

Ann Arbor Downtown Market Scan

August 2014

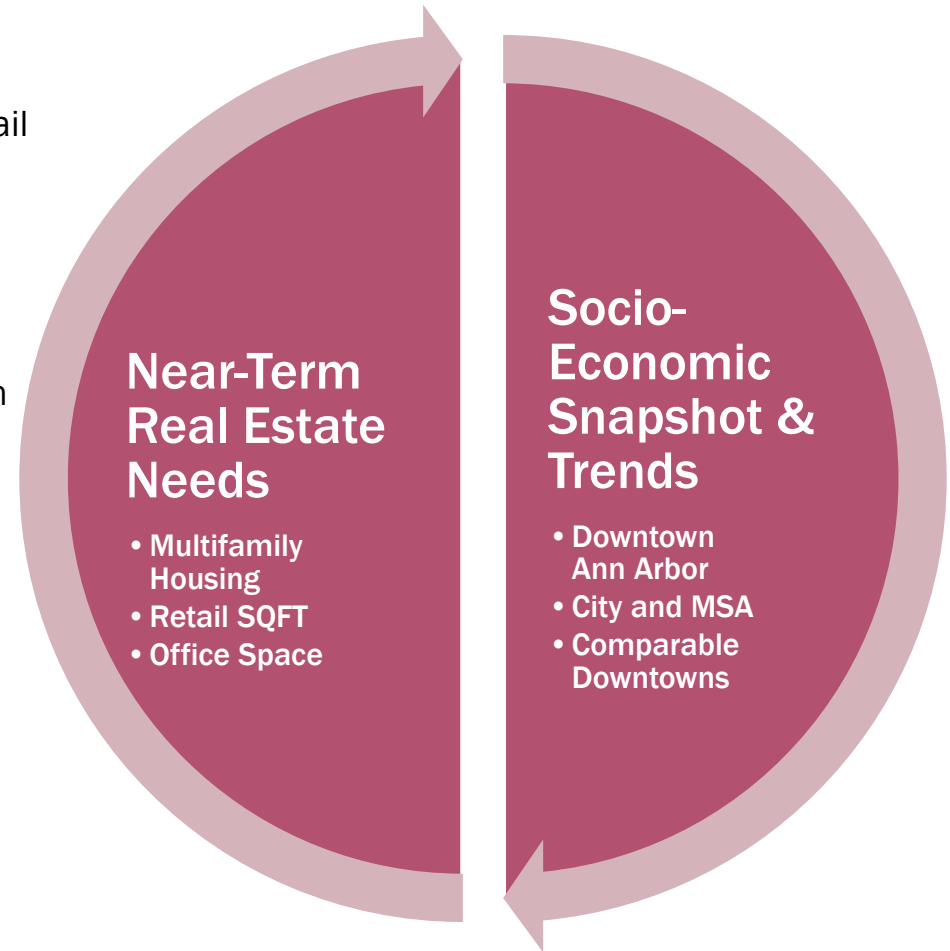
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Purpose & Overview

The following 2014 Ann Arbor Downtown Market Scan provides the following:

- A current snapshot of **socio-economic trends**
- **Near-term real estate needs** (multifamily housing, retail stores, and office space) over the next five years
- **Benchmarks** that can be **updated periodically** and tracked over time
- **Relative performance** metrics that enable comparison of Downtown Ann Arbor with the City of Ann Arbor, the Ann Arbor Metropolitan Statistical Area (MSA), and other downtowns located in mid-size cities (between 80,000 and 200,000 residents) with a major university or college presence
- A dashboard for presenting available public and proprietary data in a graphic-friendly manner, permitting ease of **interpretation** and **distribution**

More detail on the methodology and boundaries used in this market scan are presented on the following pages.



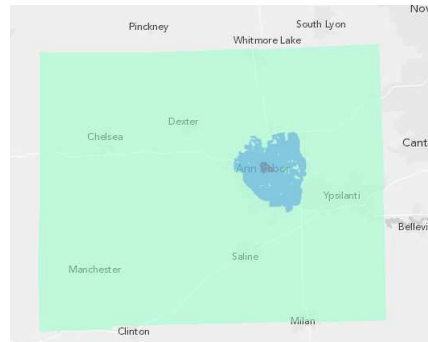
Geographies

4ward Planning examined historical and forecasted socio-economic and real estate trends (for 2010, 2014, and 2019) to comparatively analyze Ann Arbor (DDA) District (hereafter “Downtown Ann Arbor”), the City of Ann Arbor, and the Ann Arbor Metropolitan Statistical Area (MSA) (contiguous with Washtenaw County).

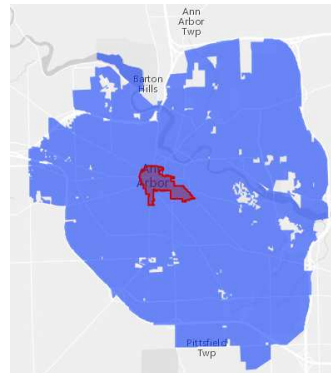
For some metrics, Downtown Ann Arbor was compared to comparable downtown areas including Downtowns Berkeley, CA; Boulder, CO; and Chapel Hill, NC, in order to identify Downtown Ann Arbor’s relative performance.

LOCAL MARKET AREAS

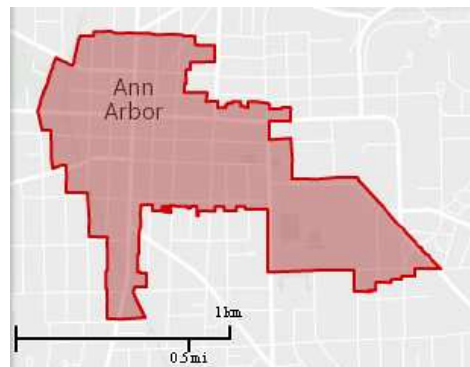
Ann Arbor MSA



City of Ann Arbor



Downtown Ann Arbor

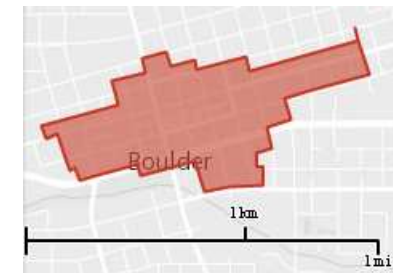


COMPARABLE DOWNTOWNS

Downtown Berkeley, CA



Downtown Boulder, CO



Downtown Chapel Hill, NC



Methodology

Population and Households

Population and household trends are derived from data provided by Esri's Community Analyst (provides current year estimates and projections based on Census data). Current and near-term (next five years) population and household growth for Downtown Ann Arbor is derived from census and new construction occupancy rates provided by the Ann Arbor Downtown Development Authority (DDA).

Retail & Restaurant

Retail real estate inventory and trends are derived from data provided by Esri's Community Analyst, Colliers International, and Loopnet. New near-term retail and restaurant store demand was based on population data provided by the U.S. Census and Ann Arbor DDA, employment growth provided by the U.S Census, retail sales per household provided by Esri, retail sales per square foot assumptions derived from BizStats, and retail capture based on known industry standards.

Multifamily

Multifamily real estate inventory and trends are derived from City of Ann Arbor building permit data, Esri's Community Analyst, Loopnet, the Department of Housing and Urban Development (HUD), Colliers International, and Padmapper.com. Near-term housing needs (next five years) were estimated based on existing multifamily real estate inventory and demand drivers informed by Colliers International, a local real estate broker.

Employment & Office

Employment trend and earnings data is collected via the U.S. Census's OnTheMap application. Office real estate inventory and trends are derived from data provided by Swisher Commercial, Esri's Community Analyst software, Loopnet, and Colliers International. New near-term office space demand was based on projected employment growth provided by the U.S Census, average office workers per industry provided by the National Association of Realtors (NCRER) (e.g. 89 percent of professional, science and tech jobs are office-based), and an assumption of 175 square feet of office space per office worker.

Construction Costs

Construction costs (building costs and per square foot) are based on 2014 square-foot estimates by building type provided by RSMeans Online for the City of Ann Arbor. Estimates assume open-shop labor, and default wall/framing types, and contractor and architectural fees. 2014 City Cost Indexes data is also provided by RSMeans for the City of Ann Arbor, the City of Berkeley, the City of Boulder, and the City of Raleigh (located outside of Chapel Hill). City Cost Index data for Chapel Hill is not provided by RSMeans.

Key Findings: POPULATION & HOUSEHOLDS

Strong population growth

According to building permit data provided by the City of Ann Arbor and occupancy reports provided by residential property managers, since 2010, an estimated 620 new housing units have been built and 1,440 new residents have been added to Downtown Ann Arbor. From 2010 to 2014, Downtown Ann Arbor grew by approximately 40 percent despite weak population growth experienced within the City of Ann Arbor and the MSA (2.1 percent and 3.4 percent, respectively). Downtown Ann Arbor also grew at a rate much faster than other downtowns located in mid-size cities with a major university or college presence like Berkeley, Boulder, and Chapel Hill – where the downtown population grew between 6 and 15 percent, over the same four-year period.

Growth in non-family households and age cohorts influence housing demand

Consistent with national and regional trends, non-family households (a group of unrelated persons or a single person living alone) in Downtown Ann Arbor are growing at a faster rate than family households (includes married couples and other families, with or without children). This trend is even more pronounced within the City of Ann Arbor and MSA. The age groups forecasted to undergo the greatest growth in the study areas over the coming years include Young and Older Empty Nesters (55 to 74), Retirees (75+), and Younger Workforce and Grads (25 to 34), all of which influence short-term housing demand, particularly for smaller units.

A diversifying housing market

In 2014, with 69 percent of Downtown households earning less than \$35k per year, the median household income for those living in Downtown Ann Arbor (\$20,177 per year) was significantly less than that for the City (\$48,528) and MSA (\$56,150). The low median household income in Downtown Ann Arbor (and Downtown Berkeley and Chapel Hill) is likely due to the large student population living in the area with incomes supplemented by parents or student loans. Esri expects that households earning between \$100k to \$149k per year will grow the fastest in Downtown Ann Arbor (by approximately two percent), as more market-rate housing targeted to higher-income markets (e.g. younger workforce graduates, empty nesters, and retirees) is developed.

POPULATION

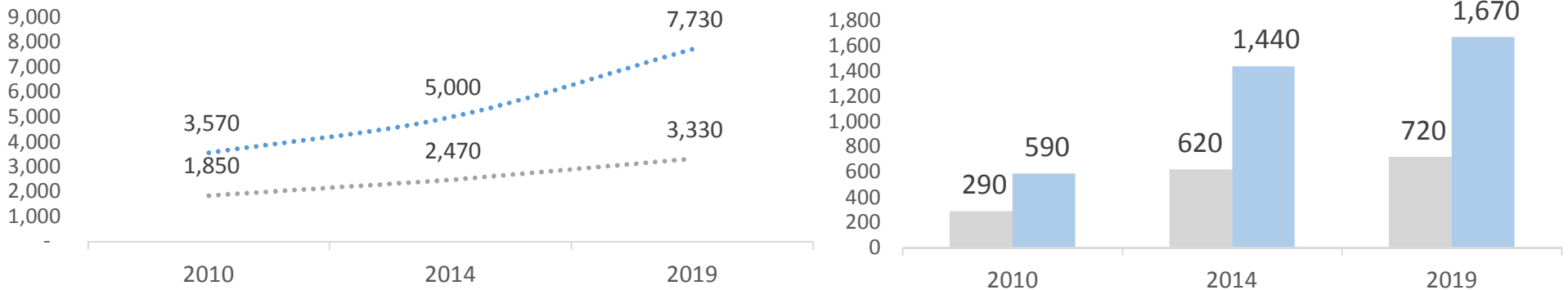
Growth

	<u>Density (2014)</u>		<u>Change (2010-2014)</u>	
	<i>Square Miles</i>	<i>Pop. Per Sq. Mi.</i>	<i>Population Change</i>	<i>Percent Change</i>
Ann Arbor MSA	723	487	7,330	2.1%
Ann Arbor City	28.70	4,103	3,820	3.4%
Downtown Ann Arbor	0.42	11,905	1,440	40.3%
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Downtown Berkeley	0.25	20,652	324	6.7%
Downtown Boulder	0.20	2,865	36	6.7%
Downtown Chapel Hill	0.23	10,483	319	15.2%

From 2010 to 2014, Downtown Ann Arbor grew by an estimated **620 households** and **1,440 residents**.

- Households
- Population
- New Households
- New Population

Downtown Ann Arbor Growth Trends and Projections (2010-2019)

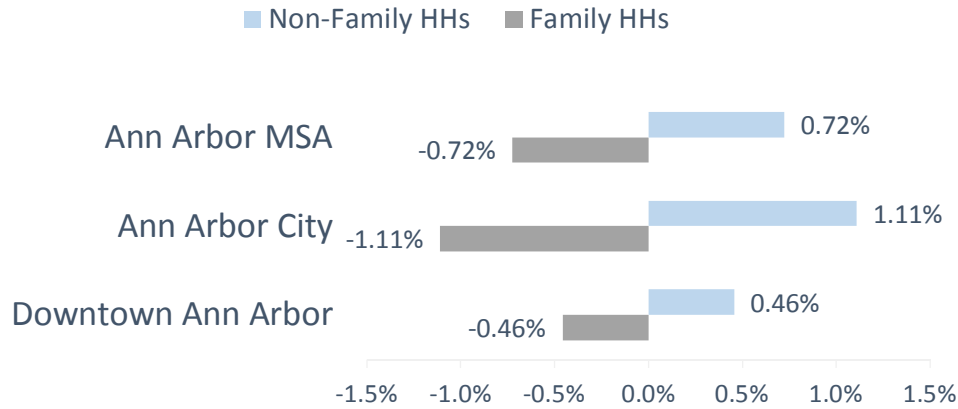


Source: Esri, Ann Arbor DDA

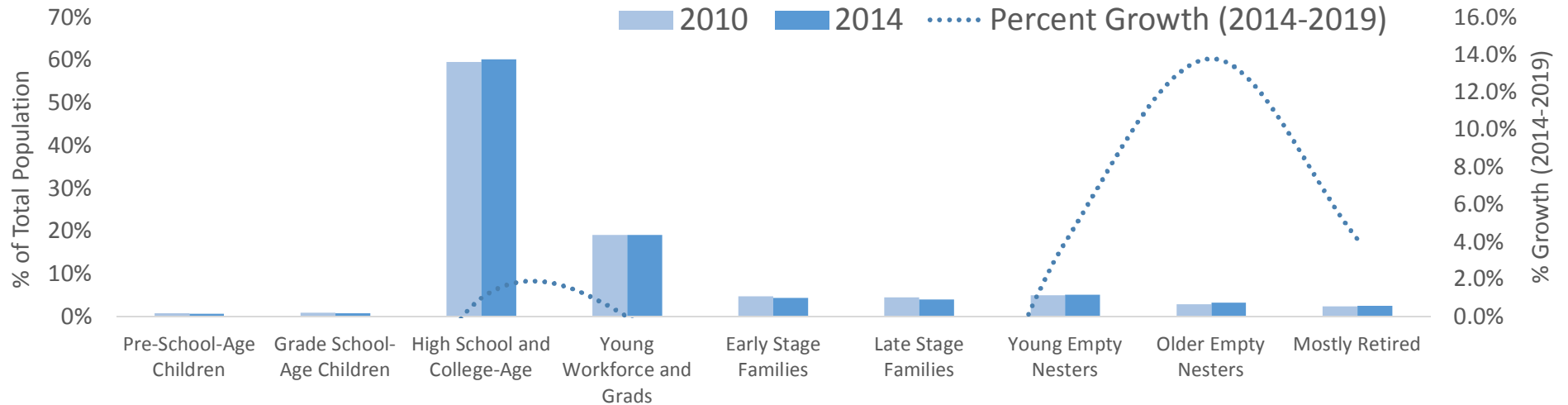
POPULATION

Age & Household Size

Household Change by Type (2010-2014)



Estimated Downtown Ann Arbor Household Growth by Age Cohort (2014-2019)



	<i>Median Age (2014)</i>	<i>HH Size (2014)</i>
Ann Arbor MSA	33.8	2.4
Ann Arbor City	28.3	2.2
Downtown Ann Arbor	23.8	1.8
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Downtown Berkeley	24.4	1.9
Downtown Boulder	30.0	1.5
Downtown Chapel Hill	22.1	3.7

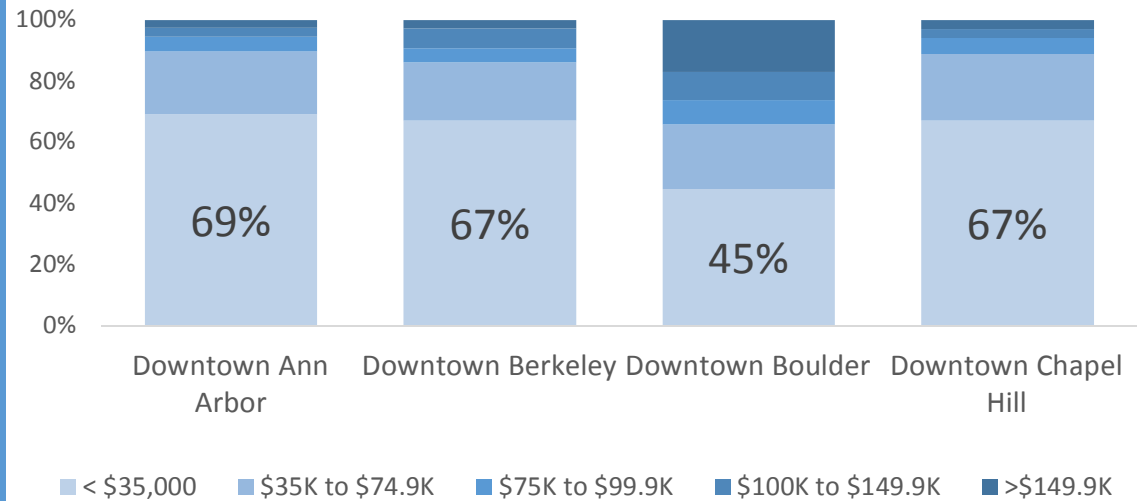
Source: Esri

POPULATION

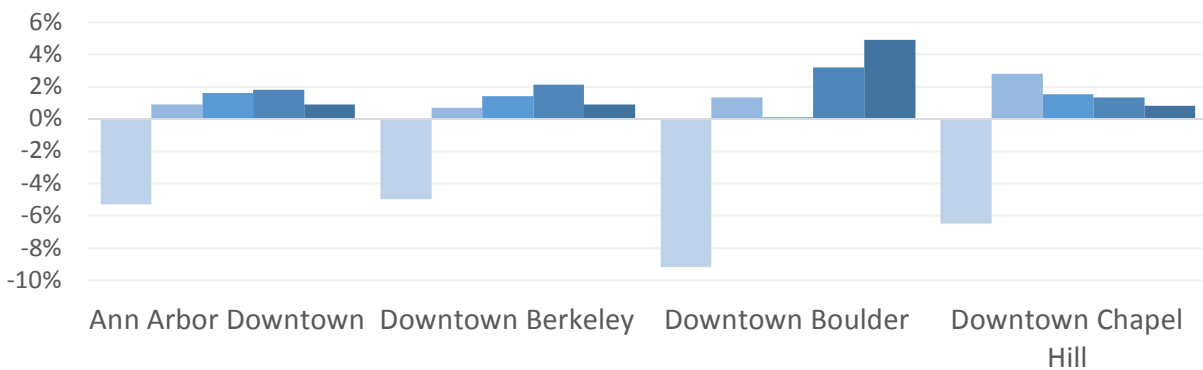
Household Income

	<i>Median HH Income (2014)</i>	<i>Est. % Change (2014-2019)</i>
Ann Arbor MSA	\$56,150	17%
Ann Arbor City	\$48,528	16%
Downtown Ann Arbor	\$20,177	10%
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Downtown Berkeley	\$25,306	5%
Downtown Boulder	\$41,248	37%
Downtown Chapel Hill	\$21,643	16%

Households by Income Category (2013)



Household Change by Income Category (2014-2019)



In 2014, **69 percent** of Downtown Ann Arbor households earned less than \$35k per year.

Over the next five years, households earning between **\$100k - \$150k** per year are expected to grow the fastest in Downtown Ann Arbor.

Source: Esri

Key Findings: MULTIFAMILY

Strong rental and up-and-coming condo market

According to data provided by Esri, approximately 84 percent of occupied units within Downtown Ann Arbor are renter-occupied, a share higher than Downtown Boulder (63 percent), but lower than Downtown Berkeley (97 percent). According to fourth-quarter 2014 condo data provided by Bouma Group and rental data provided by Padmapper, there were 44 multifamily units available to rent and nine condos for sale (active and pending) within Downtown Ann Arbor as of July 2014 (not including Tower Plaza student residences). According to local brokers, there is very low inventory of rental properties in the Ann Arbor MSA, especially in Downtown, where condos and apartments are leasing in less than a week.

\$1,500 for a one-bedroom

The growing desirability of living in Downtown Ann Arbor has elevated apartment rents and condo prices, as inventory has not caught up with demand. According to rental data provided by Padmapper, the average asking rent for a one-bedroom apartment in Downtown Ann Arbor was approximately \$1,500. A one-person, low-income household earning between 50 percent and 80 percent of Ann Arbor MSA's 2014 Area Median Income (AMI) would need to spend no more than \$765 and \$1,119 per month in order to not be considered cost-burdened by HUD – a rent lower than the average rent for a one-bedroom apartment in Downtown Ann Arbor. Lower-income households not receiving subsidies (e.g. parental income or section 8 vouchers) are likely priced out of the current Downtown housing market.

Demand for approximately 1,800 new apartment units by 2019

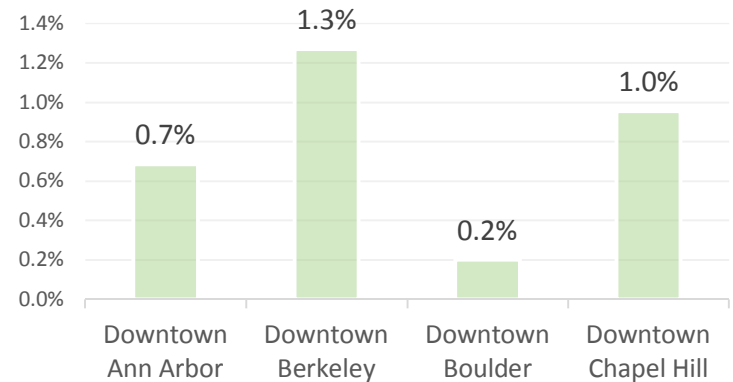
In addition to the 716 units currently in the pipeline, there will be demand for approximately 1,800 new housing units in Downtown Ann Arbor by 2019, largely due to pent-up demand from workers living outside the area, and the growing number of empty nesters downsizing and desiring housing in Downtown Ann Arbor - a trend expected to continue over the next five years. Based on input from Colliers International, approximately 70 percent of new near-term multifamily housing demand will be for rental units and 40 percent for two-bedroom units. Approximately 30 percent of this demand will be from households earning less than \$40k per year, able to pay no more than \$1,000 per month on housing in order to not be considered cost-burdened by HUD.

MULTIFAMILY

Development

<i>Downtown Development (2010-2014)</i>	Built	Under Constr.	Approved Not Built	Total	Percent
Apartments	620	364	76	1,060	93%
Condos	-	24	22	46	4%
Apt/Condo Mix	-	32	-	32	3%
Total	620	420	98	1,138	100%
<i>(Affordable Units)</i>	<i>16</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>

Percent Downtown Workers that Live Downtown (2011)



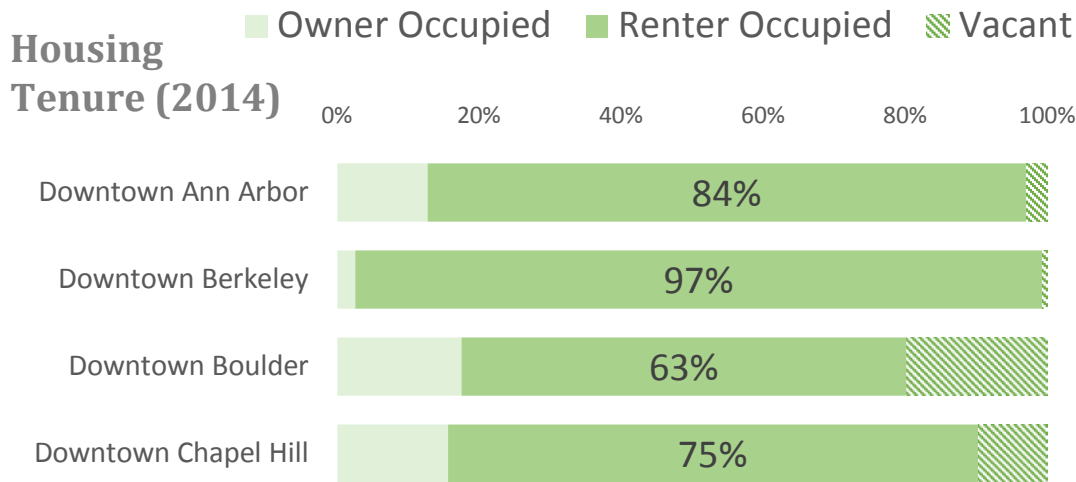
Downtown Ann Arbor Residential Development



Source: Building Permit data, DDA, 2014

MULTIFAMILY

Tenure & Rents



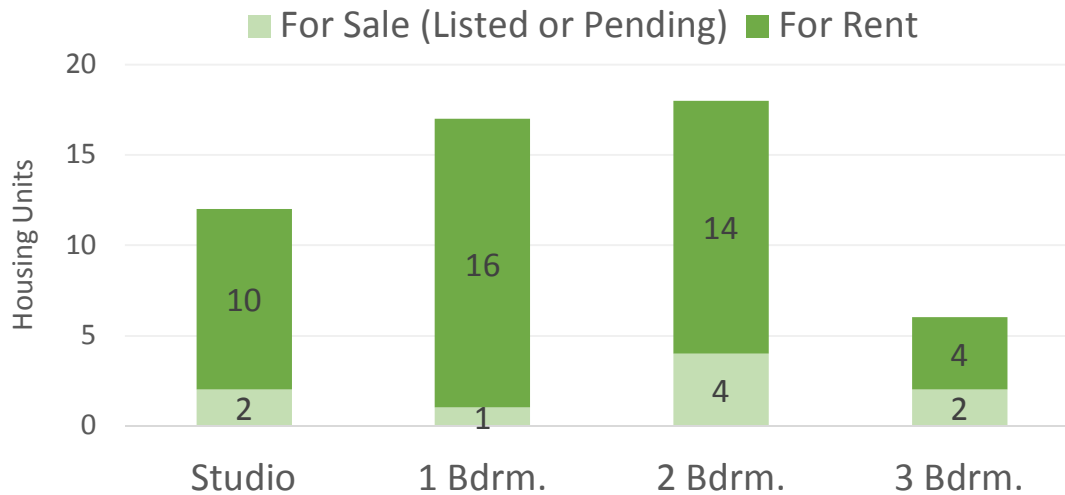
Downtown Apt. Rents -1 Bdr. (2014)

Downtown Ann Arbor	\$1,516
Downtown Berkeley	\$2,185
Downtown Boulder	\$1,920
Downtown Chapel Hill	\$700

Ann Arbor MSA Affordable Rents (30% of household income)

	50% of AMI	80% of AMI
1-Person HH	\$765	\$1,119
2-Person HH	\$875	\$1,279
3-Person HH	\$984	\$1,439
4-Person HH	\$1,093	\$1,598

Downtown Ann Arbor: MF Housing Snapshot (June, 2014)



Downtown Condo Prices (2014)

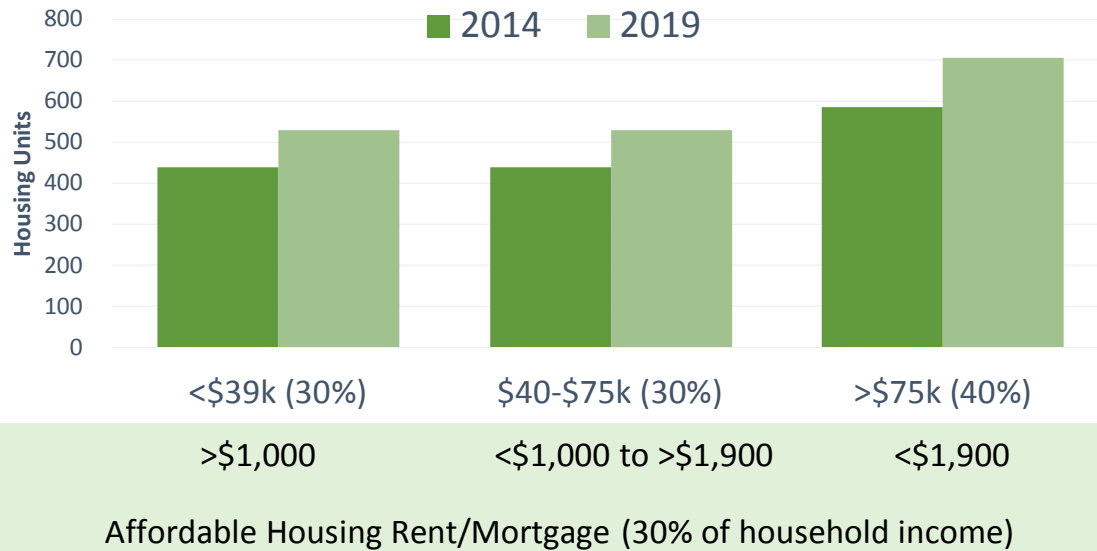
State Street District	\$400+ per Sqft
Main Street District	\$475 per Sqft
Avg. Downtown	\$346 per Sqft

Sources: Esri, HUD, Colliers, Bouma Group, Paddmapper.com

MULTIFAMILY

Supply & Demand

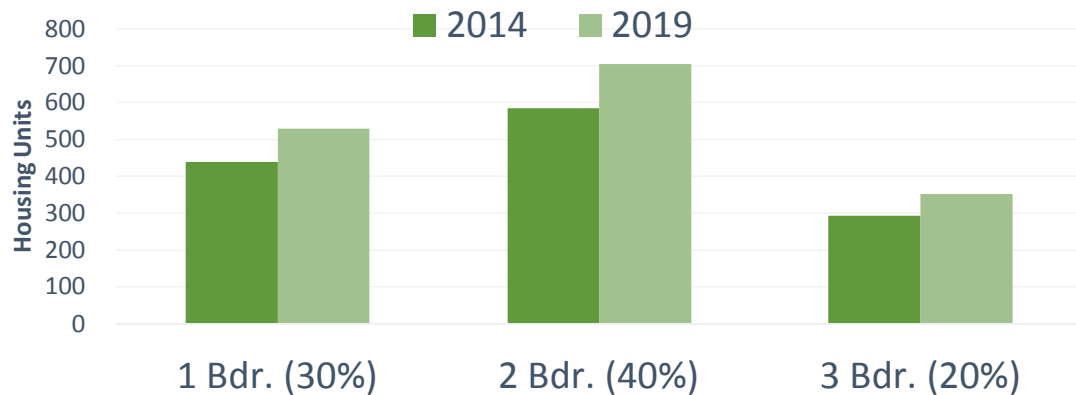
Net Apartment Demand by Household Income Category



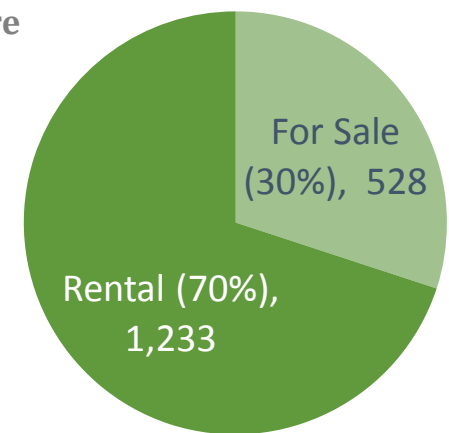
*Downtown Ann Arbor
Apartment Demand by 2019*

Pent-Up Worker Demand	1,500
Household Demand	3,300
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Total Housing Unit Demand	4,800
Naturally Occuring Vacant Units	200
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Net Marketable Housing Units	3,200
Net Housing Unit Demand	1,800

Net Apartment Demand by Bedroom Type



2019 Net Apartment Demand by Tenure



Sources: Colliers International, 4ward Planning Inc.

Key Findings: RETAIL & RESTAURANT

\$25 to \$45 per square foot

According to June 2014 data provided by Colliers International, average asking rents for retail and restaurant space in Downtown Ann Arbor vary widely depending on location, from \$25 per square foot within the Kerrytown District to \$40 to \$45 per square foot in the State Street District. Based on retail data provided by Loopnet and the Downtown Boulder Business Improvement District, average asking rents for retail space within other comparable downtown areas ranged from \$26 to \$36 per square foot within Downtown Berkeley, \$17 to \$50 per square foot within Downtown Boulder, and \$25 to \$28 per square foot within Downtown Chapel Hill.

Increasing retail demand from new Downtown households

In 2013, the average Downtown Ann Arbor household spent less than half (46 percent) of the national average on retail goods and restaurants, much lower than the average Ann Arbor household (99 percent) and other comparable downtowns (up to 124 times the national average in Downtown Chapel Hill, NC). Given the lower-than-average retail spending from existing Downtown Ann Arbor residents, existing retail stores and restaurants in Downtown Ann Arbor are likely capturing retail sales from households residing in the larger City or metro area. As a greater supply and variety of housing is developed in Downtown Ann Arbor, and more middle- and upper-income households move into the area, the average household spending on retail goods and restaurants from Downtown residents will likely increase and support additional retail establishments - especially limited- and full-service restaurants.

Potential to capture retail demand from larger trade areas

According to 2013 data provided by Esri, Downtown Ann Arbor's retail trade and food and beverage establishments drew nearly \$205 million in sales from shoppers residing outside the immediate Downtown trade area - a trend also experienced in other comparable downtowns (a retail sales surplus of \$48 million in Downtown Berkeley to \$143 million in Downtown Boulder). Although the existing supply of retail stores in Downtown Ann Arbor meets local retail demand from current Downtown residents, there is a leakage of retail demand not met within the larger City and MSA that could potentially be captured by existing or new Downtown businesses.

RETAIL & RESTAURANT

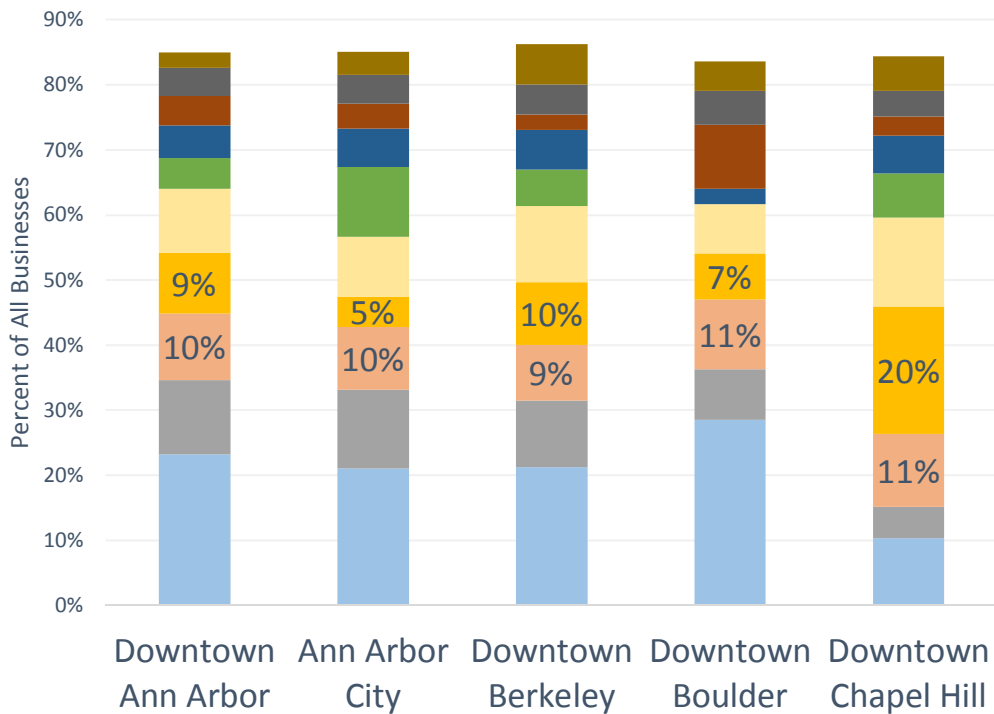
Business Mix and Rents

In 2014, **21 percent** of all businesses in Downtown Ann Arbor consisted of retail trade and food and drinking establishments.

Downtown Retail Asking Rents (2014)

Main Street District	\$28 per Sqft
State Street District	\$40-\$45 per Sqft
Kerrytown District	\$25 per Sqft
S. University District	\$35-\$40 per Sqft

Top 10 Business Categories (2013)



Downtown Ann Arbor	\$25 - \$45 per Sqft
Downtown Berkeley	\$26 - \$36 per Sqft
Downtown Boulder	\$17 - \$50 per Sqft
Downtown Chapel Hill	\$25 - \$28 per Sqft

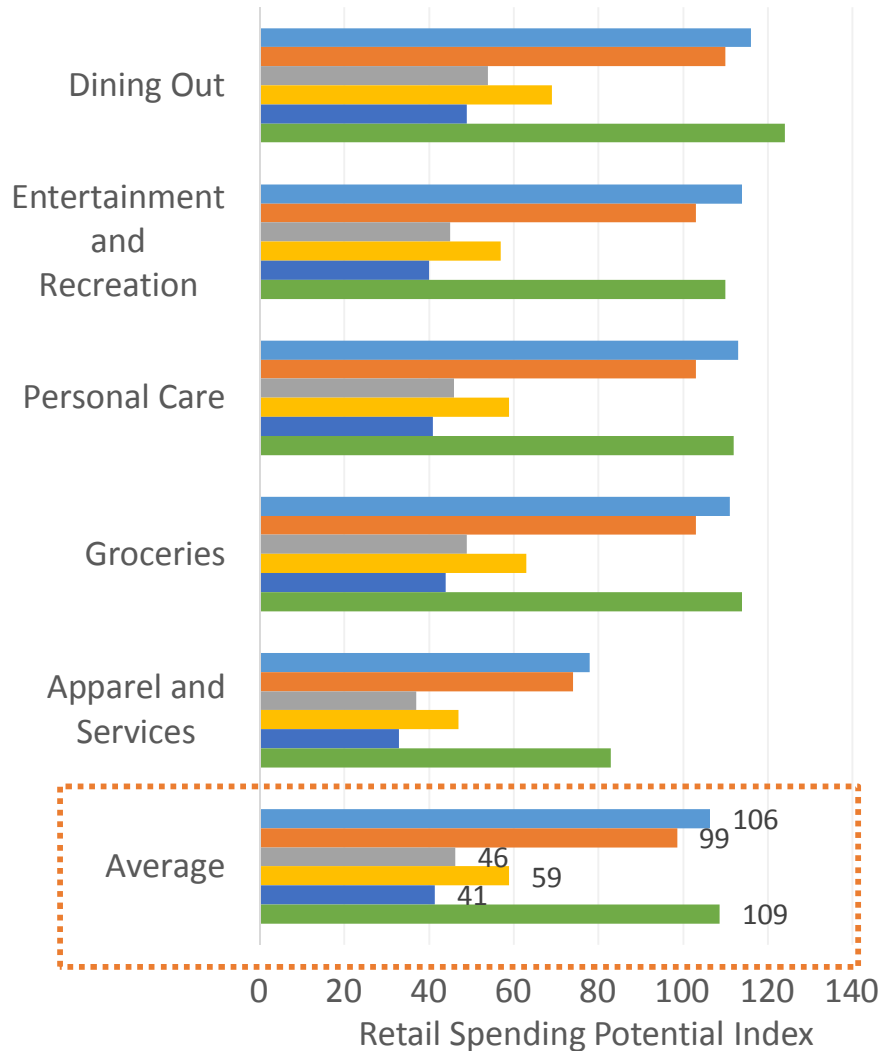
- Information
- Real Estate, Rental & Leasing
- Finance & Insurance
- Educational Services
- Admin. & Support Services
- Other Services (except Public Administration)
- Food Services & Drinking Places
- Retail Trade
- Health Care & Social Assistance
- Professional, Scientific & Tech Services

Sources: Esri, Loopnet, Colliers International, Downtown Boulder BID

RETAIL & RESTAURANT

Retail Spending & Potential

Retail Spending Potential Index (2013)



<i>Retail Surplus (2013, \$ Millions)</i>	<i>Retail Potential</i>	<i>Retail Sales</i>	<i>(+) Surplus/ (-) Leakage</i>
Ann Arbor MSA	\$4,150	\$2,958	-\$1,192
Ann Arbor City	\$1,357	\$1,322	-\$35
Downtown Ann Arbor	\$31	\$236	\$205
Downtown Berkeley	\$51	\$99	\$48
Downtown Boulder	\$9	\$152	\$143
Downtown Chapel Hill	\$6	\$65	\$59

In 2013, Downtown retail trade and food and beverage stores drew nearly **\$205 million** in sales from shoppers residing outside Downtown Ann Arbor. New Downtown households and employees have the potential to support additional retail stores.

- Ann Arbor MSA
- Ann Arbor City
- Downtown Ann Arbor
- Downtown Berkeley
- Downtown Chapel Hill
- Downtown Boulder

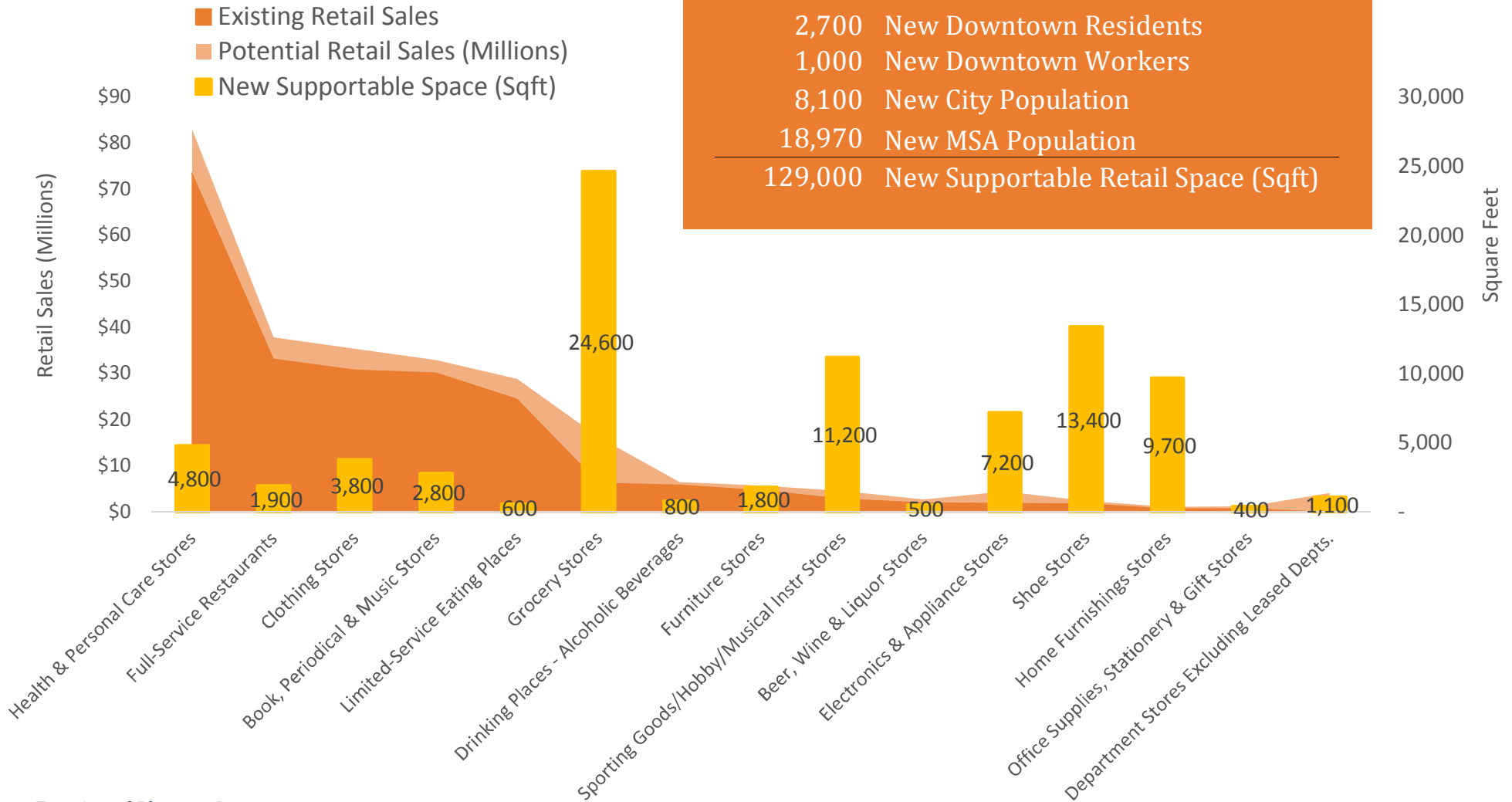
Source: Esri

Note: The Retail Spending Potential Index represents the amount a household spends relative to a national average of 100.

RETAIL & RESTAURANT

Supply & Demand

Downtown Retail Supply/Demand (2014-2019)



Source: Esri, 4ward Planning Inc.

Key Findings: EMPLOYMENT & OFFICE

Growth in Downtown employment and earnings

Based on Census data provided by OnTheMap, 19,320 new primary jobs were added to Downtown Ann Arbor between 2002 and 2011. Over the same decade, the share of Downtown workers earning more than \$40K per year increased by 63 percent, while the share earning less than \$15K declined by 29 percent– indicating an overall increase in earnings among Downtown workers.

\$18 to \$26 per square foot

According to data provided by Colliers International, average asking rents for office space in Downtown Ann Arbor ranged from \$18 to \$26 per square foot per year, with average asking rents lowest for Class B space (\$18 to \$22) and higher for Class A (\$23 to \$25) and loft space (\$24 to \$26). Compared to Class B office space, Class A office space has higher quality finishes and systems.

Declining office vacancies in Downtown

According to 2013 data provided by Ann Arbor real estate firm Swisher Commercial, there are approximately 1.7 million gross square feet of leasable office space within Downtown Ann Arbor – with 116,852 square feet of this office space currently vacant. The office vacancy rate within Downtown Ann Arbor (6.8 percent) is much lower than the City overall (10.5 percent), and has been consistently declining since 2009 - suggesting a growing demand for office space located downtown.

90,000 to 100,000 square feet of office space

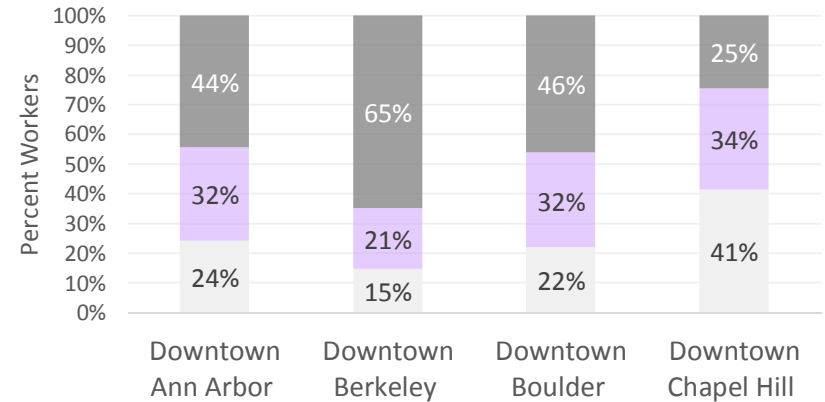
Based on estimated job projections for the top ten industries, there will be demand for between 90,000 to 100,000 square feet of office space within the City of Ann Arbor by 2019. Fifty percent of this office demand is derived from new professional, scientific, and tech service (includes computer, biotech, and R&D) office workers. Some of this demand could be met by the existing supply of vacant office space located downtown, especially for newer Class A and loft space. Older Class B office space may require building upgrades in order to attract new office tenants in projected growth industries (e.g. professional, scientific, and tech service).

EMPLOYMENT

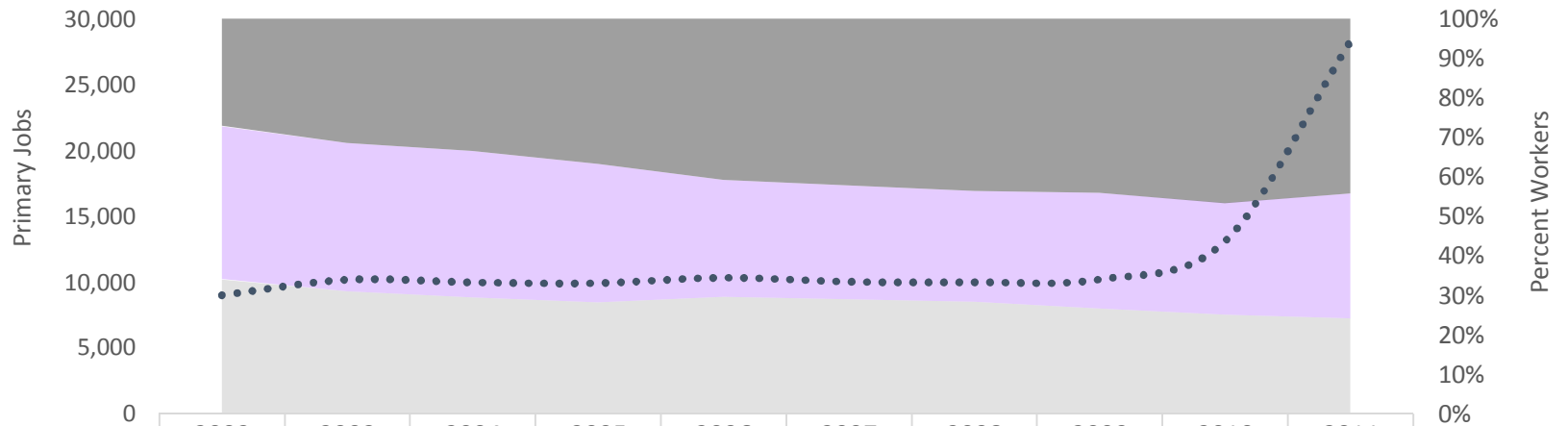
Primary Jobs and Earnings

<i>Employment (2011)</i>	<i>Primary Jobs</i>	<i>Jobs per Sq. Mi.</i>	<i>Job Change (2002-2011)</i>
Downtown Ann Arbor	28,311	67,407	19,320
Downtown Berkeley	10,644	42,576	(743)
Downtown Boulder	9,565	47,825	(13)
Downtown Chapel Hill	1,993	8,665	(16,268)

Earnings Comparison (2011)



Downtown Ann Arbor Workers By Earnings



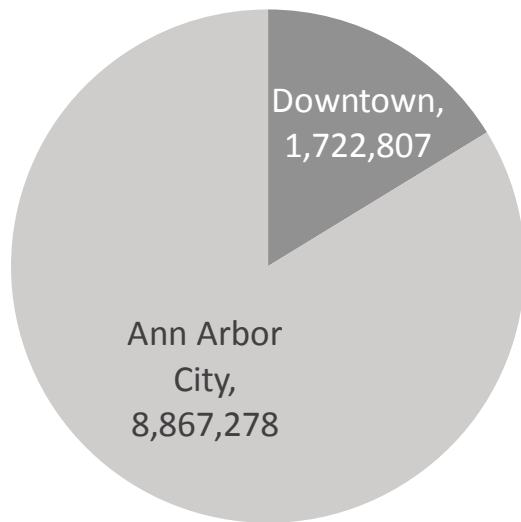
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
More than \$40k	27%	32%	34%	37%	41%	42%	44%	44%	47%	44%
Between \$15k - \$40k	39%	38%	37%	35%	30%	29%	28%	29%	28%	32%
Less than \$15k	34%	31%	29%	28%	29%	29%	28%	27%	25%	24%
Primary Jobs	8,991	10,166	9,960	9,899	10,316	10,007	9,969	10,188	13,102	28,311

Source: U.S.Census Bureau, OnTheMap

OFFICE

Rents

Ann Arbor Leasable Office Space (Sqft, 2013)



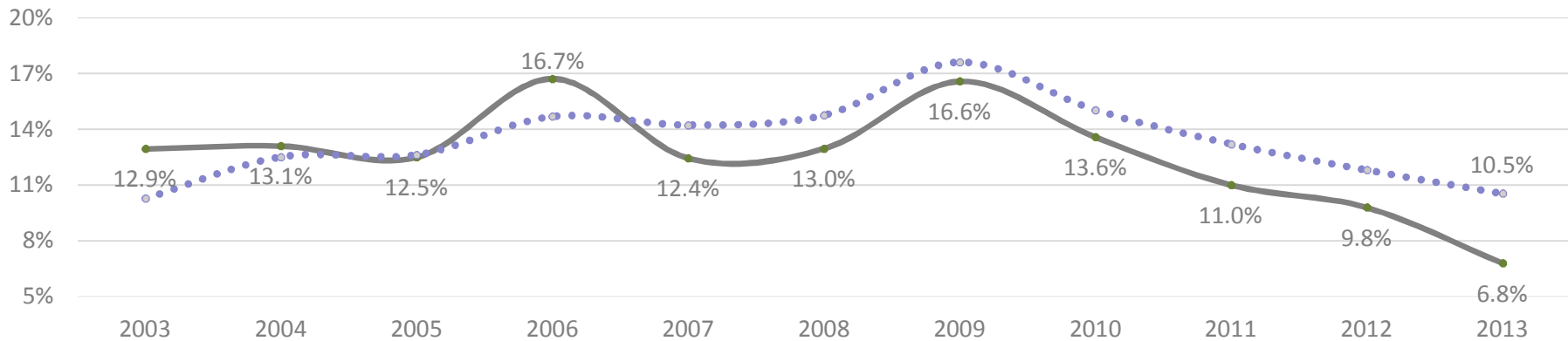
Office Asking Rents (May 2014)

Downtown Lofts	\$24-\$26	per Sqft
Downtown Class A	\$23-\$25	per Sqft
Downtown Class B	\$18-\$22	per Sqft

Downtown Ann Arbor	\$18 - \$26	per Sqft
Downtown Berkeley	\$26 - \$33	per Sqft
Downtown Boulder	\$19 - \$32	per Sqft
Downtown Chapel Hill	\$15 - \$25	per Sqft

Office Vacancy Trends

—●— Downtown Ann Arbor ●●● Ann Arbor City



Sources: Swisher Commercial, Loopnet

OFFICE

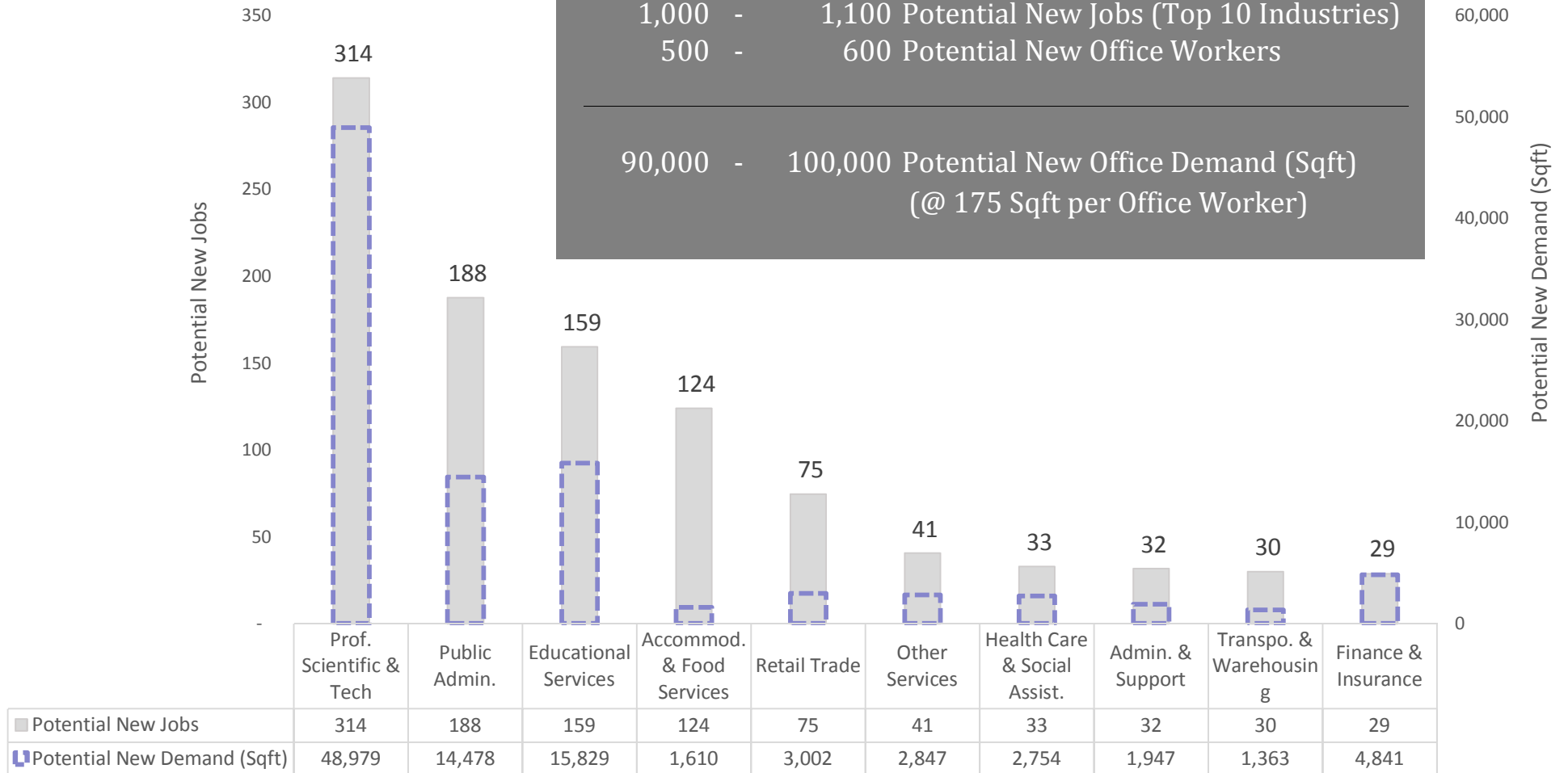
Supply & Demand

Projected Employment Growth & Office Space Demand: Top 10 Industries (2014 - 2019)

2019 Office Demand Factors

1,000 - 1,100 Potential New Jobs (Top 10 Industries)
 500 - 600 Potential New Office Workers

90,000 - 100,000 Potential New Office Demand (Sqft)
 (@ 175 Sqft per Office Worker)



Source: NCRER, U.S Census Bureau, 4ward Planning Inc., 2013

Key Findings: CONSTRUCTION COSTS

Multifamily construction costs range from \$147 to \$200 per square foot

Based on 2014 data provided by RSMeans, a typical three-story apartment constructed with brick veneer and wood framing costs approximately \$147 per square foot to build in the City of Ann Arbor (\$3.3 million in building costs), while a 15-story high-rise apartment constructed with a concrete block backup exterior wall costs \$200 per square foot (\$29 million in building costs).

Retail construction costs range from \$104 to \$216 per square foot

Within the City of Ann Arbor, a typical supermarket constructed with a brick face and concrete-block-bearing walls costs approximately \$104 per square foot to build in Ann Arbor (\$4.5 million in building costs), while a free-standing restaurant constructed with a brick veneer and wood framing costs approximately \$216 per square (\$1.1 million in building costs).

Office construction costs range from \$149 to \$174 per square foot

A three-story office building constructed with brick veneer and wood framing costs approximately \$149 per square foot to build in Ann Arbor (\$3 million in building costs), while a one-story suburban office building constructed with brick on block and a steel roof deck costs approximately \$174 per square (\$1.2 million in building costs).

Construction costs comparable to the national average

According to 2014 City Cost Indexes data provided by RSMeans, installation costs (includes labor and equipment rental) within the City of Ann Arbor are eight points higher (108) than the national average, while material costs (e.g. concrete, masonry, etc.) are four points lower (96). While Berkeley's city cost index is 16 points higher than the national average and Chapel Hill's city cost index¹ is 21 points lower, Ann Arbor's city cost index (101) is comparable to the national average and not an obvious barrier to building in Downtown Ann Arbor.

¹The City of Raleigh, located outside of Chapel Hill, was used since City Cost Index data for Chapel Hill was not available at this level.

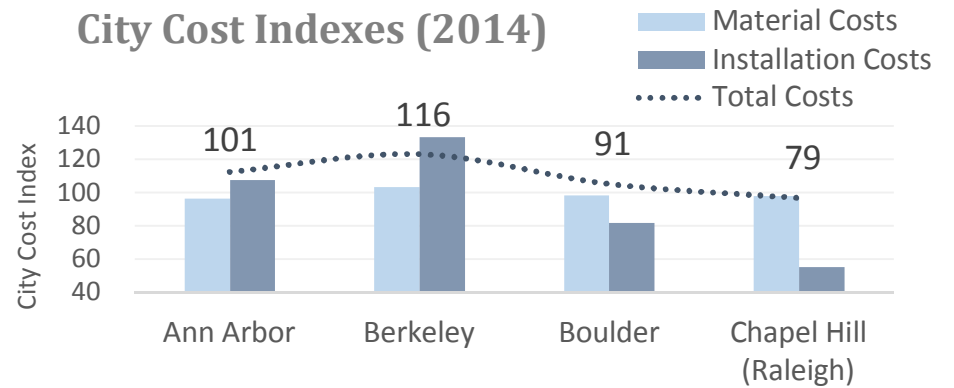
CONSTRUCTION COSTS

Costs by Building Type

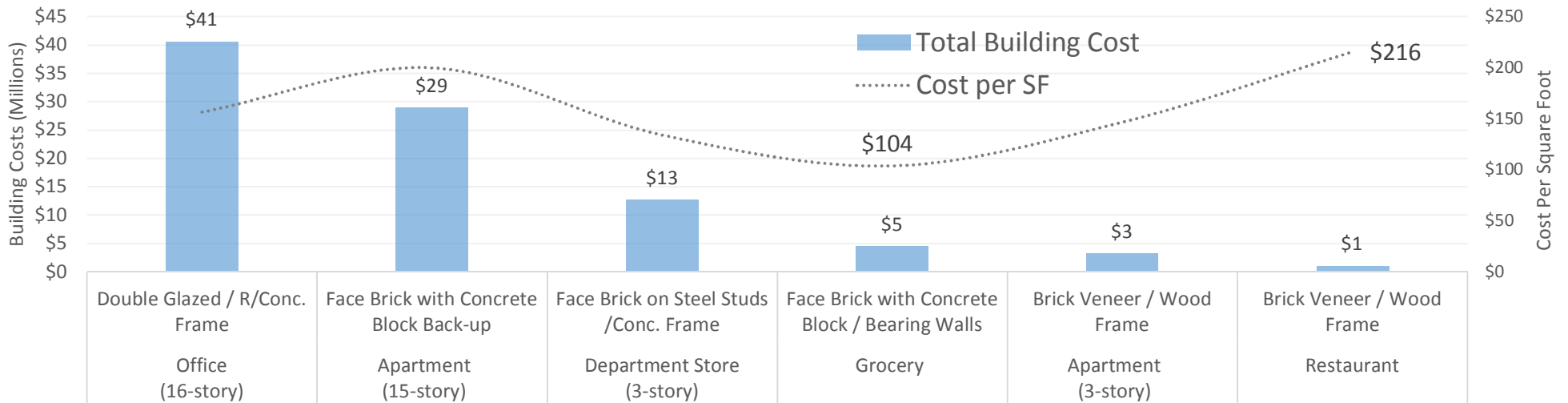
While construction costs vary across comparable college towns, material and installation costs in the City of Ann Arbor are **similar to the national average**- suggesting that construction costs are not obvious barriers to building in downtown.

In Ann Arbor, while average total construction costs are highest for **high-rise office** buildings, average construction costs per square foot are highest for **restaurants**.

City Cost Indexes (2014)



Average Construction Cost by Building Type (2014)



Source: RSMeans

Limiting Conditions & Contact Information

General & Limiting Conditions

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

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