

# Market Analysis for Erie Downtown

## Executive Summary

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### Introduction

Urban Partners has been retained by the Erie Downtown Partnership to conduct a market analysis for Downtown Erie. This market analysis serves as an update to the market component of the Erie Downtown Master Plan, completed in 2006. Since completion of the Master Plan, City agencies have moved forward on many of the recommendations. Building from this momentum and these strengths, Downtown Erie hopes to further expand its market capture to effectively reinvigorate Downtown retailing and living and to preserve its key office and entertainment roles. In the technical memorandum, we present a market assessment of housing, retail, office, and hotel uses that may be appropriate for Downtown in light of its aspirations and recent successes. Depending on the market being analyzed, we have examined trends that have occurred in the Erie Downtown Partnership service area, which is bounded by the Erie lakefront on the north, the main rail line just below 14th Street on the south, Sassafrass Street on the west, and Holland Street on the east; the Greater Downtown, which extends to Cranberry Street on the west, East Avenue on the east, and 26<sup>th</sup> Street on the south; Erie City; and Erie County.

### Background Demographics

To begin the market analysis, we examined several demographic indicators through the US Census to track changes in the Erie area, including population, households, and housing units. Highlights are:

- **Population:** The City lost 2% during the 2000s compared 4.6% during the 1990s; Greater Downtown Erie declined by 4.2% between 2000 and 2010 after growing by 1.2% during the 1990s; and the Erie Downtown Partnership service area's population shrank by 5.5% during the 2000s.
- **Households:** The City lost a tenth of a percent of its households from 2000 to 2010 compared to a 2.8% over the prior decade; households in the Greater Downtown area declined by 2.2%, similar to the 1990s; and the Erie Downtown Partnership service area experienced a 11.5% growth during the 2000s.
- **Housing Units:** The City lost 0.4% in the 2000s and 1% in the 1990s; the Greater Downtown lost 3.5% in the 2000s after a 1.6% increase in the 1990s; and housing unites grew in the Erie Downtown Partnership service area during the 2000s by almost 5%.

### Sales Housing Market

The 2011 Erie sales housing market, including both single-family residences and condominiums, was analyzed to identify trends in residential real estate over the past year and determine the potential for new residential development in the Downtown area. Sales activity was modest in 2011, with an approximately 50% decline from 2005, most significantly concentrated in the City. Median sales prices ranged from \$49,000 in the Greater

Downtown to \$77,000 in the City to \$112,900 in the County. Two-thirds of Greater Downtown sales were to owner-occupants and an additional 35 homes were purchased in the Greater Downtown by investors.

Median sales prices for condos ranged from \$147,900 in the Erie Downtown Partnership service area and Greater Downtown to \$170,000 in the City to \$177,000 in the County. Prices per square foot in the County reached up to \$292, the highest in the Erie market. The one condominium sold in Downtown in 2011 was in the Mercantile Building. Currently, six condominiums in the building remain for sale.

New homes in the City are mostly scattered site affordable developments in specific neighborhoods. The Erie Redevelopment Authority is directing the \$50 million Union Square mixed-use market-rate development at 12th and Peach Streets. The project will include 140 residential units, retail, off-street parking, and improvements to Griswold Park. Construction of the first phase began in 2011. Prices are expected to range from \$170,000 for the smallest units to \$259,000 for the largest.

In a further effort to assess the market for housing in Downtown Erie, an online survey was conducted through the Erie Downtown Partnership's website. A total of 144 people completed the survey; 42% indicated that they would be interested in living in Downtown Erie if attractive, affordable housing were available and an additional 9% said they would be interested in living Downtown if there were financial incentives available.

### ***Sales Market Potential for Downtown Erie***

New sales housing should continue to be introduced into Downtown Erie through several niche-oriented developments situated to most effectively build upon the strengths of the downtown. Specific opportunities include:

- Potential for 50 to 60 new units of sales housing over the next five years targeted to “young relocating owners” and first-time home buyers (many with incomes at or just below \$50,000). This would complete the Mercantile Building, advance the Union Square development to completion, and provide the opportunity for one additional loft conversion. These might be effectively priced in the \$140,000 to \$170,000 range.
- Potential for another 50 to 60 sales units targeted to capture the “older relocating owner” and “homeowner with income over \$100,000” niches in the form of a luxury condominium development with condos and a mid-rise building. The typical unit would sell for \$130,000 to \$250,000 or more.

### **Rental Housing Market**

Rental housing represented 33% of the housing market in Erie County in 2010, while it constituted 48% of the market in the City of Erie, up from 31% and 44% respectively in 2000. Erie's rental market is particularly concentrated in the Greater Downtown area, where 71% of housing units there were rental and 29% of all rental housing in the County is located. The Greater Downtown saw a 5% increase in rental units since 2000, while rental housing grew by 11% in the Erie Downtown Partnership service area. As in 2000, 99% of housing in the service area remains rental.

Rental housing in Downtown Erie can be categorized into three distinct segments - university student housing, subsidized rental housing, and market-rate housing. Student-oriented apartments rent in the range of \$265 to \$350 per person plus utilities. Affordable subsidized rental housing remains a large segment of the Greater Downtown Erie supply. Rents range from about \$450 to \$650 per month depending on size and amenities. Rents for market-rate apartments in the Greater Downtown range from about \$650 to \$1,000 per month depending on size and amenities, and most complexes have units available.

### ***Rental Market Potential for Downtown Erie***

The demand for subsidized rental housing Downtown remains strong, with significant waiting lists. The potential for further growth in the University market will be limited due to anticipated enrollment stabilization over the next few years. The Downtown Housing Survey, however, shows signs of increasing interest in market rate rentals, particularly townhomes and historic loft conversions.

## **Retail Market**

A retail market analysis was conducted to describe the current performance of retailers located within and near Downtown Erie and identify opportunities for the further development of retailing in the area. For this analysis, we define Downtown Erie as co-terminus with the boundaries of the Erie Downtown Partnership service area. The stores located in Downtown Erie provide products and services in 25 different retail categories and service at least five distinct retail markets—(1) Downtown residents, including Gannon University students; (2) Downtown employees; (3) residents of the Greater Downtown area extending for one mile beyond the Erie Downtown Partnership boundaries; (4) attendees at the many Downtown cultural and sporting events; and (5) a broader Erie County-wide (or larger) regional customer base. All of these markets may offer potential for expanded retailing Downtown.

### ***Trade Area Retail Supply***

As of April 2012, Downtown Erie included 106 operating retail businesses occupying nearly 457,700 square feet of store space and generating nearly \$90.6 million in sales. More than half of these establishments (58) are full- and limited-service restaurants and bars. We have also assessed retail conditions in the larger Greater Downtown area to avoid distorting the actual economic conditions in the very compact Partnership-defined area. The 300 retail businesses offering goods and services in this area occupy an estimated 1.05 million SF of gross leasable area generating nearly \$228 million in sales annually. Taken as a whole, the 300 stores in the total trade area include 117 eating and drinking establishments; 111 stores providing 15 categories of community-serving goods and services; one department store; 57 apparel, home furnishings, and specialty goods stores; and 14 “other retail” stores.

### ***Retail Demand***

Demand for retail goods and services in the Erie Downtown Partnership area derives from the five distinct markets identified above. To quantify this potential demand we focus on three demand segments: residents of Greater Downtown Erie (including Downtown proper); Downtown employees; and the broader Erie County area. Aggregating all these potential sources of retail demand for Downtown Erie, we estimate a total potential retail demand for more than \$358 million in goods and services that could be captured by Downtown (or Greater Downtown) Erie retailers. This demand includes \$210 million of retail purchases made by the nearly 38,000 residents of Greater Downtown; more than \$52 million in purchases by Downtown employees; about \$87 million in purchases in selected retail categories that could be brought to Downtown Erie with a very reasonable 15% capture of the overall Erie County market; and \$8 million from a 15% capture of specialty sales currently under-represented in the Erie region.

### ***Retail Capture and Development Potential***

A comparison of the consolidated market potential to the estimated current store performance within the Greater Downtown Trade Area reveals potential for additional sales capture in the Greater Downtown for the following:

- Opportunity to add a supermarket of up to 55,000 SF.
- Potential to continue growth of the dining and entertainment market by adding up to 54,000 SF of full-service restaurants.
- Potential to add up to 25,000 SF of specialty apparel retailing.
- Opportunity to meet several critical community needs in the Greater Downtown Area by adding up to 28,000 SF of new stores in categories of severe supply shortage.
- Furthering Downtown’s capture of the regional market for specialty goods by adding up to 21,000 SF of specialty stores.
- Capturing unmet needs of Downtown students and employees for leisure-oriented specialty products by adding up to 15,000 SF of such stores.

Taken together these key development opportunities would grow the occupied retail mass of Downtown Erie by 43%. Collectively, these strategies would increase Downtown Erie’s retail capture by more than \$70 million, increasing total sales by 80%.

## **Office Market**

Downtown Erie has a variety of office buildings of various sizes, ages, and levels of quality. The highest quality office space remains in owner-occupied single-user buildings for major employers including Erie Insurance, UPMC Hamot Medical Center, and Gannon University, as well as various banks and insurance companies. Office rents in Downtown Erie typically range between \$15 and \$19 per SF net (tenant pays utilities, insurance, and/or maintenance) for Class A space. Class B space is commanding between \$8 and \$12 per SF net. While the Downtown Erie office market has been relatively stable and absorbing tenants, there are currently several occupancies in both Class A and B buildings.

### ***Office Market Potential for Downtown Erie***

The primary drivers for economic activity in Downtown Erie remain the large employers that largely occupy their own single-user buildings. Priorities for maintaining the market strength of Downtown Erie include:

- Assuring that these businesses have adequate potential for expansion.
- Developing the capacity to market Downtown to external users by identifying specific sites for development of new Class A space.
- Upgrading and converting warehouse and/or some of the Class B space to office condominiums to meet the needs of smaller professional firms for office space, particularly near the medical complex.
- Aggressively converting some of this surplus Class B space to other uses to tighten up the market and encourage improved maintenance.

## **Hotel Market**

The hotel market analysis area for Downtown Erie focuses on an area that extends approximately five miles from Downtown. In addition to the four hotels located Downtown (18% of the area supply), the analysis area includes the clusters of hotels located at the major suburban Erie Interstate exits and hotels to the west of Downtown toward the approach to Presque Isle State Park. Using Smith Travel Research data, we obtained data on the 30 hotel properties that are located within the study area for a total of 3,224 rooms. The newest hotels, opened between October 2007 and June 2008, total 620 rooms.

In total, hotel room demand in the Erie area grew by 24% since 2005, while room supply grew by 27%. Although new supply in 2007 dropped occupancy below 60% until 2010, it rose to 61.3% by 2011. The average room rate also rose - from \$73.50 in 2005 to \$88.59 in 2011, a 21% increase that exceeded inflation for the period. During the last available year of data (2010/2011), summer demand from June through August constituted 33% of the entire year's demand. During the off-season (December through February), demand increased by 4% between 2005 and 2011. The spring shoulder season experienced an increase of 18% and the fall season 24%. During 2011, on average, hotel rooms were more than 80% occupied every night of the week during August except Sunday. During July and August, occupancy average occupancy for the month was 84% and 85% respectively. On Saturday nights throughout the year, Erie area hotels were more than 80% booked on average during eight months of the year.

### ***Hotel Market Potential for Downtown Erie***

Since 2007, the annual growth in demand has been 22,000 room-nights per year. This indicates that improved supply quality has triggered at least some demand response. This includes:

- Potential to add 90 to 100 rooms annually to capture on-going growth in room-night demand.
- Opportunity to support growth of convention business with addition of a second, more price-sensitive hotel of approximately 100 rooms within walking distance of the Convention Center.
- Where market conditions dictate, encouraging reinvestment and/or repurposing of older, less-competitive current hotel properties.