



Connecting William Street Market Study Socio-Economic Trends & Projections

Ann Arbor, MI

June 14, 2012



ECONOMIC AND REAL ESTATE ANALYSIS FOR SUSTAINABLE LAND USE OUTCOMES™

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What makes a CBD economically vibrant and attractive?

What facets of the CBD make it easier for them to find and keep the talent they need to succeed?

Glossary of Terms

Household Population Household population, as compared to total population, excludes persons living in dormitories, penal facilities, hospitals and other institutional settings.

Family A family is a group of two or more people (one of whom is the householder) related by birth, marriage or adoption and residing together; all such people are considered as members of one family. The number of families is equal to the number of family households, however, the count of family members differ from the count of family household members because family household members include any non-relatives living in the household.

Non-Family A nonfamily household consists of a householder living alone (a one-person household) or where the householder shares the home exclusively with people to whom he/she is not related.

Household A household consists of all the people who occupy a housing unit. A house, an apartment or other group of rooms, or a single room, is regarded as a housing unit when it is occupied or intended for occupancy as separate living quarters. The count of households excludes group quarters and institutions.

Affordable Housing Housing which is affordable to income levels of between 50 percent and 120 percent of the Department of Housing and Urban Development-defined area median income (AMI).

Metropolitan Statistical Area (MSA) Metropolitan statistical areas (metro areas) are geographic entities defined by the Office of Management and Budget. A metro area contains a core urban area of 50,000 or more population. Each metro or micro area consists of one or more counties and includes the counties containing the core urban area, as well as any adjacent counties that have a high degree of social and economic integration (as measured by commuting to work) with the urban core.

Source: US Census Bureau

Methodology

4ward Planning LLC was retained by the Ann Arbor Downtown Development Authority (DDA) to conduct an examination of socio-economic trends (for 2000, 2010 and 2015) within the City of Ann Arbor, a 10-minute drive contour from William Street, and the surrounding Ann Arbor MSA (Washtenaw County). The study objective is to identify current and future market opportunities and challenges associated with the redevelopment of multiple City-owned sites currently managed as parking lots on or near William Street, in downtown Ann Arbor.

The analysis and recommendations that follow are based on a combination of quantitative and qualitative techniques. Quantitative analysis was underpinned by a combination of public and proprietary data sources, including U.S. Census based data and Esri's Community Analyst software – a socio-economic data analysis tool. Estimated and projected socio-economic trends examined included population and household growth, formation of family and non-family households, household income and tenure, and age cohort characteristics.

Geographies, such as the MSA and 10-minute drive time contour, were selected based on the strong likelihood that these areas serve as primary market draws for consumer purchases, labor supply and housing demand – all key factors associated with this analysis.

Methodology

Labor and industry trends were analyzed for the Ann Arbor MSA (the labor catchment area for all of Ann Arbor and where the majority of residents also work), the City of Ann Arbor, the 48104 and 48109 postal code areas – which encompasses all of the CBD, many large office employers and most of the University of Michigan's academic and research buildings. Further, to provide a fine grain detailed analysis of the CBD, 4ward Planning analyzed live-work patterns within the following boundary area: 1st Avenue to the west; Depot Street to the north; State Street to the east; and Williams Street to the south.

Labor data was gathered from the U.S. Census Bureau's On The Map data server. Projected labor data was sourced from the Bureau of Labor Statistics (BLS), federal source for national and regional data trends.

How Does This Study Inform the CWS Development Strategy?

The performance of a market study in advance of pursuing a given development strategy is intended to inform those leading the planning process and decision makers, City council and the public– in this case, the Ann Arbor Downtown Development Authority (DDA). Specifically, by understanding, qualitatively and quantitatively, demographic, industry and real estate trends locally and regionally, the community is better able to identify the types of land-uses (and the amount of each) likely to be market supportable in the near- and long-term. The land use recommendations are not site-specific and are applicable to the CBD in general.

Key Findings

Residential Demand Drivers are Strong

While modest, recent and projected growth in area households and industry employment bode well for future residential development in downtown Ann Arbor.

One Third

By 2015, approximately a third of all persons within a 10-minute drive of William Street will fall into the age categories of young professionals (25 to 34) and empty nesters (55 to 74).

More than 4 in 10

The 2015 projected number of households in the region earning more than \$75,000 per annum. Approximately three in ten households are projected to earn \$100,000 or more per year in 2015

Key Findings

160 Percent of the National Average

Households in the Ann Arbor 10-minute drive contour spend 1.6 times the national average on dining out and entertainment purchases – a favorable metric for enticing additional dining and entertainment businesses to downtown Ann Arbor.

Non-family households

The increase in total households, locally and regionally, is being driven by the formation of non-family households – the type of households which typically seek out higher density, urban housing in close proximity to services and other amenities.

Approximately 1,500 of More Than 20,000

There are slightly more than 20,000 persons employed within the downtown area (as defined by ZIP Code 48104) and only an estimated 1,486 (7.1 percent) of these persons also lives in that geography. While there is no standard benchmark, the share of persons working there relative to those living downtown suggests strong pent-up housing demand.

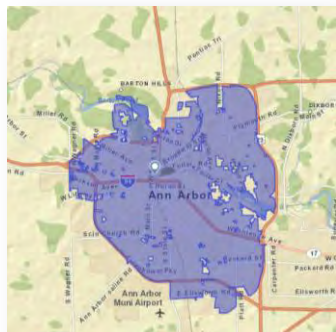
SOCIO-ECONOMIC TRENDS & PROJECTIONS: 2000 to 2015

ECONOMIC AND REAL ESTATE ANALYSIS FOR SUSTAINABLE LAND USE OUTCOMES™



Study Areas – Demographic Trend Analysis – 2010 Summary

City of Ann Arbor



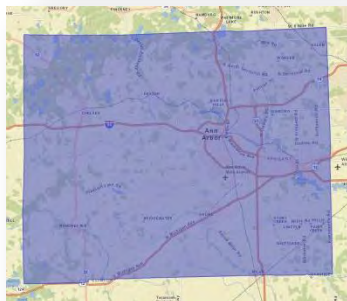
Population:	113,934
Total Households:	47,060
Median Age:	28
Median Household Income:	\$60,974
Percent of Household Incomes >\$75,000:	36%
Percent Owner-Occupied Housing:	42%

10-minute Driving
Contour from William
Street



Population:	143,969
Total Households:	59,876
Median Age:	29
Median Household Income:	\$62,515
Percent of Household Incomes >\$75,000:	38%
Percent Owner-Occupied Housing:	44%

Washtenaw County



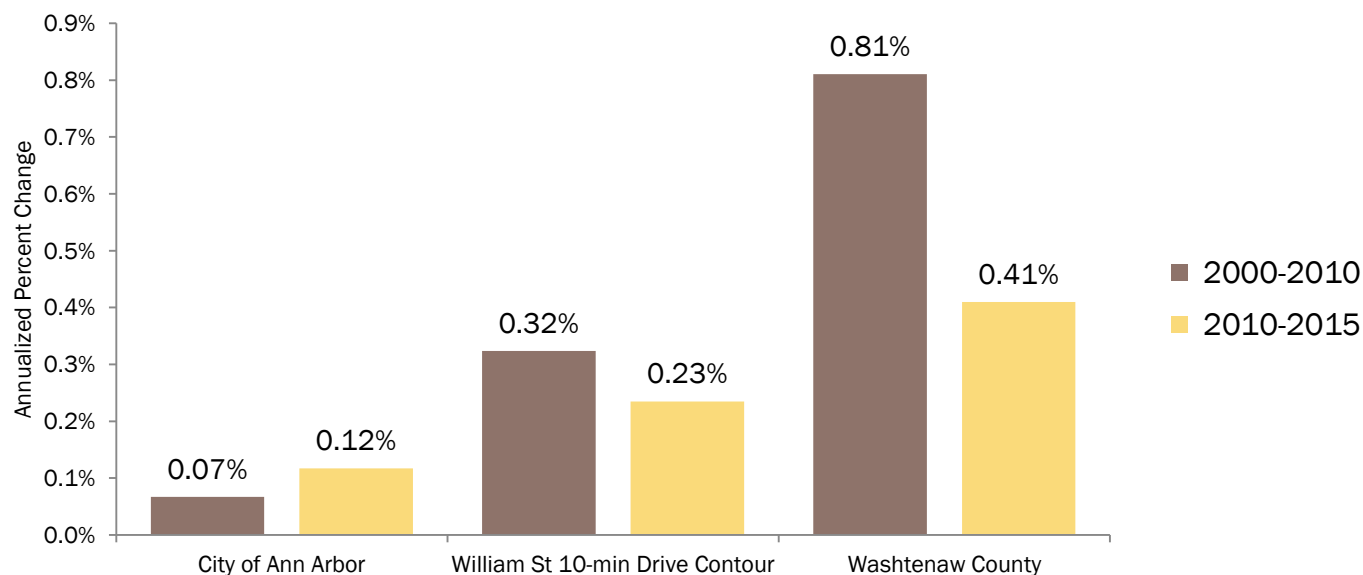
Population:	344,791
Total Households:	137,193
Median Age:	33
Median Household Income:	\$65,955
Percent of Household Incomes >\$75,000:	41%
Percent Owner-Occupied Housing:	57%

Source: US Census Bureau; Esri; Scan US; 4ward Planning LLC, 2012

Household Population

The City of Ann Arbor, the William Street 10-minute drive contour and Washtenaw County (Ann Arbor MSA) each experienced modest household population growth over the 2000 to 2010 period, with the county exhibiting the most robust annualized growth. While household population in all three geographies examined is projected to increase through 2015, annualized growth is projected to slow considerably from that exhibited between 2000 and 2010. Absent substantial residential development, the City of Ann Arbor's household population base will, likely, remain flat through remainder of the decade.

Figure A-1: Annualized Percentage Change, Household Population



Source: US Census Bureau; Esri; Scan US; 4ward Planning LLC, 2012

Household Population

Table A-1: Population Trends

City of Ann Arbor							Percentage Change	
	2000		2010		2015		2000-2010	2010-2015
Total Population	114,024	100.0%	113,934	100.0%	114,743	100.0%	-0.1%	0.7%
In Households	101,438	89.0%	102,120	89.6%	102,718	89.5%	0.7%	0.6%
In Families	62,953	55.2%	58,431	51.3%	58,209	50.7%	-7.2%	-0.4%
In Non-family Households	51,071	44.8%	55,503	48.7%	56,534	49.3%	8.7%	1.9%
William St 10-min Drive Contour							Percentage Change	
	2000		2010		2015		2000-2010	2010-2015
Total Population	140,542	100.0%	143,969	100.0%	145,855	100.0%	2.4%	1.3%
In Households	127,595	90.8%	131,727	91.5%	133,272	91.4%	3.2%	1.2%
In Families	82,251	58.5%	80,747	56.1%	81,349	55.8%	-1.8%	0.7%
In Non-family Households	58,291	41.5%	63,222	43.9%	64,506	44.2%	8.5%	2.0%
Washtenaw County							Percentage Change	
	2000		2010		2015		2000-2010	2010-2015
Total Population	322,895	100.0%	344,791	100.0%	352,445	100.0%	6.8%	2.2%
In Households	302,038	93.5%	326,519	94.7%	333,212	94.5%	8.1%	2.0%
In Families	222,544	68.9%	238,269	69.1%	243,334	69.0%	7.1%	2.1%
In Non-family Households	100,351	31.1%	106,522	30.9%	109,111	31.0%	6.1%	2.4%

Source: US Census Bureau, Esri Community Analyst; 4ward Planning LLC, 2012

Source: US Census Bureau; Esri; Scan US; 4ward Planning LLC, 2012

Household Population

Table A-1 shows total population (inclusive of those living in dormitories and other group quarters) within the City of Ann Arbor decreased from 114,024 residents in 2000 to 113,934 by 2010, representing a -0.1 percent decrease. Ann Arbor's household population (e.g., excludes persons living in dormitories and other group quarters), meanwhile, expanded from 101,438 to 102,120 persons (a 0.7 percent increase) over the same period. A relatively large share of the household population increase in Ann Arbor occurred among persons living in non-family households (typically, these are one- to two-person households with no children present). This observation is important with respect to understanding prospective housing demand needs.

Other notable findings:

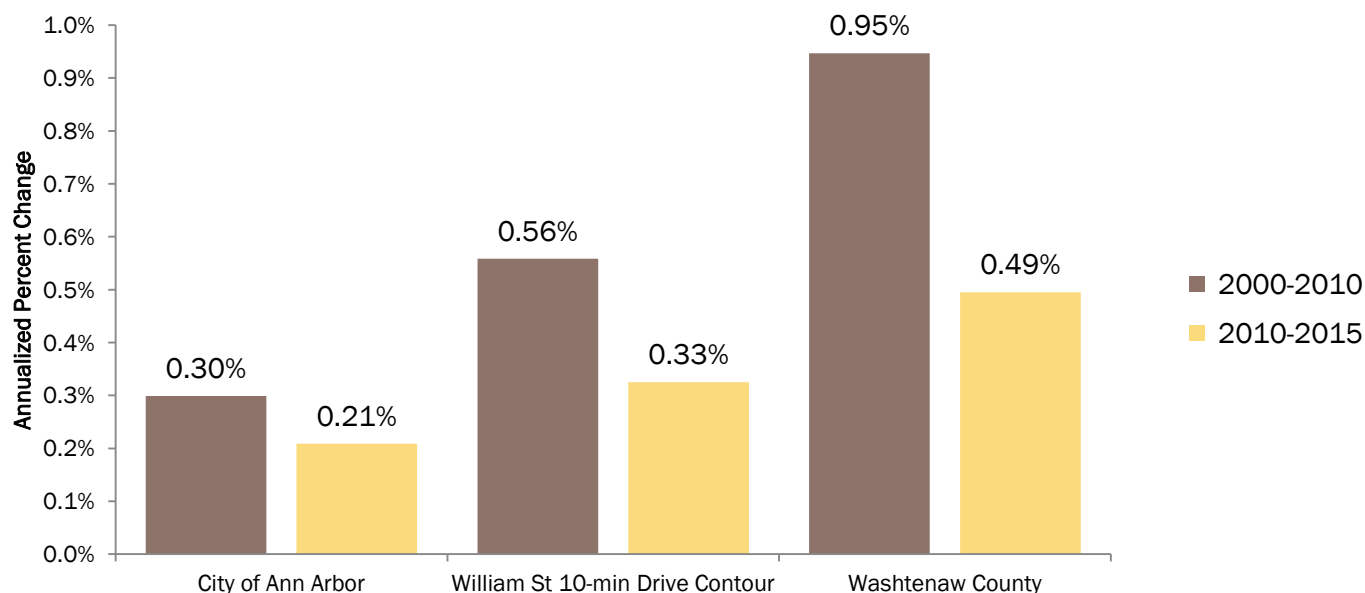
- The share and number of persons living in non-family households in Ann Arbor is projected to grow steadily through 2015 (1.9 percent), while persons living in family households is projected to decline, slightly (-0.4 percent) over the same period.
- Household population growth over the 2000 to 2010 period was far more robust within the William Street 10-minute drive contour (3.2 percent) and MSA/County (8.1 percent), than in the City of Ann Arbor. This finding is consistent with suburban ring growth trends during that period.
- Like Ann Arbor, household population growth within the William Street 10-minute drive contour and MSA/County was most pronounced for persons living in non-family households, though the difference in the growth between persons living in non-family and family households was far more modest than that observed for the City of Ann Arbor.

Source: US Census Bureau; Esri; Scan US; 4ward Planning LLC, 2012

Household Formation

Figure A-2 shows household formation trends across all geographies examined closely tracked population growth patterns over the 2000 to 2010 period. Ann Arbor's annualized household growth rate over the 2000 to 2010 period was particularly modest (0.30 percent) when compared against the annualized growth rates of the 10-minute drive contour (0.56 percent) and the MSA/County (0.95 percent) over the same period. Growth in household formation is projected to slow considerably through 2015 across all geographies, consistent with projected population trends.

Figure A-2: Annualized Percentage Change in Total Households



Source: US Census Bureau; Esri; Scan US; 4ward Planning LLC, 2012

Household Formation

Table A-2: Household Formation Trends

City of Ann Arbor							Percentage Change	
	2000		2010		2015		2000-2010	2010-2015
Total Households	45,693	100.0%	47,060	100.0%	47,552	100.0%	3.0%	1.0%
Families	21,708	47.5%	20,502	43.6%	20,424	43.0%	-5.6%	-0.4%
Non-Families	23,985	52.5%	26,558	56.4%	27,128	57.0%	10.7%	2.1%
Average Household Size	2.22		2.17		2.16		-2.3%	-0.5%
William St 10-min Drive Contour							Percentage Change	
	2000		2010		2015		2000-2010	2010-2015
Total Households	56,709	100.0%	59,876	100.0%	60,849	100.0%	5.6%	1.6%
Families	28,168	49.7%	27,940	46.7%	28,053	46.1%	-0.8%	0.4%
Non-Families	28,541	50.3%	31,936	53.3%	32,796	53.9%	11.9%	2.7%
Average Household Size	2.25		2.20		2.19		-2.2%	-0.4%
Washtenaw County							Percentage Change	
	2000		2010		2015		2000-2010	2010-2015
Total Households	125,327	100.0%	137,193	100.0%	140,589	100.0%	9.5%	2.5%
Families	73,690	58.8%	78,897	57.5%	80,309	57.1%	7.1%	1.8%
Non-Families	51,637	41.2%	58,296	42.5%	60,279	42.9%	12.9%	3.4%
Average Household Size	2.41		2.38		2.37		-1.2%	-0.4%

Source: US Census Bureau, Esri Community Analyst; 4ward Planning LLC, 2012

Source: US Census Bureau; Esri; Scan US; 4ward Planning LLC, 2012

Household Formation

Figures A-3 and A-4 exhibit annualized change in family- and non-family households, respectively, for the three geographies examined. Family household formation in Ann Arbor over the 2000 to 2010 period was relatively weak when compared to the growth in family households within the 10-minute drive contour and the MSA/County.

Figure A-4: Annualized Pct. Change in Non-Family Households

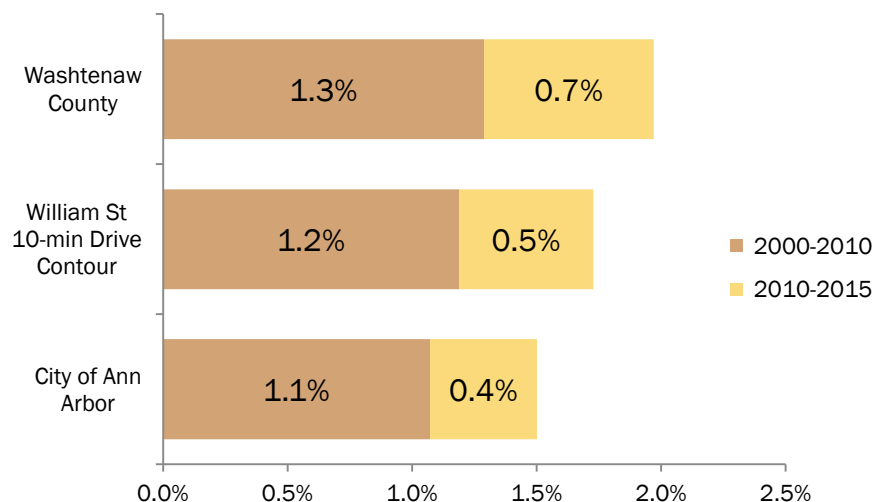
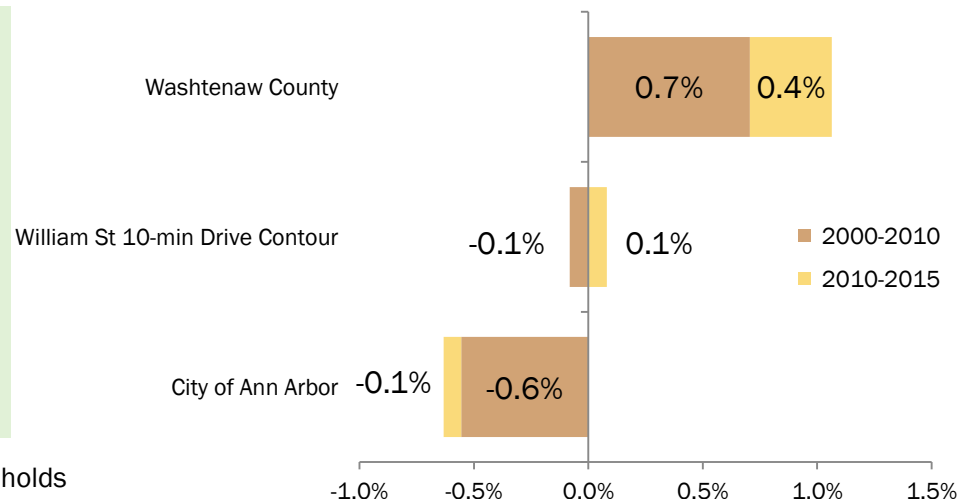


Figure A-3: Annualized Pct. Change in Family Households



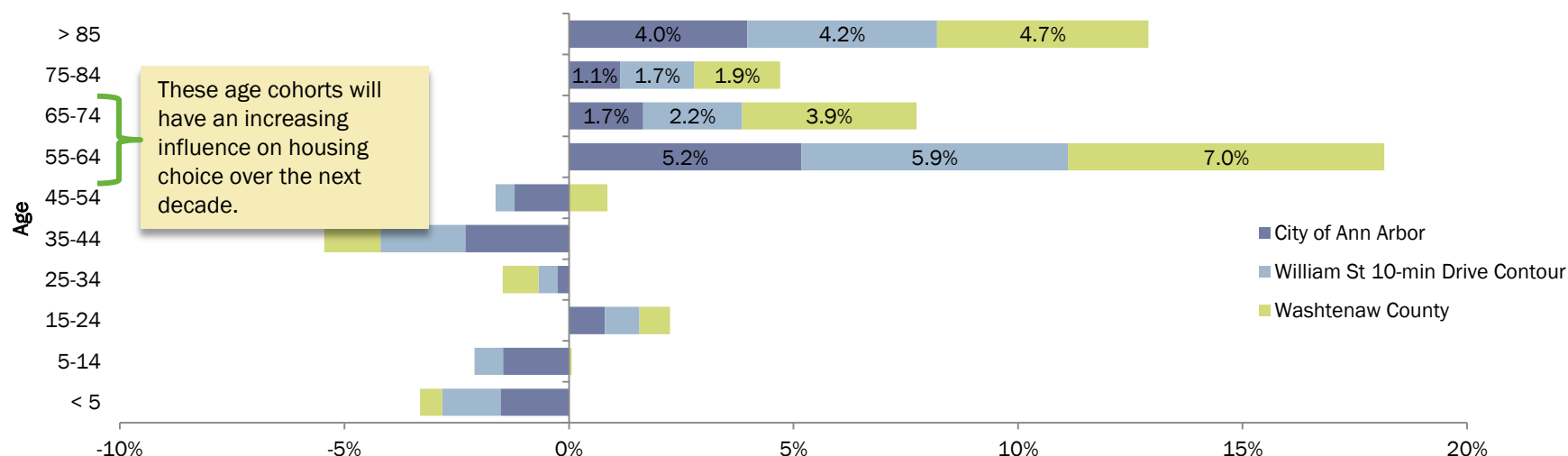
Consistent with national and regional household formation trends, non-family households have experienced relatively robust growth across all geographies and while this growth is projected to slow, it will, nonetheless, exert a meaningful influence on housing markets and certain retail expenditures (e.g., restaurants).

Source: US Census Bureau; Esri; Scan US; 4ward Planning LLC, 2012

Age

Reflective of both regional and national demographic trends, all three geographies realized relatively flat growth/decline from 2000 to 2010, within the younger age cohorts – due to a variety of factors, including the increase in couples choosing to have fewer or no children. Conversely, the leading edge of the baby boom generation (persons born between 1946 and 1964) is responsible for the marked increase in persons between 55 and 74 years of age. Persons in this age group (typically identified with empty nester households) will exert strong influence on new and smaller housing choices in the local area over the coming two decades.

Figure A-5: Annualized Pct. Change in Population by Age Cohorts



Source: US Census Bureau; Esri; 4ward Planning LLC, 2012

Age

Table A-3: Population Age Trends

City of Ann Arbor

	2000		2010		2015		Percentage Change	
							2000-2010	2010-2015
Total Population	114,024	100.0%	113,934	100.0%	114,743	100.0%	-0.1%	0.7%
< 5 Years	5,745	5.0%	4,868	4.3%	5,527	4.8%	-15.3%	13.5%
5 to 14 Years	10,334	9.1%	8,815	7.7%	9,059	7.9%	-14.7%	2.8%
15 to 34 Years	54,389	47.7%	56,515	49.6%	54,564	47.6%	3.9%	-3.5%
35 to 54 Years	27,653	24.3%	22,674	19.9%	23,605	20.6%	-18.0%	4.1%
55 to 64 Years	6,887	6.0%	10,451	9.2%	10,362	9.0%	51.8%	-0.8%
> 64 Years	9,017	7.9%	10,612	9.3%	11,626	10.1%	17.7%	9.6%
Median Age	28years		28years		29years		-1.1%	2.5%

William St 10-min Drive Contour

	2000		2010		2015		Percentage Change	
							2000-2010	2010-2015
Total Population	140,542	100.0%	143,969	100.0%	145,855	100.0%	2.4%	1.3%
< 5 Years	7,617	5.4%	6,627	4.6%	7,784	5.3%	-13.0%	17.5%
5 to 14 Years	13,644	9.7%	12,779	8.9%	12,774	8.8%	-6.3%	0.0%
15 to 34 Years	63,711	45.3%	65,549	45.5%	65,474	44.9%	2.9%	-0.1%
35 to 54 Years	35,610	25.3%	31,303	21.7%	31,826	21.8%	-12.1%	1.7%
55 to 64 Years	8,794	6.3%	14,015	9.7%	13,350	9.2%	59.4%	-4.7%
> 64 Years	11,167	7.9%	13,696	9.5%	14,647	10.0%	22.6%	6.9%
Median Age	29years		29years		29years		0.3%	1.0%

Washtenaw County

	2000		2010		2015		Percentage Change	
							2000-2010	2010-2015
Total Population	322,895	100.0%	344,791	100.0%	352,445	100.0%	6.8%	2.2%
< 5 Years	20,129	6.2%	19,139	5.6%	21,252	6.0%	-4.9%	11.0%
5 to 14 Years	39,926	12.4%	40,161	11.6%	39,802	11.3%	0.6%	-0.9%
15 to 34 Years	120,046	37.2%	120,301	34.9%	124,970	35.5%	0.2%	3.9%
35 to 54 Years	93,485	29.0%	90,980	26.4%	88,337	25.1%	-2.7%	-2.9%
55 to 64 Years	23,039	7.1%	39,265	11.4%	38,663	11.0%	70.4%	-1.5%
> 64 Years	26,271	8.1%	34,948	10.1%	39,421	11.2%	33.0%	12.8%
Median Age	31years		33years		33years		6.4%	-0.9%

Source: US Census Bureau, Esri Community Analyst; 4ward Planning LLC, 2012

Age

Table A-3 exhibits population trends by age groups for all three geographies examined, covering the 2000 to 2010 period and the projected 2010 to 2015 period. Population is shown to have declined or increased only modestly (less than one percent), over the 2000 to 2010 period, within age groups 14 and younger across all geographies.

Population growth over the 2000 to 2010 period was most pronounced within the 55 to 64 year old cohort across all geographies examined (ranging from 51.8 percent growth in the City of Ann Arbor to 70.4 percent within the MSA/County). It should be noted, however, that despite the remarkable growth in this age cohort, the group only represents between 9 and 11 percent of total population within the geographies examined.

Median age, between 2000 and 2010, was relatively constant in both Ann Arbor (28) and the William Street 10 minute drive time contour (29). The median age for the MSA/County increased somewhat markedly, by comparison, from 31 years in 2000 to 33 years in 2010.

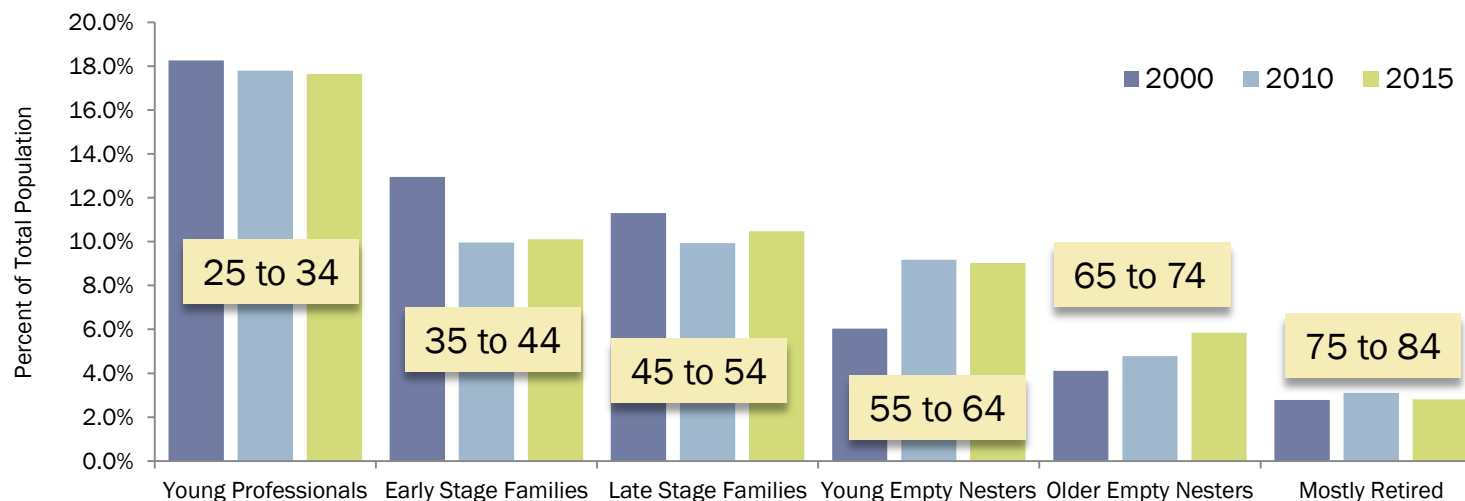
Other notable findings:

- Ann Arbor's share of primary school age children (5 to 14 years of age) declined markedly from 2000 to 2010 (15.3 percent decrease), when compared against the trend change of children of similar ages within the MSA/County (4.9 percent decline) over the same period.

Age

The below identified age groups represent the principal source of residential demand within and around Ann Arbor's CBD area over the coming two decades. While persons within the 25 to 54 age groups represent the majority of adult residents in the City of Ann Arbor, population growth has been and is projected to continue within the 55 to 74 age cohort – a group which will exert considerable influence on the type of in-town housing developed.

Figure A-6: Housing Demand Sources, City of Ann Arbor

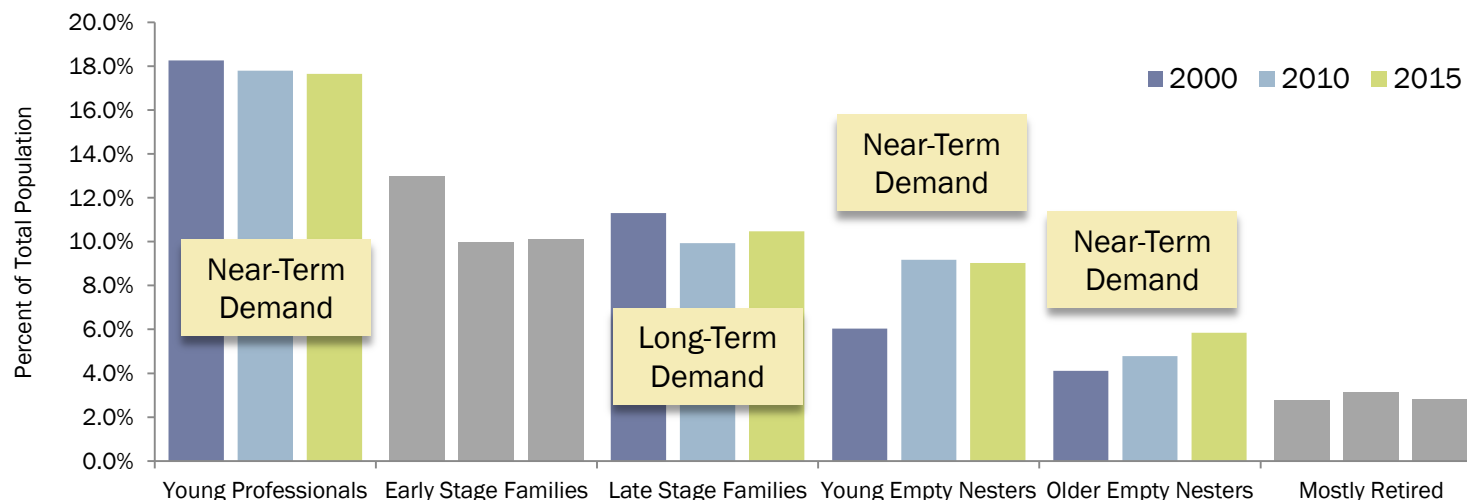


Source: US Census Bureau; Esri; 4ward Planning LLC, 2012

Age

Near- and long-term CBD housing demand will, principally, come from within the William Street 10-Minute Drive Contour and the below highlighted demographic groups. The below demographic groups are closely associated with downtown living trends, based on national and regional migration patterns.

Figure A-7: Housing Demand Sources, City of Ann Arbor

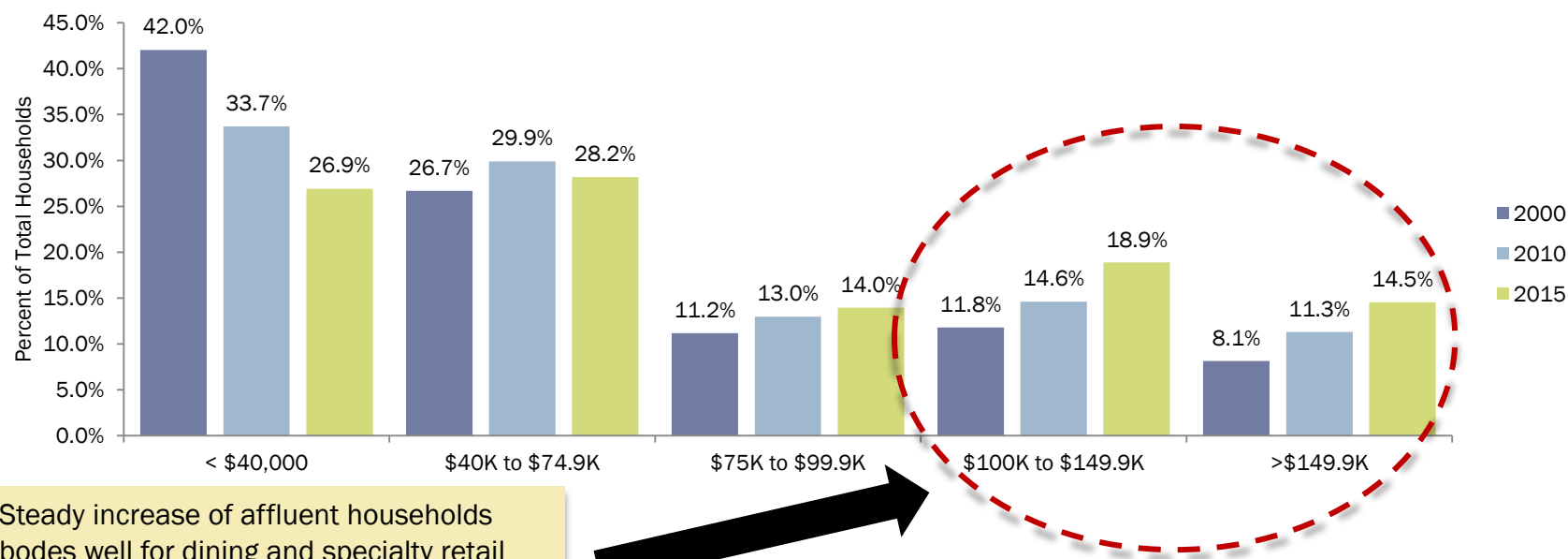


Source: US Census Bureau; Esri; 4ward Planning LLC, 2012

Household Income

The below chart illustrates how household income within a ten-minute drive of William Street has shifted over the 2000 to 2010 period, as well as the degree to which it is projected to change through 2015. Specifically, in 2000, 31 out of every 100 households earned more than \$75,000 annually. By 2010, this ratio increased to approximately 39 out of every 100. The growth in upper income households is projected to rise steadily through 2015, with 47 percent of households within 10 minutes of William Street projected to earn more than \$75,000 annually.

Figure A-8: Households by Income, William St 10-min Drive Contour



Source: US Census Bureau; Esri; Scan US; 4ward Planning LLC, 2012

Household Income

Table A-6: Household Income Trends

City of Ann Arbor

	2000			2010			2015			Percentage Change	
										2000-2010	2010-2015
Total Households	45,693	100.0%		47,060	100.0%		47,552	100.0%		3.0%	1.0%
< \$40,000	19,922	43.6%		16,565	35.2%		13,505	28.4%		-16.9%	-18.5%
\$40K to \$74.9K	12,383	27.1%		14,447	30.7%		13,647	28.7%		16.7%	-5.5%
\$75K to \$99.9K	5,026	11.0%		6,212	13.2%		6,752	14.2%		23.6%	8.7%
\$100K to \$149.9K	5,118	11.2%		6,541	13.9%		8,845	18.6%		27.8%	35.2%
>\$149.9K	3,290	7.2%		3,577	7.6%		4,660	9.8%		8.7%	30.3%
Households >75K	13,434	29.4%		16,330	34.7%		20,257	42.6%		21.6%	24.0%
Median HH Income	\$46,379			\$60,974			\$68,667			31.5%	12.6%

William St 10-min Drive Contour

	2000			2010			2015			Percentage Change	
										2000-2010	2010-2015
Total Households	56,709	100.0%		59,876	100.0%		60,849	100.0%		5.6%	1.6%
< \$40,000	23,818	42.0%		20,178	33.7%		16,368	26.9%		-15.3%	-18.9%
\$40K to \$74.9K	15,141	26.7%		17,903	29.9%		17,159	28.2%		18.2%	-4.2%
\$75K to \$99.9K	6,351	11.2%		7,784	13.0%		8,519	14.0%		22.6%	9.4%
\$100K to \$149.9K	6,692	11.8%		8,742	14.6%		11,500	18.9%		30.6%	31.6%
>\$149.9K	4,593	8.1%		4,970	8.3%		6,389	10.5%		8.2%	28.6%
Households >75K	17,636	31.1%		21,495	35.9%		26,408	43.4%		21.9%	22.9%
Median HH Income	\$48,267			\$62,515			\$70,464			29.5%	12.7%

Washtenaw County

	2000			2010			2015			Percentage Change	
										2000-2010	2010-2015
Total Households	125,327	100.0%		137,193	100.0%		140,589	100.0%		9.5%	2.5%
< \$40,000	48,126	38.4%		39,649	28.9%		31,632	22.5%		-17.6%	-20.2%
\$40K to \$74.9K	36,220	28.9%		41,981	30.6%		40,068	28.5%		15.9%	-4.6%
\$75K to \$99.9K	16,418	13.1%		20,305	14.8%		22,213	15.8%		23.7%	9.4%
\$100K to \$149.9K	15,917	12.7%		22,774	16.6%		29,664	21.1%		43.1%	30.3%
>\$149.9K	8,898	7.1%		10,701	7.8%		13,637	9.7%		20.3%	27.4%
Households >75K	41,233	32.9%		53,780	39.2%		65,514	46.6%		30.4%	21.8%
Median HH Income	\$52,226			\$65,955			\$74,561			26.3%	13.0%

Source: US Census Bureau, Esri Community Analyst; 4ward Planning LLC, 2012

Household Income

Table A-4 and Figure A-8 illustrate the growth in affluence within and around the City of Ann Arbor. Specifically, over the 2000 to 2010 period, households earning greater than \$75,000 per annum increased by 21.4-, 21.8-, and 30.4 percent in Ann Arbor, the 10-minute drive contour, and the MSA/County, respectively. While reported median household income in 2010 is slightly higher in the 10-minute drive contour (\$62,515) and the MSA/County (\$65,955) than in Ann Arbor (\$60,974), the percentage increase in Ann Arbor's median household income over the 2000 to 2010 period (31.5 percent) was larger than the median household increases in the 10-minute drive contour (29.5 percent) and the MSA/County (26.3 percent) over the same period – this observed trend suggests a combination of in-migration of higher income households and an increase in the number of higher paying jobs held by local residents.

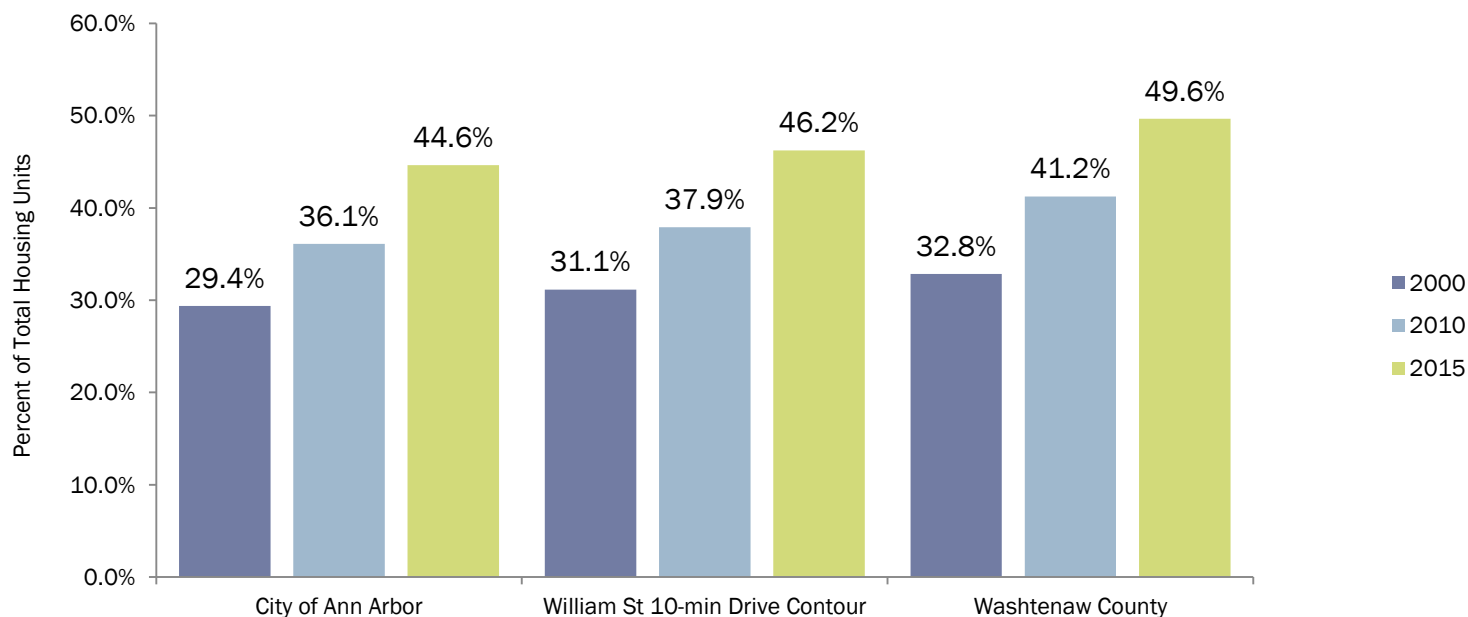
Other notable findings:

- By 2015, more than one in four households across all geographies will earn greater than \$75,000 annually;
- Households earning less than \$40,000 decreased appreciably over the 2000 to 2010 period and are projected to decrease further through 2015.
- By 2015, approximately three in ten households within the MSA/County will earn \$100,000 or more annually

Household Income

The below graphic indicates that upper income levels in all three geographies have grown since 2000. A continuation of this trend is expected in the region as nearly half of the households in all three geographies are projected to have income levels of at least \$75,000 (*income is in 2000 dollars*).

Figure A-9: Households with Annual Income >\$75K Comparison

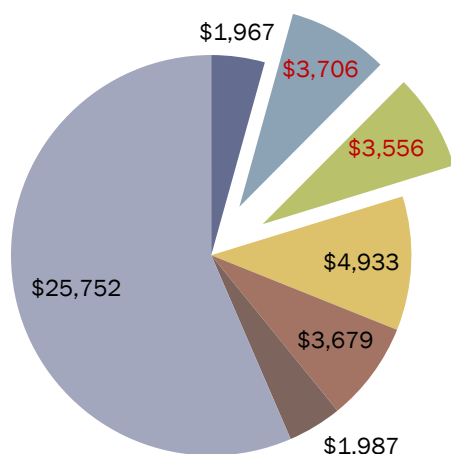


Source: US Census Bureau; Esri; Scan US; 4ward Planning LLC, 2012

Consumer Spending

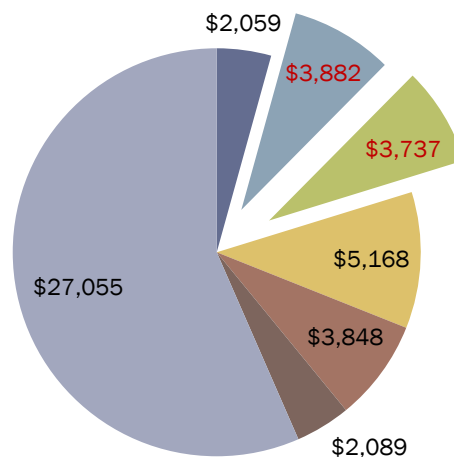
The below charts illustrate household average annual spending on a range of goods and services in 2010, extrapolated from the U.S. Census' Consumer Expenditure Survey (CES) data set. Spending sectors of particular relevance to Ann Arbor's CBD (and William Street) are the dining out and entertainment/recreation categories, which, combined, account for approximately 16 percent of total household spending – by way of comparison, the combined share of spending on dining out and entertainment/recreation services, nationally, represented only 10 percent of total household spending.

Figure A-10: Avg. Household Spending, 2010, City of Ann Arbor



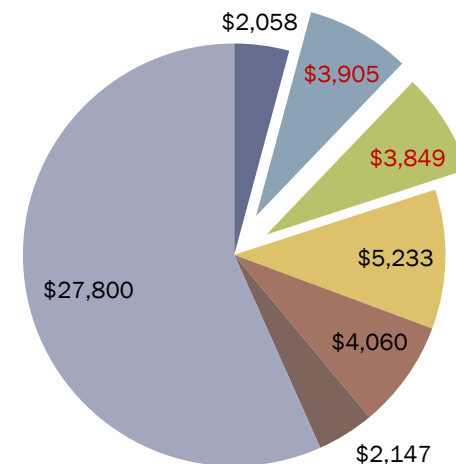
■ Apparel & Services
■ Groceries
■ Retail Goods

Figure A-11: Avg. Household Spending, 2010, William St 10-min Drive Contour



■ Dining Out
■ Health Care

Figure A-12: Avg. Household Spending, 2010, Washtenaw County



■ Entertainment/Recreation
■ Household Furnishings

Source: US Census Bureau; Esri; Scan US; 4ward Planning LLC, 2012

Takeaway

Relatively steady but modest population and household growth across all geographies examined, but in particular, the 10-minute drive contour (primary market area), suggests demand will remain strong over the next several years for most goods and services in Ann Arbor's CBD. Further, given that growth is concentrated among upper income households (greater than \$75,000 per annum), discretionary retail and dining out service establishments in Ann Arbor's CBD should fare well over the coming decade – a favorable trend for prospective retail development within any of the parcels currently being examined for redevelopment.

CBD housing demand/living preferences will, principally, be driven by three demographic groups in the near-term (the next ten years): Young Professionals (25 to 34 year olds); Young Empty Nesters (55 to 64 year olds); and Older Empty Nesters (65 to 74 year olds) – many of these persons living in one- and two-person non-family households. These demographic age groups, which are growing and relatively large within the MSA/County will seek smaller living quarters located in walking distance to amenities and prospective employment opportunities – in short, the type of residential units that are in the CBD but in relative short supply. Over the long-term (beyond the next ten years), persons who are currently associated with the Late Stage Family (45 to 54 year olds) will begin entering the empty nester years and will, on net, further increase demand for downtown living and associated amenities. These trends bode favorably for prospective residential development on one or more of the properties now being studied by the DDA.

Further, the above identified demographic groups, typically, spend a greater share of their disposable income on the types of dining out and entertainment businesses found in downtown Ann Arbor than persons associated with the Early Stage Families (35 to 44 years of age) and Mostly Retired (75 to 84 years of age) groups.

Labor & Industry Analysis

ECONOMIC AND REAL ESTATE ANALYSIS FOR SUSTAINABLE LAND USE OUTCOMES™



Study Areas – Labor & Industry Trend Analysis – 2009 Summary

Ann Arbor CBD



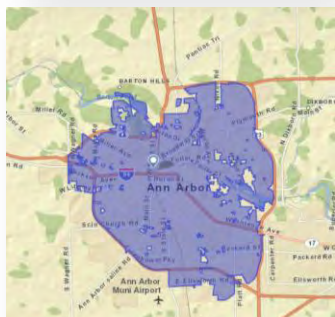
Total Primary Jobs: 8,432

ZIP Codes 48104
and 48109
(CBD and University
Areas)



Total Primary Jobs: 69,256

City of Ann Arbor



Total Primary Jobs: 101,131

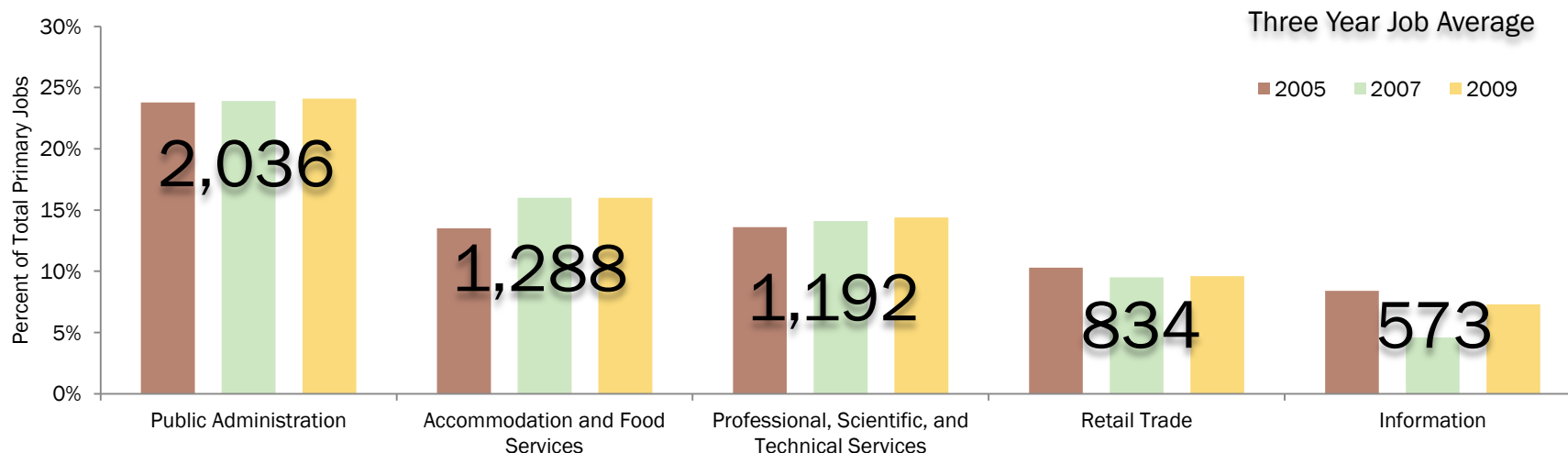
Source: US Census Bureau; Esri; Scan US; 4ward Planning LLC, 2012

Top Five Industries by Employment –Downtown Ann Arbor

Over the 2005 to 2009 period, the Ann Arbor CBD area (defined for this purpose as the area bordered by Depot Street to the north, State Street to the east, Williams Street to the south, and 1st Street to the west) featured an average annual primary job base of 8,497 primary jobs in Ann Arbor over that period (*while an individual may hold more than one job, a primary job is considered that job which pays most in wages or salary*).

In 2009, the three leading industries within the Ann Arbor CBD, by employment, each held between fourteen and twenty-four percent share of total employment. The professional, scientific and technical services industry and accommodation/food services industries each experienced slight growth from 2005 to 2009, while growth in the public administration sector was relatively flat, and growth in both employment growth in the retail trade and information sectors were both slightly negative.

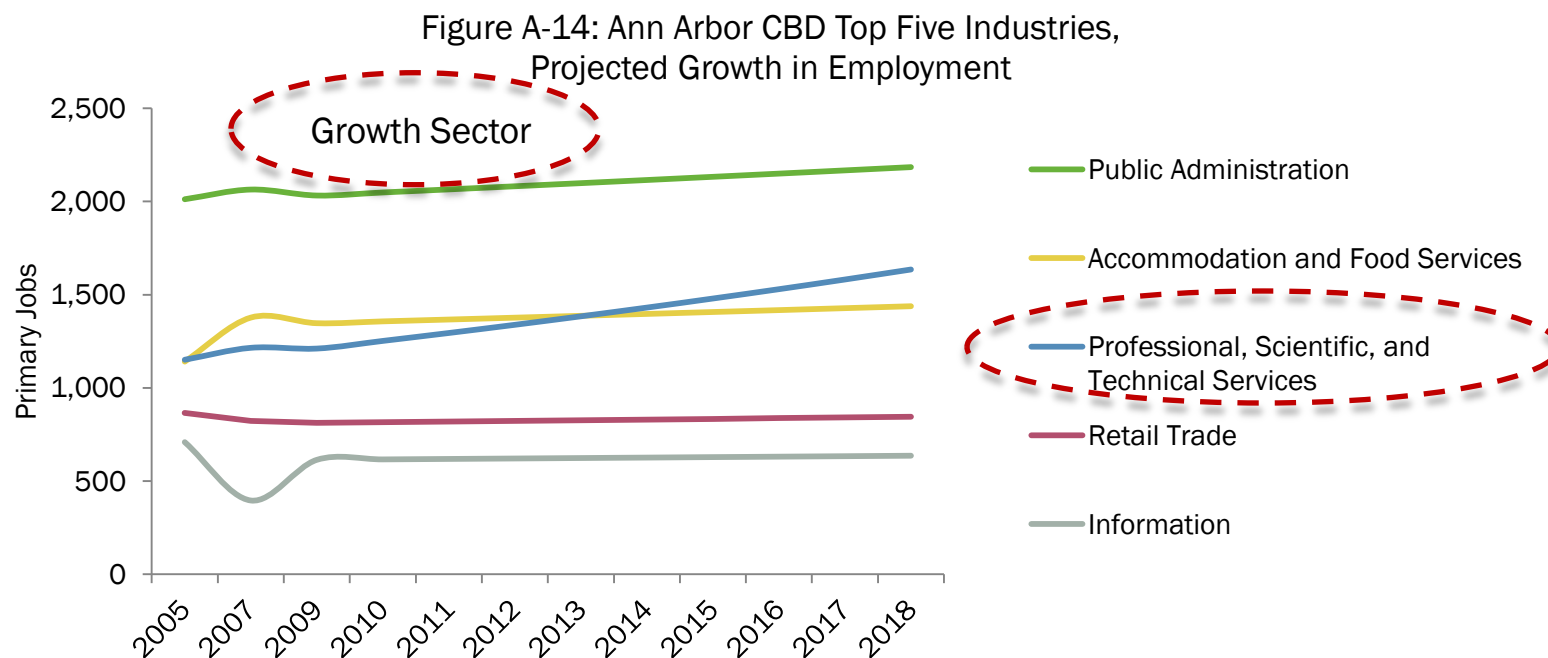
Figure A-13: Ann Arbor CBD Top 1-5 Industries by Percent of Total Employment



Source: US Census Bureau; Esri; Scan US; 4ward Planning LLC, 2012

Labor & Industry Projections – Downtown Ann Arbor

Projections indicate that primary jobs in the Ann Arbor CBD will exhibit overall growth in jobs through 2018. Employment growth will be most pronounced for the professional services sector (at an annual estimated rate of over 3 percent per year), though other sectors are not anticipated to see strong positive growth. Fortunately, many of the jobs in the professional, scientific, and technical services sector are well paying and are likely to increase local demand for goods and services, as well as housing – all favorable for William Street development.



Source: US Census Bureau, QWI Online; 4ward Planning LLC, 2012

Live-Work Patterns in and around Ann Arbor CBD

Figure A-15: Worker Inflow-Outflow for Ann Arbor CBD

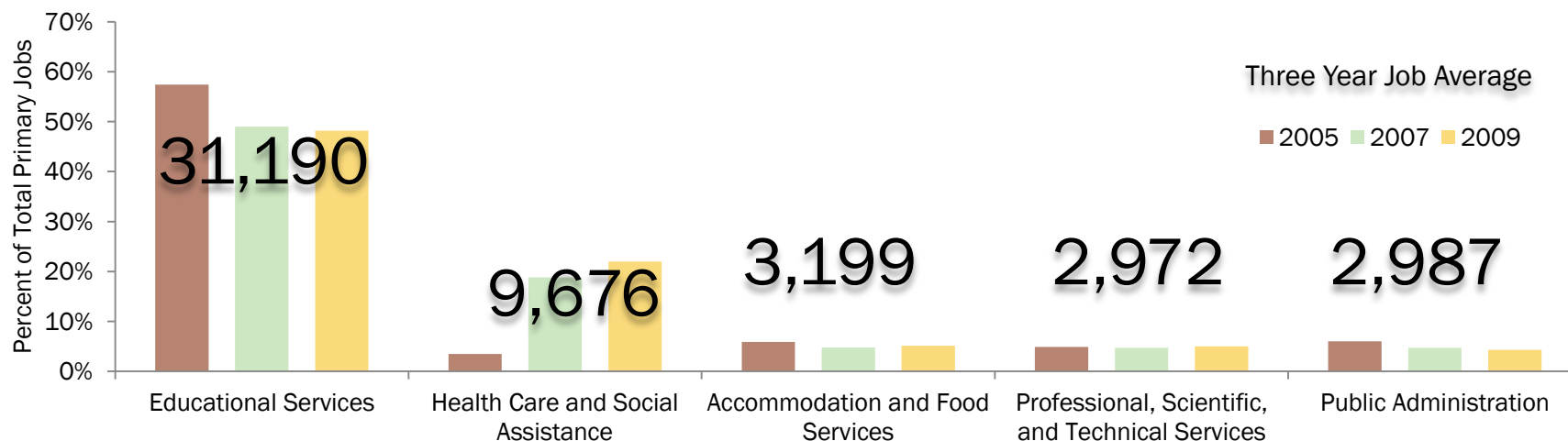


Source: US Census Bureau, QWI Online; 4ward Planning LLC, 2012

Top Five Industries by Employment – ZIP Codes 48104 and 48109

Over the 2005 to 2009 period, the 48104 and 48109 ZIP codes featured an average annual primary job base of 61,153 or approximately **61 percent** of the average number of primary jobs in the City of Ann Arbor over that period. Employment within the 48104 and 48109 ZIP codes was dominated by the educational services sector, averaging 31,190 jobs or 52 percent of employment within the combined ZIP codes between 2005 and 2009. While growth in the professional, scientific and technical services industry accommodation/food services, and public administration industries was relatively flat, the health care and social assistance sector grew from under 2,000 in 2005 to over 15,000 jobs in 2009, (an increase of over **700 percent**), making health care the number-two employer in the 48104 and 48109 ZIP codes.

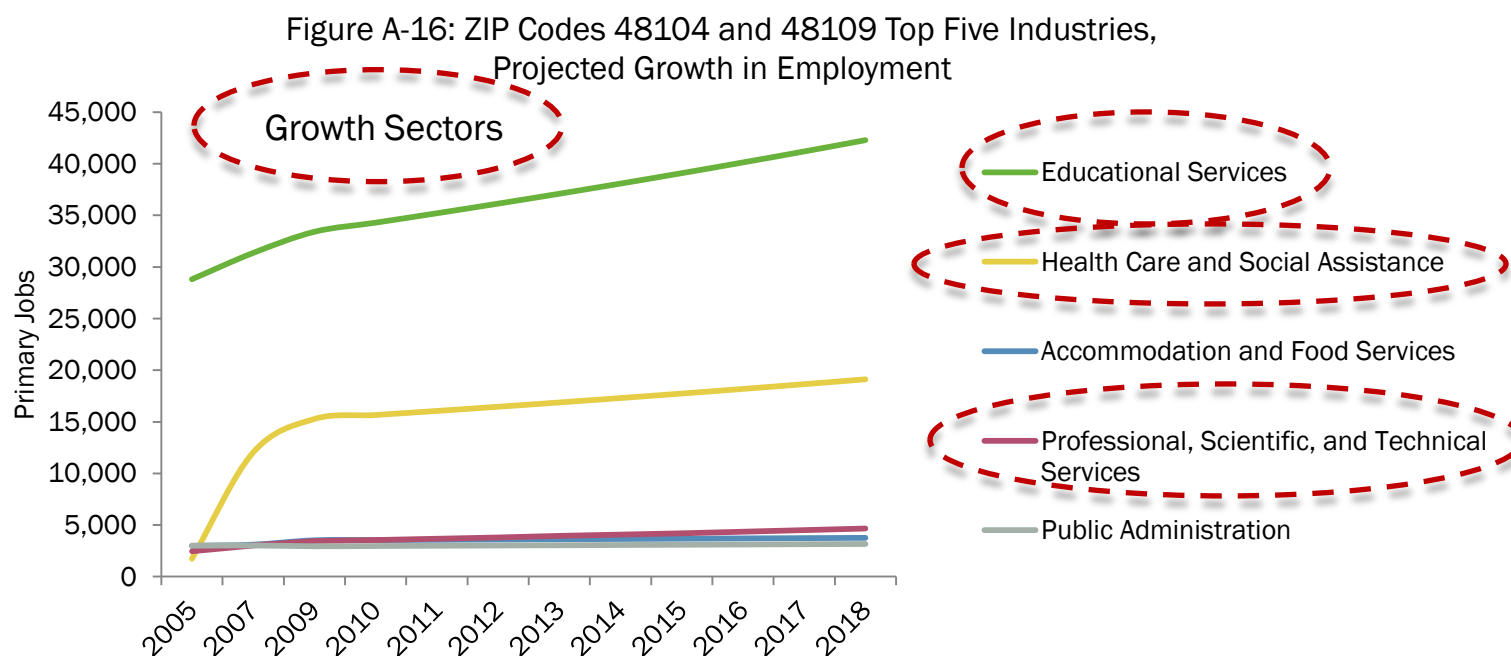
Figure A-16: ZIP Codes 48104 and 48109 Top 1-5 Industries by Percent of Total Employment



Source: US Census Bureau; Esri; Scan US; 4ward Planning LLC, 2012

Labor & Industry Projections – ZIP Codes 48104 and 48109

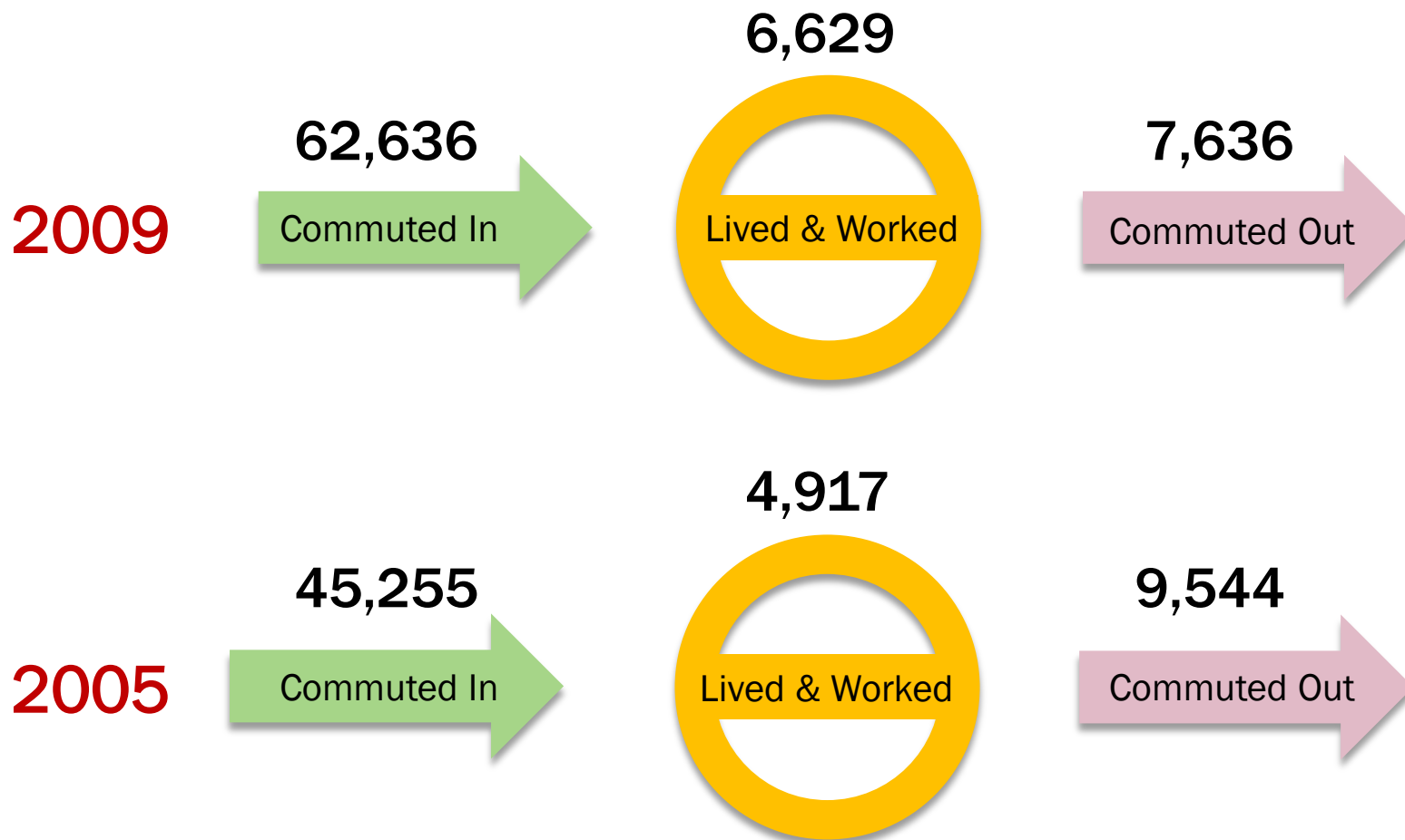
Projections indicate that primary jobs in the 48104 and 48109 ZIP codes area (covering Ann Arbor CBD and a majority of the University of Michigan) will exhibit overall growth through 2018. While employment is projected to remain concentrated in the educational services and health care and human services sectors (each with average annual growth rates in excess of 2.5 percent), employment growth is projected to be most pronounced in the Professional Services sector (with a 3.4 percent projected annual growth rate).



Source: US Census Bureau, QWI Online; 4ward Planning LLC, 2012

Live-Work Patterns in ZIPs 48104 and 48109

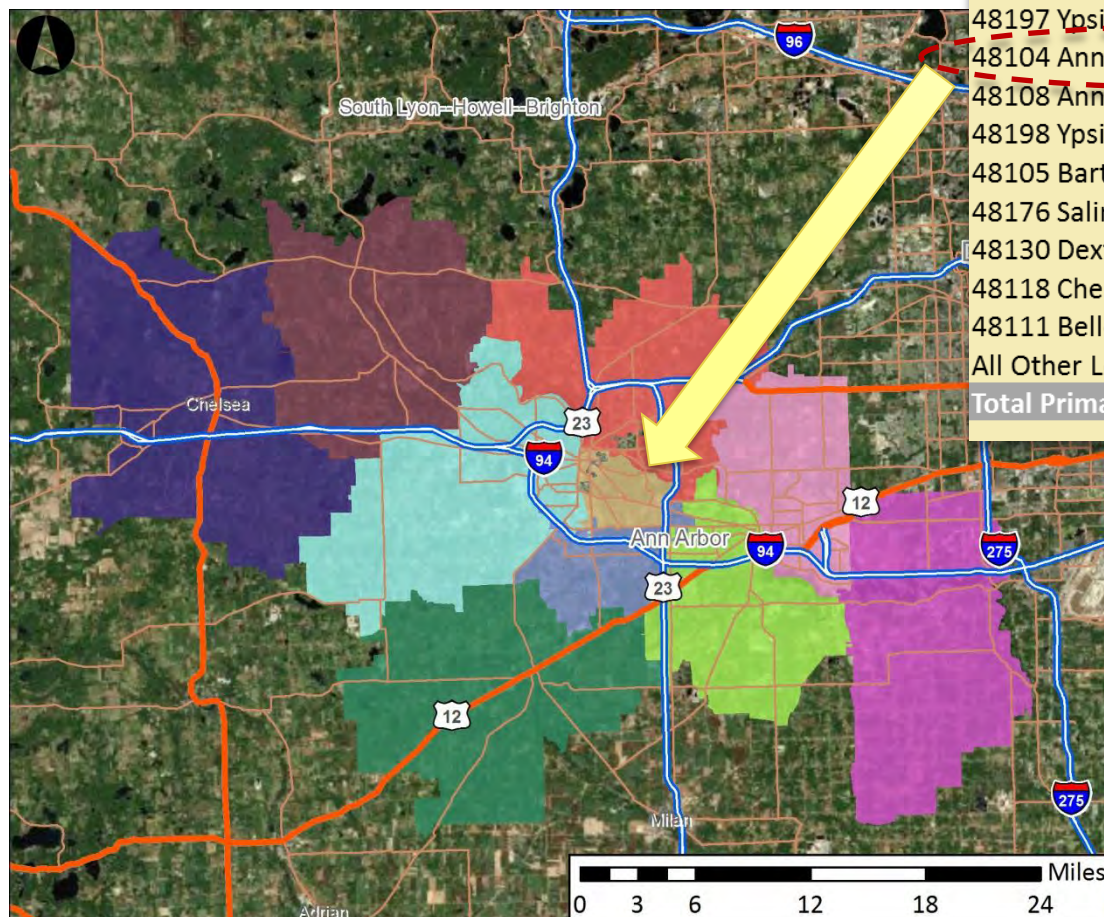
Figure A-17: Worker Inflow-Outflow for ZIPs 48104 and 48109



Source: US Census Bureau, QWI Online; 4ward Planning LLC, 2012

Where Workers in Live: ZIP 48104

Map B-7



	Count	Share
48103 Ann Arbor	2,952	14.1%
48197 Ypsilanti	1,700	8.1%
48104 Ann Arbor	1,486	7.1%
48108 Ann Arbor	1,052	5.0%
48198 Ypsilanti	922	4.4%
48105 Barton Hills	908	4.4%
48176 Saline	623	3.0%
48130 Dexter	362	1.7%
48118 Chelsea	327	1.6%
48111 Belleville	309	1.5%
All Other Locations	10,225	49.0%
Total Primary Jobs	20,866	100.0%

Label

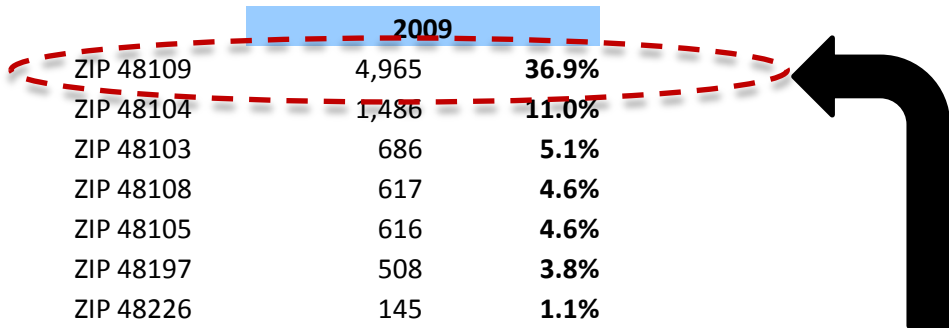
48103 Ann Arbor
48104 Ann Arbor
48105 Barton Hills
48108 Ann Arbor
48111 Belleville
48118 Chelsea
48130 Dexter
48176 Saline
48197 Ypsilanti
48198 Ypsilanti

Relatively few of the persons working in the 48104 ZIP code area also live in the area. This is but one indicator of likely pent up demand for more downtown housing.

Source: US Census Bureau, QWI Online; 4ward Planning LLC, 2012

Primary Work Destinations: ZIP 48104

Figure A-18: Work Destinations for Residents within ZIP Code 48104



	2009	
ZIP 48109	4,965	36.9%
ZIP 48104	1,486	11.0%
ZIP 48103	686	5.1%
ZIP 48108	617	4.6%
ZIP 48105	616	4.6%
ZIP 48197	508	3.8%
ZIP 48226	145	1.1%
ZIP 48170	106	0.8%
ZIP 48198	102	0.8%
ZIP 48202	102	0.8%
All Other Locations	4,118	30.6%

Source: US Census Bureau, OnTheMap; 4ward Planning LLC, 2012

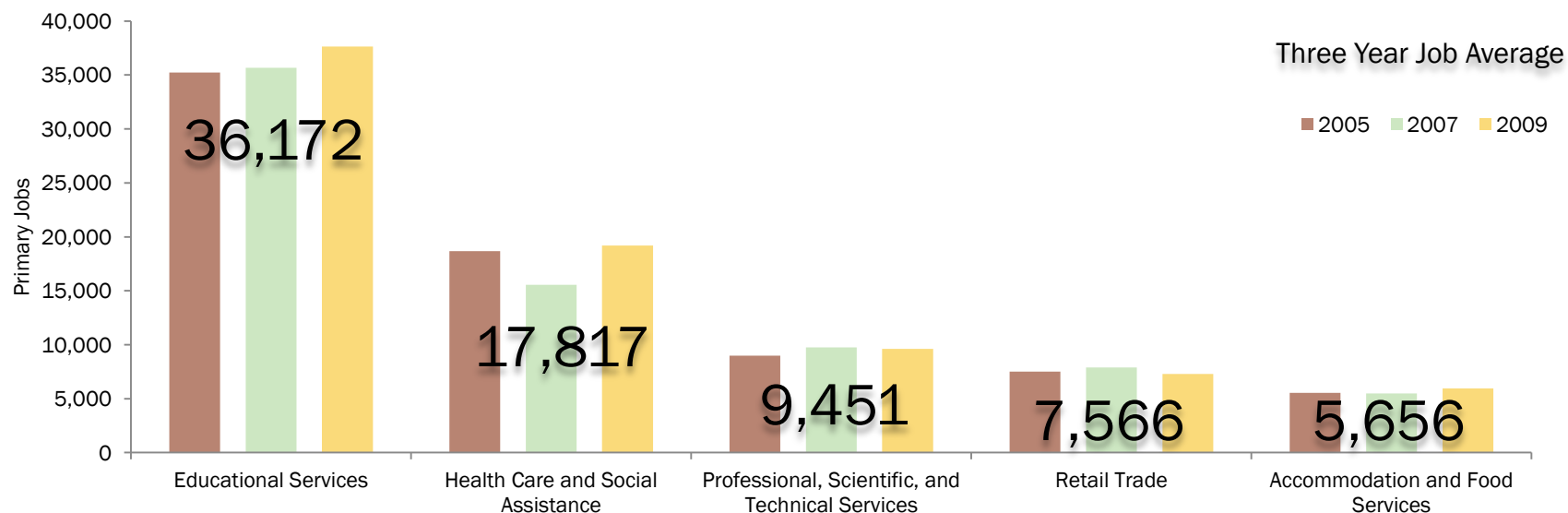
In 2009, over a third of all residents within ZIP code 48104 work in ZIP code 48109, suggesting a concentration of University workers living within the 48104 ZIP area.

Source: US Census Bureau, QWI Online; 4ward Planning LLC, 2012

Top Five Industries by Employment – City of Ann Arbor

Similar to the 48104 and 48109 ZIP codes, employment within the City of Ann Arbor is concentrated in the educational services, health care and social assistance, and professional services sectors. In 2009, nearly all of the educational services employment in the city (36,172 jobs) were concentrated in 48104 and 48109 ZIP codes (31,000 jobs) and approximately half of the health care and social assistance jobs in the city were concentrated within the same areas. However, less than a third of the employment in the professional services sector within the City of Ann Arbor is concentrated within these ZIP codes, suggesting a more distributed professional services industry throughout the city.

Figure A-19: City of Ann Arbor Top 1-5 Industries by Percent of Total Employment

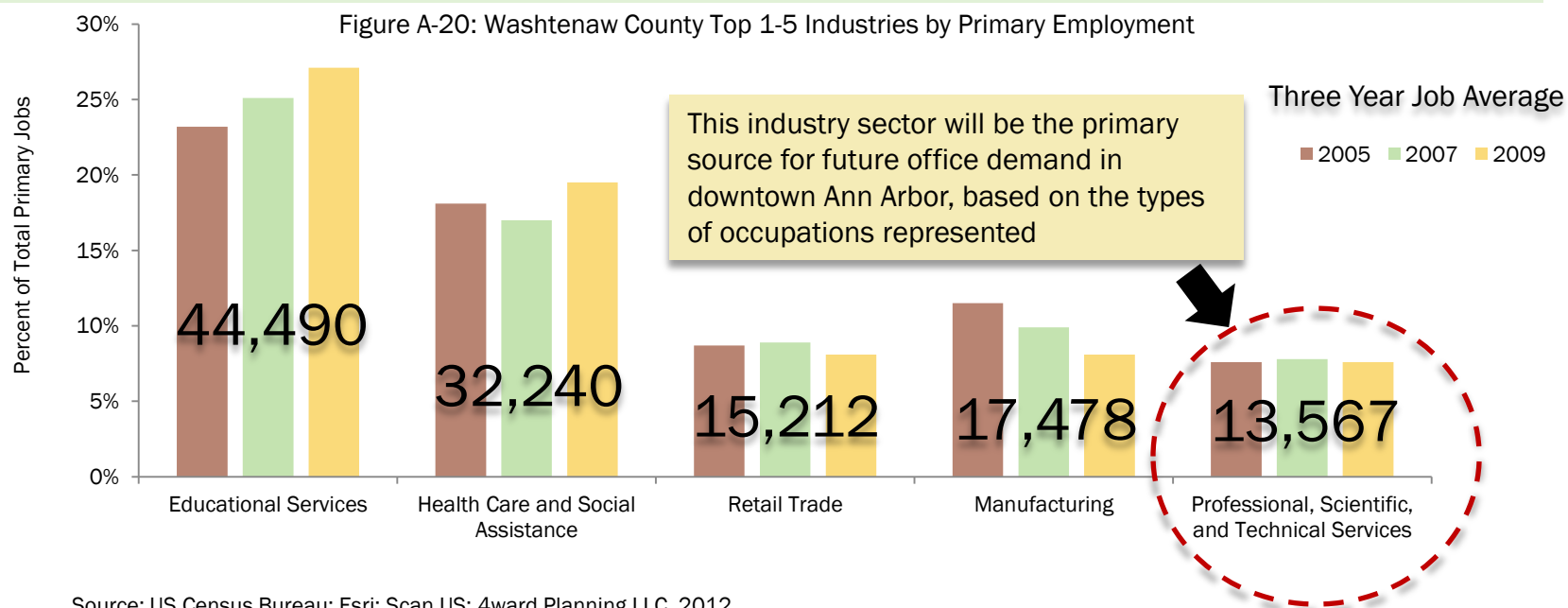


Source: US Census Bureau; Esri; Scan US; 4ward Planning LLC, 2012

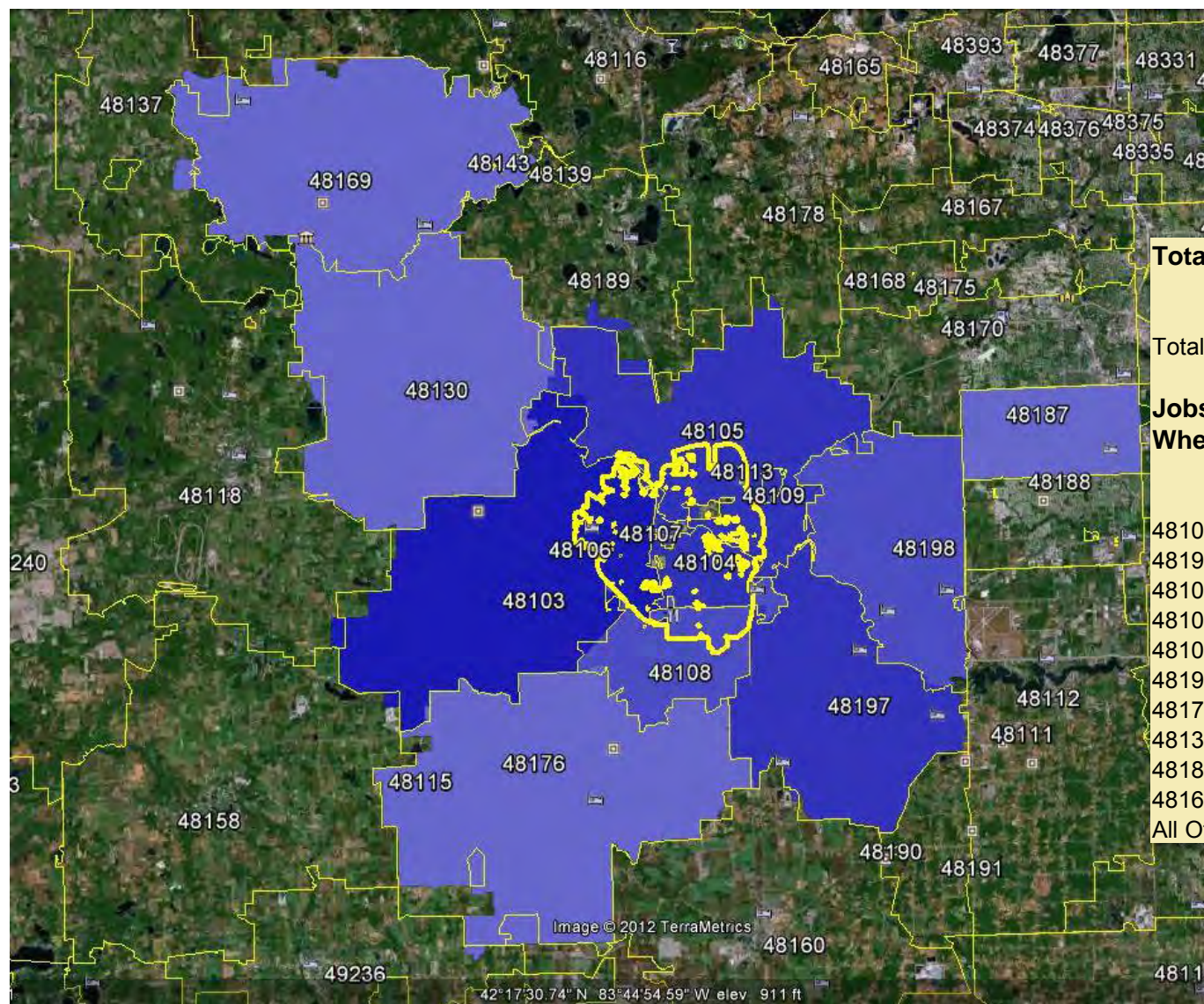
Top Five Industries by Employment – MSA/Washtenaw County

Over the 2005 to 2009 period, the MSA (Washtenaw County) featured an average annual primary job base of 177,335, with educational services, health care and social assistance, manufacturing, retail trade, and the professional services sectors the leading employers, respectively, over that period. Averaging a leading 44,490 primary jobs over between 2005 and 2009, the educational services industry sector increased employment slightly more than nine percent over the four year period – no other county level industry sector came close to increasing employment by as large a share.

While the professional services sector is the smallest of the top five industry sectors, by employment, the typical professions found within this industry sector – accountants, lawyers, general consultants – suggest it will remain the principal source for office demand in places such as downtown Ann Arbor.



Map B-11

**Total Primary Jobs**

	2010	
	Count	Share
Total Primary Jobs	102,864	100.0%

**Jobs Counts by ZIP Codes (ZCTA)
Where Workers Live - Primary Jobs**

	2010	
	Count	Share
48103	12,808	12.5%
48197	7,617	7.4%
48105	7,468	7.3%
48104	6,827	6.6%
48108	4,893	4.8%
48198	3,990	3.9%
48176	2,907	2.8%
48130	1,970	1.9%
48187	1,687	1.6%
48169	1,668	1.6%
All Other Locations	51,029	49.6%

Takeaway

Employment within the 48104 and 48109 ZIP code area (including many large private sector employers as well as most of the University of Michigan's educational and research facilities) is highly concentrated within the educational services and health and social services sectors, followed by white collar service professions. Significantly, these industries have and are projected to continue to employ growing numbers of workers.

As these industries continue to expand their employment, demand for both professional office space and housing located within the CBD area is likely to increase. In particular, entry-level technology workers – for whom there is growing demand in Ann Arbor – require a greater supply of work-force priced housing – that is, housing which is affordable at 60 percent to 100 percent of area median incomes.

Additionally, with an increase in the number of highly paid white collar professionals comes an expected increase in the dollars spent locally on dining, personal services, and other businesses – businesses which can and should be incorporated, to some degree, within one or more of the redevelopment parcels under study by the Ann Arbor DDA.

The relatively large number of persons identified as commuting into the CBD area for employment but residing elsewhere (often, farther than 20 minutes away) presents further evidence of likely pent up housing demand in the CBD area – and support for such development on one or more of the redevelopment properties under study by the DDA. Significantly, one-third of the residents living within the 48104 ZIP area work within the 48109 ZIP area, further suggesting a high demand for living space that favors a shorter commute.

Social Infrastructure Analysis

ECONOMIC AND REAL ESTATE ANALYSIS FOR SUSTAINABLE LAND USE OUTCOMES™



Childcare Facilities – Identified Capacity

The table below lists the licensed child care facilities within a one-mile radius of the intersection of William Street and Main Street. In each case, the total child-care slots for children four-years of age or less (pre-school age children) is listed. Census data from 2010 indicates that there were a total of 557 children below the age of five living in this area, yielding a total of 107 slots per 100 children in the analysis area.

A one-to-one ratio of licensed child-care slots to pre-school age children is considered an adequate service level. However, as both the supply of households and employers in the CBD expands, it is likely that additional licensed child-care capacity will need to expand, as well.

Table A-5: Licensed Child Care Facilities within a One-mile Radius from William Street

Name	Capacity	Address
St. Paul's Early Childhood Center	42	420 W. Liberty St.
Ann Arbor YMCA Child Care	103	400 W. Washington St.
Ann Arbor Nursery	23	517 E. Washington St.
Peach Tree Montessori	36	319 North Ashley
First United Methodist Coop Nursery	45	120 S. State Street
Annie's Childrens Center Downtown	41	216 Beakes Street
Little Blue Preschool	20	113 Eighth Street
Gretchen's House Mount Vernon	15	700 Mount Vernon St.
U of M Towsley Children's House	110	710 S. Forest St.
Doughty Montessori School	43	416 S. Ashley St.
Triangle Cooperative	21	1432 Washtenaw Ave.
St. Thomas Preschool	100	540 Elizabeth St.
Total Capacity	598	

Source: U.S. Census, Michigan Department of Human Services; 4ward Planning LLC, 2012

Grocery Stores

The table below illustrate the lack of full-service grocery stores (by virtue of the fact the below stores are less than 20,000 s.f. in size and do not offer a full selection of produce, dry goods, dairy, fish and meats) in the CBD area. While the below stores provide an array of grocery items, they are small format stores and, likely, unable to supply all of the grocery needs of a growing base of downtown households.

An industry rule of thumb is one-full service grocery store (typically, no smaller than 30,000 s.f.) per 10,000 persons. The stores identified below are each less than 20,000 s.f. in size and, in most cases, less than 15,000 s.f. Consequently, the introduction of a new full-service grocery store in downtown would appear appropriate, particularly given earlier identified pent-up housing demand in the CBD.

Table A-6: Grocery Stores within Downtown Ann Arbor

	Facility	Address	Full-Service
1	Knight's Market	420 Miller Ave.	No
2	White Market	609 East William St.	No
3	Krishna Market	601 South Main St.	No
4	People's Food Co-op	216 North Fourth Ave.	No
5	Sparrow Market	407 North Fifth Ave.	No
6	Revive	619 East University	No
7	South Main Market	609 South Main St.	No
8	Babo	403 East Washington St.	No

Source: US Census Bureau; Esri; Scan US; 4ward Planning LLC, 2012

Real Estate Trends: Residential, Retail, and Office

ECONOMIC AND REAL ESTATE ANALYSIS FOR SUSTAINABLE LAND USE OUTCOMES™



Methodology

Based on two plausible annual population growth scenarios – flat (zero percent per annum growth) and moderate (0.5 percent per annum growth) – 4ward Planning utilized a combination public and proprietary data sources to conduct demand and supply analysis for residential, office, and retail real estate markets within and around Ann Arbor.

Residential Methodology and Assumptions

Given Ann Arbor's urbanized nature and the relatively small developable land parcels available in the CBD of Ann Arbor (particularly, the lots currently under study by the Ann Arbor DDA), 4ward Planning focused its residential supply/demand analysis on multi-family residential units. Multi-family unit developments are five or more attached dwelling units which may be rental or for-sale (e.g., apartments or condominium units). Based on current and near-term real estate market conditions, this residential analysis focuses on multi-family rental units.

4ward Planning utilized Reis, a nationally recognized supplier of office, retail, industrial and multi-family rental data, to both identify the appropriate sub-market to analyze and acquire current multi-family rental trend data.

The Ann Arbor multi-family rental sub-market (a sub-market of the greater Detroit metro area) has the following defined boundaries, according to Reis: Washtenaw County Boundary; State Highway 14; State Highway 153; Textile Road; Ann Arbor Saline Road; and I-94.

Key Findings - Residential

Less than Three Percent

The multi-family rental vacancy rate within the Ann Arbor apartment sub-market, indicating strong demand for new rental units.

16.1 % Increase

The five-year projected increase (through 2016) in apartment of rents within the Ann Arbor sub-market, based on the current limited inventory and projected demand for apartments.

1,300

The estimated number of new multi-family units which could be captured in the Ann Arbor CBD by 2016. A portion of these 1,300 units could be developed on one or more of the City-owned land parcels under assessment for redevelopment.

Key Findings - Office

Limited Inventory

While the Ann Arbor office sub-market contains more than 6.5 million square feet of total office space, very little of that inventory is found within the Ann Arbor CBD (anecdotally, where many office using businesses want to be located).

High but Declining

The Ann Arbor office sub-market has a vacancy rate in excess of 17 percent but is projected to decline below 14 percent over the next four years. Much of the vacant space is found well outside of the CBD, with relatively little vacancy identified within the CBD.

Up to 500,000 Square Feet

The amount of new office space which could be supported in the CBD over the next five years, based on projections of new jobs within Ann Arbor central business district and findings from interviews conducted with area real estate brokers, business representatives and business development organizations.

Key Findings - Retail

Nearly 62 Percent

Ann Arbor's CBD (as defined by ZIP Code 48104) contains approximately 62 percent of all of the City's dining establishments and accounts for a similar share of sales, as of 2010.

\$449 Million in Sales

The estimated total sales for retail trade and food and drinking establishments in the downtown area (ZIP Code 48104) in 2010. This figure was approximately a third of total retail trade and food and drinking establishment sales for all of Ann Arbor in that year.

More than Three Million Gross Leasable Area

The total amount of retail shopping center square footage present within a 15-minute drive of downtown Ann Arbor, with approximately 2.1 million square feet found within shopping centers greater than 200,000 square feet.

Residential Real Estate Trends

ECONOMIC AND REAL ESTATE ANALYSIS FOR SUSTAINABLE LAND USE OUTCOMES™



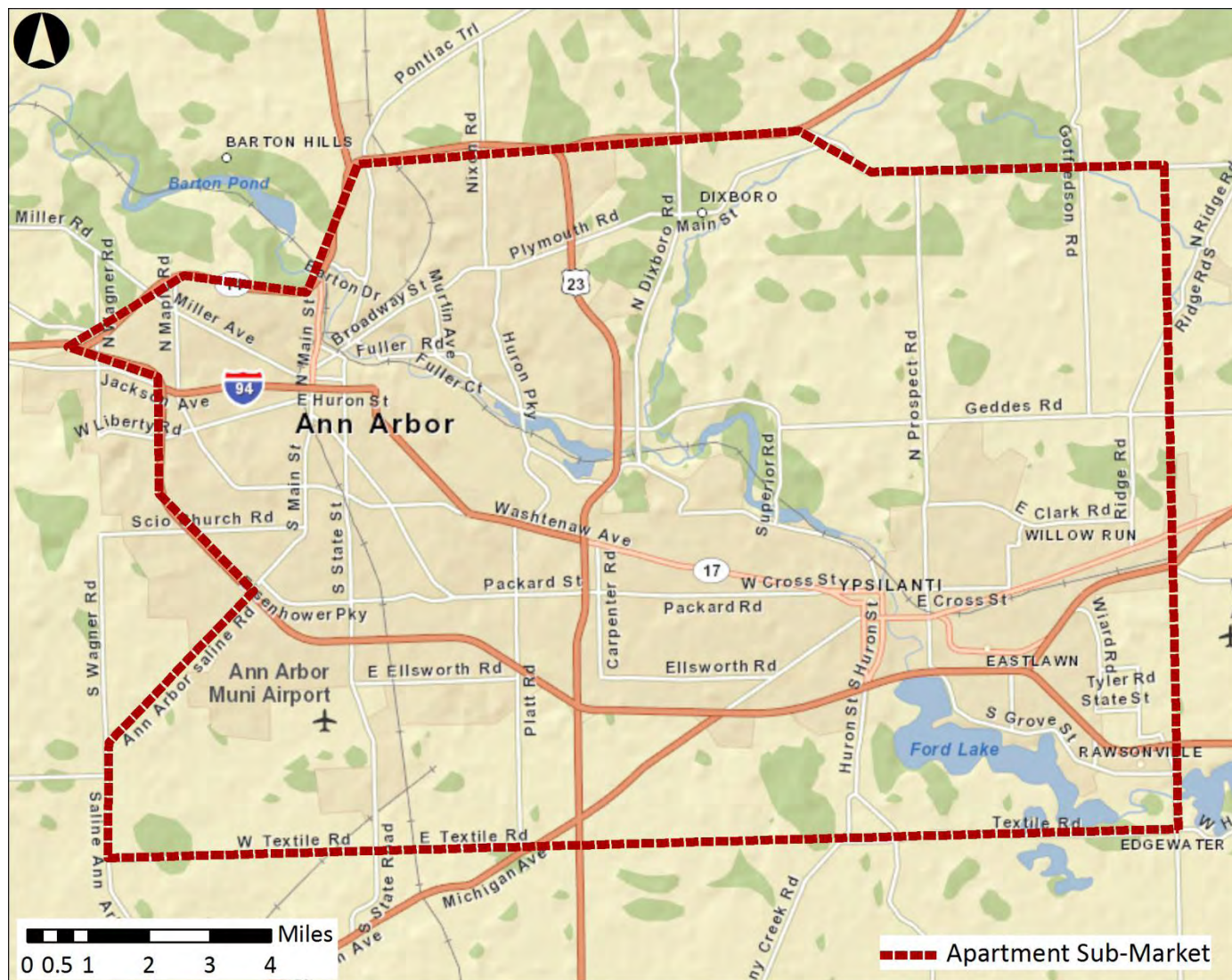
Methodology

With regard to apartment and office real estate supply, 4ward Planning focused on the following metrics:

- **Change in Unit or Square Foot Inventory:** Indicates, in broad terms, whether new real estate construction has been active in the area.
- **Year-over-Year Vacancy Rates:** Combined with absorption as a percent of occupied stock, this metric signals whether new construction is being bought up and occupied (signaling high demand), or whether it remains vacant (signaling an over-supply of real estate).
- **Absorption as a Percent of Occupied Stock:** Absorption as a percent of occupied inventory reflects the net square footage which has either become occupied (positive absorption) or vacant (negative absorption) during the time period, expressed as a percentage of occupied total unit inventory at the end of the time period.
- **Effective Monthly or Annual Rent:** A measure of the relative value of real estate within the area.

Data were examined for Ann Arbor for the first-quarter 2005 through 2011, as well as annual forecast (projected) data for 2011 through 2015.

Apartment Sub-Market Area



Apartment Inventory

According to Reis, apartment inventory in the Ann Arbor sub-market increased by approximately 96 units from first-quarter 2009 to first-quarter 2010, a relatively small 0.4 percent increase. All new units were characteristic of Class A properties – equipped with first class amenities. As a result, the percent share of Class A properties to Class BC properties within the submarket increased slightly over this same period.

Figure A-17: Ann Arbor Apartment Unit Inventory

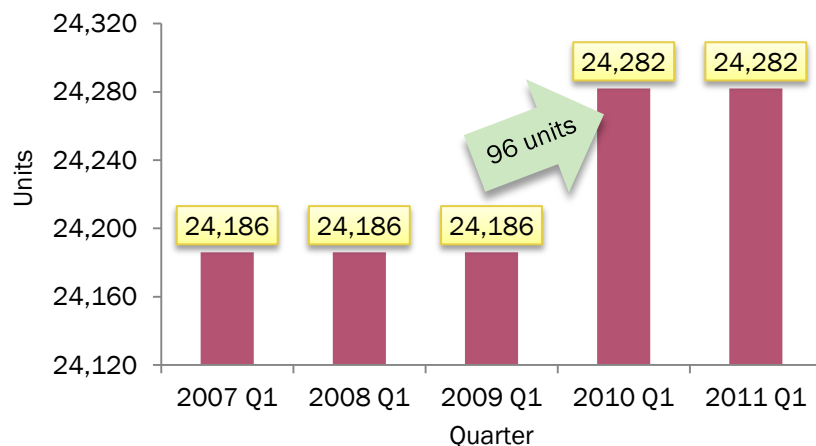
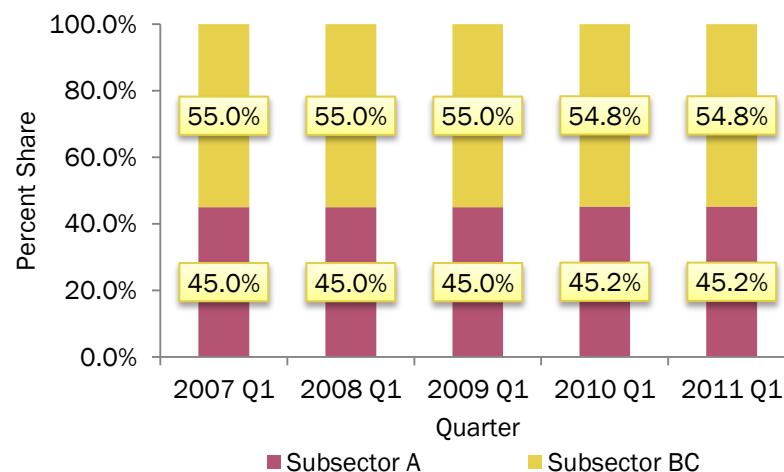


Figure A-18: Ann Arbor Apartment Percent Share of Inventory by Subsector



Source: Reis; 4ward Planning LLC 2012

Apartment Vacancy Rate

Although total apartment inventory increased within the Ann Arbor sub-market from first-quarter 2009 to first-quarter 2010, the average apartment vacancy rate decreased, from 7.0 percent to 6.2 percent, and continued to decrease through first-quarter 2011. From first-quarter 2007 to first-quarter 2008, vacancy rates for Class A properties were lower than those for Class BC properties, indicating an initial higher demand for apartments with first class amenities. By first-quarter 2011, demand for Class A and Class BC apartments appeared to equalize, with vacancy rates for both reaching 4.2 percent. The below charts illustrate the relative tight apartment supply conditions in the Ann Arbor sub-market.

Figure A-19: Ann Arbor Apartment
Year-over-Year Vacancy Rate

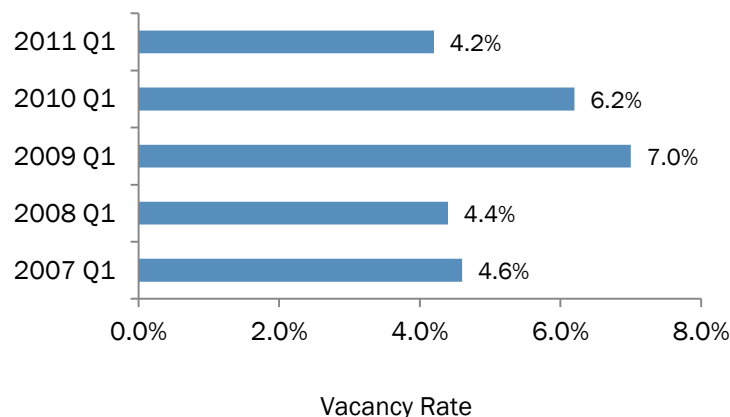
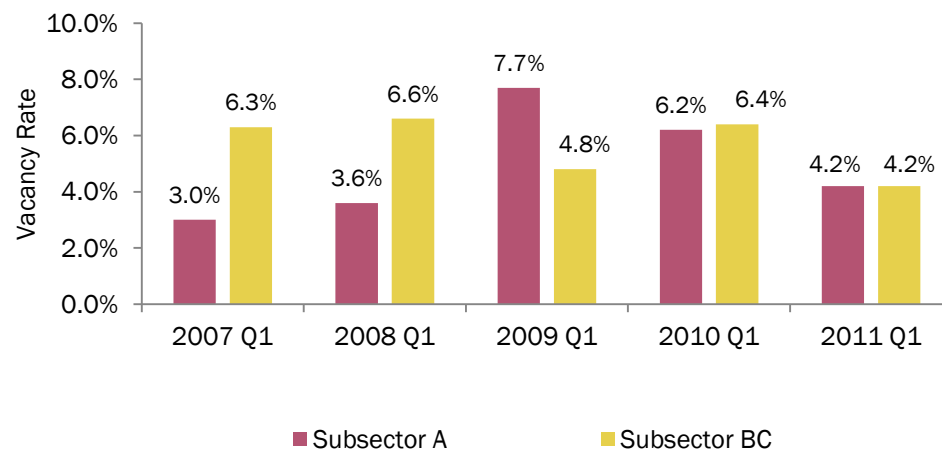


Figure A-20: Ann Arbor Apartment
Year-over-Year Vacancy Rate, Subsectors



Source: Reis; 4ward Planning LLC 2012

Annual Forecasts

According to Reis forecasts, the Ann Arbor sub-market is projected to receive an additional 288 apartment units, a 1.2 percent increase, through 2015. However, the concurrent rise in inventory and decline in vacancy rate suggests apartment demand will continue to outpace supply, in the short term, placing upward pressure on rents. Reis forecasts apartment vacancy rates decreasing to a very low 2.0 percent in 2013, then rising slightly in 2014 and 2015. Vacancy rates below five percent suggest demand will remain strong for multi-family units through the near-term.

Figure A-21: Ann Arbor Apartment Unit Inventory:
Annual Forecast

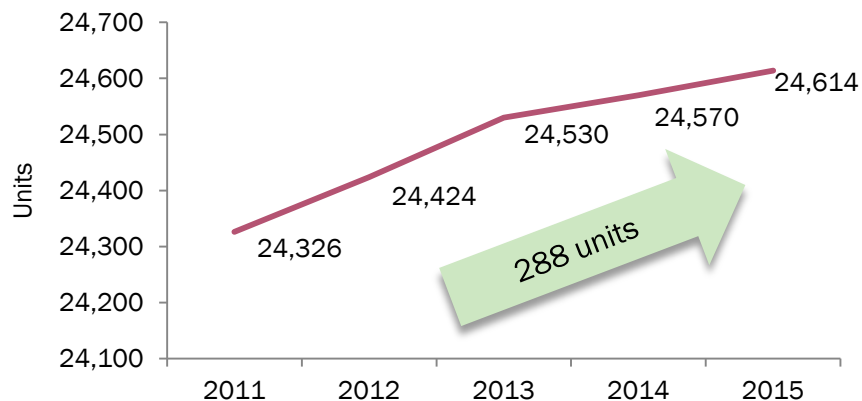
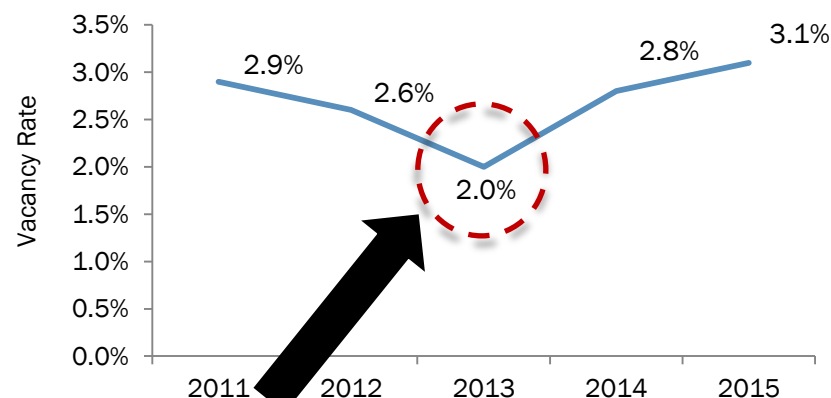


Figure A-22: Ann Arbor Apartment Year-over-Year
Vacancy Rate: Annual Forecast



Reflects extremely tight inventory
and demand for new units

Source: Reis; 4ward Planning LLC 2012

Apartment Absorption

Apartment absorption as a percent of occupied units was -0.6 percent in first-quarter 2009 (that is, more units came available than were rented), the lowest rate observed over the five-year period. Absorption rose to 0.6 percent in first-quarter 2010 and remained relatively flat through first-quarter 2011. Reis projects a continual rise in absorption through the end of 2013, then declining to -0.7 percent in first-quarter 2014, as exhibited in Figure A-24. The projected decline in Ann Arbor apartment unit absorption suggests there will likely be little new apartment inventory in the near term.

Figure A-23: Ann Arbor Apartment Absorption as Percent of Occupied Units

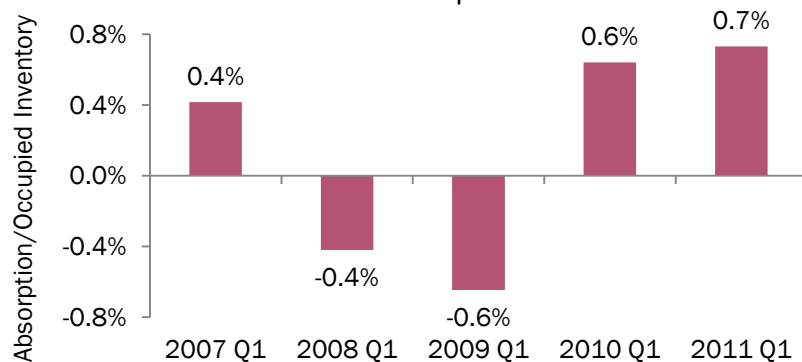
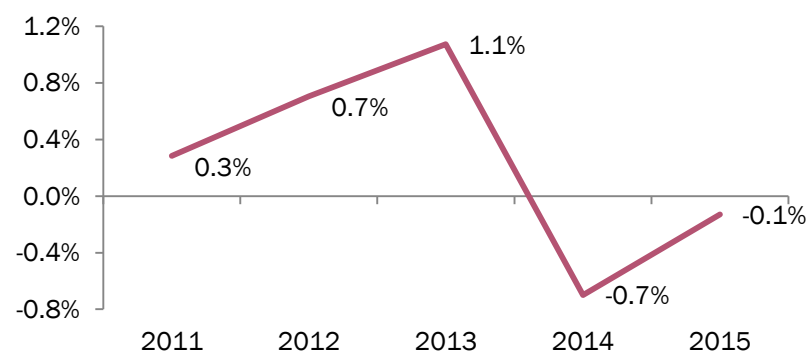


Figure A-24: Ann Arbor Apartment Absorption as Percent of Occupied Units: Annual Forecast



Source: Reis; 4ward Planning LLC 2012

Apartment Effective Monthly Rent

The apartment effective monthly rent in the Ann Arbor apartment submarket increased from \$816 in the first-quarter 2007 to \$846 in first-quarter 2008 (a 3.7 percent increase), according to Reis. Over the next two years (concurrent with the worst of the economic recession), effective monthly rents declined 0.5 and 0.8 percent, respectively. Reflective of an increasingly tight rental market, monthly rents rose approximately two percent between first quarter 2010 and 2011. Reis projects Ann Arbor effective monthly rents will continue to rise by nearly sixteen percent over the next five years, reflecting tightening supply and rising demand. This trend also suggests rental units affordable to lower and moderate income households will be harder to come by, without a focused effort on increasing supply.

Figure A-25: Ann Arbor Apartment Effective Monthly Rent

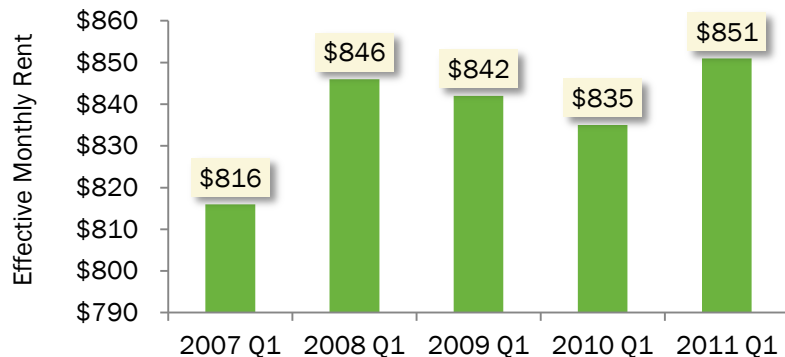
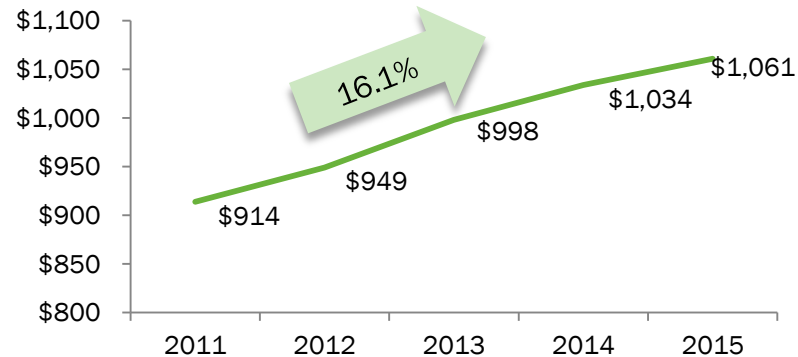


Figure A-26: Ann Arbor Apartment Effective Monthly Rent: Annual Forecast



Source: Reis; 4ward Planning LLC 2011

Takeaway

The relative dearth of available multi-family rental units in the Ann Arbor sub-market should be reason for concern, given that tight supply will continue to place upward pressure on rents and, in turn, create economic disincentives for area workers (young professional workers, in particular) and employers seeking to attract these workers. Further, if rental price pressure continues to steadily rise, local employers (particularly retailers) will find it necessary to raise their wage and salary offerings to compensate for higher housing costs or risk losing their best workers.

Multi-family rental development on one or more of the lots under study by the Ann Arbor DDA will certainly help to relieve some of the upward rental price pressure currently experienced in the Ann Arbor sub-market. However, it will be but a start to addressing what will likely be a long-term issue, given the projected growth in jobs in and around Ann Arbor and the growing pent-up demand for in-town housing.

While workforce housing is a relative term, it is abundantly clear from the multi-family rental trends observed within the Ann Arbor sub-market that unless and until more residential inventory is created within the sub-market – particularly within the CBD area – there will be an ever shrinking supply of housing affordable to most households, and in particular, for those in the lowest income tier.

Consequently, each of the DDA's land parcels should be considered for some number of rental units.

Residential Supply-Demand Analysis

ECONOMIC AND REAL ESTATE ANALYSIS FOR SUSTAINABLE LAND USE OUTCOMES™



Supply and Demand Analysis – Flat Household Growth Scenario

Key Assumptions Underpinning the Flat Household Growth Scenario

Net Household Formation Remains Relatively Steady from 2011 to 2026

This is a conservative assumption based on the region's moderate household formation rate over the past ten years.

Number Employed within the William Street PMA Increases from 103,164 to 119,770 by 2026

This estimate is based on a conservative one-percent annualized increase over 2011 base employment

Ten Percent of Those Working in the PMA but Living Elsewhere Represent Pent-Up Demand

Based on an assumption that one-in-ten workers would trade their commute if there were adequate housing choice in the PMA

Three-percent of the PMA's Current Housing Stock is Physically Obsolescent and Unmarketable

Much of the PMA's rental housing stock is more than forty years old, increasing the likelihood of physical obsolescence.

1.0 Percent of the PMA's Remaining Housing Stock Becomes Obsolescent Annually

All housing stock gradually wears out over time and, on average, one out of every 100 units becomes obsolescent annually.

70 percent of New Unit Demand will be for Rental Housing

Based on currently and likely future socio-economic characteristics of the area and tight lending standards into the future.

The PMA will Maintain an Annual Housing Vacancy Rate of Three-Percent

The PMA's naturally occurring annual vacancy rate will remain relatively tight, based on steady demand factors

“The New Look and Location of Housing”

“Young Millennials and older Baby Boomers are rejecting traditional suburban life-styles in favor of urban living and shorter commutes. Many want to live near city centers so they can walk to work, shops, and restaurants or take public transportation. They also prefer smaller homes because they’re single or have no kids and don’t want to spend their free time maintaining their homes.”

USA Today – May 16, 2012

Supply and Demand Analysis – Flat Growth Scenario

Under a flat growth scenario, if no new housing were built in the PMA...

...by 2016 there would be

Households: 47,060
 Net Marketable Housing Units: 47,812
 Pent-Up Worker Demand in Units: 9,758
 Annual Average Number of Vacant Units: 1,434
Estimated Net Housing Unit Demand: 10,440

...by 2021 there would be

Households: 47,060
 Net Marketable Housing Units: 47,334
 Pent-Up Worker Demand in Units: 10,256
 Annual Average Number of Vacant Units: 1,420
Estimated Net Housing Unit Demand: 11,402

...by 2026 there would be

Households: 47,060
 Net Marketable Housing Units: 46,861
 Pent-Up Worker Demand in Units: 10,779
 Annual Average Number of Vacant Units: 1,406
Estimated Net Housing Unit Demand: 12,384

The metrics to the left demonstrate that, under a flat household growth scenario, most of the housing unit demand in the PMA (10-minute drive from William Street), over the coming decade, will come from pent-up worker housing demand.

Replacement units/or substantial rehabilitation will be required for a relatively small number of units.

Supply and Demand Analysis – Moderate Household Growth Scenario

Key Assumptions Underpinning the Moderate Household Growth Scenario

Net Household Formation Increases by 0.5 Percent per Annum from 2011 to 2026

This assumption is based on increased in-migration from the metropolitan area and increased immigration, in response to local area job growth.

Number Employed within William Street PMA Increases from 103,164 to nearly 119,770 by 2026

This estimate is based on a modest one-percent annualized increase over 2011 base employment.

Ten Percent of Those Working in the PMA but Living Elsewhere Represent Pent-Up Demand

Based on an assumption that one-in-ten workers would trade their commute if there were adequate housing choice in the PMA

Three-percent of the PMA's Current Housing Stock is Physically Obsolescent and Unmarketable

Much of the PMA's rental housing stock is more than forty years old, increasing the incidence of physical obsolescence.

1.0 Percent of the PMA's Remaining Housing Stock Becomes Obsolescent Annually

All housing stock gradually wears out over time and, on average, one out of every 100 units becomes obsolescent annually.

70 percent of New Unit Demand will be for Rental Housing

Based on currently and likely future socio-economic characteristics of the area and tight lending standards into the future.

The PMA will Maintain an Annual Housing Vacancy Rate of Three-Percent

The PMA's naturally occurring annual vacancy rate will remain relatively tight, based on steady demand factors

Supply and Demand Analysis – Moderate Growth Scenario

Under a moderate growth scenario, if no new housing were built in the PMA...

...by 2016 there would be

Households: 48,248
 Net Marketable Housing Units: 47,812
 Pent-Up Worker Demand in Units: 9,758
 Annual Average Number of Vacant Units: 1,434
Estimated Net Housing Unit Demand: 11,629

...by 2021 there would be

Households: 49,467
 Net Marketable Housing Units: 47,334
 Pent-Up Worker Demand in Units: 10,256
 Annual Average Number of Vacant Units: 1,420
Estimated Net Housing Unit Demand: 13,809

...by 2026 there would be

Households: 50,716
 Net Marketable Housing Units: 46,861
 Pent-Up Worker Demand in Units: 10,779
 Annual Average Number of Vacant Units: 1,406
Estimated Net Housing Unit Demand: 16,040

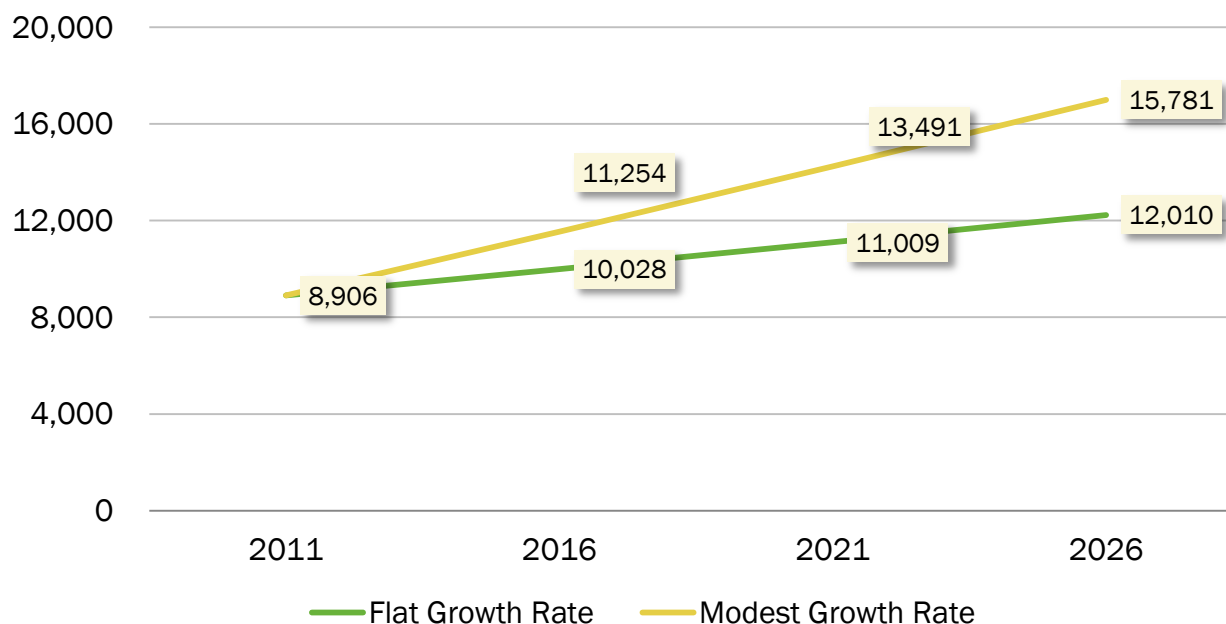
Should moderate growth occur within the PMA over the next fifteen years (half-percent annual growth in households and one-percent annual growth in employment), 4ward Planning estimates that at minimum, net new housing demand will reach 11,629 units by 2016 and, should no additional units be built by 2026, net housing unit demand is projected at slightly more than 16,000 units.

As in the case under flat growth, pent-up worker housing unit demand will drive the above growth.

Projected Growth Scenarios: William Street

In 2011, the estimated net housing demand within the 10-minute drive time contour (PMA) was 8,906 units. Based on a flat growth scenario, pent-up worker housing demand and replacement demand from physically obsolescent housing units is projected to steadily increase housing demand to approximately 12,000 units by 2026. Assuming a moderate growth scenario, should no additional units be built, housing demand is projected to increase to approximately 16,000 units by 2026.

Figure A-27: Net Housing Unit Demand



Source: US Census Bureau; Scan US; On The Map; 4ward Planning LLC 2012

Supply and Demand Analysis – Residential Capture in the CBD

Based on the below modest household growth estimates, there will be demand for thousands of new multi-family rental units within the Ann Arbor sub-market over the coming years. At least a third of these units could be absorbed within the City of Ann Arbor, and half of those within the CBD (note: the below housing unit demand figures are not cumulative).

Modest Household Growth Scenario	<u>2011</u>	<u>2016</u>	<u>2021</u>	<u>2026</u>
<i>Net Housing Unit Demand (Excess Units)</i>	9,498	11,629	13,809	16,040
Replacement Demand	498	483	478	473
Household Growth and Pent-Up Worker Demand	9,000	11,146	13,330	15,567
Demand - Owner-Occupied	2,849	3,489	4,143	4,812
Demand - Rental	6,649	8,140	9,666	11,228
Demand - One Bedroom (20%)	1,900	2,326	2,762	3,208
Demand - Two Bedroom (70%)	6,649	8,140	9,666	11,228
Demand - Three Bedroom or Greater (10%)	950	1,163	1,381	1,604
Demand - HH Income \$75,000 and Greater (15%)	1,425	1,744	2,071	2,406
Demand - HH Income \$40,000 to \$74,999 (15%)	1,425	1,744	2,071	2,406
Demand - HH Income \$39,999 and Less (70%)	6,649	8,140	9,666	11,228
Rental Units Captured in city of Ann Arbor (33 percent of sub-market units)	2,194	2,686	3,190	3,705
Rental Units Captured in Ann Arbor CBD (50 percent of city's capture)	1,097	1,343	1,595	1,853

Source: 4ward Planning LLC 2012

Office Real Estate Trends

ECONOMIC AND REAL ESTATE ANALYSIS FOR SUSTAINABLE LAND USE OUTCOMES™



Office Sub-Market Area



Office Inventory

According to Reis, the Ann Arbor office submarket featured 5.9 million square feet of space in 2011 and has remained unchanged through the first quarter of 2012. Through 2015, Reis projects an additional 239,000 square feet of office space will be constructed in the submarket (a 4.0 percent increase). This new space, however, will be developed outside of Ann Arbor's CBD. Accordingly, the CBD area will continue to realize pent-up demand for office space in the coming years – creating greater value for parcels under study by the DDA.

Figure A-28: Office Building Inventory in Square Feet, Ann Arbor Submarket



Source: Reis; 4ward Planning LLC 2012

Office Vacancy Rate

After falling steadily from 19.7 percent in first-quarter 2007 to 15.3 percent in first-quarter 2010, office vacancy rates rose to 17.6 percent in the first quarter of 2011 – remaining 10.7 percent below first-quarter 2007 levels. It should be noted, however, that much of this vacant inventory is located well outside of Ann Arbor's central business district. Reis projects office vacancy rates will decline steadily through 2015, settling at a 13.9 percent annual rate.

Figure 29A: Ann Arbor Office Year-over-Year Vacancy Rates

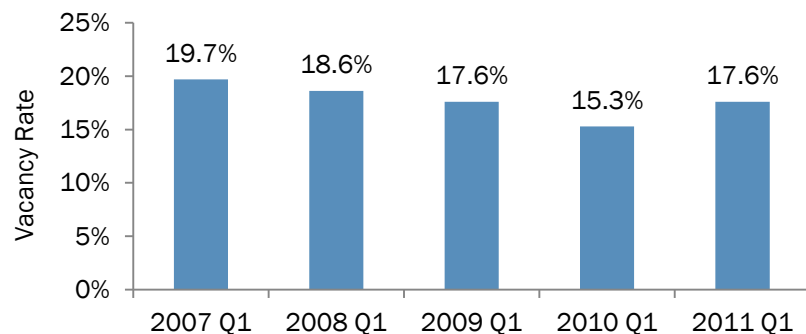
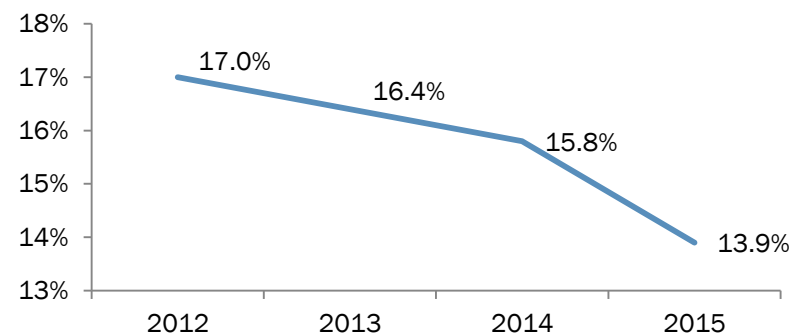


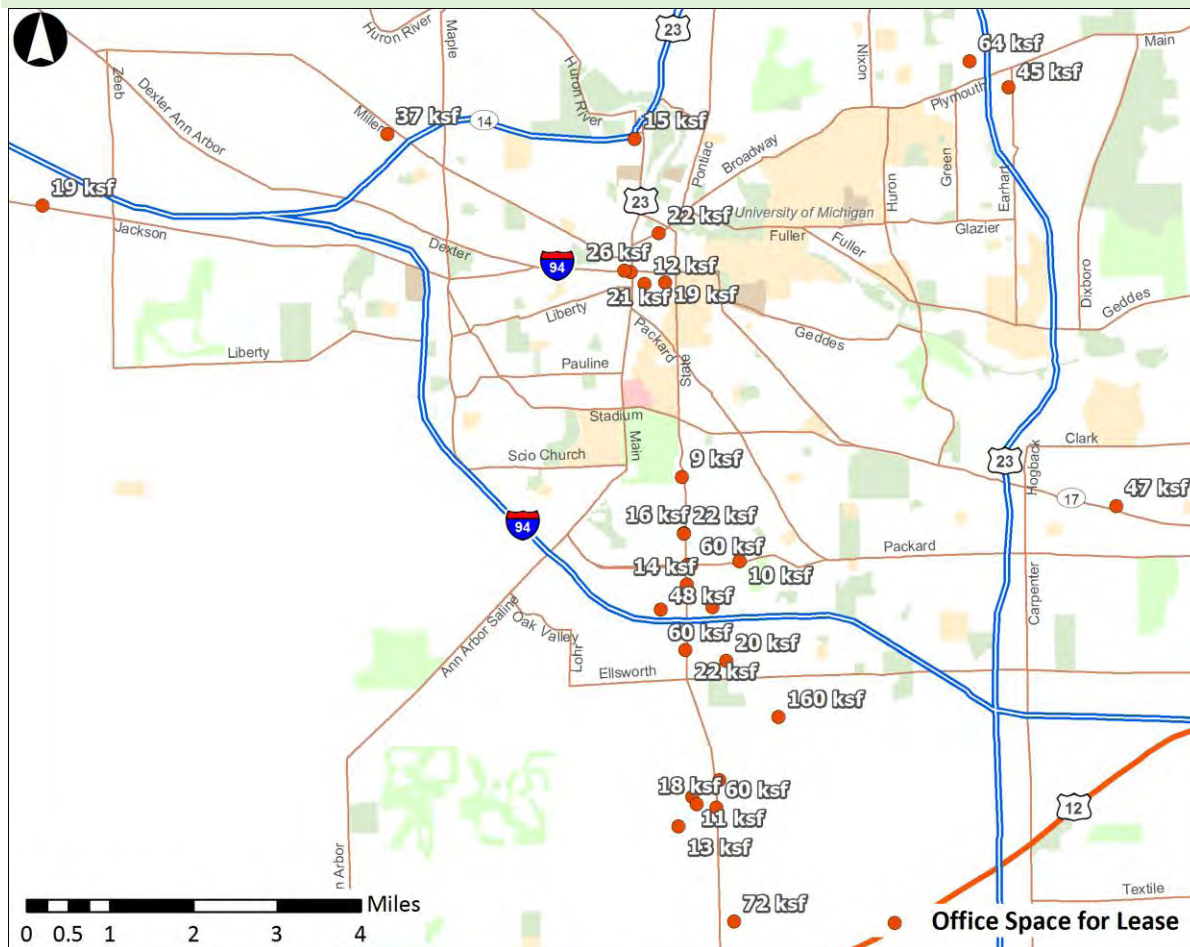
Figure A-30: Ann Arbor Office Projected Year-over-Year Vacancy Rates



Source: Reis; 4ward Planning LLC 2012

Office Space for Lease – Ann Arbor

The map below indicates the location of currently available office spaces for lease in the Ann Arbor area. As shown, only a small number of these sites (highlighted in the table) are concentrated in the CBD while most of them are located in the outskirts of the city.



Property Address	Total Space
101 North Main	21,854 SF
2211 Old Earhart Rd.	45,022 SF
315 E. Eisenhower Parkway	43,827 SF
4401 Varsity	159,732 SF
2725 S. Industrial	10,237 SF
500 E. Washington St.	19,042 SF
2350 Green Rd	63,839 SF
710 Avis Drive	13,000 SF
5200 South State Street	21,667 SF
4825 Washtenaw	46,774 SF
2723 S State St	16,155 SF
5 Research Dr.	15,168 SF
540 Avis Drive	11,300 SF
1000 Victors Way	60,000 SF
3959 Research Park Dr.	20,004 SF
555 Briarwood Circle	48,000 SF
2725 S. Industrial	10,000 SF
3001-3021 Miller Rd.	37,177 SF
305 E. Eisenhower Parkway	13,000 SF
617 Detroit Street	22,058 SF
305 E. Eisenhower	13,000 SF
5230 S. State St.	21,677 SF
111 N. Ashley Street	26,220 SF
210 S. Fifth Ave.	12,400 SF
3131 S. State Street	13,754 SF
777 E Eisenhower	59,627 SF
6095 Jackson	19,200 SF
4840 Venture Dr.	25,000 SF
2178 South State Street	9,125 SF
525 Avis Dr	18,236 SF
6175 InterFirst Drive	72,000 SF
5220 S. State Road	60,360 SF

Office Absorption

Absorption as a percent of occupied office square footage has alternated between negative and positive absorption rates for each first-quarter time period, from 2007 to 2011. Over the next five years, absorption as a percent of occupied stock is projected to remain positive, increasing steadily from 0.4 percent in 2012 to 4.0 percent in 2015. This observed trend suggests new office space will likely come on-line in Ann Arbor, over the next five to eight years. One or more of the City-owned CBD land parcels could host a portion of this new office space.

Figure A-31: Ann Arbor Office Absorption as Percent of Occupied Inventory

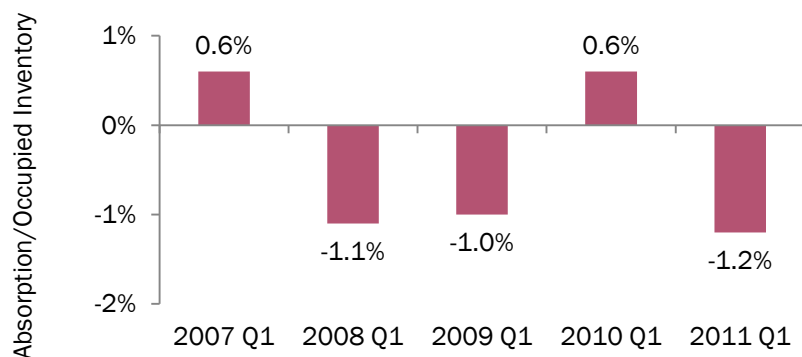
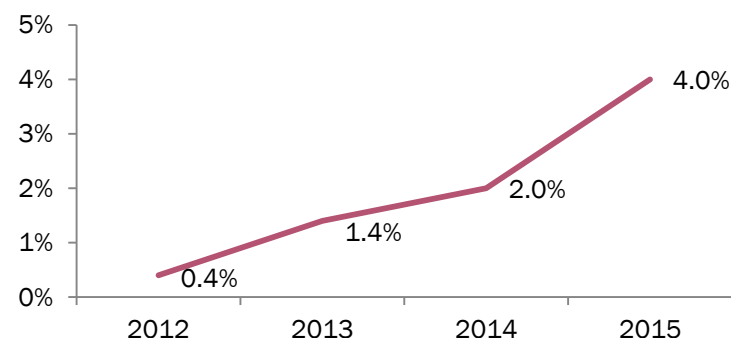


Figure A-32: Ann Arbor Office Projected Absorption as Percent of Occupied Inventory



Source: Reis; 4ward Planning LLC 2012

Office Effective Annual Rents

Effective annual rents in the Ann Arbor office market decreased over the 2008 to 2010 time period, decreasing most dramatically from first-quarter 2009 to first-quarter 2010 (likely a result of the economic recession). However, rents began increasing again in the first-quarter of 2011 and are projected to continue increasing, returning back to 2009 levels by 2015, according to Reis. This trend is particularly important, as speculative office development is unlikely to occur until market rents surpass \$18 per square foot, based on market financial feasibility requirements

Figure A-33: Ann Arbor Office Effective Annual Rent

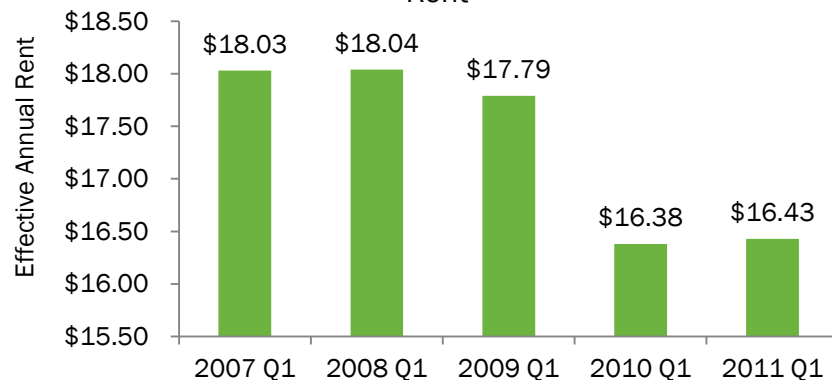
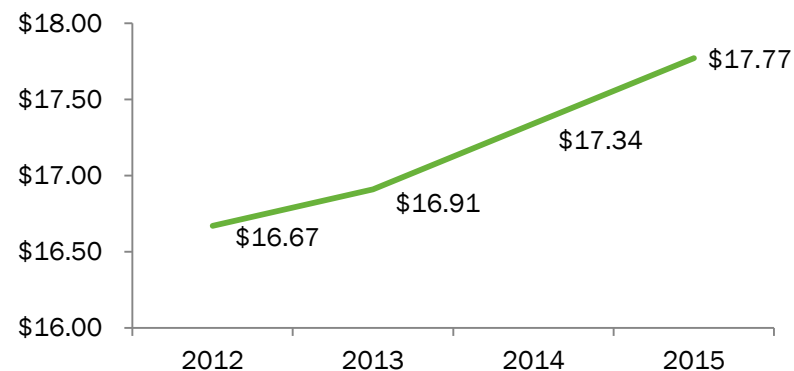


Figure A-34: Ann Arbor Office Projected Effective Annual Rent



Source: Reis; 4ward Planning LLC 2012

Takeaway – Office Real Estate Trends

While published reports concerning the Ann Arbor office sub-market show a relatively high vacancy rate (which as existed for several years, now), it is important to note that the bulk of that inventory is located well outside of Ann Arbor's central business district – where reports of office demand are greatest in the sub-market. Indeed, relatively little inventory of quality (both size and amenity features) is found within the central business district and, thus, belies the otherwise high sub-market vacancy rate.

Further, much of the vacant space in and around the central business district is relatively small (4ward Planning found that there are few available spaces greater than 15,000 square feet; many of the local companies which are expanding, based on interviews, require at least twice this amount of space to accommodate their future growth needs).

One or more of the City-owned central business district land parcels are important opportunity-sites for accommodating new Class A office space, providing the appropriate square footages demanded by the market, in close proximity to amenities and services. This office space can be provided in stand-alone buildings or as a part of mixed-use buildings.

As new office space development will be limited to a CBD location, unlike residential development, which has greater geographic latitude, the City should give priority office development on its parcels, given there are few choice parcels in the CBD which can be had for a reasonable cost.

Office Supply-Demand Analysis

ECONOMIC AND REAL ESTATE ANALYSIS FOR SUSTAINABLE LAND USE OUTCOMES™



Methodology - Key Steps for Deriving Office Demand

Projecting 2018 Primary Jobs

To determine projected office space demand, primary jobs in the CBD (ZIP code 48104) were projected through 2018 based on 2009 primary jobs data and Bureau of Labor Statistics industry growth rates. Primary jobs were then aggregated into industry sectors.

Estimating the Number of Office Workers

A National Center for Real Estate Research study has estimated the percentage of workers in various industry sectors that work in an office environment. Using these percentages, we were able to estimate the number of workers in the CBD (48104 ZIP code) who would work in an office..

Determining Office Space Demand

Assuming a space requirement of 150 square feet per worker, the total demand for office space was estimated based on the projected office workers for each year through 2018

Projected Office Jobs – CBD (ZIP Code 48104)

The tables below show the projected jobs and office workers, respectively, aggregated by industry sector, for the CBD (ZIP Code 48104).

Primary Jobs (Projected), ZIP Code 48104, Ann Arbor, MI

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Construction	146	148	151	154	157	160	163	166	169
Manufacturing	895	887	879	871	863	855	848	840	833
Trade, Transportation, and Utilities	3,955	3,986	4,018	4,050	4,082	4,114	4,147	4,180	4,213
Information	827	831	834	837	840	844	847	850	854
Financial Activities	989	995	1,000	1,005	1,011	1,016	1,021	1,027	1,032
Professional and Business Services	3,982	4,083	4,186	4,292	4,400	4,511	4,625	4,742	4,862
Education and Health Services	2,714	2,784	2,854	2,927	3,002	3,078	3,157	3,237	3,319
Leisure and Hospitality Services	3,077	3,103	3,129	3,156	3,183	3,210	3,237	3,264	3,292
Other	1,598	1,619	1,639	1,660	1,681	1,703	1,725	1,747	1,769
Government	2,949	2,971	2,993	3,016	3,038	3,061	3,084	3,107	3,130
Total	21,133	21,406	21,684	21,968	22,257	22,552	22,853	23,160	23,473

Estimated Average Office Workers Per Industry, ZIP Code 48104, Ann Arbor, MI

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Construction	29	29	30	30	31	32	32	33	33
Manufacturing	265	262	260	258	255	253	251	249	248
Trade, Transportation, and Utilities	1,264	1,274	1,284	1,294	1,304	1,315	1,325	1,336	1,321
Information	565	568	570	572	574	577	579	581	592
Financial Activities	820	825	829	833	838	842	847	851	851
Professional and Business Services	2,473	2,535	2,599	2,665	2,732	2,801	2,872	2,944	3,009
Education and Health Services	1,351	1,386	1,421	1,457	1,494	1,532	1,571	1,611	1,640
Leisure and Hospitality Services	274	276	279	281	284	286	288	291	294
Other	648	656	664	673	681	690	699	708	710
Government	1,297	1,307	1,317	1,327	1,337	1,347	1,357	1,367	1,379
Total	8,986	9,118	9,253	9,390	9,531	9,674	9,821	9,971	10,077

Source: NCRER, U.S Census Bureau, 4ward Planning LLC 2012

Projected Office Space Demand – CBD (ZIP Code 48104)

The table below shows the projected office space demand, aggregated by industry sector, for ZIP Code 48104, as derived based on the projected office workers and assuming an estimated requirement of 150 square feet per worker (a conservative industry benchmark). As shown, the anticipated increase in office space demand from 2010 to 2018 is approximately 164,000 square feet. By way of comparison, Domino's Headquarters (located at Domino's Farms) is 200,000 square feet.

Estimated Total Office Space Per Industry, Sq. Ft., ZIP Code 48104, Ann Arbor, MI

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Construction	4,324	4,404	4,485	4,568	4,653	4,739	4,827	4,917	4,936
Manufacturing	39,712	39,355	39,002	38,652	38,305	37,961	37,620	37,282	37,256
Trade, Transportation, and Utilities	189,577	191,078	192,591	194,117	195,654	197,203	198,765	200,339	198,198
Information	84,794	85,128	85,463	85,800	86,138	86,478	86,818	87,161	88,782
Financial Activities	123,031	123,689	124,350	125,015	125,683	126,355	127,031	127,710	127,719
Professional and Business Services	370,883	380,252	389,857	399,705	409,802	420,154	430,767	441,649	451,285
Education and Health Services	202,694	207,856	213,150	218,579	224,147	229,856	235,710	241,713	246,008
Leisure and Hospitality Services	41,114	41,462	41,814	42,169	42,527	42,888	43,252	43,619	44,093
Other	97,134	98,375	99,631	100,903	102,192	103,496	104,818	106,156	106,468
Government	194,612	196,071	197,540	199,021	200,512	202,015	203,529	205,055	206,855
Total	1,347,873	1,367,670	1,387,885	1,408,529	1,429,613	1,451,146	1,473,138	1,495,601	1,511,598

Source: NCRER, U.S Census Bureau, 4ward Planning LLC 2012

Takeaway

The Office Demand Analysis indicates a projected 2018 demand for office space of about 1.5 million total square feet, based on the projected number of office using jobs by industry in the CBD (ZIP code 48104). This represents an increased demand of about 164,000 square feet for this area, which includes the CBD.

The total inventory of office space in the Ann Arbor area is projected to be about 6.3 million square feet in 2016. Although the vacancy rate and office availability estimates would indicate that the supply is projected to be adequate, local business owners have stated an interest in locating office facilities in the CBD. Specifically, interviews with several knowledgeable real estate brokers and corporate representatives suggest there is strong interest in locating an aggregated total of 250,000 to 350,000 square feet in the CBD over the next five years.

The existing pent-up demand for office space in the CBD, as revealed in interviews, would be in addition to the increase in office workers in ZIP code 48104, projected through 2018. In addition, as businesses in greater Washtenaw county grow and expand in the coming years, there will, likely, be a desire to move from existing smaller and/or older Class B/C office spaces outside the CBD to larger and newer Class A spaces within the CBD area.

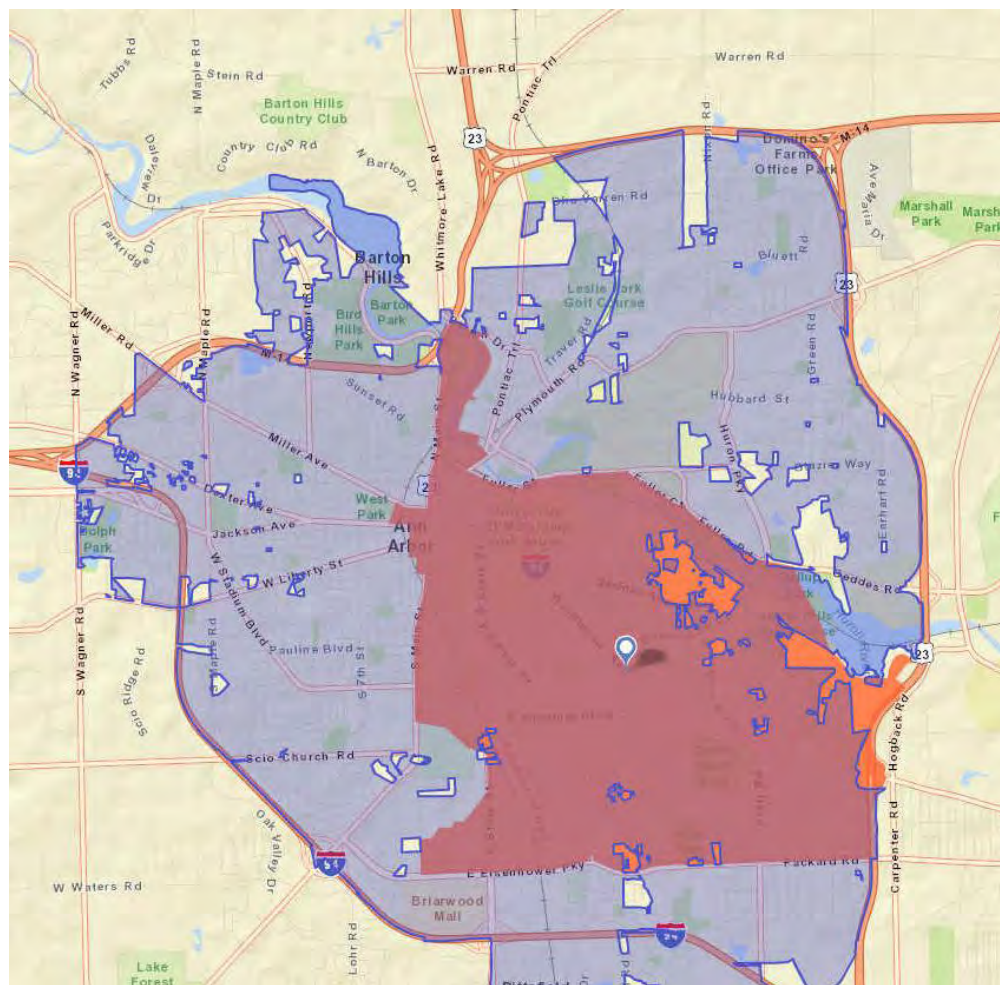
Based on this analysis, demand in the Ann Arbor CBD should support an increase in office space of up to 500,000 square feet, with some portion hosted on the City's parcels.

Retail Real Estate Trends

ECONOMIC AND REAL ESTATE ANALYSIS FOR SUSTAINABLE LAND USE OUTCOMES™



Downtown Retail Market Area (ZIP Code 48104)



Source: Esri; 4ward Planning LLC, 2012

Retail Demand/Supply Comparisons

The table below exhibits 2010 data concerning retail trade, food and drinking establishments for both the City of Ann Arbor and the downtown area (ZIP code 48104). Demand and supply metrics are presented as dollar values (thousands of dollars), reflecting aggregate household expenditures within each geography (demand potential) and aggregate business sales for each geography (supply potential). A surplus for a given retail category indicates supply in that geography exceeds demand in that geography and a deficit indicates insufficient supply to meet the geography's demand.

Table A-9: Ann Arbor and Downtown (ZIP Code 48104) Retail Trade and Food & Drinking Establishments - 2010 (\$000s)

City of Ann Arbor		<u>Est. Demand</u>		<u>Est. Supply</u>		<u>Surplus/(Deficit)</u>	<u>Businesses</u>
Total Retail Trade and Food & Drink		\$1,390,882		\$1,015,169		(\$375,713)	1,092
<i>Total Retail Trade</i>		\$1,176,208		\$752,288		(\$423,920)	739
<i>Total Food & Drink</i>		\$214,674		\$262,881		\$48,207	353
		Estimated	Pct.	Estimated	Pct.		Number of
Downtown Area		<u>Demand</u>	<u>Share</u>	<u>Supply</u>	<u>Share</u>	<u>Surplus/(Deficit)</u>	<u>Businesses</u>
Total Retail Trade and Food & Drink		\$448,640	32.3%	\$455,791	44.9%	\$7,151	571
<i>Total Retail Trade</i>		\$378,144	32.1%	\$294,294	39.1%	(\$83,850)	354
<i>Total Food & Drink</i>		\$70,496	32.8%	\$161,496	61.4%	\$91,000	217
							Pct.
							<u>Share</u>

Source: Esri Community Analyst; 4ward Planning LLC, 2012

Retail Demand/Supply Comparisons (continued)

However, it should be understood that the below demand/supply metrics do not take into consideration demand/supply metrics from outside of the respective geographies examined. For example, while the food and drink category shows a surplus (sales exceed demand) in both the City of Ann Arbor and the downtown area (ZIP code 48104), demand from outside of these geographies (e.g., patrons living outside of these areas) likely accounts for the difference. Further, the relatively large retail trade deficit observed for each geography (demand exceeds sales) pertains to the types of retail goods which are generally provided in large shopping centers and big box format retailers.

Table A-10: Ann Arbor and Downtown (ZIP Code 48104) Retail Trade and Food & Drinking Establishments - 2010 (\$000s)

City of Ann Arbor								
Total Retail Trade and Food & Drink	<u>Est. Demand</u>		<u>Est. Supply</u>		<u>Surplus/(Deficit)</u>	<u>Businesses</u>		
<i>Total Retail Trade</i>	\$1,390,882		\$1,015,169		(\$375,713)	1,092		
<i>Total Food & Drink</i>	\$1,176,208		\$752,288		(\$423,920)	739		
	\$214,674		\$262,881		\$48,207	353		
	Estimated	Pct.	Estimated	Pct.		Number of	Pct.	
Downtown Area								
Total Retail Trade and Food & Drink	<u>Demand</u>	<u>Share</u>	<u>Supply</u>	<u>Share</u>	<u>Surplus/(Deficit)</u>	<u>Businesses</u>	<u>Share</u>	
<i>Total Retail Trade</i>	\$448,640	32.3%	\$455,791	44.9%	\$7,151	571	52.3%	
<i>Total Food & Drink</i>	\$378,144	32.1%	\$294,294	39.1%	(\$83,850)	354	47.9%	
	\$70,496	32.8%	\$161,496	61.4%	\$91,000	217	61.5%	

Source: Esri Community Analyst; 4ward Planning LLC, 2012

Retail Demand/Supply Comparisons (continued)

Existing retail in the CBD is dominated by eating and drinking establishments, with a relatively small share of specialty, convenience and comparison shopping retailers. This retail profile is both typical for and appropriate to a community having relatively high disposable incomes and close proximity to larger shopping centers.

While there are a number of vacant retail stores located throughout the central business district, it is likely that these storefronts will lease-up relatively quickly, based on strong household and employment fundamentals in and around Ann Arbor.

Other noteworthy observations:

- The 48104 ZIP Code area's relatively small share of total retail trade demand (including dining out demand, when compared to total retail trade supply (including dining out supply) is reflective of the relatively small share of households within this area.
- The number of downtown area (ZIP code 48104) food and drinking establishments and their supply (estimated sales) in 2010 represented nearly 62 percent of Ann Arbor's total number of food and drinking establishments and their estimated sales

Major Shopping Centers within 10-Minutes of the CBD



Smaller shopping centers of note within a 10-minute drive of the CBD

Traver Village Shopping Center
Westgate Shopping Center
Cranbrook Village
Oak Center
Kerrytown Market & Shops
Oak Valley Shopping Center

Major Shopping Centers within 10-Minutes of the CBD

Ann Arbor's CBD is within a 10-minutes drive to major retail centers (defined as retail centers 200,000 s.f. or larger), offering more than 2.1 million square feet of retail shopping. Much of the retail contained within these shopping centers is classified as "comparison" goods – that is, goods (e.g., clothing, jewelry, consumer electronics, and furnishings) which are mass produced and compete on price as much as quality. Many of the stores located within these shopping centers are too large to consider a location like downtown Ann Arbor – nor would these types of retailers fit the existing character of the CBD. While not detailed here, there is nearly an additional one-million square feet of comparison, convenience and specialty retail space (principally, within centers smaller than 200,000 s.f.) within a 10-minutes drive of downtown Ann Arbor.

Table A-11: Major Retail Centers in Ann Arbor Area

Center Name	City	Anchor and Major Stores within Shopping Center based on Square Footage	GLA (S.F.)
Maple Village	Ann Arbor	Dunham's Sports, English Gardens, Kmart, Plum Market, and Value Village	296,301
Arborland Center	Ann Arbor	Bed Bath & Beyond, Hiller's Market, Marshalls, and Toys R Us	406,736
Briarwood Mall	Ann Arbor	JCPenney, Macy's, Sears, and Von Maur	955,934
Roundtree Place	Ypsilanti	Harbor Freight Tools and Walmart	203,275
Valley View Shopping Center	Ann Arbor	Babies R Us, Jo-Ann Fabrics & Craft, and Target	<u>250,000</u>
Total Square Feet			2,112,246

Source: Directory of Major Malls and Shopping Centers; 4ward Planning LLC, 2012

Takeaway

While our retail supply/demand analysis shows an estimated under-supply of retail space within the City of Ann Arbor and its CBD, based on estimated household expenditures within these geographies, the under supplied retail is principally concentrated within the “comparison” retail categories – the type of retail categories which are and will continue to be dominated by large format stores and on-line retailers.

Ann Arbor and, specifically, the CBD, have developed a successful niche in the categories of drinking and dining establishments and specialty retail. The local market dynamics are working well and indicate that as more households and jobs come into the CBD, particularly higher income households and jobs, both dining and specialty retail establishments will also increase, with a small increase of comparison retail, as well.

The character and scale of existing retailer stores in CBD should serve as a guide for determining the character and scale of future retail development – particularly within future development on one or more the DDA’s parcels. Specifically, and with few exceptions, store formats should be small in scale (1,200 to 2,500 s.f.). Exceptions to this rule would be in the case of recruiting a high end brand retailer, such as an Apple Computer retail store.

The total amount of additional retail space should be a function of new office and residential development – recognizing that not every new development, however, needs to have ground floor retail.

What makes a CBD economically vibrant and attractive?

What facets of the CBD make it easier for them to find and keep the talent they need to succeed?

Interview Findings

ECONOMIC AND REAL ESTATE ANALYSIS FOR SUSTAINABLE LAND USE OUTCOMES™



Interview Methodology

At the request of 4ward Planning, as per its interview process, the Ann Arbor DDA facilitated a series of interviews with representatives from the areas of real estate development, retail, private business owners, local government, transit, the university and non-profit organizations – entities identified by 4ward Planning as important to the interview process. The objective of the interviews, which were conducted with the understanding that no attribution was to be made to interviewees, allowing for candid discussion, was to discern common concerns and key insights regarding the downtown Ann Arbor area.

Interview questions covered a range of topics, including availability and adequacy of office space in the CBD, the performance of local retail businesses, parking, the availability and affordability of housing, transportation access and utilization, adequacy of public open space and parks, and the local political and regulatory environment.

Ann Arbor DDA staff participated in only two of the interviews. Interview sessions averaged approximately 40 minutes in length.

Noteworthy Interview Comments

“Doing a business deal or development project in Ann Arbor is tough.”

“Ann Arbor continues to attract residents from suburban areas.”

“There is a limited supply of available quality housing in or near downtown.”

“There are a number of smaller technology companies which would like to expand in Ann Arbor, but there are limited options to do so.”

“Based on having a world class university and major corporations, Ann Arbor needs a top tier business class hotel in the downtown.”

“The city council has helped to facilitate a number of new residential projects, notwithstanding the recession.”

Noteworthy Interview Comments

“Retail is not needed beyond Main Street.”

“There is nowhere in Ann Arbor to host a 500 person sit-down dinner.”

“Would like to see more job creating businesses on the DDA’s land parcels.”

“Tech companies want to be downtown.”

“There is a growing wait list for technology incubator space.”

Takeaway

Opinions were mixed concerning the below issues:

- Parking adequacy
- The amount and location of park/open space
- The need for a conference center hotel (business representatives were for it, in particular, based on the prospective benefits which would accrue to existing retailers).
- The performance of the existing retail base in CBD
- The re-integration of 100 single-room occupancy (SROs) back into CBD

Takeaway

While interview comments were wide ranging, based on the diversity persons interviewed, there were a number of common concerns which emerged during the interviews. Chief among these concerns was the perception that local elected officials have undermined the development/redevelopment process in the CBD area over the past five years and that, as a result, developers have become wary of pursuing projects in the CBD area.

Whether the above concern is valid or not, the mere perception that pursuing development and/or redevelopment within the City of Ann Arbor is considered challenged, politically, can serve a significant deterrent to attracting the most capable and well financed developer talent to the CBD area. Further, once such as reputation becomes widespread, counteracting through political and policy changes can take years – an outcome which the City should seek to avoid.

Another frequently expressed refrain was that there was too little supply of quality office space in the CBD, to accommodate the growth needs of area technology companies. Interviewees raising this issue expressed concern that without an increase in more space suitable for locally established tech companies, Ann Arbor runs the risk of seeing such companies leave the area in search of such space.

Takeaway

Coupled with the above identified office space issue, and specific to the needs of companies employing young professional workers, there were a number of interviewees who believed there were too few workforce housing options in the CBD area – specifically, one- and two-bedroom rental housing units what would be affordable to the workers who want to live downtown, such as high-tech/knowledge workers.

As development of affordable housing has always been challenging, given gaps between the cost to construct such housing and what that housing can be rented/sold, the ability of the public sector to sell or lease land at a below market cost to a developer of affordable housing is a critical advantage to getting such housing constructed. The City's downtown land parcels present such an opportunity, particularly as other private land parcels increase continue to increase in value to the extent that the development of affordable housing is nearly cost prohibitive, without substantial public sector financial assistance.

Consequently, the City should strategically identify one or more of its land parcels that might serve to accommodate some number of affordable housing units. If done as a mixed-use development project, new office and ground floor retail could also be accommodated and, likely, make the project more financially feasible than not.

Lodging and Conference Center Analysis

ECONOMIC AND REAL ESTATE ANALYSIS FOR SUSTAINABLE LAND USE OUTCOMES™



Glossary of Lodging Facility Types

Hotels & Inns

Hotels and inns are primarily designed to meet the lodging needs of a variety of markets. Meeting rooms in lodging facilities are typically oriented toward social events and training meetings. Most hotel facilities are usually used for local middle and lower management levels and associations. The targeted markets are generally more price-sensitive and these facilities are also characterized by a high percentage of single-day usage.

University Conference Centers

Generally developed by and associated with a major educational institution, these facilities are typically staffed by university personnel. Lodging facilities range from specially designed conference style accommodations to dormitory rooms as available. Targeted markets are primarily associations-technical in orientation, and academic/university related. Groups are typically more price-sensitive than resort, corporate, or executive markets. These are characterized by high day and seasonal usage. The Ross School of Business, Palmer Commons, The Michigan League, the Michigan Union and Medical School have such facilities. Eastern Michigan has Eagle Crest Conference Center.

Corporate Conference Centers

Designed by a corporation primarily for in-house use, corporate conference centers are typically available on a limited basis to outside users. These facilities are staffed and supplied with sophisticated meeting aids. Size of the facility varies depending on companies' needs. Emphasis is primarily to satisfy the companies'/owners' training and development as well as internal communication needs. While primarily designed for in-house corporate use, the characteristics of outside users, if any, are similar to users of executive conference centers.

Glossary of Lodging Facility Types (continued)

Executive Conference Centers

Executive conference centers are developed primarily to satisfy the requirements of specialized executive level meetings and are staffed with conference center coordinators. These facilities are built with sophisticated audio-visual equipment and meeting aides. Typically lodging rooms are available to serve conferees either in nearby hotels or as part of the development. Facilities include specially designed meeting rooms and breakout rooms. Emphasis is characterized by excellent service, high quality and security. The target market is primarily upper-level management planning, educational and training seminars as well as corporate and less price-sensitive associations. Often, these facilities are located proximate to corporate headquarters, large corporate parks in urban areas and at airport hubs.

Events Centers

Designed to accommodate special events such as concerts, shows, and sporting events, events centers are typically built specifically for these purposes and therefore are not very flexible in their spacing. These facilities can usually accommodate from 500 to 10,000 people and do not typically include a hotel facility. Targeted for large social and entertainment events, this type of facility must be able to accommodate large groups of people and is characterized by primarily day events. The Eastern Michigan Convocation Center and the University of Michigan's Crisler Arena are examples of this type of facility.

Convention Centers

Convention centers are typically owned and operated by a municipality to increase tourism and business activity. These facilities are usually situated in a central business district and do not include a hotel facility, but are within close proximity to many hotel rooms. They typically include significant exhibition space and some ancillary conference rooms for smaller meetings and break-outs. Primarily state and national associations and large trade groups who require exhibit space utilize convention centers. Proximity to a large number of hotel rooms and recreational amenities is required. COBO Center in Detroit and McCormick Place in Chicago are representative.

Source: Hospitality Group Advisors

Methodology

4ward Planning, in the course of performing its market research due diligence for the Connecting William Street study, became aware of a 2010 effort to site a hotel conference facility on the downtown lot commonly referred to as the “Library Lot.”

While the project plan failed to move forward, due in part to financial feasibility issues at the time, a number of research studies were conducted and provide valuable insight into what type and size of hotel conference facility might yet be feasible in downtown Ann Arbor. 4ward Planning reviewed the following research materials:

- Demand Analysis and Market Overview for a Conference Facility – Hospitality Advisors Group, November 2010
- Library Lot Proposals – RFP #743: Report and Recommendations to the City of Ann Arbor – The Roxbury Group, November 2010
- High Level Hotel and Conference Center Data Analysis and Research Findings – Internal Staff Report Conducted by the Ann Arbor Downtown Development Authority
- Local Hotel Industry: Room tax revenue sets record in 2011 as occupancy strengthens – AnnArbor.com

Additionally, 4ward Planning performed its own cursory analysis of the presence and proximity of hotel conference facilities to downtown Ann Arbor, utilizing on-line web resources, such as Hospitality Industry Trends, Lodging Econometrics, Map Quest.com, Hotels.com, and Cvent Destination Guide.

Key Findings

While 4ward Planning's research concerning hotel conference lodging facilities is in no way intended to as a qualified hotel conference center market study, findings gleaned from this research appear to indicate there is reasonably strong evidence that a current and independent hotel conference center market study should be conducted for the city of Ann Arbor. Key findings underpinning this recommendation include the following:

- There is an absence of a bona fide hotel conference center in walking distance to Ann Arbor's downtown dining and shopping amenities – 4ward Planning's research identified at least three comparably sized mid-western cities, with major universities, hosting a hotel conference facility in walking distance to downtown amenities.
- While research findings in the Hospitality Advisors Group report determined that there were a number of competitive lodging facility properties in and around downtown Ann Arbor, the report did not identify the age or aesthetic quality of these lodging facilities – this of particular importance when identifying competitive supply.

Key Findings (continued)

- Independent interviews conducted by 4ward Planning in 2012 and The Roxbury Group, in 2010, identified prospective pent-up demand for lodging and conference center space in downtown Ann Arbor – in particular, this demand is for lodging and conference space capable of handling numerous events of 500 or more persons throughout the year. Interviewees included heads of large corporations, educational and health care institutions. Such interviews appeared to be omitted from the Hospitality Advisor's Group Report conducted in 2010.
- The existing number of foreign-based corporations in and around the city of Ann Arbor, coupled with the fact that the University of Michigan is a recruiting hotbed for engineering, technology and professional business firms, suggests that the city of Ann Arbor would likely boost its economic development activity if it were to establish a first class hotel conference facility in walking distance to dining and shopping amenities downtown.
- An April 2012 local news article reported on the substantial 2010 to 2011 growth in Washtenaw County's hotel occupancy rate (16 percent) and hotel tax revenues (13 percent), suggesting a positive trend for the health of the lodging industry in the county. Indeed, Chuck Skelton, President of Hospitality Group Advisors, based in Ann Arbor, stated that "Washtenaw County has come back very strongly," referring to the county's lodging fortunes. Mr. Skelton went on to state that the county's lodging occupancy rate was highest among any county in the state of Michigan and in the mid-west region, generally.

Takeaway

As stated, Ann Arbor lacks a bona fide conference center within walking distance of its downtown area as can be found in comparably-sized cities in the Midwest. In addition, the research conducted by 4ward Planning, along with a review of the available relevant studies, indicates that there may be pent-up demand for this type of facility in downtown Ann Arbor. Developing a conference center also aligns with the robust demand for lodging in Washtenaw County as exhibited from 2010 to 2011.

4ward Planning deems the foregoing hotel conference center research findings, combined with the broader labor and industry study performed by 4ward Planning, justify an updated and independent market analysis pertaining to a downtown hotel conference center.

General & Limiting Conditions

4ward Planning LLC has endeavored to ensure that the reported data and information contained in this report are complete, accurate and relevant. All estimates, assumptions and extrapolations are based on methodological techniques employed by 4ward Planning LLC and believed to be reliable. 4ward Planning LLC assumes no responsibility for inaccuracies in reporting by the client, its agents, representatives or any other third party data source used in the preparation of this report.

Further, 4ward Planning LLC makes no warranty or representation concerning the manifestation of the estimated or projected values or results contained in this study. 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 4ward Planning LLC. This study is qualified in its entirety by, and should be considered in light of, the above limitations, conditions and considerations.



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