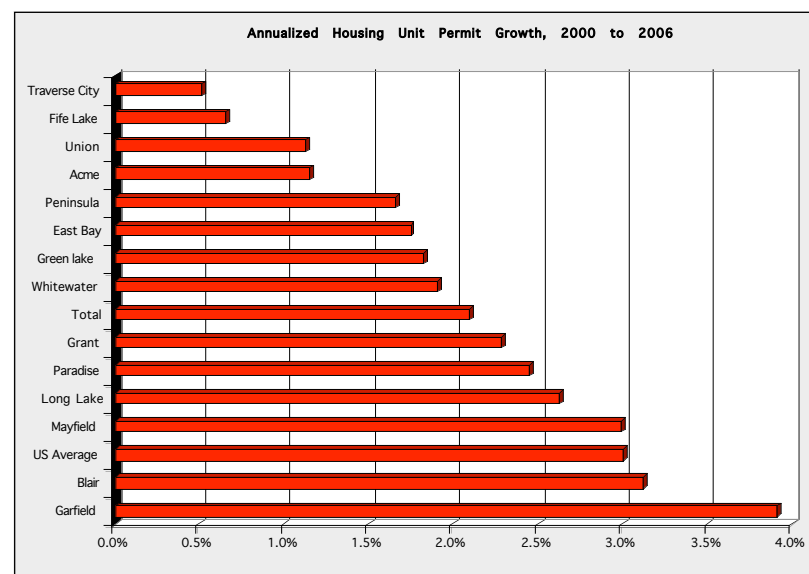
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National Retail Trends

- Shift in spending to larger big box stores
- Competitive problems for grocery stores and department stores
- Shift in spending driven by new technology
- Shift in spending due to higher utility prices
- Competition with new lifestyle retail formats
- Shifting retail fortunes:
 - Sears / Kmart
 - Department store mergers – Marshall Fields
 - The Gap closing Forth & Towne

Residential Market Assessment

ERA



Residential Market Assessment **ERA**

- County population growth since 2000: 1.8%
- County permit growth since 2000: 2.1%
- Since 2000 - 5,443 new county housing units
- Traverse City added 246 new units, for a growth rate of 0.5%
 - Decreasing HH size rate of 0.74%
 - City is not adding units fast enough
- Homes priced above \$300,000 represent:
 - Traverse City Condos: 6%
 - Traverse City Homes: 10%
 - Grand Traverse County Condos: 7%
 - Grand Traverse County Homes: 14%

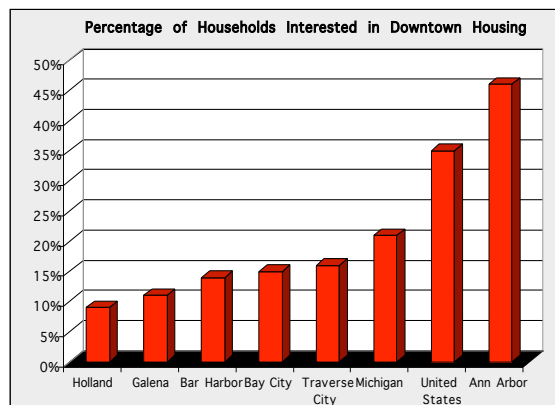
Residential Market Assessment **ERA**

Downtown Housing Considerations

- 252 downtown housing units in Traverse City
- Growing national interest in walkable housing

Considerations

- Increasing gasoline costs
- Increasing heating costs
- Decreasing household size
- Health
- Interest in more housing options

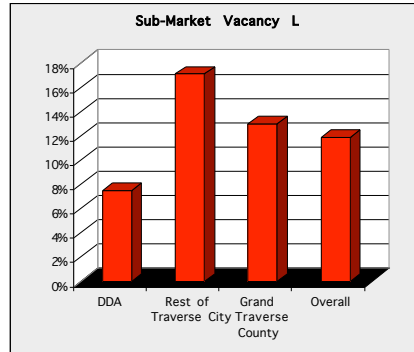
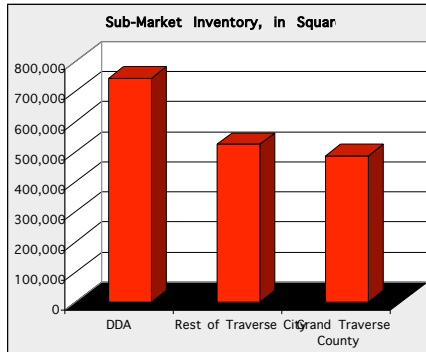


Office Market Assessment



Demand Drivers Since 2000

- Medical employment growth: 1,209 jobs
- Office employment growth: 588 jobs
- Hagerty Insurance / financial services



Office Market Assessment

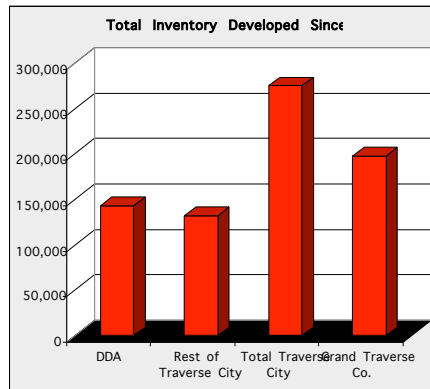


Traverse City Office Market:

- 72% of county inventory
- DDA: 58% of city inventory
- DDA: 42% of county inventory
- DDA: captured 38% of inventory growth since 2000

County Market Perspective:

- 3.6% growth in inventory
- 2.1% growth in employment
- Relevant oversupply
- City neighborhood office corridors are impacted



Core Market Findings

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Economic and Demographic:

- New residential growth across the region
 - 2,600 new residents per year through 2011
- Dramatic decrease in city household size
 - 2.32 to 2.15 people per household
- To sustain current population
 - A net increase of 50 housing units per year
 - Since 2000, the city has added 30 per year, net of demolitions
- While Traverse City is built-out, there are numerous opportunities for infill development
- Housing price sensitivity
- Residential development drives retail development

Core Market Findings

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Retail Market Findings:

- Downtown Traverse City is a highly successful retail destination by Midwest standards
 - Inventory & tenant mix, supporting office space, lease rates
- High rents and low vacancy conceal annual turnover
 - 10 to 15 DDA businesses fail and are replaced every winter
- Traverse City is built-out – no sites for large format retailers
- While downtown is fully occupied, store sales are soft in relation to rents, pointing to a need to increase store performance.
- While the Old Town Playhouse and the Opera House add to evening entertainment, more evening activity is needed; the State Theater should play a role

Core Market Findings

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Office Market Findings:

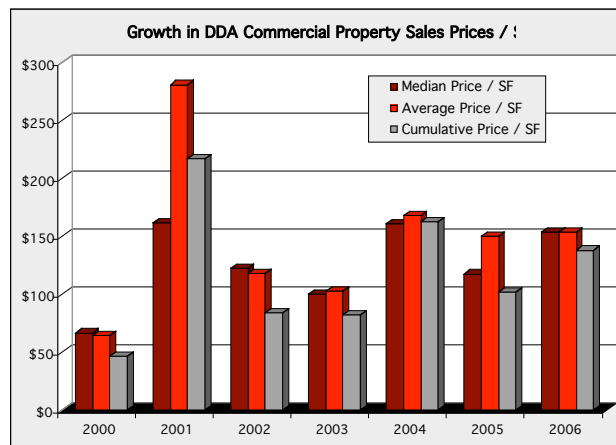
- Traverse City continues to be the core of the regional office market
- Suburban office projects are catering to convenience
 - Copper Ridge
- DDA District office employment is a key supporter of downtown retail and restaurant demand.
- A sense that the recent run-up in downtown retail lease rates is in part linked to the office market.
- Anchor tenants drive demand for new office space
- Renovations at the Commons - competition

Core Market Findings

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Downtown Price Appreciation:

- 2000 to 2005: Annual growth of 37% per year
- 2000 to 2006: Annual growth of 20% per year



Core Market Findings

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Policy Framework Considerations:

- City / DDA Stakeholder interviews highlighted:
 - Discontent with property taxes
 - Variable tolerances for growth
 - Vision for a community built on “new urbanist” principals
- Market Analysis Realities:
 - Demographic shifts will drive further decreases in population
 - Downtown retail demand is linked to city population
- Policy Responses:
 - There are numerous infill sites that can be redeveloped
 - Increase city new permits from 30 to 50 per year on a net basis
 - Linkage with workforce housing / job creation
- Fiscally speaking, standing still is the least desirable policy outcome

Strategy Recommendations

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Clear Challenges:

- Downtown is a victim of its own success
 - Rents appear high in relation to store sales
 - Vacancy levels are arguably too low
- Regional population and income growth will drive construction of competitive lifestyle retail projects
- Restaurants, apparel, gifts and home furnishings anchor downtown (73% of inventory)
 - Miscellaneous stores (18% of inventory) are underperforming
 - More evening entertainment is needed
- In response to these competitive challenges, the DDA’s role may need to evolve.....

Strategy Recommendations

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Core Recommendations:

- DDA Operational Focus
- Downtown Infrastructure Improvement
- Market Opportunities and Positioning

Strategy Recommendations

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DDA Operational Focus:

- Develop a Non-Profit Foundation / Corporation Role
 - Fundraising, real estate transaction support, tenant attraction
 - Multiple models in use across the country
 - Foundation role links with job creation / business formation
- Reduce Tenant Turnover
- Consistent Store Hours
 - Link evening store hours with expanded entertainment
- Identify Priority Infill Sites
 - New residential over street level retail space
- Expand Marketing Support
 - More visitors at different times of the year
 - Hotel taxes are surprisingly low

Strategy Recommendations

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Downtown Infrastructure Improvement:

- Parking Analysis
 - Downtown is under-parked
- Wayfinding and Gateway Improvements:
 - System to guide people to parking and public facilities
 - Gateway improvements to downtown entrances
- Streetscape Improvements:
 - Improve pedestrian experience
 - Outdoor dining
 - Public art
- Evaluate Two-Way Streets:
 - National experience – additional support for retail / slow traffic
- Bayfront Park Connections
 - Expand reasons to stay downtown / link with residential

Strategy Recommendations

ERA

Market Opportunities and Positioning:

- Expanded Evening Entertainment
 - State Theater: Arts / Second-Run Cinema
 - Consideration of a downtown multi-screen cinema
- Residential Development
 - Infill sites with street level retail and residential above
- Expanded Farmers Market
 - Creation of a permanent “market hall”
- Downtown Store Mix / New Store Ideas
 - Goal is to increase existing store performance
 - Modest increase in national chain stores, well-targeted
 - Clusters: Focus on home renovation / art galleries
 - Ideas: wine, cheese, olive oil, organic food, fair trade, cereal