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Economics Research Associates

Project Report

Missoula Greater Downtown Master Plan – Housing and Retail Market Demand Analysis

Prepared for

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Submitted by

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General & Limiting Conditions

Every reasonable effort has been made to ensure that the data contained in this report are accurate as of the date of this study; however, factors exist that are outside the control of Economics Research Associates and that may affect the estimates and/or projections noted herein. This study is based on estimates, assumptions and other information developed by Economics Research Associates from its independent research effort, general knowledge of the industry, and information provided by and consultations with the client and the client's representatives. No responsibility is assumed for inaccuracies in reporting by the client, the client's agent and representatives, or any other data source used in preparing or presenting this study.

This report is based on information that was current as of March 2008, and Economics Research Associates has not undertaken any update of its research effort since such date.

Because future events and circumstances, many of which are not known as of the date of this study, may affect the estimates contained therein, no warranty or representation is made by Economics Research Associates that any of the projected values or results contained in this study will actually be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Economics Research Associates" in any manner without first obtaining the prior written consent of Economics Research Associates. No abstracting, excerpting or summarization of this study may be made without first obtaining the prior written consent of the Downtown Business Improvement District of Missoula. This report is not to be used in conjunction with any public or private offering of securities, debt, equity, or other similar purpose where it may be relied upon to any degree by any person other than the client, nor is any third party entitled to rely upon this report, without first obtaining the prior written consent of Economics Research Associates. This study may not be used for purposes other than that for which it is prepared or for which prior written consent has first been obtained from Economics Research Associates.

This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions and considerations.

I. Introduction

Economics Research Associates (ERA) was retained as a subconsultant to Crandall Arambula to look at the potential retail and housing market for downtown Missoula as part of the Missoula Greater Downtown Master Plan. The analysis will inform design decisions incorporated into the Master Plan concepts. The following analysis looks at general demographic and real estate trends in the Missoula area, demand for retail space and housing in the downtown area, and potential strategies for impacting housing development in the downtown district.

Key Findings

Market Overview

- The Missoula area has grown at a moderate pace over the last 7 years. In 2000, the City had approximately 57,000 residents in 24,000 households. At the time of the Master Plan process in 2008-2009, it is estimated that the population has grown to just under 61,500, giving the area a compound annual growth rate of 1.5 percent.

- The population of the county is estimated at 101,417. While annual growth was over 2 percent in the early 1990's, the annual growth rate over the past several years has been under 2 percent.

- Between 2008 and 2015, Missoula County is expected to add fewer than 10,000 Service jobs, a 5 percent annual increase. Retail is expected to grow at a slower pace—1.5 percent per year—putting it in similar company to the growth rates of State and Local Government (1.7 percent), Wholesale Trade (1.4 percent) and Construction (1.3 percent). Overall employment is expected to increase by 2,000 jobs annually for a total of almost 14,000 new jobs by 2015. The Service sector represents over 70 percent of this growth.

- Household incomes indicate the relative buying power of resident households which inform demand for retail and services. In the Downtown Census Tract, nearly half of all households earned $15,000 or less. This is not surprising given the housing product types and the student population. Households in the City and County are moderate-earning households—with just under 80 percent earning under $75,000 annually. The median household income of Downtown households was $15,500 in 2007; the City and County's were $37,600 and $41,800, respectively.

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- The student population at The University of Montana impacts the types of housing and retail in the area. The university and its students also draw many visitors to the City. In 2006, there were a total of approximately 14,000 students at the University, the majority (12,000) of which were undergraduates. Among the student population, 72 percent were from Montana. Enrollment at the university has increased by approximately 40 percent in the last 10 years.

- According to data from Smith Travel Research, there are 1,966 hotel rooms in Missoula. According to ERA estimates, over one third of all rooms (720 in total) are located in Downtown Missoula. Other concentrations are located on North Reserve Street.

  The University of Montana's Institute for Tourism Research publishes data on visitor trends and visitor expenditures. According to this data, 60 percent of out of state visitors spending at least one night in Missoula are from households earning $60,000 or more. Top states for non-Montana visitors to Missoula are Washington (20.2 percent), California (7.1 percent), Idaho (6.8 percent), and Utah (6.2 percent). In 2006, visitors to Missoula County spent an average of $246.

- ERA reviewed residential permit activity for Missoula and Missoula County for the 1995—2006 period, the most complete data available at the time of the research stage of the Downtown Master Plan. Over this period, the majority of the housing units were constructed in the City of Missoula, rather than in the surrounding unincorporated areas. However, it was noted that there was an increase in construction in unincorporated areas between 2006 and 2008, with permits in these areas representing 14 percent of all units constructed (versus less than 1 percent of all other years combined). Total residential permit activity peaked in 2002 at 1,127 and has generally been declining since that time with 518 total permits recorded in 2006. Of all County residential units permitted, slightly over half were for single-family housing.

Retail Market

- According to real estate data provider CoStar, there is approximately 1.8 million square feet of shopping center space in Missoula. Over half of this square footage is distributed between the two major centers in the area: Southgate Mall south of

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downtown and Grant Creek Town Center on North Reserve Street. The remainder is comprised of neighborhood and community centers, many grocery-anchored. In addition to shopping center space, there is 1.3 million square feet in freestanding retail space (including freestanding big boxes, fast food outlets, gas stations, auto repair, and other service businesses).

- According to a downtown space inventory based on data collected by the Missoula Business Improvement District (MBID) in early 2009 and analyzed by ERA, there is almost 2 million square feet (1.993 million) of commercial and institutional space in the core retail area of Downtown Missoula. The total number of spaces inventoried totaled over 400. Of these, 2 million square feet of total institutional and commercial space, over 50% can be classified as retail (1,016,106 square feet). Within the retail total, specialty retail is well represented with over 385,000 square feet (or 38% of the retail total), food and beverage uses represent almost 214,000 square feet (21% of the retail total), and consumer and professional services fill over 416,000 square feet (or about 41% of total retail space). The "other" space category totals almost 977,000 square feet (including commercial office space, government offices and facilities and institutional uses such as homeless shelters) in 53 locations, less than one-sixth of the total number of locations inventoried. Governmental uses include the Missoula Courthouse complex and Missoula City Hall, the library, community service buildings and membership lodges and several locations serving the community's homeless population. If sales capture and spending projections are met, ERA estimates that there is an additional 116,800 square feet of net new space supportable in downtown Missoula in 2012.

- Constructed in 1978 and renovated in 1998, Southgate Mall is a family-owned mall with four department store anchors (Sears, JC Penney, Dillard's, and Herberger's) and a variety of in-line mall stores. Reportedly, average sales productivity at the JC Penney store was relatively low compared to other department stores in their portfolio at the time of the analysis. Sales had been increasing at the mall, but same store sales in the winter of 2007 decreased slightly, largely due to weather conditions, which affect destination retail shopping patterns that year. Sales at the center are reported at $100 million, or about $172 per square foot. By comparison, average regional mall sales across the country (prior to the 2008 economic downturn) were over $300 per square foot, with well positioned properties reporting average sales productivity of over $400 per square foot. Mall management estimates its primary trade area as consisting of Missoula County; however, secondary and tertiary markets bring the total potential customers in the trade area to 600,000.

- Southgate Mall has available land upon which it could expand in the future, though according to management at the time of the Downtown Master Plan there were no plans for 2008. There is a new lifestyle retail center planned for Kalispell, 92 miles to the north; Wolford Development is proceeding with the first phase of Glacier Town Center after approval of the plan in July 2009. The first phase includes a 577,000 square foot outdoor 'lifestyle' shopping center to be anchored by three 100,000 square foot stores (Dillard's and Herberger's have been mentioned as potential anchors, though no final leases have been announced yet). This project, located in a town of 14,000, will clearly depend on a much larger trade area than Kalispell's population will support.

- The primary retail tenant in the Downtown Missoula is Macy's, which is the most upscale department store in the city. Because of its position as an anchor for Downtown, the retention of Macy's has been a concern of the Downtown and will be a key consideration in the proposed retail strategy. Currently, the department store is located in a building it owns through the acquisition of the Bon Stores. It is small compared to the typical Macy's prototype, with many of the size, space configuration and parking issues inherent to department stores in historic downtown buildings. That notwithstanding, the presence of Macy's is a strength for downtown Missoula, and its retention as a downtown retail anchor is a significant objective for the retail strategy. Longer-term retention in Downtown will likely require major steps such as renovation of the existing structure, adding onto the existing store to expand the selling area and addition of convenient parking. These issues are addressed in the Master Plan priorities.

- Based upon the location of competitive retail and anecdotal information about consumer patterns in Montana, ERA has determined Downtown's primary trade area (the area from which it gets most of its sales) to be a 20-minute drive and the secondary trade area to be a 90-minute drive. To put this trade area in context, most regional centers nationwide state their overall trade areas as a 15-20 minute

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drive—with their primary trade areas often being much tighter. Missoula's trade areas are larger because of the relative lack of competition within the market, though the Wolford project in Kalispell can be expected to alter market distribution to the north when it is completed.

- Retail market demand is based on the notion that an established retail concentration will be able to "capture" a certain percent of total spending potential by consumer market category (in this case, residents, students, visitors, and downtown employees). The ability to capture spending dollars is based in part on ease of access, the competitive environment, and the quality and diversity of the retail offerings. While there is room for improvement, Missoula has an unusually strong downtown mix for a community of its size, and serves the regional trade area as well as local markets.

- Based on the market demand analysis and the existing retail inventory, we have estimated that the downtown will be able to support approximately 116,800 of net new retail space over the next several years. It should be noted that the existing inventory does not account for existing retail space which may be obsolete and underperforming, therefore affecting how much of the 'supportable' total might be placed in existing (but empty) retail space.

Table I-1: Estimated Net New Retail Demand, Downtown Missoula 2012

Total Estimated Supportable Square Feet -2012	773,962
Estimated Existing Downtown Retail Space	657,160
Total Net New Demand	116,802

Source: Economics Research Associates

Housing Market

- Similar to other university towns, there are a significant number of rental units located in the City of Missoula. According to the most recent US Census information, approximately 50% of the housing units located within the city are renter occupied units (12,011 units in the year 2000). This compares to the county average of 38% renter occupied housing units.

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- Housing demand continues to be constrained by housing costs and land availability (including nearby public lands and steep slopes), pushing development into outlying sensitive lands. According to the Board of Realtors, projects in Rock Creek, Clearwater Junction, and Bitterroot were rejected in 2006 by local planners and activist citizens.

- New home sales trends in the Missoula/Lolo area reveal that the total number of home sales continues to increase, especially the condo/townhome market. A total of 230 new condominium units were sold in 2006, compared to just 75 units two years prior. The median price for a new condo in the area is $160,000+, an increase of about $50,000 in five years. Condominium projects offer an affordable route to home ownership in the area (the median household income in the City of Missoula in 2000 was $30,366).

- Based on a survey of local housing experts and community leaders conducted recently by Western Economic Services, LLC (Affordable Housing Study, March 19, 2007), there is a lack of moderately priced housing units within the City of Missoula. The study summarized the local housing market as "one of scarcity, high cost, and constraints to development". Reasons stated for the lack of affordable housing include a lack of understanding of the development process, insufficient land zoned for residential development, a lack of financial mechanisms to promote affordable housing production, confusing public policy, and a lack of neighborhood standards for redevelopment and rehabilitation.

- While apartment vacancy rates remain relatively low (reported at about 4% in 2005 for market rate units), rental rates dropped for most unit types from 2003 to 2004, most likely due to the construction of a significant number of new multi-family units in 2003 (981 new multi-family permits were issued). However, the market appears to have absorbed the new units and rents increased for most unit types from 2004 to 2005.

- The Rocky Mountain Development Group purchased the Wilma Theater Building in downtown Missoula in 2008 and has completed plans for a major renovation including a 1,200 seat theater, upscale restaurant, condominiums, and office and retail space. The developer has converted the existing 26 rental apartments into

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22 condominium units with the existing tenants given the first option to buy (only one existing tenant purchased a unit). The majority of units are priced between $110,000 and $200,000 for condos sized between 350 and 700 square feet. Reportedly, interest in the condominium units has been high, due in part to the mid-level pricing. The units were not upgraded; however, some of the common areas were refurbished.

- Downtown remains principally a business district with resident demand relatively untested. The Broadway Lofts, located at the corner of Orange Street and Broadway above the UPS Store and City Brew, were originally priced at $350,000 and in late 2008 were reportedly listed for $299,000 at the time of the analysis.

- Future demand for housing in the downtown market will be driven in part by an increase in the population base as well as potential buyers/renters from the existing market. The county population has grown moderately over the past six years or at the rate of 0.9% annually. State level population projections by the U.S. Census reveal that population growth within the State of Montana will slow gradually through 2030. Applying a growth rate of between 0.8% and 1.2%, population within Missoula County is anticipated to reach between 110,707 and 115,637 over the next ten years. Paralleling the national economic downturn, it is likely that housing recovery in Missoula may take several years to be realized, although the stability of the University market should sustain stable conditions more than in other communities. As with any real estate in the current economic climate, a longer view rather than immediate market conditions will be the more prudent approach.

- If the downtown area captures 3% to 6% of the new growth forecast for the area, new housing demand attributable to new growth would be minimal (just over 200 units over the next ten years based on the higher capture rate). It is also assumed that some of the demand for new housing will be generated by existing residents. A potential capture of 0.5% to 1.0% of the existing housing market would result in additional annual demand in the downtown area of between 21 and 43 housing units per year, indicating that most of the demand for downtown housing units will likely be generated by existing residents of the area.

- Implementation strategies to induce downtown housing development include a range of planning actions and financial incentives.

    - Reduced parking requirements (e.g. shared parking) and/or fees in-lieu of parking help to lower the prohibitive costs of providing the standard parking requirements. Sites or buildings being positioned for development/redevelopment should be concentrated within a designated district in order to create synergy and also to reduce public costs by allowing for concentrated public improvements. Prioritize capital improvement projects (infrastructure improvements, streetscape improvements, etc.) that are planned for the downtown area.

    - Lowering the initial costs of development is one of the most common forms of subsidy and can be applied toward reducing the developer's early implementation costs such as site acquisition, infrastructure development, and other soft costs such as feasibility studies, design and engineering fees.

    - Use of other financial incentives to encourage downtown housing, including higher levels of incentives for affordable and workforce housing and redevelopment housing (e.g. property tax abatements, reduced - cost 'gap' financing to accelerate implementation, credits for existing water and sewer taps). Tax abatement or tax exemption programs are frequently used to increase a project's net revenues, although they may be politically difficult to implement when other public revenues are reduced. Some tax abatement programs call for a phase-in of taxes as the project becomes successful. Fast track approval processes for downtown housing development would also lower developer costs while at the same time providing a benefit at little or no cost to the city.

II. Demographic and Economic Overview

ERA evaluated demographic and economic data for Missoula and the surrounding area to provide a framework for market analysis and an understanding of the existing conditions. This analysis also included, where available, projected population, incomes, and employment, to understand how conditions are expected to change in the near term and how this will impact Downtown Missoula.

Population and Household Growth

Population and household trends can indicate the relative attractiveness of a market to new residents. New households to an area attract additional businesses and services. The characteristics of these new residents affect the character of development. On the flip side, if an area is losing population, it could indicate economic problems or shifting priorities. Knowing this fact is also critical for an area, so that its leaders may develop strategies for stemming the loss.

The Missoula area has grown at a moderate pace over the last 7 years. In 2000, the City had approximately 57,000 residents in 24,000 households. At the time of the market analysis, data provider ESRI (a GIS based software system which uses Census data as a baseline) estimated that the population had grown to just under 61,500, giving the area a compound annual growth rate of 1.5 percent (for comparison, the 2003 US Census estimate is 60,722). In the same time period, the City added 4,000 households, growing at a faster rate—1.7 percent annually—than the rate of growth of the population; this indicates that more households are being established, but by fewer persons per household, a trend that mirror's general U.S. household growth patterns. ESRI projects that the City will grow at the same rate in the next five years, bringing the total population to almost 65,000. Household growth is expected to slow somewhat, to 1.2 percent annually, adding approximately 1,700 households.

Census Tract 3, which more or less follows the Downtown's boundaries, had 2,083 residents in 1,300 households in 2000. According to ESRI, the tract lost approximately 40 residents in the last seven years (a 0.3 percent annual loss), and no additional residents are forecast by ESRI between now and 2012. The forecast is based on past trends and obviously does not account for new types of housing products that might result from the Downtown Master Plan effort and stabilization of the national and regional economies. It should be noted that data from the City of Missoula shows that Census Tract 3 actually added 121 housing units from 2000 to 2004 (more detailed downtown block group data is provided in the housing demand section of this report).

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Population for Missoula County is based on data provided by the Montana Department of Commerce, Census & Economic Information Center. As shown below, the population of the county is currently estimated at 101,417. While annual growth was over 2% in the early 1990's, the annual growth rate over the past several years has been under 2%.

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Figure II-1: Map of Missoula and Region

Not surprisingly, household sizes in the Downtown are smaller than in the City of Missoula, and the City's are smaller than those in the County. The Downtown's average household size in 2007 was 1.4 persons per household, as compared to 2.38 persons per household in Missoula County. All geographic areas are expected to have slight decreases in household sizes, reflecting nationwide trends toward smaller households—including more households with singles and couples without children. These trends make downtown living more and more appealing to many households.

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Table II-1: Population Growth, 2000-2012

	Census Tract 3	Missoula
Population		
2000	2,083	57,053
2007	2,041	61,464
2012	2,041	64,871
Change (#)		
2000-2007	-42	4,411
2007-2012	0	3,407
Change (%)		
00-'07	-2.0%	7.7%
07-'12	0.0%	5.5%
Average Annual (%)		
00-'07	-0.3%	1.1%
07-'12	0.0%	1.1%
CAGR (%) /1		
00-'07	-0.3%	1.1%
07-'12	0.0%	1.1%

1/ Compound Annual Growth Rate

Source: ESRI; Census 2000; Economics Research Associates, April 2008

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Table II-2: Household Growth, 2000-2012

	Census Tract 3	Missoula
Households		
2000	1,311	24,141
2007	1,303	26,308
2012	1,315	27,956
HH Change (#)		
2000-2007	-8	2,167
2007-2012	12	1,648
HH CAGR 1/		
2000-2007	-0.1%	1.7%
2007-2012	0.2%	1.2%
HH Size		
2000	1.43	2.23
2007	1.40	2.21
2012	1.39	2.20

1/ Compound Annual Growth Rate

Source: ESRI; Census 2000; Economics Research Associates, April 2008

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Table II-3: Population Growth, Missoula County, 1989 - 2006

	Population	Annual Growth
'89	77,995	--
'90	79,080	1.4%
'91	81,098	2.6%
'92	83,549	3.0%
'93	86,243	3.2%
'94	88,037	2.1%
'95	90,413	2.7%
'96	91,947	1.7%
'97	93,151	1.3%
'98	93,847	0.7%
'99	94,791	1.0%
'00	96,081	1.4%
'01	96,692	0.6%
'02	97,788	1.1%
'03	98,359	0.6%
'04	99,031	0.7%
'05	100,033	1.0%
'06	101,417	1.4%

Source: Montana Department of Commerce,
Census & Economic Information Center,
Economics Research Associates

Migration

ERA uses data collected by the Internal Revenue Service Statistics of Income to estimate the number of households moving to or from Missoula County and to identify the source counties for new residents. This data tracks the location from which residents file their tax returns and uses this information to illustrate changes in population (exemptions) and households (returns). This data is very helpful in indicating the potential depth of demand for the overall market and to give further information on the geographic, demographic, economic, and lifestyle characteristics of customers for new residences in an area. One limitation is that it does not discount for second homes; residents can file their tax returns from their primary residence one year and from the second home the next and vice versa. While this information may have limitations, it remains helpful in identifying and characterizing potential markets in addition to the demographic data presented elsewhere in this report.

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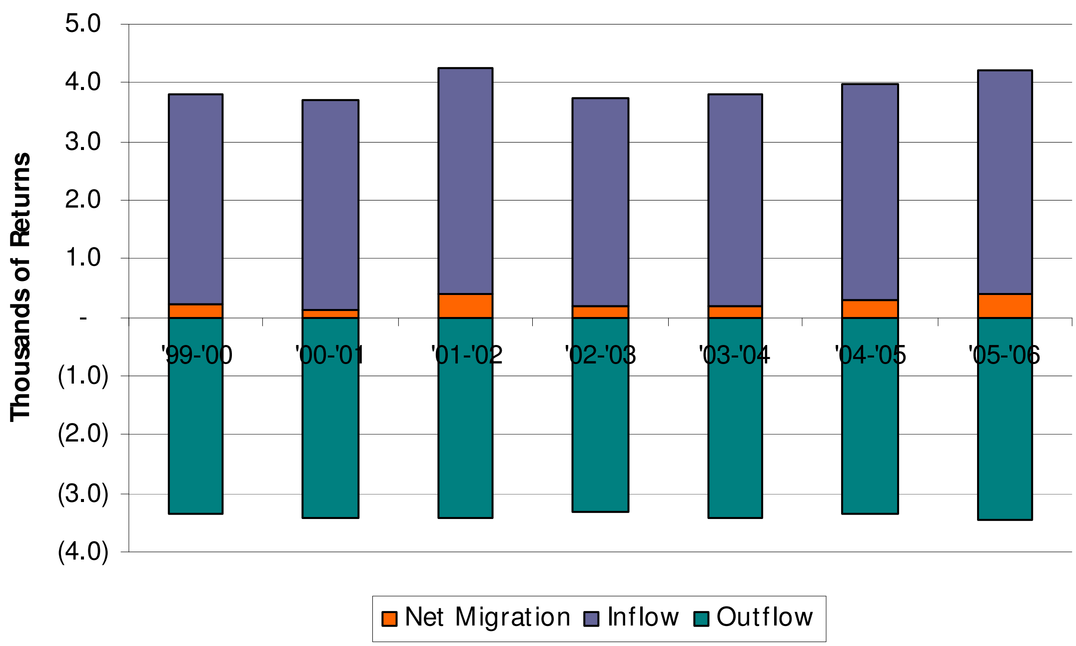
Between 1999 and 2006, Missoula County had a net in-migration of 1,843 households (returns). There were a concentration of these households from the states of Washington (12 percent) and California (6 percent). Table II-4 and Table II-5 show the top states and top counties for net in-migration to Missoula County.

Figure II-2: Net Migration to Missoula County, 1999-2006



Source: IRS Statistics of Income; Economics Research Associates, 2008.

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Table II-4: Top States for Net Household In-Migration to Missoula County, 1999-2006

State	Net Migration	Rank
Washington	215	1
California	111	2
Colorado	66	3
Arizona	48	4
Oregon	47	5
Utah	37	6
Illinois	34	7
Alaska	20	8
Nevada	19	9
Minnesota	12	10
	609	

Note: This represents the sum of counties reported for each state. The IRS does not count any county to county migration with less than 10 returns in a given year; therefore, actual totals may be higher.

Source: IRS Statistics of Income; Economics Research Associates, 2008.

Table II-5: Top Counties for Net Household In-Migration to Missoula County, 1999-2006

	Net Immigration	Rank
King, WA	85	1
Spokane, WA	66	2
Salt Lake, UT	37	3
Maricopa, AZ	36	4
Cook, IL	34	5
Multnomah , OR	34	5
Los Angeles , CA	30	7
San Diego , CA	30	7
Pierce , WA	28	9
Snohomish , WA	25	10
Net Inmigration from Top 10 Counties	405	
Other Net Inmigration	1438	
Total	**1843**	

Source: IRS Statistics of Income; Economics Research Associates, 2008.

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Age

The age of the population has important implications about lifestyle and housing choices as well as the need for various types of services. Table II-6 illustrates the projected change in age cohorts between 2007 and 2012.

The greatest percentage increases will be in the 55-64 and 65-74 age groups—in all three geographic areas (County, City, Downtown). Downtown will have a 19 percent increase overall in these two groups; these age groups will increase by 23 percent in the City and 24 percent in the County. These changes reflect nationwide trends of Baby Boomers entering retirement and an overall resulting aging of the population. Following on these trends, the City will have 4,000 additional residents over the age of 55 in 2012, an 18 percent increase. In the City and County, over 60 percent of the total population change will be in the over 55 age groups. The percentage increase in the Downtown is lower (14%). Students at the university serve to temper the share somewhat; other cities have shown sharper increases in the older age cohorts.

The City and County are also expected to have percentage increases in the number of residents aged 20-34 (likely reflecting the university as well as those of "workforce" age) and under the age of 9.

These expected coming changes will require services for the young and old, to serve a variety of age groups.

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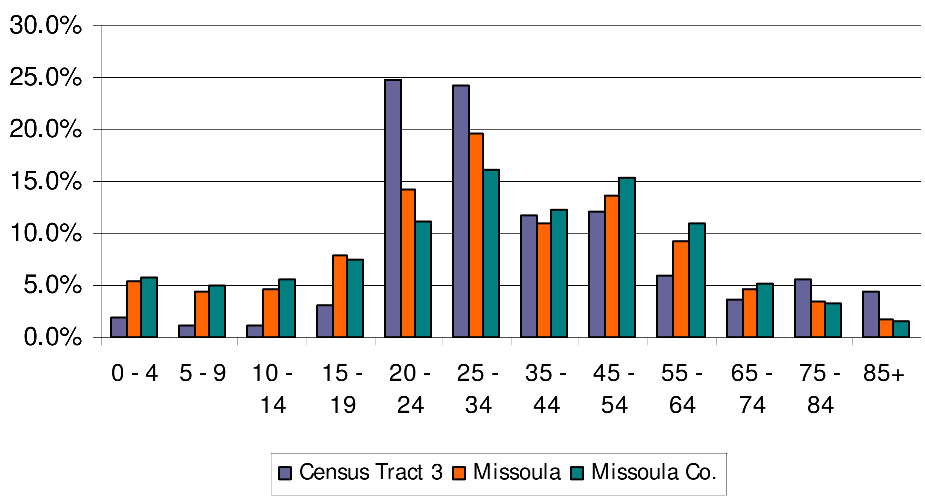
Table II-6: Population Age Data, 2007-2012

	Census Tract 3			Missoula			Missoula Co.		
Age	**2007**	**2012**	**% Change**	**2007**	**2012**	**% Change**	**2007**	**2012**	**% Change**
0 - 4	41	37	-9.8%	3,324	3,600	8.3%	6,019	6,468	7.5%
5 - 9	23	22	-4.3%	2,756	2,932	6.4%	5,325	5,682	6.7%
10 - 14	22	24	9.1%	2,809	2,805	-0.1%	5,758	5,741	-0.3%
15 - 19	64	68	6.3%	4,889	4,686	-4.2%	7,905	7,645	-3.3%
20 - 24	505	499	-1.2%	8,798	9,515	8.1%	11,704	12,294	5.0%
25 - 34	495	444	-10.3%	11,998	12,205	1.7%	16,914	18,141	7.3%
35 - 44	241	259	7.5%	6,795	7,012	3.2%	12,845	12,627	-1.7%
45 - 54	247	229	-7.3%	8,399	8,315	-1.0%	16,087	16,296	1.3%
55 - 64	123	148	20.3%	5,631	7,008	24.5%	11,503	14,296	24.3%
65 - 74	73	86	17.8%	2,825	3,369	19.3%	5,491	6,718	22.3%
75 - 84	115	118	2.6%	2,169	2,255	4.0%	3,465	3,713	7.2%
85+	92	107	16.3%	1,070	1,167	9.1%	1,695	1,826	7.7%
Total Population	2,041	2,041	0.00%	61,463	64,869	5.54%	104,711	111,447	6.43%
Median Age	31.3	33.0		30.3	32.4		34.0	34.9	

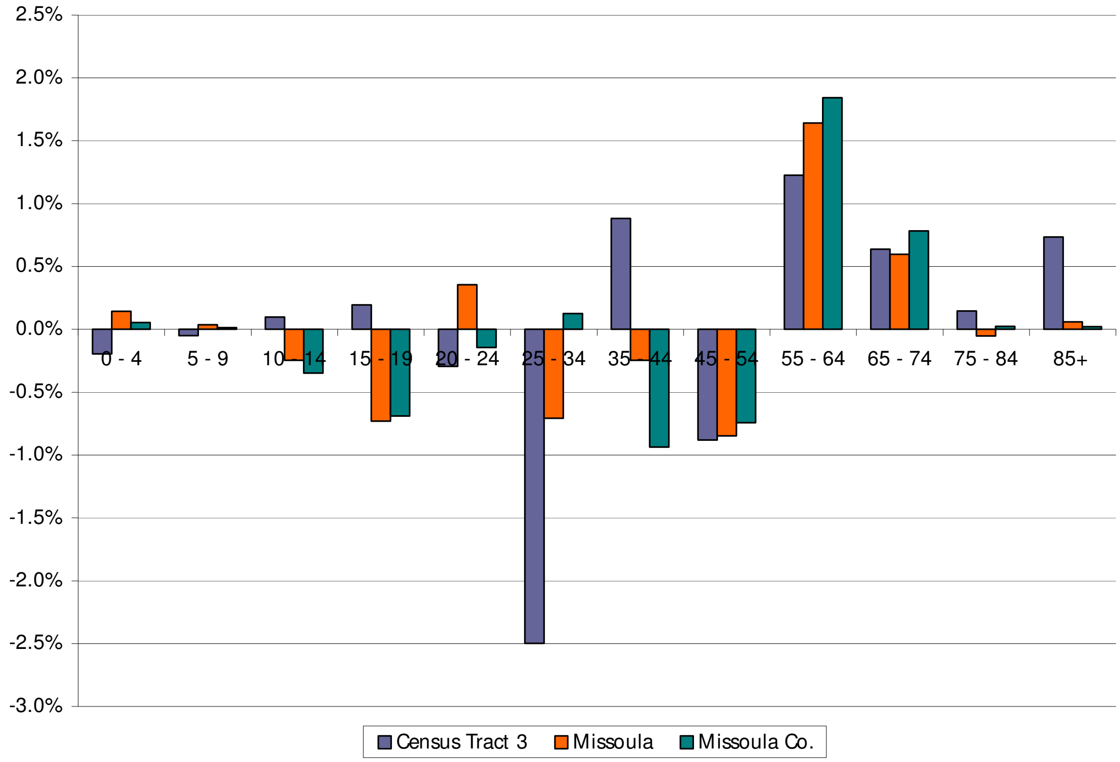
Source: ESRI; Economics Research Associates, April 2008

Figure II-3: Share of Population by Age, 2007



Source: IRS Statistics of Income; Economics Research Associates, 2008.

Figure II-4: Change in Share of Population by Age 2007-2012



Source: IRS Statistics of Income; Economics Research Associates, 2008.

Employment

Employment trends reflect the overall health of the local economy and indicate key growth sectors which can drive the need for new services and types of real estate. ERA used county-level at-place data provided by Woods and Poole to estimate current employment by industry. According to these data, in 2008, the County had the largest share of its employment in Services (39 percent) and Retail (20 percent). Services include a diverse variety of employment industries such as healthcare, education, and professional services.

These industries are expected to increase in the coming years as well. Between 2008 and 2015, Missoula County is expected to add fewer than 10,000 service-industry jobs, a 5 percent annual increase. Retail is expected to grow at a slower pace—1.5 percent per year—putting it in similar company to the growth rates of State and Local Government (1.7 percent), Wholesale Trade (1.4 percent) and Construction (1.3 percent). Overall employment is expected to increase by 2,000 jobs

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annually for a total of almost 14,000 new jobs by 2015. Services represent over 70 percent of this growth. While these pre-downturn projections may take somewhat longer to be realized as the national and regional economies stabilize, ERA believes that the general patterns will follow this direction, even if the pace is slower.

Table II-7: Missoula County Employment by Industry, 2000 & 2008

Employment by Industry	2000	2008	Total Annual Change	Annual Change (Percent)	Net Increase
Mining	83	94	1	1.7%	11
Construction	4,041	4,910	109	2.7%	869
Manufacturing	3,728	3,636	(12)	-0.3%	(92)
Transport, Communication, Utilites	4,115	3,785	(41)	-1.0%	(330)
Wholesale Trade	2,726	2,934	26	1.0%	208
Retail Trade	13,806	16,099	287	2.1%	2,293
Finance, Insurance, Real Estate	4,654	5,678	128	2.8%	1,024
Services	23,123	30,712	949	4.1%	7,589
Federal Government	1,899	1,987	11	0.6%	88
State and Local Government	7,266	9,044	222	3.1%	1,778
Total All Industries	**65,441**	**78,879**	1,680	2.6%	**13,438**

Source: Woods and Poole; Economics Research Associates, 2008

Table II-8: Missoula County Projected Employment by Industry, 2007 & 2015

Employment by Industry	2008	2015	Total Annual Change	Annual Change (Percent)	Net Increase
Mining	94	98	1	0.6%	4
Construction	4,910	5,341	62	1.3%	431
Manufacturing	3,636	3,552	(12)	-0.3%	(84)
Transport, Communication, Utilites	3,785	3,895	16	0.4%	110
Wholesale Trade	2,934	3,217	40	1.4%	283
Retail Trade	16,099	17,785	241	1.5%	1,686
Finance, Insurance, Real Estate	5,678	6,121	63	1.1%	443
Services	30,712	40,513	1,400	4.6%	9,801
Federal Government	1,987	2,070	12	0.6%	83
State and Local Government	9,044	10,108	152	1.7%	1,064
Total All Industries	**78,879**	**92,700**	1,974	2.5%	**13,821**

Source: Woods and Poole; Economics Research Associates, 2008

Though Woods and Poole (and the state of Montana) do not provide data on employment in the downtown, ERA has used Info USA, a data service used in conjunction with ESRI, to estimate Downtown employment and illustrate key industries when compared to the County as a whole.
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According to this database, there are just under 10,000 employees in Downtown. This data service estimates County employment at a greatly-reduced level when compared to Woods and Poole data—43,000 jobs versus Woods and Poole's 78,000. Because of this limitation, the data is most helpful for making some broad generalizations about the Downtown's position within the County.

According to this data, the top areas of employment in the Downtown are Healthcare and Social Assistance (23.9 percent) and Public Administration (25.5 percent), illustrating the importance of the City and County government and the hospital to Downtown employment. Other key industries for the Downtown are Retail Trade, Lodging Accommodations and Food Services, and Professional Services. These three industries combined are assumed to represent a third of all Downtown employment.

On the other hand, most of the County's jobs are in Retail Trade, Healthcare/Social Assistance, and Lodging Accommodations and Food Services. In the industries where the Downtown has its greatest number of jobs, it also holds large a share of the County's employment. Downtown has 64 percent of all Public Administration jobs, 36 percent of Professional Services, 30 percent of Healthcare, and Social Assistance, and 24 percent of Accommodation and Food Services. Figure II-5 on the following page illustrates these percentages.

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Figure II-5: Comparison of Employment in Major Industries, Downtown Missoula and Missoula County

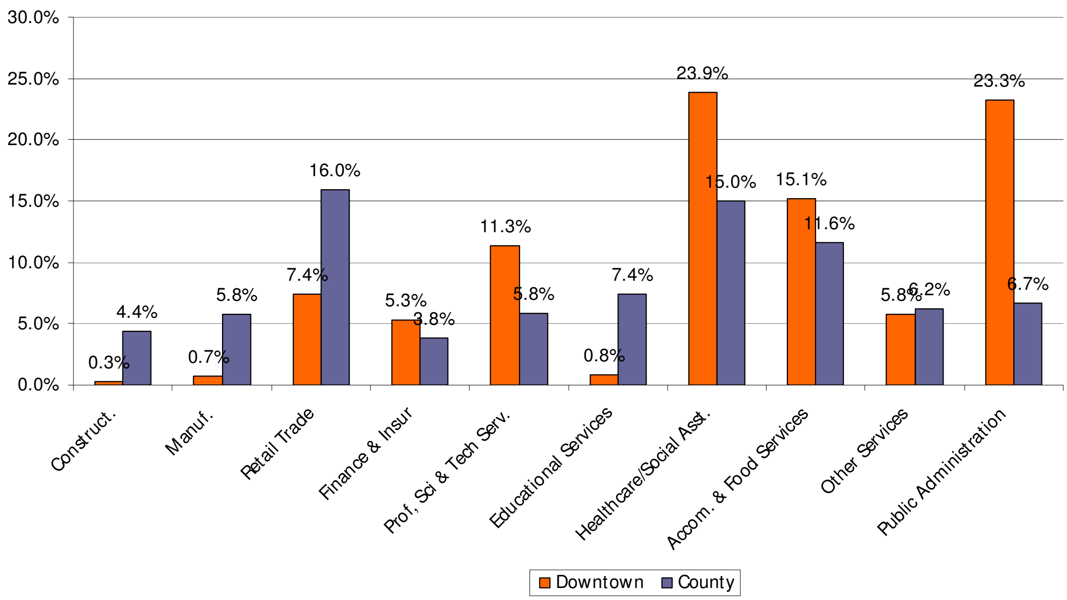
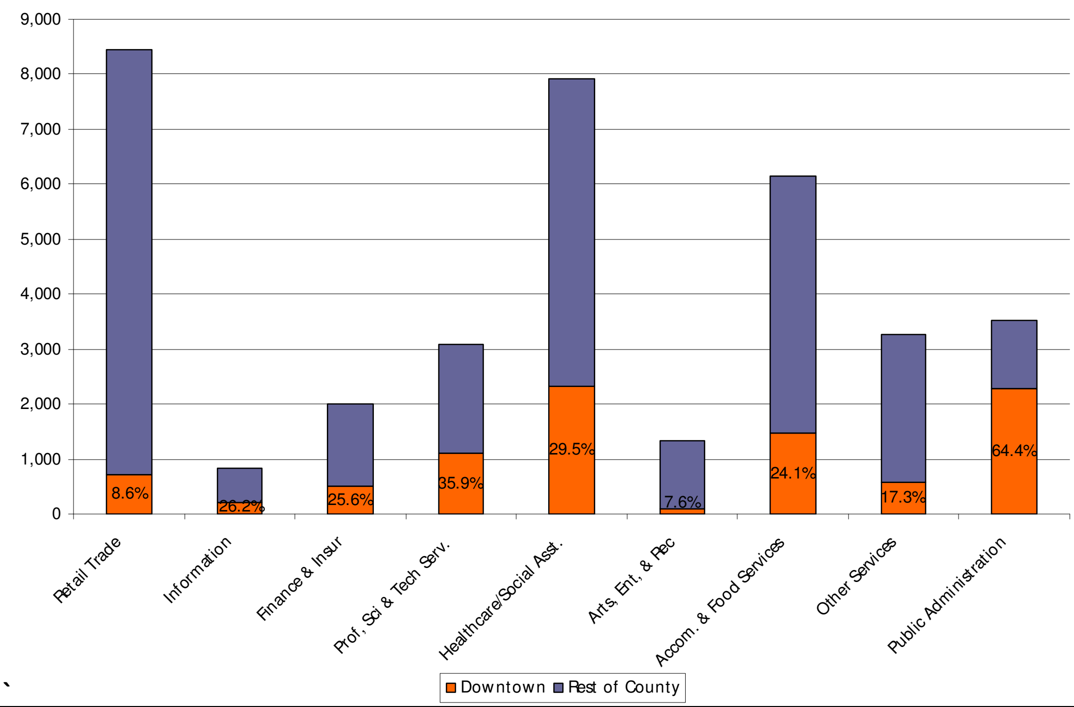


Figure II-6: Downtown Missoula Share of Missoula County Employment, Select Industries



Incomes

Household incomes indicate the relative buying power of resident households which inform demand for retail and services and housing price points for new residential products. In the Downtown Census Tract, data at the time of the market analysis suggested that nearly half of all Downtown Missoula households earned $15,000 or less per year. This is not surprising given the types of predominant housing product types and the large student population at the University of Montana. Households in the City and County can be described as moderate-earning households—with just under 80 percent earning under $75,000 annually. The median household income of Downtown households was $15,500 in 2007; the City and County's were $37,600 and $41,800, respectively. By contrast, average household incomes were $21,200 in the Downtown, $51,000 in the City, and $54,000 in the County. This suggests greater income disparity across Missoula's geography - in other words, that there are a larger number of low and moderate income-earning households and a smaller number of households that earn a high enough income to increase the average.

By 2012, the median income of Downtown households is projected to increase by 15 percent. This averages to approximately 3 percent per year, which closely tracks inflation (thus not necessarily increasing the overall spending power of households). The average income will increase by a slightly higher 18 percent, representing a "real" increase, slightly above that of inflation. Similarly the City as a whole is expected to have an increase of 19 percent in both median and average household incomes over the next five years. County incomes are expected to increase at approximately the rate of inflation.

The greatest numeric increases in households in the Downtown are expected in the category of households earning $25,000 to $34,999 (56 additional households) and $75,000 to $99,999 (32 additional households). Downtown is projected to increase its share of households earning these levels as well, by 3.9 percent and 2.4 percent. Because of the relatively small number of households earning in the higher income brackets, the large percentage increases in these ranges (such as the 800 percent increase in the $75,000 to $99,999 range) actually represent a small amount of growth. It is, however, still a positive sign that these levels are increasing, indicating new types of residents and total population moving Downtown, and the potential for additional increases in the future.

The City is projected to have the greatest number of additional households in the $100,000 to $149,999 range, adding 1,200 new households. The County will also add the greatest number of

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households (approximately 2,000) to this category. This income range will also have the largest increase in share in the two geographies and one of the highest percentage increases. The number of households earning between $150,000 and $199,999 is expected to have the greatest percentage increase (65 percent in the City and 64 percent in the County).

Table II-9: 2007 Share of Households by Household Income

2007 (%)	Census Tract 3	Missoula	Missoula Co.
< $15,000	47.6%	18.6%	15.4%
$15,000 - $24,999	29.2%	15.2%	13.7%
$25,000 - $34,999	8.9%	13.2%	12.8%
$35,000 - $49,999	6.8%	15.4%	16.6%
$50,000 - $74,999	5.1%	17.3%	19.7%
$75,000 - $99,999	0.3%	9.8%	10.7%
$100,000 - $149,999	2.0%	7.2%	7.6%
$150,000 - $199,999	0.2%	1.9%	1.7%
$200,000+	0.0%	1.5%	1.6%
Total HH	100.0%	100.0%	100.0%

Source: ESRI; Census 2000; Economics Research Associates, April 2008

Table II-10: Area Household Income Characteristics

	Census Tract 3			Missoula			Missoula Co.		
	2007	2012	% Change	2007	2012	% Change	2007	2012	% Change
< $15,000	620	508	-18%	4,898	4,348	-11%	6,556	5,980	-9%
$15,000 - $24,999	380	395	4%	4,009	3,673	-8%	5,829	5,361	-8%
$25,000 - $34,999	116	168	45%	3,470	3,326	-4%	5,446	5,239	-4%
$35,000 - $49,999	88	114	30%	4,044	4,094	1%	7,049	7,031	0%
$50,000 - $74,999	67	63	-6%	4,539	4,730	4%	8,386	8,777	5%
$75,000 - $99,999	4	36	800%	2,574	3,161	23%	4,547	5,542	22%
$100,000 - $149,999	26	19	-27%	1,894	3,095	63%	3,231	5,203	61%
$150,000 - $199,999	2	11	450%	497	820	65%	736	1,208	64%
$200,000+	0	1	n/a	383	709	n/a	696	1,144	n/a
Total HH	1,303	1,315	1%	26,308	27,956	6%	42,476	45,485	7%
Median ($)	$15,461	$17,833	15%	$37,576	$44,603	19%	$41,804	$48,103	15%
Average ($)	$21,209	$25,049	18%	$51,185	$60,975	19%	$54,085	$63,003	16%

Source: ESRI; Economics Research Associates, April 2008

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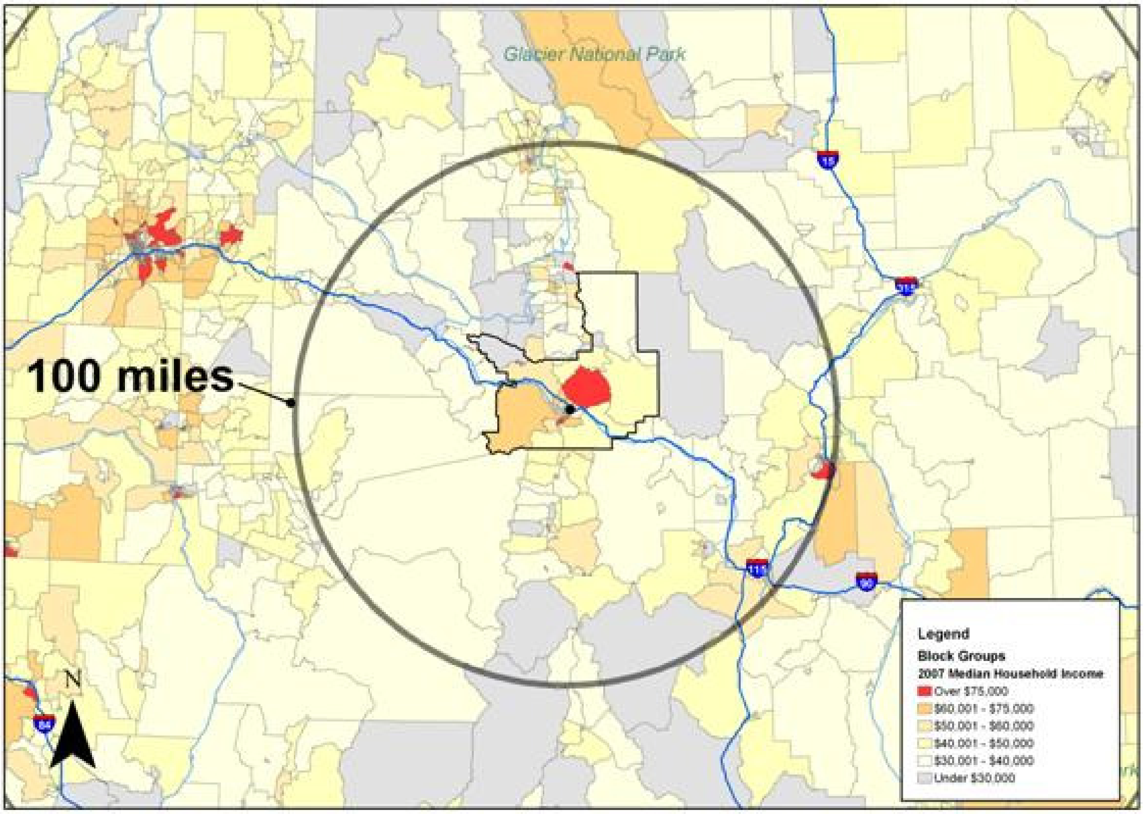
Figure II-7: Median Household Incomes by Block Group



Source: ESRI Business Analyst; Economics Research Associates, 2008.

Lifestyle and Housing Types

Tapestry

ESRI publishes a series of data that summarizes households in an area into lifestyle segments that typify an area based on income, housing preference, inclination for an urban environment, spending patterns, household type, and a number of other indicators. These give insight into qualities of the households living in the area beyond simple demographic numbers and indicate what new households could potentially be like (with the theory that "birds of a feather flock together"). These data are another level of information to help inform the types of new housing and retail services that could be provided in the future.

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Based on the income information seen earlier in this report, it is not surprising that Downtown's households are split mostly evenly into two segments: "College Towns"—representing university students and recent graduates—and "Social Security Set"—comprised of older residents. ESRI describes these as:

College Towns: "Education is the key focus for 'College Towns' residents. College and graduate school enrollment is approximately 41 percent. The median age for this market is 24.4 years, with a high concentration of 18–24-year-old residents. One out of seven residents lives in a dorm on campus. Students in off-campus housing rent low-income apartments. Approximately 30 percent of the households are occupied by owners, who are typically town residents living in single-family dwellings. The median home value is $152,965. Convenience is the primary consideration for food purchases; residents frequently eat out, order in, or eat easy-to-prepare food. Many own a laptop computer or an expensive desktop personal computer. In their leisure time, they jog, go horseback riding, practice yoga, play tennis, rent videos, play chess or pool, attend rock and country music concerts, attend college football or basketball games, and go to bars. They listen to classical and alternative music radio formats."

Social Security Set: "Four in ten householders in the Social Security Set segment are aged 65 years or older; the median age is 45.6 years. Most of these residents live alone. Located in large cities scattered across the United States, these communities are dispersed among business districts and around city parks. The service industry provides more than half of jobs held by residents who work. Households subsist on very low, fixed incomes. Most residents rent apartments in low-rent, high-rise buildings. Many rely on easily-accessible public transportation, because more than half of these households do not own a vehicle. Limited resources somewhat restrict the purchases and activities of these residents. They bank in person and pay cash when they shop. They enjoy going to the movies and soccer games and reading science fiction. Many households subscribe to cable so they can watch daytime and primetime TV; residents particularly enjoy watching game shows, sports, and entertainment news shows."

The segments of Downtown households are also a reflection of the larger community. College town households also feature prominently in the City (32 percent) and County (20 percent).

Table II-11: Top Tapestry Segments, 2007

Census Tract 3			Missoula			Missoula County		
Category	#	%	Category	#	%	Category	#	%
Social Security Set	681	52%	College Towns	8,445	32%	College Towns	8,453	20%
College Towns	622	48%	Metropolitans	3,578	14%	Midland Crowd	7,348	17%
			Old and Newcomers	1,815	7%	Metropolitans	3,610	9%
			Great Expectations	1,736	7%	Crossroads	3,143	7%
			Crossroads	1,421	5%	Green Acres	2,421	6%
Subtotal: Top 5	1,303	100%	Subtotal: Top 5	16,995	65%	Subtotal: Top 5	24,976	59%
Remainder	0	0%	Remainder	9,313	35%	Remainder	17,500	41%
Total Households	1,303	100%	Total Households	26,308	100%	Total Households	42,476	100%

Source: ESRI; Economics Research Associates, April 2008

Students and the University

The student population at The University of Montana impacts the types of housing and retail in the area. The university and its students also exist as a draw for many of the visitors to the City. In 2006, there were a total of approximately 14,000 students at the University, the majority (about 12,000) of which were undergraduates. Of all students, 72 percent were from Montana. Enrollment at the university has increased by approximately 40 percent in the last 10 years, with 25 percent of all students live in on-campus housing.

Housing Types

Households in the Downtown predominantly rent (93 percent), while the City's households are more or less evenly split between owners and renters and the County has a larger percentage of owners (62 percent). These data support the lifestyle characteristics and income data previously seen, again reflecting the large student and elderly population in the Downtown and surrounding area. The percentage of renters also indicates the limited amount of for-sale housing product (either in single family or multi-family structures) available downtown.

Table II-12: Occupied Housing by Tenure, 2007

	Census Tract 3		Missoula		Missoula County	
	#	%	#	%	#	%
Owner-Occupied	93	7%	13,422	51%	26,340	62%
Renter-Occupied	1,210	93%	12,885	49%	16,136	38%
Total	**1,303**	**100%**	**26,307**	**100%**	**42,476**	**100%**

Source: ESRI; Economics Research Associates, April 2008
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ERA

According to 2000 Census data, only 15 percent of residential units Downtown are single-family, compared to over half in both the City and County. Nearly a quarter of all residential units Downtown are in buildings with 50 or more units. In the Downtown Census Tract, nearly 70 percent of all units are in buildings with 5 or more units, suggesting a high concentration of multifamily dwellings typical of student and senior housing. This is in stark contrast to the City and County which have only 18 and 11 percent, respectively, in these kinds of buildings (and those percentages are inclusive of Downtown).

Table II-13: Housing Units by Number of Units in Structure, 2000

	Census Tract 3		Missoula		Missoula County	
	#	%	#	%	#	%
1, Detached	215	15%	13,534	54%	24,835	60%
1, Attached	29	2%	976	4%	1,233	3%
2	101	7%	1,739	7%	2,078	5%
3 to 4	126	9%	2,699	11%	2,936	7%
5 to 9	246	17%	1,379	5%	1,460	4%
10 to 19	168	12%	1,052	4%	1,065	3%
20 to 49	208	14%	756	3%	766	2%
50 or More	356	24%	1,317	5%	1,319	3%
Mobile Home	7	0%	1,615	6%	5,528	13%
Other	0	0%	28	0%	99	0%
Total	**1,456**	**100%**	**25,095**	**100%**	**41,319**	**100%**

Source: ESRI; Census 2000; Economics Research Associates, April 2008

Visitors

Visitors are an important factor in the Missoula economic picture. Located between two National Parks—Glacier and Yellowstone—and home to The University of Montana, Missoula attracts visitors for various reasons. Attracting and capturing their potential expenditures will be a key component of the projected retail demand and strategy found later in this document.

According to data from Smith Travel Research, there are 1,966 rooms in Missoula. According to ERA's estimates, 720 of these rooms (around 36%) are located in the greater Downtown area. Other hotel/lodging concentrations are located in the commercial concentrations along on North Reserve Street.

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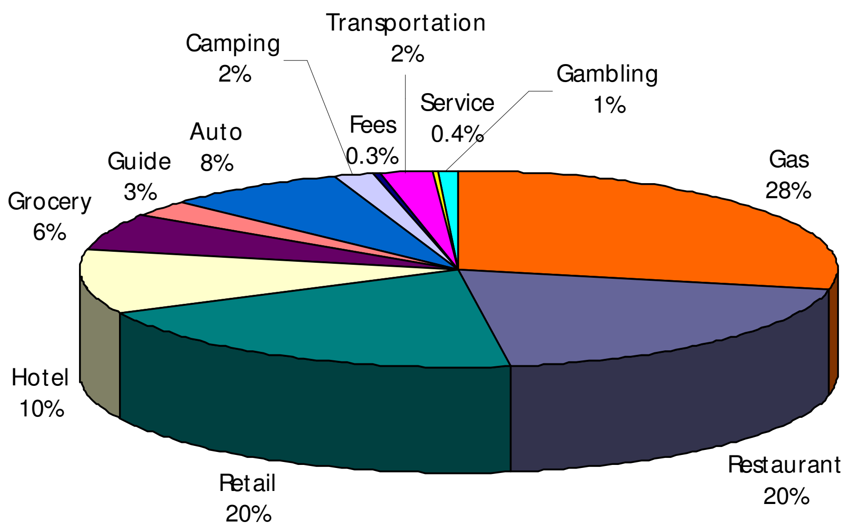
The University of Montana's Institute for Tourism Research publishes data on visitor trends and visitor expenditures. According to this data, 60 percent of out-of-state visitors spending at least one night in Missoula are from households earning $60,000 or more. Top state for non-Montana visitors to Missoula are Washington (20.2 percent), California (7.1 percent), Idaho (6.8%), and Utah (6.2 percent).

In 2006, visitors to Missoula County spent an average of $246. The greatest percentage of this was spent on gas (28 percent) indicating a substantial driving-based visitor market, followed by restaurants (20 percent) and retail (20 percent). The amount spent on retail, groceries, and restaurants combined ($112 average per visitor) was used as a variable for visitor spending in ERA's retail demand analysis. For pass-through visitors (those who drive through Missoula, stop to dine and shop but who do not stay overnight in a hotel) the average expenditure estimate used was $28 per visitor).

Figure II-8: Missoula Nonresident Spending by Category, 2006



Source: University of Montana Institute for Tourism and Recreation Research, 2006; Economics Research Associates, March 2008.

The overnight stay visitor market is a significant part of visitor market expenditures in Missoula; however, ERA also notes that volume of traffic on Interstate 90 is also significant (averaging

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approximately 17,000 vehicles per day or about 6 million vehicles per year, according to the Montana Department of Transportation in 2006, the most recent data available. This market was assumed to have general spending patterns proportionate to overnight visitors, but discounted in actual spending amount to one meal per stopover, reduced retail and grocery expenditure levels and a lower capture rate of total pass-through visitors. Depending upon the percentage of capture of actual spenders as a percentage of total pass-through visitors, annual spending for this discrete visitor group would range from an estimated $5.8 million per year up to $11.65 million per year for these three categories. Effective marketing of the offerings in downtown Missoula to I-90 drivers and regional tourists will help to attract and sustain expenditures for food and beverage and retail from this submarket.

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III. Real Estate Conditions

Residential

Building Permits

ERA examined building permit activity in Missoula and Missoula County to understand the pace of new housing development, by specific product (i.e., single-family, condominiums, etc.), and to understand local and regional residential development trends. Table III- summarizes permit activity for Missoula and Missoula County for the 1995—2006 period. Over this period, the majority of the units were constructed in the City of Missoula, rather than in the unincorporated areas. There was an increase in construction in unincorporated areas over the last 2 years, with permits in these areas representing 14 percent of all units constructed (versus less than 1 percent of all other years combined). Total residential permit activity peaked in 2002 at 1,127 and has generally been declining since that time with 518 total permits recorded in 2006.

Table III-1: Missoula and Missoula County Residential Building Permit Data, 1997-2006

						1997-2001		
Jurisdiction	1997	1998	1999	2000	2001	Total	Growth Rate	CAGR
Missoula	408	549	422	570	520	2,469	27.5%	5.0%
Missoula County Unincorp.	5	0	0	1	3	9	-40.0%	-9.7%
Missoula County Total	413	549	422	571	523	2,478	26.6%	4.8%

						2002-2006		
	2002	2003	2004	2005	2006	Total	Growth Rate	Avg Annual Growth Rate
Missoula	1,127	947	584	566	423	3,647	-62.5%	-17.8%
Missoula County Unincorp.	0	0	4	72	95	171	n/a	n/a
Missoula County Total	1,127	947	588	638	518	3,818	-54.0%	-14.4%

Source: U.S. Department of Housing and Urban Development; Economics Research Associates, March 2008.

Of all County units permitted, slightly over half were single-family. The majority of multifamily units permitted were in 2002-2003.

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Figure III-1: Total Missoula County Building Permits by Type. 1997-2006

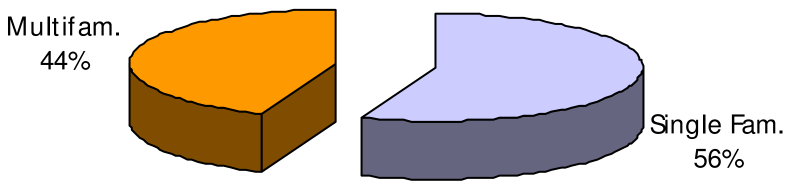
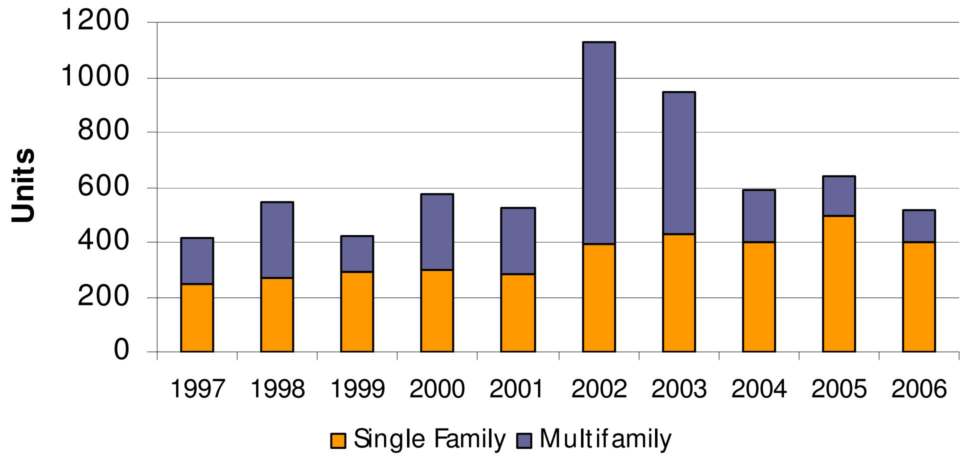


Figure III-2: Missoula County Building Permits by Type, 1997-2006



It should be noted that this data reflects market characteristics prior to the economic downturn in late 2008.

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IV. Retail Market

Retail Supply

There are a total of 1.8 million square feet of shopping center space in Missoula, according to real estate data provider CoStar. Over half of this square footage is distributed between the two major centers in the area: Southgate Mall south of downtown and Grant Creek Town Center on North Reserve Street. The remainder is comprised of large stand-alone retailers, neighborhood and community centers, many grocery-anchored. In addition to shopping center space, there are 1.3 million square feet in freestanding retail space (including freestanding big boxes, fast food outlets, gas stations, auto repair, and some inline Downtown retail), according to CoStar.

Constructed in 1978 and renovated in 1998, Southgate Mall is a family-owned mall with four department store anchors (Sears, JC Penney, Dillard's, and Herberger's) and a variety of in-line mall stores. Reportedly, sales at the JC Penney store are relatively low compared to other department stores in their portfolio. There are several higher-end choices among these in-line stores including Chico's, Coldwater Creek, and Hollister, which replaced a closed Express store. The mall also has several unique offerings, including locally and regionally-owned retailers and a Swedish-based homegoods store called Oil & Vinegar.

Sales had been increasing at the mall, but same store sales in the winter of 2007 decreased slightly, largely due to the weather conditions. March 2008 sales results achieved a slight increase. Annual sales at the center are reported at $100 million, or about $172 per square foot. By comparison, average regional mall sales across the country are over $300 per square foot.

The mall estimates its primary trade area as being Missoula County; however, secondary and tertiary markets bring the total potential customers in the trade area to 600,000. Customers can be drawn from as far as Spokane and Canada. Customers from Idaho and Washington can be attracted to shop in Montana due to the lack of sales tax. Additionally, Canadian customers are drawn to shop in the U.S. when the Canadian dollar is strong.

There was some concern about how the 1998 opening of the Grant Creek Town Center, a power center on the North Reserve Street Corridor, and other developments in that area, would affect Southgate Mall. According to mall management, the addition of 500,000 square feet of space and new retail options to the Missoula market served instead to strengthen the overall drawing power of the city within the regional market and increased traffic to Southgate Mall. The Grant Creek Town Center was anchored by Linens 'n Things (which closed in 2008 when the chain declared bankruptcy) but still has Ross Dress for Less and T.J. Maxx stores. Other major retailers in this part of Missoula include Target, Costco, Wal-Mart Supercenter, Lowe's, and Home Depot. Southgate Mall has available land upon which it could expand in the future, though according to management there are no plans for 2008-2009, and, given the national retail economy, will probably extend past 2009.

After many years of planning and permitting, the Wolford Development Company's proposal for a 577,000 square foot lifestyle shopping center in Kalispell was approved in July 2009. The first phase of Glacier Town Center is to include three 100,000 square foot stores (Dillard's and Herberger's have been mentioned as two of the three potential anchors). Future plans call for several hundred homes to be constructed on the site, but the timing for residential development is likely to be four to five years after the retail component. While the 92-mile distance to Kalispell will not encourage daily shopping trips from the trade area primarily oriented toward Missoula, the introduction of the new Glacier Town Center will likely affect the percentage of sales to Glacier National Park visitors which might have come to Missoula and will reduce some portion of total expenditures by a segment of the Missoula shoppers who currently travel from Kalispell.

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Name	Address	City	Zip	RBA/GLA	Built/Renov.	Anchors
Southgate Mall	2901 Brooks St	Missoula	59801	580,674	1978/ 1998	Dillard's,JCPenney,Sears,Herberger's
Grant Creek Town Center	3055-3275 N Reserve St	Missoula	59808	456,472	1998/	Linens n Things,Ross Dress for Less,T.J. Maxx
Holiday Village Center	1914 Brooks St	Missoula	59801	161,771	1997/	
North Centre I	2640 N Reserve St	Missoula	59808	121,000	1996/	
Northgate Plaza	2230 N Reserve St	Missoula	59808	118,000	1994/	Albertsons,Medical Center
Tremper's Shopping Center	2205 Oxford St	Missoula	59801	97,700		Albertsons
Russell Square Shopping Center	3800 S Russell St	Missoula	59801	95,468		Albertsons
East Gate Shopping Center	1003 E Broadway St	Missoula	59802	80,000	1963/ 1984	Albertsons
Town & Country Shopping Center	1600 S 3rd St W	Missoula	59801	63,135		
Missoula International Airport	5225 Hwy 10 W	Missoula	59802	50,000		
	16600 Beckwith St	Frenchtown	59834	17,401		
	3502 American Way	Missoula	59808	14,735	2004/	
	2401 N Reserve St	Missoula	59808	11,000	2006/	
	1220 S Higgins Ave W	Missoula	59803	8,474		
	3166 Highway 83	Seeley Lake	59868	8,000		
Trempers Shopping Center	2301 Brooks St	Missoula	59801	-		

Source: CoStar Property; Economics Research Associates, April 2008.

Table IV-1: Missoula Shopping Centers

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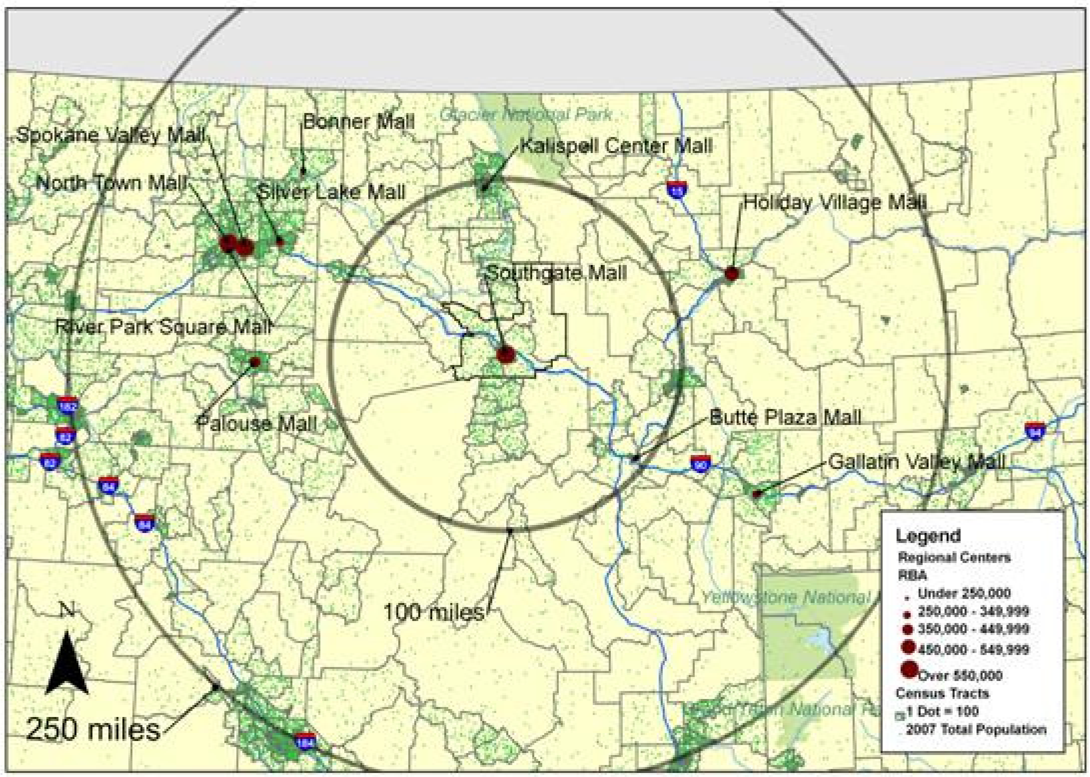
As previously mentioned, Missoula retail serves a large region. Other nearby retail concentrations are in Spokane, Kalispell, and Bozeman—all 100 or more miles from Downtown Missoula.

Figure IV–1: Regional Shopping Centers and Population Density



Source: CoStar Property; ESRI Business Analyst; Economics Research Associates, 2008.

The primary retail anchor tenant in Downtown Missoula is Macy's, which is the most upscale department store in the city. Because of its position as an anchor of Downtown that draws customers for other existing retail, the retention of Macy's has been a concern of the Downtown and will be a key consideration in the retail strategy. Currently, the department store is in a building it owns as a result of the acquisition of the Bon Stores. Estimated sales at Macy's at the time of the market analyses were reportedly just over $13 million, or about $325 per square foot. The downtown location is small compared to the typical Macy's prototype, with many of the size, space configuration and parking issues inherent to department stores in historic downtown

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buildings. Longer-term retention of Macy's in Downtown will likely require significant steps that may include renovation of the existing structure, expansion of the existing store to create more selling area, and the addition of convenient parking with dedicated spaces for Macy's.

Subsequent to the market analysis, ERA worked with the Downtown Business Improvement District of Missoula to complete a comprehensive inventory of retail, commercial and institutional/governmental space in downtown Missoula. Based on the findings and analysis of that inventory, it was determined that, within the primary shopping areas downtown (which comprised most of the Master Plan Study Area), there are almost 2 million square feet of space (1.993 million sf). Just over half of that space (1,016,106 square feet) was categorized as a broad definition of "retail", which includes specialty retail, food and beverage offerings and consumer and professional services. *Specialty retail* accounted for 38% of the total retail space (385,730 square feet); *food and beverage* totaled 21% of the retail total (213,988 square feet); *consumer and professional services* (insurance offices, banks, hair salons, architects, attorneys, accountants etc.) represented 41% of total retail at 416,379 square feet. There were 403 total establishments in the inventory, with 305 (or about 75%) of the establishments included in the retail category. According to the classifications used for the inventory, Downtown Missoula had 107 specialty retail businesses, 59 food and beverage businesses and 139 consumer and professional service businesses. The remaining 977,000 square feet of space was classified as "other", and includes institutional and government buildings such as the County Courthouse, City Hall, the Missoula Public Library, and community services including those that serve Missoula's homeless population. At the time of the space survey, there were 31 vacant spaces totaling almost 74,000 square feet, or about 4% of the total commercial/governmental/institutional space in the inventory. While the subsequent economic downturn (beginning the in fourth quarter of 2008) has affected a number of businesses in Missoula, the vacancy rate in the fourth quarter of 2009 increased slightly, according to data from the Downtown BID.

Category	Estimated Square Feet	Percentage of Square Feet	Number of Establishments	Percentage of Establishments
Specialty Retail	385,739	19%	107	27%
F & B	213,988	11%	59	15%
Consumer/Professional Services	416,379	21%	139	34%
Entertainment	57,433	3%	7	2%
Residential/Hotel	207,377	10%	7	2%
Vacant	73,816	4%	31	8%
Other	638,307	32%	53	13%
Total	**1,993,039**	**100%**	**403**	**100%**

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Source: Missoula Retail Inventory 2009; ERA| AECOM

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Retail Demand

Retail is a primary use Downtown. It serves residents, employees, local student-residents, and visitors, including those staying Downtown, staying in greater Missoula, and passing through on the Interstate. Each of these markets will spend differently. Retail that depends on proximity of its customers, such as convenience stores, supermarkets, drug stores, and newsstands, will receive more support from Downtown employees, Downtown residents and, to a certain extent, hotel guests in Downtown. Comparative retail, such as department stores, apparel stores, gift stores, and full service restaurants rely on a customer base from a wider area. In Missoula, this area extends quite far because of the relative lack of competition.

Within Missoula, Downtown competes with the City's other concentrations of retail—namely Southgate Mall and the North Reserve Street corridor. However, these retail concentrations also complement the Downtown by giving Missoula a greater power of attraction as a regional retail destination. Downtown retail excels in providing what is difficult in auto-oriented retail areas including a historic feel and local flavor. The buildings often found in downtowns, including Missoula, can usually offer smaller retail spaces at less expensive rents than in more newly constructed shopping centers. This can allow "mom and pops" to flourish, which add to the atmosphere of downtowns. Downtown Missoula is unique in its inclusion of Macy's; many downtowns no longer have major department stores. This gives Downtown an additional attractive draw for customers and stresses the importance of trying to maintain a Macy's store in the downtown area.

Retail Markets

Residents

Based upon the location of competitive retail and anecdotal information about consumer patterns in Montana, ERA has determined Downtown's primary trade area (the area from which it gets most of its sales) to be a 20-minute drive and the secondary trade area to be a 90-minute drive. To put this trade area in context, most regional centers nationwide state their overall trade areas as a 30-minute drive—with their primary trade areas often being much tighter. Missoula's trade areas are larger, even without being a large regional mall, because of the City's primacy within an area greater than a 100 mile radius. Additionally, trade areas are largely affected by consumer

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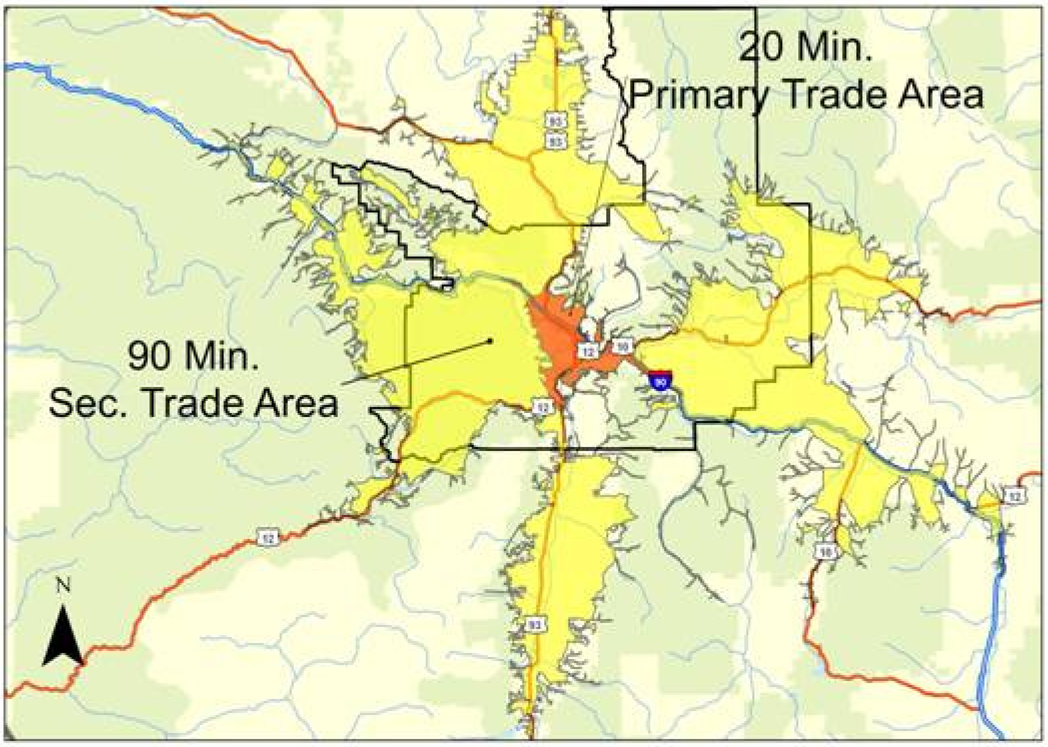
psychology. In some areas, an hour drive to go to a restaurant might seem unreasonable, while in Montana, this is customary and expected. The trade areas are shown on a map below in Figure IV-2.

Figure IV–2: Downtown Missoula Trade Area Map



Source: ESRI Business Analyst; Economics Research Associates, 2008.

Expenditures

Expenditures for the trade areas were determined using ESRI's 2007 estimates for expenditures by product type. These were then distributed by store type according to information from the 2002 U.S. Economic Census. In the final demand analysis, student expenditures and employee expenditures were removed from the totals, to avoid double counting.

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Table IV-2: Downtown Missoula Primary Trade Area Household Expenditures

Market Segment			20-Min Drive	
Market Size			35,987	38,495

Retail Store Category	Spending Per Household		Annual Expenditure Potential 2007	2012
Building material & garden equipment & supplies dealers	$ 105		$ 3,789,944	$ 4,054,073
Convenience				
Food & beverage stores	$ 3,389		$ 121,965,600	$ 130,465,606
Health & personal care stores	$ 591		$ 21,267,186	$ 22,749,335
Shoppers Goods				
General merchandise stores	$ 2,995		$ 107,783,091	$ 115,294,692
Clothing & clothing accessories stores	$ 1,881		$ 67,681,322	$ 72,398,157
Sporting goods, hobby, book, & music stores	$ 426		$ 15,347,103	$ 16,416,671
Furniture & home furnishings stores	$ 435		$ 15,671,122	$ 16,763,271
Electronics & appliance stores	$ 582		$ 20,934,595	$ 22,393,566
Miscellaneous store retailers	$ 233		$ 8,399,048	$ 8,984,394
Eating and Drinking				
Full-Service	$ 1,426		$ 51,320,363	$ 54,896,973
Limited-Service	$ 1,055		$ 37,974,652	$ 40,621,175
Total Expenditures, All Store Types			**$ 472,134,026**	**$ 505,037,911**

Source: ESRI Business Analyst; U.S. Economic Census, 2002; Economics Research Associates, 2008.

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Table IV-3: Downtown Missoula Secondary Trade Area Expenditures

Market Segment	90 min drive (net)		
Market Size		13,779	14,519
		Annual Expenditure Potential	
Retail Store Category	**Spending Per Household**	**2007**	**2012**
Building material & garden equipment & supplies dealers	$ 94	$ 1,293,201	$ 1,362,653
Convenience			
Food & beverage stores	$ 3,132	$ 43,158,871	$ 43,158,871
Health & personal care stores	$ 599	$ 8,250,635	$ 8,250,635
Shoppers Goods			
General merchandise stores	$ 2,684	$ 36,984,413	$ 36,984,413
Clothing & clothing accessories stores	$ 1,593	$ 21,946,776	$ 21,946,776
Sporting goods, hobby, book, & music stores	$ 381	$ 5,246,064	$ 5,246,064
Furniture & home furnishings stores	$ 375	$ 5,161,636	$ 5,161,636
Electronics & appliance stores	$ 460	$ 6,340,982	$ 6,340,982
Miscellaneous store retailers	$ 213	$ 2,941,327	$ 2,941,327
Eating and Drinking			
Full-Service	$ 1,166	$ 16,061,988	$ 16,924,596
Limited-Service	$ 870	$ 11,981,833	$ 12,625,316
Expenditures, All Store Types	**$ 11,566**	**$ 159,367,727**	**$ 160,943,269**

Source: ESRI Business Analyst; U.S. Economic Census, 2002; Economics Research Associates, 2008.

Capture Rates

Capture rates reflect how much of a household's total expenditures in a particular store category is spent downtown. It is an estimate based in part on accessibility, the competitive climate, and retail offerings. For example, a capture rate of 10 percent in Food and Beverage stores would indicate that Downtown businesses could capture $1 of every $10 spent by a household.

The following table shows the estimated capture rates for the two resident trade areas. In order to avoid "double counting" and to recognize different spending patterns by persons who may spend in one way as a resident and another as a downtown employee and students, student and employee workday spending was calculated separately from the resident households.

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Figure IV-3: Downtown Missoula Primary Trade Area Capture Rates

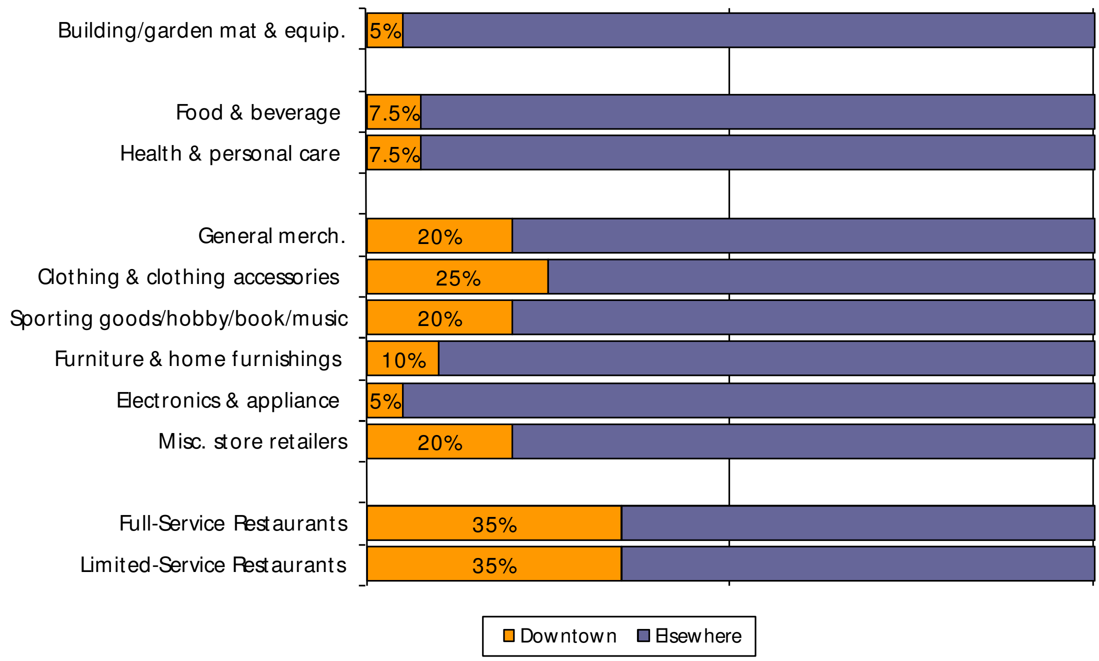
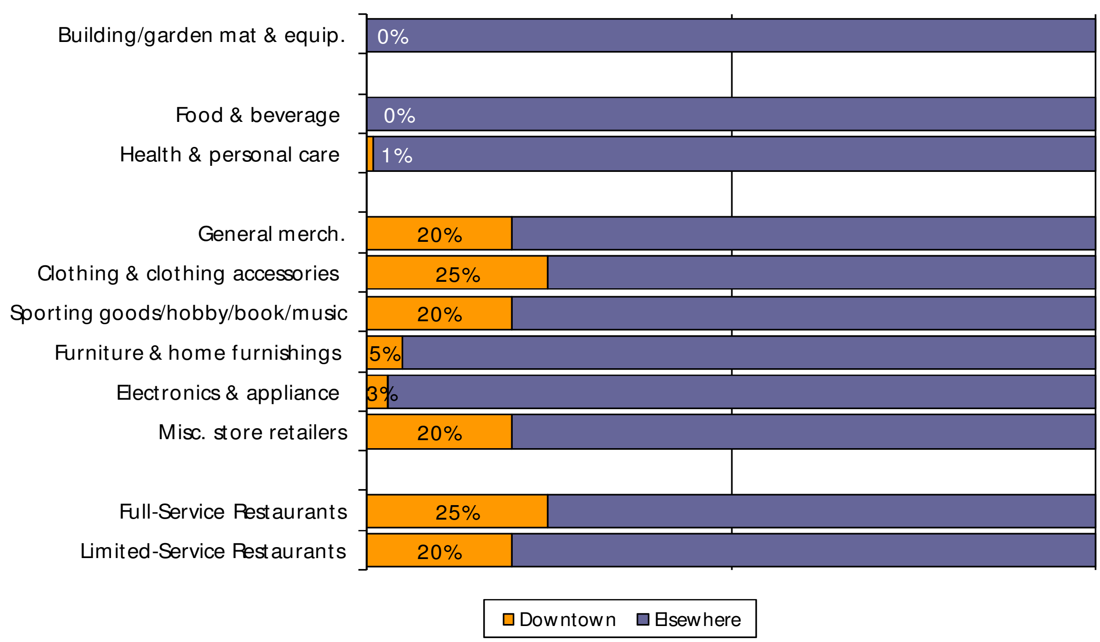


Figure IV-4: Downtown Missoula Secondary Trade Area Capture Rates



Source: Economics Research Associates, 2008.

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Retail Sales and Supportable Square Footage

Applying the capture rates to the total trade area expenditures for each trade area, net of employee and student expenditures, ERA estimated sales and supportable retail square footage for Downtown from these markets. As seen in the tables on the following pages, net of student and employee markets, the primary and secondary trade areas yield a total of $93.7 million in 2007 and $98.6 million in 2012. These supportable sales are converted into potential supportable square feet at the end of the retail demand analysis.

Table IV-4: Downtown Missoula Primary Trade Area Supportable Sales

2007

Market Segment	20-Min Drive
Market Size	35,987

Retail Store Category	Spending Per Household	Annual Expenditure Potential	Less Expenditures of Resident Employees	Less Expenditures of Students	Net Expenditure Potential	Capture Rate	Total Supportable Sales
Building material & garden equipment & supplies dealers	$ 105	$ 3,789,944	$ -	$ -	$ 3,789,944	5.0%	189,497
Convenience							
Food & beverage stores	$ 3,389	$ 121,965,600	$ (1,346,205)	$ (12,923,873)	$ 107,695,521	7.5%	8,077,164
Health & personal care stores	$ 591	$ 21,267,186	$ (673,102)	$ (1,877,106)	$ 18,716,978	7.5%	1,403,773
Shoppers Goods							
General merchandise stores	$ 2,995	$ 107,783,091	$ (833,263)	$ (7,602,278)	$ 99,347,549	20.0%	19,869,510
Clothing & clothing accessories stores	$ 1,881	$ 67,681,322	$ (555,509)	$ (3,848,067)	$ 63,277,746	25.0%	15,819,437
Sporting goods, hobby, book, & music stor	$ 426	$ 15,347,103	$ (555,509)	$ (2,721,803)	$ 12,069,791	20.0%	2,413,958
Furniture & home furnishings stores	$ 435	$ 15,671,122	$ (138,877)	$ (2,721,803)	$ 12,810,441	10.0%	1,281,044
Electronics & appliance stores	$ 582	$ 20,934,595	$ (138,877)	$ (1,877,106)	$ 18,918,613	5.0%	945,931
Miscellaneous store retailers	$ 233	$ 8,399,048	$ (555,509)	$ (1,877,106)	$ 5,966,434	20.0%	1,193,287
Eating and Drinking							
Full-Service	$ 1,426	$ 51,320,363	$ (3,170,423)	$ (7,508,423)	$ 40,641,516	35.0%	14,224,531
Limited-Service	$ 1,055	$ 37,974,652	$ (792,606)	$ (7,508,423)	$ 29,673,623	35.0%	10,385,768
		$ 472,134,026	**$ (8,759,879)**	**$ (50,465,989)**	**$ 412,908,157**	**16.1%**	**$ 75,803,900**

2012

Market Size	38,495

Retail Store Category	Spending Per Household	Annual Expenditure Potential	Less Expenditures of Resident Employees	Less Expenditures of Students	Net Expenditure Potential	Capture Rate	Total Supportable Sales
Building material & garden equipment & supplies dealers	$ 105	$ 4,054,073	$ -	$ -	$ 4,054,073	5.0%	202,704
Convenience							
Food & beverage stores	$ 3,389	$ 130,465,606	$ (1,429,024)	$ (15,508,648)	$ 113,527,934	7.5%	8,514,595
Health & personal care stores	$ 591	$ 22,749,335	$ (714,512)	$ (2,252,527)	$ 19,782,296	7.5%	1,483,672
Shoppers Goods							
General merchandise stores	$ 2,995	$ 115,294,692	$ (884,525)	$ (9,122,734)	$ 105,287,433	20.0%	21,057,487
Clothing & clothing accessories stores	$ 1,881	$ 72,398,157	$ (589,684)	$ (4,617,680)	$ 67,190,793	25.0%	16,797,698
Sporting goods, hobby, book, & music stor	$ 426	$ 16,416,671	$ (589,684)	$ (3,266,164)	$ 12,560,823	20.0%	2,512,165
Furniture & home furnishings stores	$ 435	$ 16,763,271	$ (147,421)	$ (3,266,164)	$ 13,349,686	10.0%	1,334,969
Electronics & appliance stores	$ 582	$ 22,393,566	$ (147,421)	$ (2,252,527)	$ 19,993,618	5.0%	999,681
Miscellaneous store retailers	$ 233	$ 8,984,394	$ (589,684)	$ (2,252,527)	$ 6,142,183	20.0%	1,228,437
Eating and Drinking							
Full-Service	$ 1,426	$ 54,896,973	$ (3,365,468)	$ (9,010,108)	$ 42,521,397	35.0%	14,882,489
Limited-Service	$ 1,055	$ 40,621,175	$ (841,367)	$ (9,010,108)	$ 30,769,700	35.0%	10,769,395
		$ 505,037,911	**$ (9,298,789)**	**$ (60,559,187)**	**$ 435,179,936**	**15.8%**	**$ 79,783,290**

Source: ESRI Business Analyst; U.S. Economic Census, 2002; Economics Research Associates, 2009.

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Table IV-5: Downtown Missoula Secondary Trade Area Supportable Sales

2007	
Market Segment	Secondary Trade Area
Market Size	13,779

Retail Store Category	Spending Per Household	Annual Expenditure Potential	Less Expenditures of Resident Employees	Net Expenditure Potential	Capture Rate	Total Supportable Sales
Building material & garden equipment & supplies dealers	$ 94	$ 1,293,201	$ -	$ 1,293,201	0.0%	-
Convenience						
Food & beverage stores	$ 2,973	$ 40,959,163	$ (2,447,645)	$ 38,511,517	0.0%	-
Health & personal care stores	$ 568	$ 7,830,119	$ (1,223,823)	$ 6,606,297	1.0%	66,063
Shoppers Goods						
General merchandise stores	$ 2,547	$ 35,099,403	$ (1,515,023)	$ 33,584,379	20.0%	6,716,876
Clothing & clothing accessories stores	$ 1,512	$ 20,828,200	$ (1,010,016)	$ 19,818,184	25.0%	4,954,546
Sporting goods, hobby, book, & music stores	$ 361	$ 4,978,684	$ (1,010,016)	$ 3,968,669	20.0%	793,734
Furniture & home furnishings stores	$ 356	$ 4,898,559	$ (252,504)	$ 4,646,055	5.0%	232,303
Electronics & appliance stores	$ 437	$ 6,017,796	$ (252,504)	$ 5,765,292	3.0%	172,959
Miscellaneous store retailers	$ 203	$ 2,791,414	$ (1,010,016)	$ 1,781,399	20.0%	356,280
Eating and Drinking						
Full-Service	$ 1,166	$ 16,061,988	$ (5,764,406)	$ 10,297,582	25.0%	2,574,396
Limited-Service	$ 870	$ 11,981,833	$ (1,441,101)	$ 10,540,731	20.0%	2,108,146
		$ 152,740,361	$ (15,927,054)	$ 136,813,308	11.8%	$ 17,975,302

2012	
Market Size	14,519

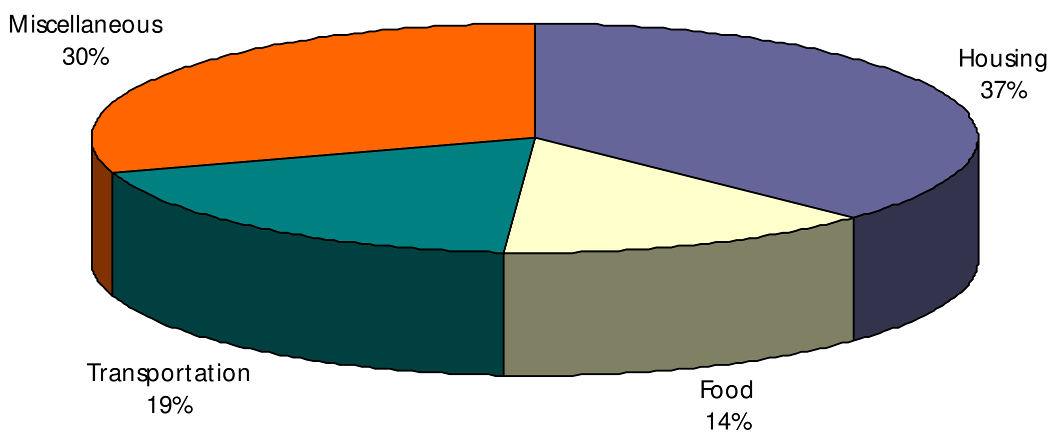
Retail Store Category	Spending Per Household	Annual Expenditure Potential	Less Expenditures of Resident Employees	Net Expenditure Potential	Capture Rate	Total Supportable Sales
Building material & garden equipment & supplies dealers	$ 94	$ 1,362,653	$ -	$ 1,362,653	0.0%	-
				$ -		
Convenience				$ -		
Food & beverage stores	$ 2,973	$ 43,158,871	$ (2,598,225)	$ 40,560,646	0.0%	-
Health & personal care stores	$ 568	$ 8,250,635	$ (1,299,112)	$ 6,951,523	1.0%	69,515
				$ -		
Shoppers Goods				$ -		
General merchandise stores	$ 2,547	$ 36,984,413	$ (1,608,228)	$ 35,376,185	20.0%	7,075,237
Clothing & clothing accessories stores	$ 1,512	$ 21,946,776	$ (1,072,152)	$ 20,874,624	25.0%	5,218,656
Sporting goods, hobby, book, & music stores	$ 361	$ 5,246,064	$ (1,072,152)	$ 4,173,912	20.0%	834,782
Furniture & home furnishings stores	$ 356	$ 5,161,636	$ (268,038)	$ 4,893,598	5.0%	244,680
Electronics & appliance stores	$ 437	$ 6,340,982	$ (268,038)	$ 6,072,944	3.0%	182,188
Miscellaneous store retailers	$ 203	$ 2,941,327	$ (1,072,152)	$ 1,869,175	20.0%	373,835
				$ -		
Eating and Drinking				$ -		
Full-Service	$ 1,166	$ 16,924,596	$ (6,119,033)	$ 10,805,563	25.0%	2,701,391
Limited-Service	$ 870	$ 12,625,316	$ (1,529,758)	$ 11,095,558	20.0%	2,219,112
		$ 160,943,269	$ (16,906,888)	$ 144,036,381	11.8%	$ 18,919,396

Source: ESRI Business Analyst; U.S. Economic Census, 2002; Economics Research Associates, 2009.

Students

As previously mentioned, the existence of the university has an impact on the types of retail and services in Missoula. Not surprisingly, students spend money differently than typical households, and the income/spending statistics provided by Census and data-provider ESRI do not always account for the fact that students' spending money is not relational to their income. ERA used 2006 student enrollment figures and typical student spending figures to estimate the impact of student spending on area retail. The average student expenditure numbers were gathered from information provided by the College Board to help Financial Aid Administrators make cost of living estimates for students at their universities. The data is provided as "low" or "moderate" amounts and by region. ERA used the low figure for the Seattle-Tacoma, WA metro area ($11,586). According to the College Board, this amount is broken down by the categories shown in Figure.

Figure IV-5: Student Living Expenses by Category, 2008



Source: The College Board, 2007; Economics Research Associates, 2008.

According to the University of Montana at the time of the market analysis in 2008, there were 10,801 full-time students at the university, and 75 percent live off-campus. Because on-and off-campus students spend differently, these two groups' spending was calculated separately to determine an average spending per student amount for the analysis as shown in Table IV-6. The student population is projected to grow to almost 13,000 by 2012, and 75 % of students reportedly live off campus.

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	Full-Time Students 2007	Full-Time Students 2012
Living On-Campus	2,700	3,240
Living Off-Campus	8,101	9,721
Total	**10,801**	**12,961**

	On Campus			Off-Campus			Total		
	Per Student	2007	2012	Per Student	2007	2012	Per Student	2007	2012
Convenience									
Food & beverage stores	$ -	$ -	$ -	$ 1,595	$ 12,923,873	$ 15,508,808	$ 1,197	$ 12,923,873	$ 15,508,808
Health & personal care stores	$ 174	$ 469,276	$ 563,080	$ 174	$ 1,407,829	$ 1,689,413	$ 174	$ 1,877,106	$ 2,252,492
Shoppers Goods									
General merchandise stores	$ 730	$ 1,970,961	$ 2,364,934	$ 695	$ 5,631,317	$ 6,757,650	$ 704	$ 7,602,278	$ 9,122,585
Clothing & clothing accessories stores	$ 382	$ 1,032,408	$ 1,238,775	$ 348	$ 2,815,659	$ 3,378,825	$ 356	$ 3,848,067	$ 4,617,600
Sporting goods, hobby, book, & music stores	$ 278	$ 750,842	$ 900,927	$ 243	$ 1,970,961	$ 2,365,178	$ 252	$ 2,721,803	$ 3,266,105
Furniture & home furnishings stores	$ 174	$ 469,276	$ 563,080	$ 278	$ 2,252,527	$ 2,703,060	$ 252	$ 2,721,803	$ 3,266,140
Electronics & appliance stores	$ 174	$ 469,276	$ 563,080	$ 174	$ 1,407,829	$ 1,689,413	$ 174	$ 1,877,106	$ 2,252,492
Miscellaneous store retailers	$ 174	$ 469,276	$ 563,080	$ 174	$ 1,407,829	$ 1,689,413	$ 174	$ 1,877,106	$ 2,252,492
Eating and Drinking									
Full-Service	$ 695	$ 1,877,106	$ 2,252,318	$ 695	$ 5,631,317	$ 6,757,650	$ 695	$ 7,508,423	$ 9,009,969
Limited-Service	$ 695	$ 1,877,106	$ 2,252,318	$ 695	$ 5,631,317	$ 6,757,650	$ 695	$ 7,508,423	$ 9,009,969
Total	**$ 3,476**	**$ 9,385,529**	**$ 11,261,592**	**$ 5,071**	**$ 41,080,460**	**$ 49,297,059**	**$ 4,672**	**$ 50,465,989**	**$ 60,558,651**

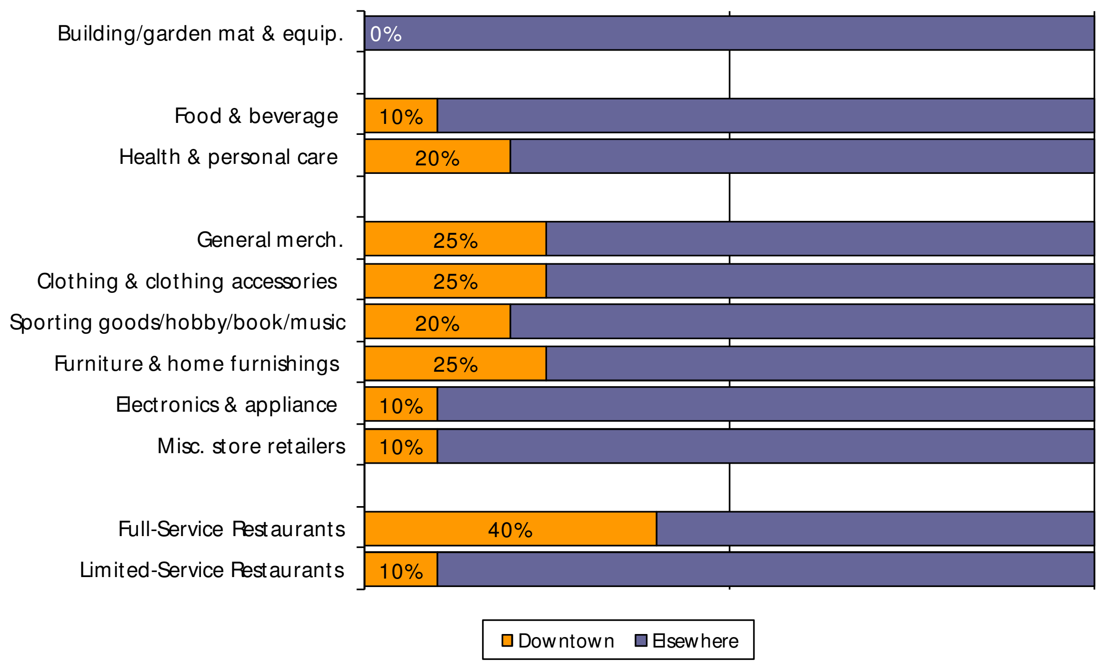
Source: University of Montana, 2006; The College Board, 2007; Economics Research Associates, 2008.

Table IV-6: University of Montana Full-Time Student Expenditures

Capture Rates

Student expenditures can be spent on campus, in other local shopping centers, and out of the area in addition to Downtown, so it is necessary to capture a percentage of these expenditures, as for residents. These rates are shown in Figure.

Figure IV–6: Downtown Missoula Capture of Student Expenditures



Source: Economics Research Associates, 2008.

Applying these capture rates to the estimated expenditures of University of Montana students, there are a potential of $9.1 million in supportable sales Downtown attributable to students in 2007. Assuming expenditures-per-student (net of inflation) will remain the same between now and 2012 and that enrollment will increase at the same rate it has in the last 5 years, there will be $10.9 million in captured sales by students in Downtown Missoula, as shown in Table IV-7.

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Table IV-7: Downtown Missoula Supportable SF and Sales from University Students

2007						
Market Segment	Student					
Market Size	10,801					
Retail Store Category	**Average Spending Per Student**		**Annual Expenditure Potential**	**Capture Rate**		**Total Supportable Sales**
Convenience						
Food & beverage stores	$1,196.54	$	12,923,873	10.0%		1,292,387
Health & personal care stores	$ 173.79	$	1,877,106	20.0%		375,421
Shoppers Goods						
General merchandise stores	$ 703.85	$	7,602,278	25.0%		1,900,570
Clothing & clothing accessories stores	$ 356.27	$	3,848,067	25.0%		962,017
Sporting goods, hobby, book, & music stores	$ 252.00	$	2,721,803	20.0%		544,361
Furniture & home furnishings stores	$ 252.00	$	2,721,803	25.0%		680,451
Electronics & appliance stores	$ 173.79	$	1,877,106	10.0%		187,711
Miscellaneous store retailers	$ 173.79	$	1,877,106	10.0%		187,711
Eating and Drinking						
Full-Service	$ 695.16	$	7,508,423	30.0%		2,252,527
Limited-Service	$ 695.16	$	7,508,423	10.0%		750,842
		$	50,465,989		$	9,133,997

2012						
Market Size	12,961					
Retail Store Category	**Average Spending Per Student**		**Annual Expenditure Potential**	**Capture Rate**		**Total Supportable Sales**
Convenience						
Food & beverage stores	$1,196.54	$	15,508,648	10.0%		1,550,865
Health & personal care stores	$ 173.79	$	2,252,527	20.0%		450,505
Shoppers Goods						
General merchandise stores	$ 703.85	$	9,122,734	25.0%		2,280,684
Clothing & clothing accessories stores	$ 356.27	$	4,617,680	25.0%		1,154,420
Sporting goods, hobby, book, & music stores	$ 252.00	$	3,266,164	20.0%		653,233
Furniture & home furnishings stores	$ 252.00	$	3,266,164	25.0%		816,541
Electronics & appliance stores	$ 173.79	$	2,252,527	10.0%		225,253
Miscellaneous store retailers	$ 173.79	$	2,252,527	10.0%		225,253
Eating and Drinking						
Full-Service	$ 695.16	$	9,010,108	30.0%		2,703,032
Limited-Service	$ 695.16	$	9,010,108	10.0%		901,011
		$	60,559,187	18.1%	$	10,960,796

Source: University of Montana; The College Board; Economics Research Associates, 2009.

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Employees

As described earlier, ERA used data from Info USA to estimate the number of employees Downtown. Assuming growth of employment of approximately 1 percent in the next 5 years, there will be 10,195 employees in 2012.

To determine employee workday expenditures, ERA utilized a survey done in 2005 by the International Council of Shopping Centers (ICSC). According to this survey, workers in a Downtown with limited retail (which ERA used because the Downtowns they surveyed were in larger cities) would spend a total of approximately $2,100 annually during the workday close to their office. Adjusting for inflation brings this amount to $2,375. ICSC breaks the total into major spending categories, and ERA has estimated what percentage of this is in more detailed retail sub-categories.

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Table IV-8: Downtown Missoula Employee Expenditures, 2007-2012

Market Segment		Employee				
Market Size				9,700		10,195
			Annual Expenditure Potential			
Retail Store Category	**Spending Per Employee**			**2007**		**2012**
Convenience						
Food & beverage stores	$	252	$	2,447,645	$	2,572,500
Health & personal care stores	$	126	$	1,223,823	$	1,286,250
Shoppers Goods						
General merchandise stores	$	156	$	1,515,023	$	1,592,305
Clothing & clothing accessories stores	$	104	$	1,010,016	$	1,061,537
Sporting goods, hobby, book, & music stores	$	104	$	1,010,016	$	1,061,537
Furniture & home furnishings stores	$	26	$	252,504	$	265,384
Electronics & appliance stores	$	26	$	252,504	$	265,384
Miscellaneous store retailers	$	104	$	1,010,016	$	1,061,537
Eating and Drinking						
Full-Service	$	594	$	5,764,406	$	6,058,449
Limited-Service	$	149	$	1,441,101	$	1,514,612
			$	**15,927,054**	**$**	**16,739,493**

Source: InfoUSA, ESRI Business Analyst, 2007; International Council on Shopping Centers, 2005; Economics Research Associates, 2008.

Some of these expenditures may be spent elsewhere. So, it was necessary to estimate the percentage captured by Downtown. Downtown has the potential to capture a fairly substantial percentage of employee workday spending, because of its proximity to these workers. However, there is still the opportunity for workers to drive a short distance to other retail opportunities.

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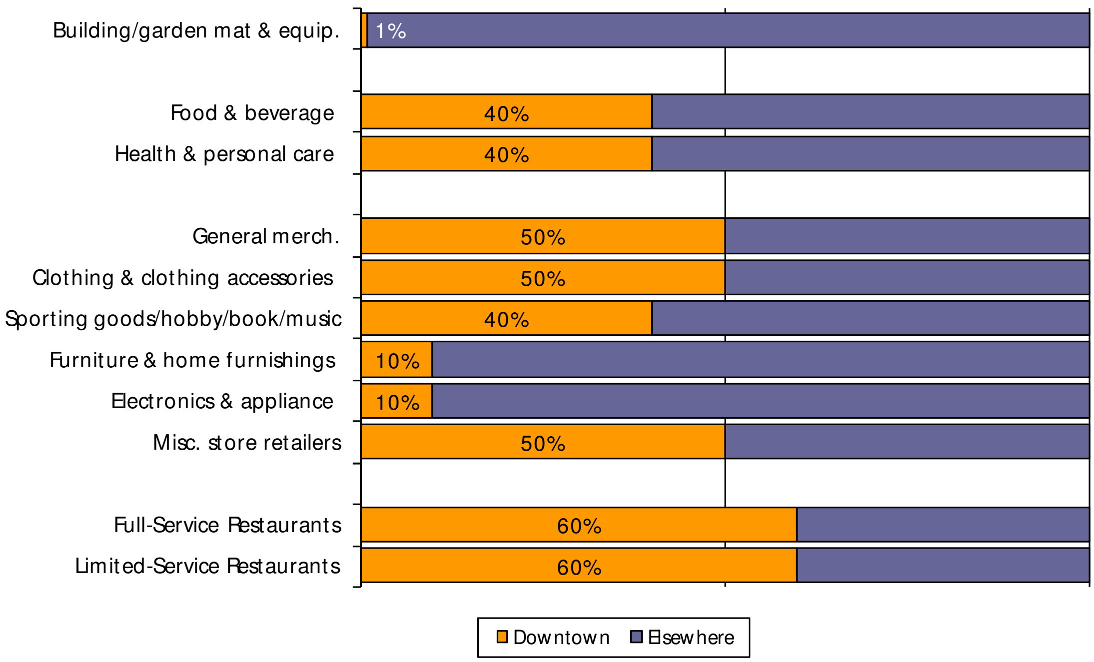
Figure IV-7: Downtown Missoula Employee Capture Rates



Source: Economics Research Associates, 2008.

ERA has estimated that of Downtown workers' workday spending close to the office, just under half (42.9 percent) could be captured Downtown across all store types. This yields supportable sales of $8 million in 2007 and $8.5 in 2012, as shown in Table IV-9 on the following page. It is estimated that half of these sales would be captured in full-service restaurants downtown.

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Table IV-9: Downtown Missoula Employee Supportable Sales

2007	
Market Segment	Employee
Market Size	9,700

Retail Store Category	Spending Per Employee	Annual Expenditure Potential	Capture Rate	Total Supportable Sales
Convenience				
Food & beverage stores	$ 252	$ 2,447,645	40.0%	979,058
Health & personal care stores	$ 126	$ 1,223,823	40.0%	489,529
Shoppers Goods				
General merchandise stores	$ 156	$ 1,515,023	50.0%	757,512
Clothing & clothing accessories stores	$ 104	$ 1,010,016	50.0%	505,008
Sporting goods, hobby, book, & music stores	$ 104	$ 1,010,016	40.0%	404,006
Furniture & home furnishings stores	$ 26	$ 252,504	10.0%	25,250
Electronics & appliance stores	$ 26	$ 252,504	10.0%	25,250
Miscellaneous store retailers	$ 104	$ 1,010,016	50.0%	505,008
Eating and Drinking				
Full-Service	$ 594	$ 5,764,406	60.0%	3,458,644
Limited-Service	$ 149	$ 1,441,101	60.0%	864,661
		$ 15,927,054	50.3%	$ 8,013,926

2012	
Market Size	10,195

Retail Store Category	Spending Per Employee	Annual Expenditure Potential	Capture Rate	Total Supportable Sales
Convenience				
Food & beverage stores	$ 255	$ 2,598,225	40.0%	1,039,290
Health & personal care stores	$ 127	$ 1,299,112	40.0%	519,645
Shoppers Goods				
General merchandise stores	$ 158	$ 1,608,228	50.0%	804,114
Clothing & clothing accessories stores	$ 105	$ 1,072,152	50.0%	536,076
Sporting goods, hobby, book, & music stores	$ 105	$ 1,072,152	40.0%	428,861
Furniture & home furnishings stores	$ 26	$ 268,038	10.0%	26,804
Electronics & appliance stores	$ 26	$ 268,038	10.0%	26,804
Miscellaneous store retailers	$ 105	$ 1,072,152	50.0%	536,076
Eating and Drinking				
Full-Service	$ 600	$ 6,119,033	60.0%	3,671,420
Limited-Service	$ 150	$ 1,529,758	60.0%	917,855
		$ 16,906,888	50.3%	$ 8,506,944

Source: InfoUSA, ESRI Business Analyst, 2007; International Council on Shopping Centers, 2005; Economics Research Associates, 2009.

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Overnight Visitors

Visitors are an important component of the Missoula economy, but often their impact on a city's retail can be overestimated. To quantify how Downtown retail businesses could benefit from overnight visitors, ERA used a combination of visitor spending data and data on visitation from the University of Montana's Institute of Tourism and Recreation Research. ERA used only those guests staying at hotels, which according to ITRR represent 49 percent of the total.

Visitor expenditure data for overnight guests to the state are by visitor group per day. To calculate visitor groups to Missoula, ERA took the total number of overnight visitors (1.2 million) times 49 percent and then divided the result by the average number in each visitor group (2.45) to arrive at visitor group nights (232,846).

Expenditures were available by broad category (Groceries, Restaurant, Bar, and Retail), and ERA estimated the percentage of total spending according to store type. The distribution of total visitor expenditures by store type for 2007 and 2012 is shown in Table IV-10. Overnight visitors are estimated to spend $16.0 million on retail and eating and drinking in Missoula.

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Table IV-10: Missoula, MT Overnight Hotel Visitor Expenditures

Market Size /1	2007 232,846 Visitor Group Nights		2012 232,846 Visitor Group Nights	
Retail Store Category	**Spending Per Visitor Group Per Day**	**Annual Expenditure Potential**	**Spending Per Visitor Group Per Day**	**Annual Expenditure Potential**
Convenience				
Food & beverage stores	$ 12.71	$ 2,959,291	$ 15.80	$ 3,679,507
Health & personal care stores	$ 4.80	$ 1,117,691	$ 5.30	$ 1,234,021
Shoppers Goods				
General merchandise stores	$ 4.80	$ 1,117,691	$ 5.30	$ 1,234,021
Clothing & clothing accessories stores	$ 4.80	$ 1,117,691	$ 5.30	$ 1,234,021
Sporting goods, hobby, book, & music stores	$ 7.20	$ 1,676,536	$ 7.95	$ 1,851,031
Furniture & home furnishings stores	$ -	$ -	$ -	$ -
Electronics & appliance stores	$ -	$ -	$ -	$ -
Miscellaneous store retailers	$ 2.40	$ 558,845	$ 2.65	$ 617,010
Eating and Drinking				
Full-Service	$ 16.14	$ 3,758,490	$ 17.82	$ 4,149,677
Limited-Service	$ 16.14	$ 3,758,490	$ 17.82	$ 4,149,677
	$ 68.99	$ 16,064,725	$ 77.94	$ 18,148,965

1/ The visitor group nights were calculated using the percentage (49%) of total number of visitors (1.2 million) staying at least one night in Missoula that stayed in hotels, according to ITRR's research, divided by the average group size (2.45).

Source: University of Montana Institute for Tourism and Recreation Research, 2006; Smith Travel Research, 2008; Economics Research Associates, 2008.

As with the other markets for retail, visitors have a choice of where to shop and eat, and not all of it will be captured by Downtown Missoula. Because Downtown is an attraction, however, within the City, ERA believes that the downtown core can capture a relatively high percentage of potential visitor expenditures—with the largest percentages being captured in Eating and Drinking and selected shoppers goods categories. Those sales will be captured and sustained over time through effective marketing of Downtown Missoula's retail and dining offerings to hotel guests and other visitors.

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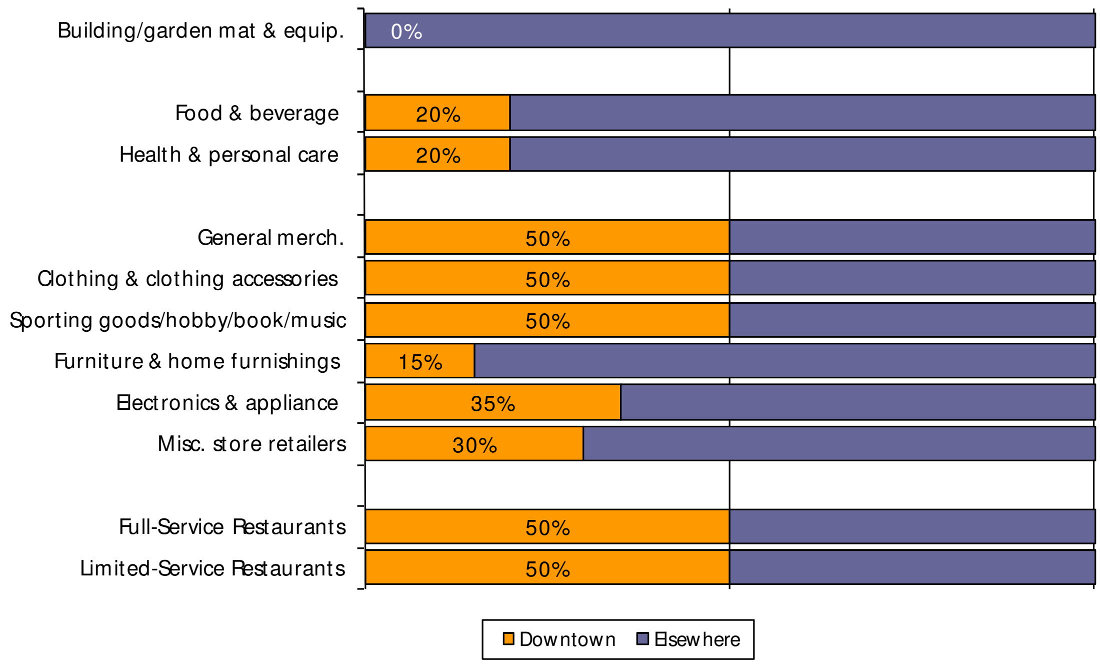
Figure IV-8: Downtown Missoula Overnight Visitor Capture Rates



Source: Economics Research Associates, 2008.

Applying these capture rates to visitor expenditures yields a total supportable sales of $6.7 million in 2007 and $7.4 in 2012. Again, the greatest potential for captured sales by Downtown will be by restaurants – about two fifths of total supportable sales by visitors.

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Table IV-11: Downtown Missoula Supportable Sales from Missoula Overnight Visitors

2007		
Market Segment	Visitor	
Market Size	232,846	Visitor Group Nights

Retail Store Category	Spending Per Visitor Group Per Day	Annual Expenditure Potential	Capture Rate	Total Supportable Sales
Convenience				
Food & beverage stores	$ 12.71	$ 2,959,291	20.0%	591,858
Health & personal care stores	$ 4.80	$ 1,117,691	20.0%	223,538
Shoppers Goods				
General merchandise stores	$ 4.80	$ 1,117,691	50.0%	558,845
Clothing & clothing accessories stores	$ 4.80	$ 1,117,691	50.0%	558,845
Sporting goods, hobby, book, & music stores	$ 7.20	$ 1,676,536	50.0%	838,268
Furniture & home furnishings stores	$ -	$ -	15.0%	-
Electronics & appliance stores	$ -	$ -	35.0%	-
Miscellaneous store retailers	$ 2.40	$ 558,845	30.0%	167,654
Eating and Drinking				
Full-Service	$ 16.14	$ 3,758,490	50.0%	1,879,245
Limited-Service	$ 16.14	$ 3,758,490	50.0%	1,879,245
	$ 68.99	$ 16,064,725	41.7%	$ 6,697,499

2012		
Market Size	232,846	Visitor Group Nights

Retail Store Category	Spending Per Visitor Group Per Day	Annual Expenditure Potential	Capture Rate	Total Supportable Sales
Convenience				
Food & beverage stores	$ 15.80	$ 3,679,507	20.0%	735,901
Health & personal care stores	$ 5.30	$ 1,234,021	20.0%	246,804
Shoppers Goods				
General merchandise stores	$ 5.30	$ 1,234,021	50.0%	617,010
Clothing & clothing accessories stores	$ 5.30	$ 1,234,021	50.0%	617,010
Sporting goods, hobby, book, & music stores	$ 7.95	$ 1,851,031	50.0%	925,516
Furniture & home furnishings stores	$ -	$ -	15.0%	-
Electronics & appliance stores	$ -	$ -	35.0%	-
Miscellaneous store retailers	$ 2.65	$ 617,010	30.0%	185,103
Eating and Drinking				
Full-Service	$ 17.82	$ 4,149,677	50.0%	2,074,838
Limited-Service	$ 17.82	$ 4,149,677	50.0%	2,074,838
	$ 77.94	$ 18,148,965	41.2%	$ 7,477,022

Source: University of Montana Institute for Tourism Research, 2006; Smith Travel Research, 2008; Economics Research Associates, 2

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Visiting Friends and Relatives

In addition to the visitor markets normally documented through overnight hotel guests, there is another category of visitors known as *Visiting Friends and Relatives,* sometimes called VFR's. This group represents those visitors to Missoula who do not stay in local lodging facilities, but rather stay in the homes of friends and/or family who are Missoula residents. While this group does not contribute to hotel revenues, VFR's can represent significant expenditure potential for food and beverage, entertainment, retail, and grocery spending, as they frequently take their hosts out to for meals and entertainment while participating in University of Montana sports events, cultural and entertainment concerts, festivals and fairs, or go skiing, fishing, hiking or other outdoor activities. Estimates of VFR's varies according to the size of the resident population, the number and types of visitor attractions and activities available, and the perceived value of those attractions compared to other alternatives. Nationally, average calculations typically range from about .5 VFR per year per resident (for less attractive destinations with few activities) up to about 1.5 VFR's per year per resident (for major destinations with multiple activities such as Washington DC or Orlando FL). Because Missoula is a college town (which generates a sustained level of visitation annually) as well an attractive visitor destination due to the outdoor setting and relative proximity to other attractions such as the ski resorts and state and national parks in this part of the country, ERA estimated the total number of VFR's for the Missoula area at 1 per resident per year, a number consistent with our experience in similar cities across the United States.

Pass Through Visitors

Another category of potential visitor/spenders is Pass-Through visitors, made up of those who drive through the Missoula area on Interstate 90 and major state highways. While the individual spending by this group may focus on a purchased meal, a gift or souvenir purchase and gasoline, the number of pass through visitors from which a small percentage can be captured can still provide a meaningful supplement to the resident, student, employee and other visitor submarkets.

Total Demand

Figure 9 on the following page illustrates the percentages of total projected demand from each of the submarkets discussed in the market analysis. The pie chart illustrates the importance of serving the resident markets first and foremost, as sustaining sales from this group will represent over 70% of all downtown retail sales. The employee and student markets are important because they are both proximate and likely to spend downtown because of convenience and limited time – both are relatively 'captive'. Visitor markets can account for just over 17% (or about 1/6 of all

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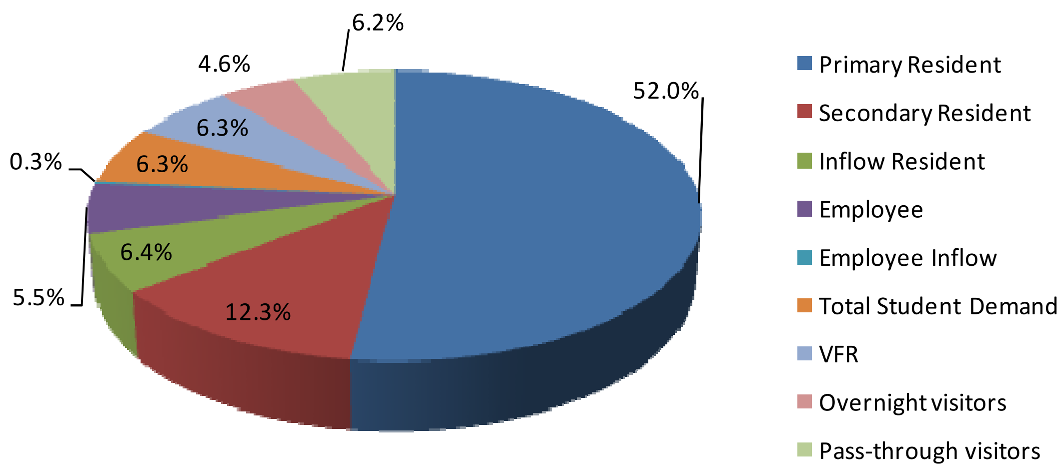
sales) but they will follow resident spending patterns and require specific marketing strategies to understand what retail offerings are available downtown (advertising on the approaching highways, marketing materials in hotels and on hotel TV channels, special events marketed outside Missoula, etc.) in order to successfully attract and sustain visitor-based sales.

Figure 9: Percentage of Total Captured Spending by Demand Category



To translate total supportable sales into square feet, it is necessary to estimate what Downtown retail space's retail productivity potential is—or, how much per square foot each retailer is making. This is often a function of how much rent a retailer can pay. According to listings on the Downtown BID website, there are retail properties at asking rents of $12/square foot. This indicates that these businesses would expect to get approximately $120 per square foot in sales. This is in existing retail space Downtown. To build new space would necessitate higher rent. According to the Southgate Mall website, it is averaging approximately $170 per square foot—though, management reports that sales productivities are closer to the upper $200s. Using this knowledge, ERA estimated sales productivities for Downtown Missoula retailers.

ERA varied sales productivities by store type—restaurants, for example, typically generate higher sales per square foot than apparel stores. ERA also applied a range of sales productivity in order to account for unknown factors such as the quality of the new offerings, changes in the competitive environment, etc. A higher sales per square foot implies less supportable space. The average of all

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store types' productivity rates results in a range of $175 to $325 per square foot. The productivity ranges used yield a total supportable square feet of 728,491 to 773,962 in 2012.

Table IV-13: Downtown Missoula Supportable Square Feet

	Captured Spending		*Supportable Square Footage - All Retail 2007*	*Supportable Square Footage - All Retail 2012*
Resident Demand	2007	2012		
Primary	$ 75,803,900	$ 79,783,290	379,019	398,916
Secondary	$ 17,975,302	$ 18,919,396	89,877	94,597
Inflow	$ 9,377,920	$ 9,870,269	46,890	49,351
Total Resident Demand	$ 103,157,122	$ 108,572,956	515,786	542,865
Employee Demand				
Primary	$ 8,013,926	$ 8,506,944	40,070	42,535
Inflow	$ 400,696	$ 425,347	2,003	2,127
Total Employee Demand	$ 8,414,622	$ 8,932,291	42,073	44,661
Student Demand				
Total Student Demand	$ 9,133,997	$ 10,960,796	45,670	54,804
Visitor Demand				
VFR	$ 9,208,832	$ 9,490,620	46,044	47,453
Overnight visitors	$ 6,697,499	$ 7,477,022	33,487	37,385
Pass-through visitors	$ 9,086,152	$ 9,358,737	45,431	46,794
Total Visitor Demand	$ 24,992,483	$ 26,326,379	124,962	131,632
Total - All Markets	***$ 145,698,224***	***$ 154,792,422***	***728,491***	***773,962***

Source: Economics Research Associates, 2009

Existing Downtown Retail Offerings

Prior to completion of the retail and commercial/institutional inventory data, ERA reviewed estimated square footage of existing downtown retail in order to estimate the amount of new retail space that might be supportable in the downtown district. The initial inventory estimate was based on retail businesses that employ 10 or more employees. However, this baseline did not include many existing downtown retailers, a more complete inventory was completed by BID staff.

		Productivity		Supportable SF	
2007	**Total Sales**	**Low**	**High**	**Low**	**High**
Total Building material & garden equipment & supplies dealers	**$ 189,497**	**$ 175**	**$ 225**	**1,000**	**1,000**
Food & beverage stores	$ 8,092,755	$ 275	$ 300	27,000	29,000
Health & personal care stores	$ 1,751,965	$ 275	$ 300	6,000	6,000
Total Convenience	**$ 9,844,721**	**$ 281**	**$ 298**	**33,000**	**35,000**
General merchandise stores	$ 21,198,909	$ 250	$ 300	71,000	85,000
Clothing & clothing accessories stores	$ 21,341,742	$ 250	$ 300	71,000	85,000
Sporting goods, hobby, book, & music stores	$ 3,695,151	$ 250	$ 300	12,000	15,000
Furniture & home furnishings stores	$ 2,232,433	$ 250	$ 300	7,000	9,000
Electronics & appliance stores	$ 1,307,640	$ 250	$ 300	4,000	5,000
Miscellaneous store retailers	$ 2,183,787	$ 250	$ 300	7,000	9,000
Total Shoppers Goods	**$ 51,959,661**	**$ 250**	**$ 302**	**172,000**	**208,000**
Full-Service	$ 23,046,825	$ 300	$ 325	71,000	77,000
Limited-Service	$ 14,962,305	$ 250	$ 275	54,000	60,000
Total Eating and Drinking	**$ 38,009,130**	**$ 277**	**$ 304**	**125,000**	**137,000**
Total 2007	**$ 100,003,009**	**$ 262**	**$ 302**	**331,000**	**381,000**

		Productivity		Supportable SF	
2012	**Total Sales**	**Low**	**High**	**Low**	**High**
Total Building material & garden equipment & supplies dealers	**$ 202,704**	**$ 175**	**$ 225**	**1,000**	**1,000**
Food & beverage stores	$ 8,793,414	$ 275	$ 300	29,000	32,000
Health & personal care stores	$ 1,886,869	$ 275	$ 300	6,000	7,000
Total Convenience	**$ 10,680,283**	**$ 274**	**$ 305**	**35,000**	**39,000**
General merchandise stores	$ 22,764,810	$ 250	$ 300	76,000	91,000
Clothing & clothing accessories stores	$ 22,804,576	$ 250	$ 300	76,000	91,000
Sporting goods, hobby, book, & music stores	$ 3,985,308	$ 250	$ 300	13,000	16,000
Furniture & home furnishings stores	$ 2,441,377	$ 250	$ 300	8,000	10,000
Electronics & appliance stores	$ 1,409,973	$ 250	$ 300	5,000	6,000
Miscellaneous store retailers	$ 2,310,689	$ 250	$ 300	8,000	9,000
Total Shoppers Goods	**$ 55,716,733**	**$ 250**	**$ 300**	**186,000**	**223,000**
Full-Service	$ 24,652,734	$ 300	$ 325	76,000	82,000
Limited-Service	**$ 15,811,378**	**$ 250**	**$ 275**	**57,000**	**63,000**
Total Eating and Drinking	**$ 40,464,112**	**$ 279**	**$ 304**	**133,000**	**145,000**
Total 2012	**$ 107,063,832**	**$ 262**	**$ 302**	**355,000**	**408,000**

Source: ESRI Business Analyst; Economics Research Associates, 2007.

As shown in Table IV-14 on the following page, the 2009 inventory of downtown Missoula retail and commercial space totals 1.993M square feet of space in just over 400 locations. Of this total, almost 74,000 square feet of space in 31 locations was vacant at the time of the inventory, or

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about 3.7 percent of total downtown space and 7.7 percent of total storefronts. This figure is consistent with the 4% storefront vacancy detailed by the MDA.

Of total square footage included in the survey, just over half (53.9%) can be considered as "retail" uses (under the comprehensive meaning of retail as broadly defined) including ***specialty retail*** stores (apparel, accessories, shoes, jewelry, sporting goods, collectibles, housewares, etc.), ***food and beverage*** (F&B) including full service restaurants and cafes, carry out foods, coffee and bakeries, ice cream, bars, bars with food, etc.), ***consumer services*** (banks, dry cleaners, shoe repair, flower shops, drug stores and pharmacies, etc.) and ***entertainment*** (night clubs and bars with live entertainment offerings). While it is possible that some spaces were missed by the Missoula Business Improvement District staff who completed the inventory (with guidance from ERA on categorization), the survey should be considered a highly accurate summary of occupied and vacant spaces and land uses in 2009, and can serve as a baseline for future updates and as a tool for retail recruitment.

Table IV-14: Existing Retail in Downtown Missoula by Category

Category	Estimated Square Feet	Percentage of Square Feet	Number of Establishments	Percentage of Establishments
Specialty Retail	385,739	19%	107	27%
F & B	213,988	11%	59	15%
Consumer/Professional Services	416,379	21%	139	34%
Entertainment	57,433	3%	7	2%
Residential/Hotel	207,377	10%	7	2%
Vacant	73,816	4%	31	8%
Other	638,307	32%	53	13%
Total	**1,993,039**	**100%**	**403**	**100%**

Source: Missoula Retail Inventory 2009; ERA| AECOM

When existing retail is compared to theoretically 'supportable' retail space in downtown Missoula and existing supply of spaces classified as 'retail' uses (that is, with consumer services taken out of the total as they perform financially in a different manner than specialty, F & B and entertainment uses), the difference is a total of almost 117,000 square feet of net positive space; this total represents the potential captured spending of all spending groups and could total somewhere between 65 and almost 100 new stores (assuming average store sizes of 1200 to 1800 square feet; larger retail spaces would reduce the number of potential stores). The comparison is shown on Table IV – 15 on the following page.

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Table IV-15: Estimated Net New Retail Demand

Total Estimated Supportable Square Feet -2012	773,962
Estimated Existing Downtown Retail Space	657,160
Total Net New Demand	116,802

Source: Economics Research Associates

ERA notes that this total incremental retail square footage could be affected by several variables:

***Filling vacant space first*:** If the strategic decision is made to fill vacant downtown spaces first, then a significant portion of the 'supportable' total would be taken up by the 73,800 square feet of vacant space. Of course, since not all vacant spaces are (a) suitable for new tenants, (b) may not have owners with the capacity to invest in making them 'retailer-ready', or (c) may not be in the most desirable locations, it is reasonable to assume that only a portion of the supportable square footage would be located in currently vacant spaces.

The required sales productivity/rent relationship is below "investment grade": Should property values and conditions not require 'investment grade' sales productivities as an economic basis for retailer location decisions, this would mean that more square footage/more stores are 'supportable'

There are not enough retailers to fill the supportable spaces: It is unclear whether there are enough quality retailers available to fill all the merchandise categories and spaces that the market analysis suggests. If Missoula undertakes a multi-year retail recruitment program to attract new retail, F & B and entertainment uses, the pace of absorption and number of interested retailers (whether selected national 'credit' tenants or local and regional businesses) will become more clear.

There are variations in average store size: Should Macy's decide to expand the downtown store in a manner similar to the design proposed in the Downtown Missoula Master Plan, a large portion of the incremental supportable square footage would be covered by that one larger store expansion.

The important **conclusion** of the retail inventory and demand analysis is that downtown Missoula has a remarkably strong downtown area with a large retail base, and an increment of new space is

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also supportable in the marketplace, assuming that projections, capture rates and sales are achieved.

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V. Housing Market

Current Missoula Housing Market Trends

Similar to other university towns, there are a significant number of rental units located in the City of Missoula. According to the most recent US Census information, approximately 50% of the housing units located within the city are renter occupied units (12,011 units in the year 2000). This compares to the county average of 38% renter occupied housing units.

Housing demand continues to be constrained by housing costs and land availability (including nearby public lands and steep slopes), pushing development into outlying sensitive lands. According to the Board of Realtors, projects in Rock Creek, Clearwater Junction, and Bitterroot were rejected in 2006 by local planners and activist citizens.

While total home sales increased notably in 2004 and 2005, home sales appear to have stabilized in 2006 as the housing market has slowed nationally. The median home price in the area continues to increase and reached $205,000 in 2006.

Table V-1: Annual Home Sales and Median Price Trends, 2001 – 2006

	Missoula Area			
	No. of Annual Sales	Annual % Change	Median Price	Annual % Change
2001	1,102	--	$140,000	--
2002	1,038	-5.8%	$143,730	2.7%
2003	1,070	3.1%	$165,000	14.8%
2004	1,187	10.9%	$183,350	11.1%
2005	1,427	20.2%	$185,000	0.9%
2006	1,479	3.6%	$205,000	10.8%

Source: Missoula Organization of Realtors, Economics Research Associates

New home sales trends in the Missoula/Lolo area reveal that the total number of home sales continues to increase, especially the condo/townhome market. A total of 230 new condominium units were sold in 2006, compared to just 75 units two years prior. The median price for a new condo in the area is $160,000+, an increase of about $50,000 in five years. Condominium projects offer an affordable route to home ownership in the area (the median household income in the City of Missoula in 2000 was $30,366). One of the newest condominium projects, Dearborn Avenue (south of downtown near Southgate Mall), is selling units for between $132,900 and $295,500 in order to appeal to a broad spectrum of potential residents. The project is located in a designated Urban Renewal District. The increase in condo construction in the area is also partly a result of increasing land costs. Other recent condo projects include conversion of an apartment complex into the Cottonwood Condos ($120,000 to $130,000) and conversion of the Creekside Inn into condo units. Sales of condos have reportedly slowed in 2007 with 132 units sold through August of 2007.

Table V-2: New Home Sales Trends

New Home Sales

	Missoula Urban Area and Lolo			
	Single Family	Condo/ Townhome	Manufactured Home	Total
2001	136	64	25	225
2002	170	74	42	286
2003	198	77	25	300
2004	249	75	35	359
2005	306	143	52	501
2006	320	230	46	596

Source: Missoula Organization of Realtors, Economics Research Associates

As mentioned above, the price of land continues to increase in the area. As shown below, according to the Missoula Organization of Realtors, the median sales price of lots in Missoula has more than doubled from 2001 to 2006.

Table V-3: Lot Sales Price Trends

Missoula

	Number of Lots	Median Sales Price
2001	28	$43,450
2002	74	$79,900
2003	58	$75,900
2004	64	$89,250
2005	63	$90,000
2006	63	$95,000

Source: Missoula Organization of Realtors, Economics Research Associates

Affordable Housing

Based on a survey of local housing experts and community leaders conducted recently by Western Economic Services, LLC (Affordable Housing Study, March 19, 2007), there is a lack of moderately priced housing units within the City of Missoula. The study summarized the local housing market as

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"one of scarcity, high cost, and constraints to development". Reasons stated for the lack of affordable housing include a lack of understanding of the development process, insufficient land zoned for residential development, a lack of financial mechanisms to promote affordable housing production, confusing public policy, and a lack of neighborhood standards for redevelopment and rehabilitation.

Based on data provided by the Missoula Organization of Realtors, housing is becoming increasingly unaffordable for certain segments of the population. The Housing Affordability Index (HAI) is a measure which looks at the median home price relative to median income. An index of 100% indicates that a median income family has enough to purchase a median priced home. An index of less than 100% indicates that income levels are not sufficient to purchase a median priced home. As reflected in the table below, the HAI has been decreasing over the past few years as home prices have increased more quickly than income levels.

Table V-4: Housing Affordability

Housing Affordability Index (HAI)

	2003	2004	2005	2006
Median Home Price	$165,000	$183,350	$185,000	$206,850
Down Payment	10.00%	10.00%	4.00%	4.00%
Interest Rate	5.50%	5.50%	6.75%	6.25%
Median Income Needed to Purchase (HAI of 100%)	$40,464	$44,928	$55,484	$58,128
Median Family Income				
1 person household	$34,200	$37,000	$37,400	$37,800
2 person household	$39,000	$42,200	$42,800	$43,200
3 person household	$43,900	$47,500	$48,100	$48,600
4 person household	$48,800	$52,800	$53,500	$54,000
HAI 1/				
1 person household	85%	82%	67%	65%
2 person household	96%	94%	77%	74%
3 person household	108%	106%	87%	84%
4 person household	121%	118%	96%	93%

1/ HAI reflects that a one person household with the median income of $37,800 (2006) has 65% of the income needed to purchase a median priced home.

Source: Missoula Organization of Realtors, Economics Research Associates

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While apartment vacancy rates remain relatively low (reported at about 4% in 2005 for market rate units), rental rates dropped for most unit types from 2003 to 2004, most likely due to the construction of a significant number of new multi-family units in 2003 (981 new multi-family permits were issued). However, the market appears to have absorbed the new units and rents increased for most unit types from 2004 to 2005. As might be expected, much of the rental market is driven by the nearby student population.

Table V-5: Missoula Apartment Vacancy Rates

	2002	2003	2004	2005
Market	1.0%	4.5%	6.7%	3.9%
Tax Credit	0.0%	1.4%	5.5%	1.0%
Subsidized	0.0%	0.0%	0.0%	0.0%
Average	<1.0%	2.3%	5.2%	2.5%

Source: Missoula Housing Authority, Economics Research Associates

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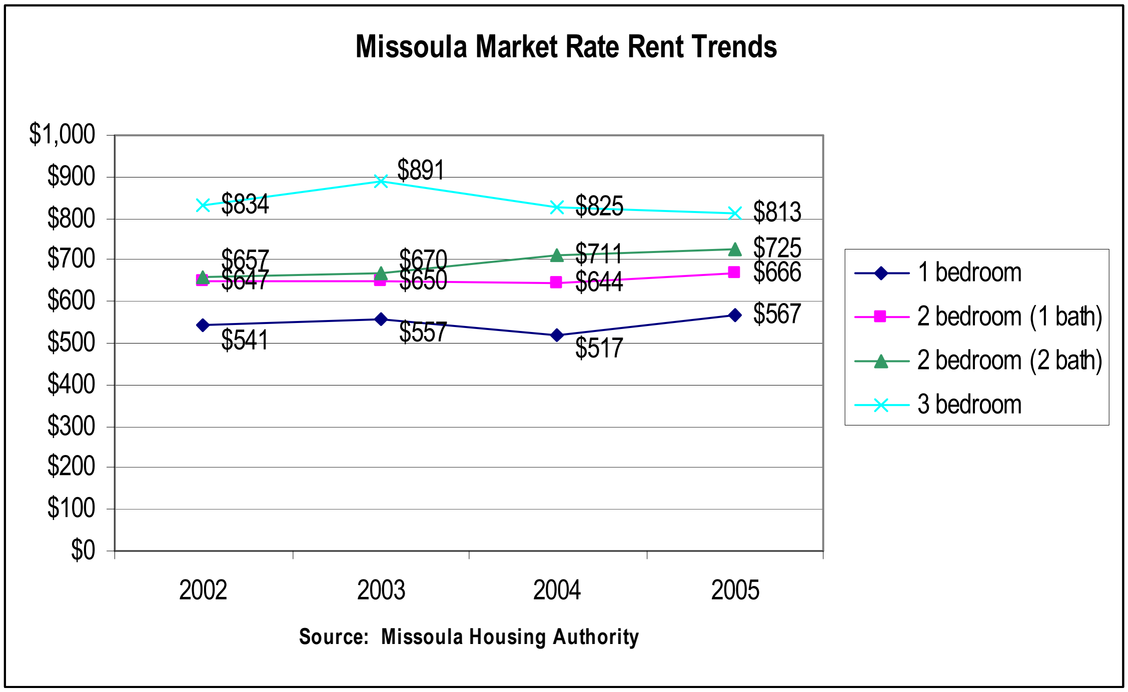
Figure V-1: Missoula Rent Trends by Apartment Size



As noted earlier, land costs have contributed to the increase in home prices. According to the Montana Board of Housing, land costs for a moderate home in urban areas used to cost approximately $15,000 and have now risen to about $70,000.

Downtown Housing Market

Current Demographics

The downtown housing market is defined as Census Block Groups 3 – 1, 3 – 2, and 3 -3, with housing data provided by the City of Missoula. As reflected in the table below, as of 2004, there were an estimated 1,473 housing units located within the designated census blocks. Of these, the majority were renter-occupied, with only 14 single family units added from 2000 to 2004.

Table V-6: Downtown Housing Characteristics by Block Group

By Block Group		3-3	3-2	3-1
Total Occupied Housing Units, 2000		653	364	340
Owner		31	0	38
Renter		622	364	302
Median Gross Rent	1/	$437	$353	$362
Median House Value	1/	$117,400	--	$69,400
Median Household Income	1/	$12,676	$11,793	$11,618
Additional Housing Units, 2000 to 2004				
Multi-Family		45	72	-9
Mobile		0	-6	0
Single Family		9	1	4
Total		**54**	**67**	**-5**
Estimated Total Housing Units		**707**	**431**	**335**

1/ Average of medians from multiple block groups.

Source: City of Missoula, Economics Research Associates

Current Projects

The Rocky Mountain Development Group purchased the Wilma Theater Building in downtown Missoula in 2008 with plans for a major renovation including a 1,200 seat theater, upscale restaurant, condominiums, and office and retail space. The developer has converted the existing 26 rental apartments into 22 condominium units with the existing tenants given the first option to buy (only one existing tenant purchased a unit). The developer is helping existing tenants who chose not to buy a unit with finding new housing and also helping with financial assistance for the move. Prices quoted for the condominiums range from $90,000 to $600,000 (the majority are priced between $110,000 and $200,000 for condos sized between 350 and 700 square feet). Reportedly, interest in the condominium units has been high, due in part to the mid-level pricing. The developer has also received inquiries from out-of-state residents wishing to retire in Montana. The units were not upgraded; however, some of the common areas were refurbished. There are no other comparables to the Wilma Building in the downtown area as it is an historic building located on the river. The main theater in the Wilma seats 1,067 and shows a variety of films and live performances.

Downtown remains principally a business district with resident demand relatively untested. The Broadway Lofts, located at the corner of Orange Street and Broadway above the UPS Store and City

Brew, were originally priced at $350,000 and are now listed for $299,000 and have been on the market for about a year (three units at about 1,500 square feet each including two bedrooms and two bathrooms).

The Missoula Housing Authority (MHA) purchased the Palace Apartments in order to continue to provide affordable housing in the downtown area. The 60-unit building is open to residents earning about 50% of the area median income (about $21,200 for a two person household). The Palace serves primarily the elderly, disabled, and single mothers. Over the last five years, the waiting list for units through the MHA has grown from 550 to 1,050 households. The purchase was financed through a Mercy Loan Fund, which provides loans to not-for-profit developers of affordable housing. The building will be renovated in 2011 with a mix of tax credits and state bonds.

Housing Market Demand

Future demand for housing in the downtown market will be driven in part by an increase in the population base as well as potential buyers/renters from the existing market. As reflected below, the county population has grown moderately over the past six years at the rate of 0.9% annually. State level population projections by the U.S. Census suggest population growth within the State of Montana will slow gradually through 2030. Applying a growth rate of between 0.8% and 1.2%, population within the county is anticipated to reach between 110,707 and 115,637 over the next ten years.

ERA

Table V-7: Missoula County Population Projections

Missoula County

	Population Estimates
2000	96,090
2001	96,692
2002	97,788
2003	98,359
2004	99,031
2005	100,033
2006	101,417
Average Annual Growth Rate	0.9%

	Projections - Annual Growth Rate	
	0.8%	**1.2%**
2007	102,228	102,634
2008	103,046	103,866
2012	106,383	108,942
2017	110,707	115,637

Source: US Census, Center for the Rocky Mountain West, Economics Research Associates

Housing demand from new growth is in turn projected based on the downtown's current market share of population. As reflected in the following table, the downtown population (defined as Census Tract 3) currently accounts for just over 2% of the total county population. Based on population projections, it is anticipated that the county will add approximately 4,155 residents (an estimated 1,731 housing units) from 2007 to 2012 and an additional 4,324 residents (1,802 housing units) from 2012 to 2017. If the downtown area captures 3% to 6% of the new growth forecast for the area, new housing demand attributable to new growth would be minimal (just over 200 units over the next ten years based on the higher capture rate). It is also assumed that some of the demand for new housing will be generated by existing residents. As shown below, a potential capture of 0.5% to 1.0% of the existing housing market would result in additional annual demand of between 21 and 43 housing units, indicating that most of the demand for downtown housing units will likely be generated by existing residents of the area.

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ERA

Table V-8: Estimated Housing Demand from New Residents, Downtown Missoula

		2000	Estimate 2006
Population			
Missoula County		96,090	101,417
Downtown (defined as Census blocks 3-1, 3-2, 3-3)		2,156	2,138
% in Market Area		2.24%	2.11%

		Projected 2007	2012	2017	2007 to 2012	2012 to 2017
Missoula County		102,228	106,383	110,707	4,155	4,324
Estimated Increase in Missoula County Housing Units	1/	42,595	44,326	46,128	1,731	1,802
					Baseline	
Estimated Demand with Capture Rate @	3%				52	54
Estimated Annual Demand					10	11
					Optimistic	
Estimated Demand with Capture Rate @	6%				104	108
Estimated Annual Demand					21	22

1/ Based on 2.4 persons per household (county average).

Source: US Census, Economics Research Associates

Table V-9: Housing Demand, Existing Market

Missoula County

	2007	
Population Estimate	102,228	
Estimated Households @ 2.4 persons per HH	42,595	
Potential Capture @	0.5%	1.0%
Total Households	**213**	**426**
Potential Annual Demand (2007 to 2017)	21	43

Source: Economics Research Associates

VI Downtown Master Plan Implementation Strategy and Recommendations

Implementation of the Missoula Downtown Master Plan includes many aspects of the plan, including public realm improvements, the opportunities to create bike lanes and future transit, potential to add cultural facilities, completion of the river trail through the city, and long-term decisions about a convention/meetings facility and future of the railroad yards. Two of the more market-based real estate goals of the plan focus on (a) how to best provide affordable and workforce housing downtown (and potentially in other parts of Missoula, as well), and (b) how to retain and recruit critical retail categories and stores into the downtown area. This chapter addresses these two objectives.

The implementation program for the Missoula Downtown Master Plan incorporates several land use components and market segments which have been analyzed during the twelve month study period. These land use and market components include the housing and retail market demand segments (included in ERA's submittal to Crandall Arambula provided in May 2008) as well as an employment strategy and tourism strategy provided by Hingston Roach Group Inc. (provided in November 2008). Because these analyses and recommendations are comprehensive and include many tasks and tools, the implementation strategy includes roles and responsibilities for a number of stakeholders, public entities and private institutions and property owners, including:

- Missoula Business Improvement District (BID)
- Missoula Downtown Association (MDA)
- Missoula Area Economic Development Authority (MAEDC)
- Missoula Parking Commission (MPC)
- Montana Community Development Corporation (MCDC)
- The City of Missoula

Other key stakeholders whose cooperation and participation will be critical include the County of Missoula and St. Patrick Hospital, both of whose downtown campuses and facilities contribute a stable base of employees, visitors, support for retail, and opportunities for future growth in tandem with the implementation of planning elements. In addition, retailers (such as Macy's) and

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private property owners have an important role in the implementation program as the economy stabilizes over the next 18 to 24 months; their investment/location decisions will determine the success of the next level of growth and change in downtown Missoula.

The unexpected element that now must be considered (but which was not apparent at the beginning of the study) is the decline in the U.S. economy during the fourth quarter of 2008. Now recognized as a global economic recession, the leading U.S. economy declined across several important (and integrally connected) sectors – higher unemployment, reduced consumer spending, severe reductions in available credit, reduced commercial real estate activity, reduced travel and tourism, a dramatically slowed housing market, and other factors reaching from the U.S. to the rest of the world). This recession is considered the worst in 50 years and is likely to continue for at least the next year, more likely up to two years. At the time of Workshop 4 in late November, 2008, a number of economic indicators had radically changed from earlier in the year, as noted below:

- Commercial real estate at the national level had slowed significantly from the same period in 2007, with general activity (sales and leasing, tenant activity, transactions) down 50% from the year before.

- The value of the commercial real estate deals cancelled in 2008 totaled $14.5 Billion, and the national industry slowed more in December.

- A number of national chain stores announced bankruptcies and business liquidations during the fourth quarter. The implications of business liquidation are more serious than reorganization, as the latter implies that future prospects are possible; but liquidation suggests a more negative potential scenario, at least for the near term. Major chains announcing bankruptcy and liquidation included Circuit City, Mervyn's, and Linens & Things. This type of reaction will likely affect how the already constrained capital markets will respond to available financing for the retail sector.

- National retail sales in October 2008 were the worst on record in decades – more than thirty years according to some industry reports, a very serious downturn that will ripple beyond just that month. A weak October signals a weak fourth quarter, when most retailers (especially locally-owned businesses) make the bulk of their profits for the year. A poor fourth quarter may mean an unprofitable year, exacerbated by limited available credit for inventory purchases and capital for operating expenses in a down year.

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Estimates suggest that this combination of factors will result in more bankruptcies in the first two quarters of 2009, further pressuring both small and chain retailers. This will delay the opportunity for retail recruitment, even in markets that have real opportunities for retail expansion (like downtown Missoula); the timetable will need to be re-thought and deferred.

- Reduced consumer spending and sales also translates into softer rental markets or existing tenants not being able to reach the sales levels necessary to meet rental rates, resulting in more difficult conditions for property owners with retail tenants.

- The measure of retail sales is included in a comparative amount known as 'same store sales', or the difference between sales for sample store locations from the preceding year. Again, the October sales totals were not promising with national same store sales declining in the following chains:

    - Nationally, Macy's was down about 3.5%, a more positive result than initially projected due to cost cutting maneuvers in the third quarter of 2008, but still lower than figures of 2007

    - The Gap's same-store sales (a comparison of the sales in typical stores from one year to the next) were down about 16%

    - Nordstrom Department Store annual sales dropped 15.7% from 2007

    - Saks Fifth Avenue sales were down 16.6%; the decline in the luxury goods sector has been the deepest and most sustained of all retail sectors

    - Abercrombie & Fitch sales were down by 20%

    - Even the luxury goods category (usually less affected by economic downturns) was down significantly, with October sales at Neiman-Marcus down by 27.8%

The only retail sector that saw net growth was in the "value retail" stores category. On a net basis, WalMart's national sales were up by 2.4% over a year ago, and most other value retailers (BJ's, CostCo, etc.) were flat, which in a down market can be considered a positive outcome.

This is an important element to consider, as the U.S. economy is disproportionately dependent upon and largely driven by consumer expenditures; data suggests that, prior to the fourth quarter 2008 downturn, as much as 2/3 of the U.S. economy was driven by consumer sales. As manufacturing of products has diminished over the past 30 years and the services-based component of gross national product has increased, consumer spending (recently financed by consumer debt) has expanded in its role as part of the country's economic engine, accounting for over two-thirds of total economic activity in the country. This sustained increase in sales has been made possible both by consumer confidence in long-term growth as well as the availability of easy consumer credit/debt, a source that slowed almost to a stop in late 2008. Neither corporations nor consumers have the same access to debt/credit, even if credit-worthy, a condition that has continued into the fourth quarter of 2009. .

The slowdown suggests that a condition described in Keynesian economics as the 'Paradox of Thrift' may be in place. Under the Paradox of Thrift, the theory is that, as consumers spend less, the ripple effect through the retail sector means that everyone (at all income levels) has less to spend. The counter to this theoretical paradox is that those with expendable/disposable income should not react by spending less, but rather by spending at normal levels (or close to it) in order to revitalize the economy. A consumer-driven economy can only be sustained by consumers who are spending. Other economic theories reject this concept, but the downward spiral in consumer spending has widely affected employment in the retail sector, increasing retail unemployment rates during what is usually the busiest and most productive part of the year. Various retail industry sources speculate that combined sales decreases and slow general economic prospects could result in as many as 275,000 retail businesses closing nationwide in the first half of 2009. These closings are anticipated to affect retailers in all sectors – specialty retail, General Apparel, Furniture and Other (sometimes called GAFO), food and beverage, and consumer service businesses. This would almost double the most recent economic downturn in 2001, which closed over 150,000 retail businesses nationwide. Retailers without sufficient cash flow, too much debt/lacking in credit worthiness, or insufficient capitalization will be the most vulnerable during the downturn.

As challenging as this period will be for retailers in general and downtowns in particular, it should also be noted that the economy is cyclical and will rebound, though probably not as fast as may be desired/needed. Many economists suggest the beginning of a turnaround in late 2009 or in 2010. This does not mean, however, that there is nothing that can or

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should be done in downtown Missoula; there are several **elements that will continue to constitute stabilizing factors** in the local market:

- The downtown area is stronger than most, and is enhanced by the presence of Macy's Department Store and numerous locally owned specialty retail stores and restaurants that serve the region

- The retail/commercial space vacancy rate has held at about 4% of total space through the downturn. While retailers have seen sales reduced, there has not been a substantial increase in vacancy rates, suggesting that Missoula's retailers and property owners were better positioned to ride out the downturn than in other locations

- The University of Montana's students, faculty and staff are a distinctive and sustained market presence in the Hip Strip and throughout the downtown; proximity to the campus and a growing number of students add both a continuing source of consumers as well as bringing a youthful energy to downtown Missoula's retail businesses

- As both the County seat and home of St. Patrick Hospital, Missoula attracts business and medical visitors from outside the City; the relative proximity of Missoula to Glacier National Park to the northeast (140 miles) and, over a longer distance to Yellowstone National Park (approximately 270 miles away also suggests that Interstate 90 brings a through-visitor market to Missoula. This market travels by auto, and may be an overnight hotel guest or a pass-through visitor who may stop for a meal or for purchase of recreational equipment and supplies.

- The partnership between the Missoula Downtown Association, the Business Improvement District and the Redevelopment Agency form the basis for a strong implementation vehicle to work with the City, property owners and retail business owners as the economy improves over time; the effectiveness of these organizations to work together is an asset that many other cities would hope to duplicate, but it is already in place in Missoula.

The Crandall Arambula team has made both near-term and longer-term recommended solutions to current and future opportunities and challenges.

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Near Term Solutions and Actions:

- For the next six to nine months, the focus should be on survival, not growth. A "Shop Local" marketing program is recommended to encourage Missoula residents, workers, students and visitors to shop with locally owned businesses. While it is understandable that many consumers are feeling cautious, the benefits of buying from locally owned businesses will be immediate, appreciated and will 'roll over' in the Missoula economy longer than expenditures made in national chain stores (of course, with the exception of Macy's, which is to be complemented for remaining downtown). An industry standard suggests that local store expenditure dollars remain in the community longer, turning over up to six times before leaving the local economy; dollars spent in large discount chains are largely exported from the local economy after only one or two turnovers. In terms of net economic impact, every dollar spent in a locally owned business generates about $2 in economic impact. As the only net growth nationally in retail sales in the last quarter of 2008 was in large-format discount retailers like Walmart, the positive economic benefits are needed more in local stores. The small difference consumers pay in price above discount retailers will provide a much greater economic benefit for locally owned businesses.

- Use the next year to adopt the Downtown Master Plan and to use the recommendations, policies and suggested actions to position downtown Missoula for a stronger future in one to two years when the economy has stabilized and begun to rebound.

- Seek to retain Macy's as a downtown anchor business. Macy's was considered one of the most important Catalyst Projects by both the consulting team and the Missoula stakeholders who participated in the Master Plan Workshops. While the economic downturn has slowed retail expansion and relocation plans for many stores, the Master Plan also suggests mechanisms to encourage expansion of the Macy's store area by expanding back into the current parking lot, and providing structured parking in the new garage (another Catalyst Project) across the street. Retention of Macy's should also continue to be pursued with the new local store management as well as with Macy's Western Corporate Real Estate offices in San Francisco and national offices in Cincinnati.

- Continue to work to retain County Administrative and Justice Department functions in downtown Missoula. While it may make sense to relocate selected functions to the county-owned site on Mullan Road, the continued presence of the County government and the Police and Justice services in downtown will both represent a commitment to downtown as well as serving as an activity generator and source of business for retailers from County employees and visitors.

- Protect and integrate the St. Patrick Hospital & Health Sciences Center expansion program downtown while balancing neighborhood concerns. For the same reasons as those discussed for retaining County offices, retaining downtown Missoula's other consumer-oriented institution will provide jobs, consumer expenditures and shoppers (hospital employees and patients as well as visitors).

- Encourage The University of Montana facilities and partnerships to strengthen downtown Missoula by serving the needs of students, faculty and staff and University event visitors; a stronger linkage between the campus, the Hip Strip and the downtown core area may be achieved over the longer term by creation of the streetcar link to the campus.

- The Missoula Downtown Association and the Downtown BID should conduct a building-by-building survey of all existing retail spaces to determine existing square footage of retail space (and aggregated by retail category) as well as documenting (on a building basis) the relevant lease terms (duration of the lease, lease extension options, landlord and tenant obligations, etc.). An information sheet or database should be created for each commercial space and/or structure which has (or could have) retail in it, identifying the business name, square footage, whether the business is a tenant or owns the building. When the inventory survey is completed, mapping of retail categories and building footprint estimates (potentially overlaying Mapquest and/or Google map diagrams) can be used to understand existing (or potential) retail category clusters, future leasing opportunities, or merchandising voids. This tool can be a powerful advantage when retail recruitment is again viable (probably about eighteen to twenty-four months (the middle or end of 2010).

- Seek and secure Federal Infrastructure Improvement funding through the new Administration's Economic Stimulus package.

Longer Term Solutions and Actions

- A core principle of the Downtown Master Plan is to concentrate compact growth downtown; given the likely future increases in oil and gas pricing, it will be both more energy conservative and healthy to foster growth in central city areas than to encourage less efficient outward sprawl.

- The new Administration has made a multi-billion dollar commitment to rebuilding the nation's infrastructure. Missoula should use its contacts at the federal level to continue long-term infrastructure enhancements such as creation of the separated bike lanes, connection of the trail along the river through the downtown area, and other catalyst projects included in the Downtown Master Plan. Over the longer term, Missoula should also implement the planned Regional Transit system.

- After laying the groundwork and collecting the available data (property inventory, ownership, etc.), Missoula should then implement a Retail Recruitment Initiative, the MDA, BID and MRA should jointly establish and conduct outreach for prospective retail tenants through the recruitment program. Retailers (and, as relevant, their property committees) are not likely to be able to consider new or upgraded locations for at least a year. However, the process often takes a year to pass through due diligence, follow ups and review of consistency with the retailers' location criteria (population characteristics, building characteristics, surrounding retail concentration and competitive context, etc.). It will be timely to begin to search for new retail tenant prospects as retail sales increase in downtown Missoula.

- In addition to retail, a viable downtown area also includes strength in other commercial real estate sectors, as they add incremental spending power, employees and opportunities for new business segments to locate in Missoula.

- As the national economy improves and the Missoula market stabilizes, it may become more feasible to consider constructing a meetings facility downtown. While it is recognized that a meetings facility would recapture a share of the local meetings business, it is also true that a meetings facility would also reinforce the two downtown hotels (as well as future ones) ability to capture business. In other communities, experience suggests that a vibrant downtown area is a stronger attraction for meeting planners than a more remote suburban location. While the sources of funding and most appropriate location for a downtown meetings facility are not yet determined, the Downtown Master Plan suggested alternatives that can be reconsidered over time.

Missoula Affordable Housing Strategy

The affordable housing strategy for Missoula can be considered both a priority and a challenge for the Downtown Master Plan. While it is critical that more affordable and workforce housing be created, it is also important to recognize that the financial gap between market rate housing development and affordable housing is too great for private sector developers to absorb and still have a financially viable project. This is why the public sector is often required to take an active role, providing direct incentives through a series of potential strategies including land write-downs (either through purchase or transfer of publicly owned property at a reduced price to designated affordable housing developers), awarding bonus development densities to cover the financial/profit 'gap' (a strategy that works best during a stronger, growing economy), or to provide direct financial participation as an equity partner, a development partner, or as a source of financing.

Missoula's efforts to date are laudable, but the consulting team recognizes that existing local and state programs will not be able to meet the full needs for provision of affordable housing in Missoula. It is also a legitimate policy issue as to the proportion of affordable housing that should be concentrated in the downtown area, as opposed to inclusionary or scattered-site housing development throughout the city and in close-in (but not downtown) neighborhoods.

At the time of the market analysis, the Mayor's Housing Initiative was developing tools and strategies to encourage affordable housing in Missoula, potentially to be administered through OPG. The Downtown Master Plan supports targeted initiatives, multiple options and a range of potential solutions that may become more viable under the Housing Initiative, and encourages that, as the initiative is completed, its elements be incorporated into the Master Plan Implementation Program.

IMPLEMENTING AFFORDABLE AND WORKFORCE HOUSING IN MISSOULA UNDER THE DOWNTOWN MASTER PLAN

The economic challenges involved in implementing both affordable and workforce housing have become more significant in the last half of 2008 due to the slowdown of the national economy in almost all sectors as well as the bank and mortgage crunch that has tightened credit to a degree not seen in the United States in decades. Because both types of housing require some means to cover the financial 'gap' between the relatively fixed costs involved in market rate/conventional housing financing and the more limited capacity to pay under lower income levels that meet affordable and workforce standards, the reduced availability of credit (even for qualified

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borrowers) and extreme caution in the capital markets resulting from the subprime mortgage collapse is likely to make private sources of funding more difficult to secure for up to two to three years.

There is a clear need to provide more of both of these types of housing; demand is strong in a growing market and inflated costs of land and construction in Missoula complicate the economic and financial aspects of implementation. To address the problem of covering the gap and affecting appropriate housing policies in Missoula, the following issues and questions should be considered as the larger context for implementation:

1. What types of incentives are/should be made available from public (city, county, state or federal) or non-profit sources (housing authorities, charitable institutions, foundations, etc.)?

2. If affordable and workforce housing is provided, how will the assisted financial structure be protected after the first sales/leases to qualified residents?

3. Which criteria should be used to determine eligibility (such as the typical income standard of 80% of Area Median Income (AMI) for affordable housing qualification and/or job classification and income standards for public employees such as teachers, police, firemen and governmental employees for workforce housing)?

4. How much of the demand/allocation of incentives should be concentrated within the Central Business District (CBD) of Missoula? Is concentrating one or both types downtown the most effective way to meet a community need and to maximize available funding?

5. What role should affordable and workforce housing play in implementation of the Downtown Master Plan?

6. Given the national economic downturn, how should the need and recommended phasing program be adapted to assure that affordable and workforce housing will be provided, and when it will be possible under the Master Plan?

RECOMMENDED APPROACHES

Among the range of proven incentives to encourage development of affordable and workforce housing, several methods can work in Missoula; these are described below:

Bonus Density Allocations -- The most cost effective for local government is to allocate market-rate density bonuses to developers in Missoula that agree to provide affordable/workforce housing. The advantage of this approach is that the City (or other designated regulatory body) can offer development rights that will add real economic value to developers without having to provide direct financial contributions. The opportunities to allocate incremental density bonuses can be made part of the new CBD zoning designation and are compatible with the increased densities proposed along both Front and Main Streets overlooking the river and in the Railyards area at the northern end of Higgins, should these parcels become available. In both locations, the City has the authority to grant additional density for market rate units to developers who might complete mixed-use retail/residential projects. The advantages of Bonus Densities are that the reduced cost housing can be provided without a direct cash contribution, saving the City (or other regulatory agency) money, and the planning outcome that affordable and workforce housing is integral to market rate projects, a better solution than creating public housing projects that can bring a negative effect to the surrounding areas. Inclusionary housing is generally understood to be a more balanced means of mixing housing types in the same buildings or parts of cities. The major disadvantages of this approach are that, unless protections are structured into the sales/rental agreements to maintain affordability standards after the first re-sale or leasing cycle. The challenge will be to negotiate and capitalize the value of an FAR foot (Floor Area Ratio) in a market-rate building and match that value over time with the development cost values of creating below market-rate housing. Of course, the other challenge will be the timing of implementation of bonus density, in light of the fact of the serious need for affordable and workforce housing, but the housing increment would only be provided as part of new projects, which may be delayed for one to two years (or more) given the national economic downturn and shortage of available credit. While the relative cost to the City is lower if granted as bonus density, the dependence on the likelihood of private development may delay delivery of affordable/workforce housing products.

A separate issue requiring clarification under this approach is the relationship between the value of a bonus density allocation on one site (which might have a higher value per square foot as compared to another (in which the value per square foot may be worth less). An example would be inclusion of a density bonus in exchange for including affordable or workforce housing on a downtown Missoula site in a concrete and steel building on a property that is valued similarly to other downtown properties. If the theoretical value per sf might be assumed to be $300 per square foot (including land costs, hard and soft costs for construction and provision of parking) for the downtown site, but another site further from the core, constructed on lower priced land and with stick-built lower scaled residential construction, perhaps valued at $150 per square foot (including

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lower land and construction costs), would a one-to-one transfer of a bonus be equitable, or should the more valuable SF of downtown bonus density be adjusted to two SF of density bonus in the lower priced location? As with many public incentives, either answer (one-to-one or doubled to reach an equivalent dollar value per square foot) can be correct; the real answer is the alternative that is most productive for (and will be acceptable to) the City or other granting agency.

Land Value Write-Downs – While providing a lower level of economic benefit to the development pro forma, writing down the value of land on a development site can be another tool to provide assistance to developers by lowering or eliminating some or all of the cost of land acquisition in exchange for provision of affordable and workforce housing. The write-down can be structured in several ways. If the City of Missoula or the Housing Authority already owns (or acquires) property in sections of downtown Missoula, that land can be sold at a discounted value or contributed as a public share of total development costs to reduce the average unit development costs for affordable and/or workforce housing downtown. The City (Missoula Housing Authority or other designated organization) could also provide a direct financial subsidy to the developer to effectively reduce the land cost per SF to encourage more affordable/workforce units (structured as a grant, a forgivable loan or a loan at a reduced rate of interest). It will be important that the affordability (at either level) should be retained throughout some pre-determined period of time or be maintained in perpetuity as a condition of sale/lease or deed), should that be a desired outcome by the City of Missoula.

The advantage of this approach is that the City can maintain a degree of control on the structure of the development agreement for affordable/workforce housing as a material participant in the financial structure of the deal – by agreeing to bring down the value of the property on which a project is developed, the City can also negotiate a guarantee of developer and resident participation. The disadvantage of the land write-down approach is that the incremental value generated will be less than other strategies, and may not be considered as beneficial by local development groups.

Provide Direct Resident Subsidy – Another strategy would be to provide a financial subsidy directly to the resident, either as part of a purchase agreement (through availability of financing, lower-interest loans through a public institution for part or all of the debt portion of a purchase agreement, or through an established rental subsidy for qualifying residents. This approach offers advantages in that residents have the most flexibility in where they choose to live (since a portion of the cost of occupancy is provided by outside sources), a direct resident subsidy requires significant investment in creating systems to monitor the distribution and transfer of the subsidy,

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either directly to the resident for inclusion in their rent/purchase payments or paid on behalf of the resident directly to the landlord or mortgage. Administratively this would require staff and systems to verify payments for each property included (not a small task) as well as a means by which to assure that the costs for affordable (or workforce) housing are completed. The disadvantage of direct payment is that generating and then tracking housing subsidies leaves room for unsuccessfully managed programs to encourage non-compliant uses of funds, or for landlords to receive subsidies and then not allocate the cost reductions to tenants' occupancy costs. The advantage would be that qualifying residents could transfer their subsidies to other properties, as long as the qualifying characteristics remain in place, and that a consistency of management, maintenance and programmatic coordination would exist in Missoula.

Direct Purchase and Resale by the City or other Agency – A discounted re-sale approach would transfer title after qualifying the buyer as meeting the criteria for workforce or affordable housing and confirming that the qualified residents can meet ongoing rental or sales costs. The advantage of this approach to affordability is that the gap between costs that qualified residents can afford and the costs of the designated housing units would be covered by a third party/public group or governmental unit, and the stability of ownership would transfer to the qualified resident. However, there are challenges with this approach. The first is financial – because this approach is costly and would be limited in its effect by the amount of money available for the re-sale "gap", it may be applied less often than other approaches. The second challenge is to manage the manner in which affordability can be sustained over time. In one southeastern city, affordable units were made available by local government to qualified purchasers, but the sales transfers were completed without any deed restrictions on future sales. After a two year mandatory resident-occupancy period, many residents sold their "affordable" units at market rates (usually at least a third more than they had paid), and the units reentered the pool of market rate housing. Unless the public subsidy is protected by ongoing legal restrictions, the affordability component can be lost at sale.

Direct Purchase and Management of Units – This approach works especially well for affordable and workforce rental housing (based on older housing development models) that is purchased or developed by a public housing agency (such as the Missoula Housing Authority) and then managed to maintain the population of qualified residents. The advantage of this approach is that the ongoing guarantee of affordability is the responsibility of a public agency whose sole focus is on the provision of affordable housing, and management is centralized on either local staff or contracted management by a third party management entity, either public or private. Because units are financed for construction and use as rentals, it may be that this approach can be more easily

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implemented than construction-for-sale programs. The limitation of this approach is that it does not establish a way for affordable/workforce housing to have ownership opportunities for qualified residents, and (while there are numerous exceptions) many housing development programs result in clustered affordable/assisted "housing projects", with all qualified residents clustered in concentrated areas, lacking the benefits of scattered site or inclusionary projects which mix income levels in the same project locations. The impact of clustering low-cost affordable housing 'projects' has not necessarily resulted in healthier downtown areas; rather, a combination of capital improvements (to eliminate the appearance of a public housing project) and inclusionary zoning to mix income and educational levels seems to have provided a more balanced mix of services.

Buyout/Linkage Fee Option – The other approach involves provision of affordable/workforce housing by allowing developers to 'buy out' of including lower-cost housing on-site by providing a fee or payment to an Affordable/Workforce Housing Trust Fund (or other funding mechanism) for construction of this housing in other locations. One advantages of this approach is that affordable/workforce housing may be constructed on a separate schedule from other projects, as the fees will be available once paid; another is that fees paid into the fund may be used in other parts of Missoula that are less costly than the downtown area. Similar to the example described in an earlier approach, the cost/benefit of a housing fee-based fund is that a lower cost location and building construction category may provide more affordable/workforce housing for the same amount that would be required for fewer, more expensive units built downtown. The challenges for this approach include that developers may disagree with the relative value of the fee required (considering that the basis may be the cost offset for not requiring units within their projects, but the application of that cost on a per-unit basis may be negotiable. A second challenge is to assure that the fees paid are reserved for provision of housing, and not used for substantial overhead and management costs instead of more affordable housing units. While the focus of this study has been on downtown Missoula, other locations have included fees for affordable/ workforce housing as a part of the costs of housing development in any part of a city, both to increase the amount made available as well as to allow for planning of projects on a larger scale, especially if not required to be part of a site-specific development. The political implications of this approach in a slowing housing market suggest that implementation may take longer, and residential developers may resist paying a fee for non-market rate housing as a cost of doing business for developing market rate housing.

Following is a discussion of various development strategies for promoting housing in downtown Missoula.

Planning Actions

- Oftentimes zoning regulations reflect suburban growth patterns, with parking and setback standards that do not encourage unique downtown or infill development. The new update to the City of Missoula zoning and subdivision regulations (public review draft) addresses many of these concerns through encouraging rehabilitation and reuse, transit-oriented development, and rethinking parking requirements.

- Reduced parking requirements (e.g. shared parking) and/or fees in-lieu of parking help to lower the prohibitive costs of providing the standard parking requirements. An in-lieu fee program would allow the city to use the revenue from the program for constructing and operating parking facilities at a reduced cost to developers. In some cases, a district approach is used to allow for shared parking among users within a specified area.

- Prioritize capital improvement projects (infrastructure improvements, streetscaping, etc.) that are planned for the downtown area. Publicly funded infrastructure can be used to support desired infill and mixed-use downtown development.

- Preservation and growth of existing downtown amenities and features rather than focusing on only new development.

- Sites or buildings being positioned for development/redevelopment should be concentrated within a designated district in order to create synergy and also to reduce public costs by allowing for concentrated public improvements.

- Pursue a balance of housing (affordable and market rate) that meets the demands of the market and provides choices for all income levels. The need for more affordable housing choices, as well as implementation strategies, is discussed in a report by Western Economic Services, Inc. entitled “2006 Analysis of Impediments to Affordable Housing Choice”. In many cases, effective leadership is the key element in ensuring affordable housing within a region. Major employers in the area that depend on moderate income workers should be enlisted in the effort.

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In a 2003 study by the American Planning Association (*Regional Approach to Affordable Housing*), findings showed that tools that are necessary to provide affordable housing include: authorization for development incentives such as density bonuses for affordable housing and requirements for mandatory set asides for affordable housing as part of market rate developments; authorization to establish local and regional housing trust funds for affordable housing; the ability to waive permit fees for affordable developments; and, ongoing assistance from regional agencies with respect to establishing subsidy programs, rehabilitation programs to maintain existing affordable housing, and removal of regulatory barriers.

- Conduct special outreach to potential development partners to discuss innovations and incentives for residential development in the downtown area.
- Support the development of unique flexible space for live/work combinations as well as other mixed-use options that are appropriate for a downtown setting.

Financial Strategies

- Lowering the initial costs of development is one of the most common forms of subsidies and can be used for up-front costs such as site acquisition, infrastructure development, and other soft costs such as feasibility studies.
    - Once land is assembled, the city can offer a below-market sale of land to a development entity or a land lease, which eliminates land acquisition costs for the developer. Ground leases can be phased in over time and linked to project revenues or abated in the early years in exchange for a stake in the long-term performance of the project. As projects are prioritized throughout the master planning process, solicit residential development on appropriate city controlled properties through the Request for Proposal process. In some cases, cities help further position appropriate sites for redevelopment by assessing the environmental conditions of sites.
    - Use of historic tax credits for renovations of commercial historic properties. The 20% tax credit is available to certified historic structures that are undergoing significant rehabilitation (that is, renovation costs for the historic portion of the improvements exceeding the adjusted basis of the property). While the historic

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tax credits do require an additional layer of review and approvals from State and Federal agencies, the dollar-for-dollar credit can provide a significant financial advantage to developers who understand how to use them.

  - Local building codes can sometimes be a barrier to renovation projects, particularly if there are differences in the building fabric of older structures and current building code requirements. Flexibility, understanding about the nature of older structures and a willingness to explore less conventional approaches to renovation needs can prevent review delays, in some cases applying the same standards to both rehabilitation and new construction.

  - Encourage continued use of existing federal and state programs to help fund low and moderate income housing (e.g. City of Missoula HOME and CDBG programs, Montana Board of Housing programs).

- Use of other financial incentives to encourage downtown housing, including higher levels of incentives for affordable housing and redevelopment housing (e.g. property tax abatements, low-cost gap financing, credits for existing water and sewer taps). Tax abatement or tax exemption programs are frequently used to increase a project's net revenues, although they may be politically difficult to implement. Many tax abatement programs call for a phase-in of taxes as the project becomes successful.

- Fast track approval processes for downtown housing development would also lower developer costs while at the same time providing a benefit at little or no cost to the city. For example, in Tampa the permitting process is streamlined through quarterly meetings with developers to access their progress. Streamlining the development process reduces risk, and therefore reduces costs and increases the attractiveness of the project in terms of debt and equity financing.

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