Economics Research Associates

Memorandum

Date: October 8, 2004

To: Crandall Arambula

From: Economics Research Associates

RE: Long Term Market Analysis and Preliminary Retail Strategy for Downtown Lincoln Master Plan

CC: Project File 15628

Introduction

The City of Lincoln, Nebraska has retained the urban design firm of Crandall Arambula to prepare its Downtown Master Plan to guide future development and revitalization. Economics Research Associates (ERA) serves as the real estate economist on the planning team, and ERA's role is to insure that Master Plan is realistic and achievable. This memorandum by ERA addresses the real estate market outlook for Downtown Lincoln over the next 20 years. It provides estimates of market demand for residential, office, retail and hotel uses between now and 2025 for the Downtown Lincoln. In addition, it provides an initial set of strategies for the revitalization of retailing within this downtown.

Evolution of Downtowns in American Cities

The economic forces that drive downtown retail vitality have steadily evolved over the past century. During the first half of the 20th century, before the widespread usage of automobiles, the hearts of American cities were defined by the concentration of multi-level department stores located at the key intersections. Many of Lincoln's downtown buildings date back to this earlier period in American history.

With the post World War II suburbanization of American population, propelled by increasing automobile ownership and massive single-family subdivisions, regional shopping centers began to proliferate. For a large majority of American cities, the suburban shopping centers cannibalized downtown retailing. The department stores, soft goods and apparel stores moved into the suburban malls, which had a more horizontal format. Downtown Lincoln did not escape this evolution, but it occurred later in Lincoln than in most American cities.

Once mainstream retailing left the central cities, office development provided the vitality for downtowns. The financial transactions of the 1970s and 1980s were based upon face-to-face negotiations consummated by signatures on legal documents. The proximity of major corporations and financial institutions to each other was important to economic efficiency. During this period, the tallest office buildings commanded the most expensive and central locations. The retail space in these downtowns was only there to serve the lunchtime and convenience needs of office workers. In this type of downtown, retail space amounted to typically only five to eight percent of total downtown space. With retail space having declined to seven percent of total space, Downtown Lincoln appears to be at the tail end of this evolution.

In the current economy, electronic transactions have largely replaced face-to-face negotiations and signature on paper. Many routine clerical jobs formerly in downtown office buildings have been out-sourced to less expensive locations throughout the world. While demand for office space will resume as the metropolitan area economy grows, office construction will not have the same degree of importance to central city vitality as it did during the 1970s and 1980s.

During the next 20 or 30 years, the vitality of American cities will be driven by social, cultural, recreation and life-style needs of the metropolitan area. As the baby boomer generation age and become empty nesters and as the children of this generation seek contrast to the lifestyle of their parents, well designed urban housing in downtown settings will become ever more popular. The other land use components that support this urban lifestyle include restaurants, theaters, cinema, nightclubs, unique shops, museums, art galleries, sports venues and attractive public spaces. Led by the restaurants and shops in the Haymarket District and the conversion of numerous older commercial buildings to residential use, Downtown Lincoln appears to be at the beginning stages of this next evolution.

The role of the Downtown Master Plan is to guide development over the next 20 or more years so that the greater Lincoln community is able to fully enjoy the success of the next generation of urban transformation. The market demand forecasts conveyed in this memorandum provide the Master Plan with the appropriate scale so that future public investment is cost effective in inducing private development.

Long Term Countywide Growth

Economic growth drives demand for all land uses, and Lancaster County has enjoyed steady growth since 1990. As shown in **Table 1**, population within the county has grown from 215,000 in 1990 to 261,000 in 2003 at an annualized growth rate of 1.5 percent. Total non-farm employment has grown even faster from 123,000 to 157,000 for an annual growth rate of 1.9 percent over the same period. With the Midwest now enjoying a large and growing cost advantage (in terms of housing and labor cost) over both the East and West Coasts and offering a high quality workforce, ERA expects growth within Lancaster County to continue and even accelerate.

Table 1
LANCASTER COUNTY POPULATION AND EMPLOYMENT GROWTH

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Avg. Growth
Population	214,655	217,855	222,120	226,868	229,962	234,282	237,609	241,146	244,592	247,442	251,190	253,552	257,220	260,995	1.5%
Annual Growth	-	1.5%	2.0%	2.1%	1.4%	1.9%	1.4%	1.5%	1.4%	1.2%	1.5%	0.9%	1.4%	1.5%	
Civilian Labor Force (by Residence)	122,992	126,311	128,014	131,273	133,946	138,117	143,093	143,749	145,825	145,645	147,022	151,087	152,594	153,825	1.7%
Civilian Employment	120,700	123,173	124,512	128,236	130,733	135,008	139,441	140,533	142,558	142,160	143,220	146,881	147,597	147,639	1.6%
Civilian Unemployment	2,292	3,138	3,502	3,037	3,213	3,109	3,652	3,216	3,267	3,485	3,802	4,106	4,997	6,186	7.9%
Civilian Unemployment Rate	1.9%	2.5%	2.7%	2.3%	2.4%	2.3%	2.6%	2.2%	2.2%	2.4%	2.6%	2.8%	3.3%	4.0%	
Total Nonfarm (by Place of Work)[1]	123,280	123,547	125,948	128,672	132,884	137,285	142,671	145,580	148,067	152,291	154,298	159,453	159,501	157,300	1.9%
Construction & Mining	4,901	4,692	4,687	5,184	5,490	5,568	6,013	6,379	6,753	7,236	7,509	7,969	8,106	7,507	3.3%
Manufacturing	15,046	14,831	14,987	15,454	16,165	17,059	16,733	17,235	18,154	18,278	18,197	17,518	16,580	15,711	0.3%
Transportation & Public Utilities	6,805	7,400	7,417	7,605	7,559	7,692	9,072	9,304	9,628	9,314	8,387	6,720	6,448	6,843	0.0%
Trade	26,374	26,291	27,019	26,670	28,502	29,449	30,578	30,592	31,027	32,102	32,263	21,066	20,921	20,485	-1.9%
Wholesale Trade	5,627	5,687	5,523	5,144	5,418	5,755	5,828	5,875	5,696	5,754	5,746	4,648	4,553	4,375	-1.9%
Retail Trade	20,747	20,604	21,495	21,526	23,084	23,694	24,750	14,717	25,331	26,347	26,517	16,418	16,368	16,110	-1.9%
Finance, Insurance & Real Estate	8,488	8,626	8,682	8,875	8,676	8,786	8,950	9,237	9,982	10,755	11,028	10,301	10,785	10,950	2.0%
Services[2]	28,764	28,694	29,634	30,812	32,431	34,191	35,947	37,775	39,535	20,929	42,170	60,141	60,685	60,607	5.9%
Government	32,902	33,013	33,522	34,072	34,062	34,541	35,378	35,057	32,987	33,569	34,744	35,738	35,975	35,197	0.5%

[1] Data may not total due to rounding.

[2] Services category includes the Information, Professional and Business Services, Educational and Health Services, Leisure and Hospitality, and Other Services Categories.

Source: State of Nebraska Department of Workforce Services, US Census Bureau.

The growth of Lancaster County, like most metropolitan areas across the country, has been driven primarily by the expansion of the services sector. This sector includes professional, business, health, and educational services, as well as leisure and hospitality services. The University of Nebraska, with a local student enrollment of 23,000, a faculty and staff count of over 5,000 and the large number of visitors attracted to the campus, is a major force in the local economy. Growth of student enrollment and research activities will drive the Lincoln economy forward in the years ahead. In addition to having a major university, being the seat of Nebraska State Government provides the local economy with considerable stability.

The other sectors that experienced above average growth included the construction sector and the finance, insurance and real estate sector. Employment in the manufacturing sector did grow from 1990 to 1999, but it has contracted back to the 1990 level recently. Employment within the retail sector actually declined from 20,700 in 1990 to 16,100 by 2003. This decline can be attributed to both the emerging dominance of Omaha as a regional center and to the restructuring taking place within the retail industry in which traditional department stores and smaller locally owned stores are being displaced by "big box" chain retailers that tend to be more labor efficient.

While the amount of retail space within downtown has contracted substantially over the past 15 years and retail employment within the county has declined, sales have grown steadily in real terms. As shown in **Table 2**, net taxable sales in the city of Lincoln and Lancaster County have approximately doubled since 1990. Since the inflation rate during this 1990 to 2003 period averaged around two percent per year, the real growth in taxable sales has been around 2.0 to 2.5 percent per year. This is due largely to population and income growth.

The steady population growth has led to consistent housing construction. From 1990 through 2003, Lancaster County averaged 2,062 new residential units per year. Nearly all of this construction was in the city of Lincoln. The annual construction varied from a low of 1,375 units in 1992 to a high of 2,507 in 2003 (see **Table 3**). When compared to other cities, Lincoln's pace of residential construction has not fluctuated much at all, again demonstrating the stability of an economy dominated by government and university employment. Of the total construction, about one-third was apartments and another 14 percent was attached townhouses or duplex units. Single-family units accounted for 54 percent of the total. The Lincoln housing market has demonstrated a relatively high degree of receptivity to multi-family housing products.

Changing Profile of Downtown Lincoln

Over the past 15 years, according to detailed survey information complied by the Downtown Lincoln Association, the amount of occupied space in the downtown has grown and the composition of that space has changed. The amount of occupied space in Downtown Lincoln has increased from 10.8 million square feet in 1989 to 12.7 million square feet in 2004. The average annual net absorption of all types of space during this period was 128,000 square feet. The downtown now has approximately 14.1 million square feet of total space of which ten percent is vacant (see **Table 4**).

Over this past fifteen-year period, the space composition changed in the following manner:

Table 2
CITY OF LINCOLN AND LANCASTER COUNTY NET TAXABLE SALES
(Thousands of Dollars)

	Lancaster County	City of Lincoln
1990	$1,479,728	$1,457,442
1991	1,521,487	1,500,221
1992	1,567,156	1,545,497
1993	1,729,010	1,709,939
1994	1,876,208	1,856,346
1995	1,968,289	1,947,730
1996	2,166,461	2,143,612
1997	2,288,138	2,259,594
1998	2,452,913	2,422,396
1999	2,597,540	2,567,664
2000	2,722,965	2,683,426
2001	2,766,364	2,720,031
2002	2,864,930	2,817,697
2003	3,008,266	2,952,186
Average Annual Growth	**5.6%**	**5.6%**

Source: Nebraska Department of Revenue, 7/04.

Table 3
RESIDENTIAL UNITS PERMITTED IN LINCOLN CITY AND LANCASTER COUNTY

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average Annual	Percent
City of Lincoln																
Single Family	791	900	980	876	902	741	812	814	996	1,015	1,041	1,108	1,281	1,565	1,063	52.7%
Attached or Townhouses	129	95	102	107	177	178	155	243	187	199	272	260	256	533	223	11.0%
Duplex Units	54	30	42	58	36	40	62	102	54	34	58	64	60	52	57	2.8%
Apartments Units	1,113	464	221	524	761	919	1,168	1,010	622	489	381	319	540	260	676	33.5%
Total New Units	**2,087**	**1,489**	**1,345**	**1,565**	**1,876**	**1,878**	**2,197**	**2,169**	**1,859**	**1,737**	**1,752**	**1,751**	**2,137**	**2,410**	**2,019**	**100.0%**
Remainder of Lancaster County																
Single Family	30	26	30	47	37	30	28	39	32	50	24	34	54	96	43	
Attached or Townhouses	-	-	-	-	-	-	-	-	-	-	-	2	2	1	-	
Duplex Units	-	-	-	-	-	-	-	-	-	2	-	-	-	-	-	
Apartments Units	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Permits	**30**	**26**	**30**	**47**	**37**	**30**	**28**	**39**	**32**	**52**	**24**	**36**	**56**	**97**	**43**	
Remainder of Lancaster County																
Single Family	821	926	1,010	923	939	771	840	853	1,028	1,065	1,065	1,142	1,335	1,661	1,106	53.6%
Attached or Townhouses	129	95	102	107	177	178	155	243	187	199	272	262	258	534	223	10.8%
Duplex Units	54	30	42	58	36	40	62	102	54	36	58	64	60	52	57	2.8%
Apartments Units	1,113	464	221	524	761	919	1,168	1,010	622	489	381	319	540	260	676	32.8%
Total Permits	**2,117**	**1,515**	**1,375**	**1,612**	**1,913**	**1,908**	**2,225**	**2,208**	**1,891**	**1,789**	**1,776**	**1,787**	**2,193**	**2,507**	**2,062**	**100.0%**

Source: City of Lincoln Building Permits and Inspections Department, 7/04.

Table 4
DOWNTOWN LINCOLN BUILDING OCCUPANCY TRENDS

Office

					1989-2004	
Year	**Total Sq. Ft.**	**Occupied**	**Vacant**	**Percent Vacant**	**Net Absorption**	**Average Annual Net Absorption**
1989	5,077,097	4,496,614	580,483	11.4%		
1993	5,535,546	4,789,917	745,629	13.5%		
1997	5,705,526	5,260,314	445,212	7.8%		
2001	6,403,293	5,798,650	604,643	9.4%		
2004	6,572,952	5,947,103	625,849	9.5%	1,450,489	96,699

Non-Office Commercial Space (Includes Some Retail)

Year	Total Sq. Ft.	Occupied	Vacant	Percent Vacant	Net Absorption	Average Annual Net Absorption
1989	4,783,584	3,844,702	938,882	19.6%		
1993	4,436,526	3,657,994	778,532	17.5%		
1997	4,286,526	4,120,684	165,842	3.9%		
2001	5,584,895	5,114,480	470,415	8.4%		
2004	5,240,362	4,699,021	541,341	10.3%	854,319	56,955

Retail

Year	Total Sq. Ft.	Occupied	Vacant	Percent Vacant	Net Absorption	Average Annual Net Absorption
1989	2,403,733	1,962,904	470,415	19.6%		
2001	1,154,539	1,080,036	74,503	6.5%		
2004	1,103,926	929,776	173,669	15.7%	-1,033,128	-68,875

Residential

Year	Total Sq. Ft.	Occupied	Vacant	Percent Vacant	Net Absorption	Average Annual Net Absorption
1989	621,955	461,340	160,615	25.8%		
2001	1,132,472	1,084,508	47,964	4.2%		
2004	1,157,584	1,111,281	46,303	4.0%	649,941	43,329

Total

Year	Total Sq. Ft.	Occupied	Vacant	Percent Vacant	Net Absorption	Average Annual Net Absorption
1989	12,886,369	10,765,560	2,150,395	16.7%		
2001	14,275,199	13,077,674	1,197,525	8.4%		
2004	14,074,824	12,687,181	1,387,162	9.9%	1,921,621	128,108

Note: 2004 residential vacancy of 96% based on May survey.

- The amount of occupied office space increased by 1.45 million square feet.
- Non-office commercial service space, which includes hotels, increased by 850,000 square feet.
- Occupied retail space decreased by one million square feet.
- Residential space in the downtown increased by 650,000 square feet.

There has been a shift away from mainstream retailing towards office and more recently residential development. The vertical mid 20th century department store space has been largely converted to either office or residential use after the department stores moved to the suburban malls like Westfield Shoppingtown and Southpointe Pavilions. These changes in space composition indicate that Downtown Lincoln is following the overall trend for American cities, although the changes in Lincoln have taken place later than in many other cities.

Of the total currently occupied space, 46 percent is office space with approximately half being either government buildings or government agency occupied office space. Another 26 percent is service establishment space in non-office buildings, including hotels, movie theaters and industrial buildings. Residential space amounts to 9 percent and retail space amounts to only 7 percent of the total. The details are presented in **Tables 5** and **6**.

Eating and drinking establishments dominate (432,000 square feet or 47 percent) the retail space downtown. General merchandise, miscellaneous shopper goods and apparel stores amount to another 371,000 square feet or 40 percent. All other retail categories, including food stores and furniture stores, amount to only 13 percent of the total (**Table 7**). The downtown also has 174,000 square feet of vacant retail space, much of this space is not contemporary street front retail space.

Downtown Office Demand

As the Lancaster County economy continues to grow, overall countywide employment and office employment will also grow. By 2025 total employment within the county is projected to reach 230,000 from an estimated 160,000 currently. The projected rate of growth is 1.75 percent per year, slightly slower than the 1.9 percent per year achieved over the past 15 years. Total office employment within the county will increase at approximately the same pace from 42,000 currently to 59,000 in 2025 (see **Table 8**). By applying the following factors, ERA estimates that Downtown Lincoln will need to be able to accommodate 2.2 to 2.3 million additional square feet of office development by 2025 (see **Table 9**):

- Office employment amounts to 26 percent of total employment based upon an examination of office usage by industry sector.
- Each office employee requires 280 square feet of gross office space, including a five percent structural vacancy factor to facilitate market liquidity.
- Of the 626,000 square feet of vacant office space, 300,000 square feet needs to be absorbed before the demand build-up can justify new construction. Significant new

Table 5
SUMMARY OF OCCUPIED SPACE IN DOWNTOWN, 2004

Building Use	Square Feet	Percent
Office	5,947,103	45.7%
Non-Office Commercial Space (Includes Some Retail)	3,327,820	25.8%
Residential	1,157,584	8.9%
Retail	929,776	7.2%
Other Uses	145,377	10.1%
Manufacturing	244,652	1.9%
Transportation, Communications & Utilities	47,537	0.4%
Wholesale	3,859	0.0%
Total	11,803,708	100.0%

Source: Downtown Lincoln Association

Table 6
OCCUPIED SPACE IN DOWNTOWN LINCOLN, 2004

	Occupied Space	Percent of Total
Residential		
Household Units	977,715	7.5%
Group Quarters	164,419	1.3%
Other Residential	15,450	0.1%
Total	1,157,584	8.9%
Manufacturing		
Printing & Publications	156,320	1.2%
Primary Metals	41,026	0.3%
Misc. Manufacturing NEC	36,022	0.3%
Food & Kindred Products	4,042	0.0%
Furniture & Fixtures	7,242	0.1%
Total	244,652	1.9%
Transportation, Communications & Utilities not in Office		
Communications	4,658	0.0%
Other T.C.U. Nec	2,774	0.0%
Automotive	40,105	0.3%
Total	47,537	0.4%
Wholesale not in Office		
Groceries & Related Products	1,759	0.0%
Electrical Goods	2,100	0.0%
Total	3,859	0.0%
Retail		
Other General Merchandise	265,750	2.0%
Apparel & Accessories	34,573	0.3%
Furniture & Home Furnishings	54,930	0.4%
Paint Glass & Wallpaper	1,487	0.0%
Hardware	17,340	0.1%
Miscellaneous Shoppers Goods	70,380	0.5%
Food Stores	35,763	0.3%
Eating & Drink	432,163	3.3%
Liquor Stores	2,040	0.0%
Automotive	15,350	0.1%
Total	929,776	7.2%
Office		
Banking	401,599	3.1%
Insurance	264,872	2.0%
Real Estate	28,071	0.2%
Other F.I.R.E.	270,299	2.1%
Business Services in Offices	966,027	7.3%
Health Services in Offices	61,768	0.5%
Legal Services in Offices	362,952	2.8%
Social Services in Offices	126,089	1.0%
Membership Organizations	28,758	0.2%
Other Prof. Services in Offices	593,693	4.5%
T.C.U. in Offices	290,765	2.2%
Wholesale in Offices	1,298	0.0%
Other Uses in Offices NEC	6,587	0.1%
Government Services in Offices	2,544,325	19.6%
Total	5,947,103	45.7%
Commercial Services not in Office		
Business Services	1,277,921	9.9%
Health Services	74,280	0.6%
Social Services	257,972	2.0%
Personal Services	81,020	0.6%
Educational Services	164,290	1.3%
Hotels & Lodging	618,248	4.8%
Amusement & Recreation	544,945	4.2%
Auto Repair	76,661	0.6%
Construction Services	37,799	0.3%
Other Services	111,596	0.9%
Government Services	83,088	0.6%
Total	3,327,820	25.8%
Other Uses		
Business Services	2,400	0.0%
Residential	24,559	0.2%
Common Areas	118,418	0.9%
Total	145,377	10.1%
GRAND TOTAL	**11,803,708**	**100.0%**

Source: Downtown Lincoln Association

Table 7
DOWNTOWN LINCOLN RETAIL, 2004

	Square Feet	Precent of Total	Precent of Occupied
Eating and Drinking Establishments	432,163	39.2%	46.5%
Other General Merchandise	265,750	24.1%	28.6%
Miscellaneous Shoppers Goods	70,380	6.4%	7.6%
Furniture & Home Furnishings	54,930	5.0%	5.9%
Food Stores	35,763	3.2%	3.8%
Apparel & Accessories	34,573	3.1%	3.7%
Hardware	17,340	1.6%	1.9%
Automotive	15,350	1.4%	1.7%
Liquor Stores	2,040	0.2%	0.2%
Paint, Glass and Wallpaper	1,487	0.1%	0.2%
Subtotal Occupied Retail Space	**929,776**	**84.3%**	**100.0%**
Vacant Retail Space	173,669	15.7%	
Total Retail Space	**1,103,445**	**100.0%**	

Source: Downtown Lincoln Association

Tabe 8
LANCASTER COUNTY EMPLOYMENT AND OFFICE SPACE DEMAND FORECASTS

	2005	2010	2015	2020	2025
Total Employment Lancaster County	163,271	177,254	193,234	210,958	230,640
Estimated Office Employment					
Percentage in FIRE	7.0%	7.0%	7.0%	7.0%	7.0%
FIRE Employment	11,429	12,408	13,526	14,767	16,145
FIRE @ 100% in Offices	11,429	12,408	13,526	14,767	16,145
Percentage in Services	38.0%	38.0%	39.0%	39.0%	40.0%
Services Employment	62,043	67,356	75,361	82,273	87,643
Services @ 27% in Offices	16,752	18,186	20,348	22,214	23,664
Percentage in Government	23.0%	23.0%	23.0%	23.0%	23.0%
Government Employment	37,552	40,768	44,444	48,520	53,047
Government @ 75% in Offices	8,637	9,377	10,222	11,160	12,201
Percentage in Other	32.0%	32.0%	31.0%	31.0%	32.0%
Other Employment	52,247	56,721	59,903	65,397	73,805
All Other @10% in Offices	5,225	5,672	5,990	6,540	7,380
Total Office Employment	**42,042**	**45,643**	**50,086**	**54,680**	**59,390**
Total Office Space @ 280 SF per Employee[1]	**12,360,416**	**13,418,999**	**14,725,374**	**16,075,982**	**17,460,579**

[1]Includes 5 percent vacancy factor.

Source: Economics Research Associates

Table 9
FORECAST OF DOWNTOWN LINCOLN OFFICE SPACE DEMAND
(in Square Feet)

	2005-10	**2010-15**	**2015-20**	**2020-25**
Lincoln MSA Office Demand Growth				
From Office Employment Growth	1,058,583	1,306,375	1,350,608	1,384,597
Replacement of Existing Space[1]	162,445	177,978	194,197	210,807
Total New MSA Office Demand	1,221,028	1,484,353	1,544,805	1,595,404
Downtown Lincoln Office Demand				
Percentage Share of MSA	45%	40%	42%	45%
Total New Downtown Office Demand	**549,462**	**593,741**	**648,818**	**717,932**
Less Vacant Space Above 5%	**-300,000**			
Net New Office Space Demand	**249,462**			
Cumulative New Office Demand	**249,462**	**843,204**	**1,492,022**	**2,209,953**

[1]Loss of older office buildings due to scrappage or conversion to other uses, estimated at 0.25 percent per year.

Source: Economics Research Associates

office construction in the downtown is not likely to take place until the 2008 to 2009 time frame.

- Downtown's share of countywide absorption, which is currently estimated at 45 percent, will drop to the 40 to 42 percent vicinity during the 2010 to 2020 period due to the competitive influence of Antelope Valley but will rebound to 45 percent during the 2020 to 2025 period.

Using a 20-year time horizon, the new Downtown Master Plan should at minimum plan to accommodate 2.2 million square feet of additional office development. A significant amount of this space will be state government and University of Nebraska related.

New Residential Neighborhood Downtown

America's demographic composition suggests that urban housing will continue to gain popularity over the next twenty years. A number of the more desirable downtowns across the country have already achieved considerable success with urban housing over the past decade. The new urban neighborhoods that have proved to be very popular include Lower Downtown in Denver, Belltown in Seattle and the Pearl District in Portland. The factors that contribute to this trend include:

- The baby boomer generation reaching the empty nester stage of their lives.
- The children of the baby boomer generation seeking life styles different form those of their parents.
- Increasing freeway congestion and high gasoline prices.
- New immigrant population more accustomed to living in close quarters.
- The gradual improvement in the downtown environments of many American cities.

With the success of the Haymarket District and the general acceptance of multi-family housing in the Lincoln metropolitan area, the creation of one or more attractive downtown neighborhoods should not represent a major challenge in the real estate market place.

In forecasting Downtown Lincoln housing demand, ERA considered the following factors:

- Countywide population growth from approximately 270,000 today to 384,000 by 2025.
- Average household size remaining relatively unchanged.
- A vacancy factor of five percent to allow for market liquidity.
- The multi-family share of total demand climbing from 36 percent in the near future to 39 percent in 20 years.

- Downtown's market share dropping from 11 percent to 9 or 10 percent due to the influence of Antelope Valley and climbing back up to 12 or 13 percent as Antelope Valley approaches build-out and downtown living gains popularity.

Assuming the development of amenities and support facilities, such as park space and neighborhood retail services, ERA expect Downtown Lincoln to be able to support an additional 1,900 to 2,000 units in one or more neighborhoods by 2025. The market will breakdown into approximately 75 percent rental housing (lofts, artist studios and apartments) and 25 percent owner housing (condominiums and townhouses). The absorption is projected to average 80 units per year in the near future climbing to 135 units per year once Antelope Valley is largely absorbed. The new Master Plan should have the capacity to accommodate 2,000 units.

More Downtown Hotels

Downtown Lincoln currently has four hotel properties with a total of 825 units in the downtown. These include the Cornhusker Hotel (290 units), the Embassy Suites (252 units), the Holiday Inn (230 units) and the Town House Suites (53 units).

When viewed over the longer term, the hotel market in Lincoln has demonstrated considerable strength. As shown in **Table 11**, the Lodging Tax collection in Lancaster County has grown from $400,000 in 1990 to $862,000 by 2002. The recent economic downturn and the degradation of air service at Lincoln Airport (**Table 12**) have resulted in some softening of this revenue item since 2002. As the national economy and travel market both rebound, the hotel market outlook for Lincoln is fairly promising. Marriott Corporation's recent acquisition and planned renovation of the Cornhusker indicates its confidence in the outlook of the local hotel market.

For the longer-term outlook, ERA forecasts a four percent average annual demand growth, which is approximately the historic growth rate without inflation. With this level of demand growth and a 15 to 20 percent market share of the new demand, Downtown Lincoln should be able to support 750 to 1,000 additional hotel rooms by 2025 in four to six new properties (**Table 13**). The variables that will influence downtown hotel demand include air service, a new sports arena, expansion of convention facilities and the success of the retail/entertainment strategy. With a 20-year time horizon, the Master Plan should accommodate 1,000 additional hotel units in five or six new or expanded properties.

Downtown Retail Demand

Retail demand is essentially a function of the number of the people in a given market area and the amount the average person spends within the various categories of retail outlets. If detailed spending statistics were available for students at the University of Nebraska and downtown office workers, ERA would divide the downtown market into three distinct components, the student, office worker and resident components. However, because such detailed expenditures were not available, we applied a single component retail model that

Table 10
LANCASTER COUNTY AND DOWNTOWN LINCOLN HOUSING DEMAND FORECASTS

	2005	**2010**	**2015**	**2020**	**2025**
Total Population Lancaster County	272,118	295,423	322,057	351,596	384,400
Household Population @ 95%[1]	258,512	280,652	305,954	334,016	365,180
Average Household Size	2.39	2.38	2.38	2.37	2.37
Total Households	108,164	117,921	128,552	140,935	154,084
Units Needed with 5% Vacancy	113,572	123,817	134,980	147,982	161,788

Lancaster County Housing Demand Growth	**2006 - 10**	**2011 - 15**	**2016 - 20**	**2021 - 25**
Total Housing Production Needed for Period	10,245	11,163	13,002	13,807
Multi Family Percentage Share[2]	36.0%	36.0%	37.0%	39.0%
Total County Multi Family Demand	3,688	4,019	4,811	5,385
Downtown Lincoln Housing Demand Growth				
Percentage Share of County Multi Family Total	11.0%	9.5%	10.2%	12.5%
Downtown Lincoln Multi Family Demand for Period	**406**	**382**	**491**	**673**
Condominiums	**101**	**95**	**123**	**168**
Rental Units	**304**	**286**	**368**	**505**
Cumulative Downtown Lincoln Multi Family Demand	**406**	**787**	**1,278**	**1,951**

[1]Based on 2000 Census.

[2]Includes townhouses, attached units and duplexes.

Source: Economics Research Associates

Table 11
LANCASTER COUNTY LODGING TAX REFUND 1990-2003

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Rate of Ann. Growth
January	$18,389	$23,215	$23,173	$21,698	$22,248	$32,642	$31,407	$32,385	$37,727	$37,826	$41,082	$44,969	$47,652	$44,024	6.95%
February	28,777	27,002	30,072	32,238	31,080	34,029	38,750	41,909	46,506	48,946	50,676	54,189	59,068	57,273	5.44%
March	34,867	33,197	35,630	35,620	40,406	42,880	46,815	43,939	53,706	57,634	58,345	67,272	60,284	63,446	4.71%
April	29,319	29,609	32,007	30,518	37,584	38,640	43,952	52,962	56,678	52,841	63,553	60,150	64,574	68,751	6.78%
May	32,725	34,858	37,436	36,192	36,221	46,109	49,986	52,278	61,457	62,922	62,936	71,939	78,248	82,132	7.33%
June	39,727	41,480	39,490	37,305	46,234	52,152	59,617	58,802	68,888	70,430	86,288	83,981	86,601	85,996	6.12%
July	44,157	38,852	41,334	49,745	53,043	56,096	56,628	55,916	66,683	65,874	86,092	77,487	88,582	94,395	6.02%
August	41,518	42,008	50,492	45,352	56,467	60,136	72,442	66,719	71,170	68,829	99,464	82,674	98,269	91,097	6.23%
September	41,803	43,940	44,642	49,974	48,571	55,693	55,570	58,856	69,345	71,659	84,657	80,965	82,324	82,103	5.33%
October	35,874	36,663	38,275	41,993	38,176	45,939	52,313	60,825	66,260	72,324	67,976	78,226	72,969	78,393	6.20%
November	29,620	30,004	21,465	33,683	35,851	39,680	42,849	51,451	48,104	56,876	59,342	60,229	73,628	61,096	5.73%
December	23,203	24,782	24,318	26,889	32,619	30,836	34,103	36,111	40,087	43,190	44,013	52,257	50,219	47,653	5.69%
Total	**$399,978**	**$405,612**	**$418,333**	**$441,207**	**$478,500**	**$534,832**	**$584,434**	**$612,153**	**$686,610**	**$709,350**	**$804,424**	**$814,337**	**$862,417**	**$856,358**	**6.03%**
Annual Growth		1.4%	3.1%	5.5%	8.5%	11.8%	9.3%	4.7%	12.2%	3.3%	13.4%	1.2%	5.9%	-0.7%	

Source: Lancaster Department of Revenue, 7/04.

Table 12
LINCOLN AIRPORT PASSENGER VOLUMES 1990-2003

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Rate of Ann. Growth
Enplanements	234,347	195,323	227,997	223,835	244,383	267,602	257,929	264,317	251,031	282,624	266,375	239,041	230,389	211,594	-0.78%
Airlines	234,347	195,323	225,131	219,979	238,353	260,791	253,451	259,011	247,804	277,375	263,381	234,171	226,436	208,304	-0.90%
Charters[1]	-	-	2,866	3,856	6,030	6,811	4,478	5,306	3,227	5,249	2,994	4,870	3,953	3,290	1.26%
Deplanements	233,370	195,056	228,065	220,846	239,733	265,347	258,832	261,994	252,984	279,209	264,348	231,908	230,482	208,286	-0.87%
Airlines	233,370	195,056	225,162	217,220	235,196	258,792	252,666	257,731	248,046	275,135	259,848	229,864	223,814	205,249	-0.98%
Charters	-	-	2,903	3,626	4,537	6,555	6,166	4,263	4,938	4,074	4,500	2,044	6,668	3,037	0.41%
Total Passengers	**467,717**	**390,379**	**456,062**	**444,681**	**484,116**	**532,949**	**516,761**	**526,311**	**504,015**	**561,833**	**530,723**	**470,949**	**460,871**	**419,880**	**-0.83%**
Annual Growth		-16.5%	16.8%	-2.5%	8.9%	10.1%	-3.0%	1.8%	-4.2%	11.5%	-5.5%	-11.3%	-2.1%	-8.9%	

[1] Rate of growth is calculated from 1992 to 2003.

Source: Lincoln Airport Authority.

Table 13
DOWNTOWN LINCOLN HOTEL DEMAND

	2005	2010	2015	2020	2025
Lincoln MSA Hotel Rooms	4,168	5,071	6,170	7,506	9,133
Annual Growth Rate		4%	4%	4%	4%

	2005-10	2010-15	2015-20	2020-25
Total New Hotel Rooms in MSA	903	1,099	1,337	1,626
Downtown Market Share - Low Scenario	15.0%	15.0%	15.0%	15.0%
Downtown Market Share - High Scenario	20.0%	20.0%	20.0%	20.0%
New Downtown Hotel Rooms - Low Scenario	**135**	**165**	**201**	**244**
New Downtown Hotel Rooms - High Scenario	**181**	**220**	**267**	**325**
Cumulative New Downtown Hotel Rooms - Low	**135**	**300**	**501**	**745**
Cumulative New Downtown Hotel Rooms - High	**181**	**400**	**668**	**993**

Source: Economics Research Associates

includes both office worker and student patronage. The retail demand analysis included the following steps:

- Projections of population growth from 2005 to 2025 for Lancaster County.

- Adjustments for real income growth considering both macro economic conditions, like the current recession, and micro economic changes, such as the increase in average incomes due to new higher quality housing development in the downtown and Antelope Valley.

- Estimates of per capita retail spending based upon sales tax information from the State of Nebraska but taking care to eliminate the possible double counting for residents who are also downtown employees.

The aggregate retail demand growth is calculated by multiplying the market area population growth by the per capita retail sales. We then estimated a downtown capture rate for each category. This analysis is detailed in **Tables 14** through **17** by major retail category. ERA applied several iterations of this analysis to arrive at a reasonable set of estimates for all demand components across all major retail categories for Downtown Lincoln. In this analysis we excluded automobile dealerships, automobile supply outlet and service stations from consideration as part of a downtown retail/entertainment strategy.

The retail demand analysis considered the following factors:

- Westfield is planning to invest $45 million in the upgrading and re-tenanting of Shoppingtown Gateway.

- Antelope Valley will develop with residential use as the dominant land use.

- The decline of retail space to about seven percent of total downtown space indicates that the current market support is provided by the lunch and convenience needs of downtown workers, the incidental retail and dining/entertainment needs of the campus population and the Haymarket/downtown area serving as a regional eating and drinking destination. ERA does not expect significant further declines.

- The market analysis indicates that downtown Lincoln should be able to support 587,000 square feet of new retail space by 2025. We estimate that perhaps 65,000 of this demand will go into existing vacant retail space, the remaining 522,000 square feet of demand will need to be satisfied by new retail space developed to contemporary standards

The distribution of the 587,000 square feet of new retail space demand breaks down as follows:

Table 14
COMPUTATION OF MARKET AREA DEMAND

		2005	2010	2015	2020	2025
Market Area Population		272,118	295,423	322,057	351,596	384,400
Real Income Growth	1.5%	1.02	1.09	1.18	1.27	1.37
	Per Capita Expenditures	**Total Market Area Demand (Millions of 2004 Dollars)**				
Building Material & Hardware	$598	$165.0	$193.0	$226.7	$266.6	$314.0
General Merchandise (Inc Dept Stores)	$2,008	$554.5	$648.5	$761.6	$895.8	$1,055.0
Food Stores	$1,896	$523.6	$612.4	$719.2	$845.8	$996.2
Apparel & Accessories	$282	$78.0	$91.2	$107.1	$126.0	$148.4
Furniture & Appliance	$494	$136.3	$159.5	$187.3	$220.2	$259.4
Eating & Drinking Places	$957	$264.4	$309.3	$363.2	$427.2	$503.1
Miscellaneous Retail	$986	$272.2	$318.3	$373.9	$439.7	$517.9
Total Retail Sales	**$7,220**	**$1,994.1**	**$2,332.2**	**$2,739.0**	**$3,221.3**	**$3,794.0**

	Net Change in Demand			
	2006 - 10	**2011 - 15**	**2016 - 20**	**2021 - 25**
Building Material & Hardware	$28	$34	$40	$47
General Merchandise (Inc Dept Stores)	$94	$113	$134	$159
Food Stores	$89	$107	$127	$150
Apparel & Accessories	$13	$16	$19	$22
Furniture & Appliance	$23	$28	$33	$39
Eating & Drinking Places	$45	$54	$64	$76
Miscellaneous Retail	$46	$56	$66	$78
Total Retail Sales	**$338**	**$407**	**$482**	**$573**

Source: Economics Research Associates

Table 15
DOWNTOWN LINCOLN CAPTURE PERCENTAGES

	2005	2010	2015	2020	2025
Building Material & Hardware	2.2%	2.3%	2.2%	2.1%	2.0%
General Merchandise (Inc Dept Stores)	12.0%	11.2%	10.5%	9.8%	8.8%
Food Stores	2.9%	3.1%	3.1%	3.3%	3.3%
Apparel & Accessories	9.5%	9.8%	9.2%	8.8%	8.4%
Furniture & Appliance	7.8%	7.8%	7.5%	7.0%	6.0%
Eating & Drinking Places	40.0%	39.2%	38.0%	36.5%	34.0%
Miscellaneous Retail	6.0%	6.5%	7.0%	7.5%	8.0%
Total	**11.3%**	**11.1%**	**10.8%**	**10.5%**	**9.8%**

Source: Economics Research Associates

Table 16
ESTIMATED DOWNTOWN RETAIL SALES GROWTH
in (Thousands)

	2005	2010	2015	2020	2025
Building Material & Hardware	$3,631	$4,439	$4,987	$5,598	$6,280
General Merchandise (Inc Dept Stores)	$66,543	$72,636	$79,973	$87,785	$92,843
Food Stores	$15,184	$18,984	$22,295	$27,912	$32,875
Apparel & Accessories	$7,408	$8,938	$9,854	$11,085	$12,463
Furniture & Appliance	$10,634	$12,437	$14,045	$15,417	$15,564
Eating & Drinking Places	$105,774	$121,233	$138,018	$155,915	$171,058
Miscellaneous Retail	$16,332	$20,693	$26,171	$32,978	$41,431
Total	**$225,506**	**$259,360**	**$295,343**	**$336,691**	**$372,513**

	Change in Sales by Period			
	2006 - 10	2011 - 15	2016 - 20	2021 - 25
Building Material & Hardware	$809	$548	$612	$681
General Merchandise (Inc Dept Stores)	$6,094	$7,337	$7,812	$5,057
Food Stores	$3,799	$3,311	$5,618	$4,963
Apparel & Accessories	$1,530	$916	$1,231	$1,377
Furniture & Appliance	$1,803	$1,607	$1,372	$147
Eating & Drinking Places	$15,459	$16,785	$17,897	$15,143
Miscellaneous Retail	$4,361	$5,478	$6,807	$8,453
Total	**$33,854**	**$35,982**	**$41,348**	**$35,822**

Source: Economics Research Associates

Table 17
SUPPORTABLE RETAIL SPACE IN DOWNTOWN LINCOLN

	Annual Sales per Sq. Ft.	2005	2010	2015	2020	2025
Building Material & Hardware	$200	18,153	22,196	24,934	27,992	31,399
General Merchandise (Inc Dept Stores)	$250	266,171	290,546	319,893	351,142	371,372
Food Stores	$400	37,961	47,459	55,737	69,780	82,187
Apparel & Accessories	$210	35,277	42,561	46,924	52,788	59,347
Furniture & Appliance	$180	59,079	69,096	78,026	85,648	86,465
Eating & Drinking Places	$240	440,724	505,138	575,077	649,646	712,742
Miscellaneous Retail	$250	65,328	82,771	104,684	131,912	165,723
Total		**922,693**	**1,059,767**	**1,205,274**	**1,368,907**	**1,509,234**

	Change in Supportable Square Footage by Period			
	2006 - 10	**2011 - 15**	**2016 - 20**	**2021 - 25**
Building Material & Hardware	4,043	2,738	3,058	3,407
General Merchandise (Inc Dept Stores)	24,375	29,347	31,249	20,230
Food Stores	9,498	8,277	14,044	12,407
Apparel & Accessories	7,284	4,363	5,864	6,559
Furniture & Appliance	10,017	8,930	7,622	817
Eating & Drinking Places	64,414	69,939	74,569	63,096
Miscellaneous Retail	17,443	21,913	27,228	33,811
Net Change in Square Footage	**137,073**	**145,507**	**163,633**	**140,327**
Less Absorption by Existing Space	**-65,000**			
New Retail Space Required	**72,073**			
Cumulative Change in Square Footage	**72,073**	**217,580**	**381,214**	**521,541**

Source: Economics Research Associates

Downtown Retail Demand (2005-2025)	Square Footage	Percentage of Total
General Merchandise	105,000	18%
Restaurants & Cafes	272,000	46%
Grocery, Food & Wine Stores	44,000	8%
Apparel & Accessory Stores	24,000	4%
Furniture & Appliance	27,000	5%
Hardware and Building Materials	13,000	2%
Miscellaneous or Specialty Stores	100,000	17%
Total	**587,000**	**100%**

This demand profile warrants a three pronged downtown retail strategy:

1. **A dining and entertainment strategy** (100,000 to 150,000 square feet) - Building off the strength of the Haymarket District, restaurants, night clubs, art galleries and specialty shops would expand eastward towards the new cinema complex along P Street and southward along Eighth Street into the new downtown neighborhood. The southward expansion of Eighth Street works well under the O Street overpass because the Eighth Street "restaurant row" automobile and pedestrian traffic need not cross the high traffic volumes using O Street. Some special design or lighting treatment of this underpass would be appropriate. In New York City, a new large and fashionable restaurant is actually built into a bridge underpass.

2. **A neighborhood market place strategy** (100,000 square feet) – A new urban style neighborhood-shopping district would be developed to serve both downtown employees and the new downtown residential neighborhood of perhaps 2,000 units.

3. **A new Lincoln Town Center strategy** (300,000 to 350,000 square feet) – The selection of key downtown blocks for retail redevelopment with key anchor stores in a contemporary format and insuring that the street-front spaces between or near the anchors function well as retail spaces. Recognizing the strength already established by the Haymarket and the new cinema complex. These anchors should have their primary pedestrian entrance along P Street with the dominant automobile entrance located along O Street or the side streets.

Summary of Downtown Demand

The downtown market demand for all land uses is summarized in Table 18 by five-year period, and the cumulative 20-year demand net of excess vacant space is highlighted below in round numbers.

Total Downtown Demand (2005-2025)	Square Footage	Units
Office Space	2,200,000	
Retail and Restaurant Space	522,000	
Hotel	850,000	1,000
Residential	2,400,000	2,000

Table 18
DOWNTOWN LINCOLN DEMAND FORECAST SUMMARY

	2005-10	2010-15	2015-20	2020-25
Demand in Each Period				
Retail (Sq. Ft.)	72,073	145,507	163,633	140,327
Office (Sq. Ft.)	249,462	593,741	648,818	717,932
Housing (Units)	406	382	491	673
Hotel (Units) - High Scenario	181	220	267	325
	By 2010	**By 2015**	**By 2020**	**By 2025**
Cumulative Demand				
Retail (Sq. Ft.)	72,073	217,580	381,214	521,541
Office (Sq. Ft.)	249,462	843,204	1,492,022	2,209,953
Housing (Units)	406	787	1,278	1,951
Hotel (Units) - High Scenario	181	400	668	993

Source: Economics Research Associates