

## **Lot C Market Assessment**

Examination of key market indicators to understand development potential of Lot C



Prepared for:  
La Crosse County, Wisconsin

Prepared by:  
Stantec Consulting Services Inc.

October 9, 2013

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# LOT C MARKET ASSESSMENT

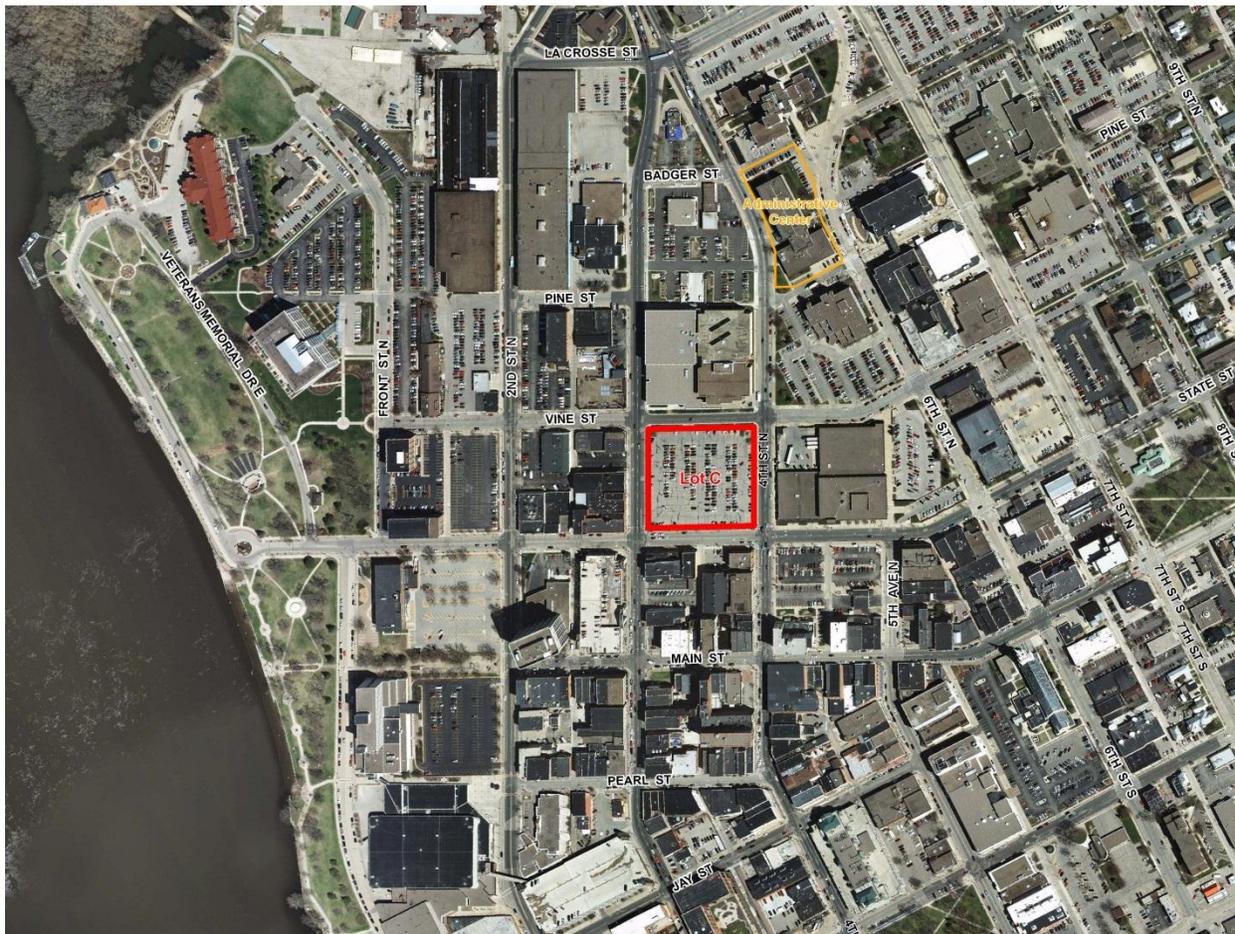
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## 1.0 Introduction

### 1.1 BACKGROUND AND PURPOSE

Lot C is a vacant block located in downtown La Crosse and owned by La Crosse County. The block is bounded by 3<sup>rd</sup> Street N on the west, Vine Street on the north, 4<sup>th</sup> Street N on the east, and State Street on the south. The block is currently used primarily as surface parking for visitors and employees of nearby County facilities. It is approximately one block south of the County's existing administrative center.

The block is one of the most prominent opportunity sites in the downtown. It is an entire city block with approximately 98,000 square feet in land area and is situated one block from the City's symbolic center (the intersection of 4<sup>th</sup> Street and Main Street) and two blocks from Riverside Park and the Mississippi River.



Location of Lot C in Downtown La Crosse

In recent years, the County has come to learn that their existing administrative center is no longer adequate for the County's needs as it is underutilized and will require costly asbestos remediation should

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administrative functions remain in the building. Therefore, consideration is being given to the possibility of relocating the administrative center to Lot C. Construction of a new administrative facility is costly as well, thus, additional consideration is being given to the potential of partnering with other entities in the development of Lot C to help defray development costs. Mixing multiple uses on one block, however, is a relatively new phenomenon in La Crosse and other cities of its size. Therefore, before additional time and expense are spent investigating such a possibility, La Crosse County engaged Stantec to conduct a market assessment of Lot C to better understand the market potential for mixed-use development.

### **1.2 REPORT ORGANIZATION**

The scope of this market assessment contains three primary areas of analysis. In the first section, key growth trends and market data are analyzed to provide context and information regarding influences that affect development potential in the downtown.

The second section presents a series of case studies of various mixed-use developments in other communities to understand the factors that contributed to their success (or lack thereof). These case studies include a variety of programmed uses to illustrate different approaches to development. The third section is a summary of interviews conducted with potential partners and stakeholders to solicit their programming needs, experience with mixed-use projects, and general outlook for development on the site.

Results from the three research tasks are then synthesized into a final section that summarizes the findings and provides conclusions regarding the market potential for mixed-use development on Lot C.

### **1.3 DATA ANALYSIS**

This study represents a compilation of data gathered from various sources, including local County and City records, city websites, on-line aerial images, interviews with local officials, real estate professionals, and potential project partners, as well as secondary demographic and market material. Although Stantec judges these sources to be reliable, it is impossible to authenticate all data. The analyst does not guarantee the data and assumes no liability for any errors in fact, analysis, or judgment. The secondary data used in this study are the most recent available at the time of the report preparation.

The objective of this report is to gather, analyze, and present as many market components as reasonably possible within the time and budget constraints agreed upon. The conclusions contained in this report are based on the best judgments of the analysts; Stantec makes no guarantees or assurances that the projections or conclusions will be realized as stated. It is Stantec's function to provide our best effort in data aggregation, and to express opinions based on our evaluation.

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### 2.0 Market Data

The following sections provide a brief overview of the key growth and market trends that influence the demand for mixed-use development in downtown La Crosse and, specifically, on Lot C.

#### 2.1 DOWNTOWN LA CROSSE CONTEXT

Downtown La Crosse is the economic and cultural center of a multi-county region spanning a large portion of southwestern Wisconsin and southeastern Minnesota. As a regional hub, the downtown includes a wide variety of civic, financial, entertainment, and healthcare activities that serve a number of demographic and geographic markets that are local, metro, and regional in nature. Therefore, users of the downtown are a mixture of everyday inhabitants, such as residents or employees, as well as visitors who may come for a special purpose or need be it once a week, once a month, or once a year.

As the historic center of La Crosse, the downtown also features a diverse array of building types and ages, from historic to modern, that accommodate any number of industrial, commercial, and residential uses. In addition to its eclectic mixture of uses and buildings, the downtown's grid of streets, alleys, and sidewalks makes for a uniquely pedestrian orientation that is not found in most other La Crosse neighborhoods or smaller communities within the region. This character helps attract and retain businesses, draw residents, and entice visitors.

In recent years, as the Mississippi riverfront has converted from a mostly working river to a recreational amenity consisting of parks, convention center space, and new office and residential development, the downtown has added an attraction that complements its unique built form and enhances its presence as a "place" for people to work, live, and play. As a result, tourism now supports a strong dining and entertainment economy within the downtown, which has helped attract even more recent office and residential development.

#### 2.2 POPULATION AND HOUSEHOLD GROWTH

Table 1 presents data on recent population and household growth trends for downtown La Crosse, the City of La Crosse, and La Crosse County from 2000 to 2010. Both the downtown and the City of La Crosse lost population from 2000 to 2010, whereas La Crosse County gained population. This is a continuation of longstanding trends that date back many decades in which older, urban areas, due to an aging population and lack of developable land, have lost population to newer suburban communities.

Table 1, however, also presents household growth trends that tell a slightly different story. Although La Crosse County outpaced the city and the downtown in terms of household growth between 2000 and 2010, both the city and downtown experienced net growth in households, indicating demand for new housing in more urbanized parts of the region. In particular, the downtown had a growth rate of nearly 7%, which is a strong indicator of renewed interest in living downtown.

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**Table 1: Population and Household Growth Trends 2000-2010**

	Census	Estimate	Census	Change 2000-2010	
	2000	2005	2010	Numeric	Percent
<b>Population</b>					
Downtown Core <sup>1</sup>	1,069	1,057	1,048	-21	-2.0%
City of La Crosse	51,818	51,483	51,320	-498	-1.0%
La Crosse County	107,120	110,284	114,638	7,518	7.0%
<b>Households</b>					
Downtown Core <sup>1</sup>	491	510	524	33	6.7%
City of La Crosse	21,110	21,388	21,428	318	1.5%
La Crosse County	41,599	43,664	46,137	4,538	10.9%

<sup>1</sup> The downtown core is considered to be the area bounded by the Mississippi River on the west, the La Crosse River on the north, 7th Street on the east, and Jackson Street on the south. This area roughly corresponds with Block Group 1 of Census Tract 3 as determined by the US Census.

Sources: US Census; Wisconsin Department of Administration (Demographic Svcs.)

Forecasted population and household growth is a good indicator of future demand for commercial and residential development. Table 2 presents information on forecasted growth for the City of La Crosse and La Crosse County through 2020.<sup>1</sup> Although the table does not include figures for the downtown, it is more important to focus on city and county forecasted growth because it is regional growth that will primarily fuel the potential for downtown growth. According to the table, La Crosse County will slightly slow its rate of growth during the current decade, while the City of La Crosse is forecasted to experience a net increase in both population and households. The City's larger share of County-wide growth can be attributed to a number of factors including greater interest in urban living and changing demographics in which there will be fewer households with children.

**Table 2: Population and Household Forecast 2000-2020**

	Census	Estimate	Census	Forecast	Forecast	Change 2000-2010		Change 2010-2020		
	2000	2005	2010	2015	2020	Numeric	Percent	Numeric	Percent	
<b>Population</b>										
City of La Crosse	51,818	51,483	51,320	51,670	51,880	-498	-1.0%	560	1.1%	
La Crosse County	107,120	110,284	114,638	117,240	120,560	7,518	7.0%	5,922	5.2%	
<b>Households</b>										
City of La Crosse	21,110	21,388	21,428	21,870	22,200	318	1.5%	772	3.6%	
La Crosse County	41,599	43,664	46,137	48,080	49,940	4,538	10.9%	3,803	8.2%	

Sources: US Census; Wisconsin Department of Administration (Demographic Services)

<sup>1</sup> Table 2 does not include population and household forecasts for the downtown because it is too small of a geographic area to accurately forecast long-term growth. For example, it takes only one sizable residential development that is built or demolished to have a major impact on a downtown's population base.

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Table 3 underscores this dynamic in which changing demographics will likely influence demand for housing and urban living. From 2010 to 2020, it is forecasted that the number of households between the ages of 25 and 34 and between 55 and 74 in La Crosse County will increase significantly compared to most other age groups. These two age groups have the strongest propensity to live in downtown environments as they are generally healthy, do not have school-age children living at home, and have the financial means to make a lifestyle driven housing choice.

**Table 3: La Crosse County Forecasted Household Growth by Age of Householder 2010-2020**

Age of Householder	Census	Forecast	Forecast	2010-2020 Change	
	2010	2015	2020	Numeric	Percent
15 to 24 years	4,555	4,371	4,076	-478	-10.5%
25 to 34 years	7,244	7,582	7,704	459	6.3%
35 to 44 years	7,331	7,025	7,488	156	2.1%
45 to 54 years	9,290	8,694	7,835	-1,454	-15.7%
55 to 64 years	8,083	9,100	9,210	1,127	13.9%
65 to 74 years	4,817	6,251	8,021	3,203	66.5%
75 to 84 years	3,409	3,530	3,995	587	17.2%
85 years and older	1,409	1,528	1,611	202	14.4%
<b>Total</b>	<b>46,137</b>	<b>48,080</b>	<b>49,940</b>	<b>3,803</b>	<b>8.2%</b>

Sources: US Census; Wisconsin Department of Administration (Demographic Services); Stantec

### 2.3 EMPLOYMENT TRENDS

Employment growth by industry is also an important indicator of development potential within downtown La Crosse. A growing employment base, especially among higher paying industries, has a direct impact on the drive demand for retail, hospitality, and housing. A growing employment base, however, can also attract additional office development as office uses tend to congregate around one another due to the critical mass of amenities they support, such as shopping, dining, and entertainment.

Table 5 presents employment data by industry for La Crosse County, downtown La Crosse, and an employment-rich area immediately east of the downtown. The data in Table 4 is from 2007 and 2011 in order to illustrate the recent growth patterns by industry. According to the table, both the downtown and the area adjacent to the downtown had overall employment growth between 2007 and 2011 that well exceeded that of the entire County. This indicates that as the region came out of the recession, this has been a strong focus on the downtown and its adjacent areas as a location for growth and expansion among various industries. This is another strong indicator of the potential for future development within the downtown.

It can also be inferred from Table 4 that industry sectors that experienced strong growth since 2007 are well represented in and near the downtown. These include sectors such as Finance and Insurance, Educational Services, Health Care and Social Assistance, and Public Administration.

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**Table 4: Employment by Industry 2007 & 2011**

NAICS Industry Sector	La Crosse County				Census Tract 3 <sup>1</sup> (Downtown Core)				Census Tract 4 <sup>2</sup> (Downtown Adj.)			
	2007	2011	'07-11 Change	'07-11 Change	2007	2011	'07-11 Change	'07-11 Change	2007	2011	'07-11 Change	'07-11 Change
Agriculture, Forestry, Fishing and Hunting	43	61	18	41.9%	0	0	0	--	0	0	0	--
Mining, Quarrying, and Oil and Gas Extraction	0	1	1	--	0	0	0	--	0	0	0	--
Utilities	195	480	285	146.2%	0	0	0	--	91	0	-91	-100.0%
Construction	2,376	2,141	-235	-9.9%	139	142	3	2.2%	11	15	4	36.4%
Manufacturing	9,125	8,077	-1,048	-11.5%	880	950	70	8.0%	16	17	1	6.3%
Wholesale Trade	3,602	3,192	-410	-11.4%	271	446	175	64.6%	8	6	-2	-25.0%
Retail Trade	8,148	7,976	-172	-2.1%	697	611	-86	-12.3%	98	54	-44	-44.9%
Transportation and Warehousing	1,927	1,734	-193	-10.0%	116	8	-108	-93.1%	0	0	0	--
Information	1,075	1,037	-38	-3.5%	576	551	-25	-4.3%	14	14	0	0.0%
Finance and Insurance	2,413	2,778	365	15.1%	288	351	63	21.9%	20	8	-12	-60.0%
Real Estate and Rental and Leasing	587	623	36	6.1%	202	215	13	6.4%	18	60	42	233.3%
Professional, Scientific, and Technical Services	1,689	1,817	128	7.6%	525	415	-110	-21.0%	19	29	10	52.6%
Management of Companies and Enterprises	2,075	2,105	30	1.4%	20	22	2	10.0%	16	2	-14	-87.5%
Administration & Support, Waste Mgmt and Remediation	2,942	3,004	62	2.1%	104	76	-28	-26.9%	90	67	-23	-25.6%
Educational Services	5,365	6,175	810	15.1%	632	461	-171	-27.1%	380	1,011	631	166.1%
Health Care and Social Assistance	13,010	14,135	1,125	8.6%	225	416	191	84.9%	2,657	2,579	-78	-2.9%
Arts, Entertainment, and Recreation	845	699	-146	-17.3%	263	230	-33	-12.5%	9	4	-5	-55.6%
Accommodation and Food Services	5,725	5,802	77	1.3%	915	954	39	4.3%	69	80	11	15.9%
Other Services (excluding Public Administration)	2,373	2,523	150	6.3%	177	111	-66	-37.3%	615	653	38	6.2%
Public Administration	2,208	2,472	264	12.0%	1,167	1,536	369	31.6%	14	15	1	7.1%
<b>Total</b>	<b>65,723</b>	<b>66,832</b>	<b>1,109</b>	<b>1.7%</b>	<b>7,197</b>	<b>7,495</b>	<b>298</b>	<b>4.1%</b>	<b>4,145</b>	<b>4,614</b>	<b>469</b>	<b>11.3%</b>

<sup>1</sup> Census Tract 3 is the area generally bounded by the Mississippi River on the west, the La Crosse River on the north, 7th Street on the east, and Jackson Street on the south. This area roughly corresponds with the core of Downtown La Crosse.

<sup>2</sup> Census Tract 4 is generally bounded by 7th Street on the west, the La Crosse River on the north, West Avenue on the east, and Jackson Street on the South. This area roughly consists of neighborhoods that are adjacent to the downtown core and heavily influenced by it.

Source: US Census: LEHD data set

Figure 1 illustrates how the downtown is tied to certain industries more than others. Compared to the County, the downtown has a significant proportion of jobs in Public Administration, Accommodation and Food Service, Arts and Entertainment, Professional Services, Finance and Insurance, and Information industry sectors. On the one hand this is not surprising since these sectors are mostly office-oriented sectors and the downtown has a strong concentration of employment.

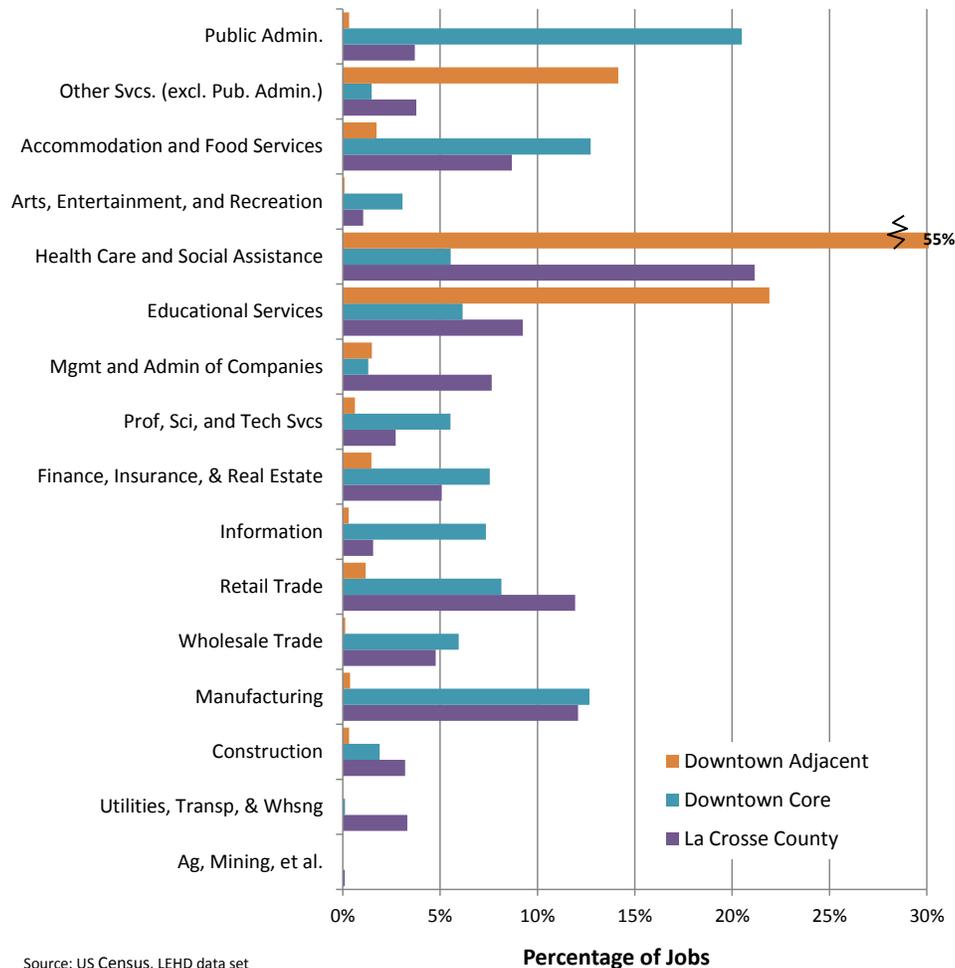
Interestingly, it should be noted that manufacturing retains a strong presence in the downtown and that retail is actually below what is found county-wide. The retail issue is important because traditional retailing that includes groceries, apparel, and other shopping goods has gravitated to mall environments closer to young families. In contrast, the downtown has become a much stronger center for dining, which is supported not only by visitors to the downtown but also downtown employees. Nonetheless, specialty retailers, such as those that complement dining, are well represented in the downtown. However, specialty retailers make up a small portion of the overall retail industry.

The area adjacent to the downtown not surprisingly is dominated by the Education Services and Health Care and Social Assistance sectors since there is a college and a major medical center located in this area. Although these jobs are not located directly in the downtown, they have an important impact in two ways: 1) they are rapidly growing industry sectors, which will increase the number of employees near the downtown; and 2) their growing employment base will feed demand in the downtown for more housing and neighborhood services.

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**Figure 1: Distribution of Jobs by Industry Sector 2011**



## 2.4 RESIDENTIAL DEVELOPMENT

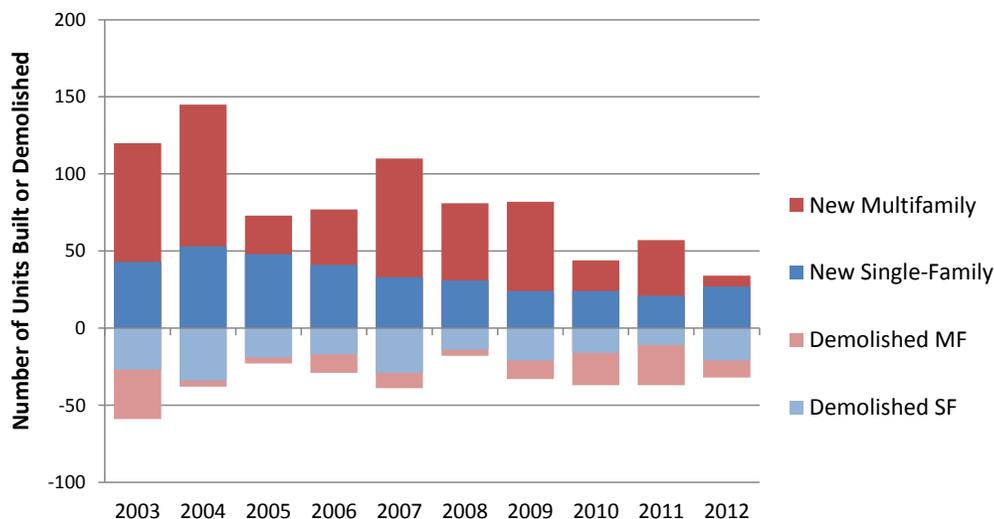
Figure 2 presents data on the annual number of residential units permitted for construction or demolition in the City of La Crosse from 2003 to 2012. The data is further broken down by housing type, single-family versus multifamily. Unfortunately, the data does not provide detail on how many units were built or demolished in the downtown. Nonetheless, trends in the number of multifamily units provide some insight as to whether downtown may be an attractive location for housing.

According to the figure, new construction tapered significantly starting in 2009, which was clearly the result of the recession. Regardless, a larger trend is evident in which single-family housing is being replaced with more multifamily housing. With a few exceptions, most years are marked by more single-family demolitions than multifamily demolitions and more multifamily construction than single-family construction. Although this does not definitively indicate a growing demand for downtown housing, downtown housing is entirely multifamily and it is one of the few places where higher rents can be achieved that will support new multifamily construction.

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**Figure 2: Residential Building and Demolition Permits by Housing Type, City of La Crosse 2003-2012**



Source: City of Lacrosse, Building Permit Data

### 2.5 MARKET RENTS

If Lot C were to develop with a market rate housing, office, or retail component, it is important to understand the level of rent that could be achieved by the development. Although a thorough investigation of comparable and/or competitive market rate developments was beyond the scope of this study, research was conducted among actively marketing properties and their quoted rents to provide a benchmark for what could be achievable. It should be noted, though, that rent for any particular property, especially commercial properties, is subject to large number of variables as no two properties are the same and many leases are negotiated with factors that go beyond simply market driven pricing. Nonetheless, we believe even cursory review of actively marketing properties will provide valuable information and insight.

#### 2.5.1 Residential

Five market rate apartment properties were profiled, four of which are located in or near the downtown. The range in rent per square foot was \$0.67 on the low end and \$1.52 on the high end. The newer downtown properties clearly achieve the highest rents, and, on average, are about \$1.35 per square foot for one bedroom units and \$1.20 per square foot for two bedroom units.

#### 2.5.2 Office

Nine office properties located in the downtown were profiled. These included a range of property types from older properties, both renovated and not renovated, to newer, modern purpose built office buildings. The range in rent was from a low of \$8 per square foot to a high of \$16.70 per square foot. The average was about \$12 per square foot.

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### 2.5.3 Retail

Five downtown retail properties were profiled. Although the profiled properties include both older and newer properties, each is generally located off the most highly trafficked streets of the downtown and not necessarily considered to be in the heart of the downtown retail district. Rents among these properties range from a low of \$6 per square foot, which was marketed as being a severe discount, to a high of \$10 per square foot. Typically, retail rents command a higher price per square foot than office space. Therefore, it is assumed that the retail properties profiled do not include downtown's premier retail locations. For comparison purposes, a premier suburban retail property was profiled and it is being marketed at \$25 per square foot. Therefore, it is estimated that premium retail locations in the downtown are likely achieving somewhere around \$20 per square foot. Nonetheless, this underscores how retail pricing in downtown La Crosse is subject to strong variations and highly sensitive to which block the property is located on what kind of visibility it has.

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### 3.0 Case Studies

Multiple-owner, mixed-use development is still a relatively new concept in La Crosse and has not been well tested, though the innovative transit center project has definitely demonstrated potential for the mixed-use concept. Therefore, several case studies were prepared of various mixed-use developments in other communities to better understand the market conditions under which they were developed, the general structure of the deal, and its potential to spur additional development. Generally, the case studies are a cross section of development types, though each one is located in or adjacent to a downtown or highly urbanized environment. Also, attempts were made to research projects from communities of a similar size and profile with La Crosse. However, due to the challenge of also having a cross section development types, some projects are from larger communities.

#### 3.1 OLD CAPITOL TOWN CENTER, IOWA CITY, IA

Project: Old Capitol Town Center  
Uses: Retail, Office, Public Parking Structure  
Developer: Hodge Development  
Completed: 2009 (renovated)  
Location: Downtown Iowa City, Iowa

In the late 1970s and early 1980s, downtown Iowa City went through a phase of urban renewal. One project involved the construction of a two-story mall, with an adjacent parking ramp (funded by the City of Iowa City), in a two-block area right next to the University of Iowa campus. The mall opened for business in 1981, as Old Capitol Center; by 1995 it was renamed Old Capitol Mall. In its heyday, Old Capitol was anchored by JCPenney and Younkers. It also had the Campus Theaters, many nationally-known specialty shops and restaurants, and several locally-owned stores.

Old Capitol Mall did well in its early years, attracting U of I students and other downtown shoppers. When the Coral Ridge Mall opened in 1998 in neighboring Coralville, JCPenney closed its Old Capitol store to move to a larger store at Coral Ridge. Younkers kept its Old Capitol store for several years, but eventually closed it in 2004.

In the mid-2000s, the City of Iowa City began collaborating with mall ownership to find new users for the mall as the entire second floor had become vacant. Spurred by flooding of key retail locations on its campus, the University of Iowa became a key public partner in the mall's revitalization by purchasing the entire second floor in a condominium arrangement. Several University departments, including the University Information Center and the bookstore, now occupy the second floor and the University relocated nearly 700 employees to its mall space. The first level retail has rejuvenated and is now occupied by many national chains once again, including an Apple Store (imbedded within U of I bookstore) and a CVS.

According to the City of Iowa City's Community Development Director, this has been the City's best example of a public-private partnership. Its success has led to other private mixed-use developments and the City is actively researching the potential to lure a class A office development by being a major tenant

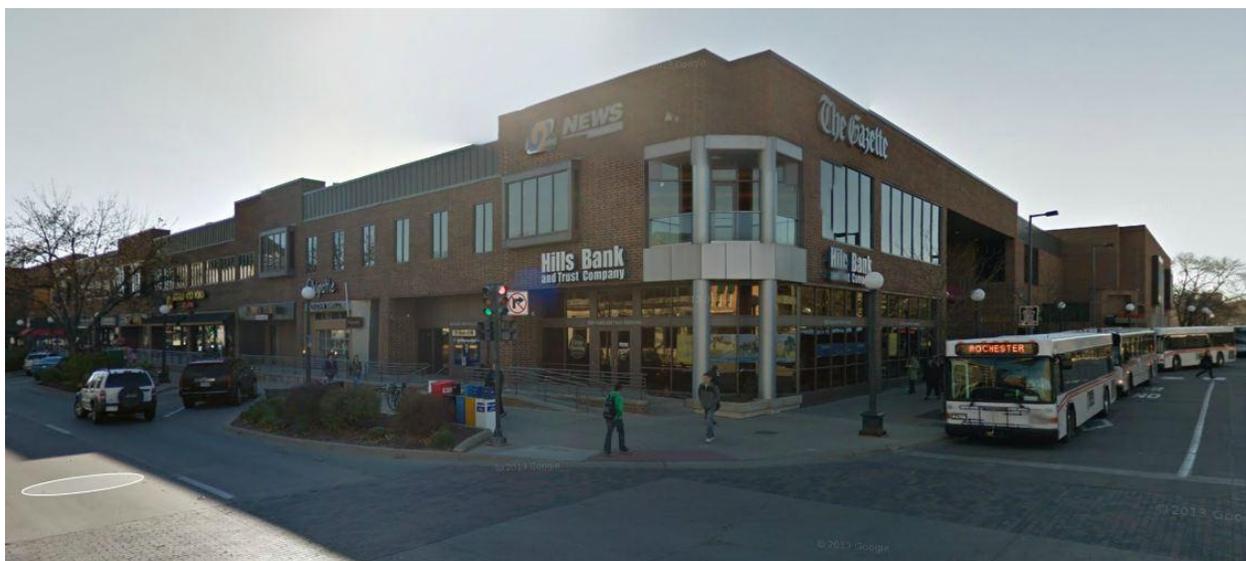
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in the new development. This is an innovative approach to public/private partnerships that is being more widely explored by local governments and is somewhat in response to fewer traditional tools available for redevelopment.



Location of Old Capitol Town Center relative to downtown Iowa City



Northeast corner of Old Capitol Town Center

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**Interior atrium courtyard of Old Capitol Town Center**



**Second floor University of Iowa departmental space**

### 3.2 CORTINA LOFTS, FORT COLLINS, CO

Project: Cortina Lofts  
Uses: Residential Condominiums, Office  
Developer: Coulson Development  
Completed: 2005  
Location: Downtown Fort Collins, CO

Started in July 2004 and finished a year later in August of 2005, the Cortina Lofts is a 90,000-sq-ft, seven-story, mixed-use building featuring two floors of office space and four stories containing 20 condominium apartments, with the top two levels devoted to high-end lofts and a penthouse. The commercial office space consists of approximately 20,000 square feet of space. The condominium apartments were originally marketed at a price range of \$400,000 to \$1.3 million. The project also includes 36-underground parking stalls for residents

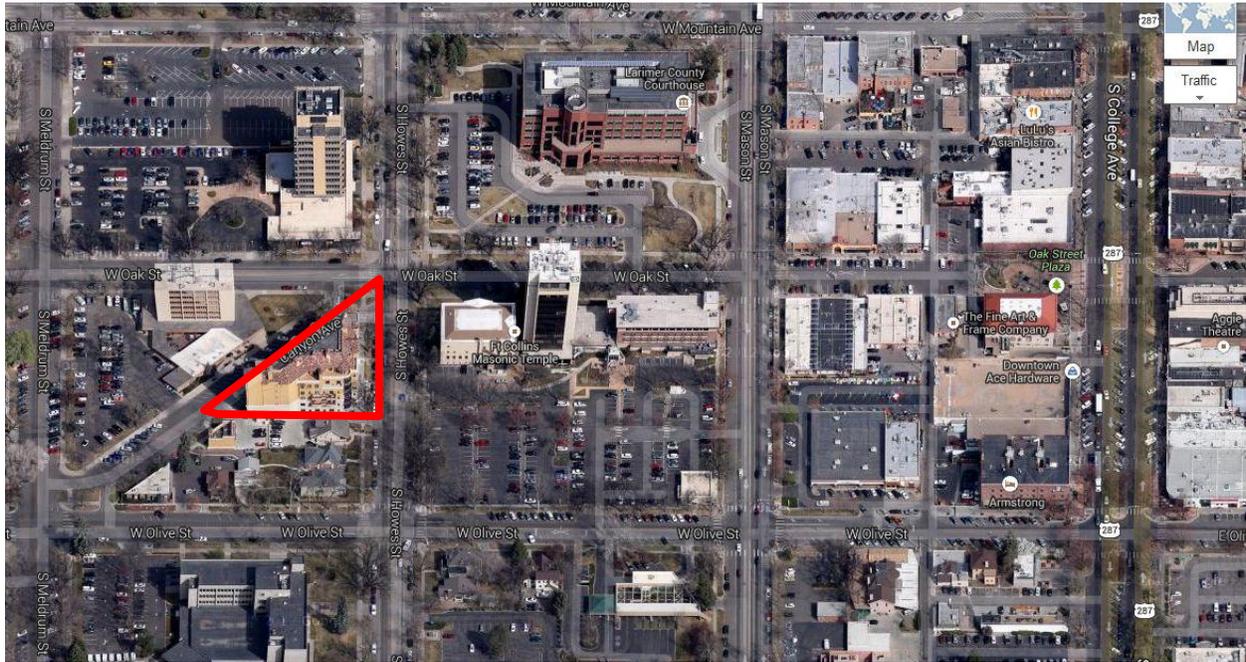
Developed by Coulson Development and built by Sinnett Builders and SB Construction of Fort Collins, the project represents minimal public involvement and was mostly driven by private market forces. The site was originally a drive thru bank on the western edge of downtown Fort Collins. Nearby uses are primarily commercial in nature with mostly office buildings of between three and 12 stories, though there are several single-family homes on the same block as the development.

Fort Collins is the economic and cultural center of north central Colorado and the home of Colorado State University. It has a population of approximately 150,000. The downtown has a strong historic district that attracts a significant amount of the tourism. A key component to the downtown's character is a concentration of craft brew pubs.

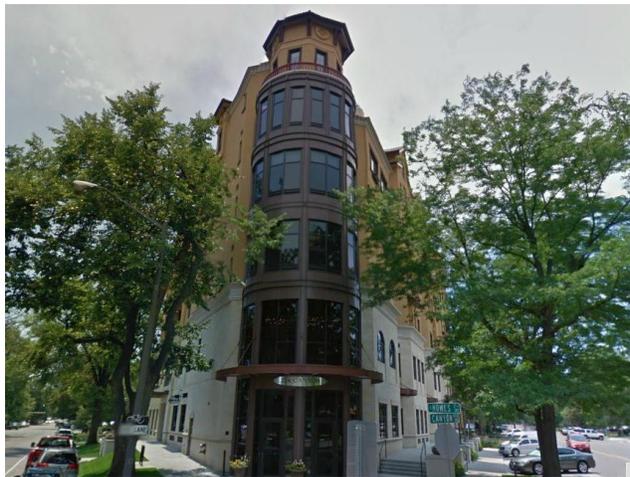
One key note regarding this case study is the high price per unit for this development. Urban development with structured parking typically needs some subsidy except in high income markets.

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Cortina Lofts location relative downtown Fort Collins, CO



South facing view of Cortina Lofts



East facing view of Cortina Lofts

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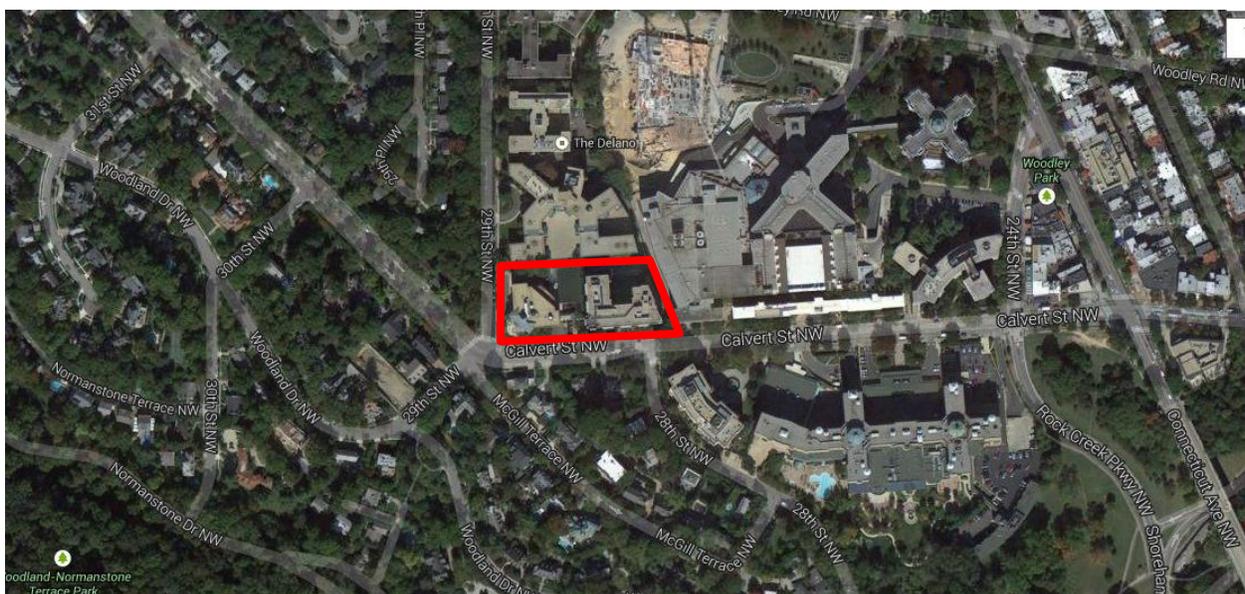
### 3.3 JAMES F. OYSTER SCHOOL/HENRY ADAMS HOUSE, WASHINGTON, D.C.

Project: James F. Oyster School and Henry Adams House  
Uses: Public Elementary School, Market Rate Apartments  
Developer: LCOR Inc.  
Completed: 2001  
Location: Northwest, Washington, D.C.

This public/private partnership was developed by the District of Columbia Schools and selection of LCOR Inc. (a Pennsylvania real estate firm that specializes in public/private development) as master developer, financier and construction manager to design and rebuild the 47,000 square foot James F. Oyster School in Northwest Washington while simultaneously integrating the construction of a \$29 million, 211-unit luxury residential apartment complex on an adjoining site.

Working in close collaboration with all stakeholders, a creative public/private financing structure was utilized to realize the value of the school's land holdings. The new school was constructed without the use of taxpayer dollars and was instead financed by an \$11 million, 35-year tax-exempt bond issued by the District of Columbia. The bond will be repaid by the new revenue generated from the Henry Adams House, a 211 unit, \$29 million apartment complex constructed on part of the school site. The bonds are being retired by PILOT (Payment in Lieu of Taxes) payments made by the apartment building's current owner.

In recognition of this accomplishment, the project received numerous awards including an Economic Development Partnership Award, from the International Economic Development Council, a National Public-Private Partnership Award, from the National Council for Public-Private Partnerships, and an Award for Excellence: Landmark Mid-Atlantic Class A High-Rise Apartment Sale, from Delta Associates for Henry Adams House.



James F. Oyster School and Henry Adams House location in Northwest, Washington, D.C.

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View of James F. Oyster Elementary School



View of Henry Adams House

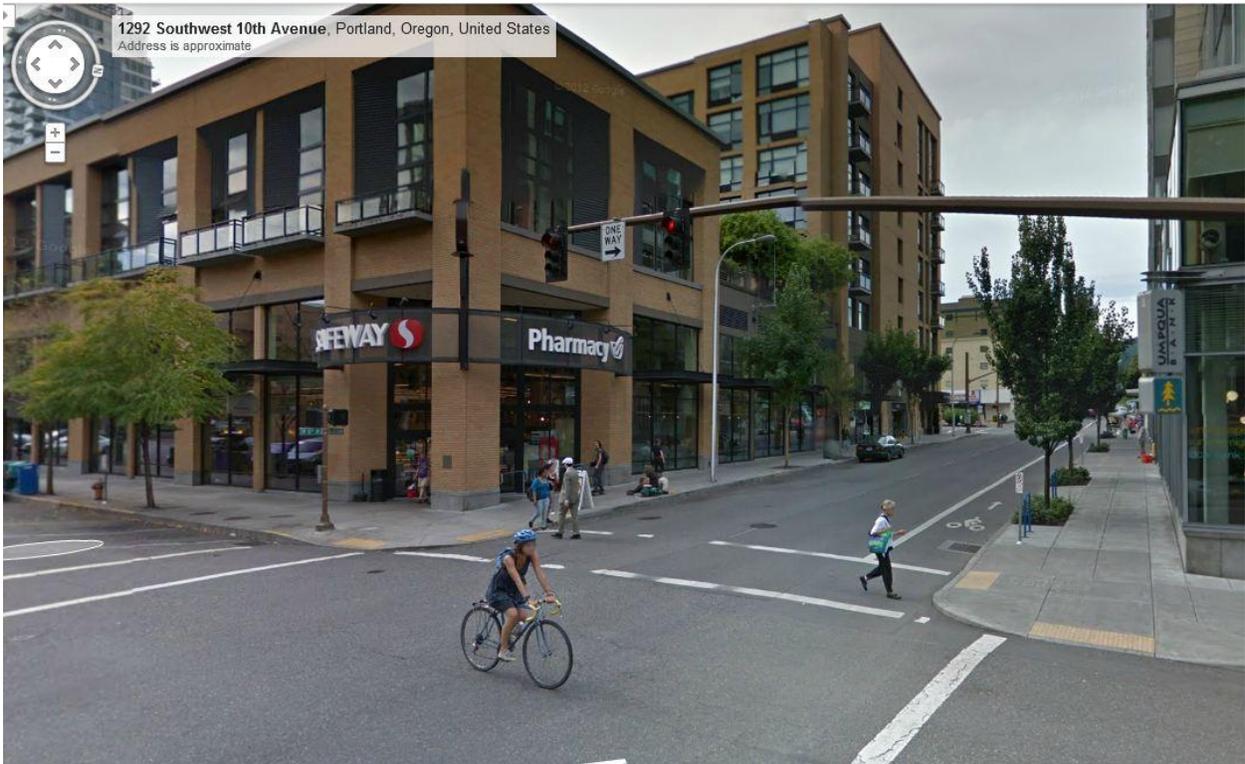


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View of the southeast corner of Museum Place South



View of the northeast corner of the Museum Place South

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### 3.5 DULUTH TECHNOLOGY VILLAGE, DULUTH, MN

Project: Duluth Technology Village  
Uses: Multi-use Technology Office Center, Public Parking Structure, Retail  
Developer: A&L Development  
Completed: 2006  
Location: Downtown Duluth, MN

The Duluth Technology Village was based on a Swedish incubator model for tech start-ups and had backing from the University of Minnesota. Originally conceived in 1999, the project stopped and started several times before being completed in 2006. The project cost \$25 million and is five-stories with 230,000 square feet of space. The building's design is tailored to the high tech industries and educational facilities it primarily serves. Users have convenient access to various amenities within the building. Students have the opportunity to attend classes and work in the same complex. Businesses have the opportunity to share workers, resources and ideas.

The design also allows flexibility for restaurant and retail build-outs. A skywalk providing an enclosed pedestrian passage to downtown buildings was included in the design, as well as a 600-car parking ramp paid for by the City of Duluth. Infrastructure for highly computer intensive tenants provides unlimited band width potential for telecommunications services. The building is generally full and has spurred additional nearby development. Across Superior Street is the Wieland Block a mixture of residential and a clinic that was completed in 2010.



Location of Duluth Technology Village relative to downtown Duluth, MN

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View of southeast corner of Duluth Technology Village



Interior view of Duluth Technology Village

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### 4.0 Developer Interviews

Stantec conducted a series of in-person and telephone interviews with a number of potential developers, end users and other stakeholders. These interviews were conducted in confidence and without the presence of County or other staff to encourage open dialog. For this reason, the results of the interviews are aggregated to protect the anonymity of the participants as much as is possible. All participants were very familiar with the site and several have begun preliminary investigation into project feasibility.

#### 4.1 USES

There were a number of uses that were viewed to be feasible by participants. For the purposes of this section, “feasible” meant that a project could be delivered profitably on this site, given the norms of public subsidy in recent years. This does not mean that the projects are feasible without public subsidy. Public subsidies will be discussed further in a later section of this chapter.

The general feeling was that the downtown La Crosse market is where most of the development attention is focused right now, given the development successes of the past decade or so as well as the concentration of employment.

Uses that were most frequently mentioned as potentially feasible included:

- Bank
- Hotel
- Housing – workforce
- Housing – market rate
- Museum
- Office, including School District
- Retail, particularly drugstore

The hotel use was viewed to be the most market ready with banking, residential and the museum grouped closely behind (in no particular order).

Views on the office market were mixed with some developers expressing confidence in that market and others expressing a need for further internal study until they would feel comfortable making that investment. If there were an identified office end user, it appears that multiple developers would be willing to undertake the project, but it seems unlikely that a large amount of spec office space would be viewed to be an attractive investment at this time.

One special subcategory of office is the La Crosse School District offices. They currently have more than 20,000 s.f. of excess space at their current location. However, as a former school, the space is not ideally suited for their administrative needs. In addition, there are some unique requirements for the District as a governmental entity which could provide efficiencies with a County building. For instance, the School Board has to have a meeting space for its meetings, but that meeting space is not in use for most hours of a month. The requirements for this meeting room (such as TV access) are likely similar to the requirements for the County. The school district parking needs are low, with only 55 spaces necessary for

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30,000 s.f. or less than 2 spaces per 1,000 s.f. One extraordinary school district requirement is that they will need to move their Technology Department, which is estimated to cost between \$800,000 – \$1,000,000.

Retail appears to be the most challenging market to develop at the present time. None of the developers appeared to have retail end users in hand. Some expressed concern with the slow retail absorption rate at the transit station while others indicated they did not think the transit site was relevant to the County parcel because it was viewed to have been located in a difficult retail location (the 100% retail corner is viewed to be 4<sup>th</sup> and Main). One participant stated that if the transit hub had been constructed on the County's parcel, they believe it would have leased up quickly.

The museum use is a unique use that does not follow traditional market research analysis. Indications are that the museum has a well-developed, active concept involving not only museum display but also active period business activities that will add an element of unique retail experiences (i.e. handcrafted items for sale, microbrewery and other options).

The surrounding tavern uses on 3<sup>rd</sup> Street were generally indicated to be irrelevant to development decisions on this parcel. None of the participants appeared to be attempting to build off of the tavern economic activity with an extension of the tavern uses into the County site.

All of the participants viewed the County offices to be compatible uses with their concepts although there was some concern expressed about which of the county functions would be sharing space on this lot with their developments. A couple of the participants expressed concern with co-locating with certain county functions that are focused on serving individuals with a criminal past.

### 4.2 SITE

All participants were generally complimentary of the site and view it to be near the heart of downtown and also on the "better side" of downtown. Third and Fourth Streets are viewed to be significant transportation corridors and desirable for development. To a lesser extent, State Street was mentioned as a key East- West route since it extends all the way to the riverfront.

Although the site is viewed to be one of the better sites available in the Downtown, some users did view the site to be secondary to potential sites just south of the La Crosse River because they have better proximity to Riverside Park. Most teams did not view the site as receiving significant financial benefit from proximity to the river, but did indicate that if the building design created good viewlines to the river (with adequate height and orientation) that this would make the site more attractive in some sectors (particularly office and residential) which could have a positive financial benefit.

Vine Street was viewed by some teams as a critical link in the downtown that needs to remain open (particularly since Pine Street has already been eliminated in the area). Other teams viewed Vine Street to be a marginal street that could be eliminated to provide a closer link to the existing buildings on the north side of Vine Street.

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### 4.3 CAPITAL IMPROVEMENTS (BUILDINGS AND GROUNDS)

In general, the participants had considered their potential use/uses as standalone sites that are only interconnected with county facilities via a shared parking garage. All participants were intending to utilize traditional wood framing methods, which limits building height to 4 to 5 floors.

When asked if they would be willing to be participants in a taller, stacked use concept utilizing steel construction (usually 8 – 12 stories, minimum) and vertical ownership, each group was willing to consider the concept. They did admit that it would complicate the project. The most significant stacked use concerns were raised with workforce housing because it was indicated that WHEDA rules will require that the participant be able to demonstrate the viability of other stacked uses in order to achieve approval (such as signed, long term leases). Least concern about stacked uses appeared to be in the office, market rate residential and hotel markets where stacked uses have been demonstrated in other markets and where the additional height could potential improve their views if those uses were to occupy the upper levels.

None of the participants seemed to have had firsthand experience with a stacked use, multiple owner deal and therefore they indicated they would need to see how it would be structured before they could give a definitive response.

Some uses, particularly banking and drugstores will likely require drive thru facilities which can be difficult to accommodate in an intense, urban development area like a downtown. Drive thru facilities, particularly large banking drive thrus, either have to remain in the open, taking away valuable air rights, or they have to be accommodated in a structured setting where costs can be large and customer visibility can be limited. Any attempts to incorporate drive thru facilities into a stacked, urban development should consider the needs and constraints that the uses poses early on so that it can be accommodated in an effective manner.

There was a general concern that if the public and private projects are closely related in the way the building massing and site is developed, that the private sector would like to see some sort of private or third party property maintenance structure rather than reliance on County maintenance. The concern that was expressed was that commercial uses have certain minimum standards for exterior maintenance and aesthetics in order to attract customers that may not be as critical for a use like the County that has customers who generally do not have alternatives to the services provided by the County. Although the County was viewed to be maintaining its current facilities well, concern was expressed that if the County enters a period requiring difficult cost cutting, such as in the recent recession, that the level of maintenance may be lowered. In periods of difficult economic times, it is often critical for private businesses to actually increase their concern for maintenance and aesthetics because they must compete harder for limited customers.

### 4.4 TIMING

All of the uses listed above were viewed to be viable in the 2014 construction season. Hotels appear to be the most urgently in need of a 2014 construction in order to begin before a competitive project would

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announce. It is perceived that if a hotel project is unable to begin construction in the first half of 2014, then it would likely go to a different site rather than waiting for the County site.

The County site is also viewed to be one of the most shovel ready sites in the downtown and that provides a lot of the appeal. If new, competing shovel ready sites were to open up in the future (particularly in close proximity to Riverside Park), then the demand for the County's site could suffer from the competition.

### 4.5 PARKING

All uses assume that the majority of the parking on this site will be contained in some sort of shared parking facility located in the center of the site with County and private sector uses attached on the street edges of the site. Some uses expressed a desire for a limited number of surface parking spaces, if possible, for activities such as customer check in (hotel) or guest parking (rental housing). However, none of the participants considered the provision of some surface parking to be a "deal killer" and would be able to accommodate their use with only structured parking if necessary.

Special attention would need to be paid in the design of the parking structure to accommodate the delivery needs of uses such as the following:

- Truck deliveries for commercial uses
- Tenant move in loading
- Museum deliveries (which can be extraordinarily large items, such as fire trucks)
- Garbage handling

The County is a very large parking user, with parking required for its employees, county vehicles and the many customers that visit the County offices every weekday. County peak hours are focused on the standard workday hours. One potentially problematic County parking need is that for 2 days per month, the County needs approximately 100 more parking spaces in order to accommodate jury selection days. In a structured parking environment, the jury pool need will add an additional \$1.5 – 2.0 million in structured parking costs for only two days of use per month.

Private sector market rates for surface parking in the immediate area are approximately \$40 – 50 per month. La Crosse County employees receive subsidized monthly parking rates of \$4 per month. Neither of these monthly parking rates is adequate to support the construction and maintenance of structured parking purely on the parking income alone.

Because of the economics of structured parking, significant benefit can be gained by combining uses with compatible peak periods for parking, commonly referred to as shared parking. For instance, if two uses are able to use the same parking spaces at different times of day, the effective cost for a structured parking space has, in effect, been cut in half.

The potential use that will be the largest parking burden is the office use. Office uses generally have peak parking demand during the normal workday working hours.

The hotel use, on the other hand, has significant shared parking benefit, as much of its customer traffic arrives after 6 PM and leaves before 8 AM.

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Retail and housing uses often have compatible parking peak periods, although they can vary depending on a number of variables. For instance, someone who lives within the development may be attracted to being able to walk to work at a downtown employer, but still keep a vehicle parked in their space throughout the day. On the retail front, restaurants that cater to dinner crowds (i.e. steak and seafood) can be compatible shared parking uses, but daytime retailers, such as office supply stores, would not achieve the same levels of shared parking benefit.

Entertainment uses (theaters, night clubs, etc.) are very good parking sharers with the County functions and therefore there may be some opportunities to share parking beyond the site, through increased daytime utilization of parking intended to serve the night oriented businesses on Third Street. In fact, one point that was raised in the interviews was that Lot C is already being used extensively for night time patrons of Third Street and therefore development of Lot C could create evening parking issues elsewhere if it relocates the current Lot C nighttime parking customers.

One very interesting shared parking use is the museum. Museum officials have indicated a need for approximately 100 parking spaces and also that they will be closed on Mondays, which happens to also be the heavy jury selection days. By including the museum use in the development, the County's need for additional jury spaces could be eliminated through shared parking, resulting in significant cost savings.

### 4.6 PUBLIC SUBSIDY

The City of La Crosse has a very active and urbanized downtown for a market of its size. Market rents in the La Crosse market, by themselves, are generally not adequate for carrying the additional development costs of the type of development that has been seen in the downtown. However, it should be noted that this type of intense urban development is also what gives downtown La Crosse its character and activity levels so completely aligning development patterns with market rents would likely weaken the fabric that holds the downtown together.

The interview participants indicated that in recent years, the typical public/private partnership that has been negotiated includes a financial structure that, in effect, provides public subsidy for the costs of the structured parking and the site (including clearing costs).

The public subsidy for land is particularly challenging for downtown property owners, such as the County, because it has set a market price for land in the downtown of \$1. The expectation in the development community is that land will be largely free and subsidized by the City of La Crosse. Unless a site has truly unique attributes, there is very little incentive for developers and end users to pay the landowner anything for the property.

In small and mid-size markets, it is very common to see significant or total public subsidy for structured parking because it is very difficult for market rents in all but the most intense markets to have the ability to support the \$15,000 - \$20,000 per parking space that structured parking requires. In intense markets where structured parking can be supported by the private sector, this is largely because market demand has driven land prices up to levels of \$25 - \$50 per s.f. and it is possible to "trade" structured parking costs for valuable land. In a market where the land price has been set at \$1 per site, that economic trade off cannot occur. Given the total market potential in La Crosse and competitive alternatives in other

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communities, it is unlikely that the local market will be able to achieve enough demand for land that prices would escalate into those high levels that would support privately financed structured parking.

Interview participants were questioned regarding their expectations for public subsidy in order to create a feasible project. This question is naturally sensitive in nature since it occurs prior to the public/private negotiation phase of development.

In general, all developers and users have an expectation that structured parking will be a public sector expense.

The need for free land is more variable. Retail uses, because of the market weakness, will likely need to be subsidized, except in particular sectors such as banking or the drugstore category where premiums can be paid for key locations. Hotels are more used to urban pricing and therefore will likely be able to contribute costs for land. Subsidized housing may have an ability to contribute towards land costs because of the infusion of subsidy from non-local funds. General office uses may not have much ability to contribute to land costs except for those uses that may see the site as particularly advantageous, which often includes uses such as title companies and law firms that benefit from proximity to the courthouse and records. The museum is once again a unique use and its ability to contribute to land costs will be driven by its fundraising capabilities.

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### 5.0 Conclusions

The three previous sections analyzed information relating to the potential to support a mixed-use development in downtown La Crosse and, specifically, on the Lot C site. In the market data section key demographic and employment trends as well as current market rents were analyzed to better understand the forces that might drive demand for such uses appropriate to a mixed-use development. This analysis revealed that downtown La Crosse has experienced strong growth in recent years and that the demographic groups and employment sectors with the strongest propensity for living and locating in a downtown environment are on the upswing and will likely continue to grow robustly into the near future fueling demand for more housing, office space, and eventually retail space.

In the case studies section a number of examples of mixed-use developments were presented covering a range of uses, development strategies, and contexts. These included everything from traditional market driven, private sector developments with a typical program of housing above commercial space to complex public/private partnerships in which a public entity was a primary user and the private residential development helped defray the cost of the public sector investment. All of the projects were located in downtown environments similar to La Crosse in which space was at a premium.

In each case, the projects were considered highly successful. In more than one instance, the project was credited with spurring adjacent nearby development and contributing to public sector goals of market rejuvenation.

In the developer interviews section, it was concluded that there is a significant amount of interest to develop in the downtown and on Lot C. The site has advantages attractive to developers and that a number of uses could work together on the site. Nonetheless, the economics of making a prominent downtown development work given achievable rents in the market means that public involvement will likely be required on some level.

In general, though, there appears to be adequate market support and willingness to develop a public/private development on Lot C, if there is public subsidy for the parking structure at a minimum.

Given the amount of subsidy that will likely be required for a project of this type, it will be very important to partner with uses that provide some sort of shared facility benefit (parking, facilities, etc.) to maximize the overall project efficiency. This can provide benefit to the County by reducing its facility costs. Uses that appear to be particularly good candidates for partnership include the following:

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<b><u>Use</u></b>	<b><u>Benefits</u></b>
School District Offices	Shared use of unique facilities (Board Chambers, TV studio, welcome center); low parking use per s.f. of space; provides additional redevelopment opportunities at current administrative office site
Hotel	Exceptional shared parking candidate; ability to pay towards land costs; potential cooperation for events (i.e. meeting room use, lodging)
Museum	Provides excellent shared parking opportunity with jury selection days; heavy weekend use; would prefer to be located close to the river.
Workforce Housing	Brings in non-local public funds that can assist in filling financial gaps
Entertainment	Exceptional shared parking candidate; could be accomplished by putting entertainment uses on Lot C or through better utilization of existing parking spaces on Third Street that are intended for night use by entertainment uses.