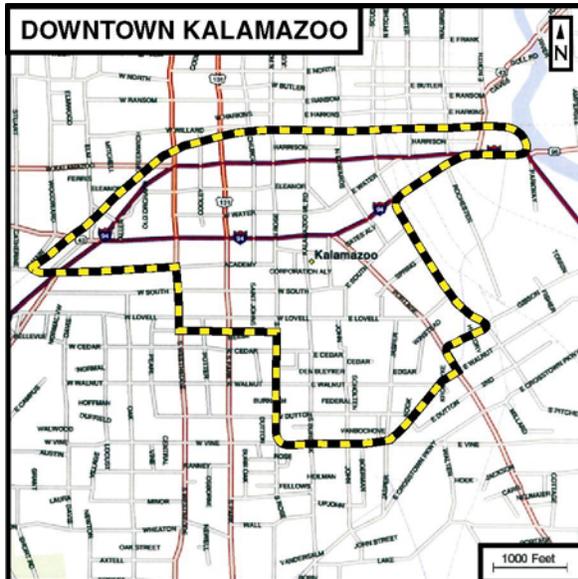


INTRODUCTION

Background. Downtown Kalamazoo, Inc. (DKI) is updating a comprehensive master plan for the downtown Kalamazoo area. As part of this plan, DKI wishes to update the retail strategy for the downtown area. The geographic area considered for this study is roughly delimited by:



- Railroad tracks to the north.
- Pitcher Street to the east.
- Vine Street to the south.
- Westnedge Avenue and Stadium Drive to the west.

Please refer to the map at left for the exact location of the study area as defined.

The following issues concerning retail viability in the downtown Kalamazoo area were addressed in this study:

- What is the present market position of the retailers currently located in downtown Kalamazoo?
- What is the trade area currently served by retailers in downtown Kalamazoo?
- What new retail types (retailers, restaurants, entertainment venues) can be supported in downtown Kalamazoo?
- What should be the size of these retailers and restaurants?
- What would be the “ideal” tenant mix for downtown Kalamazoo?
- In short, what would be the long-term master plan for retail in downtown Kalamazoo?

Methodology. To address the above issues, the following methodology was employed:

- **Locational Evaluation.** We undertook a thorough evaluation of the locational characteristics of the retailers in downtown Kalamazoo. In particular, we evaluated the physical configuration, visibility, ingress/egress, planned and proposed road improvements, and proximity to competitive retail and parking facilities. We also evaluated the merchandise mix, price points, selection, presentation and service levels of these retailers.
- **Competitive Inventory.** We conducted an inventory of all existing and proposed shopping areas within the trade area, as well as all major shopping centers and shopping concentrations outside the trade area that have an impact on downtown Kalamazoo. Our evaluation took into account site characteristics, tenant mix, consumer appeal, price points, merchandising and presentation.
- **Population, Demographic and Lifestyle Characteristics.** The most recent population estimates and future projections were collected from local and national planning authorities for the defined residential trade areas. Also, we used both national and local sources to estimate the student and worker population.

Using data from both local and national sources, we obtained the most recent demographic characteristics, such as median household income, income distribution, median age, occupational characteristics and average household size. These data were collected for both the total trade area and for each census tract within the trade area.

- **Expenditure Potential Determination.** Using Market Insite Group's proprietary models of expenditure potential, along with the *Census of Retail Trade* and other sources, we calculated the expenditure potential for various retail types within the trade area by SIC codes.
- **Retail Void Analysis.** Based on the results of the competitive and retail expenditure analysis, we conducted a retail void analysis. The purpose of this void analysis was to compare the supportable square footage for each retail category with the actual square footage for that category. This indicates if there is an overstoreing or understoreing by retail category within downtown Kalamazoo.
- **Recommended Additional Retail Types and Estimated Sales Potential for These Retailers.** Based on the results of the void analysis, we identified retail types which can be supported in downtown Kalamazoo. We then

forecasted sales for these retail types and made a recommendation as to specific retailers, where appropriate.

Assumptions. The following assumptions were made for this study:

- 1) All population data obtained from local and national sources are accurate and reflect the true characteristics of the market.
- 2) The economic conditions of the metropolitan Kalamazoo area will remain constant.
- 3) All information forwarded to Market Insite Group by DKI is accurate and reliable, and represent the true nature of the Kalamazoo area.
- 4) No major competitive changes will occur, other than those mentioned in this report. Further, it is assumed that the downtown Kalamazoo Walgreen's unit will close.

The conclusions expressed in this report are based on the analysis of the facts and circumstances as they presently exist. These conclusions represent our attempt to forecast the future using the data and assumptions as specified. To the extent that the data change, issues not addressed become more important, or new assumptions are warranted, then a reevaluation should be undertaken. The likelihood of change occurring increases with time.

CONCLUSIONS AND RECOMMENDATIONS

The following presents the in-depth findings of Market Insite Group’s analysis regarding retail viability in downtown Kalamazoo, Michigan:

- There are 160 retailers in downtown Kalamazoo (February 2004) encompassing approximately 519,300 square feet. Of this occupied retail space, approximately 42,800 square feet (8%) is occupied by apparel and shoe stores, 158,492 square feet (31%) is occupied by restaurants and food service outlets, 53,900 square feet (10%) is occupied by personal and professional services, and approximately 264,000 square feet (51%) is occupied by other retail types.
- Approximately 1,800 people are employed at downtown Kalamazoo retailers.
- An additional 160,600 square feet of space is currently available for retail use. This equates to a 24% vacancy rate. This calculation is based upon first floor retail space within the downtown Kalamazoo study area, but does not include the Dewing Building, as it is expected to encompass only office space after renovation.
- In general, current triple-net lease rates per square foot for retail in downtown Kalamazoo and its surrounding areas are as follows:

	<u>Downtown Kalamazoo</u>	<u>Surrounding Areas</u>
Class A	\$12 - \$16	\$16 - \$20
Class B	\$9 - \$12	\$13 - \$16
Class C	\$6 - \$10	\$8 - \$12

- An additional 196,700 square feet of retail is currently supportable in downtown Kalamazoo. The space for the supportable retail may be obtained from current vacancies, conversion of space from other uses, and some new construction. Any new construction should meld well with neighboring buildings to help maintain the cohesiveness of that particular district.
- Market Insite Group recommends the following additional retail space for the downtown Kalamazoo study area:
 - ♦ A 50,000 square foot, stadium seating cinema housing approximately 10 screens.
 - ♦ 24,000 square feet of restaurants that serve alcoholic beverages. This can be up to four additional locations and should be trendy, moderately-priced establishments such as Smokey Bones BBQ, Spaghetti Warehouse or Old Spaghetti Factory, Brann’s Steakhouse, BD’s Mongolian BBQ, etc.

- ◆ A 20,000 square foot bookstore. This should be a strong bookseller with depth of product in many subjects and with a relaxing atmosphere that promotes browsing. Schuler's Books or Border's Books and Music would work well.
- ◆ 15,000 square feet of unisex apparel. These should be moderate-priced operators selling many jeans and shirts that appeal to younger consumers. Old Navy, Mr. B's Warehouse and Steve & Barry's University Sportswear are recommended possibilities.
- ◆ A 13,000 square foot pharmacy which can be a local, regional or national operator such as Sav-Mor Drugs, Save-On Drugs, CVS or Rite Aid.
- ◆ 13,000 square feet of antique shops divided among multiple locations but located near each other and current antique dealers in order to create an "antique district" within downtown Kalamazoo.
- ◆ A 7,000 square foot health club. This may locate above 1st floor retail if desired.
- ◆ A 5,000 square foot gift shop selling higher-quality merchandise, collectibles and home decor items and offering a bridal registry.
- ◆ A 5,000 square foot specialty market selling a small selection of staple goods while specializing in unique and hard-to-find items with high service levels.
- ◆ A 4,500 square foot art supply store catering to the art community.
- ◆ A 4,000 square foot diner such as Steak 'n Shake, Ruby's Diner or similar.
- ◆ 4,000 square feet of video rental and sales.
- ◆ A 3,000 square foot office supply store catering to business and individual clientele, offering delivery.
- ◆ A 2,500 square foot sporting goods store specializing in golf and tennis that places an emphasis on service.
- ◆ A 2,500 square foot card shop, preferably Hallmark or Carlton Cards.
- ◆ 2,500 additional square feet of gift merchandise.
- ◆ A 2,500 square foot futon, beanbag and furniture store.

- ◆ 2,500 square feet of dry cleaning and laundry located in two units with five-minute “pick-up” parking.
- ◆ A 2,500 square foot music store offering new and used music on cassette and compact disc. A strong local operator is preferred. If a music department is located within the bookstore, then this category may be eliminated.
- ◆ A 2,000 square foot health and beauty store offering soaps, fragrances, and body washes such as Bath & Body Works.
- ◆ A 2,000 square foot bagel shop such as Einstein Bros. Bagels or Bruegger’s Bagels.
- ◆ A 2,000 square foot athletic shoe store.
- ◆ 2,000 square feet of art galleries and shops divided among up to two individual stores. These shops should be open standard retail hours to help promote evening consumer traffic. Locations within easy walking distance to Little Cities Gallery and Emory Gallery would help create an art district or “hub”.
- ◆ A 2,000 square foot hobby shop specializing in train and automobile models as well as “gaming” cards and accessories and offering competitions and tournaments.
- ◆ A 1,500 square foot woman’s shoe store selling business, dress and casual footwear and accessories.
- ◆ A 1,500 square foot photographic supply shop such as a Norman’s Camera or Adray’s Camera satellite unit.
- ◆ A 1,200 square foot ice cream parlor. A marble-slab style is recommended such as Maggie Moo’s, Cold Stone Creamery, or Marble Slab Creamery.

Please refer to the facing table for a complete list of recommended tenants and their forecasted sales.

- Many recommended retail types fall into entertainment categories, including the “shopping as entertainment” or “dining as entertainment” categories. This includes the recommended cinema, restaurants, art galleries, antique shops, ice cream parlor, music dealer, bookstore and hobby shop. Entertainment components within retail and restaurants in downtown Kalamazoo will help to create a unique atmosphere, provide incentives for visitation, help to promote longer visitation to the downtown area, and provide incentives for evening visitation. Bookstores, movie theaters, art shops, restaurants, antique shops, gift

shops, coffee shops, and music stores can all help to create downtown traffic after the daytime office worker traffic has subsided.

- Downtown Kalamazoo should build on current strengths and trends. Many of the recommended retailers expand a market already existing in downtown Kalamazoo. Expansion of these retail types will create various “hubs” in the community that will stimulate interest and visitation to downtown Kalamazoo. Examples include:
 - Art Market: art galleries, art supply and photographic supply shops
 - Apparel Market: unisex apparel and shoe stores
 - Sports Market: tennis and golf specialty store, athletic shoe store and fitness center
 - Gift, Antique and Home Décor Markets: card shop, gift shops, antique shops
 - Convenience Market: pharmacy, video store, bagel shop, card shop, office supplies store, dry cleaners
 - Entertainment Market: cinema, bookstore, restaurants, art galleries, etc. (see above)

Each of these markets currently exist within downtown Kalamazoo, yet each needs a “boost” in order to make downtown Kalamazoo a viable retail destination.

- Downtown Kalamazoo has a need for anchor retailers. Traditionally, anchor retailing was accomplished by having department stores downtown. This is no longer the case in most communities today. Anchor retailing can be accomplished by the use of one or two well-placed, larger-format retailers or entertainment venues. These anchors will add interest and excitement to downtown Kalamazoo and serve as a catalyst for other retail sales and growth. The recommended cinema and bookstore will serve as anchors for downtown Kalamazoo and create additional foot traffic in the area as well as serve to help bring more young people downtown.
- Kalamazoo has a wealth of nearby young adults who under-utilize the downtown market. Downtown retail types should appeal to the younger, fashionable consumer. The eighteen to thirty- or forty-year age bracket is a fairly untapped market for retail in downtown Kalamazoo. Nearly 101,600 (25%) residents of the total trade area for downtown retail are 18 years to 34 years of age. The recommended cinema, bookstore, apparel and athletic shoe stores, bagel shop, music shop, sporting goods store, furniture store, hobby shop, restaurants, and health club will all appeal to younger shoppers/users. This is not to say that these retail types will not appeal to patrons in all age categories, for surely they will. It is that they have an especially strong draw within the eighteen to forty-year age bracket.

Young, generally single, fashionable professionals have a higher than average disposable income. They are more attracted to the new urban lifestyle and are more likely to use shopping and dining as their evenings entertainment.

More than 43,300 persons within the total trade area for retail are part of the student body at one of the local colleges or universities, most of which fall into the 18 to 34 year old age bracket. Western Michigan University is the dominant educational institution in the area (30,000 students) and is easily within a quick car or bike ride from downtown. Kalamazoo Valley Community College, located right in downtown Kalamazoo, includes 12,000 students.

- The retailers of downtown Kalamazoo must offer uniqueness in their merchandise and service. Essentially, downtown retailers must bring about a change in attitude and shopping habits of area consumers. This cannot be accomplished by offering the same merchandise found at Crossroads Mall or any of the multitude of area discount department stores or “big box” stores. According to research conducted by Bonney & Company in May 2000 and updated in November 2001, 11% of Kalamazoo County residents indicate that “more and better stores” would attract them to downtown Kalamazoo on a regular basis. Seven percent (7%) would be attracted to downtown Kalamazoo on a regular basis by additional restaurants.

Further, 65% of all survey respondents (May 2000) were interested in “locally owned shops with more personalized service” and 76% were interested in “stores with merchandise different from mall merchandise.”

- The retailers of downtown Kalamazoo must offer merchandise at a moderate price point, or a mix of price points. Though some affluency exists, the Kalamazoo market is predominantly a moderate market. Approximately 25% of the households within the total trade area for retail earn in excess of \$75,000 annually. This equates to approximately 38,900 households. In comparison, within nearby Kent County, 29% of all households earn in excess of \$75,000 annually. With Kent County’s higher population base, this equates to more than 64,600 households—two-thirds more than as near Kalamazoo.

Though 25% of total trade area households earn more than \$75,000 annually, nearly 37% of total trade area households earn less than \$35,000 annually. This segment of the population obviously does not have a lot of disposable income. The remaining 38% of total trade area households earn between \$35,000 and \$75,000 annually. Many within this segment of the market can be thought of as the typical middle-American household. The typical middle-American household, however, does not have an abundance of disposable income either. In other words, the total trade area for downtown Kalamazoo retailers has 75% of its household residents shopping for merchandise with a moderate or lower price point. With only 157,900 households within the total trade area, this equates to

118,400 households or approximately 295,000 persons looking for these moderate or better price points.

The following is an income comparison between 1999, 2001, and 2003 estimates:

Total Trade Area	Percent of Households Earning \$75K +	Number of Households Earning \$75K +	Percent of Households Earning \$35K or less	Number of Households Earning \$35K or less	Total Number of Households
1999 Estimate	20.3%	29,626	41.9%	61,343	146,300
2001 Estimate	23.3%	35,231	38.5%	58,285	151,468
2003 Estimate	24.6%	38,887	37.0%	58,339	157,885
4 Year Change	+4.3%	+9,261	-4.9%	-3,005	+7.9%

As can be seen in the table above, the percent of high income households (\$75,000 or greater) within the total trade area for retail is increasing, but at a slower rate than the total number of households.

- The operating hours of downtown Kalamazoo retailers must be extended for the convenience of the consumer. Typical shopping hours for most consumers is in the evening and on the weekends--the very times that most retailers in downtown Kalamazoo restrict their hours. Currently, only a small number of non-restaurant retailers remain open later than 6:00 P.M., and even some restaurants restrict their evening hours on some nights during the winter months. Though some retail may be able to survive in downtown Kalamazoo with its current restrictive hours, for it to flourish, most retailers must remain open during peak shopping times. This is especially true of any entertainment type retailers. The bookstores, art galleries, antique shops, music shops, sporting goods stores, apparel shops and gift shops, in addition to all sit-down restaurants and coffee shops, must open during evening and weekend hours.

Please refer to the following sections for profiles of trade area population, demographic, and lifestyle information for the primary, secondary, tertiary and total retail trade areas and to the included maps that depict competitive retail within the area as well as key demographic data. Competition tables that coincide with the competitive map are also included.