



Economics Research Associates

Memorandum

Date: November 30, 2006

To: Paul Glauser, Director of Redevelopment
City of Provo

From: Economics Research Associates

RE: Downtown Provo Market Analysis: Implementation
Plan and Next Steps

Economics Research Associates has just conducted a real estate market analysis for Downtown Provo, which was submitted under a separate cover. The market analysis report was prepared for a broad audience, including national real estate developers who need market data when considering development opportunities in Provo. The purpose of this memorandum is to provide some guidance to the City of Provo on how to attract additional development to the downtown area.

ERA believes it would be a mistake to focus too heavily on any single strategy or single real estate market segment for the downtown area. Downtown is a heterogeneous place, with a variety of new and old businesses offering a wide range of products and services and experiences. Downtown Provo is, and should continue to be, the most cosmopolitan place in Utah County. It is adjacent to a large and elite university characterized by students and missionaries who are heading to and from all parts of the world. At least one corporation with a global reach, Nu Skin, has chosen to locate their headquarters in downtown Provo.

From ERA's research we have found that to live or to work and to occasionally grab a meal, downtown Provo attracts not only students, but also young singles, older empty-nesters, high income lawyers and lower-income service workers, renters and homeowners. Downtown already draws, and has the potential to increase its draw, from a broad cross section of the Utah County population. And to a specific segment of the population, downtown is unique in that it is a "special place." Within Utah County, Downtown Provo is second only to BYU as being a place that is recognized by members of the LDS community worldwide.

In the process of conducting the research for a real estate market study, ERA has developed a number of recommendations. These can be grouped into eight principles

for implementation of a stronger downtown business and real estate environment for the future.

1. Focus on Anchors.

Downtown Provo already has several economic sectors or specific businesses that attract people into the downtown area and serve as anchors for Provo's historical town center. These include the municipal offices of the City of Provo, the courts, the world headquarters of Nu Skin, and soon the new performing arts center. BYU, although not right in downtown, is such a huge attractor of people within Utah that it also serves as an activity generator for Downtown Provo.

In addition to attracting many smaller new businesses in retail, dining, and office based segments of the economy, Provo should also seek to add more major anchors to the downtown. A significant conference center has been proposed and studied. Such a publicly subsidized facility would be a great addition to downtown, not only bringing in more people for meetings and events in the short run, but also creating a powerful stimulus for more hotel development in the immediate area.

Financial institutions, such as Zions Bank, can also serve as anchors for downtown, even if they are not headquarters locations, if they locate significant numbers of employees in the area. Other corporations tending towards a campus style setting in a location such as Riverwoods may be able to be persuaded to instead develop in a more traditional urban setting, and build-to-suit downtown.

City involvement will likely be required in order to accommodate relatively large new anchor uses. In addition to working with proponents on planning, design and rapid entitlements, the City may also be required to assist with land assembly.

2. Maintain a Welcoming Pedestrian Environment.

Everyone in the marketplace must feel welcome to visit this area of the city. This might entail a bit of chaos or incongruity at times, but so long as the area always remains safe and hospitable, a few unusual establishments or customers will serve to make it a more interesting and authentic place.

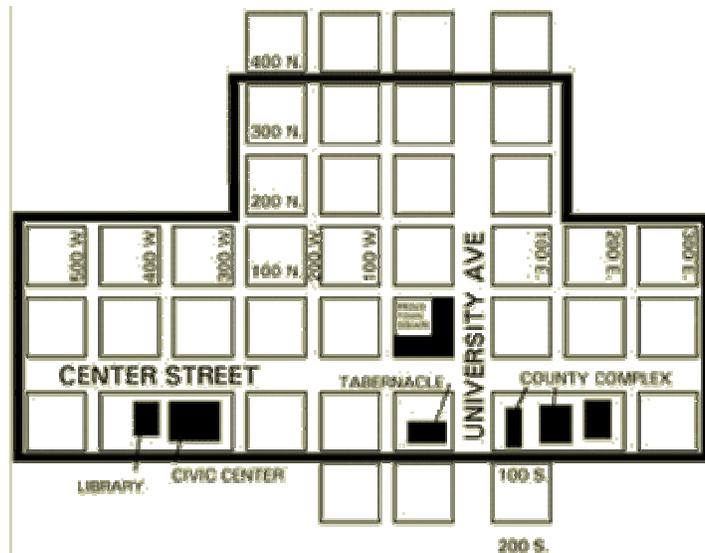
Provo is fortunate to have the only truly "traditional downtown" district in Utah County. Great care should be taken to preserve and strengthen the urban street, sidewalk, and block pattern characteristic of a traditional downtown as new development occurs. Shops and restaurants and offices should have entrances off the sidewalks, which does not preclude having additional entrances from off-street parking areas in the middle of the blocks. The gaps in building fronts along the sidewalk required for off-street parking entrances should be minimized, especially in the few areas where retail and dining should be concentrated.

Provo is also fortunate to have some of the best historic building facades in their downtown district. This character is authentic and creates a unique identity for the area. While new architecture can never replicate this precisely, with careful design it can easily create new development that plays off this historic identity in a wide variety of creative ways to blend harmoniously with the old buildings.

Traditional downtown environments are pedestrian-oriented. Some retail and dining uses function better in an auto-oriented strip development pattern. Downtowns have lost these uses everywhere in America. More potent competition, however, comes from regional malls and the newer outdoor “lifestyle center” variants, both of which have been designed to also create attractive pedestrian-oriented environments. But unlike a pedestrian mall environment that is owned, operated, and programmed by a single entity, downtown is a heterogeneous community of businesses offering an eclectic variety of goods and services, and creates the anti-mall pedestrian environment. By maintaining the safety, comfort and unique mix of businesses, downtowns can compete effectively with newer retail centers. If the downtown pedestrian feel of the place is lost, however, it can lose its ability to compete with both commercial strips and pedestrian malls.

3. Encourage Density and a Mix of Activities.

ERA’s study has focused on the relatively large downtown area defined by the boundaries of the Downtown Business Alliance. It includes the following 35-square-block area.



This area has the capacity to accommodate much more development than exists today. To rebuild and enhance a healthy downtown, a mix of uses should be developed, and at

a much higher total density than is there now. That said, not every building has to be mixed use. Whole blocks might be dedicated to new higher density housing, and other whole blocks may be intelligently designed to accommodate office space.

There is also insufficient market demand to wrap all four sides of every block at street level with retail space. The traditional “100 percent” corner of the retail environment is University Avenue and Center Street. The dining and retail character of the downtown should receive the highest priority here and should extend for several blocks north, west and east from this corner. Some specific destination restaurants, and some larger format retailers may successfully locate on other streets one or more blocks off of these two major corridors, but care should be taken not to diffuse the “critical mass” of the emerging dining and retail concentration by scattering businesses all over the 35-block area.

4. Encourage Multi-Family Housing Downtown

The density principle for creating a more vibrant downtown implies that any new residential projects should be multi-family in design. Mid-rise densities are clearly appropriate for the core downtown blocks closer to Center and University, but densities could taper off, down to attached townhome/rowhouse densities at the downtown periphery.

Homeownership is good in a downtown area, because homeowners are typically among the most dedicated of stakeholders for an area. On the other hand, residents of all kinds usually feel proprietary about their neighborhoods, and homeowners and renters alike create local market demand to support dining and retail establishments in the downtown.

When trying to attract development interest in a potential residential area, it is generally easier to lead with rental housing projects first to help establish the district as an up and coming residential neighborhood, and then to begin developing ownership/for-sale units. ERA’s market research indicates there is a market for relatively affluent rental apartments in Provo, and the downtown should be a good place to develop one or more such projects.

ERA’s research also indicates there is an active market for new condominiums in Provo, and again the downtown should be a good location for some of these. Unfortunately the relatively sluggish sales of the high-end condo project in the Wells Fargo building may create an unwarranted perception that condos will not sell well. On closer inspection, however, it appears that the Wells Fargo project slightly over shot the market in price, created a few unit types that are less desirable, had too few total units and too few common amenities to create a sense of place for these pioneering condo buyers. A second downtown condominium project that incorporates the experience of the first one is likely to sell out much faster.

5. Actively Market to Office Based Employers.

Daytime support for downtown dining and retail establishments is provided by people who work in the area. Office based workers are a steady source of demand, and office uses form another crucial part of the mixed use environment. As part of the City's economic development function, the downtown needs to be actively marketed as a logical location for office development, both for larger corporations who may occupy whole buildings and smaller users in multi-tenant buildings, including perhaps, condominium office projects.

As noted above, BYU serves as an anchor for downtown because it is an "evergreen" activity generator, bringing people through and into the entire area. In addition, BYU is a producer of highly educated potential workers. The presence of a highly educated workforce is one of the reasons the City of Provo is a great place to build a company, even one with a global reach. The longevity of an institution as sizable as the University also helps make Provo a stable place to invest in over the long run.

Downtown is also a logical location for a wide variety of office based professional services, such as lawyers (serving both court functions as well as private individual needs), tax accounts, architects, dentists, chiropractors, physical therapists, and other medical practitioners. Smaller office based employers expecting to have stable practices for some years into the future may prefer to buy, rather than rent. Provo currently has the lowest condo office vacancy rates in Utah County, and office condos should be encouraged downtown.

6. Dining and Retail Businesses will Follow, but Will Also Amplify.

There is a "chicken and egg" problem with revitalizing downtowns. The restaurant and retail offering plays a major role in creating the attractive, amenity rich district, which entices people to live and work in the area. On the other hand, the amenity producing restaurants and retail shops cannot survive until the market demand has grown to a level sufficient to support them through the presence of workers and residents in the area. The different types of development in an appropriate mix mutually reinforce each other through initial cycles of development, which become amplified as subsequent cycles of development occur.

The first step should be a strategic planning effort among the stakeholders who are already present in the marketplace. A retail vision needs to be established which identifies a target mix of retailers and dining establishments to create the theme and character desired for downtown.

The second step is to hire a recruiter to go out and hustle up the types of dining and retail establishments identified. This function depends on the right energetic and

enthusiastic person, but need not be full time, and should probably not be a professional broker. The skills required are trainable. This person becomes a strong advocate for the long term vision set by the downtown business community.

It is not necessary to attract national retail or restaurant chains to be a success. Quite the contrary, successful traditional downtown commercial districts are often anchored by unique local businesses that one cannot find at the more generic malls. Provo already has several well known, high quality, established dining establishments downtown. One recruitment strategy to provide further critical mass in making downtown a dining destination within the region is to identify other successful locally owned restaurants in the region, and convince their proprietors to either relocate or open a second outlet downtown. The more formal dining component of the downtown offering then can be further amplified by the presence of other specialty food vendors such as: baked goods, ethnic foods, ice cream, frozen yoghurt, fresh fruit smoothies, pizza-by-the-slice, etc. Retail shops should include a mix of businesses that serve the daytime needs of workers and evening needs of residents, as well as businesses that attract a regional market for specialty needs such as jewelry stores, bridal shops, art galleries, antique and specialty furniture, photography, retail banks and credit unions, etc.

7. Access and Parking

Downtown Provo is at a traditional crossroads within Utah County. Even with the growth that has occurred over the decades, Downtown Provo remains a relatively easy place to get to by car. Although transit options are likely to become increasingly important in future years, the reality for the immediate future is the majority of downtown patrons will arrive in cars. The goal is to convert motorists to pedestrians with as much ease and convenience as possible.

Successful retailing requires easy accessibility, high visibility (generally from a vehicle passing on the street), a sense of personal security, and adequate, convenient parking. For any downtown destination, potential customers should be able to find parking within approximately one block. Parking should be a mix of on-street and off-street facilities, but parking should not interfere with pedestrian ambiance of the district. Placing parking in structures in the middle of the block as was done next to the Wells Fargo project is a great solution.

Parking should be managed to give priority to customer needs on blocks emphasizing dining and retail establishments. Retail workers should be encouraged to park a bit further away. For office based employees a goal is to create a downtown district that supplies so many of their needs within a convenient walking distance that they do not need to get in their cars in the middle of the day for anything.

Surveys of shoppers in traditional downtown environments perennially reflect the complaint that parking is more difficult, more costly, and/or less plentiful than in suburban malls. Much of this is due to a perception problem, however, where mall patrons actually walk much greater distances from large parking lots to get to their destination store within the mall than they realize, and more than they need to in a more urban environment, coupled with the unrealistic hope that they will always find one of the parking places open right out front of their destination store in a downtown setting. ERA's observations and evaluation indicated that there currently appears to be adequate parking in Downtown Provo, but clearly more will be needed in the future as the area fills in with new development projects. Provo needs to plan ahead for future parking needs as the area develops, but there is no need to overbuild parking way in advance. A little congestion is a better problem to deal with than a dead and empty downtown. In many cases, the addition of a limited number of free, on-street parking spaces in front of stores can improve the perception of the availability of parking

8. Expedite the Public Process.

ERA's market analysis has found that the prospects for healthy rates of continued growth in Utah County are excellent. There is no reason that Downtown Provo should not be able to capture a significant share of growth, especially those employers, businesses, and residents that are looking for a more urbane setting in a cosmopolitan, pedestrian-oriented environment. County wide trends show lease rates increasing and vacancy rates dropping, with the City of Provo's trends being ahead of most other locations in the county.

Some stakeholders interviewed by ERA indicated that at times the City of Provo itself has been one of the hindrances in getting new development started downtown. ERA heard reports that on some occasions the City seemed more prone to call for further study of the situation than to make a deal. Stakeholders critiqued the City's ability to make clear policies affecting real estate development, and questioned the City's capacity to make "yes" or "no" decisions. In the City's defense, these are common complaints typically heard within the real estate development community nationwide, but nevertheless, it would be worth re-examining the City's decision-making processes from the applicants' perspectives and to find ways to expedite the process to the extent they do not compromise the City's need for conscious planning. It is especially important that when high quality pioneer projects such as the Wells Fargo building occur at the beginning of a revitalization phase in a downtown's history, that the City strive to maintain the momentum with follow on projects to attract attention of, and create excitement within, the real estate development and investment communities.

Summary of Recommended Implementation Steps

ERA's recommendations for a few discrete and specific implementation steps may be summarized as follows. They have been given letters rather than numbers, because several of them can be pursued simultaneously and need not be strictly sequential.

- A. Conduct strategic planning among downtown stakeholders. Formulate a vision for retail and dining downtown, and lay out a merchandise plan in as much specificity as possible.
- B. Hire a part-time retail recruiter, and train them to be dedicated to implementing the downtown dining vision.
- C. Encourage Utah County to provide public financial support for a new major meeting facility to be located in the traditional downtown for the county, in Downtown Provo.
- D. If Provo is successful in attracting a major new conference center facility into the downtown, consider legislation to encourage, or force, the next few hotel developments to also locate downtown in proximity to the new shared meeting facility.
- E. Formulate clear City policies regarding real estate development downtown, diminishing developer uncertainty and helping to move projects forward.
- F. Expedite the City process for entitling new development.
- G. Use the economic development function of the City to steer major office users to downtown locations.
- H. Assist with parcel assembly for major office users and other potential anchor uses as needed.
- I. Participate with the private sector in providing off-street parking in shared, mid-block facilities as the parking demand increases.