

Lawrence Real Estate Market & Growth Management

– Facts, Figures and Trends

Richard Caplan Horizon 2020 Update
Presentation

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Growth Management: Independent Study Findings

“The Link Between Growth Management and Housing Affordability: The Academic Evidence”

*- The Brookings Institute on Urban and Metropolitan Policy,
February 2002*

A comprehensive, independent study was performed of cities across the U.S. that have implemented some form of growth management. Key findings from the study included:

- 1. “The housing price effects of growth management policies depend on how they are designed and implemented. If the policies restrict land supplies, then housing price increases are expected.”**
- 2. There are mixed conclusions, *but it could be that growth controls do not slow growth in these (300+) cities, (as) housing consumers are finding substitute housing nearby.***
- 3. Market demand, *not land constraints*, is the primary determinant in housing prices.”**

Growth Management Impact in Douglas County

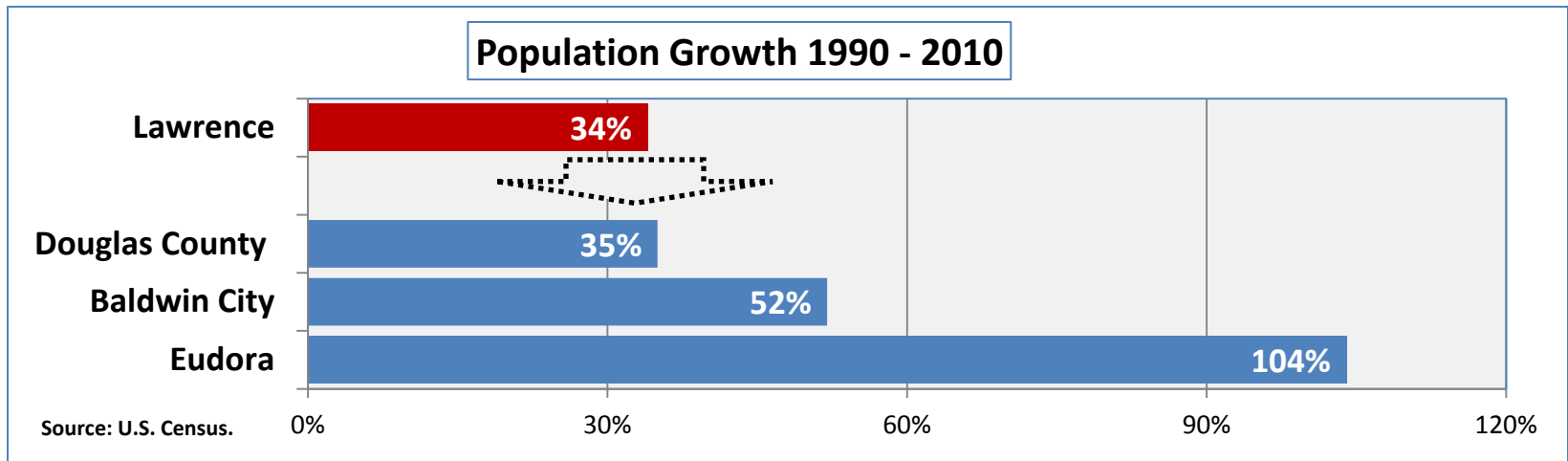
“The Link Between Growth Management and Housing Affordability: The Academic Evidence”

- The Brookings Institute

Finding #2 could have a direct correlation to Lawrence:

“ . . . it could be that growth controls do not slow growth in these cities, housing consumers are finding substitute housing nearby.”

Fact: Since 1990, population growth in Lawrence’s two nearest Douglas County cities has significantly exceeded population growth (by 18% and by 70%) in Lawrence.



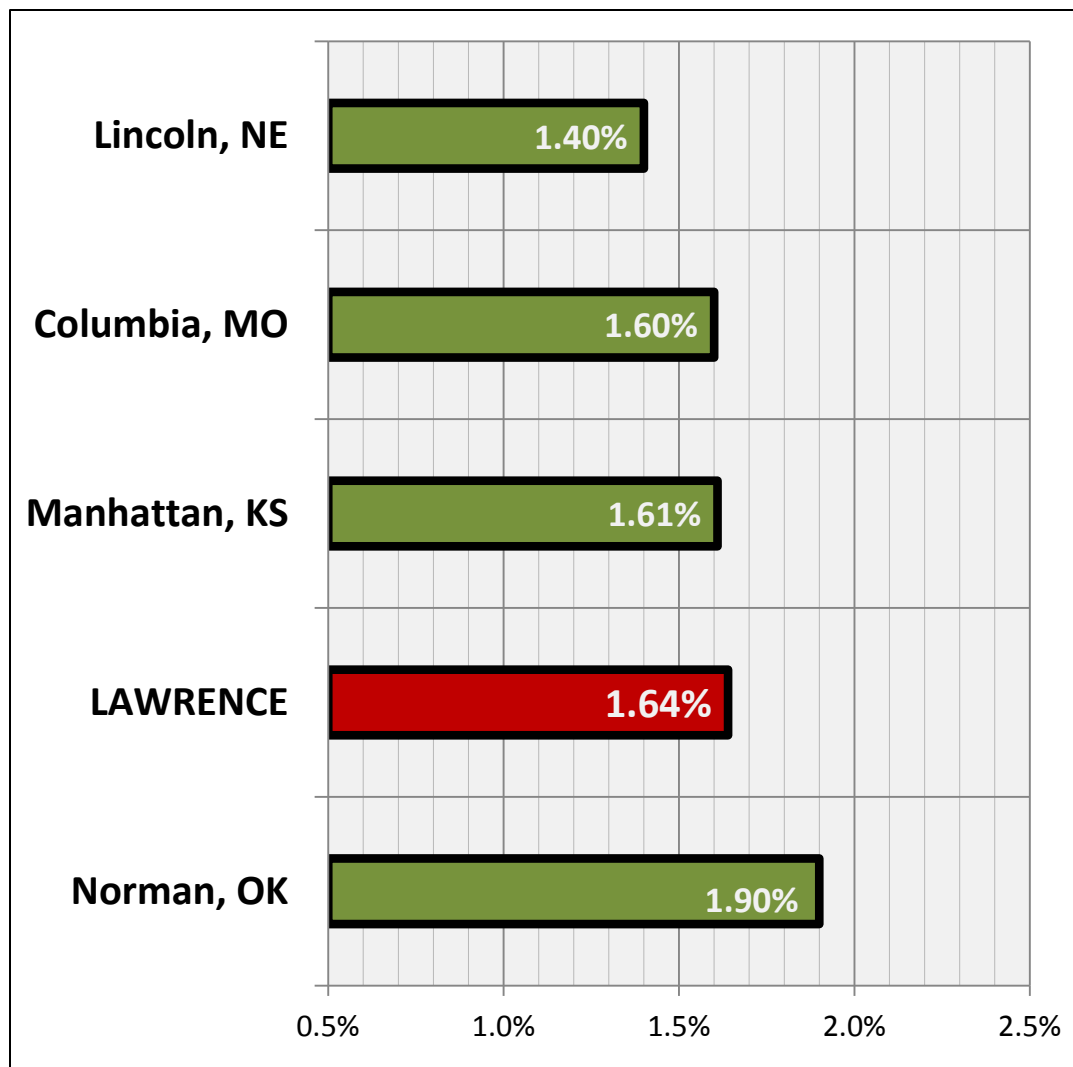
Consequently, any new growth management/limits in Lawrence can be expected to result in shifting demand for new housing and public services elsewhere in Douglas County.

Lawrence vs. University Towns: Average Annual Growth Rates 1970 – 2010

Is Lawrence Overbuilt?

Facts:

- Lawrence's average annual population growth has been on par with other major university cities in the region.
- Since 1970, Lawrence's population grew by an average of 1.64% annually.
- This growth rate is slightly faster than Manhattan and Columbia, MO and slower than Norman, OK.
- This growth contributes to a continuing requirement for new housing and added commercial space and choices.



Source: U.S. Census.

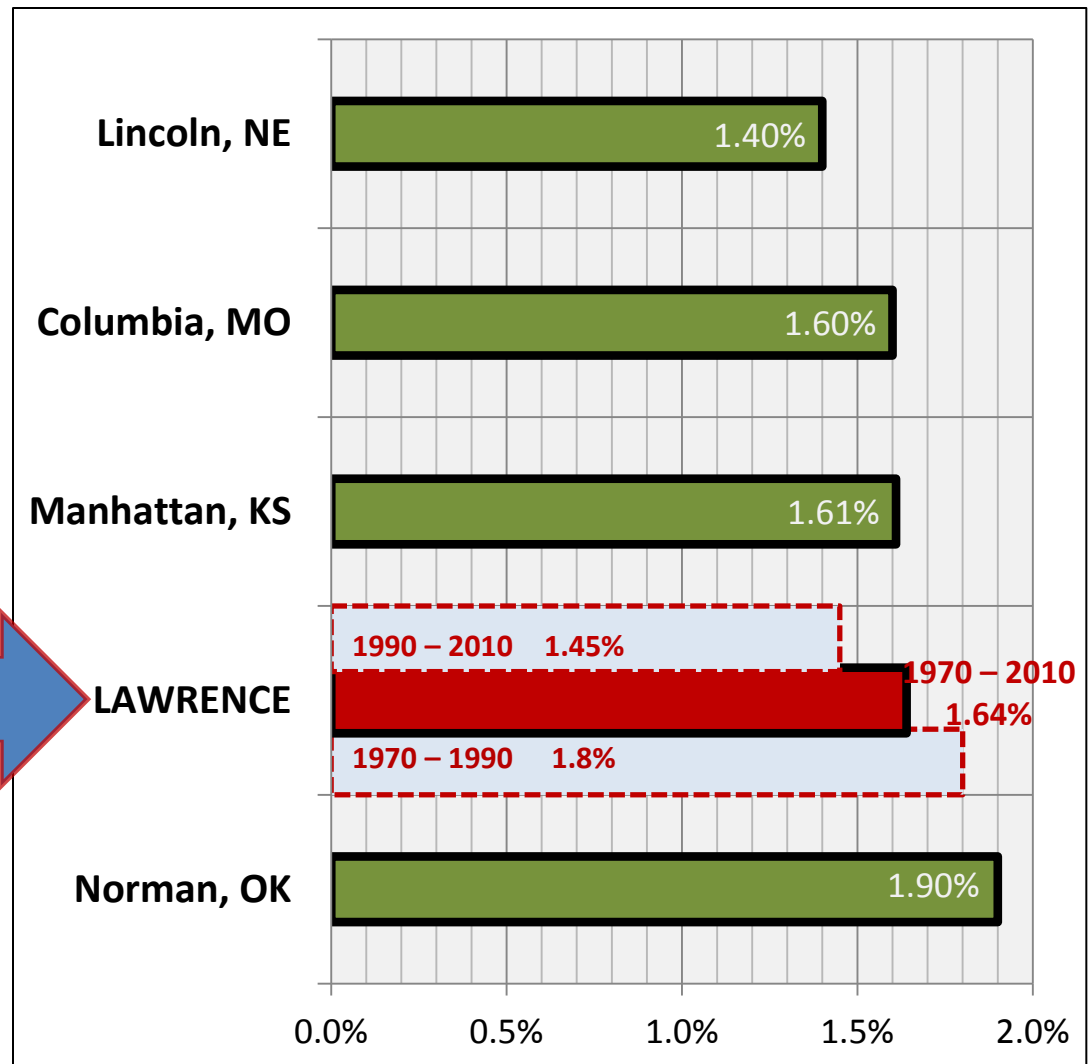
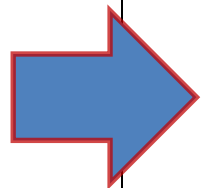
Lawrence Annual Growth Rates 1970 - 1990 vs. 1990 - 2010

- A closer look reveals that the city's growth rate has actually declined in the last 2 decades.

- Since 1990, the city's average annual population growth rate has **declined to 1.45%** from a average annual growth rate of **1.8%** from 1970 to 1990.

- Changes in the rate of growth will always be present in the market due to such factors as:

- National economic conditions
- Interest rate fluctuations
- Employment changes
- Changes in consumer habits
- Technological changes (telecommuting, Internet sales, etc.)



Source: U.S. Census.

Is the Lawrence Retail Market “Overbuilt”?

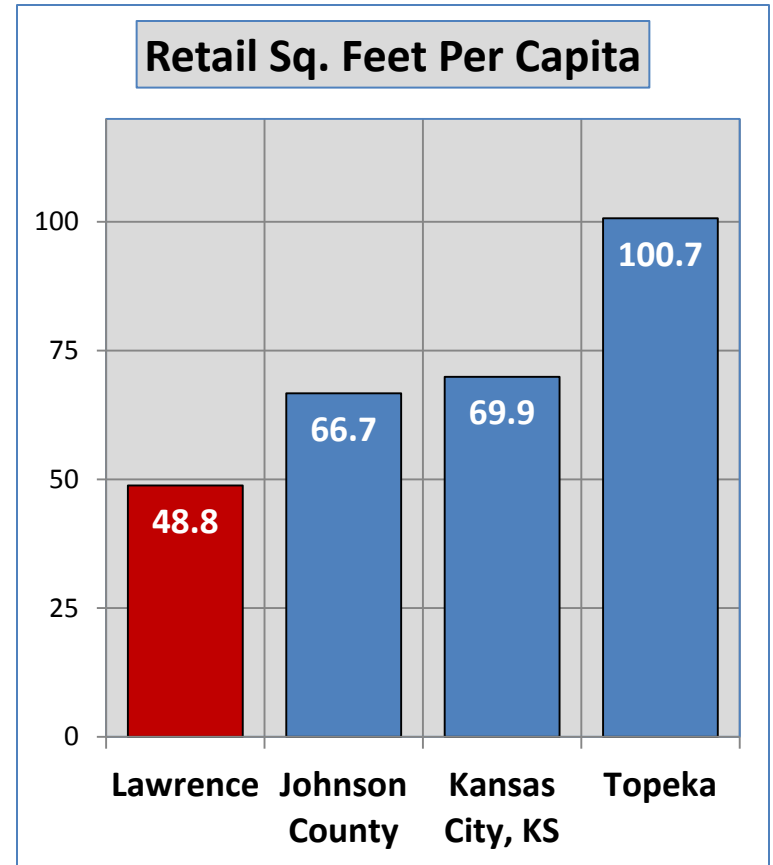
No. Fact:

Lawrence has less retail space per capita than other metropolitan areas in eastern Kansas.

City / County	2013 Population	Retail Sq. Feet	RETAIL Per Capita
Lawrence	90,811	4,430,580	48.8 sq. feet
Johnson County	566,933	37,800,300	66.7 sq. feet
Kansas City, KS	140,483	10,383,609	69.9 sq. feet
Topeka	127,473	12,836,840	100.7 sq. feet

Located between two larger metropolitan areas, it is not surprising that Lawrence trails its neighbors in retail square footage per capita.

Topeka is “overbuilt” with 100.7 sq. feet per capita, more than double Lawrence.



Source: U.S. Census; Block Real Estate Services 2014; KS Commercial Real Estate, City of Lawrence.

What is a “Healthy” Retail Vacancy Rate?

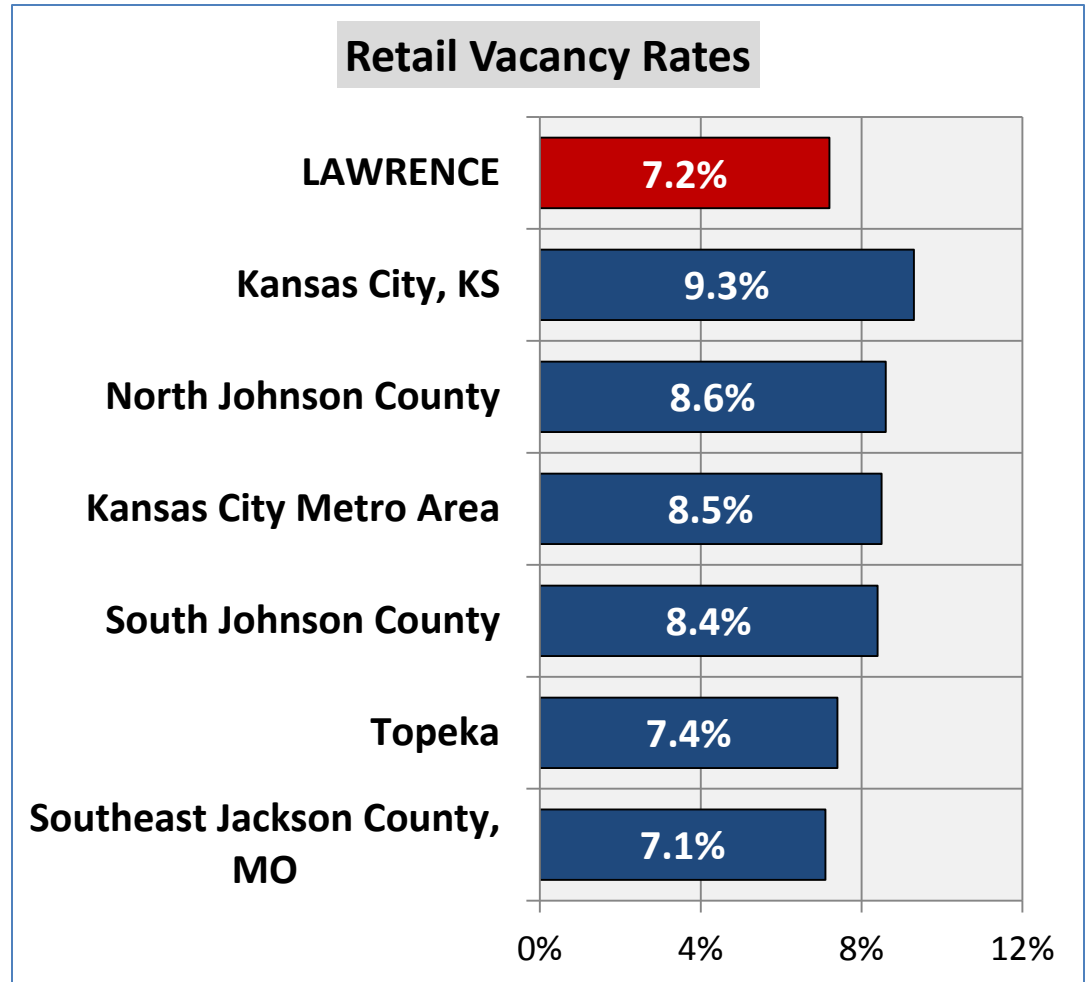
- There is no universal definition of what a healthy vacancy rate is since each market and sub-market is so different from one another.
- However, it is commonly accepted that 5% or lower is a healthy market and 10% or higher is a weak market.
- The top 10 strongest retail markets in the United States average a vacancy rate of 5.7%.

Rate	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%
Industry Description	Strong <<			Majority of U.S. markets				>> Soft (Weak)		
Area Examples	San Francisco 3.9% (no. 1 in U.S.)			Lawrence 7.2% Topeka 7.4% Johnson County 8.5%				Kansas City, KS: 9.3% U.S. Average: 9.7%		

Source: CBRE Block Real Estate Services 2014; KS Commercial Real Estate; City of Lawrence.

Retail Vacancy Rates: 2012/13

- One of the best measures of market conditions is the vacancy rate.
- The City of Lawrence retail vacancy rate reported by the city in 2012 of **7.2%**, has consistently remained below the vacancy rates in other retail markets in the region = Another indication that the market is NOT OVERBUILT.
- This rate remains below the suggested 8% retail vacancy benchmark suggested in Horizon 2020.



Source: Block Real Estate Services 2014; KS Commercial Real Estate, Topeka; City of Lawrence.

Lawrence Visitors Commercial Impact

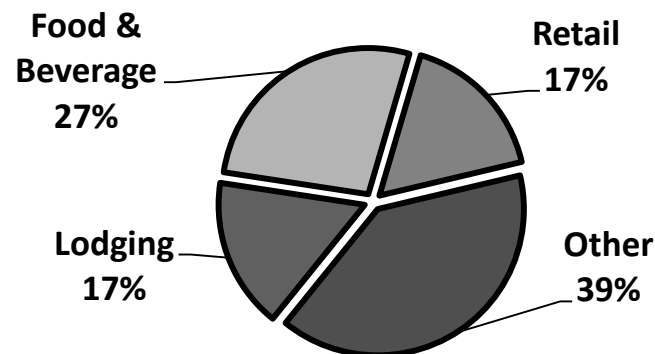
- Lawrence's commercial demand is also driven by visitors!

Fact:

- In 2013, visitors to Lawrence added \$210 million to the Douglas County economy supporting the lodging, restaurant and retail sectors of Downtown.

Douglas County Visitor Spending 2013	
Lodging	\$34,800,000
Food & Beverage	\$57,030,000
Retail	\$35,220,000
<u>Other: Transportation; Recreation</u>	<u>\$83,020,000</u>
TOTAL	\$210,870,000

Source: State of Kansas Council on Travel & Tourism.



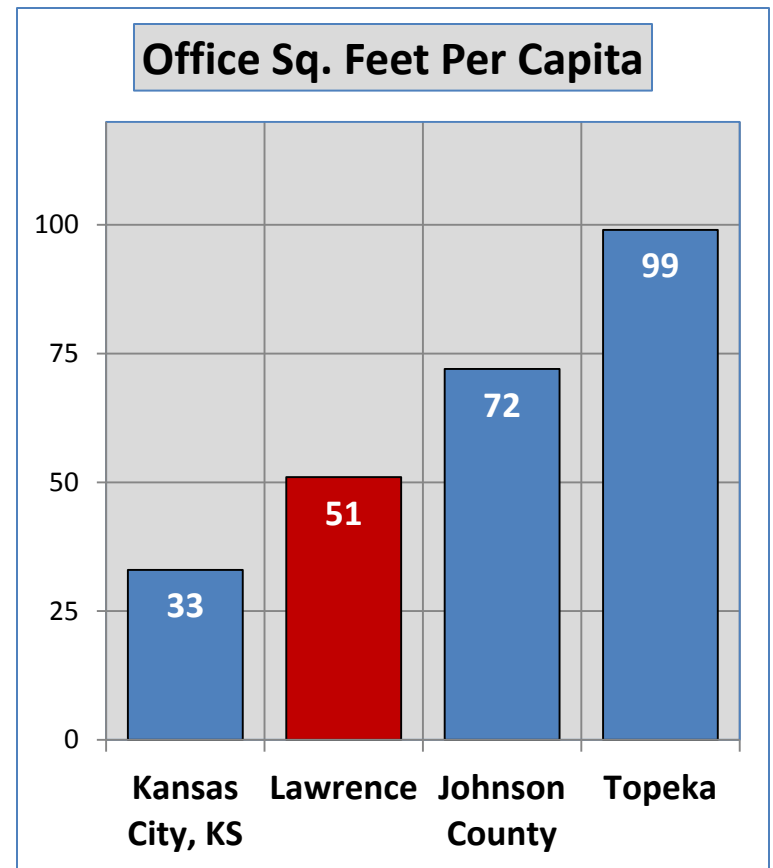
- In 2014, Lawrence's retail sales increased **5.5%**
- Lodging revenues (transient guest taxes) increased by **17%**

Is the Lawrence Office Market “Overbuilt”?

No, again.

Lawrence has less office space per capita than the three other metropolitan areas in eastern Kansas except for Kansas City, Kansas.

City / County	2013 Population	Office Sq. Feet	Office Per Capita
Lawrence	90,811	4,674,571	51 sq. feet
Kansas City, KS	140,483	4,633,271	33 sq. feet
Johnson County	566,933	40,832,288	72 sq. feet
Topeka	127,473	12,643,893	99 sq. feet



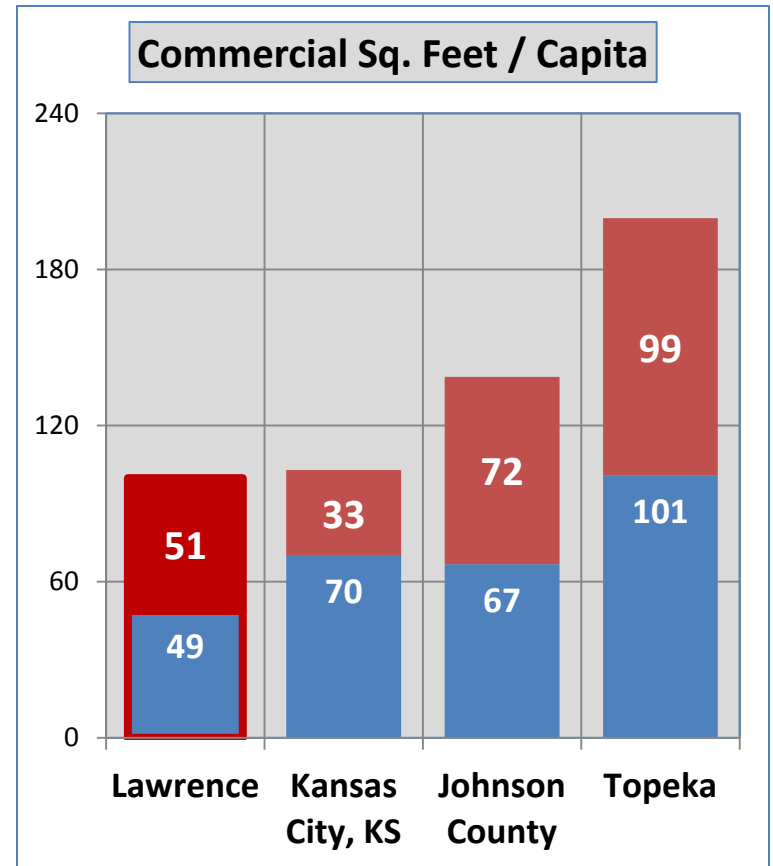
Source: U.S. Census; Block Real Estate Services 2014; KS Commercial Real Estate, City of Lawrence.

Is the Lawrence Commercial Market “Overbuilt”?

In summary, the Lawrence commercial market has room to add new retail and office to make Lawrence on par with its neighbors and be more competitive within.

In total, the per capita size of the Lawrence commercial market lags other metropolitan areas in eastern Kansas.

City / County	2013 Population	Total Sq. Feet	Sq. Feet Per Capita
Lawrence	90,811	9.1 million	100 sq. feet
Kansas City, KS	140,483	15 million	103 sq. feet
Johnson County	566,933	78.6 million	139 sq. feet
Topeka	127,473	25.5 million	200 sq. feet



Source: U.S. Census; Block Real Estate Services 2014; KS Commercial Real Estate, City of Lawrence.

City of Lawrence Retail Market Reports: 2006, 2010, 2013

The City of Lawrence has been officially tracking commercial data since 2006. The city's data offers several key findings:

First: Downtown Lawrence is Healthy!

Facts:

1. According to the city's retail market studies, Downtown Lawrence's share of the city's retail square footage has increased from **14.1% in 2006 to 14.7% in 2012.**
2. The share of total city sales tax generated by Downtown has grown from **13.6% to 15.0%.**

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2. The share of total city sales tax generated by Downtown has grown from **13.6% to 15.0%**.
3. Downtown added 71,541 square feet of retail since 2006. More than **98% of this space was occupied in 2012**, increasing the total amount of vacancy retail by only 1,386 square feet.

Most popular tourist attraction in Kansas . . .

Downtown Lawrence and Massachusetts Street

"Charming and beautiful Downtown, fantastic shops, live entertainment venues, and delicious dining options."

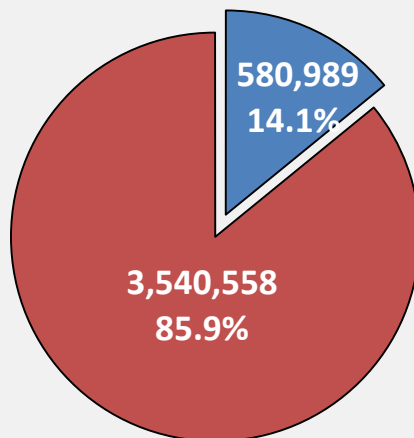
 **tripadvisor** 2014

Lawrence & Downtown's Retail Market 2006 - 2012

- City of Lawrence data reports that retail makes up 4,430,580 sq. feet of the city's 9,105,151 commercial sq. feet.
- Lawrence added a net of 309,033 retail square feet from 2006 to 2012.
- Downtown Lawrence captured 71,541 of this retail increase, or 23% of the total increase.
- As a result, Downtown Lawrence Increased its share of city's retail space from 14.1% to 14.7% of the total.

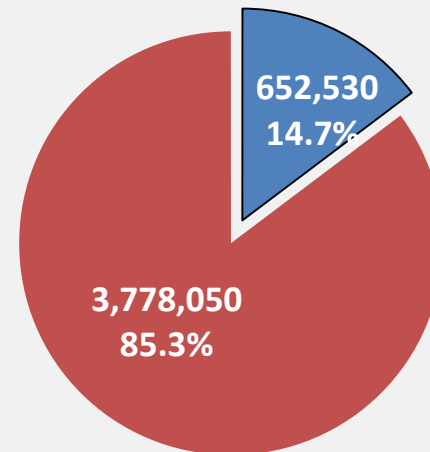
2006 Retail Space: 4,121,547 Sq. Feet

- Downtown: 14.1%
- Balance of Lawrence



2012 Retail Space: 4,430,580 Sq. Feet

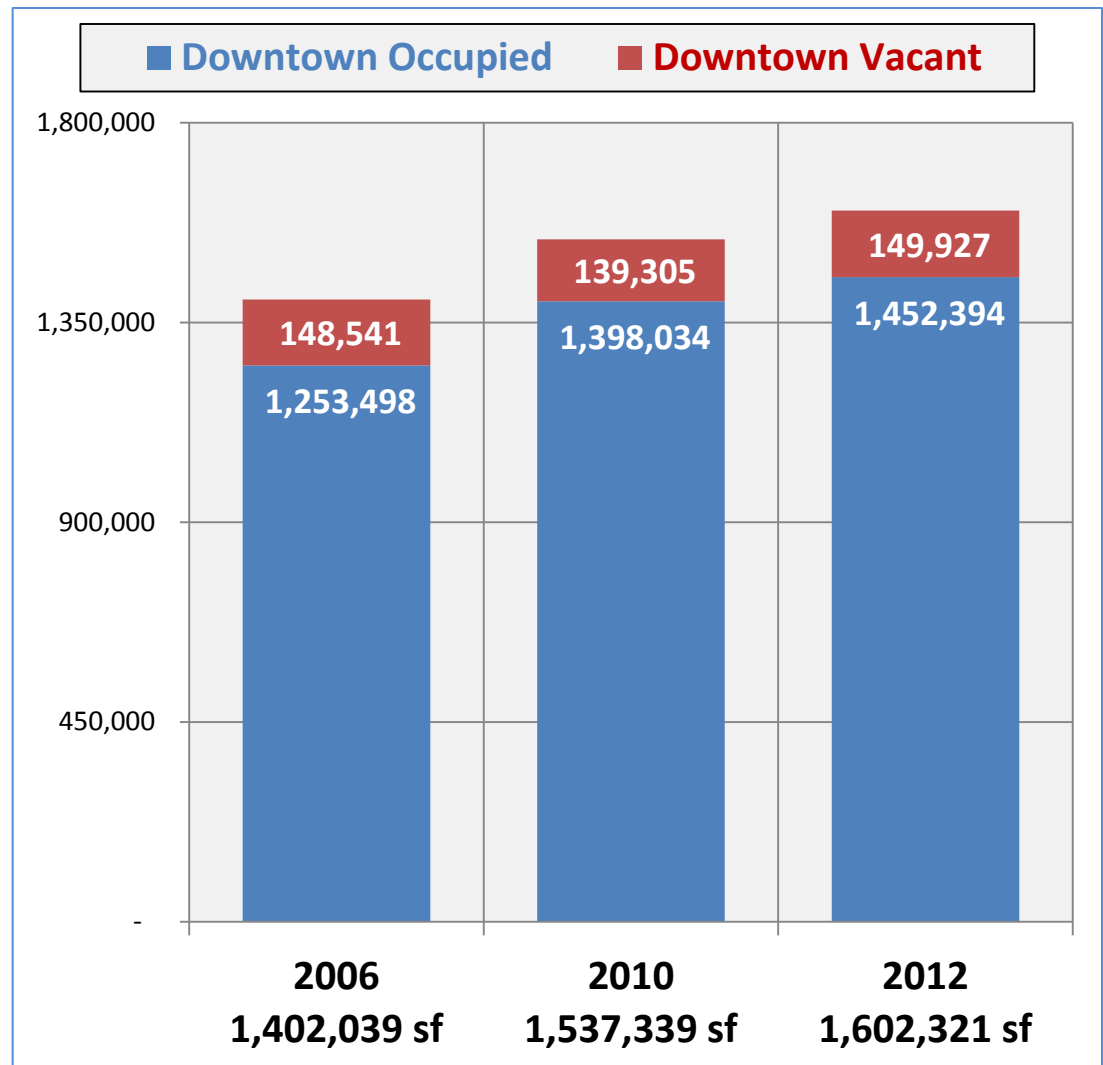
- Downtown: 14.7%
- Balance of Lawrence



Source: City of Lawrence Retail Market Study 2006; 2013.

Downtown Commercial Space Trend 2006 - 2012

- A net total of 198,896 commercial square feet, an **increase of 16%**, has been added to the Downtown commercial inventory since 2006.
- However, the amount of vacant commercial space has remained virtually the same (increase of 1,386 square feet).
- 98% of the additional square feet added to Downtown Lawrence from 2006 to 2012 has been absorbed.



Source: City of Lawrence 2013 Retail Market Report.

Market Changes = Downtown Reinvestment

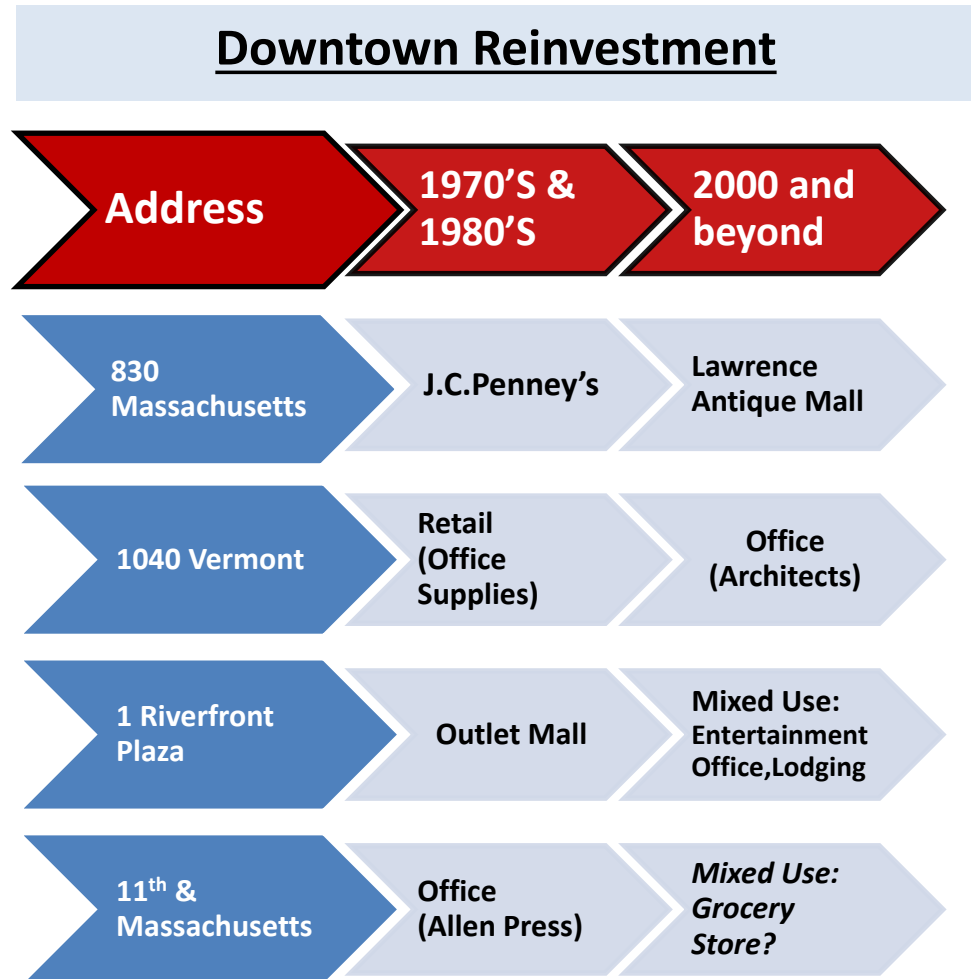
A healthy commercial market is a dynamic market.

Lawrence has successfully adapted to changes in the market conditions, customer choices, local demographics or other market changes.

• For example, some of the market changes beyond local policies are . . .

Outdated Uses from Market Forces:

Sunset Drive In -> Movies on Demand
Borders -> Amazon/Internet sales

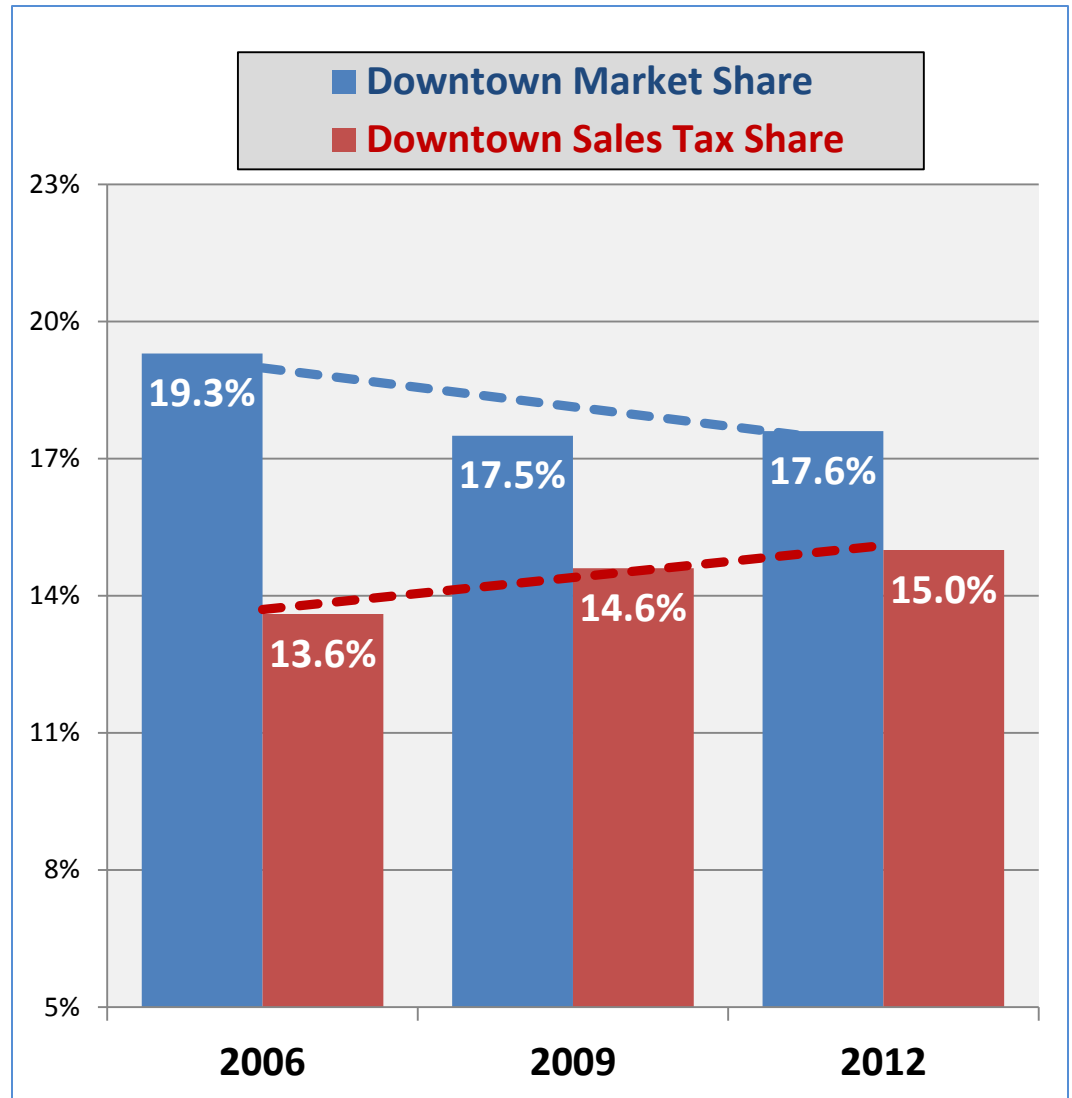


Downtown Sales Trends 2006 - 2012

Fact:

- Downtown's share of commercial square feet in the city declined from 19.8% to 17.6%.
- However, the share of city sales taxes generated by the Downtown District **INCREASED** from 13.6% to 15.0% of city sales.
- This increase in share of sales is a result of the Downtown's share of total retail square footage increasing from 14.1% to 14.7%.

Source: City of Lawrence 2012 Retail Market Study.



Downtown Lawrence's Future



There is no conflict with Downtown Lawrence's continuing to be strong in the future regardless of growth in south or west Lawrence.

Three excellent examples illustrate this conviction . . .

City	Major Growth Area in the City	What happened to the City's Downtown in last decade?
Kansas City, Kansas	Western Wyandotte County retail, offices, sports facilities & housing	<ul style="list-style-type: none">- "There is a renewed spirit of optimism in Downtown KCK - New restaurants, trails, theaters, coffee houses, farmers market, retail stores, art galleries, new housing units"- New Downtown Improvement District
Overland Park	South of I-435 with multiple and major annexations	<p>25 block area boasts new investment in housing and art facilities</p> <ul style="list-style-type: none">- Vibrant shopping, restaurants, entertainment, Farmer's Market and focus on nearly 300 locally owned businesses
Kansas City, Missouri	North of the Missouri River in Clay and Platte Counties	<ul style="list-style-type: none">- SPRINT Center, Power & Light District and light rail under construction- Record number of new apartments & condos

Key to success:

- Strong support by city government including on-going public investment.
- Active support and marketing with 501c(3) non-profit membership associations.

Conclusions . . .

- ✓ 1. Imposing growth management will shift demand from Lawrence to other parts of Douglas County.
- ✓ 2. The Lawrence commercial market is not overbuilt as evidenced by the amount of square feet per capita.
- ✓ 3. The city's populations growth rate is consistent with other Midwest university towns.
- ✓ 4. Tourism Spending in Lawrence contributes to demand and strengthens the city's economy.
- ✓ 5. Downtown Lawrence is gaining in retail sales market share, but has the capacity to continue to grow.
- ✓ 6. Changes in the commercial market have been on-going and will continue.
- ✓ 7. 98% of the new commercial space added to Downtown is occupied.
- ✓ 8. With city support and an active non-profit organization, Downtown will continue to thrive .

THANK YOU

RICHARD CAPLAN & ASSOCIATES



Consulting to cities, non-profit and the private sectors since 1987.

Resume of Richard Caplan

Public sector:

- Former interim/acting city administrator: Cities of Eudora, Baldwin City, DeSoto
- Market Studies for Housing, Office, Hotels & Retail Market Studies for the Cities of Baldwin City, Eudora, Topeka, Tonganoxie, Prairie Village, Ottawa, Olathe, and 30+ other cities in Kansas
- 12 years city management: Colorado and California

Non-Profit sector:

- Former Executive Director, K-10 Corridor Association
- Member, Johnson County Partnership, Board Member Johnson County Certified Dev. Co.
- Interim Director, Main Street Corridor Association, Kansas City

Richard Caplan & Associates Consulting: (partial)

- Kansas City, Kansas - Comprehensive Housing Assistance Program, 1995 – 2010
- City of Topeka - Economic Development Strategy (adopted)
- Kansas Inc. Study on State Incentives Programs

Education:

- B.A. University of California, Berkeley
- M.A. Public Policy, University of California, Berkeley