DOWNTOWN DEVELOPMENT AUTHORITY
159 E. State Street (Lot O) SUBCOMMITTEE AGENDA
Friday March 8, 2019, 8:30a.m.
2nd Floor Committee Room
Governmental Center, 400 Boardman Ave, Traverse City
www.downtowntc.com

Information and minutes are available from the DDA CEO, 303 East State Street, Suite C, Traverse City, MI 49684, (231) 922-2050. If you are planning to attend the meeting and are handicapped requiring special assistance; please notify the DDA CEO as soon as possible. Any interested person or group may address the DDA Board on any agenda item when recognized by the presiding officer or upon request of any DDA Board member. Also, any interested person or group may address the DDA Board on any matter concerning the DDA not on the Agenda during the agenda item designated Public Comment. The comment of any member of the public or any special interest group may be limited in time. Such limitation shall not be less than five minutes unless otherwise explained by the presiding officer, subject to appeal by the DDA Board.

1. Roll Call
2. Election of Chair and Vice-Chair
3. Review of Packet Material to outline Process
4. Public Comment
5. Other Business
6. Adjournment

Downtown Development Authority
303 E. State Street
Traverse City, MI 49684
jean@downtowntc.com
231-922-2050

Memorandum

To: Lot O (159 E. State Street) Subcommittee: Scott Hardy, Allison Beers, Bill Golden, Leah Bagdon-McCallum, Debbie Hershey

From: Jean Derenzy, CEO

For Meeting Date: March 8, 2019

As the initial meeting for consideration for the redevelopment of Lot O, I have included in your packet the following information:

1. Policy for Inventory use and Disposal of City-Owned Property. This policy will be followed during our deliberations for the potential reuse of Lot O.
2. Downtown & Corridor Market Analysis: This study completed by AECOM in 2015 is our most recent study of market trends and needs.
3. Aerial of property.

This information is included to help with the background of identified economic needs of the City/Downtown. To begin the discussion of process/procedures and outcomes, I have identified several items that should be discussed by the Committee being:

- Determine if redevelopment of current property would have a detrimental impact with the loss of the 25 parking spaces. And/or can 25 parking spaces (or more) can be included in the redevelopment.
- Meet with adjacent property owners, identify their concerns, needs and impact
- Ensure community engagement through a public outreach plan.
- Identify timeline
- Survey property
- Identify redevelopment purpose that meets the community needs (housing, office, etc.).

When considering the repurposing of this site, it is important to remember how this site fits into the overall strategic vision of the DDA and the City as well as the identified needs within the AECOM market analysis. The timing of the redevelopment is also important, with the understanding of 1) surface parking is not the highest and best use;

2) building the second parking garage inside TIF 97 is a key to successful and meaningful elimination of surface parking and 3) utilizing public transportation in a more purposeful and meaningful way to help with business employee and visitor needs.

As a possible partner in this redevelopment Rotary Charities provided $500,000 to Michigan Community Capital (MCC) for impact investing within the 5 county-county region, with MCC building housing units, specifically rentals. I will reach out to the director of MCC to determine partnerships, any opportunities that may be accomplished with the potential of redevelopment of this site.

The process is the key to a meaningful and productive process. Public land can and should be protected when needed and utilized for the best community need that is not currently being met. Public/private partnership will be key to the redevelopment, even a straight sale, can occur, but ensure that what is being built, meets the desired outcome of the community.

The City of Traverse City

Office of the City Clerk

GOVERNMENTAL CENTER
400 Boardman Avenue
Traverse City, MI 49684
(231) 922-4480
tcclerk@traversecitymi.gov

POLICY FOR INVENTORY, USE, AND DISPOSAL OF CITY-OWNED PROPERTY

I. MISSION:

City-owned real property should be necessary for the functioning of City Government, in that it enables that government to serve the collective needs of the public. If City-owned property is not necessary for the functioning of City Government, it should serve a public purpose.

II. INTENT AND PURPOSE:

To coordinate asset management across multiple citywide uses that sustainably meets the needs of the community.

To implement long term needs and recommendations of approved Planning documents (Master Plan, Bayfront Plan, Corridor Plan, Parks & Recreation Plan, etc.)

To provide a consistent approach and decision making process for the City's management of its assets.

III. HIERARCHY OF USES OF CITY PROPERTY:

The best possible use for surplus or under-utilized city-owned property is achieved by evaluating options for their economic, social, and environmental public benefit. This is achieved by evaluating against a prioritization of needs that fall within the overarching responsibility of protecting and improving "public health, safety, and welfare".

1. Necessary for the functioning of City Government, such as:
    a) Emergency Services and Public Safety use – police, fire, medical response
    b) General government use – Operations (City Clerk, City Treasurer, etc.), meeting rooms, areas reserved for necessary direct public interaction
    c) General government use – Public Infrastructure (water, sewer, storm, streets, etc.)
    d) General governmental use - Public Services (workshops, garages, warehouses, storage yards, etc.)

2. Property that serves a public purpose (administered by government), such as:
    a) Transportation facilities – streets, sidewalks, trails
    b) Parks/Recreational facilities
    c) Parking facilities
    d) Historic and cultural sites & facilities
    e) Environmentally sensitive areas (steep slopes, riverbanks, wetlands, coastline)

3. Property that serves a public purpose or goal (administered by others – usually a non-profit organization), such as:

a) Historic and cultural sites & facilities
b) Recreational programming
c) Property Repurposed by others
d) Facilities serving basic human needs

4. Property that could serve a non-public purpose, such as:
   a) Property available for redevelopment that could serve a public goal
   b) Property available for redevelopment that could be sold for private use

IV. GOALS FOR PROPERTY DEEMED SURPLUS OR EXPENDABLE:

Any property deemed surplus shall be offered for disposal (sale, lease, or other arrangement) for fair value utilizing the public bid process.

1. If city-owned property is deemed surplus, the first choice for disposal should serve a public purpose, such as
   - Other governmental unit purposes (i.e., County, Townships, Schools), an affordable housing program, or use by a non-profit for a public or quasi-public purpose.
2. If a public purpose is not feasible or suitable for a subject property, then the property should be sold.
3. In the instance of a sale, if the City Commission determines that the proceeds of the sale should be designated for a specific purpose, then it shall be so noted in the motion authorizing the sale.

Consideration of property transfer would be after a thorough vetting and administrative analysis of the City's needs for the property. If no such need (current or future) exists, then a disposition scenario should be activated.

V. PORTFOLIO PLAN:

A Portfolio Plan shall be maintained for all City-owned property. Each portfolio shall include the following information.

1. **<u>Classification</u>**-Each property shall be classified as
   a) Governmental: Necessary for the function of City government or to meet City Charter requirements (for example: fire, administrative offices, parkland, service yards)

   b) Public Purpose- Administered by City: Used to provide service directly to the public (for example: Carnegie Building, Parks, Marina).
   c) Public Purpose- Administered by Others: Used to provide service directly to the public and/or would otherwise require investment of City resources (for example: Senior Center, Opera House, Bijou).
   d) Investment: Purchased as part of strategic or master plan for future development (for example: trail, park, right of way).
   e) Surplus: Properties no longer in use for their originally intended purpose that are vacant or have been declared surplus.

2. **Condition**-Scaled as follows:

- Excellent – in "like new" condition and/or high quality materials used
- Good – no remedial work is required
- Average – system is aging, but building services are functional and no remedial work is required
- Fair – system is aging and/or minor remedial work is required
- Poor – replacement or major remedial work is required

The most recent real estate appraisal of the property will be included, if available.

Status-Additional detail pertinent to any use of the property. This should include

a) Current zoning and property type
b) Lease status
c) Leasehold conditions and/or deed restrictions, park land, charter restrictions or other policy restrictions
d) Details of any financial arrangements such as funding/construction agreements, management agreements, etc.
e) Details of any known environmental conditions/concerns, such as wetlands, environmental contamination, sensitive shoreline, protected habitat, etc.
f) Details of any known historical significance

Public/Private Partnership-this includes properties that may be physically and/or financially difficult to (re)develop, but that have been identified as important for overall community improvement. A public/private partnership may provide additional financial resources and/or alternatives for (re)development.

Not-for-Profit Plan-This includes any properties leased to a non-profit. This should include

a) Value of property and type of contract (lease, management agreement)
b) Any services provided by the City as part of the lease agreement (Maintenance, parking patrol, utilities)
c) Summary of business case for each agreement

APPENDIX A

ADMINISTRATIVE GUIDELINES:
When a request for proposal is received or inquiry made, the interested party shall be directed to the City Manager. The City Manager will utilize the Portfolio Plan to refer the inquiry as appropriate.

The status of the property shall direct next steps in the process. The applicant will also be made aware of the potential steps in the process that should be addressed in the proposal. This may or may not include items such as zoning/ordinance requirements, financial statements, bidding process, and contract requirements (bonds, insurance, professional services required for engineer, architect, Contractor).

Based on portfolio plan the following questions will be addressed. This may or may not include expanded opportunities for targeted Public Engagement.

Need-
Does the program address a substantiated community need?
- Does the program have the potential to provide community benefit?
- Does the program address an unmet community need?
- Are similar services currently provided?

Community Support/Partners-
- Does the program have the support of actual/potential community partners?

Organizational Documents-
- Does the program meet City Charter requirements?
- Will the program advance the City's Master Plan? Related planning documents?
- Does the program meet the City's mission, vision, strategic plan?

Organizational Capacity-
- Does the City have the human and material resources to deliver the program?
- How will the program affect the City's financial position?
- If pursued, how will other activities or priorities be affected?

All submitted proposals shall be fully vetted by the appropriate City Committee or City Staff before any presentation to the City Commission. This information will be provided to the Commission at the time of the presentation. Additional consideration that may be addressed in deliberations by the Committee/Commission should include:

- What is the best public benefit this property can provide our citizens?
- Does the proposed use:
  - Compete for public benefits?
  - Provide public access?
  - Leverage public and/or private funding?
  - Provide quantifiable economic impact? Public benefit?

Provide a financially stable model?
[i]Require additional public funding or subsidy?

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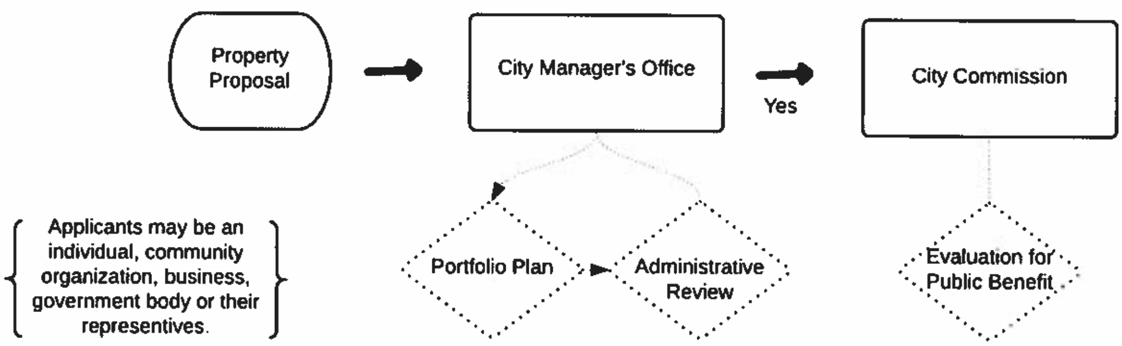
[i] See also City Commission Policies: Infrastructure Strategy Policy and Park Protection Policy

APPENDIX B

Process for Disposition of City Assets (Land)



I certify that the above policy was adopted by the City Commission of the City of Traverse City at its regular meeting of November 2, 2015, held in the Commission Chambers, Governmental Center, 400 Boardman Avenue, Traverse City, Michigan.

Benjamin C. Marentette, MMC, City Clerk

AECOM

Final Report

Downtown & Corridor Market Analysis Update

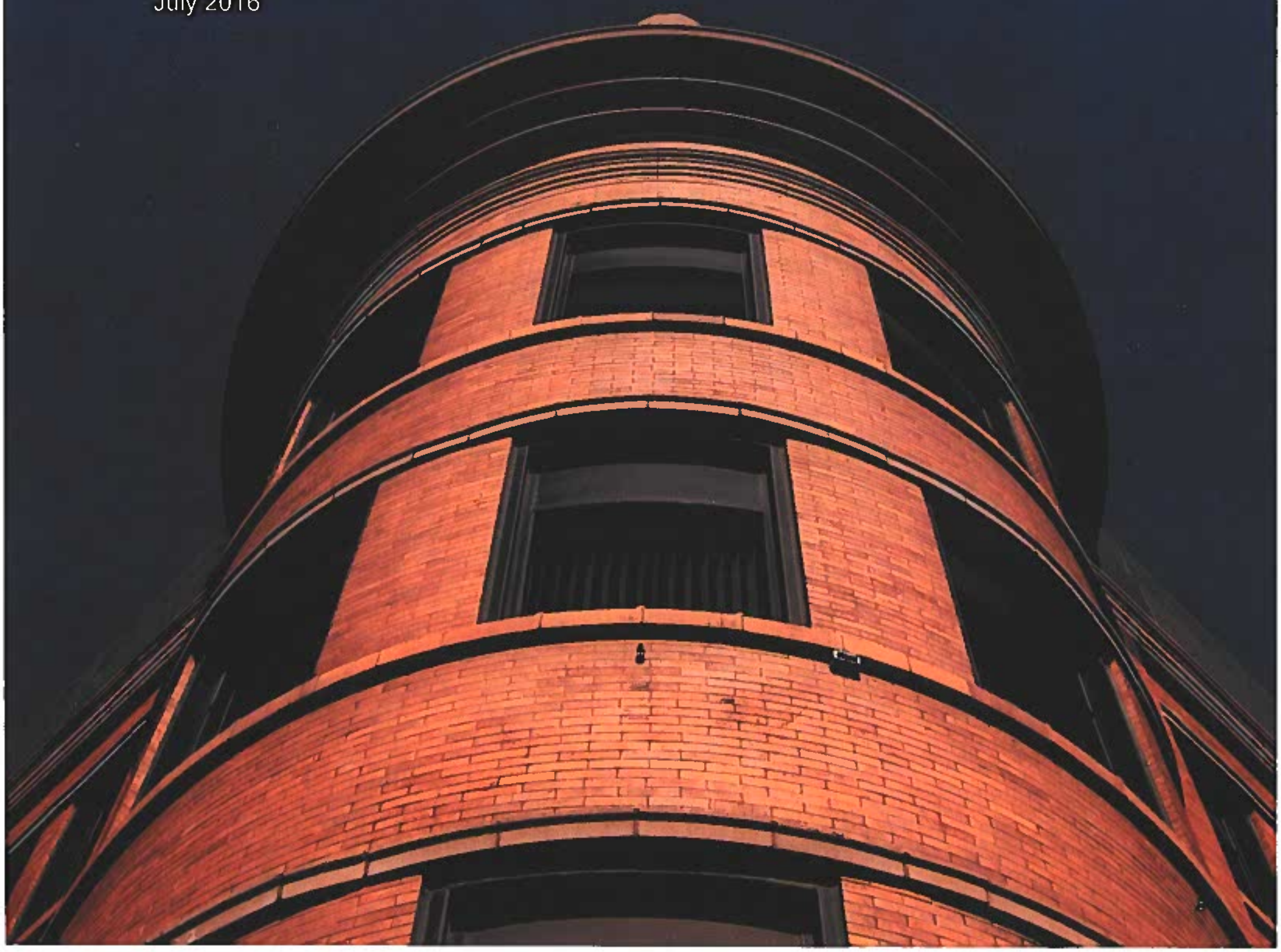
Prepared for

The Downtown Development Authority
Traverse City, Michigan

Submitted by

AECOM Technical Services, Inc.

July 2016



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01. Introduction & Summary

Approach

AECOM was engaged by the Downtown Development Authority (DDA) of Traverse City, Michigan to update the 2007 real estate market analysis of Downtown Traverse City, to evaluate current trends regarding retail, residential and office development that will shape near-term prospects for the downtown business district. The City of Traverse City, Traverse City Light and Power, and Grand Traverse County also provided funding to support the effort.

Elements of the approach included:

- Evaluation of real estate trends for the DDA district, covering the downtown area of Traverse City
- Assessment of commercial corridors across the City of Traverse City including West Front, East Front / Munson, South Garfield, 8th Street, Woodmere, and West 14th Street.
- Examination of existing market demographics and associated trends.
- Discussion of the retail market, highlighting national trends in retail sales, regional and sector- specific pull factors and trends in Traverse City's retail and entertainment environment.
- Evaluation of the Traverse City office market, looking at trends in employment sectors.
- Assessment of residential markets including recent home sale trends, prices and amenities, as well as discussion of housing demand potentials.

Findings

- Continued low vacancy levels reflect the strength of downtown Traverse City as a regional destination for residents and tourists, and the hard work of the DDA and its partner organizations to identify tenants, support parking initiatives, and serve as an advocate for downtown.
- Since 2007, while the Grand Traverse area was impacted by the Great Recession, the local pace of economic activity has accelerated since 2009 at rates faster than state averages. For example, since 2010, Grand Traverse County achieved the third fastest population growth rate (1.05%) of all counties in Michigan; only Ottawa (1.2%) and Kent (1.1%) Counties grew at faster annualized rates.
- The result of population growth, roughly 1,000 new residents per year moving into the 5-County Region, is closely correlated with growth in demand for housing and retail sales in the area.
- In a context defined by significant regional growth, the City of Traverse City has captured a smaller share of new residents; the imbalance between high levels of regional growth, and limited housing options within the City is creating growth pressures.
- As retail sales tend to follow new rooftops, limited population growth in the city will constrain retail sales levels, even as the City's captured share of demand continues to put pressure on local real estate.
- Reflective of growth pressures, analysis of taxable real estate values between 2005 and 2016 for the DDA District and the City of Traverse City point to significant growth in value, 4.8% annually for the DDA and 3.5% annually for the City of Traverse City. Countywide taxable values have grown at about 3.3% annually over the same period.
- Analysis of labor force data in relation to population suggests that since the end of the Great Recession, Grand Traverse County has seen growth in retiree populations at a faster rate than the

labor force. Unlike past recessions, the labor force participation rate for the area has not recovered to pre-recession levels. At current trends, local labor force participation rates will likely decrease below 50% of population if working-aged adults cannot afford housing.

- The 2014 Target Market Analysis identified market potential for 2,260 owner-occupied units and 12,310 renter occupied units over the next five years across Grand Traverse County (in total more than 1,500 housing units per year). While indicated as "aggressive", the Target Market analysis highlights the impact of insufficient workforce housing in the region, with generally more affluent retirees exerting a stronger influence over the local housing market.
- Retail trends for 2016 are mixed, with headlines focused on challenges such as the Sports Authority bankruptcy, failure of the Office Depot Staples merger, and earnings misses by Nordstrom, Macy's and Gap/Old Navy, even as national retail sales have increased. While national trends may not be entirely relevant to Traverse City, emerging trends point to both excess retail space across the US, as well as the growing impact of internet retail spending, linked with stores such as Amazon.
- Across the five-county region, while population growth has continued at rates above statewide averages, income growth has below average, which also reflects on housing affordability challenges for workers.
- Enviably low retail vacancy levels for downtown and the Corridors, combined with continued population growth and retail sales growth will feed developer interest in new projects. However, the number of tenants actively looking for space remains weak.
- Survey data suggests that store sales in the downtown have increased faster than rents, which if proven true market wide would be significant. At the same time, construction of new space is clearly linked with higher "triple-net" rents, at levels greater than $20 per square foot.
- Across the corridors, office vacancies are above 8% in many areas. The regional office market includes a smaller number of larger 2-4 story office buildings mostly built before 2000, as well as a larger number of smaller office condominium projects, typically between 2,000 and 5,000 square feet, many in medical office use. In particular, the corridors include a number of single family houses that have been converted to office and commercial use. One question moving forward is the extent to which these converted houses serve as lower cost space to support and incubate new tenants.

Recommendations

1. Support a streamlined entitlement review process and dedicated incentives for real estate projects which explicitly promote community goals related to workforce housing. For the development community, a streamlined review process is important in reducing and clarifying project front end development risk.
2. As development of infill sites within the DDA District unfolds, there will be increasing pressure on existing off-street parking assets. Beyond the need to work toward additional downtown parking capacity, the DDA should support implementation of an efficient mobility system that connects downtown with the Corridors and Neighborhoods, anchored by better transit, improved walkability and bikeability; the over-riding intent is a "park-once" environment.
3. On a "day-to-day" basis, The DDA should continue to play the role of intermediary and champion for Downtown and the Corridors, working with tenants, building owners, and developers to support efforts which strengthen downtown as an important destination for residents and tourists.

4. The DDA should continue to improve data collection for downtown and the corridors, tracking real estate occupancy and rent data, and reporting trends on a quarterly basis. Specific areas of focus for improved data include:
   - Single-family and multi-family residential building permit tracking for the City
   - Updates to occupancy and rent data for the DDA district and Corridors.
   - Access to state sales tax data for the City and County
   - Evaluation of hotel motel tax collections, as well as assessment of source market zip codes for visitors

Data Sources

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

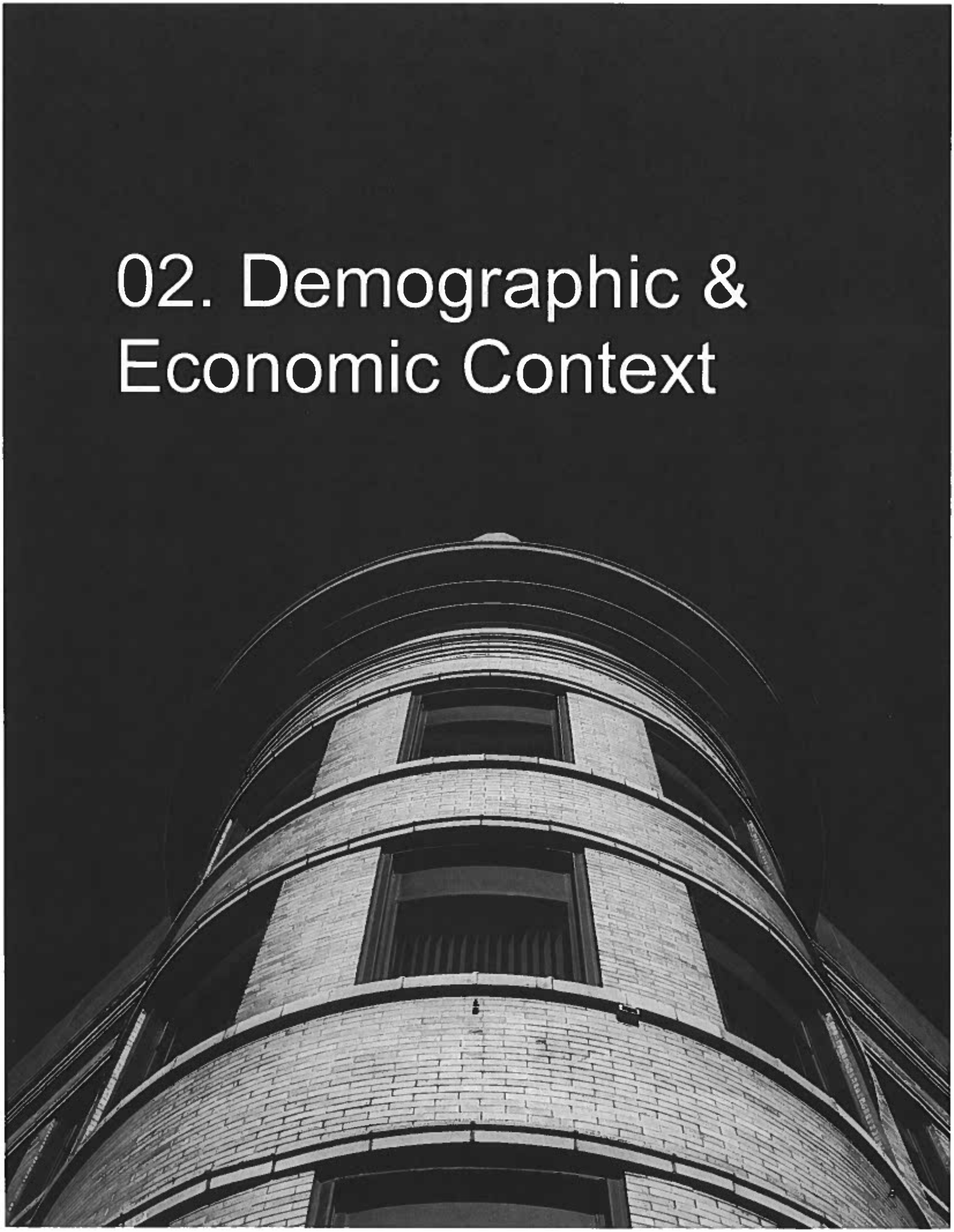
- The City of Traverse City
- The U.S. Census Bureau and Bureau of Labor Statistics
- GIS data from ESRI, as well as Grand Traverse County
- The Northwest Michigan Council of Governments (NMCOG)
- The Downtown Development Authority (DDA), the City of Traverse City, and Grand Traverse County
- Traverse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

Acknowledgments

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

- The Downtown Development Authority of Traverse City
- The City of Traverse City
- Grand Traverse County Economic Development Corporation
- Traverse City Light & Power

02. Demographic & Economic Context



Economic and Demographic Assessment

AECOM used a variety of data sources to evaluate the demographic and economic characteristics of the Traverse City market. The analysis examines data at several levels of geography to gain an overall understanding of regional conditions. In addition to Traverse City and Grand Traverse County, AECOM analyzed data from the 5-County Region, which includes Grand Traverse, Antrim, Benzie, Kalkaska, and Leelanau Counties. As market activities generally do not follow jurisdictional boundaries due to consumer choice regarding where to work / shop, but are generally driven by distance and transportation infrastructure (as well as weather in Michigan), additional radial market areas anchored by Traverse City covering 0-10 mile, 10-25 mile, and 25-50 mile distances were studied. State and National benchmarks were also included to provide a basis for comparison among the economic and demographic variables.

Demographic Perspectives

The population of Traverse City has gradually increased since 2000, at an annualized rate of .23% which reflects the addition of about 35 new residents per year. The noted growth rate is well below that of the five-county region (0.7%), and the U.S. (0.89%). Significantly, the five-county region has achieved a growth rate since 2000 that is above state averages, adding about 1,000 new residents per year, with Grand Traverse County absorbing the majority of growth, about 80%. For Traverse City, which represents an estimated 8% of regional population in 2015, provision of new housing since 2000 has only allowed the City to support about 3% of new residents over that period. The implicit mismatch between broader regional growth and limited City growth is likely creating growth pressures.

Table 1: Population Trends, 1990-2014

Jurisdiction	1990	2000	2010	2014	2000-2014 CAGR
United States	248,709,873	281,421,906	308,745,538	321,418,820	0.89%
Michigan	9,295,297	9,938,444	9,883,640	9,922,576	-0.01%
Traverse City	15,155	14,532	14,674	15,042	0.23%
Antrim County	18,185	23,110	23,580	23,154	0.01%
Benzie County	12,200	15,998	17,525	17,457	0.58%
Grand Traverse County	64,273	77,654	86,986	91,636	1.11%
Kalkaska County	13,497	16,571	17,153	17,260	0.27%
Leelanau County	16,527	21,119	21,708	21,981	0.27%
Total Five-County Region	124,682	154,452	166,952	171,488	0.70%

Source: US Census

The following table highlights current population estimates and projected future population for Grand Traverse County, the five-county region, and state and national benchmarks. The table also includes estimates for ring areas defined by radiuses of 10 miles, 25 miles, and 50 miles extending from downtown Traverse City. More rapid growth from 2000-2020 is projected by ESRI to occur within 10 miles from downtown Traverse City with 0.9% average annual population growth.

Table 2: Population Projections 2000-2020

Market	2000	2010	2015	2020	2000-2020 CAGR
0-10 Miles	68,469	75,213	77,845	81,322	0.9%
10-25 Miles	63,646	70,064	71,668	73,736	0.7%
25-50 Miles	148,076	150,396	151,037	152,659	0.2%
Michigan	9,938,444	9,883,640	9,870,786	9,944,000	0.0%
United States	281,421,906	308,745,538	318,536,439	330,622,575	0.8%

Source: ESRI Business Solutions

Age Cohorts

Residents of Traverse City and the surrounding counties tend to be older than the other residents of Michigan and the United States. The following table provides population percentages by age group in the US, Five-County area, and Traverse City. Traverse City is projected to have a below average percentage (15%) of adolescents ages 0-14, and an above average percentage (10%) of residents over 60 compared to the US average of 20% adolescents and 6% people over 60. This growth among the older age groups follows national trends of the aging boomer population, however, the trend is more pronounced in the Traverse City area.

Table 3: Grand Traverse County Age Groups

Age Group	2010			2015			2020		
	United States	5-County Area	Traverse City	United States	5-County Area	Traverse City	United States	5-County Area	Traverse City
0-14	20%	18%	15%	19%	16%	15%	19%	16%	15%
15-29	21%	16%	21%	21%	16%	19%	20%	16%	19%
30-44	20%	17%	19%	19%	17%	19%	20%	17%	18%
45-59	21%	24%	22%	20%	23%	20%	19%	20%	18%
60-74	12%	17%	14%	15%	20%	18%	16%	22%	19%
75+	6%	8%	9%	6%	8%	10%	7%	9%	10%

Source: US Census, ESRI

The following table summarizes data regarding average household size for Traverse City and related jurisdictions. The table speaks to both smaller average household sizes more so for the City of Traverse City relative to US averages, as well as a modest trend toward decreasing household size.

Table 4: Median Household Size, Noted Jurisdictions

Market	2010	2015	2020	10-20 CAGR
Traverse City	2.08	2.07	2.06	-0.1%
Grand Traverse County	2.39	2.35	2.34	-0.2%
Michigan	2.49	2.47	2.46	-0.1%
United States	2.58	2.57	2.57	0.0%

Source: US Census, ESRI

Household Income

According to 2015 estimates provided by ESRI, median household income in the 5-County Region is slightly below the state and national medians. The 0-10 mile area, which includes all of Traverse City as well some surrounding areas, has a higher median income while more distant areas have lower incomes.

Table 5: Median Household Income Projections

Market	2013	2015	2020	2013-2020 CAGR
0-10 miles	$52,625	$50,586	$56,815	1.1%
10-25 miles	$47,410	$49,012	$55,348	2.2%
25-50 miles	$42,524	$42,260	$50,076	2.4%
Grand Traverse County	$51,766	$50,060	$56,220	1.2%
Five-County Area	$49,274	$48,932	$55,264	1.7%
Michigan	$48,411	$49,402	$56,701	2.3%
United States	$53,046	$53,217	$60,683	1.9%

Source: ESRI Business Solutions

2020 projections provided by ESRI suggest that median household income in all market areas will continue to grow, but that the 10-25 and 25-50 mile areas are projected to grow faster, at an annual rate of 2.2% and 2.4% respectively compared to downtown Traverse City's annual income growth rate of 1.1%.

Household Makeup

The following table outlines what percentage of households are family and non-family households in each market area. For clarification, the US Census defines a family household as a group of people living together who are related by birth, marriage, or adoption; a non-family household includes people living alone or with other non-relatives. The share of non-family households is generally increasing across the region, particularly in Traverse City. This trend is significant, especially in light of the national context, which points to considerable growth in non-family households rather than family households, and growth in families without children. In Traverse City, Non-family households have increased from 41% to 50% of total households from 1990 to 2010. According to 2010 Census data, Traverse City consistently had over 15% more non-family households than the surrounding counties as well as state and national levels.

Table 6: Household Type

Jurisdiction	% Family HH's			% Non-Family[1] HH's		
	1990	2000	2010	1990	2000	2010
United States	70%	68%	66%	30%	32%	34%
Michigan	71%	68%	66%	29%	32%	34%
Antrim County	75%	73%	70%	25%	27%	30%
Benzie County	73%	71%	68%	27%	29%	32%
Grand Traverse County	71%	68%	65%	29%	32%	35%
Kalkaska County	76%	72%	68%	24%	28%	32%
Leelanau County	76%	74%	70%	24%	26%	30%
Traverse City	59%	54%	51%	41%	46%	50%

1Includes 1-person households
Source, AECOM, U.S. Census

Educational Attainment

The following table indicates that notable premium of Traverse City residents ages 25 and up have earned a Bachelor's Degree (26%), compared to 18% of the Five-County area, and 17% of Michigan. Of the five market areas, Traverse City holds the highest percentage of population in undergraduate and graduate educational achievement.

Table 7: Educational Attainment 2015 (Age 25+)

Education Level	Traverse City	Grand Traverse County	Five County Area	Michigan	United States
Less than 9th Grade	1%	2%	2%	3%	6%
9-12th Grade/No Diploma	3%	5%	5%	7%	7%
High School Diploma	16%	23%	26%	25%	24%
GED/Alternative Credential	2%	3%	4%	4%	4%
Some College/No Degree	25%	25%	24%	24%	21%
Associate's Degree	10%	10%	9%	9%	8%
Bachelor's Degree	26%	19%	18%	17%	19%
Graduate/Professional Degree	16%	13%	12%	11%	11%

Source: ESRI

Tapestry Analysis

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

Traverse City Tapestry Segmentation

The following table highlights relevant concentrations of defined segments in the Traverse City, Grand Traverse County, the Five-County Area, Michigan, and the United States.

Table 8: Tapestry Segments

Segment	Traverse City	Five County Area	Grand Traverse County	Michigan	United States
Old and Newcomers	55%	10%	20%	2%	2%
In Style	16%	2%	4%	2%	2%
Set to Impress	13%	2%	3%	1%	1%
Exurbanites	7%	5%	9%	1%	2%
Heartland Communities	5%	2%	2%	5%	2%
Midlife Constants	4%	3%	3%	4%	3%
Comfortable Empty Nesters	1%	2%	1%	5%	2%

Source: ESRI Business Analyst

Of the 65 tapestry segments, seven are present in Traverse City and are identified in the table above. The percentages represent the number of households in each segment in the region. According to ESRI, the "Old and Newcomers" segment is the most prominent in Traverse City (55% of all adults) followed by "In Style" (18%) and "Set to Impress" (15%). Definitions of the top four segments in Traverse City follow:

- **Old and Newcomers (55%)** – The "Old and Newcomers" segment is comprised of mostly single metropolitan city dwellers. Many of these residents maintain budget lifestyles with a focus on convenience as opposed to consumption. "Old and Newcomer" neighborhoods are home to people with a median age of 39, who tend to be in transition and are often renting and starting their careers. Some of these residents may still be in college or taking adult education courses. Consumers in this segment prefer the latest technology over a car and are price conscious but open to impulse purchases. The average household size for "Old and Newcomers" is lower than 2.1, indicating a strong presence of single households or couples.
- **In Style (16%)** – The "In Style" segment consists of educated married couples with no children who typically own homes in metro areas. These individuals embrace an urban lifestyle, by supporting the arts, traveling, and reading. The population is slightly older with a median age of 41; they are also financially conscious and are planning for retirement. People within the "In Style" segment have a median household income of approximately $66,000, supplemented by investments. These individuals are price sensitive, using coupons often. The "In Style" population can be found in major cities across the US, particularly on the east coast and Midwest regions.
- **Set to impress (13%)** – The "Set to Impress" segment is comprised of low-income individuals who live multiunit apartment complexes with below average rent. Single-person apartments make up over

40% of all households. These apartments are often located near businesses and other single-family housing. The "Set to Impress" segment is extremely price sensitive and is always looking for the best deal, as median household income is fairly low at $29,000. Image is very important to these individuals as they seek to improve their social status with the latest fashion. A large concentration of "Set to Impress" residents can be found in the Northeast and Midwest regions, and along the west coast.

- **Exurbanites (7%)** – The "Exurbanites" segment feature an aging population who are approaching retirement, with one in three households receiving social security. Median household income is approximately $98,000 and 80% of residents have some form of college education. A large portion of households are "empty nesters" or families with children who have grown out of the home. These individuals are more concerned with quality than cost. They remain connected, using the internet to shop and manage finances.

Tapestry Comparison

Given the availability of the Tapestry segmentation in the previous study of Traverse City's downtown area, AECOM was able to compare 2007 Tapestry segments found in Grand Traverse County and the 5-County Region with the segments from 2015. The following table provides a side-by-side comparison of 2007 and 2015 segments and their respective population percentages in Grand Traverse County and the Five-County area. It is worth noting that certain segments from the 2007 study are no longer used in ESRI's tapestry analysis, which limits a precise evaluation of changes in lifestyle segmentation.

Table 9: Segment Comparison (Grand Traverse County and Five-County Area)

Grand Traverse County			
2007		**2015**	
Midland Crowd*	17%	Old and Newcomers	20%
Green Acres	16%	Middleburg	18%
Up and Coming Families	9%	Green Acres	15%
Midlife Junction*	8%	Exurbanites	9%
Old and Newcomers	7%	The Great Outdoors	6%
In Style	6%	Southern Satellites	4%
Rural Resort Dwellers	6%	Rural Resort Dwellers	4%
Metropolitans*	6%	In Style	4%
Five-County Area			
2007		**2015**	
Rural Resort Dwellers	24%	Rural Resort Dwellers	19%
Midland Crowd*	15%	Middleburg	11%
Green Acres	11%	Old and Newcomers	10%
Rooted Rural	6%	The Great Outdoors	10%
Up and Coming Families	6%	Green Acres	8%
Midlife Junction*	5%	Southern Satellites	7%
Senior Sun Seekers*	4%	Exurbanites	5%
Old and Newcomers	4%	Salt of the Earth	5%

**Segment is no longer used in 2015 Tapestry analysis*
Source: ESRI Business Analyst

After reviewing the table, additional conclusions can be made:

- The "Old and Newcomers" segment has greatly increased its population share in both Grand Traverse County (increased by 13%) and the Five-County (increased by 6%) area since 2007, indicating a large influx of young and modern adults who are starting their careers.

- **Rural Resort Dwellers** – These households live in scenic, rural, but non-farming areas throughout the U.S. Their communities typically consist of smaller houses with a large contingent of seasonal units. Most of these households are older married couples with no children living at home. Many of these residents are still working but are generally are in the process of transitioning from full-time employment to retirement. This segment showed a decrease from 2007 to 2015.
- **Middleburg** – Households in the "Middleburg" segment are typically traditional, conservative, and family oriented residents. The segment primarily consists of young couples with children; these families are thrifty but are willing to incur debt to invest in their futures. Consumers tend to buy American products and travel within the US. Residents of the "Middleburg" segment are typically located in the south and Midwest regions.
- **Green Acres** – This is an upscale market and households in this segment typically reside on the fringes of mid-sized but rapidly growing urban areas. This segment is generally found in the Midwest. Most families are blue-collar baby boomers and many households have children between 6-17 years old, some are empty-nesters, but few of these households have younger children. They are do-it-yourselfers who engage in home improvement projects such as painting and installing decks, patios, etc. They are also enthusiastic gardeners and diligent lawn care workers. For leisure, they watch Home and Garden television, NASCAR, and pro football games.

Economic Base Perspectives

The following table summarizes unemployment rates from 2000 to 2014 for the county, state and national benchmarks.

Table 10: Unemployment Trends

Year	Grand Traverse County	Michigan	United States
2000	3.5%	3.6%	4.0%
2001	4.9%	5.2%	4.7%
2002	5.7%	6.3%	5.8%
2003	6.3%	7.2%	6.0%
2004	6.5%	7.0%	5.5%
2005	6.0%	6.8%	5.1%
2006	6.2%	7.0%	4.6%
2007	6.6%	7.0%	4.6%
2008	7.3%	8.0%	5.8%
2009	11.8%	13.7%	9.3%
2010	11.6%	12.6%	9.6%
2011	9.8%	10.4%	8.9%
2012	8.2%	9.1%	8.1%
2013	7.7%	8.9%	7.4%
2014	5.9%	7.3%	6.2%

Source: Bureau of Labor Statistics

The table shows how unemployment rates in Grand Traverse County have increased from as low as 3.5% in 2000 to as high as 11.6% in 2010; well above national averages during the peak of the "Great Recession". Since 2009, unemployment rates in Grand Traverse County have decreased, to a 2014 level of just under 6%, below state and national averages. The table below provides unemployment trends in the 5-County Region from 2000 to 2014, reinforcing a stronger pace of job creation in Grand Traverse

County, compared to other counties in the market. Both Kalkaska and Antrim were experiencing unemployment rates well above state and national averages through the end of 2014.

Table 11: Unemployment Trends for Five County Area

Year	Antrim	Benzie	Grand Traverse	Kalkaska	Leelanau
2000	4.7%	4.6%	3.5%	4.8%	3.1%
2001	6.6%	6.1%	4.9%	7.5%	3.8%
2002	7.2%	7.0%	5.7%	7.8%	4.9%
2003	8.6%	8.0%	6.3%	8.2%	5.7%
2004	8.0%	7.5%	6.5%	7.7%	5.4%
2005	7.8%	7.8%	6.0%	7.6%	5.2%
2006	8.0%	7.9%	6.2%	8.0%	5.2%
2007	8.1%	8.0%	6.6%	8.1%	5.5%
2008	9.3%	8.9%	7.3%	8.6%	6.0%
2009	15.2%	13.8%	11.8%	14.4%	9.3%
2010	16.0%	13.5%	11.6%	15.6%	10.4%
2011	13.3%	12.1%	9.8%	13.1%	9.2%
2012	11.6%	10.5%	8.2%	11.4%	8.1%
2013	11.5%	10.4%	7.7%	11.3%	7.8%
2014	9.4%	8.4%	5.9%	9.4%	6.6%

Source: Bureau of Labor Statistics

Employment Trends

The following tables summarize total employment data, as well as detailed sector data for manufacturing, retail, and accommodation and food service. Total employment across the 5-County Region has declined between 2005 and 2014, with a total decrease of about 5,200 positions. The rate of employment loss in Antrim and Kalkaska Counties has been significant, with overall declines of 2.2% to 1.7%, respectively per year, representing 62% of five-county job loss.

Table 12: Total Employment

Year	Antrim	Benzie	Grand Traverse	Kalkaska	Leelanau	Five-County Area
2005	11,164	8,420	45,460	8,110	10,976	84,130
2006	11,028	8,445	46,110	8,173	10,982	84,738
2007	10,901	8,271	45,808	8,004	10,738	83,722
2008	10,560	8,053	45,204	7,788	10,468	82,073
2009	9,763	7,523	42,776	7,272	9,928	77,262
2010	8,875	7,755	42,015	6,680	9,490	74,815
2011	8,815	7,643	42,071	6,604	9,375	74,508
2012	8,855	7,637	42,561	6,593	9,354	75,000
2013	8,877	7,743	43,649	6,744	9,516	76,529
2014	9,132	7,997	45,049	6,968	9,833	78,979
CAGR 05-14	**-2.2%**	**-0.6%**	**-0.1%**	**-1.7%**	**-1.2%**	**-0.7%**
CAGR 10-14	**0.7%**	**0.8%**	**1.8%**	**1.1%**	**0.9%**	**1.4%**

Source: Bureau of Labor Statistics, Michigan Labor Market Information

Although total employment in the region has declined, the population is increasing and the unemployment rate is relatively stable, which would suggest that new residents are likely retirees. According to the Bureau of Labor Statistics (BLS), all counties have experienced moderate employment growth since 2010, particularly Grand Traverse County which has grown at an annual rate of 1.8% for a total of 3,034 jobs. The five-county region as a whole has seen similar growth at 1.4% annually for a total of 4,164 jobs. While many of these counties have been unable to return to pre-recession job levels, the recent job growth reflects significant recovery since the 2008 Recession.

The following tables will provide a more detailed examination of 5-County Regional employment in manufacturing, retail, accommodation and food services. Broader changes in Michigan's manufacturing sector over the past 20 years are a well-known issue, and the Traverse City area is not immune to these changes. While through 2010, the auto industry in Michigan was in a difficult position, the pace of recovery from 2010 to 2015 has been significant, with the auto industry have recorded record sales years in 2015. As Detroit remains an important source market for Traverse City, recovery from bankruptcy is a positive step for the state. Of emerging concern is a clearly unfolding pivot in automotive production (small cars in particular) from the US to Mexico, which may over time, influence the state economy.

Five-County Region manufacturing has decreased at a modest 1% annual rate since 2005, reflecting a net decrease of 665 jobs. It is significant that while the 5-County Region has lost 4,164 overall jobs, manufacturing represented only about 16% of the 4,164 lost positions. While Leelanau County has seen the fastest percentage increase in manufacturing employment since 2010, manufacturing job recovery in Grand Traverse County has been more consequential for the region, with the addition of about 1,000 new jobs since 2009. Health of manufacturing is important to the region, as these jobs tend to be higher paying than other sectors.

Table 13: Manufacturing Employment (NAICS 31-33)

Year	Antrim	Benzie	Grand Traverse	Kalkaska	Leelanau	5-County Area
2005	1,108	633	5,049	476	222	7,488
2006	1,099	623	5,000	452	215	7,389
2007	1,156	563	4,936	413	239	7,307
2008	1,025	509	4,758	391	219	6,902
2009	864	389	3,825	283	248	5,609
2010	750	503	3,803	326	290	5,672
2011	814	435	4,166	369	255	6,039
2012	828	386	4,405	388	246	6,253
2013	821	362	4,590	296	293	6,362
2014	845	403	4,877	314	384	6,823
05-14 CAGR	**-3.0%**	**-4.9%**	**-0.4%**	**-4.5%**	**6.3%**	**-1.0%**
10-14 CAGR	**3.0%**	**-5.4%**	**6.4%**	**-0.9%**	**7.3%**	**4.7%**

Source: BLS, Michigan Labor Market Information

According to BLS and Michigan Labor Market Information data, the 5-County Region supported approximately 7,000 retail positions in 2014, compared to 7,500 in 2005. This decrease in retail employment represents almost 10% of the total overall jobs lost in the 5-County Region since 2005. Within the overall decrease, it is clear that Grand Traverse County has seen its share of retail employment increase at the strongest pace. After the 2008 Recession, all counties with the exception of Leelanau (which continued to decline) have seen significant growth in retail employment since 2010, with the 5-County Region increasing annually by approximately 3.3% for a total increase of 1,133 retail jobs.

Table 14: Retail Trade Employment (NAICS 44-45)

Year	Antrim	Benzie	Grand Traverse	Kalkaska	Leelanau	5-County Area
2005	692	643	5,049	464	667	7,515
2006	707	637	5,000	464	631	7,439
2007	725	650	4,936	455	621	7,387
2008	678	600	4,758	423	586	7,045
2009	594	544	3,825	422	562	5,947
2010	559	523	3,803	400	547	5,832
2011	560	636	4,166	388	497	6,247
2012	568	544	4,405	396	531	6,444
2013	627	579	4,590	417	528	6,741
2014	617	588	4,877	415	498	6,995
05-14 CAGR	**-1.3%**	**-1.0%**	**-0.4%**	**-1.2%**	**-3.2%**	**-0.8%**
10-14 CAGR	**2.5%**	**3.0%**	**6.4%**	**0.9%**	**-2.3%**	**4.7%**

Source: BLS, Michigan Labor Market Information

In accommodation and food services, the following table shows that employment has increased across the region, with significant increases in Grand Traverse County. Since 2005, the 5-County Region has increased by 1.4% annually, resulting in 1,064 jobs. The increase in accommodation and food services employment in Grand Traverse County accounts for 1,078 of these 1,064 jobs. During the Recession, the number of food and accommodation jobs in Grand Traverse County experienced only a slight decrease for two years (2009-10). However, the industry was able to recover quickly and continued to grow at a faster rate in subsequent years, signifying that the food and accommodation industry is one of the stronger more resilient industries in Grand Traverse County.

Table 15: Accommodation and Food Services (NAICS 72)

Year	Antrim	Benzie	Grand Traverse	Kalkaska	Leelanau	5-County Area
2005	1,207	923	4,818	249	922	8,119
2006	1,161	971	5,030	262	929	8,353
2007	1,136	949	5,191	250	889	8,415
2008	1,136	943	5,239	260	887	8,465
2009	1,028	977	4,970	242	920	8,137
2010	999	989	4,936	247	879	8,050
2011	993	1,016	5,031	238	930	8,208
2012	1,051	1,044	5,107	254	1,011	8,467
2013	1,008	1,118	5,619	284	960	8,989
2014	978	1,095	5,896	283	931	9,183
05-14 CAGR	**-2.3%**	**1.9%**	**2.3%**	**1.4%**	**0.1%**	**1.4%**
10-14 CAGR	**-0.5%**	**2.6%**	**4.5%**	**3.5%**	**1.4%**	**3.3%**

Source: BLS, Michigan Labor Market Information

Employment Concentration

The table below provides location quotients for employment in the following sectors: manufacturing, accommodation, food services, and retail trade. A location quotient is a statistical method for quantifying how concentrated a particular industry is in a region compared to the national average. For example, restaurants in a particular region account for .25% of all regional jobs but only .020% of national jobs (.25/.02) = 12.5, meaning that restaurant employment is 12.5 times more concentrated in that region than the national average.

Table 16: Employment Location Quotients

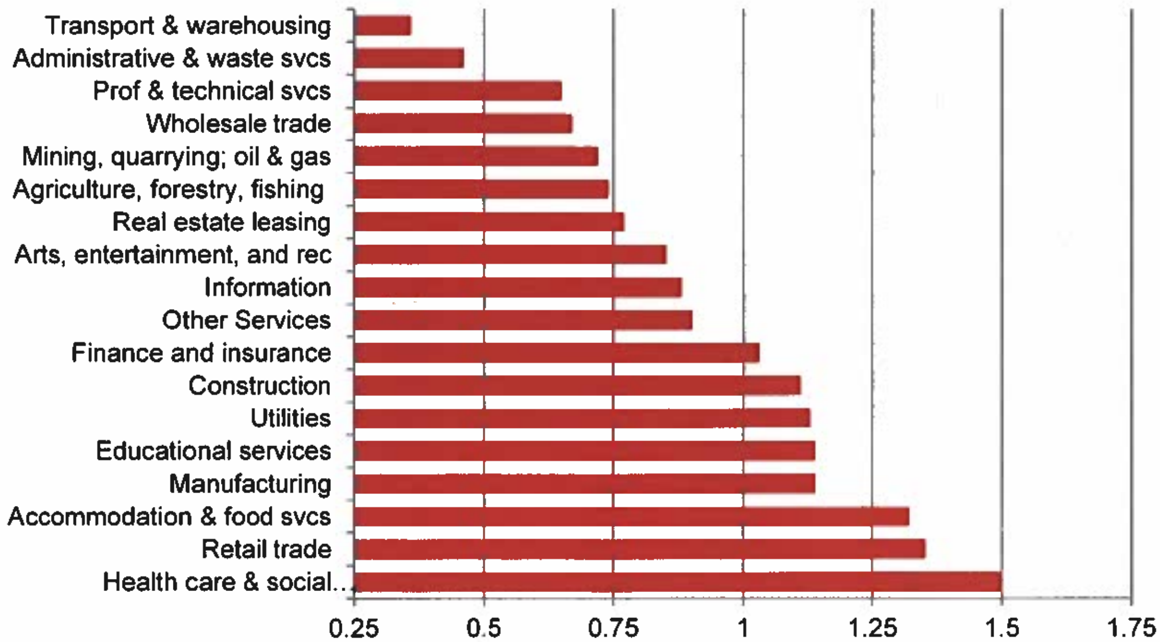
Market	2012	2013	2014
Antrim			
Manufacturing	1.84	1.83	1.87
Accommodation	6.22	6.42	6.16
Food Services	1.65	1.47	1.39
Retail Trade	1.01	1.11	1.08
Benzie			
Manufacturing	1.09	1.11	1.29
Accommodation	11.72	12.28	12.28
Food Services	1.40	1.42	1.30
Retail Trade	1.23	1.28	1.29
Grand Traverse			
Manufacturing	1.09	1.12	1.16
Accommodation	2.24	2.12	2.01
Food Services	1.10	1.21	1.25
Retail Trade	1.41	1.33	1.35
Kalkaska			
Manufacturing	1.13	0.81	0.68
Accommodation	D	D	D
Food Services	D	D	D
Retail Trade	0.92	1.04	0.95
Leelanau			
Manufacturing	0.47	0.53	0.47
Accommodation	3.04	2.95	2.75
Food Services	1.74	1.50	1.43
Retail Trade	0.81	0.76	0.71

Source: Bureau of Labor Statistics

According to the table above, the 5-County Region has a high concentration of employment in the accommodation industry. In 2014, accommodation employment was approximately six times more concentrated in Antrim County, 12 times more concentrated in Benzie County, and two times more concentrated in Grand Traverse and Leelanau County. This location quotient is consistent with the general consensus that Traverse City is considered a vacation destination and would require a larger accommodation industry. Employment in manufacturing, retail, and food services all have location quotients close to but still above 1.0, meaning they are all generally above average in concentration. Related employment data for office-using employment sectors, including finance, insurance, information, and real estate, is covered later in this report in the office market analysis. Notable weakness in manufacturing location quotients is noted for Leelanau and Kalkaska.

AECOM also reviewed more current 3rd quarter 2015 location quotient data for industrial sectors in Grand Traverse County as shown in the following chart, which identifies several key sectors with location quotients well above 1.0. Sectors including health care, accommodations, retail and manufacturing, as well as educational services and construction stand out. Sectors with lower location quotients include transportation and warehousing as well as wholesale trade, suggesting that these sectors are under-sized locally.

Figure 17: Grand Traverse County Location Quotients, Q3 2015



Source: Bureau of Labor Statistics

Wage Growth

The following table summarizes average annual wage growth for noted counties. The table shows how wage growth in Grand Traverse County is relatively similar to growth rates in adjacent counties as well as the statewide benchmark. At the same time, consistent with other noted data, wage growth lagged behind US averages. Growth in wages is a key factor when considering related growth in retail sales. It is worth noting that not only do all five counties have lower annual wages than the state and national averages, but a majority of them are growing at a slower rate, including Grand Traverse County.

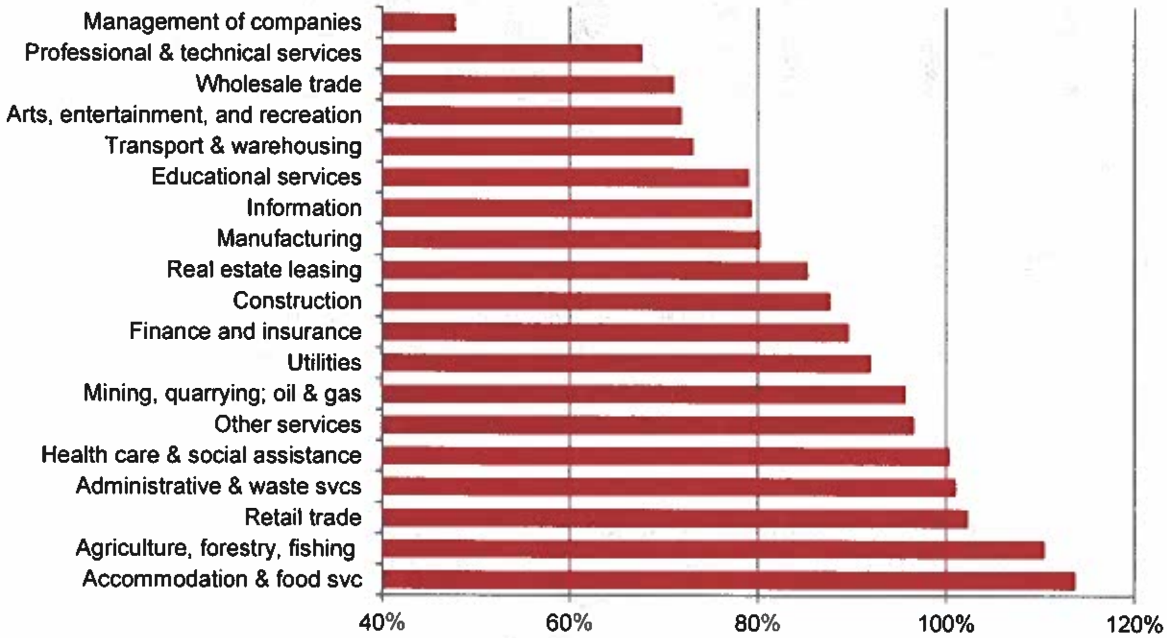
Table 18: Average Annual Wage Growth by County

Year	Michigan	U.S.	Antrim	Benzie	Grand Traverse	Kalkaska	Leelanau
2009	$43,645	$45,559	$26,564	$27,090	$36,096	$37,266	$28,150
2010	$44,439	$46,751	$27,345	$27,508	$36,923	$38,776	$28,372
2011	$45,828	$48,043	$27,300	$27,368	$37,522	$40,915	$28,678
2012	$46,720	$49,289	$28,036	$27,981	$38,214	$41,171	$29,335
2013	$47,131	$49,808	$28,384	$28,314	$38,650	$43,848	$30,623
2014	$48,487	$51,364	$29,232	$29,690	$39,785	$45,310	$32,414
09-14 CAGR	**2.1%**	**2.4%**	**1.9%**	**1.8%**	**2.0%**	**4.0%**	**2.9%**

Source: Bureau of Labor Statistics

The following chart provides current 2015 wage data more specifically for Grand Traverse County, where local wages are expressed as a percentage of statewide averages. When viewed in comparison with the 2015 Q3 Location Quotient data, this chart indicates that while key sectors such as health care are particularly concentrated in Grand Traverse County, related wages are merely equal to, or lower than state wide averages. Overall the chart below shows that across the majority of sectors in Grand Traverse County, that local wages are lower than statewide averages.

Figure 19: Average Weekly Wage, Grand Traverse % of State of Michigan

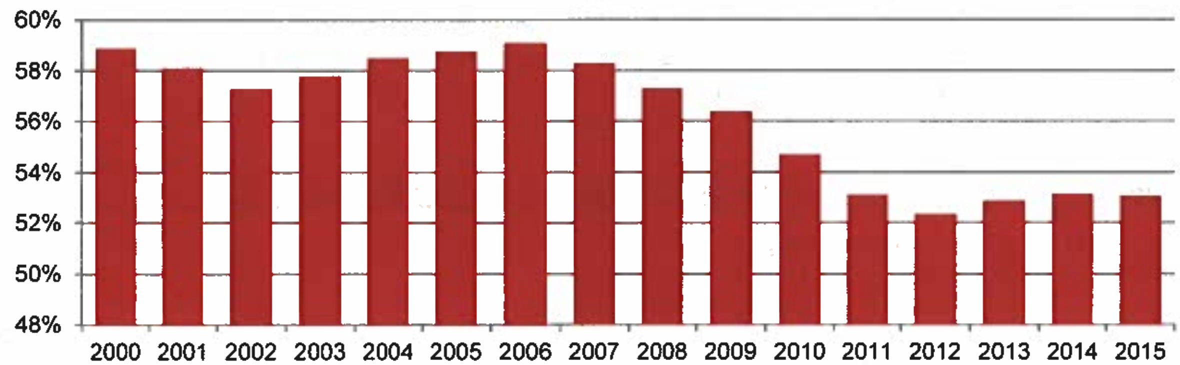


Source: Bureau of Labor Statistics

Labor Force Participation

One critical trend for the region relates to concerns about labor force participation, with faster growth in retirement-aged population in comparison with growth in the local workforce. As shown in the following chart, the local labor force participation rate peaked in 2006 at about 58%, and has decreased steadily toward 52% through 2012. While the rate has recovered slightly since 2012, the rate of recovery appears to be lower than historic trends (2002-2006), suggesting that the area is increasingly becoming a retirement destination, which has important fiscal and economic development implications.

Figure 20: Labor Force Participation Rate, Grand Traverse County



Source: Bureau of Labor Statistics

Tourism Overview

The Traverse City area is one of Michigan's leading tourism destinations. The success of future downtown development in the retail, entertainment, lodging, and other sectors will link with the region's ability to remain a prominent tourism destination and attract more visitors in the future. AECOM analyzed several variables that point to the relative strength of the local tourism market.

Airport Activity

Airline travel is one of the primary forms of transportation for travelers and vacationers. The following table provides air travel statistics for Traverse City's Cherry Capital Airport (TVC). For clarification, the term "enplanement" is defined as the total number of passengers boarding a plane.

Table 21: TVC Enplanements and Flight Activity (2006-2014)

Year	Total Enplanements	Local Civil	Itinerant Air Carrier	Itinerant Air Taxi
2006	208,520	36,320	6,999	8,441
2007	202,048	34,847	7,874	7,559
2008	183,357	34,803	8,030	7,419
2009	175,692	31,678	8,136	7,766
2010	167,488	28,907	9,012	8,047
2011	170,977	24,769	8,055	7,854
2012	179,879	31,174	7,629	11,162
2013	189,644	28,599	6,840	11,211
2014	196,451	29,654	7,424	11,708
06-14 CAGR	**-0.7%**	**-2.5%**	**0.7%**	**4.2%**
10-14 CAGR	**3.2%**	**0.5%**	**-3.8%**	**7.8%**

Source: Federal Aviation Administration

While in aggregate, from 2006 to 2014, the total number of enplanements had declined annually by an average of 0.7% (12,000 passengers). Local general aviation aircraft travel (less than 20 miles) has also declined at an average annual rate of 2.5%, resulting in a total decrease of approximately 7,000 local aircraft activity over the 8-year period. In general, while commercial air travel was impacted by the Great Recession, general aviation has seen a longer term structural decline. Since 2010, total enplanements have increased at an average annual rate of 3.2%, for a total increase of almost 30,000 passengers.

The following table provides additional context regarding airport operations in comparison with other airports in Michigan. In general, each time a plane takes off or lands it is recorded as one "operation". The following table indicates that all Michigan airports with the exception of TVC have experienced significant decreases in the number of operations. Traverse City's Cherry Capital Airport has increased the number of all itinerant flights by 2% and local flights by 6% annually. The only forms of aviation that have decreased in Traverse City are local military and itinerant air carrier travel.

Table 22: Michigan Airports Flight Operations Activity (CAGR 2009-2014)

Airport	Itinerant					Local			Total Operations
	Air Carrier	Air Taxi	General Aviation	Military	Total	Civil	Military	Total	
AZO	-36%	-2%	-6%	7%	-5%	-2%	20%	-1%	-4%
BTL	34%	18%	-5%	-8%	-5%	-2%	9%	-2%	-3%
DET	-	2%	-7%	17%	-6%	-10%	-14%	-10%	-8%
DTW	3%	-8%	-2%	0%	-2%	-	-	-	-2%
FNT	-9%	-7%	-9%	12%	-8%	-12%	-100%	-12%	-9%
GRR	5%	-6%	-5%	-14%	-3%	-3%	-27%	-4%	-3%
JXN	1%	14%	-4%	4%	-4%	-4%	36%	-4%	-4%
LAN	0%	3%	-8%	13%	-2%	-10%	-19%	-10%	-4%
MBS	-56%	15%	-6%	7%	-6%	-8%	33%	-7%	-7%
MKG	28%	-7%	-12%	9%	-11%	-6%	8%	-6%	-9%
PTK	10%	5%	-2%	8%	-1%	-10%	-	-10%	-5%
SAW	169%	-9%	-6%	-1%	-6%	-14%	-7%	-14%	-8%
TVC	**-3%**	**1%**	**3%**	**1%**	**2%**	**8%**	**-5%**	**6%**	**4%**
YIP	14%	-1%	-2%	3%	-1%	-1%	-31%	-1%	-1%

Source: Federal Aviation Administration

Visitation

A key measure of tourism activity is the amount of daily spending by visiting patrons. An economic impact study, commissioned by Traverse City Tourism provides details on the economic implications of tourism in Traverse City. Tourism is clearly a major component of the Traverse City economy, generating $1.18 billion in spending at local business, $67 million in sales tax revenue, attracting over 3.3 million visitors, and employing 12,000 residents in 2012. The table below outlines 2012 daily visitor spending in the Traverse City area.

Table 23: Average Daily Visitor Spending (2012)

Tourism Category	Hotel Visitors	Other Visitors*
Accommodations	$128	$50
Food and Beverage	$125	$100
Entertainment and Recreation	$65	$45
Shopping and Retail	$70	$45
Vehicle Rental	$20	$15
Visitor Transportation	$20	$0
Average Total Daily Spending	**$428**	**$255**

** Visitors who stay at local campgrounds, seasonal homes, or with friends & family*
Source: Traverse City Tourism

Cultural attractions are one of the key components of tourism success. Downtown Traverse City is home to several historic theaters, including the State Theater (host of the Traverse City Film Festival) the Bijou, and the Opera House. The following table shows attendance figures for each theater since 2008. The

State Theater reopened in 2007, since then, attendance has steadily increased from 135,000 to 171,000, growing at an average annual rate of 3%; the Opera House also opened in 2007.

Table 24: Traverse City Theater Attendance

Year	Opera House	Bijou	State	Total
2008	25,603	0	135,000	160,603
2009	29,152	0	166,000	195,152
2010	41,251	0	172,000	213,251
2011	53,386	0	183,000	236,386
2012	49,950	0	189,000	238,950
2013	48,275	3,600	181,400	233,275
2014	45,614	27,500	184,500	257,614
2015	51,417	29,000	171,000	251,417

Source: Traverse City DDA

The Traverse City area is one of the state's leading tourism destinations. The success of future downtown development in the retail, entertainment, lodging, and other sectors will link with the region's ability to remain a strong tourism destination and attract more visitors in the future. In total, it is clear that the number of visitors to Grand Traverse County has increased steadily from an estimated 1.2 million in 1990 to 1.9 million in 2005, and about 3.3 million visitor trips in 2012, reflective of about 2.5% annualized growth.

Demographic and Economic Implications

- While population growth across the five-county region area is similar to U.S. averages, local growth rates are significantly above statewide averages. The result, roughly 1,000 new residents per year moving into the 5-County Region, is closely correlated with growth in demand for housing and retail sales in the area. Within this overall growth rate, the City of Traverse City has captured a smaller share of new residents, with the majority of activity being captured in Grand Traverse County.
- Analysis of labor force data in relation to population data suggests that since the end of the Great Recession, the region has seen growth in retiree populations at a faster rate than the labor force. Unlike past recessions, the labor force participation rate for the area has not recovered to pre-recession levels. Workforce participation rates will likely decrease further if working-aged adults cannot afford housing.
- The Tapestry segmentation analysis highlights how Traverse City area residents are relatively unique in comparison to the US as a whole, with a surprising concentration of households in relatively few segments. 55% of Traverse City Households are described as "Old and Newcomers", a segment comprised of 39 (median age) year old renters who prefer the latest technology. This segment has a strong presence of single households and couples, which the demographic segment also identifies as a growing element of the Region.
- Residents of the Traverse City market tend to be older than state and national averages. Compared to the state of Michigan, Grand Traverse County and the 5-County Region have lower percentages of residents under 35 and higher percentages of residents over 50
- Traverse City's Cherry Capital Airport is the only airport in Michigan that has experienced an increase in the number of inbound and outbound flights.

- Reflective of increases in median age, average household sizes are decreasing across the region. The decrease in household size has direct implications for shifting demand for housing, and a decrease in city population.
- It is important to note that US Census and Tapestry data do not fully account for the impact of a sizeable seasonal resident / second home market. More information on seasonal residence will be provided in Chapter 4 – Residential Market Assessment.
- The population in Traverse City has a higher percentage of individual's with a Bachelor's degree (26%) compared to Michigan (17%) and the United States (19%).

03. Real Estate Development Context

Introduction

The retail market assessment combines multiple research efforts, including:

- Analysis of retail inventories for the DDA District and specific corridors within the City of Traverse City
- Evaluation of historic and current retail sales trends for noted jurisdictions
- Calculation of income based retail sales pull factors for the City of Traverse City and Grand Traverse County. Pull factors are ratios that compare local and state per capita spending in comparison with wages. Resulting pull factor ratios reflect the relative strength of communities as retail destinations.
- Specific Analysis of DDA specific retail inventory and store performance factors
- Discussion of preliminary outputs from a survey of downtown business-owners, conducted in November and December of 2015, with linkage back to a similar survey completed in 2006.

Retail Inventory Analysis

Retail inventories for the DDA District and corridors across the City of Traverse City were estimated though a multi-step process which included:

- Meetings with DDA staff to evaluate and update DDA inventories by store type and vacancy.
- Collection of local GIS data and related property records, including reported square footage, and year of construction.
- Aerial photography for the city and county

While boundaries for the DDA district are understood, the analysis was broadened to focus on the following corridors:

Front / Munson: This corridor extends eastward from downtown Traverse City. The mix of activity is largely commercial, with initial development just east of downtown including both larger office buildings as well as restaurants and medical office space. The eastern anchor of the corridor is East Bay Plaza Shopping Center, which recently saw the development of new strip retail space. Looking back to 2007, mall tenants have not changed appreciably at this center.

8th Street: This corridor effectively begins at the intersection with Cass Street in Old Town, and moves east through intersection nodes with Boardman Avenue, Woodmere Avenue, and S. Garfield, before connecting with US 31 to the east. The corridor includes areas that are purely residential, as well as transitional areas in particular between Boardman and Woodmere where vacant properties are mixed in with retail, residential, and light industrial activities. The corridor also includes a mix of commercial buildings, as well as single family houses in commercial use. As there are a limited number of bridges across the Boardman River, this route tends to carry a fair amount of east-west regional traffic. City traffic count data for the 500 block of 8th Street indicates that overall counts have decreased from 24,054 in 2007 to 21,443 in 2015.

S. Garfield: This corridor transitions from having a largely residential character to the north, towards a more significant suburban commercial focus to the south, particularly below Hannah Road. Major retail concentrations are located around the intersection of Garfield and Carver St. The new development in the northeast quadrant of the intersection is notable in that it has been pushed closer to the street, enhancing store visibility; this project includes a 2-story office building that was built since the 2007 was completed. The retail project in the southeast quadrant of this intersection is older, with parking in front and stores pushed further back. The Garfield Corridor runs parallel with Hastings Street to the east, which supports a number of arguably older office buildings, both multi-tenant and single user. In general, the corridor also includes a number of medical office uses.

Woodmere: Although not defined as a formal corridor in City studies, AECOM included this corridor in the analysis. It includes areas that have seen reinvestment (around the train station), with residential emerging along the shore of Boardman Lake, as well as pockets of industrial and service activities.

W Front: This corridor extends from downtown Traverse City to the west, beginning at the Boardman River. Initially the corridor has a downtown feel, anchored by new streetscape improvements as well as several renovated storefronts. As the corridor transitions westward the mix of uses expands, with commercial buildings (stand alone and storefronts) mixed in with single family houses, some in commercial use.

W 14th: At the intersection with U.S. highway 31, W 14th Street supports a relevant node of community-level retail, with grocery and pharmacy as well as several supporting strip centers. As the corridor transitions eastward, development between Oak and Locust on the south side of 14th has a residential feel, offset by the influence of a football stadium to the north. East of Locust Street, and particularly at the intersections with Union and Cass, the corridor has a decidedly commercial focus, with older light industrial and office buildings interspersed with new or renovated retail and medical office activity.

In addition to retail space, office inventories were also developed; these are treated separately in the narrative, and follow in the office market discussion. The following table highlights current retail inventories and vacancy for noted submarkets, with an overall inventory of about 1.4 million sf of retail space within the City of Traverse City, with a vacancy rate of 3.2%. For the DDA District, retail inventories are estimated at about 580,000 sf, with an estimated vacancy rate of 4.2%; both factors are well below U.S. averages.

Table 25: Retail Market Inventory Summary, Square Feet of Space, 2016

Sub-Market	Inventory	Vacant Space	Vacancy
Front Street District	440,926	19,030	4.3%
Old Town District	92,736	2,830	3.1%
Warehouse District	46,254	2,250	4.9%
Sub-Total Downtown	**579,916**	**24,110**	**4.2%**
Front / Munson Corridor	200,234	4,000	2.0%
8th Street Corridor	169,152	1,000	0.6%
S Garfield	262,489	8,770	3.3%
Woodmere	34,293	3,370	9.8%
W Front Corridor	90,047	5,750	6.4%
W 14th Street	112,748	0	0.0%
Total- City of Traverse City	**1,448,878**	**47,000**	**3.2%**

Source: AECOM Analysis, CoStar, DDA

Across the corridors, retail vacancy levels are notably higher for Woodmere and West Front Street (9.8% and 6.4%, respectively). Field surveys suggest that for West Front, vacancy may be reflecting at least one building under renovation, skewing the inventory results.

Growth trends for retail inventories in noted submarkets since 2006 is noted below, indicating that the City of Traverse City has seen consequential growth in retail inventories (about 150,000 sf), with development across broader Grand Traverse County adding an additional 224,000 sf. The overall annual growth rate in inventory (0.7%) is modest when viewed in context with growth in population and incomes over the same period. With overall vacancy levels for city and county below 5% (spring 2016), "on paper" continued retail development would be expected. In reality, broader factors discussed later in this section are also constraining near-term retail opportunities.

Table 26: Sub-Market Retail Inventory Growth Trends, 2007 to 2016

Sub-Market	2007	2016	Annualized Growth Rate
Downtown Inventory	458,745	579,916	2.6%
Rest of Traverse City	836,314	868,962	0.4%
Sub-Total – Traverse City	1,295,059	1,448,878	1.3%
Grand Traverse County	4,382,000	4,606,000	0.6%
Total City + County	5,677,400	6,055,300	0.7%

Source: AECOM Analysis, CoStar, DDA

The current breakdown of retail space by store type is summarized below. In general, Restaurants, Cafes, and Breweries represent the single largest category of space, covering about 27% of total DDA inventory, or about 25% along the Front Street District. Apparel is the second largest sector, representing about 11% of inventory. Within the Old Town District, business services stands out with about 25% of inventory, and across the warehouse district about 25% of inventory is in art galleries.

Table 27: DDA District Space by Store Type, Spring 2016

Store Type	Front Street District	Old Town District	Warehouse District	Total DDA District	Corridors
Restaurants, Cafes, & Breweries	24.6%	40.0%	23.0%	27.0%	14%
Salons, Spas, & Fitness	6.6%	12.9%	2.0%	7.3%	10%
Home Furnishings	7.7%	4.7%	15.7%	7.8%	8%
Apparel	13.3%	6.5%	3.3%	11.4%	4%
Business Services	6.8%	25.4%	7.1%	9.8%	2%
Sporting Goods	4.3%	2.5%	15.1%	4.9%	5%
Shoes & Accessories	2.7%	0.0%	0.0%	2.0%	0%
Antiques & Art Galleries	4.6%	1.3%	26.1%	5.8%	0%
Books, Cards, & Stationary	4.0%	0.0%	0.0%	3.1%	1%
Food Specialties	4.4%	4.6%	0.0%	4.1%	3%
Specialty Shops	9.1%	0.0%	4.0%	7.3%	6%
Gifts & Collectibles	0.7%	0.0%	0.0%	0.6%	0%
Crafts, Toys, & Hobbies	1.5%	0.0%	3.6%	1.4%	0%
Jewelry	1.7%	0.0%	0.0%	1.3%	0%
Food & Beverage	0.0%	0.0%	0.0%	0.0%	16%
Pharmacies	1.3%	0.0%	0.0%	1.0%	5%
Non-Retail	6.1%	2.2%	0.0%	5.0%	8%
Automotive	0.0%	0.0%	0.0%	0.0%	7%
Home Improvement	0.0%	0.0%	0.0%	0.0%	4%
General Merchandise	0.0%	0.0%	0.0%	0.0%	3%
Electronics & Appliances	0.0%	0.0%	0.0%	0.0%	1%
Personal Services	0.4%	0.0%	0.0%	0.3%	2%
Sub-Total Retail	100.0%	100.0%	100.0%	100.0%	100%

Source: AECOM Analysis, CoStar, DDA

The above table also reinforces trends related to the corridors, which include a larger share of retail activities targeted to local residents. For example, 16% of inventory is in food and beverage (grocery stores), along with notable concentrations in pharmacy, automotive, and general merchandise.

Looking at changes in inventory by store type since 2006:

- Restaurants and bars increased, from about 106,000 sf to 156,400 sf. This category reflects in part the growth in rent levels for downtown, with restaurants generally being able to tolerate higher rents compared to other retail. In some downtown markets, growth in rents over time can result in greater numbers of restaurants, with corresponding weakness in other categories.
- Food Specialties (food and beverage) increased from about 16,800 sf to 23,569 sf.

Retail Sales Trend Analysis

To understand recent retail sales trends for Grand Traverse County and the City of Traverse City, AECOM started with US Economic Census data for retail segments and restaurants for 2007 and 2012. The following tables retail sales data for the City of Traverse City and Grand Traverse County for 2012. The table identifies a total of about $500 million in city retail sales, which represents about 28% of retail sales for the entire county. As context for this analysis, the 2007 study identified the loss of several general merchandise stores from the City over the past 15 years, stores such as Witmark, Ben Franklin, and Milliken's, with modern large format stores moving to suburban locations. Sales associated with store categories identified with a "D" are not disclosed by the Census to protect confidential store data.

Table 28: Retail Sales - 2012 ($1,000)

NAICS	Industry	Traverse City	Grand Traverse County	Michigan	United States
44-45	Retail trade	$503,098	$1,767,778	$119,302,046	$4,219,821,871
441	Motor vehicle and parts dealers	D	$239,335	$25,734,281	$868,805,272
442	Furniture and home furnishings stores	$12,013	$49,195	$2,362,069	$89,057,513
443	Electronics and appliance stores	D	D	$2,974,572	$102,597,223
444	Building material dealers	$83,297	$215,981	$8,693,943	$279,139,970
445	Food and beverage stores	$88,286	$193,549	$14,874,925	$620,023,564
446	Health and personal care stores	$56,268	$96,280	$8,369,833	$270,461,018
447	Gasoline stations	$75,153	$227,910	$16,315,271	$554,256,274
448	Clothing and clothing accessories stores	D	$83,733	$5,285,745	$233,811,859
451	Hobby stores	$20,954	$62,762	$2,475,654	$77,649,474
452	General merchandise stores	D	D	$24,146,064	$640,626,768
453	Miscellaneous store retailers	D	D	$2,718,225	$97,588,439
454	Nonstore retailers	$13,224	$40,290	$5,351,464	$385,804,497

Source: Economic Census

The following table identifies annualized changes in retail sales for City and County in relation to state and national trends. The table shows that overall retail sales for the City have increased at a 6.8% annualized rate since 2007, compared to slower growth rates for the County, which are still faster than identified state and national benchmarks.

Table 29: Retail Sales CAGR (2007-2012)

NAICS	Industry	Traverse City	Grand Traverse County	Michigan	United States
44-45	Retail trade	6.8%	2.4%	1.8%	1.5%
441	Motor vehicle and parts dealers	D	10.8%	3.5%	-0.5%
442	Furniture and home furnishings stores	-5.7%	-3.0%	-2.1%	-3.8%
443	Electronics and appliance stores	D	D	-1.2%	-1.2%
444	Building material dealers	6.0%	1.0%	0.1%	-2.6%
445	Food and beverage stores	4.0%	1.8%	2.6%	2.8%
446	Health and personal care stores	3.8%	2.9%	1.8%	2.9%
447	Gasoline stations	6.0%	3.9%	3.0%	4.2%
448	Clothing and clothing accessories stores	D	-4.2%	0.6%	1.6%
451	Hobby stores	2.9%	1.2%	-0.6%	-0.9%
452	General merchandise stores	D	D	1.8%	2.1%
453	Miscellaneous store retailers	D	D	-1.7%	-1.3%
454	Nonstore retailers	2.8%	-2.1%	-0.7%	5.9%

Source: Economic Census

As additional perspective regarding retail sales, AECOM accessed sales data from 3rd party sources for actual retail sales, as data from the State of Michigan was not available. The analysis includes data from Claritas for 2006, and data from ESRI for 2015. These values generally fall within the range of estimates from the US Census, noted above. Focused on bottom line retail sales excluding automotive and non-store sales, the analysis suggests that overall sales have not yet recovered to pre-recession thresholds. Within the overall decrease, Food & Beverage; Food Services and Drinking Places, Electronics, Health and Personal Care have all increased. Significant decreases since 2006 have been in Apparel and Building Materials, the latter of which saw a significant decrease. Also of note are dramatic decreases in sales for Traverse City in particular, within General Merchandise ($87 million) and Building Materials ($64 million).

Table 30: Retail Sales Estimates, 2006 and 2015

Store Segment / NAICS Code	2006		2015	
	Traverse City	Grand Traverse County	Traverse City	Grand Traverse County
Motor Vehicle and Parts Dealers-441	$262,493,974	$554,721,992	$181,433,193	$464,010,835
Furniture & Home Furnishings -442	$28,330,707	$70,868,991	$24,860,339	$70,290,849
Electronics and Appliance-443	$18,750,505	$73,785,004	$20,156,850	$88,942,352
Building Material, Garden Equip -444	$83,012,703	$380,817,026	$18,042,386	$142,426,747
Food & Beverage -445	$69,702,599	$190,048,969	$196,126,865	$398,445,699
Health & Personal Care -446	$43,601,598	$94,917,992	$49,956,815	$114,857,018
Clothing & Clothing Accessories -448	$76,046,617	$136,763,000	$30,047,930	$81,059,899
Sporting Goods, Hobby, Book -451	$27,518,841	$61,698,975	$45,402,922	$92,178,418
General Merchandise -452	$104,053,277	$471,465,965	$16,244,858	$323,927,571
Miscellaneous Store Retailers-453	$24,494,305	$64,381,933	$29,735,969	$83,580,413
Foodservice and Drinking Places-722	$42,905,966	$149,357,997	$79,134,766	$189,204,806
Total Retail Sales	$825,349,740	$2,507,191,834	$691,142,893	$2,048,924,607
Retail Sales Less Automotive / non-store	$562,855,766	$1,952,469,842	$509,709,700	$1,584,913,772

Source: ESRI, Claritas

Pull Factor Analysis

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

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

The following table highlights pull factor calculations for 2006 and 2015 for the City of Traverse City. In general, the pull factors are solidly above 1.0, with overall retail sales performing at a 3.46 rate for 2015. Pull factors for automotive sales, apparel, and sporting goods are all solidly above 5.0. Apparel has shown the strongest decrease from 2006 to 2015 with a decrease from 7.48 to 3.81. This decrease may relate to growth of amazon and on-line purchasing. General merchandise remains the single weakest category in Traverse City, with a 2015 pull factor of 0.53. Of note, the overall pull factor for the community has only decreased slightly, from 3.67 to 3.46. With the anticipated arrival of a warehouse club in the City of Traverse City (Costco), there are expectations that general merchandise pull factors will increase.

Table 31: Income Adjusted Retail Pull Factor Analysis, 2006 and 2015, Traverse City

Store Segment / NAICS Code	2006	2015
Motor Vehicle and Parts Dealers-441	5.85	4.18
Furniture and Home Furnishings Stores-442	4.82	4.26
Electronics and Appliance Stores-443	3.62	2.36
Building Material, Garden Equip Stores -444	3.25	1.85
Food and Beverage Stores-445	2.74	5.06
Health and Personal Care Stores-446	4.03	3.67
Clothing and Clothing Accessories Stores-448	7.48	3.81
Sporting Goods, Hobby, Book, Music Stores-451	6.82	8.57
General Merchandise Stores-452	3.88	0.53
Miscellaneous Store Retailers-453	4.23	3.80
Foodservice and Drinking Places-722	2.10	4.11
Total Retail Sales	3.73	3.62
Retail Sales Less Automotive / non-store	3.67	3.46

Source: ESRI, Claritas, AECOM Estimates

The following table summarizes pull factors for Grand Traverse County. In general, trends for Traverse City are also reflected in the county-wide factors, albeit with a significantly larger population base. Looking at core retail sales less automotive and non-store, the pull factor for the county appears to have decreased from 1.99 to 1.69. Sectors such as building materials held reasonably firm, while food and beverage stores saw a significant increase (from 1.17 to 1.62). The decrease in apparel stores is noted as unusual, in that the presence of the regional mall in Grand Traverse County would otherwise be expected to boost apparel spending; in this case, the apparel pull factor has decreased from 2.1 to 1.6.

Table 32: Income Adjusted Retail Pull Factor Analysis, 2006 and 2015, Grand Traverse County

Store Segment / NAICS Code	2006	2015
Motor Vehicle and Parts Dealers-441	1.93	1.68
Furniture and Home Furnishings Stores-442	1.89	1.90
Electronics and Appliance Stores-443	2.23	1.64
Building Material, Garden Equip Stores -444	2.33	2.30
Food and Beverage Stores-445	1.17	1.62
Health and Personal Care Stores-446	1.37	1.33
Clothing and Clothing Accessories Stores-448	2.10	1.62
Sporting Goods, Hobby, Book, Music Stores-451	2.39	2.74
General Merchandise Stores-452	2.75	1.66
Miscellaneous Store Retailers-453	1.74	1.68
Foodservice and Drinking Places-722	1.14	1.55
Total Retail Sales	1.77	1.69
Retail Sales Less Automotive / non-store	1.99	1.69

Source: ESRI, Claritas, AECOM Estimates

Business Survey Insights

To understand perspectives of downtown retailers, AECOM worked with DDA staff to develop a survey instrument, which was delivered to business owners beginning in January of 2016. A total of 66 surveys were returned (less than 90 responses in 2006). Survey questions focused on practical concepts regarding the downtown shopping environment including store names and sizes, sales ranges, rent costs, and employment.

The following table below highlights key summary statistics for the top four identified segments in the sample, highlighting factors for store sales per square foot, store rent per square foot, and the ratio of rent to sales, which is an important measure of store performance. The table highlights an average 2016 level of $334 per sf in store sales, against an average rent level of about $20 per sf for a ratio of 6%. Nationally, AECOM would expect the rent to sales ratio to fall in between 2% and 8%.

Table 33: Ratio of Annual Rent to Annual Store Sales per Square Foot

	Sales per SF		Rent Per SF		Rent to Sales Ratio	
Segment	2007	2016	2007	2016	2007	2016
Restaurants, Cafes, & Breweries	$299	$341	$18.71	$18.89	6%	6%
Miscellaneous	$136		$14.80		11%	
Apparel	$234	$272	$19.75	$20.45	8%	8%
Antiques & Art Galleries		$321		$16.29		5%
Books, Cards, & Stationary		$270		$14.00		5%
Salons, Spas, & Fitness	$253	$108	$16.46	$18.20	7%	17%
Shoes & Accessories		$277		$20.22		7%
Overall	$211	$334	$17.30	$20.04	8%	6%

Source: AECOM Analysis

The survey also asked respondents a series of questions about perceptions of downtown, with structured answers (good, fair, or poor). The following questions generated a majority of answers that were "good":

- Helpfulness of sales people
- Downtown business hours
- Price of merchandise

- Variety of goods
- Quality of goods
- Attractiveness of area
- Attractiveness of buildings
- Safety
- Store interiors
- Special Events
- Cleanliness of area
- Snow removal
- Traffic circulation

The following questions generated a majority of responses that were "poor":

- Parking
- Rent Affordability

In general, respondents viewed the questions either positively or negatively; in other words, few responses generated a response of "fair".

In terms of specific elements of downtown that needed improvement, the following items were identified with a majority of responses of "very important"

- Build more public restrooms (81%)
- Improve Parking (75%)
- Improve Traffic Flow (47%)

The survey asked questions about utilities, with one set of questions focused on a rank ordering of attributes as being important to the respondent in an electric utility company ("1" being the most important and 6 being the least important); these questions yielded the following answers in priority (average response):

1. Utility Reliability (1.61)
2. Cost / Bottom Line (1.86)
3. Price (1.94)
4. Customer Service (2.01)
5. Environmentally conscious (2.07)
6. Local Presence (2.79
7. Community Ownership (2.91)

Responses to other questions included:

- Regarding awareness of other utility company rates and how they compare with TCL&P, 70% indicated that they were not aware of the competition.

- Regarding willingness to pay an increased percentage for renewable energy generation, 47% of respondents were willing to pay a premium of up to 5%; 29% were willing to pay a premium of up to 10% on their bills. While 6% said they would be willing to pay more than an 11% premium, 18% said they would not pay any premium.
- Regarding whether or not respondents understand all of the components of their electric bill, slightly more than half said "Yes".
- Regarding respondent awareness of financial incentives for energy efficiency, 66% said "Yes"
- Regarding respondent participation in energy efficiency programs that reduced monthly electric bills, 63% said "No"
- Regarding whether there was a change in operations or living space that offset estimated savings, 905 said "No"
- Regarding respondent interest in providing access to higher speed internet service (one gigabit per second), 80% said "Yes"

National Retail Trends

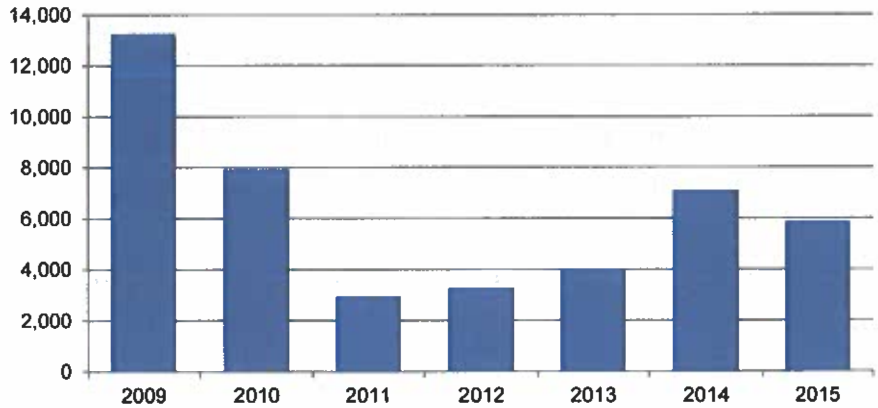
Understanding trends applicable to Traverse City requires an examination of broader national retail industry trends.

The Legacy of the Recession

AECOM examined retail spending from 1992 through 2014 to provide clarity regarding significant changes that have unfolded in national retail markets. The recession from 2007 to 2009 had significant and lingering impacts on the U.S. retail market. Key trends associated with the recession were identified:

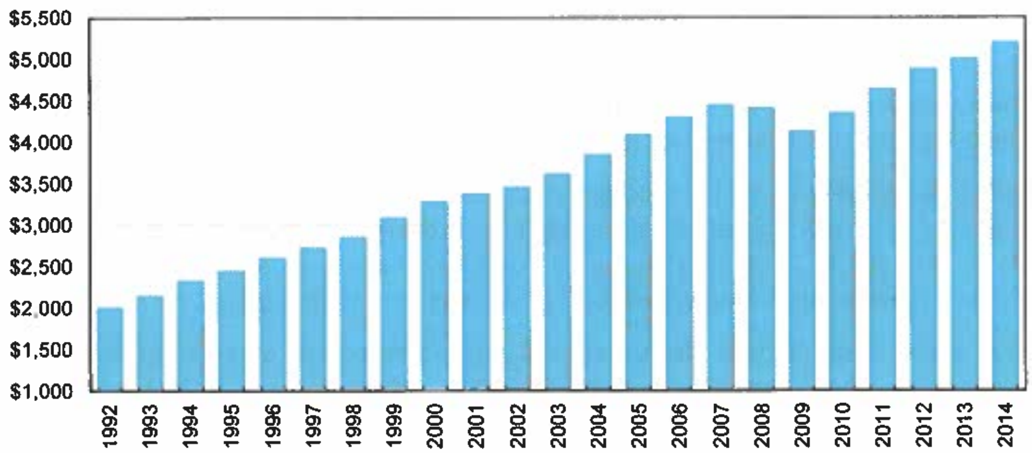
- Retail spending as recovered from the recession, increasing over 26% from $4.1 trillion in 2009 to $5.2 trillion in 2014. Per U.S. household, this equates to an average spending increase of $7,016 or almost 20%. From 1992 to 2014, retail sales per household more than doubled from $21,105 to $42,266. Figure 1 provides an overview of national retail sales from 1992 to 2014.
- The impact of tighter credit markets, decreased consumer spending and over-construction led to a wave of bankruptcies among American retailers after 2009. While chains such as Levitz, Sharper Image, Circuit City and Linen 'n Things filed for bankruptcy protection, other chains like Office Depot, Lowe's and J.C. Penny were forced to downsize operations. Trends for this period also include dramatic auto dealership closures by Ford and General Motors.

Figure 34: Number of Announced Retail Store Closings



Source: Retailindustry.about.com

Figure 35: Retail Sales, Millions of US Dollars



Source: US Census

- While the pace of store closures has slowed, trends for 2014 and 2015 are impacted by the bankruptcy of Radio Shack, as well as the Staples/Office Depot merger announcement (which did not gain SEC approval) and the Sports Authority closure.
- Trends also reflect the reality of improved occupancies, linked with limited new retail construction since 2010. Tenanting options have expanded beyond critical care centers, dollar stores, and Aldi.
- Auto sales were particularly hard hit during the Great Recession. Auto-related sales dropped by almost 26% from 2007 to 2009. Unprecedented closings and substantial loans from the federal government reflected the precarious financial state of automobile firms. By 2014, auto-related sales have recovered dramatically.

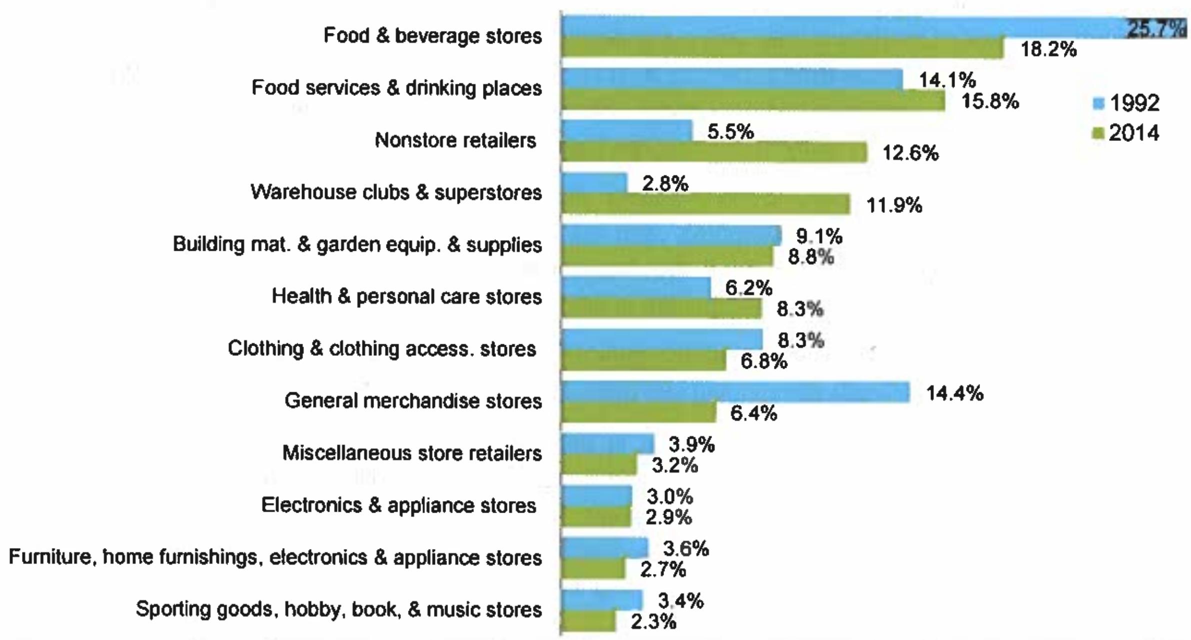
- During the recession, spending patterns shifted throughout the country. Wal-Mart, dollar stores and other discount retail stores captured market share from more upscale competitors. Auto repair stores thrived as consumers invested in their vehicles rather than buy new ones. Full-service restaurants experienced declining sales; however, fast food and limited-service restaurants sales slightly increased. Grocery store sales also remained competitive as more people chose to eat at home rather than out at restaurants.

Shifting Consumer Spending

As consumers have regained confidence and retail markets have regained strength, spending patterns have been influenced by other factors. Key trends relating to shifting retail market spending were identified:

- Where American's are spending their money is changing. Non-store retailers – infomercial, catalog, door-to-door, internet retailers, etc. – and warehouse clubs and superstores are capturing larger shares of total retail spending while food and beverage stores and general merchandise stores are losing shares. Figure 2 displays the distribution of retail dollars by category between 1992 and 2014.

Figure 36: Percent of General Retail Dollars by Category, 1992 and 2014



Source: US Census

- The expansion of warehouse clubs and superstores has fueled the decline in sales at food and beverage stores, general merchandise stores, and department stores. Warehouse clubs and superstores have expanded locations as well as offerings, adding grocery and other products to their inventory. In 1992, 2.8% of general retail dollars were spent at stores such as Costco, Sam's Club, Wal-Mart and Target. In 2014, this share increased to 11.9%.
- The rapid growth of e-commerce has allowed non-store retailers such as Amazon to capture substantially more retail market spending from traditional retailers. However, it is important to note

that non-store retail is not synonymous with e-commerce: Only 54% of retail sales from non-store retailers are e-commerce based.

- Drug stores and pharmacies are offering an increasing large scale of products and services, contributing to the growth in sales at health and personal care stores.
- Building material stores (Lowes, Menards and Home Depot) have dramatically altered the market for home improvement supplies. In general, sales grew strongly through 2006, only to suffer through the recession. While sales have recovered, appreciate that local housing markets have not recovered to pre-recession construction trends.
- Grocery stores have remained relatively stable. Between 1992 and 2014, spending on food and beverage stores grew at an annualized rate of 2.6%.
- From 1992 to 2014, gasoline sales increased at a 5.8% annual rate. Gasoline prices play a major role in determining the growth of gasoline retail sales. Gasoline sales spiked from $373 billion in 2009 to $552 billion in 2013, a 47.8% increase. However, recent dramatic decreases in gasoline prices in 2014 have led to an uncharacteristic 2.7% decrease in gasoline sales from 2013. Future factors contributing to lower gas prices are more fuel efficient vehicles.
- The rollout of Macy's as a national brand highlights the disappearance of more than ten regional department store brands and has had a significant impact on existing shopping malls. In the same context, the pivot of Sears/Kmart towards a REIT structure raises concerns for the eventual need to reposition a large number of regional malls still anchored by these chains. Sears and Kmart have been closing stores consistently for the last two years.
- Shopping centers are adapting to the changing retail market by providing a more varied collection of tenants looking to experience shopping, with the evolution of the "Lifestyle Center" as a specific example. Existing malls have seen the incorporation of outdoor lifestyle elements to sustain competitive positioning. Of note, health care is being looked at as an anchor use in these projects.
- For traditional regional shopping malls, the general sense is that the stronger, well-located malls are doing well, while older malls are running into difficulties, particularly if the mall is an older property.
- Big box formats are increasingly engaging in battles for market share. In most cases, retailers involved locate stores in close proximity to pull sales from a competitor, or keep older stores dark to prevent competitors from relocating into a market. While precise implications are not clear, there is a general sense that larger format retailers have added new space faster than they have grown sales, resulting in lowered store sales per square foot and greater competitive pressures for independent store owners.
- Project scale drives market reach, with large projects needing a regional market to sustain project fundamentals, and smaller projects tied to neighborhood, campus, or community scale markets. On a practical basis, regional destination scale projects generally start at about 175,000 sq. ft. of retail, space and can culminate at more than 2 million sq. ft. of rentable space.
- National chain stores in the apparel, shoes, and accessories segment tend to prefer tenanting scenarios where they can cluster together. Pre-recession, the combination of Chico's, Ann Taylor, Coldwater Creek, and Talbots was a typical example; not all of these chains survived the recession.

The Rise of E-Commerce

The internet has transformed most sectors throughout the country and the retail sector is no exception. Important trends and implications of this transformation were identified:

- Since 1998, e-commerce sales have exploded from $5 billion to $300 billion in 2014. This represents a nearly 30% annualized increase in e-commerce sales, compared to under 4% for retail sales overall.
- As of 2014, e-commerce sales represented 6.4% of all non-food service retail sales, up from 0.2% in 1998. Post-recession, the share of total retail sales from e-commerce has grown on average 10% a year.
- The change in consumer behavior and general increase in e-commerce spending have led traditional department stores such as Wal-Mart, Kohl's, Best Buy and Target to boost their online presence and reduce traditional big-box establishments. This reallocation of a brand's retail sales from brick-and-mortar stress to online platforms is of little concern to retail chains, but has a significant importance for municipalities relying on retail sales taxes in the community.
- The spread of wireless and mobile technologies and the expansion of technical capabilities are leading retailers to develop new ways of interacting and connecting with consumers. For example, data capture and analysis capabilities are allowing retailers to target potential customers more effectively; the share of internet retailing over mobile devices is quickly growing allowing retailers to connect with consumers virtually 24-7.
- Retailers are developing new distribution and sales channels, merging the boundaries between traditional brick-and-mortar store retail and internet retailing. Omni-channel retailing is emerging, with the goal of providing consumers a consistent, integrated experience across retail channels. For example, some traditionally online-only retailers are opening small brick-and-mortar stores while other traditionally offline retailers are integrating online and in-store sales through services such as "Order online, pick-up in store," turning retail stores into quasi-distribution centers.
- The growth in e-commerce sales has increased the demand for large scale fulfillment and distribution centers located close to major metropolitan areas.

Retail Market Implications

Overall retail trends in 2016 are mixed. The big headlines seem to focus on challenges – Sports Authority went bankrupt (although Dick's Sporting Goods are picking up many former locations and employees), department stores such as Macy's have had a difficult year so far, and Gap/Old Navy is closing several locations. With the exception of Walmart, large format store sales in 2016 are off from same store sales in 2015. Foreign retailers, such as UNIGLO, have scaled back their US expansion plans. Sources such as Kiplinger predict that department store earning will continue to be a disappointment for the year, citing a struggle to put inventory online and a need to offer more entertainment in stores to engage customers. They also suggest that only a few department stores will be able to adjust to the new digital/in-store world and that some will not survive. Kiplinger forecast for the second-half of 2016 for the retail sector is 4.2% growth from 4.7% in 2015.

Trends are not negative in all aspects of retail. JLL global retail chairman David Zoba at ICSC RECon 2016 said that food & beverage and local retailers are "...busier than ever..."; \examples include 100 new 5 Guys hamburger locations in 2016. Difficult spaces to lease are larger spaces at regional malls previously held by department stores or large format stores such as recently bankrupt Sports Authority or locations being closed by Macys, Gap, and Old Navy. (Bisnow May 23, 2016). Auto sales have driven grown in early 2016 and seem to continue, even with increasing gasoline prices. Off-price stores are doing well (T.J. Maxx & Marshall's) and other full price chains are betting on off-price (more Nordstrom Racks than regular Nordstrom stores; Macy's expanding Backstage stores; etc.)

The biggest overarching trend is the link to technology and the relationship between online sales and web-presence and the sales in the physical store ("omnichannel strategy"). The growth of online sales continues and climbing at double-digit rates. Online and mail-order sales accounted for 10% of all goods sold in April 2016. Amazon's recent expansion of clothing sales will have an impact on clothing sales at large and small stores, particularly in locations where one and two-day delivery are available. Physical stores will need to be linked to an online presence to keep up with changes in the industry and consumer expectations.

Shoppers now use the web to search store inventory and to compare prices before going to the physical store. Store that do not have a web presence are at a distinct disadvantage. Shops offering a range of electronic payment options are part of that trend. More payment options are available, such as:

- Pay Pal
- Apple Pay
- Android Pay
- Samsung Pay
- Mercury hardware to accept EMV and stripe (EMV is a global standard for credit and debit payment cards based on chip technology)
- Poynt terminals for EMV, NFC (Near Field Communication such as Android Pay), QR (Quick Response) codes & magnetic cards
- Click-and-Collect shopping
- Purchase online and pick-up at store

Other payment trends include in-store mobile devices such as tablet-based POS (point-of-service) devices. Examples of this are found in Apple and Nordstrom Rack stores, where roaming staff members work from an iPhone to check out customers. The peripheral equipment is inexpensive and could easily be used by smaller retailers as well.

The lines are being blurred between online retailing and in-store presence. Pop-ups by previously online only stores (such as Birchbox) show that the customer will easily move between the digital and physical platforms and that retailers should do the same.

One category that doesn't worry too much about online competition is home improvement stores. Lowes and Home depot continue to experience sales growth even though there are specialty outlets online. Most customers want home improvement and garden items right away. However, both of the large format leaders offer purchase online with in-store pickup.

Even though fast food chains have been touting their "artisan" menu items, customers know the difference and prefer authentic goods and services. The Farm-to-Table and locally-sourced food trend is growing in restaurants and specialty food purveyor stores. So too is the popularity of unique gifts and crafts accompanied with stories of their production. Small-scale, craft brewers/brewpubs are still trending in the food and beverage category. Although the "hipster" fad is fading in major markets, the residual trend toward craft remains. This should be a positive note for smaller downtowns and Main Streets with a focus on retail-dining-entertainment (RDE) clusters. Food & Beverage sector trends include:

- The impact of technology is also being felt in the restaurant industry. Tech-driven delivery is becoming more wide-spread in the F&B category. App-connected food delivery services are springing up and could be assembled in a downtown setting that doesn't already have a service available.
- "Clean Menus" – the drive for more natural ingredients is showing up at McDonald's, Panera Bread, and Chipotle. Independent operators will begin to feel the pressure from customers who will expect such steps.
- Bringing food into retail (i.e. Ikea, Urban Outfitters bought Pizzeria Vetri) will put retailers in competition with restaurants. Outdoor World (owned by Bass Pro Shops) is putting Islamorada Fish Company restaurants in their stores with hunting and fishing equipment. Smaller operators might consider this idea as a way to share space with a sub-tenant and draw additional customers.
- App-based reservation systems like Open Table, Nex Table, and Reserve are becoming common at non-chain and upscale restaurants. Patrons are comfortable working in the tech space and like the links to smartphones.

Other Retail Store Type Trends:

The National Retail Federation has also identified the following store type trends in 2016:

- Growth in pet supplies and accessories (particularly specialty dog stores).
- Even though large format Sports Authority went bankrupt, running stores and yoga apparel is strong.
- Health care is expected to become a more significant tenant in suburban malls.
- Unstaffed convenience stores coming to US market. Currently found in Europe, the shops of 480 square feet sell milk, bread, diapers, and limited convenience inventory. No tobacco, OTC medicines or alcohol are offered.

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

- Across the five-county region, while population growth has continued at rates above statewide averages, income growth has been reasonable. As the region continues to be a focus for retirees, direct income growth may remain modest, offset by growth in retirement income from other sources.
- While the region continues to grow, the City of Traverse City has captured a modest share of county population growth. As retail sales tend to follow new rooftops, limited population growth in the city will constrain retail sales levels.
- While income levels for new residents and tourists are generally consistent with state averages, interviews noted the presence of a significant base of affluent seasonal residents who do not appear in Census estimates because their permanent residence is elsewhere.
- Enviably low overall vacancy levels, combined with continued population growth and retail sales growth will feed developer interest in new projects. However, the number of tenants actively looking for space remains weak.

- Continued low vacancy levels reflect the strength of downtown Traverse City as a regional destination for residents and tourists, and the hard work of the DDA and its partner organizations to identify tenants, support parking initiatives, and serve as an advocate for downtown.
- Survey data suggests that store sales in the downtown have increased faster than rents, which if proven true market wide would be significant. At the same time, construction of new space is clearly linked with higher "triple-net" rents.
- Across the corridors, while retail vacancies remain enviably low, office vacancies are higher, above 8% in many areas.

Residential Market Assessment

Housing Permits

The following table highlights the compound annual growth in new housing permits for selected counties, from 2009 to 2014. Building permits appear to peak in 2013, when a total of 638 permits were issued in the five-county area. Despite decreases in Kalkaska and Benzie County, housing permits in the 5-County Region have grown by an average of 12.2% annually since 2009, indicating that the region has been able to recover from the 2008 housing bubble. Grand Traverse County supported about 70% of all permits.

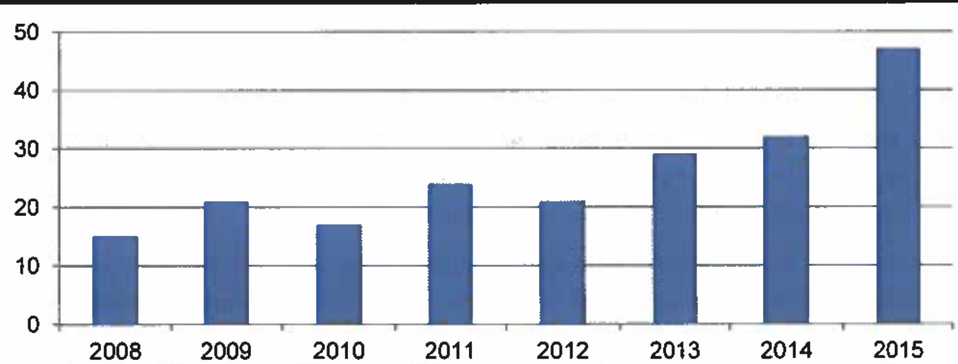
Table 37: Housing Permit Growth (2009-14)

County	2009	2010	2011	2012	2013	2014	09-14 CAGR
Benzie	86	58	38	54	53	41	-13.8%
Kalkaska	39	22	27	15	24	21	-11.6%
Antrim	40	42	42	51	62	45	2.4%
Grand Traverse	202	181	233	273	393	384	13.7%
Leelanau	63	89	59	70	183	113	12.4%
Five County Area	305	312	334	394	638	542	12.2%
Michigan	6,884	9,075	9,341	11,692	15,757	15,933	18.3%

Source: State of the Cities Data Systems (SOCDS)

The following figure highlights growth in the number of building permits in the City of Traverse City, with trends for 2015 reinforcing growth well above 2008 levels. Presuming that all units are owner occupied rather than second homes, 47 housing units could support growth of 100 residents per year.

Figure 38: Housing Permit Growth, City of Traverse City, 2008-2015

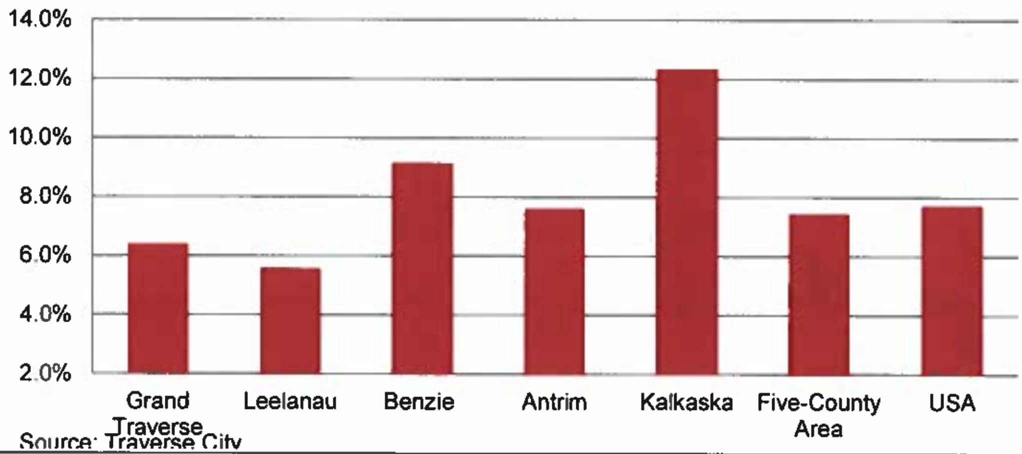


Source: Grand Traverse County

Home Sales Trends

The following chart highlights annualized growth rates for single-family home prices for the 5-County Region and US from 2011 to 2015. The chart shows that home prices in Kalkaska County have seen the largest average annual increase (12%) in prices since 2011, while Leelanau County (5.6%) has the slowest average annual growth. It is important to note that on average, home prices in Leelanau County are approximately $100,000 higher than average price in the Five-County area.

Figure 39: Annualized Growth in Single-Family Home Prices (2011-2015)



Source: Grand Traverse County

While the prices of homes in the 5-County Region have increased in recent years, sales of higher priced homes have also increased. The table below highlights home sales by price in the 5-County Region from 2013 to 2015.

Table 40: Five-County Region Sales by Price Range

Price Range	2013	2014	2015	13-15 CAGR
$0 - $99,000	699	545	518	-13.9%
$100,000 - $199,999	1,101	1,125	1,243	6.3%
$200,000 - $399,999	791	853	929	8.4%
$400,000 - $749,999	237	248	297	11.9%
$750,000 - $999,999	35	57	55	25.4%
$1,000,000 and up	37	28	46	11.5%
Total Units Sold	2,900	2,856	3,088	3.2%
Avg. Selling Price	$215,907	$230,017	$240,133	5.5%
Median Sale Price	$160,000	$170,000	$176,750	5.1%

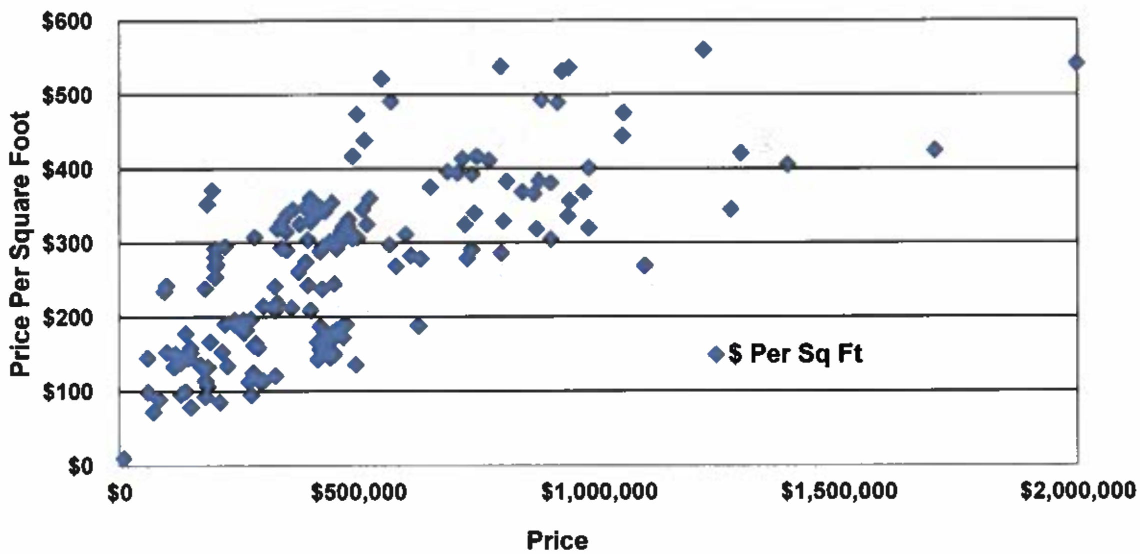
Source: Traverse City MLS

According to the table, sales of higher priced residential units have experienced the most growth in sales since 2013. Sales of residential units within the $750,000-$999,999 price range have increased by an average of 25% annually, while units priced above $1 million have increased by 12% annually. Sales of lower priced units ($0-$99,000) have decreased by an average of 14% annually. This increase in high value home and decrease in low value home sales can be attributed to Traverse City's classification as a vacation destination with a strong demand for higher priced waterfront and downtown properties. The average and median sales prices have also increased since 2013, growing at an average annual rate of approximately 5%.

Condominium Review

The following section provides an inventory analysis of condominiums in Traverse City. The data is based on current condominium listings and their respective prices from the Traverse City Multiple Listings Service (MLS). The charts below illustrate the number of condominium listings by price per square foot and listing price.

Figure 41: Asking Prices, Condominium Projects, 2016



Source: Grand Traverse County

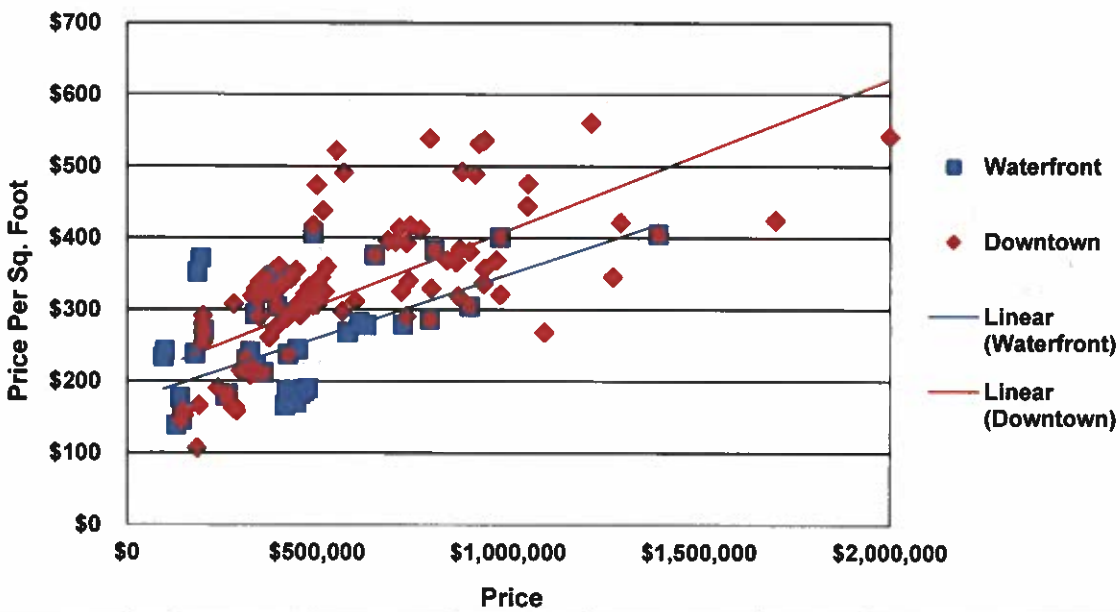
The chart above outlines all condominiums in Traverse City by listing price and price per square foot. A few conclusions can be made based on the upward trend in the data.

- As the price of the condominium increases, there is a corresponding increase in price per square foot (as shown by the linear trend line).
- Higher-priced condominiums (>$1 million) tend to be valued at $400 to $550 per square feet, while mid-range condominiums ($750,000 – $1.5 million) are typically valued at $525 to $575 per square foot.

The following chart illustrates the same condominiums, this time divided into two groups, waterfront and downtown properties. This division allows for a comparison of price and price per square footage between the two primary types of condominiums in Traverse City. For clarification purposes, all waterfront properties in the following chart are lakefront (Grand Traverse Bay) properties, not riverfront properties. Factors include:

- If riverfront properties were included in waterfront properties, a majority of the higher priced condominiums would be considered waterfront in addition to downtown properties.
- Waterfront condominiums peak at approximately $1.4 million, while downtown properties cost up to $2 million.

Figure 42: Waterfront and Downtown Price Per Square Foot, 2016



Source: Local Residential Listings Websites

Table 43: Downtown vs. Waterfront Averages

Property Type	Sq. Ft	Price	$ Per Sq. Ft
Waterfront Average	1,741	$432,033	$248
Downtown Average	1,678	$554,033	$316

Traverse City MLS

The table above provides average pricing information for both waterfront and downtown property types. On average, the listing price of waterfront condominiums is approximately $120,000 less than downtown condominiums.

Downtown Housing Comparison and Demand Analysis

To evaluate the potential of downtown housing in Traverse City, AECOM researched downtown residential development in several cities in Michigan and nationwide with characteristics somewhat similar to Traverse City including viable historic downtowns, smaller town downtowns (as identified by the National Trust for Historic Preservation), and other towns that serve as National Park gateways. A geographically broad sample of 32 small towns was identified and analyzed..

The following table shows, for each downtown, the number of housing units within walking distance (0-1 mile) of downtown. The sample has an average percentage of housing units within 1 mile of about 47%, or about 3,130 walkable housing units. While Traverse City has a similar number of walkable housing units, 3,265, this accounts for only 24% share of housing within 3 miles, a lower than average share.

Table 44: Housing Unit Counts within Defined Distance of Downtown (2015)

Downtown Main Street	Housing within			Housing Units within 0-3 miles	Share Walkable Housing
	0 - 1 mile	1-2 miles	2-3 miles		
Traverse City, MI	3,265	4,841	5,422	13,528	24%
Ann Arbor, MI	12,991	14,919	16,554	44,464	29%
Aspen, CO	5,161	1,567	679	7,407	70%
Bar Harbor, ME	1,515	274	37	1,826	83%
Bay City, MI	6,251	11,272	9,056	26,579	24%
Brown County - Nashville, IN	507	568	646	1,721	29%
Charlevoix, MI	2,321	899	503	3,723	62%
Crested Butte	1,097	524	1080	2,701	41%
Durango, CO	2,748	3,818	1,616	8,182	34%
Estes Park, CO	1,867	3,117	1,851	6,835	27%
Eureka Springs, AR	1,142	478	209	1,829	62%
Frankenmuth, MI	1,976	794	438	3,208	62%
Frisco, CO	3,015	442	1,181	4,638	65%
Galena, IL	1,868	191	427	2,486	75%
Gatlinburg, TN	1,988	2,908	1,763	6,659	30%
Glenwood Springs, CO	2,030	1,264	1,469	4,763	43%
Grand Haven, MI	3,093	5,679	4,598	13,370	23%
Hermann, MO	1,111	244	212	1,567	71%
Holland, MI	4,017	8,781	10,364	23,162	17%
Jackson, WY	2,707	1063	1,276	5,046	54%
Key West, FL	7,160	2842	4,095	14,097	51%
Lake Geneva, WI	3,111	1660	1,705	6,476	48%
Leadville, CO	2,441	467	351	3,259	75%
Nantucket, MA	3,844	2,955	1,956	8,755	44%
Port Angeles, WA	2,846	5,463	2,163	10,472	27%
Port Townsend, WA	1,618	2,717	1,109	5,444	30%
Red Lodge, MT	1,451	402	241	2,094	69%
Red Wing, MN	2,984	2,531	1,533	7,048	42%
Saratoga Springs, NY	7,240	3,467	1,773	12,480	58%
Silver City, NM	2,637	2,514	1,609	6,760	39%
Staunton, VA	4,615	6,576	2,449	13,640	34%
Telluride, CO	2,111	559	1,785	4,455	47%
Wallace, ID	552	291	249	1,092	51%
Averages	*3,130*	*2,912*	*2,436*	*8,478*	*47%*

Source: ESRI & AECOM Analysis

To further understand the downtown housing trends nationwide, AECOM selected six downtowns from the above list to serve as additional benchmarks. The following summaries provide information on downtown characteristics, downtown housing units, recent housing developments, and retail trends in several comparable downtowns. The cities selected for comparison were communities with a similar share of walkable housing, a similar number of walkable units, and/or similar characteristics.

Holland, MI

Downtown Holland is a highly walkable, historic downtown. The roughly three block area is densely packed with two to three story, renovated, Victorian-era historical buildings. These buildings typically feature storefronts on the ground floor with housing units above. It is estimated that the downtown district today has over 600 housing units, mostly condominiums and apartments. However, there are also two large senior living facilities. With the exception of a few newer condominiums, the majority of this housing stock is in older, renovated buildings. Surrounding downtown are traditional single family neighborhoods.

The retail downtown is primarily locally owned boutiques with a handful of national and regional chains scattered throughout the area. Holland's downtown welcomes over a million visitors a year, with over half a million visitors during Holland's annual Tulip Festival and parade which routes through downtown. The downtown district offers free community parking year round.

Over the past year, the downtown district has seen new infill development, with the addition of a newly constructed five-story hotel. This trend is expected to continue. Over the next one to five years, an additional 60,000 square feet of space is expected to be constructed. This will include retail and restaurant space as well as 65 to 70 additional residential units.

Grand Haven, MI

Downtown Grand Haven is also described as a walkable, historic downtown. It is situated on the Grand River where the river converges into Lake Michigan, providing the downtown with waterfrontage. One of eighteen communities in Michigan in the Michigan Main Street Program, the area is mostly composed of two to three story historic mixed use buildings. There are roughly 70 individual retail store, 30 restaurants and eateries, and over 100 residential units. Over half of these residential units are on the upper floor of mixed used storefronts. In the last ten years, the downtown area has seen an increase in four to five story condominium developments. However, the largest condominium building remains the 30-year old, 67-unit Habourfront Condominiums, converted from a former Story and Clark piano factory. The retail space is dominated by local, independent boutiques, with the exception a few national chains including Glik's, Kilwins, and Great Harvest Bread Company. The area enjoys free public parking and heated sidewalks in the winter.

Grand Haven sponsors many citywide events throughout the year, most of which bring visitors to the downtown. The largest event, the Coastguard Festival, brings over 100 thousands visitors to the downtown area over a ten day period.

Staunton, VA

Downtown Staunton is characterized by Victorian architecture, bricked streets, and a walkable mix of locally owned retail, offices, restaurants, and galleries. There are 90 specialty retail stores, 32 restaurants, 30 salons, 15 galleries/photographers, 56 professional offices and services. Only two national chains are present downtown: A Domino's Pizza and a Hardees. There is a large concentration of entertainment and arts venues, including the American Shakespeare Center and Blackfriars Theater, the R. R. Smith Center for History and Art, the Beverley Street School, and the Woodrow Wilson Presidential Museum and Library. Staunton welcomes roughly 800,000 visitors a year.

A significant wave of streetscaping and preservation activities took place throughout the 1990s. Over the past five years this trend has continued with investment in restoration of storefronts and upper floor office/residential. There has also been new development including the Stonewall Jackson Hotel and

Conference Center, the R. R. Smith Center for History and Art renovation, The Visulite Cinema, and The American Hotel.

Altogether, there are 140 residential housing units downtown. The newer units are mostly single-family units above restored storefronts; however, there has also been recent construction of more upscale one and two bedroom apartments with above average rent prices ($1200 to $1800 a month). Within walking distance of downtown are sevf3eral neighborhoods with additional single and multi-family housing units, include the converted Western State Hospital which was developed into condominiums roughly 10 years ago.

Key West, FL

According to the Key West Chamber of Commerce, downtown Key West is a roughly two block by six block area of 0.10 square miles on the small island city. According to Business Analyst, there are 338 businesses in this area, with 66 retail stores, 42 restaurants, coffee shops, and bars, and 29 hotel and other lodging businesses. There are several national chains, including Starbucks, Margaritaville, Hard Rock Café, Banana Republic Factory Store, The Gap Factory Store, and Express. This collection of businesses reflects the focus on the tourism industry in the city.

As a result of its geography, residential in and around the downtown area is close in. According to Business Analyst, there are 395 housing units downtown, nearly half of which are single family units. Multifamily units are concentrated in buildings with fewer than 10 units.

Port Angeles, WA

Downtown Port Angeles is located on the Strait of Juan de Fuca and faces the Olympic National Park. It is filled with historic buildings with locally owned independent street level retail and restaurants and second story professional and service firms. The decline of local salmon fishing and the loss of much of the timber industry have led to an economic downturn in the region and downtown Port Angeles is still recovering. According to the Port Angeles Downtown Association, in 2012, there were 188 business located downtown and today there are about 175 with 93% occupancy. Throughout the downtown there are two national chains, Baxter Auto Parts and a Dairy Queen. The rest of the nearly 30 restaurants, bars, and coffee shops are independently owned. There are several events throughout the year that draw visitors to downtown Port Angeles such as the Dungeness Crab and Seafood Festival and the Arts & Draughts Beer and Wine Festival.

Downtown housing is mostly located above street-level shops. According to Business Analyst, there are approximately 71 housing units total, including three multifamily buildings: A 48-unit low-income housing building in a renovated hotel and two condo-studio residences. Other downtown housing is single family units above storefronts. The Port Angeles Downtown Association is working with property owners to convert more space into residential to build a larger downtown residential community.

Saratoga Springs, NY

Downtown Saratoga Springs has seen strong development over the past 30 years. It is an historic downtown whose preserved Victorian buildings are filled mainly with local, independent retailers, restaurants, and businesses. A few national chains are located downtown including a Subway, Bruegger's Bagels, Starbucks, Ben & Jerry's, Kilwins, Eddie Bauer, The Gap, Banana Republic, and Loft. According to interviews with local real estate brokers and business owners, these larger retail stores are located in three newer retail buildings on the south end of downtown that were built within the last 15 years. There are several hotels in and next to downtown, including a Holiday Inn. Overall, according to local tax records, there are approximately 132 business properties located downtown.

In recent years, the majority of residential development in and around downtown has been condominiums, townhouses, and mixed use rental complexes with retail, office, and restaurant space on the ground floors and residential above. Older housing stocks include some single family homes as well as older multifamily units. In 2015, according to Business Analyst, downtown Saratoga Springs had approximately 328 occupied housing units, 73% of which were rental units.

According to a local representative of the Saratoga Springs Downtown Business Association, the pace of development in the Saratoga Springs downtown has led to a lack of available vacant land and increased parking issues. To alleviate the parking issues, the Saratoga Springs City Center is building the city's first public paid parking garage.

Second Home Market

The Traverse City region has become a significant area for second home development, which is reflected in home sales and residential permit strength, particularly between 2000 and 2003. Understanding the nature of seasonal housing markets is complicated, as many units can be owner occupied, but used on a seasonal basis. The following tables reflect US Census data for 2000 and 2010, to highlight an effective baseline in terms of demand for seasonal units. The tables highlight the significant share of seasonal units across the region as of 2010, with about 23% of all units considered seasonal for the five-county region, and about 9% in Grand Traverse County.

Table 45: Seasonal and Recreational Housing Units (2000 and 2010)

Market Area	Seasonal/Recreational		Total Housing Units		Percent of Total	
	2000	2010	2000	2010	2000	2010
United States	3,578,718	4,649,298	115,904,641	131,704,730	3%	4%
Michigan	233,922	263,071	4,234,279	4,532,233	6%	6%
Five - County Area	19,297	23,151	84,363	98,728	23%	23%
Antrim County	5,152	6,514	15,090	17,824	34%	37%
Benzie County	3,181	4,035	10,312	12,199	31%	33%
Grand Traverse County	3,026	3,595	34,842	41,599	9%	9%
Kalkaska County	3,827	4,326	10,822	12,171	35%	36%
Leelanau County	4,111	4,681	13,297	14,935	31%	31%
Traverse City	117	242	6,842	7,358	2%	3%

Source: US Census

Residential Market Implications

- Since 2011, home prices across the 5-County Region have increased at an annualized rate of 7.4%; well above rates of income growth for labor force participants.
- Since 2009, the number of housing permits issued in Michigan has increased by 18.3% annually, outpacing the 5-County Region by 6%. Of the five counties, Grand Traverse has experienced the most rapid increase in the number of housing permits with an annualized growth rate of 13.7%. In 2014, Grand Traverse County accounted for approximately 71% of all housing permits.
- Residential Permit activity in the City of Traverse City for 2015 was roughly double pre-recession levels. At the same time, given modest household sizes, further growth in unit construction is advisable. Interviews suggest that there are a limited number of reasonably priced rental apartment available in the market, which remains focused on condominiums.

- The number of expensive homes sold ($750,000 - $1 million range) has increased by 25% annually. Sales of homes above $1 million have grown at an average rate of 12%, while sales of lower priced homes ($0-$99,000) have decreased by 14% annually.
- Seasonal housing as a percentage of total housing in the 5-County Region has remained at 23% from 2000 to 2010. Traverse City has seen a modest increase from 2% to 3%, while Grand Traverse County has remained at 9%.
- Condominiums that are located downtown are considered more valuable in terms of price per square footage compared to waterfront properties. This is due in large part to the increase in recent housing developments in the downtown area.
- When compared to similar downtown areas in Michigan and across the US, Traverse City has a similar number of walkable housing with 3,265 units. However, this accounts for only 24% share of housing within three miles, a lower than average share compared to similar downtown areas. This is one clear indication that densities within walking distance in other cities are greater.

Office Market Assessment

As part of the downtown market analysis process, AECOM also evaluated overall trends in the Grand Traverse County office market. Analysis efforts were directed at understanding growth in competitive office inventory for the DDA, the City of Traverse City, and Grand Traverse County since 2009, and evaluating growth in inventory in comparison with growth in office-using employment

Office-Using Employment Discussion

The following table highlights growth in office-using employment sectors since 2009 for Grand Traverse County. The table shows that overall office employment has grown at a relevant rate (1.3% per year) since 2009, with a majority of growth concentrated in health care, administrative services, and real estate. The table highlights an overall growth of 951 jobs over the six-year period, with the majority of net growth driven by health care related employment. This level of employment growth could correlate with demand for between 190,000 and 215,000 sf of office space, assuming a ratio of 200 to 225 sf per employee.

Table 46: Office-Using Employment (2009-2014)

Type	Industry	2009	2010	2011	2012	2013	2014	09-14 CAGR
Federal	Finance and insurance	20	22	19	18	17	17	-3.2%
Federal	Health Care	0	33	33	35	35	38	n/a
Local	Information	118	104	96	94	91	92	-4.9%
Private	Information	926	876	812	799	754	868	-1.3%
Private	Finance and insurance	1,861	1,835	1,829	1,858	1,874	1,929	0.7%
Private	Real estate	487	446	437	508	517	519	1.3%
Private	Professional services	2,078	1,999	2,081	2,022	2,018	1,959	-1.2%
Private	Management of companies	31	88	88	47	46	40	5.2%
Private	Administrative services	1,256	1,175	1,438	1,332	1,319	1,362	1.6%
Private	Health Care	8,033	8,178	8,203	8,682	8,918	8,937	2.2%
Total	All Industries	14,810	14,756	15,036	15,395	15,589	15,761	1.3%

Source: Bureau of Labor Statistics QCEW

When health care related jobs are excluded from the analysis, overall office-using job growth drops significantly, to an annualized rate of about 0.14%, with net job growth concentrated almost entirely in finance and insurance, and administrative services which added about a combined 170 positions over the six-year period. This difference is significant in that while medical office demand is likely to continue to grow, demand in other sectors is more sensitive to economic cycles.

The following table provides office employment location quotients in Grand Traverse County from 2009 to 2014. According to the Bureau of Labor Statistics, health care employment is the only office related employment that is more concentrated in Grand Traverse County than the national average.

Table 47: Office Employment Location Quotients (09-14)

Employment Type	Industry	2009	2010	2011	2012	2013	2014
Federal	Finance and insurance	4.31	4.04	3.46	3.56	3.51	3.59
Federal	Health Care	0	0.29	0.27	0.29	0.28	0.3
Local	Information	2.6	2.35	2.19	2.16	2.07	2.05
Private	Information	0.98	0.95	0.89	0.88	0.82	0.92
Private	Finance and insurance	0.98	0.98	0.97	0.98	0.97	0.99
Private	Real estate	0.73	0.68	0.67	0.77	0.76	0.74
Private	Professional/technical services	0.82	0.79	0.79	0.75	0.73	0.68
Private	Management of companies	0.05	0.14	0.13	0.07	0.06	0.05
Private	Administrative services	0.52	0.47	0.54	0.49	0.47	0.46
Private	Health Care	1.49	1.48	1.45	1.52	1.48	1.44

Source: Bureau of Labor Statistics QCEW

Office Inventory Analysis

The office inventory analysis was built around several key steps:

- Initial site visits / windshield surveys of existing office buildings in noted submarkets, to identify vacant space
- Analysis of county property information records (building size and year of construction) and aerial photography
- Analysis of vacant space reports provided by local commercial brokerage companies
- Office inventories in the DDA reflect updated vacancy levels, as well as a determination of retail versus office use by building address.
- Many buildings listed by the county assessor as being office buildings were noted in surveys to be industrial, flex, or business service-related, and were excluded.
- Buildings in non-office locations, particularly industrial parks, were excluded

The approach identified an overall city inventory of about 1.78 million sf of competitive office space, with a vacancy level of 9.6%. As shown in the following table, the DDA District supports 868,000 sf, with a vacancy level of 9.5%. Looking at Corridors across the City of Traverse City, additional office inventory of about 915,000 Sf was estimated, with a corresponding vacancy of 9.6%

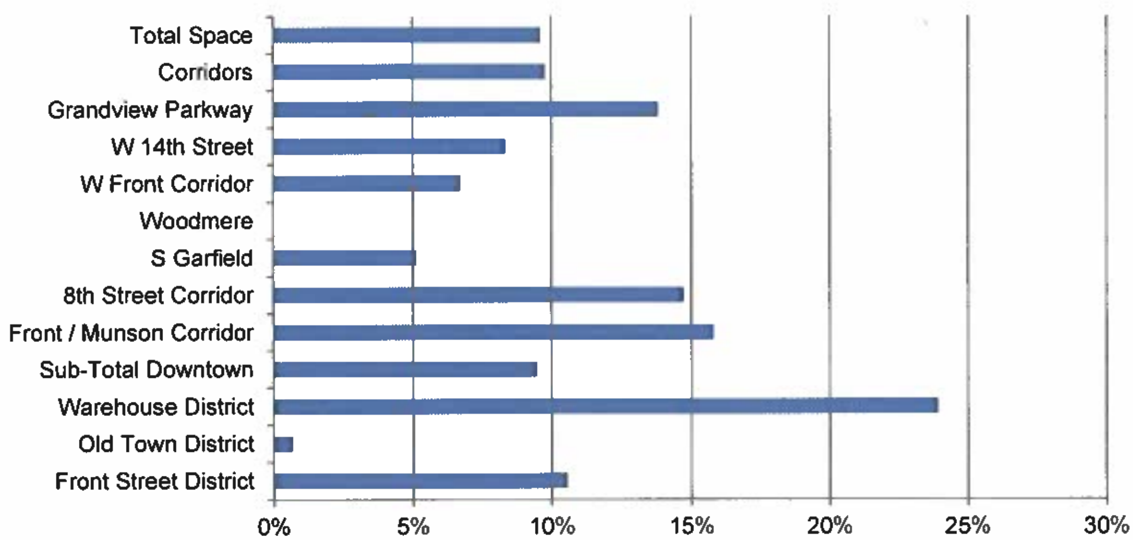
Table 48: City of Grand Traverse Office Market

Sub-Market	Medical Office	Legal Services	Financial Services	Office	Sub-Total Office
Front Street District	5,154	22,000	21,057	462,224	510,435
Old Town District	3,130	12,788	0	230,648	246,566
Warehouse District	0	0	0	111,632	111,632
Sub-Total Downtown	**8,284**	**34,788**	**21,057**	**804,504**	**868,633**
Front / Munson Corridor	34,883	0	25,512	161,743	222,138
8th Street Corridor	22,193	0	0	83,551	105,744
S Garfield	13,451	0	6,984	290,852	311,287
Woodmere	3,032	0	2,820	40,894	46,746
W Front Corridor	30,193	3,000	5,156	32,338	70,687
W 14th Street	13,242	0	1,120	53,643	68,005
Grandview Parkway	0	0	0	90,950	90,950
Total Corridors	**116,994**	**3,000**	**41,592**	**753,972**	**915,558**
Total Space	**125,278**	**37,788**	**62,649**	**1,558,476**	**1,784,191**

Source: Various Sources

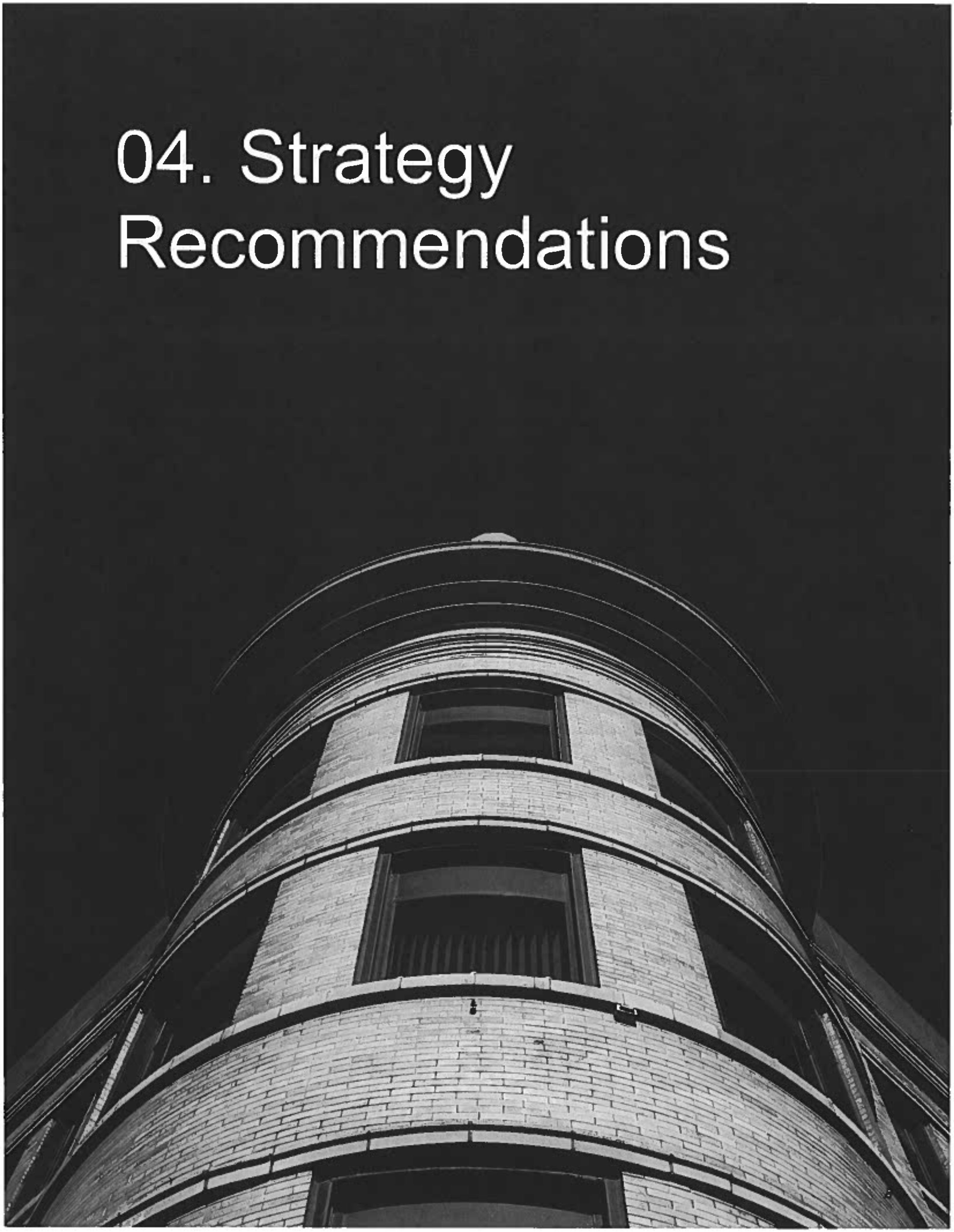
The following chart summarizes current vacancy levels by submarket.

Figure 49: Vacancy Levels by Submarket



Source: Various Sources

04. Strategy Recommendations



Core Findings

When placed in perspective with other resort gateways, downtown Traverse City is significant for several reasons:

- Downtown Traverse City supports a nationally significant inventory of retail space and office space, with low vacancy levels. The Downtown retail mix includes concentrations in restaurant, gift, and apparel segments. At the same time, the number of restaurants and cafes has increased since 2007, in part a reflection of generally higher rents, which now exceed $20 per square foot in new construction.
- New residents continue to target the Five-County Region. Given the rate of regional population growth, pressures on the City of Traverse City to accommodate a share of this growth will only increase. Interviews spoke to a broadening of the number of source markets for retirees considering the Traverse area.
- The analysis identified rapid population growth in Grand Traverse County, with emphasis on growth in retirees. While populations in the City of Traverse City have also increased since 2000, the City as adding residents at less than its share of population.
- Analysis of incomes reflects several significant splits in the market, with a core resident population with incomes that are generally lower compared to State and US averages. In addition, the market supports a significant base of tourists, which can generally be divided into three general groups:
    1. Summer tourists, mostly families, who are driving to Traverse City, and are generally budget conscious.
    2. Fall visitors, mostly couples without families, who are generally more affluent
    3. Seasonal residents, who appear to be significantly more affluent, but tend to favor suburban / rural home sites with lake frontage. As the region is not the permanent residence for these people, they do not appear in Census data.
- Growth in retirees is putting pressure on home values (up strongly since 2012) as well as labor force participation (down since 2007). Retiree demand is effectively placing the working-age population at a competitive disadvantage, linked to lower wages and less disposable income. The development market is reacting to these pressures, with greater interest in condominium residential units, rather than rental apartments.
- While Traverse City is built-out, opportunities remain for infill housing development, with incentives increasingly focused on projects that can support workforce housing.
- Analysis completed during the 2007 market study indicated that the City needs to see development of about 50 net new housing units per year to offset the impact of smaller household sizes as well as demolition of housing. Fifty to one hundred new units per year for the City would represent modest small share of overall five-county housing demand.
- The 2014 Target Market Analysis identified market potential for 2,260 owner-occupied units and 12,310 renter occupied units over the next five years (in total more than 1,500 housing units per year). While indicated as an aggressive scenario, the Target Market analysis highlights the impact of insufficient workforce housing in the region, with generally more affluent retirees exerting a stronger influence over the local housing market.

Strategy Priorities

Downtown and Corridor Infill development vision & strategy and prioritization

Our national experience highlights the practical challenges of encouraging infill redevelopment along older corridors. Challenges are driven by the increasing difficulty of getting financing for projects, perceptions of increased risk, as well as delays created by extended entitlement and development review policies, the latter of which are a key reason why infill projects are seen as more "risky". Reflective of the real challenges of effecting change in these areas, a number of successful policy responses have emerged, elements which are all of consequence for Traverse City moving forward:

- Build upfront consensus for density, mix of uses and parking
- Identify advocate organizations to drive corridor revitalization, serving as an intermediary between the public and private sectors.
- Identify and prioritize important sites
- Streamline the entitlement process and, in some cases, secure preliminary entitlements for targeted redevelopment sites
- Encourage density and mixed use at key nodes
- Improve the appeal of infill sites with targeted infrastructure and access improvements
- Market infill sites aggressively

The underlying theme in these points is the potential need for a more aggressive public sector role in redevelopment, with the end goal of reducing the front-end time required to effect infill site redevelopment. Many cities view efforts to at minimum clarify or streamline predevelopment planning and entitlement processes as a specific development incentive such that a developer will know exactly how long the pre-development process will take. These strategies are important in that they reduce the developer's risk (linked to carrying costs and interest expenses).

Workforce housing

The Strategy identifies workforce housing as a key concern, linked with the reality that local workforce participation rates have not recovered to pre-recession levels, as more retirees move into the market. Other resort communities have focused on workforce housing as a specific policy priority, primarily to ensure that employees in generally lower wage but critical sectors (hospitality, retail and restaurant) have a reasonably priced housing option. As one example, in the Town of Vail, Colorado, local leaders restarted the local housing authority to ensure there is deed restricted housing for at least 30% of Vail's workforce in Vail. Need for the strategy was driven by underling real estate trends that are entirely consistent with Traverse City:

- The underling cost of real estate as well as growth in real estate values at levels above regional and national levels
- Conversion of existing housing to second homes, with overt private sector focus second-home owner interests.
- Increasing cost of construction and a growing gap between local wages and private market housing prices.

Downtown Parking

Downtown Traverse City supports just under 5,000 public and private parking spaces against an inventory of about 1.4 million square feet of commercial space and about 250 residential units. The resulting ratio of spaces (about 280 square feet per space) is below typical standards applied to new retail and commercial construction (4 to 6 spaces per 1,000 square feet). Conversations regarding downtown parking reflect several key points:

- Structured parking is expensive to build and maintain
- Over time, development of surface lots within the DDA district will create inevitable pressures for new parking capacity
- Parking spaces are increasingly valuable real estate, and need to be priced accordingly; for this reason, the City and DDA should consider peak season premium parking rates in key downtown areas.
- Any downtown parking strategy needs to consider achieving optimal parking occupancy so that a small number of very convenient spaces are consistently available.
- Conversations about parking needs to unfold in context with strategies related to transit connectivity for workers and visitors, and growth of housing options in the City that allow a greater share of residents and visitors to "park once".

Additional Elements

- City incentives need to increasingly focus on the provision of workforce housing and related strategies linked to parking and transit for workers.
- Outcomes from the 2007 and 2015 market studies included the provision of more detailed real estate inventory data, such that organizations such as the DDA can more effectively sell and market the downtown area to an increasingly global market. Moving forward, the DDA will need to consider support to maintain inventory data for retail and office markets for downtown and the Corridors. The region also needs to pay close attention to the workforce participation rate moving forward.
- While it is clear that Traverse City has seen its seasonal markets diversify, additional resources should be considered to broaden shoulder season markets, such that the Region can expand four-season opportunities. Current hotel motel tax rates should be benchmarked against peer destinations nationally, possibly including places such as Estes Park, CO and Key West, FL., to discern competitive positioning and opportunities for additional revenue. While current hotel-motel tax proceeds largely fund marketing efforts, given the importance of downtown as a tourism anchor, consideration should be given to use of some hotel-motel tax proceeds for tourism infrastructure.
- Reflecting growing real estate values as well as generally older infrastructure, the DDA and City should revisit and update current infrastructure (Capital) Improvement Plans for the DDA district on an annual basis. Emerging opportunities related to parking, provision of gigabit internet, and district energy (renewables and geothermal) need to be kept in focus as markets evolve.
- For the DDA, growth in commercial rent levels across downtown creates gradual pressure to ensure that downtown programming and events help drive store sales, rather than just visitation. The DDA should consider visiting programming and event schedules on a recurring basis to ensure that these events are driving downtown in the optimal direction.

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