CURRENT AND PROJECTED
REAL ESTATE MARKET CONDITIONS
WARREN, OHIO

Prepared For:
THE CITY OF WARREN
And
WARREN GROWS, INC.
Warren, OH

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I. INTRODUCTION

A. Project Background

Warren, Ohio is a city of about 45,000 persons located in northeast Ohio, about 15 miles west of the Pennsylvania border. It is the county seat for Trumbull County and is the second largest city in the Youngstown-Warren Metropolitan Statistical Area. Youngstown is 14 miles to the south and Cleveland is 50 miles to the west.

Warren has been steadily losing population since the early 1970's when its population peaked at about 65,000 persons (63,494 persons in the 1970 Census). Like many other industrial cities in the northeastern and midwestern United States, Warren lost thousands of manufacturing jobs to global outsourcing and automation and other technological advances. The City of Warren fought hard to keep its good-paying factory jobs but, in a major psychological shift, it is accepting that those "jobs are going, boys, and they aren't coming back" as singer Bruce Springsteen ruminated in the 1984 song "My Hometown." The City has requested that Poggemeyer Design Group and its subconsultants work with its citizens in creating a new plan that looks ahead to a new and different future instead of clinging to its former identity.

The Warren Comprehensive Plan Steering Committee has identified a number of key issues to be addressed by the plan, including the following:

1. "Right-sizing" land use scenarios
2. Housing (home ownership, alternatives to traditional single family units)
3. Corridor management
4. Neighborhood redevelopment
5. Downtown revitalization
6. Tourism and historic preservation
7. Economic development
8. Image development and marketing
9. City services and facilities
10. Recreation and green space

Boulevard Strategies is a Columbus-based development consulting firm that specializes in real estate market analysis. In this report, Boulevard Strategies addresses the following questions for the City of Warren in support of the comprehensive planning effort referenced above:

- What are the key trends impacting today's real estate markets across the State of Ohio and how have they been manifested in Warren and its environs?
- Given local market demand and supply indicators, what is the long term outlook for housing, retail, office, and industrial uses in Warren?
- Warren's population and employment totals peaked in the 1970's. Based on current and projected market conditions, what are the "right-size" goals in terms of number of housing units, and amount of commercial and industrial square footage that will optimally meet Warren's needs over the next ten to twenty years.
- What are implications for related issues regarding downtown revitalization, housing options, redevelopment opportunities, economic development, and reclaimed green space?

This report is an effort to support the Comprehensive Planning initiative with a quantitative evaluation of the City's key land uses. It is intended to inform the steering committee's land use planning strategies.

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B. Methodologies and Sources

The information presented in this report was gathered from a wide variety of sources, including the following:

- Demographic, housing, and employment data, including forecasts, from the U.S. Census Bureau, the U.S. Department of Labor, Ohio Department of Development, the Youngstown-Warren Chamber of Commerce, Youngstown State University Urban Planning Department, Demographics USA, the City of Warren, and ESRI, Inc., one of the nation's top demographic forecasting firms.

- Economic, retailing, and real estate data from the Ohio Department of Development, the Youngtown-Warren Chamber of Commerce, Cleveland Plus, International Council of Shopping Centers, the National Research Bureau, ESRI, Inc., Sales & Marketing Management Annual Survey of Buying Power, Grubb & Ellis Market Trend reports, Marcus & Millichap research reports, and local realtors and developers (including Cafaro Company).

- Database of articles about Warren and Youngstown supplemented by topic files and past research and reports on housing, retailing, office, and industrial trends, and urban planning issues in addition to Internet searches on specific subjects such as "right-sizing" policies and land banking/demolishment programs in other cities, and the impact of the foreclosure crisis.

- Review of past plans, report summaries, and meeting notes provided by Poggemeyer planners as well as feedback on this report.

- Field observations collected on several visits to Warren and the surrounding area, including guided tours from Mayor Michael O' Brien and Warren GROWS officials (Tami Candela, Jim Dallessandro).

- Analysis of this information was aided by several models, including a retail spending patterns model that relies on the latest cross-tabulations from the annual U.S. Department of Labor's Consumer Expenditure Survey, calculation of "excess" vacant housing units that cause distortion in local property values, and occupied commercial and industrial space estimates derived from employment statistics.

All observations herein are reliant upon and inherently limited by the nature and extent of these inputs.

II. HOUSING MARKET CONDITIONS

A. Selected Industry Trends

Fueled by a poor economy and a surge in sub-prime ARM* lending beginning in 2001, Ohio had the highest percentage of homes in foreclosure, 3.9 percent, in the nation for 2007, according to the Mortgage Bankers Association (MBA). Filings grew by double-digit rates in 68 of Ohio's 88 counties in 2006, including Trumbull (+30%). Foreclosure filings grew from 254 in 1995 to 1,560 in 2006 in Trumbull County, according to Ohio Supreme Court data. Trumbull has the 14th highest foreclosure rate per capita among Ohio's 88 counties.

One of every three sub-prime ARM loans is in foreclosure or is seriously delinquent, according to the MBA, and more are expected to go bad as payments continue to be reset at higher rates and the economy worsens. Contrary to popular belief, the majority of sub-prime loans originated in Ohio's middle and upper income zip codes not poor neighborhoods during this decade. Now, about one in four sub-prime borrowers owe more on mortgage debt than their home is worth as housing values have depreciated over the past two years in Ohio.

The thousands of families forced out of their homes are only the most obvious casualties of the foreclosure crisis. Neighborhoods are blighted by empty houses that attract bad renters (out of owners' desperation), scrap metal thieves, graffiti "artists," drug dealers, arsonists, and other vandals. Homeowners in these neighborhoods can't sell their own houses for enough to move out as market supply outstrips demand, driving down prices. Municipal governments face loss of property tax income while being forced to spend millions of dollars to tend or to demolish neglected properties.

*"ARM" stands for adjustable rate mortgages which often include low initial "teaser" rates that are low for two or three years, then dramatically increase.

These effects ripple through the schools (which face a declining tax base), and the economy as job losses at banks, insurers, and construction companies take their toll. Money spent on demolitions and prosecution of mortgage fraud represent dollars not available for other pressing needs such as police protection against street crime. Thus, problems in sub-prime lending in the suburbs are impacting cities such as Warren, which already have plenty of challenges of their own.

In 1970, the City of Warren represented about 27% of Trumbull County's households; today, that ratio is roughly 20%. Trumbull County has experienced suburban sprawl in spite of an overall decline in population. Sprawl has myriad negative impacts including increased pressures on existing and new infrastructure, higher transportation costs, more resource consumption and environmental degradation, and lack of direct financial support for public institutions found in central cities such as parks, museums, libraries, amphitheatres, hospitals, and the like.
One solution to sprawl that is being implemented is a return to traditional neighborhood design (TND). TND refers to a pattern of land planning and development that emulates the towns and suburbs built in the early to mid-20th century. TND relies on interconnecting street networks, town centers and civic squares, parking and garages to the rear, and projects that allow for higher densities while requiring developers to adhere to stricter design standards. Only 10% of Ohio's housing stock is located in walkable, mixed-use communities, according to Cleveland-based research group, Policy Matters.

Regardless of overall housing market conditions, condominiums have been the hottest segment in residential real estate over the past ten years. Condominium sales currently account for about 14% of all home sales in the United States (vs. 9% in 1995). As a rule of thumb, new condominium units sell at a price point about 70% of the average selling price of detached, single-family homes in the same area. Desired amenities include dedicated parking (new attached garages are a plus), washer/dryer hookups, upscale finishes, one bathroom per bedroom and community features such as fitness centers, swimming pools, clubhouses, security presence, and wireless capabilities. Also, the resale market is active for condos, which turn over at about the same rate as do single-family homes in today's market.

The condominium market serves three primary segments: empty nesters, Millennials, and single women without children, each with different needs that condominium products can often fill.

- Empty nesters are generally age 55 and over, that recently saw their youngest child leave home or recently retired, or both. They are on the leading edge of the baby boomers and are the fastest growing segment of Warren's population. Empty nesters generally prefer garden units or mid-rises in relatively upscale locations (golf communities are popular with this segment but not everybody plays golf).

- Millennials are young singles and couples in their 20's and 30's, i.e., the sons and daughters of the baby boom generation. Condos represent starter home opportunities for this segment. They prefer townhouses and rehabbed buildings near entertainment uses. Warren is struggling to retain its young adult population, especially those who are college-educated; "cool" housing options near green spaces would help this situation.

- An often overlooked condo-buying segment is single and divorced women in their 30's and 40's without children. Over 57% of single female heads of households own their homes and the number of single female adults is growing as women put off marriage longer than ever before. Furthermore, 60% of all college degrees were awarded to females in 2007 as women earn more than ever. Women are amenity-conscious buyers with a variety of needs but most value low maintenance, security, and locations close to work.

A recent survey by the National Association of Home Builders (NAHB) indicates that a segment known as "lifestyle" renters is emerging in urban markets. A "lifestyle" renter is someone with the financial means to purchase a home but prefers to rent. Such renters account for about 15% of the rental market according to the NAHB versus 5% ten years ago. Meanwhile, the size of the average apartment has grown about 1,200 square feet.

"Live/work" spaces comprise a small but growing slice of the housing market, as there are 20 million home-based businesses in the United States, according to the National Association of Home-Based Businesses.

- Loft spaces have long been popular with creative types and business proprietors have lived in apartments above their storefronts for decades.

- “Live/work” is going white collar (or “no collar” since they’re at home). Many new live/work arrangements have been made feasible by the advent of the Internet. Most computer-based jobs can be effectively performed just about anywhere, especially with wireless networks.

- Working from a home office is becoming more popular for sole practitioners and consultants, traveling salespeople, parents with small children, cost-conscious start-up entrepreneurs, and semi-retired executives. It is eco-friendly (no commute), cost-effective (with tax breaks, in some cases), and laid-back (no office politics).

- “Third places” like coffee shops and lunch counters and support services such as copy centers and office/computer supply stores are needed nearby for “live/work” spaces to thrive.

According to the American Association of Retired Persons (AARP), the first wave of the baby boomers, 20 million, will reach 60 in the next five years, and 50 million by 2020. And, baby boomers are expected to live longer than today’s seniors as medical advances, healthier diets, more exercise, fewer wars, and less hazardous occupations allow for advancing the average age. (However, obesity and diabetes are on the rise, and threaten to cancel out these gains.) The typical person who is 65 today will live until age 83, according to actuarial tables. About 25% of those aged 65 to 74 still work, up from 20% in 2000, according to the U.S. Census Bureau. (A recent poll indicates that 75% of baby boomers intend to continue to work past age 65 in some capacity.)

Baby boomers will ease even more gradually into retirement than today’s seniors. Boomers, especially those with college degrees, will work longer in the job market, for their identities are wrapped up in their careers. More boomers will gradually phase into retirement by lightening workloads but not officially retiring (i.e., many will never retire by choice). They will prefer to “age in place” rather than move to Florida or Arizona upon retirement. (One senior boomer phrased it this way: “They’ll have to take me out of here feet first.”) They will continue to “play hard” even after retirement in traveling, and seeking outdoor activities such as golf, aerobics, and shopping. They will seek out social experiences with all ages, not just their peers. Regardless of official retirement plans, boomers will seek lifelong learning experiences and second careers.

Retired baby boomers will be in age denial. They are already spending record amounts on health club memberships, home exercise machines, cosmetic surgery, health foods, vitamins, organic foods, bottled water, hair color, Botox, and Viagra. Baby boomers will have a toxic reaction to any product or service (including housing) that is labeled: “senior” or “mature.” This is a sensitive issue. Active urban environments can provide robust opportunities for senior boomers to stay active and connected to their communities after retirement. There is a growing movement toward the formation of nonprofit corporations that collect membership dues in exchange for provision of transportation, home cleaning and repair, companionship, security, and other services. Such self-help co-operatives will help seniors stay in their homes longer. In some moderate income areas, the co-ops are set up by social services organizations which can tap into volunteer labor and barter exchanges to keep costs down.

The best candidates to move into market-rate urban housing are singles and couples (both young and old) currently without children. However, a growing number of these childless households have pets. Furthermore, pets are gaining status as full-fledged family members (even as surrogate children in some households). Places that re pet friendly have a distinct emotional edge in attracting young singles and couples as well as empty nesters and retirees. Also, dogs provide a measure of security in neighborhoods perceived to be less safe. An estimated 63% of Warren's households own at least one dog or cat, according to *The Lifestyle Marketing Analyst* 2006 edition.

B. <u>Warren Housing Demand</u>

This section of the report examines demographic trends and characteristics that impact demand for housing in Warren, Ohio.

As shown in **Table 1**, Warren had a higher percentage of single-person households (32.9%) than the statewide average (27.3%) in 2000. Warren households are also more likely to have at least one person 65 years older or more (29.2% vs. State of Ohio benchmark of 23.8%). However, Warren is close to the statewide average of having at least one child present in its households (32.7% to 34.0%).

According to the ESRI, Warren households spend about $10,300 on average for shelter purposes, 26% below the statewide average of about $14,000 per year. However, because household incomes are lower in Warren, Warren spends virtually the same percentage of their income for shelter (20.6%) as do all Ohioans (20.7%).

We have heard anecdotally that Warren has suffered from "white flight" in recent decades as have many other cities, due to negative perceptions of its public schools among other factors. Table 1 supports this theory. Warren's white population fell by almost 9,000 persons between 1990 and 2008 while its non-white population grew by almost 3,000 persons. At the state level, both white and minority populations have grown over the same period.

Warren has a high percentage of renters, especially among the 25-44 year-old age cohort (53% vs. statewide average of 38%). This group is fairly transient moving from place to place. At the other end of the spectrum, there is a large group of long term residents who have lived in the same house for over 20 years (28% vs. 24% statewide).

Warren residents typically do not have long commutes between home and work (20% below the statewide average). They tend to live close to employment centers. Warren households have fewer private vehicles (1.5 on average) than Ohioans, in general (1.8 on average), and virtually no public transportation available. Only a tiny percentage of Warren's residents work out of their homes (1.7%)

Table 2 outlines trends among six categories of household types tracked by the U.S. Census Bureau (and updated by ESRI, Inc.) from 1990 to 2008. The categories are:

- Family households (defined as two or more related persons)
  - Married couples with at least one child under 18 present (sometimes referred to as "traditional families")
  - Married couples, no children present (sometimes referred to as "empty nesters")
  - Single parent families
  - Other families (i.e., adult children living at home) and related persons (children living with grandparents, etc.)

- Non-family households
  - Single persons living alone
  - Two or more related persons living together (cohabiting couples, same sex partners, roommates, etc.)

Warren is losing its married couple households, both “full nest” families with school-age children and empty nesters. In 1990, there were about 4,100 traditional family households in Warren; there are currently less than 2,500 such households. This represents about 90 traditional family households leaving Warren each year, on average. Married couples with child(ren) comprise only 13.5% of all Warren households compared to the statewide average of 21.1%.

It is also losing nearly 120 empty nester households each year, on average. Married couples with no children present have dropped from 5,648 in 1990 to an estimated 3,542 in 2008 in Warren. They now represent only 19.4% of Warren’s households; versus 27% for all of Ohio.

In contrast, it is adding about 80 single-parent family households each year. This category has been growing at the state level as well, but Warren’s compound annual growth rate (CAGR) is 2.5% is higher than the state CAGR of 1.9%. Single parent families outnumber married couples with children 3,960 to 2,455 in 2008; this ratio was reversed in 1990 with 4,105 married couples with children versus 2,515 single parent families. The percentage of single parent families in Warren is currently nearly double in the statewide average (20.8% to 11.4% statewide).

As previously mentioned, Warren has an above-average percentage of single-person households (one of every three households). However, growth in this segment has peaked since 2000 and is slowly declining.

Growth in other non-family households was strong (on a percentage basis) in the 1990’s, mirroring statewide trends. This segment is also showing small declines in Warren since 2000.

Overall, Warren has been losing about 140 family households each year while adding about 25 non-family households since 1990. The number of households in Warren declined from 20,443 in the 1990 Census to 19,288 in the 2000 Census, an average loss of 115 households per year. ESRI, Inc. estimates that Warren’s current household total stands at 18,412, which represents an average annual loss of 110 households per year in this decade.

C. Warren Housing Supply

This section analyzes characteristics of Warren’s housing units, including occupancy levels.

As shown in **Table 3**, Warren has about the same percentage of single family housing units as the state average (71%). It has a somewhat higher percentage of structures with two to four units (13.5%) compared to the Ohio average (10%). It has virtually no mobile homes or “other” housing units.

Its housing stock generally is very mature with 95% of all units built prior to 1980. The typical Warren house was built in 1953 and is 9 years older than typical house built statewide.

Home values in Warren are estimated to be about $78,000, on average, 36.5% below the statewide average. Over half are valued between $50,000 and $100,000.

The rental market is more in line with statewide average with an average monthly rent of $355 in 2000, within 16% of the statewide average. Vacancy rates for rental units are running about 3 percentage points above the statewide average.

Table 4 reflects housing occupancy trends as reported by the U.S. Census Bureau in 1990 and 2000 and updated by ESRI, Inc. for 2008.

Warren lost about 1,160 homeowners between 1990 and 2000, according to the U.S. Census but this situation has stabilized since. The opposite is true of renter-occupied households, which held steady during the 1990's but have decreased significantly in this decade. This may be a reflection of an increase in sub-prime lending that turned renters into owners since 2000. Overall, Warren has been losing about 122 occupied households per year over the same time; 90% of them have been owner-occupied.

About 15% of Warren's housing units are vacant, compared to about 10% statewide. The number of vacant housing units in Warren more than doubled from 1,503 in 1990 to an estimated 3,173 in 2008. The rate of increase in vacant units has tripled in this decade from 50 per year during the 1990's to 150 per year in this decade. The number of vacant units has increased at an accelerating rate for the rest of the state, as well, but not as explosively as they have in Warren.

Part of the reason vacant housing units are increasing at such a rapid pace in Warren is that relatively few of them are being demolished. Warren is experiencing only a net loss of 30 units per year though it is losing 120 households per year. This results in 90 new vacant units each year which, in turn, floods the local housing market with an oversupply of housing. The inability to demolish vacant units, particularly older, more obsolete product, depresses the property values and rental rates for occupied housing. In addition, vacant housing units become havens for drug and other criminal activity, and untended properties on overgrown lots cause blight in otherwise respectable neighborhoods.

Today, Warren has an estimated 21,439 housing units, down 500 from 1990. Meanwhile, it has lost nearly 2,200 households over the same period of time.

D. Warren Housing Forecast

Table 5 provides a forecast over the next ten years on household growth (or decline) by type, building off historical trends presented in Table 2.

Like the State of Ohio overall, Warren can be expected to lose traditional family households with married couples and at least one child. It is expected also to continue to lose "empty nest" households, as well, based on projection of historical trends, while the State will add such households. Likely causes are continuing challenges to the local economy, migration of retirees to warmer climates, and higher mortality rates among its above-average proportion of senior citizens. The good news is that loss of these two types of households should occur at a slower rate over the next ten years vs. the previous 18 years. We project that Warren will lose 74 married couple (with or without children) households per year out to 2018 (vs. 209 per year from 1990 to 2008).

Single parent family households should continue to grow in number but at a much slower pace than in the past (projected additional 24 per year (vs. 80 per year between 1990 and 2008).

Single person and other non-family households are forecasted to significantly decline over the ten years after showing a generally positive growth between 1990 and 2008 unless the local economy improves. Young adults who comprise many of those single person households and they may be forced to leave Warren to search of better employment opportunities.

Overall, Warren is forecast to have 16,950 households by 2018 vs. an estimated 18,241 in 2008. This represents the loss of about 147 households per year, up from minus 121 households per year between 1990 and 2008. Family households will comprise 62.8% of all Warren households in 2018 versus an estimated 60.9% currently.

Table 6 provides a forecast of occupied and vacant housing units for 2018. It assumes that no significant surge of demolitions will take place compared to what has happened over the last 18 years. Table 6 represents a worst case scenario if more resources to demolish vacant structures cannot be identified.

As previously stated, Warren is expected to lose about 130 households per year for the next ten years. Demographic trends and financial conditions suggest that 79% (103 households per year) of the decline in households occupied by owner.

Under this scenario, the number of vacant housing units will increase from an estimated current total of 3,173 to 4,000 by 2018. Warren's housing vacancy rate will increase to 19%, 8% above the forecasted statewide average.

Some level of housing vacancy is normal and, even in some cases, desirable to give consumers more housing options. But Warren's housing vacancy rate is excessive and harmful to local housing market conditions. In order to reach a "reasonable" level of housing vacancy (i.e., the statewide average), Warren would need to demolish about 1,200 vacant units immediately. By 2018, bridging this discrepancy between Warren's housing vacancy rate and the statewide average will require demolition of about 1,850 vacant housing units. This represents an average of 185 demolitions per year required vs. the current pace of 30 per year.

III. RETAIL MARKET CONDITIONS

A. Selected Industry Trends

Much of Ohio's (especially northeast Ohio's) current retail landscape is a legacy that resulted from its pioneering efforts in the shopping center industry that occurred after World War II. In his 1983 book, The Malling of America, author Michael Greenberg explains how the popularity of television and its advertisements created the consumer-based demand that today drives two-thirds of our economy. At the same time, the Interstate highway system was built across America, opening up high traffic/visibility sites at various exits, which proved to be perfect settings for shopping centers in our car-driven culture.

The first shopping centers in Ohio grew up around its upscale suburbs (such as Shaker Heights near Cleveland and Bexley and Upper Arlington near Columbus) and other affluent neighborhoods during the 1940's and 1950's. The shopping center format went mass-market in the 1960's and 1970's in the form of the enclosed mall. This period saw the rise of several of the nation's largest mall developers growing out of northeast Ohio, including DeBartolo and Cafaro from Youngstown and Jacobs, Visconi, and Jacobs from Cleveland. The preponderance of such retail-related firms led to a surge in development of malls and satellite strip centers throughout the urban areas of Ohio, including the Youngstown-Warren MSA. As these markets matured and the smokestack economy slowed, Ohio's developers later moved on to growing Sunbelt markets. But most of the centers they built 30 to 40 years ago remain. Many are obsolete and in need of redevelopment.

The next wave of retail development in the form of big box power centers and freestanding superstores began to take hold in Ohio during the 1980's and 1990's. Unlike the strip centers developed in earlier decades, these new retail concentrations did not require an enclosed mall nearby to draw traffic; instead, they sprawled along corridors adjacent to suburban subdivisions. Superstores, including Wal-Mart, Target, Home Depot, Lowe's, Best Buy, Barnes & Noble, Dick's Sporting Goods, Kohl's, and others, came to dominate nearly every line of merchandise in America, even pet food. Operating in stores that were several times larger than the traditional formats, they offered a huge assortment within a focused retail category or group of related categories, leaving behind few uncovered niches. Small chains and independents found it increasingly difficult to compete against the superior buying power (resulting in low prices) and state-of-the-art technology of the superstore chains. The retail vacancy rate in Ohio soared as these chains drove out retailers in smaller, older locations (including downtowns) and then became engaged in games of "chicken" among themselves. Every category of retail, it seemed, had three or four competitors, each with ambitious expansion plans, and inevitably, a rash of bankruptcies and store closings occurred until only one or two victors were left standing. One of the most difficult challenges in all of real estate is finding a successful re-use for an abandoned big box store. (See **Table 7**.)

Store occupancy averaged 25 years in the 1970's while today it averages 7 years, according to Columbus-based developer Don Casto. Chains such as Wal-Mart and Lowe's routinely abandon profitable stores to build larger ones nearby. Expanding chains have exacting standards and specific prototype footprints. They insist on new stores built to their specifications even in markets with abundant, cheap vacant space. Convenience goods retailers, such as grocery stores, drug stores, and fast food drive-thrus often open in advance of new rooftops to grab prime sites ahead of their competitors or as a defensive strategy in areas where they are dominant. Dynamics such as these are causing tremendous turmoil in the retail real estate industry.

“Lifestyle centers” have proven to be the hottest concept in the shopping center industry so far in this decade. Lifestyle centers typically range from 150,000 to 500,000 square feet in open-air configurations with eclectic storefronts and upscale architectural details and tenant mixes anchored by dining and entertainment uses. According to Michael Beyard of the Urban Land Institute (ULI), lifestyle center tenants reflect “why customers buy as much as what they buy.”:

- Nesting: home entertainment, furnishings, and electronics
- Health and beauty: day spas, health clubs, cosmetics
- Fun and leisure: interactive games, sports bars, coffee shops, restaurants with outdoor patios
- Education: bookstore/cafés, library branches, community college extension branches
- Personal image: specialty clothing, footwear and accessories
- Indulgences: pastries, ice cream, chocolates, wines, gourmet foods

The lifestyle center trend is indicative of an overall shift in consumer spending from mall-based fashion categories to goods and services relating to leisure time, including consumer electronics and media as well as dining and entertainment. Many of Ohio’s original malls are on their last legs following consolidation among department stores (and loss of anchor tenants) and deflationary pressures in the fickle fashion sector. Meanwhile, statewide, the number of sit-down restaurants with at least a beer and wine license has increased by 33% over the past ten years, according to the Ohio Restaurant Association. “Quick-casual” chains are another growing segment. Quick-casual is a step above fast food where food is made to order at a front counter and sometimes delivered to your table. Upscale versions of old favorites such as bar food, breakfast diners, and coffee shops are also in vogue.

The retail economy is shifting more toward services, just like the U.S. economy, in general. Mainstream retailers such as Wal-Mart, Home Depot, and Best Buy have greatly expanded their services to complement their product mixes. Baby boomers (those born between 1946 and 1964) grew up on department store service and remember gasoline stations that pumped their gas for them. They are becoming the “Do-It-For-Me” generation. Millennials (born between 1979 and 1990), on the other hand, often prefer self/service/automated options to human service.

In recent years, mainstream retailers have embraced concepts once thought of as narrow in appeal, including environmentalism and healthy, nutritional foods. Wal-Mart has put its super-powers to good as it tackles “green” issues by selling its millions of compact fluorescent light bulbs to its customers, using recycled materials to build its stores and advanced systems to heat and cool them, sponsoring top-level scientific research to reduce carbons (ex., hybrid-driven semi-trailers), and enforcing environmental standards on vendors, including the Chinese. Sale of organic foods is growing at a rate of 10% this decade. Meanwhile, farmers markets are proliferating throughout Ohio and grocery store chains are promoting “locally” grown products.

Looking forward, the retail real estate is headed toward a severe down cycle. Weak consumer spending, and not just overbuilding, appears to be the culprit this time. The rising price of petroleum is also having a big impact on shopping centers, resulting in fewer trips to regional concentrations and less money to spend once shoppers are there. Almost all retailers, the ones that have not yet declared bankruptcy, are closing stores (up 25% in 2008 over 2007) or opening fewer new locations (60% fewer store openings in 2008 vs. 2007), according to the ICSC. Those opening stores are generally reducing the size of their footprints, including the big box retailers. New construction will grind to a halt over the next few years as vacancy rates reach record levels and funding from lenders and investors dries up. Strong discount grocery and drug chains that feature basic goods at low prices will be among the few types of retailers that continue to grow until the recession lifts.

Another category of retail that should continue to thrive is Internet commerce. Retail sales via the Web are still a small percentage of all retail sales (about 5 percent) but they have been consistently growing at a pace of 20 to 25% a year vs. 4% a year for all retail sales in this decade. (E-commerce sales have decelerated somewhat this year, showing "only" 12% growth so far). Most successful websites, however, are owned and operated by mainstream brick-and-mortar retailers such as Wal-Mart, The Gap, and JC Penney. For these retail giants, the Internet has been integrated into the overall corporate marketing, inventory, and distribution systems. Falling technology prices, wider access to broadband, more consumer experience and greater comfort level, better search engines and navigation aids, friendlier shipping and return policies, and safe alternative payment methods are all reasons for e-tailing's continued success with mainstream shoppers. In the long run, as a greater share of retail sales shift to the Internet, there will be less need for new retail real estate space and more need for distribution centers.

E-commerce has also provided a vehicle for successful start-up retailers, not just corporate giants. A burgeoning new crop of entrepreneurs are emerging as Baby Boomers (semi-retired, laid-off, or bored) and Millennials (MBA degrees in hand) start businesses focused on their leisure-time pursuits. They are finding that they can benefit from what economist Chris Anderson calls the "long tail" business model. To justify carrying an item, a chain such as Wal-Mart must be able to sell 100,000 per month at a bare minimum, while "underground" do-it-yourselfers only need a few sales of any one item per month to turn a profit. Small retailers can be successful by embracing finely-focused niches too small for the chains, keeping costs/overhead to a minimum, and becoming a trusted expert that helps customers find what they what, regardless of who records the sale. Once retail entrepreneur establishes a successful website, it then may make sense to open a storefront to increase visibility and walk-in impulse sales. In the past, an e-commerce site was usually an afterthought for start-up retailers.

This resurgence of retail pioneers could dovetail with plans in dozens of Ohio's cities and towns to revitalize their town centers through public/private partnerships. In this age of corporate branding, communities like Warren understand that their unique identities are being hijacked by look-alike strip malls with the same set of retailers in every community. Retail is not the catalyst for downtown revitalization, however; retailers react to markets. Downtowns must rely on their historic architecture, walkable streetscapes, bustling mix of uses, and events and gatherings to be places where people want to be. Encouraging more housing and office employment will do more to build retail sales in downtown environments than any other initiative. Parking is always a contentious issue for urban environments and requires careful analysis to understand what the real issues are.

Programs to identify and/or recruit and assist entrepreneurs will be important in downtowns' ability to ride the new wave of retail innovation that is emerging.

B. Warren Retail Demand

Table 8 displays demographic characteristics and trends relevant to retail market conditions, and in some cases, that could be relevant to the housing market as well.

Two important determinants in evaluation of retail markets are population density and population growth, the higher the better for most types of retail uses. Warren had an estimated population of 44,730 persons as of July 2008, according to ESRI, Inc. While it is slowly losing population at a compound annual growth rate below 1% per year, it still has a very dense, urban population. Its current density, estimated at 2,727 persons per square miles is nearly 10 times that for the State of Ohio (282 persons per square mile). This high level of density is particularly attractive to retailers in the Convenience Goods and Services categories, such as grocery stores, drug stores, and fast food drive-thrus.

On a side note, our research indicates that Warren reached its peak in terms of population density around 1970 when it had about 4,000 persons per square mile. This level of density represented Warren at its most efficient, at least in terms of land usage. To create the same level of density today, assuming no change in the population counts for Warren, Warren would need to reduce its land area by 33% from 16.4 square miles to 11.0 square miles. If it continues to lose population as forecasted in Table 7, this number will be 10.2 square miles by 2018, 38% less area than today. This establishes a useful guideline: generally, Warren occupies about 50-60% more land than it needs to function at optimal efficiency (but this may vary among specific land use types).

Warren's age distribution is similar to the statewide age distribution, except that it has an above-average proportion of senior citizens (age 65 and over) and lower proportion of Baby Boomers (age 45-64). However, it lost senior citizens between 1990 and 2000 while they increased in numbers statewide.

Warren has a racially diverse population with higher percentage of blacks than statewide (12%). It is expected to become even more diverse over the next ten years.

As shown in **Table 9**, Warren's adults, age 25 and over, have generally lower levels of educational attainment, with only 14% earning college degrees (vs. 23% statewide) and 81% holding high school diplomas (vs. 86% statewide).

The occupations of those adults employed outside of the home but living in Warren generally occur in either the Services sector (44%) or the Manufacturing sector (24%). Such occupations tend to be either blue collar (32%), as defined by the U.S. Census Bureau or "brown collar" (22%), i.e., services jobs such as retail clerks or delivery persons. Blue collar and service occupations account for 54% of Warren's workforce vs. 41% statewide. On the other hand, even if it is below statewide average, a significant portion of Warren's labor force hold white collar positions (46%), such as executive, manager, professional, technical and science positions, and clerical/secretarial jobs.

Warren has an above-average proportion of low income households earning less than $25,000 per year (32% vs. 21% statewide). However, it has a slightly above-average proportion of middle income households earning between $25,000 and $49,999 per year (50% vs. 48% statewide). Most retailers target middle income households.

Warren trails statewide levels on several measures of income, including median household income (26% below Ohio median, average household income (26% below Ohio average), and per capita income (22% below Ohio average). Moreover, its collective household income has grown as a pace only a fraction of that for the whole state of Ohio since 1990, 39% vs. 118% (not including inflation, current 2008 dollars).

Boulevard Strategies estimates that Warren residents will spend about $380 million on retail goods and services, not including dollars spent on auto dealers, gas stations, on maintenance and repair services. Warren's retail market demand is growing at a 2.8% annual pace (i.e., an additional $10 million per year) vs. the statewide average of 5.5% per year. See next page for more explanation of our proprietary Retail Spending Patterns model.

Boulevard Strategies has developed a proprietary model that estimates a given population's retail spending on 34 categories that are split into 5 major merchandise groups as follows: (Also see **Table 10**.)

- Convenience Goods and Services: Grocery, Pharmacy/Health & Beauty Aids, Retail Services (such as dry cleaners and hair salons), Cards/Gifts/Flowers, and Fast Food.

- Home Goods: Home Furnishings/Décor (including art), Household Items, Appliances, Hardware/Home Improvement, Lawn and Garden, Office Supplies, and Automotive Supplies.

- Fashion Goods: Women's, Men's, Children's Apparel, Footwear, Jewelry, and numerous specialty fashion niches.

- Leisure Goods: Consumer Electronics, Computers, Sporting Goods, Books/Magazines, Music/Media/Software, Toys/Games, Hobby/Crafts, Pet Supplies, and Other Miscellaneous categories.

- Dining and Entertainment: Sit-Down Restaurants, Taverns/Bars/Clubs, Cinemas, Bowling Alleys, Game Arcades, and Specialty Foods/Beverages/Desserts.

The retail spending model is based on data from the U.S. Department of Labor's Annual Consumer Expenditures Survey which generates correlations between demographic subgroups and their relative amounts of expenditures on specific categories of products and services. For instance, a community with a large senior cohort would be expected to have a greater proportion of its retail dollars on Pharmacy/Health and Beauty Aids categories. Independent variables used in the model include region of the country, race, and education of householder, housing value distribution, and household income distribution. The model does not include automotive-related retail such as motor vehicle sales and gasoline.

Table 11 examines estimated 2008 retail expenditures by major retail merchandise group for the City of Warren, the remainder of Trumbull County, and for Trumbull County, as a whole. It is necessary to analyze retail market conditions in the context of Warren County as retail dollars flow freely between municipal boundaries. Very few shoppers care whether they are purchasing products and services in Warren or Howland

Township, regardless of where they live in Trumbull County. Factors such as price, selection, and convenience are far more important to consumers.

As previously mentioned, Boulevard Strategies estimates that Warren residents will spend about $380 million on retail purchases in 2008. Above-average proportions of their collective retail expenditures will occur in the following categories:

- Grocery
- Pharmacy/Health & Beauty Aids
- Women's Apparel
- Consumer Electronics

Conversely, they are predicted to spend below-average proportions of their retail dollars on these categories:

- Appliance
- Jewelry
- Books/Magazines
- CDs/Videos/DVDs
- Sit-Down Restaurants/Bars

In addition, Warren retailers have a potential retail market of $1.7 billion from those who live in Trumbull County but outside of Warren City limits.

Warren's population will spend enough to support nearly 1.4 million square feet of retail space, while the remainder of Trumbull County spends enough to support 6 million square feet of retail space.

C. Warren Retail Supply

Table 12 presents a list of all shopping centers 100,000 square feet or larger in the City of Warren and in the remainder of Trumbull County. For each center, its location, total square footage (not necessarily occupied square footage), year originally opened (some centers have been renovated more than others over their histories), and anchor stores.

The City of Warren itself has a total of 1.6 million square feet of shopping center space, spread among ten locations primarily on the north end of the city. With the exception of the Wal-Mart Supercenter on Elm Road NE, all of Warren's shopping centers are at least 35 years old. Giant Eagle anchors three of Warren's shopping centers and is a stabilizing influence on the local retail scene. With its Fuel Perks program, Giant Eagle has taken one of the retail industry's challenges, gasoline prices, and turned it into a marketing weapon.

It is clear, though, that the retail focus remains at the Eastwood Mall complex between Warren and Niles in Howland Township. Unlike most of its counterparts, older malls built during the 1960's, Eastwood Mall remains vibrant and updated. Cafaro Company has capitalized on industry by building several power centers around its crown jewel mall. Just about every category of retail is represented in and around Eastwood Mall from home improvement and consumer electronics to casual dining and cinemas. This massive concentration of retail space is only ten minutes from downtown Warren. (It would be interesting to study the fiscal benefits and costs of this complex to Howland

Township and Trumbull County as retail land uses are often, but not always, net money losers for local governments).

Overall, this is nearly 5 million square feet of shopping center space in Trumbull County but only less than one-third of it is in Warren.

Table 13 presents a breakdown of estimated retail sales by major merchandise group in Warren and the remainder of Trumbull County for all non-automotive goods and services, including stores and restaurants that are not located in shopping centers of 100,000 square feet or more (as shown in **Table 12**).

Warren has an estimated 1.8 million square feet of occupied retail space with estimated annual sales of $520 million. Warren's two strongest merchandise groups are Convenience Goods and Services and Dining and Entertainment, accounting for nearly 70% of all retail sales between them.

Warren has about 500,000 square feet of vacant retail space, according to local realtors. Much of this vacant space is located in older, obsolete shopping centers and has been unoccupied for years. Warren has a retail vacancy rate in excess of 20%. If it had the statewide vacancy rate of 12%, it would have only 275,000 square feet of vacancy. Thus, it has at least 225,000 square feet of vacant space that should be demolished and taken off the market.

In addition to retail space located in the City of Warren, Warren shoppers are well-served by over 5 million square feet of occupied retail space outside of city limits but within Trumbull County. As previously mentioned, most of this space is concentrated in Howland Township around Eastwood Mall but there are other scattered pockets of retail throughout Trumbull County. The estimated vacancy rate in the county outside of Warren is fairly low at 8%. This brings Trumbull County's overall vacancy rate to 12%, about the same as the average for all of Ohio. Trumbull County non-automotive retailers will record nearly $2 billion in sales this year, according to our estimates.

A key component of the retail mix in Warren and Trumbull County is found in Warren's central business district. Downtown Warren has the potential to serve the following market segments:

- Approximately 30,000 "close-in" residents within a 5-minute drive time
- An estimated 5,000 downtown daytime office workers
- Another 190,000 metropolitan Warren shoppers and diners that are beyond 5-minute radius but within Trumbull County
- About 25,000 tourists each year to its National Historic Districts
- About 40,000 overnight hotel guests to Warren each year
- Sixteen courthouse lawn and amphitheatre festivals and events that draw 5,000 to 8,000 persons nearly every warm weather weekend

Officially, downtown Warren covers 32 blocks with 296 buildings. However, almost all 36 of its retailers and restaurants are clustered in a core area bounded by Mahoning Avenue on the west, High Street on the north, Elm Road on the east, and South Street on the south. Downtown's strongest retail merchandise group appears to be Dining and Entertainment led by mainstays such as the Saratoga Restaurant, the Sunrise Inn, and the Horseshoe Bar and newer venues such as Mocha House, Blue Magoo's, and Blue Iris Café. Otherwise, there is no real retail focus, just several independent fashion and jewelry boutiques and gift and hobby shops facing the large courthouse lawn from various directions. (See **Table 14** – First Floor Uses in DT Warren.)

Rather, downtown Warren functions more as cultural gathering place in a historic setting near the Mahoning River. Downtown events, festivals, attractions, churches, libraries, museums, and the Courthouse draw thousands of visitors but retailers and restaurants are unable to draw these streams of traffic into their businesses. In fact, they often compete with other uses for parking, food service concessions, and visibility access.

Warren GROWS, Inc. was incorporated in 2007 as a 501c3 corporation to coordinate downtown revitalization initiatives through the Main Street approach. Jim Dallessandro, a former small business owner and Trumbull County native, was hired earlier this year as project manager. His mission includes business recruitment, public relations, meeting facilitation among key players, fundraising, managing volunteers, event coordination, grant writing, and many other tasks that need to be done if downtown Warren is to stage a retail revival. (See **Table 15** – DT Warren Top 10 Strengths and Challenges.)

One important project is the restoration of the historic Robins Theater on Market Street. Opened in 1923, the theatre has potential to seat at least 1,500 persons. The theatre closed in 1969 but today sits empty except for an art gallery and gift shop. It will cost an estimated $12 million for renovation.

Boulevard Strategies estimates that downtown's 36 retailers and restaurants collectively occupy about 90,000 square feet of space and have sales of about $25 million per year. About 60% of these sales are generated by close-in residents and daytime downtown workers. This represents about a 6% local market share for downtown Warren retail and food service businesses. In contrast, a typical Wal-Mart Supercenter is 225,000 square feet and average about $60 million in annual sales.

D. Warren Retail Forecast

According to **Table 16**, Warren enjoys net inflow spending from other Trumbull County residents in the Convenience Goods and Services and Dining and Entertainment merchandise groups. Conversely, Warren residents leave the City to buy Fashion and Leisure Goods merchandise. Home Goods categories are roughly in equilibrium between demand and supply within Warren.

At the County level, Trumbull County experiences some leakage in all five major merchandise groups as its residents travel to larger markets nearby such as Youngstown, Cleveland, and Akron to do a portion of their shopping and dining. The Leisure Goods categories are underserved in Trumbull County. Leisure Goods retail offers a lot of niches that passionate entrepreneurs can address.

IV. COMMERCIAL MARKET CONDITIONS

A. <u>Selected Industry Trends</u>

On a national level, the commercial real estate industry “faces its worst year since the wrenching 1991-1992 industry depression,” according to the Emerging Trends in Real Estate 2009 report recently issued by the Urban Land Institute and Price Waterhouse Coopers LLP. The report projects losses of 15 to 20 percent in commercial real estate values since their peak in 2007. Financial institutions are moving poor loans off of their balance sheets by any means possible, including auctions. Surviving banks are tightening credit guidelines and speculative construction of office space is likely to become a relic of the past. The downturn in the commercial real estate market is expected to last at least three to five years.

Certainly, Ohio’s poor economy will dampen demand for office space locally as the state reports its highest number of layoffs since the end of 2001. The finance/insurance/real estate (F/I/RE) sector has been one of the hardest hit segments of the economy and it is a heavy user of office space. There are many other factors in play that will impact office development in the future, as explored on the following page.

One of Ohio’s major economic development initiatives is to encourage entrepreneurship in growth industries (especially, high tech). Economist Richard Florida, in his 2002 bestseller, <u>The Rise of the Creative Class</u>, says that the 30 percent of the nation’s workers that use their minds to earn a living hold the key to the nation’s future. Creative entrepreneurs seek out places that offer a positive business image, recreational and cultural opportunities, diversity, and support services and amenities. Conversely, they abhor the idea of working in a 5-story “cubicle farm” in an isolated office park.

New suburban office parks are essentially self-contained neighborhoods that mix office space with retail uses, housing, restaurants, daycare centers, fitness clubs, and other amenities mimicking smaller downtowns. They are pedestrian-friendly, protected by strong codes and planned alongside public green spaces and nature trails.

Related to the new ways in which we work, companies are seeking to consolidate floor space through greater efficiency of design and sharing of space, telecommuting and other technology-based productivity boosters. This is reflected in an upward trend of closer to 5 office workers per thousand square feet of gross leasable space rather than the traditional rule of thumb of 4 office workers per thousand square feet. Consolidation, flexibility, and design efficiency are long-term forces that will shape future office real estate trends. In turn, developers are seeking more efficient and integrated uses of buildings and land. (See **Table 17**, Economic Development in Ohio Communities.)

Space needs of tech firms do not fit the empty shell designs of the past. Today’s emerging companies need space that is flexible enough to easily meet quickly changing requirements. Team spaces are given highest priority while individual offices are not laid out along a hierarchical structure as they were in the past. As on marketing executive commented, “Having the latest computer equipment is more of a status symbol in our company than sitting in the biggest office.” Trends such as telecommuting, hoteling (working remotely most of the time but reserving office space when needed), mobile officing (working remotely on the road), flextime (working hours outside of traditional 9 to 5 shift), job-sharing (sharing a fulltime job on part-time basis with another part-timer), and free-lancing (working at clients office for duration of a project), are changing space requirements in corporations of all sizes.

Office suites offer small firms (often one person) a well-furnished office with administrative services, conference rooms, high speed Internet access, and basic office equipment at a prestigious address. Some upscale versions offer onsite fitness centers and concierge services. They generally appeal to sales reps, small local staffs of large national corporations, startup entrepreneurs, and those on temporary assignments. A related concept is business incubator space where promising startup businesses are provided with technical and business assistance in addition to cheap space.

Office condominiums are gaining in popularity as an alternative to leasing for successful small businesses. A condominium arrangement allows the business owner to own its real estate (which has tax implications) without having to get into the real estate business (i.e., owning space that the company does not occupy). Other small professional firms are buying older smaller office buildings or even residences and refurbishing them. These arrangements are often attractive to physicians and dentist practitioners, in particular.

Medical offices, incidentally, represents the hottest segment of the office market across the state as baby boomers become seniors. Site selection for medical offices is driven by relationships with hospitals, patient demographics, and complimentary practices. Medical and healing/wellness centers are increasingly locating near or in retail locations. Practitioners, such as family doctors, veterinarians, optometrists, and dentists do not necessarily need to be near a hospital and seek out high visibility/high traffic locations just as retailers do.

Realtors report that parking issues now rank with location, amenities, and occupancy costs as the most important factors in site selection decisions. The emphasis that companies place on cheap, convenient, plentiful parking for their employees and visitors has put many of the region’s central business districts at a distinct disadvantage as most have parking problems (but not Warren). Security issues have come under more scrutiny in recent years. The availability of wi-fi is increasingly becoming a necessity for many entrepreneurial companies. Strategic clustering of companies that share some synergy in markets or products is another way that planners and developers are providing value to their commercial real estate offers.

Fifteen to twenty years ago, “economic development” was an afterthought for many municipalities. Today, it is likely to be a fulltime effort for one or more trained professionals on staff. Tax incentives and abatements are expected by companies on the move and they often pit communities against one another to receive the best deal. One way municipalities are defending themselves against these types of entitlement mentalities is by taking a regionalism approach that recognizes the interdependency of cites (such as Warren and Youngtown) and suburbs and townships. Incentives are shifting away from property taxes and toward income taxes to ensure that companies create jobs in order to benefit from lower taxes.

At the same time, municipalities recognize the intangible value of quality of life factors such as the arts and culture, schools, and even, golf courses in attracting top decision makers. Linkages to airports and other transportation infrastructure and availability of hotels and conference centers also add to the appeal of a region’s office supply.

B. Warren Commercial Demand

Table 18 examines Warren's employment base with a focus on industry segments such as F/I/RE (finance, insurance, and real estate), professional services, and government that are traditionally heavy users of office space. Compared to statewide averages, Warren has a relatively low number of employees in the financial services, insurance, and education sectors. On the other hand, it has a very large health services industry for a city of its size. Growth in this sector bodes well for Warren's office real estate market in that medical practitioners are intensive users of space with needs for equipment and patient waiting rooms as well as for desks, chairs, and computers. A medical practice requires about 75% more space per employee than do legal and financial services firms with the same size staff. The city is home to two large hospitals, Trumbull Memorial and St. Joseph's.

Warren employers, both in the public and private sectors, currently occupy an estimated 1,490,000 square feet of office space based on employment estimates. Warren's need for more office space is slowly growing as net new absorption average about 5,000-10,000 square feet per year. As shown in Table 19, the highest growth occupations in northeast Ohio tend to be white collar for the most part. More Youngstown-Warren area adults are earning college degrees than ever and Warren as a county seat serves as the professional services center of Trumbull County, especially medical and legal services. For these reasons, Warren should continue to experience steadily growing demand for commercial real estate in spite of losing population and overall employment.
(See **Table 19**, Top 10 Highest growth occupations in Northeast Ohio.)

Another type of office-using industry that has found some success in the Mahoning Valley is call centers. They are attracted to the Youngstown-Warren area for its cheap labor and friendly midwestern accents.

Warren has a favorable demographic profile (many high school graduates but few college graduates) for community college branches. This may be another source of future demand for office and classroom space.

C. Warren Commercial Supply

Warren has an estimated total of 1,650,000 square feet of habitable office space, of which 160,000 square feet (about 10%) are vacant. Reported vacancy rates for the entire Youngstown-Warren area vary widely from as low as 6% (reported by Cleveland Plus based on Co-Star research data) to as high as 15.5% (reported by the Youngstown-Warren Regional Chamber based on data provided by the local chapter of the Society of Industrial and Office Realtors); thus, our estimate for Warren falls in the center of that range. The vacancy rate for all of Northeast Ohio is about 12%, close to the national average, according to Cleveland Plus.

Regardless of Warren's true vacancy rate, much of its existing office space was built over forty years ago and is in need of update and renovation. Rents for modern Class A office space fall in the $9-$12 range for the Youngstown-Warren area.

Most of Warren's existing office space is located in the Central Business District. Downtown Warren's strengths as an office location include reasonable rents, plenty of parking, pro-business attitudes, several restaurants and other amenities, and police presence. It is located only seven miles from the Youngstown-Warren Regional Airport.

High cap rates (reportedly above 10%) and inability to raise rents (in fact, rent concessions are most common) have discouraged investors in spite of steady absorption of office space in Warren. Sub-lease activity, which does not always show up in leasing/absorption statistics, is strong in Warren, according to local realtors.

D. Warren Commercial Forecast

As shown in **Table 20**, Warren has been adding about 40 new white collar jobs per year even as it loses about 145 overall jobs per year. Like the State of Ohio, in general, Warren's employment base is becoming increasingly white collar, growing from 41% in 1998 to 45% currently. Warren's percentage of white collar workers is still about 13% below the statewide average, however. This would indicate potential for growth in office-using white collar occupation in Warren, particularly since it is the county seat for Trumbull County. (Also see **Table 18** Office-related employment in Warren and Ohio.)

As previously noted, Warren currently has about 160,000 square feet of vacant office space. Our forecast is that Warren will absorb a new positive 80,000 square feet of office space over the next ten years. If no new office space were built or redeveloped from vacant retail or industrial properties, its vacancy rate would drop to under 5% and it may lose opportunity to land some desirable professional services companies. For commercial real estate, policies that promote redevelopment and renovation should take priority over demolition in Warren, in our opinion.

V. INDUSTRIAL MARKET CONDITIONS

A. Selected Industry Trends

The Mahoning Valley, blessed with rich deposits of coal and iron and thick, hardwood forests developed a thriving steel industry at the turn of the 20th century. Between the 1920's and the 1960's, the region was a key industrial hub with huge furnaces and foundries of the nation's largest steel producers. However, the region really never diversified its economy, as did places like Chicago and Pittsburgh, and the eventual decline and consolidation of the steel industry in the 1970's and 1980's dealt the Youngstown-Warren area a serious blow from which it is still trying to recover.

The loss of thousands of manufacturing jobs since the "Steel Valley's" heyday had many of the same contributing factors that had led to declining employment in many other formerly U.S.-dominated manufacturing industries. Depending on which economist one consults, these trends include global outsourcing and offshoring, automation of tasks previously performed by humans, poor management decisions, excessive union demands, too much government regulation and interference, and/or high foreign tariffs. The North American Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico was signed in 1994 and has been the subject of political controversy since. Proponents point to an increase in jobs resulting from growth in U.S. exports but opponents argue that higher wage jobs have been replaced with ones with lower wages for American workers.

The automotive industry employees over 43,000 people in Ohio, not including the thousands that work for parts suppliers, dealerships, and other related businesses. The "Big Three," General Motors, Ford, and Chrysler are seeking a bailout from the federal government as sales have plummeted by more than 20% this year. The Big Three are further hampered by billions of dollars in retiree healthcare costs left from a time when the companies dominated the market. Even if none of the companies goes bankrupt, more layoffs on top of the 3,000 Ohio layoffs that will have occurred in 2008 will be inevitable. The Center for Automotive Research in Ann Arbor found that if the Big Three were to reduce U.S. operations by 50%, a very realistic possibility, the result would be 240,000 direct job losses and 800,000 layoffs at affiliated companies.

As manufacturing has generally been on the decline in Ohio (270,000 jobs lost so far in this decade), the state's central location, multi-interstate highway accessibility, rail and airway networks, transportation support businesses, low land costs, trained labor force, and generous tax abatement have attracted a growing proportion of distribution facilities. Other factors important in light industrial site selection include development-ready sites with utilities and infrastructure in place, streamlined approval processes, schools and other quality of life attributes, and image/track record in industrial and distribution facility development.

Today's warehouses go beyond vast concrete floors and metal roofs filled with brawny men moving pallets of boxes on forklifts. Sophisticated order placement programs, automated materials handling equipment and mobile shipping and tracking devices have become the norm. The typical new building today is in the 400,000 to 750,000 square foot range with ceiling heights of 30 feet or higher vs. 250,000 square feet with 20 foot clearances twenty years ago. Large interior clear spans of 2,500 square feet are common to enhance functionality. Flat concrete floors are critical as unevenness will affect automated picking and racking equipment. Scientific applications such as robotics, real-time information processing and productivity measures, and radio frequency identification tags are proving to be game-changers for innovative American companies and their outsourcing logistics partners. Employees must have multiple skills to operate today's technology-driven industrial facilities.

Looking forward, there is a trend toward consolidation of smaller warehouses into larger distribution facilities. Advances in fire protection, state-of-the-art lighting, automatic environmental climate control systems, higher ceilings, large surface parking lots, deeper bays, and double-loaded docks are common in today's new big box distribution centers. Older facilities are finding it hard to keep up as there is little price difference, on a square foot basis between their properties and much newer ones (largely due to tax abatements). Those with vacant space often lease out to temporary or seasonal tenants, serve as "dead" storage facilities with few employees, or offer free rent and other concessions as well as generous bonuses to leasing agents just to fill space. Others are being used as incubators often sponsored by public/private ventures.

There has been a remarkable shift in power among channels of distribution over the past twenty years from manufacturers to retailers. Wal-Mart was the first retailer to harness the power of information embedded in the bar codes on nearly every item sold in its stores. Customer relationship marketing has allowed retailers to build strategies to which manufacturers must yield to achieve distribution. Retailers such as Wal-Mart are aggressive in imposing their will vertically all the way to the manufacturer. Their state-of –the art inventory replenishment systems depend on tracking information from the plant to the cash register and backwards in a loop pattern.

B. Warren Industrial Demand

Although Warren is known as a manufacturing center, only 11.4% of its workforce (3,000 employees) work in manufacturing companies compared to 15.0% statewide, as shown in **Table 21**. However, its major manufacturing employers include large companies such as General Motors, Delphi Packard Electric Systems, and WCI Steel. Warren averages 61 employees per manufacturing location, 47% more than the statewide average.

General Motors has been in the news, as of late, because the company is on the verge of bankruptcy. According to a 2006 Wall Street Journal article, GM pays $81.18 per hour in wages and benefits to its U.S. hourly workers (this dropped to $78.21 in February 2008 after it bought out 74,000 employees). This adds $1,000 in costs per vehicle versus nonunion competitors such as Toyota. The federal government is currently considering a bailout package of GM and other automotive manufacturers. Even if its costs were more in-line with competitors, American consumers cannot afford to drive the gas guzzlers GM has become known for. The General Motors' Lordstown Assembly plant is one of the largest in the world and was recently expanded and retooled. It is the home of one of GM's newest models, the Chevrolet Cobalt.

The steel industry is undergoing an abrupt slowdown after a rebound earlier in 2008. In the last week of October 2008, U.S. steel mills operated at only 67% of capacity, according to the American Iron and Steel Institute, as production fell 24%.

As shown in **Table 22**, the occupation expected to decline in job opportunities the most over the next ten years is Production. It also had the steepest decline over the past fifteen years in northeast Ohio, according to Cleveland Plus.

These factors should constrain the need for more industrial space in Warren over the next ten years.

C. Warren Industrial Supply

For the most part, Warren's industrial real estate is well located near transportation lines. Although many of the structures may be aging on the outside, they have been constantly updated, expanded, and modernized to keep up with global competition. Though employment has declined in manufacturing, it remains a productive and essential component of the economy in the Mahoning Valley.

Industrial space is very reasonable in the Youngstown-Warren area, renting between $2 and $2.50 per square foot. We estimate that Warren has about 5.1 million square feet of industrial space of which 4.7 million is occupied. Its vacancy rate of 7.8% is slightly above the region's average of 5%. (See **Table 23**.)

D. Warren Industrial Forecast

As shown in **Table 24**, Warren is losing about 115 blue collar jobs per year (not including farming, fishing, mining, or construction jobs). Therefore, it can be expected to have declining need for industrial space. However, note that utilization for industrial real estate is not nearly as fluid as residential, retail, or office space. There are several reasons for this. First, many blue collar jobs are lost to automation not lack of product demand. The machinery, in many cases, still requires the same amount of, or even more, space. Second, manufacturing tends to be cyclical and what is excess capacity today may very well be needed tomorrow when the market enters an upswing. Third, industrial space, particularly warehouses, is much more likely to be owned rather than leased, as is usually the case with retail and office space. So, it is more difficult for companies to dispose of unneeded space and they may choose to try to sub-lease it or use it for other purposes.

Using 5% as the "normal" vacancy rate for industrial properties, Warren currently has about 150,000 square feet of excess vacant industrial space. We are forecasting that this overhang will grow to 350,000 square feet by 2018 unless new industrial users are attracted to Warren. Adaptive re-use of old industrial buildings is a popular trend among creative services firms such as Internet media, advertising, and graphic design companies. They also make great business incubator spaces. Some of these ideas should be explored in addition to demolition, cleanup, and reclamation of green space.

VI. CONCLUSIONS

From a land use perspective, Warren's most pressing problem, in our view, is its high number of vacant housing units. As documented in Chapter II, excess vacant housing units deflate property values and attract criminal activity. Unless a way can be found to step up demolitions and land banking, Warren's vacant housing problem is on a path to become much worse over the next ten years, according to our calculations. As shown in **Table 4**, Warren currently has about 1,000 more vacant housing units than would be expected in a community of its size. This number is forecast to grow to nearly 1,700 by 2018 if intervention does not occur at a more rapid pace than in the past.

A wider variety of housing options are needed, particularly for empty-nesters and seniors. Condominium units in lively walkable, mixed-use settings will appeal to all ages of adults without children present. (They will have pets, though, and their needs are very important to their owners.)

Single-parent families are a large, growing segment within Warren's mix of households. Their special needs must be prioritized in future housing and social services policies.

The outlook for retail uses in Warren is generally unfavorable. It is losing population, inflation-adjusted income, and, therefore, real retail spending power. On the supply side, Warren's retail landscape is characterized by obsolete, eyesore shopping plazas built in the 1950's and 1960's with high levels of long term vacancies. Warren's shopping centers, even if they were brand new, would face formidable competition from Cafaro Company's sprawling Eastwood Mall complex just southeast of the City of Howland Township.

Lack of opportunity for large, national big box chains is not necessarily a negative for the City of Warren. Several planning studies have concluded that the fiscal, market, and environmental costs of big box development outweigh the benefits from a community perspective. Warren's citizens have plenty of retail choices and part-time clerical job opportunities nearby in Trumbull County outside city limits. Big box retail does not have to be located in Warren itself for it to benefit.

To the extent retail development should be encouraged in Warren, efforts should be focused on downtown revitalization. More dining and entertainment venues will add to downtown's image as the cultural center of the region. Entrepreneurs in the Leisure Goods categories must be identified, recruited, nurtured, and coached in terms of developing websites in addition to downtown storefront businesses. The restoration of the historic Robins Theater has the potential to be a catalytic project for downtown Warren.

One of the surprising findings in this report, given its overall difficult economy, is that the market for commercial real estate in Warren is relatively healthy. Its office vacancy rate appears to be below the statewide average (12%). Demand for office space is slowly growing as the American economy shifts from producing goods to producing services and the American worker becomes better educated.

There is no need to demolish office space in Warren on a wholesale level but there is need to spur investment in renovation or redevelopment of existing, older building into dynamic, new, modern, high quality work spaces. Non- traditional settings will attract the younger "Creative Class" workers that Warren is currently losing after they reach their 20's and 30's.

Medical office is the strongest component of Warren's office-using industries. Medical practices may consider locating in retail centers if they have difficulty finding more traditional arrangements. Likewise, call centers often thrive in low rent vacant warehouse spaces.

Attraction of a community college branch, especially to downtown, would further strengthen Warren's place in tomorrow's economy.

Warren's industrial employment, unfortunately, will likely continue its slow decline. This will not fully impact its need for industrial space, however, as production continues to generally climb in the Mahoning Valley, but with fewer and fewer workers required. Due to environmental considerations, demolition and cleanup of vacant industrial sites add to the associated complexity and costs.

Adaptive re-use may be a better option in many cases. Joel Garreau, urban planning expert and author, recently observed that *"People have been turning stables into apartments, warehouses into offices, and palaces into churches since the dawn of fixed settlement."*