



GRUEN GRUEN + ASSOCIATES

MEMORANDUM

Date: June 7, 2004
To: James Lasher, LSA Design, Inc.
From: Gruen Gruen + Associates
Subject: **C1135: Findings, Conclusions and Recommended Strategies and Actions for the Planning and Implementation of the Jay and Third Street Transit Project**

INTRODUCTION

This memorandum report presents our key findings, conclusions, and recommendations for the planning and implementation of the Jay and Third Street Transit Project. The findings, conclusions, and recommendations are based on our inspection of the downtown and intensive in-person and telephone interviews with a sample of downtown property owners, developers, and real estate brokers as well as City of La Crosse officials and staff, and representative of Downtown Mainstreet, Inc., La Crosse Area Development Corporation, and La Crosse Area Convention & Visitor's Bureau.

MARKET NICHEs AND DEMAND OPPORTUNITIES

Identification of Market Opportunities and Constraints

We have synthesized the results of the research, including interviews, into the following sections:

1. Factors That Encourage Demand or Locational Strengths;
2. Factors That Discourage Demand or Locational Weaknesses;
3. Use Options, Competing Supply Alternatives, and Potential Market Niches; and
4. Recommended Strategies and Actions.

FACTORS THAT ENCOURAGE DEMAND OR LOCATIONAL STRENGTHS

The inspection of the downtown and interviews resulted in the identification of the primary comparative advantages or locational strengths of downtown La Crosse. While much of the residential, retail and employment growth has shifted away from the downtown including to the north and closer to Interstate 90, the downtown remains conveniently-accessible to



residents, students, and downtown office workers. The new bridge over the Mississippi River, near the Cass Street Bridge, will improve traffic flow into downtown La Crosse. The transit center site is located near the on/off ramp to the bridge and along 3rd Street, a primary thoroughfare in the downtown.

Several major employers such as First Logic, Century Telephone (which, in 2001, opened a regional headquarters with 750 employees), and Logistics Health (which plans to grow from 200 employees to 500 employees within the next three years and to move in 2006 to a to-be-constructed five-story, 100,000-square-foot building on a 3.5-acre site along Front Street) have elected to remain and expand in the downtown. The Logistics Health building will be near the site of the transit center. La Crosse has developed a concentration of health (e.g., Gundersen Lutheran Medical Center and Franciscan Skemp Healthcare) and educational institutions (e.g., University of Wisconsin-La Crosse, Viterbo University, and Western Wisconsin Technical College) and local and other governmental entities that provide a core source of stability and demand for the downtown.

The La Crosse Center convention facility with 100,000-square feet of meeting and exhibit space, a 6,000-square-foot ballroom, and 9,000 square feet of lobby areas induces visitation that generates sales spillover for restaurant and retailing uses. Restaurants and retailers currently located along Pearl, Front, and 2nd Streets most benefit from the spillover from the La Crosse Center.

The proximity to the Mississippi River and presence of historic buildings provide the downtown with a unique sense of place and physical character. In addition, the downtown is perceived as safe.

Gross retail rents are relatively low in downtown, ranging from approximately \$5 to \$14 per square foot, depending upon factors related to the location, size, and condition of space. Low rents can be used to induce unique and interesting retail or other incubator entrepreneurs to the downtown. The low rents, however, suggest that in order to support feasible development, newly built retail space will need to obtain higher than market rents and/or be subsidized through Federal Transit Administration or other governmental funding programs.

Most local developers are confident that the downtown is beginning to turnaround. For example, an owner of a building very near the transit center site expects to soon finalize a lease for 7,000 square feet of space with a well known restaurant for the vacant commercial space. Another developer plans to renovate a historic property to include converted loft units that will appeal to empty-nesters. Physicians and empty-nesters from suburban locations have reportedly been the primary purchasers of a 16-unit downtown condominium project. An active local broker indicated an increase in leasing activity with independent retailers and smaller office space users.



FACTORS THAT DISCOURAGE DEMAND OR LOCATIONAL WEAKNESSES

Consistent with the growth of competing supply and a shift in the location of residential and employment growth closer to Interstate 90, the interviews suggest that the proportion of area residents and the frequency with which they shop downtown has decreased. An extensively spread-out downtown, a high proportion of relatively high speed, through traffic, the obsolescence of some space, and the resulting high proportion of vacant or underutilized ground floor and above ground floor space discourages strolling and browsing and diminishes the locational image or desirability of the downtown.

The transit center site is particularly affected by these disadvantages because it is outside the core, strongest part of downtown. The site is surrounded by vacant and underutilized sites, industrial service businesses (e.g., HVAC contractor, a rental equipment facility, and printer) an automobile dealer, rental car agency, poorly designed and badly lit parking structures that break up the streetscape and store front continuity, and an “adult bookstore”. The adjoining uses do not facilitate linkages with the stronger core of the downtown.

The interviews suggest that the transit function will be a disadvantage for attracting market rate housing. Suggestions to mitigate this demand discouraging constraint included separating the transit function from any potential residential uses through the site planning and product design and if possible, orienting the transit function on the part of the block toward King Street. Hardscape and landscaping improvements would also be needed to improve the locational image for housing uses.

USE OPTIONS, COMPETING SUPPLY OPTIONS, AND POTENTIAL MARKET NICHES

The following summarizes the findings of the search for potential use options for the transit center, in addition to the transit function.

Office Space

According to the City of La Crosse Planning Department, the downtown includes over 255,000 square feet of vacant office space. Office space rents tend to range from \$10 per square foot to \$14 per square foot. In addition, Gundersen Lutheran will vacate a significant amount of space in the 10-story 130,000-square-foot US Bank Building. The acquisition of First Federal Savings Bank will likely result in the consolidation and reduction of office space in the downtown as certain functions will be absorbed by the acquiring financial institution. Given the weak demand for multi-tenant speculative office space, if the transit center is to include office uses, development will need to be user-driven.



Potential office space users are likely to center on local non profit and government-related uses such as the transit center serving as a location for consolidating and improving the efficiency of social service uses and/or the La Crosse Area Development Corporation, Downtown Mainstreet, and Chamber of Commerce offices. The representative of the Downtown MainStreet has indicated interest in this use concept and has been asked to inform the City and LSA Design of the number of employees and amount of space the downtown and economic development entities would likely require and how much rent or other real estate costs they currently pay and the amount of space currently occupied. Other potential users include the Social Security Administration (which has a preliminary requirement of 7,055 square feet to 7,800 square feet of office space).

Retail Space

The low rents prevailing in downtown and vacant or underutilized storefronts suggest no unmet demand for retail space. In addition, nearby new supply competition will include the Logistics Health building, which is planned to include 15,000 square feet of retail space, including a 6,000-square-foot restaurant.

Primary sources of customers will include the transit riders and area employees and residents. The demand the transit center can most likely serve is for convenience retail goods and services. Appropriate uses include the following:

- newspaper and magazines/books,
- shoe repair,
- key-making,
- dry-cleaning (pick-up and drop-off),
- ATM's,
- copying and printing services,
- cards, sundries, and notions,
- coffee shop,
- bakery,
- candy,
- video/CDs,
- fast-food (including pizza by the slice and other take-out),
- personal services such as banking-related, insurance, legal, tax, or optical care, and
- an outpatient clinic.

Many of the potential retail uses, examples of which are listed above could be in the form of kiosks or stands. A sports bar or chain restaurant such as a TGIF would potentially appeal to area employees, residents, students and tourist, but would require a highly visible, signature location and would most likely require a significant subsidy.



Housing

The assessment of the strengths and weaknesses of the site suggest that any market rate multi-family housing at the site will be challenging to profitably develop. Multi-family housing would need to be geared to younger, relatively price sensitive households who are likely to be students or employees of firms or institutions located in the downtown. The product would need to be perceived as a good value for the cost and have a distinctive “sense of romance” such as a loft type with balcony, offering views of the Mississippi River.

The 24 one-bedroom rental units at the 222 Jay Street development across the street from the site are fully rented. The selling points are that the units are well maintained, perceived as hip with some being loft types, and all offer a great deal of space (900 square feet to 1,200 square feet) for a low cost of approximately \$400 to \$600 per month. Projects with rental units priced above \$800 per month have been reported to have had slower absorption and lower occupancies and higher turnover than projects with units priced between \$400 and \$600 per month. Given the economics of new construction will require likely rents of \$800 or higher per month, multi-family uses will have to be creative in order to generate higher than market rents.

One programming refinement and test marketing option is to show the preliminary development program for the site to representatives of the major medical and educational institutions and large corporate employers in the downtown to identify if any would commit to reserving a number of units for their students or employees and then to scale the size and type of units to the preferences of these sponsors accordingly. Based on the interviews, if the use can be designed to appeal to the target consumers at a cost that will not require rents above \$1,000 per month, then the market could potentially support up to 60 units.

Hotel Space

Hotel room night demand is primarily a function of conventions. During the convention season, existing hotels average about 75 percent occupancy. During the off-season, hotel occupancy averages only 55 percent. Convention-oriented hotel room daily rates average \$71 to \$73. Hotels in the north side of La Crosse that do not serve the convention market perform less well than those in the downtown that do. Even if convention demand were to increase, the transit site would not be as well positioned as other sites to attract a hotel. At least three competing sites are closer to the Mississippi River and convention center, including two existing hotels (Radisson and Marriot) with the ability to expand their facilities and a site that would be next to the convention center and proposed build-to-suit office facility for Logistics Health. Given the less than robust demand and disadvantages of the transit center site relative to the competing supply options, do not anticipate devoting any portion of the transit center site to a hotel use.



Cultural/Educational Use

Because the downtown cannot directly compete with the “big-box” power center and regional mall space by Interstate 90, the challenge for the downtown will be to continue to attract unique retail, restaurant, and entertainment tenancies that are not also located in nearby shopping locations. In other words, the advantages and disadvantages and supply competition summarized above suggest a strategy of continuing to encourage the development of the downtown as a mixed-use speciality center that would be a particularly pleasant place as well as responsive to a range of demands for speciality goods and services, as well as offices and housing. The City Vision 2000 Master Plan recommends expanding opportunities to stage special events, festivals, and cultural activities in the downtown.

One use that would fit with this strategy is the relocation and expansion of the La Crosse Community Theater to the transit center site. The Theater is currently working with the City to identify potential site options. We recommend that the City and LSA Design confer further with the Theater about the following:

- its space requirements (which are estimated to approximate 800 seats in 39,000-45,000 square feet of space),
- programming plans (currently 93 performances per year, but the number and type of performances would presumably increase with a larger-sized facility),
- funding support (the Theater has embarked on a capital raising program), and
- size and demographic and geographic make-up of its patron base.

In addition, the availability of a large performance space may hold appeal to local educational institutions or the La Crosse Area Convention and Visitors Bureau and Downtown Mainstreet, Inc. as a venue for performing arts education and increased downtown events programming.

RECOMMENDED PRIORITY STRATEGIES AND ACTIONS

Several kinds of actions will encourage the evolution of downtown from its historic functions to the newer functions that the downtown can play to the benefit of the City and its citizens. The focus should be on cultivating existing or potential strengths to attract and encourage the expansion of those types of firms and activities that derive a real advantage from a downtown location. This focus will result in a mix of land uses and activities that differ significantly from the historic package of uses that once thrived downtown. The past is not likely to be recreated with general retailing uses that serve the entire region with basic goods. Instead, the downtown will need to be programmed and supported to adapt to new



opportunities that can be expected to include specialty stores that complement eating and drinking-related and entertainment or cultural attractions as more of the area's population and out-of-town visitors visit downtown for fun and unique experiences. The recommended actions would start a time-phased program directed at encouraging the creation of increasingly magnetic, or customer-attracting, mixed-use agglomeration.

If the La Crosse Community Center is appropriately programmed, patron supported, and funded, a transit center development including a theater use should be encouraged for its direct and spillover economic impact and confidence sustaining effect. By properly programmed, we mean programmed so as to induce frequent local and regional visitation and greater spillover potential. An example includes The UnMuseum® at the Contemporary Arts Center and the Rosenthal Uptown Arts project in Cincinnati, Ohio, which centers around theater, music, dance, and the visual arts. Another potential example may be the proposed 42,000-square-foot, 250-seat theater, dance instruction, and practice studios as well as classrooms for video production and arts and crafts performance center in Philadelphia's Point Breeze neighborhood. This model frequently includes participation of a wide range of audiences (bringing together people of differing ages and incomes), including preschool children, after school art and performances classes and workshops, family day activities and weekend art and drama projects for children and families, and summer drama camps.

Cost-effective public capital should be added to facilitate the evolution of the downtown as a preferred "entertainment district" location for "experience" attractions such as a theater. The challenge will be to also attract a critical mass of eating and drinking-related and agglomeration of specialty stores or services that have unique attractions or drawing power and are not readily duplicated in competing locations. This may require providing incentives for such uses to locate and operate in the transit center area as well as making hardscape, landscape, lighting, signage, and other improvements to improve linkages between the hotels, riverfront, Pearl Street retailing, historic core of the downtown, and the transit center site.

Given more building space exists than commercial uses can be expected to support, the City should continue to encourage property conversions to residential lofts or live-work lofts and development of new residential products that can capitalize on access to the recreational and river amenities. Such developments would signal a changing locational image for the downtown, while also helping to build a population base to support commercial uses. At this point in the evolution of the downtown, the importance of creating additional market rate housing in downtown relates less to potential market demand that it does to the establishment of a desirable locational image – that it is hip or chic to live in downtown. To attract such households, however, requires expectations of the targeted households, that the downtown is evolving into the center of cultural, entertainment and recreational activities. As indicated above, signs or indications exist that confidence in the future of the downtown is increasing.



While the transit function is likely to be perceived as a marketing challenge, if the site can be designed so as to accommodate both the transit function and multi-family housing to serve the market described above, this would represent a potential use option.

Alternatively, the site could be programmed to include the transit function, convenience retail uses, and additional parking to support other uses built on adjoining blocks. Only if long-term user-driven office space options were identified would it make sense to provide for office space development as part of the preliminary development program for the site.



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