

DOWNTOWN HAZLETON

Strategic Plan for Continued Revitalization

Appendix 7:

Real Estate Market Conditions

TO: Chris Brown, Derck and Edson

FROM: Elizabeth Beckett, Real Estate Strategies, Inc.

DATE: September 28, 2014

RE: Downtown Hazleton Study Area Real Estate Market Conditions

The technical memorandum has been prepared to provide the real estate market context for the development of the Strategic Downtown Revitalization Plan. The memorandum summarizes economic and demographic conditions impacting the Downtown Hazleton study area, the potential market support for retail, commercial and rental residential uses in the study area, and recommendations for improving the desirability of the study area as a location for businesses and real estate development.

DOWNTOWN HAZLETON STUDY AREA

The study area, as originally defined, is an irregular shape that includes several blocks on either side of Broad Street from Poplar Street to just west of James Street. The study area also includes the Wyoming Street Corridor from Walnut to Holly Streets. Map 1 below shows the boundaries of the study area.

**MAP 1
DOWNTOWN HAZLETON STUDY AREA**



The study area includes the Broad, Church and Wyoming Street commercial corridors as well as an area of institutional uses and larger multifamily apartment buildings south of Broad Street. The study area is the traditional downtown commercial core of the City of Hazleton, which is in turn the urban center of

the Greater Hazleton region. Greater Hazleton includes parts of southern Luzerne, northern Carbon and northern Schuylkill counties.

Economic and Demographic Conditions

Population and Households

Table 1 summarizes population and household trends for the study area, the City of Hazleton and Luzerne County. All three geographies experienced population growth between the 2000 and 2010 Census. Esri, a firm that provides demographic estimates and projections, estimates that population growth has continued through 2014 and is projected to continue, albeit at a slower rate, over the next five years. In Hazleton, this population growth has taken place despite a loss in the number of households since 2000. This has resulted in an increase in the average household size in both the City and the downtown study area. For Luzerne County overall population and household trends have remained parallel.

TABLE 1
SELECTED ECONOMIC AND DEMOGRAPHIC CHARACTERISTICS

	Luzerne County		City of Hazleton		Downtown Study Area	
Total Population						
2000 Census	319,204	<i>% Change</i>	23,342	<i>% Change</i>	1,058	<i>% Change</i>
2010 Census	320,918	0.5%	25,340	8.6%	1,270	20.0%
2014 Estimates	321,284	0.1%	25,727	1.5%	1,305	2.8%
2019 Projections	320,867	-0.1%	25,838	0.4%	1,316	0.8%
Households						
2000 Census	130,668		10,287		654	
2010 Census	131,932	1.0%	9,798	-4.8%	637	-2.6%
2014 Estimates	132,434	0.4%	9,801	0.0%	634	-0.5%
2019 Projections	132,213	-0.2%	9,767	-0.3%	630	-0.6%
Household Size (Avg.)						
2000 Census	2.34		2.23		1.60	
2010 Census	2.34	0.0%	2.54	13.9%	1.87	16.9%
2014 Estimates	2.34	0.0%	2.58	1.6%	1.94	3.7%
2019 Projections	2.34	0.0%	2.60	0.8%	1.97	1.5%
Median Income						
2000 Census	\$33,805		\$28,294		N/A	
2010 Census	N/A	N/A	N/A	N/A	N/A	N/A
2014 Estimates	\$43,750	N/A	\$34,594	N/A	\$22,823	N/A
2019 Projections	\$51,423	17.5%	\$38,675	11.8%	\$27,135	18.9%
Median Age						
2000 Census	40.8		40.8		N/A	
2010 Census	42.5	4.2%	37.5	-8.1%	33.5	N/A
2014 Estimates	43.5	2.4%	37.7	0.5%	33.8	0.90%
2019 Projections	44.8	3.0%	38.0	0.8%	33.9	0.30%

Sources: Esri; RES

NOTE: The projections for 2019 study area conditions are without any intervention measures recommended in this plan, and that a significant percentage of households within the study area live within the low-income elderly housing apartments (thereby accounting for the low median/below poverty income).

While median income for the City overall is projected to grow at a rate slower than the County as a whole, households residing in the downtown study area are projected to experience household income growth at a rate above the County average.

Over the past two decades, Hazleton has seen an influx of immigrants, primarily from the Dominican Republic, attracted by increased blue collar employment opportunities in the CAN DO industrial parks. The 2010 Census reported that 37.3 percent of the City's residents were Hispanic, while 51.3 percent of the study area population was Hispanic. The largest concentration of Hispanic population is in neighborhoods in and around the downtown study area. Many businesses on Wyoming Street as well as some of the establishments on Broad Street target the Hispanic community.

Employment

The number of jobs located in the study area is an important indicator of potential demand for retail and residential uses. According to the most recent "at place" employment data available from the Census Longitudinal Employment and Household Dynamics (LEHD) data series, nearly 1,900 jobs were based in the study area in 2011.¹ These figures do not include individuals who are self-employed or whose sole compensation is partnership distributions. The Lehigh Valley Hospital complex is located at 700 E. Broad Street, 0.4 miles to the east of the study area boundary. The Lehigh Valley Hospital system has nearly 1,000 employees. Many of these employees are based at the hospital, a 24/7 employment center in close proximity to the downtown Hazleton. Because the hospital is located outside of the study area boundary, hospital employees are not included in the LEHD at place job estimate.

Figure 1 below provides a comparison of employment in the downtown core areas of Hazleton and Wilkes-Barre and Scranton, two Northeast Pennsylvania cities that have made progress with downtown revitalization activities.

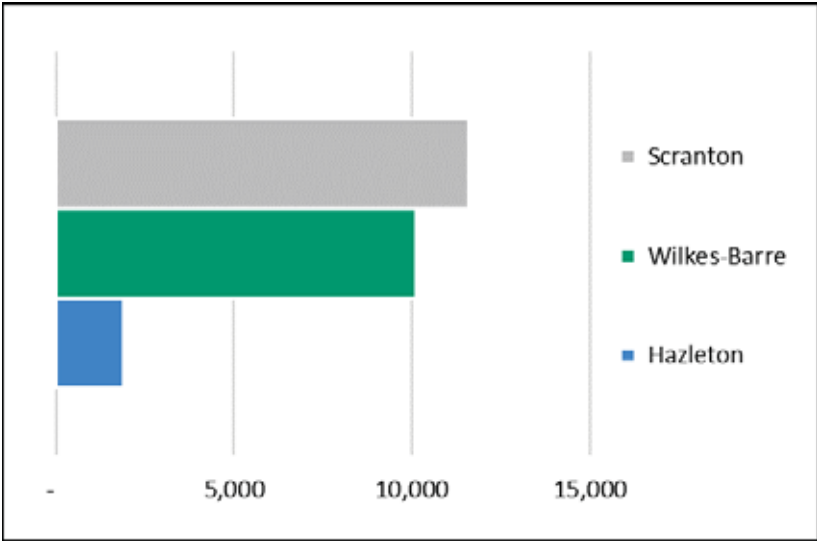
Establishments

A DHAP intern completed a walking survey of the study area including multi-tenant and government buildings during summer 2014. The survey identified 202 establishments, over half (55 percent) of which were in the service sector (including health services, personal services and professional services). Restaurants and retail stores make up approximately 30 percent of establishments. Figure 2 summarizes the distribution of study area establishments by type.

A review of business data from Esri indicate that most businesses in the study area have fewer than 10 employees.

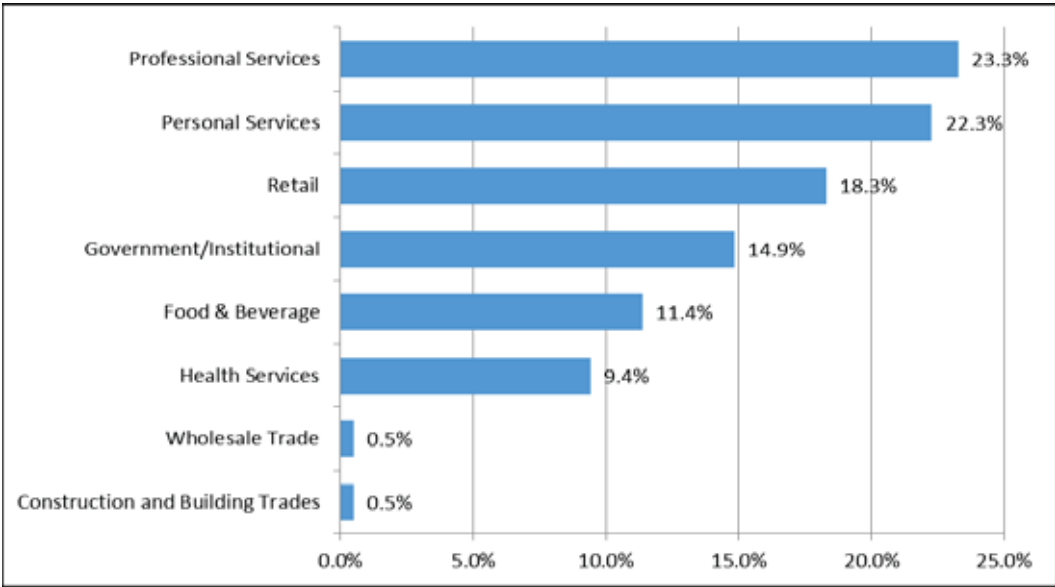
¹ It is unclear whether individuals working through temporary employment agencies based in the study area are counted in the LEHD employment estimate. If so, the actual number of employees working downtown on a day to day basis may be lower.

FIGURE 1
DOWNTOWN EMPLOYMENT: HAZLETON STUDY AREA, WILKES-BARRE AND SCRANTON



Source: Census Bureau LEHD, 2011

FIGURE 2
STUDY AREA ESTABLISHMENTS BY TYPE



Sources: DHAP Survey, Summer 2014; RES

Industry Clusters

The Greater Hazleton region enjoys a strategic location for manufacturing and distribution. CAN DO has identified the following industry clusters in the region:

- Food Processing
- Plastics
- Distribution/Logistics
- E-commerce/Technical Support Centers
- Regional BioScience Initiative

Industry clusters are groups of similar or related firms in a particular geographic that share markets, labor force characteristics and technologies. Industry clusters include both purchasing firms as well as their suppliers. The presence of industry clusters signals a competitive advantage for firms in those sectors. Firms in these clusters are logical targets for business attraction and retention efforts. Many of the establishments in the identified clusters look for locations in Hazleton's business parks to take advantage of easy access to I-80 and I-81 or to have the opportunity to construct large footprint build-to-suit facilities.

However these business patterns suggest opportunities for business development in downtown focused on technical support, business services to support manufacturing and distribution operations, office space for administrative or executive personnel, and entrepreneurial efforts in food production. Although many of the manufacturing and logistics employers are located outside the downtown, these companies could also generate demand for lodging/long-term rental housing to house visiting technical or management personnel.

Vacancy

RES conducted a windshield survey of the Broad Street and Wyoming Street commercial corridors in the study area in September 2014. At that time, there were 28 vacant storefronts on Broad Street within the study area, including a concentration on the block between Laurel and Wyoming Streets, the blocks where substantial office rehabilitation activity has occurred and additional office renovations are planned. There were 11 vacant storefronts on Wyoming Street within the study area. Many of these vacancies are in deteriorated buildings that appear to require significant investment in order to create tenant-ready space. Commercial brokers active in the area commented that the multi-year Broad Street road construction project coming on the heels of the Great Recession resulted in a number of businesses either closing their doors or relocating out of downtown.

Traffic Counts

Traffic counts along Broad and Church Streets are high. Pennsylvania DOT 2012 annual average daily traffic (AADT) counts include the following:

- W. Broad Street

- East of Church Street: 9,900 AADT
- West of Church Street: 14,000 AADT
- Church Street
 - North of Broad Street: 11,000 AADT
 - South of Broad Street: 9,700 AADT

Retailers considering corner locations add the traffic counts for the intersecting street. Thus retail spaces at the corner of Broad and Church are exposed to approximately 20,000 to 25,000 AADT.

Tax Rates

The communities in the Hazleton region levy an earned income tax. The EIT in the City of Hazleton is 1.85 percent for non-residents and 2.35 percent for residents. The tax rate includes the one percent school district portion of the EIT. These rates are .85 percent higher than those charged in the surrounding communities. The real estate tax millage in the City is 19.025, higher than the surrounding communities, but lower than many other Luzerne County communities.

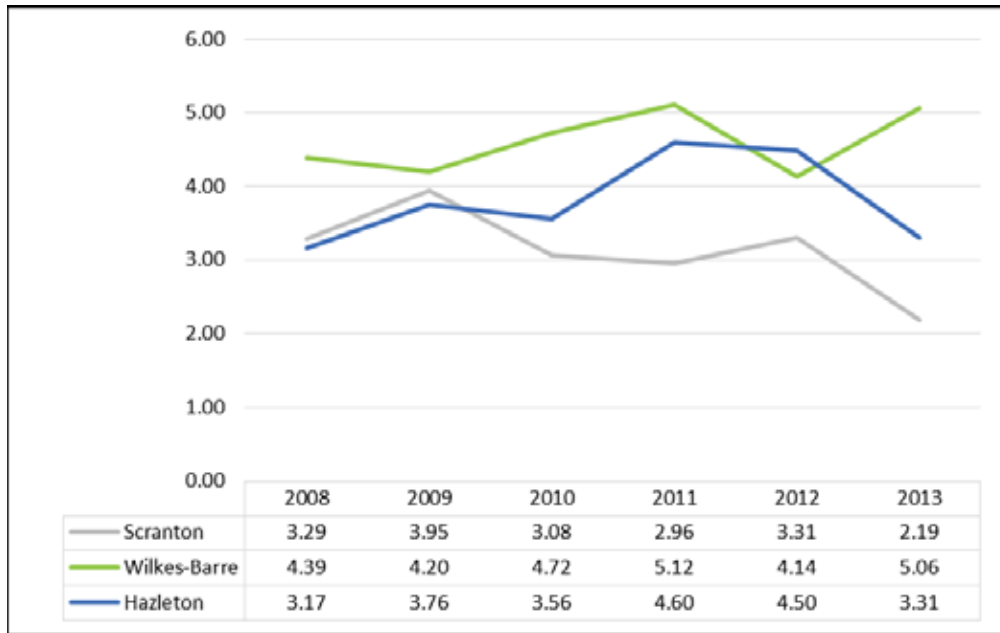
Several properties in downtown Hazleton offer Keystone Opportunity Zone incentives that provide relief from local taxes. In the Hayden Tower at the Markle, which had KOZ in effect during its initial lease-up, only 20 percent of tenants filed for incentives under this program. Part of this low participation rate had to do with the net new job creation requirements of the KOZ program. While the KOZ at the Markle has expired, two new office rehabilitation projects coming on line in the study area have KOZ status.

Crime

Both the perception and reality of violent crime are potential impediments to successful revitalization in the study area. Figures 3 and 4 show trends in the violent and property crime rates for Hazleton, Wilkes-Barre and Scranton. Crime data was obtained from the subscription service NeighborhoodScout.com and is based on FBI Uniform Crime Reports (UCR) filed by 17,000 local law enforcement agencies and data from the US Department of Justice. The UCR provides a standardized method of crime reporting that eliminates the differences in crime classification and reporting between states.

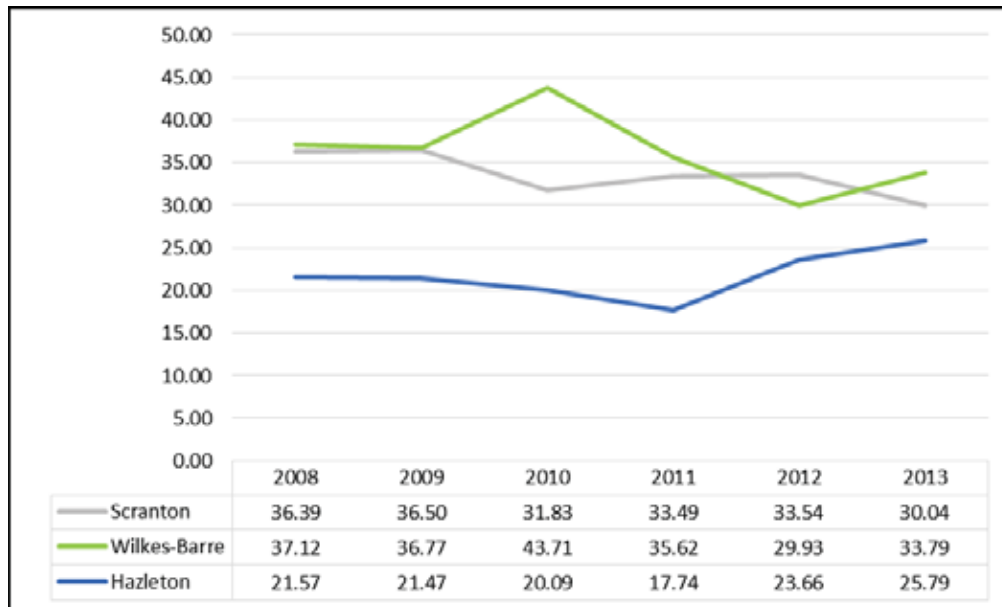
The rate of violent crime in the City of Hazleton as a whole trended upward between 2008 and 2012 and then declined in 2013, the latest year for which data is available. The property crime rate for the City declined slightly between 2008 and 2011 then increased between 2011 and 2013. The property crime rate remains lower in Hazleton than in either Scranton or Wilkes-Barre.

FIGURE 3
ANNUAL VIOLENT CRIMES PER 1,000 RESIDENTS CITY-WIDE



Sources: FBI Uniform Crime Reports, 2013; NeighborhoodScout.com

FIGURE 4
ANNUAL PROPERTY CRIMES PER 1,000 RESIDENTS CITY-WIDE



Sources: FBI Uniform Crime Reports, 2013; NeighborhoodScout.com

The upward trend in crime rates in recent years has led to a perception that Hazleton overall, and the downtown by extension, is becoming more dangerous. While the 2013 decrease in the violent crime rate City-wide is a positive turn, it would be helpful to the downtown revitalization effort to track the number and types of incidents occurring in the study area. These data would be invaluable in two ways. First, they will allow effective targeting of police activity to reduce criminal activity in and around downtown. Second, these data can be used to ensure that current and prospective downtown residents and business owners have an accurate understanding of the incidence of crime, rather than relying on hearsay and misperceptions.

Current and Proposed Hazleton Downtown Development Initiatives

A number of positive initiatives have recently taken place or are underway in the study area:

- Downtown Hazleton is served by a new intermodal transit station that connects City bus routes with intercity lines.
- The former multi-tenant Traders Bank office building is being renovated and converted into the world headquarters for DBi Services. This building will be connected to the Hayden Tower at the Markle Building by an upper-story covered walkway. A second elevated covered walkway will connect the Markle building to the city-owned parking garage on S. Wyoming Street. DBi will relocate 140 employees to downtown Hazleton. Salaries for these workers are reported to average \$75,000.
- DHD has acquired the Hazleton National Bank Building at Broad and Laurel Streets and is currently in the design phase of renovating the space into Class A offices. Approximately 160 workers could occupy the building once it reaches stabilized occupancy.
- DHD also owns the “Bingo Building” at 13-15 W. Broad Street, which offers 18,000 SF on three levels.
- DHD also owns the former KNBT Annex, a separate structure located at 19 S. Wyoming St. (to the rear of the Trader's Bank building). This building has approximately 10,000 SF of available Class A office space, and DHD is actively recruiting tenants for this building.
- CAN DO has purchased the Remember When Building on 21-23 W. Broad Street. The organization is evaluating the feasibility of this building for adaptive reuse as a culinary incubator, which would be managed by CANBE with educational and training assistance from other academic institutions.
- Penn State Hazleton is currently moving forward with plans to occupy the ground floor and a portion of the mezzanine of the Hazleton National Bank building, with the intent of moving its Continuing Education program downtown as of January 2016. There is also interest in

developing an Entrepreneurial Program, which would include business classes and technical assistance for entrepreneurs. The concept of co working or business incubator space beyond the kitchen incubator has also been considered. Development of a four year baccalaureate program is also an option, if approval and funding can be obtained.

- The Downtown Hazleton Alliance for Progress has acquired the Security Savings Bank building and is currently pursuing funds to renovate the building as a City Arts Center, which will house the existing Hazleton Art League.
- The vacant lot to the west of the Security Savings Bank building, the site of the former demolished Greco Building, is envisioned as a public space anchoring the downtown commercial district and enhancing the impact of the City Arts Center.

RETAIL

Advantages and Challenges of the Study Area as a Retail Location

Advantages

- Completed Broad Street improvements provide better pedestrian circulation, improved lighting and streetscape features that allow visibility of storefronts
- Growing workforce downtown
- Attractive historic building stock similar to buildings that have undergone successful adaptive reuse as apartments and condominiums in Scranton and Wilkes-Barre
- Several destination businesses remain in the downtown
- Cultural facilities attract audiences downtown
- High traffic counts on Broad Street and Church Street
- Residential neighborhoods close to downtown create built-in customer base
- Entrepreneurial energy in community
- Infrastructure capacity and availability
- Parking supply

Challenges

- Weak demographic trends.

- Vacant/deteriorated buildings interrupt the street front.
- Crime deters customers and magnifies the need for parking immediately adjacent to businesses.

Retail Trade Area

The downtown study area serves the convenience retailing needs of residents in surrounding neighborhoods. Households living within one mile of the Broad and Wyoming Street commercial corridors can walk to stores and service providers located on these streets. Businesses in the corridor also draw customers arriving by car from a broader area and include several “destination” establishments (specialty retailers and restaurants) that draw customers from a distance (up to 10 miles or more).

Retailers initially considering a location are typically interested in understanding trade area demographics for one- and three-mile radii. Because the Laurel Mall captures a significant portion of demand in the three-mile trade area, a two-mile trade area for neighborhood-serving retail is a more relevant indicator of potential demand for retail businesses in the downtown study area. Maps 2 and 3 show the extent of trade area radii.

Retail Supply Conditions

Commercial brokers report that inquiries from potential tenants for street retail space have increased with the completion of the Broad Street project. Tenant types include small “mom-and-pop” restaurants, temporary personnel agencies, second hand stores and churches. In many cases the establishment type does not match the landlord’s vision for the property and the deal does not move forward. Many of the business owners inquiring about space are interested in the downtown’s proximity to surrounding residential neighborhoods, and see those residents as their primary customer base. Typical rents for “plain vanilla shell” space range from \$8.00 to \$12.00 per square foot triple net. Spaces fit out for special purposes—such as restaurants—can command higher rents.

MAP 2
DOWNTOWN HAZLETON TRADE AREAS: 1-, 2- AND 3-MILE RADII



MAP 3
DOWNTOWN HAZLETON DESTINATION ESTABLISHMENT TRADE AREAS: 5- AND 10-MILE RADII



Retail and Service Establishments with Market Support

A “leakage” analysis estimates the amount of expenditure potential generated by trade area households that is not served by establishments within the trade area (i.e. spending that is leaking out of the area). Tables comparing expenditure potential by store category with estimated trade area retail sales for each trade area radius are included in the Appendix. In these tables, retail categories with an identified gap (spending leaking out of the trade area) are indicated in green. Categories indicated in red have estimated sales within the trade area that exceed the expected demand generated by trade area households.² In these categories, expenditures flow in from outside the trade area either because of purchases by non-residents who work in the trade area or because of purchases at “destination” establishments. Table 2 summarizes the demographic characteristics and retail gap calculation for each of the trade area radii.

**TABLE 2
SUMMARY OF RETAIL TRADE AREA CHARACTERISTICS**

	1 Mile	2 Miles	3 Miles	5 miles	10 miles
2014 Population	21,931	34,046	39,299	51,175	85,540
2014 Households	8,139	13,116	15,418	20,062	34,345
2014 Median Disposable Income	\$27,794	\$28,522	\$29,368	\$31,410	\$35,170
Retail Gap*	\$58,407,726	\$28,918,832	-\$61,101,601	-\$33,024,300	\$63,135,125

Source: Esri;RES

*Retail gap is total expenditure potential less estimated retail sales in the trade area. Total retail trade gap excludes 'Motor Vehicle & Parts Dealers' and 'Nonstore Retailers.'

The leakage analysis can be evaluated as follows:

- What percentage of the leaking expenditures could reasonably be captured by additional establishments in the trade area? In most retail categories this percentage is substantially lower than 100 percent. For example, clothing stores within the trade area may only be able to capture 5 to 10 percent of the expenditures leaking out of the trade area, because individuals

² The “electronic shopping and mail order houses” retail sales numbers in several of the trade areas is artificially elevated because of the presence of fulfillment centers for online retailers such as Amazon.com. This category (part of Nonstore Retailers) has been eliminated from the data in Table 2.

typically shop for clothing in a variety of locations. Grocery stores and pharmacies typically capture a much higher percentage of the expenditure potential within a trade area.

- Would the “capturable” proportion of expenditure potential be adequate to support a typically sized establishment in that store category? As a very general rule, retailers need to be able to achieve annual sales per square foot at least ten to twelve times the rent paid for street retail space. If retail rents on Broad Street are in the \$8.00 to \$12.00 per square foot range, then sales of at least \$100 to \$150 per square foot would be required to support businesses in existing space. For newly constructed space, rents would be significantly higher, particularly if development costs are not subsidized. Sales would need to be in the \$250 to \$350 per square foot range for tenants occupying new space.

The leakage analysis indicates an outflow of expenditure potential to areas outside the Downtown Hazleton trade area.

The leakage analysis shows support for:

- **Limited service restaurants.** Examples include coffee shops, delicatessens, bakeries with eat-in tables, cafes, brew pubs etc.
- **Unique clothing or shoe stores.** Because most households are price conscious, they tend to buy clothing from a multiple sources looking as they seek variety and the best price. It is difficult for small clothing stores to compete in small city downtown settings, unless they have a unique focus. This could be children’s clothing, clothing consignment store, wedding salon, screen printing business, shoes for hard to fit sizes, etc.
- **Specialty sporting goods, hobby, or music stores.** Dance and music stores are already present in Hazleton, but would help to reinforce an arts focus to the downtown revitalization. Relocation or expansion of these stores to the study area should be explored.

Office Worker Spending

According to LEHD data, approximately 1,900 persons are employed in the study area. The completion of DBi’s headquarters building will bring an additional 140 office workers to the area. Market studies and funding applications submitted by the owners of the HNB building estimate that upon stabilized occupancy 160 persons will work in the building.

Office workers, if they live outside of the trade area, represent additional spending potential for the downtown. Table 3 presents research completed by the International Council of Shopping Centers on the spending patterns of office workers. Data are from 2011 surveys.

TABLE 3
OFFICE-WORKER SPENDING BY RETAIL, RESTAURANT AND SERVICES OFFERINGS AND LOCATION
DOLLARS PER WEEK, INCLUDING THOSE WHO SPENT NOTHING

Category/Location	Total	Ample Offerings	Limited Offerings
Total Spending	\$195.22	\$305.89	\$127.10
Urban	\$165.93	\$227.07	\$120.96
Suburban	\$226.66	\$367.14	\$130.51
Rural/Small Towns	\$142.62	\$204.34	\$128.94
Not Classified	\$267.07	\$376.09	\$103.54
Total Spending Less Transportation and Online	\$129.18	\$218.11	\$74.45
Urban	\$115.60	\$165.21	\$79.12
Suburban	\$146.52	\$256.21	\$71.45
Rural/Small Towns	\$90.55	\$155.34	\$76.20
Not Classified	\$210.52	\$318.89	\$47.96

Source: Office Worker Retail Spending in a Digital Age, International Council of Shopping Centers, 2012

The 2011 figure shown in the “urban/limited offerings” category indicates that each office worker spent on average \$79.12 per week in the vicinity of his or her workplace (excluding expenditures on transportation and online purchases). Expenditures tend to be concentrated in the restaurant and grocery store/prepared food categories.

After adjustment for inflation, that average expenditure is equivalent to \$83.66 per week in 2014 dollars or \$4,350 annually. Assuming sales of \$200 to \$300 per square foot, every 100 office workers could support 1,450 to 2,175 square feet of space of new retail space. If businesses occupy existing space and require lower sales per square foot to cover rent, additional space could be supported.

OFFICE

The office market nationally is undergoing a difficult transition. The Great Recession weakened demand, and technology and trends toward more flexible and collaborative office environments with open layouts have reduced the average square feet per office employee from 250 square feet, a standard ratio that was used for several decades, to 176 square feet in 2012, according to a CoreNet Global study. Companies responding to CoreNet’s survey predicted that the average square feet per office worker would decrease to approximately 150 by 2017. Both the economic and space utilization factors have resulted in relatively high office vacancies and flat rents in many markets.

Research conducted by L M Newman Consulting in 2013 noted that only 21 percent of employment in typical “office using” sectors in the Greater Hazleton Area is based in downtown Hazleton. The two sectors with particularly low proportions captured in the downtown include:

- Financial services (15 percent of Greater Hazleton total)

- Businesses services and support (18 percent of Greater Hazleton total)

Both of these sectors include establishments that typically benefit from a downtown location, particularly one that is as central to the region as Hazleton. These sectors represent appropriate targets for attraction to renovated Class A office space in the downtown.

The Newman study documented that the median amount of space leased by tenants in DHD's multi-tenant buildings is 967 square feet. This figure is not surprising, given the low number of employees of many downtown businesses. The small amount of space demanded by each establishment limits the absorption pace of multi-tenant office space and requires concerted leasing efforts by landlords.

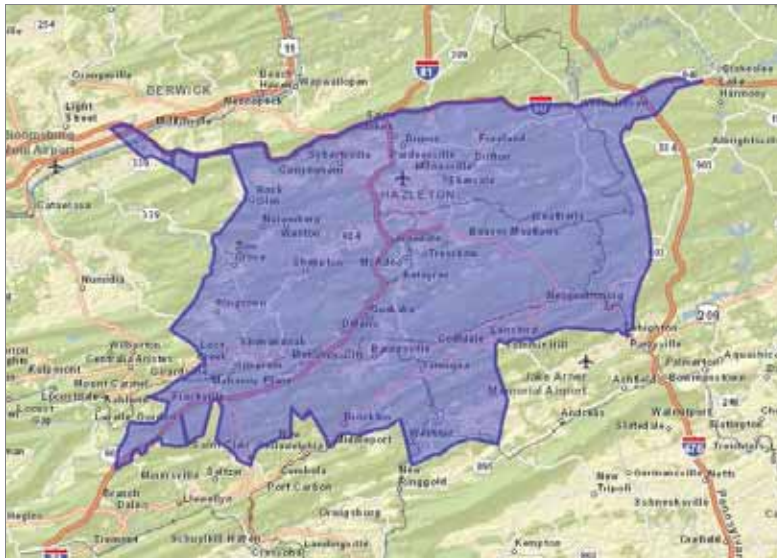
Commercial real estate brokers interviewed for this analysis indicated that absorption in downtown Hazleton has averaged approximately 10,000 square feet annually. Tenant interest comes from local establishments and from outside the area. Rental rates for downtown space range from \$10.00 to \$15.00 per square foot (\$14.00 to \$16.00 in renovated Class A space). The HNB renovation will bring 62,500 SF of Class A space online.

Three factors support Downtown Hazleton as an office location:

- It offers the only concentrated Class A downtown product in a 20 mile radius.
- Lifestyle (consumer behavior) data indicate that consumers in the surrounding communities prefer interacting with service provider face-to-face rather than using on-line options—thus professional and financial services benefit from a central location to maximize access to their regional customer base. Similarly, business support services benefit from a location central to both downtown employers and the region's industrial parks.
- The passage of the Affordable Care Act and increased demand for diagnostic and physician services generated by the aging of the Baby Boom generation are expanding the market for medical services and medical office space.

The slow level of office absorption suggests that steady introduction of Class A space to replace obsolete existing stock as well as alternative office uses such as incubators and co-working space for sole proprietors/contract workers are strategies for office uses in the study area. Small establishments can benefit from office space with common facilities and support services. A business incubator could graduate tenants into this type of space. An increased higher education presence downtown would be another office use that would be logical given the presence of Penn State and the community college branches in the area.

MAP 4 PRIMARY MARKET AREA (PMA)



RESIDENTIAL RENTAL

RES considered the market for both general occupancy rental apartments targeted to singles, couples and empty-nester households as well as age-restricted rental housing. We did not consider the market for rental housing targeted to families as this niche is met through rentals of individual homes in Hazleton neighborhoods. Based on discussions with Realtors and property managers active in the market area, as well as the location of employment centers and commuting patterns, RES defined the primary market area (PMA) within which properties in downtown Hazleton would compete for tenants as including the area within a 30 minute drive time of downtown Hazleton. Route 80 has been defined as the northern boundary of the study area.

Competitive Supply

Most rental properties in the PMA are either single-family detached structures or half-doubles. There has been no new multi-family rental product developed in the competitive market area except the two Highacres buildings that were developed as purpose-built student housing close to the Penn State campus. No new market-rate multifamily housing was in the development pipeline in Hazleton or surrounding municipalities when municipal officials were interviewed during Summer 2014.

Apartments and rental houses in the City of Hazleton have monthly rents in the following ranges (rents include water, sewer and trash):

- One bedroom: \$525 - \$575

- Two bedrooms: \$600 - \$825
- Three bedrooms: \$600 - \$900

Hilltop House, an older garden apartment complex on E. Broad Street, is 100 percent occupied and maintains a waiting list. This property is the only large market-rate apartment complex in the market area. RES surveyed three other apartment complexes south of Wilkes-Barre to gain a better understanding of occupancy trends in the broader area. All had very high occupancy. Information on these properties is summarized in Table 4.

The PMA's senior population is growing. Affordable senior housing units in the market area are fully leased. A review of a Low Income Housing Tax Credit market analysis (LIHTC) for the 36-unit Gennaro Gardens development that was recently funded by the Pennsylvania Housing Finance Agency suggests that there is additional demand for affordable senior housing units in Hazleton above and beyond that project.

Advantages and Challenges of the Study Area as a Residential Location

Advantages

- Convenient access to employment in downtown office buildings and at the hospital complex
- Good transit access
- A grocery store, pharmacy, banks, YMCA and other neighborhood retail and service establishments within walking distance
- Attractive historic building stock appropriate for adaptive reuse as low-maintenance multi-family housing
- Recent successful conversion of downtown historic commercial buildings to residential uses in other Northeastern Pennsylvania cities (Wilkes-Barre and Scranton)
- Affordable land and building acquisition costs

Challenges

- High crime rates and active drug trade in adjacent neighborhoods
- Limited restaurant and entertainment amenities outside of business hours
- Multiple employment centers outside of the city limits create housing demand over a broader area beyond Hazleton
-

Demographic Trends and Demand Estimate

Demand for housing is generated by several factors: growth in the number of households over time; changing age and income patterns and related housing needs and preferences; and the need to replace deteriorated, unsafe or functionally obsolete units. Esri projects a decline (-224) in the total number of households in the PMA over the next five years. Significant shifts in the age distribution of households are anticipated.

Table 5 shows Esri estimates of the number of PMA households by age and income for 2014 as well as five year projections. The change in the household count by age cohort is more reliable in this table than change by income range, because the analysis is not adjusted for inflation (income ranges are in nominal rather than constant dollars).

- The number of households in the 25-34 age cohort, a key target for downtown rental housing, is expected to increase modestly (+117) over the next five years.
- A large increase is anticipated in the number of households in the 65-74 age cohort (+1,309). This empty-nester cohort is another source of demand for downtown rental housing. Growth is also projected in the 55-64 and 75+ age ranges.

TABLE 4
 SURVEY OF SELECTED MULTIFAMILY APARTMENT COMPLEX

Total No. of Units	Year Built Style	Unit Types (BR/BA)	Unit Sizes (SF)	Monthly Rent	Tenant-paid Utilities	Vacancy Rate	Amenities/Comments
188	1990s garden apt.	1 BR/1 BA 2 BR/2 BA	663 913	\$967-1,030 \$1,175-1,210	Gas Heat, H/W, Electric	5%	Washer/dryer in units, CAC pool, fitness, patio/balcony, tennis, shopping shuttle
212	mid-1970s garden apt. and THs	1 BR/1 BA 2 BR/1 or 2 BA 3 BR/2 BA 3 BR/2.5 BA TH	638-775 802-1,015 1,400 1,500	\$800-900 \$940-1,090 \$1,240 \$1,380	Electric	3%	Central air, pool, fitness, patio/balconies
88	1950s garden apt. (newer bldg. built in 1970s)	Efficiencies, 1 and 2 BR apts. (some 2 BR with 1.5 BA)	N/A	\$495-625	H/W and Electric	0%	N/A
264	1960s	1 BR/1 BA 2 BR/2 BA 3 BR/2 BA	880 1,140 1,381	\$995 \$1,195 \$1,430	Electric, Gas Heat	0%	6 people on waiting list for 3 BR units, pool, fitness, washer/dryer in units

Sources: Interviews by Real Estate Strategies, Inc. with property managers during September 2014.

TABLE 5
HOUSEHOLDS BY AGE AND INCOME IN THE HAZLETON PMA, 2014-2019

Income Band	Age Cohort							Total Households
	<25	25-34	35-44	45-54	55-64	65-74	75+	
2014 Households								
<\$15,000	435	1,077	1,023	1,483	1,983	1,397	1,825	9,223
\$15,000-\$24,999	249	658	650	797	1,049	1,312	2,939	7,654
\$25,000-\$34,999	186	658	764	979	1,083	1,464	1,683	6,817
\$35,000-\$49,999	262	1,125	1,444	1,783	1,876	1,728	1,116	9,334
\$50,000-\$74,999	234	1,467	2,126	2,830	2,610	1,596	610	11,473
\$75,000-\$99,999	74	642	1,063	1,382	1,368	679	362	5,570
\$100,000-\$149,999	30	489	845	1,231	1,065	462	154	4,276
\$150,000-\$199,999	6	44	81	192	181	67	28	599
\$200,000+	0	53	112	178	191	93	19	<u>646</u>
Total Households	1,476	6,213	8,108	10,855	11,406	8,798	8,736	55,592
2019 Households								
<\$15,000	369	1,006	850	1,167	1,826	1,541	1,977	8,736
\$15,000-\$24,999	153	506	439	495	713	1,038	2,343	5,687
\$25,000-\$34,999	124	547	533	652	843	1,374	1,546	5,619
\$35,000-\$49,999	252	1,136	1,286	1,468	1,863	2,014	1,383	9,402
\$50,000-\$74,999	260	1,568	1,981	2,523	2,599	1,989	771	11,691
\$75,000-\$99,999	83	802	1,236	1,510	1,714	1,061	579	6,985
\$100,000-\$149,999	33	588	963	1,380	1,388	779	263	5,394
\$150,000-\$199,999	9	101	112	273	288	151	63	997
\$200,000+	0	76	120	204	244	160	53	<u>857</u>
Total Households	1,283	6,330	7,520	9,672	11,478	10,107	8,978	55,368
Change in Households, 2014-2019								
<\$15,000	(66)	(71)	(173)	(316)	(157)	144	152	(487)
\$15,000-\$24,999	(96)	(152)	(211)	(302)	(336)	(274)	(596)	(1,967)
\$25,000-\$34,999	(62)	(111)	(231)	(327)	(240)	(90)	(137)	(1,198)
\$35,000-\$49,999	(10)	11	(158)	(315)	(13)	286	267	68
\$50,000-\$74,999	26	101	(145)	(307)	(11)	393	161	218
\$75,000-\$99,999	9	160	173	128	346	382	217	1,415
\$100,000-\$149,999	3	99	118	149	323	317	109	1,118
\$150,000-\$199,999	3	57	31	81	107	84	35	398
\$200,000+	<u>0</u>	<u>23</u>	<u>8</u>	<u>26</u>	<u>53</u>	<u>67</u>	<u>34</u>	<u>211</u>
Total Households	(193)	117	(588)	(1,183)	72	1,309	242	(224)

Sources: US Census, Esri, Real Estate Strategies, Inc.

Replacement demand can be estimated based on data reported in the US Census Bureau's Component of Inventory Change (CINCH) data series. The most recent CINCH data (2009) indicated that, on average, 0.8 percent of the nation's housing stock is lost annually due to disaster, fire, deterioration, demolition, conversion to other uses and other reasons. The demand calculation shown in Table 6 uses the five-year household trend and the replacement demand factor to calculate a gross five-year rental housing demand estimate for the PMA overall and for the City of Hazleton. Demand was apportioned to the City based on the ratio of rental households in Hazleton to rental households in the overall PMA. The analysis indicates gross demand for 165 rental units in the City of Hazleton.

To determine potential market support for market rate rental units in the downtown study area, RES first defined the target market for downtown units: households with annual incomes from \$35,000 to \$75,000 that are headed by persons age 25 to 34 and 65 to 74. The data in Table 6 show that in 2014, more than 5,900 households are in the targeted age and income cohorts. If downtown Hazleton could capture one percent of PMA age- and income-targeted households, approximately 60 units of downtown market-rate rental housing could be supported in one property or a combination of several properties. This is a conservative estimate accounting for the untested market niche/location and crime concerns.

TABLE 6
5 YEAR RESIDENTIAL RENTAL DEMAND ESTIMATE: PMA AND CITY OF HAZLETON

PMA occupied housing units (2014)	55,592
Annual replacement demand factor	<u>0.8%</u>
Annual replacement demand	445 units/year
5-Year replacement demand	2,225
Less: 5-year projected household loss	<u>-224</u>
Net 5-year replacement demand	2,001 units
PMA renter percentage	<u>28.4%</u>
5-year rental replacement demand	568 units
City of Hazleton capture rate	<u>29%</u>
Hazleton 5-year rental replacement demand	165 units

Sources: Esri; US Census CINCH data; RES

Interviews

In general, the concept of market-rate rental housing in the downtown study area was met with some skepticism on the part of the property managers and Realtors we interviewed. Most mentioned the crime issue as a major deterrent and others question whether higher income households would choose to live downtown. Several real estate agents mentioned the successful residential adaptive reuse

projects that have been completed in downtown Scranton and commented that Hazleton's downtown building stock could be appropriate for a project of this type.

Conclusions

Changing preferences for downtown living are leading younger households and empty nesters to consider living in urban neighborhoods. These households are drawn to these areas because of proximity to their workplaces and to concentrated cultural and entertainment amenities. Scranton has been able to capitalize on this trend, but has the advantage of being a larger city, the county seat and home to several institutions of higher education, including a medical school. Wilkes-Barre also is a county seat and has two four-year colleges adjacent to downtown. In the Hazleton PMA there is modest growth of households in the 25-34 age range, however, currently the downtown offers limited amenities to attract this group. Individuals in this age range who are employed downtown or at the hospital complex may have some interest in living close to work, but find their choices limited. Similarly, the number of households in empty-nester age categories (55 to 74) is increasing, but there are few quality low-maintenance housing options available for them.

The demand analysis suggests a five-year absorption potential of up to 60 new or adaptive reuse market-rate rental units in the downtown study area. Because Hazleton is a small market, downtown is an untested area for new, market-rate housing. Because the perception and reality of crime in the surrounding area will affect marketing, several strategies to lower the risk of slow absorption should be considered:

- If secure parking is available, test market by introducing one or two floors of apartments in an existing office rehabilitation.
- Develop larger building (e.g. The Altamont) as a mixed-use project.
- Develop larger building as an 80/20 mixed income to broaden income range. This approach requires careful tenant selection and experienced property management.
- Use upstairs apartments with lower rents as part of other arts and entrepreneurship initiatives downtown ("Artist in Residence").

Senior housing would also have market support downtown, but likely only if units were affordable. Layering of the LIHTC and historic tax credits can make rehabilitation and adaptive reuse of historic structures feasible for affordable housing.

The Altamont building is an attractive historic structure that appears to be one logical candidate for adaptive reuse as a multifamily residential building. The ability to provide secure parking is an advantage (a commercial real estate listing for the property indicates that there are 80 secure parking spaces). This building is strategically located in close proximity to major office buildings, City Hall and the public

library. As a high-rise elevator building, this structure would be most appropriate for non-family tenants. The primary challenge is that the large number of units that would be created in this building could exceed available demand at this time.

To be able to successfully develop market rate rental housing on the scale of the Altamont, several intermediate steps would need to occur:

- Continued growth in employment downtown
- Introduction of amenities such as coffee houses that are open after working hours
- Provision of more open spaces
- A targeted drug interdiction/crime reduction effort in areas adjacent to the downtown study area

CONCLUSIONS

The real estate market conditions analysis suggests a number of considerations for the Strategic Revitalization Plan:

- Downtown is a location where residents of the Greater Hazleton region can find things that are unique in the region (cultural amenities, higher education, housing types, historic buildings, places to dine, goods and services).
- Downtown is a place where residents can find most basic neighborhood conveniences—two supermarkets, two pharmacies, several banks, multiple churches, a public library and a YMCA--within walking distance. Transit is available as well as opportunities for community college classes. This combination of basic services is missing in many downtowns trying to establish a residential base and is an important asset.
- Crime is an issue of concern, but moderate crime levels have not prevented either Wilkes-Barre or Scranton from promoting residential uses downtown. The perception that the situation in downtown Hazleton is worsening must be addressed.
- Increasing downtown employment is the first step to revitalization and is underway. Most tenants are small, so introduction of new/renovated Class A space to the office market should be strategically timed to avoid a surplus of available space. Amenities that cater to office workers also support residents during after work hours.
- Retaining some element of the Lehigh Valley Hospital near the downtown will be important to downtown improvement efforts. Relocation to a suburban location will remove hundreds of

workers and patients visiting for medical appointments from the immediate trade area for downtown businesses and restaurants.

- Cultural offerings and community events downtown lead people from throughout the region to visit downtown and offer the opportunity to showcase positive changes taking place in the study area.
- Facilities that offer services individuals cannot find elsewhere are ideal tenants for space in the downtown study area. Examples include:
 - Kitchen incubator
 - Business co-working or shared service space
 - Penn State or community college programs
 - Entrepreneurial support for small business
- Wyoming Street will be bracketed by office uses. An attractive physical environment along this corridor could draw workers to this street at lunch/after work. Redevelopment should begin at the block intersecting Broad Street and move northward.
- The pedestrian environment needs to feel safe and attractive. Scattered vacancies and deteriorated buildings disrupt this. Revitalization activities should be concentrated to improve the physical environment of a continuous stretch of storefronts. It will be more effective to focus investments on one or two blocks at a time and build outward from strength.
- Traffic on Broad Street is relatively heavy and the redesign of the street appears to have increased traffic speeds. The design and placement of signage for businesses should be easily readable to motorists driving in these conditions.

TERMS AND CONDITIONS

This report has been prepared subject to our firm's standard terms and conditions:

Our market analysis has not ascertained the legal and regulatory requirements applicable to the proposed development, including state and local government regulations, permits and licenses. Further, no effort has been made to determine the possible effect on the project of present or future federal, state or local legislation or any environmental or ecological matters.

The analyses included in our report are based on estimates, assumptions, and other information developed from research of the market, our knowledge of the industry and other factors, including certain information that you and DHAP have provided. The sources of information and bases of the

estimates and assumption are stated in our report. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, actual results will vary from those described in our report, and the variations may be material. Further, we will neither evaluate management's effectiveness nor be responsible for future marketing efforts and other management actions upon which actual results will depend.

Our report will be for the use of Derck & Edson and DHAP in making decisions about the Downtown Revitalization Plan. Otherwise neither our report, nor any reference to Real Estate Strategies, Inc. may be used in any offering circular, prospectus, or appraisal document without our specific written consent. We will have no obligation to revise our report to reflect events or conditions that occur subsequent to the date of the report, which was our last day of fieldwork.