

Task 1

To understand how the economy is impacting the proposed Town Center Plan and to offer recommendations for pursuing the uses most likely to achieve success in both the existing and future markets, a detailed market analysis was completed by the Pizzuti team. Leading this effort was The Danter Company, a nationally recognized research firm. Their analysis provides a summary of major findings, conclusions, and recommendations for the project area and evaluates the mixed-use market potential of the Union Town Center development in Union, Kentucky.

MARKET-SUPPORTED OPPORTUNITIES

INITIAL DEVELOPMENT PHASE

The first phase of the Town Center will serve as the core development of the overall town center plan. All perceptions of future development at the site will likely be based on the success of the initial phase. We recommend that the first phase includes a mix of retail, business services, and rental housing in a pedestrian friendly environment that creates an interactive environment for consumers and residents. One of the goals of the first phase is to create enough activity to enhance the marketability of the overall development for residential and other commercial uses.

Based on our initial analysis we believe such a first phase of development can include the following mix of uses:

- 260,000 to 320,000 Total Square Feet Of Retail/Business Services
- 50 to 70 Upscale Rental Units Above Retail
- 200 to 255 Upscale Rental Units– Mix Of Stand-Alone Product

The residential units included above are generally expected to be occupied by young professionals, “empty-nesters” and others choosing a more active lifestyle. Because of their size and location, these units would not generally attract families.

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The retail market in the region is dominated by enclosed malls and power centers. It is our opinion that an excellent opportunity exists for Union Town to provide a unique retail development to the region that offers quality shopping intermixed with amenities such as water features, benches, pedestrian friendly walking areas, and a variety of outdoor uses. This type of development will distinguish itself from the regional competition and creates an interactive environment for consumers beyond raw shopping. In this type of environment consumers browse longer, cross and impulse shop at a higher rate, and create an activity that enhances the marketability of the overall development for residential and other commercial uses.

SECONDARY/LATER DEVELOPMENT PHASE(S)

Under current conditions, a limited market exists for multi-tenant office development and multifamily condominium development at the subject site. We recommend consideration for these development types in later phases of the development.

Assuming improved market conditions, we have projected the following support for office and condominium development (the market should be reassessed before proceeding with these later developments):

- Annual Support Up To 40,000 Square Feet Of Class A Office Space
- Annual Support For 36 Condominium Units at \$175,000 And Higher

RETAIL CENTER OPPORTUNITIES

- The market can support up to 320,000 square feet of retail at the site, with a general mix of up to 40% general merchandise/department stores, 22% high-end national retailers (including clothing, home furnishings, and furniture), 11% full-service restaurants, pubs, and specialty food stores, and the remaining 27% everyday shopping and business services.

SUPPORTABLE TOTAL	
RETAIL TYPE	SQUARE FEET
GENERAL MERCHANDISE/DEPARTMENT STORE(S)	115,000 - 130,000
UPSCALE RETAILERS / HOME FURNISHINGS/ FURNITURE	60,000 - 70,000
RESTAURANTS/PUBS/SPECIALTY FOODS	30,000 - 35,000
GOURMET/ORGANIC GROCER	15,000 - 40,000
BUSINESS SERVICES/ HEALTH & PERSONAL CARE/ ELECTRONICS & APPLIANCES	40,000 - 45,000
TOTAL	260,000 - 320,000

- Given the higher density plans for the town center, retailers will be located within urban-designed buildings (i.e. smaller footprint and building height of 2 or more floors) with no one retailer dominating the landscape.
- We anticipate a tenant mix at the site of national, regional, and locally-owned businesses. The share of locally-owned businesses at the site will largely be determined by their ability to afford the higher lease rates associated with upscale development.

- As pointed out in the Executive Summary, time is of the essence in regards to development of the retail center. Retail development is naturally occurring along US Highway 42 on the north side of Union. New retail development occurring in the immediate area may impact the ability of the site to later attract similar retailers to the community.

SIGNIFICANT RETAIL FINDINGS

- The overall regional vacancy rate among shopping centers is 6.2%, indicative of a healthy retail market.
- Over 5 million square feet of retail space was identified within 22 retail developments within the Retail Competitive Market Area.
- The retail dollars that are being spent outside of the area represent leakage or potential retail sales lost. In total, there is an estimated annual leakage of \$139 million from residents within the Primary Trade Area (7-minute drive time).
- With a 2008 median income of \$100,875 within 2 miles of the site, the opportunity to attract more upscale retailers is enhanced.

RENTAL HOUSING OPPORTUNITIES

- The market can support development of upscale rental housing at the site of 250 to 325 units. Additional support also exists for up to 290 moderately-priced apartment units. If the planned mid-rise apartment development north of the site generally targets the moderate price point, the development could potentially compliment the Union Town plan.

RENTAL TYPE	TOTAL UNITS	BASE RENT		
		ONE-BR.	TWO-BR.	THREE-BR.
UPSCALE	50 – 70	\$850	\$965	-
ABOVE RETAIL	200 – 255	\$700	\$805	\$925
MID-RISE TOWNHOUSE				
MODERATE	240 – 290	\$650	\$745	\$850
MID-RISE WALK-UP				

- Additional rent premiums may be obtained through views and/or vaulted or lofted ceilings.
- Units above retail must have a front door presence with units opening into an area other than the rear parking/loading/dumpster area of the retail stores. This could be accomplished with a main floor lobby serving several units.
- Several floor plans should be available among each unit type to appeal to the largest market segment.
- Trash pickup and merchandise delivery should be scheduled at such times that they do not disturb the tenant.
- Successful retail partners (with units above) for other mixed-use retail centers have included high-end national retailers. The units would preferably be located above inline retail users within the center of the development.

- With rents per square foot among the highest in the market, it is important to create a very efficient unit without compromising critical space relationships. There should be no compromise in room sizes, entry impact, and closets/ storage. Balconies should be provided.

SIGNIFICANT RENTAL HOUSING FINDINGS

- A total of 7,730 conventional apartment units in 50 projects were surveyed in the Union, Kentucky Site EMA. At the time of this report, the overall vacancy rate is low at 5.0% clearly indicating that the market is limited by a lack of supply rather than demand.
- Nearly half of the apartment units surveyed were built and opened before 1980.
- Only 5 apartment properties, containing a combined total of 934 units, have been constructed in the Site EMA since 1999.
- Upper quartile rents among one- and two-bedroom units in the area range from \$625 to \$885 and \$725 to \$1,055, respectively.

SUMMARY OF OFFICE DEVELOPMENT POTENTIAL

- Nearly 2 million square feet of office space within 28 office buildings was identified within the CMA.
- Of the 28 office buildings surveyed, 18 were multi-tenant lease developments with the remaining 10 buildings being occupied by single-tenant users. Multi-tenant office buildings comprise two-thirds or 1,293,586 total square feet of the 1,959,417 total office space surveyed.
- Of the 1,959,417 total square feet surveyed, 516,632 total square feet were identified as vacant, a 26.4% vacancy rate. According to Grub & Ellis’ Office Market Trends 4th Quarter 2008 report, the vacancy rate for the entire Northern Kentucky region is 22.6%.
- The following table details the area multi-tenant office market:

OFFICE SPACE	SQUARE FEET	PERCENT	VACANT SPACE	PERCENT VACANT
CLASS A	396,211	30.6%	77,498	19.6%
CLASS B	827,375	64.0%	313,662	37.9%
CLASS C	70,000	5.4%	7,000	10.0%
TOTAL	1,293,586	100.0%	398,160	30.8%

- The overall vacancy rate among the multi-tenant office buildings in the market area of 30.8% is considered high; however, it is important to note that 78% of the office vacancies are within Class B properties which represent 64% of the overall office space inventory.
- At a 37.9% vacancy rate, the market for Class B space is very soft. The Class A vacancy rate fares much better than Class B, but still has a somewhat high vacancy rate at 19.6%.

Conclusions

- These market conditions indicate an overbuilt market and consideration for multi-tenant office development in the first phase of development does not appear warranted.
- Notably, the lackluster market should not preclude office development at the site from governmental, institutional, windfall users who may want a signature office building, or small businesses that want to be associated with the Union Town development. We identified a high share of medical office tenants within conventional multi-tenant office space (nearly 20%) in the marketplace. An opportunity may arise for office development which caters solely to medical-related businesses. One example of this type of development is the Eye Center that exists in the Arena District in Columbus, Ohio. This development has shared equipment and laboratory space which is available to over thirty ophthalmologists including 10 practices who would not likely be able to afford their facilities.

SUMMARY OF FOR-SALE MULTIFAMILY POTENTIAL

- Among the 14 condominium developments, 4 contain 458 units that were sold between May 1999 and September 2008. These properties are established or “sold out.”
- The remaining 10 developments are active and contain a combined 2,086 total units (980 existing, 66 under construction, and 1,040 planned). Currently, 918 of these units have been closed or sold, which indicates that an inventory of 1,168 of available or unsold units remain in the Site EMA among these 10 active developments.
- A total of 1,376 condominium units have been sold in the Site EMA from May 1999 through February 2009, for an overall average absorption of 11.7 sales per month or 139.9 sales annually. The number of annual condominium sales has varied over the past 10 years; the highest number of sales occurred in 2000 when 265 units were sold, while sales decreased dramatically in 2008 when only 98 units were sold.
- This decline in sales, between 2000 and 2008, occurred in the Site EMA despite an increase in condominium supply. The number of condominium developments with available product in 2008 was twice as high as the number with available product in 2000.
- Based on the estimated annual demand, the Site EMA currently contains a 7.5- to 8.0-year supply of condominium product (both existing, unsold and planned among existing properties) priced between \$100,000 and \$199,999.

Conclusions

- Like many markets in the region, the condominium market is overbuilt and undersold. Given the potential surplus of units in the market combined with slow sales rates we would not recommend featuring this housing alternative among the initial development phase of the proposed project.
- Regardless of the surplus of condominium units in the marketplace, the uniqueness of the town center development (offering a character and lifestyle that does not currently exist in the area) combined with different housing product provides for an opportunity to achieve a good sales rate in later phases of development.

Uncertainty currently surrounds economic conditions nationally. While a market exists for the recommended developments, a delay in development may be warranted in order for a developer to secure a development loan and for consumer confidence to rebound and/or stabilize.

A detailed supply and demand analysis can be found in the Appendix of this report.