UCONN CLEAR

Land Use & Real Property Markets

Presented by:
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Goman York Property Advisers LLC
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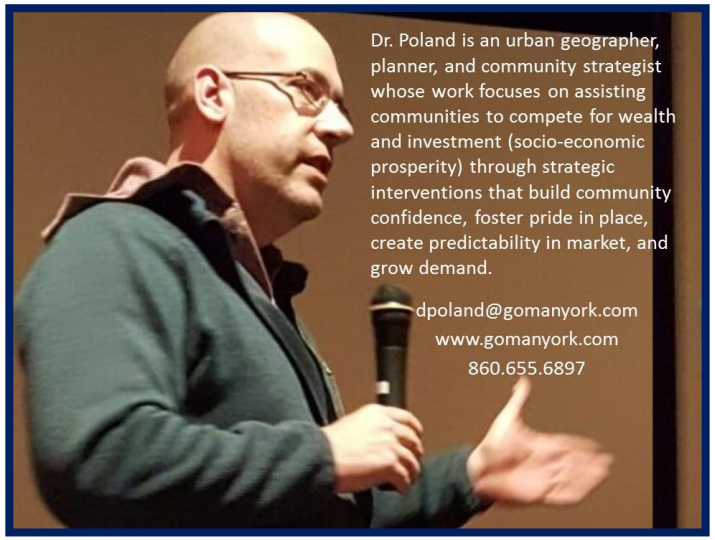
Presentation Overview – Contents



Planning, Land Use, Zoning, and Markets

Connecticut

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Planning, Land Use, Zoning, and Markets

Overview

Planning – The POCD

- Policy document to guide the future development of community
- When and where a community should decide (and debate) land use (zoning uses)
- Too often uses are based mostly on ‘wants’ not markets

Land Use

- Simply put, land use is how the land is used
- Land Uses: commercial, industrial, residential, agriculture, forest, and other

Zoning

- A legal authority of the police powers of government to protect public health, safety, and welfare
- The regulation of use, bulk & area (density), and intensity
- The uses a community wants, by district—should be realistic or plausible
- Permitting: staff vs commission and as-of-right versus conditions

Markets

- What are called ***uses*** in planning and zoning are ‘***asset classes***’ in real estate
- Markets are dynamic—they shift and change around multiple variables

Planning, Land Use, Zoning, and Markets

Overview

Key Concepts in Real Estate & Development

- **Real Estate (Investment & Development):** a vehicle/tool of investment—an investment asset class that competes with other forms of investment (i.e. stocks, bonds, mutual funds, etc.). As an investment asset class, real estate is high risk due to many variables (i.e. market volatility, interests' rates, length of time for permitting and construction, and subjective in permitting.)
- **Market Feasibility:** is there enough demand in the market (trade area) to support the development (asset class/use)?
- **Financial Feasibility:** can the development attract investors—private investors (equity) and financing investors (debt)?
    - **Return on Investment (ROI):** the rate of return for equity and debt investors.
- **Site Selection:** the process of identifying a site that is both market and financially feasible.
    - **Retail:** Key metrics are traffic counts, population/households, and income.

Planning, Land Use, Zoning, and Markets

Plans, Regulations, and Markets

Uses & Asset Classes

- **Unrealistic Expectations:** Not every community or location can have Nordstrom, Whole Foods, Starbucks, or Blue Back Square.
    - If your community want such uses, do they match with your demographics (population – households), socio-economic (income, age, education, etc.), and sites available (traffic counts)?
- **Market:** are the uses your community wants market feasible (supply/demand)?
    - Do existing market rents support new construction?
- **Financial:** are the uses your community wants financially feasible?
- **Site Selection:** Know and make available the key metrics:
    - Traffic Counts
    - Population
    - Households
    - Income
    - Rents (by asset class)

Planning, Land Use, Zoning, and Markets

Plans, Regulations, and Markets

Examples of Unrealistic Expectations – Planning & Markets

- Planning and zoning decisions that have little or no consideration for markets.
  - A rural community that wanted a Nordstroms
  - Many communities want a Blue Back Square
  - A suburban community placing separation distances on fast food establishments
    - Agglomeration economies
  - A rural/exurban that wanted a Panera
    - Great location, marginal ADTs, and prohibition on drive-thru windows
  - Many suburban communities with failing retail strip centers and mall that want redevelopment but oppose or want to limit residential
    - Multi-family residential—as an asset class—has the strength of market to reposition retail
    - Symbiotic relationship between residential and retail – “retail follows rooftops”
  - A community who POCD states ‘they want an area to retail and restaurants’ when high vacancies in both asset classes already exists

Real Estate Asset Class Market Trends

Connecticut

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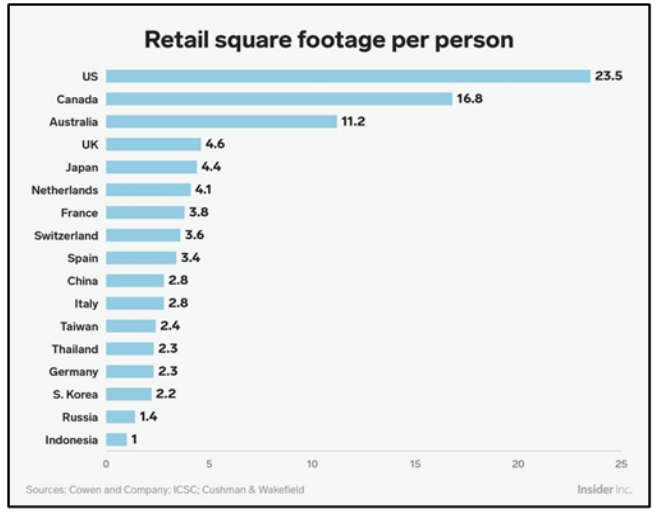
Real Estate Asset Class Market Trends – Macro

Overview

Retail Sector

- On the road to recovery: more openings than closings
- Groceries, general merchandise, and building products are strong
- Restaurants recovering and drive-thru service thriving
- High vacancies remain in localized markets
- "It is not that the market is overbuilt, but under-demolished“
- Limited new construction



Office Sector

- Office market is weak and will likely remain weak for many years
  - CBD vacancies as high as 50%
  - Suburban vacancies 20% or more
- Hybrid and remote work are here to stay
- New office development will depend on the absorption of existing vacancies and net new job growth

Real Estate Asset Class Market Trends – Macro

Overview

Hospitality Sector

- Restaurants
  - Staffing shortages, increased costs
  - Reduced operating hours
  - Local and casual dining hit the hardest
- Hotels
  - Resorts/tourism: strong recovery, demand peaking
  - Business travel: slow recovery, likely to continue

Multi-Family - Apartments

- Still in favor, but showing signs of slowing
- Cost increases: as much as 30% in some markets
- Continued rent growth
- Empty Nesters, Double Income No Kids (DINKs), New Singles, Recently Retired
- Demand in CT is moderate

Real Estate Asset Class Market Trends – Macro

Overview

Commercial/Industrial

- Self-Storage – Strong, Driven by Apartment Market
  - Continued growth
  - Climate controlled
- Logistics: Warehouse/Distribution
  - Substantial demand for new s.f. - +300 mm s.f./year
  - All sizes: 3.6 mm s.f. – 50,000 s.f.
  - Refrigerated/cold storage
  - Modern product—high ceilings for increased capacity and robotics

Greater Hartford Market Rents

- Retail – $18.20/sf
- Office – $20.24/sf
- Industrial – $8.89/sf

Cost of new construction typically requires $30/sq. ft. in rent.

Understanding Market Dynamics

Real Estate Markets

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Understanding Market Dynamics

Change

Change:

- is inevitable. Simply put, things change.
- is neither good nor bad—can have both *desirable or undesirable outcomes*.
- can produce *opportunity and surprise*.

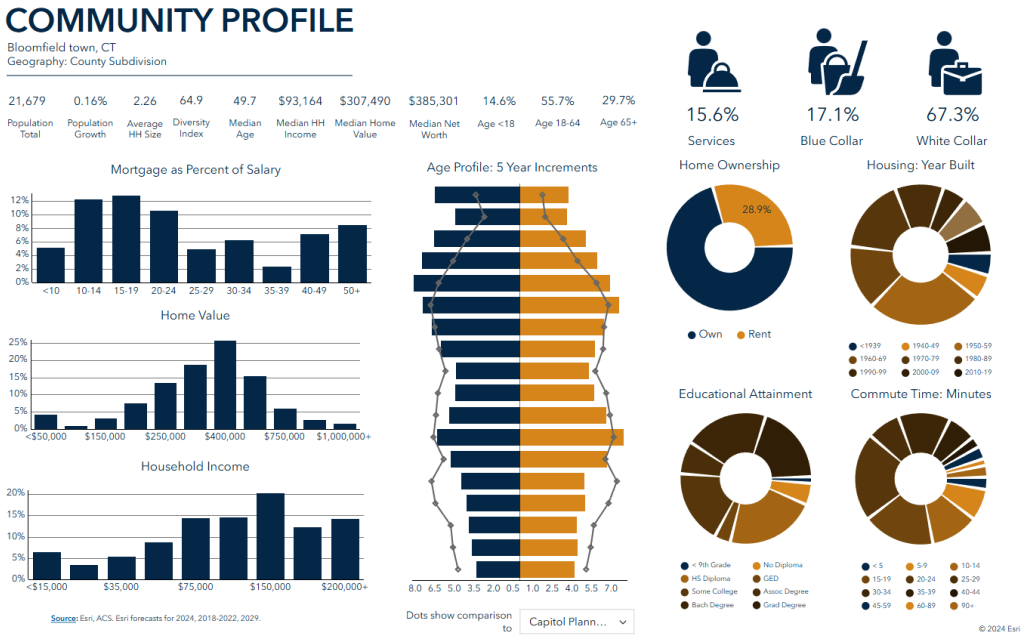
The challenge is not to *stop or resist change*, but to *embrace, adapt to, and manage change*.

Understanding Market Dynamics

Demand Drivers

What drives demand for Real Property Markets?

- **Jobs (Employment)**: Growth in jobs drivers demand for residential, commercial, and industrial space.
- **Population**: Growth in population (natural increase or migration—typically the result of job growth) drives demand for residential and commercial (office and retail) space.
- **Household Formations**: Growth in households, new household formations, drives demand for residential (housing) and commercial (retail) space.
- **Income, Household, and Per Capita**: Income (and growth in income) drives demand and forms of supply. A reasonable measure of demand for residential (housing) and commercial (retail) space.



Understanding Market Dynamics

Real Estate as a Commodity

- **Fixed:** Real estate is fixed in location—not moveable. Value is tied to location and subject to forces of change—changes in market, consumer preferences, investment, maintenance, etc. What was a good location yesterday may not be true today.
- **Durable:** Buildings are durable, expensive, and long lasting. Continual investment/maintenance required. Susceptible to change in consumer preferences, investment, and location.
- **Temporal:** Buildings constructed at specific moments in time to meet the consumer *needs* and *wants* at that moment. Unfortunately, consumer preferences are fluid—ever changing.
- **Creative Destruction**: Innovation; new methods, materials, technologies, and techniques destroy that which came before. The moment a building is constructed it is competing with newer buildings.
- **Functional Obsolescence**: Buildings (also, location and place) can and often does become functionally obsolete—typically older properties in less desirable locations.

Understanding Market Dynamics

Peak Value Intersection

Downtown Hartford 1950s

Farmington 1970s

West Hartford 2000s

"The problem is not that retail is overbuilt; it is that retail is under-demolished."

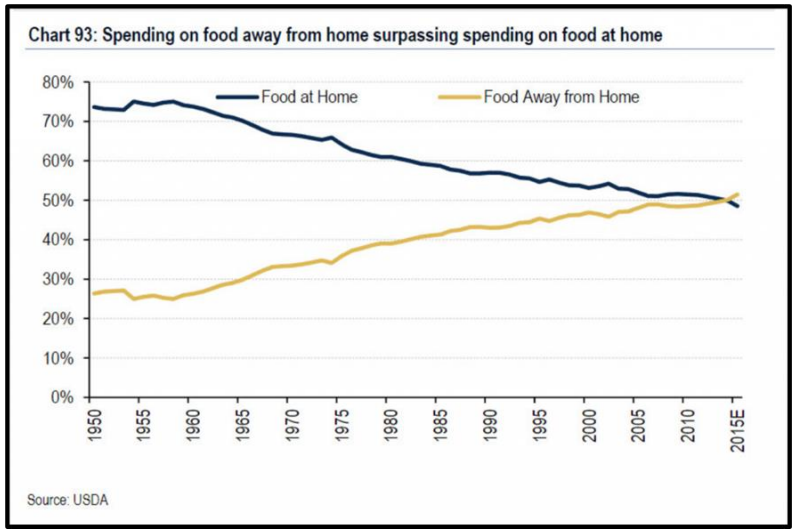
Mike Goman, Goman+York Property Advisors

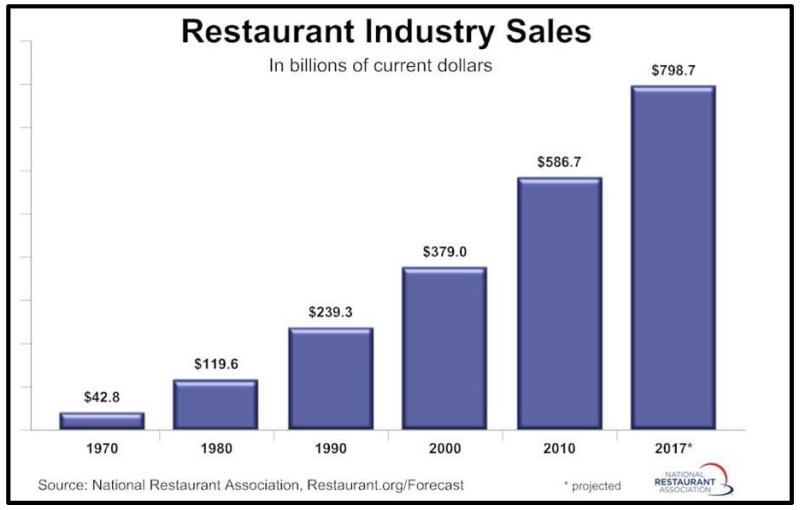
Understanding Market Dynamics

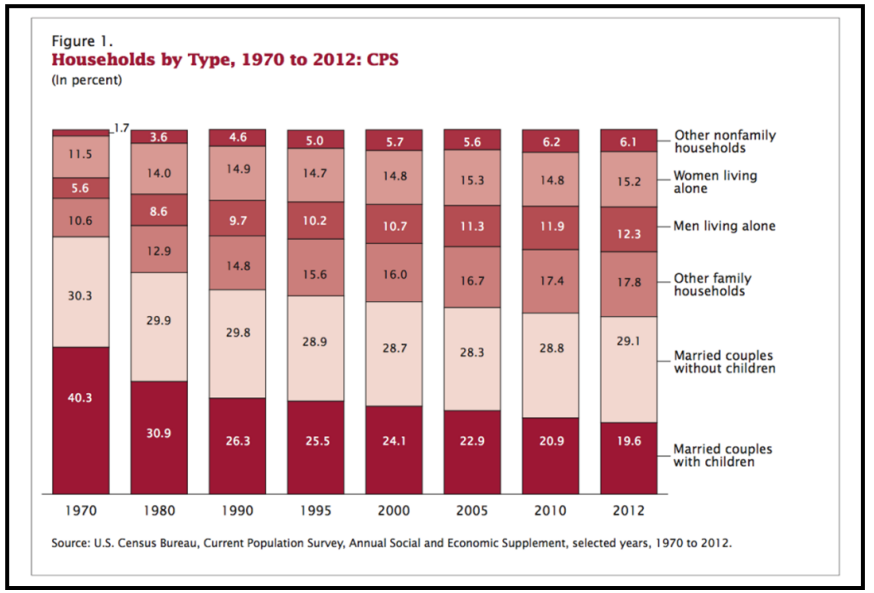
Creative Destruction

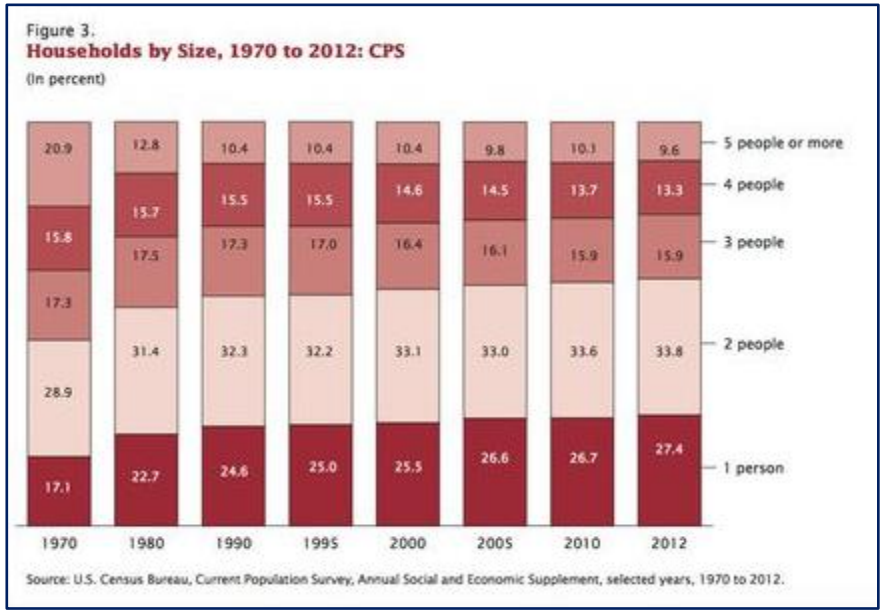
Understanding Market Dynamics

Slow Moving Variables of Change









Demographics and Socioeconomics

Understanding Demand Drivers

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Demographics and Socioeconomics

Demand Drivers – Population & Jobs

TOTAL POPULATION	Population 2010	Population 2020	Population Change 2010 - 2020	% Change 2010-2020
Connecticut	**3,574,097**	**3,605,944**	**31,847**	**1%**
Fairfield County	916,829	957,419	40,590	4%
Hartford County	894,014	899,498	5,484	1%
Litchfield County	189,927	185,186	-4,741	-2%
Middlesex County	165,676	164,245	-1,431	-1%
New Haven County	862,477	864,835	2,358	0%
New London County	274,055	268,555	-5,500	-2%
Tolland County	152,691	149,788	-2,903	-2%
Windham County	118,428	116,418	-2,010	-2%

ADULT POPULATION	Population 2010	Population 2020	Population Change 2010 - 2020	% Change 2010-2020
Connecticut	**2,757,082**	**2,869,227**	**112,145**	**4%**
Fairfield County	689,810	743,170	53,360	8%
Hartford County	689,971	713,425	23,454	3%
Litchfield County	148,975	151,879	2,904	2%
Middlesex County	130,578	135,983	5,405	4%
New Haven County	669,503	690,994	21,491	3%
New London County	214,456	216,922	2,466	1%
Tolland County	121,807	123,584	1,777	1%
Windham County	91,982	93,270	1,288	1%

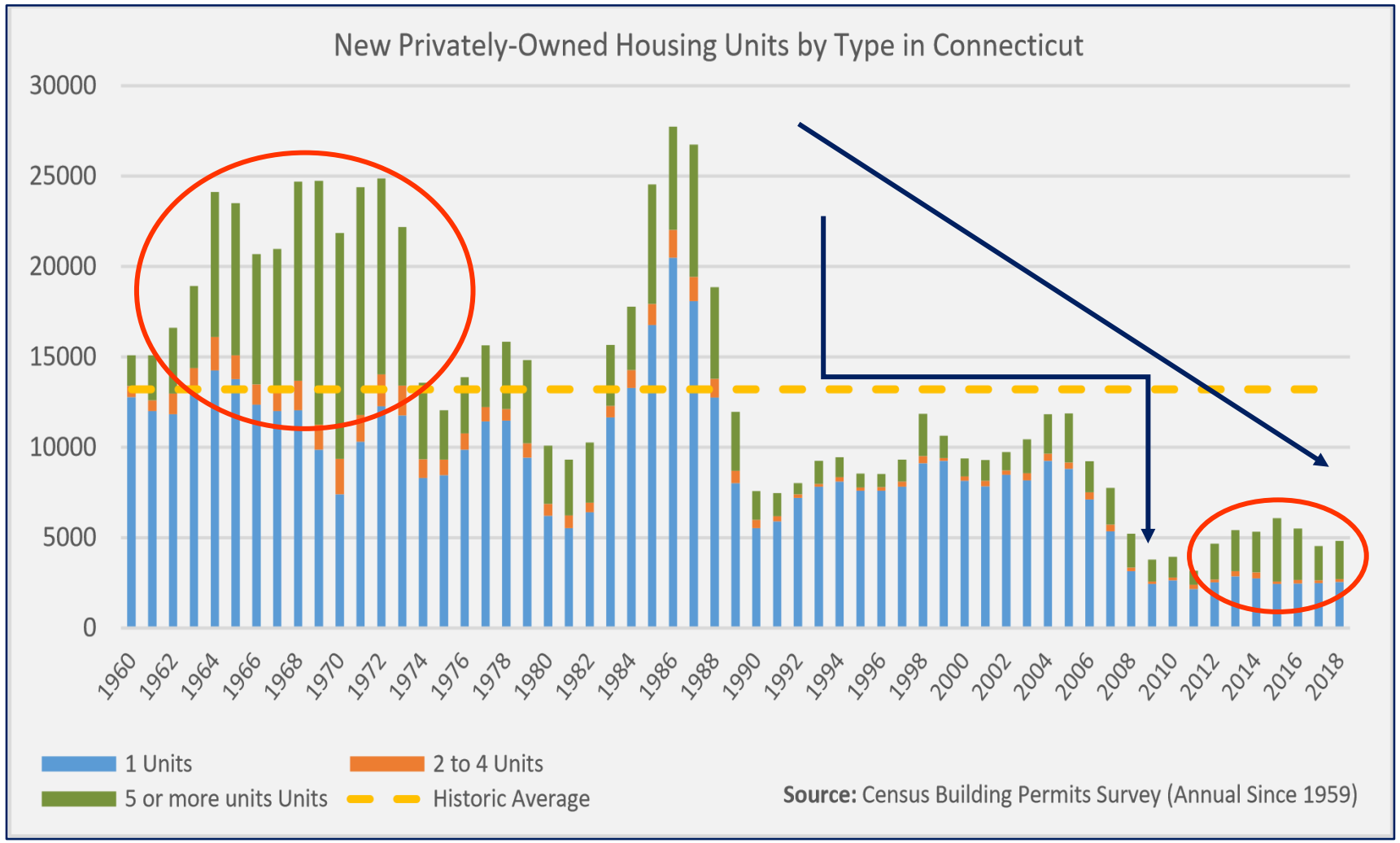
<18 POPULATION	Population 2010	Population 2020	Population Change 2010 - 2020	% Change 2010-2020
Connecticut	**817,015**	**736,717**	**-80,296**	**-10%**
Fairfield County	227,019	214,249	-12,770	-6%
Hartford County	204,043	186,073	-17,970	-9%
Litchfield County	40,952	33,307	-7,645	-19%
Middlesex County	35,098	28,262	-6,836	-19%
New Haven County	192,974	173,841	-19,133	-10%
New London County	59,599	51,633	-7,966	-13%
Tolland County	30,884	26,204	-4,680	-15%
Windham County	26,446	23,148	-3,298	-12%

Jobs/Employment:

- CT Added 104,000 jobs from 1985 to 1989—in 5-years.
- CT added 45,000 jobs from 1990 to 2020—in 30-years.

Demographics and Socioeconomics

Demand Drivers – Population & Jobs

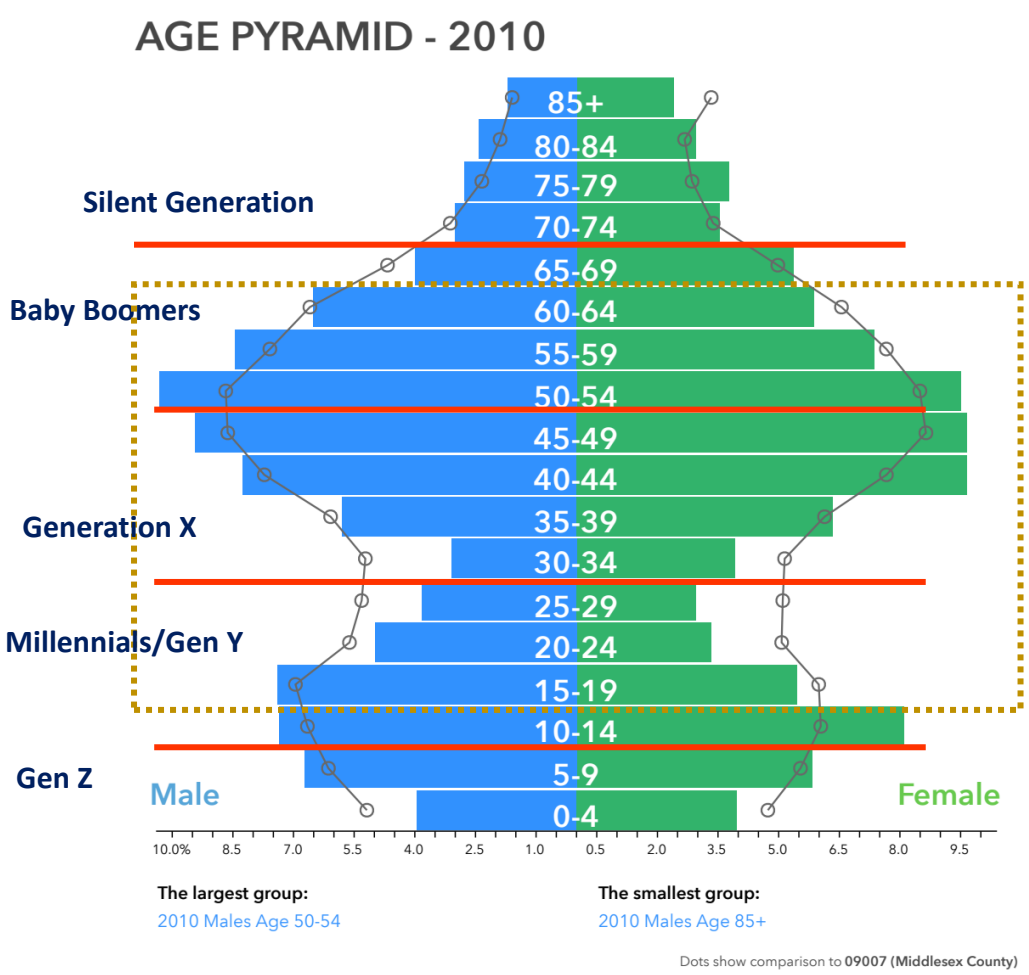


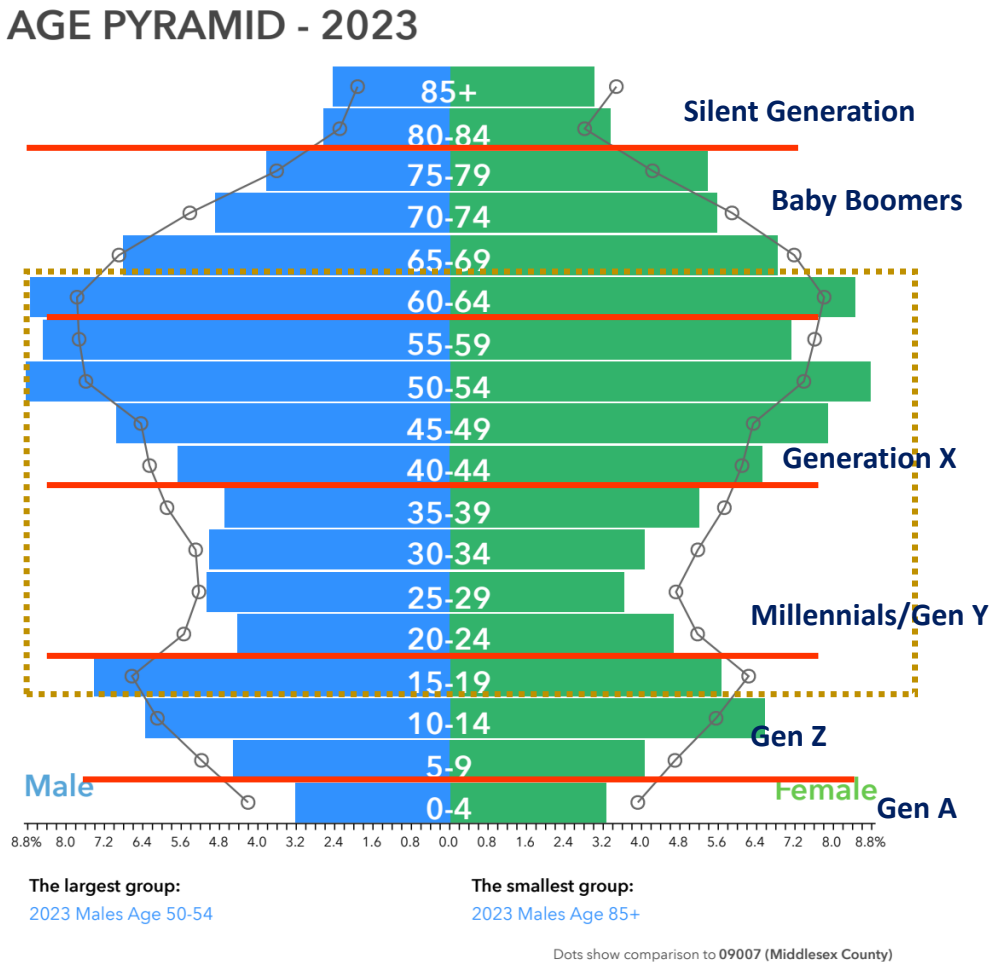
Housing:

- Housing starts track stagnant job grow.
- Housing starts track anemic population growth.
- Household formations, the increase in one- and two-person households, account for approximately 50% of housing growth
- One- and two-person household are driving the shift to multifamily housing.

Demographics and Socioeconomics

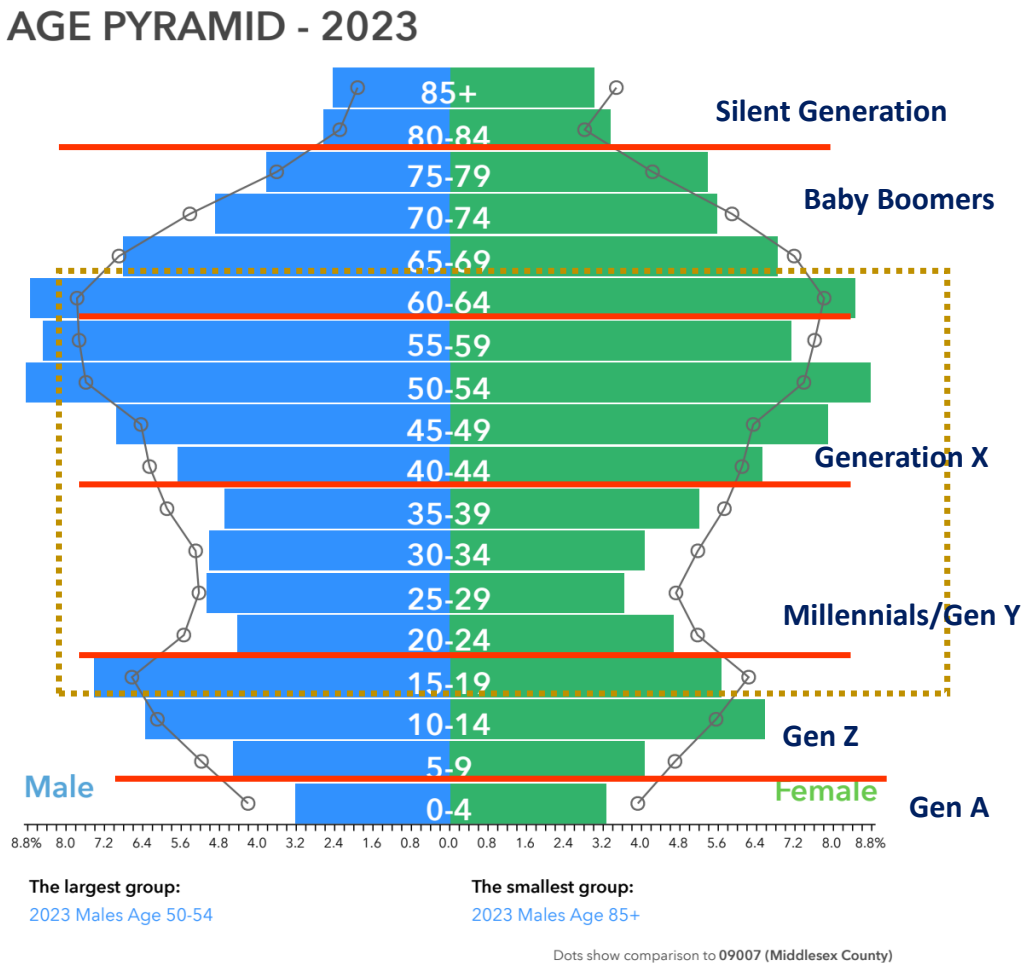
Population Structure – Age Pyramids

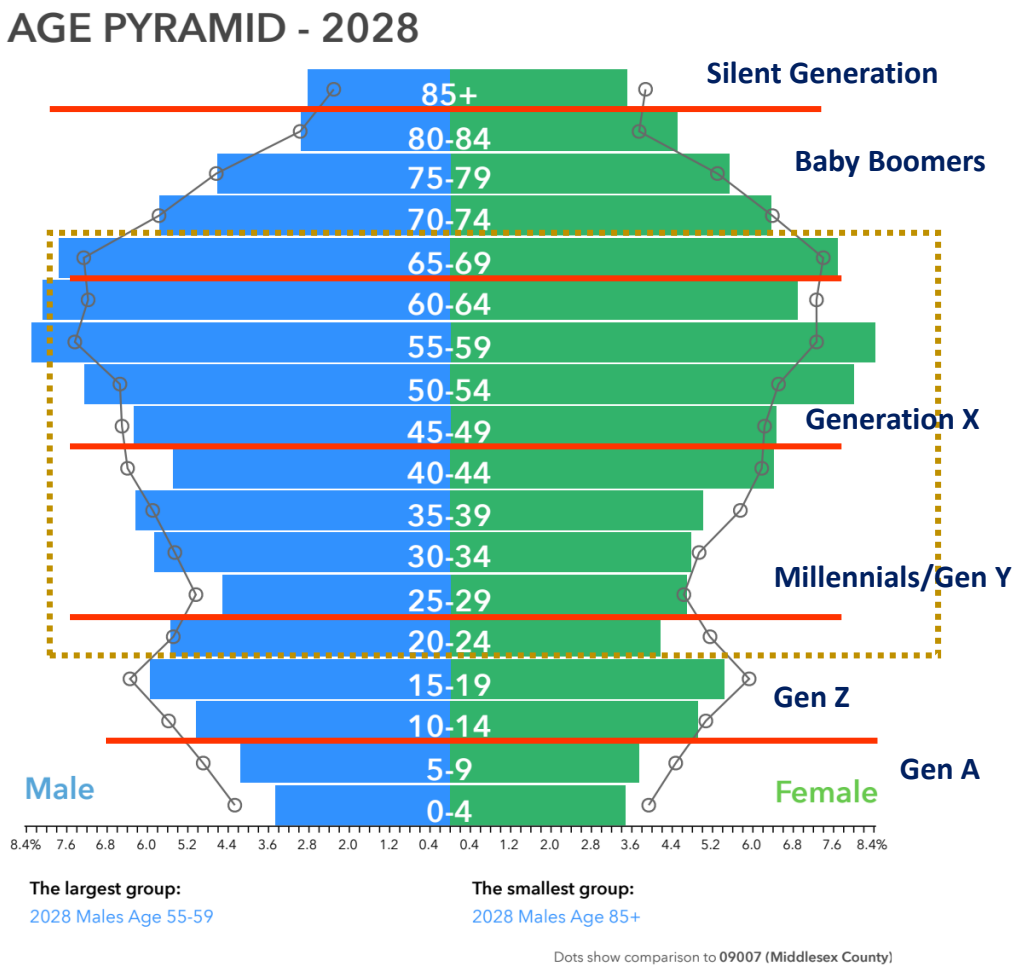




Demographics and Socioeconomics

Population Structure – Age Pyramids





Demographics & Socioeconomics

School District Enrollments

Declining School District Enrollments

- Since 2008, the LCRVR loss 21.4% (-5,263) of public school district enrollments—confirming the substantial loss in populations under 18 years of age since 2010.
- One of these towns has now lost 46% of their school district enrollments.

SCHOOL DISTRICT ENROLLMENTS	Enrollment 2008	Enrollment 2021	Enrollment Change	Enrollment 2021 % of 2008
Connecticut	574,848	513,079	-61,769	-10.8%
Chester	341	201	-140	41%
Clinton	2,113	1,570	-543	-25.7%
Cromwell	2,000	1,989	-11	-0%
Deep River	389	218	-171	-46%
Durham (R-13)	2,156	1,440	-716	-33.2%
East Haddam	1,433	935	-498	-34.8%
East Hampton	2,087	1,824	-263	-12.6%
Essex	551	313	-238	-43.2%
Haddam (R-17)	2,562	1,849	-713	-27.8%
Killingworth (R-17)	2,562	1,849	-713	-27.8%
Lyme (R-18)	1,538	1,283	-255	-14.6%
Middlefield (R-13)	**2,156**	**1,440**	**-716**	**-33.2%**
Middletown	5,088	4,409	-679	-13.4%
Old Lyme (R-18)	1,538	1,283	-255	-14.6%
Old Saybrook	1,621	1,074	-547	-33.7%
Portland	1,433	1,279	-154	-10.7%
Westbrook	985	650	-335	-34%
LCRVR	**24,297**	**19,034**	**-5,263**	**-21.4%**

Site Selection Considerations

Market Research & Feasibility

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Site Selection Consideration

Overview

The Site Selection Process:

1. Market Area Analysis
2. Viable Submarket Analysis
3. Trade Area Definition
4. Demographics and Psychographic Analysis
5. Competitor Identification and Analysis
6. Trip Generator Identification and Analysis (office parks, industrial developments, central business districts, multi-family development, etc.)
7. Traffic Counts and Traffic Pattern Analysis
8. Area (Location) Selection (Multiple Possible Sites)
9. Site Selection (Specific Location)
10. Financial Analysis (projected sales, site development cost, return on investment, etc.)

Site Selection Considerations

Overview

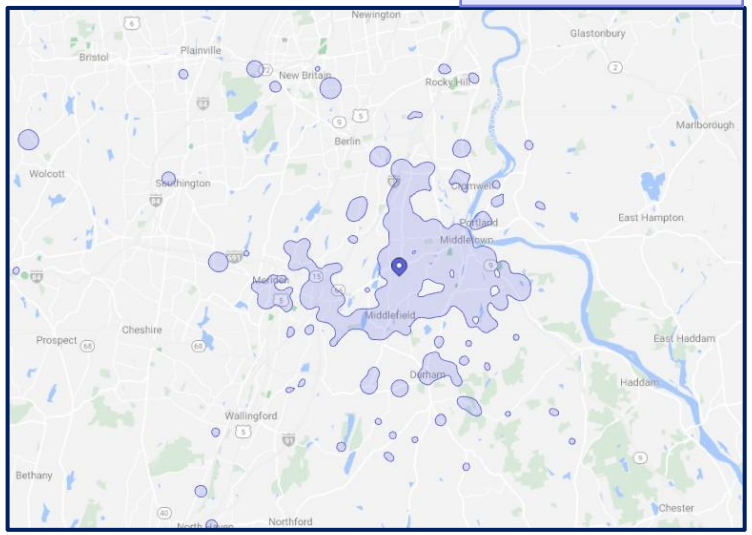
Location & Site Considerations:

- Visibility
- Accessibility
- Regional Exposure
- Population Density
- Population Growth
- Operational Convenience
- Safety & Security
- Adequate Parking
- Adequate Signage

Key Market Indicators:

- Population, Total (& Trends)
- Households, Total (& Trends)
- Household Income
- Geofence Analysis
- Retail Gap Analysis
- Traffic Counts (ADTs)
- Psychographics & Consumer Segmentation

Trade Area



Geofenced Area

The Site Development Process

Real Estate Development

The Development Process – General Steps

1. The Development Idea/Opportunity
2. Preliminary market research
3. Evaluating/establishing demand
4. Analysis of potential sites (site selection)
5. Engineering feasibility
6. Financial feasibility (site commitment)

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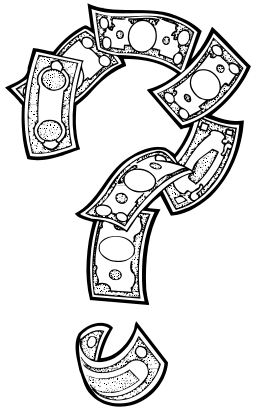
7. **Design the development**
8. **Land Use/Development Permitting**
9. Financing
10. Construction
11. Occupancy/opening/operations
12. Property management



Market + Financial Feasibility = Project Feasibility: driven by total construction cost Vs return on investment.

- Can the return on investment cover the costs of development and provide a profit that justifies the risk.
- Do rents cover costs? If not, what you want as a community does not matter.

The Site Development Process

Financial Feasibility

Basic Financial Feasibility Calculation

- What are the land costs?
- What are the construction costs?
- What are the market rents?
- Can market rents cover the cost of development and operation (typically assumed over seven years)?
- If costs (land & construction) exceed the returns (rents), the project will not get built.
- The same is true for redevelopment.
    - Why is investment not flowing into your community or town center or older shopping plaza or office park?

Sample: Estimating Feasibility

- Land Cost = $2,000,000
- Construction Costs = $200/sf
- $200/sf x 50,000s.f. = $10,000,000
- Total Cost = **$12,000,000**

[Do market rents justify investment and risk?]

- Market rents - $25/sf
- $12,000,000 / 7yrs = $1,714,285/yr.
- $1,714,285 / 50,000sf = $34.28/sf
- Required Rent: **$34.28/sf**
- Do rents justify the investment and risk? **NO!**

The Site Development Process

Land Use Process & Risk

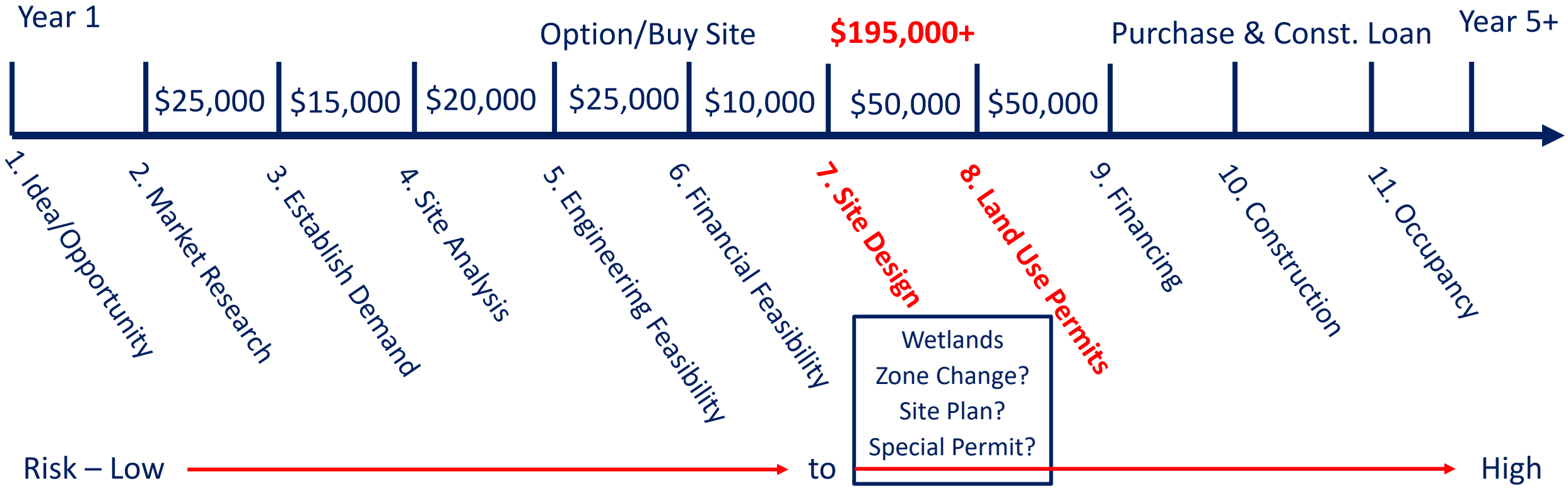
Investment = Time – Energy – Money

Return on Investment (ROI) = Cost vs Rents/Value

Risk = Confidence & Predictability

Real Estate Investment

- High Risk - Unpredictable
- High Upfront Costs
- Long Time to Realize Returns



Complexity of Markets & Geofence Analysis

Route 66 Middlefield, CT

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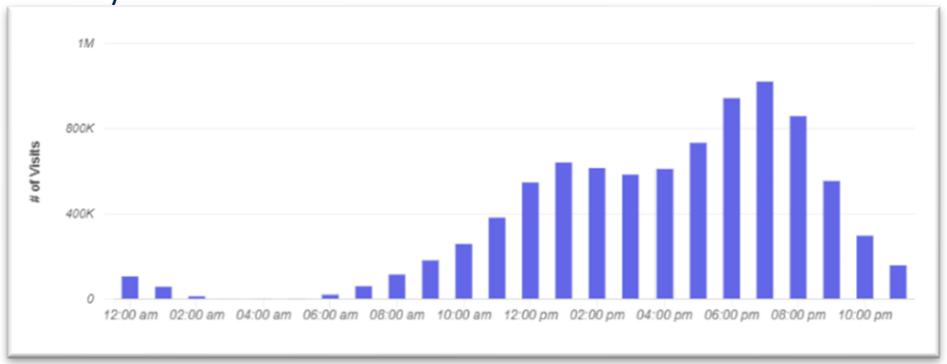
Complexity of Markets & Geofencing

Parking Demand – Geofence Analysis of Visits

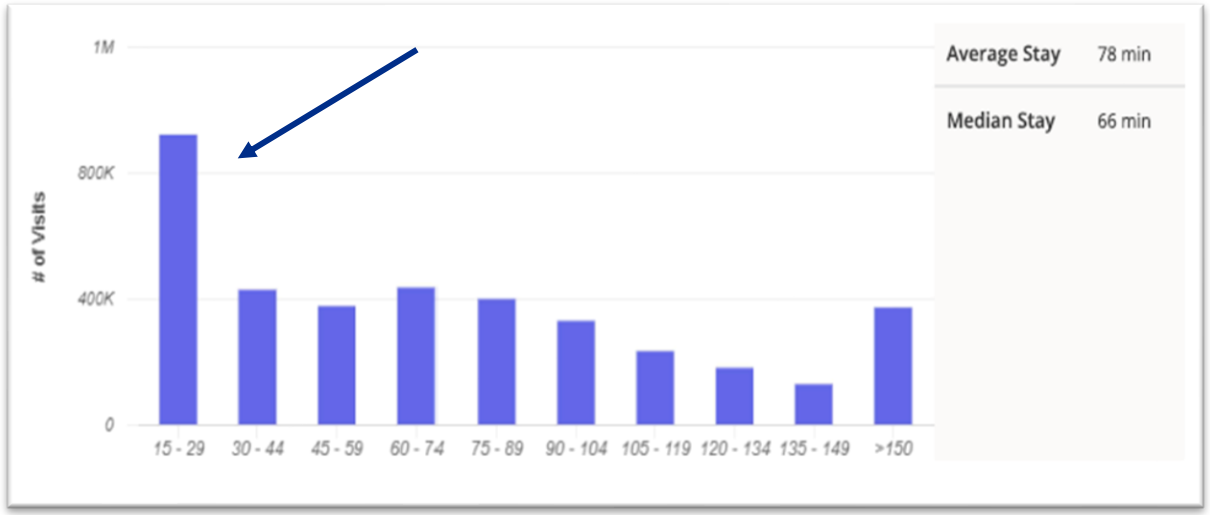
- Parking Demand Study in West Hartford Center
  - Hourly Visits – Time of Day Demand
  - Daily Visit – Day of Week Demand
  - Length of Stay – Duration of Demand

Hourly Visits



Daily Visits

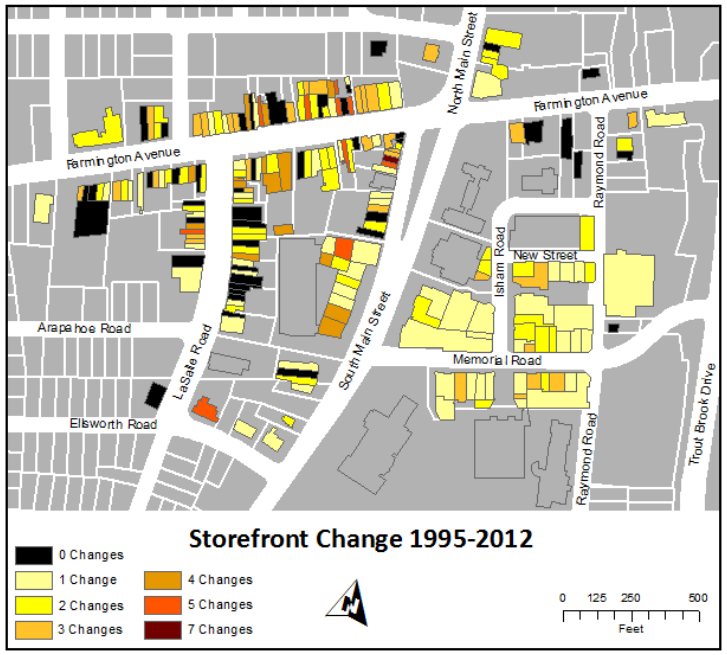
Length of Stay

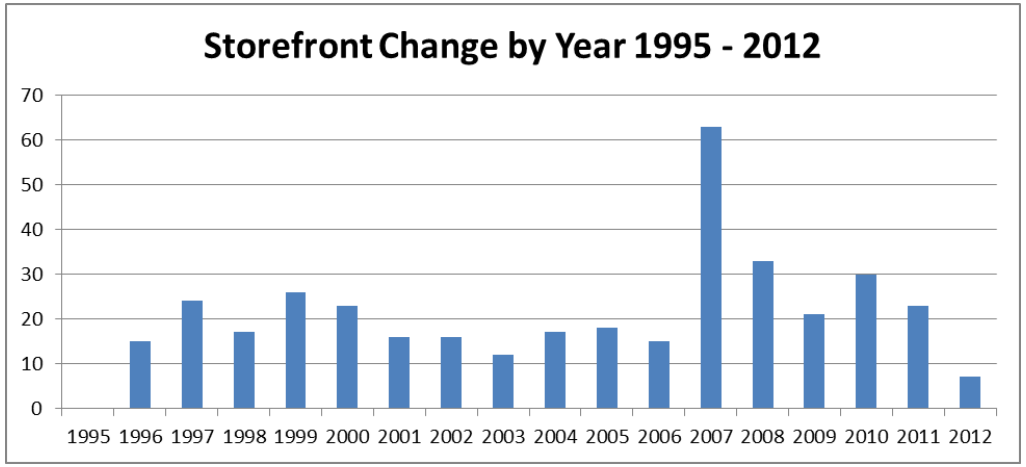


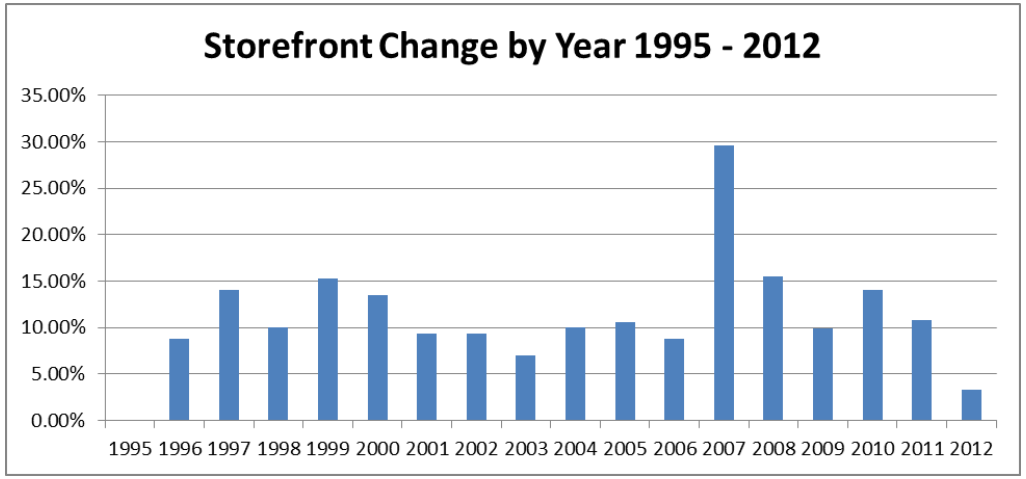
Complexity of Markets & Geofencing

The Dynamic of Change

- In the 17-years from 1995 to 2012 an average of 10.6% of storefronts turned over each year.
- The low was 7 (3.3%) and the high was 63 (29.6%) in 2007 (Blue Back Square opened).
- A total of 42 (24.7%) storefronts retained the same tenant during this 17-year period.

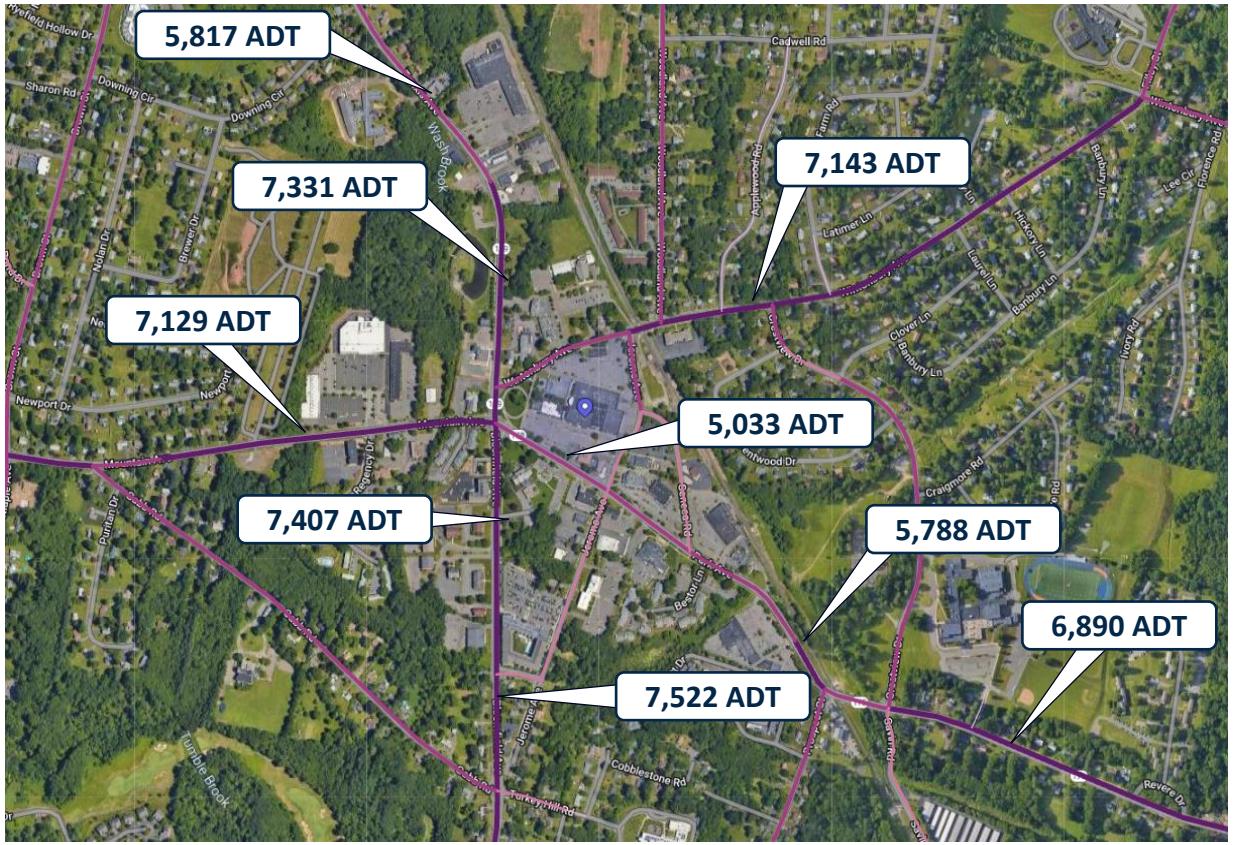


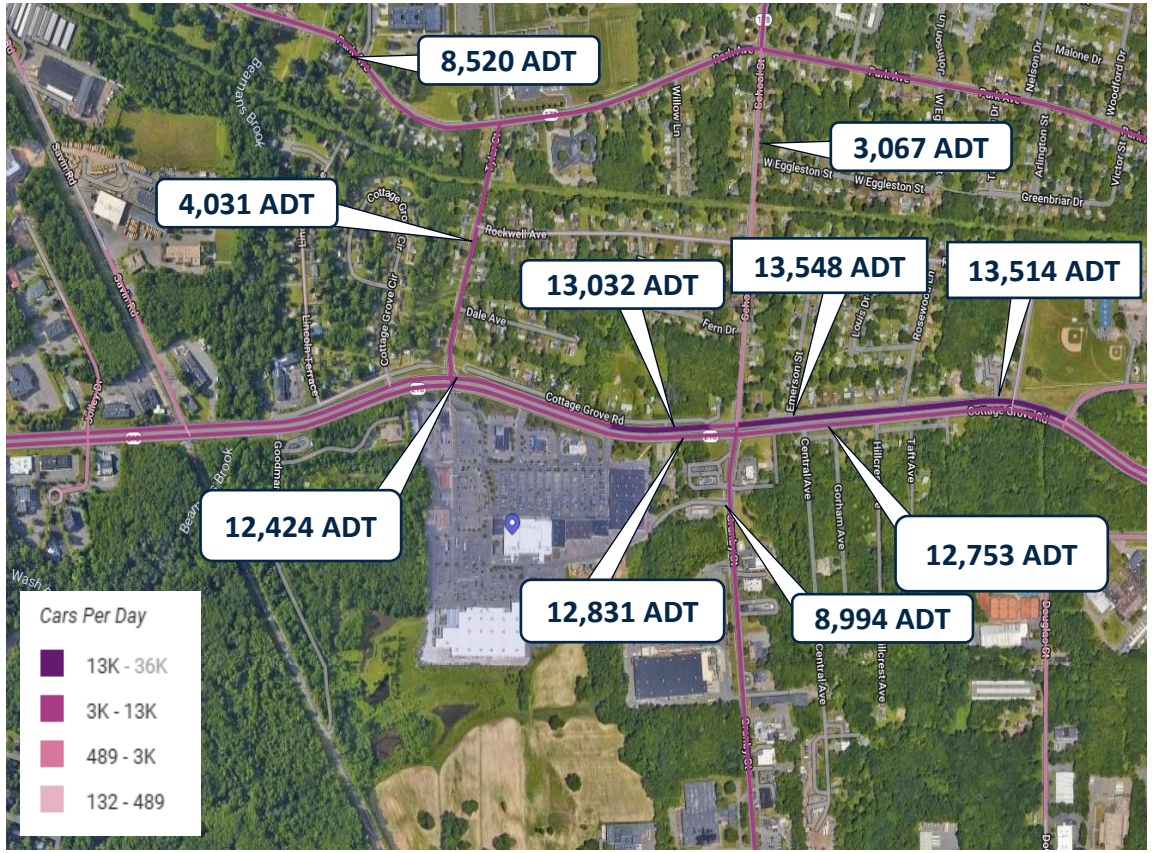




Complexity of Markets & Geofencing

Tale of Two Retail Centers – 2022 ADTs





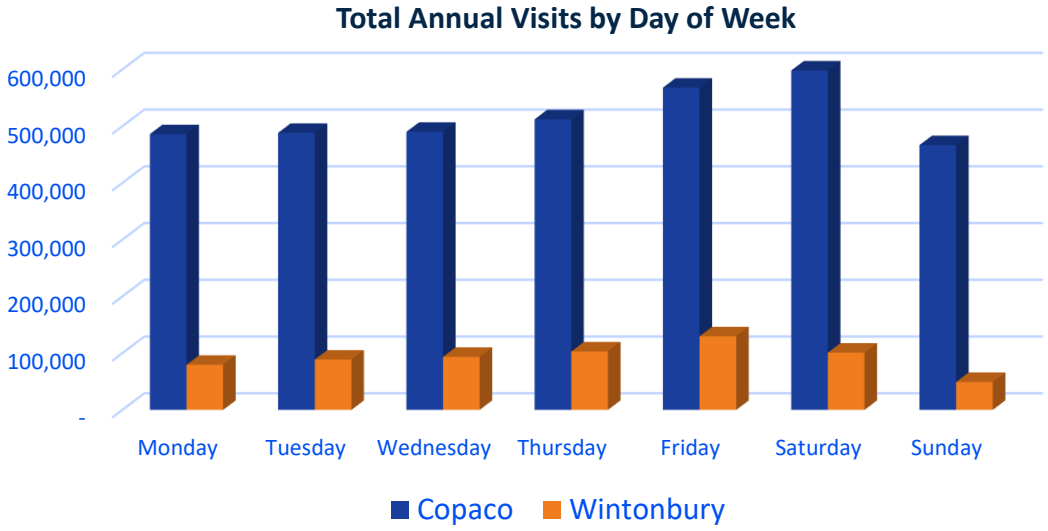
Complexity of Markets & Geofencing

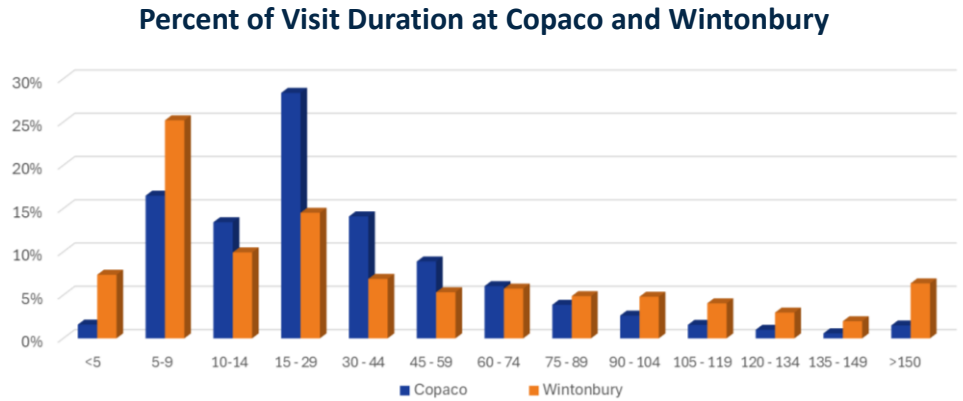
Tale of Two Retail Centers – Visits

- Annual Visits by Day of Week
- The total number of visits within the past year to the property broken down by each day throughout the week
  - **Copaco Shopping Center**
- Average Annual Visits: 3,609,100
- Peak Day, Saturday: 598,200 (16.6% of Total Visits)
- Average Daily Visits: 9,900

Wintonbury Mall

- Estimated Annual Visits: 641,100
- Peak Day, Friday: 129,800 (20.2% of Total Visits)
- Average Daily Visits: 1,800





Complexity of Markets & Geofencing

Tale of Embracing Change

Rural-Exurban Community

- 2015 – Wanted Panera – Great location, weak ADTs, prohibited drive-thru window
- 2018 – Assisted with POCD, Economic Development, Commercial Development, and Housing (multi-family)
- 2020 – Assisted with updating commercial zoning
- 2020 – Ban of Drive-Thru Windows Removed
- 2021 – Multifamily Allow in commercial zones
- 2022 – 260 units multi-family approved behind plaza (and Panera Site)
- 2023 – Starbucks approved on the Panera site.

Conclusions

Planning – Land Use – Zoning - Markets

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Conclusions

Some Thoughts

- Embrace change
- Consider markets, site selection, and feasibility when planning
- Be realistic with what your community wants
- Work within a market framework when zoning

THANK YOU

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